

Curtin Business School
School of Economics and Finance

**Corporate Taxpayers' Compliance Variables
under the Self-Assessment System in Malaysia:
A Mixed Methods Approach**

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**This thesis is presented for the degree of
Doctor of Philosophy
of
Curtin University**

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DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made. This thesis contains no material that has been accepted for the award of any other degree or diploma in any university.

Signature

Date: 25th May 2012

ABSTRACT

This thesis examines corporate taxpayers' compliance variables and analyses the influence of business characteristics on compliance behaviour. A two-phase exploratory mixed methods approach was employed to explore participants' views of corporate taxpayers' compliance variables, with the intention of using this information to develop a survey instrument. The method comprised eight focus group interviews with 60 tax auditors from the Inland Revenue Board of Malaysia (**IRBM**), and a mixed-mode survey among selected Malaysian corporate taxpayers. Thematic analysis and descriptive and inferential analysis were mainly used to examine the qualitative and quantitative data.

The results suggest that the main corporate taxpayers' compliance variables are: tax knowledge, tax complexity, tax agents and tax audits. The main business characteristics that are found to have significant influence on compliance variables are the length of time the business has been operational, size and industry. Continuous tax education and tax audit programmes are thus vital, and should focus more closely on specific groups of taxpayers, namely smaller and more newly established companies, companies in rural areas, and business industries that are more inclined to use cash transactions. Moreover, as many corporate taxpayers perceive the probability of an audit as low, the IRBM should publicise its audit activities more prolifically through available media channels. Tax simplification, especially on laws regarding estimation of income tax, is also an important consideration.

This study extends the scope of tax compliance research to corporate taxpayers, and builds upon the limited international and Malaysian literature in this area. Most of the research findings of this thesis yield consistent results with respect to particular tax compliance variables. In a tax policy context, this study enables international tax authorities in general, and Malaysian tax authorities in particular, to have greater confidence in developing and administering tax laws and policies to maintain and/or increase the overall level of corporate compliance.

DEDICATION

To my loving family

My husband: Md Ashari Md Aris

My daughters: Anis Sofea and Aina Sofea

My sons: Afiq Sofean and Amir Sofean

With love and respect

My parents-in-law: Md Aris Abdul Rahman and Ashah Ain

My family: “Keluarga 17”

In loving memories

My parents: Mohd Isa Ahmad and Zakiah Long

My brother-in-law: Mohd Noor Alias

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PUBLICATIONS

During this doctoral study, this researcher has jointly published articles and a book chapter with her supervisor, either as a first-named author or as a co-author. In addition, several conference and seminar papers were presented and co-published in related conference proceedings. The contributions of these publications to this thesis are acknowledged and have been updated and referenced accordingly. Any errors are the responsibility of the researcher. These publications are listed below:

Refereed Journals

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LIST OF ABBREVIATIONS

ATO	:	Australian Taxation Office
BNM	:	Bank Negara Malaysia (Central Bank of Malaysia)
CTIM	:	Chartered Tax Institute of Malaysia
DG	:	Director General of Inland Revenue Board Malaysia
EFA		Exploratory Factor Analysis
IRBM	:	Inland Revenue Board of Malaysia
ITA	:	Income Tax Act 1967
MTD	:	Monthly Tax Deduction
NAD	:	National Audit Department
NZ	:	New Zealand
OAS	:	Official-assessment System
OECD	:	Organisation for Economic Co-operation and Development
PR	:	Public Ruling
RM	:	Ringgit Malaysia
RMC	:	Royal Malaysian Customs
SAS	:	Self-assessment System
SPSS	:	Statistical Package for the Social Sciences
SSO	:	Street Survey Operation
TCMP	:	Taxpayer Compliance Measurement Program
UK	:	United Kingdom
US	:	United States of America
YA	:	Year of Assessment

KEY GLOSSARY

- Corporate Taxpayer(s) : A corporate taxpayer refers to a body corporate or corporation and includes any body of persons established with a separate legal entity by or under the laws.
- Mixed-Methods Study/ies : Mixed-methods studies use more than one research method in a single study or series of studies. The most common design employs both qualitative and quantitative approaches.
- Ringgit Malaysia (RM) : The official currency of Malaysia. One unit of the Australian Dollar, New Zealand Dollar, U.K. Pound, U.S. Dollar and EURO is equal to RM3.15, RM2.52, RM4.91, RM3.01, RM4.26, respectively (5 August 2011, Bank Negara Malaysia).
- Tax Attitudes : Tax attitudes refer to the settled opinions or ways of thinking or intentions of a person who pays tax. The term ‘attitude’, is used in this study in the sense of the respondent’s underlying judgment, estimation or evaluation of the particular matter in question.
- Tax Audits : Examination of a taxpayer’s business records and financial affairs to determine the right amount of income that should be declared and the right amount of tax that should be calculated and paid in accordance with tax laws and regulations. There exist two types of audits in this context, a

desk audit and a field audit. Fines are imposed on taxpayers if they are detected to have underpaid their tax.

Tax Compliance : In this study, tax compliance is assumed to take place when a taxpayer files all required returns at the proper time and these returns accurately report tax liability in accordance with the tax law applicable at the time which the return is filed (Roth, Scholz & Witte, 1989, p. 21).

Four basic tax compliance obligations include: i) registering for tax purposes; ii) submitting a tax return when legally obliged to do so; iii) disclosing all taxable income and making a proper claim for deductions on the tax return; and iv) settling the assessed taxes by the due dates (OECD, 2008, p. 8).

Tax Compliance Behaviour : Typical and repeated ways of taxpayer behave towards tax compliance. In this thesis, tax compliance behaviour is mainly examined from the tax auditor's perspective, which considers existing and likely compliance/non-compliance behaviour.

CHAPTER ONE

INTRODUCTION

1.1 Chapter Overview

This chapter provides an overview of the thesis. The first section provides the background to the study, including a brief overview of Malaysian taxation and a short synthesis of tax compliance studies. The remaining sections present the research objectives, research approach and significance of the study. The chapter ends with an overall thesis outline.

1.2 Background

1.2.1 Tax Administration

Taxation is used as a tool for implementing socioeconomic policies such as transferring resources from the private sector to the public sector, distributing the costs of government (vertically and horizontally) proportionately to the taxpayer and promoting growth, stability and efficiency (Musgrave & Musgrave, 1989). A good tax system should be designed such that it: meets the requirements of equity in burden distribution, is efficient in resource use, achieves the goals of macro-economic policy and provides ease of administration (Musgrave & Musgrave, 1989, p. 216).

Tax administration is put into place in order to ensure compliance with tax laws and it is viewed as a production function with inputs and outputs (Bagchi, Bird and Das-Gupta (1995), as stated in Alm & Martinez-Vazquez, 2003, p. 155). The inputs refer to personnel, materials, information, laws and procedures that are used to produce

several outputs, the most important of which is government revenue; outputs also include other aspects such as taxpayer satisfaction, equity and social welfare.

One of the key indicators of an efficient and effective tax administration is low “costs of collection”, namely collection costs divided by total revenue for a particular year (OECD, 2009, p. 80). A low collections cost ratio may constitute evidence of a reduction in relative costs (that is, improved efficiency) and/or improved compliance (that is, improved effectiveness). It has become a common practice for revenue bodies to compute and publish costs of collection ratios.

Generally, the costs of collection ratios of many countries show a decreasing trend. However, the costs of collection for the United Kingdom (UK), Japan and Malaysia are rather unstable. In 2007, the United States (US) had the lowest collection costs (0.45) followed by New Zealand (0.75) and Australia (0.93), while Japan had the highest (1.53). The costs of collection for the period 2003 to 2007 for the above countries are shown in below in Table 1.1.

Table 1.1 Costs of Collection in Selected Countries, 2003 to 2007

Country	Cost of Collection				
	2003	2004	2005	2006	2007
Australia	1.05	1.05	1.03	0.99	0.93
New Zealand	0.83	0.81	0.76	0.71	0.75
United Kingdom	1.04	0.97	1.10	1.12	1.10
United States of America	0.57	0.56	0.52	0.47	0.45
Japan	1.67	1.58	1.69	1.56	1.53
Malaysia	1.21*	1.08*	1.20	1.14	1.29

[#] Sources: Organisation for Economic Co-operation and Development (OECD, 2009, pp. 87-89)

* Sources: Inland Revenue Board Malaysia (Personal communication, 7 June 2011)

While costs of collection are widely used internationally to draw conclusions on the relative effectiveness and efficiency of tax administration, the comparisons should be

treated cautiously. The reasons for this caution are that there are many influencing factors to consider, such as improved compliance, macro-economic changes and differences in tax systems; all these may influence the costs of collection.

1.2.2 Tax Compliance

Tax compliance has always been an important issue to governments, tax authorities and taxpayers in general. This is due to the fact that tax compliance "... affects revenue collection and the ability of the government to achieve its fiscal and social goals" (Tan & Sawyer, 2003, p. 1). The level of tax compliance influences the amount of tax collected by the government from the society and further determines the quantity and quality of public goods provided by the government to the society (Wenzel, 2003, p. 41).

Non-compliance, however, represents lower revenue and results in a serious loss to governments. Tax non-compliance may also create an unfair burden on honest taxpayers leading to disrespect for the tax system. Therefore, many tax administrations put an enormous effort into combatting non-compliance and identifying all possible measures to improve compliance. The most common strategy adopted by any tax authority is the identifying of variables that influence compliance behaviour and the developing of appropriate policies to improve compliance behaviour.

A higher-level of tax compliance is more sought after in the immediate term in developing countries, as the need for efficient government and the need for publicly provided goods and services are greater in these countries compared to developed countries. Nonetheless, the level of tax compliance in developing countries is generally lower than that of developed countries (Blackwell, 2000, p. 1). In many developing countries, the scale of corruption and the level of bureaucracy is high (Frey & Eichenberger, 1996, p. 89). It is argued that if taxpayers live in a country in which corruption is rampant and trust in authority is low, the willingness to comply

decreases (Bird, Martinez-Vazquez & Torgler, 2008, p. 61; Webb & Hussain, 2011, p. 23). Available evidence suggests that non-compliance has been found to be particularly acute in many developing countries, making them especially fertile areas for future research (Andreoni, Erard & Feinstein, 1998, p. 856).

1.2.3 Voluntary Compliance

In recent years, many tax administrations have become more concerned with raising the level of voluntary compliance from the taxpaying community. Improving the level of voluntary compliance is important mainly because an “enforced compliance” policy is not always cost-effective. For example, the revenue generated from enforcement activities (for example tax audits) could be less than the cost of administering the activities. Therefore, it is the responsibility of the tax administration to take all necessary and possible measures to lift the level of voluntary compliance among the tax population.

Measures to improve voluntary compliance include providing excellent taxpayer services that generate long-term outcomes (for example higher tax collection and a reduction in the tax gap) and enforcement activities. Many tax authorities aim to achieve higher voluntary compliance through various tax reforms including moving from an official-assessment system (OAS) to a self-assessment system (SAS).

1.2.4 Self-Assessment System

An SAS refers to an administrative arm of the tax regime where the assessment of a taxpayer’s tax liability is largely based on information provided voluntarily by the taxpayer (Marshall, Smith & Armstrong, 1997, p. 9). The implementation of a SAS is believed to deliver better tax administration, provide a greater focus on tax audits and investigation (rather than processing and assessing tax returns) and produce a reduction in collection costs and time (Kasipillai, Baldry & Rao, 2000; Shanmugam, 2003).

From the taxpayer's perspective, a SAS allows taxpayers to democratically exercise their rights, with the objective of increasing involvement by the taxpayer in their own tax affairs (Sarker, 2003, p. 3). The SAS places considerable responsibilities on the taxpayer, such as the keeping and maintaining of records. Should these responsibilities not be met, the taxpayer is subject to sanctions. However, many taxpayers are unaware of their responsibilities, particularly in ensuring the accuracy of their returns and many are unaware of the consequences of submitting incorrect returns (Treasury of Australian Government, 2004, p. 72).

As a SAS is largely reliant on voluntary compliance, many studies show that four critical factors that possibly influence taxpayers' voluntary compliance under the system are: tax education programmes, tax audit programmes, tax simplicity and tax agents.

The SAS was introduced in Malaysia in stages, starting in 2001 with corporate taxpayers and eventually covering all other types of taxpayers by 2005. After a decade of the system being in existence, it is timely to explore the attitudes of corporate taxpayers toward the system and to identify factors that influence their compliance behaviour under it.

1.2.5 Overview of Malaysian Taxation

1.2.5.1 Significance of Income Tax

The sources of Malaysian Federal Government revenue are direct taxes, indirect taxes and non-tax revenue. Over the period 2002 to 2009, direct taxes generated the highest proportion of revenue, at around 50 percent of total revenue, followed by non-tax revenue (about 30 percent) and indirect taxes (approximately 20 percent). The main components of direct tax revenue are corporate income tax, petroleum income tax and individual income tax. Other sources of direct taxes include revenue collected from stamp duty, real property gains tax and cooperative income tax.

1.2.5.2 Significance of Corporate Income Tax

Income tax from corporations is regarded as providing the main contribution to Federal Government revenue in Malaysia. In 2009, corporate income tax represented 46 percent of the Inland Revenue Board of Malaysia's (**IRBM**) tax collection, or 25 percent of total Federal Government revenue (Inland Revenue Board of Malaysia, 2009a, p. 24). In comparison, for the same period, personal income tax constituted only 17 percent of the IRBM's tax collection, or ten percent of total Federal Government revenue (Inland Revenue Board of Malaysia, 2009a, p. 24). Despite the substantial role played by corporations in the Malaysian income tax system, previous studies have tended to focus their research on individual taxpayers rather than corporate taxpayers (Palil, 2004; Hanefah, 2007; Sia, 2008; Saad, 2010).

1.2.6 Studies on Tax Compliance

Research on tax compliance remains an important area for government and society. In the last forty years, there has been considerable research on tax compliance which has investigated a variety of policy-related issues using innovative economic models of tax reporting and enforcement decisions as well as utilising empirical evidence (Andreoni et al., 1998, p. 819). These studies attempt to identify variables that affect taxpayer compliance and non-compliance, the effects of various penalties, why and when the taxpayer complies and the effects of inducements on the taxpayer's behaviour (Richardson & Sawyer, 2001).

Tax compliance studies can be grouped into the "economic approach" and the "behavioural approach". In the economic approach, the basic theoretical model used is Becker's economics-of-crime model (1968). Essentially, the economic model suggests that taxpayers pay taxes because, and only because of the fear of detection and punishment by the authorities. Nonetheless, reviews of economic models and empirical research to identify factors influencing tax compliance found that, although economic models managed to identify compliance factors, not all factors are

supported by empirical research (for example Spicer & Thomas, 1982; Andreoni et al., 1998). Moreover, many other factors that may have a significant impact on the compliance behaviour of the taxpayer are not taken into consideration in economic models, such as individual behaviour and other psychological factors.

The “behavioural approach” examines tax compliance and evasion from sociological and psychological perspectives and emphasises the effect of social norms and individual attitudes in explaining compliance (or non-compliance). Findings from the behavioural perspective suggest that demographic factors (such as age, gender, ethnicity, education) and social norms have a significant effect on tax compliance (for example Alm, Sanchez & Juan, 1995; Hite, 1997; Hasseldine & Hite, 2003; Rothengatter, 2005). Furthermore, the success of tax compliance also depends on cooperation between the individual and tax agencies and takes into account wider issues such as citizenship (for example Feld & Frey, 2006; Frey & Torgler, 2007).

1.2.7 Research Gap

Despite numerous theories on tax compliance being put forward by economists and social scientists, a definitive model of tax compliance had yet to be discovered (Blackwell, 2000, p. 6) as findings regarding the understanding of taxpayer compliance behaviour remained inconclusive. (Jackson & Milliron, 1986; Richardson & Sawyer, 2001). It is asserted that such inconclusive findings may be due to the employment of many different variables and a variety of research methods. Consistent results therefore, have been difficult to produce (Richardson & Sawyer, 2001, p. 254). It is noteworthy to add that the above-mentioned earlier findings are still valid.

Previous tax compliance studies have largely been conducted in Western countries such as the US, UK, Australia, NZ and Europe. There is still very little literature in the Asia-Pacific region on tax compliance behaviour, particularly regarding corporate taxpayers. In addition, only a few of these studies have direct relevance to

the ongoing task of tax administration (McLure Jr, 2007, p. 155). It is suggested that the reason for the lack of tax compliance studies could be due to the differences between tax systems in developed and less developed countries (Bird et al., 2008, p. 57).

Most of these previous studies have focused more on the individual rather than the corporate taxpayer. This appears to be due mainly to the fact that the tax revenue generated from this type of taxpayer (the individual) represents a major single contribution to government. Studies on corporate income tax are very limited and have been conducted mainly in the US, using the Tax Compliance Measurement Program (TCMP) data. Although many tax researchers (for example Rice, 1992; Slemrod, 1997; Joulfaian, 2000) have acknowledged that prior tax compliance studies on individuals provide a formal framework for the analysis of corporate tax compliance decisions, Kamdar (1997, p. 39) argues that further work is necessary before drawing any conclusion on corporate tax compliance behaviour.

In addition, Chan and Mo (2000, p. 470) claim that as corporate non-compliance requires multiple parties to behave strategically, evidence on individual tax non-compliance behaviour cannot be directly extrapolated to corporate tax behaviour. More appropriate, non-human factors, applicable to the corporate taxpayer, such as business profile, industry and economic elements should be considered (OECD, 2004, p. 40).

1.3 Research Objectives

Studies that investigate compliance variables and attitudes towards a SAS among corporate taxpayers are scant internationally as well as in Malaysia. In response to suggestions made by many researchers (for example Jackson & Milliron, 1986; McKerchar, 2001; Richardson & Sawyer, 2001), this study aims to provide empirical evidence on the determinants of taxpayer compliance behaviour with a SAS, focusing on corporate taxpayers in Malaysia.

The main objectives of the study are to identify corporate taxpayers' compliance variables and to examine taxpayer attitudes to the compliance variables. This study also aims to establish whether business characteristics influence the compliance variables. The main research questions are as follows:

RQ1: What are the corporate taxpayers' compliance variables?

RQ2: Do business characteristics influence corporate taxpayers' compliance variables?

RQ3: What are the attitudes of corporate taxpayers to each of the compliance variables?

RQ4: Do business characteristics influence corporate taxpayers' attitudes to each of the compliance variables?

1.4 Research Approach

Research employing mixed methods designs has become increasingly common in recent years and has come to be seen as a distinctive research approach in its own right (Bryman, 2006, p. 97). The central premise of the mixed methods approach is that the use of qualitative and quantitative approaches in combination provides a better understanding of research problems than either approach alone. It is posited that the use of the mixed methods approach allows the strengths and weaknesses of the qualitative and quantitative designs to complement one another and enable the researcher to better understand the phenomenon under study. The use of the mixed methods design in taxation research is particularly supported by Torgler (2007, p. 52) and McKerchar (2008, p. 20).

In answering the research questions, a two-phase exploratory mixed methods design is employed in this study, in which qualitative research is conducted first, followed by quantitative study. The research design allows the researcher to explore tax auditors' views of corporate taxpayers' compliance variables, with the intention of using this information to develop an instrument to measure compliance by corporate

taxpayers. The key reasons for collecting qualitative data initially are that information on corporate taxpayers' compliance variables is limited and that there are no suitable existing instruments to assess corporate taxpayers' compliance variables. Therefore, a quantitative survey instrument needs to be developed from the qualitative findings.

In the first phase, a qualitative methodology was adopted in the form of focus group interviews involving 60 corporate tax auditors from the IRBM. In discharging their duties in general, tax auditors interact directly with corporate taxpayers of diverse backgrounds. Therefore, their perceptions of corporate taxpayers' compliance variables are considered to be one of the most influential and invaluable sources of information. In addition, they provide an aspect that has been generally neglected in tax compliance literature to date.

In the second phase, survey questionnaires were distributed to selected corporate taxpayers. Noting the low response rates (between 15 to 33 percent) from surveys identified in many earlier studies conducted on corporate income taxation (Abdul-Jabbar, 2009, pp. 289-290), a mixed-mode survey was employed. This comprised distribution of survey questionnaires using three sampling methods, namely stratified random sampling, snowball sampling and convenience sampling. After almost nine months, where a considerable effort was put into the distribution of questionnaires, 145 usable responses were collected for the study.¹

1.5 Significance of the Study

This study extends the scope of tax compliance research to corporate taxpayers, and helps broaden and increase the limited international and Malaysian literature in this area. The identification and examination of corporate taxpayers' compliance

¹ A test to analyse a non-response bias is discussed in Chapter Four, Section 4.5.5.2.

variables is important in understanding compliance behaviour. Due to the limited availability of research examining corporate tax compliance behaviour, the survey questionnaire developed for this study can be considered as the first step toward a measurement and evaluation of corporate taxpayers' compliance variables.

Another important contribution of this study is that the participants were corporate tax auditors from the IRBM, and corporate taxpayers (who manage the tax affairs of their company/ies). Tax auditors and corporate taxpayers provide invaluable insights into the possible determinants of compliance variables. These insights are based on their practical experience in handling corporate tax audits and managing corporate tax matters respectively.

Findings from this study potentially provide directions to policy makers in designing appropriate strategies to enhance voluntary compliance. The Malaysian tax authority, as well as foreign tax regimes which currently operate SAS or intend to adopt such a system in the future, may benefit from this study. Researchers (both current and future), tax authorities and governments will be better informed in suggesting and making policy decisions that have the potential to increase compliance.

1.6 Thesis Outline

This thesis is organised into eight chapters, namely: the introduction, a review of major concepts and tax compliance literature, an overview of Malaysian taxation, the research approach, the results of the qualitative investigation, the results of the quantitative investigation, overall results and policy implications and conclusions.

Chapter One provides the background to the study, research objectives, research approach, the significance of the study and the organisation of the remaining chapters. The background of the study highlights the importance of tax compliance,

the significance of corporate income tax to Malaysian federal revenue and the current research gap in tax compliance studies.

Chapter Two reviews major concepts and key literature on tax compliance, a SAS and tax compliance studies. Derived from both international and Malaysian literature, key compliance variables are discussed and gaps in compliance research are identified.

Chapter Three presents an overview of the Malaysian taxation system. A detailed discussion of the responsibilities of the IRBM and corporate taxpayers and the role of tax agents under a SAS is examined. This chapter also includes a discussion on tax education and tax audit programmes conducted by the IRBM.

Chapter Four describes the research approach adopted in this study. This chapter is organised into two main parts namely qualitative investigation and quantitative investigation. In each part, the procedures for instrument development, data collection and data analysis are presented.

Chapters Five presents findings from the qualitative investigations. In this chapter, the profile of focus group participants is provided and corporate taxpayers' compliance variables are identified. In addition, other business characteristics that influence the level of each compliance variable are recognised. Overall results from the qualitative investigation are summarised

Results of quantitative investigations are divided into Chapter Six and Chapter Seven. Chapter Six presents findings of preliminary and descriptive analysis, mainly outlining data reliability and describing business characteristics of survey respondents and their attitudes on the identified compliance variables. In Chapter Seven, the influence of business characteristics on each of the compliance variable is examined using inferential analysis. In addition, qualitative comments from survey

respondents are laid out to provide additional insights of their opinions on the compliance variables and self-assessment system.

Chapter Eight summarises and synthesises overall results from both qualitative and quantitative studies for each compliance variable. Findings from this study are then compared with key findings of previous literature. Relevant policy implications for each compliance variable are provided accordingly.

Finally, Chapter Nine concludes the study with a succinct summary, and highlights the strengths of the study, discussing its policy implications and recognising its limitations. Directions for further research conclude the thesis.

CHAPTER TWO

MAJOR CONCEPTS AND LITERATURE REVIEW

2.1 Chapter Overview

This chapter presents the most relevant literature pertaining to the main research problem, “What are the corporate taxpayers’ compliance variables under the self-assessment system?”. A review of literature is important in order to gain an understanding of the research topic and to identify unexplored issues. This chapter is divided into three main sections.

First, the chapter focuses on discussing tax compliance and voluntary compliance, followed by analyses of the tax assessment system, with the emphasis on the concept of self-assessment, including its objectives and implications. Secondly, international literature on tax compliance is reviewed, emphasising those key determinants of tax compliance derived from studies conducted on individuals, and to a lesser extent, corporate taxpayers.

Malaysian tax compliance studies are presented next, grouped into research that examines tax administration and studies that focus on key compliance determinants. The gap in research to date is identified in the final section. The chapter concludes with a summary.

2.2 Tax Compliance

Tax compliance has always been an area of concern to policy makers, tax administrators and society in general. This is mainly because tax compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals (Tan & Sawyer, 2003, p. 1). For example, the level of tax compliance

influences the amount of tax collected by the government from society and further determines the quantity and quality of public goods provided by the government to the society (Wenzel, 2003, p. 41). Moreover, many countries rely on income tax as a major revenue source for the financing of development projects (Mahfar, 1994, p. 46).

In its most simple form, tax compliance refers to the degree to which taxpayers comply with the tax law (James & Alley, 2000, p. 29). The most commonly adopted definition in tax literature is that of Roth, Scholz and Witte (1989, p. 21), who assume that tax compliance takes place when "... taxpayers file all the required tax returns at the proper time and the returns accurately report tax liability in accordance with the rules, regulations and Court decisions applicable at the time at which the returns are filed." Four basic tax compliance obligations are: i) registering for tax purposes; ii) submitting a tax return when legally obliged to do so; iii) disclosing all taxable income and making a proper claim for deductions on the tax return; and iv) settling the assessed tax by due dates (OECD, 2008, p. 9).

To the extent that there is such uncertainty in a tax system, James and Alley (2000, p. 32) recommend the definition of tax compliance to be "... the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity." A successful tax administration requires taxpayers to comply willingly, without the need for enquiries, obtrusive investigations, reminders or the threat or application of legal or administrative sanctions. Wallschutzky (1984, p. 371) defines non-compliance as "... payment of less tax than the tax law requires on one's true taxable income... deliberately or otherwise." Non-compliance may take several forms such as under-reporting of income, over-claiming of expenses or failing to make tax payments in accordance with the tax laws. Other terms used for tax non-compliance are tax evasion, tax avoidance and unacceptable tax minimisation arrangements (OECD, 2008, p. 9). For the purpose of this thesis, non-compliance represents behaviour that contributes to total tax revenue loss to the government.

The issue of non-compliance is imperative to policy makers because non-compliance represents lower revenue and results in a serious loss to government. Tax non-compliance may also create an unfair burden on honest taxpayers, leading to disrespect for the tax system. Therefore, many tax administrations put enormous effort into combating non-compliance and identifying all possible measures to improve compliance.

2.3 Voluntary Compliance

Many tax administrations throughout the world are greatly concerned with raising the level of voluntary compliance from the taxpaying community. Che Ayub² (1994, p. 20) defines voluntary compliance as “... the timely filing by taxpayers of all required tax returns, accurately reporting the tax liability in accordance with the tax law and paying the tax due without the need for further enforcement by the tax authority.” Similarly, James and Alley (1999, p. 10) offer a wider definition of tax compliance that actually refers to voluntary compliance as “...the willingness of individuals and other taxable entities to act in accordance with the spirit as well as the letter of tax law and administration, without the application of enforcement activity.”

From another perspective, compliance as a result of enforcement activities (such as audits) can be divided into voluntarily or enforced compliance (Hasseldine, 1993, p. 424). Voluntary compliance occurs when taxpayers comply in their future reporting, following audits conducted on them (specific deterrence effect) or when non-audited taxpayers comply as a result of audit activities conducted in their community (general deterrence effect). Enforced compliance occurs when taxpayers pay additional tax detected through audits.

² Mariam Che Ayub is the author of this study. Her surname, Che Ayub, is used from hereon.

Improving the level of voluntary compliance is important, mainly because the “enforced compliance” policy is costly and often very expensive (OECD, 2008, p. 9). As the revenue generated from tax audits could be less than the cost of administering the audits, auditing taxpayers may not always be cost-effective (Hasseldine, Hite, James & Toumi, 2007, p. 173). However, the threat of a possible audit serves to “encourage” voluntary compliance (Braithwaite, 2003a, p. 73). Therefore, it is in the best interests of the tax administration to take all necessary and possible measures to lift the level of voluntary compliance among the tax population.

Measures to improve voluntary compliance include providing excellent taxpayer services that generate better long-term outcomes such as higher tax collection and a reduction in the tax gap. The aim of tax reform in many countries is to achieve higher voluntary compliance and one way of achieving this is by moving from an OAS to an SAS.

2.4 Tax Assessment System

2.4.1 Introduction

This section briefly examines an OAS and then focuses on a SAS from several viewpoints including its concepts and objectives and the implications of the system for the tax authorities and taxpayers. Four key success factors in a SAS environment are also briefly presented.

2.4.2 Official-Assessment System

Before the introduction of a SAS, most tax authorities employed an OAS. Under this system, the taxpayer receives their annual tax returns from the tax authority and it is the taxpayer’s statutory duty to declare all the necessary particulars and information pertaining to income and expenses for that particular year of assessment. The taxpayer then submits the completed tax returns to the tax authority for computation and assessment by tax officers. Based on the information provided by the taxpayer,

tax officers compute the tax payable and inform the taxpayer of amounts payable to the authority (for example, by issuance of a Notice of Assessment). In this system, the responsibility for determining taxable income and assessing tax lies with the tax authority, and not with the taxpayer. Despite its use, an OAS was perceived as cumbersome and inefficient, as many tax authorities had difficulty scrutinising all income tax returns and this was mainly due to a shortage of staff.

In addition to the above, it is noteworthy to observe that as the number of taxpayers and complicated tax cases filed increases, the demand for additional and skilled staff becomes crucial (Che Ayub, 1994, p. 41). However, many countries are faced with a scarcity of human and financial resources. Che Ayub (1994) argues that in many governmental departments, the resources needed to meet the increased workload are unlikely to materialise in a timely manner.

Shanmugam (2003, p. 30) summarises the following problems that are associated with an OAS:

- i) Costly and complicated to administer, especially when the assessment and appeal process places a heavy burden on the tax authority;
- ii) Delay in processing and issuing tax returns;
- iii) Highly dependent on taxpayers to submit correct and complete information;
- iv) Weak enforcement due to insufficient and/or competent staff; and
- v) Increase of a backlog of cases.

In dealing with the problems associated with an OAS, many tax authorities around the world introduced an SAS, and these countries have reduced administration costs and improved efficiency by cutting down on non-value added processes. Discussion of a SAS follows next.

2.4.3 Self-Assessment System

Self-assessment can be defined as “... the administration of the tax regime where the assessment of a taxpayer’s tax liability is based largely on information provided voluntarily by the taxpayer” (Marshall et al., 1997, p. 9). Alternatively, the system is viewed as depending on the taxpayer’s honesty in filing annual tax returns and declaring income, adjustments, exemptions and deductions, to arrive at the tax liability (Martinez-Vazquez, Hardwood & Larkins, 1992, p. 153). Sarker (2003, p. 8) concludes that the basic feature of a SAS is that the responsibility for assessing tax liability lies with the taxpayer, rather than the tax authority.

Another important aspect of a SAS is the underlying principle that the taxpayer is obligated to comply with the regulations under tax law. Barr, James and Prest (1977, p. 3) claim that these obligations are crucial to the operation of a SAS. These obligations entail the calculation of total income, total tax-free income, total taxable income and tax due.

The SAS is not a new phenomenon, as Canada and the US first implemented the system around 1910, followed by Japan in 1947 (Loo, McKerchar & Hansford, 2005, p. 670). Over the last three decades, many tax authorities in both developed and developing countries such as Australia, Indonesia, Malaysia, NZ and the UK have implemented an SAS. Nonetheless, other countries such as Singapore, Belgium, Luxembourg and France continue to utilise an OAS (Palil, 2010, p. 30).

Changes from an OAS to a SAS have significant implications for both tax authorities and taxpayers. Although most countries usually introduce a SAS to corporate and individual taxpayers in stages, other countries implement the system concurrently and apply it to all types of taxpayers, as shown in Table 2.1.

Table 2.1: Introduction of SAS in Selected Countries

Countries	Companies	Individual
United States of America	1913	1913
Japan	1947	1947
Sri Lanka	1972	1972
Pakistan	1979	1979
Indonesia	1984	1984
Australia	1986/87	1992
Ireland	1988	1988
New Zealand	1998	1998
United Kingdom	1999	1996/97
Malaysia	2001	2004

Source: Palil (2010, p. 31).

Note: Palil did not include Canada, which introduced a SAS in 1917 to all taxpayers (Treasury of Australian Government, 2004, p. 91).

2.4.4 Objectives of the Self-Assessment System

The implementation of a SAS in many countries is mainly driven by three objectives, namely improving the level of voluntary compliance, reducing administrative costs and simplifying the assessment system. The crucial objective of a SAS is to improve voluntary compliance that is, compliance with tax requirements in the absence of an enforcement mechanism (Kasipillai & Hanefah, 2000, p. 112). For example, both Canada and the US have emphasised voluntary compliance as the most essential part of their tax system since the implementation of SAS (Che Ayub, 1994). Recently, the Canada Revenue Agency reports that estimated compliance with voluntary filing and remittance is higher than 90 percent with regard to its targeted percentage (Canada Revenue Agency, 2009, p. 26).

A SAS offers administrative cost savings mainly because the burden of assessing tax liability is shifted from the tax authorities to the taxpayer (Sandford, 1994, p. 679; McKerchar, 2005, p. 530). In ensuring that returns have been prepared in accordance

with applicable tax laws, tax officers only verify selected taxpayer returns, unlike the methods used in an OAS.

With a SAS, human capital, and resources previously assigned as being for assessment can now be reassigned for post-assessment through activities such as audits. In addition, these resources can be directed toward the provision of better taxpayer services, which may improve voluntary compliance.

Furthermore, the fundamental objective of adopting self-assessment has been to simplify the tax-assessment system (Loo et al., 2005, p. 671). The idea of tax simplification is closely linked to the objective of reducing tax operating costs, comprising both administration and compliance costs, and minimising any uncertainty faced by taxpayers (Kasipillai, 2005, p. 26). Consequently, tax simplification may also improve voluntary compliance. In an Australian context, Boucher (1991, as stated in Pope & Abdul-Jabbar, 2007, p. 8) suggested the following nine main areas for tax simplification:

- i) Rewrite the legislation in plain English;
- ii) Reduce the length of the legislation;
- iii) Eliminate discretions to increase certainty;
- iv) Reduce costs and record keeping requirements;
- v) Eliminate special concessions;
- vi) Review the use of the tax system to achieve non-revenue objectives;
- vii) Streamline the administrative process; and
- viii) Exclude certain taxpayers from the system.

In addition, other objectives of self-assessment include instilling awareness of the operation of the tax system, increasing fairness of treatment of the taxpayer, enhancing taxpayer knowledge of tax laws and instituting an effective enforcement system. The objectives around the implementation of a SAS vary amongst different countries as shown in Table 2.2.

Table 2.2: The Objectives of SAS in Selected Countries

Countries	Main Objectives
United States of America	To increase tax efficiency (collection) and to instil awareness among taxpayers of funding federal expenses.
Japan	To establish a relationship of trust between taxpayers and the tax authority, provide efficient tax administration and serve as a symbol of agreement with post-war democratic thought. In addition, the mission of SAS in Japan is to raise the rate of appropriate tax filings and payments through taxpayer cooperation.
Pakistan	To keep pace with the economic and social development of the country.
Indonesia	To increase tax revenue and to improve tax administration.
Australia	To give taxpayers greater equity and fairness, increased certainty and simplicity.
Ireland	To give taxpayers greater control and responsibility over their tax affairs.
New Zealand	To add and enhance other improvements being made to simplify tax administration.
United Kingdom	To make the tax system simpler, easier and more fair to taxpayers; to make it possible for the Inland Revenue (IR) to accept the Statement of Accounts without further review and to allow taxpayers to pay the right amount of taxes at the right time without intervention by the IR.
Canada	To encourage voluntary compliance, to simplify the tax system and to increase taxpayer knowledge of tax laws.
Malaysia	To collect taxes for the nation at minimum cost, to improve compliance and to institute effective enforcement.

Source: Adapted from Palil (2010, p. 35) and websites of other tax authorities.

2.4.5 Implications of the Self-Assessment System

The implementation of a SAS changes the way tax authorities carry out compliance activities. As the emphasis of a SAS increasingly moves away from official assessment, tax authorities can focus on developing more sophisticated compliance models. These models are designed to help compliant taxpayers and identify and deal with non-compliant taxpayers. With the additional resources available under

these models, tax authorities aim to increase tax compliance through tax audits and tax investigations. Indeed, the benefits of a SAS include: eliminating the administrative nature of assessment work, being more cost effective (as only exceptional cases will be selected for further scrutiny) and encouraging an early and timely collection of taxes (Sarker, 2003, p. 8).

From a taxpayer perspective, a SAS leads to better voluntary compliance as it forces taxpayers to understand the tax system that applies to them (Barr et al., 1977, p. 6). By forcing taxpayers to engage more directly with their tax computation process, a SAS encourages them to become more responsible, honest and up to date with current tax regulations (Palil, 2010, p. 36).

Generally, a SAS further places considerable responsibilities on taxpayers, such as record keeping, in which they are subjected to sanctions if they do not meet the requirements. However, many taxpayers are unaware of their responsibilities, specifically in ensuring accurate returns and the consequences of submitting incorrect returns (Treasury of Australian Government, 2004, p. 72). Therefore, issues concerning taxpayer competency, honesty, capability and readiness are essential (Palil, 2010, p. 6). Taxpayer knowledge is crucial, as an insufficient level of tax knowledge may result in inaccurate tax returns and consequently, unintentional non-compliance (McKerchar, 1995, p. 40).

On the other hand, the nature of self-assessment permits taxpayers to manipulate their tax returns and this may result in non-compliance. Therefore, two factors are critical in encouraging voluntary compliance under a SAS: tax education and tax audits. In addition, the level of tax simplicity and use of tax agents may influence the level of voluntary compliance.

The tax education programme is one of many other official assistance measures taken by the tax authorities to improving the taxpayer's ability to comply under a SAS and is considered essential (Barr et al., 1977, p. 4). The tax education

programme is vital for the improvement of taxpayer awareness and understanding of their rights and responsibilities under a SAS. It is also intended to increase confidence in the system (Hanefah, 1998, p. 7). Previous studies have recognised the importance of tax knowledge in a SAS environment and its influence on taxpayer compliance behaviour (for example Eriksen & Fallan, 1996; Mohamad Ali, Hanefah & Mohd Noor, 2007).

Another important function of tax administration under a SAS is that of the tax audit. Tax audits are implemented by visiting taxpayer premises or through desk audits at the tax authorities' offices. With audits, the amount of income reported by taxpayers is checked by the tax authority and fines are imposed on taxpayers if they are detected to have underpaid their tax (Alm, Blackwell & McKee, 2004). Tax audits are the key characteristics of the voluntary compliance mechanism in a SAS regime because a higher probability of detection (through audits) normally leads to higher compliance (Allingham & Sandmo, 1972, p. 330).

Tax simplicity is another key factor in improving the level of voluntary compliance. The assumption is that taxpayers may voluntarily comply should they find the system easy and simple to follow. In identifying measures to simplify the tax system, many researchers analyse areas that taxpayers find too difficult (or complex) to comply with, and suggest mechanisms to overcome such difficulties. Rulings and guidelines to provide greater consistency and more certainty with less ambiguity should help reduce complexity (Loo et al., 2005, p. 710). In general, if a tax system is complex, it may confuse taxpayers or deter them from complying, intentionally or unintentionally.

In addition, tax agents play a particularly important role in a SAS by advising clients (taxpayers) and preparing tax returns using information provided by clients. In collecting and collating this information, tax agents usually carry out checks or ask questions to ensure the information is correct and consistent (Treasury of Australian Government, 2004, p. 74). Although the tax returns of some corporate taxpayers are

prepared by employees with the necessary tax knowledge, tax agents are still usually required to review the tax returns (Choong & Lai, 2009).

Corporate taxpayers, especially large businesses with international operations, are more likely to have highly complex tax affairs. They often have multiple sources of income and commercial arrangements that require substantial record keeping. These types of taxpayers need a detailed understanding of income tax law in order to discharge their responsibilities, and they frequently obtain advice from tax agents.

In short, the pillars for successful implementation of a SAS are tax education, tax audits, tax simplicity and tax agent representation. Each of these factors is discussed further later in this chapter.

2.5 Tax Compliance Studies

2.5.1 Introduction

Taxpayers who come forward of their own accord to comply with the tax laws are often motivated by a number of reasons. Thus, most research on tax compliance focuses on the question of why people comply (or do not comply) and centres on individuals and organisations. While research on individuals identifies factors that contribute to compliance (or non-compliance), research at the organisational level aims to formulate government strategies in improving compliance.

Research on tax compliance empowers tax authorities to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, allocate resources more efficiently and reduce the tax gap (Inland Revenue Services, 2007, p. 26). Compliant taxpayers benefit from this research as the tax authority uses up-to-date studies to improve audit selection strategy (thus reducing the burden of unnecessary audits) and this process enables tax authorities with a consistent level of resources, to collect more revenue.

The past forty years have seen an increase in the number of tax compliance studies. These studies have been conducted across many disciplines to examine the variables that affect compliance and non-compliance behaviour using various methodological approaches – surveys, laboratory and field experiments, analytical studies and regression models. Studies have found that taxpayer compliance is highly complex as it is influenced by many factors which are changeable and that differ over time and among districts, states and countries (Andreoni et al., 1998, pp. 855-856). Tax compliance studies are commonly grouped into the “economic approach” and the “behavioural approach” (James & Alley, 2000, p. 33). These two approaches are discussed below.

2.5.2 Economic Approach

The economic approach uses the basic theoretical model of the economics-of-crime (Becker, 1968). The model is used to develop public and private policies to combat illegal behaviour. According to Becker (1968), an individual who is inclined towards criminal behaviour will make decisions based upon the probability of detection and the level of punishment. Becker (1968) argues that for certain behaviours, fines have several advantages over other forms of punishment. For example, fines punish offenders and compensate society. Since tax evasion is considered an economic crime, fines are the most common and important form of punishment for this type of behaviour.

The first comprehensive model of tax compliance was developed by Allingham and Sandmo (1972). This model assumes that taxpayers will always maximise the expected utility of the evasion gamble. This is done by weighing the benefits of successful evasion against the risky prospect of detection and punishment. The model suggests that high penalties and audit probabilities increase tax compliance.

From thereon, nearly all economic approaches to tax compliance continued with this model (for example Graetz & Wilde, 1985; Dubin, Graetz & Wilde, 1990; Slemrod,

1992; Alm & McKee, 2004; Cowell, 2004; Wade, 2004). The economic model has provided plausible and productive findings to show that compliance depends upon audits and fine rates. In short, this framework suggests that taxpayers pay taxes because, and only because, of the fear of detection and punishment by the authorities.

Nonetheless, reviews of economic models and empirical research to identify factors influencing tax compliance found that, though economic models managed to identify the compliance factors, not all are supported by empirical research (for example Spicer & Thomas, 1982; Andreoni et al., 1998). For example, Baldry (1987) specifically tested the empirical validity of the economic theory of tax evasion and found that individual tax evasion behaviour is not only determined by the monetary value of expected gains, but is also influenced by “moral” factors in making decisions.

Similarly, other scholars such as Graetz and Wilde (1986) and Elffers (1991), noted that compliance cannot be explained entirely by the level of audit and penalty rates. It is asserted that the taxpayer’s perceptions of the tax system are a more appropriate basis on which to determine their compliance with decision-making, rather than compliance being based on their own self-interest (Lewis, 1982). In addition, many other factors that may have a significant impact on taxpayer compliance behaviour are not taken into consideration in the economic model, such as demographic characteristics and other psychological factors.

2.5.3 Behavioural Approach

Social scientists and policy makers have begun to realise that income tax evasion is a behavioural problem, which economic models have failed to explain entirely. Thus, insights from the behavioural perspective are valuable in reducing revenue lost from non-compliance and in promoting compliance in society. Research using the behavioural approach examines the attitudes and beliefs of taxpayers in order to predict actual behaviour. The basis of this approach is proposed by Ajzen and

Fishbein (1980) who state that attitudes are unbiased indicators of real behaviour. The behavioural approach examines tax compliance and evasion from sociological and psychological perspectives and emphasises the effect of social norms and individual attitudes in explaining compliance (or non-compliance).

Findings from the behavioural perspective suggest that demographic factors (such as age, gender, ethnicity, education) and social norms have a significant effect on tax compliance (for example Alm et al., 1995; Hite, 1997; Hasseldine & Hite, 2003; Rothengatter, 2005). In addition, the success of tax compliance also depends on cooperation between the individual and tax authorities (for example Feld & Frey, 2006; Frey & Torgler, 2007).

Studies from the behavioural approach have not only offered an alternative approach in understanding taxpayer compliance behaviour, but they have also provided a more comprehensive and practically useful method of investigating tax compliance, such as employing social surveys and experiments (Che Ayub, 1994). Moreover, social surveys have discovered that a taxpayer's decision to comply or not is determined by their "perceived" chances of detection rather than their "actual" chances of detection. Such perceptions can be revealed by direct questioning of taxpayers through surveys or interviews (Lewis, 1982).

2.6 Key Variables of Tax Compliance

2.6.1 Introduction

A seminal paper by Jackson and Milliron (1986) reviews and synthesises 43 major tax compliance studies, mostly conducted in the US from the 1970s to the mid-1980s. Jackson and Milliron (1986) identify 14 tax compliance variables (economic and non-economic) that are most commonly analysed in the tax literature. They also

discuss methodological issues and explore theoretical areas that may be beneficial in developing a conceptual framework for future tax compliance studies.³

The 14 variables identified by Jackson and Milliron (1986) are: age, gender, education, income level, income source, occupation, peer influence, ethics, fairness, complexity, revenue contact, probability of detection, sanctions and tax rates. These 14 variables are later classified by Fisher, Wartick and Mark (1992, p. 2) into four main categories: demographic (age and gender); those that proxy for non-compliance (income level, education, occupation, income source); structural (complexity, probability of detection, sanction, tax rates, revenue contact); and attitudinal (ethics, fairness and peer influence). Included among their conclusions and recommendations for future research in the tax compliance field is the call for the replication and extension of existing studies, the use of mixed methods approaches and comparative analysis studies between different taxpaying countries.

Building upon Jackson and Milliron's pioneering work, Richardson and Sawyer (2001) reviewed and synthesised over one hundred and fifty tax compliance studies published between 1986 and 1997, and they discuss the progress made following suggestions given in the earlier review. Unlike the earlier review, Richardson and Sawyer (2001) also include studies conducted in countries outside the US such as Australia, NZ, the UK and Europe. Five additional tax compliance variables are discussed in this review, namely compliance costs, tax preparers, framing, positive inducements and amnesties.

³ The theoretical areas explored are Prospect Theory, Deterrence Theory, Cognitive Structures Theory, and Agency Theory. In essence, prospect theory describes how decisions (prospects) can be dramatically influenced by the way in which they are presented or "framed". Deterrence theory investigates the deterrent effect of punishment threat on illegal or undesirable behaviour. Cognitive theory examines the assumption that "... tax compliance attitudes influence behaviour through behavioural intentions and that these intentions ultimately influence tax-paying behaviour..." (Jackson & Milliron, 1986, p. 154). Refer Jackson and Milliron (1986, pp. 151-155) and Sia (2008, pp. 42-51) for further details.

Combining the 14 tax compliance variables first identified by Jackson and Milliron (1986) and the five additional variables recognised by Richardson and Sawyer (2001), with grouping based on Fischer et al. (1992), an extended model of tax compliance variables is summarised in Table 2.3.

Table 2.3: Tax Compliance Variables

Demographic	Proxy for Non-compliance	Structural	Attitudinal
* Age * Gender	* Income level * Education * Occupation * Income source * Tax agents	* Complexity * Probability of detection * Sanctions * Revenue contact * Tax rates ^ Positive inducement ^ Tax amnesties ^ Framing ^ Compliance costs	* Ethics or morale * Fairness * Peers influence

Notes: The categorisation of the compliance variables is mainly based on Fischer et al. (1992). It is acknowledged that the classification of some of these variables may overlap.

** Compliance variables identified by Jackson and Milliron (1986).*

^ Additional compliance variables identified by Richardson and Sawyer (2001).

Despite extensive work conducted since 1985 to examine the variables that affect compliance, Richardson and Sawyer (2001) found that no conclusive findings have been derived relative to the earlier review. It is asserted that such inconclusive findings may be because there are many different variables that have been tested using various research methods and that these factors make the finding of consistent results difficult. The magnitude of certainty for the first 14 variables regarding compliance is shown in Table 2.4.

Table 2.4: Magnitude of Certainty of Compliance Variables

Increase in Certainty	No Increase in Certainty	No Change in Certainty
<ul style="list-style-type: none"> • Revenue contact • Sanctions 	<ul style="list-style-type: none"> • Age • Gender • Education • Income level • Occupation • Fairness • Complexity • Tax rates 	<ul style="list-style-type: none"> • Income source • Ethics • Detection probability

Source: Richardson and Sawyer (2001, p. 249)

Based on the above reviews, it is argued that considerable room remains for future research to provide additional insights into the relationship between tax variables and compliance behaviour. Furthermore, the strength of the economic and behavioural approaches should be integrated and employed simultaneously in order to better understand taxpayer compliance behaviour (Devos, 2007, p. 219).

As mentioned earlier,⁴ the four main determinants of taxpayer compliance in a SAS environment are tax education, tax simplicity (reduced complexity), tax agents and tax audits. The following sections discuss the main findings of these four variables as well as other key compliance determinants.

2.6.2 Tax Education and Knowledge

Tax education refers to a taxpayer's ability to comprehend income tax laws and it is identified as one of the variables that influence compliance (Jackson & Milliron, 1986, p. 132). In a self-assessment environment, it is particularly important that tax authorities maintain effective communication with taxpayers regarding their rights and responsibilities. One way of achieving this is through a tax education

⁴ Refer Chapter Two, Section 2.4.5.

programme. Tax education programmes are essential in creating awareness and a sense of responsibility among taxpayers (Witte & Woodbury, 1985; Roth et al., 1989), especially in developing countries where illiteracy rates are high (Mahfar, 1994).

The term “taxpayer education programme” varies in meaning from one country to another. It includes taxpayer assistance, taxpayer information services and taxpayer relations. In most cases, these terms can be used interchangeably. A common objective of these programmes is to encourage taxpayer compliance with the tax law. Experience from other countries and recommendations from the literature suggest that a successful taxpayer education programme should have four main objectives namely (Mahfar, 1994, p. 102):

- i) to create an awareness of the law by taxpayers;
- ii) to educate taxpayers about the law;
- iii) to motivate taxpayers to file returns and pay taxes voluntarily; and
- iv) to maintain a continuing close relationship between the tax authorities and taxpayers.

Tax knowledge and an understanding of the tax system are assumed to have an effect on the taxpayer’s perception of fairness of the system as well as affecting their attitudes towards compliance. The premise of this relationship is that a misunderstanding of the intent of the tax system is likely to result in a negative perception of the system. It is argued by a significant portion of taxpayers that the income tax system is perceived to be unfair. This perception may have been formed by distortion created through the media, and/or by the experiences of tax preparers or taxpayers (White, Curatola & Samson, 1990, p. 169). Kirchler, Hoelzl and Wahl (2008, p. 217) also argue that increased tax literacy through taxpayer services will increase the taxpayer’s trust in authorities and lead to a higher compliance rate.

Studies on the relationship between a taxpayer's knowledge of the tax system and their attitudes towards compliance show mixed findings. In a survey on public opinion of the tax system in Sweden, Vogel (1974) finds positive relationships between the taxpayer's knowledge of the tax system and their perception of fairness and compliance. He suggests that a deeper understanding of the benefits provided by taxation is one of the prerequisites to both positive attitudes about the tax system and appropriate fiscal behaviour (Vogel, 1974, p. 512). Similarly, a change in attitude towards taxation is found among survey respondents in the UK when the functions and purposes of taxation are presented to them (Lewis, 1979, p. 255).

Overall results of an experiment conducted in the US also show that completion of a formal education class in income taxation leads to an increase in an individual's perceptions of the fairness of certain elements in the income tax system (White et al., 1990, p. 177). Another experiment also shows that the perception of fairness by participants increased with improved tax knowledge (Eriksen & Fallan, 1996, pp. 397-398). In increasing overall fiscal awareness, it is suggested that tax courses are provided to accounting and non-accounting students in schools, colleges and universities. Nevertheless, findings from the above studies need to be interpreted with caution as students, including those who had never prepared their own tax return, were used as subjects.

Lack of tax knowledge consequently and usually results in unintentional non-compliance. A survey among 200 small business taxpayers in a rural Australian community shows that survey respondents do not have a satisfactory level of tax knowledge that applies to their businesses (McKerchar, 1995, p. 40). It also found that the level of tax knowledge is significantly different between turnover ranges, the length of time in business and across the range of taxes. However, the extension of these findings to other groups of business taxpayers cannot be assumed. Other studies show that increased tax knowledge has no significant impact on perception of fairness or tax compliance attitudes (Hasseldine & Kaplan, 1992; Tan & Chin-Fatt, 2000).

Thus, the effect of education on taxpayer compliance remains unclear. There are two main reasons given for these inconclusive findings. First, there can be difficulty in determining which aspect of education is being measured. A review of the literature shows that there are four common measures of education: i) the general degree of fiscal knowledge, ii) knowledge involving evasion opportunities, iii) general educational attainment and iv) specific tax knowledge (Richardson & Sawyer, 2001, p. 162). These different measures of education may assist in explaining the inconclusive effect that the education variable has on taxpayer compliance.

Secondly, correlations between education and other compliance variables may also have contributed to the inconsistent results. Other possible compliance variables that have been suggested to have a relationship with education are gender, income level, ethics and the taxpayer's perception of fairness, detection and sanctions. For example, it has been found that taxpayers with a higher level of education normally perceive the probability of detection and the threat of sanctions as low (Grasmick & Bursik, 1990; Smith, 1992).

In short, the relationship between tax knowledge and tax compliance is still uncertain. Therefore, more research is required to identify the strength of this correlation. Moreover, as tax education seemingly influences tax compliance in several dimensions, it is suggested that the incorporation of the education variable in future studies is paramount (Devos, 2007, p. 215).

2.6.3 Tax Simplicity

Tax simplicity appears to be a desirable feature of a tax system. When a tax system consists of predictable, clearly communicated and consistent rules that are well integrated with other tax rules, it consequently increases certainty (McKerchar, 2002b, p. 24). A simpler tax system reflects a reduction in complexity and is identified as one of the variables that affect tax compliance (Jackson & Milliron, 1986, pp. 186-188). An early study has shown that complicated tax returns, feelings

of uncertainty and demands for legal completeness are some of the tax complexities experienced by many taxpayers that subsequently deter them from complying (Vogel, 1974, pp. 512-513).

Many researchers aim to assist the tax authorities in simplifying the tax system by identifying areas of compliance where taxpayers experience difficulty with compliance. Accordingly, findings from studies on tax complexity facilitate the tax authority to design a system "... with a trade-off between the basic principles of equity, fairness, efficiency and simplicity that best fitted, given the purpose of taxation" (McKerchar, 2002b, pp. 26-27). A number of studies on tax complexity have been conducted by various researchers such as Long and Swingen (1987), Pope (1990) and James and Wallschutzky (1997).

Long and Swingen (1987, p. 25) first identified six dimensions of tax complexity:

- i) Ambiguity (uncertainties in tax laws that lead to more than one defensible position);
- ii) Computations (difficult computations that need to be made);
- iii) Changes (frequent or recent changes in law);
- iv) Detail (numerous rules and exceptions to rules);
- v) Record-keeping (detailed special records must be kept); and
- vi) Forms (format or instructions for forms are confusing).

Although these six dimensions of complexity are based on the expert judgments of tax professionals and not those of taxpayers, they provide a reliable and valid measurement of complexity that can be utilised in future studies. A subsequent study conducted by Long and Swingen (1988) demonstrates that the particular dimension of complexity has an impact on the tax complexity measurement, and further suggests that greater complexity increases non-compliance. Tax complexity may also be classified into legal simplicity (that is, readability and comprehensibility of the tax

law) and effective simplicity (that is, ability to determine tax liability correctly) (Evans & Tran-Nam, 2010, p. 249).

The issue of tax complexity and associated tax compliance costs has been widely debated and researched since the mid-1980s (for example Sandford, Godwin & Hardwick, 1989; Vaillancourt, 1989; Pope, 1993b; Tran-Nam, Evans, Walpole & Ritchie, 2000; Evans, 2003). Results of many of these studies suggest that tax complexity increases compliance costs. In addition, compliance costs are confirmed to be regressive in nature. Small firms are considered the hardest hit by tax compliance requirements as large firms enjoy economies of scale. The major policy implication of these studies is that tax authorities should address the issues of complexity in order to alleviate the tax burden (Tan, 1997, p. 339).

It is also found that tax complexity results in unintentional non-compliance. Using a multi-paradigm research method, McKerchar (2002b) concludes that both unintentional and intentional non-compliance could be minimised by reducing tax complexity. More recently, Richardson (2005) conducted an Ordinary Least Squares (OLS) regression analysis, examining the impact of 10 compliance variables, based on data from 45 countries. He found that complexity is the most important determinant of tax evasion across countries, and that tax compliance is low in countries with a complex tax system.

2.6.4 Tax Agents

In response to complex tax obligations, taxpayers often find it advantageous (in terms of lowering the time and anxiety costs associated with compliance) to seek assistance from tax agents (Erard, 1993, p. 163).⁵ Prior studies indicate that there

⁵ “Tax agent” is the term used in Malaysia that is similar to other terms such as “tax professional”, “tax preparer” or “tax practitioner”. For the purposes of this study, these terms have the same meaning – a qualified/registered accountant charging clients for attending to their tax affairs.

are a number of reasons for tax agent engagement which include: educating taxpayers on their rights and responsibilities, informing company directors of relevant tax laws, updating taxpayers on a regular basis and guiding taxpayers whenever there are problems with taxation (for example Slemrod & Sorum, 1984; Dubin, Graetz, Udell & Wilde, 1992).

