

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

E-government is a leading component of the current administrative reform and governance innovations in Malaysia. The electronic government initiative in Malaysia was launched with the introduction of Multimedia Super Corridor (MSC) in 1996 to propel the country into the Information Age. E-filing was identified as one of the projects of the country's e-government initiative. In its efforts to become the foremost tax administration in the region and the best government agency in Malaysia, Inland Revenue Board of Malaysia (IRB) introduced, e-filing nationwide in 2005.

IRB as one of the main revenue collecting agencies of the Ministry of Finance offers nine e-service applications including e-filing; e-Daftar, Tax Agent E-filing (TAeF), e-Bayaran, STAMPS, PCB's Calculator, e-data PCB, e-PCB and e-Kemaskini. E-filing, is the first of IRB efforts to streamline the tax filing process through the use of information and communication technology (ICT). The other IRB's e-service applications (e-Daftar, Tax Agent E-filing (TAeF), e-Bayaran, STAMPS, and PCB's Calculator) were only recently introduced in tandem with the launch of IRB's Electronic Services by the Prime Minister of Malaysia in 2009. Meanwhile the rest of the applications are readily available in 2010. Functions of the above applications are defined in Table 1.1.

Table 1.1
Description of IRB's e-service applications

IRB's e-service Application	Description
e-filing	Application that integrates tax preparation, tax filing and planning of tax payment
e-Daftar	Application that enable individuals and companies to register income tax file through the internet
TAeF	Enable tax agents to file income tax returns on behalf of their clients electronically
e-Bayaran	Malaysia's version of e-payment is an income tax payment channel facility
STAMPS	An electronic system of Assessment and Payment for stamp duty. This application will gradually replace IRB's manual systems that are using Franking Machines and <i>Hasil Stamp</i> .
PCB's Calculator	A support system that helps both the employees and employers determine their scheduled tax deductions
e-Data PCB	PCB is Malaysia's version of Scheduler Tax Deduction. This system helps employers check the format and upload the CP39 text file (PCB software) on-line. The use of this system can help employers submit data that meets IRB's specifications.
e-PCB	System that is provided for employers who do not use Computerized Payroll System to calculate and check PCB. This system helps employers to keep employee information and submit PCB payment data on-line to IRB. Use of this system can save time for employers to calculate the PCB on a monthly basis and to ensure that the PCB is calculated correctly and accurately.
e-Kemaskini	An application that allows taxpayers to update their particulars (Contact number, email address, Correspondence address, Home address and Address of Business Premises) in IRB's database, online.

Source: Inland Revenue Board of Malaysia (IRB)

Malaysian taxpayers are able to choose among two tax-filing methods: manual and Internet-based (e-filing) starting in 2005. Manual filing is the traditional method where taxpayers need to fill in the return form either by hand or typewriter. Taxpayers usually perform complex calculations using mental arithmetic or calculator, and then the return is delivered to the tax agency through the postal service or in person. After receiving a return, the agency uses a data entry service to input the data. Error checking on paper is fault-intensive and was traditionally done by IRB officers. This process is cumbersome, time-consuming, and paper-intensive for both taxpayers and the tax agency.

The process is also costly to IRB who spent Ringgit Malaysia five million four hundred thousand (RM 5.4 million) in 2010 alone to issue and print eight hundred thousand (800,000) manual income tax returns for individuals and sole proprietors who did not file their tax return form electronically the previous year. After spending six Ringgit Malaysia and eighty eight cents (RM 6.88) to print and issue tax return to each manual taxpayer, only six hundred sixty seven thousand eight hundred eighty five (667,885) taxpayers returned their completed income tax return forms to IRB (IRB).

The explosive growth in computing and use of the Internet provided a way for the tax agency to improve service quality while reducing cost. IRB introduced Internet-based tax-filing method in an attempt to reduce the costs of tax collection among others. This electronic tax-filing method uses tax preparation

software provided by the agency. Using their own personalized *Digital Certificate*, registered taxpayers can download the necessary forms through the Internet free of charge. The basic particulars of the individuals are readily available in the electronic forms and calculation, error checking and suggestion for best return option for the taxpayer are carried out automatically by the software. Taxpayers can decide to either directly submit their return forms by electronically transmitting the data to the tax agency using their personalized digital signature or confidently save the data in IRB's database that is protected by firewall and encryption features and finish the process at a later time. An acknowledgement page with IRB's seal is the record (prove) of submission. All the above mentioned security features are important in promoting taxpayers adoption intention as those features are valued most as compared to privacy seals and statements (Belanger et al., 2002).

With the introduction of e-filing system, the art of tax filing will be make easier as e-filing integrates and automates tax preparation, tax filing and planning of tax payment. E-filing will definitely simplify and expedite the tax-filing process. The advantages to the government were significant but the benefits gained may be obstructed by tax users' unwillingness to accept and use the available electronic services. However, despite the readily available tax preparation software and its promotion by the Board, the percentage increase for e-filers in 2009 year of assessment as compared to the previous year of assessment was only 1.98 percent. It is clear that most taxpayers are still reluctant to adopt e-filing.

