

**THE DETERMINANTS OF TAX NON-COMPLIANCE:  
EVIDENCE FROM MALAYSIA**

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EVIDENCE FROM MALAYSIA

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THE DETERMINANTS OF TAX NON-COMPLIANCE:  
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**ABSTRACT**

Tax non-compliance is an act of disobeying the tax laws provided by the legislation either intentionally or unintentionally. The objective of this study is to examine the relationship of four independent variables; tax knowledge, ethics, government quality and change in government to the dependent variable; tax non-compliance. The research framework of this study is developed based on five variables and employed theory of planned behavior. Four hypotheses are tested based on the research framework. The research instrument of this study is structured questionnaire. The questionnaires are distributed to taxpayers in Klang Valley. A total of 415 samples were collected from taxpayers through two sampling techniques which are purposive sampling and snowball sampling.

Based on the analysis, three independent variables; ethics, government quality and change in government have significant impact to the dependent variable; tax non-compliance while the remaining independent variable; tax knowledge has no significant impact to the dependent variable; tax non-compliance. Next, the study addresses some limitation to the study in which the sample size that represents the whole population of individual taxpayers in Malaysia may not be sufficient to generalize the whole taxpayers. Hence, suggestion for future research is to increase the sample size so that the future research able to generalize the whole population and able to come out with a stronger regression model.

***Keywords:*** Tax Non-Compliance, Government Quality, Change in Government

FAKTOR-FAKTOR PENGELAKKAN CUKAI:  
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**ABSTRAK**

*Ketidakpatuhan cukai adalah tindakan tidak mematuhi undang-undang cukai yang diperuntukkan oleh badan percukaian secara sengaja mahupun tidak sengaja. Objektif kajian ini adalah untuk mengkaji hubungan empat pemboleh ubah tidak bersandar; pengetahuan cukai, etika, kualiti kerajaan dan perubahan dalam kerajaan kepada pemboleh ubah bersandar; ketidakpatuhan cukai. Rangka kajian ini berdasarkan lima pemboleh ubah dan teori tingkah laku terancang. Empat hipotesis diuji dari rangka kajian. Alat kajian bagi kajian ini adalah soal selidik. Soal selidik diedarkan kepada pembayar cukai di Lembah Klang. Sebanyak 415 sampel dikumpulkan dari pembayar cukai melalui dua teknik persampelan iaitu persampelan bertujuan dan persampelan bola salji.*

*Berdasarkan analisis regresi, tiga pemboleh ubah tidak bersandar; etika, kualiti kerajaan dan perubahan dalam kerajaan mempunyai kesan yang ketara terhadap pemboleh ubah bersandar; ketidakpatuhan cukai sementara pemboleh ubah tidak bersandar; pengetahuan cukai tidak mempunyai kesan yang ketara terhadap ketidakpatuhan cukai. Seterusnya, kajian ini menyentuh tentang beberapa batasan kajian di mana ukuran sampel yang mewakili keseluruhan populasi pembayar cukai individu di Lembah Klang adalah kurang tepat untuk mengumumkan keseluruhan pembayar cukai di Malaysia. Oleh itu, cadangan pada penyelidikan akan datang adalah untuk meningkatkan saiz sampel bagi membolehkan penyelidikan akan datang mengumumkan seluruh populasi dan dapat menghasilkan model regresi yang lebih kuat.*

**Kata Kunci:** *Ketidakpatuhan Cukai, Kualiti Kerajaan, Perubahan dalam Kerajaan*

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# CHAPTER 1

## INTRODUCTION

### 1.0 Background of the study

As expressed by Benjamin Franklin, “Nothing is certain but death and taxes”. Tax is a fee imposed by government on the goods, services and some other taxable activity. There are two types of tax which is direct tax and indirect tax. Direct tax is the tax levied directly on personal income or corporate income while indirect tax is the tax levied on the price of good and services. The primary aim of taxation is to increase the government revenue in request to develop numerous functions that benefit the society such as public transportation, education and healthcare system. The secondary aim of taxation is to build the nation such as civil-military operations, political leadership, changes in technology and economic process (Capital, 2020). To achieve more government revenue, the government imposed taxes upon individual, corporates, transactions, consumption or property (Akinyomi & Tasie, 2011).

Personal income taxpayer is an individual that its annual taxable profit of a relevant year of assessment is levied. Individuals here being those in paid employment and those in self-employment such as those engaged in business and profession; accountants, lawyers, doctors (Adebisi & Gbegi, 2013). In Malaysia, Section 3 of Income Tax Act 1967 prescribed that a tax to be known as income tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia. Section 4 of Income Tax Act 1967 expressed the classes of income which is chargeable to income tax. The major classes of income

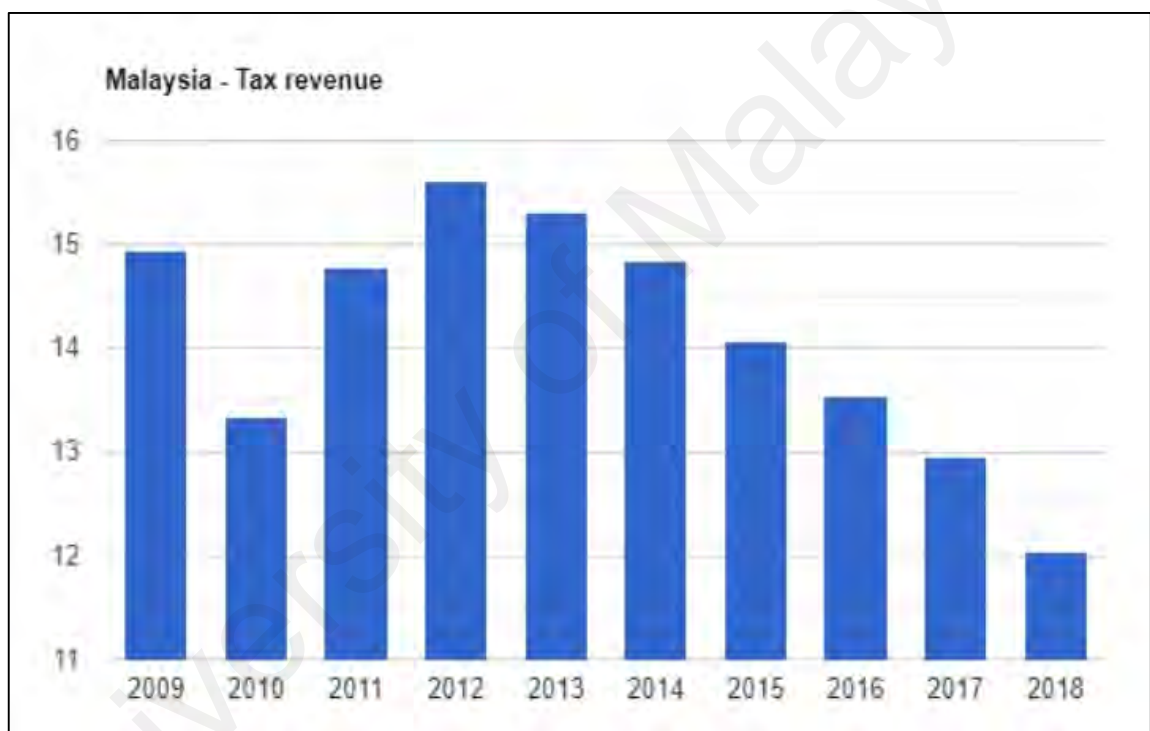
chargeable to income tax are Section 4(a) Business Income and Section 4(b) Employment Income.

Tax non-compliance is a tax gap in the national accounts that is the distinction between statutory and actual tax revenue collection. The term tax non-compliance is closely related to tax evasion and tax avoidance (Alabede, Ariffin, & Idris, 2011). A tax gap is tax revenue losses due to the practice of tax avoidance and tax evasion (Fuest & Reidel, 2009). Tax avoidance is a legal means to decrease or omit overall tax liability by taking advantage of all possible tax reliefs allowed by the legislation while tax evasion is an illegal means to decrease or omit tax liability that is not allowed by the legislation (Akinyomi & Tasié, 2011). Both tax evasion and tax avoidance are considered as the most often form of tax non-compliance and widely believed to be crucial factors limiting revenue mobilization (Alabede et al., 2011).

It is common for individuals and corporates to engage in taxable transactions daily. Tax planning is a tool used in reducing the tax liability when engaging with taxable transactions. Due to the complexity and uncertain characteristics of tax planning, tax non-compliance happens to be the favored tool in tax planning. Even though the practice of tax avoidance is regarded as legal but simultaneously this practice gives a negative impact on the government revenues (Otusanya, 2010). Taxpayers practice tax avoidance as a form of tax planning to reduce their tax liability even though the government has opposed against tax non-compliance redundantly (Adebisi & Gbegi, 2013). Therefore, this study aims to contribute to this growing area of research by exploring the determinants of tax non-compliance.

## 1.1 Problem Statement

Government sources of income comes from tax, investment, company's registration and service fees, and fines and penalty. Out of all, taxes are the principal source of government revenue (Adebisi & Gbegi, 2013). **Figure 1.1** shows the tax collection received by government throughout 2009 to 2018 extracted from the World Bank. The constant diminution of government revenue from 2012 to 2018 has heightened the need for research in the tax non-compliance area.



Source: [https://www.theglobaleconomy.com/Malaysia/Tax\\_revenue/](https://www.theglobaleconomy.com/Malaysia/Tax_revenue/)

**Figure 1.1: Malaysia Government Revenue 2009 – 2018 (RM'000,000,000)**

**Table 1.1: Individual Income Tax**

	2013 (RM Mil)	2014 (RM Mil)	2015 (RM Mil)	2016 (RM Mil)
Estimated	26,429	26,746	26,553	26,163
Actual	23,055	24,423	26,321	24,985

Source: <http://www.treasury.gov.my/index.php/en/economy>

Referring to **Table 1.1**, the amount of estimated and actual individual income tax for the year 2013, 2014, 2015 and 2016 is being compared. For the year 2013 and 2014, there were negative variances of RM3,374 million and RM2,323 million respectively. The similar trend happened in 2015 and 2016 where the actual amount of tax collected by government is lower than the estimated amount with difference of RM232 million and RM1,178 million. For all the years, there were negative variance. One of the possible reasons for the negative variance is tax evasion and tax avoidance.

In order to increase government revenue, tax plays a crucial role (Tabandeh, Jusoh, Nor, & Zaidi, 2012). Income tax collection is the key to country's development (Ching, 2018). In Malaysia, the major revenue comes from taxes (Sapiei & Kasipillai, 2013). Due to the scarcity of the domestic resources, developing country has the worst effect of tax non-compliance (Kim, 2008). Malaysia is among the top region for its low direct taxes collection (Welsh, 2015). To increase domestic resources, taxpayers should comply with the tax regulation which will help increase government revenue (Adebisi & Gbegi, 2013). This government revenue collection is use on public goods and services such as infrastructure, education in terms of scholarships, national defense technologies, and public welfares (Ching, 2013).

Tax non-compliance is an existing issue in the economics of most countries including Malaysia. A recent survey by Ching (2018) found that out of 15 million individual

taxpayers in Malaysia, only 15 percent made their tax return to tax authority. Furthermore, Ching (2013) compiled a statistic of tax audit finalized for individual taxpayers and corporate taxpayers between 2007 to 2010. The statistics showed that individual taxpayers are more non-compliant compared to corporate taxpayers. An article published by Zubir (2019) reported that former Malaysia prime minister's daughter evaded her personal income tax nearing to RM10 million in arrears that is accumulated from the years of assessment 2011 to 2017.

Recently, an article published by Hamdan (2020) reported that former prime minister, Najib Razak has been sanction to pay RM1.69 billion in arrears for evading personal income tax that is accumulated from the years of assessment 2011 to 2017. A recent tax audit made by National Revenue Recovery Enforcement Team (NRRET) has found that several big-name officials were guilty of unsettled personal income (The Star, 2017). According to NRRET report, thirteen millionaires were guilty of unpaid income tax nearing to RM50 million in less than two years.

After the adoption of big data analytic tool in 2018, the Inland Revenue Board (IRB) has identified nearing to 80,000 taxpayers with extraordinary wealth but yet to declare their income or under declared their income (Chu & Kana, 2018). The NRRET is committed to recover income tax arrears from individual taxpayers and corporate taxpayers (Ching, 2018). All income tax arrears will be sanctioned with tax penalty. Tax offences and penalty will be dealt with the Income Tax Act 1967 and other acts legislated by the Inland Revenue Board of Malaysia (IRBM).

According to Obafemi (2014), the increasing rate of tax non-compliance is a major challenge to the government in generating tax revenue. The public authorities provide



endowment to the residents to diminish their living burden yet some taxpayers among the residents chose to neglect their tax return. This unbalance cash flows cycle is in liaison with shadow economy (Schneider & Enste, 2000).

Shadow economy is an economy in which individuals dodged showing their real earnings and taxable earnings that they attained through legitimate activities. Malaysia is ranked 44 from 145 countries in the world and 11 from 45 Asia countries in Asia region reckoned at total size of shadow economy to total GDP (Ching, 2013). There is an increasing concern that Malaysia is ranked higher than some developing countries in Asia region such as Vietnam, Saudi Arabia, Laos, Cambodia and Bangladesh. Hence, gaining an understanding on the factors that influencing tax non-compliance and accumulate the variables that enhance it may improve the economy (Tabandeh et al., 2012).

A considerable amount of literature has been published on tax non-compliance in both developed and developing countries. A study by Fuest and Reidel (2009) compiled all existing literature of tax non-compliance of developing countries while a study by Devos (2009) investigated tax compliance behavior of Australian personal tax evaders. There have been many critical studies made in the area of tax non-compliance in developed countries yet a minimal amount of research made on developing countries especially in Malaysia (Tabandeh et al., 2012; Ching, 2013; Zandi & Rabbi, 2015). This opens room to study on factors that affects tax non-compliance behavior among taxpayers in Malaysia.

Taking the opportunity on the recent politic reconstruction in Malaysia in which during Malaysia's 14<sup>th</sup> general election conducted on May 9<sup>th</sup>, 2018, for the first time in 60 years, Malaysia has experienced a change in government in which the Barisan Nasional, the

losing party headed by Najib Razak has lost against Pakatan Harapan headed by Mahathir Mohamad. The researcher is taking this opportunity to add new knowledge to the area of tax non-compliance and test the knowledge as an independent variable in this study. So far, there has been no discussion on change in government in the area of tax non-compliance or in any journal related to accounting and taxation.

Most journals that have discuss on change in government are journal of humanities and social science, journal of political affairs and journal of public relations. The generalizability of much published research on change of government is problematic. Much uncertainty still exists about the relation between change in government and tax non-compliance as prior researchers has not treated change in government in much details. This study seeks to remedy this literature gap by analyzing the literature of change in government in context of tax non-compliance and investigate the relationship between change in government and tax non-compliance.

The pioneer researchers in literatures of tax non-compliance deciphered that tax non-compliance arises in many forms and practically impossible for one research to sum up the entire factor (Allingham & Sandmo, 1972). Researchers in area of tax non-compliance keeps on making new research regarding this specific area because the factors that influencing tax non-compliance keeps on evolving from time to time. This study examines four factors that may influences tax non-compliance. The four factors are tax knowledge, ethics, government quality and change in government.

The independent variables selected in this study is not chosen in random. Tax knowledge is derived from the discussion of tax avoidance and SAS system as discussed in literature review chapter. In prior discussion, the researcher highlighted that the practice of tax

avoidance as part of tax planning springs a negative impact on the government revenues. Therefore, the tax knowledge of taxpayer in manipulating the tax liability both legally and illegally will determine the degree of tax non-compliance. The ethics of taxpayers derived from taxpayer's ethical view on tax non-compliance when engaging with taxable transactions. The ethics of taxpayers may be influence by several factors discussed in the literature review chapter.

Although extensive research has been carried out on government quality in context of tax non-compliance, limited study exists on government quality in Malaysia due to the restriction by the public governance and the sensitivity of the issue towards the general public. In recent era, especially after the change of government in Malaysia, reviewing and investigation the government quality will add value in the area of tax non-compliance. Lastly, the change in government derived from the recent change in government in Malaysia. Little is known about change in government and it is not clear how significant does it affects tax non-compliance.

Based on past literature disclosed in literature review chapter, tax knowledge and ethics is examined as there is still mixed and inconclusive findings (Gilligan & Richardson, 2005; Kasipillai & Jabbar, 2006; Torgler & Schaltegger, 2006; Betty & Rita, 2018). The government quality and change in government is examine as these are current issues in Malaysia with minimal study conducted on both factors. Therefore, this paper attempts to examine these variables and introduce change in government in the tax non-compliance research area.

## **1.2 Research Objectives**

This research is an organized investigation of a problem in which to gain solution for the following objectives:

1. To examine the relationship between tax knowledge and tax non-compliance.
2. To examine the relationship between ethics and tax non-compliance.
3. To examine the relationship between government quality and tax non-compliance.
4. To examine the relationship between change in government and tax non-compliance.

## **1.3 Research Questions**

The following research questions have been developed as the fundamental core of this study:

1. Does tax knowledge influence tax non-compliance?
2. Does ethics influence tax non-compliance?
3. Does government quality influence tax non-compliance?
4. Does change in government influence tax non-compliance?

## **1.4 Significance of the Study**

Research in the area of taxation has been active studied recently. Numerous studies were conducted in examining the relationship between selected independent variables and dependent variable; tax non-compliance (Adebisi & Gbegi, 2013; Engida & Baisa, 2014; Tilahun, 2019). This study is no different than prior studies in terms of examining variables in the area of taxation but with distinct theoretical and practical contribution. Besides that, this study attempts to fill in the literature gap by

documenting the empirical findings in the greatly abandoned area of taxation in academic literature. The significance of this study covers a tri-dimensional effort from government, IRBM and taxpayers as the main characters in battling tax non-compliance in Malaysia.

#### **1.4.1 Theoretical Contribution**

First and foremost, this study is expected to contribute to the body of knowledge in the research area of tax non-compliance by adding in a new knowledge which is the change in government. To the researcher's knowledge, there are no published study that have tested change in government as variable in both area of tax compliance and tax non-compliance. This independent variable will be tested to investigate the relationship between the change in government and tax non-compliance. The discussion, literature review and findings on the relationship between change in government and tax non-compliance will shed light to future researchers in which this study aims to provide research material for a potential in-depth study to examine the variable; change in government further or conducting a qualitative research to study thoroughly on the literature of this variable in the context of tax non-compliance.

In contributing to the literature of tax compliance, this study is signifying the importance of tax knowledge in developing country especially in the era of self-assessment system (SAS) where voluntary compliance is practiced by the taxpayers in declaring annual taxation (Saad, 2009). In 2012, Malaysia started adopting SAS fully which allow taxpayers to declare their tax return through online platform. As further discussed later, SAS is more competent to taxpayers with tax knowledge (Palil & Mustapha, 2011; Saad, 2012). Tax knowledge of a taxpayer is different due to different

educational background (Obid, 2004). Fallan (1999) found that level of education contributes to the understanding of taxation especially in laws and regulations of taxation. As mentioned by prior researcher, the tax knowledge of taxpayer motivates their tax avoidance (Fallan, 1999). Thus, this study provides awareness to IRBM that an increase in tax knowledge may increase tax avoidance which simultaneously increase tax non-compliance of taxpayers.

