CHAPTER ONE

INTRODUCTION

What is Tax?

Taxes in various forms existed since man began to live in civilised societies when they realized a common need to live peacefully within a community. As today, most of these payments were not voluntary but compulsorily forced out of citizens. The whole feudal system of paying the landowner in kind (through goods and labour) is not really different from the present days’ payments to governments, except that in modern times, the tax authorities prefer money payments rather than payment in kind.

The Concise Oxford Dictionary defines a tax as a “contribution levied on persons, property or business for the support of government”. In two Australian tax cases, the following definitions were given:-

(a) "a compulsory exaction of money by a public authority for public purposes enforceable by law" (in Matthew v The Chicory Marketing Board)¹

(b) the process of "raising money for the purposes of government by means of contributions from individual persons" (in R v Barger)²

More recently, the High Court of Australia in MacCormick v FC of T ³ identified the following usual characteristics of a tax:

• it is a compulsory payment;
• the money is raised for government purposes;
• the exactions do not constitute payment for services rendered;

¹ (1938) 60 CLR 263
² (1908) 6 CLR 41
³ (84) ATC 4230
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- the payments are not penalties;
- the exactions are not arbitrary; and
- exactions should not be incontestable.

The dilemma posed by taxation has been most interestingly summarized in the following observation by Isaac's J in *R v Barger*:

"It is one of the empirical certainties of history that no structural society has ever arisen without taxation. The power of taxation is one which is particularly liable to abuse, either in the hands of an individual autocrat or of a sectional oligarchy such as may wield the scepter of authority even under the forms of a modern Parliamentary system; but without that power no Government, as we understand the term, is possible. The power to tax is the one great power upon which the whole national fabric is based. It is as necessary to the existence and prosperity of a nation as is the air he breathes to a natural man. It is not only the power to destroy, but the power to keep alive."

It has long been recognized that in order to govern effectively, a democratic government needs to raise revenue, and that one of the most effective means of doing so is by the imposition and collection of taxes. Such taxes may be imposed on income earned, wealth, consumption (or expenditure) transactions or on some other basis. It does not include fines or specific payments such as road tax, license fees, permit fees/charges, toll charges and property assessments (Singh 1999). Such payments are for specific services or rights, for example, the payment of road tax is not really a tax because it gives the owner of a vehicle the right to put his vehicle on the road. As for income tax, no specific right is transferred on payment of such a tax. It is a collection to be used by the government to meet the administrative and development expenditure of the country.

Economists generally split taxes into two broad classifications:

(a) Direct tax – this is a tax, which is paid directly by those on whom it is levied. Examples would be income tax, real property gains tax, estate duty, stamp duty, etc.,
(b) Indirect tax – this is a tax, which is generally collected via some third party. An indirect tax is generally an addition to the price of a product/service and is collected by an intermediary who will then pay it over to the tax authorities. Examples of indirect taxes would be sales tax, service tax, excise duty, import and export duties and value added tax.

Role of Taxation

Voting and taxpaying probably provide the two major opportunities for most citizens to relate to government. Taxation, besides being a major source of revenue, is one of the most important instruments for implementing an egalitarian economic and social policy, and for redistributing income on a socially desirable pattern. Taxes act as an important means to finance development and play a major role in nation building and shaping economic policies. Agricultural, industrial and commercial advancement is largely achieved by capital expenditure financed through taxes.

Income tax is important to all countries, but especially so to developing countries like Malaysia, since it is a major source of government revenue, and the laws are used to assist in the carrying out of the fiscal and economic policies of the Government. Income tax is one of the surest ways in which the Government of any country could obtain a source of revenue and from which the Government could budget its annual expenditure.

Direct taxes, are a major source of Government revenue. About 72.2% of the Federal Government’s revenue for 1999 was from taxes, of which direct taxes accounted for 46% of the total revenue. Direct taxes include income tax, real property gains tax and stamp duty. Indirect taxes accounted for 30.8% of the
total revenue. Indirect taxes include import duties, export duties, excise duty, sales tax and service tax\textsuperscript{4}.