Thus, IRB whose objective is to create and implement a fair and effective tax management system faces the problem of underutilization. Understanding why people are willing to accept or reject an e-government application has proven to be a challenging issue. The growing interest in e-government thus raises the question of how Malaysian government can increase citizens' adoption of e-filing specifically and e-government generally.

1.2 PROBLEM STATEMENT

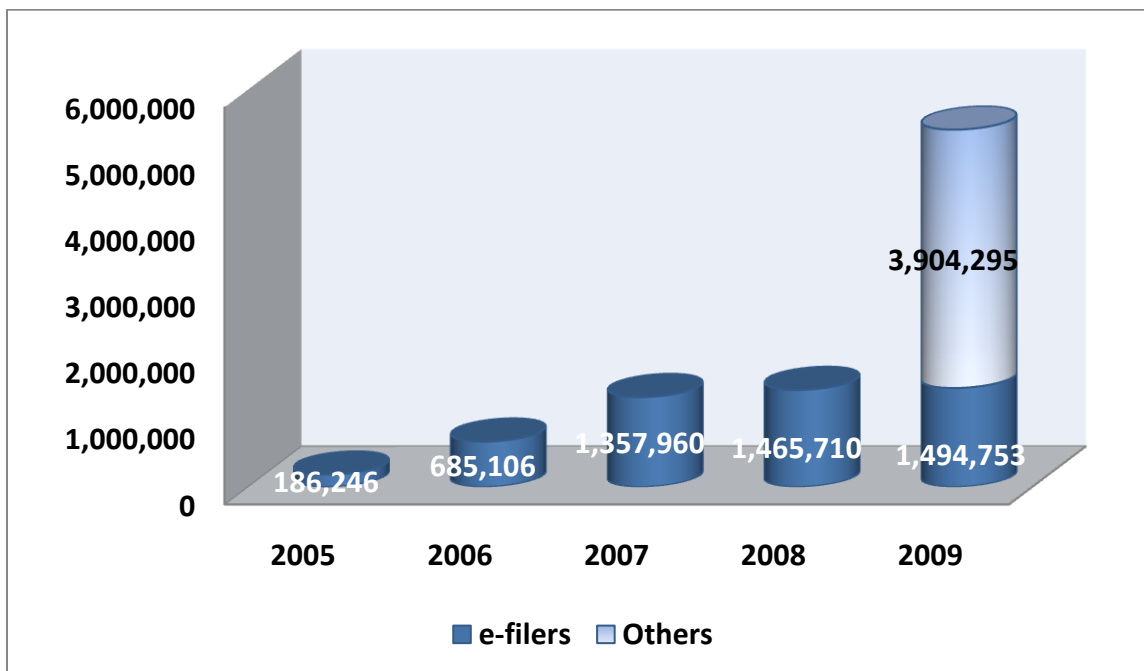
Malaysia's electronic tax filing application, e-filing is an important application that automates tax related processes in an attempt to improve efficiency in assessing and collecting tax information. It already proved its great potential in improving personal tax-filing service while at the same time reducing costs to both taxpayers and tax collecting agencies.

Since the launch of e-filing in 2005, the numbers of e-fillers has grown steadily but much more slowly for the previous two years. As shown in Figure 1.1, the number of taxpayers who chose to submit their return electronically has increased from nearly hundred eighty seven thousand (187,000), when electronic tax filing became available nationwide, to nearly one million five hundred

thousand (1.495 million) representing 27.69 percent of all registered taxpayers in 2010 (for year of assessment (YA) 2009).

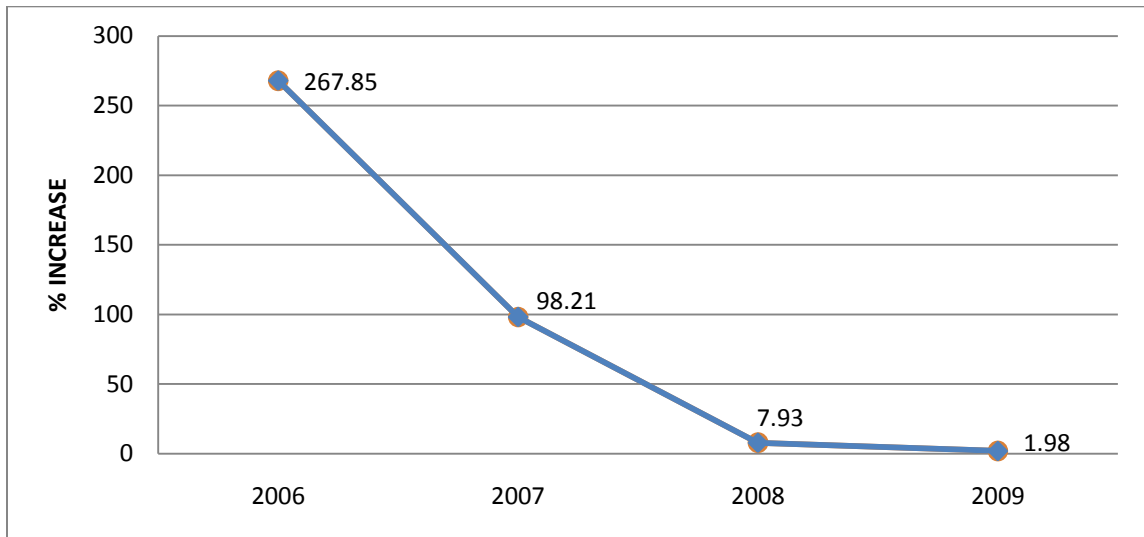
The percentage increase of e-filers for the year of assessment 2005 till 2009 continue to decline every year (Refer to Figure 1.2). In year of assessment 2005 the number of e-filers has increased nearly 267.85 percent compared to 2006's figure. However the percentage of increase falls as low as 7.93 percent for the year of assessment 2008. The figure shows a steep decline again to 1.98 percent for the year of assessment 2009 as compared previous year of assessment.