Besides highlighting the tax knowledge of taxpayers, the SAS system also highlights the ethics of the taxpayers. The honesty of taxpayers that is influenced by several aspects like personal attribute or peer pressure in declaring annual taxation is expected to contribute to the literature of tax compliance (Saad, 2009). Besides that, this study attempts to fill in the geographical gap by examining ethics with tax non-compliance as there is minimal study conducted to test these two variables in Malaysia (Palil, 2010). Furthermore, combination of both tax knowledge and ethics provide tax authority the same output which is an early settlement on tax liability. An early settlement on tax liability will improve the cash flow of government which simultaneously improve the economy of the country by focusing on public development, education, healthcare and infrastructure (Ching, 2013).

#### **1.4.2 Practical Contribution**

The findings of this research will provide clarity to the government on how the taxpayers measure their quality. The government able to clarify the aspects concern by the taxpayers in providing some portion of their annual income to the government. The government will be able to view what do the taxpayers expect from government when they are obliged to comply with the tax regulations (Esteller-Moré, 2005). This study

also helps the government to uncover the effectiveness and relevance of the government spending towards the public eye (Strömberg, 2004). By unravelling this, the government will have a better understanding on how the taxpayers would want their money being spent by the government.

Moreover, this study is expected to be beneficial to the government in terms of the actual revenue that should be received from the taxation which able to reduce or close the gap of shadow economy (Ching, 2013). The study is also expected to be beneficial to the taxpayers in terms of preliminary awareness in engaging with tax non-compliance. If tax compliance cease to exist, it can cause a major reduction in the government revenue as it will affect the gross domestic product of the country which directly affects the economic growth of Malaysia. The findings of this research will provide better vision to the IRBM on the factors of tax non-compliance among taxpayers and provide awareness to the taxpayers on the importance of paying tax.

As mentioned by Park (2012), numerous studies focused on the importance of government output; government spending, healthcare and economic performance, rather than the input; taxation, labor and public knowledge. In correspond to Choong and Lai (2008) study on the public knowledge of taxpayers in Malaysia, the researchers found that 70 percent of the respondents were not aware that the bookkeeping for business transaction is within 60 days from the date the transaction incurred. The prior researchers' findings proved that for such fundamental public knowledge, more than half of respondents are not aware of the knowledge. Hence, the findings of this research will provide IRBM and taxpayers awareness on the needs for both parties to

improve their public knowledge and other areas jointly through seminar, workshop or online classes in order to encourage tax compliance in Malaysia.

### **1.5 Structure of the Dissertation**

Following the suggested research outline, this dissertation consists of five chapters followed in sequence of introduction, literature review and research framework, research methodology, results and discussion and conclusion.

In chapter one, a brief introduction on general principles of taxation is discussed followed by problem statement that motivates the researcher in conducting this study. Subsequently, the research objectives and research questions of this study are reported together with both theoretical and practical contribution of this study and ended with a detailed explanation of the content of this dissertation.

In chapter two, a fundamental discussion on the overview of income tax system and compliance level in Malaysia is reported. Next, the research framework is developed followed by introduction of dependent variable; tax non-compliance and all independent variables; tax knowledge, ethics, government quality and change in government. From the literature review of all variables, four hypotheses were developed as presented in the research framework earlier. The chapter proceeds with selection of one theory to explain the variables in rigor. Three frequently selected theories in the area of tax non-compliance were discussed which are expected utility theory, the 'slippery slope' framework and theory of planned behavior. The chapter ends with selection of one of the theories discussed.



In chapter three, discussion on research design followed by research instrument is reported. Next, this chapter proceeds to discuss on the sampling design that is appropriate for this study. Once the instrument and sampling design are selected, the chapter proceeds with measurement of variables that is valid, reliable and applicable on the selected research instrument. Due to the global pandemic, the sampling design and research instrument were redesign to fit the situation. This chapter ends with a brief discussion on all the statistical analyses will be conducted in this study.

In chapter four, the chapter starts with pretest and pilot test conducted on the research instrument selected for this study. After ample discussion and acceptable reliability test is achieved, the chapter proceeds with data cleaning on the final collected samples. Once the data is ready, the statistical analyses are conducted started with descriptive analysis, followed by univariate analysis. Then, the chapter proceeds with reliability analysis and followed by correlation analysis. The chapter ends with multiple regression analysis to come out with the regression model.

In chapter five, a thorough discussion is made on each independent variables with the dependent variable based on the results reported in prior chapter. The discussion includes the hypotheses developed in prior chapter to be either supported or rejected in this study. The chapter proceeds with limitations that are faced by the researcher in conducting this research study. Subsequently, the implications in conducting this study is reported. The chapter ends with suggestion for future research to the future researchers in the area of taxation specifically in the area of tax compliance and tax non-compliance as per this study. Towards the end of this dissertation, all reference

and citation used in this study is reported followed by a list of appendices are documented that is relevant and convenient throughout this study.

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## **CHAPTER 2**

### **LITERATURE REVIEW AND RESEARCH FRAMEWORK**

#### **2.0 Introduction**

This chapter explains the literature review about the research problem as a basis in developing a research framework and hypotheses that will be tested in this study. This chapter starts with the overview of income tax system and compliance level in Malaysia followed by construction of research framework. Subsequently, the definition of the dependent variable that is affected by the independent variables and ends with theory selected to explain the variables in this study.

#### **2.1 Overview of Income Tax System and Compliance Level in Malaysia**

The income tax regime in Malaysia was introduced by the British colonial government in the Malay Peninsula in 1948, in Sabah and Sarawak in 1957 and 1961 respectively (Saad, 2009). Prior to 1967, the Malay Peninsula, Sabah and Sarawak each had their own tax laws which were administrated by the then IRBM (Saad, 2009). In 1967, the income tax laws were consolidated and revised to create a unified federal income tax law which was enacted by the Parliament and became effective through Malaysia. The law mentioned is the Income Tax Act 1967 which was introduced to legitimise and standardize the collection of taxes from individuals and corporations in Malaysia.

When the income tax law was introduced in 1967, the law was merely simpler than it is today as the number of taxpayers were not more than 100,000 taxpayers (Hanefah,

1995). The tax law was narrower at its inception and has covered more area of taxation from time to time (Hanefah, 1995). For an example, the law did not cover the gap between the time that the income is earned by the taxpayer and the time when a portion of the income is submitted as tax revenue to the government. This delayed collection gives taxpayers an opportunity to use their income for reasons other than tax purposes especially for contract-based and cash-receipt taxpayers. Fortunately, this delayed collection is now covered under Section 3 of Income Tax Act which is enforced with penalty on late payment as stated in Section 113 of Income Tax Act.

Since inception, Malaysia has adopted Official Assessment System (OAS) in which the taxpayers are required to declare their income and submit it to the IRBM. Under OAS, the duty to compute the tax payable lies with the IRBM as taxpayers are assumed to have limited knowledge on taxation (Saad, 2009). As the economy grows and social and political changes, the number of registered taxpayers has increased from time to time. With effective from 2001, Self-Assessment System (SAS) was implemented to replace OAS in stages. SAS was first implemented for companies in 2001, followed by personal taxpayers in 2004 and fully in practice in 2005 (Kasipillai & Hanefah, 2000). Under SAS, the duty to compute the tax payable lies with the taxpayers itself.

Principally, for a taxpayer to be able to compute his own tax liability, the taxpayer needs to be well-versed with the existing tax laws as he is responsible to answer the tax officials should his file be selected as a sample for the tax audit. The intention of SAS was mainly to benefit the IRBM by reducing the cost of collecting taxes and to increase voluntary compliance (Abdul-Jabbar & Pope, 2008). Prior to year of assessment 2012, the taxpayers are free to lodge their tax return during their idle time

within the stipulated period with the need to make an appointment with the IRBM officials to submit the physical tax return form. From year of assessment 2012 and onwards, with the aid advance technology, the taxpayers able to submit their tax return form before the stipulated period through online platform in the IRBM official website.

The transition from OAS to SAS in Malaysia has piqued the interest of various researchers (Hanefah, 1995; Kasipillai & Hanefah, 2000; Abdul-Jabbar & Pope, 2008; Saad, 2009; Saad, 2012; Sapiei & Kasipillai, 2013). Both studies by Hanefah (1995) and Kasipillai and Hanefah (2000) were conducted prior to SAS implementation in Malaysia. The study by Hanefah (1995) was to evaluate the perception of taxpayers towards the implementation of SAS while the study by Kasipillai and Hanefah (2000) was focusing on the role of tax professionals under SAS. The remaining studies were focusing on the impact of SAS implementation to taxpayers (Abdul-Jabbar & Pope, 2008; Saad, 2009; Saad, 2012; Sapiei & Kasipillai, 2013).

The appealing attribute of SAS is the introduction of voluntary compliance to the taxpayers in Malaysia (Saad, 2009). The responsibility to evaluate and access tax return is in the shoulder of taxpayers (Hassan, Nawawi, & Salin, 2016). Under SAS, the taxpayers are liable for any incorrect returns as the information provided by the taxpayers will be accepted at face value by IRBM (Kasipillai & Hanefah, 2000). Besides that, SAS is a system that allows taxpayers to carry out their tax obligation without coercion (Saad, 2009). There is no guarantee that coercion is an effective way to increase or maintain compliance behavior of taxpayers (Kirchler, Hoelzl, & Wahl, 2008). However, when there is no coercion, the level of compliance is not certain. A study by Tyler (2006) distinguished two approaches that tax officials could follow to

gain cooperation from the public which is either punishment and coercion or perceived competence. However, in the SAS era, combination of both approaches should be applicable especially when voluntary compliance is the norm for tax submission.

The tax compliance of a taxpayer may either increase or decrease based on several attributes that affect the taxpayer especially when the compliance mechanism has shifted to voluntary instead of mandatory (Kasipillai & Hanefah, 2000). A report documented by IRBM stated that there were an upsetting increase in the statistic of tax non-compliance within the first four years after SAS was introduced in Malaysia (Saad, 2009). The increasing trend of non-compliance may either be the taxpayers are negatively responding to SAS or IRB officers' effort in focusing on audit works have been fruitful in discovering non-compliance behavior (Saad, 2009). The perspectives on negative respond towards SAS by the taxpayers is either on the struggle and hustle to declare the tax or the possibility to be fined even on unintentional mistake (Hassan et al., 2016). From either perspective, the conclusion leading to same result which is an upsetting increase of tax non-compliance behavior in Malaysia.

Tax compliance is defined as obeying the administrative rules of lodging tax returns based on the provisions of the tax laws while tax non-compliance is the action of disobeying with the provisions of the tax laws. The level of compliance of a taxpayer defers based on various factors (Allingham & Sandmo, 1972). Various studies were conducted to examine factors that affect the compliance of taxpayers (Allingham & Sandmo, 1972; Bărbuță-Mișu, 2011; Kiri, 2016; Remali et al., 2018; Mangoting, Tangkelobo, & Lelysin, 2019). Besides, there were several prior studies examined the

factors affecting tax compliance based on SAS (Abdul-Jabbar & Pope, 2008; Saad, 2009; Palil, 2010; Mohamad & Ali, 2017).

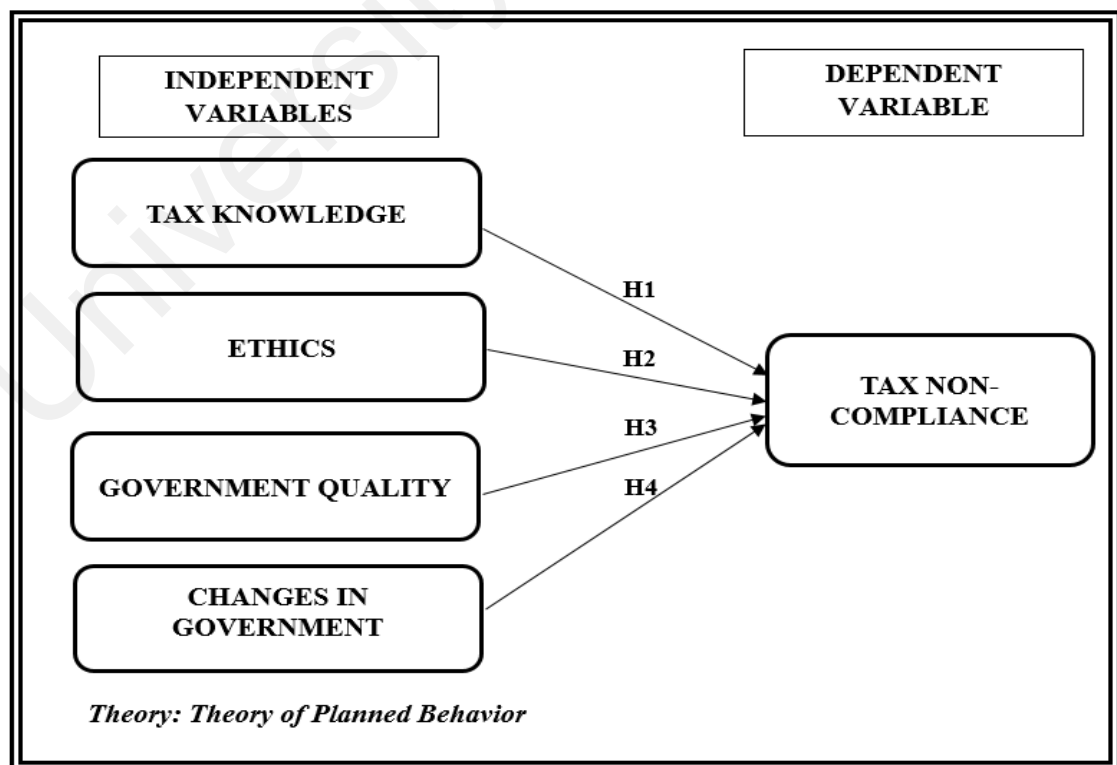
The factors covered in the prior studies were tax knowledge of the taxpayers (Saad, 2009; Palil & Mustapha, 2011; Saad, 2012), ethics of taxpayers (Alasfour, Samy, & Bampton, 2017; Mangoting et al., 2019), taxpayers' perception on the fairness of tax system (Saad, 2009; Bărbuță-Mișu, 2011; Saad, 2012; Tilahun, 2019) and good relations between taxpayers and tax officials (Kasipillai & Hanefah, 2000; Palil & Mustapha, 2011; Gangl, Hofmann, & Kirchler, 2015). Several prior studies conducted on how government quality affects tax compliance of taxpayers based on SAS (Gangl et al., 2015; Mas'ud, Manaf, & Saad, 2019; Mangoting et al., 2019). These studies focused on two main qualities which are trust in government and power of government.

According to Porcano and Price (1992), level of compliance of a taxpayer can be nurtured by improving taxpayers' perception on fairness of the tax system and increasing their tax knowledge through formal education or tax publicity. Besides that, the researcher also agreed that having a favourable attitude towards the government may increase the compliance level of taxpayers (Porcano & Price, 1992). Evidently, to increase the voluntary tax compliance of a taxpayer depends on how the taxpayer view the government in terms of transparency, power control and interaction (Gangl et al., 2015). On another perspective, tax compliance is defined as taxpayers' willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place (Palil & Mustapha, 2011).

The factors that affecting tax non-compliance is enormous and it is impossible to gather the whole factors in one study (Allingham & Sandmo, 1972). Based on the discussion above, this study attempts to examine four factors; tax knowledge, ethics, government quality and change in government with tax non-compliance in Malaysia. The discussion on the research framework and the literature review on each variable are reported in the next section of the chapter.

## 2.2 Research Framework

Research framework is developed based on the research objective and literature review discussed in this study. This research framework focuses on the four independent variables that are gathered from the research gap that affect the dependent variable. The research framework shown in **Figure 2.1**, explains the relationship between independent variables and dependent variable supported by the selected theory for this study; theory of planned behavior.



**Figure 2.1: Research Framework**



### **2.2.1 Tax Non-Compliance**

In both developed and developing countries, tax non-compliance is an active issue being discussed by the tax regulators. Richardson (2016) defined tax non-compliance as an action of disobeying with tax regulations set by tax regulators with the aim to reduce or neglect tax return. Tax non-compliance occurred either intentionally or unintentionally (Tilahun, 2019). Tax non-compliance is considered to be illegal as it is an act of disobeying the tax regime (Kasipillai & Jabbar, 2006).

Tax non-compliance occurs in several forms such as overstatement of expenses, understatement of revenue, failure to yield tax return within the specific period and non-submission of tax return (Kasipillai & Jabbar, 2006; Tilahun, 2019). Section 113(1) of Income Tax Act 1967 outlines making incorrect returns or giving incorrect information as one of the tax offences on tax non-compliance issues. Tax non-compliance is an issue faced by every country (Allingham & Sandmo, 1972). The term tax non-compliance is closely related to tax evasion and tax avoidance (Alabede et al., 2011). This twin devils bring a national gap in the country's gross domestic product (GDP) and affects government tax revenue significantly (Adebisi & Gbegi, 2013).

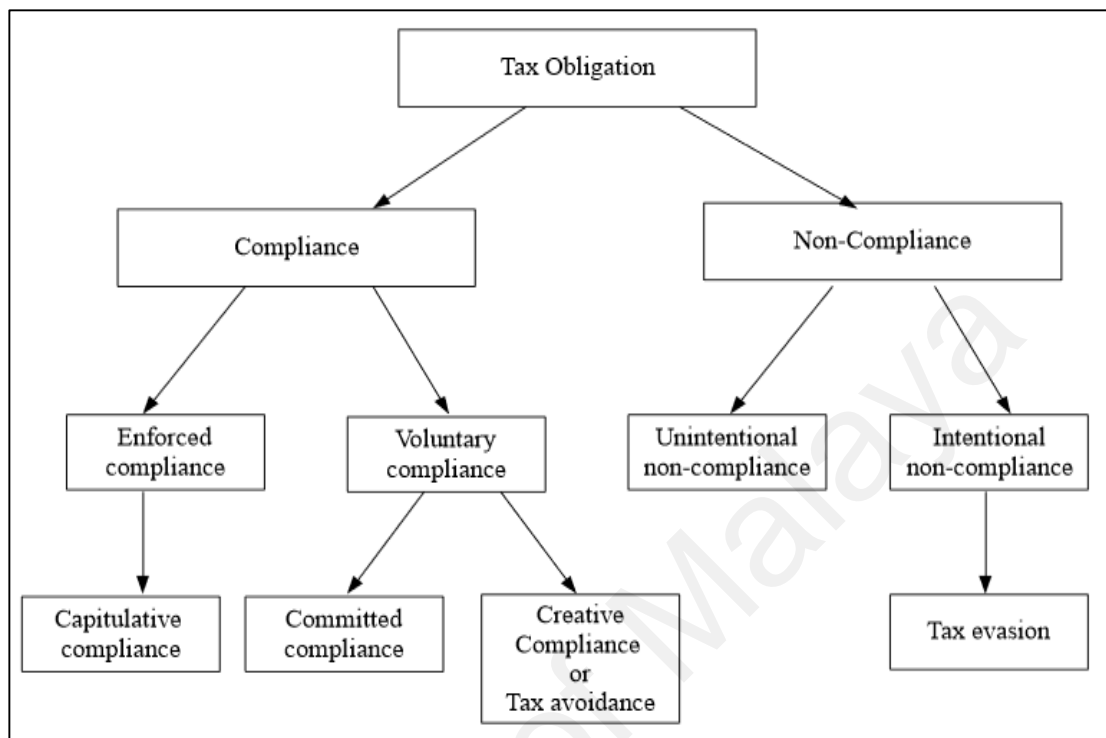
Tax avoidance occurs in a situation where the taxpayer arranges his financial affairs in a way that would make him pay tax the least possible amount without trespassing the tax regime (Onyeka & Nwankwo, 2016). In short, tax avoidance is a term used to signify a legal mechanism in saving tax payable to the tax officials with the aim to shelter taxpayer's annual income from greater tax liability (Kiabel, 2001). A taxpayer is allowed to practice tax avoidance when computing their annual tax as it is regarded as lawful, however, this practice affect the government revenue depressingly

(Otusanya, 2010). Common practice of tax avoidance includes putting in money into an individual savings account to avoid paying income tax, investing money into a pension scheme, claiming excessive allowable deduction and relief and claiming capital allowance used for business purpose. Tax avoidance is the most challenging issue faced by the world as it leads to a serious loss of government revenue of both developed and developing countries (Hundal, 2011).