Tax agents also play a critical role in, and have a positive influence on compliance with the tax system by small companies. For example, tax agents are found to play an extremely important role in assisting small businesses with their tax obligations, especially in the handling of more difficult tax affairs (Tan, 1997, p. 347). In Canada, a study that employs a panel of specialists found that three reasons small companies seek the assistance of a tax agent are: lack of technical knowledge to complete the tax return, concern about changes to a system with which they are not familiar, and saving time and money by having accounting specialists complete the return in the most efficient manner (Plamondon & Associates Inc., 1996, p. 6). Similarly, a survey of small business organisations in the US shows that the most important motivations for taxpayers seeking the assistance of tax agents are: having their tax returns prepared correctly, avoiding serious penalties, paying the least tax required and reducing the chances of being audited (Hite, Stock & Cloyd, 1992, p. 21).

Findings from a national sample of US individual tax returns confirm previous studies which show that tax agent assistance is positively associated with those on a high-income, elderly and self-employed persons, and that paid-preparer returns have lower tax liabilities than self-prepared returns (Long & Caudill, 1987, p. 43; 1993, p. 515). However, a survey by Collins, Milliron and Toy (1992) shows slightly different results in that tax agent representation affects the significance of other variables. For instance, they found that those on a lower income were found to be significantly non-compliant, but only where survey participants engaged tax agent services.

Prior studies also suggest that tax agent representation during a tax audit is essential as this may influence the amount of the final tax assessment. For example, the final assessment from tax audits was found to be significantly less by 40 percent for taxpayers who were represented by tax agents (Nichols & Price, 2004, p. 39). It was also found that CPA-prepared returns resulted in fewer audit adjustments than non-CPA-prepared returns (Hite & Hasseldine, 2003, p. 12). However, in examining the likelihood of being audited, among practitioner-prepared returns and self-prepared returns, no significant difference was found (Hite & Sawyer, 1998, p. 155). This latter study also found that tax investigators perceive the likelihood of an audit on CPA-prepared tax returns to be significantly higher than a return prepared by a commercial tax service preparer (Hite & Sawyer, 1998, p. 156).

With many countries moving to a SAS, the role of tax agents is becoming more important for two main reasons (Vos & Mihail, 2006, pp. 75-76). First, taxpayers place greater reliance on tax agents in helping them to understand the law and to correctly determine how it applies to the taxpayer's circumstances. Secondly, the assessment of many taxpayer returns is effectively undertaken by tax agents. In Australia, tax agents have been playing a larger role in the tax compliance and tax audit process since the implementation of a SAS (McKerchar, 2005, p. 532). For example, 73 percent of individuals and 94 percent of companies chose to use tax agents in 2005. As at 31 July 2005, the number of registered tax agents in Australia was 25,965. Of these, 83 percent were active tax agents and 45 percent had 100 or more clients (Walpole, 2009, p.15).

In short, tax agents play an important role in tax compliance as they assist taxpayers to meet their tax obligations. It is further asserted that tax agents also assume the duty of tax officers under a SAS. Thus, tax agents often play a dual role; firstly as advocates for their taxpayer clients by finding the most advantageous position for their clients, and secondly in their role to do their duty by the tax authority by promoting compliance with the tax laws (Tan & Sawyer, 2003, p. 10). Tax agents are therefore in a position to exert a strong and direct influence on taxpayer

compliance and the tax administration process (Erard, 1993, p. 163). Further research to clarify the agent's role in shaping taxpayer compliance behaviour in an SAS environment, particularly in developing countries, is thus vital.

2.6.5 Tax Audits

Tax audit programmes are the most common enforcement activity carried out by many tax authorities under a SAS. A tax audit programme refers to the examination of a taxpayer's business records and financial affairs to ascertain that the right amount of income has been declared and that the right amount of tax be calculated and paid in accordance with tax laws and regulations. Tax audits play a number of important functions, that if effectively carried out, can make significant contributions to improve the administration of the tax system (OECD, 2006b, pp. 8-9). The functions include:

- i) The promotion of voluntary compliance by taxpayers by reminding them of the risks of non-compliance and by generating confidence in the broader community that serious abuses of tax laws will be detected and appropriately penalised;
- ii) The identification of areas of the law that require clarification and areas that cause confusion to large numbers of taxpayers;
- iii) The identification of improvements required for record-keeping which in turn may possibly contribute to improved compliance by taxpayers in the future; and
- iv) The representation of the "public face" (tax auditors) of a revenue body through their numerous interactions with taxpayers during the audits (OECD, 2006a, p. 5).

Generally, tax audits act as a deterrent to non-compliance. Bentham (1843, as stated in Devos, 2007, p. 184) differentiates between specific deterrence (which discourages the offender from repeating their offence) and general deterrence (which

dissuades the potential offender from committing an offence). General deterrence refers to a “spillover effect” from audits, which Dubin, Graetz and Wilde (1990, p. 395) define as “an increase in collections from taxpayers, whether or not they are audited, who report more taxes due in response to an increase in the likelihood of an audit.”

A standard assumption among both principal-agent⁶ and game-theoretic⁷ models is that taxpayers only experience the cost of being audited if they are found to have underreported their income. However, in practice, audits can result in considerable costs, even to honest taxpayers (Andreoni et al., 1998, p. 833). These costs include the time burden of documenting one’s claims and meeting with tax authorities, as well as the financial cost of hiring professional assistance. Further, many taxpayers experience a considerable level of anxiety at being audited. Feelings of self-interest and suspicions between tax auditors and taxpayers often create an atmosphere of extreme anxiety and unpleasantness, especially on the part of the taxpayer. Therefore, it is likely that many taxpayers will improve their compliance if they perceive a high audit rate (Plumley, 1996, pp. 35-36).

For instance, when utilising TCMP data to estimate the effects of changes in audit rates on the reported income of individual taxpayers, a reduction in audit rates over the period 1977 to 1986 led to a significant decline in tax compliance, measured by income tax revenue (Dubin et al., 1990, p. 406). Similarly, Kamdar (1997, p. 46) supports the view that audit rates have a positive and significant effect on compliance. In a more recent study, Alm (2007) concludes that the findings of the

⁶ This model generates an audit selection rule typically referred to as a “cut-off rule”, where the tax agency announces that any taxpayer reporting less than some minimum, or cut-off, level of income will be audited with certainty. If the taxpayer reports more than the cut-off level, then he or she will not be audited and only pay the reported tax liability.

⁷ This model assumes that the taxpayer and the tax agency interact in a sequential-move game. The equilibrium of the game (known as “Bayesian Nash”) is one that specifies a simultaneously determined strategy for both participants: for the taxpayer, the amount or the probability of underreporting, for the tax agency, the probability of audit.

above studies are consistent with a significant, though diminishing, deterrence effect of higher audit and penalties rates.

The economic models of tax evasion also suggest that the optimal proportion of tax evaded varies negatively with the probability of audit (Allingham & Sandmo, 1972). Though it is questionable whether taxpayers actually make the burdensome calculations to determine whether to evade or to comply, Spicer and Thomas (1982, p. 242) argue that taxpayer responses to different audit probabilities support economic models of tax evasion. In addition, the taxpayer's subjective perceived probability and its interpretation are more important than the objective audit probability (Tittle & Logan, 1973; Andreoni et al., 1998; Kirchler et al., 2008). Unfortunately, there is little empirical evidence on taxpayer attitudes to audit probability.

Studies on the relationship between the extent of taxpayer information about audit probability and their tax compliance show mixed results. For example, while an earlier study reported that imprecise information about the probability of being audited increased tax compliance (Friedland, 1982), other studies show that imprecise information reduces tax compliance (Spicer & Thomas, 1982; Alm & McKee, 2006). Indeed, taxpayers who were informed of zero audit probability reduced their compliance; taxpayers who were informed of a different level of audit probability reacted positively to compliance. Findings from the studies also suggest that taxpayers might improve compliance if both audit rate and perception of audit probability were high.

Accordingly, Snow and Warren (2005, p. 865) argue that "...fostering uncertainty about the probability of being audited may not be an effective policy for increasing taxpayer compliance." However, a survey conducted by Slemrod, Blumenthal and Christian (2001) report mixed results in their study. They discovered that upon receiving a "threat of audit", low and middle-income taxpayers increased their compliance, but high-income taxpayers reduced their compliance. Since the

probability of audit is subject to government control and manipulation, its influence has important tax policy implications.

The interaction between tax auditors and taxpayers is also recognised as an important element that influences the taxpayer's decision to comply, but research findings are still unclear. On one side, tax audits lead to greater tax compliance. For example, Kinsey (1992) and Spicer and Lundstedt (1976, p. 300) found that the net effect of personal contact with Inland Revenue Service (IRS) officers resulted in a greater willingness to comply with the tax laws. Reports from experimental studies also show that future compliance improved significantly in the later rounds of experiments among those participants who had been audited in earlier rounds (for example Spicer & Thomas, 1982; Webley, 1987).

On the other hand, a comparative study of European tax structures shows that countries with intensive enforcement activities have the lowest compliance rate (Feld & Frey, 2007, p. 108). Similarly, studies based on actual audit data suggest that audit experience has little effect on future compliance behaviour (Erard, 1992, p. 113). One possible explanation of this effect is that audits may not turn out as badly as taxpayers initially fear. For instance, taxpayers may conclude that "cheating" is beneficial if the audits fail to uncover evasion or the penalty imposed for non-compliance is too little.

An early survey that examined taxpayer attitudes was conducted on 640 individuals in eastern North Carolina (Song & Yarbrough, 1978). Findings from the survey showed that the process of being audited is assumed to be a disturbing experience, occurring in a hostile atmosphere and, to most taxpayers, in an unfamiliar setting. However, 80 percent of the survey respondents who had been audited reported that the tax audit process had been extremely pleasant considering the circumstances. Only a small fraction (3.5 percent) reported that the experience was extremely unpleasant. It is uncertain if the findings are a consequence of the superior performance of tax auditors in the survey area, or simply evidence that conventional

beliefs about the nature of the audit experience are actually unfounded and unwarranted.

Tax audits may also have negative effects on compliance. For example, taxpayers may find the audit experience to be a negative one, and thus this would make them want to evade more audits in future in an attempt to “get back” at the tax authority (Andreoni et al., 1998, p. 844). Moreover, tax audits are probably effective in deterring evasion among honest taxpayers, but not as effective on those who will try to occasionally evade tax or those who are habitual evaders (Hessing, Elffers, Robben & Webley, 1992). For example, strategic tax evaders who are exposed to tax audits may learn to develop more effective non-compliance strategies in the future (Erard, 1992, p. 107).

In short, the quality of a taxpayer’s audit experience, either positive or negative, may have an influence on their subsequent reporting decisions. The way a tax authority treats the taxpayer during an audit may influence future levels of tax compliance (Wallschutzky, 1984, p. 383). Thus, another factor that possibly influences compliance is the attitude of the tax auditor.

Tax auditors play a critical role in the effectiveness of the tax administration in many countries. In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex tax laws and carry out extensive examinations of taxpayer books and records (OECD, 2006a, p. 5). The numerous roles assigned to tax auditors require the recruitment and empowerment of tax auditors with technical knowledge, audit skills and tacit knowledge (McManus, 2006, p. 228).

The attitudes of tax auditors during the conduct of an audit may influence taxpayer compliance behaviour in the future. For example, if taxpayers are treated with respect during the audit, they may have a stronger incentive to comply voluntarily (Kirchler, 2009, pp. 84-85). On the other hand, arbitrary audit procedures can leave

taxpayers feeling helpless and thus reduce their intrinsic motivation to comply (Frey, 2003, p. 392). Fairness in procedures may positively influence compliance behaviour (Smith, 1992; Braithwaite, 2007).

Procedural fairness is concerned with the ways and procedures of reaching a decision (Wenzel, 2003, p. 45). This refers to a procedural neutrality that encompasses trustworthiness of the authorities, politeness, respect for rights, and treatment with dignity (Tyler, 1994, p. 853). The procedural fairness in tax compliance includes: i) the quality of treatment in interactions between taxpayers and tax authorities, ii) the degree to which taxpayers have a say (voice and control), iii) the extent and quality of information provided by tax authorities and iv) compliance and administration costs (Wenzel, 2003, p. 54).

Stalan and Lind (1997) compare how taxpayers and their representatives judge procedural fairness after being audited by the tax authority. Respondents who mentioned in their open-format evaluations that they had been treated respectfully, rated the auditor as procedurally more fair than those who did not mention receiving respectful treatment. However, the study did not comment on whether perceived fairness has any implications for compliance behaviour. More research is required to analyse the influence of tax authority contact on tax compliance.

Few other dimensions of fairness have also been studied such as overall fairness, exchange fairness, horizontal fairness, vertical fairness and administrative fairness. In terms of exchange fairness, findings from a postal survey among New Zealanders suggest that the tax authority and policymakers should pay more attention to providing the necessary facilities or infrastructure (such as education, health and social welfare) to taxpayers, in return for their tax paid (Saad, 2011b, p. 23). However, an earlier study found that only horizontal fairness seems to have a significant influence on the compliance behaviour of Malaysian individual taxpayers (Saad, 2010, p. 59).

To summarise, the economic deterrence models of tax compliance have highlighted the influence of tax audits on an individual's compliance behaviour. Many tax authorities under a SAS regime employ tax audits as a major tool to increase tax compliance. Although audit rates, audit probability, audit experience and tax auditors' attitudes have some influence on taxpayer compliance behaviour, the findings to date are still inconclusive. As most of these existing studies are conducted on individual taxpayers, little is known about the influence of tax audits on corporate taxpayers. As suggested by Lavermicoca (2008, p. 211), further research is required to examine the influence of tax audits on corporate taxpayers' compliance behaviour.

2.6.6 Other Key Compliance Variables

The age of the taxpayer is often one of the most important determinants of tax compliance (Jackson & Milliron, 1986, p. 130; Richardson & Sawyer, 2001, p. 156-159). Studies find that older taxpayers are generally more compliant than younger ones (for example Tittle, 1980; Witte & Woodbury, 1985; Dubin & Wilde, 1988). It is argued that the relationship between age and compliance is attributable to both lifecycle and generational differences (Tittle, 1980). In addition, different behaviours reflect social and psychological differences attributable to the period in which the taxpayer was raised. However, a sizable number of studies provide support for the position that age has no significant effect on compliance. One possible explanation for the inconsistent findings on the importance of age includes that age may be a significant variable for specific classes of income only (Richardson & Sawyer, 2001, p. 157).

Survey data from a randomly chosen group of people was used to analyse tax evasion by using hypothetical questions (Orviska & Hudson, 2003). It was concluded that older people are more likely to be compliant because they tend to feel that tax evasion is wrong and in some cases there is an apparently greater fear of the consequences of being caught (such as financial penalties and loss of reputation).

Other studies also support the view that younger taxpayers are less compliant than older taxpayers due to an “ageing-out” perspective (Wearing & Headey, 1997; Braithwaite, Smart & Reinhart, 2006). For example, as the individual becomes older, non-compliance appears less justifiable. Thus, civic duty (that is, motivation to comply partly because of concern and loyalty to the country) may also influence the taxpayer’s degree of compliance.

In another study that employs the 1969 TCMP tax file, the youngest and oldest segments of the population were found to have the highest degree of compliance (Clotfelter, 1983, p. 368). Jackson and Milliron (1986, p. 131) commented that the likely reason for Clotfelter’s finding is that the younger non-compliant taxpayers (who may have not filed a tax return) are under-represented in the TCMP data. It is also probable that younger taxpayers are more willing to take risks and are less sensitive to penalties. In contrast, other studies find that age has no significant effect on compliance (for example Hite, 1988; Porcano, 1988; Collins et al., 1992). Overall, it is shown that the influence of age on compliance remains an unresolved issue.

Income level represents an additional key compliance variable (Jackson & Milliron, 1986, p. 133). Nonetheless, there is no certainty of the effect of income level on compliance. While some studies find income level is positively correlated with compliance (for example Smith, 1992), other studies show that middle income taxpayers are generally compliant with tax laws while low and high level income taxpayers are relatively non-compliant with tax laws (Witte & Woodbury, 1985, p. 9). A nationwide survey of Swedish taxpayers shows that people with higher incomes are less compliant because they receive less social benefits in return for tax paid (Vogel, 1974, p. 500). Several reasons are linked to the mixed research findings, including applicable tax rates, and level of education, which is often correlated with income level. Studies conducted after 1985 also failed to clarify the status of income level as compliance variable (Richardson & Sawyer, 2001, p. 166).

Additional evidence regarding compliance behaviour based on cross-country data is also crucial for understanding tax compliance. For example, a cross-country analysis of data from OECD, transition and other countries indicates that tax rates negatively affect tax compliance once allowance is made for the potential endogeneity of tax rates (Wu & Teng, 2005). Moreover, tax compliance is found to increase with lower income, less corruption and higher efficiency of government expenditure (Wu & Teng, 2005, p. 413).

To sum up, the major determinants of tax compliance have been identified but to date, the influence of each variable has yet to be fully understood. For example, research shows mixed findings and that some variables have received a significant increase in research attention (ethics, fairness, income level and the probability of detection), while others (occupation and revenue authority contact) have received little attention (Richardson & Sawyer, 2001, p. 49). In addition, most of the tax research centres on individual taxpayers; thus, there is limited knowledge of the determinants of corporate taxpayers' compliance variables. Whether or not these compliance variables have similar effects at the firm level is still an open question (Blackwell, 2000, p. 42). The following section focuses on compliance studies of corporate taxpayers.

2.7 Corporate Tax Compliance Studies

2.7.1 Introduction

As stated above, only a few studies have been conducted on corporate taxpayers. The main reason researchers have devoted their studies to individuals may have resulted from the fact that tax revenue generated from this group of taxpayers represents a major single contribution to government. For example, in the US, Australia and the UK, individual tax contributes around 50, 46 and 34 percent of the total tax revenue collection, respectively (HM Revenue & Customs, 2008, p. 8; Australia Taxation Office, 2009, p. 14; Inland Revenue Services, 2010, p. 3).

Unlike individual taxpayers who are easier to survey, research on corporate taxpayers is more difficult as it involves many legal requirements that protect the confidentiality of corporate tax returns (Chan & Mo, 2000, p. 470). In addition, corporate income tax compliance micro-data in the US has only been made available to the research community for analysis since the early 1990's, (Rice, 1992, p. 126). To the best of the researcher's knowledge, less than ten studies have examined corporate taxpayers' compliance behaviour to date. Most of these studies analyse the relationship between corporate characteristics and tax compliance in the US, mainly using the TCMP data provided by the IRS. The following sections discuss the key findings from main corporate tax compliance studies.

2.7.2 Key Corporate Tax Compliance Studies

The first empirical study on corporate tax compliance was conducted by Rice (1992), who examined the TCMP data of small corporations (with assets of between US\$1 and US\$10 million). He reported that compliance is positively related to being a publicly traded company and company in a highly regulated industry, such that characteristics that assure public disclosure of information tend to encourage better tax compliance. He also found that the more profitable corporations are relatively less compliant. Finally, Rice showed that firm size and tax compliance are not positively related but that the higher the amount of a firm's turnover, the greater the reporting gap. It is worth noting that Rice's findings are confined to small corporations only (Rice, 1992, pp. 151-153).

In a case study which audited large companies in the manufacturing industry, using confidential data from tax returns and tax audit results for both private and public firms, Mills (1996, 1998) studied the correlation between tax deficiencies and book-tax differences. It was found that the excess of book income over taxable income is positively related to proposed audit adjustments. An earlier study suggests that when book-tax differences are greater, audit probabilities increase and the probability of successful defence against the IRS decreases (Cloyd, 1995, p. 60).

Attempting to examine the magnitude and determinants of corporate income tax non-compliance in the US, Kamdar (1997) analysed aggregate time series data. The data was collected from IRS annual reports (1961-1987) and augmented with data from IRS economic and statistics reports. While the data showed that corporations are audited more extensively than individuals, it also showed that lower marginal tax rates and penalties have no influence on improved compliance. More importantly, the results strongly support the assertion that corporate audits have a significant deterrence effect on corporate taxpayers, and greater audit coverage could lead to substantial increases in revenue. Kamdar also believes that there are differences in the compliance behaviour of small, medium and large corporations. For example, large corporations are usually publicly traded and information disclosure requirements may make it more difficult to evade tax.

Another study using TCMP data, examines the relationship between the tax reporting behaviour of companies and the personal tax returns of their managers (Joulfaian, 2000). Using the understated personal taxes of the managers as a proxy for managerial preferences, the study demonstrated an intriguing finding. It was found that non-compliant companies were three times more likely to be managed by non-compliant executives, even when the measure of personal non-compliance excluded business-related income. Similar to the results of Rice (1992), the results of this study are based on small corporations only. Thus, the extension of this finding to other groups of corporate taxpayers cannot be presumed.

Hanlon, Mills and Slemrod (2007) conducted some exploratory analysis using data sets of audit and appeal records, matched with the tax returns and financial statements of several thousand corporations in the US. Among other variables, the size of a company was found to be positively correlated with non-compliance. However, combined with other information, corporate tax non-compliance is U-shaped, suggesting that medium-sized companies have the lowest rate of non-compliance. Although this exploratory research has many inherent limitations, such as data representativeness and accuracy, Bankman (commentator to Hanlon et al.,

2007, p. 211) concludes that this study offers some intriguing results regarding the relationship between a measure of identified corporate tax non-compliance and various corporate characteristics, including size, ownership, international transactions and governance structure. Another study that examines data sets from New Mexico's Department of Taxation and Revenue found that firms that are larger, older and have less complicated tax situations are more compliant than firms that are smaller, younger and have more complicated tax situations (Blackwell, 2000, pp. 67-68).

Outside the US, the number of corporate tax compliance studies is limited. In China, a study was conducted using 583 tax audit cases provided by the Chinese tax authority. Its purpose was to examine the effect of "tax holidays" on foreign investor tax non-compliance (Chan & Mo, 2000). The study shows that companies that are in a "pre-holiday period", which are domestic market-orientated joint ventures and service oriented, are less compliant companies. However, these samples were restricted to foreign investment companies.

An empirical evaluation of a number of determinants of tax evasion by firms in 23 transition countries was conducted by Nur-Tegin (2008). Utilising both traditional and non-traditional factors, the degree of business tax evasion is found not likely to be reduced by lower tax rates. However, strong empirical evidence suggests that corruption has a negative effect on tax compliance. Therefore, it is recommended that policymakers should devote a greater proportion of their energy and resources to fighting corruption.

To summarise, studies on corporate income tax are very limited and mainly conducted in the US using the TCMP data. Although many tax researchers (for example Rice, 1992; Slemrod, 1997; Joulfaian, 2000) have acknowledged that prior tax compliance studies on individuals provide a formal framework for the analysis of corporate tax compliance decisions, Kamdar (1997) argues that further work is necessary before drawing any conclusions on corporate tax compliance behaviour. In

addition, Chan and Mo (2000, p. 470) claim that as corporate non-compliance requires multiple parties to behave strategically, evidence of individual tax non-compliance behaviour cannot be directly generalised to explain corporate tax behaviour. Other non-human factors that are applicable to corporate taxpayers need to be considered, such as business profile, industry and economic elements (OECD, 2004, p. 40).

2.8 Malaysian Tax Compliance Studies

2.8.1 Introduction

Tax research in Malaysia started its development in the mid-1990s, but the number of tax compliance studies has increased considerably in the last few years. The transition of the tax assessment system from an OAS to a SAS is possibly the major motivation for academics to venture into tax compliance research. Similar to international trends, Malaysian studies also focus on the income tax of individual taxpayers.

These studies can be grouped into research that analyses tax administration and studies that examine the determinants of taxpayer compliance behaviour. Research findings that have developed our understanding of Malaysian tax compliance are discussed next.

2.8.2 Studies on Tax Administration

Two of the first Malaysian tax studies were carried out by Mahfar (1994) and Che Ayub (1994), currently acting as Director General and Deputy Director General of the IRBM,⁸ respectively. As part of the Malaysian government's efforts toward

⁸ As at 27 April, 2012.

improving its efficiency and encouraging voluntary compliance, Mahfar (1994) focused on developing components of a taxpayer education programme for Malaysia, based on the experiences of over ten countries. Three important components of tax education programmes have been proposed, namely organisational arrangement, modes of communication and special programs.

Mahfar's proposals included: i) establishing one special unit within the IRBM (then known as the IRD) to be solely responsible for the education programme, ii) utilising multiple means to communicate with taxpayers such as: printed materials (tax publications and pamphlets), media (television, radio and newspaper), and student/community volunteer programmes. In addition, a "Problem Resolution Programme" was seen as necessary, to provide assistance to taxpayers who may have had any difficulties in their dealings with the tax authority (Mahfar, 1994, pp. 128-130). To date, most of these proposals have been undertaken by the IRBM. However, further research is necessary in order to assess the effectiveness of these programmes.

In view of the implementation of a SAS in Malaysia, Che Ayub (1994) explored tax administration systems that were based on voluntary compliance. In her research, she identified methods and practices of achieving a high level of voluntary compliance, and highlighted the problems and issues faced by other tax agencies in administering tax law. In addition, a questionnaire survey was employed to examine the perceptions of IRBM officers and tax agents towards the tax administration system and to identify the evasion determinants of individual taxpayers in Malaysia.

Some key results of her study are extracted below (Che Ayub, 1994, p. 203):

- i) Only taxpayers who have college, university or professional qualifications know how to calculate their own income taxes.
- ii) Generally, the literacy level of Malaysian taxpayers regarding their own tax matters is about average.

- iii) In order to increase taxpayer awareness and knowledge of taxation, especially regarding their own tax affairs, the tax authority should simplify tax returns and forms, provide free publications and information on how to calculate taxes and give easy access to all information needed by the taxpayers.
- iv) Taxpayers will only comply voluntarily with the tax law if their attitudes, ethical conducts and honesty toward taxation is improved or changed.
- v) Tax officers emphasise that tax education and tax simplification improves voluntary compliance, while tax agents suggest introduction of positive inducements to attract taxpayers to comply with tax laws.
- vi) Tax officers believe the root of non-compliance is taxpayers' negative attitude towards taxation, whereas tax agents feel that the lack of ability to comply with tax laws is the issue.

To summarise, Che Ayub argues that improved voluntary compliance can be achieved mainly by providing tax education programmes to current and future taxpayers (such as students at secondary and tertiary levels) and by making improvements to taxpayer services.

In another related study, Hanefah (1996) investigated the efficiency and the productivity of the Malaysian tax system under an OAS, with a view to implementing an SAS. The Malaysian tax system is found to be generally efficient in collecting revenue when compared with Japan, Australia and NZ. Unfortunately, a trend analysis also shows that the overall efficiency rate is declining. Possible reasons to support the latter finding are the economic growth experience of Malaysia and the tax reforms undertaken by the government in 1988 (Hanefah, 1996, p. 195).

When the government proposed the introduction of a SAS in the 1999 Budget, Singh (1999) analysed the various issues related to direct and indirect taxation including: corporate taxation, basis year of assessment, incentives and exemptions. Other studies have examined the competency of salaried individuals in complying with a SAS (Kasipillai, 1999; Loo & Ho, 2005; Madi et al., 2010). Findings from these

studies show that very few salaried individual are able to demonstrate high tax literacy, the majority of them are not aware of the implementation of a SAS, most of them still prefer the IRBM to assess their tax liabilities, and their overall tax knowledge is considered relatively low.

Other Malaysian researchers mainly focus their studies on identifying determinants of compliance behaviour under a SAS. The following sections discuss key findings from these studies.

2.8.3 Studies on Tax Compliance Variables

2.8.3.1 Tax Knowledge

Similar to international studies, previous research in Malaysia on the effect of tax knowledge on compliance behaviour has produced conflicting results. The most recently published study was conducted by Palil (2010). The study involved identifying the characteristics and levels of tax knowledge of individual taxpayers and examined the association between tax knowledge and tax compliance behaviour under a SAS. Both hypothetical and direct questions were used as proxies of tax compliance behaviour. As suggested by many researchers (for example Jackson & Milliron, 1986; Andreoni et al., 1998; Richardson & Sawyer, 2001), the study, which involved a nationwide survey, provided greater and more comprehensive coverage in its sample of subjects than other studies. The usable responses totalled 1,073, representing a 20 percent response rate.

In Palil's study, younger taxpayers and lower income earners were shown to be less knowledgeable about tax matters. Palil (2010) suggests that younger taxpayers, who generally earn lower incomes, are new to the tax system and that they have a less developed sense of a moral obligation to pay tax (Palil, 2010, pp. 366-367). Although an individual's general education does not significantly influence

compliance, respondents who attended tax courses showed significantly higher levels of tax knowledge.

To summarise, Palil's study provides empirical evidence that in maximising the impact of education programmes, the tax authority should focus more on "... female, ethnic groups other than Malays (that is, Indian and Chinese), lower income earners, those residing in regions other than north east, those who never attended tax courses and younger taxpayers." (Palil, 2010, p. 368). In addition, other significant determinants (and relationships) that influence tax compliance are: the probability of being audited (negative), perceptions of government spending (positive), financial constraints (negative), and the influence of reference groups (negative) (Palil, 2010, p. 370).

Another study that employed mixed methods design, consisting of a survey, an experiment and a case study, analysed the influence of the introduction of a SAS and the determinants of the compliance behaviour of individual taxpayers (Loo, McKerchar & Hansford, 2009). The results demonstrate tax knowledge to be the most significant factor in determining an individual's compliance behaviour. The findings show that taxpayers will comply if furnished with adequate tax knowledge, and that taxpayers comply more effectively when they have greater tax knowledge. Loo et al. (2009) argue that in order for taxpayers to discharge their obligations under a SAS, adequate tax knowledge is required in computing tax liabilities (with reasonable accuracy) and completing tax returns. In short, it is shown that tax knowledge is positively correlated with compliance.

On the contrary, an earlier interview survey of 312 individual entrepreneurs in the Northern Peninsular region of Malaysia shows that tax knowledge and attitudes toward IRBM effectiveness have no relationship to compliance behaviour (Ramasamy, Ramayah, Haron & Ang, 2003). Another study conducted in East Malaysia shows that taxpayers in cities are more tax literate than those in the surrounding suburban areas (Kamaluddin & Madi, 2005, pp. 80-81). Unfortunately,

the geographical coverage of both studies limits the possibility of generalising these findings.

In short, most studies show that tax knowledge is an important compliance determinant under a SAS. The characteristics of taxpayers with lower tax knowledge have been identified and some appropriate measures to improve their tax knowledge have been undertaken by the IRBM. However, all these studies have focussed on individual taxpayers and thus the level of corporate taxpayer tax knowledge and its influence on compliance behaviour is not known.

2.8.3.2 Tax Complexity

Hanefah and Al-Mureshi (1991, pp. 14-15) show that Malaysian Small and Medium Enterprises (**SMEs**) have difficulty in managing their businesses according to the tax laws; specific difficulties were reported as being in the areas of record maintenance for business and taxation purposes. Lack of proper record keeping can lead to small businesses failing to comply with business taxation requirements (OECD, 2008, p. 17). Likewise, a survey among individual taxpayers shows that tax law complexity existed even before the introduction of a SAS in Malaysia, and complexity is recognised as one of the factors that deter compliance (Hanefah, 1996, p. 203). The highest ranked complexities perceived by Hanefah's survey respondents were record keeping, too much detail in the tax law, and ambiguity (1996, p. 173) .

The Malaysian business tax system appears to be becoming increasingly more complex, especially with the introduction of a SAS (Hanefah, Ariff & Kasipillai, 2001, p. 96). Possible explanations of the increased complexity are major changes to tax laws in 1998 and 1999 to accommodate the introduction of a SAS in 2000. This is further supported by a study conducted by Ramasamy, Thuraisamy, Haron and Ang (2003) that suggests the reason for ignorance of tax laws may be associated with an inability to understand the complex nature of tax laws.

Although the IRBM issues rulings and guidelines to assist taxpayers with information on the application of the tax laws, Pope and Abdul-Jabbar (2008, p. 57) point out that a growing list of Public Rulings may further increase tax complexity. Instead, Pope and Abdul-Jabbar (2008) suggest that the IRBM issue a Private Ruling or an Advance Ruling that applies to specific taxpayers and a “proposed arrangement”, similar to the current practice adopted by Australia and Singapore. In the same study, Pope and Abdul Jabbar (2008, p. 50) report that many small corporate taxpayers do not concern themselves with book keeping and tax documentation requirements.

More recently, a survey among SMEs showed that the three most difficult tax-related areas experienced are: estimating income tax payable, understanding income tax legislation and the increasing burden of record keeping for tax purposes. On the other hand, the three least difficult tax-related areas are: dealing with tax agents, maintaining records for income tax purposes and dealing with the IRBM (Abdul-Jabbar, 2009, p. 118). Continuous measures to reduce tax complexity should be undertaken by the IRBM for three main reasons: to lower both compliance and administrative costs, to reduce the uncertainty faced by taxpayers, and to improve the level of voluntary compliance (Kasipillai, 2005, p. 26). Thus, more research is required to highlight the complex issues faced by many taxpayers, and to support the IRBM’s policy of simplifying the overall tax system.

2.8.3.3 Tax Agents

As shown by international literature, tax agents play a major role in taxpayer compliance decisions, particularly in a SAS environment. The first Malaysian survey focusing on tax agents was conducted in 1999, and it examined agents’ views and preparedness around the introduction of a SAS in Malaysia (Kasipillai & Hanefah, 2000). Findings from the study showed tax agent preferences for a simpler and fairer tax system and the need for tax officers to be more helpful in addressing tax issues (Kasipillai & Hanefah, 2000, pp. 117-118). In addition, it was found that

tax agents in State/Regional/National practice are more aggressive in taking advantage of tax loopholes to minimise taxpayer income tax liability, as compared to tax agents that are attached to the “Big 5”, and small practicing firms (Kasipillai & Hanefah, 2000, p. 119).

A more comprehensive study was conducted by Abdul (2001) to identify the characteristics of individual tax evaders. It has been reported that although a list of approved tax agents is provided by the IRBM, some taxpayers seek the services of unapproved tax agents who charge a lower rate. These unapproved tax agents are obviously reluctant to reveal themselves and they attempt to avoid detection by the IRBM. Expectedly, 64 percent of the 507 tax evaders in Abdul’s study utilise the services of unapproved tax agents (Abdul, 2001, pp. 191-192).

As tax authorities move towards e-filing, a study examining the level of technological readiness of Malaysian tax agents, and their intentions regarding the use of e-filing was carried out (Lai, Sheikh Obid & Meera, 2004). Drawing data from a survey administered to 572 tax agents, they concluded that Malaysian tax agents were optimistic about the new technology and had strong usage intentions despite being wary of the security of internet technology. The study also suggests that for e-filing to succeed, the tax authority needs to ensure that the system is user-friendly, easily accessible and simple to use in the context of tax compliance (Lai et al., 2004, pp. 108-109) .

2.8.3.4 Tax Audits

Tax audits are becoming more important under a SAS and therefore, pose an enormous challenge to taxpayers, tax authorities and tax agents. Tax audits, to a certain extent, could be effective deterrence tools to increase compliance in Malaysia (Loo, McKerchar & Hansford, 2008, p. 12). They reveal that the fear of being audited and of being penalised has indirectly influenced the taxpayer’s decision to comply with the tax laws and has even caused them to be over cautious, resulting in

over-compliance. In contrast, another study shows that some tax agents perceive that the probability of their clients being selected for audits is relatively low (Choong & Lai, 2009, p. 9). However, 86 percent of these tax agents' clients were audited by the IRBM.

A survey questionnaire was distributed to business taxpayers to investigate their awareness of their responsibilities under a SAS, elicit their experiences of tax audits and assess their knowledge of tax evasion transactions (Choong & Lai, 2008). The results showed that only 30 percent of respondents were aware that they are obliged to record a business transaction within 60 days of the date of commencement, but almost 90 percent of respondents were aware that they are required to keep business records for 7 years. In terms of attitudes towards tax auditors, the respondents indicated that tax auditors had the intention or aimed to find fault in taxpayer accounts and to impose penalties for incorrect returns or understatement of income. Only 21 percent agreed that tax audits aim to educate taxpayers, and 32 percent had misconceptions of the role of an audit. It is clear that more campaigns that are educational are needed to inform taxpayers about their responsibilities and about the role of audits.

Subsequent research was conducted to examine tax agents' experiences in representing clients in tax audits, and the research identified some of the compliance complexities faced by tax agents around tax audits (Choong & Lai, 2009). Findings, based on a survey questionnaire administered to tax agents, provided several important results that may assist many researchers in understanding the deterrence effect of tax audits. The survey demonstrated that tax agent involvement in the audit process is high; 86 percent of agents indicated that they were involved in the client's audit process (Choong & Lai, 2009, p. 10). Surprisingly, after nearly ten years of a SAS, only 21 percent of the agents' corporate clients accepted tax audits as a normal course of activity under the system.

Another study classified survey respondents into compliant and non-compliant individual taxpayers (Sia, Salleh, Sambavisan & Kasipillai, 2008). It was found that around 95 percent of non-compliant taxpayers were those from self-employed or partnership businesses. In the study, non-compliant taxpayers were those who had previously received an additional tax assessment following an audit. On the other hand, compliant taxpayers were assumed to be those who had not been audited. Overall, the study indicated that both groups of taxpayers had similar perceptions towards tax fairness, tax morals and peer influence.

2.8.3.5 Other Compliance Determinants

Other Malaysian studies examined other factors that influence individual behaviour towards tax compliance, such as gender and ethnicity (Kasipillai & Abdul-Jabbar, 2006), moral values (Kasipillai, Mat Udin & Zainol Arifin, 2003) and perceptions of fairness (Saad, 2011a).

In short, the number of scholarly studies related to a SAS in Malaysia has gradually increased but most of these studies focus on individual taxpayer (for example Hanefah, 1996; Kasipillai, 1999; Kasipillai et al., 2003; Loo & Ho, 2005; Ho & Loo, 2006; Kasipillai & Abdul-Jabbar, 2006; Loo, 2006; Mohamad Ali et al., 2007; Sapiei & Abdullah, 2008; Sia, 2008; Palil, 2010; Saad, 2010, 2011a). The following section analyses Malaysian studies on corporate taxpayers.

2.8.4 Studies on Corporate Tax Compliance

To date, the number of studies conducted on corporate taxpayers has been very limited and the studies have mainly analysed the compliance costs of SMEs (Abdul-Jabbar, 1996; Hanefah et al., 2001; Ariff & Pope, 2002; Mansor, Saad & Ibrahim, 2003; Pope & Abdul-Jabbar, 2008; Abdul-Jabbar & Pope, 2009), with only one study focusing on the compliance costs of publicly listed companies (Loh, Ariff, Ismail, Shamsher & Ali, 1997). Key findings from these studies include: compliance costs

decrease as company size increases (Loh et al., 1997, p. 36), compliance costs of SMEs are four times more regressive than those of listed companies (Hanefah et al., 2001, p. 96) and the major source of increment in compliance costs under a SAS is the time spent for discussion with tax agents (Mansor et al., 2003, p. 13).

Only two studies examine corporate taxpayers' compliance behaviour and both focus on the SMEs. The first study was conducted by Abdul-Jabbar (2009), examining the influence of tax compliance costs on SMEs non-compliance behaviour, taken together with business characteristics and managerial perceptions. Tax complexity and probability of tax audit are found to influence corporate taxpayers' compliance behaviour. However, compliance costs and managerial perceptions about tax fairness and the IRBM relationship are found not to influence non-compliance behaviour. In addition, the influence of length of time in business, type of industry, tax rates and tax incentives regarding non-compliance is inconclusive. As Abdul-Jabbar's (2009) study mainly used survey questionnaires, the limitations associated with self-reporting are obvious.

More recently, a research study was conducted to identify factors that influence tax non-compliance by SMEs, using observations of 1,075 corporations that had been audited or investigated by the IRBM in the period 2002-2005 (Md Yassin, Hasseldine & Paton, 2010). The data was collected only from IRBM offices in the Klang Valley area in Malaysia. The authors argue that more than half of Malaysia's active corporations are located in this area, and almost 40 percent of audit and investigation cases are handled by these IRBM offices. Marginal tax rates, level of director ownership, level of efficiency, size and book-tax differences are five major factors that influence corporate tax non-compliance behaviour (Md Yassin et al., 2010, p. 18). However, two other probable non-compliance determinants were not covered in the study, namely geographical location and age of firm.

2.9 Research Gap

2.9.1 Introduction

Previous sections have provided a review of key literature on tax compliance, a SAS and key findings from tax compliance studies, focusing on variables that may influence compliance behaviour. The following sections summarise some gaps in international and Malaysian literature, and explain how this current study may contribute to enhancing knowledge in this area.

2.9.2 Research Participants in Previous Studies

Despite the extensive literature on tax compliance, most studies on tax compliance have been carried out using only taxpayers and/or tax agents as subjects for research. Though tax compliance is an outcome of cooperation between taxpayers, tax agents and tax authorities, the latter have been examined from a “curiously one-sided perspective” (Long & Swingen, 1991, p. 669). Only a few studies have direct relevance to the ongoing task of tax administration, and this point particularly applies to developing countries (McLure Jr, 2007, p. 155).

For example, the focus of prior studies has not been on tax authorities, but merely on the effects their policies have on taxpayer compliance behaviour (for example Snow & Warren, 2005; Yong, 2006; Dubin, 2007). As a result, an understanding of tax compliance behaviour from the perspective of all parties (particularly those of taxpayers, tax agents and tax officers) is very limited. This study centres around two perspectives that are, those of tax auditors from the IRBM and those of the corporate taxpayer. As tax auditors interact directly with the taxpayer during the conduct of an audit, their perspective is another area that may need to be explored to understand taxpayer compliance behaviour.

In addition, corporate income tax is regarded as providing the main contribution to Federal Government revenue in Malaysia. For example, in 2009, corporate income

tax represented around 46 percent of the IRBM's tax collection, or 25 percent of total Federal Government revenue (Inland Revenue Board of Malaysia, 2008).⁹ In comparison, for the same period, personal income tax constituted only 18 percent of the IRBM's tax collection, or ten percent of total Federal Government revenue (Inland Revenue Board of Malaysia, 2009a, p. 23). However, Malaysian researchers have tended to focus on individual taxpayers rather than corporate taxpayers, and studies that examine compliance variables among corporate taxpayers are scant in Malaysia as well as in other countries. An understanding of corporate taxpayers' compliance variables could provide tax authorities with suitable strategies to enhance voluntary compliance.

Previous studies have largely been conducted in Western countries such as the US, the UK, Australia, NZ and European countries. There is still very little literature on tax compliance behaviour in the Asia-Pacific region, particularly with regard to corporate taxpayers. Therefore, this study hopes to provide some insight into, and a better understanding of the compliance determinants of corporate taxpayers from developing countries, specifically Malaysia.

2.9.3 Research Designs in Previous Studies

The main research designs employed in the tax compliance field are usually experimental methods, analytical models, surveys and regression analysis. The use of the experimental study in tax compliance research has grown significantly, and this has been the most popular research method over the past two decades (Richardson & Sawyer, 2001, p. 231). The design of experiments in tax compliance studies often replicates the income tax assessment process, in which subjects are given the same types of incentives (and disincentives) to comply with tax laws as they are in *actual* assessment procedures (Baldry, 1987, p. 357). Data generated

⁹ Refer Chapter Three, Figure 3.3.

from experiments is comparatively cheap compared with the survey approach. In addition, the experiment may be designed in such a way that it generates data of particular relevance to the relationships of interest and excludes irrelevant variables, and can be designed to avoid problems of multicollinearity regarding independent variables.

However, the experimental approach is also subject to criticism. For example, the implied rewards and penalties facing subjects in experiments are not the same as *actual* compliance decisions (even with the most realistic and expensive experiments). In addition, the experiment remains a self-contained “game” in which participants may follow behavioural rules that are different from those followed in actual economic activities. Some suggestions to improve the validity of experimental studies include selecting subjects that are representative and conducting a greater number of experimental rounds with a greater number of participants (Richardson & Sawyer, 2001, p. 235).

Furthermore, nearly all economic models employ analytical studies in examining individual compliance behaviour. Most of these studies are based on TCMP data, thus suffering from an element of bias. For example, TCMP audit data is often associated with the inability of tax auditors to detect all evasions (Orviska & Hudson, 2003, p. 84). In addition, such data does not contain comprehensive socioeconomic data such as taxpayer attitudes and educational attainment. Consequently, the relationship between taxpayer compliance and attitude is not something that can be measured if based only on TCMP data.

Finally, the data derived from surveys of taxpayers is self-reported and thus it is difficult to interpret (Baldry, 1987, p. 357). More importantly, both honesty and perfect recall are required if an answer is to accurately reflect the actual activities which are of interest and it is doubtful that these virtues and faculties are consistently used. Despite these shortcomings, survey work is still valuable as it identifies the

taxpayer's actual perceptions and attitudes towards relevant variables (Hasseldine, 1993, p. 425).

In short, each research method has its own advantages and disadvantages. However, the selection of a particular research method depends largely on research objectives and data availability. The use of mixed methods designs is more promising because the strengths and weaknesses of one method are complemented by the other and a mixed methods design provides the researcher with a better understanding of the research problems.

2.10 Chapter Summary

This chapter reviewed the major concepts and literature relevant to the research question posed in this thesis. First, the concept of compliance, the importance of improving voluntary compliance, and the implications of the SAS were discussed. Secondly, the chapter identified and discussed key tax compliance variables and their influence on compliance behaviour. Thirdly, studies on comparative corporate taxpayers deduced from the international and Malaysian literature were analysed and elaborated. The chapter concluded by identifying and highlighting some research gaps.

Tax compliance is important mainly because it determines revenue collection and the ability of the government to achieve its fiscal and social goals. In maximising the efficiency of tax administration, many tax authorities promote voluntary compliance. Measures to improve voluntary compliance include providing excellent taxpayer services and moving towards a system that relies on self-assessment.

The objectives of a SAS are mainly to improve the level of voluntary compliance, reducing administrative costs and simplifying the assessment system. In a SAS regime, the responsibility for assessing tax liability lies with the taxpayers, rather than the tax authority. In ensuring that returns have been prepared in accordance

with applicable tax laws, tax officers only verify selected taxpayer returns through tax audits. Four critical factors in encouraging compliance under a SAS are tax education, tax simplicity, the use of tax agents and tax audits. Each of these factors was analysed, and its influence on individual and corporate taxpayer compliance was examined. The tax compliance literature from international and Malaysian studies was referred to for this purpose.

Studies of tax compliance are commonly grouped into the “economic approach” and “behavioural approach”. From these studies, other factors influencing tax compliance were identified and elaborated. However, the influence of each compliance variables has yet to be fully understood. In addition, most of these studies centred around individual taxpayers. One of the probable reasons for this is that tax revenue generated from individual taxpayers represents a significant contribution to the government.

As a result, knowledge of corporate taxpayers’ compliance variables is scant, both at the international level and in Malaysia. Based on these limited studies, several corporate characteristics were associated with compliance. These corporate characteristics include business size, business industry, disclosure requirements, tax audits and managers’ profiles. Although many tax researchers have acknowledged that prior tax compliance studies on individuals provide a formal framework for the analysis of corporate tax compliance decisions, it is argued that further work is necessary before drawing any conclusions on corporate tax compliance behaviour. Thus, this study aims to identify, and as far as practicable, measure the level of Malaysian corporate taxpayer compliance variables.

CHAPTER THREE

OVERVIEW OF MALAYSIAN TAXATION

3.1 Chapter Overview

This chapter provides an overview of the Malaysian taxation system, focusing on corporate income tax. The chapter begins with an outline of the sources of Federal Government revenue, followed by a brief description of the tax assessment system in Malaysia and the administration of the Inland Revenue Board. Responsibilities of the tax authority under a SAS, primarily those of tax education and tax audit programmes are then elaborated. The chapter later analyses the corporate taxpayer, mainly in terms of definition, outlining corporate income tax computation and discussing taxpayer responsibilities under a SAS. Finally, the chapter presents tax agent representation in Malaysia. The chapter concludes with a summary.

3.2 Federal Government Revenue

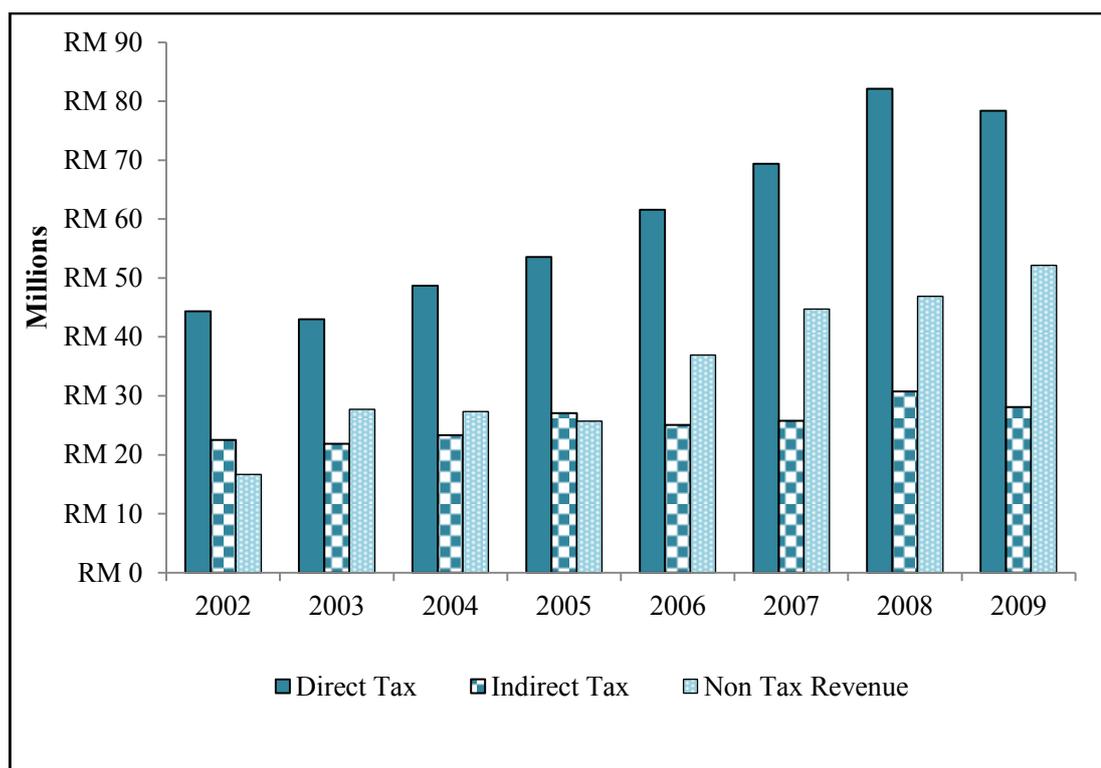
The sources of Malaysian Federal Government revenue are direct taxes, indirect taxes and non-tax revenue. Direct taxes generate the highest proportion of revenue, around 50 percent of total revenue, followed by non-tax revenue (about 30 percent) and indirect taxes (approximately 20 percent). These figures cover the period from 2002 to 2009. Federal Government revenue grew by 11 percent in 2003, but increased by only seven percent in 2004 and 2005, before it escalated 16 percent in 2006, and remained around 13 percent in the following years. The continuous growth in Federal Government revenue is largely due to better economic performance, higher oil prices, and improved tax administration and enforcement efforts (Treasury of Malaysia, 2007, p. 78). Federal Government revenue over the period from 2002 to 2009 is shown in Table 3.1 and further illustrated in Figure 3.1.

Table 3.1: Federal Government Revenue for 2002-2009 (in RM Million)

Year	Direct Tax Revenue	Indirect Tax Revenue	Non-Tax Revenue	Total Revenue
2002	44,351	22,510	16,654	83,515
2003	43,016	21,875	27,717	92,608
2004	48,703	23,347	27,347	99,397
2005	53,543	27,051	25,710	106,304
2006	61,572	25,058	36,916	123,546
2007	69,396	25,772	44,717	139,885
2008	82,138	30,760	46,896	159,794
2009	78,375	28,129	52,135	158,639

Source: Economic Reports (Treasury of Malaysia, 2005, 2007, 2009)

Figure 3.1: Federal Government Revenue for 2002-2009 (in RM Million)



Source: Economic Reports (Treasury of Malaysia, 2005, 2007, 2009)

The main components of direct tax revenue are corporate tax, petroleum income tax and individual tax. Other sources of direct taxes include revenue collected from stamp duty, real property gains tax and cooperative income tax. Income from direct taxes is discussed further in Section 3.4.

The collection of indirect taxes is entrusted to Royal Malaysian Customs (**RMC**). Indirect taxes come mainly from excise duties, sales tax and service tax. In addition, indirect taxes include import duties (mainly on motor vehicles) and export duties, of which a significant amount is from petroleum and petroleum-related products. The proportion of indirect taxes collected was highest in 2002 (27 percent) but declined steadily throughout the years (except for 2005 and 2008) and represented around 20 percent of overall total revenue. Generally, the reduction in the proportion of indirect taxes collected is mainly due to the liberalisation of import duties. This policy is consistent with Malaysia's commitment to regional and bilateral trade agreements (Treasury of Malaysia, 2009, p. 80).

Non-tax revenue over the period from 2002 to 2009 increased steadily and constituted approximately 30 percent of total revenue. The key sources of non-tax revenue are dividend income, mainly from Petroliam Nasional Berhad (PETRONAS)¹⁰, as well as licences and permits (mainly from road tax on vehicles). Other sources of non-tax revenue include proceeds from securities from Government's employee housing loans, and dividend income from Khazanah Nasional Berhad (Khazanah),¹¹ the investment-holding arm of the Government of Malaysia. Khazanah is empowered as the government's strategic investor in new industries and markets. Being the trustee to the nation commercial assets, the main

¹⁰ PETRONAS was incorporated on 17 August 1974 as the national oil company of Malaysia, vested with the entire ownership and control of the petroleum resources in the country. Refer www.petronas.com.my for details.

¹¹ Refer www.khazanah.com.my for details.

objective of Khazanah is to promote economic growth and make strategic investments on behalf of the government that contribute towards nation building.

3.3 Tax Assessment System

3.3.1 Official-Assessment System

The Malaysian income tax system has undergone a major change from an OAS to a SAS. The OAS was in place from 1947 to 2000 in Malaysia. Under an OAS, all taxpayers were required to complete and submit their income tax return forms together with the relevant supporting documents to the IRBM.

Similar to most countries, all taxpayer returns were examined; the computations of tax liabilities were performed by the IRBM officers and notices of assessment were sent to taxpayers for the due payments. Accordingly, the responsibility of determining taxable income and assessing income tax lay solely with IRBM officers, instead of with the taxpayers themselves. The OAS was perceived as cumbersome and inefficient due to the difficulty the IRBM had in scrutinising all income tax returns, mainly due to staff shortages.

As the number of taxpayers and complicated tax cases filed increases, the demand for additional and skilled staff becomes crucial (Che Ayub, 1994, p. 44). However, like many other countries, the IRBM is faced with a scarcity of human and financial resources. Che Ayub (1994) argues that the resources needed to meet the increased workload are unlikely to materialise in a timely manner. Due to the aforementioned problems and other issues related to an OAS, the system was replaced by a SAS in 2001. This was phased in from 2001 to 2004.

3.3.2 Self-Assessment System

The SAS in Malaysia was introduced in stages, starting with corporate taxpayers in 2001, followed by extension to other types of taxpayers. The system was fully implemented to cover all types of taxpayers in 2005, as shown in Table 3.2.

Table 3.2: Implementation of SAS for Different Groups of Taxpayers

Taxpayer Group	Year of Implementation
Companies	2001
Business, Partnerships and Co-operatives	2004
Salaried Individuals	2004

Source: Kasipillai (2005, p. 23)

In a SAS regime, the IRBM is no longer responsible for examining errors for every tax computation submitted, issuing notices of assessment and computing tax estimates for companies. Under the system, tax returns filed by taxpayers are not subject to detailed technical scrutiny by the IRBM and are deemed as final. However, corporate taxpayers have the legal obligation to: estimate their own income tax payable for the current year of assessment, inform the tax authorities of the estimate, pay the monthly tax instalment due and submit a tax return within six months of the end of their financial accounts (Choong, 2003, p. 32).

In the case of a company, compliance requires a basic understanding of the taxability of income from business and non-business sources and the deductibility of expenditure (Lai & Choong, 2009, p. 3). In doing so, taxpayers are expected to be tax literate and honest in declaring their actual income and claiming actual expenses. A discussion of corporate taxpayer responsibilities under a SAS and computation of corporate income tax is presented later in Section 3.6.

