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## TAX NON-COMPLIANCE AMONGST INDIVIDUAL TAXPAYERS IN MALAYSIA

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**Harisai Anil Kumar Doshi**

Research Scholar | Author  
Asia Pacific University

**Kavitha A/P Arunasalam**

Research Editor | Co-Author

Asia Pacific University, School of Accounting and Finance

### ABSTRACT

The self-assessment system has been implemented by the Inland Revenue Board to promote voluntary tax compliance. In this instance, tax payers are expected to be well versed with the existing tax laws and provisions. Tax payers are answerable to the tax authorities in the case of tax audit. It is at this point where the researcher critically ventures into an analysis and evaluation using a literature review approach pertaining what tax non-compliance is and the factors on tax non-compliance amongst individual tax-payers in Malaysia. This explanation is supported with a justification that features theories and models.

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## 1.0 Introduction

According to Abdul (2001), in **1947**, during British colonial rule and influence, the **Federation of Malaya** was introduced with **British Modern Tax System**- where Income tax ordinances 1947, 1956 and 1960 were introduced in Malaya, Sabah and Sarawak respectively. However, in 1967, these ordinances were revoked and replaced by **Income Tax Act (ITA 1967)** - governing all aspects of income tax throughout Malaysia from year assessment (YA) 1968 till date.

In Malaysia, the Ministry of Finance is responsible for the supervision of tax administration. However, in March 1996, according to 3E Accounting Firm Malaysia (2018), **Inland Revenue Board of Malaysia (IRBM)**, formerly known as Inland Revenue Department of Malaysia was established as a government agency in accordance to **IRBM Act 1995** –for enforcing, assessing, administrating and collecting direct (income) taxes in Malaysia according to ITA 1967. However, just like other tax collecting agencies, IRBM struggles to deal with income tax non-compliance.

The income tax in Malaysia was accessed according to **“Official Assessment System” (OAS)** from 1947 to 2000- where taxpayers were required to merely disclose necessary information for IRB to correctly access their tax liability. (Abdul, 2001) However, OAS developed several undesirable and unsatisfactory deficiencies causing it to be replace by **Self-Assessment System (SAS)**- between 2001 to 2004.

The SAS requires taxpayers to hold the responsibility of computing taxable income and assessing tax liability following a **“do-it-yourself” process**- to increase tax compliance and assessment processing.

## 2.0 Tax Non-Compliance- Critically discussed

According to Hoang (2013), Tax is a levy imposed by the government on individuals and corporations as mandatory financial charge that requires compulsory contribution to help finance government activities such as providing public goods and services like health care, education, defense, and welfare services.

Tax can be divided into ‘**direct tax**’- which is imposed directly on income, wealth and profits earned- such as income and inheritance tax; and ‘**indirect tax**’- which is imposed indirectly on spending, such as Goods and Service Tax (GST). This report concentrates on (direct) income tax.

In Malaysia, despite tax being a mandatory charge and enforcements of the IRBM on tax payments, there are still many individual taxpayers in Malaysia who opt the path of non-compliance. (Hoang, 2013)

Based on Abdul (2001), **Tax non-compliance** can be defined as failure to *intentionally* or *unintentionally* act in accordance with ITA 1967 in terms of disclosing correct amounts of tax to the IRBM at the stipulated period.

**Intentional non-compliance** depicts taxpayers specifically taking decisions and actions to oppose compliance being at the expense of being completely aware about tax system and its non-compliance risks. It can take place in two forms namely ‘**tax evasion**’ and ‘**tax avoidance**’ where both are performed on the basis of manipulating personal affairs to reduce tax liability. The only difference is its legality- where ‘tax avoidance’ is performed legally by avoiding tax liability out of ingenuity using the law. For example by using loopholes in the tax regime and properly arranging affairs out of ingenuity to reduce tax liability whereas ‘tax evasion’ is performed illegally outside the law framework where taxpayers understate income and overstate deductions. Tax evasion can be further divided into ‘evasion with fraud’ and ‘evasion without fraud’. (Abdul, 2001)

In contrast, **unintentional non-compliance** is where taxpayer fails to report truly due to inadequate effort to ascertain tax obligation, complexities in tax regime, difficulties to deal with complex situation and ignorance to interpret tax provision. (Abdul, 2001)