Tax evasion occurs in a situation where the taxpayer arranges his financial affairs in a way that provide opportunity to evade tax even though it is considered trespassing the tax regime (Onyeka & Nwankwo, 2016). In short, tax evasion is a term used to signify an illegal mechanism in evading tax. Tax evasion is accomplished by deliberate act of omission or commission which is constituted as criminal acts under the tax laws. Common practice of tax evasion includes failure to pay withholding tax or deliberate late declaration of withholding tax, intentional omission or misstatement of amount when declaring tax return, failure to submit returns, claiming relief on children that do not exist, documenting fictitious transactions, understating income and overstating expenses and failure to answer queries. Tax evasion or shadow economy activities issues can be fixed through effective measures of punishment and prosecution (Schneider, 2004).

The phenomena of tax avoidance and tax evasion are as old as taxation itself (Kasipillai & Jabbar, 2006). Both tax avoidance and tax evasion are widely believed to be vital factors limiting revenue mobilization (Alabede et al., 2011). Numerous studies have investigated on how taxpayers respond to tax obligation and how it affects their tax

compliance behavior. **Figure 2.2** summarizes the tax obligation behavior of taxpayers in Nigeria experimented by Alabede et al., (2011).



**Figure 2.2: Tax Obligation Behavior**

Alabede et al., (2011) explained that taxpayer has two intentions, whether to abide the tax regulation or otherwise. If a taxpayer chooses to abide the tax regulation, then there will be either two type of compliance behavior engaged by the taxpayer; enforced compliance or voluntary compliance. Enforced compliance is related closely with capitulation in which the taxpayers' willingness to abide with tax regulation is based on fear of detection and not out of the willingness of their heart (Mas'ud et al., 2019).

Voluntary compliance is often linking with practice of tax avoidance (legal means) where taxpayers are able to submit their tax return to the relevant authority using the procedure approved by the tax regulators without any enforcement action (Mas'ud et al., 2019). In simple terms, to achieve tax compliance of a taxpayer, an enforced

compliance is attainable through power while a voluntary compliance is attainable through trust.

For the situation that taxpayer does not abide the tax regulation, it is either intentional or unintentional non-compliance. Intentional non-compliance linking closely to tax evasion (illegal means) in which the taxpayers choose to neglect or illegally reduce tax liability. This attitude of evading tax is the reason that government is having difficulties in getting tax revenue collection as forecasted earlier in **Table 1.1**. Unintentional non-compliance is linked with taxpayers lack of awareness towards tax regulations in which several taxpayers are unaware of their responsibility to submit tax return disregard the taxability of their annual income.

Tax plays a crucial role in economic development of a country (Awan & Hannan, 2014). When a taxpayer understates his income and overstates his deduction which leads to a decrease in his taxable income, he is said to engaged with tax avoidance while illegally reducing his tax liability, he is said to engaged with tax evasion (Fadzillah, Noor, & Mastuki, 2010). This will simultaneously decreases the government revenue and depletion in the provision of infrastructure, defence, education and healthcare (Otusanya, 2010). Based on the study conducted by Sandmo (2005), the reason behind tax non-compliance goes to having gaps in the law. These tax gaps are related to the shadow economy discussed in the introduction chapter above.

In this study, tax non-compliance is the dependent variable that is examined with four independent variables. Based on the discussion above, this study attempts to

investigate how the independent variables affect tax non-compliance behavior of taxpayers in Malaysia. In the following section of this chapter, a hypothesis is developed on each independent variable with the dependent variable supported by the selected theory.

### **2.2.2 Tax Knowledge**

Tax laws are usually hard to understand due to various subsections, exception, exemption and condition which commonly resulted to misinterpretation or misunderstanding by taxpayers on the tax regulations especially if there is deficiency of tax knowledge (Bărbuță-Mișu, 2011). Tax calculations and preparation of tax returns are often inaccurate due to absence of knowledge on bookkeeping and tax calculation (Awan & Hannan, 2014). Corchón (1992) found that the existence of tax non-compliance is much more on the inaccurate tax information provided by taxpayer rather than the deficiency of information.

With little tax knowledge, taxpayers tend to engage with tax compliance (Obid, 2004). On the contrary, taxpayers are more likely to avoid or evade if they possess high tax knowledge (Obid, 2004). A study conducted in Malaysia on salaried individuals found that the taxpayers' tax competency is quite low despite their tertiary education alumni (Loo & Ho, 2005). The study by Loo and Ho (2005) suggested that having general knowledge itself is not sufficient to encourage tax compliance behavior. According to Palil and Mustapha (2011), taxpayers able to understand the tax system and tax policies more by having an adequate tax knowledge. When examining tax knowledge of taxpayers, the common restriction to the study is the different educational backgrounds

of the taxpayers of either having the knowledge or otherwise will clarify their distinct perception towards tax compliance (Betty & Rita, 2018).

Tax knowledge is essential in encouraging taxpayers to apprehend the tax regime in order to flatten the gradually increasing tax non-compliance cases (Kasipillai, Aripin, & Amran, 2003). By increasing tax knowledge of taxpayers, it simultaneously promotes awareness about the tax system of the country (Yee, Moorthy, & William, 2016). The researchers added that when taxpayers understand how the tax system operates, it changes taxpayers' opinion towards the tax processes which indicates that taxpayers with higher tax knowledge tend to promote higher tax morale (Yee et al., 2016). This also indicates that taxpayers will likely to comply with tax when they have greater knowledge on taxation (Palil & Mustapha, 2011; Mohamad, Nor, Bakar, & Nanta, 2013).

According to Mohamad et al. (2013), when taxpayers take initiative to understand the tax system, it promotes confidence in using the tax system and simultaneously nurtures accountability in using the tax system. Generally, having adequate knowledge on a subject matter endorses individuals in practicing the knowledge. In the context of taxation, having adequate knowledge on tax law, administration and system encourages taxpayers to report their tax liability. According to Loo and Ho (2005), the respondents of the study were salaried individuals who majority have inadequate education on tax system, law and administration. These individuals assumed that tax non-compliance is acceptable since these individuals are less familiar with the tax laws and system, hence, they tend to engage with tax non-compliance due to their lack of education on personal tax relief and anything related to declaring tax (Loo & Ho, 2005).

According to Kasipillai and Jaabar (2006), tax knowledge is positively related in shaping a taxpayer's compliance behavior. Similar to Jackson and Milliron (1986), the researchers found that tax knowledge positively influence tax compliance. These previous studies have reported that tax knowledge influences tax compliance significantly and positively (Fallan, 1999; Palil & Mustapha, 2011; Ross & McGee, 2012b; Betty & Rita, 2018).

In contrary, several studies reported that tax knowledge is negatively related with tax compliance behavior (Tan & Carrol, 2000; Lin & Yang, 2001; Houston, 2001; Gilligan & Richardson, 2005). A number of researchers have reported that there is no relationship between tax knowledge and tax compliance behavior (Loo & Ho, 2005; Torgler & Schaltegger, 2006; Adams & Webley, 2012). A considerable amount of literature has been published about tax knowledge. However, the evidence for this relationship between tax knowledge and tax non-compliance is still inconclusive (Kasipillai & Jabbar, 2006; Betty & Rita, 2018). Hence, the first hypothesis developed in this study is:

***H<sub>1</sub>: There is a significant relationship between tax knowledge and tax non-compliance.***

### **2.2.3 Ethics**

Ethical view affects tax compliance decision of an individual (Bobek & Hatfield, 2003; Chau & Leung, 2009). People with stronger ethical view have good compliance attitude as they will abide the rules and regulation as a commitment that must be followed (Reckers, Sanders, & Roark, 1994; Ho & Wong, 2009). In examining the

differences of cultural in ethical decision making, Kasipillai and Abdul Jabbar (2006) found significant difference between ethical view among Caucasian and Asian students. A study by Goodwin and Goodwin (1999) found that there are differences in ethical view between business students from Malaysia and New Zealand. Prior studies have reported that regional and cultural difference does affect ethical view of an individual. Together these two studies outline that ethical view of a person is different and is affected by various factors such as regional factor and cultural factor.

In theological and philosophical perspective, ethics on tax non-compliance has been discussed quite extensively on different perspectives. Some studies focused on ethics towards tax non-compliance on government spending perspective (Betty & Rita, 2018), fairness of tax regime perspective (Bosco & Mittone, 1997), trust in law perspective (Torgler & Schaltegger, 2006) government partisanship perspective (Gerber & Huber, 2009), subjective norms perspective (Saad, 2009) and self-interest perspective (Wenzel, 2005). The relationship between both ethics and tax non-compliance is not straightforward and not one dimensional (Henderson & Kaplan, 2005). A succinct statement by Kirchgässner (2011) generalized how ethics works in which the researcher asserted that ethics is an approach while tax compliance is an action.

Ethics acts as taxpayers' inherent motivation to pay tax in which taxpayers absorb as a part of their obligations to give back to the community (Cummings, Martinez-Vazquez, Mckee, & Torgler, 2005). Evidence has begun to surface that suggest ethics of taxpayers play a crucial role in determining their compliance behavior (Eriksen & Fallan, 1996). In ethical view perspective, only a few discuss on the ethics of taxpayers



towards tax non-compliance because traditionally, tax non-compliance is considered to be not ethical (Jaffar, Bakar, & Tahir, 2011). The research to date focused on ethics to the perspective of government transparency, spending or corruption and the factors behind citizen unwillingness to pay taxes based on government functions (McGee & An, 2007). Only minimal study focused on ethical view of taxpayers in complying with tax that is legally compulsory to be conformed despite the increasing trend in tax non-compliance behavior between taxpayers in both developed and developing countries (Ching, 2013).

A prior research that experimented 117 undergraduates to investigate the relationship between peer's compliance behavior and tax compliance (Trivedi, Shehata, & Lynn, 2003). The prior research found that participants' compliance decisions is affected by peer's compliance behavior (Trivedi et al., 2003). In this study, the ethics of taxpayers focus on social norms surrounding the taxpayers. A research by Saad (2009) found that social norms proved to be significant factor that influence tax compliance behavior in Malaysia. According to Frey and Torgler (2007), social norm represents a pattern of behavior that is accepted by surrounding individual. Basically, if an individual behaves according to the norms accepted by the surrounding individual, then the individual is behaving appropriately; if the individual is behaving other than the accepted norms, the individual is behaving inappropriately (Ajzen, 1991).

According to Wenzel (2005), personal and social norms affect taxpayers' level of tax compliance. In the researcher's experimental study, he found that a significant number of taxpayers appeared to respond to peers' compliance norms (Wenzel, 2005). Similar to Wenzel (2005), both personal and social norms are essential factors explaining tax

compliance behavior of taxpayers (Bobek, Roberts, & Sweeney, 2007). A field study by Fjeldstad and Semboja (2001) found that tax compliance behavior of a taxpayer in Tanzania is affected by the number of non-compliant taxpayers known personally by respondents. From this field study and some other similar field studies conducted to learn similar findings (Wartick & Rupert, 2010), immediate family members, close friends and networking friends of a taxpayer affects their tax compliance behavior in which if the social circles cheat in paying tax, the chances to be copied by taxpayer is very likely. Besides, social norms become a guideline for an individual in responding to uncertain social situations (Cialdini & Goldstein, 2004). On certain time, individual behaves similar to their social circle to fit the social validation that satisfy their self-interest (Cialdini & Goldstein, 2004; Wenzel, 2005).

According to prior studies, ethics of taxpayer is positively related with tax non-compliance (Obid, 2004; Frey & Torgler, 2007; Kirchler et al., 2008; Slehat, 2009; Kirchgässner, 2011). In contrary, several studies reported that ethics is negatively related with tax non-compliance behavior (Trivedi et al., 2003; McGee & An, 2007; Jaffar et al., 2011). A considerable amount of literature has been published about ethics. However, the evidence on relationship between ethics and tax non-compliance is still inconclusive (Gilligan & Richardson, 2005; Torgler & Schaltegger, 2006). Hence, the second hypothesis developed in this study is:

***H<sub>2</sub>: There is a significant relationship between taxpayers ethics shaped by social norms and tax non-compliance***

#### **2.2.4 Government Quality**

Schmolders (1960) argued that when evaluating the taxpayer's tax compliance behavior, the critical question is "How does the taxpayer's point of view on the government?". He further argued that taxpayer's perception on the government leads to civic and tax sentiments and to a fundamental attitude on the government's problems (Schmolders, 1960). Basically, the way an individual expresses their interest, action, reaction and attitudes on a subject matter is highly dependent on their perception on the subject matter rather than the reality of the subject matter (Lewis, 1978).

Researchers seldom include government quality as part of the research experiment as government quality is often regarded as sensitive element to discuss about (Ching, 2013). Rotberg (2005) defines government quality as political goods of quality by government to the taxpayer. Good governance entails high quality public goods (Alabede et al., 2011). Rotberg (2005) furthered his study on government quality and tax compliance in which in his new study found that government quality is essential especially in motivating tax compliance behavior among individual taxpayers (Rotberg & Gisselquist, 2009). If taxpayers perceived the government is acting fair and goal-driven towards their manifestos, the taxpayers are confident and trust how portion of their money will be used by the government and this attitude of trusting the government motivate higher tax compliance behavior (Alabede et al., 2011).

Various studies conducted on government quality focused on two main factors which are trust in government and power of government (Alabede et al., 2011; Gangl et al., 2015; Rosid, 2017). These two constructs of government quality have been extensively studied by prior researchers (Kirchler et al., 2008). Nevertheless, government quality

is defined by some other constructs such as corruption tolerance (Rosid, 2017) and partisanship (Krupenkin, 2020). According to Bărbuță-Mișu (2011), tax compliance can be build based on trustable political leadership and acceptable government administration. The opinion was seconded by Kirchgässner (2011) in which the researcher added that to enhance voluntary compliance, trust in government and equitability of the tax system are both essential.

According to Cummings et. al., (2006), tax compliance behavior varies directly with government quality as long as the government is transparent and perceived as fair. The low tax compliance behavior in developing country is due to the quality of the government (Rotberg & Gisselquist, 2009). On another note, power of government influence tax compliance (Mas'ud et al., 2019). Taxpayers define power of government in terms of the ability to detect evasion and the legal power to fine the non-compliant (Mas'ud et al., 2019). Besides that, power of government relates directly with enforced compliance as the government is said having absolute and legitimate power over the taxpayers (Kirchler et al., 2008). To enhance compliance, two-dimensional communication needs to be imposed in which the government is transparent with the public spending and the taxpayers are transparent in public funding (Rosid, 2017).

Every detail of government spending needs to be transparent to taxpayers as misappropriation of taxpayers' money on corruption or futile projects will anger the taxpayers because the government did not act on taxpayers' interest, ultimately encourages tax non-compliance (Kirchgässner, 2011). Evidently, efficient government spending correlates positively with tax compliance (Alm, McClelland, & Schulze,

1992). Public governance in a country is build based on a virtual contract in which the government acts as an agent while taxpayer acts as a principal. In agency theory, the agent has to fullfill the needs of the principal. In this context, the government needs to fullfill the needs of taxpayers in order to achieve the goal congruence.

When a government fails to deliver the expectation, taxpayers engagement with tax non-compliance can be justified (Ching, 2013). A smaller portion of taxpayers will be engaged in tax non-compliance when a higher fraction of taxpayers holds an optimistic view on the government (Cullen, Turner, & Washington, 2018). Tax compliance of taxpayers depend on how they perceive the effectiveness of government spending and this attitude affects their political affiliation towards the government (Gerber & Huber, 2009). A study in Nigeria found that government weak income tax administration such as misuse of tax collection and inequitable distribution of amenities leads to higher level tax non-compliance (Adebisi & Gbegi, 2013).

Political affiliation is the main factor that affect tax non-compliance behavior (Abodher, Ariffin, & Saad, 2018). Perception of taxpayers towards government and its politics dictate their tax compliance behavior (Congdon, Kling, & Mullainathan, 2009). A study in United States by Ballard and Gupta (2018) found that taxpayers overstate their tax return if they believe their tax return will be use effectively by the government while understate their tax return if they believe their tax return will be use ineffectively. Transparency in managing the tax revenue especially in public funding contributes to public trust on both the effectiveness of tax system and government (Kirchler, Muehlbacher, Kastlunger, & Wahl, 2007).

Corruption is recognized as major obstacle to economic development in any country of the world (Wilhelm, 2002). Empirical studies concluded a negative correlation between corruption and economic growth (de Vaal & Ebben, 2011). Several economists defined corruption as utilization of public assets for private opportunities (Werlin, 1973) while some other economists defined corruption as illegal and unauthorized exploitation of public finance for personal gains (Blackburn, Bose, & Haque, 2010).

Bukhari and Haq (2014) defined corruption to the extent of government not enforcing their power on the non-compliant rich and elite class individuals due to individuals' political and economic power. The authors added this favouritism by government to the elite class individuals permitting them to enjoy amenities and public money while being non-compliant (Bukhari & Haq, 2014). Attitude of taxpayer towards tax non-compliance is important (Robert, Hite, & Bradley, 1994; Uadiale, Fagbemi, & Ogunieye, 2010). If the government is spending wisely and is not presumed corrupted, the attitude of taxpayers towards the government is favorable (Robert et al., 1994).

Government quality dictates the attitude of the taxpayers in complying with tax (Mas'ud et al., 2019). As discussed earlier on tax obligation behavior based on the experiment conducted by Alabede et al., (2011) in Nigeria, each taxpayer has only two option either to comply or not to comply with tax. When complying with tax, taxpayers are bound to two type of compliance which is enforced compliance and voluntary compliance. The government quality plays the crucial in determining the type of compliance by the taxpayers (Mas'ud et al., 2019). In simple terms, the attitude of

taxpayers to comply or not comply with tax depends on the how the taxpayers perceive the government quality.