3.4 The Inland Revenue Board of Malaysia

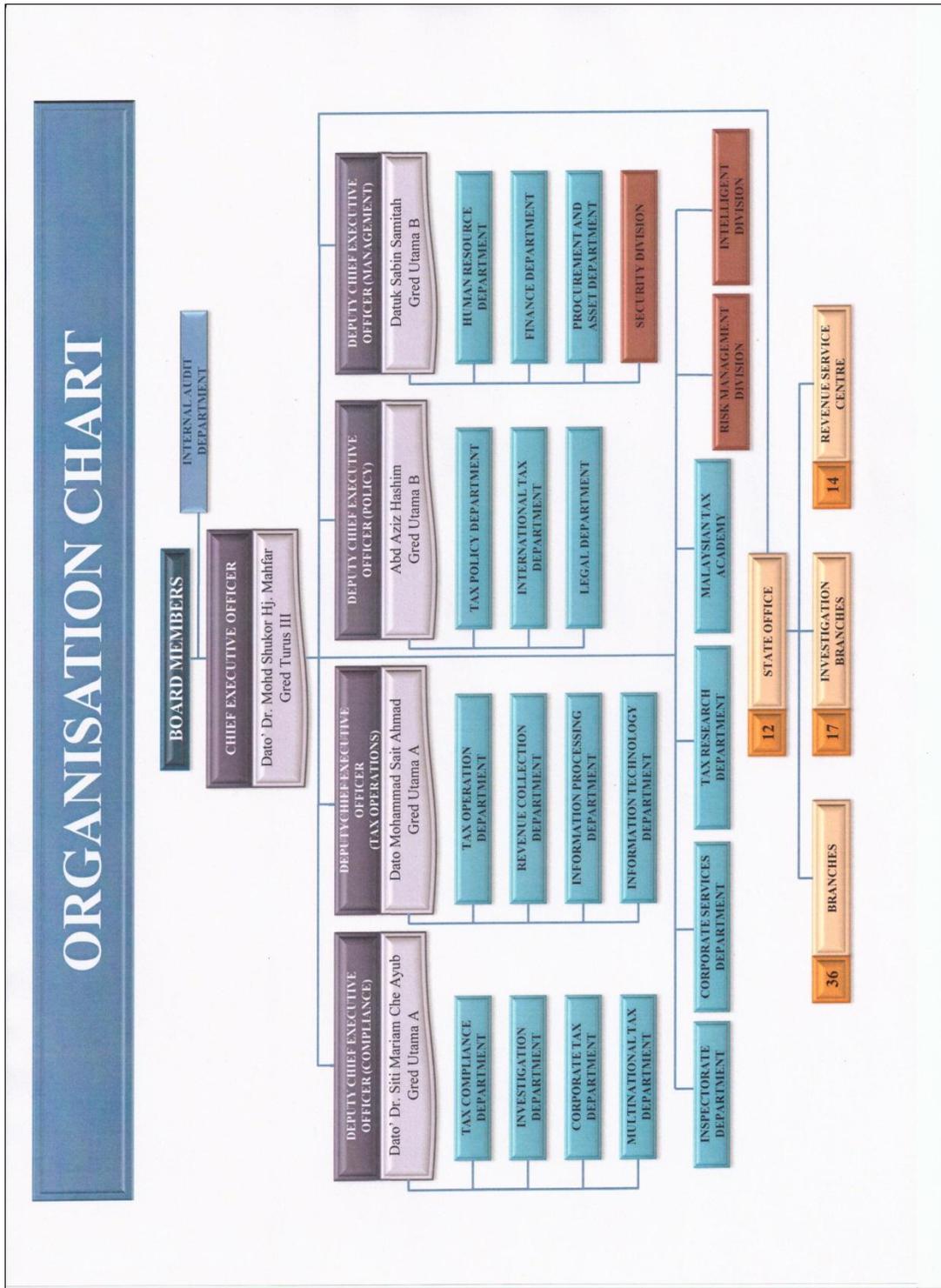
The *Lembaga Hasil Dalam Negeri (LHDN)* or the Inland Revenue Board of Malaysia (**IRBM**) is the national administrator responsible for the collection of direct taxes in Malaysia. The IRBM is under the supervision of the Ministry of Finance. The IRBM consistently provides advisory services to the government on matters regarding taxation and it works with the Ministry and other relevant statutory bodies on such matters.

In line with the Malaysian government's initiatives to achieve a developed nation's status based on transformation and innovation, beginning 1 March 2009, the IRBM has chartered the course of the organisation with the rebranding of its vision and mission. The slogan "Together We Develop the Nation" has been the basis of the planning and implementation of the IRBM activities ever since.

In improving the quality of the service delivery, the IRBM has continued and upgraded the electronic and online services to facilitate taxpayers in performing their responsibilities. In addition, to maintain the confidence and trust of the people in tax administration, the IRBM strives to provide value added services, implement best practice, adhere to integrity and develop highly professional human capital in its administration and management.

The IRBM is led by a Director General (**DG**) who is assisted by four Deputy Director Generals (**DDGs**). Each of them is responsible for the Management, Compliance, Tax Operations and Policy divisions. Although the Head Office is in Kuala Lumpur, the IRBM is a highly decentralised organisation, with its considerable authority for determining service and enforcement activities vested in 36 branches across 12 state offices in Malaysia. The organisation chart of the IRBM is shown in Figure 3.2.

Figure 3.2: Organisation Chart of the Inland Revenue Board

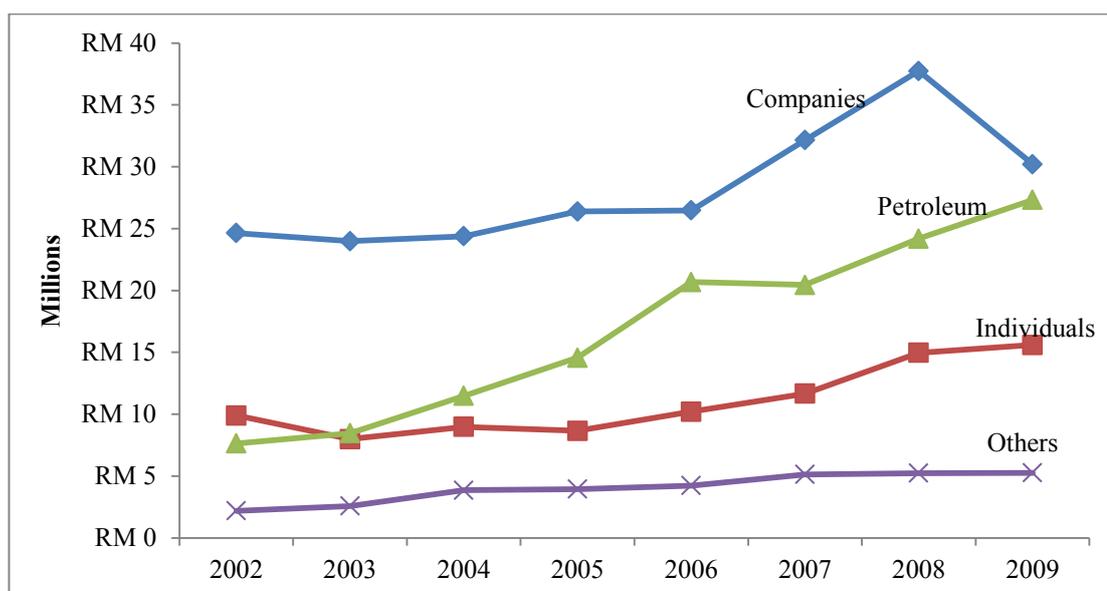


Source: Inland Revenue Board Malaysia (as at 27th April 2012)

The IRBM is responsible for the administration of the *Income Tax Act 1967 (ITA)*, the main act governing both corporate and individual income taxes in Malaysia. In addition, eligible companies are given preferential tax treatment in the form of tax incentives as provided in the ITA and the *Promotion of Investment Act 1986*. Other than these, the IRBM is also responsible for administration, assessment, collection and enforcement of real property gains taxes,¹² petroleum taxes¹³ and stamp duties.¹⁴

The direct taxes collected by the IRBM are mainly generated from corporate tax, petroleum tax and individual tax. Revenue from corporate income tax consistently makes up the highest proportion of the IRBM's collection. Petroleum tax continues to make the second largest contribution, followed by individual tax and other taxes as illustrated in Figure 3.3.

Figure 3.3: Direct Tax Collection for 2002 to 2009 (in RM Millions)



Source: *Economic Reports (Treasury of Malaysia, 2005, 2007, 2009)*

¹² Real Property Gains Tax Act 1976.

¹³ Petroleum Act (Income Tax) 1967.

¹⁴ Stamp Act 1949.

Although corporate income tax contributes the highest revenue to the IRBM, the percentage of its contribution has been decreasing over the years. For example, the percentage of corporate income tax contribution was 56 percent in 2002 and 2003 but dropped to 50 percent in 2004, and remained between 49 and 43 percent for several years, before a sharp reduction to 39 percent in 2009 (Treasury of Malaysia, 2005, 2009).

A likely reason for the declining trend of the percentage of corporate income tax collection is the growth of revenue from petroleum tax due to the global increase of crude oil prices. In addition, the lower rate of corporate income tax collection can be attributed to weak economic activity, as well as various incentives and exemptions given over the years to stimulate business activity and the reduction in the corporate income tax rate from 26 percent in 2008 to 25 percent in 2009 (Treasury of Malaysia, 2009, p. 86).

3.5 Responsibilities of the Inland Revenue Board of Malaysia

3.5.1 Introduction

The implementation of a SAS has changed the way the IRBM operates. As the main objectives of a SAS are to improve the efficiency of the IRBM and to instil in all taxpayers the concept of voluntary compliance, IRBM resources are now mainly allocated to areas that have a high tax risk and could potentially result in a significant loss in revenue. The IRBM now focuses on activities to improve tax compliance such as educating taxpayers, encouraging voluntary compliance and widening the tax base. These activities are often classified into tax education and tax enforcement programmes.

3.5.2 Tax Education Programmes

The success of a SAS depends heavily on the taxpayer's ability to acquire a certain level of tax literacy, awareness and education (Mahfar, 1994, p. 124). Tax education

programmes are necessary to increase public awareness of taxation and taxation laws in particular, along with creating awareness of the necessity of taxation for the development of the country. In addition, these programmes disseminate information such as where the collected taxes have been channelled. An understanding of, and exposure to, the tax system at an early stage may improve the taxpayer's awareness of their responsibilities to the country and generate a positive perception of the system.

The objectives of the tax education programmes conducted by the IRBM are mainly to create awareness and to increase knowledge of taxation among individual taxpayers, companies, tax agents, employers and potential taxpayers (Inland Revenue Board of Malaysia, 2009a, p. 36). The tax education programmes are delivered in the form of briefings, dialogues and seminars. Some of the main programmes currently conducted by the IRBM are explained next.

3.5.2.1 Tax Briefings and Workshops

The IRBM conducts tax briefings, workshops and talks held at the IRBM branches or at the taxpayer's premises. The main objective of these programmes is to provide initial exposure to the public on changes in the national tax administration system following the implementation of a SAS (Inland Revenue Board of Malaysia, 2008, p. 32). These programmes are carried out to guide taxpayers in fulfilling their tax obligations.

The programme modules are specifically designed according to taxpayer category, to ensure that appropriate and relevant information is effectively communicated. The number of briefings conducted by the IRBM increased by 13 percent, that is from 4,988 to 5,746 in 2007 and 2009 respectively. Interview sessions on taxation topics are aired on radio and television from time to time. These are aimed at disseminating current information to taxpayers and other viewers and listeners. The number of tax

briefings and media programmes conducted by the IRBM in 2007, 2008 and 2009 is shown in Table 3.3.

Table 3.3: Tax Education Programmes for 2007 to 2009

	2007	2008	2009
<i>Number of Tax Briefings</i>			
Briefings	4,988	5,637	5,746
Participants	74,765	389,191	242,603
<i>Number of Media Sessions</i>			
Learning via TV	11	15	13
Learning via radio	8	8	17
Exclusive interviews	3	5	6

Source: IRBM Annual Reports (2008, 2009a)

In addition, the IRBM held 13 information sessions in 2008, involving 560 participants from various institutions of higher learning, government agencies and private bodies. The visitors were briefed on the aspects of taxation in relation to direct taxes (Inland Revenue Board of Malaysia, 2008, p. 32).

3.5.2.2 Small Traders' Support Service Unit

The Small Traders' Support Service Unit offers special programmes for small and medium traders who are not represented by tax agents. The programmes cover education on the methods of business record keeping, the preparation of simple business accounts and operational matters on tax assessment and payment. For example, 10,493 taxpayers attended training in 2008, an increase from 8,492 in 2007, constituting 23 percent (Inland Revenue Board of Malaysia, 2008, p. 33).

3.5.2.3 Hasil Speech Competition

The Hasil Speech Competition is an annual event organised by the IRBM in collaboration with the Ministry of Education Malaysia, to enhance awareness of

taxation among Form 6 students in secondary schools (18 year olds) so that they might become tax-literate adults in the future. In 2008, 801 students took part in the competition at district and state levels nationwide. Of these, 16 participants were selected to compete at the national level (Inland Revenue Board of Malaysia, 2008, p. 33).

3.5.2.4 Tax Information through the Internet

Online services also help the IRBM disseminate taxation information through its official website (at www.hasil.gov.my). The website can be accessed by all levels of society regardless of status or age group. Postings on the website are frequently updated to ensure that its contents are kept current.

3.5.2.5 IRBM Publications

In 2008, the IRBM republished 18 taxation brochures in a more concise and simpler format. These were distributed to the public through the service counters of all IRBM branches. In addition, the IRBM also publishes *Berita HASiL*, its official magazine, three times a year. *Berita HASiL* reports IRBM activities throughout the year.

3.5.3 Tax Enforcement Activities

While tax education programmes are necessary in creating tax awareness and educating taxpayers about their rights and responsibilities under a SAS, enforcement activities are necessary to provide deterrents to ensure that taxpayers comply with the law. These activities may indirectly improve voluntary compliance and expand the tax base under a SAS. Among the enforcement activities actively conducted by the IRBM are: the Street Survey Operation (SSO), Monthly Tax Deductions (MTD) audits and tax audits.

The SSO is executed by paying visits to the taxpayer's business premises. It is used specifically for new businesses, and in high-risk strategic areas and areas identified via feedback from economic zone mapping at every IRBM branch. The objective of the SSO is to increase the number of tax file registrations by potential taxpayers. The IRBM reports that SSO activity has not only improved the rate of compliance among taxpayers but that the tax education provided during the visits has also succeeded in changing negative attitudes among taxpayers around taxation issues (Inland Revenue Board of Malaysia, 2008, p. 41).

MTD audits are performed to ensure every employer makes and remits tax deductions from their employees' monthly salaries, according to the *Income Tax Rules (Salary Deduction) 1994*. In many instances, MTD audits are carried out simultaneously with tax audits. In 2008, 25 percent of 27,555 employers visited were found to have failed to comply with the applicable regulations (Inland Revenue Board of Malaysia, 2008, p. 44).

3.5.4 Tax Audit Programmes

Tax audits have become the main function of the IRBM branches under a SAS (Inland Revenue Board of Malaysia, 2008). The implementation of an effective tax audit programme is an important factor in improving the level of tax compliance in a SAS environment. The following sections focus on tax audit programmes conducted by the IRBM.

The main objective of tax audits is to enhance voluntary compliance by ensuring that taxpayers comply with the provisions of the current tax laws and regulations. This measure is accomplished through education and the creation of awareness among taxpayers of their rights and responsibilities under the provisions of the ITA during the audit activities. Therefore, tax auditors must be knowledgeable, cooperative and fair in administering the tax laws (Inland Revenue Board of Malaysia, 2009c, p. 10).

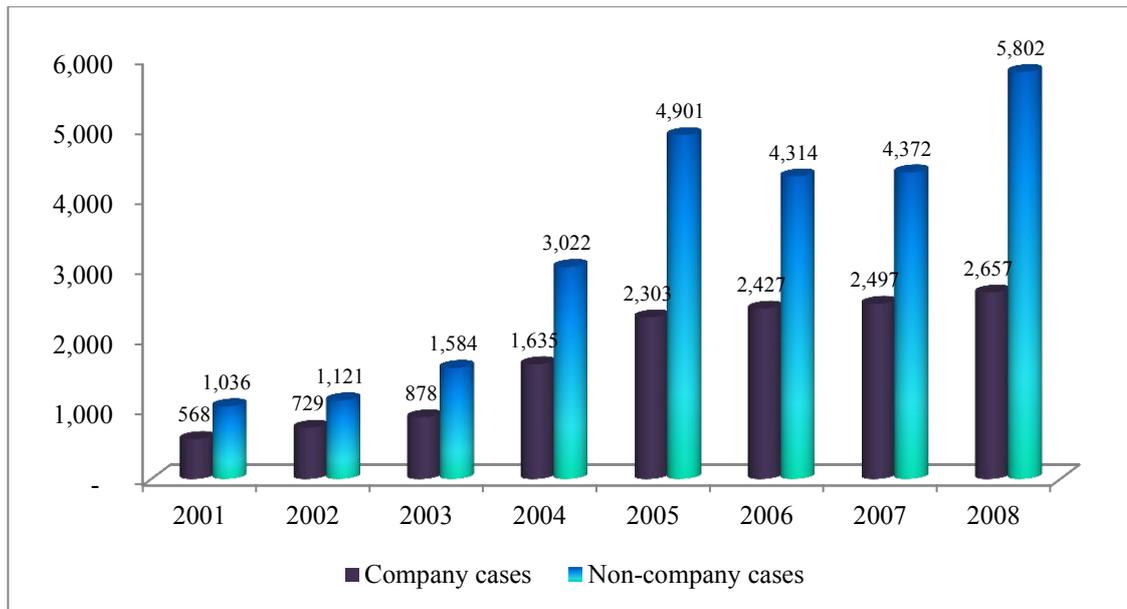
In Malaysia, tax auditors are given legitimate powers to conduct audits, and the ITA provides tax auditors with the powers to:

- call for specific returns and production of books;
- call for a statement of bank accounts;
- access buildings and documents; and
- call for information.

Two types of audits conducted by the IRBM are desk audits and field audits. Desk audits are carried out at the IRBM's offices and are normally concerned with straightforward issues or tax adjustments, which are easily dealt with via correspondence. A taxpayer may be called for an interview at the IRBM's offices if further information is required. Specific desk audit cases can be referred for field audit action. Field audits are examinations of the taxpayer's business records at the taxpayer's premises. In such circumstances, the taxpayer is notified by letter, as part of the official procedure for commencing field audits.

Field audits were conducted by the IRBM on both individuals and companies even before full implementation of a SAS in 2005. However, the number of field audits resolved has increased significantly since a SAS was introduced in 2001. For example, there were only 568 corporate tax audits in 2001, but the number increased gradually from year to year. The number of corporate tax audits escalated by more than 360 percent to 2,657 cases in 2008. Similarly, tax audits on individual taxpayers have increased steadily, reaching their peak in 2008 with 5,802 cases. Field audit activities conducted by the IRBM from 2001 to 2008 are shown in Figure 3.4.

Figure 3.4: Field Audit Activities for 2001 to 2008



Source: Inland Revenue Board Malaysia (Personal communication, 26 April, 2011)

There are three possible explanations for the increasing trend of the audit activities conducted by the IRBM from 2001 to 2008. First, as returns were no longer individually assessed under a SAS, more resources were allocated for audit activities. Secondly, 2005 was the year when a SAS was fully implemented to cover all types of taxpayers and thus the IRBM needed to actively display its intentions to taxpayers, that under a SAS, any abuse of tax laws would be detected through tax audits and appropriately penalised.

The collection of taxes and penalties from field audit activities grew from RM430 million in 2004 to RM745 million in 2007. However, the amount of taxes and penalties declined in 2008 by 15 percent to RM631 million, as audited cases included taxpayers that recorded losses. By conducting field audits, those loss claims were reduced, resulting in tax savings of RM325 million for company cases and RM3 million for non-company cases (Inland Revenue Board of Malaysia, 2008, p. 41). In short, the growing trend towards field audits seems to show that the IRBM recognises the importance of tax audits under a SAS.

Previous studies show that audit rates may influence taxpayer compliance behaviour.¹⁵ Higher audit rates are expected to increase compliance. Audit rates are normally computed based on the number of audits (resolved) and the tax returns received by the IRBM in a particular year (Palil, 2010, p. 185). In Malaysia, audit rates of the corporate taxpayer increased from 0.9 percent to 1.4 percent and 1.6 percent in 2004, 2005 and 2006, respectively. The increase of the audit rate from 2004 to 2006 may provide a general deterrent in future if taxpayers are made aware of such increases.. The computations of the audit rates are shown in Table 3.4.

Table 3.4: Audit Rate for Companies

Year	Returns Received	Audit Resolved	Audit Rate
2004	182,537	1,635	0.9%
2005	163,504	2,303	1.4%
2006	154,612	2,427	1.6%

Source: IRBM Annual Reports (2005, 2006a)

The IRBM has not, however, made the above information available to the public. A likely reason is that there is implicit acceptance among researchers that a revenue authority should not disclose its specific audit strategy, but rather promote the view that a variety of factors may lead to audits (Che Ayub, 1994). Many research findings indicate that under conditions of uncertainty around audit rates and probability, most honest taxpayers are more likely to be conservative and more likely to comply (Jackson & Milliron, 1986, p. 140).

As tax audits play a major role in a system that relies on self-assessment, an evaluation of the programme is necessary in measuring its effectiveness and efficiency. The following sections discuss the performance of tax audit programmes based on the Auditor General's reports and comments from tax professionals.

¹⁵ Refer Chapter Two, Section 2.6.5.

3.5.4.1 Reports of the Auditor General

Articles 106 and 107 of the Federal Constitution and the *Audit Act 1957* outline the Auditor General's responsibility to audit the accounts of the federal and state governments, government agencies, public authorities and other bodies as ordered by His Majesty the Yang di-Pertuan Agong (the King). To fulfil this responsibility, the National Audit Department (NAD) under the Auditor General conducts three types of audits, namely attestation audits, compliance audits and performance audits.

During September 2006 and January 2007, the NAD carried out performance audits on corporate field audit activities conducted by the IRBM from 2004 to June 2006. The objective of the performance audits was to determine whether corporate tax audits had been carried out efficiently, economically and effectively (Treasury of Malaysia, 2006, p. 1). To this end, the NAD examined 687 cases of the 4,266 corporate field audits conducted by the IRBM.

The NAD reports showed that of the 687 corporate cases audited, 585 had been resolved and another 102 were still under review (Treasury of Malaysia, 2006, pp. 81-82). However, only 42 percent of the 585 completed cases were resolved within the stipulated period of three months as outlined in the *Tax Audit Framework* (Inland Revenue Board of Malaysia, 2007, p. 9). The remaining 58 percent were settled in periods of four months to six years. The reports indicated that the possible reasons for failure to settle those cases within the stipulated time were that tax auditors had to take a long period to settle each audit case because of staff shortages, inexperienced tax auditors and incomplete records and documents provided by corporate taxpayers.

The IRBM aims to audit two percent of all corporate tax returns received annually (Treasury of Malaysia, 2006, p. 79). However, the IRBM generally conducts less

than two percent in a year.¹⁶ For example, in 2006, there were about 155,000 corporate tax returns received by the IRBM. Of these, the IRBM conducted only 2,400 audits, or less than two percent. One possible explanation for the variance might be a shortage of staff. The NAD reports (Treasury of Malaysia, 2006, pp. 74-75) showed that the ratio for each tax auditor to corporate tax cases resolved was between five and ten cases.

In meeting the two percent audit target as set by the IRBM, at the current level of audit resources, each tax auditor has to handle between eight and 18 corporate tax cases annually. This is seen as too much of a burden for each auditor to execute. Therefore, the NAD reports (Treasury of Malaysia, 2006, p. 76) have suggested that the IRBM determines the number of cases to be resolved by each tax auditor and recruits additional tax auditors so that the number of companies to be audited can be increased. It was concluded that staff shortages may prevent the IRBM from meeting its overall audit objectives.

In addition to the basic technical training provided to tax auditors, continuous training programmes are seen as essential, especially for newly recruited staff. Training provides tax auditors with the relevant knowledge, and the technical and professional skills to conduct audits in line with the increased complexity of business transactions and improvements in current technology (Treasury of Malaysia, 2006, p. 76).

3.5.4.2 Comments from Tax Professionals

The IRBM conducted several tax dialogues with representatives from the public, to encourage and facilitate discussion of tax matters. For example, a tax dialogue was conducted in December 2006 between the IRBM and tax professional representatives

¹⁶ Refer Table 3.4.

to discuss issues related to tax audits (Inland Revenue Board of Malaysia, 2006b). In the tax dialogue, several issues were raised around tax audit procedures that included:

- i) tax audit processes were not transparent and consistent;
- ii) tax audits took a long time to be finalised (almost a year);
- iii) notices of assessment were dubious as tax audits were hurriedly finalised to meet deadlines (three months);
- iv) taxpayers were given short notice regarding audit visits;
- v) taxpayers were given only a short period to prepare documentation; and
- vi) letters of clearance were not issued after the audit.

In the same dialogue, the attitudes of tax auditors were also discussed such as:

- i) tax auditors did not carry out tax audits in a professional manner;
- ii) tax auditors had a preconceived mindset that taxpayers were guilty and the purpose of the audit visit was to confirm that offences had been committed;
- iii) tax auditors did not have accounting and business knowledge;
- iv) different tax auditors treated the same subject matter differently;
- v) tax auditors refused to accept commercial justifications even if supporting documents were provided; and
- vi) tax auditors were unable to provide a convincing rationale for tax audit adjustments.

3.5.4.3 Tax Audit Framework

In response to a call for a more transparent and efficient tax audit process, in January 2007 the IRBM issued a *Tax Audit Framework* (the Framework) that outlined the rights and responsibilities of tax auditors, taxpayers and tax agents with respect to audits (Inland Revenue Board of Malaysia, 2007). The Framework aims to assist tax auditors in discharging their duties efficiently and effectively and to guide taxpayers

in fulfilling their obligations during audit activities. The IRBM then revised the Framework in January 2009 (Inland Revenue Board of Malaysia, 2009b).

The Framework clearly states that the main objective of tax audits is to encourage voluntary compliance with the tax laws and regulations and to ensure that a higher tax compliance rate is achieved under a SAS. The Framework also emphasises that tax audits are one of the measures undertaken by the IRBM to educate and create awareness of taxpayers towards their rights and responsibilities under the Act. The main areas covered in the Framework are as follows:

- i) selection of cases;
- ii) tax audit methodology;
- iii) rights and responsibilities of taxpayers, tax agents and audit officers;
- iv) confidentiality of information;
- v) offences and penalties;
- vi) complaints and payment procedures; and
- vii) appeals.

The Framework also clarifies the selection method of audit cases. Cases for audit are selected through the computerised system based on risk analysis criteria and on other criteria such as business performance, financial ratios, type of industry, past compliance records and third party information.

3.5.4.4 Tax Audit Penalty Provisions

Taxpayers have a duty and a responsibility to the government in relation to income tax payable under a SAS. In order to deter taxpayers from non-compliance, the ITA has legislated specific provisions that impose fines, penalties and imprisonment for defaulting taxpayers. The DG or the Court is empowered to enforce such penalties where necessary. The penalty provisions from audit activities are: penalties for

omission/non-disclosure, penalties for not providing reasonable facilities and assistance and penalties for failure to keep sufficient records.

First, the penalties for omission/non-disclosure are classified into four types of offences: i) voluntary disclosure before selection for audit, ii) voluntary disclosure after the case is selected for audit but before the audit commences, iii) non-disclosure (discovery during audit) and iv) repeated offences. The penalty rate varies for each type of offence, and ranges from 10 to 300 percent on tax payable.

Secondly, the penalty for not providing reasonable facilities and assistance is a fine of between RM1,000 and RM10,000 or imprisonment for a term not exceeding one year, or both. Finally, the taxpayer may be liable to a fine of between RM200 and RM2,000 or face imprisonment for a term not exceeding six months (or both) for failing to keep sufficient records. A summary of the type of offences from audit activities and the respective penalty rates is shown in Table 3.5.

Table 3.5: Tax Audit Penalty

Types of Offences	Penalty Rates on Tax Payable
Voluntary disclosure before selection for audit	<ul style="list-style-type: none"> ➤ 10% if within 60 days from the due date for furnishing the return form. ➤ 15.5% if more than 60 days but less than 90 days from the due date for furnishing the return form. ➤ 20.0% if more than 6 months to 1 year from the due date for furnishing the return form. ➤ 25.0% if more than 1 year to 3 years from the due date for furnishing the return form. ➤ 30.0% if more than 3 years from the due date for furnishing the return form.
Voluntary disclosure after the case is selected for audit but before audit commences	<ul style="list-style-type: none"> ➤ 35.0%
Non-disclosure (discovery during audit)	<ul style="list-style-type: none"> ➤ 300% or 100% of tax undercharged (may consider for 45% for first offence)
Repeated offences	<ul style="list-style-type: none"> ➤ Plus 10% for each repeated offence not exceeding 100%
Failure to provide assistance and reasonable facilities	<ul style="list-style-type: none"> ➤ Fine between RM1,000 to RM10,000 or face imprisonment for a term not exceeding one year or both
Failure to keep sufficient records	<ul style="list-style-type: none"> ➤ Fine between RM200 to RM2,000 or face imprisonment for a term not exceeding six months or both

Source: The Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Malaysian Institute of Taxation (2010, pp. 51-52)

3.6 Corporate Taxpayers

3.6.1 Introduction

Section 3 of the ITA provides that “Subject to and in accordance with this Act, a tax to be known as income tax shall be charged for each year of assessment (YA) upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia.” *Section 2* of the ITA defines “person” to include a company, a body of persons or a sole corporation. *Section 2(1)* of the ITA further

defines a company as “a body corporate and includes any body of persons established with a separate legal entity by or under the laws of a territory outside Malaysia.” In short, a company is a chargeable person/entity under the ITA.

Choong (2009) emphasises that establishment of the concept of “person” is critical because: i) such person will be the chargeable person assessable for tax on income derived from taxable activities; and ii) the tax rates applicable to each category of chargeable person vary; some are taxed at a flat rate, while others are taxed at scaled or reduced rates. Further, it is also important for a company to determine its residence status in order to enjoy preferential tax treatment such as tax incentives and double tax relief. In Malaysia, it is easy for a company to be a tax resident, as the minimum requirement is for the company to have its management and control of any one of its businesses in Malaysia at any time during the basis year (*Section 8(1)*).

The *Companies Act 1965* requires a company’s financial accounts to be audited by certified auditors. The profit and loss accounts and the balance sheet must reflect the true financial position of a company as at the end of the financial year. The tax computation of a company is based on the audited accounts and other additional information provided by the company. However, the tax computation and audited accounts are to be kept by the company for the purposes of inspection by IRBM auditors in future years. A company is only required to submit its tax return (Form C) to the IRBM under a SAS.

Although a company is only required to submit return Form C, the details and information requested in Form C are relatively complex. In filling and submitting Form C, tax knowledge is essential to understand the terms and to interpret the tax laws that are applicable to the taxpayer’s own situation (Palil, 2004, p. 81). An example of the return Form C is shown in Appendix K. The terms and procedures involved in preparing a corporate tax computation are explained in the following sections.

3.6.2 Computation of Corporate Income Tax

The computation of corporate income tax often begins with gross income, as shown in a profit and loss account, and appropriate adjustments are made to arrive at adjusted income, statutory income, aggregate income and total income/chargeable income. The derivation of gross income from business is determined by virtue of *Section 12* of the ITA. Business income is assessed on an accrual basis and not on a cash basis. As such, whether income is received during the year or not is of no relevance to its taxability. The most common adjustments made in the computation of chargeable income are discussed next. The following discussion is mainly based upon Choong (2009, pp. 411-442) and The Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Malaysian Institute of Taxation (2010, pp. 64-67).

3.6.2.1 Adjusted Income

Allowable expenses, double deductions on expenses and special deductions are deducted against gross income in arriving at the adjusted income of a business source. Allowable expenses must satisfy *Section 33(1)* and are often determined based on the following conditions:

- i) each business source has to be accounted for separately;
- ii) the scope of expense refers to “outgoing and expenses”;
- iii) the expenses have to be “wholly and exclusively” incurred
in the production of gross income from that business source.

Special deductions are expenses that have been specifically legislated, under *Section 34(6)*, to be deducted against gross income, although such expenses do not satisfy the *Section 33* “wholly and exclusively” test or test of capital expenditures. These expenses are encouraged by the government as they can achieve some national objectives and/or bring social benefits to the public. Examples of expenses allowable

for special deductions are the publication of a book [*Section 34(6)(f)*], provision of library facilities [*Section 34(6)(g)*] and social responsibility payments [*Section 34(6)(h)*]. To date, there are 15 expenses eligible for special deductions under *Section 34(6)*. In addition, the Malaysian government through the gazette order has specifically allowed certain expenses to be tax deductible. Examples of gazetted deductible expenses are: statutory audit fees, incorporation expenses and retrenchment payments.

Double deductions refer to revenue expenses incurred that are given deductions twice in arriving at the adjusted income of a business. This is a tax incentive provided by the government to provide tax relief to businesspersons or companies encouraging the use of promoted activities such as research, local facilities and promotion of tourism exports. To qualify for double deductions, such expenses must be a revenue expense and not prohibited by *Section 39* of ITA. Expenses that qualify for double deductions are normally gazetted, legislated in the ITA or in the *Promotion Investment Act 1986*. Examples of expenses entitled for double deductions include:

- i) Research expenditure;
- ii) Overseas expenses incurred by hotel and tour operators for the promotion of tourism;
- iii) Expenditure incurred on approved training;
- iv) Approved outgoings and expenses for the promotion of exports from Malaysia;
- v) Expenses incurred from international trade fairs in Malaysia for the promotion of exports;
- vi) Expenses incurred from advertising Malaysian brand name goods within Malaysia;
- vii) Outgoings and expenses incurred from the promotion of export of services;
- viii) Outgoings and expenses incurred from the promotion of export of professional services; and

- ix) Outgoings and expenses incurred from the promotion of export or higher education.

To sum up, adjusted income is arrived at after deducting allowable expenses, special deductions and double deductions from gross income. However, when deductible revenue expenses incurred exceed gross income or no gross income is recognised, an adjusted loss is realised. The ITA recognises that only business sources can have an adjusted loss in the basis year. The adjusted loss, also known as current year business loss, can be offset against total income/chargeable income. These issues are explored further in Section 3.6.2.3.

3.6.2.2 Statutory Income

The statutory income from a business source is often arrived at by adding a balancing charge and subtracting the capital allowance from the adjusted income. A balancing charge is derived when the sale proceeds from the disposal of a fixed asset exceed its residual expenditure. In contrast, a balancing allowance is derived when the sale proceeds from the disposal of a fixed asset are lower than its residual expenditure. Similar to a depreciation expense, the capital allowance is a mechanism of tax relief on capital expenditure on assets. If a company has more than one business source of income, the statutory income of each business has to be computed individually before it is aggregated and this is usually known as aggregate statutory income.

3.6.2.3 Aggregate Income

The unabsorbed business loss (from all business sources) from previous years is set off against the aggregated statutory income in arriving at aggregate income. Any current year business loss (which cannot be fully utilised against aggregate income in that particular year) would be added to the unabsorbed business loss and be carried forward to the next year of assessment (YA).

Non-business income, also known as investment income, has to be computed individually (source-by-source) in order to arrive at adjusted income. Examples of non-business income are interest income, dividend income and rental income. Where expenses exceed income, the difference is a permanent loss. Non-business income can have a positive or zero balance, but not a negative balance. All non-business income is aggregated in arriving at total income.

3.6.2.4 Total Income/ Chargeable Income

If a company has an adjusted loss, this amount can be used as an offset against aggregate income. In addition, a gift of money to the government, state government, local authority or an approved institution or organisation may be used as a deduction in arriving at total income. Starting from year 2009, the amount of cash donations to approved institutions or organisations has been restricted to 10 percent of the company's aggregate income for that year. Examples of approved donations are donations to approved libraries, donations of paintings to the National or State Art Gallery and "*zakat on business*".¹⁷

The tax payable by a company is computed by reference to its chargeable income. To a company, total income is the same as chargeable income. The computation of chargeable income for a company is shown in Table 3.6.

¹⁷ Zakat on business is defined as an "obligatory contribution assessed based on business assets owned by an entity that satisfy certain conditions and is to be distributed to specified categories of beneficiaries (Adnan & Abu Bakar, 2009, p. 35)." According to *Section 44 (11) (A)* of the ITA, only 2.5 percent of aggregate income can be deducted.

Table 3.6: Tax Computation for a Company

Gross Income	Less:	Allowable expenses Special deductions Double deduction of expenses
Adjusted Income	<i>Add:</i>	<i>Group relief - Current year adjusted loss surrendered by a "surrendering company"</i>
	<i>Less:</i>	<i>Industrial adjustment allowance</i>
	Add:	Balancing charge
	Less:	Capital allowances and balancing allowances (restricted to adjusted income, excess to be carried forward except for listed investment holding companies)
Statutory Income	<i>Less:</i>	<i>Exemption of income for pioneer companies/Investment tax allowance</i>
	<i>Less:</i>	<i>Reinvestment allowance (YA 1997 onwards)</i>
	Less:	Previous years' business losses (not applicable for listed investment holding companies)
	Add:	Statutory income from non-business sources (investment income)
	<i>Add:</i>	<i>Recoveries of abortive prospecting expenditure</i>
Aggregate Income	Less:	Current year business losses
	<i>Less:</i>	<i>Prospecting expenditure</i>
	<i>Less:</i>	<i>Pre-operational business expenditure</i>
	<i>Less:</i>	<i>Proportion of permitted expenses for investment holding companies (except listed investment holding companies (YA 2006 onwards))</i>
	<i>Less:</i>	<i>Trust annuity</i>
	Less:	Approved donations
	Less:	Zakat on business
	<i>Less:</i>	<i>Group relief – current year adjusted loss transferred from "surrendering company" (YA 2006 onwards)</i>
	Less:	Carry-back losses – Immediately preceding and not exceeding RM100,000
Total Income	Add:	Statutory income made up of franked dividends deemed as total income (YA 2008 onwards)
Chargeable Income		

Items in italics refer to adjustments applicable only to some companies.

Source: The Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Malaysian Institute of Taxation (2010, p. 64).

3.6.3 Corporate Income Tax Rates

The corporate income tax rate for a resident company depends on its paid-up capital at the beginning of a YA and its chargeable income for the YA. For example, a company with paid up capital of less than RM2.5 million and having a chargeable income of RM500,000 or less is taxed at a rate of 20 percent. However, other companies (irrespective of their paid up capital) with chargeable income of more than RM500,000 are charged at 27, 26 and 25 percent for YA 2007, 2008 and 2009, respectively. A summary of corporate income tax rates is shown in Table 3.7.

Table 3.7: Corporate Income Tax Rates from 2007 to 2009 onwards

Paid-up Capital	Chargeable Income	2007	2008	2009 onwards
RM2.5 million or less	RM500,000 or less	20%	20%	20%
	More than RM500,000	27%	26%	25%
More than RM2.5 million	All	27%	26%	25%

Source: Derived from The Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Malaysian Institute of Taxation (2010, pp. 96-97)

3.6.4 Responsibilities of Corporate Taxpayers

Under a SAS, the responsibility of computing taxpayer liability is shifted from the IRBM to the taxpayer and accordingly taxpayers are expected to compute their tax liability based on the tax laws, guidelines and regulations issued by the IRBM. Tax returns submitted are no longer subject to a detailed review by the IRBM. In addition, corporate taxpayers are required to comply with several tax obligations as stated in the ITA. These obligations include filing tax returns, keeping records and documentation, estimating income tax payable and providing reasonable assistance and facilities during an audit. Each of these obligations is discussed next.

3.6.4.1 Filing of Tax Returns

Taxpayers are responsible for furnishing their tax returns and computing their relevant tax liability (Hanefah, 1996, p. 3). *Section 77A* of the ITA requires corporate taxpayers to give notice of chargeability of income tax by way of filing their annual income tax returns. Generally, corporate taxpayers are required to furnish their tax returns, specifying the chargeable income and the amount of tax payable, for that YA within seven months following the end of the accounting period. Non-compliance with this provision could lead to a penalty of between RM200 and RM2,000 and/or imprisonment for up to six months (*Section 112*). Taxpayers are also required to ensure the correctness of their tax returns. Further penalties apply in the case of non-compliance (*Sections 113 and 114*).

3.6.4.2 Keeping Records and Documentation

Although supporting documents are not required when submitting income tax return forms, taxpayers are required to keep in safe custody sufficient records and documentation for seven years (*Sections 82 and 82A*). For this purpose, records include books of account recording receipts (income) and payments (expenditure), invoices, vouchers, receipts and other relevant documents that verify the accounting entries [*Section 82 (9)*]. The Act also requires companies with an annual turnover exceeding RM150,000, or RM100,000 from the performance of services, to issue a printed receipt serially numbered and to retain a duplicate copy of each receipt issued [*Section 82(1)(b)*]. However, these supporting documents are only to be presented if requested by tax auditors during an audit. Failure to maintain adequate records and documents makes a company liable to a fine of between RM300 and RM10,000 or/and to imprisonment for a period of up to one year (*Section 119A*).

3.6.4.3 Estimating Income Tax Payable

Under a SAS, corporate taxpayers are obliged to estimate their own income tax payable for the current YA, inform the tax authority of the estimate and pay the estimated tax via monthly deductions (Choong, 2003). Every company is required to furnish an estimate of income tax payable for a YA on a “prescribed form” (*CP 204*) not later than 30 days before the beginning of the basis period [*Section 107C(2)*]. With effect from YA 2006, *Section 107(3)* further provides that the estimation of tax payable for a YA shall be at least 85 percent or greater than the estimate of the income tax payable for the immediate preceding YA.

Upon receiving *CP204* the IRBM issues a notice of payment (*CP205*) and 12 monthly instalment slips (*CP 207*), with the relevant information. This is performed before the commencement of the beginning of the basis period. The monthly income tax payment by the company must be accompanied by the monthly instalment slip. This is to ensure that the amount of tax payable can be credited to the appropriate account. The monthly instalment payment is due on the 10th of every month commencing from the second month of the basis period. Failure to pay the monthly tax instalment on the 10th day subjects the company to a 10 percent penalty on the amount unpaid [*Section 107C(9)*].

In a SAS regime, a company is expected to pay the appropriate tax in the current year. A 10 percent penalty is imposed if the difference between the tax estimate and actual income tax payable exceeds the 30 percent margin of error. To avoid such a penalty, revision of estimates is essential. Effective in YA 2003, a company may revise the estimate of income tax payable, submitted via *CP204A*, in the sixth month, or the ninth month, or in both the months of the basis period for a YA. The tax payable for the remaining months shall be revised upward or downward accordingly. In the event that the amount of instalments paid exceeds the revised estimate, the remaining instalments shall cease immediately. The difference between the income tax payable in the tax return and the instalment is due and payable on the last day of

the seventh month following the end of the accounting period. The final balance needs to be settled in the seventh month from the accounting year in order to avoid the monetary penalty of 10 percent plus 5 percent.

3.6.4.4 Providing Reasonable Assistance and Facilities during an Audit

A taxpayer must provide reasonable assistance and facilities to IRBM officers during an audit. Non-conformity with this provision can result in the taxpayer being liable to a fine of between RM1,000 and RM10,000 or imprisonment for a term of up to one year, or both (*Section 116*). The IRBM issued a public ruling giving general guidelines on the facilities and assistance that are to be provided to audit officers during an audit (Inland Revenue Board of Malaysia, 2000). The guidelines require the following provisions:

- i) free and full access to lands, buildings and other places must be provided to the authorised officer immediately upon such a request being made to the owner and/or the occupier. Any obstruction or hindrance to full and free access should be removed.
- ii) an explanation of the office system and the accounting system must be given if so required. The accounting manual, chart and code of accounts including computer and software manuals should be made available. Access should also be given to physical and/or electronic records, documents and books of accounts.
- iii) information should be given as to where the records are kept and assistance should be given in identifying and locating the documents, records and books of accounts requested by the Director General or an authorised officer.
- iv) use of facilities such as copier, telephone or other communication equipment, lighting and power, office workspace and furniture should be provided. Facilities should also be provided for copying of electronic records on to tapes, disks or diskettes.

Details of the rights and responsibilities of taxpayers during audit activities are provided in the Tax Audit Framework (Inland Revenue Board of Malaysia, 2009c, pp. 11-12). Nonetheless, as tax audits are a primary function within a SAS environment, this information should also be disseminated to taxpayers through other means for audit activities to be effectively executed.

In short, an understanding of corporate taxpayer responsibilities in meeting their tax obligations under a SAS is imperative in assessing the efficacy of the system. Similarly, identifying areas of tax-related difficulties encountered by corporate taxpayers in complying with these obligations may provide valuable insights to the tax authority in designing appropriate policies to improve voluntary compliance under a SAS.

3.7 Tax Agents

In Malaysia, there are stringent conditions and requirements for intending tax agents. *Section 153(3)*, of the ITA states that a “tax agent” means:

- i) a professional accountant authorised by or under any written law to be an auditor of companies;
- ii) any other professional accountant approved by the Minister; or
- iii) any other person approved by the Minister on the recommendation of the Director General.

The role of a tax agent includes exercising reasonable care in the performance of duties as a tax representative to corporate taxpayers [*Section 114 (1A)*]. Although *Section 114 (1A)* can be revoked where there is an understatement of tax by corporate taxpayers, tax agents assume onerous responsibilities to ensure that tax returns submitted are in compliance with the ITA and Public Rulings (Lai & Choong, 2009, pp. 12-13). In addition, tax agents are expected to educate taxpayers on their

rights and responsibilities, inform the company's directors of relevant tax laws and update them on a regular basis.

In Malaysia, more than 90 percent of corporate taxpayers use tax agents, while only 19 percent of individual taxpayers without business income do so.¹⁸ Unexpectedly, less than five percent of individuals with business income, a group with more complex tax computations, use tax agents. However, tax agent representation among individuals with business income may be underestimated. The likely explanation is that many tax agents that handle tax matters for this group of taxpayers do not usually identify themselves as they do not want to be responsible for the accuracy of financial statements (essentially because of incomplete records and unaudited books).¹⁹ Tax agent official representation in Malaysia is shown in Table 3.8.

Table 3.8: Tax Agents' Representation in Malaysia, 2009

Taxpayer Groups	Number of Taxpayers	Number of Tax Agents	Percentage
Company	177,200	162,226	91.5
Individual without business income	586,624	112,496	19.2
Individual with business income	1,957,245	83,267	4.3

Source: Inland Revenue Board Malaysia (Personal communication, 18th August, 2010)

The Chartered Tax Institute of Malaysia (**CTIM**) is one of few professional bodies that are actively involved in creating awareness and promoting the tax profession in Malaysia. The CTIM is also responsible for matters concerning taxation in Malaysia and participates in numerous dialogues and meetings organised by the relevant

¹⁸ Inland Revenue Board Malaysia (Personal communication, 18th August, 2010).

¹⁹ Refer Chapter Two, Section 2.8.3.3.

authorities namely the Ministry of Finance, the IRBM, the Tax Analysis Division and the RMC. The CTIM has over 2,600 members comprising accountants, licensed tax agents, lawyers, members from commerce and industry and other tax practitioners such as members of the IRBM.

3.8 Chapter Summary

This chapter presented an overview of Malaysian taxation and the responsibilities of the IRBM, particularly regarding tax education and tax audit programmes under the SAS environment that have been operative since 2001. In addition, the definition of corporate taxpayers and the computation of corporate income tax were analysed. Finally, the chapter examined the responsibilities of corporate taxpayers and tax agents under SAS.

The chapter started with the background information of revenue sources derived by the Malaysian Federal Government and the composition of different tax revenue streams. Moreover, the chapter highlighted the chronological transition from OAS to SAS and discussed the reasons associated with the migration as well as the key technical characteristics between the two assessment systems. Furthermore, the IRBM roles and accountabilities were explored particularly how the IRBM has managed to position its value added services as a critical factor to ensure sustainability of the Malaysian Federal Government sources of revenue. Though the IRBM is under the supervision of MOF, its highly decentralised organisational structure and authority vested under the ITA allows it to exercise absolute authority in ensuring that the tax compliance of parties fall under the direct taxes category improve.

The IRBM responsibilities were discussed in the area of tax education programmes, tax audit programmes and tax enforcement activities. Due to the new IRBM focus of encouraging voluntary compliance among taxpayers, the first two programmes have been regarded as a significant measure of success in terms of promoting and

increasing general awareness and knowledge in tax education. Programmes such as tax briefings and workshops, small traders' support service unit, tax information via internet and IRBM publications are classified under tax education programmes.

Desk and field audits are the measures taken under tax audit programmes while SSO and MTD are viewed as part of tax enforcement activities, which serve as deterrent factors. The migration from OAS to SAS and its effects upon IRBM audit activities and the financial impact in the area of taxes and penalties were also discussed. Reports by the National Auditor General and tax professionals provide useful feedback for measuring the effectiveness and efficiency of IRBM tax audits. Based upon these reports, factors such as limited manpower, inexperienced tax auditors, incomplete records/documentation, tax audit procedures and tax auditors have been identified as key areas to be addressed immediately in ensuring the effectiveness and efficiency of the IRBM tax audits. In response, the IRBM issued a Tax Audit Framework to ensure that its tax audit programmes continue to be successful and sustainable. The ITA further provided specific penalties for defaulting taxpayers.

Finally, the method of corporate tax computation, applicable tax rates and responsibilities of corporate taxpayers were discussed and the role of tax agents as a representative of corporate taxpayers was highlighted.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Chapter Overview

The aim of this chapter is to present the research approach that guided this study. This is done by outlining the research objectives, research design and phases of the research. In each phase of the research, data collection methods and data analysis techniques are elaborated.

The chapter is organised into five main sections. Following the outline of the research objectives, a discussion of the research design and the rationale for employing mixed methods approaches is provided. Thirdly, the procedures for the qualitative investigation are presented, including explanations of the data collection, analytical and validation techniques. Fourthly, the procedures for the quantitative investigation are illustrated, comprising details of the survey instruments and the statistical procedures employed to analyse the data. Finally, the ethical standards and guidelines followed by the researcher throughout this study are presented. The chapter concludes with an overall summary.

4.2 Research Objectives

The main objectives of this study are to identify corporate taxpayers' compliance variables and to examine their attitudes on these compliance variables. This study also aims to establish whether business characteristics influence these compliance variables. The main research questions are as follows:

RQ1: What are the corporate taxpayers' compliance variables?

RQ2: Do business characteristics influence the corporate taxpayers' compliance variables?

RQ3: What are corporate taxpayers' attitudes to each of the compliance variables?

RQ4: Do business characteristics influence corporate taxpayers' attitudes to each of the compliance variables?

The identification and examination of corporate taxpayers' compliance variables is important in understanding compliance behaviour and may provide important information to the tax authorities in developing appropriate strategies to improve overall compliance.

4.3 Research Design

Research designs are the plans and the procedures for the research to achieve its objectives that span the decisions from broad assumptions to detailed methods of data collection and analysis (Creswell, 2009, p. 3). As the central premises of this study are to identify corporate taxpayers' compliance variables and to measure their attitudes towards each variable, a mixed methods approach is deemed appropriate. A mixed methods approach involves a combination of both qualitative and quantitative investigation in a single study or series of studies as defined by Creswell and Clark (2007, p. 5):

“... a research designs that encompasses both methodology and methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. As a method, it focuses on collecting, analysing and

mixing both qualitative and quantitative data in a single study or series of study.”

Mixed method researchers view the world as complex and therefore not simply understood by using only one approach. The central premise of the mixed method approach is that the use of qualitative (constructivist) and quantitative (positivist) approaches in combination provides a better understanding of research problems than either approach alone (Teddlie & Tashakori, 2009, p. 34). The use of mixed methods inquiry allows the researcher “...to understand more fully, to generate deeper and broader insights, to develop important knowledge claims that respect a wider range of interests and perspectives” (Greene & Caracelli, 1997, p. 7).

Research employing the mixed methods approach has become increasingly common in recent years and has come to be seen as a distinctive research approach in its own right (Bryman, 2006, p. 97). The use of mixed methods in taxation research is also supported by Torgler (2007, p. 52) and McKerchar (2008, 2010). It is argued that the use of mixed methods allows the strengths and weaknesses of the qualitative and the quantitative methods to complement one another and enables the researcher to better understand the phenomenon under study (McKerchar, 2008, p. 20) .

The typologies of mixed method designs are not exhaustive due to the design’s capacity. Green, Caracelli and Graham (1989) examined 57 mixed method studies and were the first to develop a typology for the designs used in those studies, based on design characteristics and functions. Recently, Creswell and Clark (2007, p. 59) reclassified their design of mixed methods into four typologies: triangulated, embedded, explanatory and exploratory design.

The triangulation design is the most common and well-known approach with the purpose of obtaining different but complementary data on the same research subject. When a single data set is not sufficient, different questions need to be answered, and as each question requires different types of data, an embedded design is the most

appropriate method. A two-phase mixed method design is necessary for the explanatory and exploratory designs. While the qualitative data helps the researcher to explain or build upon the quantitative data in the explanatory design, the results of the first method (qualitative) help to develop or inform the second method (quantitative) in the exploratory design.

In the current study, as little information is known on corporate taxpayers' compliance variables, an exploratory design is appropriate. Creswell and Clark (2007, p. 75) suggest that the exploratory design is "...particularly useful when a researcher needs to identify important variables to study quantitatively when the variables are not known." Although it is possible to use a quantitative approach, exploratory research relies heavily on qualitative techniques (Hair, Money, Samouel & Page, 2007, p. 154). In addition, in transcending the boundaries of understanding the complexities of social experience, such as tax compliance, Mason (2006, p. 10) proposes the use of a qualitative approach as a starting point (rather than a definitive framework as used in a quantitative study).

However, the qualitative data is only an initial exploration to identify variables, constructs and taxonomies for quantitative studies. The exploratory mixed methods design seeks to use the results from one method to help develop or inform the other method, where development is broadly construed to include sampling and implementation, as well as measurement decisions (Bryman, 2006, p. 106). For example, a survey instrument needs to be developed based on the qualitative data. A two-phase exploratory mixed method is employed in the current study, in which a qualitative approach is conducted first followed by a quantitative approach.

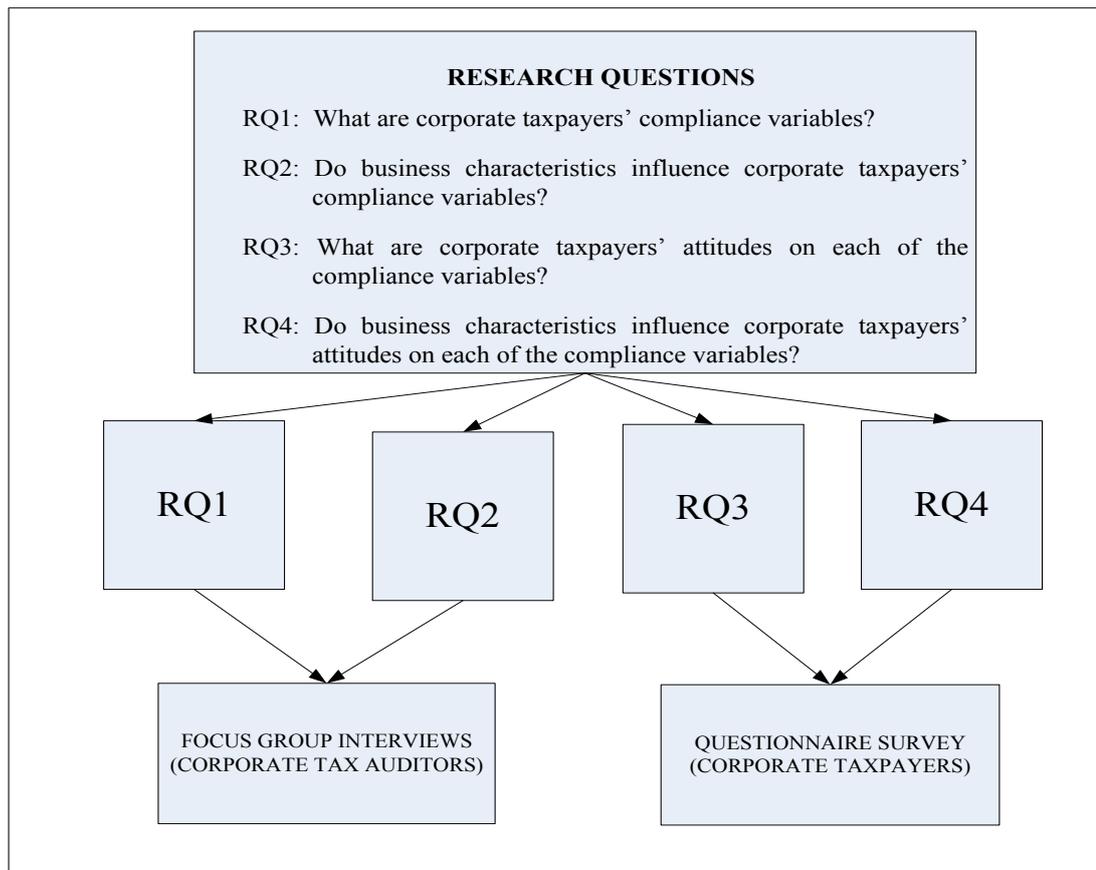
The purpose of this two-phase exploratory mixed method study is to explore participants' views of corporate taxpayers' compliance variables with the intent of using this information to develop a survey instrument to be used with corporate taxpayers. The reasons for collecting qualitative data initially are that information on corporate taxpayers' compliance variables is limited and there is no suitable existing

survey instrument to assess corporate taxpayers' compliance variables. Using findings from the qualitative investigation, a survey instrument was developed to measure the level of the compliance variables.

It is worth noting that the outcomes of mixed-method research are not always predictable (Teddlie & Tashakori, 2009, p. 286). For instance, unanticipated findings may be generated and may suggest unexpected consequences of combining them. This issue is elaborated upon in Chapter 7 where the author synthesises the findings from the qualitative and quantitative investigations.

To summarise, the first phase of the study is a qualitative exploration of corporate taxpayers' compliance variables, for which qualitative data is collected from focus group interviews involving corporate tax auditors from the IRBM in Malaysia. Statements and/or quotes from this qualitative data are then developed into a survey instrument, so that the qualitative findings can be further examined using a quantitative method. In the second phase, quantitative data from a survey of selected corporate taxpayers is collected. The research design encompassing both the qualitative and quantitative investigations conducted for this study is illustrated in Figure 4.1 and discussed in the following sections.