### **3.0 Determinants of Non-Compliance**

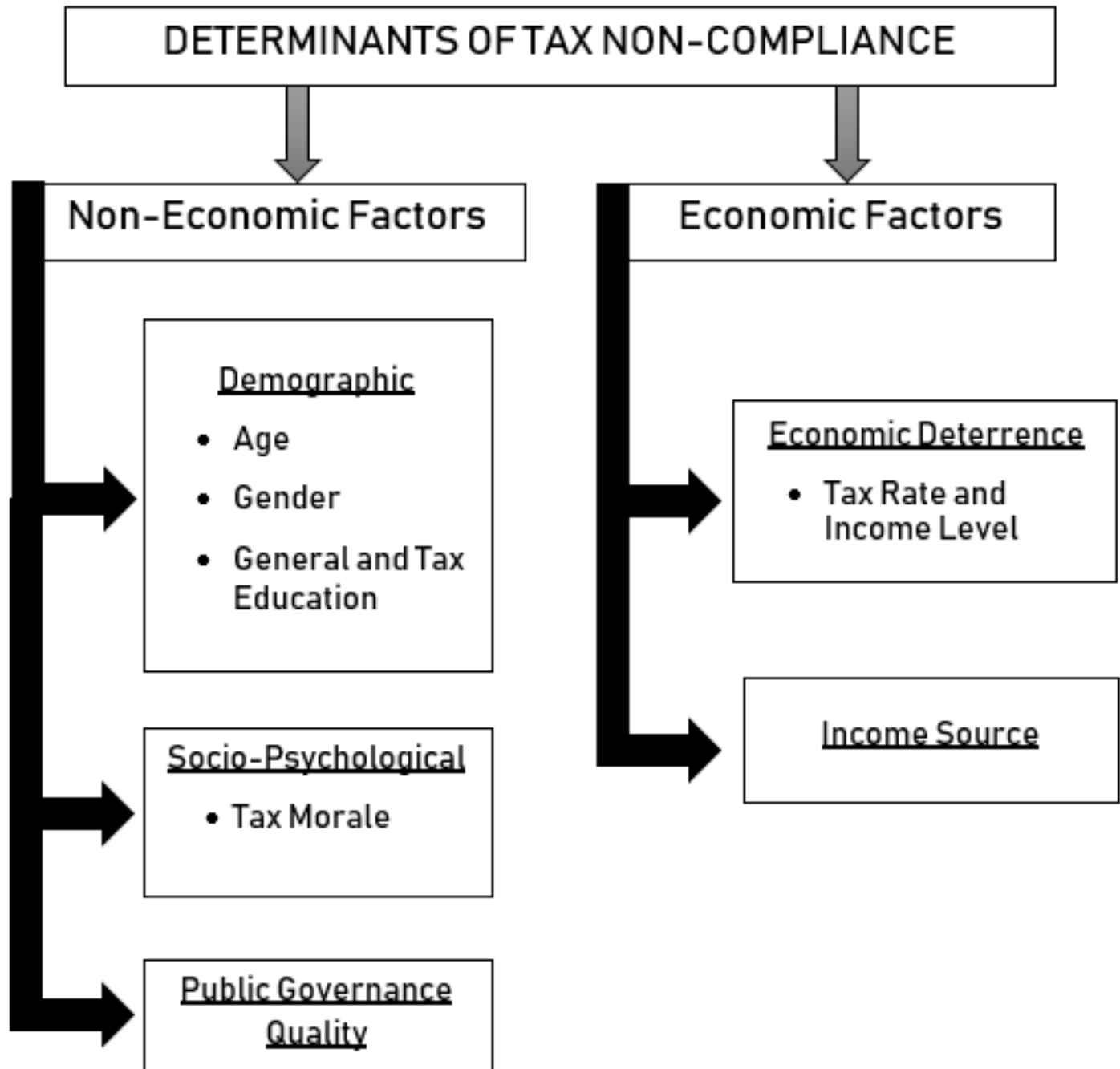
There are several factors that influence individual taxpayers in Malaysia to contribute towards opposing tax compliance. In this report, the factors can be divided into 'Non-Economic' and 'Economic' factors.

Non-economic factors can be further divided into 'demographic'- such as age, gender and general and tax education, 'socio psychological'- such as tax morale and 'public governance quality'.

In contrast, economic factors can be divided into 'economic deterrence' such as tax rate and income level and 'income source'.

Thus, the following paragraphs critically evaluate and justify as to why and how these factors become major determinants of tax non-compliance in Malaysia.

Exhibit 1.0: Determinants of Non-Compliance





## 4.0 Non-Economic Factors

### 4.1 Demographic Variables

#### 4.1.1 AGE

According to Abdul (2001), Pei Ching (2013), Richardson (2016), Khlif and Achek (2015), Pui Yee, Moorthy and Choo Keng Soon (2017) and Chau and Leong (2009), there is a negative relationship between age and tax non-compliance-where compliance increases with age, leaving younger individuals to be victims of opposing tax liability. This is because-:

First, **opportunity and income source**. Younger individuals, regardless of being a sole proprietor or an employee are passionate to increase their earnings than older people. So, they possess opportunities to discretely perform second-job (part-time) in addition to their regular employment, without their employer's knowledge. This essence of moonlighting eliminates the second income to be included under tax computation and escapes tax withholding, allowing younger groups to control their income. There is no fear performing this tax crime as the second income value is too small to be detected and often its occurrence is omitted. However, opportunity to evade increases if income source increases. (Pei Ching, 2013)

Second, **lifecycle variation**. According to Abdul (2001), Pei Ching (2013), Richardson (2016), Khlif and Achek (2015), younger people are on an imperative phase of life where accumulating assets and increasing income are vital priorities towards their aim of becoming wealthier. Thus, they are willing to take risk by opposing tax regime. This increases tax aversion diminishing their familiarity with tax system. Thus, they tend to underestimate risks of non-compliance by underreporting income or overstating deduction when they can reduce tax liability out of ingenuity, by systematic arrangement of affairs. This makes them prone to sanctions, penalties and imprisonment under the Income Tax Act 1967. (Abdul, 2001)

Third, **generation differences** depicts on age gap that separates the young from their parents and grandparents in terms of values, beliefs, opinions, attitude and behavior. The variation in these socio psychological traits reflect changes in upbringing circumstances where the young today experiences comparatively lower sense of belonging towards community during childhood and are less socialistic, than old. Based on Abdul (2001) and Pei Ching (2013), this reduces their indirect education in human values and socialism- increasing possibilities to perform illegal and fraudulent actions like tax evasion –making them vulnerable to punishments.