Taxpayers aid the government in carrying out their responsibilities through the provision of finance in the form of tax payment. Since the taxpayers provide the finance, the taxpayers demand a transparent and relevant spending outlines on the provided finance (Alabede et al., 2011). Therefore, when the taxpayers' belief that the government is highly corrupted, the tax non-compliance behavior increases. Hence, the third hypothesis developed in this study is:

***H<sub>3</sub>: There is a significant relationship between taxpayers attitude towards government quality and tax non-compliance.***

### **2.2.5 Change in Government**

This independent variable is tested since Malaysia has experience a change in government for the first time in May 2018. To researcher's knowledge, there is no prior study made on change in government in the area of tax non-compliance. Several studies from different journals have discussed briefly on change in government such as journal of humanities and social science, journal of political affairs and journal of public relations. To date, these studies do not fully cover the change of government literature. Prior studies focused more on the relationship between election outcome to trust in government and change in government policies to tax compliance (Engida & Baisa, 2014; Kiri, 2016; Hunt, Iyer, & Jimenez, 2019).

There is an empirical evidence that proved the relationship between political intention and tax non-compliance (Kim, Kim, Kim, & Her, 2006). Evidently, the cross-country empirical study found a strong relationship between political intention and tax non-compliance (Kim et al., 2006). The researchers elaborated that the relationship stimulated due to the selection of the tax administrator of most countries falls under the power of the government in presidency (Kim et al., 2006). This situation permits politicians in presidency either directly or indirectly control the administration, movement and governance of the tax administration in accordance to government interest disregard the segregation of duties imposed between government and tax administrator (Kim et al., 2006). This situation is further elaborated by Kirchler et al., (2007) in the theoretical study of the 'slippery slope' framework in which the researchers addressed that the power of government is legitimate and it leads to citizen feeling obliged to adhere to rules, policies and decision without choice.

Political party identification is a very important predictor of individuals' political beliefs and behavior (Krupenkin, 2020). When individuals are of the same political party as the current government, the individuals will be more bias towards the current government in terms of less questioning on government spending, policies, transparencies and are likely to show high level of tax compliance behavior (Cullen et al., 2018). Conversely, a taxpayer from the opposition party is more non-compliant as the taxpayer perceives that the government is not on his side (Engida & Baisa, 2014). This situation indicates that taxpayers determine their behavior either to comply or not to comply with tax based on the federal government presidency in which taxpayers will likely to comply with tax if the government in-presidency is the voted government.



In this century, partisanship affects both political and non-political decision of an individual (Krupenkin, 2020). Gerber and Huber (2009) found that individual purchase fewer consumer goods when the president is an out-partisan. Similarly, Enns and Anderson (2009) find that partisan patterns of consumption change in the aftermath of a presidential election. The leadership by federal government party does affect the compliance behavior of individual. Krupenkin (2020) argued that people identifying with the party that holds the presidency are more likely to comply than people identifying with the party out of power. In-partisans' higher level of trust in government has the effect of making government regulations and recommendations credible, increasing the likelihood of compliance.

On the other hand, the existence of partisan bias affects an individual's behavior. Partisans punish presidents of the opposing party for poor economic performance, but not presidents of their own party (Lebo & Cassino, 2007). More generally, partisans express significantly more trust in the federal government when their party holds the presidency (Keele, 2005). These literatures by prior researchers indicate that individual behavior is affected by federal government leader. A study by Kiri (2016) investigated the audit probability with tax compliance in which the researcher estimated that taxpayers with financial restrictions tend to not comply with tax when experiencing change in government. There has not been any research conducted on how this behavior effects on mandatory regime like taxes and laws.

Besides that, partisan reasoning also affects an individual's behavior on political reality. An individual willingly rejects any information that may taint his political party's reputation without the need to check on the credibility of the information and

blatantly accepts information that benefits his political party (Taber & Lodge, 2006). Individual welcomes policies sanctioned by their party and supports argument without the need to critically analyse it (Nicholson, 2012). Based on a recent study conducted by Krupenkin (2020) who tested the willingness and acceptance of Americans towards kindergarten vaccination on two different government administrations has found that Republicans were less likely to believe that vaccines recommended under Obama administration were safe while Democrats were less likely to believe that vaccines recommended under Bush administration were safe. This situation indicates that being in the different political party with the in-president political party affects the decision of the individual in both political and non-political decision.

Based on the literature review discussed above, most literature focused on how the taxpayers perceived the new presidential government would administrate the country before the new government commence their administration. The taxpayers already perceived their behavior towards the government before the administration of the new presidential government embarks. The taxpayers already perceived their behavior of not complying with tax due to the change in government. This study examines how change in government may influence taxpayers' interactions with government, including their willingness to comply with government regulations. Hence, the fourth hypothesis developed in this study is:

***H4: There is a significant relationship between taxpayers perceived behavior on change in government and tax non-compliance.***

### 2.3 Theoretical Framework

In the area of tax non-compliance, the twin devils; tax avoidance and tax evasion are most discussed by tax administrators and public finance of a country (Chandarasorn, 2012). The area of tax non-compliance has been extensively studied since the first article publication by the pioneer researchers. In their publication, the pioneer researchers discussed on taxpayers' decision in engaging income tax evasion using theoretical analysis (Allingham & Sandmo, 1972). The pioneer researchers reported result that rejected the optimal taxation theory; a theory that assume there is no tax evasion in a society.

Since the first publication in the area of tax non-compliance, various studies were made to gather variables that affect tax non-compliance among taxpayers. There were both empirical and theory testing case studies made in this area of tax non-compliance. The most common theories tested by prior researchers are the expected utility theory (Arcand & Gregoire, 2005; Dhimi & al-Nowaihi, 2007; Piolatto & Rablen, 2013; Ameer & Tkiouat, 2016; Alasfour et al., 2017), the 'slippery slope' framework (Kirchler et al., 2008; Prinz, Muehlbacher, & Kirchler, 2013; Kogler, Muehlbacher, & Kirchler, 2015) and the theory of planned behavior (Ajzen, 1991; Jones, 2009; Saad, 2009; Smart, 2012; Saad, 2012).

In this study, theory of planned behavior is chosen because this theory explains and describes the research problem perfectly as illustrated in the research framework **Figure 2.1**. The theory adopted in this study is selected from three frequently used theories in the area of tax non-compliance. Hence, the remaining part of this chapter

discusses thoroughly on all three theories and reasons of its suitability and non-suitability for this study.

### **2.3.1 Expected Utility Theory**

The expected utility theory was introduced by Daniel Bernoulli in the 18<sup>th</sup> century. The theory then was discussed extensively in a book authored by Neumann and Morgenstern (1944) and was further extended its general principle by Savage (1954) who added the subjective probability concept into the theory. Expected utility theory has conquered the analysis of decision making under uncertainty (Tversky, 1975). The general principle of this theory is equivocal despite the continuum research made on the theory since it was first introduced by Bernoulli. The main general principle of expected utility theory is the need of an individual to make a decision on a situation that the individual has zero knowledge on the possible future output (Neumann & Morgenstern, 1944). The theory was adopted by the pioneer researchers of tax non-compliance on their research article (Allingham & Sandmo, 1972).

This theory is frequently used in economics as a descriptive theory that able to explain uncertainty situation like inflation, change in business climates or purchase of insurance. Besides being employed as descriptive theory, expected utility theory also been employed as a normative theory in determining the ideal decisions and policies (Tversky, 1975). The general principles of this theory such as transitivity and substitutability are accepted as rational behavior under uncertainty by most researchers (Tversky, 1975). However, when various general principles are observed on the subject matter will either cease or reduce the ability of the theory to explain the subject

matter (Harrison, 1994). Frankly, this theory has yet to achieve its underlined principles in determining human behavior under uncertainty.

As mentioned, the general principles of this theory are equivocal. Through critical reviews by prior economic researchers on this theory, two widely-accepted versions of this theory are developed; subjective expected utility (SEU) theory that explains uncertainty and Von Neumann-Morgenstern (VNM) theory that explains risk (Mongin, 1997).

In SEU theory, the monetary values are part of the decision making. SEU theory explains human behavior based on the uncertainty exposed to the individual when exercising that particular behavior. As experimented in the St. Petersburg game by Allais (1953), people were asked how much they would pay for the following prospect; if head comes out of the first toss of a fair coin, to receive 200 cents and stay in game and if tail comes out, receive nothing and end the game. If head comes out of the second toss of the coin, to receive 400 cents and stay in the game and if tail comes out, to receive nothing and end the game, and so on perpetually. The expected monetary value of this prospect is infinite. The SEU theory suggested that the individual seeks to maximize the monetary value which is uncertain rather than the expectation of utility (Allais, 1953).

In VNM theory, the probabilities are part of the decision making as mentioned by Bernoulli, the pioneer theorist. VNM theory explains human behavior based on the risk exposed to the individual when exercising that particular behavior. As illustrated by Mongin (1997), when an individual undertakes a project that has three possible

payoffs of \$10, \$20 or \$30 with 20 percent, 50 percent and 30 percent of probabilities respectively, the individual expected payoff from the project will be \$21. In the following year, the same individual takes the same project with different probabilities of 25 percent, 40 percent and 35 percent respectively, the individual expected payoff from the project is still \$21. The VNM theory suggested that the individual seeks to maximize the expectation of utility which is measured with probabilities (risk) rather than monetary values (Neumann & Morgenstern, 1944).

Numerous critic articles were published in responding to the inadequacy of expected utility theory as a descriptive theory (Tversky, 1975; Harrison, 1994). Harrison (1994) critiqued that the applicability of this theory in the area of psychology, economics, or other disciplines that attempt to describe decision making under uncertainty and risk is considered misleading as a descriptive theoretical model of human behavior. Tversky (1975) critiqued that expected utility theory compatibility to describe the data measured depends heavily on the interpretation of consequences. If the data interpretation identifies the consequences with monetary consideration, the theory is violated (Allais, 1953; Savage, 1954). If the data interpretation identifies the consequences with non-monetary consideration, the theory is valid (Allais, 1953; Savage, 1954).

Based on these critics, this study will not adopt expected utility theory due to its inadequacy to explain human behavior. In this study, the independent variables are selected to describe the occurrence of the dependent variable. The occurrence of the dependent variable is depending on how the independent variables influence taxpayers which ultimately determine the taxpayers' behavior. If this theory is adopted, the

independent variables selected will not explain the occurrence of tax non-compliance by the taxpayers which defeat the purpose of this study. Besides that, the data interpretation will only be explainable to the limit of non-monetary consideration (Allais, 1953; Savage, 1954). This will limit the research in examining the independent variables on all likelihoods of tax non-compliance occurrence.

### **2.3.2 Slippery Slope Framework**

The 'slippery slope' framework was introduced by Henk Elffers at a conference in Leiden, Netherlands (Kirchler et al., 2008). The framework was formed based on the ideology that the tax climate in a society vary on a continuum between an antagonistic climate and a synergistic climate (Kirchler et al., 2008). In an antagonistic climate, taxpayers and tax officials work against each other while in a synergistic climate, taxpayers and tax officials work together.

Henk Elffers symbolizes the antagonistic climate like a 'cops and robbers' agenda in which the tax officials perceive that the taxpayers will try all means to evade tax (robbers) while taxpayers perceive that the tax officials will try all means to prosecute them (cops) disregard how honest they have declared their tax return (Braithwaite, 2003). In this climate, the social distancing between tax officials and taxpayers is large due to the little respect and little positive feelings between both parties.

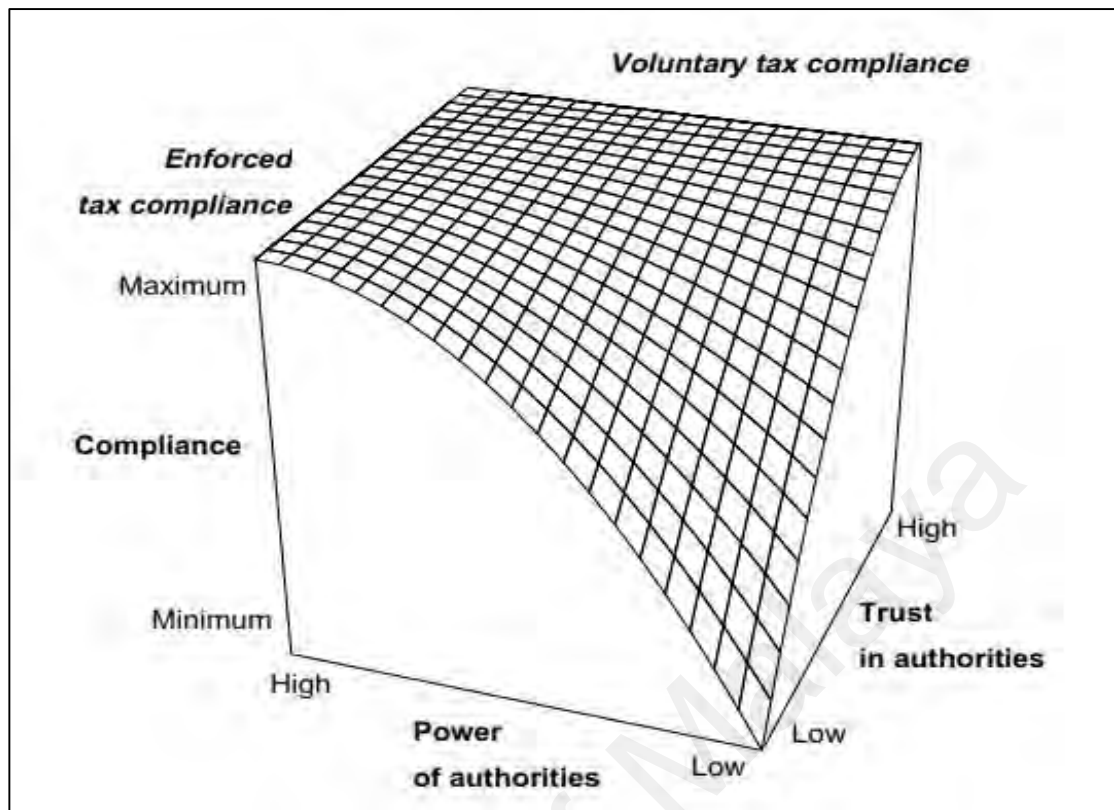
Henk Elffers symbolizes the synergy climate like a 'service and client' agenda in which the tax officials provide tax service to the community; the same community the taxpayers belong to (Feld & Frey, 2004). In this climate, the social distancing between tax officials and taxpayers is small as the tax officials aim for transparent tax

procedures and for respectful and supportive treatment of taxpayers. A friendly and respectful treatment towards taxpayers by the tax officials is important to enhance tax compliance (Feld & Frey, 2004). Voluntary compliance is the essence of synergy climate in which the taxpayers are less likely to consider the chance of non-compliance and more likely to comply to tax out of a sense of obligation.

The framework is divided into two major dimensions; the power of tax officials and the trust in tax officials. These two dimensions and their interconnection influence the level of tax compliance of a taxpayer (Kirchler et al., 2008). Prior studies identified two different measurement of tax officials gaining cooperation from the society in which the threat of punishment and perceived competence (Tyler, 2006). The power of tax officials dimension is shaped by the knowledge and attitudes of the taxpayers while the trust in tax officials dimension is shaped by the general opinion of individuals and social groups that the tax officials are compassionate and work for a common goal; accurate tax return (Kirchler et al., 2008).

In this framework, the power of tax officials serves as significant predictor of enforced compliance and the trust in officials serves significant predictor of voluntary compliance (Prinz et al., 2013). This framework assumes that tax compliance can be achieved through increasing levels of both dimensions; power and trust. Recent study conducted on self-employed Australian taxpayers has reported that perceptions of trust and power positively influence tax compliance of the taxpayers (Kogler et al., 2015). Besides that, the framework assumes that a change in one dimension will impact the change in another dimension as presented in **Figure 2.3** which summarizes the 'slippery slope' framework.





**Figure 2.3: The ‘Slippery Slope’ Framework**

Based on **Figure 2.3** above, when the power of tax officials and the trust in tax officials are simultaneously low, the tax compliance of taxpayers will slope down in which the taxpayers tend to engage in tax evasion or any illegal activity that will reduce the tax return bringing tax compliance to a minimum. When the power of tax officials is high and the trust in tax officials is low, the tax compliance slopes to the left which indicates an enforced compliance by taxpayers. In this scenario, the taxpayers have less incentives to evade tax as the expected outcome of non-compliance is lower than expected outcome of compliance due to the increasing power of tax officials in conducting tax audits, detecting probabilities of non-compliance and inflict severe fines (Kirchler et al., 2008). This is similar to the ideology of law of diminishing return in which when a certain level of power achieved by the tax officials enable them to

enforced compliance from the taxpayers disregard the level of trust the taxpayers have on the tax officials.

When the trust in tax officials is high and the power of tax officials is low, the tax compliance slopes to the right which indicates a voluntary compliance by taxpayers. In this scenario, the taxpayers willingly follow the tax rules and regulation to the extent they perceived to be fair, pay their tax liability and support the tax officials in conducting their mandatory work to smoothen the tax return process (Kirchler et al., 2008). This scenario is also similar to the ideology of law of diminishing return in which when a certain level of trust is perceived from the tax officials, the taxpayers voluntarily comply with the tax regime disregard the level of power the tax officials have against the taxpayers.

To the context of this study, the 'slippery slope' framework fits impeccably for two variables which are government quality and change in government. This framework has been proven effective in measuring the effect of trust in government and power of government towards tax compliance (Kirchler et al., 2008; Prinz et al., 2013; Kogler et al., 2015; Mas'ud et al., 2019). A number of factors have been contributed as important in explaining the compliance factor in this framework such as audit probabilities, fines, tax rate, attitude towards taxes, social norms and national norms, perceived fairness and tax knowledge (Kirchler et al., 2008).

An overview on the literature review of the conceptual tool of this framework showed that the framework including all the contributing factors focus on the two dimensions; trust and power. Due to this, the 'slippery slope' framework is not the most suitable

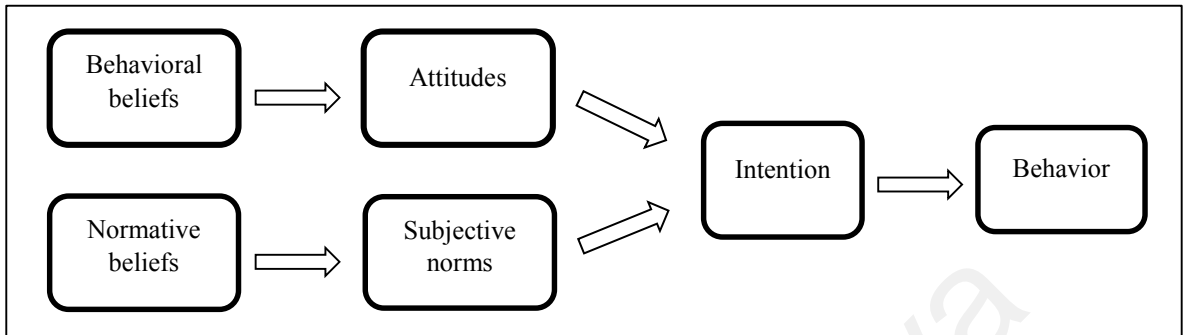
theory to answer the research questions of this study as this study is conducted mainly to examine the relationship of the independent variables to the dependent variable. In the 'slippery slope' framework, the highlight of the framework is power of tax officials and trust in tax officials affecting compliance of taxpayers which is differ than the aim of this study. This study aims to examine the tax non-compliance factors in the eyes of taxpayers rather than the tax officials.