Figure 4.1: Mixed Methods Research Design



Source: Author

4.4 Phase One: Qualitative Investigation

4.4.1 Introduction

The main objective of this qualitative investigation is to explore corporate taxpayers' compliance variables. Qualitative investigation is seen as especially important because it is useful in exploring real organisational practices, focusing on "understanding particulars" rather than "generalising to universals" as quantitative investigation is said to do (Maxwell, 1992, p. 296). In addition, qualitative research is valuable in its depth and its ability to uncover and interpret mechanisms behind behaviours and the making of meaning (Gerhardt, 2004, p. 10).

Many methods, subjects, views and approaches fall under the category of qualitative research such as case studies, politics and ethics, participatory inquiry, interview, participant observation, visual methods and interpretive analysis (Denzin & Lincoln, 2003, p. 3). These qualitative techniques allow researchers to share in the understanding and perceptions of others and to explore how people structure and give meaning to their daily activities (Berg, 2004, p. 7). The current study employed focus group interviews; the rationale and procedures involved in this first-phase investigation are discussed next.

4.4.2 Focus Group Interviews

Focus group interviews are in-depth and interactive, and yield qualitative data (O'Donnell, 1988, p. 71). Focus group interviews rely on the strength of qualitative methods, including exploration and discovery, understanding of things-in-depth and in context and interpreting why things are the way they are and how they got that way (Morgan, Krueger & King, 1998, p. 31). Krueger (1988, p. 18) defines focus group interactions as "... carefully planned discussion designed to obtain perceptions in a defined area of interest in a permissive, non-threatening environment."

The origins of focus groups are generally ascribed to opinion gathering in marketing or political research, where speed, low cost and flexibility often take precedence over representativeness or rigour (Morgan et al., 1998, pp. 38-42). For example, speed and low cost are associated with the ability to tap the views of a number of people at one time, rather than one by one. Fern (2001, p. 3) claims that focus groups are well-established in methodology as they have long been employed in anthropology, ethnography and qualitative social science. In addition, focus groups have proven to be enlightening to social research and they have been used in taxation research (for example Woellner et al., 1998).

Focus groups possess "... elements of participants' observations and individual interviews and are primarily a means of listening to people's views on a specific area

of inquiry...” (Morgan et al., 1998, p. 2). In addition, a sense of group membership and cohesiveness support and empower the ‘dynamics’ of attitudes and opinions in the context of the interaction that occurs between participants as well as encouraging a greater degree of spontaneity in the expression of views (Sim, 1998, p. 346).

Nonetheless, focus groups have several weaknesses, such as instances where the researcher has less control over the group (relative to one-to-one interviews), thus time can be wasted on issues irrelevant to the topic. In addition, the data is difficult to analyse because the discussion is in reaction to the comments of other group members. As focus groups are qualitative inquiries, findings cannot be projected onto the larger population (Krueger, 1988; Sim, 1998; Seymour, Gary, Merryn, Sam & David, 2002).

Considering the above weaknesses, this researcher structured the focus group instrument in such a way that the discussion was relevant to the topic, and ensured that every participant was given equal opportunity to participate in the discussion. Further, having participants with the same working background (that is, all participants were tax auditors from the IRBM) facilitated an effective and fruitful discussion.

Most focus groups consist of around six to twelve people. Merton, Fiske and Kendall (1990, p. 137) suggest that the size of the group should manifestly be governed by two considerations that “... should not be so large as to be unwieldy or to preclude adequate participation by most members nor should it be so small that it fails to provide substantially greater coverage than that of an interview with one individual.” It is further argued that the number of groups depends on the different sub-groups required. If there are several distinct population segments, the researcher may want or need to run separate groups in each segment (Morgan, 1998, pp. 77-83).

4.4.3 Data Collection

Tax auditors play a major role in ensuring that the information provided by taxpayers in their tax returns is adequate and accurate. In discharging their audit activities, tax auditors face a range of challenges and take up the best available opportunities to handle these, while simultaneously trying to undertake their jobs effectively. In achieving the research objectives, a qualitative methodology in the form of focus groups was adopted.

Eight focus group interviews involving 60 corporate tax auditors from the IRBM were conducted in early 2009. Drawing on information from their daily experience of conducting corporate tax audits, tax auditors' perceptions of the possible compliance variables were considered to be a most influential and invaluable source. The raw data gathered during the focus group interviews was exploratory in nature, with the purpose of identifying corporate taxpayers' compliance variables from tax auditors' perspectives.

The author served as the moderator for all focus group sessions as the moderator is responsible for building rapport within the group (O'Donnell, 1988, p. 72). The moderator commenced each focus group session by introducing herself, providing a brief explanation of the research, and specifying how results from the research would be used. This acted as a guide to how the focus group would proceed. Likewise, the participants were then invited to introduce themselves, indicating their names, positions and working experience prior to joining the IRBM and the tax audit department.

All sessions followed a semi-structured interview format and similar issues were discussed at each focus group meeting. Two major themes were explored during the focus group interviews:

- i) tax auditors' experiences in conducting corporate tax audits; and
- ii) tax auditors' perceptions of corporate taxpayers' compliance variables.

With permission from focus group participants, all sessions were tape-recorded and notes were taken by a research assistant as a means of verifying and augmenting the recorded discussion.²⁰ In addition, these arrangements allowed the researcher to fully engage with the group discussion. After each session, the moderator summarised the major points of the discussion and briefly explained the steps of data analysis to be undertaken by the researcher following the focus group sessions. Transcriptions of all the recorded sessions were conducted at the end of the sessions by the researcher.

4.4.4 Data Analysis

Data analysis was undertaken after all focus group interviews had been completed in the qualitative research stage. Data, in the form of phrases and sentences, of all eight focus groups interviews, was transcribed using Microsoft Word. The transcribed documents were then “exported” to a computer software package known as Nvivo8. The Nvivo8 software enabled the researcher to create language lists, coding categories and a “knowledge tree” (Bazeley, 2007, p. 4). This task was made easier by the focus group questions having been designed purposely to be broad and open-ended. The specific focus group interview instrument is presented in Appendix A 1.

During the analysis process, the researcher worked through the focus group data (notes and transcription) in identifying particular concepts, themes and sub-themes discussed by each participant, and converted them into categories for coding. In the subsequent analysis, a verbal matrix was created that allowed the researcher to

²⁰ The roles of the research assistant are mainly to assist the researcher in setting up the venue for the focus group interview and taking notes during the interview session.

cluster common compliance variables and relevant quotes. In order to ensure consistency between the language of respondents and the categories used to illustrate their perceptions, guiding themes were developed, which resulted in themes that were more comprehensive.

4.4.5 Data Validation

In focus group research, the actual words of participants are used to find out their attitudes and thoughts about the topic of discussion. Several steps were taken by the researcher to ensure the quality of the information, and to ensure that the results were a valid reflection of how the participants felt and thought about the topic. These included listening carefully to participants, observing how they answered, taking notes (by the research assistant) and seeking clarification on areas of ambiguity. At the end of each session, participants were asked to verify the summary of the focus group discussion.

A study by Manning (1997) points out that the most crucial technique for establishing the ‘credibility’ of qualitative research data is through “member checks”, in which those who participate in research are invited to comment on the interpretations made by the researcher. To do this effectively, the researcher conducted three separate short meetings in Kuala Lumpur with nine of the focus group participants. During the meetings, the researcher provided summaries and findings from the focus group discussions.

The summaries and findings from the focus group discussions were welcomed and were judged as accurate and fair summaries by the participants. These meetings enabled the participants to compare the views of their respective group with those of other groups. This exercise not only improved the validity of the focus group findings, but also gave the participants opportunities to raise several issues, as well as providing more information and clarification. This process generated valuable ideas

for the researcher. In summary, most of the accepted steps/procedures were taken to ensure the focus groups results were trustworthy and valid.

4.5 Phase Two: Quantitative Investigation

4.5.1 Introduction

The main objective of this quantitative investigation was to examine corporate taxpayer attitudes on the compliance variables identified from the qualitative investigation. The respondents for the quantitative study were corporate taxpayers in Malaysia. A survey questionnaire was developed to collect data at one point in time from selected corporate taxpayers.

4.5.2 Survey Questionnaires

Survey techniques have been used to study beliefs, opinions, attitudes, motivations and behaviour by selecting a sample of a population to learn the status quo or to discover interrelationships among variables of interest (Dillman, 2007, p. 9). Some of the popular methods used to obtain survey information include face-to-face interviews, telephone interviews, questionnaires (administered, mail or internet), and panel discussion groups. Each of the survey methods employed has its own advantages and disadvantages and has been discussed extensively by many scholars (for example De Vaus, 2002; Babbie, 2010).

The quality of survey responses is often an important consideration in survey methodology. A quality survey is the one that is accurate, referring to the results that are close to the views of the “true” population. Sample surveys yield accurate results when the researcher succeeds in minimising four kinds of error: coverage, sampling, measurement and non-response (Salant & Dillman, 1994, p. 13). For example, the difficulty in obtaining a representative sample of the population of interest results in respondents taking part in the survey who may not being representative of the population (Lohr, 2008, p. 100). In addition, the opinions of those who choose not to

respond may be different from the responses actually obtained (Salant & Dillman, 1994, pp. 20-21). Further, survey questionnaires suffer bias such as respondents not remembering or misunderstanding, and respondents having cognisance of the issue or deliberately concealing information (Hite, 1988, p. 448).

Despite these problematic issues, the survey technique has the potential to complement other methods (Creswell, 2008, p. 62) and cost-effectiveness is frequently cited as a key advantage of a survey over personal interviews (Keeter, 2005, p. 158; Abdul-Jabbar, 2009, p. 68). Other advantages of survey questionnaires include quicker administration, absence of interviewer effects, access to wide geographical areas and convenience for respondents to respond (Bryman, 2006, p. 142).

In tax research, many international studies have employed a survey methodology to investigate taxpayer attitudes and compliance behaviour (for example Spicer & Lundstedt, 1976; Song & Yarbrough, 1978; Grasmick & Scott, 1982; Warneryd & Walerud, 1982; Lignier, 2009; Dijke & Verboon, 2010) as well as in Malaysia (for example Sia, 2008; Abdul-Jabbar, 2009; Palil, 2010; Saad, 2011a). The survey instrument used in this study was considered appropriate because research on tax matters is usually considered personal and confidential (McKerchar, 2001; Zikmund, 2003). Furthermore, a mail survey was more appropriate in a sensitive area such as taxation as this approach provides genuine anonymity and eliminates the bias of the researcher (Sandford, 1995; Loo et al., 2009). The following sections discuss the survey design, survey distribution and data analysis.

4.5.3 Survey Design

The design of the survey instrument for this study was based on findings from the qualitative investigation that provided the researcher with four main corporate taxpayers' compliance variables. Sekaran (2005, p. 236) defines a survey instrument as "... a preformulated written set of questions to which respondents record their

answers, usually within closely refined alternatives.” He further suggests that a good survey instrument design should focus on three areas, namely the wording of the questions, the principles of measurement and the general appearance of the questions.

Suggestions made by authors in the field of survey methods (for example Dillman, 2007; Dillman, Smyth & Christian, 2009), previous tax studies (for example Pope, 1993a; McKerchar, 2002b; Abdul-Jabbar, 2009) and sample surveys conducted by international tax authorities (mainly from Australia, Canada, NZ, the UK and the US) were considered in writing and designing the survey instrument.

The Tailored Design Method (**TDM**) pioneered by Dillman (2007) was largely adopted in designing the survey questionnaire. The TDM includes identifying each aspect of the survey process that seemed likely to affect either the quality or quantity of response, organising the survey effort, considering causes of survey error (that is, sampling, coverage, measurement and non-response) and determinants of response behaviour (Dillman, 2007, p. 9).

Considering various suggestions in the TDM and from other researchers, the following measures were adopted in designing the survey:

- i) Questions were worded circumspectly, kept as short as possible and made as easy as possible to respond to (such as use of dichotomous and Likert-scale answers).
- ii) Survey layout was based on a technique mainly suggested by Pope (1993a, pp. 88-89), such as bold print for questions, light print for answer choices and white boxes for answer spaces.
- iii) Booklet design was used incorporating a cover page, cover letter, general instructions, survey questions and an information sheet for participants.
- iv) The study was conducted with the International Islamic University Malaysia (IIUM) affiliation.

- v) Anonymity was assured in the Information Sheet.
- vi) Contact details of the researcher (telephone, address and e-mail address) were made available for any query.
- vii) Human Ethics approval was sought by the researcher before commencement of the research.²¹
- viii) Respondents were given an opportunity to express their views by providing a number of open-ended questions.
- ix) Respondents were given the option of providing their contact details.
- x) Appropriate timing of the survey was considered that is, February, as at this time most corporate taxpayers (that is, those companies with a December year-end) have just closed their financial accounts and have submitted their income tax estimates to the IRBM.
- xi) A stamped returned envelope was provided for the postal survey.
- xii) The survey was printed in colour, using high-quality paper and a clear layout so that respondents would understand that a professional study was being undertaken.

In attempting to obtain honest and valid responses from respondents, the logos of Curtin University and the International Islamic University Malaysia (main sponsors) were printed on the cover page and cover letter. Bryman and Bell (2003, p. 144) argue that mentioning sponsorship of a study is a good way to increase the response rate because respondents will believe that the research is considered valid and has gone through a thorough process of revision and evaluation. Acknowledging such sponsors may also increase confidence that the survey is not linked with the tax authority. Furthermore, the cover letter provided also contained an explanation of the research and emphasised its independence, in an attempt to reduce bias in responses.

²¹ The Human Ethics approval processes are discussed later in Section 4.6.

In short, all the above measures were taken in an attempt to increase the response rates since responses from previous studies, particularly mail surveys in Malaysia, were lower compared to other countries such as the US, the UK, Australia and NZ (Palil, 2010, p. 241). Further details of the survey design are discussed in the following two sections, covering the survey development and including the measurements used for each variable, pre-test and pilot test.

4.5.3.1 Survey Development

Items used to measure the respective variables examined were adapted from past studies and some were self-developed based on the qualitative results from this study. Generally, in examining corporate taxpayer attitudes towards the compliance variables, all items were mainly measured by way of a six-point Likert scale. The Likert scale has been used extensively in the area of tax compliance research, both internationally (for example Fischer et al., 1992; Christensen, Weihrich & Gerbing, 1994; Richardson, 2005) and in Malaysia (for example Hanefah, 1996; Sia, 2008; Abdul-Jabbar, 2009; Saad, 2010).

A six-point Likert-type scale was mainly used for the respondents to express their opinions, with each statement ranging from “Strongly Disagree (1)” to “Strongly Agree (6)”. All the items were scaled such that a higher number reflected more agreement with the statement. The main reason underpinning the choice of the six-point scale (instead of five or seven-point) was to avoid a central tendency error. This refers to the tendency of respondents to answer using the middle response that is “neutral”. The pattern of choosing a neutral answer is common in many research studies conducted in Asian countries, including Malaysia (Trompenaars & Charles, 1998, p. 81).

The survey instrument comprised seven sections namely Sections A to G. Sections A, B and G were statements related to corporate business characteristics, tax compliance activities and respondents’ demographic background, respectively.

Sections C, D, E and F incorporated measures for the compliance variables examined in this quantitative investigation. A copy of the survey questionnaire is shown in Appendix B1. Details of each section of the survey follow.

Section A of the questionnaire was designed to obtain the business characteristics of corporate taxpayers, namely length of time in business, industry and size (by both number of staff and annual turnover).

Section B dealt with the tax compliance activities of the companies, including the filing year of the latest tax returns, the company's effort in the keeping of accounting records and the company's confidence level in the legitimacy of expenses claimed. Section B also entailed providing information regarding areas of tax-related difficulties faced by the company. These areas (9 items) were used as a proxy for tax complexity. The respondents were given the option of selecting more than one answer.

Section C elicited attitudes towards tax knowledge (*TK*). Using six-point Likert scales ranging from Strongly Disagree (1) to Strongly Agree (6), three components of tax knowledge were examined, namely corporate taxpayer awareness of a SAS (*TK1-3 items*), awareness of audit roles (*TK2-3 items*) and perceptions of audit probability (*TK3-1 item*).

Section D consisted of variables measuring the experience of corporate taxpayers when dealing with tax audits. First, information relating to tax audit activities such as audit year(s) and financial impact that is, additional tax liability and tax penalty, was requested. Secondly, using six-point Likert scales ranging from Strongly Disagree (1) to Strongly Agree (6), respondents were required to indicate their attitudes toward the audit experience (*AE1 - 17 items*). Included in this section was one question to elicit respondents' perceptions of the audit (*AE2 - 1 item*). Thirdly, respondents' attitudes toward the professional proficiency of tax auditors throughout

the audit activities (*AE3 – 9 items*) were examined. A six-point Likert scale ranging from Poor (1) to Excellent (6) was employed for this purpose.

Section E requested respondents to estimate the costs of tax audits in terms of internal costs (monetary costs and total number of hours taken by all staff) and other internal costs (both monetary and non-monetary costs) incurred by the companies throughout the audit process. Respondents were also required to estimate the duration (day, weeks or months) of the tax audit activities undertaken by tax auditors for different audit stages such as visiting the premises, issuing audit findings, handling audit queries, finalising the audit case and the total time taken for the audit activities.

It is worth noting that the original research purpose of Section E was to estimate the total costs of being audited incurred by corporate taxpayers. For the reason that this objective is beyond the scope of this study, the results of this section are not included in this thesis.²²

Tax agents play an important role in corporate taxpayers' compliance activities. Therefore, Section F was designed to analyse the reasons why corporate taxpayers employ tax agents.²³ Using six-point Likert scales ranging from Strongly Disagree (1) to Strongly Agree (6), respondents were asked to indicate their attitudes towards six statements concerning the reasons for employing tax agents. The respondents were also required to estimate the annual fee paid to tax agents for handling their income tax matters for the YA 2008.

Finally, Section G elicited demographic information of respondents in the survey, such as their current job position and the number of years they had held it.

²² It is intended to include these specific findings in a future research paper.

²³ It is worth emphasizing that respondents for the survey are corporate taxpayers and not tax agents.

4.5.3.2 Pre-Test and Pilot Test

Pre-tests and pilot tests of the survey instrument were undertaken prior to distribution to potential respondents. The pre-test was performed among doctoral students from a university business school with significant research experience, to test the face validity (Hair et al., 2007, p. 246). Changes were made accordingly, following several comments and suggestions made by the participants.

A pilot test (a small-scale trial before the main investigation) among representatives of the target population was essential to gauge the length of time it might take to answer the questions, and to investigate whether the questions were properly understood by the respondents (Babbie, 2008, p. 283). The pilot test in general is also intended to assess the adequacy of the survey instrument to be used for data collection. Eighteen respondents who were in charge of the tax matters of their companies in Malaysia participated in the pilot test.

As the survey instrument was mainly self-developed based on the exploratory data collected from the qualitative investigation, a detailed discussion of the survey was also conducted with audit managers from the IRBM, who contributed some suggestions and comments, before it was finalised and distributed to respondents. A copy of the final survey is shown in Appendix B 1.

4.5.4 Survey Distribution

In achieving the objectives of this quantitative investigation, a survey among corporate taxpayers with audit experience was initially intended. As selecting the population of companies with audit experience, and getting access to their data is typically difficult, cooperation from the IRBM to distribute the survey was sought. Several meetings were conducted between the researcher and the top management of the IRBM to discuss the selection of samples and the distribution of surveys. Approval by the IRBM was given to the researcher in November 2009.

Unfortunately, when the survey was ready for distribution in early 2010, the IRBM had to withdraw from participating for policy reasons.

The reason the IRBM withdrew from participating in the distribution of surveys to corporate taxpayers was mainly due to Section 138 of the Income Tax Act 1967. Under this provision, every classified person (including employees of the IRBM) shall regard and deal with classified materials as confidential. The classified materials include the name, address, occupation or other description of a taxpayer. The IRBM thus has a cautious policy of not disclosing any classified material (name and address of taxpayers) to the researcher. It also cannot give any assistance in distributing a survey to taxpayers. The DG of the IRBM then personally requested the CTIM to distribute the survey instead.

The CTIM is the body that is actively involved in the promotion and the creating of awareness of the tax profession in Malaysia.²⁴ The CTIM agreed to distribute the survey by mail to its tax agent members, and to provide a cover letter in the survey envelope to each tax agent.²⁵ However, for confidentiality and privacy issues, the CTIM maintained the list of the tax agents and did not disclose the list to the researcher. This privacy condition imposed by the CTIM precluded any follow-up action being taken by the researcher in minimising non-response bias. As more than 90 percent of corporate taxpayers in Malaysia employ tax agents,²⁶ distribution of the survey through the CTIM was deemed appropriate.²⁷

Acknowledging the low response rates from surveys, as identified in many studies (for example Salant & Dillman, 1994; De Vaus, 2002; Royse, 2011), a mixed-mode survey was employed. The mixed-mode survey refers to using several methods in

²⁴ Refer Chapter Three, Section 3.7.

²⁵ Refer to Appendix B 2.

²⁶ Refer Chapter Three, Table 3.8.

²⁷ It is important to note that the surveys were intended for corporate taxpayers and not tax agents. Tax agents were requested to distribute the surveys received from the CTIM to their corporate clients.

collecting survey data (Dillman, 2007, p. 217). The essence of the mixed-mode survey is that reliance on only one survey mode does not provide assurance in reaching or eliciting responses from most of the sampled respondents.

There are many forms of mixed-mode design such as designs that focus on data collection and its objectives, and the timing of interaction with respondents (De Leeuw, Hox & Dillman, 2008, pp. 303-306). The use of a mixed-mode survey assisted the researcher in improving the overall response rate and extending the coverage of respondents not included in other methods. Each mode was used in a way and to an extent that was most cost-effective.

The mixed-mode survey employed to distribute the survey to respondents in the current study comprised three sampling methods, namely stratified random sampling, snowball sampling and convenience sampling. Problems related to measurement differences in the mixed-mode survey were minimised as this study used only one survey instrument for all the three different modes (Dillman, 2007, p. 219). The following sections discuss each sampling method employed for this quantitative study.

4.5.4.1 Stratified Random Sampling Method

Stratified random sampling is a process of segregating the samples into several mutually exclusive groups and then randomly selecting samples from each of the segregated groups (Sekaran, 2005, p. 272). It involves dividing the population into non-overlapping groups – strata. Simple random samples are drawn from each stratum and together they form the total sample. The stratified random sampling method is efficient in providing more and better information with a given sample size.

An initial sample frame of 2,400 surveys was distributed to corporate taxpayers. The sample size of 2,400 was chosen after considering the expected response rate and the

need to have between 150 and 200 completed responses and to have reasonable confidence in the statistical generalisations to be derived. Theoretically, based on a five to ten percent response rate, a conservative rate, as compared to other survey studies, was estimated by the researcher to be the receipt of 120 to 240 responses. Fowler (1993, pp. 30-33) demonstrates that a sample of 150 respondents would describe a population of 15,000 or 15 million with virtually the same degree of accuracy.

As the initial objective was to survey corporate taxpayers with audit experience, the distribution of the survey to each tax agent was based on the number of corporate tax audits conducted by IRBM branches and the number of tax agents in the respective IRBM branches.²⁸ Using 2,400 surveys as the sample frame, each tax agent received between two and ten surveys, apportioned according to the number of field audits conducted by the IRBM and the number of tax agents in each IRBM's branch. In total, 2,336 postal surveys were sent to 685 tax agents. The computation for the stratified random sampling method is shown in Table 4.1.

²⁸ Corporate tax audits are conducted by a special unit in all IRBM branches. However, as there are many corporate taxpayers files registered in Kuala Lumpur, a special branch, named Corporate Tax Branch, was established at the IRBM headquarter.

Table 4.1: Computation for Stratified Random Sampling Method

IRBM Branch	Number of Audits *	Number of Tax Agents #	Average Survey to Each Tax Agent	Total Survey to Tax Agent
Johor	895	77	4	308
Melaka	253	37	2	74
Negeri Sembilan	144	12	4	48
Perak	587	51	4	204
Kelantan	126	13	3	39
Kedah	292	13	7	91
Pulau Pinang	654	58	4	232
Pahang	329	11	10	110
Terengganu	71	5	5	25
Perlis	80	2	13	26
Sabah	338	39	2	78
Sarawak	559	64	3	192
<i>Corporate Tax</i>	2,865	303	3	909
<i>Petroleum Tax</i>	13	-	-	-
Non Resident	61	-	-	-
Total	7,267	685	-	2,336

* Number of corporate tax audits conducted by the IRBM in 2005-2007.

* Source: Inland Revenue Board Malaysia (Personal communication, 4 August 2008).

Number of CTIM members who are tax agents.

Source: Chartered Tax Institute Malaysia (Personal communication, 23 December 2009).

The tax agents who received the surveys were requested to distribute the surveys to their corporate clients, preferably those who had been audited by the IRBM. The first reminder notice was sent a month after the distribution of the survey by the CTIM to all members through its “e-Circular to Members”. The second reminder was sent a week later using the same platform. A sample of the first and the second reminder letters (extract) is shown in Appendix B 3 and B 4 respectively.

As the participants of this study remain anonymous to the researcher, there was minimal control over the survey after it was mailed. For example, the researcher could not be sure that the tax agents actually had any corporate clients. The researcher was also not able to follow up with the tax agents to ensure that they understood the instructions provided to them in the cover letter sent by the CTIM. In addition, the researcher was not able to assist corporate taxpayers (respondents) with any problems related to understanding the survey instructions and completions.

Only 71 responses (59 usable) were received by using this method, giving a response rate of 2.5 percent. This in itself is a very low response. Possible reasons for the relatively low response are discussed later in this chapter. In improving the overall response rate and extending the coverage of respondents that may not have been included in this stratified random sampling method, a snowball sampling method was later employed.

4.5.4.2 Snowball Sampling Method

Snowball sampling is defined as "... a nonprobability sampling method, whereby each person interviewed [surveyed] may be asked to suggest additional people for interviewing [or surveying]" (Babbie, 2010, p. 193). This method is mainly employed within a circle of people who may know each other (Biernacki & Waldorf, 1981, p. 141) and when the members of a special population are difficult to locate (Penrod, Preston, Cain & Starks, 2003, p. 102).

In this study, the special or hard-to-reach population refers to personnel that handle tax matters for their companies. In the snowball sampling, the researcher collects data on the few members of the target population he or she can locate, and then asks those individuals to provide the information needed to locate other members of that population whom they happen to know. Several ways to gain initial contact with individuals include using a personal network and asking friends and acquaintances to be involved in the study (Browne, 2005, p. 49).

One main limitation of the snowball sampling is that the social network of members is limited, resulting in sampling bias and thus limiting the application of the findings. To minimise the sampling bias, the researcher employed mixed mode survey to extend the coverage of respondents that was not included in the snowball sampling method and to enhance the methodological rigour. It is acknowledged that such combinations of survey distribution within a selected network may remain to some extent.

The researcher sent out 40 surveys by email to colleagues who handle tax matters for their companies. Those who received the surveys completed and/or forwarded the surveys to their other contacts (in other companies) who also handle corporate tax matters. Fortunately, 71 responses were received via this method. As response rate is computed based on a ratio of the number of surveys returned to the researcher (71) and the number of surveys distributed by the researcher (40), the snowball sampling method for this study gives a 178 percent response rate, that is a ratio of 71 survey responses against 40 surveys that were initially distributed.

The use of snowball sampling is probably the first employed in tax compliance research. A comparison of response rate with previous studies based on snowball method is thus not possible. However, the response rate from snowball sampling in this study is possibly the highest (178 percent) as compared to all other sampling methods previously used in tax literature.

4.5.4.3 Convenience Sampling Method

Convenience sampling involves selecting samples (in this case, of persons) that are most readily available to participate in a study, and who can provide the required information (Hair et al., 2007, p. 181). Although convenience sampling is effective in reaching participants quickly and cost effectively, it often suffers selection bias as the individuals selected are commonly different to those in the target population. Nonetheless, the researcher minimised the selection bias as the survey was

distributed to selected delegates at the National Tax Conference, held on the 6-7 July 2010, in Kuala Lumpur.

At the above conference, delegates were classified into three groups, namely tax officers from the IRBM, tax agents and corporate representatives. Fortunately, the corporate representatives were mostly personnel in charge of the taxation or financial matters of their companies; the target population of this study. The researcher distributed around 500 questionnaires to these corporate representatives. In increasing the response rate, reminders and announcements were made before/after each session during the conference by the conference organiser. Regrettably, only 15 surveys (three percent) were completed and returned at the end of the conference day.

4.5.4.4 Response Rate

Overall, 2,876 surveys were distributed by the researcher using three sampling methods: stratified random, snowball and random sampling. After nearly nine months of considerable effort in questionnaire distribution, 145 usable responses were finally collected for this study, giving an overall response rate of 5.04 percent. The response rate for the study was considered low when compared to other survey studies conducted in Malaysia (for example Che Ayub, 1994; Sia, 2008; Abdul-Jabbar, 2009; Saad, 2011a). A summary of the sampling and distribution methods is shown in Table 4.2.

Table 4.2: Sampling and Distribution Method

Sampling Method	Sampling Distribution
Stratified Random	2,336 postal surveys to tax agents Tax agents were requested to distribute the surveys to their corporate clients (preferably with audit experience) Usable responses: 59 Response rate = 2.5 % (59/2,336)
Snowball	40 surveys were emailed via personal networking Recipients to complete/forward to their other contacts Usable responses: 71 Response rate = 177.5 % (71/40)
Random	500 surveys were hand delivered to the National Tax Conference delegates. Usable responses: 15 Response rate = 3.0 % (15/500)
Overall	Total surveys distributed to potential respondents = 2,876 Total usable responses = 145 Overall response rate = 5.0 % (145/2,876)

Source: Author

There are several likely reasons for the low response rate, particularly regarding the stratified random sampling and convenience sampling methods. First, there were several weaknesses identified from the stratified random sampling method. For instance, the surveys were sent to tax agents, who were then required to distribute the surveys to their corporate tax clients. The researcher was not able to obtain any responses via this method if the respective tax agents chose not to be involved in the study and thus did not distribute the survey to their corporate clients. Even if tax agents chose to participate and distribute the surveys to their corporate clients, corporate taxpayers themselves may have decided not to respond. Secondly, limitations inherent in the stratified random sampling method were among other reasons associated with the low response rate. For example, by having the CTIM

distribute the survey, this limited the coverage of respondents to only corporate taxpayers who were clients of the CTIM members (coverage error).

Nonetheless, it is possible to note that the low response rate for the stratified random sample (2.5 percent) may be understated. The reason being that although the researcher distributed around 2,300 surveys among 700 tax agents, the number of surveys that were actually distributed and received by corporate taxpayers is not known. Thus, the sample frame may be overstated which consequently understated the response rate. To illustrate, out of the 2,300 surveys distributed to corporate taxpayers via tax agents, assuming that only fifty percent of the surveys were actually distributed by the tax agents to their clients (who were corporate taxpayers). The other half of the tax agents may have no interest to assist in distributing the surveys to their clients. If this happened, then the ratio of survey response would be higher, that is survey response (59) divided by actual survey distribution (1,150), providing a five percent response rate.

Finally, it is worth noting that lack of interest in participating in surveys among Malaysians is possibly the main contributor to the low responses. As suggested in the literature, the extent of civic duty among people in developing countries, which is relatively low, may influence their willingness to participate in research studies in many Asian countries, including Malaysia (Co, 2004, p. 140). Previous Malaysian corporate tax compliance studies, employing a survey method, also received a low number of responses/ a low response rate: 80; 27 percent (Loh et al., 1997), 67; 22 percent (Hanefah et al., 2001), 56; response rate not available (Mansor et al., 2003) and 175; 16 percent (Abdul-Jabbar, 2009).

The objectives of this quantitative study are to provide additional support to findings from qualitative investigations and to examine corporate taxpayer attitudes toward compliance variables. This quantitative study allowed the researcher to understand distinct corporate taxpayers' compliance variables based on different business characteristics. As the study is probably among the first of its kind in Malaysia and

possibly worldwide, the low response rate did not preclude the researcher carrying out the analysis. In the current study, with 145 usable responses, the researcher was able to conduct several descriptive and inferential analyses to achieve the research objectives.

4.5.5 Data Analysis

4.5.5.1 Introduction

The quantitative data analysis was divided into three categories, namely preliminary analysis, descriptive analysis and inferential analysis. Each of these is discussed below.

4.5.5.2 Preliminary Analysis

First, the data was assessed to detect any unusual observations (presence of outliers), to ensure that the values did not fall outside the permitted range. Any omission of data was investigated to ensure that no consistent pattern of such might bias the results. Fortunately, missing data in this study was below 10 percent for each variable. Thus remedial action was unnecessary (Hair, Black, Babin, Anderson & Tatham, 2006, p. 55).

Secondly, the presence of a non-response bias is normally investigated by comparing postal survey responses received from early respondents (for example the first 25 percent) and late respondents (for example the last 25 percent) using statistical analyses (for example t-tests). However, as the number of responses from postal surveys was small (71) and the researcher only received the survey responses in one bulk delivery from Malaysia, it has not been possible to undertake a non-response bias test.

As the period over which all responses gathered was nine months, the presence of a non-response bias was also examined to identify the extent to which any bias exists.

A test to compare early responses (group A: stratified sampling n=59) and late responses (group B: snowball and convenient sampling, total n=86) was conducted for this purpose. Fortunately, non-response bias did not exist.

Thirdly, each separate set of items used to measure the respective compliance variables was examined, using Exploratory Factor Analysis (**EFA**). The EFA was mainly employed to determine the underlying dimensions of the survey items and to allocate the appropriate items to meaningful sub-scales. Each sub-scale was later used in further exploration to examine the respondents' attitudes to the compliance variable under examination.

As some of the survey items were self-developed by the researcher, based on findings from the qualitative investigation, the EFA also functioned as a measure for construct validity (Royse, 2011, p. 114). As a number of items had been created to compose a dimension, the EFA was employed to reduce the number of the items to a smaller group that were statistically related. The EFA also facilitated the researcher exploring the inner structure of each dimension and revealed the number of dimensions that the survey contained. Details of the preliminary assumptions of the EFA and the rotated factor loadings of the EFA are provided in Appendix C.

Finally, the reliability analyses were conducted to assess the internal consistency of each sub-scale, measuring the dimensions derived from the EFA, using Cronbach's alpha coefficients, with higher values indicating greater reliability (Cronbach, 1951, p. 332). The work of DeVellis (2003, pp. 95-96) was utilised for estimating the reliability of scales, in which co-efficient alpha values were classified as unacceptable (below 0.60); undesirable (0.60-0.64); acceptable (0.65-0.69); good (0.70-0.74); very good (0.75-0.80); and respectable (above 0.80).

4.5.5.3 Descriptive Analysis

Descriptive analysis was used to present the basic characteristics of the data, using frequency, percentage, mean, median and standard deviation values. All the values were derived from the Statistical Package for Social Sciences (SPSS) analysis. The analysis was divided into three parts: i) survey respondents, ii) business characteristics and iii) compliance variables. While the frequency and percentage of each group's various business characteristics was essential in explaining the composition of respondents, mean and median scores were mainly used in examining the attitudes on each compliance variable.

For the purposes of tabulation analysis, the respondents who indicated "Strongly Disagree", "Disagree", and "Somewhat Disagree" were grouped into the single category of "Disagree". Similar treatment was applied to the respondents who indicated "Strongly Agree", "Agree", and "Somewhat Agree" and they were grouped into the single category of "Agree". Frequency and percentage of respondents in these two categories were also provided for analytical purposes. Previous studies that have used similar re-categorisation include Lewis (1979) and Abdul-Jabbar (2009).

Mean and median were used to illustrate the centre of a distribution of scores. While the mean was mainly employed in explaining the average of total scores, the median was another way to quantify the centre of a distribution, when scores were ranked in order of magnitude. As this study used a six-point Likert-scale (an even number of observations), the median represented the average of the two scores that fell either side of what would be the middle value (Field, 2009, p. 789).

The Likert-scale statements were arranged such that a higher number reflected more agreement with the statements. Therefore, mean and median scores that were less than four were considered as low (weak) agreement with the statement; scores of between four and five were considered medium (moderate) and scores above five

were considered high (strong). A standard deviation is defined as “... an estimate of the average variability (spread) of a set of data...” and was provided to measure the dispersion of the score (Field, 2009, p. 794).

4.5.5.4 Inferential Analysis

The main objective of conducting inferential analysis was to determine whether various business characteristics influenced corporate taxpayer attitudes to each of the compliance variables. Results from this analysis may provide a better understanding of corporate taxpayers’ compliance variables and thus assist the tax authority in developing appropriate strategies to improve compliance.

Prior to the analysis, a test of normality was conducted on each group using the Shapiro-Wilk tests to examine whether the distribution of the data as a whole was significantly different from normal distribution (Field, 2009, p. 793). A significant value ($p < 0.05$) indicated a deviation from normality. As most of the groups were not normally distributed ($p < 0.05$), non-parametric tests were employed. Field (2009, p. 790) defines non-parametric tests as “ a family of statistical procedures that do not rely on the restrictive assumptions of parametric tests. Particularly, non-parametric tests do not assume that the sampling distribution is normally distributed.”

An alternative method is to transform the data either by using the natural logarithm or Van Der Waerden’s methods. Although data transformation is recommended as a remedy for outliers and failures of normality, linearity and homoscedasticity, this is not universally recommended (Tabachnick & Fidell, 2001, p. 80). The reason is that in transformation, an analysis is interpreted from variables that are in a logarithm function and these transformed variables are sometimes harder to interpret. In

addition, there is no guarantee that transformation will achieve the desired outcome of normal distribution.²⁹

In testing the differences between the two conditions (Yes or No) of an independent sample, the Mann-Whitney test (the equivalent of the independent t-test for normally distributed data) was employed. The Mann-Whitney test evaluates whether the medians on a test variable differ significantly between two independent groups (for example corporate taxpayers with and without tax agents). On the other hand, the Kruskal-Wallis test (a non-parametric version of one-way analysis of variance) was used to test whether the medians on a test variable of more than two independent groups (for example, corporate taxpayers in various industries) differed significantly.

4.6 Ethical Issues

In Australia, all research – including non-medical work - is governed by an ethical code of conduct, established by the National Health and Medical Research Council (NHMRC). Under the code,³⁰ universities are required to subject their research to a formal process of ethical review. Ethical issues arise in the conduct of research and are underpinned by two main principles, namely informed consent and confidentiality protection (Singer, 2008, p. 79).

The ethical standards and guidelines of Curtin University have been followed by the researcher throughout this study. These include complying with ethical codes of conduct such as obtaining informed consent, protecting respondents from harm and risk and allowing them free choice. The research design for both qualitative and quantitative investigations was approved by Curtin University's Human Research

²⁹ Thus, after careful consideration, transformation of the data is not applicable in the context of the data analysis in this thesis.

³⁰ Refer to NHMRC National Statement on Ethical Conduct in Human Research at <http://www.nhmrc.gov.au/guidelines/publications/e72>.

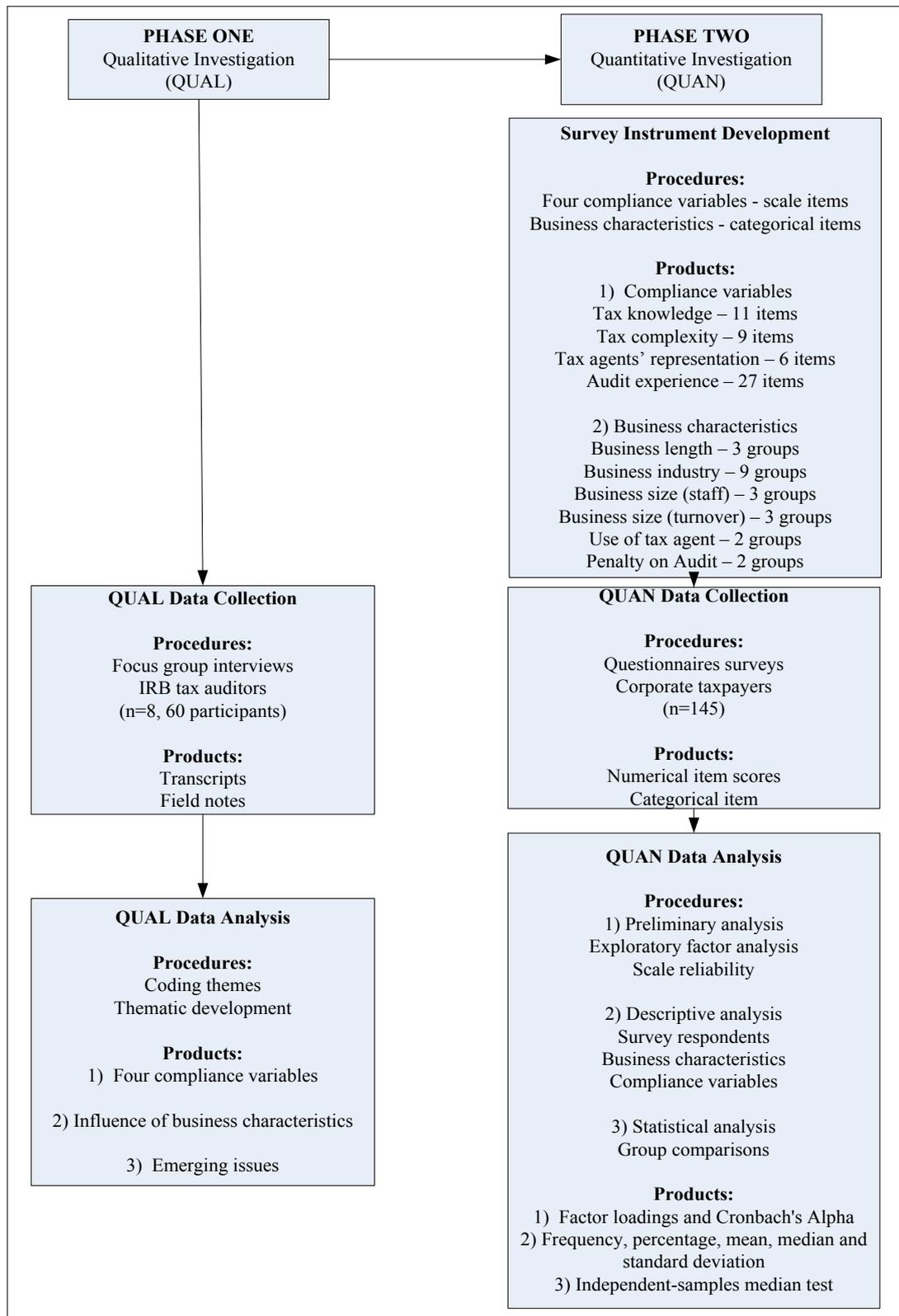
Ethics Committee (Appendix B5). In addition, permission was sought and granted from the IRBM and the Malaysian Economic Planning Unit before fieldwork in Malaysia was pursued.

A Participant Information Sheet was distributed to participants before the start of each focus group session as well as being included in the survey booklet. This explained the research overview, potential benefits and risks, confidentiality and rights of research participants. Furthermore, assurance was given that all information obtained would be held in confidence, and anonymity would be respected. Participants were informed that their participation was voluntary and that they could withdraw at any time. Permission from respondents to use audiotape during the focus group interviews was also obtained. Focus group participants and survey respondents indicated their agreement to be involved in the study by signing a consent form and by completing and returning the surveys respectively.

4.7 Overall Research Approach

The design of the research was based on a mixed-methods design encompassing qualitative (Phase One) and quantitative (Phase Two) investigations. In total, eight focus group interviews took place among sixty tax auditors of the IRBM and 145 useable surveys of selected corporate taxpayers were obtained for this study. The overall research approach is summarised in Figure 4.2.

Figure 4.2: Visual Diagram of Overall Research Approach



Source: Author

4.8 Chapter Summary

This chapter discussed the approach taken in conducting the research. First, a rationale for the collection of both qualitative and quantitative data was provided. A two-phase, exploratory mixed methods design was employed in investigating the research objectives. The sample selection, data collection and data analysis processes in both research phases were explained.

In the first phase, focus group interviews with 60 IRBM tax auditors were conducted to identify corporate taxpayers' compliance variables. Based on their daily experience of conducting corporate tax audits, tax auditors' perceptions of the possible compliance variables were considered to be the most influential and invaluable source of information. Using Nvivo8, thematic analysis was mainly employed to analyse the transcribed data and field notes. For data validation purposes, member checking of the summaries and findings of the focus group interviews were conducted with nine of the focus group participants.

In the second phase, in examining corporate taxpayers' attitudes on compliance variables, a survey was used by selecting a sample of Malaysian corporate taxpayers. The main objectives of the survey are to provide additional support to findings from qualitative investigations and to examine corporate taxpayer attitudes towards compliance variables. The strengths and weaknesses of using a survey technique were first discussed to rationalise the use of a survey in this study. Sample surveys conducted by international tax authorities and the TDM method were largely considered and adapted in designing the survey questions. Measures taken by the researcher to improve the overall response rate were discussed accordingly. In short, many measures were *taken* in an attempt to increase the survey response rate.

In the survey, a six-point Likert-type scale was mainly used for the respondents to express their opinions, with each statement ranging from "Strongly Disagree (1)" to "Strongly Agree (6)". All the items were scaled such that a higher number reflected

more agreement with the statement related to compliance variables. In addition, statements related to corporate business characteristics, tax compliance activities and respondents' demographic background were included.

Acknowledging the low response rate from surveys, particularly in Asian countries, a mixed-mode survey strategy was employed. The essence of the mixed-mode survey is that reliance on only one survey mode does not provide assurance in reaching or eliciting responses from most of the sampled respondents. The mixed-mode survey employed to distribute the survey to respondents in the current study comprised three sampling methods, namely stratified random sampling, snowball sampling and convenience sampling.

Overall, 2,876 surveys were distributed by the researcher using the three sampling methods. After nearly nine months of intense effort in questionnaire distribution, 145 usable responses were finally collected for this study, giving an overall response rate of 5.04 percent. The response rate for the study was considered low when compared to other survey studies conducted in Malaysia. Nevertheless, with 145 usable responses, the researcher was able to conduct appropriate data analysis.

Preliminary, descriptive and inferential analyses were mainly employed to achieve the research objectives of this thesis. In the preliminary data analysis, measures for handling missing values and non-response bias were outlined. The use of EFA to identify dimensions of compliance variables and the technique to assess data reliability were presented. In the descriptive analysis, the frequency and percentage of each group's various business characteristics was used to explain the composition of respondents, while mean and median scores were mainly used in examining the attitudes on each compliance variable. The method of conducting inferential analysis was then discussed. Finally, a brief discussion of ethical issues and Human Ethics processes was undertaken. The results and discussion of the qualitative and quantitative investigations are presented in the following chapters.

CHAPTER FIVE

RESULTS OF QUALITATIVE STUDY

5.1 Chapter Overview

This chapter presents results from the qualitative investigation involving focus group interviews. Following research objectives for this qualitative study, the composition of the focus group participants is presented followed by a detailed discussion of the identified compliance variables. Some emerging issues related to working tax auditors' welfare are also presented. The chapter concludes with a summary of the results from this qualitative study.

5.2 Research Objective

The objectives of this qualitative investigation were to identify corporate taxpayers' compliance variables and to examine whether business characteristics influence these compliance variables, based on the IRBM tax auditors' perceptions. The research questions for this qualitative study are:

RQ1: What are corporate taxpayers' compliance variables?

RQ2: Do business characteristics influence corporate taxpayers' compliance variables?

5.3 Focus Group Participants

Meetings with the Director of the Compliance Department of the IRBM resulted in four focus group sessions being conducted in early 2009 at state branches in Negeri Sembilan, Johor, Penang and Pahang. These state branches represented a mix of small (Negeri Sembilan), medium (Pahang) and large (Johor and Penang) branches.

Another four focus group interviews were held with tax auditors from the Corporate Tax Department in the Kuala Lumpur head office, based on specific groups, namely Large Company, Specialised Industry, SMEs and Desk Audit.

In total, eight focus group sessions were held with corporate tax auditors from the IRBM. An average of eight persons participated in each group. In total, 60 tax auditors participated, comprising 45 from field audits and 15 from desk audits. Two-thirds of the participants were female. Each focus group session was conducted for a duration of three hours. Key profiles of the focus group participants are shown in Table 5.1.

Table 5.1: Key Profiles of Focus Group Participants

Focus Group Session	Number of Participants	Field Audit	Desk Audit	Gender
Seremban (in the State of Negeri Sembilan)	5	2	3	2 males, 3 females
Johor Bahru (in the State of Johor)	10	10	0	5 males, 5 females
Penang	8	8	0	6 males, 2 females
Kuantan (in the State of Pahang)	8	4	4	4 males, 4 females
Kuala Lumpur (Large Corporation)	6	6	0	6 females
Kuala Lumpur (Specialised Industries)	8	8	0	1 male, 7 females
Kuala Lumpur (SMEs)	7	7	0	2 males, 5 females
Kuala Lumpur (Desk Audit)	8	0	8	8 females
Total	60	45	15	20 males, 40 females

Source: Author

The distribution of participant ages indicates that 15 percent were below 30 years, 38 percent were between 30 to 40 years and 47 percent were older than 41 years old.

However, only 30 percent of the participants had six or more years of audit experience in the IRBM, with the remainder less than six years. Most of the tax auditors with less than six years' experience had a degree in accounting and most were newly employed by the IRBM to meet the need for additional audit resources. The age distribution and length of service with the IRBM of the focus group participants is shown in Table 5.2.

Table 5.2: Distribution of Focus Group Participants

Focus Group Participants	Number of Participants	Percentage
<i>Age</i>		
Below 30 years old	9	15.0
30 to 40 years old	23	38.0
More than 40 years old	28	47.0
Total	60	100.0
<i>Length of service with the IRBM</i>		
Less than 6 years	41	70.0
6 years or more	19	30.0
Total	60	100.0

Source: Author

5.4 Corporate Taxpayers' Compliance Variables

5.4.1 Introduction

Four major corporate taxpayers' compliance variables were identified from the focus group interviews: tax knowledge, tax complexity, tax agents and tax audits. Each compliance variable was influenced by several business characteristics namely business size, industry, location and general knowledge of staff that handle company tax matters. Findings for each compliance variable are discussed next.

5.4.2 Tax Knowledge

Tax knowledge has been identified as an influence upon corporate taxpayers' compliance behaviour. Tax knowledge refers specifically to the taxpayer's awareness of a SAS in such areas as the responsibilities of the IRBM and those of taxpayers under the system.³¹ The level of tax knowledge is associated with the size and location of companies and the general knowledge of the staff handling tax matters for the companies.

First, the size of a company is positively correlated with tax knowledge. For example, taxpayers from large companies are generally more aware of the audit role under a SAS and therefore welcome the tax auditor's visit. Large companies believe tax audits allow them to learn the right way to do things and improve their tax reporting. When an audit is conducted, these companies are aware of audit procedures and requirements and thus usually provide unconditional cooperation throughout the audit process. Their accounts and tax computations are usually in order. Often only minimal adjustments are required, mostly related to technical issues that result from a different interpretation of tax laws.

On the other hand, small and medium sized companies are often more sceptical of tax audits and often wary when they are informed of an audit. They may question the reason for being audited and doubt the reasons for selection for audit. They may be fearful when they hear the word "IRBM", as the IRBM image is seen as similar to that of the police and being audited similar to having committed an offence. Many taxpayers from small and medium sized companies perceive that tax auditors are only interested in finding fault with accounts during their visit. In most cases, tax auditors have to explain to these taxpayers the roles of tax audits, and taxpayer rights

³¹ Refer Chapter Three, Sections 3.5 and 3.6.4.

and responsibilities under a SAS. Fortunately, once taxpayers have understood the role of an audit, they often cooperate with the tax auditors.

Secondly, the location of companies is associated with the level of their tax knowledge. Corporate taxpayers in urban areas, such as Kuala Lumpur and Penang, are generally more aware of tax laws and the roles of tax audits compared to their counterparts in rural areas, such as Kuantan and Seremban. Thus, tax auditors in rural areas play a more important role in educating on the appropriate method of preparing tax computations and in explaining the relevant tax laws to corporate taxpayers.

During audit activities, a close relationship is developed between auditors and taxpayers. In many instances, when audits have been finalised, the relationship between the tax auditor and the taxpayer continues. For instance, even after the audit is completed, taxpayers continue to receive advice and verification from the tax auditors on their current business transactions that may have tax implications. Consequently, these taxpayers are more compliant in their tax reporting than they were before the audit activities. This example shows that tax audits have a positive impact on taxpayer compliance. Regrettably, the important role of the tax auditor as an educator and the specific deterrence effect of tax audits has not been adequately emphasised in the tax literature to date, with the exception of a few studies for example Feld & Frey (2007) and Kirchler et al. (2008).

Thirdly, corporate taxpayers' level of general knowledge also influences their tax knowledge. Tax auditors normally deal with corporate representatives who handle the accounts and/or taxation matters for the companies. These representatives comprise company directors, accountants, tax managers, tax executives, account executives and account clerks. Findings from the focus group interviews show that the general knowledge of these representatives has some impact on their capabilities to handle tax matters. To generalise, an accounts executive with a comprehensive general education, is more capable of comprehending and preparing corporate tax

computation accurately. In contrast, an accounts clerk, who generally has a lower level of general education, is often unable to prepare tax computations appropriately.

This study demonstrates that corporate taxpayers with lower tax knowledge are less likely to comprehend the tax laws and consequently are more likely to be non-compliant in their tax reporting. However, this group of taxpayers is willing to learn and able to prepare their tax computations under the guidance of tax auditors. It is also found that most corporate taxpayers with lower tax knowledge, especially those from SMEs, would improve their tax reporting if they were well guided.

In short, based on the IRBM auditors' perceptions, this study shows that size, location and general knowledge have some impact on the level of corporate taxpayer tax knowledge and consequently these factors influence their compliance behaviour. Generally, corporate taxpayers with lesser tax knowledge often have a negative perception of the tax system and thus react negatively during an audit. This finding is in agreement with previous studies suggesting that tax knowledge is positively associated with tax perceptions and tax compliance (for example Kirchler, 2009, pp. 31-32). Negative perceptions and reactions resulted in minimal cooperation from taxpayers during the audits.

The current measures taken by the IRBM to educate taxpayers on a SAS may have had minimal impact on corporate taxpayers. Although tax learning and publicity programmes are widely implemented by the IRBM,³² corporate taxpayers seem generally unable to acknowledge their rights and responsibilities under a SAS and the role of tax audits. An assessment and evaluation of the effectiveness of tax education programmes may be necessary.

³² Refer Chapter Three, Section 3.5.

In ensuring the objectives of tax education are disseminated to taxpayers, four measures are recommended. First, the IRBM should reinforce the tax education program, focusing more on SMEs and those in rural areas. Secondly, the IRBM should continuously run tax-advertising campaigns in the mass media to improve tax awareness among the public. Thirdly, tax exposure should be promoted to all students at the secondary and tertiary levels to create an early awareness of their tax obligations (Mahfar, 1994; Abdul, 2001; Hite & Hasseldine, 2001). Finally, the IRBM needs to practice multiple strategies and to apply appropriate approaches to meet the specific needs of different groups of taxpayers. The “Tax Compliance Model” adopted by Australia and New Zealand is an excellent approach that could be adopted by the IRBM.

The “Tax Compliance Model” developed for the Australian Tax Office (ATO) and then adopted by the New Zealand Inland Revenue Department (IRD) is designed to facilitate compliance amongst the vast majority of taxpayers, and takes into consideration the external factors (economic, sociological, business, industry and psychological) that influence taxpayers’ attitudes and behaviours.³³ Once both internal and external factors are recognised, the most suitable approach is applied to improve compliance (Australian Taxation Office, 2008). It should be noted that the Compliance Model has been refined since its adoption to improve compliance among various groups of taxpayers, including small and medium enterprises, high-wealth individuals, large enterprises, non-profit groups, employers and individuals (Braithwaite, 2003b, 2007; Braithwaite, Murphy & Reinhart, 2007).

³³ Refer to <http://www.ato.gov.au> for details.

5.4.3 Tax Complexity

Tax complexity is identified as another important variable that influences compliance behaviour and it may be at the root of non-compliance among corporate taxpayers in Malaysia. Long and Swingen (1987, p. 25) identified six dimensions of tax complexity.³⁴ However, this study discovered only three dimensions of tax complexity mainly encountered by many Malaysian corporate taxpayers: tax computations, record keeping and tax ambiguity.

First, it is noted that many corporate taxpayers experience difficulty preparing tax computations. In many instances, corporate taxpayers are capable of preparing their financial reports based on the accounting standard, but not able to prepare tax computations based on the tax laws. For example, the financial reports of insurance providers are highly regulated by the Bank Negara (Central Bank of Malaysia) and comply with the internal and external auditor requirements. However, when the financial reports of these insurance providers are audited by tax auditors, many are found to be non-compliant with the tax laws. A likely reason for taxpayers finding tax computation difficult is that the preparation requires considerable understanding of the tax rules and exceptions to these rules. The difficulty in understanding tax rules may also discourage them from acquiring the relevant tax knowledge and result in a continuous non-compliance reporting cycle.

Secondly, corporate taxpayers may have difficulty in maintaining records and documents. Although supporting documents are not required when submitting income tax return forms, taxpayers are required to keep in safe custody sufficient records and documentation for seven years. However, many taxpayers are not able

³⁴ The six dimensions of tax complexity are ambiguity, computations, changes, detail, record keeping and forms.

to produce supporting documents during an audit for several reasons, such as business practice and missing documents.

A large proportion of small and medium sized taxpayers (such as contractors, developers, sundry shops and restaurants) in Malaysia are cash traders. In many instances, cash receipts or invoices are not issued on most business transactions. There are also a few cases of missing documents and reasons given for this by taxpayers include: documents destroyed in fires, lost in floods, eaten by termites and lost/misplaced during office relocations.

In addition, many corporate taxpayers do not maintain the proper accounting records that are needed for audit examination. In other instances, although accounting records are properly kept, preparation of the accounts is not standardised across different types of industries. Each company has its own unique way of recording its business transactions and there are several computerised accounting systems employed by corporate taxpayers. Tax auditors have to spend time learning and comprehending the accounting treatments for every transaction before audits can be performed.