The role of taxation in a country is closely related to the objectives of tax policies. Since taxes have an important part to play in any government’s economic and social policy, the following role and objectives can be highlighted:

(a) Raising revenue to finance government expenditure.
(b) Regulating the private sector of the economy to maintain the desired level of employment and increase economic development/growth.
(c) Regulating the activities of specific areas of the private sector so as to encourage activities that are beneficial to the country and to discourage those that are undesirable in the national interests.
(d) Regulating the distribution of income and wealth as between different types and classes of citizens.
(e) Regulating specific activities of citizens which are thought to be undesirable, e.g., drinking, smoking, gambling, etc.
(f) Ensuring fairness and equity, i.e. the burden of tax is spread fairly and equitably among taxpayers.
(g) Ensuring that the Government in power will continue to get the support of the voters.

Such being the significant role and objective of taxation, non-compliance with tax legislations would retard the implementation of policies beneficial to the people. Many people adopt various means to avoid and evade the payment of taxes legally imposed by the State.

There is no question that non-compliance with tax laws creates tremendous financial costs for the government and furthers a climate of disrespect, antagonism and selfishness in the relationship between citizen and polity (Caroll, 1992). In some countries, tax offences and generation of black

\textsuperscript{4} Economic Report 1999
money have posed a serious challenge to fulfilment of the objectives of distributive justice and the setting up of an egalitarian society. Some of the major factors like lack of sound tax policy, frequent amendments to the law, complexity of law, inefficient tax administration and low public morale, non-cooperation of taxpayers, are responsible for unabated growth of black money (Gaur, 1987).

Governments all over the world face this problem. It is only the magnitude of the problem and the approach taken to address this perennial problem that varies, from country to country. Some of the aspects that have been identified can be construed as falling short of legal obligations either accidentally or deliberately, are – failure to file returns; under-reporting; overstating deductions; refusing to pay taxes; delaying payment of taxes, etc.

Non-compliance with the tax laws may take a variety of forms. A citizen required to file a tax declaration form might fail to do so wilfully or out of ignorance of the law. A taxpayer may file a declaration, but understate his income or over claim deductions. A taxpayer’s income may be correctly declared but he might fail to comply with legal requirements for paying the tax due. Finally a taxpayer may avoid taxes by arranging his financial transactions expressly to minimise tax liability, thus distorting his normal pattern of economic behaviour. These deviant behaviour patterns of taxpayers with regard to tax laws are termed as either tax avoidance or tax evasion. These terms are explained in more detailed, in the following chapter.

Some of the reasons that can be attributed for this state of affairs is ignorance, laziness, carelessness, deliberate non-compliance, heeding incorrect advice or a symbolic protest reacting to a personal sense of injustice. (Kidder & McEwen, 1989).
Role of Tax Professionals

Who are tax professionals?

Section 153 of the Income Tax Act 1967 (henceforth referred to as ITA) imposes restrictions on persons holding themselves out as tax agents, tax consultants, etc. Section 153(1) provides:

Section 153(1): No person holding himself out as a tax agent, a tax consultant or a tax adviser (or under any other like description) shall be permitted to act in Malaysia on behalf of any person for any of the purposes of this Act unless he is a tax agent defined in this section:…

With the amendment to section 153 with effect from the year 1991\(^5\), a new concept, i.e. "tax agent" is given to all persons who are entitled to hold themselves out as tax agents, tax consultants, tax advisers, etc. Section 153(3) now reads as follows: -

"tax agent" means—

(a) a professional accountant authorized by or under any written law to be an auditor of companies;

(b) any other professional accountant approved by the Minister; or

(c) any other person approved by the Minister on the recommendation of the Director General.

Further section 153(1)(b) provides that—

153(1)(b) “nothing in this subsection shall be construed as restricting an advocate in the lawful practice of his profession”.

From the above, it can be seen that there are four categories of tax agents i.e.

(i) Licensed auditors

(ii) Registered, Licensed and Public Accountants

(iii) Approved tax agents and

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(iv) Advocates.

In this study the term "Tax Advisers" is used generically to cover various terms used in other countries e.g. tax preparer (USA), tax agent (Malaysia, Australia and New Zealand), tax consultants, tax accountants, tax practitioners, etc. The terms "tax adviser", tax practitioners", "tax professionals" and "tax agents" are used interchangeably.