### **2.3.3 Theory of Planned Behavior**

Theory of planned behavior is introduced by Ajzen (1988) which is a continuum study made by the researcher after publishing his book in 1975. In his book, Ajzen first introduced theory of reasoned action (Fishbein & Ajzen, 1975). Theory of planned behavior is the extended version of theory of reasoned action and is a dominant theoretical framework used in explaining human behavior (Ajzen, 1991). Theory of planned behavior is comprehensively used in the psychological research studies before it is introduced in the area of taxation by Bobek (1997) in which the researcher applied this theory to explain how an individual judges fairness and how does it affect their behavior.

This theory was first introduced as the theory of reasoned action that suggested an individual's intention will determine their behavior and this intention is catalyzed by the individual's attitude and subjective norms towards the behavior (Fishbein & Ajzen, 1975). The intention is considered as the subjective probability that motivates the determination that one has to perform the behavior. Frankly, the stronger the intention towards the behavior, the more likely the behavior will be performed (Ajzen, 1988). Theory of reasoned action attempts to explain human behavior through an individual's

attitude and subjective norms towards the behavior. **Figure 2.4** illustrate theory of reasoned action.



*Source: Fishbein & Ajzen (1975)*

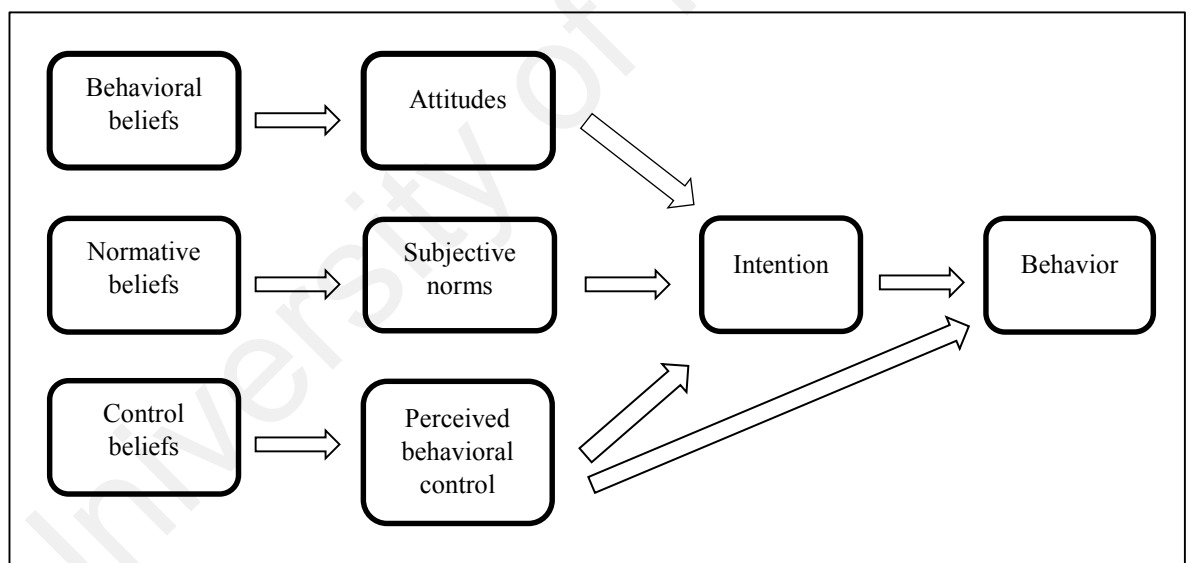
**Figure 2.4: Theory of Reasoned Action**

To overcome the limitation of theory of reasoned action, theory of planned behavior was introduced by Ajzen (1991) in his continuum research to strengthen his prior theoretical model. The innovation was made by inserting another construct; perceived behavioral control, to the theory of reasoned action to rigorously predict human behavior. In the initial theory, the individual's intention determines their behavior and this intention is motivated by the individual's attitude and subjective norms (Fishbein & Ajzen, 1975). In the innovated theoretical model, the individual's behavior is not only determined by their intention, but also the ability of the person to have control in performing the behavior (Ajzen, 1991).

An addition of construct; perceived behavioral control to the prior theory is due to the argument that a particular behavior has a tendency of non-occurrence if the individual does not have the control in performing the behavior, though the elements of positive attitude and positive influence exist towards the behavior (Ajzen, 1991). Since measurement for actual behavior are not available and merely impractical, perceived behavioral control becomes a substitute for actual behavior and the prediction of actual

behavior can be improved if perceived behavioral control precisely reflects the actual control (Fishbein & Ajzen, 2009).

The best mechanism to measure an individual's behavior is their intention or instrumentality. Instrumentality is an individual's belief that the behavior will lead to the intended outcome. Instrumentality is determined by three things: the individual's attitude, subjective norms, and perceived behavioral control towards the behavior. The more favourable the attitude, subjective norms and perceived behavioral control towards the behavior, the stronger the person's intention to perform the behavior (Fishbein & Ajzen, 2009). Ajzen (1991) presented theoretical model that explains human behavior as illustrated in **Figure 2.5** below.



Source: Ajzen (1991)

**Figure 2.5: Theory of Planned Behavior**

As shown in **Figure 2.5**, intention of individual is the determinant of their behavior. In general, theory of planned behavior is an individual's intention to engage in a behavior at a specific time and place. To test the reliability and validity of the model, a meta-analysis of sixteen studies in various areas such as weight loss, voting elections,

cheating in examination, drinking problems, attend class, use condoms; in which all areas supported this theory (Ajzen, 1991). The result of the meta-analysis on the tested areas verified that theory of planned behavior able to explain human behavior. Bobek (1997) has incorporated theory of planned behavior in the area of tax non-compliance and supported that the theory able to explain the non-compliance behavior of taxpayers.

Behaviors can be influenced under self-determinants of the individual in which intention and perceived behavioral control of the individual are the motivational factors for their behavior (Ajzen, 1991). The decision of taxpayer on complying with tax, even though it must be obeyed is highly depending on the intention of the taxpayer. The willingness to comply with the tax laws is affected by the overall intention of the individual for the certain factors which eventually becomes the behavior of the taxpayer whether a behavior to comply with tax regulation or otherwise.

Theory of planned behavior has been discussed and proven to be effective in predicting human behavior. Several researchers beg to differ the generalization of the theory capable of predicting human behavior under the argument that the theory records a link between intention and behavior and this link is weak or moderate that ignore the bias that human has in making judgments (O'Fallon & Butterfield, 2005; Shawyer & Sennetti, 2008). Another researcher stated that theory of planned behavior is similar to other behavioral-decision making models that is based on self-reports that includes data bias which reduce the reliability and validity of the theory (Hamid, 2013).

Ajzen (2011) responded to the criticism stating that the theory never assumes rationality in predicting reality. The biggest misconception transpired when the critics emphasized that the theory is concerned with goal-directed behavior guided by self-regulatory manners which is wrongly emphasized as acting in rational. The low or moderate correlation between the intention and actual behavior is due to other mediating factors that exist between the period the intention is assessed and the time the actual behavior is observed (Ajzen, 2011).

The principal idea of the theory is to predict intention for goal-directed behavior that is motivated by self-regulatory manners (Ajzen, 2011). The act of complying with the tax laws is considered to be a behavior which is goal-directed; specifically said to be reasoned or planned behavior (Ajzen, 2011). Compliance behavior is influenced by various factors (Jackson & Milliron, 1986; Richardson & Sawyer, 2001). The elasticity of the theory that allows other factors to improve or explain the variance in intention and behavior made the theory superior than other theories discussed in this study. Theory of planned behavior is not commonly used in tax area (Hamid, 2013). Despite its limited application in tax area, this theory evidently able to explain the tax compliance behavior as reported by previous taxation studies (Bobek & Hatfield, 2003; Saad, 2009; Langham, Hartel, & Paulsen, 2012; Saad, 2012; Smart, 2012).

The independent variables are interrelated with the theory of planned behavior. For ethics of taxpayers, the subjective norms of a taxpayer determine the ethical view of the taxpayer whether to comply or not with tax regulation. For government quality, taxpayer's attitude towards the government determines whether the taxpayer will comply or not with the tax regulation. For change in government, taxpayer's perceived

behavior on the change of government affects their compliance. All these intentions whether to comply or not will soon turn into the behavior of the taxpayer. It is important to highlight that each individual behavior is explained by different factors. Thus, this study is focusing on the independent variable tested.

### **2.3.3.1 Attitude**

In psychological context, the attitude towards the behavior refers to an individual distinguishing the magnitude of a particular behavior to be either beneficial or not beneficial to them (Ajzen, 1991). This behavioral beliefs is an input created from an individual's experience and learning process. Frankly, an individual's attitude towards a behavior is considered to be favourable if the individual perceives a positive input in performing the behavior while an individual's attitude towards behavior is considered to be unfavourable if the individual perceives a negative input in performing the behavior (Ajzen, 1991). In testing their psychological model, attitudes and moral beliefs are reported influencing the tax compliance behavior of taxpayers (Elffers, Russell, & Dick, 1987). This is similar to Ajzen (1991) model in which individual's attitude is motivated by their behavioral beliefs.

In the context of this study, the attitudes towards the tax compliance brings out the behavior of the taxpayers (Saad, 2009). This behavior is an output formed to reflect the taxpayers' feelings in distinguishing the magnitude of their behavior to be either beneficial or not beneficial to them. A study by Bobek (1997) found that attitudes of taxpayer explained their compliance behavior. A recent study by Saad (2009) measured attitudes of salaried taxpayers in Malaysia to examine their tax compliance behavior. The researcher also found that a positive attitude towards the tax system leads



to positive tax compliance behavior (Saad, 2009). In this study, the attitude construct in the theory of planned behavior is anticipated to explain taxpayers' attitude towards tax compliance in which a positive attitude towards the tax system would encourage taxpayers to comply with tax while a negative attitude towards the tax system would discourage taxpayers to comply with tax.

In this study, attitude best describe the independent variable; government quality. Attitude towards the government is an essential factor as tax attitudes and ethics affects taxpayers' compliance behavior (Kirchler et al., 2008). Tax compliance behavior of taxpayers heavily depending on the quality of government and this attitude affects their political affiliation towards the government (Kim, 2008; Gerber & Huber, 2009). A study in Nigeria also found that government weak tax administration led to higher level tax non-compliance (Adebisi & Gbegi, 2013). Government quality dictates the attitude of the taxpayers in complying with tax (Congdon et al., 2009; Mas'ud et al., 2019). Basically, the attitude of taxpayers to comply or not comply with tax depends on how the taxpayers perceive the government quality.

#### **2.3.3.2 Subjective norm**

In psychological context, the subjective norms refers to an individual's social pressure to either perform the respective behavior or not performing the behavior (Ajzen, 1991). This normative beliefs is an input created from an individual's peer pressure and social environment. Frankly, an individual's subjective norms towards a behavior is affected by how his social environment views and performs the respective behavior. An individual will perceive a positive behavior if his peers or social surrounding ethically accepted the behavior to be favorable to them while an individual will perceive a

negative behavior if his peers or social surrounding do not condone the behavior to be favorable to them (Ajzen, 1991). Individual's subjective norms is motivated by their normative beliefs (Ajzen, 1991).

In the context of this study, the subjective norms shaped by social environment brings out the behavior of the taxpayers (Saad, 2009). This behavior is an output influenced by the taxpayer's peer pressure and social surrounding who assisted the taxpayer in distinguishing their behavior to be either beneficial or not beneficial to them. A study by Bobek (1997) found that subjective norms of taxpayer explained their compliance behavior. In developing the theoretical model, Ajzen (1991) argued that the behavior performed by an individual is a direct reflection of the behavior performed by the people who are important to the individual. In this study, the subjective norms construct in the theory of planned behavior is anticipated to explain taxpayers' social factors influencing their tax compliance behavior.

In this study, subjective norms best describe the independent variable; ethics. The best predictor of a person's behavior is ethics though it has been argued to be disrupted by uncertainty, new information and passage of time (Fishbein & Ajzen, 1975). In the context of tax non-compliance, decisions of an individual to either comply or not to comply with tax laws are influenced by family members and friends (Allingham & Sandmo, 1972). Trivedi et al., (2003) found that an individual's compliance is affected by peer's compliance behavior. A research by Saad (2009) found that ethics proved to be significant factor that influence tax compliance behavior of taxpayers. Basically, the subjective norms of taxpayers to comply or not comply with tax depends on how

the taxpayers' peer pressure and social environment's ethical view in performing the respective behavior.

### **2.3.3.3 Perceived behavioral control**

In psychological context, the perceived behavioral control refers to an individual's perception of the ease or difficulty of performing the behavior of interest (Ajzen, 1991). This control beliefs is an input created from an individual's experience and self-evident. Frankly, an individual's perceived behavioral control towards a behavior is affected by the likelihood of behavioral achievement if the individual were to perform the respective behavior (Ajzen, 1991). The likelihood of behavioral achievement is calculated based on the self-evident and in-depth experience an individual has in performing the specific behavior. The perceived behavioral control is driven by personal and environmental factors, such as skills, experience, knowledge, the opportunities for an individual to engage in a particular situation and the availability of information (Fishbein & Ajzen, 2009).

An individual has high in perceived behavioral control when the behavior is easily perform while an individual has low in perceived behavioral control when the behavior is difficult to perform (Ajzen, 1991). Besides that, Ajzen (1991) also stated that the individual with high perceived behavioral control will more likely to perform the behavior while individual with low perceived behavioral control will less likely to perform the behavior. Individual's perceived behavioral control is motivated by their control beliefs (Ajzen, 1991).

Perceived behavioral control construct is similar to the theory of achievement motivation by Atkinson (1964) which specified that the essential factor that driven an individual's behavior is the expectancy of success. Perceived behavioral control is influenced by the taxpayer's experience and self-evident which will motivate the taxpayer in performing the specific behavior either the behavior is what they desired or otherwise as they are bound to the limit of action constraint. In the context of tax non-compliance, a taxpayer has high perceived behavioral control when the taxpayer able to successfully complete and file the tax return forms without any mistakes. Likewise, a taxpayer has low perceived behavioral control when the taxpayer unable to complete the tax return forms. According to Saad (2009), if an individual able to avoid paying tax with a minimal chance of getting caught for audit, the individual has high perceived behaviorrral control over tax non-compliance behavior, the individual is more likely to avoid paying tax.

In theory of planned behavior, perceived behavioral control and intention can be used directly to predict behavior of the individual. This new construct in the theory of planned behavior explains the reason intention does not always predict behavior due to the likelihood of constraints that may hinder an individual from performing behaviorr (Armitage & Conner, 2001). Similar to the other two constructs; attitude and subjective norms, the perceived behavioral control also influences the intention to perform the behavior (Ajzen, 1991). In this indirect link to behavior, when an individual has a perceived behavioral control, it creates an intention to either comply or not to comply with tax and this intention determines the behavior of the individual (Ajzen, 1991). Meanwhile, in the direct link to behavior, when an individual has a perceived behavioral control to comply with tax laws, it directly determines the

behavior of the individual (Ajzen, 1991). These two links differ in process as it is motivated by different factors during the process of determining the intended behavior.

In this study, perceived behavioral control best describe the independent variable; change in government. In the context of tax non-compliance, taxpayers are more likely to comply with tax when the government in presidency is taxpayers' liking (Krupenkin, 2020). On the other hand, a taxpayer from the opposition party is more non-compliant as the taxpayer perceives that the government is not on his side (Engida & Baisa, 2014). This political standing by the taxpayers shows the construct of direct link between perceived behavioral control and behavior. Basically, the perceived behavioral control of taxpayers on the political standing determines taxpayers' behavior to either comply or not comply with tax laws. The political standing of the taxpayer is the behavioral achievement in which the taxpayer has the ability and in capacity of controlling which political party they supporting as choosing political party is within the taxpayers' control environment.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter discusses and analyses the sampling technique and data collection method used to gather evidence related to determinants of tax non-compliance. This chapter includes the research design, sampling design, research instruments, measurement of variables and statistical analysis.

#### **3.1 Research Design**

This research aims to study the determinants of tax non-compliance, hence, the appropriate research design for this study is quantitative study. A quantitative study offers an effective way to measure behavior (Creswell, 2003). A quantitative study is suitable when researcher wants to search for factors that influence the research problem (Creswell, 2003).

In this study, examination on how the independent variables which are tax knowledge, ethics, government quality, and changes in government influences the tax non-compliance behavior of taxpayer in Malaysia. Hence, the quantitative study is suitable to examine the relationship between variables in this study.

### 3.2 Research Instrument

This study used primary data which is the information obtained first-hand from the respondents. Data from the actual sources like consumer, users or entities involve in the research is collected in hand as it involved in primary sources (Kumar, Abdul Talib, & Ramayah, 2013). For this research, data is collected directly from individual taxpayers.

Questionnaire is used to gather data as it ensures the use of standardized questions for all taxpayers and it ensures a high degree of individuals' anonymity. Questionnaire uses direct questioning to gather data and allows the researcher to compare and contrast the answers of the respondents. It is also very helpful for researcher to obtain fair data and the measurement is validated and reliable. This study uses quantitative data collection method to generate statistic through the use of a large scale survey research.

### 3.3 Sampling Design

This study focuses on tax non-compliance among individual taxpayers. Based on the latest press release by public relation officer on the labor force statistics, there are 15,829,300 numbers of employed people in Malaysia as at January 2020 (Razak, 2020). The summary of the statistic is illustrated in **Table 3.1**.

**Table 3.1: Principal Statistics of the Labor Force Malaysia (2020)**

Year	Number ('000)		%
	Labor force	Employed	Labor Force Participation
2020	15,829.3	15,317.6	68.9

**Table 3.1** summarizes the statistic of labor force in Malaysia while **Table 3.2** summarizes the statistic of labor force of each state in Malaysia. Since the labor force statistics for each state was last updated in 2017, this study will use the statistic in **Table 3.2** as a benchmark in deciding sampling frame. The sample frame of this study is the whole area of Klang Valley as it has the highest labor force in Malaysia. Klang Valley is an urban conglomeration in Malaysia that covers the area of Kuala Lumpur and Selangor. The unit of analysis of this study is individual taxpayers and the population of this study is all individual taxpayers throughout Malaysia.