Thirdly, ambiguity of tax laws, an issue commonly raised by corporate taxpayers in the financial/insurance and contractor/developer industries, results in different interpretations of the tax laws. In attempting to reduce tax ambiguity, the IRBM issued Special Provisions and General Guidelines in May and July 2009 for the two groups respectively (Inland Revenue Board of Malaysia, 2009b), as well as various Public Rulings. Although these Guidelines contain helpful guiding principles with clear and detailed explanations, there are no specific regulations applicable to the respective groups of taxpayers. Consequently, this invites different interpretations of the terms and this can lead to unintentional and/or intentional non-compliance.

In short, this study suggests that tax complexity, particularly tax computation, recordkeeping and tax ambiguity, are still relevant in Malaysia and may be at the root

of non-compliance among corporate taxpayers as these complexity issues are mainly experienced by companies with specific business characteristics, namely business size and industry. In attempting to improve voluntary compliance, the IRBM could consider simplifying the preparation of tax computations, standardising the procedures for recordkeeping and formulating clearer tax laws to reduce tax ambiguity.

5.4.4 Tax Agents

Tax auditors highlighted the fact that most corporate taxpayers are very reliant on tax agents to manage their tax compliance activities. Two main reasons for this are that tax matters are often perceived as complex, and competent staff may not be available within the company. Many corporate taxpayers may assume tax matters are too complicated and consequently do not seem interested in learning more about them. Corporate taxpayers often choose to concentrate on business operations only and may refuse to burden themselves with taxation matters. Consequently, all tax matters are referred directly to tax agents. Tax auditors' comments in relation to tax agents are indicated as follows:³⁵

PGP2: "Some company directors are not bothered at all about tax. Everything, 100 percent, is handed over to tax agents."

KNP3: "I think some directors are aware of this matter [tax obligations], but others are not. For instance, if a director has an accounting background then he is aware of the tax matters. Other directors are totally uninformed of tax laws;

³⁵ The coding used uniquely reflects each participant. For example, *PGP2* indicates that the participant is from Penang branch and is participant number 2 and *KNP3* indicates that the participant is from Kuantan, participant number 3. Of course, details of each participant remain anonymous to protect his/her privacy.

hence, the tasks are entrusted to the clerks, who seem to know a lot better.”

The above findings suggest an unhealthy environment for the Malaysian tax system. Taxpayers are responsible for their own tax liabilities under a SAS and thus should not rely entirely on tax agents. Tax education on the rights and responsibilities of all stakeholders under a SAS should be disseminated accordingly. Secondly, the findings may also indicate the need for tax simplification. Though tax simplification is much easier in theory than practice, nonetheless, the IRBM (and government) could consider the issue.

It is also found that a few tax agents, especially those in rural areas, are not conversant with their role as intermediary between the tax authority and taxpayers. In addition, in many instances, tax agents do not communicate with their corporate clients on relevant tax issues. In a few cases, tax agents attempt to evade taxes to benefit their corporate clients.

KNP3: “There are some worse cases of ignorance among tax agents and more likely among taxpayers. That is the reason why we have many [noncompliance] penalty cases here.”

PGP8: “I think in terms of educating taxpayers, they [tax agents] do not play their role.”

JBP7: “...as long as they are tax agents, no matter whether they come from big, medium or small firms, they are the same. Nowadays, their attitudes are no longer neutral [professional]...By right, they [tax agents] should be [just] messengers; being in the middle as intermediaries.”

In terms of the role of tax agents in audit activities, the study suggests that large companies are less reliant on tax agents during an audit as their staff/accountants are

often more tax literate and more aware of the audit procedures and requirements. In contrast, smaller companies are more dependent on tax agents. This may be associated with their high reliance on tax agents for assistance with their compliance activities as indicated in the earlier findings.

Fortunately, tax auditors find that it is easier for them to refer to tax agents for any clarification arising during audits since the tax agents also prepare the taxpayers' accounts.

KNP8: "They [tax agents] are helpful. Things would be very difficult without them because some taxpayers have zero knowledge about tax."

Not surprisingly, tax agents often charge additional fees to taxpayers for their involvement in tax audit activities.

PGP3: "[Taxpayers] are not happy [with audits]. Tax agents are [contented] because they can charge [a fee] for business."

The above findings are seen to be important in portraying the role of tax agents in Malaysia. As tax agents play an important role in the compliance behaviour of many corporate taxpayers, regulations to monitor tax agents' professional standards are necessary. A further in-depth study with a wider representative sample involving both taxpayers and tax agents may be necessary in verifying and obtaining feedback on this finding. Further research is also needed to estimate the additional costs (both monetary and non-monetary) incurred by corporate taxpayers for their audit activities.

5.4.5 Tax Audits

Tax audits have also been identified as influencing audited taxpayers' compliance behaviour. Overall, corporate taxpayer reactions to a tax auditor's visit to their

business premises can be grouped as open or closed (cautious). This is illustrated in a response from one of the focus group participants:

JBP1: "There are no blanket attitudes of taxpayers when it comes to tax audit. Some taxpayers are very open from the very first day of audit. They tell all about the business operation from A to Z. Others are very discreet and will not open their mouth to inform tax auditors of anything and will only answer the questions asked and not more."

In line with the finding by Choong and Lai (2009), this study shows that many taxpayers have a preconceived idea that the purpose of the tax auditor's visit is to find fault in accounts, collect additional taxes and impose penalties. An extract from the focus group interview is found below:

SBP6: "He [taxpayer] never expects us [tax auditors] to educate him, but rather, just to collect money from him."

Furthermore, corporate taxpayers consider that they have met their tax obligations by submitting their tax returns and paying tax on time. These taxpayers contend that the tax authority should not interrupt (via audit) their business activities. They believe that the tax authority should concentrate on apprehending tax evaders.

The attitude of tax auditors during the conduct of audit influences corporate taxpayers' compliance behaviour. In most cases, tax auditors have to explain the role of a tax audit in their first meeting with corporate taxpayers. Generally, corporate taxpayers are more receptive and more cooperative once they have understood the audit roles, and when they are treated with full respect by the tax auditors. This is largely evidenced from the feedback of small and medium sized corporate taxpayers.

The role of tax auditors as educators also improves taxpayer knowledge and perceptions of the tax system. A company's account preparers or accounts clerks,

who often have minimal tax knowledge, may not be aware of tax requirements until the company is audited. Corporate taxpayers willingly comply with audit requirements when they trust the tax auditors. This finding further supports previous studies that suggest that taxpayers with improved tax knowledge and a positive perception of the tax system increase their compliance.³⁶

It is shown that the role of audit in educating taxpayers is effective in deterring the audited taxpayers from future non-compliance. Thus, audit activities should continue indefinitely. Attitudes, knowledge and professionalism of tax auditors are also vital in portraying the image of the IRBM among the taxpayers.

5.4.6 Overall Results

Four major corporate taxpayers' compliance variables have been identified from the focus group interviews: tax knowledge, tax complexity, tax agents and audit experience. Each compliance variable is influenced by several business characteristics namely business size, industry, location and the general knowledge of the staff that handle company tax matters.

First, tax knowledge is found to positively influence corporate taxpayers' compliance. In addition, larger companies, companies in rural areas and staff with higher general knowledge are found to have higher tax knowledge. Generally, corporate taxpayers with higher tax knowledge have a higher level of tax compliance. Secondly, tax complexity is identified as another important variable that negatively influences compliance behaviour. Three dimensions of tax complexity usually encountered by many Malaysian corporate taxpayers are tax computations, record keeping and tax ambiguity. Small and medium companies and specific

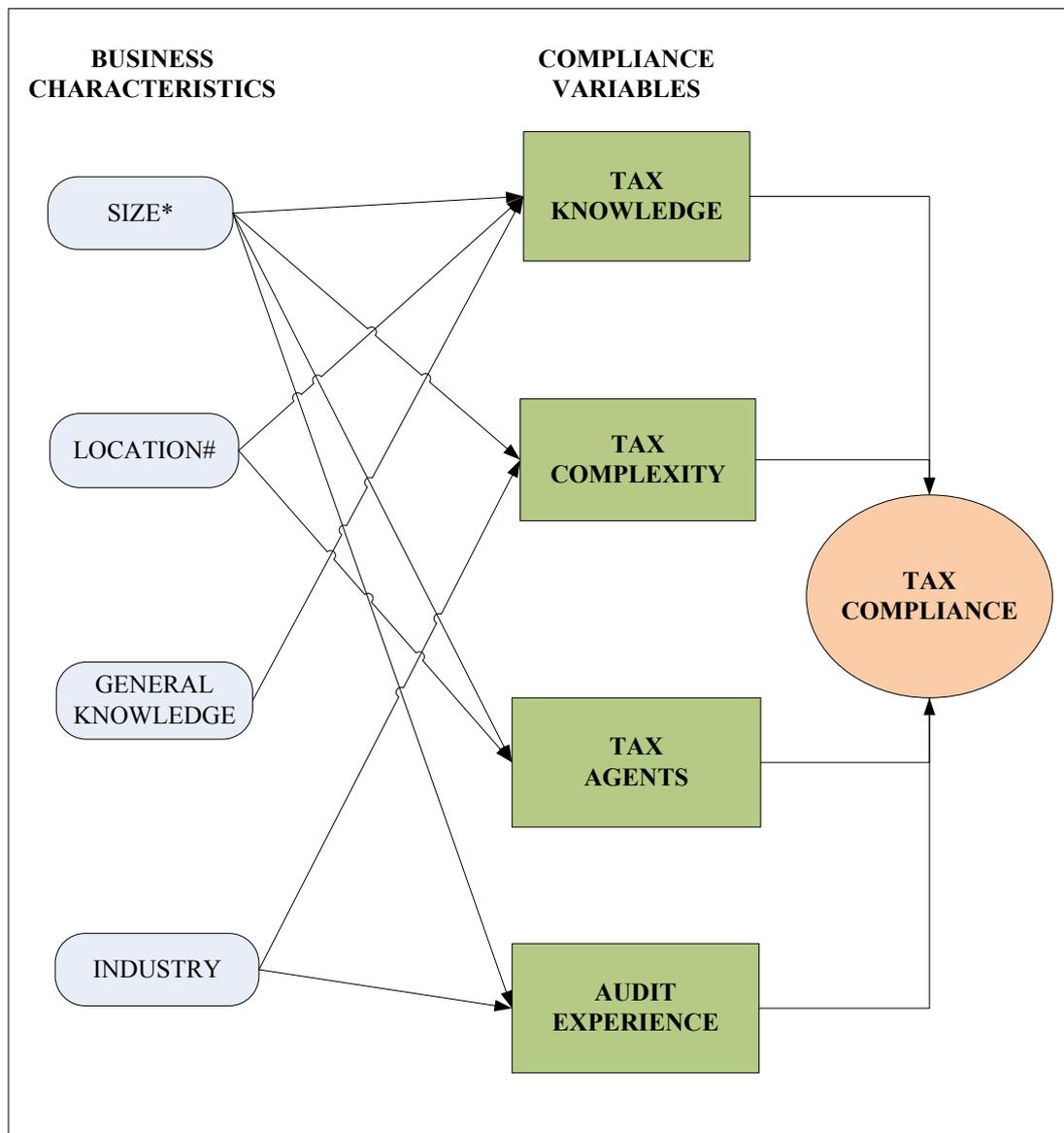
³⁶ Refer Chapter Two, Section 2.6.2.

industries, namely financial/insurance and contractor/developer, mainly experience issues related to tax complexity rather than other companies.

Thirdly, tax agents play a significant role regarding corporate taxpayers' compliance because most corporate taxpayers are very reliant on tax agents to manage their tax compliance activities. This is more evident among small and medium corporations and companies in rural areas. Finally, tax audit experience has also been identified as influencing audited taxpayers' compliance behaviour. The role of tax auditors as educators improves taxpayer knowledge and perceptions of the tax system. It is shown that the role of audit in educating taxpayers is effective in deterring the audited taxpayers from future non-compliance.

It is worth noting that not all business characteristics under examination have a relationship to the compliance variable. For example, location of a company has no influence on the level of tax complexity. In addition, as the findings from the focus group interviews are qualitative in nature, the strength of the relationship between business characteristics and compliance behaviour is not measured. A summary of the relationship between compliance variables and business characteristics is illustrated in Figure 5.1.

Figure 5.1: Corporate Taxpayers' Compliance Variables



* Size of companies that is, small, medium and large.

Location of companies that is rural or urban.

There are many other compliance variables as noted by Jackson and Milliron (1986) and Richardson and Sawyer (2011) not included in this figure.

Source: Author

5.5 Emerging Issues

During the focus group interviews, the researcher observed other issues that are considered imperative to improving the administration of tax audits. These issues are associated with the working welfare of tax auditors. Many tax auditors raised the

issue of their working welfare in that it is not considered as important by the IRBM in terms of safety, travelling claims, security of property and excessive workload.

Most tax auditors (many of whom are female)³⁷ are concerned about their safety. Due to the nature of their jobs, tax auditors are regarded as “the enemy” by taxpayers as they are perceived to be more interested in finding fault and penalising the company for wrongdoings, rather than assisting the company in “doing the right thing”.³⁸ In addition, tax auditors are required to examine the taxpayer’s business records at the business premises. Some of these premises are located in business areas, while others are located in remote industrial/rural areas. As a result, tax auditors take risks and face dangers such as car-jacking, car break-ins and theft.

In addition, travelling expenses incurred by tax auditors are not fully reimbursed by the IRBM. Often, tax auditors have to travel to taxpayer premises using their own vehicles. Frequent use of the vehicles during working hours results in speedier wear and tear relative to normal personal use. In extreme cases, some auditors’ vehicles are vandalised at taxpayer premises. Although tax auditors can claim reimbursement for travelling expenses, such as fuel and tolls and parking charges, wear and tear of the vehicles is not covered by the IRBM. Thus, tax auditors have to bear the cost of repair and maintenance of these vehicles.

Finally, a shortage of staff has resulted in an excessive workload for some tax auditors. To illustrate, as the IRBM has put a target on the number of cases to be audited annually,³⁹ tax auditors are generally required to carry out a minimum number of 40 audit cases yearly. In many instances, although tax auditors handle several audit cases, some of the cases are not resolved. Even if the cases are

³⁷This is supported by the profiles of the focus group participants, which indicate that two-thirds of them are female. Refer Table 5.1.

³⁸Refer Section 5.4.5.

³⁹Refer Chapter Three, Section 3.5.4.

resolved, the quality of the audit is possibly compromised due to tax auditors working under pressure.

Due to their excessive workload,⁴⁰ many tax auditors have to work extra hours and weekends in order to meet deadlines (Inland Revenue Board of Malaysia, 2009c, p. 9). For example, most tax auditors in the city have to spend additional hours in their offices after working hours and/or come to their offices over the weekends to enable them to work on audit cases. As all tax auditors are professional workers, no additional pay is given for their extra working hours (overtime) spent in their office.

To the best of the author's knowledge, the working welfare of tax auditors has never been dealt with in any previous study. As tax audits are essential under a SAS, the welfare of tax auditors should also be considered accordingly. The author proposes that the IRBM investigate this matter urgently. This proposal includes providing the necessary insurance policy coverage for the safety of tax auditors while performing their fieldwork. In addition, all tax auditors should also be provided with official IRBM vehicles to transport them safely to and from taxpayer premises.

In terms of staff workload, this problem was identified in the NAD reports of 2006 (Treasury of Malaysia, 2006, pp. 81-82). Although the reports suggest that the IRBM recruit additional staff to reduce the burden of workload borne by tax auditors, the shortage of tax auditors in the IRBM still prevails to date. It is important for the IRBM to address this matter and to provide information to the relevant authority, such as the Public Service Department, in order to enable the IRBM to recruit additional staff to discharge its audit activities. For a SAS to succeed, tax audit activity has to be executed effectively and this can only be achieved with sufficient and competent auditors.

⁴⁰ Refer Chapter Three, Section 3.5.4.1.

To summarise, the emerging issues discussed in this section require further analysis and consideration from the researcher. Moreover, further information is required to fully address these emerging issues such as the method of audit selection, determination of excessive workload and the remuneration of tax auditors as compared to other professions. However, as these emerging issues are beyond the scope of this thesis, the researcher intends to analyse and discuss these important issues separately and comprehensively in a future research paper.

5.6 Chapter Summary

This chapter presented the results of qualitative data analysis based on focus group interviews conducted with 60 corporate auditors from the IRBM. The research question (RQ1) acted as a benchmark of the qualitative investigation via focus group interviews. The focus group interviews were based on the diverse composition of tax auditors' personal background, audit areas and their respective office locations.

Four main compliance variables were identified namely tax knowledge, tax complexity, tax agents and audit experience. Overall, higher tax compliance is associated with higher tax knowledge, a relatively less complex tax system, use of tax agents and a positive audit experience. The chapter also highlighted and discussed that each of these compliance variables was further influenced by several business characteristics namely business size, type of industry, location and general knowledge of staff that handle company tax matters.

It was found that size and location of a company was positively correlated with tax knowledge. Moreover, the corporate taxpayers' level of general knowledge positively influenced their tax knowledge. To summarise the findings, from the IRBM auditors' opinions, size, location and general knowledge of a company had some positive impact that resulted in corporate taxpayers being more likely to be compliant in their tax reporting.

Regardless of the continuous IRBM tax education programmes, corporate taxpayers were generally unable to acknowledge their rights and responsibilities under a SAS and the impact of tax audits. It is highly recommended that IRBM should reassess and evaluate the effectiveness of its tax education programme. Nevertheless, constant information dissemination to the public is critical in order to ensure that taxpayers understand the objectives of tax audit programmes.

This chapter also highlighted the issue of tax complexity, which further discussed the Malaysian corporate taxpayers experience in the area of tax computations, record keeping and tax ambiguity. In combating these, it was suggested that the IRBM could simplify the tax computations preparation, initiate a standard for record keeping procedures and formulate clearer tax laws.

In addition, it was noted in the chapter that Malaysian corporate taxpayers rely heavily on their tax agents in ensuring tax compliance. This scenario indicated that under SAS, tax agents were indirectly responsible for the tax matters of corporate taxpayers. In addition, this study recommended that IRBM formulate a more effective way for tax simplification. Moreover, the role and locality of tax agents contributed to the differing expectation in terms of handling tax matters. The influence of tax agents was evident in the compliance behaviour of corporate taxpayers due to high reliance on their expertise in tax matters. It was further suggested that a regulation mechanism needs to be instituted to monitor the performance and professional level of the tax agents in discharging their duties.

This chapter highlighted the mixed responses observed by tax auditors during their tax audit visits. The negative responses were mainly due to preconceived ideas of the tax audit itself, which are constrained to fault-finding, additional tax collection and imposition of penalty. In addition, the attitude of the tax auditor during the audit exercise highly influences the compliance behaviour of corporate taxpayers. By virtue of being in the position to educate corporate taxpayers during tax audit exercise, the IRBM should leverage this opportunity as an effective platform to deter

audited corporate taxpayers from future non-compliance. In short, suggestions to improve corporate tax compliance include reinforcing tax education programmes, simplifying tax obligations, monitoring tax agents' professional standards and continuous tax audit programmes.

Another key finding noted during the focus group interviews was essentially for the IRBM to promote a conducive working environment for the tax auditors to ensure delivery of expected outcomes. The IRBM tax auditors highlighted that issues of staff welfare, such as safety, travelling claims, security of property and excessive workload were overlooked by the IRBM. Overall, findings from the qualitative data analysis based on focus groups interviews of IRBM tax auditors will mould the discussion on the policy implications in Chapter Eight of this thesis.

CHAPTER SIX

RESULTS OF QUANTITATIVE STUDY (I)

6.1 Chapter Overview

The qualitative study in Chapter Five identified four corporate taxpayers' compliance variables, namely tax knowledge, tax complexity, tax agents and audit experience. Subsequently, a quantitative study was carried out. A survey instrument was developed to examine corporate taxpayer attitudes to each of these four compliance variables. In addition, the instrument was utilised to analyse whether business characteristics influence attitudes towards compliance variables. Based on 145 corporate taxpayer responses, the results of this study were divided into two chapters, Chapter Six and Chapter Seven.

In this chapter, results of the preliminary and descriptive analysis of the quantitative study are presented.⁴¹ Following the research objectives of this quantitative study, the results are presented in three main sections. First, the results of the preliminary data assessment are outlined. Secondly, the results of the descriptive analysis of survey respondents, business characteristics of responding companies are presented. Finally, the attitudes of corporate taxpayers on the four identified variables are discussed.

6.2 Research Objectives

The quantitative study extends the findings from the qualitative investigation. In this second-phase of the mixed method approach, the study aimed to examine corporate

⁴¹ Results of the second part of the quantitative investigation are presented in Chapter Seven.

taxpayers' compliance attitudes to the four compliance variables, namely tax knowledge, tax complexity, tax agents and audit experience. In addition, the influence of business characteristics on these compliance variables was analysed. The research questions for this quantitative study were:

- 1) What are corporate taxpayers' attitudes to each of the compliance variables (RQ3)?
- 2) Do business characteristics influence corporate taxpayers' attitudes to each of the compliance variables (RQ4)?⁴²

This chapter mainly answers RQ3. In doing so, the following questions were developed and are shown in Table 6.1:

⁴² Results of RQ4 are presented in Chapter Seven.

Table 6.1: Research Questions for Quantitative Investigation

Compliance Variables	Research Questions	Code
Tax Knowledge (TK)	What are corporate taxpayers' attitudes towards awareness of a SAS?	TK1
	What are corporate taxpayers' attitudes towards awareness of audit roles?	TK2
	What are corporate taxpayers' attitudes towards awareness of audit probability?	TK3
Tax Complexity (TC)	What are areas of tax-related difficulties experience by corporate taxpayers in meeting their tax obligations?	TC
Tax Agents (TA)	What are the estimated tax agent fees?	TF
	Why do corporate taxpayers employ tax agents?	TA
Tax Audit Experience (AE)	What are corporate taxpayers' attitudes towards the audit experience?	AE1
	What are corporate taxpayers' attitudes towards audit perception?	AE2
	What are corporate taxpayers' attitudes towards the professional proficiency of tax auditors?	AE3

Source: Author

6.3 Preliminary Analysis

6.3.1 Data Assessment

Once the data from corporate taxpayers was collected, it was keyed into the SPSS file. Prior to application of analytical techniques, the statistical characteristics of the variables were assessed with the aim of identifying any strong tendencies in the response patterns that might unduly affect the results of analysis. Generally, nothing particularly unusual was noted. Secondly, as missing data may have affected the validity of the researcher's findings, its presence was investigated thoroughly. Fortunately, missing data in this study was below 10 percent for each variable, thus remedial action was unnecessary (Hair et al., 2006, p. 55).

6.3.2 Exploratory Factor Analysis (EFA)

The scales developed in the survey instrument to measure the identified variables were adapted from past studies, as well as being self-developed based on the results from the qualitative investigation.⁴³ Therefore, the EFA was performed to investigate whether the scales to be used were valid. Besides this, the EFA was used to determine the underlying dimensions of each scale and to allocate an appropriate item to meaningful sub-scales that would later be used in further analysis.

The survey instrument comprised four sections to measure each variable, namely tax knowledge, tax complexity, tax agent representation and tax audit experience. However, for tax complexity, the respondents were asked to identify tax-related difficulties in complying with corporate income tax obligations. The respondents were given the option of selecting more than one answer. Accordingly, the EFA was conducted on the other three compliance variables excluding tax complexity.

The 11 statements examining tax knowledge were allocated as three dimensions of knowledge: taxpayer knowledge of a SAS (*TK1-3 items*), taxpayer knowledge of audit roles (*TK2-3 items*) and taxpayer perception of audit probability (*TK3-1 item*). The six statements investigating the reasons corporate taxpayers employ tax agents were divided into two dimensions namely internal factors (*TA1-3 items*) and external factors (*TA2-3 items*). Finally, tax audit experience was examined from another three dimensions: experience during the field audit activity (*AE1-17 items*), perception of tax audit (*AE2-1 item*) and perception of tax auditors' professional proficiency (*AE3-9 items*). Results of the factor loadings from the EFA are shown in Appendix C.

⁴³ Refer to Chapter Four, Section 4.5.3 and Chapter Five, Section 5.4 respectively.

6.3.3 Reliability Assessment

Having investigated the underlying dimensions of each compliance variable, the internal consistency of all sub-variables was examined using Cronbach's alpha coefficients. Cronbach's alpha coefficients measure the reliability of a scale that denotes the ability of the scale to produce consistent results when the same entities are measured under different conditions (Field, 2009, p. 675).

It is worthy to note that two sub-variables namely *TK3* and *AE2* used only single items of measurement and thus alpha coefficients were not computed. Despite a possible bias, it is argued that "...the use of single item measurement has the advantage that problems with complexity that are associated with the construction of an index can be reduced..." (Alm & Torgler, 2006, p. 229).

DeVellis (2003, pp. 95-96) classified the alpha coefficient values as unacceptable (below 0.60); undesirable (0.60-0.64); acceptable (0.65-0.69); good (0.70-0.74); very good (0.75-0.80); and respectable (above 0.80). The measurements used in this study are considered to be highly reliable and consistent as the alpha coefficients range from 0.80 to 0.96 and are well above the acceptable value of 0.70 (Field, 2009, p. 675). Overall, the alpha coefficients for each compliance variable are well within the reliable category as shown in Table 6.2.

Table 6.2: Reliability of Coefficient

Compliance Variables	Sub-variables	Code	Number of Items	Alpha Coefficient
Tax Knowledge (TK)	<i>SAS</i>	TK1	5	0.879
	<i>AUDITROLES</i>	TK2	5	0.916
	<i>AUDITPROB</i>	TK3	1	^a
Tax Agents (TA)	<i>INTERNAL</i>	TA1	3	0.801
	<i>EXTERNAL</i>	TA2	3	0.831
Audit Experience (AE)	<i>AUDITEXP</i>	AE1	17	0.902
	<i>AUDITPROF</i>	AE2	9	0.960
	<i>AUDITPERCEPT</i>	AE3	1	^a

^a Alpha coefficient was not computed on single item measurement.

Alpha coefficient scales: unacceptable (below 0.60); undesirable (0.60-0.64), acceptable (0.65-0.69); good (0.70-0.74); very good (0.75-0.80); and respectable (above 0.80) (DeVellis, 2003, pp. 95-96).

6.3.4 Measurement of Attitudes

This study used a straightforward six-point Likert scale to measure attitudes, or reasons for a course of action. From this, descriptive characteristics of all respondents were derived. It should be noted that no distinction was made in this study between the terms “attitude” and “opinion”, although psychology theory would attach different and precise meanings to both (Pope, Fayle & Chen, 1991, p. 13). The term attitude is used in this study in the sense of the respondent’s underlying (or longer term) judgment, estimation or evaluation of the particular matter in question.

6.4 Descriptive Analysis

6.4.1 Introduction

Descriptive analysis is used to present the basic characteristics of the data using frequency, percentage, mean, median and standard deviation. All the figures presented were derived from the descriptive analysis in the SPSS. The first two

analyses are related to survey respondents, business characteristics of the responding companies and response representativeness. Other analyses focus on the four compliance variables under examination.

6.4.2 Survey Respondents

Corporate taxpayers were represented by respondents who were responsible for the tax compliance matters of their companies. Each company was represented by one respondent only. While around half of the respondents (48 percent) were in managerial positions, another 36 percent of respondents were either accountants or tax executives, and 6 percent of respondents were account/finance executives. In total, 90 percent of the respondents in this study were reasonably assumed to have some financial knowledge of their respective businesses.

It is fair to assume that respondents are in a knowledgeable and responsible position within their company regarding the financial/accounting aspects relating to income taxation, and therefore that they answered the questions as sincerely and accurately as possible. The job position of respondents who participated is shown in Table 6.3.

Table 6.3: Job Position of Respondents

Positions	Number of Respondents	Percentage
Chief Executive Officer	2	1.4
Managing Director	17	11.7
Manager/Tax Manager	54	37.2
Accountant	37	25.5
Tax Executive	16	11.0
Account/Finance Executive	9	6.2
Account Clerk	6	4.1
Others	4	2.8
Total	145	100.0

Source: Author

6.4.3 Business Characteristics of Responding Companies

The relevant business characteristics of responding companies are set out in Table 6.4. The respondents in this study comprised 43 percent of companies that had been in business for 10 years or less and 25 percent that had been in business for between 11 and 20 years. The remaining 32 percent had been in business for more than 20 years. This indicated that most companies had tax-related experience. In terms of distribution by industry, the highest response was from Trading/Retailing (30 percent), followed by Services (22 percent), Manufacturing (11 percent) and Property/Construction (9 percent).

The number of employees and annual sales turnover figures were utilised in determining the size of a company. Small companies with less than 51 employees represented 52 percent of respondents. However, the percentage of small companies with an annual turnover of RM5 million and below was smaller (38 percent). Large companies with more than 1,000 employees and an annual turnover of over RM500 million represented more than 25 percent of the respondents.

Some 80 percent of companies used tax agents, and the distribution of respondents was nearly equivalent for companies that had audit experience (49 percent) and companies that did not have audit experience (51 percent). These business characteristics are summarised in Table 6.4.

Table 6.4: Business Characteristics of Responding Companies

	No. of Companies	Percentage
<i>Length of time in business</i>		
10 years or less	59	40.7
11 to 20 years	35	24.1
More than 20 years	45	31.1
Not mentioned	6	4.1
<i>Business Industry</i>		
Manufacturing	16	11.0
Trading/Retailing	43	29.7
Financial/Insurance	8	5.5
Property/Construction	13	9.0
Plantation/Agriculture	9	6.2
Services	32	22.1
Oil & Gas	12	8.3
Others	11	7.6
Not mentioned	1	0.6
<i>Number of Staff</i>		
50 or less	75	51.7
51 to 1,000	33	22.8
1001 or more	37	25.5
<i>Annual Sales Turnover</i>		
Below RM5 million	55	38.0
RM5 million to RM499,999,999	50	34.5
RM500 million or more	39	26.9
Not mentioned	1	0.6
<i>Use of Tax Agent</i>		
Yes	114	78.6
No	31	21.4
<i>Audit Experience</i>		
Yes	74	51.0
No	71	49.0

The number of respondents equals 145.

6.4.4 Response Representativeness

In quantitative research, the researcher is usually concerned with the research findings being able to be generalised beyond the survey respondents to general populations and applications. Alternatively, the research findings can apply to individuals or companies other than those who responded in the study. Thus, it is ideal that the researcher has a sample of respondents that are as representative as possible. One method of establishing response representativeness is by comparing the demographic background of the responses with the entire population (Bryman & Bell, 2003, p. 81). In this study, the responses were compared with the population of companies as provided by the IRBM on three criteria: length of time in business, business industry and business size (by turnover).

Unfortunately, the comparison between the IRBM companies' population data and the survey responses was a difficult one as the population data was incomplete. The population data that was not categorised into any group (not mentioned), ranged from 10 to 51 percent. For example, no information was available for: length of time in business (51 percent of the population), business industry (10 percent) and business size-by turnover (28 percent). Using the IRBM companies' population data for comparison may overestimate or underestimate the representativeness of survey responses. Thus, a direct comparison between the IRBM data and the 145 survey responses was not possible.

However, in respect of business industry, survey responses accorded reasonably well with the population data, although the survey was biased towards Service and Oil and Gas. In terms of sales turnover, the survey responses showed a bias towards large companies and were weakest with regard to the smallest companies. Only the population data and survey responses on the use of tax agents were well in accord. The comparison between the population data and the survey responses is shown in Table 6.5.

Table 6.5: Comparison between Population and Survey Responses

Criteria	Population [#]		Survey Response [*]	
	No. of Companies N=254,586	Percentage 100.0	No. of Companies n=145	Percentage 100.0
<i>Business Industry</i>				
Manufacturing	24,002	9.4	16	11.0
Trading/Retailing	65,492	25.7	43	29.7
Financial/Insurance	25,647	10.1	8	5.5
Property/Construction	74,144	29.1	13	9.0
Plantation/Agriculture	8,925	3.5	9	6.2
Services	28,395	11.2	32	22.1
Oil & Gas	184	0.1	12	8.3
Others	1,857	0.7	11	7.6
Not mentioned	25,940	10.2	1	0.6
Total	254,586	100.0	145	100.0
<i>Sales Turnover</i>				
Below RM5 million	145,042	57.0	55	38.0
RM5 million to RM499,999,999	38,323	15.1	50	34.5
RM500 million or more	489	0.2	39	26.9
Not mentioned	70,732	27.7	1	0.6
Total	254,586	100.0	145	100.0
<i>Use of Tax Agent</i>				
Yes	212,681	83.5	114	78.6
No	41,905	16.5	31	21.4
Total	254,586	100.0	145	100.0

[#] Source: Inland Revenue Board Malaysia (Personal communication, 4 August 2011)

^{*} Extract from Table 6.4.

Thus, it should be stressed that the survey results are not truly representative of the whole company population of Malaysia. Given this qualification, the researcher does not claim statistical representativeness for the sample and findings from this study need to be treated cautiously in drawing conclusions and managing issues arising

with policymakers. However, findings from the survey are regarded as indicative of corporate taxpayer attitudes towards compliance variables that may then influence their compliance behaviour.⁴⁴

The following sections examine the results of the descriptive analysis of corporate taxpayer attitudes around tax knowledge, tax complexity, tax agents and tax audits.

6.4.5 Tax Knowledge

6.4.5.1 Introduction

Information on the level of corporate taxpayer attitudes towards tax knowledge may indicate their level of understanding of the system and may possibly signify the effectiveness of tax education programmes conducted by the IRBM to date. The level of corporate taxpayer attitudes towards tax knowledge was examined based on 11 statements concerning awareness of a SAS (*TK1-5 items*), awareness of audit roles (*TK2-5 items*) and perception of audit probability (*TK3-1 item*).

The (variable) *TK1* examined taxpayer awareness, specifically, awareness of the objectives of a SAS. It also examined taxpayer awareness of responsibilities concerning recordkeeping and the consequences of abusing the laws under a SAS. Secondly, *TK2* explicitly examined respondent awareness of audit roles under a SAS. Finally, *TK3* evaluated corporate taxpayer perceptions of audit probability. Results of the analysis are discussed in the following sections.

⁴⁴ For the purpose of this research, indicative means findings of this research are only exploratory in nature. Hopefully they provide a fundamental understanding of Malaysian corporate taxpayers' compliance variables. Further research is recommended to strengthen these initial findings.

6.4.5.2 Awareness of the Self-Assessment System

This section presents respondents' attitudes regarding awareness of a SAS (*TKI*). The first statement related to an awareness of corporate responsibilities under a SAS (*TKI.1*). Eighty three percent of respondents indicated that they were fully aware of their corporate responsibilities under a SAS. As for the second statement, 81 percent agreed that a SAS improved their particular company's degree of tax compliance (*TKI.2*). About 93 percent of respondents indicated that they were aware that under a SAS, the company was responsible for keeping and retaining sufficient documents in safe custody for a period of seven years (*TKI.3*) and that they were aware of the consequences of abusing tax laws under a SAS (*TKI.4*). Finally, 91 percent of respondents indicated awareness that a tax audit was one of the enforcement mechanisms put into place under a SAS (*TKI 5*).

To interpret the data, a higher mean value indicated more awareness of a SAS. Overall, corporate taxpayers perceived themselves as having a good awareness of a SAS. All statements had a mean score of between 4.48 and 5.11, showing a strong agreement towards awareness of a SAS, as shown in Table 6.6.

Table 6.6: Attitudes towards Awareness of the Self-Assessment System

Statements	Code	Agree	Disagree	Mean	Median	SD
I am fully aware of my company's responsibilities under SAS. ^a	TK1.1	82.6% (119)	17.4% (25)	4.88	5.00	1.23
SAS improves my company's degree of tax compliance. ^a	TK1.2	81.2% (117)	18.8% (27)	4.47	5.00	1.23
I am fully aware that under the SAS, my company is responsible for keeping and retaining sufficient documents in a safe custody for a period of seven years.	TK1.3	93.1% (135)	6.9% (10)	5.09	5.00	1.08
I am fully aware that under the SAS any taxpayer who abuses tax laws may be detected and appropriately penalised. ^a	TK1.4	92.4% (133)	7.6% (11)	5.09	5.00	1.01
I am fully aware that a tax audit is one of the enforcement mechanisms put into place under the SAS. ^a	TK1.5	91.0% (131)	9.0% (13)	5.09	5.00	1.04
Awareness of SAS	TK1	-	-	4.92	5.00	0.92

^a The number of respondents equals 144. One value is missing.

The number of responses is given in parentheses.

SD denotes standard deviation.

6.4.5.3 Awareness of Audit Roles

The respondents' awareness of audit roles (*TK2*) is summarised in Table 6.7. In the first statement, about 70 percent of respondents agreed that it was necessary for the IRBM to conduct tax audits under a SAS (*TK2.1*). The second and third statements specifically related to the role of audits. Some 75 percent of respondents agreed that tax audits helped the company in identifying improvements required for recordkeeping (*TK2.2*), and 70 percent of respondents agreed that tax audits assisted them in clarifying the application of tax law relevant to their companies (*TK2.3*).

Around 80 percent of respondents agreed that tax audits improved the level of tax compliance of their companies (*TK2.4*) and that tax audits might help to do so in the future (*TK2.5*). A higher mean value indicated more awareness of the audit roles. The overall mean score of 4.23 suggested that corporate taxpayers are moderately aware of the audit roles under a SAS, as shown in Table 6.7.

Table 6.7: Attitudes towards Awareness of Audit Roles

Statements	Code	Agree	Disagree	Mean	Median	SD
It is necessary for the IRB to conduct tax audits under the SAS.	TK2.1	69.0% (100)	31.0% (45)	4.12	4.00	1.39
Tax audits help my company to identify improvements required for record-keeping.	TK2.2	74.5% (108)	25.5% (37)	4.27	4.00	1.38
Tax audits assist in clarifying the application of tax law relevant to my company. ^a	TK2.3	70.0% (100)	30.0% (43)	4.04	4.00	1.32
Tax audits have improved the level of tax compliance of my company. ^a	TK2.4	77.6% (111)	22.4% (32)	4.31	5.00	1.25
Tax audits may help to improve the level of tax compliance of my company in the future. ^a	TK2.5	79.0% (113)	21.0% (30)	4.40	5.00	1.31
Awareness of Audit Roles	TK2	-	-	4.23	4.40	1.15

^a The number of respondents equals 143. Two values are missing.
The number of responses is given in parentheses.
SD denotes standard deviation.

6.4.5.4 Perception of Audit Probability

The respondents were asked to indicate their agreement with a statement indicating that the probability of being audited was so low that it was worthwhile to “cut corners” a little on corporate income tax for various reasons (*TK3*). A higher mean score indicated that the respondents perceived the probability of being audited as very low and therefore that they were willing to evade at least some tax. It was

found that more than 60 percent of respondents agreed with the statement. A mean score of 4.02 suggested relatively weak agreement with the statement. This finding should be of some concern to the IRBM, as previous literature has suggested that taxpayer perception of low audit probability increases non-compliance. However, a relatively high standard deviation (SD=1.63) signified that agreement with the statement was relatively dispersed among respondents and thus it possibly requires further analysis. The results are shown in Table 6.8.

Table 6.8: Attitudes towards Audit Probability

Statement	Code	Agree	Disagree	Mean	Median	SD
The chances of being audited by the IRBM are so low that it is worthwhile to “cut corners” a little on corporate income tax for various reasons. ^a	TK3	61.1% (88)	38.9% (56)	4.02	4.00	1.63

^a The number of respondents equals 144. One value is missing.
The percentage of responses is given in parentheses.
SD denotes standard deviation.

6.4.6 Tax Complexity

6.4.6.1 Introduction

In identifying measures to simplify the tax system, many researchers analyse areas that taxpayers find difficult (or too complex) to comply with and they suggest various policies to overcome these difficulties.⁴⁵ Therefore, the current study examined this issue based on tax-related difficulties, encountered by corporate taxpayers, in meeting their tax obligations under a SAS. There were nine statements relating to tax-related difficulties probably encountered by many corporate taxpayers in complying with corporate income tax obligations. Respondents were asked to

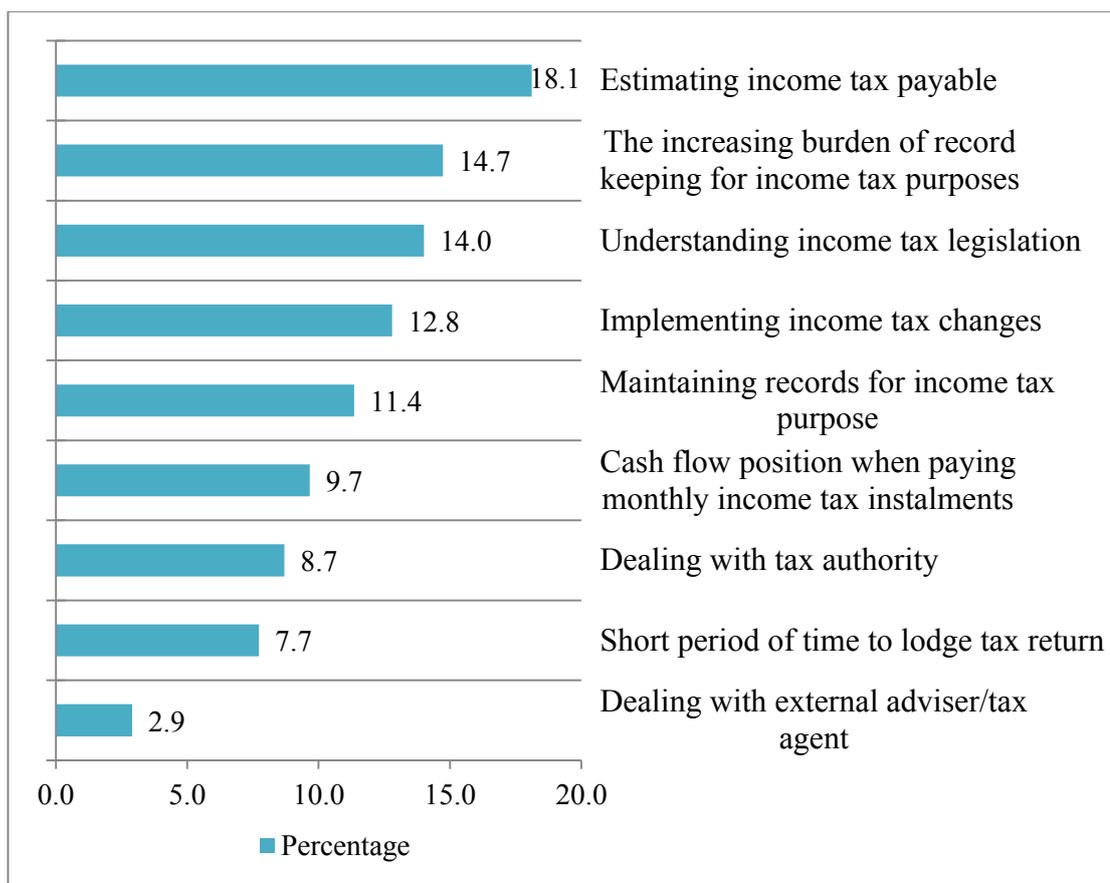
⁴⁵ Refer Chapter Two, Sections 2.6.3 and 2.8.3.2.

identify the statement relevant to them, and were given the option of selecting more than one answer. The following section discusses the results of this analysis.

6.4.6.2 Tax-related Difficulties

Survey respondents indicated that the most highly ranked tax-related difficult areas were “Estimating income tax payable” (18 percent), “the increasing burden of record keeping for income tax purposes” (15 percent) and “Understanding income tax legislation” (14 percent). The least ranked difficult areas were “Dealing with external adviser/tax agent” (3 percent), “Short period of time to lodge tax returns” (8 percent) and “Dealing with tax authority” (9 percent). Results are shown in Figure 6.1.

Figure 6.1: Tax-Related Difficulties



Source: Author

6.4.6.3 Tax-related Difficulties by Business Characteristics

The above findings might have been more meaningful if the specific group of taxpayers that were having such difficulties could have been identified. This identification might assist the tax authority to simplify the relevant tax obligations for those specific groups. For this purpose, the highest tax-related difficulties were coded as (1), (2) and (3), with (1) being the highest and (3) being the third ranked tax-related difficulty and difficulties were also measured in line with business characteristics, namely length of time in business, business industry and business size (annual turnover).

It was found that companies with difficulties in estimating income tax payable were mainly “new” companies (whose length of time in business was less than 11 years),

small companies (whose turnover was below RM5 million) and companies in the Trading/Retailing industry.

The second and third ranked tax-related difficulties were also largely experienced by new companies (whose length of time in business was less than 11 years) and companies in the Trading/Retailing industry. Unexpectedly, medium-sized companies (whose turnover was between RM5 million and RM499,999,999) were found to have more difficulty with “The increasing burden of record keeping for income tax purposes” and “Understanding income tax legislation” compared with smaller and larger companies. Results of this analysis are shown in Table 6.9.

Table 6.9: Tax-related Difficulties by Business Characteristics

Business Characteristics	Estimating income tax payable N=75 (1)	The increasing burden of record keeping for income tax purpose N=61 (2)	Understanding income tax legislation N=58 (3)
<i>Length of time in business (years in operation)</i>			
10 years or less	49.3% (36)	46.6% (27)	50.0% (29)
11 to 20 years	24.7% (18)	27.6% (16)	22.4% (13)
More than 20 years	26.0% (19)	25.9% (15)	27.6% (16)
Not mentioned	2.7% (2)	-	-
Total	100.0% (75)	100.0% (61)	100.0% (58)
<i>Business Industry</i>			
Manufacturing	13.3% (10)	9.8% (6)	12.1% (7)
Trading/Retailing	36.0% (27)	34.4% (21)	36.2% (21)
Financial/Insurance	5.3% (4)	1.6% (1)	3.4% (2)
Property/Construction	9.3% (7)	11.5% (7)	6.9% (4)
Plantation/Agriculture	1.4% (1)	9.8% (6)	6.9% (4)
Services	22.7% (17)	23.0% (14)	25.9% (15)
Oil & Gas	9.3% (7)	6.6% (4)	5.2% (3)
Others	2.7% (2)	3.3% (2)	3.4% (2)
Total	100.0% (75)	100.0% (61)	100.0% (58)
<i>Annual Turnover</i>			
Below RM5 million	46.7% (35)	34.4% (21)	32.8% (19)
RM5 million to RM499,999,999	36.0% (27)	41.0% (25)	44.8% (26)
RM500 million or more	17.3% (13)	23.0% (14)	20.7% (12)
Not mentioned	-	1.6% (1)	1.7% (1)
Total	100.0% (75)	100.0% (61)	100.0% (58)

Total responses exceeded 145 as each respondent was allowed to select more than one aspect. The number of responses is given in parentheses.

6.4.7 Tax Agents

6.4.7.1 Business Characteristics of Companies with and without Tax Agents

The business characteristics of companies with and without tax agents may provide additional insights to researchers and policy makers in designing the appropriate strategy to improve overall compliance. The main business characteristics of respondents that use and do not use tax agents are discussed next.

As shown earlier,⁴⁶ around 80 percent of respondents used tax agents. Overall, respondents that used tax agents were mainly those in the Trading/Retailing industry (30 percent), small companies with the number of staff below 50 (more than 50 percent). This may indicate that generally, smaller companies rely more on tax agents compared with larger companies. It is also noted that 66 percent of respondents that had audit experience used tax agents.

It is not surprising that more than half (52 percent) of new and companies did not use tax agents probably because they usually have minimal chargeable income and their tax matters are simpler than larger companies. On the other hand, large companies often have business transactions that are more complex and may involve international dealings. As expected, the majority of large companies used tax agents (90 percent) and only 10 percent of them did not. It is likely that those large companies without tax agents have a specialised group/department within the company to manage their tax matters. The business characteristics of respondents with and without tax agents are shown in Table 6.10.

⁴⁶ Refer Table 6.4.

Table 6.10: Business Characteristics of Companies With and Without Tax Agents

Business Characteristics	With Tax Agents			Without Tax Agents			Total N
	n	n%	N%	n	n%	N%	
<i>Length of time in business (years in operation)</i>							
10 years or less	43	37.7	72.9	16	51.6	27.1	59
11 to 20 years	27	23.7	77.1	8	25.8	22.9	35
More than 20 years	39	34.2	86.7	6	19.4	13.3	45
Not mentioned	5	4.4	83.3	1	3.2	16.7	6
Total n	114	100.0		31	100.0		145
<i>Business Industry</i>							
Manufacturing	12	10.5	75.0	4	12.9	25.0	16
Trading/Retailing	34	29.8	79.1	9	29.0	20.9	43
Financial/Insurance	8	7.0	100.0	0	0.0	0.0	8
Property/Construction	10	8.8	76.9	3	9.7	23.1	13
Plantation/Agriculture	9	7.9	100.0	0	0.0	0.0	9
Services	21	18.4	65.6	11	35.5	34.4	32
Oil & Gas	11	9.6	91.7	1	3.2	8.3	12
Others	9	7.9	75.0	3	9.7	25.0	12
Total n	114	100.0		31	100.0		145
<i>Number of Staff</i>							
50 or less	60	52.6	80.0	15	48.4	20.0	75
51 to 1,000	20	17.5	60.6	13	41.9	39.4	33
1001 or more	34	29.8	91.9	3	9.7	8.1	37
Total n	114	100.0		31	100.0		145
<i>Annual Sales Turnover</i>							
Below RM5 million	39	34.2	70.9	16	51.6	29.1	55
RM5 million to RM499,999,999	39	34.2	78.0	11	35.5	22.0	50
RM500 million or more	35	30.7	89.7	4	12.9	10.3	39
Not mentioned	1	0.9	100.0	0	0.0	0.0	1
Total n	114	100.0		31	100.0		145
<i>Audit Experience</i>							
Yes	65	57.0	66.2	6	19.4	33.8	74
No	49	43.0	91.5	25	80.6	8.5	71
Total n	114	100.0		31	100.0		145

The number of respondents equals 145.

“n” refers to the number of companies and percentage within the group.

“N” refers to the number of companies and percentage across the group.

A correlation analysis was conducted to identify any significant relationships between employment of tax agents and business characteristics. It was found that the use of tax agents was positively and significantly correlated with annual turnover and audit experience as shown in Table 6.11.

Table 6.11: Correlation between Tax Agents and Business Characteristics

Spearman's rho		Use of Tax Agent	Length of time in business	Industry	Number of Staff	Annual Turnover	Field Audit
Use of Tax Agent	Correlation Coefficient	1.000	0.141	-0.017	0.051	0.179	0.309
	Sig.	.	0.098	0.839	0.542	0.032*	0.000*
	N	145	139	145	145	144	145
Length of time in business (years in operation)	Correlation Coefficient	.141	1.000	0.163	0.515	0.503	0.075
	Sig.	0.098	.	0.055	0.000	0.000	0.381
	N	139	139	139	139	138	139
Industry	Correlation Coefficient	-0.017	0.163	1.000	0.330	0.297	-0.185
	Sig.	0.839	0.055	.	0.000	0.000	0.026
	N	145	139	145	145	144	145
Number of Staff	Correlation Coefficient	0.051	0.515	0.330	1.000	0.768	-0.033
	Sig.	0.542	0.000	0.000	.	0.000	0.692
	N	145	139	145	145	144	145
Annual Turnover	Correlation Coefficient	0.179	0.503	0.297	0.768	1.000	0.049
	Sig.	0.032*	0.000	0.000	0.000	.	0.560
	N	144	138	144	144	144	144
Field Audit	Correlation Coefficient	0.309	0.075	-0.185	-0.033	0.049	1.000
	Sig.	0.000*	0.381	0.026	0.692	0.560	.
	N	145	139	145	145	144	145

*Correlation is significant at the 0.05 level (2-tailed).

6.4.7.2 Estimated Tax Agents' Fees

Respondents were also requested to indicate the estimated annual fees paid to their tax agents for managing their tax matters. The estimated tax agent fees are a straightforward monetary cost charged by tax agents solely for managing compliance activities. It is common in Malaysia that tax fees are charged separately from other accounting or audit fees. However, it was more practical to ask the respondents to estimate the tax agent fees paid for the previous filing year.

Tax agent fees are often associated with the degree of complexity of taxpayer business transactions. Larger companies are normally involved in more complex business arrangements and tax issues. Therefore, the estimated tax agent fees are frequently linked with the size of the company, for example the amount of business turnover. In the current study, the estimated tax agent fees provided by survey respondents were combined with annual turnover.

In general, tax agent fees were positively correlated with the size of business turnover. It was found that around 45 percent of companies with an annual turnover of less than RM5 million paid a tax agent fee of between RM1,000 and RM3,000. Nearly 40 percent of companies with an annual turnover of between RM5 million and RM499,999,999 paid a tax agent fee of between RM3,000 and RM10,000. Finally, 40 percent of companies with an annual turnover of RM500 million or more paid a tax agent fee of over RM30,000. The relationship between tax agent fees and the size of companies (by annual turnover) is shown by the figures in Table 6.12.

Table 6.12: Estimated Tax Agents' Fees by Business Turnover

Annual Turnover/ Tax Agent Fees	Below RM5 million	RM5 million to RM499,999,999	RM500 million or more
Less than RM1,000	23.0% (9)	20.5% (8)	-
RM1,001 - RM3,000	43.6% (17)	17.9% (7)	2.9% (1)
RM3,001 - RM10,000	15.4% (6)	38.8% (15)	20.0% (7)
RM10,001 - RM30,000	7.7% (3)	12.7% (5)	31.4% (11)
RM30,001 and over	-	2.5% (1)	40.0% (14)
Not Mentioned	10.3% (4)	7.6% (3)	5.7% (2)
Total	39	39	35

^a Number of respondents equals 113. One value is missing.

The number of responses is given in parentheses.

6.4.7.3 Reasons for Employing Tax Agents

The following sections discuss findings on the reasons why corporate taxpayers use tax agents. Using six-point Likert scales ranging from Strongly Disagree (1) to Strongly Agree (6), respondents were required to indicate the level of their agreement with six statements regarding the use of tax agents. These reasons were grouped into internal and external factors and are discussed next.

6.4.7.3.1 Internal Factors

This section presents respondents' reasons for employing tax agents based on internal factors (*TAI*). The internal factors refer to statements that are associated with: availability of internal technical knowledge, complexity of income tax knowledge and cost effectiveness. About 70 percent of respondents employed tax agents because of a lack of internal technical knowledge (*TAI.1*) and another 82 percent due to a perception that income tax matters were too complicated (*TAI.2*).

Finally, 75 percent of respondents agreed that it was more cost effective to employ tax agents to manage their corporate tax compliance activities than managing them themselves (*TA1.3*). All statements had a mean score of between 4.12 and 4.54, suggesting a relatively modest agreement with internal factors. These findings are summarised in Table 6.13.

Table 6.13: Attitudes towards Internal Factors

Statement	Code	Agree	Disagree	Mean	Median	SD
Lack of internal technical knowledge.	TA1.1	69.3% (79)	30.7% (35)	4.12	4.00	1.58
Income tax matters are too complicated.	TA1.2	81.6% (93)	18.4% (21)	4.54	5.00	1.34
It is more cost effective to use external tax professionals.	TA1.3	75.4% (86)	24.6% (28)	4.48	5.00	1.39
Internal Factors	TA1	-	-	4.38	4.33	1.22

The number of respondents that uses tax agents equals 114.

The number of responses is given in parentheses.

SD denotes standard deviation.

It is shown that internal factors (*TA1*) are modestly indicated as the reason for engaging tax agents. A likely explanation for this is that most respondents (57 percent) had been in business for more than ten years, probably indicating longer tax-related experience. In addition, corporate taxpayers may have employed experienced internal personnel to handle tax compliance matters; thus, reliance on tax agents for technical knowledge was minimal. However, as many corporate taxpayers perceived income tax matters to be too complicated, it may have been necessary for them to engage tax agents to assist them in complying with those requirements. Generally, the corporate taxpayer agreed that it was more cost effective for their company to employ tax agents rather than relying solely on internal personnel to handle all tax matters. The cost savings associated with using tax agents may refer to both time and monetary costs incurred by corporate taxpayers in self-managing their tax matters under a SAS.

6.4.7.3.2 External Factors

This section presents respondents' reasons for employing tax agents due to external factors (TA2). The external factors imply that the reasons corporate taxpayers employ tax agents are because external opinions on tax issues are needed, updates on tax information are easily available and advice on income tax planning is required. More than 90 percent of respondents agreed that the reason they employed tax agents was that they needed to seek external opinions on tax issues (TA2.1). Some 94 percent of respondents employed tax agents because updates on tax information were easily available from the tax agent (TA2.2). Finally, about 87 percent of respondents indicated that they required advice on income tax planning from tax agents (TA2.3).

All the statements have a mean score of between 4.85 and 5.12, indicating strong agreement with the external factors. Findings from the study suggest that most corporate taxpayers are highly reliant on tax agents for external opinions, tax updates and advice on tax planning. Results are shown in Table 6.14.

Table 6.14: Attitudes towards External Factors

Statement	Code	Agree	Disagree	Mean	Median	SD
External opinions on tax issues are required (TA2 1). ^a	TA2.1	91.2% (104)	7.9% (9)	5.05	5.00	1.02
Updates on tax information are easily available from them (TA2 2).	TA2.2	93.9% (107)	6.1% (7)	5.12	5.00	0.98
Advice on income tax planning is required (TA2 3).	TA2.3	86.8% (99)	13.2% (15)	4.85	5.00	1.18
External Factors	TA2	-	-	5.01	5.00	0.91

The number of respondents equals 113. One value is missing.

The number of responses is given in parentheses.

SD denotes standard deviation.