In contrast, age and non-compliance display no relationship says Kong and Wang (2014) and Richardson (2016). This is because individuals of different age groups design their lifestyles according to their personal norms which showcase their preferred way of thinking and behaving. However, the law affects different norms differently, making each individual to generate non-identical views towards tax non-compliance. Some ages may view income level, employment and income received in salaries as opportunities to evade, whereas some may not.

In my opinion, age and non-compliance have an inverse and linear relationship. This is because age brings you through different stages of life where young may evade to increase earning and old may oppose evasion due to more respect for government and authority. However, youngsters can be risk averse after facing punishments while the old obtaining greater understanding of tax regime may find loopholes to evade tax.

## 4.1.2 GENDER

According to Abdul (2001), Pei Ching (2013), Richardson (2016), Khlif and Achek (2015), Chau and Leong (2009) and Kong and Wang (2014), typically men are perceived to undertake greater responsibilities in terms of supporting family and taking imperative decisions- where this authority is passed to every other male in the lineage. However, in this modern era of gender equality, both men and woman are seen capable of earning and raising their families- and so fairly computing their taxable income, but some still opt the path of non-compliance.

Men oppose compliance than woman. The reason being:-

First, **lifestyle variation**. The upbringing of a female is carried out in a conservative manner where parents take great responsibility in supervising and monitoring their child's personal development. This shapes female's attitude, values and beliefs according to socially accepted norms- morally improving their behavior towards right and wrong. So, this reduces their tendency towards opposing tax liability as woman perceive consequences of tax evasion such as sanctions and penalties, much seriously than men. This is because they view tax compliance as a tax-declaring situation rather than a game. (Abdul, 2001) and (Pei Ching, 2013)

Second, **legality**. In Malaysia, despite the essence of gender equality, at many instances, men are still seen as more competent individuals than woman, in terms of being bread winners to sustain livelihoods. This displays the importance of their gender role for family and society- which requires continuous commitment and dedication. However, Abdul (2001) and Pei Ching (2013) this can become a burden at the expense of personal freedom forcing men to hunt opportunities that can increase their disposable income. So, (Chau and Leong, 2009 supported by saying that men tend to perform illegal activities such as opposing tax compliance, for example, by joining non-withholding professions, declaring less income, recording dummy salaries and overstating deductions- all made possible by their anti-authoritarian attitude.

The reasons above are outcomes of traditional and uneducated men and woman towards tax non-compliance during '*old times*', whereas reasons below are according '*modern times*'.

Third, **degree qualification and generation transformation.** Females without degrees display greater obedience to tax law than males (as explained above) whereas females with degrees are more lenient towards tax crime than males. (Chau and Leong, 2009)

This means, non-compliance increases as females become more literate and significantly decreases with educated males. This is because of new generation; where in this modern era, females are raised in non-traditional environment escaping orthodox culture. This shapes their attitudes, values and beliefs according to modern norms that are logical and practical in nature- giving them the opportunity to be literate.

Thus, Abdul, (2001) and Pei Ching (2013) supports dictating that this creates ambitious woman of passion, high independence, and self-confidence whom are often seen working and accumulating income and equally being exposed to opportunities of tax evasion- placing higher weightage on evasion benefits than risks. This narrows compliance gap between educated woman and uneducated men.

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### 4.1.3 EDUCATION- General and Tax Education

Taxation is one of the many sophisticated variables studied under general education at basic level. Any further tax studies requires advanced tax education. Thus, both general and tax educated people learn taxation. The difference is the depth of tax studies. So, in this context, those educated basic and below are termed ‘generally educated’ and those exposed to advance tax learning are termed ‘highly educated’. (Abdul, 2001) and (Pei Ching, 2013)

Education and non-compliance are positively linked- where non-compliance increases with literacy levels.

First, **misusing knowledge**. According to Franzoni (1998), highly educated individuals thoroughly know every aspect of the tax regime, expertly understanding complexity of tax system, till it is seen lesser complex. So, instead of utilizing this knowledge to abide by the laws, they tend to detect and take advantage of areas like ‘allowable deductions’ – (where the law leniently assist taxpayers to significantly reduce their taxable income); and ambiguity areas to overstate deductions. Pei Ching (2013) supports by evaluating that his increases non-compliance as tax knowledge is used for finding loopholes and weaknesses in the tax system.

However, **Abdul** (2001) and Pei Ching (2013) says there is a negative relationship between education and non-compliance with lower education increasing non-compliance (vice versa).

First, **complexity**. Lower education makes tax system to appear more complex due to lesser understanding towards income tax rules and exemptions; because they are usually depicted using jargons and specific tax terminologies. So, taxpayers often misinterpret tax laws and policies- increasing opportunity to wrongly compute taxable income, unfinish annual return, play guessing games or ignore many tax laws not knowing it may be opposing compliance. (Mohamad, Radzuan and Hamid, 2017) This causes taxpayers to disagree over interpretation of fine points of law as it possesses high ambiguity that increases complexity and so non-compliance.