**Table 3.2: Principal Statistics of the Labor Force (2017)**

State	Number ('000)		%
	Labor Force	Employed	Labor Force Participation Rate
<b>Selangor</b>	<b>3,212.9</b>	<b>3,135.0</b>	<b>73.1</b>
Johor	1,633.2	1,582.6	67.1
Kedah	905.3	881.6	64.6
Kelantan	637.7	616.7	61.9
Melaka	402.4	398.3	66.6
Negeri Sembilan	483.6	468.7	64.9
Pahang	718.2	697.5	67.3
Perak	1,014.3	98.8	61.4
Pulau Pinang	848.1	834.2	69.9
Perlis	101.1	98.2	61.0
Terengganu	438.0	420.5	59.9
Sabah	1,863.4	1,771.1	69.5
Sarawak	1,258.3	1,214.8	68.4

*Source:* <https://www.statistics.gov.my/index.php?r=column/>



The labor force in Klang Valley is greater than one million. It is impractical and not feasible to get all the individual taxpayers to respond and answer the questionnaires especially with the limited resources and time constraints in conducting this study. According to Krejcie and Morgan (1970), when the population of a sample frame is more than one million, the appropriate sample size is 384 samples (Refer Appendix C). Therefore, the targeted sample size for this study is 384 individual taxpayers in Klang Valley.

After the sampling size has been decided, the sampling technique is chosen in order to gather the responses from the individual taxpayers in Klang Valley. For this study, the researcher used two sampling techniques that are able to assist the researcher in gathering the primary data in a short period which are purposive sampling method and snowball sampling method. These two sampling techniques are commonly used in gathering primary data especially survey or questionnaire.

The sampling technique is used in sequence. The sampling technique started with purposive sampling and followed by snowball sampling. Purposive sampling focuses on a particular characteristic of a population. In this study, identifying taxpayers is crucial in order to get a reliable response from the taxpayers in answering the questions of the questionnaire. To achieve a reliable response from the right respondent of this study, the researcher identifies the taxpayer before distributing the questionnaire by distributing the questionnaire in offices around Klang Valley.

Snowball sampling is an added value sampling method for this study as the questionnaires can be distributed to other respondents after identifying the initial

taxpayer through purposive sampling. From the taxpayer identified earlier through purposive sampling when the researcher went through offices in Klang Valley, the researcher may request the taxpayer to recommend another taxpayer to answer the questionnaire who might be another office worker within the same office. This sampling technique becomes much easier with online questionnaire where in this current era, a respondent can just forward the link of the questionnaire to another respondent by click of thumb using free platform available online like WhatsApp or Facebook.

### **3.4 Measurement of Variables**

A reliable and valid measurement enhances the objectivity of the findings (Pittman & Bakas, 2010) . In this study, the measurement is the knowledge, ethics, quality and intervention while the object is individual taxpayers. Appropriate measurement is crucial in order to test the hypotheses developed and find answers on the research questions (Pittman & Bakas, 2010). In measurement, scale is used as a tool which distinguishes how a variable is different from another.

In this study, both independent variables; tax knowledge, ethics, government quality, changes in government and dependent variable; tax non-compliance are measured using interval scale. Interval scale is being used to measure the distance between any two points on the scale and also implies rating on a particular scale which will provide a clear explanation on factors affecting tax non-compliance (Wu & Leung, 2017). Interval scale is suitable as it is the same scale being used in the questionnaire that is adopted for this study and it is using Likert scale (5-strongly agree, 1-strongly disagree).

The questionnaire for this study is divided into five sections. Section A is classifying the taxpayers' tax knowledge, Section B is classifying the ethics, Section C is classifying the government quality and Section D is classifying changes in government. Section E is classifying the dependent variable which is tax non-compliance. **Table 3.3** summarizes the measurement of variables.

**Table 3.3: Measurement of Variables**

Section	Variables	Definition	Measurements	Source
<b>Independent Variables</b>				
<b>A</b>	Tax Knowledge	The awareness on factual information regarding tax regime	Interval Scale	(Palil, 2010)
<b>B</b>	Ethics	Moral principles that govern a person's behavior when abiding with tax law	Interval scale	(Palil, 2010)
<b>C</b>	Government Quality	The extent of efficiency and effectiveness of government in handling public interest	Interval scale	(Ching, 2013)
<b>D</b>	Changes in Government	The change in legislative body of government that makes tax law	Interval scale	(Chandar asorn, 2012)
<b>Dependent Variables</b>				
<b>E</b>	Tax Non-Compliance	The action of not abiding the rules and regulation as prescribed by Income Tax Act 1967	Interval scale	(Ching, 2013)

### **3.5 Statistical Analysis**

Statistical analysis is fundamental to all research that use data analysis to get approximate solutions to achieve research objective. During data analysis process, the analysis involved in this study is descriptive analysis, univariate analysis, reliability analysis, correlation analysis and multiple regression analysis.

University of Malaya

## **CHAPTER 4**

### **RESULTS**

#### **4.0 Introduction**

The findings of the research are being analyzed and discussed thoroughly in this chapter. The discussion is expressed based on the research objectives and hypotheses developed in the previous chapter.

#### **4.1 Pretest and Pilot Test**

After the formation of theoretical framework and data collection method for this study, a pretest was conducted to test the questions of the survey questionnaire. Pretest was distributed to five tax academics. The aim of this pretest is to ensure the clarity and wording of the questions in the questionnaire are straightforward and able to be comprehended by anyone who fits to answer the questionnaire. Besides that, the other aim of this pretest is to gather feedback from the tax academicians on the appropriateness of each question to reflect each variable of this research and also to evaluate the tax academicians' willingness in answer the survey questionnaire.

Within one week, the pretest was completed and feedbacks on the questionnaires were analyzed and amended accordingly. Based on the feedbacks by the tax academicians, the questions are clear but contains double-barreled questions. Thus, all double-barreled questions were amended to ensure the questions are straightforward and clear to the prospective respondents.

Besides that, one of the academicians suggested to provide brief instruction and explanation on each section as there is a possibility where the prospective respondents disregarded questions intentionally or unintentionally. Lastly, two academicians pointed out on using simpler words on the questions such as changing the word ‘tax professional’ to ‘tax agent’. All feedbacks by the academicians were amended accordingly.

After the pretest was amended, the questionnaire is ready for pilot test. The questionnaires were physically distributed to 30 respondents for pilot test. The pilot test was conducted to gather an understanding on the respondents’ willingness and clarity in answering the questionnaire and simultaneously measure the reliability of the questionnaire. The reliability of the questionnaire is measured through reliability analysis as summarized in **Table 4.1** below. The pilot test was completed within one week. All 30 questionnaires were collected and analyzed using Statistical Package for Social Science (SPSS) to check any missing data before proceeding to reliability analysis.

Based on the missing data analysis, there were no missing data on the pilot test samples. The researcher proceeded with conducting reliability analysis on the pilot test samples. The aim of this reliability test is to ensure the reliability and internal consistency of instruments utilized in the questionnaire is acceptable before distributing to the remaining respondents. **Table 4.1** summarizes the reliability test analysis of the pilot test conducted. The Cronbach’s Alpha of each section except Section E is considered acceptable which indicates that the internal consistency of instruments utilized on each item in the questionnaire is acceptable (Sekaran & Bougie, 2013).

Section E does not pass the acceptable benchmark of reliability analysis. Even if any item is deleted from the questionnaire, the internal consistency of instrument utilized in the

questionnaire is still poor (Refer Appendix E(i)). The researcher decided to proceed to distribute the questionnaires to the taxpayers disregard the poor Cronbach's Alpha of Section E because the researcher believed that the sample size is too small to generalize the poor Cronbach's Alpha.

**Table 4.1: Reliability Analysis (Pilot Test)**

Section	Variable	Cronbach's Alpha	Items in Questionnaire
A	Tax Knowledge	0.786	5
B	Ethics	0.727	5
C	Government Quality	0.802	5
D	Change in Government	0.625	5
E	Tax Non-Compliance	0.239	5

#### 4.2 Data Cleaning

In the beginning of data collection phase, the researcher was aiming to only distribute questionnaires physically. Due to the global pandemic that occurred in March 2020, the aim was not achievable. The researcher had to extend the data collection period for another one month (Refer Appendix B). The researcher had to revamp the research schedule to ensure this study able to complete within the targeted period. The researcher took another initiative to distribute the questionnaire during the pandemic in which the researcher created an online questionnaire.

Online Microsoft Form was used as online questionnaire platform. The questionnaires were created and replicated fully as similar to the physically distributed questionnaire with an addition of glossary. The glossary was added as an aid to help the online respondents to understand some uncommon wording such as 'tax audit' or 'allowable

deduction'. The researcher is not beside the respondent physically when the respondent is answering the questionnaire in which the researcher is unable to help the respondent if the respondent does not understand some words.

The questionnaires were distributed physically pre-pandemic and digitally post-pandemic. A total of 300 physical questionnaires were distributed to taxpayers in Klang Valley and the online questionnaires were distributed through two social media which are WhatsApp and Instagram. For online respondents, the respondents are selected rigorously to ensure the status of the respondents who answered the questionnaires are Malaysian resident and a Malaysian taxpayer.

The researcher accessed his phone book and social media followers to evaluate the eligibility of the online respondents before sending the survey questionnaire. If the respondent is eligible to answer the questionnaire, the researcher will send a digital copy of the questionnaire through online. This technique is in parallel with the first sampling technique which is purposive sampling. When the respondent has answered the questionnaire, the researcher will ask the respondent to suggest another respondent that fits the eligibility criteria to answer the questionnaire. This technique is parallel with the second sampling technique which is snowball sampling.

A total of 232 online questionnaires were accumulated from the online respondents. A total of 198 copies of physical questionnaires were received back from the respondents which bring a response rate of 66%. All 430 answered questionnaires were compiled and keyed in using SPSS to come out with findings. Before proceeding with statistical analysis, all 430 responses went through two screening processes. The aim of this screening is to omit any responses that has significant missing data. For physical



questionnaire, the first screening process was to physically check missing data from the questionnaire. There were 15 questionnaires that have significant amount of missing data especially in Section C (Government Quality) and Section D (Change in Government). There were remarks written by respondents on the physical copies questionnaires. These respondents were not happy with the questions in these two sections as some of them describe the questions as ‘disgusting’, ‘political’ and ‘disturbing’.

To evaluate the significance of these remarks to the study, the researcher reckoned these 15 responses to the total responses. These remarks only represent 3.5% of the total responses. Hence, these 15 responses were regarded as insignificant and not accumulated together in the final sample set. The second screening was made after the remaining 183 physical questionnaires were keyed-in into the SPSS. Missing data analysis was conducted to check if any data was missing during the keyed-in process. The second screening showed no missing data.

For online questionnaire, the first screening process was to scheme through the responses to check for any significant missing data from the Microsoft Excel. There were no responses that has significant missing data. The second screening process was made after transferring the data from Microsoft Excel to SPSS. Missing data analysis was conducted to check if any data was missing during the keyed-in process. The second screening showed no missing data.

A total of 415 samples were presented in the SPSS being 183 physical samples and 232 online samples. The researcher took precaution during the process of manual keyed-in samples data into the SPSS. Each manually keyed-in data was checked twice before

proceeding to the next sample data. **Table 4.2** displays the analysis on missing value. As illustrated in the table, the data is complete and there are no missing values reported.

**Table 4.2: Missing Value Analysis**

Section	Variables		N & Missing Value
A	Tax Knowledge	Valid	415
		Missing	0
B	Ethics	Valid	415
		Missing	0
C	Government Quality	Valid	415
		Missing	0
D	Change in Government	Valid	415
		Missing	0
E	Tax Non-Compliance	Valid	415
		Missing	0

### 4.3 Descriptive Analysis

Frequency analysis is used to study the demographic characteristics of the respondents. In this analysis, the personal attribute of the respondent is access for subsequent testing. For this study, a total of 415 samples were analyzed. There was no missing value recorded on the demographic information of all respondents. The summary of all respondents' demographic information is portrayed in **Table 4.3** below.

**Table 4.3: Frequency Analysis**

<b>Demographic Information</b>		<b>N = 415</b>	<b>%</b>
Gender	Male	187	45.1
	Female	228	54.9
Age	18-30	270	65.1
	31-45	105	25.3
	46-60	38	9.2
	Above 60	2	0.5
Marital Status	Single	257	61.9
	Married	151	36.4
	Divorced	6	1.4
	Separated	1	0.2
Occupational Status	Clerical Level	85	20.5
	Supervisory Level	34	8.2
	Managerial Level	34	8.2
	Executive/Professional	199	48.0
	Self-Employed	63	15.2
Income Level	Less than RM4,000	269	64.8
	RM4,001 – RM8,000	90	21.7
	RM8,001 – RM12,000	36	8.7
	RM12,001 – RM16,000	11	2.7
	RM16,001 – RM20,000	3	0.7
	Above RM20,000	6	1.4
Education Level	SPM	41	9.9
	STPM/Certificate	12	2.9
	Diploma/Vocational	88	21.2
	Undergraduate/ Degree	218	52.5
	Masters/ Professional	53	12.8
	Doctorate	3	0.7
Race	Malay	317	76.4
	Chinese	37	8.9
	Indian	38	9.2
	Others	23	5.5
Number of years as taxpayers	Less than 2 years	249	60.0
	2 – 5 years	67	16.1
	6 – 10 years	37	9.0
	More than 10 years	62	14.9

#### **4.3.1 Gender**

By the end of the survey period, data had been collected from 187 (45.1%) male respondents and 228 (54.9%) female respondents.

#### **4.3.2 Age**

By the end of the survey period, data had been collected from (65.1%) respondents of 18-30 years old, 105 (25.3%) respondents of 31-45 years old, 38 (9.2%) respondents of 45-60 years old and 2 (0.5%) respondents of above 60 years old.

#### **4.3.3 Marital Status**

By the end of the survey period, data had been collected from 257 (61.9%) single respondents, 151 (36.4%) married respondents, 6 (1.4%) divorced respondents and 1 (0.2%) separated respondent.

#### **4.3.4 Occupational Status**

By the end of the survey period, data had been collected from 85 (20.5%) respondents of clerical level, 34 (8.2%) respondents of supervisory level, 34 (8.2%) respondents of managerial level, 199 (48.0%) respondents of executive/professional level and 63 (15.2%) respondents of self-employed.

#### **4.3.5 Income Level**

By the end of the survey period, data had been collected from 269 (64.8%) respondents of less than RM4,000 salaries, 90 (21.7%) respondents of RM4,001 to RM8,000 salaries, 36 (8.7%) respondents of RM8,001 to RM12,000 salaries, 11 (2.7%) respondents of

RM12,001 to RM16,000, 3 (0.7%) respondents of RM16,001 to RM20,000 and 6 (1.4%) respondents of above RM20,000 salaries.

#### **4.3.6 Education Level**

By the end of the survey period, data had been collected from 41 (9.9%) of SPM level respondents, 12 (2.9%) of STPM/Certificate level respondents, 88 (21.2%) of Diploma/Vocational level respondents, 218 (52.5%) of Undergraduate/Degree level respondents, 53 (12.8%) Master/Professional level respondents and 3 (0.7%) of Doctorate level respondents.

#### **4.3.7 Race**

By the end of the survey period, data had been collected from 317 (76.4%) of Malay respondents, 37 (8.9%) of Chinese respondents, 38 (9.2%) of Indian respondents and 23 (5.5%) of other race respondents.

#### **4.3.8 Number of years as taxpayer**

By the end of the survey period, data had been collected from 249 (60.0%) respondents of less than 2 years as taxpayer, 67 (16.1%) respondents of 3-5 years as taxpayer, 37 (9.0%) respondents of 6-10 years as taxpayer, 62 (14.9%) respondents of more than 10 years as taxpayer.

#### 4.4 Univariate Analysis

Univariate analysis explores each variable in a data set independently. This analysis does not deal with relationship between variables as it focuses on describing the attribute of the variable. In this analysis, no causal and effect between variables is discussed. **Table 4.4** shows the results of the univariate analysis based on the questionnaire distributed and collected from the respondents.

**Table 4.4 Univariate Analysis**

Questions	Mean	Standard Deviation
<b>SECTION A: TAX KNOWLEDGE</b>		
I must fill in income tax form even if my annual income is not taxable.	3.30	1.115
I prepare complicated annual income statement in order to minimize or eliminate my tax.	2.87	1.063
I use the loopholes in legislation to minimize or eliminate my tax bill.	2.78	1.029
I need to consult tax agent in completing my tax forms.	2.92	1.112
I encounter significant confusion whilst filling tax forms.	3.21	1.041
<i>Average</i>	<i>3.016</i>	<i>1.072</i>
<b>SECTION B: ETHICS</b>		
I should not pay tax if I could not afford to pay.	3.22	1.228
When I am not really sure whether or not an expense is allowable for deduction, it makes sense to claim the deduction anyway.	2.94	1.061
Tax non-compliance is considered ethical if the possibility of getting caught is low.	2.66	1.085
Tax non-compliance is considered ethical if most of people important to me is doing it.	2.74	1.055
Most people important to me think that I should not pay tax even though my income is taxable.	2.43	1.112
<i>Average</i>	<i>2.798</i>	<i>1.1082</i>

<b>SECTION C: GOVERNMENT QUALITY</b>		
I think corruption in Malaysia is high.	<b>3.53</b>	<b>1.241</b>
I think government wastes a lot of money.	3.42	<b>1.243</b>
I do not feel like paying tax as long as the government cannot be trusted.	3.18	1.167
It is not so wrong to declare less on taxable income since the government spends too much on extravagant projects.	3.04	1.120
I am not happy with how tax revenues are being utilized by the government.	<b>3.57</b>	1.035
<i>Average</i>	<i>3.348</i>	<i>1.1612</i>
<b>SECTION D: CHANGE IN GOVERNMENT</b>		
I am satisfied with the change in current government.	3.03	0.999
I am satisfied with the transparency of the new government.	3.04	1.002
I am paying tax because I am strongly affiliated with the new government.	2.86	0.982
I am willing to pay tax because the new government has low corruption than prior government.	2.82	0.995
I will pay tax disregard any appointed government.	3.48	1.007
<i>Average</i>	<i>3.046</i>	<i>0.997</i>
<b>SECTION E: TAX NON-COMPLIANCE</b>		
Paying tax does not benefit me and the society.	2.53	1.094
The risk of getting tax audit is low.	2.86	0.950
The taxes collected are used poorly and not transparent to the public.	3.47	1.058
Lembaga Hasil Dalam Negeri (LHDN) does not provide enough facilities (eg; lack of staffs, lack of computers, lack of consultation) to me in paying tax.	3.15	1.075
The potential consequences (eg; fines & penalties, public naming) of getting caught are not serious enough to stop people evading paying their taxes.	3.27	1.091
<i>Average</i>	<i>3.056</i>	<i>1.0536</i>

Based on the univariate analysis as a whole, there were two questions that have a mean higher than the average of all the means together. The questions are “I think corruption in Malaysia is high” and “I am not happy with how tax revenues are being utilized by the government” with 3.53 and 3.57 mean respectively. From this analysis, the individual taxpayers perceived that corruption in Malaysia is high. The individual taxpayers are not happy with how their tax return being utilized by the government.

A study by Alabede et al., (2011) reported that tax compliance is influenced by vertical contract. In a contract, both parties have to perform on their obligations. In this context, the taxpayers will provide the fund and the government will perform their responsibility, similar to the concept of agency theory. Generally, the taxpayers want to know how their money is being spent by the government and any forms of corruption will only increase their tax non-compliance behavior (Alabede et al., 2011).