In Australia, the absence of a definition in the Income Tax Assessment Act, 1936, also led to difficulties in defining this category of professionals. In practice, the term "tax practitioner" covers a diverse group of individuals, business structures and professional groups who provide a broad range of tax services for their clients. A recent Tax Review Committee established in Australia, at the outset of its enquiry, acknowledged the difficulty of attempting to deal with the concept of a single "tax profession". The following comment⁶ about the situation in Western Australia provides useful comparison with the present state of affairs in Malaysia.

"Rather, it used the phrase "as a convenient description embracing all categories of tax professional in the private sector...." (p. 7). Self-employed and 'in-house' accountants, tax advisers, registered tax agents and legal practitioners involved in the tax arena were all identified as being embraced by the term "tax professional".

The Review Steering Committee unanimously agreed that each category would need to be considered separately, but that its emphasis should be on "tax agents". Although this term is not defined in the Income Tax Assessment Act (the Act), by implication it is taken to be a person (including a partnership or company) who or which is registered to prepare income tax returns and transact business on behalf of taxpayers in income tax matters, for a fee (see Part VIIA of the Act).

The situation is further complicated in that the professional status of a tax practitioner can be viewed from two perspectives. One is the professional qualification held. The other is the type of firm/business entity by which the individual is employed. For example, it is possible for a non-registered, unqualified individual to carry out tax work, including the

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\(^6\) The Ethical Environment of Tax Advisers, Western Australian Evidence, Journal of Ethics, Sept. 1998
preparation of tax returns, on behalf of a registered tax agent (Roach, 1994). It is also estimated that of approximately 29,800 registered tax agents in Australia, only about half are members of any professional association such as the ASCPA or the ICAA. Accordingly, such agents are not subject to the codes of conduct and standards of any professional regime (Castle, 1994). Against this background, and consistent with the focus of the Review, this study was limited to those tax practitioners who were registered tax agents.

[The ethical environment of tax practitioners: Western Australian Evidence Journal of Business Ethics, Sept. 1998]

In Malaysia although Section 153 of the Income Tax Act 1967, defines the scope of who can carry out tax work for purposes of the Act, in practice there is no extensive restriction or enforcement by the tax authorities. There is the added complication as other government departments such as the Registrar of Companies and Registrar of Business administer the licensing and enforcement of such business enterprises and their activities. It may be within the scope of these authorities to initiate any action against a breach.

“Person” under section 153(1) includes companies; body of persons or partnerships.

Further it is common for companies, partnerships or sole proprietors who are qualified under the law to act as a tax agents, to employ staff who are semi qualified who in the course of their work do provide tax services under the umbrella of a firm. These "semi-qualified professionals" are entertained by the IRB in minor issues and communication via telephone. However there is a strict application of this provision in tax investigation cases, where the IRB will not entertain any individual who is not qualified in his individual capacity to represent a taxpayer who is being investigated for alleged tax evasion or avoidance. It must also be borne in mind that the restriction for a person in holding himself out as a tax agent, tax consultant, tax adviser, etc. is only in relation to this Act. This would mean that there is still scope for tax work by professionals who are not qualified under the Act with regard to advice that is not directly linked to this Act.
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Such instances will include the provision of general tax advice to locals, expatriates, foreign investors and local investors who may need advice on tax efficient business structures and schemes and non-business transactions.

Regulation of professionals or semi-professionals is further made difficult by the fact that there is no single body that caters for this defined group or to even regulate them. At best the, the Malaysian Institute of Taxation (MIT) provides the best forum in view of its specialization. Although the majority of the tax agents are members of the Malaysian Institute of Accountants (MIA), there are also those who are members of the Malaysian Association of Certified Public Accountants (MACPA), The UK Chartered Association of Certified Accountants, The Australian Society of Certified Practising Accountants (ASCPA), the Malaysian Association of Tax Agents (MATA) etc. The formation of the Malaysian Institute of Taxation under the umbrella of MIA does not seem to have attracted the anticipated response. After a decade since its inception (October 1991) the membership of MIT stands at approximately 1,600, and this includes those who are not in public practice.