Figure 1.1
Total number of e-filers for the YA 2005-2009



Source: Inland Revenue Board of Malaysia (IRB)

Figure 1.2
Percentage increase of e-filers from the YA 2006 till 2009



Source: Inland Revenue Board of Malaysia (IRB)

While it is desirable to increase the percentage of Malaysian taxpayers filing their return forms electronically, any further increase is a challenge. Thus, the problem of underutilization of e-filing is still a major obstacle in the successful implementation of e-filing system in Malaysia.

1.3 PURPOSE AND SIGNIFICANCE OF THE STUDY

The theoretical basis utilized in understanding the adoption intention of Malaysian taxpayers was replicated from Featherman and Pavlou, 2003. That research integrates the Technology Acceptance Model (TAM) literature, which studies individual reactions to computing technology with the perceived risk

literature. Hence, the above study widens the scope of the adoption decision to explicitly include both rewards (potential positive utility) and risks (potential negative utility). This research therefore focuses on understanding Malaysian taxpayers' adoption intention of e-filing with the inclusion of measures of negative utility (perceived usage risks) into the existing positive utility oriented adoption model, TAM. Governments may benefit from this research as an increased understanding of consumer perceptions can be used to devise an e-government framework with risk-reducing strategies to encourage new and continuous adoption.

Thus, the purpose and significance of this research are as follow:

- To understand the users risk perceptions of e-filing specifically and e-services generally; and
- To understand the factors affecting Malaysian taxpayers' acceptance of e-filing service.

1.4 OBJECTIVES OF THE STUDY

The objectives of this study, Acceptance of electronic tax filing: A Malaysian taxpayers' adoption intentions are:

- to explore the role of perceived risk in influencing taxpayers' intention to adopt e-filing and ascertain the types of risk that are considered as most important to Malaysian taxpayers;
- to analyze the relationship between perceived risk that taxpayers associate with e-filing system, perceived usefulness of e-filing system and perceived ease of use of the e-filing system with adoption intentions; and
- to explore the effect of different demographic profiles on the adoption intention of e-filing, the perception of ease of use and perception of usefulness of the system as well as their perception of perceived risk associated with e-filing system.

1.5 RESEARCH QUESTIONS

The research questions that guide this study are:

- What types of risk are salient and therefore important to the users of e-filing?
- How important are the perceived usefulness and perceived ease of use to the e-filing adoption decision?
- What are the effects of Malaysia's multi cultural and multi ethnic population on their adoption intention?

1.6 SCOPE OF THE STUDY

This study is only confined to examine individual taxpayers' adoption intentions. Individual taxpayers include those salaried working in either public or private sectors and sole proprietor (self employed). These taxpayers are those who submit their return form via e-filing. There are numerous factors influencing taxpayers' intention to adopt an e-government application stated in the literatures. This study's intentions are to explore the variables affecting Malaysian taxpayers' acceptance of e-filing service and to understand their risk perceptions of e-filing. This is done by analyzing the relationship between taxpayers' perceived risk, perceived usefulness and perceived ease of use of the e-filing system with their adoption intentions. The demographic profile of Malaysian taxpayers is also analyzed to uncover the differences between the groups. The result of this study might be useful to the IRB specifically and other government agencies generally in formulating laws and operational mechanisms to increase e-government adoption intentions.

1.7 ORGANIZATION OF THE STUDY

This research has the following organization. The first chapter discusses the e-service applications offered by the Board and the problem faced by them to foster adoption. This chapter also covers the purpose, significance, objectives

and scope of this research. Relevant literatures for the focal research variables and context are reviewed in the next chapter. The focus will be on the factors affecting the adoption of e-services as well as e-government. The third chapter presents the development of research model and hypotheses, selection of measures sampling design and data collection and other research methodology. Meanwhile, the fourth chapter explains the summary statistics, the relevant statistics to analyze measures, test hypotheses and compare demographic factors of the respondents. After the result has been summarized in previous section, the fifth chapter presents the conclusion, recommendations and limitation of this study. Implications of this research are further analyze to show the importance and significant of this study.