From the analysis, there were plenty of questions that have standard deviation of more than 1.00. The two most significant questions with a huge gap are “I think corruption in Malaysia is high” and “I think government wastes a lot of money” with a standard deviation of 1.241 and 1.243 respectively. The mean for these questions is 3.53 and 3.42 respectively which indicate that most respondents are neutral with the question. However, the gap of 1.24 on both questions indicates that a number of respondents agree and disagree that they do not want to pay tax because the corruption in Malaysia is high and the government wastes a lot of money.

The variation in answer of these two questions may be due to the different political affiliation and standing of an individual. As stated by Cullen et al., (2018), when individuals are of the same political party as the presidential government, the individuals



will be more bias towards the presidential government in terms of less questioning on government spending, policies, transparencies and are likely to show high level of tax compliance behavior. Similar to study by Krupenkin (2020) in which the researcher found that individuals of different political standing simply will not tolerate or support the opposing political party out of loyalty.

As seen in the variation of answers, assuming the taxpayers who are in favor of the presidential government agrees with all the government spending and policies are more likely to be neutral or disagree with the said questions. We can also conclude that political affiliation and standing affects the behavior of a taxpayer in terms of complying with rules and regulation legislated by the government may it be the law, lifestyle, official order, or state of emergency. Besides, the existence of partisan bias is seen in the variation of answers by the respondents in which the respondents are seen standing up for their own political party in answering the questionnaire.

The summary of the mean values of each section of the questionnaire is reported in Appendix D. In Section A, respondents were tested on how their tax knowledge level affect their tax non-compliance behavior. The mean values showed that the respondents were answering either 'neutral' or 'agree' in this section. This indicates that partial of the respondents have tax knowledge in declaring annual tax while the other partial of the respondents either do not understand the question or refuse to answer the question willingly.

In Section B, respondents were tested on how their ethical view affect their tax non-compliance behavior. The mean values showed that respondents' ethical view is affected by both personal interest and social surrounding. This is seen in both questions "I should

not pay tax if I could not afford to pay” and “Most people important to me think that I should not pay tax even though my income is taxable” which were agreed by more than half of the respondents. This showed that ethics of taxpayers affects their tax compliance behavior. The results of this study are similar to Ajzen (1991) argument that the behavior performed by an individual is a direct reflection of the behavior performed by the people who are important to the individual.

In Section C, respondents were tested on how their attitude towards government quality affect their tax non-compliance behavior. The mean values showed that respondents agreed that bad governance leads to higher non-compliance. This is seen in three questions “I think corruption in Malaysia is high”, “I think government wastes a lot of money” and “I am not happy with how tax revenues are being utilized by the government” which were agreed by 70 percent and more respondents. This clearly indicates that government quality heavily affects tax compliance of behavior because bad governance by government creates similar attitude from taxpayers as supported by Gerber and Huber, (2009). Similar to a study conducted in Nigeria, government weak tax administration in terms of inefficient and ineffective spending, lack of transparency and high corruption leads to tax non-compliance (Adebisi & Gbegi, 2013).

In Section D, respondents were tested on how their perceived behavioral control towards change in government affect their tax non-compliance behavior. The mean values showed that majority of the respondents agreed that change in government affects their tax compliance behavior. This is seen in two questions “I am satisfied with the change in current government” and “I am satisfied with the transparency of the new government” which were agreed by 30 percent and more respondents. This indicates that change in government affects tax compliance behavior as it affects their political standing and

partisan bias (Krupenkin, 2020). Similar to theoretical review by Ajzen (1991), in taxation perspective, perceived behavioral control is influenced by the taxpayer's experience and self-evident which will motivate the taxpayer in performing the specific behavior either the behavior is what they desired or otherwise as they are bound to the limit of action constraint.

In Section E, respondents were tested on their tax non-compliance scale. The mean values showed that majority of the respondents has high level of tax non-compliance. This is seen in three questions "the taxes collected are used poorly and not transparent to the public", "LHDN does not provide enough facilities to me in paying tax" and "the potential consequences of getting caught are not serious enough to stop me from evading paying taxes" which were agreed by more than half of the respondents. This indicates that taxpayers in Malaysia do engage in tax non-compliance. Tax plays a crucial role in economic development of a country (Awan & Hannan, 2014). By engaging with tax non-compliance, taxpayers are contributing to the diminishing of government revenue which interrupt the provision of infrastructure, defence, education and healthcare (Otusanya, 2010).

#### **4.5 Reliability Analysis**

Reliability analysis is performed to ensure the reliability and internal consistency of instruments utilized in the questionnaire. According to Sekaran and Bougie (2013) reliability less than 0.60 are considered to be poor, those in the 0.70 range is acceptable while those over 0.80 is good. All five variables were analyzed to evaluate the consistency of the measurement scales. The outcome is summarized in **Table 4.5** below.

**Table 4.5: Reliability Analysis**

<b>Section</b>	<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>Items in Questionnaire</b>
A	Tax Knowledge	0.701	5
B	Ethics	0.806	5
C	Government Quality	0.868	5
D	Change in Government	0.821	5
E	Tax Non-Compliance	0.724	5

According to the analysis, the Cronbach's alpha value of each section is more than 0.60 which indicates that an acceptable level of internal consistency used for the scale of different variables. For each section, if any item is deleted will not significantly increase the Cronbach's alpha value (Refer Appendix E(ii)). Hence, the researcher decided to continue with the current data without deleting any item of the questionnaire. The current data shows an acceptable and good level of internal consistency used for the scale of different variables.

**Table 4.6: Summary of Reliability Analysis**

<b>Section</b>	<b>Variable</b>	<b>Pilot Test</b>	<b>Actual Distribution</b>
A	Tax Knowledge	0.786	0.701
B	Ethics	0.727	0.806
C	Government Quality	0.802	0.868
D	Change in Government	0.625	0.821
E	Tax Non-Compliance	0.239	0.724

Besides that, the reliability analysis also has improved from the pilot test as summarized in **Table 4.6**. As seen in the table above, each section has improved except tax knowledge. The tax knowledge Cronbach's alpha deterioration is not significant as the data measurement scales still has an acceptable level of internal consistency. For tax non-compliance, as mentioned in the pilot test previously, the researcher decided to ignore the poor internal consistency on the measurement scales after pilot test as the researcher believed that the internal consistency will be improved with bigger sample size. As seen in the table above, the prediction was right as the internal consistency of the measurement scale for tax non-compliance has improved significantly.

#### **4.6 Correlation Analysis**

Correlation analysis is performed in order to measure the relationship between two variables. It involves the strength and direction of the relationship between two variables. According to Cohen (1988), if the value of correlation coefficient,  $r$  is bigger than 0.5 ( $r \geq 0.5$ ), the relationship between variable is strong or larger. The positive value of correlation coefficient indicates a positive relationship and a negative value of correlation coefficient indicates a negative relationship (Pallant, 2005). All the variables in this study is normally distributed, thus, Pearson correlation analysis is used to measure the correlation among variables in this study. **Table 4.7** summarizes the correlation analysis for all variables in this study.

**Table 4.7: Pearson Correlation Coefficient Analysis**

	Tax Knowledge	Ethics	Government Quality	Change in Government	Tax Non-Compliance
Tax Knowledge	1				
Ethics	0.457**	1			
Government Quality	0.319**	0.464**	1		
Change in Government	0.276**	0.212**	0.063	1	
Tax Non-Compliance	0.257**	0.439**	0.593**	0.195**	1

\*\*Correlation is significant at the 0.01 level (1-tailed)

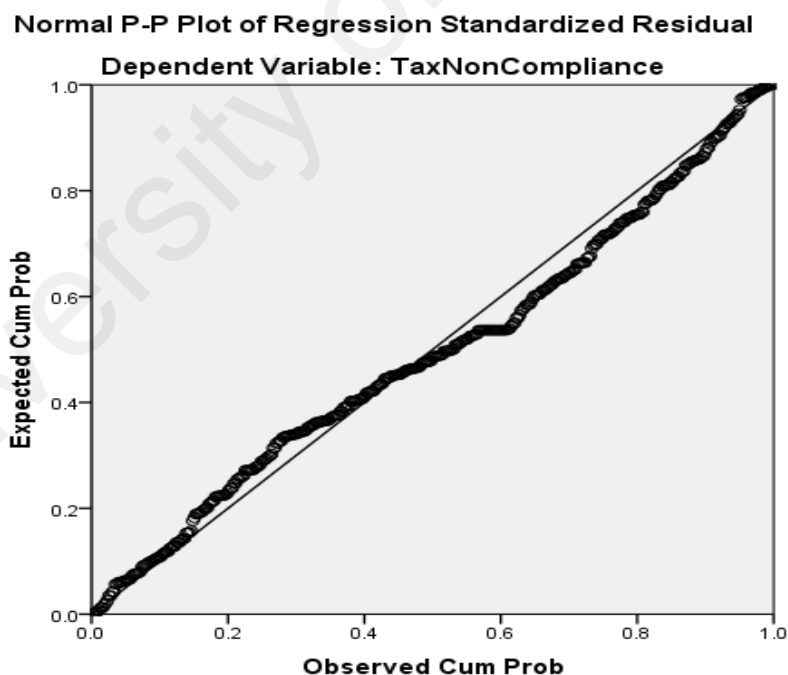
As summarized in the table above, measured at one-tailed test, the correlation coefficient of respective independent variables; tax knowledge ( $r = 0.257$ ), ethics ( $r = 0.439$ ) and change in government ( $r = 0.195$ ) shows a weak positive relationship with the dependent variable; tax non-compliance as their respective correlation coefficient,  $r$  is below 0.5. Frankly, these three independent variables move in the same direction with the dependent variable but the degree of relationship between these independent variables and the dependent variable is not significant. When the dependent variable increases, the independent variable increases in a weak pace.

Nevertheless, measured at one-tailed test, only one independent variable; government quality ( $r = 0.593$ ) shows a significant positive relationship with the dependent variable; tax non-compliance with a correlation coefficient,  $r$  more than 0.5. Frankly, this independent variable moves in the same direction with dependent variable with a significant degree of relationship between these two variables. When the dependent variable increases, the independent variable increases in a moderate/strong pace.

## 4.7 Multiple Regression Analysis

Multiple regression analysis is conducted to provide explanation on the hypotheses developed. The objective of carrying out the multiple linear regression analyzes is to investigate the relationship on a set of independent variables towards the dependent measure in order to ascertain the acceptance of hypotheses constructed.

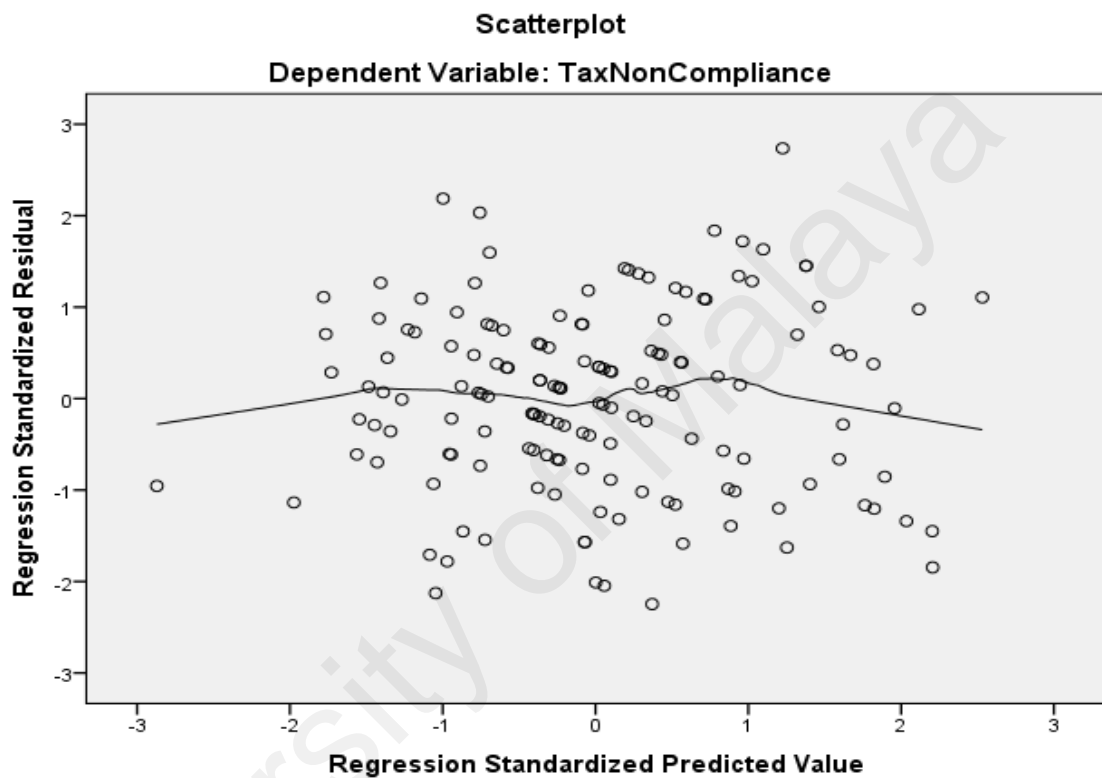
Firstly, the assessment of the four assumptions underlying regression analysis was conducted. The four assumptions are normality, linearity, homoscedasticity and multicollinearity. The assumption of normality of the data set is assessed through normal probability plots. The assumption is if the data set forms a straight line, the data set is normally distributed. Based on **Figure 4.1** below, the data set of this study forms a straight line, thus, the data set is deemed approximately normal.



**Figure 4.1: Normal Probability Plot**

The assumption of linearity of the data set is examined through a scatterplot diagram between standardized residue values (ZRESID) and standardized predicted values

(ZPRED). The linearity assumption is tested to see if there is a straight line relationship between the independent variables and the dependent variable. Based on **Figure 4.2** below, the linearity of the data set is not apparent. The researcher inserted the Loess curve to get a better analysis. Based on the curve, the data set seem to be randomly scattered around zero which indicates that no evidence of non-linearity.

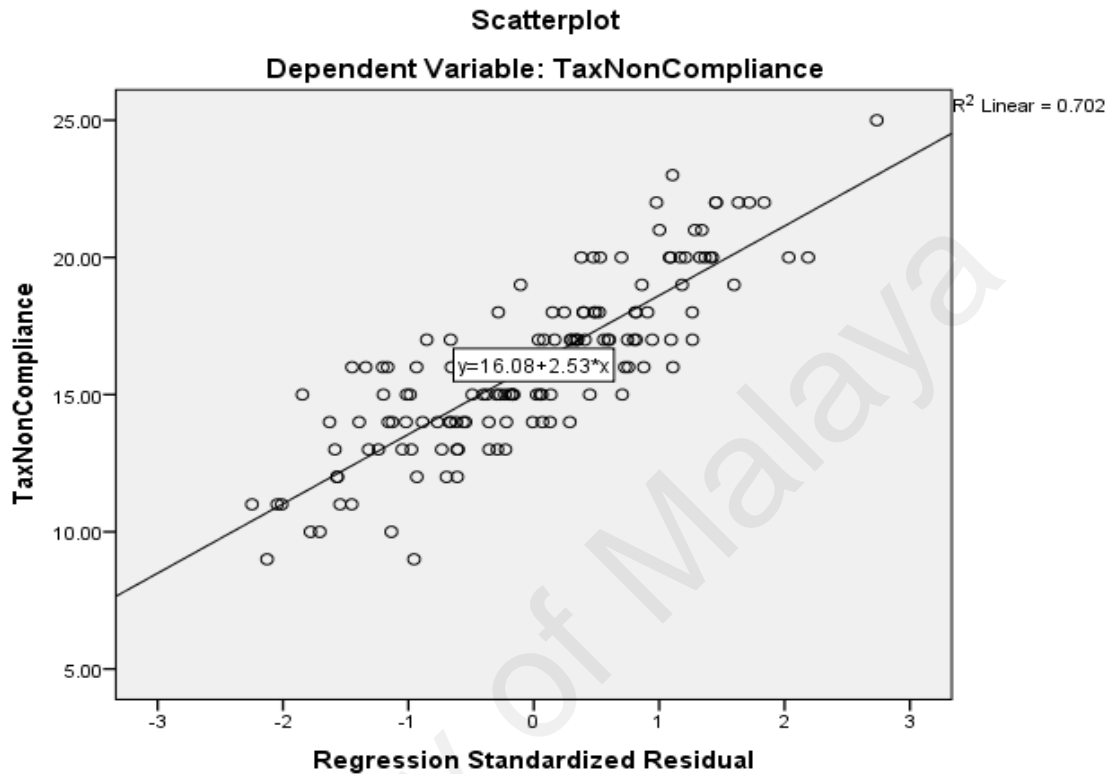


**Figure 4.2: Scatter Plot (Linearity)**

The assumption of homoscedasticity of the data set is examined through a scatterplot diagram between the dependent variable and standardized residue values (ZRESID). The homoscedasticity assumption is predicted by looking at the distance of data from the linear line. If the distance of the data tends to be closer to the line, the data is homoscedastic, if the distance of the data tends to increase further from the line and scattered around unevenly from the line, the data is heteroscedastic. Based on **Figure 4.3**



below, the data set of this study is parallel to the line exhibiting the dependent variable has an equal variance across the range of values of the independent variables.



**Figure 4.3: Scatter Plot (Homoscedasticity)**

Lastly, the assumption of multicollinearity is conducted to determine whether the independent variable used are highly correlated to one another. Pallant (2005) states that tolerance is used to determine how much the independent variable are related to one another, measured by value of more than 0.1. Additionally, variance inflation factor (VIF) is the reciprocal of tolerance and the value should be less than 10. According to **Table 4.8** below, the results shows that the all tolerance values are above 0.1 and VIP value are below 10. From this result, it is concluded that the independent variables are not correlated with one another.

**Table 4.8: Multicollinearity Assumption**

Independent Variable	Tolerance	VIF
Tax Knowledge	0.742	1.348
Ethics	0.669	1.496
Government Quality	0.766	1.306
Change in Government	0.910	1.099

Overall, the results on assessment of the four assumptions underlying regression analysis were not violated. **Table 4.9** summarized the multiple regression result of Model 1. The multiple correlation coefficient, R is the measure of the prediction of the dependent variable based on independent variables (Ramlan & Adnan, 2016). The multiple correlation coefficient value ( $R = 0.634$ ) indicates that the level of prediction of tax non-compliance based on the independent variables was good. The coefficient of determination,  $R^2$  is to measure how well a model explains and predicts future outcomes. The coefficient of determination value ( $R^2 = 0.401$ ) indicates that 40.1% variance of the dependent variable were explained by the independent variables. Frankly, the model (Model 1) developed in this study which includes the four independent variables; tax knowledge, ethics, government quality and change in government covers 40.1% of the dependent variable; tax non-compliance among taxpayers in Malaysia.