Second, **tax information**. Low educated people have satisfactory (not high) levels of tax knowledge and may not necessarily opt to learn advanced taxation to understand the complexity. So, they require more information about tax structure, legal language, regulations and tax forms layout to fairly and truly compute their taxable income. But, lack in these visible tax information increases non-compliance. Nevertheless, this is not a priority to entertain highly educated individuals as they are understanding enough to accept tax-compliance as an obligated contribution to government for improving economic welfare and redistributing of income. (Abdul, 2001), Hoang (2013) and (Pei Ching, 2013)

In my opinion, as education increases, people are smarter to find loopholes in the tax regime-making them efficient practices of non-compliance.

## 4.2 Socio Psychological Variables

### 4.2.1 TAX MORALE

According to Mohd Remali, Andull Rahim and Noorzila (2015), tax morale is the capacity and readiness of an individual intrinsic motivation to seek the morality in paying taxes- where they believe it is their obligation to contribute towards community's social and economic well-being. However, there are several psychological traits that design taxpayer's thoughts and perceptions which is ultimately influencing tax morale attitude towards non-compliance.

First, **perception of inequity in the fiscal system.** The internal satisfaction of taxpayers is given essential significance. So, taxpayers ensure their personal gain upon every action they perform. They prioritize their well-being before others. Thus, based on progressive taxation in Malaysia, taxpayers don't see profits for themselves and rather perceive government not utilizing tax revenues for right purposes. So, Mohd Remali<sup>1</sup>, Andull Rahim<sup>2</sup> and Noorzila, 2015 think that taxpayers perceive the tax system to be unfair and biased. This perception of unfairness reduces tax morale causing taxpayers to engage in tax non-compliance activities- as an action of self-defense against their perceptions of being victims of fiscal inequity.

Second, **social influence.** The social norms of a society heavily influences how a person shapes thoughts and perceptions- directly influencing their personal norms. Taxpayers brought up in cohesive communities tend to inherit high sense of belonging for all communities and positively value every individual regardless of their diversity. Thus, they are extremely concern for society's wellbeing and are prepared to oppose tax compliance if it benefits the society as a whole. This reduces tax morale at the expense of displaying unselfish concern- increasing possibilities of being charged with high penalties or sanctions. (Mohd Remali<sup>1</sup>, Andull Rahim<sup>2</sup> and Noorzila, 2015)

Third, **trust**. Taxpayers may have bad experiences with tax regimes, political system, national officers and public governance due to complexities, corruption and unfairness. This negatively influences their thoughts and perceptions towards these variables- instantly reducing their satisfaction and confidence towards the taxation system. They begin to distrust the fairness, reliability and importance of tax law- which indirectly distorts their attitude of tax morale. This becomes an opportunity to evade taxes in the name of mistrust. (Mohd Remali<sup>1</sup>, Andull Rahim<sup>2</sup> and Noorzila, 2015)

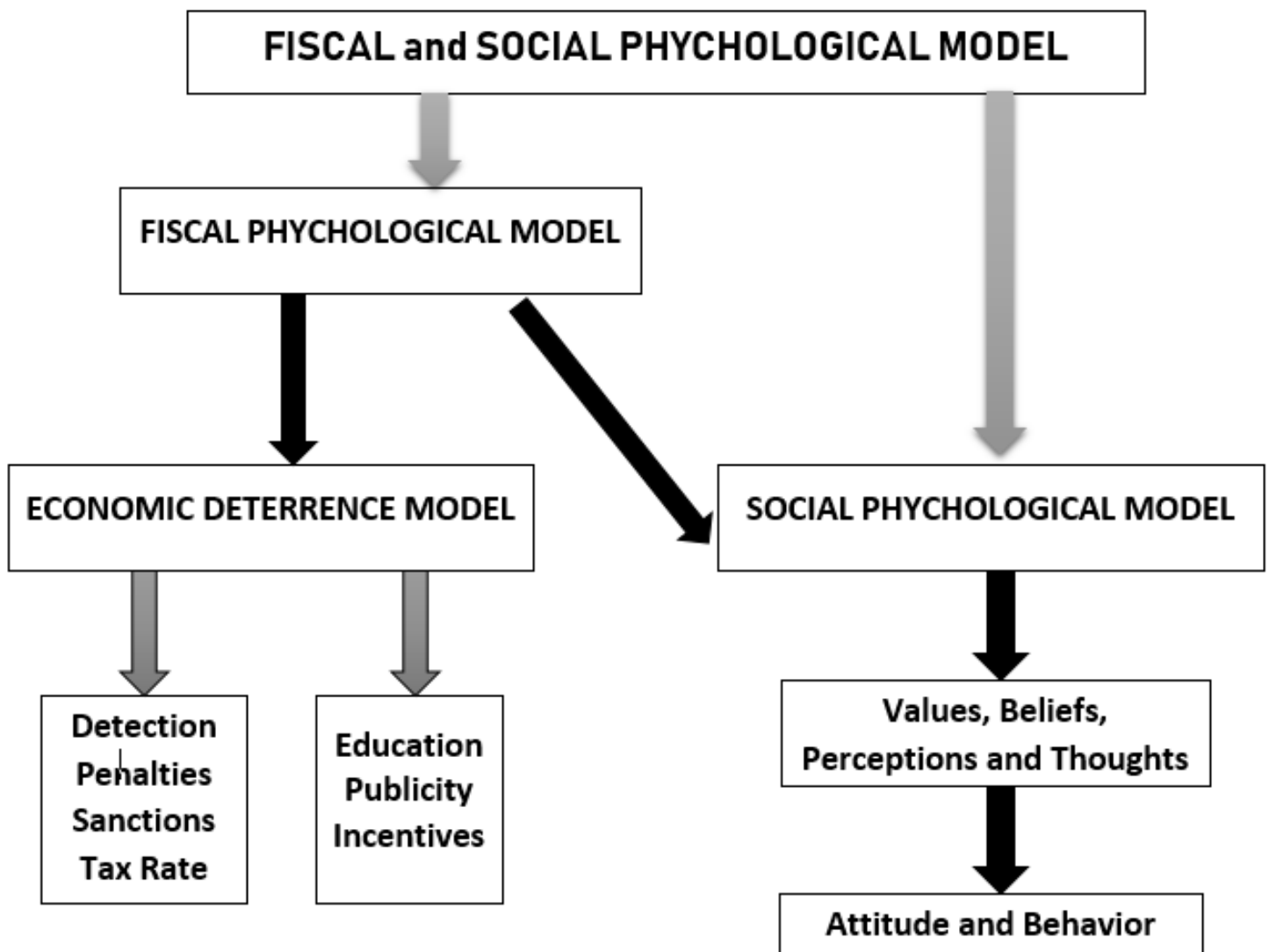
In my opinion, tax morale is an attitude that is heavily influenced by thoughts and perceptions- which are rather designed by taxpayer's external experience, perceived fairness, social influence, social norms and trust towards the tax system. If any of these variables are negatively encountered, it shall develop negative thoughts and perceptions towards tax -reducing faith of taxpayers towards tax morale- encouraging them to ignore moral values. It changes their attitude towards performing tax crimes. Thus, tax morale and non-compliance share a negative relationship.