Members of MIA, MIT and MACPA usually represent the tax agents’ fraternity in dialogues with the authorities. On the other hand the government too has not seen a need yet to regulate these professionals by initiating any statutory requirement for membership or licensing. An approval under the third category as stated above, ie. approved tax agent [Section 153(3)(c)] is subject to renewal by the Minister, as the approval is only valid for 24 months [section 153(6)].

Services Provided by Tax Advisers

Among the major services provided by the tax professionals are that related to submission of annual tax returns. Via the submission of the annual tax returns, the statutory responsibility of taxpayers is fulfilled. As the country's coffer chiefly rely on direct taxes collected from citizens and tax residents and
non-residents (from income derived from Malaysia), submission of tax returns is regarded as an important responsibility of taxpayers.

In addition to the services related to the submission of tax returns, tax practitioners provide advisory services on investments, financing and general business transactions, disposals of fixed assets and investments, etc. All of these have a common intention of minimizing the tax liability or deferring tax liability of the parties concerned. This may also be referred to as tax planning or tax advisory. In providing such advice, the professionals deal directly with their clients and there is no communication with the tax authorities, unless a ruling is sought from the IRB. Further this does not refer to tax return preparation, thus avoiding the implication of penal provisions relating to understatement of tax liabilities.

In response to complex social rules and obligations, individuals often find it advantageous to seek assistance from experts. Experts may facilitate compliance with social rules and obligations by reducing their clients’ legal uncertainties and by lowering the time and anxiety cost associated with compliance. Alternatively, they may assist their clients in devising strategies to exploit legal ambiguities in order to avoid compliance with costly rules and regulations. The tax system provides a rich setting for examining the role of experts in legal compliance. (Erard 1993).

Research findings suggest that advisers play a mixed role in the compliance process. On the one hand they appear to contribute to non-compliance by helping taxpayers take advantage of ambiguous features of the tax code. On the other hand, they appear to contribute to compliance by enforcing legally unambiguous features of the tax code and by acting as important conduits for communicating tax agency enforcement priorities. (Klepper 1989).
While tax practitioners alleviate many of the information and computational barriers to tax compliance, they also possess the expertise to assist their clients in exploiting opportunities for tax non-compliance. The promotion of non-compliance opportunities can have important consequences for both tax equity and tax efficiency.

Despite its clear importance for tax administration, enforcement and compliance, economists have only recently begun to explore the role of tax practitioners in the tax system as observed by researchers in Canada. It is argued (Erard, 1993) that the existing literature on tax practitioners has two primary shortcomings: (1) the models generally do not distinguish among tax preparer types, and (2) there is a lack of evidence from micro-level data on the relationship between tax preparation mode and tax compliance.

There are no published statistics by the IRB to show what percentage of tax returns is submitted by tax agents on behalf of taxpayers. The tax return form does not require a taxpayer to state whether any third party assists the preparation of returns, except in cases where the declaration is made on behalf of another person. Where the professional uses a letter head of a firm and signs a covering letter, then there is an admission of assistance provided in preparing the returns which is signed by the taxpayer. It is not uncommon for taxpayers to allow tax professionals to use their business addresses for all correspondence with the IRB. As such there is difficulty for the IRB to generate statistics to determine the extent of use of third parties to assist in return preparation or submission. This may provide a starting point for any future compliance research involving tax advisers especially in determining the population for statistical purposes.
In the US, results from IRS Taxpayer Compliance Measurement program (TCMP) for tax year 1979 indicate that 44% of all returns were prepared by paid third parties. Moreover, these returns accounted for 74% of all non-compliance.

Motivation for the Study

This study is motivated by a number of considerations, chiefly as a response to a new development in tax administration that caused uproar among tax agents. The long awaited self-assessment system was finally implemented beginning from Year of Assessment 2001 for companies. Individuals with business source of income will come under this system from year of assessment 2003 and individuals with salaried income, in year of assessment 2004. Along with some administrative provisions, the government introduced an additional penalty provision under the existing “wilful evasion” provisions. i.e. an addition to section 114 in the form of section 114(1A) which reads as follows:

"Any person who assists in, or advises with respect to the preparation of any return where the return results in an understatement of the liability for tax of another person shall, unless he satisfies the court that the assistance or advice was given with reasonable care, be guilty of an offence and shall, on conviction, be liable to a fine of not less than two thousand ringgit and not more than twenty thousand ringgit or to imprisonment for a term not exceeding three years or to both."