6.4.8 Tax Audit Experience

6.4.8.1 Introduction

The interaction between taxpayers and the tax authority may influence the former's attitudes toward the tax system.⁴⁷ Therefore, the author elicited corporate taxpayers' experiences of tax audits. Feedback from taxpayers who had experienced audits, potentially provides useful information on the efficacy of the audit activities conducted by the IRBM.

Corporate taxpayer audit experience was examined using three components, namely experience throughout the audit process (*AE1-17 items*), attitudes toward tax audits (*AE2-1 item*) and attitudes toward tax auditors' professional proficiency (*AE3-9 items*). The following sections present the business characteristics of companies with audit experience and discuss the results accordingly.

6.4.8.2 Business Characteristics of Companies with Tax Audit Experience

The business characteristics of the audited companies are shown in Table 6.15. Almost 65 percent of audited companies had been in business for more than 10 years and therefore were likely have more tax-related experience. In terms of distribution by type of business industry, the highest response was from Trading/Retailing (35 percent), followed by Manufacturing (16 percent), and Services (13 percent).

The number of employees and annual sales turnover were utilised in determining the size of a company. Large companies with more than 1,000 employees and an annual turnover of over RM500 million represented about 28 percent of respondents.

⁴⁷ Refer Chapter Two, Section 2.6.5.

Responses were also sought on the financial impact of audit activities. Almost 65 percent of audited companies incurred additional tax liabilities and had to pay tax penalties arising from the audit.

Finally, more than 90 percent of companies with audit experience used tax agents to manage their tax matters. A detailed breakdown of the business characteristics of all audited companies is shown in Table 6.15.

Table 6.15: Business Characteristics of Companies with Audit Experience

Business Characteristics	Number of Companies	Percentage
<i>Length of time in business (years in operation)</i>		
10 years or less	23	32.4
11 to 20 years	25	35.2
More than 20 years	20	28.2
Not mentioned	3	4.2
<i>Business Industry</i>		
Manufacturing	11	15.5
Trading/Retailing	25	35.2
Financial/Insurance	4	5.6
Property/Construction	5	7.0
Plantation/Agriculture	5	7.0
Services	9	12.7
Oil & Gas	7	9.9
Others	5	7.0
<i>Number of Staff</i>		
50 or less	39	54.9
51 to 1,000	13	18.3
1001 or more	19	26.8
<i>Annual Sales Turnover</i>		
Below RM5 million	25	35.7
RM5 million to RM499,999,999	25	35.7
RM500 million or more	20	28.6
Not mentioned	1	1.4
<i>Additional Tax Liability</i>		
Yes	45	63.4
No	26	36.6
<i>Tax Penalty</i>		
Yes	45	63.4
No	26	36.6
<i>Use of Tax Agents</i>		
Yes	65	91.5
No	6	8.5

The number of respondents equals to 71.

6.4.8.3 Audit Experience

This section presents the respondents' attitudes around the level of their audit experience. Generally, more than 60 percent of respondents agreed that their interactions with tax auditors were good (*AEI.1*) and the time given to provide documents for the audit purpose was appropriate (*AEI.2*).

However, it is worth noting that around 30 percent of respondents did not understand the questions asked by tax auditors during the audit visit (*AEI.3*). Another 48 percent of respondents were not satisfied with the tax auditor's approach during the audit (*AEI.4*). A possible reason may be the knowledge and language barriers between taxpayers and tax auditors. Tax auditors may have used phrases that were too technical for the taxpayers to comprehend. Should such a high level of miscommunication continue, it would be hard for both taxpayers and tax auditors to collaborate during the audit and the audit process may be longer and entail additional costs.

As expected, the presence of a tax audit creates a tense atmosphere within a company. Whilst 60 percent of respondents considered that disruption of business activity during the audit visit were minimal (*AEI.5*), 70 percent of respondents agreed that pressure was felt during the audit (*AEI.6*). A likely reason for this is that tax audit activities may involve only one department (such as accounts and finance), but there are other departments (such as production and sales) that run other usual business activities. The presence of an audit undoubtedly creates a tense feeling among employees directly involved with the audit.

It is also noteworthy that almost 32 percent of respondents agreed that tax auditors raised their voices when requesting documents (*AEI.7*). Further, only 43 percent and 52 percent of respondents indicated that the audit findings were accurate (*AEI.8*) and clear (*AEI.9*) respectively. This study also found that 60 percent of respondents accepted a decision made by tax auditors, even if they disagreed (*AEI.10*).

Taking a tax dispute to court is not usual practice in Malaysia, unless the sum involved is large or a specific legislative outcome is desired by taxpayers or the tax authority (Mann, 2005). A possible explanation is that Malaysian respondents find defending their merits in a case both cumbersome and costly. This finding is similar to a study among Australian taxpayers conducted by the **ATO** (Treasury of Australian Government, 2004, p.74). In addition, respondents may find that the additional taxes and penalties imposed as the result of an audit, are relatively low and affordable. Many respondents that have been audited may simply want to pay the additional tax and penalty imposed, settle the audit and continue with their normal business activities.

In terms of respondents' trust in tax auditors, about 60 percent of respondents agreed that tax auditors would not deceive them (*AE1.11*) or reveal their confidential business information to others (*AE1.12*). Generally, about 60 percent of respondents were satisfied with the audit visit (*AE1.13*) and comfortable with the questions asked (*AE1.14*). Nevertheless, only half of the respondents were satisfied with the overall audit process (*AE1.15* and *AE1.16*) and pleased with the overall audit experience (*AE1.17*).

All the statements regarding audit experiences had a mean score of between 2.69 and 3.97 (except for *AE1.3*), which revealed moderate attitudes towards the audit experience. These findings are shown in Table 6.16.

Table 6.16: Attitudes towards Audit Experience

Statement	Code	Agree	Disagree	Mean	Median	SD
My interaction with tax auditors during the audit visit was good. ^a	AE1.1	67.1% (47)	32.9 % (23)	3.97	4.00	1.48
The time given to provide documents for the audit purpose was appropriate. ^a	AE1.2	61.4% (43)	38.6% (27)	3.80	4.00	1.50
I understood the questions asked during the audit visit. ^a	AE1.3	72.9% (51)	27.1% (19)	4.13	4.50	1.32
I was satisfied with the tax auditor's approach during the audit visit. ^b	AE1.4	52.2% (36)	47.8% (33)	3.35	4.00	1.40
Disruption of business activities during the audit visit was minimal. ^a	AE1.5	58.6% (41)	41.4% (29)	3.56	4.00	1.25
There was no pressure felt during the audit visit. ^a	AE1.6	30.0% (21)	70.0% (49)	2.69	3.00	1.34
Tax auditors raised their voices when requesting documents. ^b	AE1.7	31.9% (22)	68.1% (47)	2.86	3.00	1.53
The audit findings were accurate. ^a	AE1.8	42.9% (30)	57.1% (40)	3.06	3.00	1.45
The audit findings were clear. ^b	AE1.9	52.2% (36)	47.8% (33)	3.32	4.00	1.39
I accepted decisions made by the tax auditors even if I disagreed with them. ^a	AE1.10	60.0% (42)	40.0% (28)	3.84	4.00	1.59
I did not feel betrayed / deceived by the tax auditors. ^a	AE1.11	57.1% (40)	42.9% (30)	3.47	4.00	1.32
I am confident that the tax auditors will not reveal my confidential business information to others. ^a	AE1.12	62.9% (44)	37.1% (26)	3.93	4.00	1.52
Overall, the tax audit visit was satisfactory. ^b	AE1.13	59.4% (41)	40.6% (28)	3.55	4.00	1.36
Overall, I was comfortable with the questions asked. ^a	AE1.14	62.9% (44)	37.1% (26)	3.59	4.00	1.26

Statement	Code	Agree	Disagree	Mean	Median	SD
Overall, I was satisfied with the tax audit process. ^a	AE1.15	51.4% (36)	48.6% (34)	3.41	4.00	1.29
Overall, the amount of time it took for the tax audit process was appropriate. ^a	AE1.16	52.9% (37)	47.1% (33)	3.37	4.00	1.31
Overall, the tax audit experience was very pleasant. ^a	AE1.17	47.1% (33)	52.9% (37)	3.13	3.00	1.296
Audit Experience	AE1	-	-	3.47	3.59	0.84

^a The number of respondents equals 70. One value is missing as the respondent to the survey was not present during the audit and thus he/she was unable to provide his/her opinion on all the statements.

^b The number of respondents equals 69. Two values are missing.

The number of responses is given in parentheses.

SD denotes standard deviation.

6.4.8.4 Audit Perception

This section presents respondents' attitudes regarding a statement that tax auditors were more interested in finding fault and penalising the company for wrongdoing rather than helping the company to "do the right thing". Almost 75 percent of respondents agreed with this statement. A mean score of 4.47 indicated strong agreement with the statement, as shown in Table 6.17.

Table 6.17: Attitudes towards Audit Perception

Statement	Code	Agree	Disagree	Mean	Median	SD
Tax auditors are more interested to find fault and penalise the company for the wrongdoing, than helping the company to do the right thing. ^a	AE2	74.3% (52)	25.7% (18)	4.47	5.00	1.58

^a Number of respondents equal 70. One value is missing as the respondent to the survey was not present during the audit and thus he/she was unable to provide his/her opinion on the statement.

The number of responses is given in parentheses.

SD denotes standard deviation.

6.4.8.5 Professional Proficiency of Tax Auditors

This section presents corporate taxpayer opinion of tax auditors' professional proficiency. Unlike other sections, this section employed six-point Likert scales ranging from Poor (1) to Excellent (6) to measure the tax auditors' professional proficiency. For data interpretation, a higher mean score indicated that corporate taxpayers perceived tax auditors as more (rather than less) professional in their duties. More than 65 percent of respondents agreed that tax auditors had sufficient knowledge about tax law and legislation (*AE3.1*) and were professional in performing their duties (*AE3.5*). Though tax auditors scored highly (76 percent) in courtesy (*AE3.2*) and communication skills (*AE3.6*), more than 30 percent of respondents indicated that tax auditors were inconsistent in their comments (*AE3.3*) and that auditors did not comply with tax legislation (*AE3.7*).

In addition, tax auditors may need to further improve their audit skills (*AE3.4*), especially their ability to relate to business issues (*AE3.8*) and their ability to handle complex issues (*AE3.9*). Experience in handling many audit cases, knowledge sharing among tax auditors and a continuous learning program may expedite the acquisition of the required skills.

All statements had a mean score of between 3.10 and 3.96, which revealed a moderate evaluation of tax auditors' professional proficiency. Findings are presented in Table 6.18.

Table 6.18: Attitudes towards Tax Auditors' Professional Proficiency

Statement	Code	Good and Above [*]	Average and Below [#]	Mean	Median	SD
Knowledge about tax law and legislation. ^a	AE3.1	67.1% (47)	32.9% (23)	3.70	4.00	1.23
Courtesy during discussion. ^a	AE3.2	75.7% (53)	24.3% (17)	3.96	4.00	1.17
Consistency in comments and issues. ^a	AE3.3	67.1% (47)	32.9% (23)	3.71	4.00	0.99
Experience and skills in handling the tax audit. ^a	AE3.4	58.6% (41)	41.4% (29)	3.56	4.00	1.21
Professionalism in performing duties. ^a	AE3.5	65.7% (46)	34.3% (24)	3.69	4.00	1.26
Communication skills. ^a	AE3.6	65.7% (46)	34.3% (24)	3.76	4.00	1.27
Compliance with tax legislation. ^a	AE3.7	68.6% (48)	31.4% (22)	3.83	4.00	1.14
Ability to relate to business issues. ^a	AE3.8	40.0% (28)	60.0% (42)	3.10	3.00	1.29
Ability to handle complex issues. ^a	AE3.9	48.6% (34)	51.4% (36)	3.20	3.00	1.46
Auditors' Professional Proficiency	AE3	-	-	3.61	3.78	1.07

^a The number of respondents equals 70. One value is missing as the respondent to the survey was not present during the audit and thus he/she was unable to provide his/her opinion on all the statements. The number of responses is given in parentheses.

^{*} Represents respondents who answered "Poor", "Fair", and "Average".

[#] Represents respondents who answered "Good", "Very Good", and "Excellent".

SD denotes standard deviation.

6.5 Chapter Summary

This chapter tabled the results of the preliminary and descriptive analysis of the quantitative study. The preliminary analysis reported that the data had less than ten percent of missing values, suggesting that no remedial action was necessary. The EFA analysis was conducted to identify the underlying dimensions of each compliance variable namely tax knowledge (TK), tax agents (TA), audit experience (AE) and tax complexities (TC). The alpha coefficient of each dimension of compliance variables was considered highly reliable and consistent.

The descriptive analyses were divided into two main parts. The first part was related to survey respondents and business characteristics of responding companies. Survey respondents were mainly (73 percent) those responsible for tax compliance matters in their companies. Therefore, it was fair to assume that respondents were in a knowledgeable and responsible position within their companies in terms of providing clear and accurate responses on the financial/accounting aspects relating to income taxation. Business characteristics of companies were examined based on length of time in business, business industry, business size (based on number of staff and sales turnover), use of tax agents and audit experience.

It should be emphasised that the survey responses were not truly representative of the whole company population in Malaysia. Thus, findings from this study cannot be generalised and must be treated with caution. The findings could, however, be used as exploratory in nature and they give a good indication of Malaysian corporate taxpayers' compliance variables. Further research is recommended to examine these issues in the future.

The second part of the descriptive analysis focused on attitudes of respondents towards the four compliance variables. In terms of tax knowledge (TK), the attitudes of corporate taxpayers were strong in their awareness of the SAS, moderate towards awareness of audit roles and weak towards perception of low audit probability. In

addition, tax-related difficulties were used as a proxy for tax complexity (TC). The three most difficult areas of corporate tax obligations were estimating income tax payable, the increasing burden of record keeping for record purposes and understanding income tax legislation.

In examining tax agents (TA) as a compliance variable, the study found that the reasons why corporate taxpayers employed tax agents can be grouped into Internal and External factors. Generally, respondents moderately agreed that the reason they employed tax agents was due to Internal factors (such as cost effectiveness) but they strongly agreed on External factors (such as for tax updates and external opinions).

Finally, results on audit experience (AE), as expected, suggested that corporate taxpayers had moderate attitudes towards their tax audit experience and perceived that tax auditors had a pre-conceived idea that taxpayers were non-compliant. Finally, although tax auditors had sound communication skills, respondents perceived that tax auditors lacked the ability to handle critical business knowledge and complex issues.

CHAPTER SEVEN

RESULTS OF QUANTITATIVE STUDY (II)

7.1 Chapter Overview

This chapter presents the second part of results of quantitative study focussing on results of inferential analysis. Results from this inferential analysis suggest the influence that business characteristics have on each compliance variable.

In addition, comments from survey respondents (based on open-ended questions) are outlined in this chapter.⁴⁸ These comments provide additional insights of corporate taxpayers' opinions on compliance variables and SAS in general. A summary of the inferential analysis concludes the chapter.

7.2 Inferential Analysis

The main objective of conducting inferential analysis is to determine whether various business characteristics influence corporate taxpayers' attitudes to each of the compliance variables. The objective of this chapter is mainly to answer the following research question:

RQ: Do business characteristics influence corporate taxpayer attitudes to each of the compliance variables (RQ4)?

⁴⁸ The qualitative results from the survey are presented in this chapter to avoid confusion with the qualitative results from the focus group interviews in Chapter Five.

Prior to the analysis, a test of normality was conducted on each group, using Shapiro-Wilk tests to examine whether the distribution of the data as a whole was significantly different from normal distribution (Field, 2009, p. 793). A significant value ($p < 0.05$) indicated a deviation from normality. As most of the groups were not normally distributed ($p < 0.05$), non-parametric tests were employed as these do not assume that data follows normal distribution.⁴⁹ The Independent-Samples Median Test was employed for this purpose. In addition, a box-plot included in each of the Independent-Samples Median Test results was used to determine specific groups with significant differences. All box-plots are shown in Appendices D to J.

7.2.1 Independent-Samples Median Test

Independent-Samples Median Tests were conducted to examine whether the median of each variable namely *TK1*, *TK2*, *TK3*, *TA1*, *TA2*, *AE1*, *AE2* and *AE3* was the same across various business characteristics (length of time in business, industry, size, audit experience, tax agent representation and audit penalties). Results from this analysis are likely to provide further insight into corporate taxpayers' compliance variables and thus enable the tax authority to develop appropriate strategies in order to improve compliance. A summary of the business characteristics and variables examined is shown in Table 7.1.

⁴⁹ Transformation of data is not applicable in the context of the data analysis in this thesis. Refer Chapter Four, Section 4.5.5.4.

Table 7.1: Business Characteristics and Compliance Variables

Business Characteristics	Groups	N	Compliance Variables
Length of time in business (BL)	10 years or less	59	Awareness of SAS (TK1) Awareness of Audit Roles (TK2) Perception of Audit Probability (TK3) Internal Factors (TA1) External Factors (TA2) Audit Experience (AE1) Audit Perception (AE2) Auditors' Professionalism (AE3)
	11 to 20 years	35	
	More than 20 years	45	
Business Size (Number of Staff)	50 or less	75	
	51 to 1,000	33	
	More than 1,000	37	
Business Size (Turnover)	Below RM5 million	55	
	RM5 million to RM4,999,999	50	
	RM500 million or more	39	
Business Industry (BI)	Manufacturing	16	
	Trading/Retailing	43	
	Financial/Insurance	8	
	Property/Construction	13	
	Plantation/Agriculture	9	
	Services	32	
	Oil & Gas	12	
Others	11		
Use Tax Agents (TA)	Yes	114	
	No	31	
Audit Experience (AE)	Yes	71	
	No	74	
Audit Penalty (AP)	Yes	45	
	No	26	

N refers to number of respondents.

7.2.1.1 Differences between Companies of Different Lengths of Time in Business

Results from the analysis showed that the medians of all the variables tested were the same across categories of length of time in business except for *TK1*, *TK3* and *TA1*. A summary of the results is shown in Table 7.2.

Table 7.2: Independent-Samples Median Test for Length of Time in Business

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Length of time in business</i> .	18.576	0.000*	Reject the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Length of time in business</i> .	3.122	0.210	Retain the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Length of time in business</i> .	7.298	0.026*	Reject the null hypothesis.
The medians of <i>AE1</i> are the same across categories of <i>Length of time in business</i> .	0.625	0.732	Retain the null hypothesis.
The medians of <i>AE3</i> are the same across categories of <i>Length of time in business</i> .	0.878	0.645	Retain the null hypothesis.
The medians of <i>AE2</i> are the same across categories of <i>Length of time in business</i> .	0.684	0.710	Retain the null hypothesis.
The medians of <i>TA1</i> are the same across categories of <i>Length of time in business</i> .	16.924	0.000*	Reject the null hypothesis.
The medians of <i>TA2</i> are the same across categories of <i>Length of time in business</i> .	2.160	0.340	Retain the null hypothesis.

* The significance level is 0.05

Further analysis showed that companies that had been in business for less than 11 years had significantly lower median scores on *TK1* compared with companies that had been in business for more than 20 years. However, companies that had been in business for less than 11 years were found to have significantly higher median scores on *TK3* and *TA1* than the other two groups of companies. Results of this further analysis are shown in Appendix D.

A likely explanation for these findings is that companies that have been in business for less than 11 years may have had less exposure to a SAS and less experience in handling tax matters compared with companies that have been in business for more than 20 years. In addition, those companies (whose BL was more than 20 years)

were already in business when a SAS was introduced in 2001. It is expected that their level of awareness of a SAS (*TK1*) would be higher than that of newly incorporated companies (whose BL was less than 11 years).

Furthermore, based on years of business experience, companies that had been in business for more than 20 years were significantly more aware of the low probability of an audit (*TK3*). Therefore, they might be more willing to evade tax compared with the other two groups of companies. Finally, it is expected that as new companies (BL was less than 11 years) often depend more on tax agents for internal reasons (*TA1*), they would have significantly higher median scores than the other two groups of companies.

7.2.1.2 Differences between Companies of Different Business Size (Staff)

Results from the analysis show that the medians of all the variables tested were the same across categories by number of staff except for *TK1* and *TA1*. A summary of the results is shown in Table 7.3.

Table 7.3: Independent-Samples Median Test by Business Size (Staff)

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Number of Staff</i> .	22.14	0.000*	Reject the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Number of Staff</i> .	5.36	0.069	Retain the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Number of Staff</i> .	5.07	0.079	Retain the null hypothesis.
The medians of <i>AE1</i> are the same across categories of <i>Number of Staff</i> .	1.55	0.460	Retain the null hypothesis.
The medians of <i>AE3</i> are the same across categories of <i>Number of Staff</i> .	2.12	0.347	Retain the null hypothesis.
The medians of <i>AE2</i> are the same across categories of <i>Number of Staff</i> .	2.76	0.252	Retain the null hypothesis.
The medians of <i>TA1</i> are the same across categories of <i>Number of Staff</i> .	28.10	0.000*	Reject the null hypothesis.
The medians of <i>TA2</i> are the same across categories of <i>Number of Staff</i> .	3.27	0.195	Retain the null hypothesis.

* The significance level is 0.05

Further analysis showed that small companies (whose number of staff was less than 51) scored significantly lower on *TK1* than large companies (whose number of staff was more than 1,000). Expectedly, small companies scored significantly higher on *TA1* than large companies. Results of this further analysis are shown in Appendix F.

Findings of this analysis supported results from the qualitative analysis that found that small companies were less aware of a SAS and were more reliant on tax agents for internal reasons (*TA1*) compared with large companies. Likely explanations for this are that small companies do not usually have sufficient staff equipped with the tax knowledge to manage their tax compliance matters, and thus they are more reliant on tax agents. However, as tax matters for large companies are likely to be

more complex, they may employ tax experts to manage their tax compliance activities. These tax experts are more likely to be aware of a SAS and less reliant on tax agents.

7.2.1.3 Differences between Companies of Different Business Size (Turnover)

Results from the analysis showed that the medians of all the variables tested were the same across categories by an annual turnover except for *TK1*, *TK2* and *TA1*. A summary of the results is shown in Table 7.4.

Table 7.4: Independent-Samples Median Test for Business Size (Turnover)

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Annual Turnover</i> .	25.99	0.000 *	Reject the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Annual Turnover</i> .	9.19	0.010 *	Reject the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Annual Turnover</i> .	2.09	0.351	Reject the null hypothesis.
The medians of <i>AE1</i> are the same across categories of <i>Annual Turnover</i> .	3.59	0.851	Retain the null hypothesis.
The medians of <i>AE3</i> are the same across categories of <i>Annual Turnover</i> .	2.02	0.364	Retain the null hypothesis.
The medians of <i>AE2</i> are the same across categories of <i>Annual Turnover</i> .	1.38	0.501	Retain the null hypothesis.
The medians of <i>TA1</i> are the same across categories of <i>Annual Turnover</i> .	24.26	0.000 *	Reject the null hypothesis.
The medians of <i>TA2</i> are the same across categories of <i>Annual Turnover</i> .	5.88	0.053	Retain the null hypothesis.

* The significance level is 0.05

Further analysis showed that companies with an annual turnover of less than RM5 million scored significantly lower on *TK1* and *TK2* than companies with an annual turnover of more than RM500 million. However, companies with an annual turnover of less than RM5 million scored significantly higher on *TA1* than companies with an annual turnover of more than RM500 million. Results of this further analysis are shown in Appendix G.

Findings of this analysis were similar to the previous findings on business size (staff), except with an additional variable that is, *TK2*. The likely explanations for these findings are mostly similar to those for business size (staff) and thus will not be repeated here.⁵⁰

7.2.1.4 Differences between Companies of Different Business Industry

Results from the study show that the medians of all the variables tested were the same across categories of business industry except for *TK1*, *TK3* and *AE3*. A summary of the results is shown in Table 7.5.

⁵⁰ Refer Section 7.2.1.2.

Table 7.5: Independent-Samples Median Test for Business Industry

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Business Industry</i> .	17.48	0.015*	Reject the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Business Industry</i> .	7.57	0.403	Retain the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Business Industry</i> .	17.15	0.016*	Reject the null hypothesis.
The medians of <i>AE1</i> are the same across categories of <i>Business Industry</i> .	11.64	0.113	Retain the null hypothesis.
The medians of <i>AE3</i> are the same across categories of <i>Business Industry</i> .	17.59	0.014*	Reject the null hypothesis.
The medians of <i>AE2</i> are the same across categories of <i>Business Industry</i> .	13.99	0.051	Retain the null hypothesis.
The medians of <i>TA1</i> are the same across categories of <i>Business Industry</i> .	13.82	0.055	Retain the null hypothesis.
The medians of <i>TA2</i> are the same across categories of <i>Business Industry</i> .	3.37	0.849	Retain the null hypothesis.

* The significance level is 0.05

Further analyses show the following: 1) Plantation/Agriculture, Oil & Gas and Others scored significantly higher on *TK1* than all other industries; 2) Plantation/Agriculture and Service industries scored significantly higher on *TK3* than Manufacturing, Trading/Retailing and Financial/Service industries; 3) Financial/Insurance industry scored significantly higher on *AE3* than the Property/Construction and Plantation/Agriculture industries. Results are shown in Appendix E.

The business characteristics of each industry probably explain the results of this analysis. For instance, more than 75 percent of the Plantation/Agriculture, Oil & Gas and Others Industries were categorised as large companies with 1,000 or more

employees. The earlier finding suggested that larger companies were often more aware of a SAS compared with other smaller group of companies. In addition, 75 percent of companies in the “Plantation/Agricultural” industry had been in business for more than 20 years. The earlier finding shows that companies that had been in business for a considerable length of time were more aware of the low probability of an audit (*TK3*).

Finally, the Financial/Insurance industry is one of the most highly regulated industries in Malaysia. All books of accounts, record keeping and documentation must be kept in accordance with several regulatory standards. Therefore, taxpayers may only have to deal with technical matters rather than non-compliance issues during an audit. Therefore, respondents from the Financial/Insurance industry may find tax auditors are more professional in handling an audit (*AE3*).

7.2.1.5 Differences between Companies with and without Tax Agents

Results from the analysis show that the medians of all the variables tested were the same across categories by the use of tax agents except for *TK3*. A summary of the results is shown in Table 7.6.

Table 7.6: Independent-Samples Median Test for Use of Tax Agents

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Use of Tax Agents</i> .	1.60	0.206	Reject the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Use of Tax Agents</i> .	0.05	0.828	Retain the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Use of Tax Agents</i> .	5.17	0.023*	Reject the null hypothesis.
The medians of <i>AE1</i> are the same across categories of <i>Use of Tax Agents</i> .	0.01	0.942	Retain the null hypothesis.
The medians of <i>AE3</i> are the same across categories of <i>Use of Tax Agents</i> .	3.18	0.075	Retain the null hypothesis.
The medians of <i>AE2</i> are the same across categories of <i>Use of Tax Agents</i> .	0.36	0.548	Retain the null hypothesis.

* The significance level is 0.05

Further analysis suggested that companies that used tax agents scored significantly higher on *TK3* than companies that did not use tax agents. A likely reason for the result is that tax agents, based on their tax knowledge and experience, may have informed their clients of the low probability of being audited. Based on the information provided by tax agents, corporate taxpayers may strongly believe that the probability of an audit is relatively low and thus are willing to evade tax. Results of this further analysis are shown in Appendix H.

7.2.1.6 Differences between Companies with and without Audit Experience

Results from the analysis show that the medians of all the variables tested were the same across categories by audit experience except for *TK3* and *TA1*. A summary of the results is shown in Table 7.7.

Table 7.7: Independent-Samples Median Test for Audit Experience

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Audit Experience</i> .	1.23	0.268	Reject the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Audit Experience</i> .	2.64	0.104	Retain the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Audit Experience</i> .	5.43	0.020*	Reject the null hypothesis.
The medians of <i>TA1</i> are the same across categories of <i>Audit Experience</i> .	12.17	0.000*	Reject the null hypothesis.
The medians of <i>TA2</i> are the same across categories of <i>Audit Experience</i> .	0.06	0.809	Retain the null hypothesis.

* The significance level is 0.05

Further analysis shows that companies with audit experience scored significantly higher on *TK3* and *TA1* than companies without audit experience. Results of this further analysis are shown in Appendix I. The inference of this finding is that companies with audit experience are less likely to anticipate themselves being audited again in consecutive years (with the exception of cases of fraud) and thus they perceived a low probability of an audit (*TK3*).

The audit targeting system employed by the IRBM is probably effective in identifying companies that are more likely to require assistance in complying with the tax laws. This is further supported by the composition of audited companies; 55 percent of them fell into the category of small companies. An earlier finding indicated that small companies are more reliant on *TA1*.

7.2.1.7 Differences between Companies with and without Penalty

Results from the analysis show that the medians of all the variables tested were the same across categories by penalty except for *AE2*. A summary of the results is shown in Table 7.8.

Table 7.8: Independent-Samples Median Test for Penalty

Null Hypothesis	Test Statistics	Significant	Decision
The medians of <i>TK1</i> are the same across categories of <i>Penalty</i> .	0.07	0.786	Retain the null hypothesis.
The medians of <i>TK2</i> are the same across categories of <i>Penalty</i> .	3.06	0.08	Retain the null hypothesis.
The medians of <i>TK3</i> are the same across categories of <i>Penalty</i> .	0.03	0.859	Retain the null hypothesis.
The medians of <i>AE1</i> are the same across categories of <i>Penalty</i> .	0.18	0.669	Retain the null hypothesis.
The medians of <i>AE3</i> are the same across categories of <i>Penalty</i> .	0.86	0.354	Retain the null hypothesis.
The medians of <i>AE2</i> are the same across categories of <i>Penalty</i> .	5.66	0.017*	Reject the null hypothesis.
The medians of <i>TA1</i> are the same across categories of <i>Penalty</i> .	0.67	0.413	Retain the null hypothesis.
The medians of <i>TA2</i> are the same across categories of <i>Penalty</i> .	0.99	0.318	Retain the null hypothesis.

* The significance level is 0.05

Further analysis showed that companies that had received penalties scored significantly higher on *AE2* than companies that had not. A possible explanation for this finding is that penalised taxpayers are more likely to believe that tax auditors are more interested in finding fault and penalising companies for wrongdoing rather than helping them to “do the right thing” compared with non-penalised companies. Results of this further analysis are shown in Appendix J.

7.2.2 Overall Results of Independent-Samples Median Test

The inferential analysis using the Independent-Samples Median Test provided invaluable insights into additional factors influencing corporate taxpayers' compliance variables. The influence of corporate taxpayer business characteristics on tax knowledge (TK), tax agents (TA) and tax audit experience (AE) was examined. It was found that some business characteristics had a significant influence on corporate taxpayer attitudes to the compliance variables.

First, the attitudes of corporate taxpayers around tax knowledge (*TK*) were significantly influenced by length of time in business, business industry, business size, audit experience and use of tax agents. Corporate taxpayers with lower tax knowledge were generally new and small companies, those in the Plantation/Agriculture and Service industries, companies with audit experience and those that used tax agents.

Secondly, some significant differences were observed in the reasons why corporate taxpayers employ tax agents. Companies that were new, small and with audit experience mainly employed tax agents because of internal factors (*TA1*): lack of internal tax knowledge, tax matters were perceived to be complicated and tax agents were seen to be cost effective. This group of companies may be less likely to comply without the assistance of tax agents. However, no significant difference was observed for external factors (*TA2*) suggesting that most companies relied on tax agents for external opinions, updates and tax planning.

Finally, in terms of audit experience (*AE*), business industry was shown to have a significant influence on corporate taxpayer attitudes towards tax auditors' professional proficiency (*AE3*). Tax auditors were perceived to be significantly more professional by corporate taxpayers from the Financial/Insurance industry than those from the Plantation/Agricultural and Property/Construction. In addition, audited companies that had been penalised perceived tax auditors negatively compared with

those that were not penalised. A summary of the above findings is shown in Table 7.9.

Table 7.9: Summary of Independent-Samples Median Test

Business Characteristics	Tax Knowledge (TK)			Tax Agents (TA)		Audit Experience (AE)		
	TK1	TK2	TK3	TA1	TA2	AE1	AE3	AE2
LENGTH OF TIME IN BUSINESS 10 years or less (N) 11-20 years (M) More than 20 years (O)	N < O	ns	N < O	N > O	ns	ns	ns	ns
BUSINESS INDUSTRY Manufacturing (M) Trading/Retailing (TR) Financial/Insurance (FI) Property/Construction (PC) Plantation/Agriculture (PA) Services (S) Oil & Gas (OG) Others (O)	PA OG O > All other	ns	PA S > M TR FI	ns	ns	ns	FS > PC PA	ns
NUMBER OF STAFF 50 or less (S) 51 to 1000 (M) 1001 or more (L)	S < L	ns	ns	S > L	ns	ns	ns	ns
ANNUAL TURNOVER Below RM5 million (S) RM5 million to RM499,999,999 (M) RM500 million or over (L)	S < L	M < L	ns	S > L	ns	ns	ns	ns
AUDIT EXPERIENCE Yes (Y) No (N)	ns	ns	Y < N	Y > N	ns	-	-	ns
USE OF TAX AGENT Yes (Y) No (N)	ns	ns	Y < N	-	ns	ns	ns	ns
PENALTY Yes (Y) No (N)	ns	ns	ns	ns	ns	ns	ns	Y > N

Coloured areas denote that a significant difference is observed (p value < 0.05).

< denotes the median value of first indicated group is less than the second indicated group.

> denotes the median value of first indicated group is more than the second indicated group.

ns denotes no significant difference is observed.

7.3 Qualitative Comments from Respondents

In the survey, respondents were given the opportunity to express their opinions and/or make suggestions (Open-Ended Questions) on a SAS, tax complexity, tax agents and tax audits. All the comments given (21 altogether) were analysed using content analysis and are summarised in the following sections.⁵¹

7.3.1 The Self-Assessment System

Examples of positive feedback from corporate taxpayers about a SAS are shown below:

Under SAS, I believe all companies will be more responsible for keeping and retaining sufficient documents and more aware of tax laws.

The SAS seems progressing well in Malaysia from implementation's standpoint. However, the corporate taxpayers are still relying on tax agents to facilitate this.

However, some of the respondents expressed their dissatisfaction with the implementation of a SAS as shown below:

SAS opens to abuse by tax officers.

SAS creates problems to taxpayers and reduces workload of IRB officers.

SAS increases burden on taxpayers.

⁵¹ The comments from participants were translated verbatim with uncorrected English grammar.

7.3.2 Tax Complexity

Tax difficulties encountered by many corporate taxpayers were mainly related to interpretation of tax laws and constant changes in tax laws and regulations. However, a few companies that had internal tax experts had fewer problems in coping with tax difficulties. Comments from respondents are shown as follows:

(Difficulty to cope with) changes in the regulation that ruled by the IRB.

Difficulties in staff knowledge on income tax legislation/treatment and concept.

The tax agents have sometimes-conflicting views on certain treatment applied by Inland [IRBM]. As such, there is a need to have more dialogued between MIT[tax professional association] and Inland[IRBM] to have more clear understanding of some of the ambiguous tax laws.

We have a tax group who advises us on every tax issues or matter on compliances.

7.3.3 Tax Agents

Tax agent representation was well acknowledged by many corporate taxpayers, as their involvement (especially during an audit) enabled corporate taxpayers to focus more on business activities. However, as audit procedures are now becoming more transparent, some of the respondents found that their representation was minimally required.

Tax agent is important in order to reduce the time consuming.

Tax agent is required to assist in the negotiation with tax authorities, mainly because we are busy to follow up regularly with the IRB.

Tax agent: i) Extreme pressure gone through; ii) excellent jobs done throughout the tax field audit process until tax case finalisation, including various tax appeals; and iii) did not charge fee for audit

Audit expectations are now clear. [We] will no longer need tax agent's involvement.

There was also some dissatisfaction from corporate taxpayers on tax agent representation as illustrated below:

Tax agent's fee is for mock audit only. Tax agent is not involved in the audit activities, but the fee charged is too high.

Who actually monitor the effectiveness of tax agents, as taxpayers are still held responsible for tax returns submitted by the tax agents on their behalf?

7.3.4 Tax Audits

7.3.4.1 Audit Experience

Comments on the audit experience are presented below:

IRB responsible officer: i) did not conduct thorough tax findings before issue 1st findings and interview, ii) director answers in tax visit were held responsible in the first tax audit

findings, iii) director forced to estimate events happened 8 years ago when queried in tax audit visits.

Generally, audit findings are debatable, place an appeal on audit findings and audit experience is not that pleasant

Suggestion on SAS: IRB to provide detailed computation and explanation on revised tax payable amount, especially on personal income tax; though there have been instances where IRB officers do provide these on corporate income tax, but not all do.

7.3.4.2 Proficiency of Tax Auditors

Comments of the proficiency of tax auditors are presented below:

Their integrity and professionalism are utmost important. They should not be double standard when dealing with taxpayers and tax agents.

Tax auditors are not friendly.

Tax audit officers should act professionalism and not come to visit taxpayers with an intention to penalise, threaten. Overall, I don't like their way!

Tax auditors from IRB (are) always of moneymaking machine for IRB.

Some tax auditors are not professional and unethical in their dealings. At times arrogant.

Most tax auditors lack business knowledge peculiar to certain industries.

Tax officers must be conversant with not only tax laws but also accounting entries and practices.

7.3.4.3 Audit Perception

Comments on audit perception are presented below:

Tax people have pre-conceived ideas that all taxpayers are cheats.

Tax audit is a burden to a company. It disturbs the business activity and will cause many companies to move out of this country.

Tax audit under SAS is planned for increase tax collection.

Their main concern (of tax audit) is get as much tax and satisfy targets set.

Tax auditors just find fault. Insist that they [IRBM] must get revenue. [Tax auditors] lack of tax law knowledge and perceived that every taxpayer evade or cheat on tax.

More interested to find wrong doings and to collect additional tax assessment.

To summarise, many corporate taxpayers have a negative perception of the role of tax audits and perceive that tax auditors have pre-conceived ideas that all taxpayers are tax evaders.

7.4 Chapter Summary

This chapter presented the second part of the quantitative results, mainly on the inferential analysis. The main objective of this chapter is to determine whether various business characteristics (length of time in business, business industry, business size, audit experience, use of tax agent and audit penalty) influence corporate taxpayers' attitudes to each of the compliance variables (tax knowledge, tax agents and audit experience).

A test of normality using the Shapiro-Wilk test was employed and found that the data as a whole was significantly different from normal distribution ($p < 0.05$). Therefore, non-parametric tests were employed as these tests do not assume that data follows normal distribution. As transformation of data is not applicable in the context of this study, the Independent-Samples Median Test was employed to examine the influence of business characteristics on compliance variables.

Results of the Independent-Samples Median Test suggested the following: length of time in business had significant influence on *TK1*, *TK3* and *TA1*; business industry had significant influence on *TK1*, *TK3* and *AE3*; and business size had significant influence on *TK1*, *TK2*, *TK3* and *TA1*. Moreover, significant influence was found among audit experience and *TK3* and *TA1*; use of tax agent and *TK3*; and audit penalty and *AE2*.

Qualitative comments from the survey respondents on each of the above compliance variables were presented to provide additional insights of corporate taxpayers' opinions on the compliance variables under examination. The overall results from this study and the applicable policy implications are discussed in the following chapter.

CHAPTER EIGHT

OVERALL RESULTS AND POLICY IMPLICATIONS

8.1 Chapter Overview

This chapter summarises and synthesises the results from the qualitative and quantitative investigations presented in Chapter 5 and Chapter 6, respectively. Findings from the qualitative and quantitative approaches were integrated and compared with previous international and Malaysian studies. Relevant policy implications for each compliance variable are highlighted and key recommendations are provided.

8.2 Thesis Overview

To recap, the main objectives of this study were to identify corporate taxpayers' compliance variables and to examine attitudes to each compliance variable. This study also aimed to analyse whether business characteristics influence these compliance variables. The main research questions were:

RQ1: What are corporate taxpayers' compliance variables?

RQ2: Do business characteristics influence corporate taxpayers' compliance variables?

RQ3: What are corporate taxpayers' attitudes to each of the compliance variables?

RQ4: Do business characteristics influence corporate taxpayer attitudes to each of the compliance variables?

To answer these research questions, a mixed methods approach was employed encompassing eight focus group interviews with tax auditors, and the distribution of

survey questionnaires to a sample of corporate taxpayers. In discharging their duties, tax auditors interact directly with corporate taxpayers of diverse backgrounds. Therefore, their perceptions around corporate taxpayers' compliance variables were considered to be a most influential and invaluable sources and one that has been generally neglected in tax compliance literature to date.

From the focus group interviews, four main corporate taxpayers' compliance variables were identified, namely: tax knowledge; tax complexity; tax agents; and tax audits. Various business characteristics were also associated with these compliance variables. The survey questionnaires distributed to a sample of corporate taxpayers were then used to examine their attitudes on these compliance variables. The influence of business characteristics (that is, length of time in business, business industry, business size, use of tax agents and audit experience) on corporate taxpayer attitudes to each of the compliance variables was also analysed.

Following this section, the main findings for each compliance variable from both the qualitative and quantitative investigations are presented and synthesised respectively. In addition, an integration of the qualitative and quantitative results on the influence of business characteristics on corporate taxpayers' compliance behaviour is discussed. Comparisons of the current findings with previous studies follow. Relevant policy implications are provided wherever possible in order to future assist the relevant authority (particularly the IRBM), such as the identification of appropriate strategies to enhance voluntary compliance among Malaysian corporate taxpayers under a SAS. Similarly, some policy recommendations to strengthen tax agents' professional and ethical conduct are presented.⁵²

⁵² Theoretical implications are succinctly discussed in Chapter Nine, Section 9.3.

8.3 Tax Knowledge

8.3.1 Overall Findings

From the perspective of the corporate tax auditor, tax knowledge is regarded as the main variable that influences corporate taxpayers' compliance behaviour. In this study, tax knowledge refers to corporate taxpayer awareness of a SAS, such as their responsibilities around record keeping, and the role of tax audits. A lower level of tax knowledge often results in non-compliance in the form of under-reporting of income, over-claiming of expenses or failing to make tax payments in accordance with the tax laws. The level of tax knowledge among corporate taxpayers is further associated with their business characteristics, such as location and size of the company and the degree of general knowledge among the staff who manage their tax matters.

First, a positive relationship exists between the size of a company and the level of tax knowledge. Smaller companies are commonly found to have a lower level of tax knowledge than larger companies. Secondly, companies in urban areas appear to possess more tax knowledge than those in rural areas. Finally, a positive relationship exists between the level of general education of the staff who handle the tax matters of the company and their ability to comprehend tax laws and prepare accurate tax returns.

It is interesting to note that smaller companies are also very responsive to tax audits. For example, once advised by tax auditors of the need to keep track of a particular item for adjustment on a tax return, the taxpayer generally becomes fully compliant from then on.⁵³ This shows that frequent audit visits to new corporations should assist smaller companies to comply with the laws. Similarly, most taxpayers with a

⁵³ Refer Chapter Five, Section 5.4.5.

lower level of tax knowledge are willing to comply if proper guidance is provided to them. The learning outcomes from audit activities include increased tax knowledge and a better perception of the overall tax system.

Survey questionnaires among corporate taxpayers examined three components of tax knowledge, namely: awareness of a SAS; awareness of audit roles; and perception of audit probability. First, results showed that most corporate taxpayers are strongly more aware of a SAS. Nonetheless, the degree of awareness of a SAS among small and new companies was significantly lower compared with larger and/or longer established companies. It was also found that most corporate taxpayers are moderately aware of audit roles under a SAS, and medium-sized companies are found to have a significantly lower awareness of audit roles than larger companies.

Finally, the majority of corporate taxpayers perceived that the probability of an audit was low, although there were significant differences depending upon three business characteristics. The longer established companies, companies that had been audited by the IRBM and companies that used tax agents significantly perceived that the probability of an audit was low compared with new companies, companies that had not been audited by the IRBM and companies that did not use tax agents. The possible explanation for these results has been presented earlier.⁵⁴

In comparing the results from both qualitative and quantitative investigations, several differences were observed. First, the focus group interviews showed that because of an audit, the level of tax knowledge after an audit appears to improve among corporate taxpayers who have less tax knowledge to begin with. However, no significant difference was observed among survey respondents with or without audit experience in terms of their tax knowledge. Secondly, while focus group interviews showed that different levels of general education among staff affect their tax

⁵⁴ Refer Chapter Seven, Section 7.2.1.

knowledge, survey respondents' answers did not support this finding. Although accounts clerks from the survey appeared to have a lower level of tax knowledge,⁵⁵ it was observed that their level of tax knowledge showed no significant difference to that of other survey respondents with various job positions.

There are several possible explanations for these inconsistent results. First, in terms of the influence of tax audits on tax knowledge, the relatively small sample size of respondents with audit experience in this study (that is, 71 companies) may have influenced the survey results. Secondly, the use of snowball sampling may have limited the survey respondents to a particular networking and thus may affect the overall results.⁵⁶

Thirdly, the focus group interviews showed that a lower level of tax knowledge is commonly associated with new and small companies and companies in rural areas. Nevertheless, the composition of new (length of time in business being less than 11 years) and small (in terms of annual turnover) companies in the survey was much smaller relatively, that is, about 32 percent (23 companies) and 36 percent (25 companies), respectively.⁵⁷ Thus, the influence of tax audits and company size on tax knowledge is not shown from an analysis of survey responses. Finally, no association could be generated from the survey regarding the location of the company as this information was assumed to be sensitive to corporate taxpayers and thus was not requested in the survey.

To summarise, different levels of tax knowledge influence compliance behaviour accordingly. Other business characteristics namely business size, business location, length of time in business, audit experience, use of tax agents and level of general

⁵⁵ Refer Chapter Six, Section 6.4.2.

⁵⁶ Refer Chapter Four, Section 4.5.4.2.

⁵⁷ Refer Chapter Six, Table 6.15.

knowledge have some impact on the level of tax knowledge. A summary of the results is shown in Table 8.1.

Table 8.1: Tax Knowledge as a Tax Compliance Variable

Variables	Qualitative	Quantitative
Overall	<p>The level of tax knowledge influences corporate taxpayers' compliance behaviour.</p> <p>Various business characteristics influence the level of corporate taxpayer tax knowledge.</p>	<p>Overall, corporate taxpayers are strongly aware of the SAS ($M=4.92, SD=0.92$).</p> <p>Overall, corporate taxpayers are moderately aware of audit roles under the SAS ($M=4.23, SD=1.15$).</p> <p>Overall, corporate taxpayers perceive low audit probability ($M=4.03, SD=1.63$).</p>
Size	<p>A positive relationship exists between size of a company and the level of tax knowledge.</p> <p>Smaller companies usually have lower tax knowledge and often have negative perceptions of the tax system.</p> <p>Larger companies often maintain their record keeping as required by the tax laws, are more aware of audit roles, audit requirements and audit process and normally have less audit adjustments.</p>	<p>The level of awareness of SAS among smaller companies is significantly lower than that of larger companies.</p> <p>The level of awareness of audit roles among medium-sized companies is significantly lower than that of larger companies.</p> <p>No significant difference is observed regarding the perception of audit probability among various business sizes.</p>
Location	<p>Companies in urban areas appear to have less tax knowledge than those in rural areas.</p>	N/O [#]

<p>General education of tax staff</p>	<p>A positive relationship exists between the level of general education of the staff that handle tax matters of the company and their ability in comprehending tax laws and preparing accurate tax returns.</p> <p>Account executives (who usually have a higher level of general education) are more likely to prepare tax computations accurately compared to accounts clerk (who usually have a lower level of general education).</p>	<p>No significant difference is observed in terms of tax knowledge among various job positions of survey respondents.</p>
<p>Length of time in business</p>	<p>N/O[#]</p>	<p>The level of awareness of the SAS among new companies is significantly lower than that of established companies.</p> <p>The perception of low audit probability among new companies is significantly lower than that of longer established companies.</p>
<p>Audit experience</p>	<p>Tax knowledge appears to improve among corporate taxpayers who previously had less tax knowledge.</p>	<p>No significant difference is observed in terms of awareness of the SAS and awareness of audit roles between companies with and without audit experience.</p> <p>The perception of audit probability of companies that have been audited by the IRBM is significantly lower than that of companies that have not been audited by the IRBM.</p>
<p>Use of tax agents</p>	<p>N/O[#]</p>	<p>The perception of low audit probability of companies that use tax agents is significantly lower than companies that do not use tax agents.</p>

[#] N/O denotes that the relationship is not observed.

Source: Author

8.3.2 Comparison with Previous Studies

This study produces results that corroborate the findings of a significant amount of previous work that examines the significance of tax knowledge in enhancing tax compliance. These findings are in agreement with many international studies such as Vogel (1974), Lewis (1979), White, Curatola and Samson (1990) and Kirchler (2009), which show that tax knowledge is positively associated with tax compliance. More importantly, this study supports the contention that taxpayers would improve their compliance if they had better tax knowledge (Loo et al., 2009). Findings from this study also provide additional evidence that lack of technical knowledge in tax causes difficulty for taxpayers when dealing with tax matters (Saad, 2011a, p. 423).

In line with previous research (for example Wearing & Headey, 1997; McKerchar, 2002a; Braithwaite et al., 2006), this study showed that newer companies and smaller companies have less knowledge about tax matters. This could be because newer and smaller companies, which normally have a lower turnover, are new to the tax system, and that they show a less well developed sense of a moral obligation (civic duty) to pay taxes (Orviska & Hudson, 2003, p. 100). Findings from the current study also support recent Malaysian research that found younger taxpayers and lower income earners have less tax knowledge (Palil, 2010, p. 315).

In terms of business characteristics, the results of the current study are consistent with McKerchar (1995) who found that the level of tax knowledge is significantly different between various business sizes and length of time in business. However, these current findings contradict those of Rice (1992) who found that business size had no significant influence on compliance. It is worth noting that unlike the current study, which includes companies of all sizes, earlier studies examined only small businesses or corporations.

In a previous Malaysian study, SMEs were found to be unsure about their audit probability (Abdul-Jabbar, 2009, p. 210). The current study found that the corporate

taxpayer generally perceived a low probability of an audit and their perceptions were significantly different depending upon business characteristics.

8.3.3 Policy Implications

One way of improving tax compliance is by enhancing taxpayer knowledge through tax education and tax audit programmes. Overall, these programmes have been shown to be effective in improving taxpayers' tax knowledge and thus should be continued. While educating all taxpayers without specific target groups is costly and time consuming, findings from this study have provided insights that could facilitate the tax authorities' targeting of appropriate groups of taxpayers.

In maximising the impact of tax education programmes on corporate taxpayers, the tax authority could focus more on newer companies (whose length of time in business is less than 11 years), small companies (whose annual turnover is less than RM5 million) and companies in rural areas. Furthermore, more emphasis could also be put upon business industries such as Property/Construction and Trading/Retailing that are tend to transact in cash. By focusing on these groups of companies, it is believed that the IRBM could formulate appropriate tax education programmes that would be more effective and efficient in enhancing tax compliance at a national level.

8.4 Tax Complexity

8.4.1 Overall Findings

Tax complexity was identified by tax auditors as one of the major compliance variables among corporate taxpayers. In the current study, three dimensions of tax complexity primarily encountered by corporate taxpayers were tax computations, record keeping and tax ambiguity. The first two complexity dimensions were faced largely by smaller companies.

First, preparation of tax computations was found to be difficult for many corporate taxpayers, probably due to preparation requiring substantial tax knowledge. Secondly, corporate taxpayers often had difficulty in keeping their business records and documents and often did not maintain the proper accounting records that were needed for audit examination. Even when accounting records are properly kept, preparation of accounts is not standardised across different types of industries. Most companies have their own way of recording their business transactions and there are various computerised accounting systems employed by corporate taxpayers. Finally, the ambiguity of tax laws was a common issue raised by many corporate taxpayers, especially those in the Financial/Insurance and Property/Construction industries. The issue of ambiguity consequently results in different interpretations of the tax laws.

From the survey questionnaires, three of the most difficult tax-related areas were found to be estimating income tax payable, the increasing burden of record keeping for income tax purposes and understanding income tax legislation. On the other hand, the least difficult tax-related areas were dealing with tax agents, submitting tax returns within the given time and dealing with the tax authority.

For tax complexity dimensions, findings from both qualitative and quantitative investigations were similar. Although the survey indicated that the most tax-related difficult area is estimation of income tax payable, this responsibility mainly comprises tax computations and tax procedures.⁵⁸ Keeping records for tax purposes was identified as the second most complex issue, followed by an understanding of tax laws (largely associated with the issue of ambiguity).

⁵⁸ Refer Chapter Three, Section 3.6.4.

8.4.2 Comparison with Previous Studies

The findings of the current study conform with three complexity dimensions first identified by Long and Swingen (1987).⁵⁹ The findings are also consistent with those of Pope and Abdul Jabbar (2008) who found that many small corporate taxpayers do not concern themselves with book keeping and tax documentation requirements. These findings also support previous compliance studies that link complexity with tax compliance (for example Slemrod, 1989; Richardson, 2006).

In terms of tax-related difficult areas identified by corporate taxpayers, the findings of this study are identical to findings made by Abdul Jabbar (2009, p. 118), except that the earlier study found that “Understanding income tax legislation” was the second tax-related most difficult area followed by “the increasing burden of record keeping for income tax purposes”. A likely reason for this is that the difference in time between Abdul-Jabbar’s (2009) study and the current study is approximately three years. Possibly, within this period, respondents in the current study may have acquired a better understanding of income tax legislation compared to respondents in the earlier study. However, both studies demonstrate that estimating income tax payable is the predominant tax-related difficult area confronted by most corporate taxpayers. Some suggestions to reduce this difficulty are presented in the following section.

8.4.3 Policy Implications

In attempting to improve voluntary tax compliance, reducing the tax complexity faced by many corporate taxpayers is paramount. Reducing the taxpayer burden may encourage compliance and may reduce compliance costs (Blackwell, 2000; Butterfield, 2002). Thus, it is recommended that the IRBM give priority to

⁵⁹ Refer Chapter Two, Section 2.8.3.

simplifying the preparation of tax computations, standardise procedures for record keeping and formulate clearer tax laws to reduce tax ambiguity.

In reducing the burden on corporate taxpayers of estimating income tax payable, the IRBM could possibly introduce simplified rules as adopted by the Australian Taxation Office (Australia Taxation Office, 2011). First, the IRBM may consider giving corporate taxpayers options in determining the estimated amount of their instalment payments. The estimated amount is determined either: i) by the IRBM based on the taxpayer's previous tax returns or ii) by the taxpayer based on the IRBM's notified rate. The first option does not require corporate taxpayers to determine how much to pay. It is simple and suitable for small corporate taxpayers with an annual income of less than RM5 million.

In contrast, the second option benefits corporate taxpayers, as the instalment payments are based on income earned; they help the cash flow management of the company as tax instalment payments are more closely aligned with fluctuations in business income. With both options, corporate taxpayers can vary the instalment payments if the amount or rate notified by the IRBM will result in them paying more (or less) than the expected tax liability. The above two options provide corporate taxpayers with better flexibility in complying with their tax obligations.

Secondly, the IRBM could consider reducing the frequency of instalment payments. Currently, Malaysian corporate taxpayers pay in 12 monthly instalments and these are payable by the 10th of each month. Any late payments result in a penalty of 10 percent of the instalment amount. In Australia, for example, most companies pay only four (quarterly) instalment payments. Each payment is due on the 28th day after each quarter or in the month(s) specified by the tax authority. A reduction in the frequency of the instalment payments and an extended grace period for the payment (that is, on the 28th day instead of the 10th day) are more efficient methods and allow taxpayers greater flexibility in managing their cash flow, in comparison to the current monthly arrangements.

In reducing the difficulties of record keeping, an earlier study suggested that the IRBM introduce a standard type of accounting software to be adopted by small corporate taxpayers (Wallschutzky & Singh, 1995, p. 48). This suggestion remains a viable option and if adopted, would make the task of the tax auditors much easier and more efficient as they would be familiar with the system used by taxpayers.

Finally, addressing the issue of ambiguity in tax rules would probably result in a more fair and more correct level of overall compliance and result in lower overall compliance costs (McKerchar, 2002a, p. 21). Making the Public Rulings and Guidelines available would assist in providing greater consistency from and more certainty for taxpayers (Loo et al., 2005, p. 710). Nonetheless, appropriate measures should be taken to ensure that these Public Rulings and Guidelines do not lead corporate taxpayers into a more difficult position than they are already in.

8.5 Tax Agents

8.5.1 Overall Findings

Tax auditors highlighted that most corporate taxpayers, especially small companies, were highly reliant on tax agents in managing their tax compliance activities. The two main reasons given for this were that tax matters were too complex and that there was a limited number of staff available internally who had tax knowledge. Similarly, most small companies relied on their tax agent to communicate with tax auditors during an audit, mainly because tax agents are the ones responsible for the preparation of tax computations. Unfortunately, a small number of tax agents in rural areas were found to be less conversant with their role as intermediary between the taxpayer and the IRBM. For example, relevant tax information was not

communicated by these tax agents to taxpayers and some tax agents purposely evade tax to benefit their corporate clients.⁶⁰

The survey questionnaires further examined the reasons that corporate taxpayers employed tax agents. The reasons were categorised into internal factors and external factors. Although corporate taxpayers moderately agreed that the primary reason for them to employ tax agents was because of internal factors; smaller and newer companies were found to be significantly more reliant on tax agents for internal factors than larger and more established companies. In contrast, strong agreement was found from almost all corporate taxpayers for external factors. Further, no significant difference was observed across all business characteristics for external factors. This finding suggests that disregarding various business characteristics, almost all corporate taxpayers employ tax agents primarily for external opinions, tax updates and tax planning.

In terms of estimated tax agents' fees, the size of a company (measured by annual turnover) was used to determine if there is any relationship. As expected, the estimated annual fees positively correlated with the size of a company. Generally, small, medium and large companies paid between RM1,000 and RM3,000, RM3,000 and RM10,000 and over RM10,000 respectively to their tax agents for tax compliance. For tax purposes, these fees are not deductible expenses for corporate taxpayers.