Based on the research above, the negative relationship between tax morale and non-compliance can be further supported and justified using “**Fiscal and Social Psychology Model**” developed in 1960s. (Devos, 2014)

According to Devos (2014), Fiscal and Social Psychology model is a combination of two different models namely: ‘**Fiscal Psychology model**’-which merge ‘*economic deterrence model*’ and ‘*social psychological model*’ dictating that taxpayers don’t oppose compliance to maximize utility but are influence by myriads of attitudes developed from social norms; and “**Social Psychology Model**’- which connects how *attitude and behavior* is shaped by *values, beliefs and perceptions*.



## Exhibit 2.0: Fiscal and Social Psychological Model



## Tax Non-Compliance Among Individual Taxpayers In Malaysia (TAX)

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Based on the diagram above, Fiscal and Psychological model has two main divisions. However, only the **“Socio Psychological”** division shall be used- because the following paragraphs are on the motive of justifying how “tax morale” is negatively correlated with tax non-compliance.

According to the model, taxpayers are assumed to prioritize self-interest than community interests. So, they have lesser ‘willingness to co-operate’ with tax authority. (Devos, 2014)

Second, taxpayers perceive unfairness in public goods and services provided by government in return of their tax payments as it seems government fails to utilize tax revenue efficiently and effectively.

Third, social norms shape taxpayers perception and intentions that negatively influences tax morale attitude. (Devos, 2014)

Thus, according to Devos (2014), the evaluations of the model show clear evidence how self-interests, perceived unfairness and social norms distort tax morale attitude,- justifying “tax morale” is negatively correlated with tax non-compliance.

### 4.3 PUBLIC GOVERNANCE QUALITY

According to Pei Ching, (2013), there is a significant relationship between government and citizens where- citizens are main source of government's sustainability and government-a main source of citizen's welfare (exchange contract).

Thus, non-compliance increases with decreasing public governance quality. The reasons being:-

First, **trust in government**. Politicians exercising positions of governance negatively utilize their power in influencing members of society. This increases tax non-compliance because often politician's intentions are to take decisions according to their likings, interest and personal benefit rather than benefit of society.

Due to this, positions such as 'head of tax administration' are given to individuals who are willing to force tax authorities to conduct tax auditing in accordance to politician interests- as a pay back in return to what the politician may have done for them (such as making them the head). The essence of direct influence for personal gain displays great level of corruption- distorting government's image and quality as fair and transparent. (Pei Ching, 2013)

So, this form of politician's biasness reduces taxpayers trust towards their political leadership and government administration- indirectly encouraging them to indulge in tax non-compliance such as underreporting income; as revenge against unfair politicians. So, it is imperative for politicians to be trusted for tax compliance.

Second, **government spending**. The quality of public governance falls when taxpayers money is utilized wastefully on unimportant projects or it is not apportioned equally for activities improving social and economic welfare. Thus, based on Pei Ching, (2013), government is seen as a failure towards practicing its rectitude and unable to act in accordance of taxpayers interests- causing taxpayers to oppose compliance as they feel their tax contribution is not utilized in an effective and efficient manner.

Third, **tax system fairness**. The progressive tax system in Malaysia is seen (by high income earners) to play an unfair role as it charges high tax rates on higher incomes. Pei Ching, (2013), analyses that high income earners feel unfairly treated as they represent key contributors towards government tax revenue- thus perceiving it as a burden of earning higher and paying higher merely for economic and social wellbeing. An unfair tax system distorts public governance quality- showing how government, out of biasness, is not treating all income levels equally. This misconception decreases their trust and confidence in tax system reducing averseness towards tax-noncom compliance.