Initial reactions from tax agents were emotional and one of anger and uncertainty. The whole fraternity was left wondering as to the need for this new provision, pointing out that criminal sanctions against tax agents should not belong to the statutes. It was felt that tax agents are service providers who make the job of the authorities and taxpayers easier. In almost every recent forum or seminar, to the writer’s knowledge, a swipe was taken at the authorities for introducing this "rather unfair" provision, which targeted the tax agents.
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The amendment to section 114 has caused much concern among Malaysian tax professionals as it has extended the penal scope to cover tax advisers who act in good faith but fall short of ‘reasonable care’. The amendment places tax practitioners or tax advisers in a difficult predicament. If they make a mistake in law by way of ignorance or accept information from a client, which is inadequate or onerous, they appear to be liable under the new penal provisions. Tax advisers and tax agents perform a useful and important role in the process of administration and collection of revenue for the Federal Government. Against such positive contribution of the tax professionals, it is of great and grave concern that the proposed section 114(1A) is to be introduced.

Many questions were raised and left unanswered. Among them are the following:

- Aren’t existing provisions sufficient to handle wilful evasion?
- Does the self-assessment system mean, the job of the revenue authority is passed on to the taxpayers?
- Does it involve a new burden to tax agents and taxpayers alike?
- Does it increase compliance costs?
- Does this mean that the tax agents have been largely responsible for aiding and abetting taxpayers in understating their income?
- Why are tax agents targeted now?
- Should penal provisions be introduced against tax agents?

Secondly existing literature on tax compliance in Malaysia leaves much to be desired as there are only a handful of studies that have been reported in major journals. Published research on tax compliance exists extensively in the developed economies such as USA, Canada, Netherlands, Australia, New Zealand, United Kingdom, and European Union. There are studies by N. Kasipillai, Tax Briefing CCH, June-July 2000, The Star, 6 March 2000, Dr. Arjunan Subramaniam, Partner, Shook Lin & Bok Advocates and Solicitors & Adjunct Professor, School of Accounting, UUM, Adjunct Professor of Law, Northern Territory University, Darwin at Seminar on Implications of the New Section 114(1A) of the Act on Taxpayers, Tax Agents and Advisors.
Zealand, United Kingdom and Germany. In the context of Asian countries as observed by Singh (2000) in a doctoral dissertation, a search of the literature (i.e. established academic journals) revealed no published research in this area other than that on compliance cost of corporate income tax in Singapore by Ariff et. al (1997). In Malaysia, the only known research on tax compliance is that on compliance costs by (Loh et.al 1997) an on tax evasion by Kasipillai (1997). It is thus hoped that this study on the role of increased penalties on tax advisers on tax compliance within the self-assessment system, will contribute to existing literature on tax compliance in the region, particularly Malaysia. In fact the lack of empirical research within jurisdictions outside the USA has been lamented by researchers in the USA (Andreoni et. al, 1998).

Finally it is hoped that in line with IRB’s introduction of the self-assessment system as part of continuous tax reforms, the findings of this study could assist in the designing of suitable strategies for improving voluntary tax compliance.

In this context, two primary methods have been used to increase compliance with tax laws. The first method, sanction threat, uses increased penalties, threats of property seizure, or imprisonment to increase compliance. Since most governmental efforts to collect revenue have centred on civil and criminal sanctions, research efforts examining ways to increase taxpayer compliance have primarily concentrated on the effects of increasing sanctions for evasion (Jackson and Jones, 1985; Klepper and Nagin, 1989; Kinsey 1990; Sheffrin and Triest, 1990). The second method of increasing taxpayer compliance appeals to conscience.

The effects of both sanctions threats and appeals to conscience are moderated by individual differences in taxpayers. Individuals react differently to perceived equity or inequity because of their different perceptions of equity. Compliance level and the perception of equity in the tax system are affected by
environmental and personal variables. Environmental variables include social norms, opportunity to evade, legal controls, social controls, and perceived opportunities to evade. Personal variables include financial strain, tax ethics, perceived injustice, and personal orientation (Weigel et al., 1987; Roth et al., 1989).