To summarise, both the qualitative and quantitative investigations show that most small and new companies employ tax agents mainly because they find that their tax matters are too complex and that competent staff (with relevant tax knowledge) are not available internally. Most companies greatly depend on tax agents for external

⁶⁰ Refer Chapter Five, Section 5.4.4.

opinions, tax updates and tax planning and the tax fees paid to tax agents are positively correlated with business size.

8.5.2 Comparison with Previous Studies

The current study shows that tax agents are found to play an important role in helping corporate taxpayers to meet their tax obligations. These results are consistent with other studies (for example Christensen, 1992; Erard, 1993; Tan & Sawyer, 2003) and support the contention that the essential role of tax agents provides them with a strong and direct influence on corporate taxpayers' compliance behaviour. However, the perception of the role of tax agents as intermediaries, as indicated in many previous studies (for example Tan & Sawyer, 2003; Vos & Mihail, 2006) is not fully supported in the current study.

Similar to findings in prior studies, the reasons corporate taxpayers employ tax agents are mainly to assist in preparing tax returns and to update them regularly on compliance matters (Slemrod & Sorum, 1984; Dubin et al., 1992; Abdul-Jabbar, 2009). The current study emphasises that smaller companies are more reliant on tax agents for tax preparation and most companies are highly dependent on tax agents for regular tax updates and external opinions.

8.5.3 Policy Implications

Generally, tax knowledge is available internally except in the case of small and new companies. Ongoing tax education programmes are still necessary to enhance tax literacy among corporate taxpayers, especially small and new companies. Similarly, continuous training is necessary for tax agents to enable them to meet corporate taxpayers' expectations. As tax agents have strong and direct influences on corporate taxpayers' compliance behaviour, greater emphasis on regulations, and supervision of tax agents' professional and ethical conduct is advisable.

8.6 Audit Experience

8.6.1 Overall Findings

Overall, corporate taxpayer reactions to a tax auditor's visit to their business premises varied; some companies were cooperative, while others were more cautious. Cooperative companies, that is, larger companies, longer established companies and those in urban areas, were often associated with higher tax knowledge. Other companies were more sceptical of audit roles and generally had negative perceptions of the overall tax system. Taxpayer reactions to audits were directly associated with their level of tax knowledge. In addition, many taxpayers had a negative perception of the role of audits and argued that the tax authority should focus on apprehending tax evaders rather than interrupting business activities through audits.

The attitude of tax auditors during the audit played a vital role in influencing corporate taxpayers' compliance behaviour. For instance, corporate taxpayers were often more receptive and more cooperative when they were treated with respect by the tax auditors and once they understood the role of audits. In many instances, corporate taxpayers willingly complied with audit requirements where they trusted the tax auditors. Therefore, the role of tax auditors as educators can be seen as effective in improving taxpayer knowledge and perceptions of the tax system. Consequently, the ultimate objective of tax audit programmes to improve voluntary compliance could be achieved.

The survey questionnaires explored corporate taxpayers' audit experiences. Three aspects of the audit were analysed, incorporating audit experience, tax auditors' professional proficiency and audit perception. Generally, findings from the study showed that the taxpayer audit experience was reasonably satisfactory, the level of tax auditors' professional proficiency was identified as moderate, and taxpayers were found to have a strong negative perception towards auditing.

Although disruption of business activity during an audit visit is minimal, its presence undoubtedly creates a tense feeling among employees directly involved with the audit. No significant difference was observed in all business characteristics, suggesting that all companies' attitudes towards their audit experiences were broadly similar.

The Independent-Samples Median tests for individual items showed three significant differences among business characteristics in reference to audit experience. First, respondents in the Property/Construction and Services industries had significant difficulty in providing documents for audit purposes within the given time. Secondly, the Property/Construction and Services industries also found that the overall audit experience was significantly less pleasant compared to the experience of respondents from Manufacturing, Financial/Insurance, Plantation and Oil & Gas industries.

Although most companies often accepted the decision made by tax auditors (even if they disagreed), large companies (those with an annual turnover above RM500 million) seemed to disagree significantly with this contention compared with the other two smaller groups of companies. Finally, respondents with a higher level of tax knowledge (that is, managers, accountants and tax executives) appeared to disagree significantly with the statement that audit findings were clear and that the amount of time for the audit process was appropriate.

Respondents from the Financial/Insurance industries indicated that tax auditors were significantly more professional in handling the audit. Nevertheless, enhancement of audit skills among tax auditors is still paramount. Specifically, their ability to relate to business and complex issues needs to be improved.

More importantly, most respondents had the impression that tax auditors were more interested in finding fault and penalising the company for wrongdoing rather than assisting the taxpayer to "do the right thing". Non-compliant taxpayers (companies

that had to pay a penalty because of the audit) were found to agree significantly with this belief compared with compliant taxpayers (companies that did not pay a penalty because of the audit).

8.6.2 Comparison with Previous Studies

This study confirms that tax audits improve taxpayers' knowledge and perceptions of the tax system.⁶¹ It also shows that the role of tax audits in educating taxpayers is effective.

The current study also supports the Song and Yarbrough (1978) finding that the audit process is assumed to be a disturbing experience. Unlike Song and Yarbrough's (1978) study that reported that 80 percent of the respondents had an extremely pleasant audit experience, only half of the current respondents expressed a similar view. Those respondents who had an unpleasant audit experience were associated with those who had problems in providing documentation within the specified audit time requirement.

Results from this study further support the contention in established literature that increased tax authority contact (that is, through tax audits) leads to greater willingness to comply with tax laws (for example Spicer & Lundstedt, 1976; Mason & Calvin, 1978; Graetz et al., 1986; Kinsey, 1992). The results also contradict other studies that suggest otherwise (for example Strümpel, 1969; Erard, 1992).

In line with the study conducted by McManus (2006), this study found that continuous training to improve tax auditor communication, technical knowledge and audit skills is essential. Finally, consistent with a Malaysian study conducted by Choong and Lai (2009), many taxpayers were found to have cynical views and

⁶¹ Refer Chapter Two, Section 2.6.5.

preconceived ideas that the purpose of tax auditor visits was to find fault in accounts, collect additional taxes and impose penalties.

8.6.3 Policy Implications

Results from the current study show that the role of tax audits in educating taxpayers is effective in deterring the audited taxpayers from future non-compliance. In addition, the attitude, knowledge and professionalism of tax auditors are vital in portraying a positive image of the IRBM among taxpayers. In improving the taxpayer's trust in the tax system, the tax authority may want to emphasise the "psychological contract" as suggested by Feld and Frey (2002, p. 91). Previous studies show that trust in government is positively correlated with tax compliance (Torgler, 2004; Kirchler et al., 2008; Dijke & Verboon, 2010).

Findings from this study suggest that continuous dissemination of information on the function of tax audits under a SAS is vital. In addition, continuous training and development for tax auditors is essential to the improvement of their technical knowledge, communication and audit skills. It is also crucial for tax auditors to discard any preconceived ideas about taxpayer dishonesty in tax reporting. A sense of trust and a lack of prejudice toward taxpayers are also essential. Finally, business characteristics such as business size and business industry are found to have some impact on the compliance behaviour of corporate taxpayers.

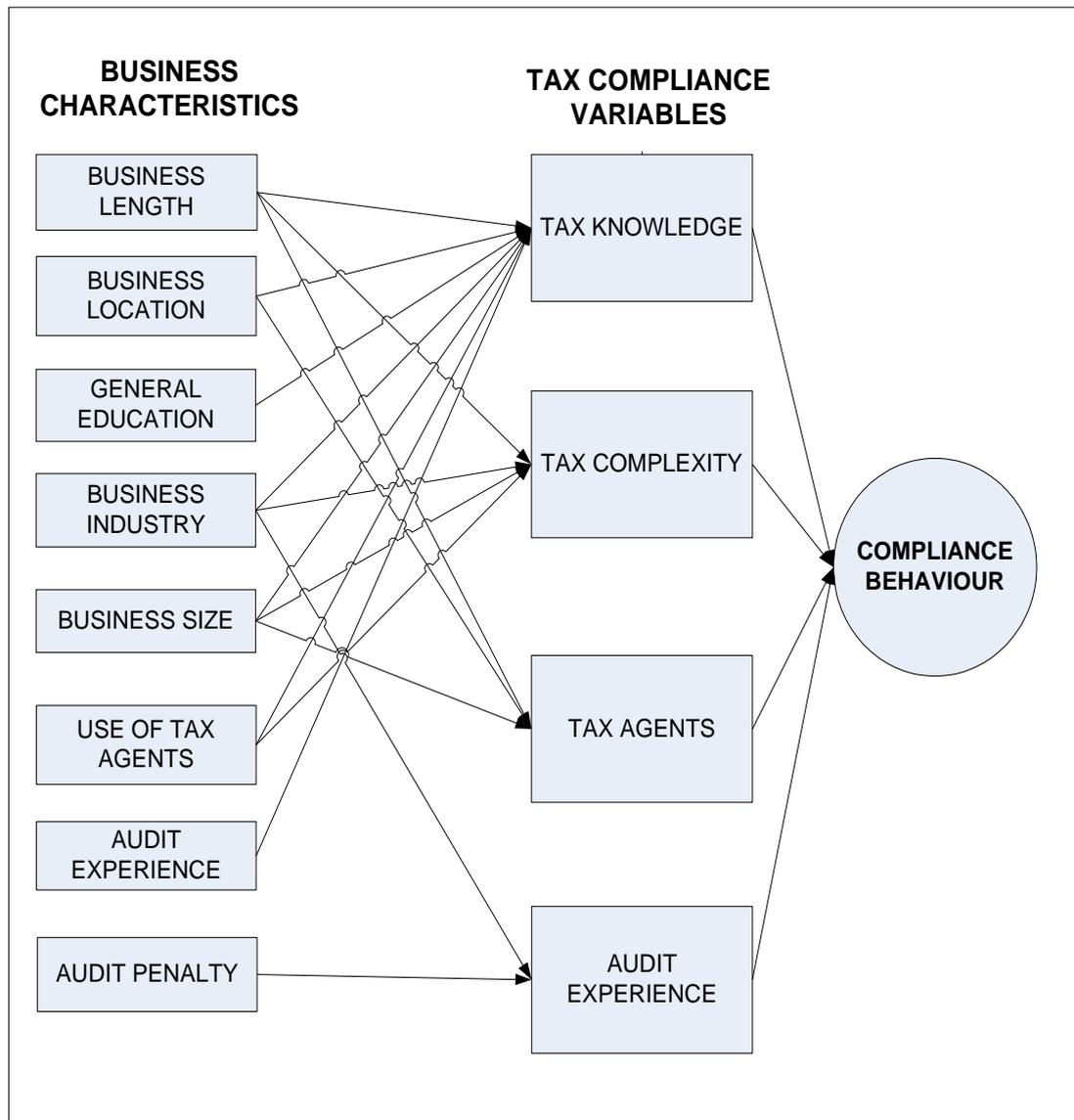
8.7 Overall Results

In identifying tax compliance variables among corporate taxpayers, results from focus group interviews and survey questionnaires were integrated. Four main tax compliance variables were identified, namely tax knowledge, tax complexity, tax agents and audit experience. Each compliance variable was influenced by many other factors that were associated with the business characteristics of each company.

Various business characteristics determine the level of each compliance variable that then influenced corporate taxpayers' compliance behaviour.

It is worth noting that the research findings were derived from both qualitative and quantitative investigations. Therefore, the link between business characteristics and compliance variables do not indicate any degree of relative strength in the relationship. In addition, a link is not shown where business characteristics do not have a significant influence on compliance variables. The integrated results from the study are illustrated in Figure 8.1.

Figure 8.1: Integrated Results from Mixed Methods Approach, 2011



Source: Author

8.8 Chapter Summary

This chapter summarised and integrated findings from focus group interviews and survey questionnaires. The integrated findings were then compared with previous international and Malaysian studies. Relevant policy implications for each variable were highlighted and key recommendations were provided. The four main compliance variables identified from both the qualitative and quantitative studies were tax knowledge; tax complexity; tax agents; and tax audits.

From the perspective of tax auditors, tax knowledge was regarded as the main variable that influences corporate taxpayers' compliance behaviour. The level of tax knowledge among corporate taxpayers is further associated with their business characteristics. Similarly, findings from the survey suggested that different levels of tax knowledge influence compliance behaviour differently. Other business characteristics namely business size, business location, length of time in business, audit experience, use of tax agents and level of general knowledge likewise have some impact on the level of tax knowledge. These findings were in agreement with many international studies that suggest tax knowledge is positively associated with tax compliance. More importantly, this study supports the contention that taxpayers would improve their compliance if they are more knowledge on the purpose and impact of their tax compliance. Tax education and tax audit programmes conducted by the IRBM are probably effective in improving compliance and thus should be continued.

Three dimensions of tax difficulties encountered by many Malaysian corporate taxpayers are tax computations, record keeping and ambiguity. Specifically, the three most difficult areas are estimating income tax payable, the increasing burden of record keeping for income tax purposes and understanding the income tax legislation.

The findings of the current study conform to the three complexity dimensions identified in previous studies and support the contention that many small corporate taxpayers do not concern themselves with bookkeeping and tax documentation requirements. Moreover, findings of previous compliance studies that link complexity with tax compliance are supported. Some recommendations arising from this study include introducing simpler rules in estimating income tax payable and reducing the frequency of instalment payments from 12 (monthly) to four (quarterly) times only.

Both the qualitative and quantitative investigations show that most small and new companies employ tax agents mainly because they find that their tax matters are too complex and that competent staff (with relevant tax knowledge) are not available internally. Most companies highly rely on tax agents for external opinions, tax updates and tax planning and the tax fees paid to tax agents are positively correlated with business size. Findings of this study support those of previous studies that tax agents play an important role in helping corporate taxpayers meet their tax obligations. However, the perception of the role of tax agents as intermediaries, as indicated in many previous studies, is not fully supported in the current study. The direct influence of tax agents on compliance requires greater emphasis on regulations and supervision of tax agents' professional and ethical conduct.

In terms of audit experience, the role of tax auditors as educators can be seen as effective in improving taxpayer knowledge and perceptions of the tax system. Consequently, the ultimate objective of tax audit programmes, namely to improve voluntary compliance, could be achieved. Survey findings suggest that taxpayer audit experience was reasonably satisfactory, the level of tax auditors' professional proficiency was identified as moderate, and taxpayers were found to have a strong negative perception towards auditing. It is recommended that continual dissemination of information on the function of tax audits under the SAS is vital to address this issue. In addition, continuous training and development for tax auditors is essential for the improvement of their technical knowledge, communication and audit skills. Furthermore, it is crucial for tax auditors to portray a positive attitude in their interaction with taxpayers by discarding any pre-conceived ideas regarding the lack of honesty of taxpayers in preparing their tax reports.

CHAPTER NINE

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

9.1 Chapter Overview

This chapter provides the overall concluding comments to this study. The chapter contains three major sections. The first section summarises the thesis and highlights its contribution to the field, both from a theoretical and practical perspective. The next section addresses inherent limitations in the study, in particular, those of the survey questionnaires. The last section concludes by discussing recommendations for further research.

9.2 Summary of the Study

The main objectives of the current study were to identify and to measure the level of corporate taxpayers' compliance variables under a SAS. In addition, this study aimed to examine whether business characteristics influenced the level of corporate taxpayers' compliance variables. A two-phased mixed methods design was employed.

In the first phase, eight focus group interviews with 60 tax auditors from the IRBM were conducted to explore possible corporate taxpayers' compliance variables. From this qualitative investigation, four main corporate taxpayers' compliance variable were carefully identified, namely tax knowledge, tax complexity, tax agents and tax audit experience. Further, various business characteristics associated with the level of each compliance variable were identified.

In the second phase of the mixed methods design, survey questionnaires were developed, distributed to and collected from a sample of Malaysian corporate taxpayers. The level of each compliance variable was measured accordingly, mainly using a six-point Likert scale. It was found that the level of each compliance variable was influenced by diverse business characteristics such as length of time in business, business industry, business size, use of tax agents, audit experience and audit penalty.

Findings from both qualitative and quantitative investigations were integrated and compared with previous studies. Relevant policy implications for each compliance variable were highlighted and some recommendations were discussed accordingly in Chapter Seven.

9.3 Theoretical Contribution

This study extends the scope of tax compliance research to the area of corporate taxpayers and builds upon the limited international and Malaysian literature in this area. Integrating findings from the mixed methods approach, the main corporate tax compliance variables and the influence of business characteristics on the compliance variables were identified.⁶²

Relying on the strength of qualitative methods and the ability to tap into the views of a number of people at one time, focus group interviews were identified to be the most appropriate and resourceful research method for this study. The focus group interviews allowed the researcher to gain an in depth insight into corporate taxpayers' compliance behaviour.

⁶² Refer Chapter Eight, Figure 8.1.

In addition, engagement of tax auditors as focus group participants has provided a new and vital dimension to existing literature and the findings may be applied to other studies elsewhere in the world. Drawing from daily working experience dealing with taxpayers, tax auditor perceptions of possible compliance variables are considered to be one of the most influential and invaluable findings.

Moreover, difficulties arising from using students as survey respondents (a proxy for taxpayers) are not relevant in this study. Unlike previous studies that largely rely on TCMP data or students as research participants, the strength of this study includes the survey of “real” corporate taxpayers. Actual taxpayer perceptions and attitudes towards the identified variables provide invaluable information to researchers and the tax authority. As survey respondents are often biased towards those who are not satisfied with the tax system, their feedback indicates areas of the tax system that may require attention and improvement.

The application of the mixed methods design has made a significant contribution to the study as being informative and useful in analysing variables that influence corporate taxpayers’ compliance behaviour. Findings from both research methods have provided invaluable insights into the consistency and interrelations of corporate taxpayers’ compliance variables. These are beneficial in forming a basis for the prediction of compliance behaviour related to various business characteristics. In addition, the validity of the research findings is strengthened through convergence of results from both qualitative and quantitative components of the research approach.

9.4 Practical Contribution

This study has produced valuable information that can be utilised by three main groups of people – the tax authority, corporate taxpayers and tax agents. For the tax authority, the study contributes significantly to identifying corporate taxpayers’ compliance variables and examining taxpayer attitudes to these variables. These factors are important in understanding corporate taxpayers’ compliance behaviour

and assisting the tax authorities to develop appropriate strategies to improve the overall level of tax compliance.

The study has also contributed in examining the efficacy of tax education and tax audit programmes conducted by the IRBM. This may assist the IRBM in evaluating and improving these programmes. Findings from the study recommend several courses of action for the IRBM. First, a continuous tax education programme should focus more on specific groups of taxpayers, namely smaller, newly established companies and companies in rural areas. In addition, more emphasis should be devoted to business industries that are more inclined to use cash transactions such as Property/Construction and Trading/Retailing.

Secondly, the effectiveness of tax audits in educating taxpayers is evidence that could be used to change the negative perceptions that taxpayers have of the audit system. In addition, continuous audit activities are effective in deterring non-compliance. As perception of low audit probability encourages non-compliance, the IRBM should also publicise more of its audit activities through the available media channels.

Thirdly, as tax auditors play a major role under a SAS, continuous audit training and experience sharing would be of benefit in areas such as the auditing of business transactions and the managing of complex issues. Further, in terms of considering the working welfare of auditors, the IRBM could address the issues of safety, travelling claims, security of property and excessive workload.⁶³

Similarly, as tax agents also play an important role in many corporate taxpayers' compliance activities, their technical competency and intermediary role in the tax system could be emphasised in ensuring that taxpayer expectations are met. A

⁶³ Refer Chapter Five, Section 5.5.

statutory body could be established in Malaysia to regulate and supervise tax agents such that they meet the appropriate standards of professional and ethical conduct. In Australia, the Tax Practitioners Board was established in 2010 to regulate tax agents and business activity statement (BAS) agents in a fair, consistent and flexible manner (Tax Practitioners Board, 2010, p. 12).

Finally, in reducing any difficulties that corporate taxpayers may have in complying with tax laws, specific measures by the IRBM are probably necessary. For example, the requirements for and procedures in estimating corporate income tax may require substantial review by the relevant authority. Other suggestions that could be taken up include showing greater flexibility in determining the estimated amount of tax payable and reducing the frequency of instalment payments. In addition, it is recommended that standard accounting software be adopted by small companies to assist in maintaining records and help tax auditors facilitate the overall audit process.

9.5 Limitations of this Study

Notwithstanding the significant contributions of this study, a number of important limitations need to be considered. First, findings from the focus group interviews cannot be generalised to the whole population. This is mainly due to the small number of participants and the likelihood that they are not representative of the wider tax auditor population. In minimising this limitation, the researcher attempted to have the composition of the focus groups as representative as possible. Further, a quantitative study was also conducted to provide additional empirical evidence to support the qualitative findings.

Secondly, although real corporate taxpayers (and not tax agents) were used as survey respondents, the weaknesses associated with survey questionnaires, namely respondent representativeness, non-response bias and respondents' different interpretations of the questions, are inevitable to some degree. In terms of the representativeness of the respondents, the use of snowball sampling method may

have limited the application of the findings to a particular networking. Some reasonable measures were implemented to minimise these problems. For example, the employment of mixed-mode methods assisted the researcher to extend the coverage of respondents to those that were not included in the snowball method, improved the overall response rate and enhanced the methodological rigour. Nonetheless, it is acknowledged that limitations of snowball sampling in this study, to some extent, may remain and issues relating to non-response bias are unknown.⁶⁴ In respect of the different interpretations of the questions by respondents, the researcher made reasonable efforts to ensure that wording and sentences were straightforward and precise. Furthermore, pre-testing and pilot testing were also conducted prior to the distribution of the final questionnaires to the sample populations. Contact details of the researcher were also provided in the survey questionnaires to respondents that required any further clarification.

Thirdly, the response rate for this study was considered to be low compared with other Malaysian and international survey studies. It is worth noting that the low response rate is possibly understated. The reason being that although the researcher distributed around 2,300 surveys to 700 tax agents, the number of surveys that were actually distributed and received by corporate taxpayers is not known. Thus, the sample frame may be overstated and consequently understated the response rate. Fortunately, an absolute number of 145 responses were sufficient to form the basis for the thorough, descriptive and inferential analyses used to achieve the research objectives. Of course, as some analyses needed to apportion respondents to smaller groups, it is difficult to reach any strong conclusions, and overall findings should be treated cautiously.

⁶⁴ Refer Chapter Four, Section 4.5.5.2.

Finally, the true representativeness of the survey responses is not known.⁶⁵ Although some business characteristics are biased towards specific business industries and business sizes, others accord reasonably well with the general population. Still, the researcher does not claim statistical representativeness for the sample. Overall, findings from the survey provide a fundamental understanding of Malaysian corporate taxpayers' compliance variables. Further research is recommended to strengthen these initial findings.

9.6 Directions for Further Research

This research has generated many opportunities for further research and investigation. Understanding corporate taxpayers' compliance is an area that requires more research to refine the framework. By approaching each compliance variable strategically, analysing its components and its interactions, appropriate measures may be developed to improve overall compliance with the Malaysian income tax system.

Further study is essential among corporate taxpayers who have been audited by the tax authority, to examine their perceptions of SAS and audit activities. Although the current study has attempted to do this, the responses from audited companies are considered small (45 companies only) and preclude the researcher from conducting further detailed analysis. Therefore, it is important for researcher to draw any inferences from the statistics cautiously. It is expected that a study using a larger sample of data in the future may provide findings that are more comprehensive and conclusive. However, the fact that the ratio of audited companies to all registered companies was relatively small (that is, less than two percent), means that this study would not have been possible without the full co-operation of the IRBM.

⁶⁵ Refer Chapter Six, Section 6.4.4.

All previous studies using IRBM data were conducted by the staff of the IRBM (for example Che Ayub, 1994; Abdul, 2001; Sia, 2008). Cooperation of the IRBM in this study indicates that they have started, to some extent, to allow other researchers, besides their own staff, to use IRBM data. This positive development is a possible motivation for researchers to embark on further research with the IRBM. Continuous support of external tax compliance researchers to undertake or persist with rigorous study is necessary if the IRBM wishes to benefit from research findings in its pursuit of improving taxpayer compliance.

There are many other compliance variables noted by Jackson and Milliron (1986) and Richardson and Sawyer (2001) not included in this study. Future researchers should strive to incorporate and understand as many compliance variables as possible in the development of an improved, integrated and more comprehensive theory of tax compliance.

Finally, the advantages of the mixed methods design could be widely promoted and employed by many researchers. The integration of both qualitative and quantitative data may promote a better understanding of taxpayer compliance behaviour. For example, the surveys in this thesis offer valuable feedback from taxpayers on their experiences in complying with tax obligations. Furthermore, findings from the survey accord additional support to findings from the focus group interviews. These integrated findings are predominantly positive and should be beneficial to tax authorities, particularly the IRBM and tax agents, as well as international researchers, in their efforts to identify corporate tax compliance variables and consequently improve the overall level of tax compliance.

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APPENDICES

Appendix A: Focus Group Interviews

Appendix A 1: Focus Group Instruments



FOCUS GROUP INSTRUMENTS

1. INTRODUCTION

- a. Tell us your name, years of service with the IRB, and number of years in tax audits department.

2. PROCEDURES

- a. Share with us the procedures involved in conducting tax audits.
- b. What major changes do you think are needed to improve the procedures?
- c. How is audit targeting carried out?

3. EXPERIENCES

- a. Share with us one of your most unforgettable corporate audit experiences.

4. PROBLEMS

- a. What do you think is the major problem encountered in conducting corporate tax audits?

5. CHANGES

- a. Think back to the year you conducted your first tax audits. Have there been any major changes since then in the conduct of tax audits? If yes, what are the changes?
- b. What do you think of those changes?
- c. Have there been any major changes in the last year (2008)?

6. ATTITUDES

- a. How do you find the attitudes of corporate taxpayers in dealing with tax audits?
- b. How do you find the attitudes of tax agents in dealing with tax audits?

7. ADJUSTMENTS

- a. If there is any adjustment, how do you come to a settlement/conclusion?

8. PERFORMANCE MEASURES

- a. How do you measure your performance? Please explain.
- b. How does the performance measure affect the conduct of tax audits?

9. SUGGESTIONS FOR IMPROVEMENT

- a. In what ways can tax audit programs be improved?
- b. In what ways have tax audits improved corporate tax compliance?

10. CONCLUSIONS

Our objective today was to find out more about tax audits program. We have discussed the procedures involved in conducting tax audits, major problems encountered in tax audits and changes that have taken place in the last few years. Each one of you has shared your experience in conducting tax audits.

Then we discussed the attitudes of taxpayers and tax agents in dealing with tax audits, and the steps taken in dealing with adjustments. In addition, we looked into the performance measures undertaken and how those affect the conduct of tax audits. At the end, you have given suggestions on how tax audits can be improved and evaluated the extent to which tax audits have improved tax compliance.

11. WRAP UP

- a. Have we missed anything?



CONSENT FORM

The following consent form is provided with respect to the focus group session.

I have read the information sheet and understand the purpose of the study and have been given the opportunity to ask any related questions. I understand that I may withdraw from the study at any time.

I understand that all information provided by me is strictly confidential. Any published material will not include participants' names or other identifying information. I understand that the focus group session will be taped and/or videotaped for the purposes of facilitation and analysis. The tapes/videotapes will be stored in a locked cabinet for the duration of the study, after which they will be erased. I understand that written records will be kept for a period of 5 years in a locked cabinet at Curtin University.

On the basis of the above, I agree to participate.

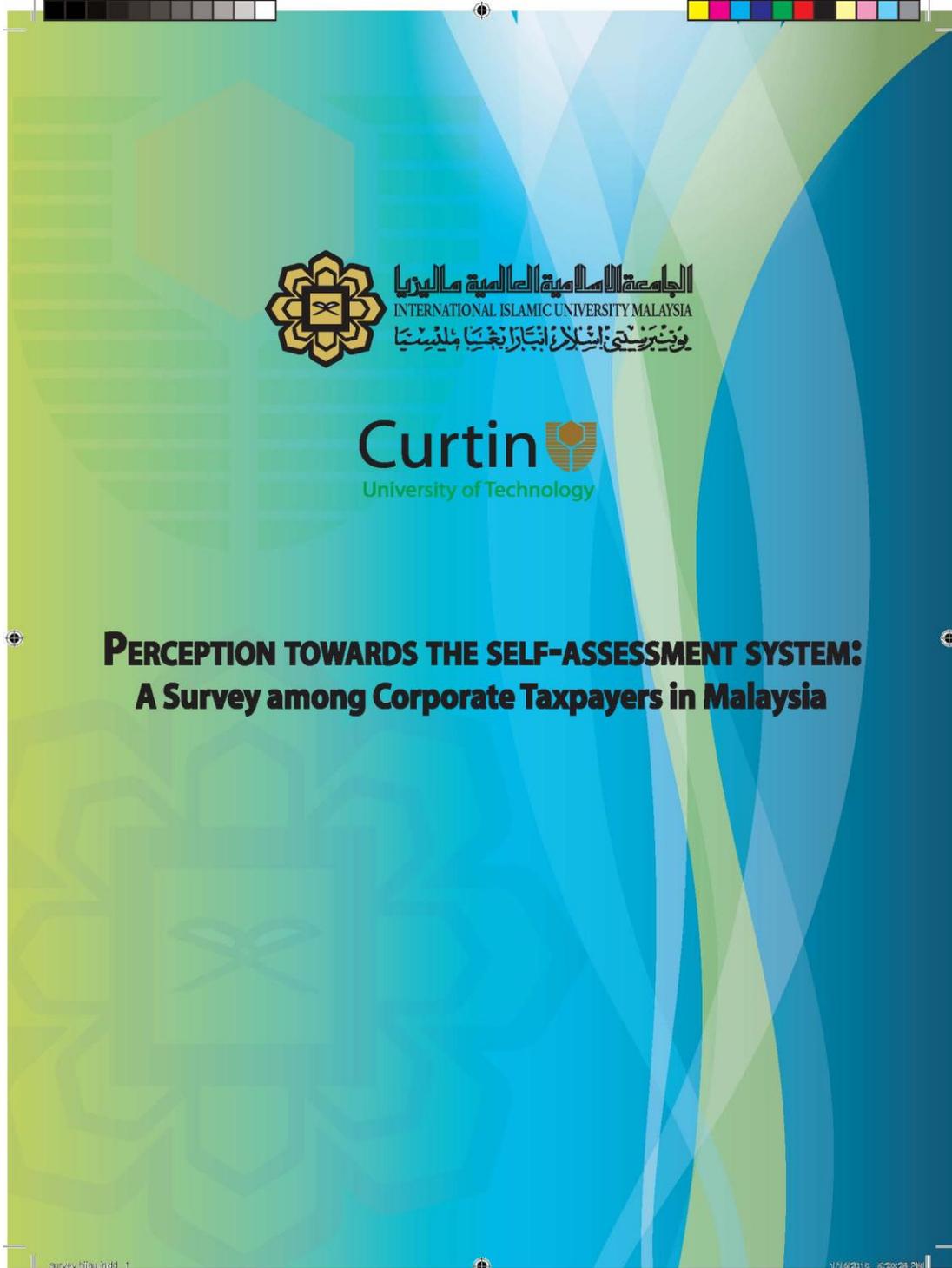
Name :

Signature:

Date :

Appendix B: Survey Questionnaire

Appendix B 1: Survey Instrument





Date

Dear Sir/Madam

PERCEPTION TOWARDS THE SELF-ASSESSMENT SYSTEM: A SURVEY AMONG CORPORATE TAXPAYERS IN MALAYSIA

Thank you for your involvement in this research. This survey is an independent research study conducted in response to many concerns expressed by corporate taxpayers regarding the effectiveness of the Self Assessment System (SAS) in Malaysia.

The objective of the survey is to examine the perceptions and opinions of corporate taxpayers on the SAS in Malaysia. The survey concerns with your experiences and perceptions and is not an assessment of your skills or knowledge.

We request your kind assistance in this regard by **completing the attached questionnaire and returning the completed form using the enclosed reply paid envelope.**

Findings from this survey are expected to provide valuable information, which may influence government policy with regards to the corporate income tax under the SAS. The survey will take about 20 minutes to complete. For further details of the survey, please refer to the attached **Information Sheet** at the end of the survey booklet.

If you would like to discuss this questionnaire or if you need any help in completing particular questions, please do not hesitate to contact the researcher through email at khadijah.mohdisa@postgrad.curtin.edu.au or telephone +614 2341 1205.

Thank you so much for your kind cooperation and assistance.

Yours faithfully,

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Perth, Australia



General Instructions

1. Please answer the questions to the best of your knowledge. Most of the questions require your view or opinion measured on a six-point scale. There are no right or wrong answers on the questionnaire. It is only about your own opinion on a number of topics.
2. The survey will take about 20 minutes to complete.
3. Responses to all questions will be kept strictly confidential. Your responses are combined with all other respondents and are completely non-traceable. Individual responses cannot be identified in any way.
4. The questionnaire is made up of several short parts. Please complete them all, and when you have finished, please return it using the attached reply-paid envelope.
5. Thank you for your kind assistance in completing this questionnaire.

Definitions

1. **IRB:** The IRB refers to the Inland Revenue Board of Malaysia, a government agency responsible for the administration of direct taxes in Malaysia. Also known as *Lembaga Hasil Dalam Negeri (LHDN)*.
2. **Self Assessment System (SAS):** A tax system that requires taxpayers to determine their own tax liabilities and make payments accordingly. Tax returns submitted by the taxpayers will be accepted *prima facie* as correct by the tax authority.
3. **Tax Audit:** For the purpose of this survey only, tax audit refers to ***examination of the taxpayers' business records at the taxpayers' premises by the tax authority***. The audit officer is required to ensure that the correct amount of income is reported and the right amount of tax is paid in accordance with the tax laws and regulations. It is aimed at enhancing voluntary compliance with the tax laws and regulations.
4. **Tax Agent** is also known as tax professional or tax practitioner.

This study has been approved by the Curtin University Human Research Ethics Committee.
(Approval No: E&F / 002 / 2009)

If needed, verification of approval can be obtained from:

Secretary
Human Research Ethics Committee
Office of Research and Development
P.O. Box U1987
Perth WA 6845.
Telephone: +618 9266 2784
hrec@curtin.edu.au





SECTION A: GENERAL INFORMATION

Please fill in the appropriate details or tick the most appropriate responses in the spaces provided.

1. The period your company has been in business is:

YEARS

2. The main business activity of your company is:

- Manufacturing
- Trading/Retailing
- Banking/Financial Services
- Insurance
- Property
- Construction
- Plantation/Agriculture
- Hotel/Restaurant
- Oil & Gas
- Services

Others, please state:

3. The average number of full time staff employed by your company is currently:

- 50 or less
- 51 to 100
- 101 to 500
- 501 to 1000
- 1,001 or more

4. The sales turnover of your company for financial year ended 2008 was:

- Below RM5 million
- RM5 million to RM49, 999,999
- RM50 million to RM99, 999,999
- RM100 million to RM199, 999,999
- RM200 million to RM299, 999,999
- RM300 million to RM399, 999,999
- RM400 million to RM499, 999,999
- RM500 million or more

SECTION B: TAX COMPLIANCE ACTIVITIES

Please fill in the appropriate details or tick the most appropriate responses in the spaces provided.

1. What year of assessment (YA) did your company file its tax returns recently?

YA 2007 YA 2008

YA 2009 YA 2010

Others, please state:

2. Rate the amount of effort made by your company to keep accounting records in order to comply with the tax requirements.

A lot Quite a bit Some

A little Not at all

3. Rate the amount of effort made by your company in planning its financial affairs in order to legally pay as little tax as possible.

A lot Quite a bit Some

A little Not at all

4. Think of the expenses you claimed in your company's most recent income tax return. Would you say you were:

- Absolutely confident that they were all legitimate.
- A bit unsure about some of them
- Pretty unsure about most of them
- Totally unsure about all of them
- Not sure at all, someone else did it
- Sure, as a reliable professional did it



5. In which of the following area(s) is (are) your company facing difficulties?
(Please tick more than one box if appropriate)

- Estimating income tax payable
- Understanding income tax legislation
- Implementing the income tax changes
- Maintaining records for income tax purpose
- Increasing burden of record keeping for tax purpose
- Cash flow position when paying monthly income tax instalments
- Short period of time to lodge the tax return
- Dealing with the tax authority
- Dealing with external adviser/tax agent

Others, please state:

SECTION C: PERCEPTIONS OF THE SELF ASSESSMENT SYSTEM

The following statements ask your opinion regarding the **Self Assessment System (SAS)**. Please indicate your opinion (by way of a tick on a 6 point scale) on each of the following statements.

	Strongly Disagree	1	2	3	4	5	6	Strongly Agree
1. I am fully aware of my company's responsibilities under SAS.		1	2	3	4	5	6	
2. SAS improves my company's degree of tax compliance.		1	2	3	4	5	6	

	Strongly Disagree	1	2	3	4	5	6	Strongly Agree
3. I am fully aware that under SAS, my company is responsible for keeping and retaining sufficient documents in a safe custody for a period of seven years.		1	2	3	4	5	6	
4. I am fully aware that under SAS any taxpayer who abuses tax laws may be detected and appropriately penalized.		1	2	3	4	5	6	
5. I am fully aware that tax audit is one of the enforcement mechanisms put in place under SAS.		1	2	3	4	5	6	
6. The chances of being audited by the IRB are so low that it is worthwhile to 'cut corners' a little on corporate income tax for various reasons.		1	2	3	4	5	6	
7. It is necessary for the IRB to conduct tax audit under SAS.		1	2	3	4	5	6	
8. Tax audit helps my company to identify improvements required for record-keeping.		1	2	3	4	5	6	
9. Tax audit assists in clarifying the application of tax law relevant to my company.		1	2	3	4	5	6	
10. Tax audit has improved the level of tax compliance of my company.		1	2	3	4	5	6	
11. Tax audit may help to improve the level of tax compliance of my company in the future.		1	2	3	4	5	6	



SECTION D: TAX AUDIT EXPERIENCE

1. Has the IRB conducted a tax audit at your company's premise?

YES NO

If "NO", please go to **Section F (page 4)**
If "YES", please continue.

2. The year(s) in which the IRB conducted tax audit at your company's premise was/were:

(Please tick more than one box if appropriate)

2005 2006

2007 2008

3. Did the company pay an additional tax liability as a result of the audit?

YES NO

4. Did the company pay a penalty as a result of the audit?

YES NO

The following statements ask your opinion regarding **your experiences throughout the audit process**. Please indicate your opinion (by way of a tick on a 6 point scale) on each of the following statements.

	Strongly Disagree						Strongly Agree
1. My interaction with tax auditors during the audit visit was good.	1	2	3	4	5	6	
2. The time given to provide documents for the audit purpose was appropriate.	1	2	3	4	5	6	
3. I understood the questions asked during the audit visit.	1	2	3	4	5	6	

	Strongly Disagree						Strongly Agree
4. I was satisfied with the tax auditors' approach during the audit visit.	1	2	3	4	5	6	
5. Disruption of business activities during the audit visit was minimal.	1	2	3	4	5	6	
6. There was no pressure felt during the audit visit.	1	2	3	4	5	6	
7. Tax auditors raised their voices when requesting documents.	1	2	3	4	5	6	
8. The audit findings were accurate.	1	2	3	4	5	6	
9. The audit findings were clear.	1	2	3	4	5	6	
10. Tax auditors were more interested in penalizing the company for the wrong-doings, than helping the company to do the right things.	1	2	3	4	5	6	
11. I accepted decisions made by the tax auditors even if I disagreed with them.	1	2	3	4	5	6	
12. I did not feel betrayed / deceived by the tax auditors.	1	2	3	4	5	6	
13. I am confident that the tax auditors will not reveal my confidential business information to others.	1	2	3	4	5	6	
14. Overall, the tax audit visit was satisfactory.	1	2	3	4	5	6	
15. Overall, I was comfortable with the questions asked.	1	2	3	4	5	6	
16. Overall, I was satisfied with the tax audit process.	1	2	3	4	5	6	
17. Overall, the amount of time it took for the tax audit process was appropriate.	1	2	3	4	5	6	
18. Overall, the tax audit experience was very pleasant.	1	2	3	4	5	6	



The following statements ask your opinion regarding **tax auditors' professional proficiency throughout the audit process**. Please indicate your opinion (by way of a tick on a 6 point scale) on each of the following statements.

	Poor					Excellent
1. Knowledge about tax law and legislation.	1	2	3	4	5	6
2. Courtesy during discussion.	1	2	3	4	5	6
3. Consistency in comments and issues.	1	2	3	4	5	6
4. Experience and skills in handling the tax audit.	1	2	3	4	5	6
5. Professionalism in performing duties.	1	2	3	4	5	6
6. Communication skills.	1	2	3	4	5	6
7. Compliance with tax legislation.	1	2	3	4	5	6
8. Ability to relate to business issues.	1	2	3	4	5	6
9. Ability to handle complex issues.	1	2	3	4	5	6

SECTION E: ESTIMATED COSTS OF TAX AUDIT

1. Please **ESTIMATE** the total **INTERNAL COSTS** incurred throughout the tax audit activities.

RM

2. Please **ESTIMATE** the total number of hours taken by all staff for the tax audit activities.

HOURS

3. Please **STATE OTHER INTERNAL COSTS (monetary or non-monetary)** incurred throughout the tax audit activities (if any).

4. Please **ESTIMATE** the number of **DAY(S), WEEK(S), OR MONTH(S)** the tax auditors took for the following activities:

	Day(s)	Week(s)	Month(s)
i. Visiting your premises			
ii. Issuing audit findings			
iii. Handling audit queries			
iv. Finalizing your audit case			
v. Total time taken (months)			

SECTION F: YOUR VIEWS OF A TAX AGENT

1. Did your company employ a tax agent **to handle corporate income tax matter** for the year of assessment 2008?

YES NO

If "NO", please go to **Question 3 (page 5)**.

If "YES", please continue.

2. Please **ESTIMATE** the **TAX AGENT'S FEE** to handle corporate income tax matters for the year of assessment 2008.

RM

<i>My company employs a tax agent because:</i>	Strongly Disagree					Strongly Agree
1. Lack of technical knowledge internally.	1	2	3	4	5	6
2. Income tax matters are too complicated.	1	2	3	4	5	6





My company employs a tax agent because:	Strongly Disagree					Strongly Agree
3. External opinions on tax issues are required.	1	2	3	4	5	6
4. Updates on tax information are easily available from them.	1	2	3	4	5	6
5. It is more cost effective to use external tax professionals.	1	2	3	4	5	6
6. Advice for income tax planning is required.	1	2	3	4	5	6

3. Did your company employ a tax agent **to handle the tax audit**?

YES NO

If "NO", please go to **Section G (page 5)**
If "YES", please continue.

4. Please **ESTIMATE** the **TAX AGENT'S FEE** to handle the tax audit activities.

RM

The following statements ask your opinion regarding **the roles of your tax agent throughout the tax audit process**. Please indicate your opinion (by way of a tick on a 6 point scale) on each of the following statements.

	Strongly Disagree					Strongly Agree
1. My tax agent attended the interview session with the tax auditors on the first day of the audit visit.	1	2	3	4	5	6
2. My tax agent was always around during the audit visit.	1	2	3	4	5	6
3. My tax agent handled most of the audit queries during the audit visit.	1	2	3	4	5	6

	Strongly Disagree					Strongly Agree
4. My tax agent discussed and/or negotiated a lot with the tax auditors on the audit findings.	1	2	3	4	5	6
5. The extent of my tax agent's involvement throughout the audit process was minimal.	1	2	3	4	5	6
6. My tax agent's fee for his involvement in the tax audit process was very high.	1	2	3	4	5	6
7. My company would have been in a very difficult situation if my tax agent was not present throughout the audit process.	1	2	3	4	5	6
8. Overall, I was grateful that my tax agent was there throughout the audit process.	1	2	3	4	5	6
9. Overall, my tax agent provided a great deal of assistance throughout the audit process.	1	2	3	4	5	6

SECTION G: DEMOGRAPHIC INFORMATION

The followings are some **demographic information needed for statistical purposes only**. Please tick your answers in the appropriate boxes.

1. Please indicate your current position in the company:

Chief Executive Officer

Managing Director

Manager

Accountant

Tax Executive

Other, please specify:

2. The number of years being in the current position:

Less than 2 years

2 to 5 years

6 to 10 years

11 to 20 years

More than 20 years



3. The number of years working in this company:

Less than 2 years

2 to 5 years

6 to 10 years

11 to 20 years

More than 20 years

Please indicate if you have any specific comments and/or suggestions regarding the Self Assessment System, Tax Audit or the Role of Tax Agent.

THE END

If you are willing to answer any further questions that may arise from this questionnaire, or to participate further, please provide your contact details. Your response will be treated with strict confidence and solely for the purpose of this study.

(Leave blank if you wish to maintain anonymity)

Name

Telephone No

Thank you for your kind assistance in completing this questionnaire.

Kindly return this questionnaire in the self-addressed envelope provided to:

Khadijah Mohd Isa
 Department of Accounting
 International Islamic University Malaysia
 P.O. Box 10
 50728 Kuala Lumpur





INFORMATION SHEET

Thank you for your involvement in this research. This information sheet provides more details of the research I am conducting and what the research involves. Once you have read through the information sheet and have confirmed that you would like to participate, please complete the questionnaire and return the completed form using the enclosed reply paid envelopes.

RESEARCH OVERVIEW

I am a lecturer from International Islamic University Malaysia and currently pursuing my PhD study at Curtin University of Technology, Perth, Australia. I am conducting research on the *Perception towards the Self Assessment System (SAS) among Corporate Taxpayers in Malaysia*. My supervisor is Professor Jeff Pope and this research is towards fulfilling my PhD thesis.

You are invited to participate in a survey as part of this research. The objective of the survey is to examine the perceptions and opinions of corporate taxpayers on the SAS in Malaysia. The survey concerns with your experiences and perceptions and is not an assessment of your skills or knowledge. Your decision to participate (or not to participate) will not affect your relationship with your organization.

The survey will take about 20 minutes to be completed. The survey covers issues including:

- Your perceptions on the SAS
- Your perceptions on your tax audit experience (*if any*)
- Your perceptions on the role of your tax agent (*if any*)

POTENTIAL BENEFITS TO SUBJECTS AND/OR SOCIETY

By participating in this survey, you and other participants will contribute to the evaluation of the SAS and expanding the knowledge on the role of tax audits (*if any*) and tax agent (*if any*) under the SAS in Malaysia.

POTENTIAL RISKS AND DISCOMFORTS

There could be issues that you are uncomfortable answering or to which you would simply prefer not to respond. Your participation in this survey is strictly voluntary, and you will be under no obligation whatsoever to answer any questions that you are not inclined to answer. You may choose not to answer any specific questions you do not want to and still remain in the survey.



CONFIDENTIALITY

Please note that your responses will be used for research purposes only and will be strictly confidential. Any information that is obtained in connection with this research and that can be identified with you will remain confidential and will be held in safekeeping and not made available to any other person(s) or institutions. The data may be used for analysis, but no personal information identifying any participant will be disclosed. Similarly, any published material will not include participants' names or other identifying information. All information collected will be stored in a locked cabinet for a period of 5 years, after which it will be erased.

RIGHTS OF RESEARCH PARTICIPANTS

If you agree to participate in this research, you may decide not to complete the survey for any reason at any time without consequence of any kind. Your completion and return of the enclosed questionnaire indicate your agreement to participate in this study.

You may withdraw your consent at any time and discontinue participation without penalty. You are not waiving any legal claims, rights or remedies because of your participation in this research. Should you require any additional information relating to the survey, please do not hesitate to contact the researcher using the following email address:

khadijah.mohdisa@postgrad.curtin.edu.au

The Curtin University Human Research Ethics Committee has approved this survey exercise (Approval No: E&F/002/2009). Should you wish to lodge a complaint about any matter relating to this survey, please contact:

Secretary
Human Research Ethics Committee
Office of Research and Development
P.O. Box U1987
Perth WA 6845.
hrec@curtin.edu.au

I thank you for your kind support.

Appendix B 2: Cover Letter by the CTIM



CHARTERED TAX INSTITUTE OF MALAYSIA (225750-T)
(formerly known as Malaysian Institute of Taxation)

10 January 2010

Dear Member

Please find enclosed copies of a set of questionnaires for a survey that will be conducted by Cik Khadijah Mohd Isa, a lecturer from International Islamic University Malaysia who is currently pursuing her PhD course at the Curtin University of Technology, Perth, Australia.

She is carrying out research for her PhD on the **Perception towards the Self Assessment System (SAS) among Corporate Taxpayers in Malaysia** under the supervision of Professor Jeff Pope.

The objective of the survey is to examine the perceptions and opinions of corporate taxpayers on the SAS in Malaysia. The survey is concerned with taxpayers' experiences and perceptions and is not an assessment of their skills or knowledge.

The Institute is supportive of tax research which is essential in developing any ideas for further improving the tax system in the country. As such, the Institute has agreed to assist in disseminating the research questionnaires for the survey.

We would appreciate it if you could assist Cik Khadijah by distributing the enclosed surveys to any of your **corporate clients who have been audited (at their premises)** by the Inland Revenue Board in the year(s) 2005, 2006, 2007 or 2008.

Findings from this survey could provide valuable information that may influence the Government's policy with regard to the way in which the SAS is implemented.

Should you require any additional information relating to the survey, do not hesitate to contact the researcher through email at khadijah.mohdisa@postgrad.curtin.edu.au or telephone +614 23411205.

We appreciate your assistance in this matter.

Thank you.

Yours sincerely

CHARTERED TAX INSTITUTE OF MALAYSIA

Ann Vong
Executive Director

Unit B-13-2, Block B, 13th Floor, Megan Avenue II, No.12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel: +603-2162 8989 Fax: +603-2162 8990 Email: secretariat@ctim.org.my

Appendix B 3: First Reminder Letter Sent by the CTIM



CHARTERED TAX INSTITUTE OF MALAYSIA (225750-T)
(formerly known as Malaysian Institute of Taxation)

e-CIRCULAR TO MEMBERS

e-CTIM No.08/2010

4 March 2010

the survey by accessing the URL link attached above. All queries pertaining to the survey can be forwarded to mazilenataj@yahoo.com or laimingling@salam.uitm.edu.my.

Thank you.

REMINDER

Survey on Corporate Taxpayers Perception towards the Self Assessment System

We would like to appeal to those of you who have received the survey envelopes to distribute the envelopes to your corporate clients. Please remind your corporate clients to complete the survey and return it using the self-addressed reply-paid envelope. Kindly contact the researcher at khadijah.mohdisa@postgrad.curtin.edu.au if you have any enquiries.

Thank You.

For queries or feedback on the CTIM e-circular, please email secretariat@ctim.org.my.

Disclaimer

Although the Chartered Tax Institute of Malaysia (formerly known as Malaysian Institute of Taxation) has taken all reasonable care in the preparation and compilation of the information contained in the CTIM e-circular, the Institute / each party providing the material displayed herein expressly disclaim all and any liability or responsibility to any person(s) for any errors or omissions in the contents of the CTIM e-circular or for anything done or omitted to be done by any such person in reliance whether wholly or partially, upon the whole or any part of the contents of the CTIM e-circular.

Appendix B 4: Second Reminder Sent by the CTIM



CHARTERED TAX INSTITUTE OF MALAYSIA (225750-T)
(formerly known as Malaysian Institute of Taxation)

e-CIRCULAR TO MEMBERS

e-CTIM No.09/2010

12 March 2010

The Institute is supportive of tax research which is essential in developing any ideas for further improving the tax system in the country. As such, the Institute encourages members to complete the survey by accessing the URL link attached above. All queries pertaining to the survey can be forwarded to mazilenataj@yahoo.com or laimingling@salam.uitm.edu.my.

Thank you.

REMINDER

Survey on Corporate Taxpayers Perception towards the Self Assessment System

We would like to appeal to those of you who have received the survey envelopes to distribute the envelopes to your corporate clients. Please remind your corporate clients to complete the survey and return it using the self-addressed reply-paid envelope. Kindly contact the researcher at khadijah.mohdisa@postgrad.curtin.edu.au if you have any enquiries.

Thank You.

MEMBERSHIP SERVICES

Minutes of the 17th AGM

We are pleased to inform you that the minutes of the 17th AGM held on 13 June 2009 has been uploaded onto CTIM's website at <http://www.ctim.org.my/PDF/membership/general/17th%20AGM%20minutes%2013Jun09FINAL.pdf>

For queries or feedback on the CTIM e-circular, please email secretariat@ctim.org.my.

Disclaimer

Although the Chartered Tax Institute of Malaysia (formerly known as Malaysian Institute of Taxation) has taken all reasonable care in the preparation and compilation of the information contained in the CTIM e-circular, the Institute / each party providing the material displayed herein expressly disclaim all and any liability or responsibility to any person(s) for any errors or omissions in the contents of the CTIM e-circular or for anything done or omitted to be done by any such person in reliance whether wholly or partially, upon the whole or any part of the contents of the CTIM e-circular.

Appendix B5: Ethics Approval

memorandum



Office of Research and Development

**Human Research Ethics
Committee**

TELEPHONE 9266 2784
FACSIMILE 9266 3793
EMAIL hrec@curtin.edu.au

To	Khadijah Mohd Isa
From	Dr Tom Cronje
Subject	Protocol Approval : E&F/002/2009
Date	14 March 2012
Copy	A/Prof Thorsten Stromback

Thank you for your "Form C Application for Approval of Research with Minimal Risk (Ethical Requirements)" for the project titled "THE ROLE, EFFICACY AND OPERATING COSTS OF CORPORATE TAX AUDIT IN MALAYSIA". On behalf of the Human Research Ethics Committee I am authorised to inform you that the project is approved.

Approval of this project is for a period of twelve months from 27/08/2009 to 27/08/2010.

If at any time during the twelve months changes/amendments occur, or if a serious or unexpected adverse event occurs, please advise me immediately. The approval number for your project is **E&F/002/2009**. Please quote this number in any future correspondence.

Dr Tom Cronje

Please Note: The following standard statement must be included in the information sheet to participants: *This study has been approved by the Curtin University Human Research Ethics Committee. If needed, verification of approval can be obtained either by writing to the Curtin University Human Research Ethics Committee, c/- Office of Research and Development, Curtin University of Technology, GPO Box U1987, Perth, 6845 or by telephoning 9266 2784.*

Appendix C: Rotated Component Matrix for Factor Analysis

The preliminary assumptions of the EFA were tested by examining the table of correlations, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (values greater than 0.6 were deemed acceptable), the Bartlett Test of Sphericity (significance value less than 0.05 were acceptable), and the diagonal values of the anti-image correlation matrices (values greater than 0.5 were desirable). The factor structure was determined using Principal Component Analysis (PCA) with Varimax rotation. Factors with Eigenvalues greater than 1 were retained.

The rotated factor loadings of the EFA were examined and the items were grouped according to the factors with which they were most strongly associated. Items with factor loadings greater than 0.4 to a specific factor were retained and items with weak loadings (less than 0.4) or cross loadings were excluded from the measurement of those factors. The final collection of items belonging to each factor formed the corresponding sub-scales measuring that dimension of the original concept. Examples of the rotated component matrix for Tax Knowledge and Tax Agents' Representation are shown Appendix C1 and Appendix C2 respectively.

Appendix C 1: Rotated Component Matrix for Tax Knowledge

	Component		
	TK2	TK1	TK3
Audit has improved compliance	.910		
Audit may improve future compliance	.904		
Audit clarifies tax laws	.886		
Audit improve recordkeeping	.838		
Audit is necessary under SAS	.595		
SAS improves compliance		.519	
Aware on cons of tax abuse		.882	
Aware on recordkeeping		.835	
Aware on tax audit		.829	
Aware responsibilities		.766	
Perception on being audited as very low			.977

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 4 iterations.