## **5.0 Economic Factors**

### **5.1 Economic Deterrence**

#### **5.1.1 TAX RATE and INCOME LEVEL**

According 3E Accounting Firm Malaysia (2018) and Income Tax Act 1967, the Malaysian income tax system follows a progressive income tax structure that dictates on applying progressive tax rates (ranging from 0% to 28%) on resident individual's chargeable income (starting from RM5,001 to exceeding 1 million) for computing gross tax payable.

The progressive system associates higher tax rates on higher chargeable income- which means high income groups pay higher percentage of tax compared to low income earners. (3E Accounting Firm Malaysia, 2018)

In Malaysia, the progressive tax rate is 'marginal' in nature where tax rate increases with every additional ringgit of income- explicitly showing how tax rate 'progresses' from low to high with increasing taxable amounts. (figures are according YA 2018) (3E Accounting Firm Malaysia, 2018)

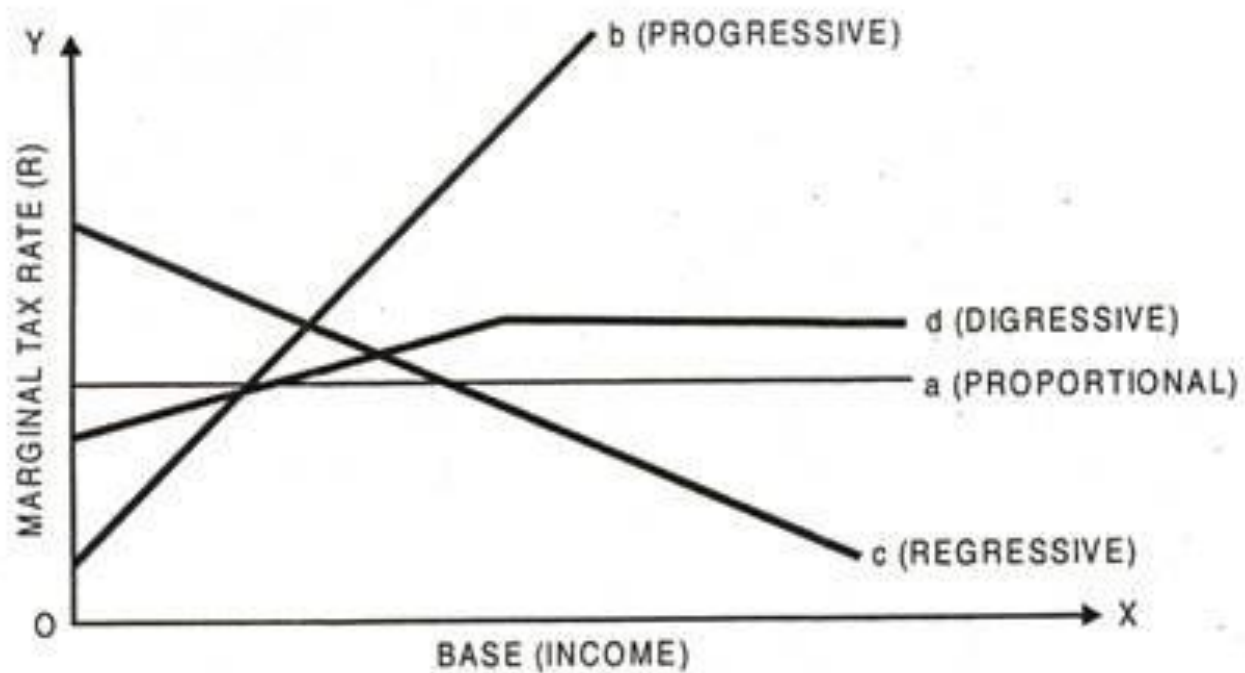
## Tax Non-Compliance Among Individual Taxpayers In Malaysia (TAX)

**Exhibit 3.0: Malaysian Personal Income Tax Rate**



Source: Tradingeconomics.com, 2018

**Exhibit 4.0: Progressive Taxation Economical Graph**



Source: Chand, 2018

# Tax Non-Compliance Among Individual Taxpayers In Malaysia (TAX)

Exhibit 5.0: Tax Rate for Malaysian Residents

## Tax rate for resident

	YA 2017		YA 2018	
Chargeable Income	Income Tax Rate (%)	Gross Tax Payable (RM)	Income Tax Rate (%)	Gross Tax Payable (RM)
On RM5,000 Next RM5,000	0 1	0 50	0 1	0 50
On RM10,000 Next RM10,000	— 1	50 100	— 1	50 100
On RM20,000 Next RM15,000	— 5	150 750	— 3	150 450
On RM35,000 Next RM15,000	— 10	900 1,500	— 8	600 1,200
On RM50,000 Next RM20,000	— 16	2,400 3,200	— 14	1,800 2,800
On RM70,000 Next RM30,000	— 21	5,600 6,300	— 21	4,600 6,300
On RM100,000 Next RM50,000	— 24	11,900 12,000	— 24	10,900 12,000
On RM150,000 Next RM100,000	— 24	23,900 24,000	— 24	22,900 24,000
On RM250,000 Next RM150,000	— 24.5	47,900 36,750	— 24.5	46,900 36,750
On RM400,000 Next RM200,000	— 25	84,650 50,000	— 25	83,650 50,000
On RM600,000 Next RM400,000	— 26	134,650 104,000	— 26	133,650 104,000
On RM1,000,000 Exceeding RM1,000,000	— 28	238,650	— 28	237,650

Source: 3E Accounting Firm Malaysia, 2018

Therefore, based on Pei Ching (2013), income level and tax rate are positively correlated and have a linear relationship with tax non-compliance. In this context, income level refers to the adjusted gross income (total gross income minus deductions).