In addition to threat of sanctions such as increased penalties, more research could be carried out on other variables that affect tax compliance in Malaysia.

**Research Objectives**

1. To identify the tax agents’ level of understanding on the concept of “reasonable care” in section 114(1A).

2. To identify whether **demographic factors** affect the tax agents understanding on the concept of reasonable care in section 114(1A).

3. To identify tax agents’ **perception** on the **fairness** of section 114(1A) to tax agents.

4. To identify whether the **demographic factors** affect the tax agents’ perception on the fairness of section 114(1A) to tax agents.

5. To identify tax agents’ **perceptions** on the imposition of **penal sanctions** under section 114(1A) against them.

6. To identify whether the **demographic factors** affect the tax agents’ perceptions of the imposition of **penal provisions** under section 114(1A).
7. To identify tax agents’ perception of recommending aggressive positions in return submissions in view of the increased penalties under section 114(1A).

8. To identify whether the demographic factors affect the tax agents perception of recommending less aggressive positions in return submissions in view of the increased penalties under section 114(1A).

Research Questions

1. What is the tax agents’ level of understanding on the concept of "reasonable care" introduced in section 114(1A)?

2. Do the demographic factors of experience and working environment affect the tax agents’ understanding of the concept of "reasonable care"?

3. What is the tax agents’ perception on the fairness of section 114(1A) to tax agents?

4. Do the demographic factors of experience and working environment affect the perception of fairness of section 114(1A)?

5. How do tax agents perceive the imposition of penal sanctions against them under section 114(1A)?

6. Do the demographic factors of experience and working environment affect the perception of tax agents on the imposition of penal sanctions against them under section 114(1A)?

7. Did the introduction of section 114(1A) change the perception of tax agents in recommending aggressive positions in tax submissions?
8. Do the **demographic factors** of experience and working environment affect the perception of tax agents in recommending **aggressive positions** in tax submissions?

**Research Hypotheses**

HO₁ : There is no significant difference in the understanding of the concept of **reasonable care** under section 114(1A) between tax agents of different levels of **experience**.

HO₂ : There is no significant difference on the understanding of the concept of **reasonable care** under section 114(1A) between tax agents from the "big five" category and the non "big-five" **category**.

HO₃ : There is no significant difference on the perception of **fairness** of section 114(1A) between tax agents of different levels of **experience**.

HO₄ : There is no significant difference on the perception of **fairness** of section 114(1A) between tax agents from the "big-five" category and the non "big-five" **category**.

HO₅ : There is no significant difference on the perception of imposing **penal sanctions** on tax agents under section 114(1A) between tax agents of different levels of **experience**.

HO₆ : There is no significant difference on the perception of imposing **penal sanctions** on tax agents under section 114(1A) between tax agents from the "big-five" category and non "big-five" **category**.
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HO_7 : There is no significant difference on the perception of tax agents in recommending aggressive positions, between tax agents of different levels of experience in view of the increased penalties under section 114(1A).

HO_8 : There is no significant difference on the perception of tax agents in recommending aggressive positions, between tax agents from the "big-five" and non "big-five" category in view of the increased penalties under section 114(1A).

Scope of the Study

The scope of this study is confined to direct taxes and the law and administration that govern it. The focus is limited to recognized and qualified tax agents under the Income Tax Act practising in Malaysia. It is common knowledge that there are many semi qualified and "bogus" tax agents who provide services related to return submission and tax advice. This category is excluded from the study.

There is no published statistics on the number or professionals who are eligible to practice as tax agents. In addition to qualified accountants and auditors who are members of professional accounting bodies there are other categories of tax agents under the Act. As such there is no population list that is available. However the list of MIT members has provided the best list to start from in view of their specialization in tax work. However, not all members of MIT have the licence to practice. On the other hand there are those who have the qualification to join the MIT but are in public service, such as IRB officers and academicians and retired government servants and foreign graduates.

Although there are many determinants of tax compliance, this study is confined to the role of sanctions against tax advisers in view of their important
link between the tax authorities and taxpayers. The introduction of increased penalties against tax advisers and others who assist in the preparation of tax returns makes this study a timely one.