Appendix C 2: Rotated Component Matrix for Tax Agents

	Component	
	TA2	TA1
Updates on tax information are easily available from them	.842	
Advice for income tax planning is required	.832	
External opinions on tax issues are required	.824	
Lack of internal technical knowledge		.909
Income tax matters are too complicated		.891
It is more cost effective to use external tax professionals		.609

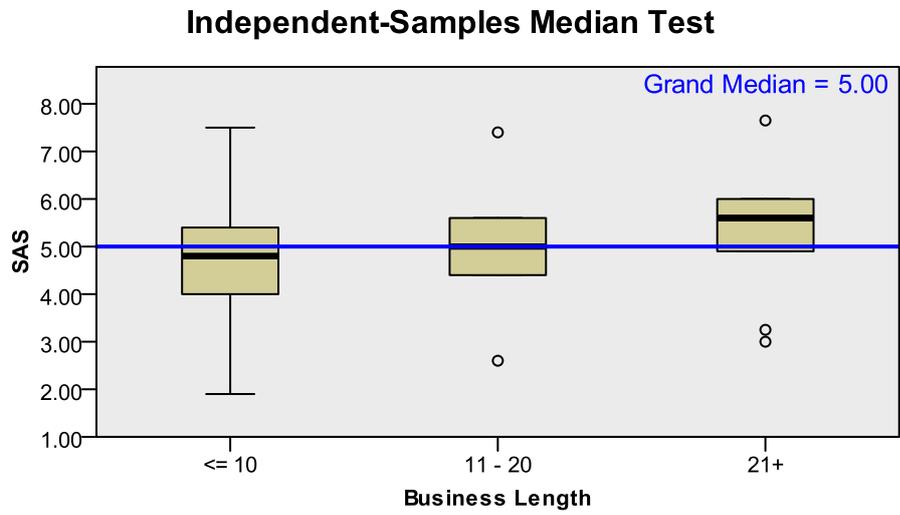
Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 3 iterations

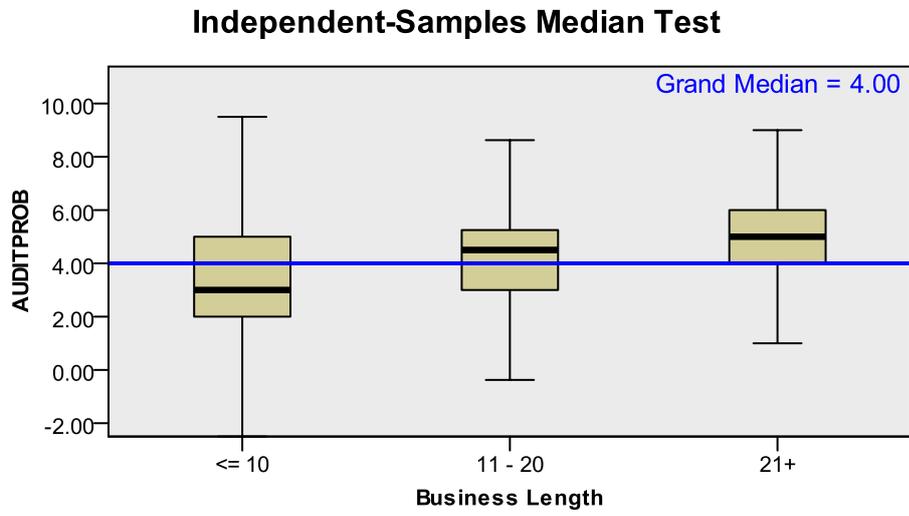
**Appendix D: Independent-Samples Median Tests - Length of Time
in Business (BL)**

Appendix D 1: Independent-Samples Median Test – BL on TKI



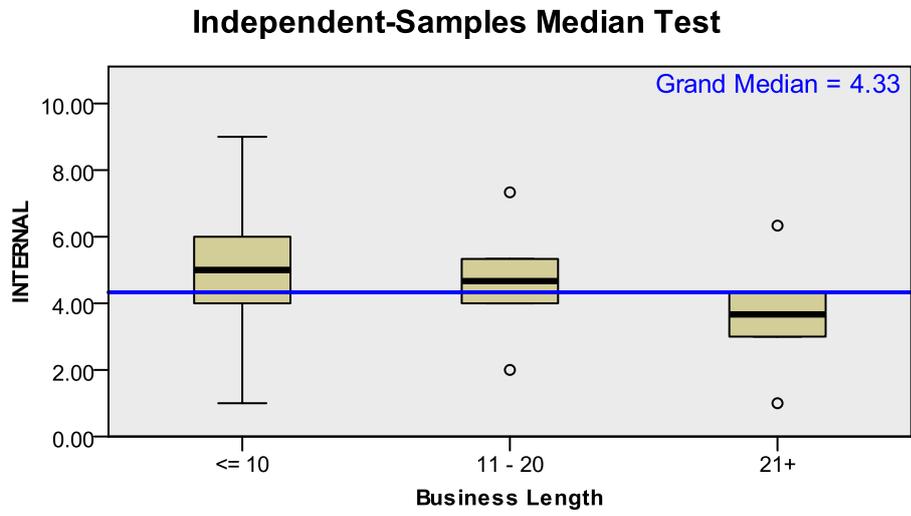
Total N	139
Median	5.000
Test Statistic	18.576
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.000

Appendix D 2: Independent-Samples Median Test -BL on TK3



Total N	138
Median	4.000
Test Statistic	7.298
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.026

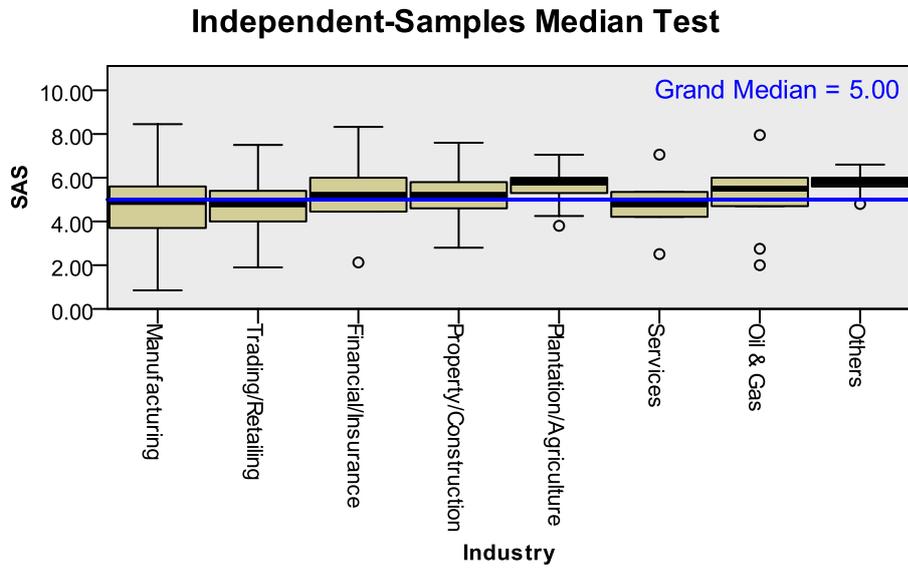
Appendix D 3: Independent-Samples Median Test - BL on TAI



Total N	109
Median	4.333
Test Statistic	16.924
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.000

**Appendix E: Independent-Samples Median Tests - Business
Industry (BI)**

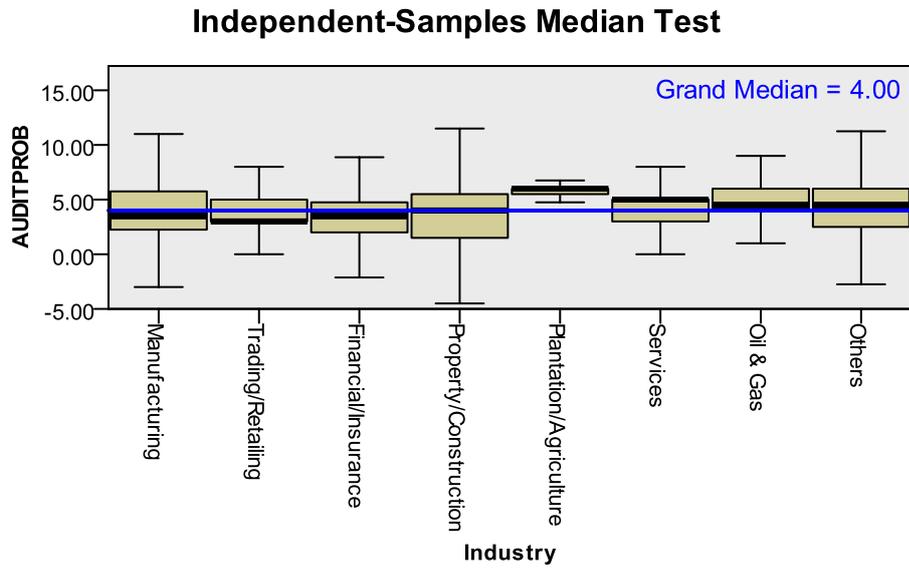
Appendix E 1: Independent-Samples Median Tests –BI on *TKI*



Total N	145
Median	5.000
Test Statistic	17.479
Degrees of Freedom	7
Asymptotic Sig. (2-sided test)	.015

1. More than 20% of the cells have expected values less than five.

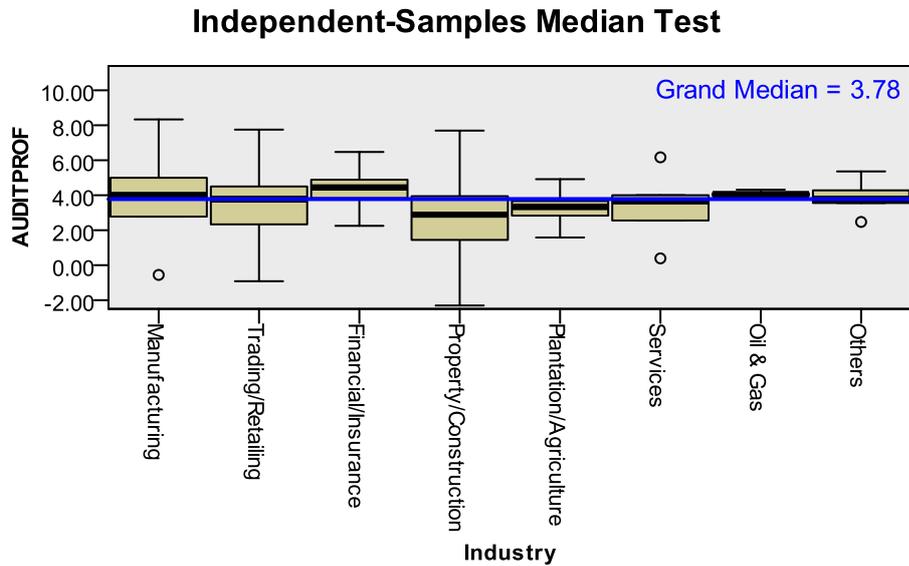
Appendix E 2: Independent-Samples Median Tests – BI on TK3



Total N	144
Median	4.000
Test Statistic	17.154
Degrees of Freedom	7
Asymptotic Sig. (2-sided test)	.016

1. More than 20% of the cells have expected values less than five.

Appendix E 3: Independent-Samples Median Tests – BI on AE3



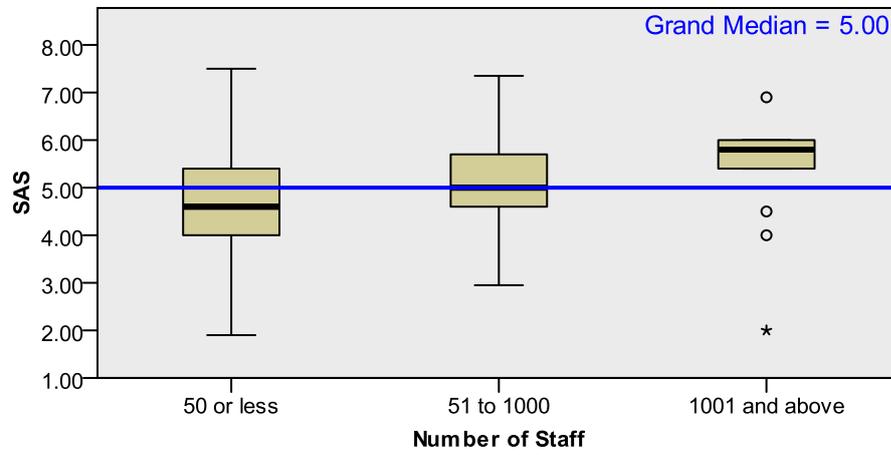
Total N	70
Median	3.778
Test Statistic	17.590
Degrees of Freedom	7
Asymptotic Sig. (2-sided test)	.014

1. More than 20% of the cells have expected values less than five.

**Appendix F: Independent-Samples Median Tests - Business Size
(Staff)**

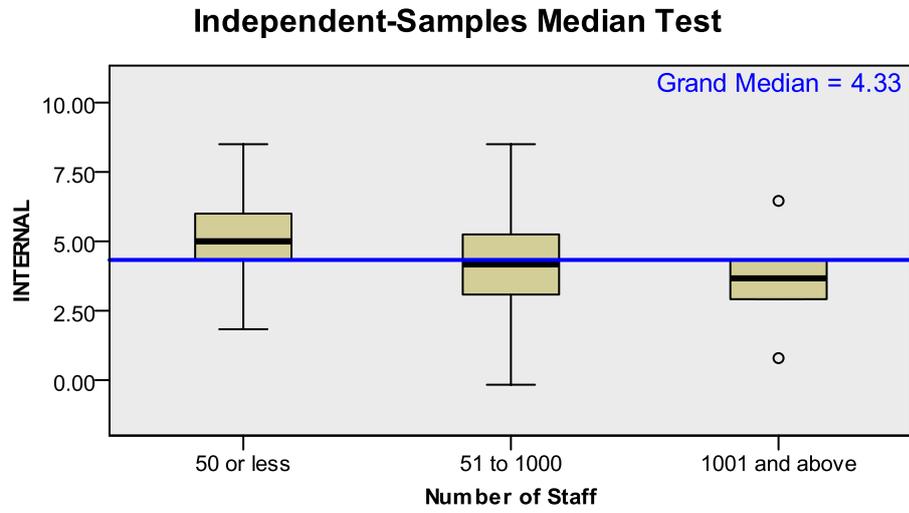
Appendix F 1: Independent-Samples Median Tests – Staff on TKI

Independent-Samples Median Test



Total N	145
Median	5.000
Test Statistic	22.136
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.000

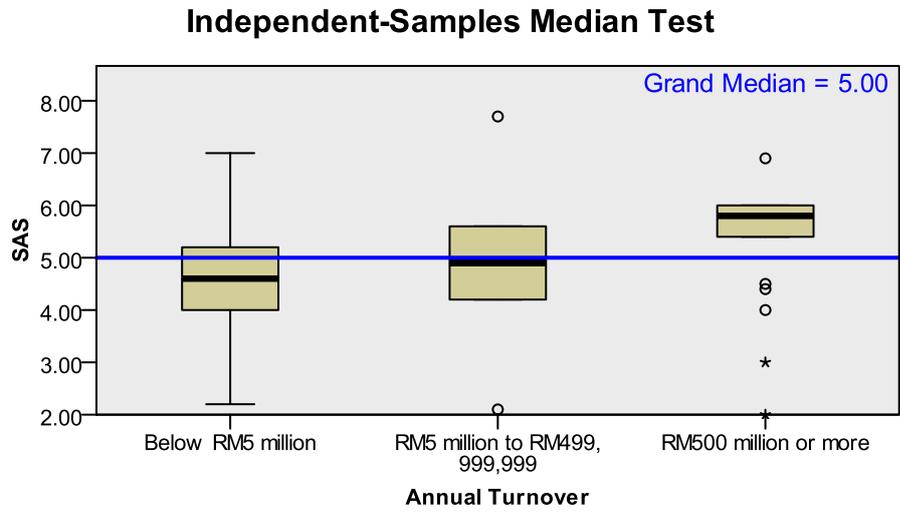
Appendix F 2: Independent-Samples Median Tests – Staff on TAI



Total N	114
Median	4.333
Test Statistic	28.103
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.000

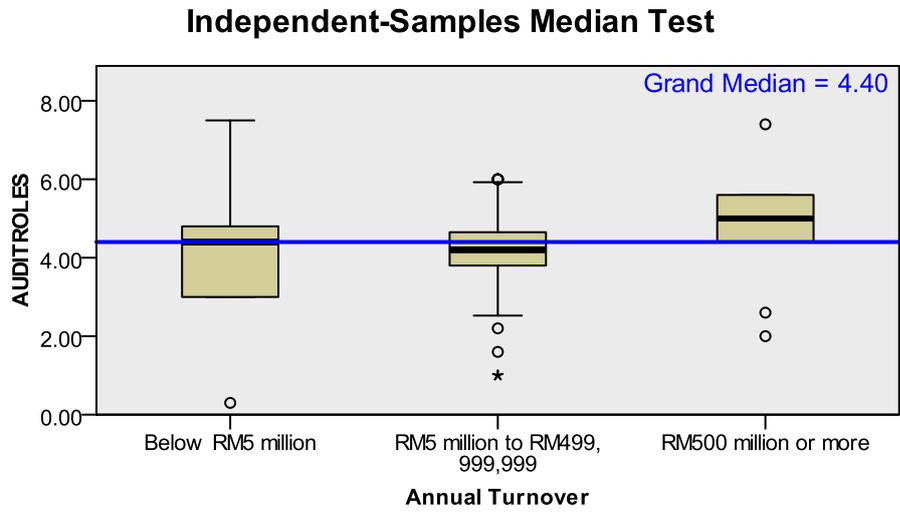
**Appendix G: Independent-Samples Median Tests-Business Size
(Turnover)**

Appendix G 1: Independent-Samples Median Tests – Turnover on *TKI*



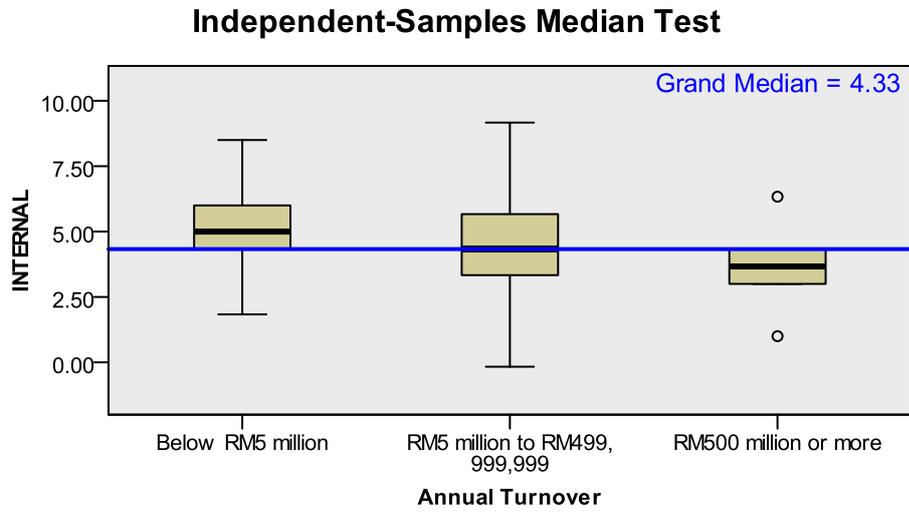
Total N	144
Median	5.000
Test Statistic	25.987
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.000

Appendix G 2: Independent-Samples Median Tests – Turnover on TK2



Total N	144
Median	4.400
Test Statistic	9.189
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.010

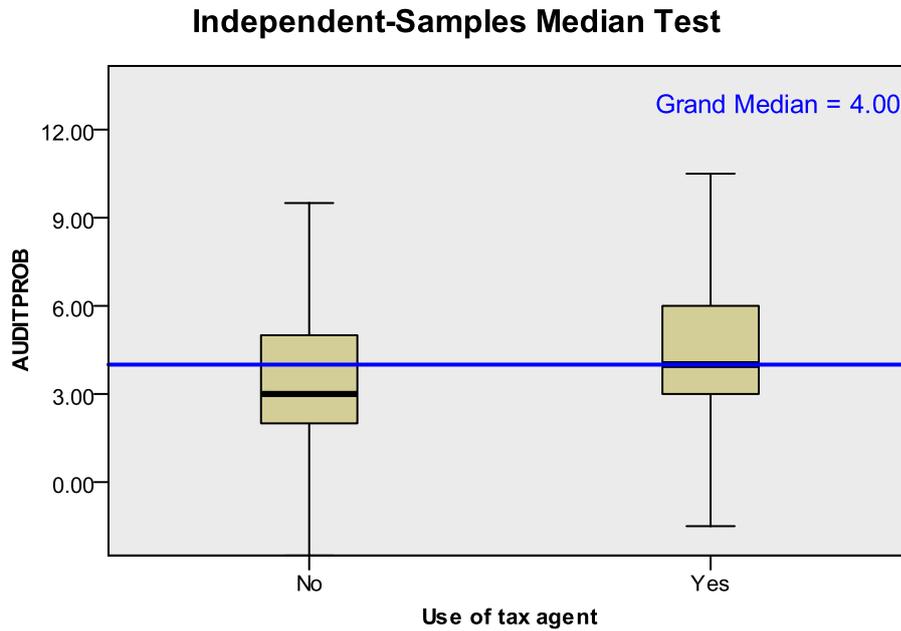
Appendix G 3: Independent-Samples Median Tests – Turnover on *TAI*



Total N	113
Median	4.333
Test Statistic	24.261
Degrees of Freedom	2
Asymptotic Sig. (2-sided test)	.000

Appendix H: Independent-Samples Median Tests - Tax Agents (TA)

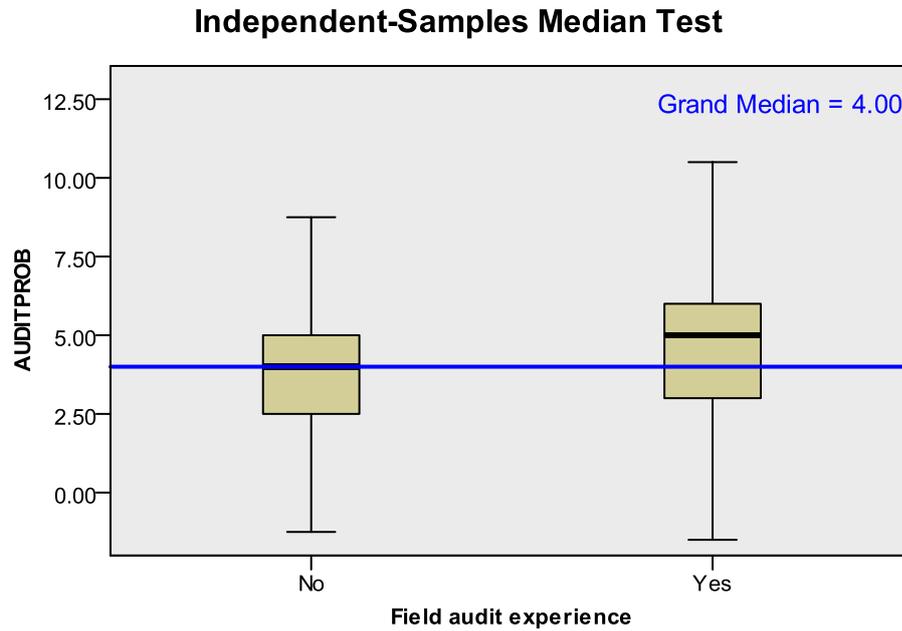
Appendix H 1: Independent-Samples Median Tests – TA on TK3



Total N	144
Median	4.000
Test Statistic	5.168
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.023
Chi-Square	4.281
Yates's Continuity Correction	
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.039

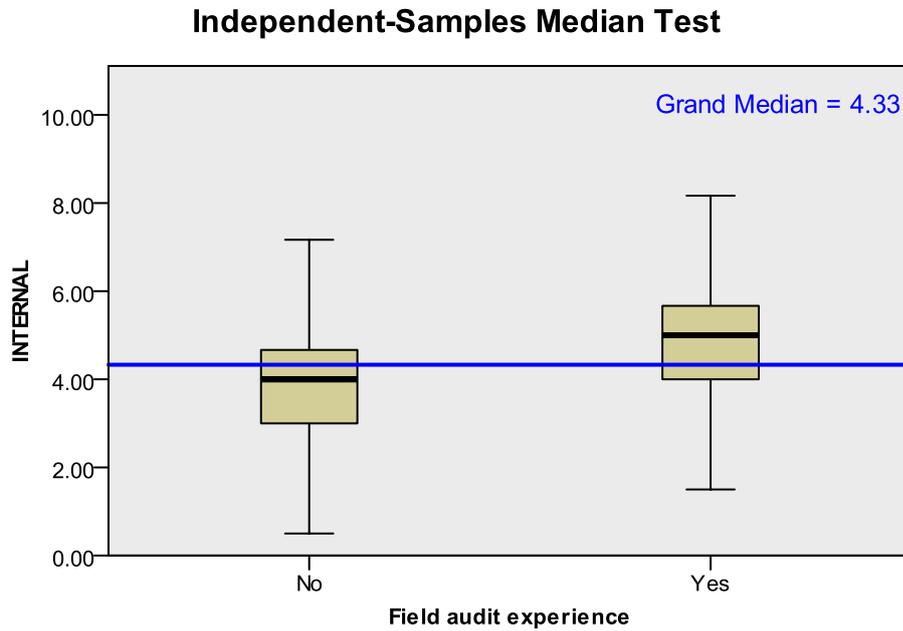
Appendix I: Independent-Samples Median Tests - Audit Experience (AE)

Appendix I 1: Independent-Samples Median Tests – AE on TK3



Total N	144
Median	4.000
Test Statistic	5.434
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.020
Chi-Square	4.679
Yates's Continuity Correction	
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.031

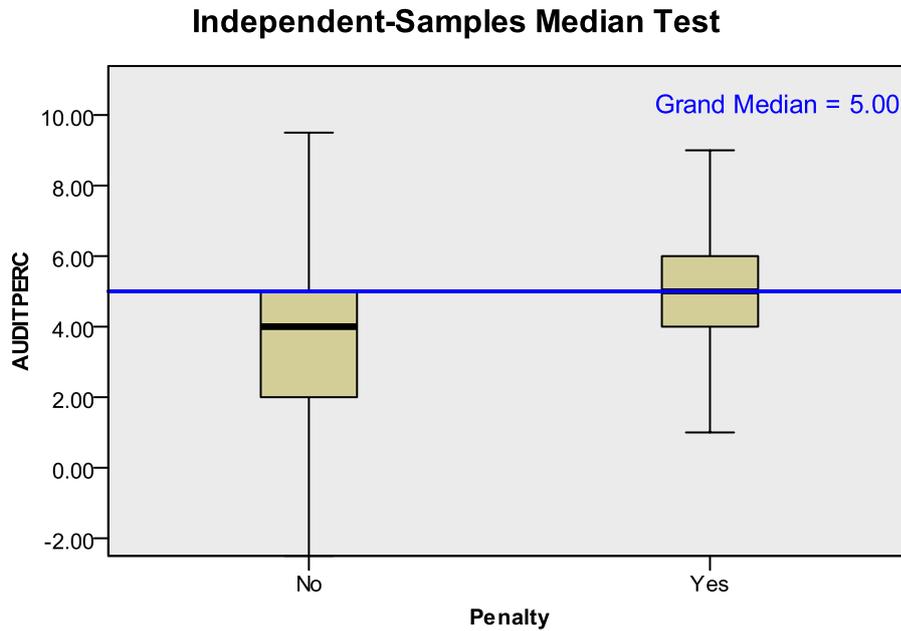
Appendix I 2: Independent-Samples Median Tests – AE on TAI



Total N	114
Median	4.333
Test Statistic	12.179
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.000
Chi-Square	10.893
Yates's Continuity Correction	
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.001

**Appendix J: Independent-Samples Median Tests – Audit Penalty
(AP)**

Appendix J 1: Independent-Samples Median Tests – AP on AE2



Total N	70
Median	5.000
Test Statistic	5.661
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.017
Chi-Square	4.507
Yates's Continuity Correction	
Degrees of Freedom	1
Asymptotic Sig. (2-sided test)	.034

Appendix K: Sample of Tax Return of a Company (Form C)



URUSAN SERI PADUKA BAGINDA

BAYARAN POS JELAS
POSTAGE PAID
PEJABAT POS BESAR
KUALA LUMPUR
MALAYSIA
NO. WP0218

FOR REFERENCE ONLY

USE BLACK INK PEN & DO NOT FOLD

FORM C & FORM R 2011

For Further Information:-

- LHDNM Branch
- Main Line : 1-300-88-3010
- Main Line – Calls From Overseas : 603-4289-3500
- Website : <http://www.hasil.gov.my>

If Undelivered, Return To:
LEMBAGA HASIL DALAM NEGERI MALAYSIA
PUSAT PEMROSESAN
KARUNG BERKUNCI 11018
50990 KUALA LUMPUR
MALAYSIA



LEMBAGA HASIL DALAM NEGERI MALAYSIA
PUSAT PEMROSESAN
ARAS 10-18, MENARA C, PERSIARAN MPAJ
JALAN PANDAN UTAMA, PANDAN INDAH
KARUNG BERKUNCI 11018
50990 KUALA LUMPUR

CP5A
SULIT
Telephone : 1-300-88-3010
Fax : 03-42893400
Website : <http://www.hasil.gov.my>

To :

Reference No. (Registration No.):

Income Tax No. :

Date :

GUIDE NOTES FOR FORM C AND FORM R FOR YEAR OF ASSESSMENT 2011

1. Form C is:
 - a statement under section 77A of the Income Tax Act 1967 (ITA 1967);
 - an income tax computation pursuant to subsection 77A(3) of ITA 1967; and
 - a deemed notice of assessment under subsection 90(2) of the same Act.
2. Therefore, you are required to:
 - (a) complete this return form correctly and clearly.
 - (b) compute your tax based on audited accounts and refer to the guidebook which can be printed from the website of Lembaga Hasil Dalam Negeri Malaysia (LHDNM). Working sheets / appendices used for computation need not be furnished with this return form but must be kept for a period of seven (7) years after the end of the year in which the return form is furnished, for the purpose of examination by LHDNM.
 - (c) furnish Form C (RK-T) / Form C (RK-S) which can be printed from the website if the company claims/surrenders loss under the Group Relief provision.
 - (d) furnish the following appendices which can be printed from the website if entitled to a tax refund as per item B17 of this return form:
 - (i) Appendix B1 in respect of the claim for tax deduction under section 51 of Finance Act 2007 (dividends);
 - (ii) Appendix B2 and relevant documents pertaining to the claim for section 110 tax deduction (others); and
 - (iii) Appendix B3 / Appendix B4, if applicable relating to the foreign tax deducted in the country of origin.
 - (e) use the Remittance Slip (CP207) for Form C when paying the balance of tax payable (if any) as per item C3 of this return form.
3. Form R is a statement under subparagraph 45(1)(a)(ii) Part II in Chapter II of the Finance Act 2007 (Act 683) and subsection 48(1) Part II in Chapter II of the Finance Act 2009 (Act 693).
 - (a) You are required to complete this return form correctly and clearly in accordance with the explanatory notes which can be printed from the website.
 - (b) The amount of excess which is a debt due to the Government, shall be payable within the stipulated period. Use the Remittance Slip (CP207) for Form R which is enclosed with the Form C, when making payment.
4. Detach the Remittance Slip (CP207) before you furnish the Form C. The Form C and Form R must be completed, affirmed, duly signed and furnished to LHDNM at the above address within the stipulated period.
5. Only original return forms printed by LHDNM are acceptable. Return forms submitted via fax are not considered as furnished in accordance with ITA 1967.

Thank you.

**“SERVICE TO THE COUNTRY”
“TOGETHER WE DEVELOP THE NATION”**

Director General of Inland Revenue
Lembaga Hasil Dalam Negeri Malaysia



Form C

LEMBAGA HASIL DALAM NEGERI MALAYSIA
RETURN FORM OF A COMPANY UNDER
SECTION 77A OF THE INCOME TAX ACT 1967
This form is prescribed under section 152 of the Income Tax Act 1967

YEAR OF ASSESSMENT
2011
CP5 (Pr. 2011)

I Name of company [Submit Form 13 if there is a change in name]

II Reference no. (registration no.)

III Employer's no. **E**

IV Resident in Malaysia (Indicate 'X') Yes No

V Country of residence (Use the Country Code)

VI Income tax no. **C**

VII Opening date of accounts
Day Month Year

VIII Closing date of accounts
Day Month Year

IX Compliance with Public Rulings (Indicate 'X') Yes No

X Record-keeping (Indicate 'X') Yes No

XI Claim / Surrender loss under the Group Relief provision
1 = Claim
2 = Surrender
3 = Not relevant
[If claiming, submit Form C (RK-T); if surrendering, submit Form C (RK-S)]

XII Substantial change in shareholding and subsection 44(5A) applies
1 = Yes
2 = No
3 = Not relevant

XIII Small and medium enterprise
1 = Yes
2 = No

Status of Tax (from page 4) (Indicate 'X' in the relevant box)

Tax Repayable (item B17) Tax paid in excess (item C4) There is balance of tax payable (item B16 / C3 whichever is relevant) Not taxable / Nil balance (if B16 / B17 / C3 / C4 = '0')

FOR OFFICE USE

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Date received - 1

Date received - 2

Date received - 3

[Declare in Ringgit Malaysia (RM) currency]

PART A: STATUTORY INCOME, TOTAL INCOME AND CHARGEABLE INCOME

Statutory Business Income	Business Code	Amount (RM)
A1 Business 1		
A2 Business 2		
A3 Business 3		
A4 Business 4		
A5 Business 5 + 6 and so forth		

Name of Company:

C

Statutory Partnership Income		Income Tax No.	Amount (RM)
A6	Partnership 1	D <input type="text"/>	<input type="text"/>
A7	Partnership 2	D <input type="text"/>	<input type="text"/>
A8	Partnership 3	D <input type="text"/>	<input type="text"/>
A9	Partnership 4	D <input type="text"/>	<input type="text"/>
A10	Partnership 5 + 6 and so forth	D <input type="text"/>	<input type="text"/>
A11	Aggregate statutory income from businesses (A1 to A10)	A11	<input type="text"/>
A12	Less: Business losses brought forward (<i>Restricted to A11</i>)	A12	<input type="text"/>
A13	TOTAL (A11 - A12)	A13	<input type="text"/>
Other Statutory Income			
A14	Interest and discounts	A14	<input type="text"/>
A15	Rents, royalties and premiums	A15	<input type="text"/>
A16	Other income	A16	<input type="text"/>
A17	Additions pursuant to paragraph 43(1)(c)	A17	<input type="text"/>
A18	Aggregate statutory income from other sources (A14 to A17)	A18	<input type="text"/>
A19	AGGREGATE INCOME (A13 + A18)	A19	<input type="text"/>
A20	Less: Current year business losses (<i>Restricted to A19</i>)	A20	<input type="text"/>
A21	TOTAL (A19 - A20)	A21	<input type="text"/>
A22	Less: Other expenses Prospecting expenditure - Schedule 4 and paragraph 44(1)(b)	A22	<input type="text"/>
A23	Pre-operational business expenditure - Schedule 4B and paragraph 44(1)(b)	A23	<input type="text"/>
A24	Permitted expenses under section 60F or 60H and income exempted from tax by the Minister under section 127	A24	<input type="text"/>
A25	TOTAL (A21 - A22 - A23 - A24) (Enter '0' if value is negative)	A25	<input type="text"/>
A26	Less: Donations / Gifts / Contributions / Zakat Gift of money to the Government/ local authority	A26	<input type="text"/>

Name of Company:

C

<p>A27A Gift of money to approved institutions or organisations <input type="text"/></p> <p>A27B Gift of money or cost of contribution in kind for any approved sports activity or sports body <input type="text"/></p> <p>A27C Gift of money or cost of contribution in kind for any project of national interest approved by the Minister of Finance <input type="text"/></p>	} Restricted to 10% of A19	<p>A27 <input type="text"/></p> <p>A28 <input type="text"/></p> <p>A29 <input type="text"/></p> <p>A30 <input type="text"/></p> <p>A31 <input type="text"/></p> <p>A32 <input type="text"/></p> <p>A33 <input type="text"/></p> <p>A34 <input type="text"/></p> <p>A35 <input type="text"/></p> <p>A36 <input type="text"/></p> <p>A37 <input type="text"/></p>
<p>A28 Gift of artefacts, manuscripts or paintings</p> <p>A29 Gift of money for the provision of library facilities or to libraries</p> <p>A30 Gift of paintings to the National Art Gallery or any state art gallery</p> <p>A31 <i>Zakat perniagaan</i> (restricted to 2.5% of aggregate income in A19)</p> <p>A32 Claim for loss under Group Relief provision</p> <p>A33 TOTAL INCOME [A25 – (A26 to A32)] (Enter '0' if value is negative)</p> <p>A34 Statutory income from dividends</p> <p>A35 TAXABLE PIONEER INCOME</p> <p>A36 CHARGEABLE INCOME (A33 + A34 + A35)</p> <p>A37 CHARGEABLE INCOME OF FOREIGN FUND MANAGEMENT (section 60c)</p>		

PART B: TAX PAYABLE

<p>B1 CHARGEABLE INCOME [from (A36 + A37)]</p> <p>Apportionment of Chargeable Income</p> <p>B2 <input type="text"/></p> <p>B3 <input type="text"/></p> <p>B4 <input type="text"/></p> <p>B5 <input type="text"/></p> <p>B5A <input type="text"/></p> <p>B6 <input type="text"/></p> <p>B7 <input type="text"/></p> <p>B8 TOTAL INCOME TAX CHARGED (B2 to B7)</p>	<p>Rate (%)</p> <p>5</p> <p>8</p> <p>10</p> <p>15</p> <p>20</p> <p>25</p> <p><input type="text"/></p>	<p>Income Tax</p> <p>B1 <input type="text"/></p> <p><input type="text"/></p> <p>B8 <input type="text"/></p>
--	--	--

Name of Company:

C

Less:

B9	Tax reduction on income derived from exploration and exploitation of petroleum in a Joint Development Area	B9	<input type="text"/>
B10	Section 110B tax deduction	B10	<input type="text"/>
B11	Tax deduction under section 51 of Finance Act 2007 (dividends)	B11	<input type="text"/>
B12	Section 110 tax deduction (others)	B12	<input type="text"/>
B13	Section 132 tax relief	B13	<input type="text"/>
B14	Section 133 tax relief	B14	<input type="text"/>
B15	Total Tax Reduction / Deduction / Relief (B9 to B14)	B15	<input type="text"/>
B16	TAX PAYABLE * (B8 – B15)	B16	<input type="text"/>
	<i>Or</i>		
B17	TAX REPAYABLE * (B15 – B8) <i>(For a 'Tax Repayable' case, fill in items P7 and P8 on page 11)</i>	B17	<input type="text"/>

PART C: STATUS OF TAX FOR YEAR OF ASSESSMENT 2009

C1	Tax payable (from B16)	C1	<input type="text"/>
C2	Less: Instalment payments made	C2	<input type="text"/>
C3	Balance of tax payable *	C3	<input type="text"/>
	<i>Or</i>		
C4	Tax paid in excess *	C4	<input type="text"/>

* Please enter the tax position (B16 / B17 / C3 / C4 whichever is applicable) under the item 'Status of Tax' on page 1.

PART D: SPECIAL DEDUCTION, DOUBLE DEDUCTION AND FURTHER DEDUCTION

	Claim Code	Amount		Claim Code	Amount
D1	<input type="text"/>	<input type="text"/>	D6	<input type="text"/>	<input type="text"/>
D2	<input type="text"/>	<input type="text"/>	D7	<input type="text"/>	<input type="text"/>
D3	<input type="text"/>	<input type="text"/>	D8	<input type="text"/>	<input type="text"/>
D4	<input type="text"/>	<input type="text"/>	D9	<input type="text"/>	<input type="text"/>
D5	<input type="text"/>	<input type="text"/>	D10	<input type="text"/>	<input type="text"/>
D11	TOTAL CLAIMED		D11		<input type="text"/>

Name of Company:

C

PART E: CLAIM FOR SCHEDULE 3 ALLOWANCE

Business	Amount Absorbed	Balance Carried Forward
E1 Business 1	E1(a) <input type="text"/>	E1(b) <input type="text"/>
E2 Business 2	E2(a) <input type="text"/>	E2(b) <input type="text"/>
E3 Business 3	E3(a) <input type="text"/>	E3(b) <input type="text"/>
E4 Business 4	E4(a) <input type="text"/>	E4(b) <input type="text"/>
E5 Business 5 + 6 and so forth	E5(a) <input type="text"/>	E5(b) <input type="text"/>

Partnership	Amount Absorbed	Balance Carried Forward
E6 Partnership 1	E6(a) <input type="text"/>	E6(b) <input type="text"/>
E7 Partnership 2	E7(a) <input type="text"/>	E7(b) <input type="text"/>
E8 Partnership 3	E8(a) <input type="text"/>	E8(b) <input type="text"/>
E9 Partnership 4	E9(a) <input type="text"/>	E9(b) <input type="text"/>
E10 Partnership 5 + 6 and so forth	E10(a) <input type="text"/>	E10(b) <input type="text"/>
E11 Total accelerated capital allowance	E11(a) <input type="text"/>	E11(b) <input type="text"/>
E12 Total capital allowance on assets acquired in the basis period		E12 <input type="text"/>
E13 Total capital allowance brought forward but disregarded due to substantial change in shareholding		E13 <input type="text"/>

PART F: CLAIM FOR LOSSES

Type of Loss	Amount Disregarded	Balance Carried Forward
F1 Business / partnership losses	F1(a) <input type="text"/>	F1(b) <input type="text"/>
F1A Losses surrendered under Group Relief provision	F1A(a) <input type="text"/>	F1A(b) <input type="text"/>
F2 Pioneer losses	F2(a) <input type="text"/>	F2(b) <input type="text"/>
F3 Losses from approved service projects	F3(a) <input type="text"/>	F3(b) <input type="text"/>
F4 Business losses from Operational Headquarters / Foreign Fund Management	F4(a) <input type="text"/>	F4(b) <input type="text"/>
F5 Section 54A shipping losses	F5(a) <input type="text"/>	F5(b) <input type="text"/>

Name of Company:

C

PART G: INCENTIVE CLAIM

Jenis Insentif		Amount Absorbed		Balance Carried Forward	
G1	Investment Tax Allowance	G1(a)	<input type="text"/>	G1(b)	<input type="text"/>
G2	Industrial Adjustment Allowance	G2(a)	<input type="text"/>	G2(b)	<input type="text"/>
G3	Infrastructure Allowance	G3(a)	<input type="text"/>	G3(b)	<input type="text"/>
G4	Schedule 7A Allowance	G4(a)	<input type="text"/>	G4(b)	<input type="text"/>
G5	Schedule 7B Allowance	G5(a)	<input type="text"/>	G5(b)	<input type="text"/>
G6	Increased Exports Allowance	G6(a)	<input type="text"/>	G6(b)	<input type="text"/>
G6A	Allowance for Increased Agriculture Exports	G6A(a)	<input type="text"/>	G6A(b)	<input type="text"/>
G6B	Increased Exports Allowance for Malaysian International Trading Company	G6B(a)	<input type="text"/>	G6B(b)	<input type="text"/>
G6C	Value of Increased Export of Services	G6C(a)	<input type="text"/>	G6C(b)	<input type="text"/>
G6D	Special Incentive for Exports	G6D(a)	<input type="text"/>	G6D(b)	<input type="text"/>
G6E	Allowance for BioNexus status company	G6E(a)	<input type="text"/>	G6E(b)	<input type="text"/>
G7	Schedule 4 expenditure			G7	<input type="text"/>
G8	Schedule 4B expenditure			G8	<input type="text"/>
G9	TOTAL CLAIMED [A22, A23 and G1(a) to G6E(a)]			G9	<input type="text"/>
G10	TOTAL TRANSFERRED TO EXEMPT ACCOUNT [G1(a) to G6E(a)]			G10	<input type="text"/>

PART H: INCOME TRANSFERRED TO EXEMPT ACCOUNT

Income Code	Amount	Income Code	Amount
H1	<input type="text"/>	H6	<input type="text"/>
H2	<input type="text"/>	H7	<input type="text"/>
H3	<input type="text"/>	H8	<input type="text"/>
H4	<input type="text"/>	H9	<input type="text"/>
H5	<input type="text"/>	H10	<input type="text"/>
H11	TOTAL TRANSFERRED TO EXEMPT ACCOUNT	H11	<input type="text"/>

Name of Company:

C

PART I: EXEMPT ACCOUNT

		Amount
I1	Credit in account	I1 <input type="text"/>
I2	Tax exempt dividend paid	I2 <input type="text"/>
I3	Balance carried forward	I3 <input type="text"/>

(Enter 'X' if value is negative)

PART J: INCOME OF PRECEDING YEAR NOT DECLARED

J1	Chargeable income of preceding year not declared (if any)	J1 <input type="text"/>
-----------	---	-------------------------

PART K: DISPOSAL OF ASSET UNDER THE REAL PROPERTY GAINS TAX ACT 1976

K1	Any disposal of asset?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	(Indicate 'X' in the relevant box)
K2	Has the disposal been declared to LHDNM? (if K1 = 'Yes')	Yes <input type="checkbox"/>	No <input type="checkbox"/>	

PART L: FINANCIAL PARTICULARS OF COMPANY

Business Income:

L1	Business code (main business)	L1 <input type="text"/>
L2	Sales / Turnover (main business)	L2 <input type="text"/>

Less:

L3	Opening stock	L3 <input type="text"/>
L4	Purchases	L4 <input type="text"/>
L4A	Cost of production	L4A <input type="text"/>
L5	Closing stock	L5 <input type="text"/>
L6	Cost of sales	L6 <input type="text"/>
L7	GROSS PROFIT / LOSS (L2 - L6)	L7 <input type="text"/>

(Enter 'X' if value is negative)

L8	Foreign currency exchange gain	L8 <input type="text"/>
L9	Other business income	L9 <input type="text"/>
L10	Other income	L10 <input type="text"/>
L11	Non-taxable profits	L11 <input type="text"/>

Name of Company:

C

Expenditure:

- L12 Interest L12
- L13 Professional, technical, management and legal fees L13
- L13A Technical fee payments to non-resident recipients L13A
- L14 Contract payments L14
- L15 Salaries and wages L15
- L15A Cost of Employee Stock Options L15A
- L16 Royalties L16
- L17 Rental / Lease L17
- L18 Maintenance and repairs L18
- L19 Research and development L19
- L20 Promotion and advertisement L20
- L21 Travelling and accommodation L21
- L22 Foreign currency exchange loss L22
- L23 Other expenditure L23

- L24 **TOTAL EXPENDITURE** L24
- L25 **NET PROFIT / LOSS** L25
(Enter 'X' if value is negative)
- L26 Non-allowable expenses L26

Fixed Assets:

- L27 Motor vehicles L27
- L28 Plant and machinery L28
- L29 Land and buildings L29
- L30 Other fixed assets L30

- L31 **TOTAL FIXED ASSETS** L31
- L31A Total cost of fixed assets acquired in the basis period L31A

Name of Company:

C

L32 Investments L32

Current Assets:

L33 Trade debtors L33

L34 Sundry debtors L34

L34A Stock L34A

L35 Loans to directors L35

L36 Cash in hand and cash at bank L36
(Enter 'X' if value is negative)

L37 Other current assets L37

L38 TOTAL CURRENT ASSETS L38

L39 TOTAL ASSETS (L31 + L32 + L38) L39

LIABILITIES AND OWNERS' EQUITY

Current Liabilities:

L40 Loans and overdrafts L40

L41 Trade creditors L41

L42 Sundry creditors L42

L43 Loans from directors L43

L44 Other current liabilities L44

L45 TOTAL CURRENT LIABILITIES L45

L46 Long-term liabilities L46

L47 TOTAL LIABILITIES L47

Shareholders' Equity:

L48 Paid-up capital L48

L49 Profit and loss appropriation account L49
(Enter 'X' if value is negative)

L50 Reserve account L50

L51 Total Equity L51
(Enter 'X' if value is negative)

L52 TOTAL LIABILITIES AND EQUITY L52
(Enter 'X' if value is negative)

Name of Company:

C

PART M: PARTICULARS OF WITHHOLDING TAXES

Gross payments to non-residents in the basis period subject to withholding tax under sections 107A, 109, 109A, 109B, 109E and 109F.

	Section	Total gross amount paid	Total tax withheld and remitted to LHDNM	Total net amount paid
M1	107A	<input type="text"/>	<input type="text"/>	<input type="text"/>
M2	109	<input type="text"/>	<input type="text"/>	<input type="text"/>
M3	109A	<input type="text"/>	<input type="text"/>	<input type="text"/>
M4	109B	<input type="text"/>	<input type="text"/>	<input type="text"/>
M5	109E	<input type="text"/>	<input type="text"/>	<input type="text"/>
M6	109F	<input type="text"/>	<input type="text"/>	<input type="text"/>

PART N: TRANSACTION BETWEEN RELATED COMPANIES

		Amount
N1	Total sales to related companies in Malaysia	<input type="text"/>
N2	Total sales to related companies outside Malaysia	<input type="text"/>
N3	Total purchases from related companies in Malaysia	<input type="text"/>
N4	Total purchases from related companies outside Malaysia	<input type="text"/>
N5	Other payments to related companies in Malaysia	<input type="text"/>
N6	Other payments to related companies outside Malaysia	<input type="text"/>
N7	Loans to related companies in Malaysia	<input type="text"/>
N8	Loans to related companies outside Malaysia	<input type="text"/>
N9	Loans from related companies in Malaysia	<input type="text"/>
N10	Loans from related companies outside Malaysia	<input type="text"/>
N11	Receipts from related companies in Malaysia	<input type="text"/>
N12	Receipts from related companies outside Malaysia	<input type="text"/>

Name of Company:

C

PART P: PARTICULARS OF COMPANY

- P1** Status of company
(Enter 'X' in the relevant box)
- | | | | | | |
|--------------------------------------|---|--|--|---|---|
| <input type="checkbox"/> BioNexus | <input type="checkbox"/> Real Property | <input type="checkbox"/> Venture Capital | <input type="checkbox"/> Closed-end Fund | <input type="checkbox"/> Operational Headquarters | <input type="checkbox"/> Investment Holding |
| <input type="checkbox"/> Institution | <input type="checkbox"/> International Procurement Centre | <input type="checkbox"/> Foreign Fund Management | <input type="checkbox"/> Malaysian International Trade | <input type="checkbox"/> Regional Distribution Centre | <input type="checkbox"/> Others |
- MSC Public Controlled Charitable Organisation

P2 Registered address

Postcode Town

State

P3 Telephone no. of business premise

P4 Correspondence address

Postcode Town

State

P5 Address of business premise

Postcode Town

State

P6 Website / Blog address

P7 Name of bank

P8 Bank account no.

P9 Address where company's records are kept
(Enter 'X' in the relevant box)

Address as per P2 Address as per P4 Address as per P5

Name of Company:

C

P10 Other address if P9 does not apply

<input type="text"/>
<input type="text"/>
<input type="text"/>

Postcode	<input type="text"/>	Town	<input type="text"/>
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State	<input type="text"/>
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P11 Directors' Name

Director I	<input type="text"/>
Director II	<input type="text"/>
Director III	<input type="text"/>

P12 Directors' identity card / passport no.

Director I	<input type="text"/>
Director II	<input type="text"/>
Director III	<input type="text"/>

P13 Directors' telephone no.

<input type="text"/>
<input type="text"/>
<input type="text"/>

P14 Directors' income tax no.

Director I	SG / OG	<input type="text"/>
Director II	SG / OG	<input type="text"/>
Director III	SG / OG	<input type="text"/>

P15 Directors' equity shareholding (%)

<input type="text"/>
<input type="text"/>
<input type="text"/>

P16 Directors' salary / bonus

Director I	<input type="text"/>
Director II	<input type="text"/>
Director III	<input type="text"/>

P17 Directors' fee / commission / allowance

<input type="text"/>
<input type="text"/>
<input type="text"/>

Name of Company:

C

PART Q: PARTICULARS OF FIVE MAJOR SHAREHOLDERS OF CONTROLLED COMPANY

Q1	Identity Card / Passport / Company Registration No. <input type="text"/>
Name	<input type="text"/> <input type="text"/>
Direct shareholding (%)	<input type="text"/> . <input type="text"/>
Country of origin (Use the Country Code)	<input type="text"/>
Q2	Identity Card / Passport / Company Registration No. <input type="text"/>
Name	<input type="text"/> <input type="text"/>
Direct shareholding (%)	<input type="text"/> . <input type="text"/>
Country of origin (Use the Country Code)	<input type="text"/>
Q3	Identity Card / Passport / Company Registration No. <input type="text"/>
Name	<input type="text"/> <input type="text"/>
Direct shareholding (%)	<input type="text"/> . <input type="text"/>
Country of origin (Use the Country Code)	<input type="text"/>
Q4	Identity Card / Passport / Company Registration No. <input type="text"/>
Name	<input type="text"/> <input type="text"/>
Direct shareholding (%)	<input type="text"/> . <input type="text"/>
Country of origin (Use the Country Code)	<input type="text"/>
Q5	Identity Card / Passport / Company Registration No. <input type="text"/>
Name	<input type="text"/> <input type="text"/>
Direct shareholding (%)	<input type="text"/> . <input type="text"/>
Country of origin (Use the Country Code)	<input type="text"/>

FOR REFERENCE ONLY

Name of Company:

C

PART R: OTHER PARTICULARS

R1 Foreign equity in comparison with paid-up capital: (Enter 'X' in the relevant box)

70% - 100% 51% - 69% 20% - 50% ≤ 19% NIL

R2 Advance Ruling: (Enter 'X' in the relevant box)

R2a Advance Ruling Yes No **R2b** Compliance with Advance Ruling Yes No
(To be completed if R2a = 'Yes')

R2c Material difference in arrangement Yes No
(To be completed if R2a = 'Yes')

R3 Advance Pricing Arrangement: (Enter 'X' in the relevant box)

R3a Advance Pricing Arrangement Yes No **R3b** Compliance with Advance Pricing Arrangement Yes No
(To be completed if R3a = 'Yes')

R3c Material difference in arrangement Yes No
(To be completed if R3a = 'Yes')

PART S: PARTICULARS OF AUDITOR

S1 Name of firm

S2 Address of firm

Postcode Town

State

S3 Telephone no.

FOR REFERENCE ONLY

Name of Company:

C

PART T: PARTICULARS OF THE FIRM AND SIGNATURE OF THE PERSON WHO COMPLETES THIS RETURN FORM

T1 Name of firm

T2 Address of firm

Postcode Town

State

T3 Telephone no.

T4 Tax agent's approval no.

T5 Business registration no.

T6 e-mail

Signature

Date

Day Month Year

DECLARATION

I

Identity Card No. / Passport No. *
(* Delete whichever is not relevant)

hereby declare that this return form contains information that is true, correct and complete pertaining to the income tax of the above company for the Year of Assessment 2011 as required under the Income Tax Act 1967.

Signature

Date

Day Month Year

Designation

REMITTANCE SLIP FOR FORM C



REMITTANCE SLIP
To: DIRECTOR GENERAL OF INLAND REVENUE

CP207 [Pin. 1/2011]

Enclosed herewith is the cheque/money order/postal order/bank draft for payment of income tax.

INCOME TAX NO.	PAYMENT CODE	INSTALMENT NO.	YEAR OF ASSESSMENT
	086	99	2011

Name and Postal Address	Amount of Payment RM	
	Reference No. (Registration No.)	
	Cheque No. and Others	
	Name of Bank	
	Telephone No.	
Date :		

REMITTANCE SLIP FOR FORM R



REMITTANCE SLIP
To: DIRECTOR GENERAL OF INLAND REVENUE

CP207 [Pin. 1/2011]

Enclosed herewith is the cheque/money order/postal order/bank draft for payment of income tax.

INCOME TAX NO.	PAYMENT CODE	INSTALMENT NO.	YEAR OF ASSESSMENT
	151	99	2011

Name and Postal Address	Amount of Payment RM	
	Reference No. (Registration No.)	
	Cheque No. and Others	
	Name of Bank	
	Telephone No.	
Date :		

**MALAYSIAN INCOME TAX
Remittance Slip**

1. Payment can be made as follows:
 - 1.1 Bank
 - Counters of **CIMB Bank Berhad (CIMB)**, **Public Bank Berhad (PBB)**, **Malayan Banking Berhad (Maybank)**, **EON Bank** and **Affin Bank Berhad (ABB)** by using the bank payment slip.
 - **PBB, Maybank, EON Bank, Citibank** internet banking and **Maybank** phone banking.
 - Auto Teller Machine (ATM) of **PBB** and **Maybank**.
 - 1.2 LHDNM
 - **e-Payment** through FPX (Financial Process Exchange) at LHDNM website. <http://www.hasil.gov.my>
 - Payment counters of LHDNM or by mail:
 - Cheques, money orders and bank drafts must be crossed and made payable to the **Director General of Inland Revenue**. Use the Remittance Slip (CP501) when making payment.
 - 1.3 Pos Malaysia Berhad - counter and Pos Online

	Postal Address	Payment Counter
PENINSULAR MALAYSIA	Lembaga Hasil Dalam Negeri Malaysia Cawangan Pungutan, Tingkat 15, Blok 8A Kompleks Bangunan Kerajaan, Jalan Duta Karung Berkunci 11061 50990 Kuala Lumpur	Tingkat Bawah, Blok 8A Kompleks Bangunan Kerajaan Jalan Duta Kuala Lumpur
SABAH & FT LABUAN	Lembaga Hasil Dalam Negeri Malaysia Cawangan Kota Kinabalu Wisma Hasil Jalan Tunku Abdul Rahman 88600 Kota Kinabalu	Tingkat Bawah Wisma Hasil Jalan Tunku Abdul Rahman Kota Kinabalu
SARAWAK	Lembaga Hasil Dalam Negeri Malaysia Cawangan Kuching Aras 17, Wisma Hasil No. 1, Jalan Padungan 93100 Kuching	Aras 1, Wisma Hasil No. 1, Jalan Padungan Kuching

2. Write down the **name, address, telephone number, income tax number, year of assessment and payment code** on the reverse side of the financial instrument.
3. Check the receipts/bank payment slips before leaving the payment counter.

**MALAYSIAN INCOME TAX
Remittance Slip**

2. Payment can be made as follows:
 - 1.1 Bank
 - Counters of **CIMB Bank Berhad (CIMB)**, **Public Bank Berhad (PBB)**, **Malayan Banking Berhad (Maybank)**, **EON Bank** and **Affin Bank Berhad (ABB)** by using the bank payment slip.
 - **PBB, Maybank, EON Bank, Citibank** internet banking and **Maybank** phone banking.
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	Postal Address	Payment Counter
PENINSULAR MALAYSIA	Lembaga Hasil Dalam Negeri Malaysia Cawangan Pungutan, Tingkat 15, Blok 8A Kompleks Bangunan Kerajaan, Jalan Duta Karung Berkunci 11061 50990 Kuala Lumpur	Tingkat Bawah, Blok 8A Kompleks Bangunan Kerajaan Jalan Duta Kuala Lumpur
SABAH & FT LABUAN	Lembaga Hasil Dalam Negeri Malaysia Cawangan Kota Kinabalu Wisma Hasil Jalan Tunku Abdul Rahman 88600 Kota Kinabalu	Tingkat Bawah Wisma Hasil Jalan Tunku Abdul Rahman Kota Kinabalu
SARAWAK	Lembaga Hasil Dalam Negeri Malaysia Cawangan Kuching Aras 17, Wisma Hasil No. 1, Jalan Padungan 93100 Kuching	Aras 1, Wisma Hasil No. 1, Jalan Padungan Kuching

2. Write down the **name, address, telephone number, income tax number, year of assessment and payment code** on the reverse side of the financial instrument.
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