There is a positive relationship where higher tax rates (higher income level) increases non-compliance (vice versa). (Pei Ching, 2013) The reason being:-

First, **diminishing usable income**. Despite deducting tax reliefs, high income earners still arrive at large figures of chargeable income that are prone to high tax rates- causing taxpayers to contribute higher proportion of their income for tax payments. This diminishes their disposable income- igniting realization that the income was not earned for tax donation, but for better lifestyle and personal gain. Thus, they feel unfairly treated by tax system. So, high income earners develop a low risk averse attitude and opt the path of non-compliance because it appears more profitable to illegally claim the amount they deserve than turning it into government revenue. (Pei Ching, 2013) and (Kong and Wang, 2014)

Second, **tax burden**. There are many taxpayers addressed as authoritarian members of society who fairly and morally comply with tax regime. However, as tax rates increase due to their rising income, tax liability becomes a burden as their compliance attitude forces them to pay higher taxes incurred when others omit tax obligations. To reduce the burden, they oppose compliance at the expense of non-compliance risks because their personal gain exceeds evasion costs- where they see higher benefits of successful evasion than risks of detection and punishment.



Third, **education as an opportunity**. In Malaysia, high tax rate means high income levels- depicting high income earners. According to Pei Ching (2013), high incomes are generally earned out of professional occupations that require significant levels of education- implying how high income earners are educated and intellectually inclined. However, this trait is seen as an opportunity for finding loopholes in taxation system, overstating deductions and arranging affairs systematically, at the expense of audit lottery, to exempt chargeable income from high tax rate- so that taxpayers can receive greater ringgit return. This is possible because 'high tax rate' is seen as a motivation to evade.

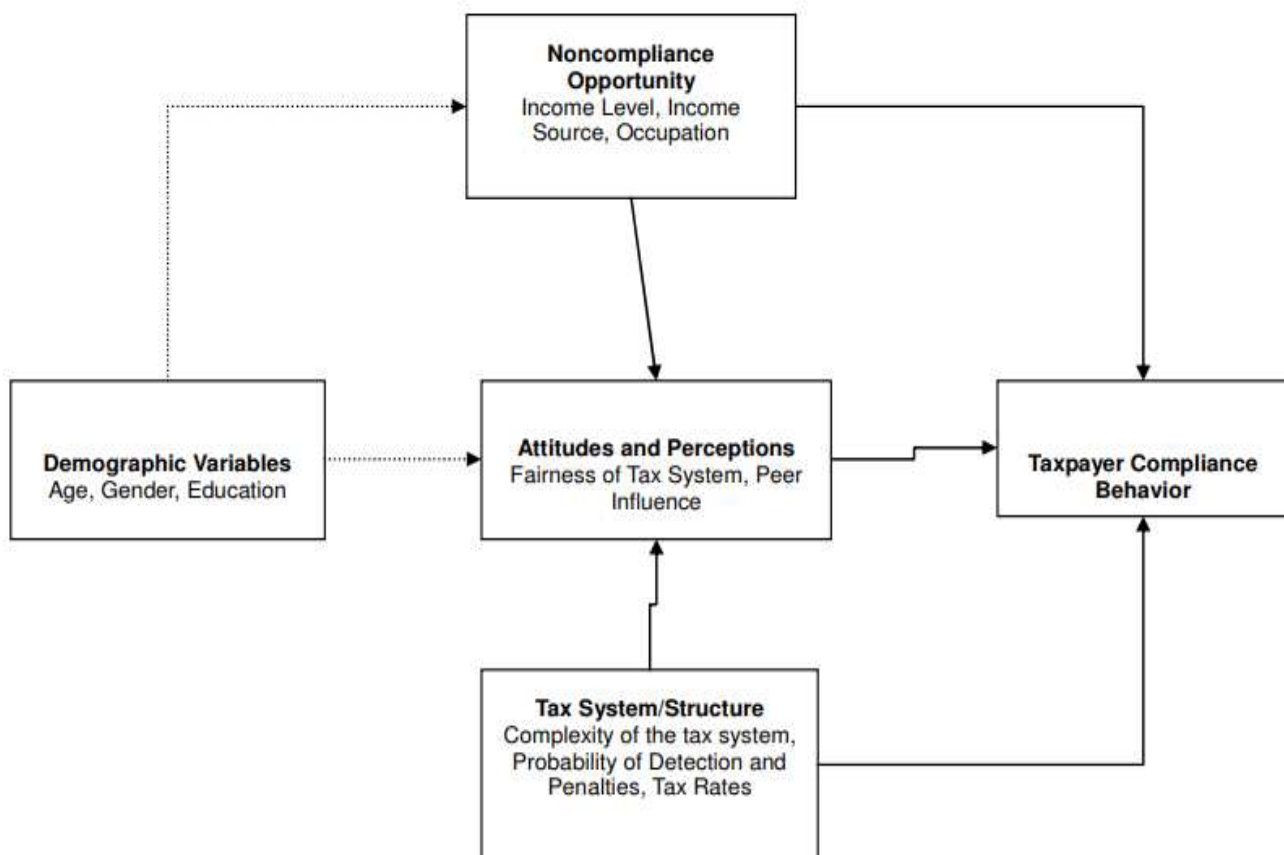
Lower tax rates (lower income level) reduces non-compliance. The reason being:-