Limitations of the Study

As mentioned above, the lack of a population list prevents a proper estimate of a representative sample size. However the population can be reasonably estimated by adding the sum total of the professionals who are members of the professional accounting bodies. Although this represents the group that is qualified to do tax work, it does not show, the number of people who really specialize in tax work, as they may be involved in aspects of accounting, such as auditing, accounting services, corporate work, consultancy and other financial services. Although there is specialization among the larger accounting firms, such a need may not arise in smaller firms and sole proprietor type of firms whose employees may not specialize in tax work.

There is a lack of research in Malaysia on tax compliance and as such most of the literature is from the more developed countries. As this is a study of the behavioural aspect, there may be differences in the behavioural attributes of Asians and others. However these studies are still useful in their application to Malaysia in view of the research methodology and techniques of analysis adopted to study the tax compliance behaviour of Malaysian taxpayers. The psychological differences of the respondents are not expected to alter the results significantly when compared to studies outside Malaysia.

Availability of statistics on taxpayer compliance from the authorities is also lacking. The Inland Revenue Board currently publishes only the percentage of taxpayers who are issued tax returns who submit them. The 1998 Annual Reports shows that out of 2,969,146 taxpayers who were issued with tax returns, 2,000,326 returns were received by the IRB i.e. 67.37% who complied. Although
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This is referred to as "taxpayer compliance rate", it is a narrow description of the wider "tax compliance" term as this does not reflect the extent of tax evasion an avoidance amongst taxpayers. Tax compliance will not only include understatin or non-reporting of taxable income, it also covers late payments, non-payments delayed submission of returns, etc. Although the IRB has its own Research an Development Division, to the writer's knowledge, there is no study on behaviour research on taxpayers that have been made and published. Most of the work this division is concerned with systems and administrative research.

In addition to the above the 1998 Annual Report of the IRB shows the number of investigation cases, i.e. 549 throughout Malaysia, involving collective of back taxes amounting to RM 362,063,106, a sharp drop from the 609 cases investigated in 1997, with a collection of RM 509, 785,103.

More recently the IRB has been pushing forward a new strategy of audit on the field, which is expected to be an important feature of the assessment system. In 1998, 706 taxpayers were audited and RM 100,400,32 was collected in taxes and penalties.

Except for the above statistics, which show some measure of the extent of non-compliance, tax evasion and tax avoidance there is little else to show on the behavioural aspect of what has led to this low pattern of compliance level. Tax authorities are not known to sponsor research academicians and research institutions of higher learning. Although the government sponsors post-gradua students, the areas of study are usually the choice of the employees who receive such scholarships in Malaysia or outside Malaysia.

Organisation of the Study

This thesis is organized as follows:
Chapter 1  Introduction

Chapter I: An introduction that begins with an explanation of what is tax and classification of direct and indirect taxes, the role of taxation and an overview of the role and service of tax agents who are the subject of this study, the motivation, scope, objective and limitations and organisation of this study.

Chapter II provides a background to the self-assessment system and the introduction of section 114(1A) and events leading to the issuance of a guideline to the interpretation and application of this amendment. This section also explains terminologies such as self-assessment system, tax evasion and tax avoidance.

Chapter III provides a review of the literature of tax compliance, self-assessment system and the role of tax professionals in tax compliance. On the basis of existing literature, the research question and questionnaire survey instrument was formulated.

Chapter IV focuses on the research methodology adopted for this study. Here the development of the research hypothesis, selections of measures, research instrument and reasoning for the variables in the questionnaire survey are elaborated. The sampling procedure, data collection procedure and the data analysis techniques are discussed. The measurement of the three different variables (dependent variable) i.e., General Perception of Penalties, Perception of Section 114(1A) and Application/Impact of Section 114(1A) and the five independent variables of age, gender, experience, working environment and designation in public practice are elaborated.

Chapter V presents the empirical results obtained from the questionnaire survey and the issues identified or raised by the respondents and an analysis of these results is discussed. The analysis of the measures and the testing of the hypothesis are carried out.
Chapter VI provides the summary and conclusion of the study and suggestions and recommendations. Further suggestions and additional research areas are suggested and the implication for the various groups that will benefit from the study is stated.

Bibliography

Appendices
Includes the questionnaire survey instrument, IRB Draft Ruling on Section 114(1A) and IRB Public Ruling 8 / 2000.