**Table 4.9: Summary of Multiple Regression Result**

Model	R	$R^2$	Adjusted $R^2$	Std. Error	F	Sig
1	0.634 <sup>a</sup>	0.401	0.396	2.82521	68.751	.000 <sup>a</sup>

a. Predictors: (Constant), Change in Government, Government Quality, Tax Knowledge, Ethics

b. Dependent Variable: Tax Non-Compliance

F-statistic is simply a measuring tool to predict how far the variance scattered from the mean. F-statistic value combined with the P-value dictates whether the results obtained is statistically significant or otherwise. However, precaution must be taken as it does not

indicate that all the four independent variables have a significant impact on tax non-compliance. According to the table above, the F-statistic value is 68.751, which reaches significance with a p-value of 0.000 which is less than the significance level ( $\alpha = 0.05$ ). The F-statistic combine with P-value result shows that there is a statistically significant difference between the means of the variables.

To study which variable means is significant, further testing is conducted as summarized in **Table 4.10**. The P-value illustrated that three independent variables; ethics, government quality and change in government have significant impact to the dependent variable; tax non-compliance. This means that ethics, government quality and change in government affects tax non-compliance among taxpayers.

The remaining independent variable; tax knowledge has no significant impact to the dependent variable; tax non-compliance. This indicates that tax knowledge does not affect tax non-compliance among taxpayers. According to Ramlan and Adnan (2016), the standardized coefficient,  $\beta$  indicates how strong the independent variable influences the dependent variable. Hence, it can be concluded that the independent variables; ethics ( $\beta = 0.165$ , P-value = 0.000), government quality ( $\beta = 0.390$ , P-value = 0.000) and change in government ( $\beta = 0.130$ , P-value = 0.001) has the highest significant impact on the dependent variable; tax non-compliance.

**Table 4.10: Regression Analysis (Coefficient)**

Model		Unstandardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	Constant	4.942	0.801		6.170	0.000
	Tax Knowledge	-0.026	0.045	-0.026	-0.585	0.559
	Ethics	0.165	0.041	0.189	4.041	0.000
	Government Quality	0.390	0.034	0.505	11.577	0.000
	Change in Government	0.125	0.038	0.130	3.258	0.001

a. Dependent Variable: Tax Non-Compliance

b. Coefficient is significant at the 0.05 level (1-tailed)

Based on the regression analysis, the regression equation; Model 1 can be summarized as below.

$$Y = 4.942 - 0.026 (X1) + 0.165 (X2) + 0.390 (X3) + 0.125 (X4) + \epsilon$$

Y = Tax Non-Compliance

X1 = Tax Knowledge

X2 = Ethics

X3 = Government Quality

X4 = Change in Government

$\epsilon$  = Error

Based on regression equation above, an increase in tax knowledge (X1) is associated with a decrease of 0.026 of tax non-compliance (Y). This indicates that when a taxpayer has knowledge on tax regulation, the tendency to engage in tax non-compliance is minimal. However, the gradient of tax knowledge (X1) is not significant (less than 0) which means that this independent variable does not reflect significantly in this model.

An increase in ethics (X2) is associated with an increase of 0.165 of tax non-compliance (Y). This indicates that taxpayer's ethical view on taxation plays a role in determining their compliance behavior. Next, an increase in government quality (X3) is associated with an increase of 0.390 of tax non-compliance (Y). This indicates that government quality in handling taxation revenue affects taxpayer's compliance behavior. Lastly, an increase in change of government (X4) is associated with an increase of 0.125 of tax non-compliance (Y). This indicates that the compliance of a taxpayer increases when there is a change in government. All in one, ethics (X2), government quality (X3) and change in government (X4) shows a moderate positive linear relationship with tax non-compliance (Y).

## CHAPTER 5

### DISCUSSION AND CONCLUSION

#### 5.0 Introduction

This chapter discussed further on the findings of the study. In this chapter, researcher has list out all the limitation faced during the research and come up with some recommendations for further research. Next, the researcher also include implication gained in conducting this study.

#### 5.1 Discussion on Findings

This study is conducted with the objective to examine the four independent variables; tax knowledge, ethics, government quality and change in government relationship with the dependent variable; tax non-compliance. There were four hypotheses developed in this study to test the objective of the study. **Table 5.1** is a summary of hypotheses developed with the results of hypotheses based on the findings.

**Table 5.1: Hypothesis Summary**

Hypotheses	Findings
<i>H<sub>1</sub>: There is a significant relationship between tax knowledge and tax non-compliance.</i>	<b>NOT SUPPORTED</b>
<i>H<sub>2</sub>: There is a significant relationship between taxpayers ethics shaped by social norms and tax non-compliance.</i>	<b>SUPPORTED</b>
<i>H<sub>3</sub>: There is a significant relationship between taxpayers attitude towards government quality and tax non-compliance.</i>	<b>SUPPORTED</b>
<i>H<sub>4</sub>: There is a significant relationship between taxpayers perceived behavior on change in government and tax non-compliance.</i>	<b>SUPPORTED</b>

**Table 5.1** has summarized the findings on the following hypotheses developed based on the research objectives and research questions. All four questions in this study sought to investigate the relationship between the independent variables; tax knowledge, ethics, government quality and change in government to the dependent variable; tax non-compliance. Based on the findings, three hypotheses; H<sub>2</sub>, H<sub>3</sub> and H<sub>4</sub> are supported while H<sub>1</sub> is not supported. Further discussion on each independent variable is discussed below.

### **5.1.1 Tax Knowledge**

The first research objective is to examine the relationship between tax knowledge to tax non-compliance. Based on the correlation analysis, the correlation value ( $r = 0.257$ ) indicated that there is a weak positive linear relationship between tax knowledge and tax non-compliance. In simple terms, when there is an increase in tax knowledge, there is a slight increase in tax non-compliance. The results match those observed in earlier studies (Kasipillai & Jabbar, 2006; Palil & Mustapha, 2011; Ross & McGee, 2012a). To study the significance of this relationship, the regression analysis was tested.

Tested with one-tailed test at 99% significance level, the standardized coefficient of tax knowledge and tax non-compliance is -0.026 with significance level of 0.559. Based on the regression analysis, the taxpayer's tax knowledge affects -0.26% of their tax non-compliance behavior and the p-value shows a non-significant relationship between the tax knowledge and tax non-compliance as the p-value (p-value = 0.559) is greater than the alpha level ( $\alpha = 0.01$ ). In contrast to the earlier study, this study is unable to demonstrate similar finding as Fallan (1999) in which the prior researcher found that tax knowledge positively and significantly affects tax non-compliance of a taxpayer.

According to Saad (2009), the fairer taxpayers perceived the tax system, higher chances they will obey with the tax regulation. However, this study finding provides no support to this contention. There are few reasons that may have caused this result. The first possible reason is the tax knowledge attribute is not included in the contention of the prior researcher. The prior researcher perceived the tax regulation to be fair without including the tax knowledge attribute of a taxpayer. The income tax system is deemed fair from various perspectives like general fairness, exchange fairness and administrative fairness (Saad, 2009). In this study, the researcher studied whether tax compliance behavior is affected by tax knowledge of taxpayer disregard of the fairness of the tax system.

The second possible reason is the fact that taxation lies within a highly legalized environment (Saad, 2009). In such environment, whether a system is perceived fair or not, taxpayer has no choice but to obey as the taxpayer is chained to the rhythm or they will be subjected to offences. Frankly, it does not matter what perspective taxpayer has towards the tax regulation, they still need to pay tax whenever it is compulsory. This issue potentially sparks the non-compliance behavior of taxpayers all around the globe. In this



study, it is concluded that there is no significant relationship between tax knowledge and tax non-compliance. Thus, H1 is not supported.

### **5.1.2 Ethics**

The second research objective is to examine the relationship between ethics to tax non-compliance. Based on the correlation analysis, the correlation value ( $r = 0.439$ ) indicated that there is a moderate positive linear relationship between ethics and tax non-compliance. In simple terms, when there is an increase in taxpayers' ethics based on their social norms, there is a moderate increase in tax non-compliance. The results match those observed in earlier study (Slehat, 2009). To study the significance of this relationship, the regression analysis was tested.

Tested with one-tailed test at 99% significance level, the standardized coefficient of ethics and tax non-compliance is 0.165 with significance level of 0.000. Based on the regression analysis, the taxpayer's ethics affects 16.5% of their tax non-compliance behavior and the p-value shows a significant relationship between the ethics and tax non-compliance as the alpha value ( $\alpha = 0.01$ ) is greater than the p-value (p-value = 0.000). In contrast to the earlier study, this study is in disagreement with McGee and An (2007) findings which showed that ethics is negatively affects tax non-compliance of a taxpayer.

According to Chau and Leung (2009), ethical value affects tax compliance decision of a taxpayer. Tax compliance involves social norms that determine taxpayers' moral behavior (Mangoting et al., 2019). This finding by the prior researcher is similar as to this study. In this study, social norms of taxpayer influence the compliance behavior of the taxpayer. This reflects with the theory of planned behavior in which the social norm is a norm that is commonly accepted by the members of the community (Ajzen, 1991).

Social norm is nurtured through public viewing. When an individual views the society around him is accepting a good norm as a good norm, the individual will accept the good norm as a good norm to himself. Conversely, when an individual views the society around him is accepting a bad norm as a good norm, the individual will accept the bad norm as a good norm to himself. This behavior is similar to a study conducted by Saad (2009) in which a taxpayer's motivation to comply with the tax will be higher based on the peer's compliance behavior. In this study, it is concluded that there is significant relationship between ethics and tax non-compliance. Thus, H2 is supported.

### **5.1.3 Government Quality**

The third research objective is to examine the relationship between government quality to tax non-compliance. Based on the correlation analysis, correlation value ( $r = 0.593$ ) indicated that there is a moderate positive linear relationship between government quality and tax non-compliance. In simple terms, when there is an increase in government quality, there is a moderate increase in tax non-compliance. The results match those observed in earlier study (Congdon et al., 2009; Abodher et al., 2018). To study the significance of this relationship, the regression analysis was tested.

Tested with one-tailed test at 99% significance level, the standardized coefficient of government quality and tax non-compliance is 0.390 with significance level of 0.000. Based on the regression analysis, the taxpayer's government quality affects 39.0% of their tax non-compliance behavior and the p-value shows a significant relationship between the government quality and tax non-compliance as the alpha value ( $\alpha = 0.01$ ) is greater than the p-value (p-value = 0.000). In accordance with the present results, previous studies have reported similar result in the context of government spending (Rotberg & Gisselquist, 2009; Gerber & Huber, 2009).

According to Kaufmann, Kraay and Mastruzzi, (2010), the government quality indicators include government effectiveness in provision of quality of public goods, political stability, setting of laws and control of corruption. All these indicators are heavily bonded with trust between government and the citizen. From here derived a line in which government quality plays an important role in tax compliance behavior of taxpayers because taxpayers are also a part of the citizen. Hence, the citizens' attitude towards the government quality determines their compliance behavior. This reflects with the theory of planned behavior in which the attitude is an individual point of view on a subject matter (Ajzen, 1991).

Attitude of an individual varies as each individual has different point of view on a subject matter. If the individual view government as corrupted agent in administrating the country and only waste most of the resources they received from taxation revenue, the individual will not comply with any propaganda and advocacy the government promotes. Basically, taxpayer's attitude whether to comply or not to comply with tax regulation depends heavily on their point of view towards the administrated government. Each individual views the government based on the quality indicator discussed above.

Tax revenue is the main source of income for the government and the revenue is generated from the taxpayers. Taxpayers are reluctant to give some part of their income earned to the government due to their fragile trust with the government. The perception here is the taxpayers want a transparent government and demand a report on how their money is being used. Thus, they engage in tax non-compliance due to the lack of credibility to the government. According to Birskyte (2014), goodwill between people is endorsed by trust which benefits the public. Perception of taxpayers toward government and its political affair dictate their tax compliance behavior (Congdon et al., 2009). Basically, taxpayers

who trust the government are more likely to comply with tax while taxpayers who does not trust the government are more likely to disobey tax law. In this study, it is concluded that there is significant relationship between government quality and tax non-compliance. Thus, H3 is supported.

#### **5.1.4 Change in Government**

The fourth research objective is to examine the relationship between change in government to tax non-compliance. Based on the correlation analysis, the correlation value ( $r = 0.195$ ) indicated that there is a weak positive linear relationship between change in government and tax non-compliance. In simple terms, when there is an increase in change in government, there is a slight increase in tax non-compliance. To study the significance of this relationship, the regression analysis was tested.

Tested with one-tailed test at 99% significance level, the standardized coefficient of change in government and tax non-compliance is 0.125 with significance level of 0.001. Based on the regression analysis, the change in government affects 12.5% of their tax non-compliance behavior and the p-value shows a significant relationship between the change in government and tax non-compliance as the alpha value ( $\alpha = 0.01$ ) is greater than the p-value (p-value = 0.001).

According to Hunt et al., (2019), individuals will keep themselves updated with news about government candidates and events to come out with a decision on who to support and who to critic. Their feelings and perceptions will be based on the evaluative processes they use to make sense about different government candidates and events. This process of choosing which government candidate to support and not to support is under the control of the individual. This reflects with the theory of planned behavior in which the perceived

behavior control is the individual's belief that the behavior on a subject matter is under his control (Ajzen, 1991).

Perceived behavior control of an individual is similar to self-efficacy in which an individual is confident on their ability to complete a certain task. The individual will ensure that the final output of the task is based on the desired output the individual initiated. Basically, the taxpayer controls the output of how he would react to the change in government. It is a typical behavior to act in favor of the party that the individual voted during election whether or not the party elected is in presidency. In the context of tax non-compliance behavior, the individual controls how he would react towards complying with tax based on the government in presidency where typically he would comply with the tax regulation if the government he voted is in presidency. In this study, it is concluded that there is significant relationship between change in government and tax non-compliance. Thus, H4 is supported.

## **5.2 Limitations of the Study**

This study has a limitation just like other research study which could be serve as opportunity for future study. First limitation is the period of the research. This study is more of cross-sectional study rather than a longitudinal study as this study took less than a year to complete disregard some delay during data collection period due to pandemic. Cross-sectional study is a one-time study in which the respondent is surveyed at a given point in time. The findings may be self-explanatory at the situational factor at that point of time the questionnaire was distributed to the respondent. For instance, the online questionnaires were distributed during pandemic. The government quality at that point of time may affect the decision of the respondents in answering the questionnaire especially

in answering both Section C (Government Quality) and Section D (Change in Government).

Next, second limitation is the questionnaire design. The questionnaire was constructed with the aim of measuring the compliance of taxpayers toward the four independent variables. Furthermore, this study depends on honesty of the taxpayers just like other research in this area. The self-reported questionnaire with Likert scale tends to have many limitations such as bias error. Therefore, it is best to conduct a longitudinal study to observe the changes in taxpayer's perspectives on tax non-compliance over time.

The third limitation is the sample size. Due to the limited time and resources, this study able to collect 415 samples. The samples collected in completing this study is more than the minimum sample size suggested by Krejcie and Morgan (1970) which is 384 samples. The collected sample size (N = 415 samples) may not be adequate to generalize the whole population of taxpayers' compliance behavior in Malaysia as there is more than 15 million labor force in Malaysia. Furthermore, there was language barrier from the respondents. The questionnaire was replicated and redesigned using simple English. There were some respondents who found it difficult to understand the questionnaire in English during the data collection period which is understandable as different individual has different educational level and upbringing. Hence, some might have poor understanding of the English language and the results from these respondents is potentially inaccurate and unreliable.

The fourth limitation is generalizing the government quality and change in government. At the beginning of conducting this research, Malaysia was governed by Pakatan Harapan. Although the research was conducted to study the relationship between these

two independent variables to tax non-compliance, an unexpected coalition convened which led to change in leadership to BERSATU lead by Muhyiddin Yassin. This unexpected event that occurs in March 2020 which is during the period of data collection for this study may has affect the decision of respondents when answering the questionnaire.

### **5.3 Implications**

This research is focused on tax non-compliance thus IRBM may take notes on these implications to potentially create awareness to the taxpayers. Firstly, IRBM needs to widen its taxpayer's cluster. IRBM should include young generation to take part in knowing the tax knowledge. One way that IRBM may undertake is to participate in any public/private school assembly by conducting a seminar or workshop on Malaysia's tax regulation. An early exposure to the young generation may decrease the probability of tax non-compliance in future as psychology saying, it is easy to nurture a good attitude if it is practice since you are little kid.

Next, IRBM should be creative in attracting interest of young generation towards taxation. One way is to develop application through smartphone such as tax calculation guide, tax calculator or tax puzzles. In these apps, a thorough display of the potential consequences might be faced by the taxpayers who deliberately understate their tax return and the penalties imposed on the particular offences. This may provide awareness to young generation to be more alert in engaging with wrongdoings.

Nevertheless, if IRBM expects the taxpayers to be fair and transparent with them, IRBM should expect the same energy needed by the taxpayers too. For any on-going tax investigation that included dignitaries in Malaysia, IRBM shall regularly update the tax

investigation process and also impose a fit penalty towards the perpetrator in order to sustain the fairness of tax law towards all taxpayers in Malaysia. This is very crucial because a good relationship between the tax authority and taxpayers increase tax compliance (Kirchler et al., 2007).

Lastly, IRBM should conduct a seminar with organization to provide awareness simultaneously cultivate tax compliance behavior among the organizations' employees. IRBM may get organization to chase them for the seminar by granting a special relief to the company that conduct seminar with IRBM. Most corporate taxpayers will search for any mean that may decrease their tax liability. By providing this incentive, IRBM not only able to provide awareness to their employees, the corporate taxpayers also able to provide high probability of tax compliance. The target audience should be non-accounting firm such as entertainment firm, healthcare firm and airlines firm.

#### **5.4 Suggestion for Future Study**

Looking back at the pioneer literature of tax non-compliance by Allingham and Sandmo (1972), tax non-compliance has made a big step in recent years since pioneer. As mentioned by the pioneer researchers, it is almost impossible for one research study to generalize the whole factors of tax non-compliance as the reasons that affects tax non-compliance keep on evolving from time to time. With that being said, future research may focus more on the new independent variable introduced in this study which is change in government. The future research may also search for country that has several changes in government like United State of America (USA) and Nigeria.

Next, this study focuses heavily on individual taxpayer. Future research may also test on corporate taxpayers. The opinion, perception and behavior of corporate taxpayers may



differ from individual taxpayers. The research on corporate taxpayers shall use secondary data that may be extracted from Department of Statistic or any other relevant source. The use of secondary data may be more accurate with the right source and methodology. The use of secondary data also helps cut-off time, resources and the trouble of searching for taxpayers to answer the survey form.

Lastly, it is suggested that future research on a similar area can be made to enhance the current data reliability and accuracy by including a much bigger sample size. Additionally, future research should consider increasing the sampling frame by include other states in Malaysia. Different states in Malaysia may provide different opinion, perception and behavior among individual taxpayers. Besides, other sampling methods such as cluster sampling techniques are recommended while doing the research that is related to tax non-compliance area.

Future researcher should target respondents of higher income level to get more fruitful response to the study because higher income level taxpayers pay more tax than lower income level. It is also recommended that the questionnaire to be bilingual as Malaysia is a multi-cultural country and each individual in Malaysia may have distinct education level.

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