Fourth, **economic deterrence**. Pei Ching (2013) was supported by Devos (2014) dictating that low income earners benefit from lower tax rates following the progressive system. However, they may oppose compliance to maximize their utility, knowing their total income is already very low and will get lower after paying taxes. However, they fear committing tax crimes due to the imposition of deterrence factors such as punishments, sanctions, high penalty rates and greater probabilities of tax audit and detection from tax authority- where any illegal act may incur them additional costs such as high fines; further reducing disposable income. This is possible because all deterrence factors on tax regime carry high possibilities of faith and audit.

Based on the research above, the positive relationship between tax rate and non-compliance can be further supported and justified using “**Fischer Tax Compliance Model**”. (Chau and Leong, 2009)

The Fischer Model as illustrated by Chau and Leong (2009) in their journal, was incorporated and developed in 1992, by Fischer and associates who carried out the responsibility of categorizing 14 key determinants- positively and negatively affecting tax compliance, into 4 groups, namely: “demographic variables”, “non-compliance opportunities”, “attitude and perceptions” and “tax system or structure”. The 14 factors were derived from Jackson and Milliron’s 1986 comprehensive literature review on tax compliance. Thus, this eventually formed the basis of an expanded model- known as the Fischer Model.

### Exhibit 6.0: Fischer Tax Compliance Model



**Figure 1.** Fisher et al. (1992) tax compliance model.

Source: Chau and Leong (2009)

Based on the diagram above, Fischer Model consists of 4 divisions. However, only **“Tax System/Structure”** and **“Non-compliance Opportunity”** divisions shall be used- because the following paragraphs are on the motive of justifying how” tax rates and income levels” are positively correlated with tax non-compliance (the research above). (Chau and Leong, 2009)

According to Fischer model, tax rate depends on the type of tax structure a country uses. Malaysia uses a progressive taxation system where tax rate increases with income levels. Thus, the model dictates that tax rate and income level are positively correlated with tax non-compliance. This is because high income earners are charged higher tax rate where higher percentage of their taxable income is apportioned towards tax payments. This reduces their disposable income- igniting greater motivation to be aggressive in tax reporting. In contrast, Fischer model preaches that, if lower tax rates were charged on high incomes, there would be significantly lesser motivation to oppose compliance- as lower proportion of taxpayers income would be contributed towards government revenue. (Chau and Leong, 2009)

Thus, based on Chau and Leong ( 2009) comprehensive research, the Fischer model explicitly justifies how tax rates and income level contribute towards encouraging tax non-compliance amongst individual taxpayers in Malaysia.

### 5.2 INCOME SOURCE

Abdul (2001) evaluates in his journal that there is a direct relationship between income source and non-compliance- depicting how rising income sources develop higher possibilities of non-compliance (vice versa). However, this depends on the types of income source.

First, **non-withholding source**. Unlike wages and salaries that are subjected to withholding tax, income that come from non-withholding backgrounds such as cash transactions, underground economy, and independent trades showcase higher non-compliance. This is because the employers (payers) carry no reporting and withholding obligation; leaving the income at the hands of taxpayers-who are at the exposure and freedom to indulge in illegal activities. Thus, taxpayers see this as opportunity to omit their additional incomes from tax computation to reduce their taxable income and benefit from lower tax rates. There is no fear in omitting due to its value being too small to be detected and its occurrence is often unobserved during tax audit. (Abdul, 2001)

Second, **employment source**. Income derived from self-employment shows very low voluntary reporting percentages- low percentage of true income reporting without any enforcement action. This was supported by Richardson (2016) that it is because, a sole trader is rather conservative towards tax enforcements and by being sole owner of his business, he escapes all aspects of withholding making his income open to deductions. This becomes perfect evasion opportunity where sole proprietors overstate deductions to reduce tax liability- increasing disparity between voluntary reporting compliance and self-employment income source.

Third, **misreporting income source**. Malaysia follows a progressive tax system. So, increasing income sources encourages taxpayers to perform declaration of income out of ingenuity where proportion of 'higher taxed capital income' is declared to be earned from 'lower taxed labour source'. This makes sources of income open to smart misreporting which encourages evasion as it portrays a negligible offence by fully but not truly reporting every ringgit of income earned. (Abdul, 2001)

### **CONCLUSION**

In a nutshell, despite the SAS in Malaysia, individual taxpayers still contribute to non-compliance. However, it is important to note that all these determinants of tax non-compliance are interrelated and are thus influencing each other in several ways which makes the individual to oppose compliance.

This, all the determinants are interdependent and tax-non-compliance being an independent variable. In this analytical report, all the factors such as age, gender, education, tax morale, public governance quality, tax rate, and income level and income source have positive and negative relationship and are explicitly explain how they contribute to taxpayers' non-compliance behavior.

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# NOTES

