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A Study on Tax Non-Compliance among Government Servants

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ABSTRACT

Tax non-compliance among tax payers may have an impact on the collection of tax revenue. In other words, the revenue collected may not represent the number of tax payers. The objectives of this study are to investigate the relationship between demographic factors and tax non-compliance, to analyze the attitude of tax non-compliance among individual taxpayer and to explore the reasons of non-compliance. A structured questionnaire consisted of 29 closed-ended question were posted to 200 respondents who worked in the Institutions of Higher Learning, Government Link Company and State-owned Company. The results found that single person, middle income earners, highly educated and respondents from State Owned Company are more tax-compliance compared to respondents who are married, lower and higher income earners, lower education and working other than state-owned company. The main reason given for non-compliance is the amount of taxes to be paid is considered to be too high.

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INTRODUCTION

Individual taxpayers in Malaysia paid their tax using Self-Assessment System (SAS). This system was introduced in 2004 and has been operational for almost nine years. The tax authority, Inland Revenue Board (IRB) of Malaysia only relies on taxpayers' honesty during their completion of the tax returned. Therefore, tax compliance is important for all taxpayers. Tax compliance can be defined as the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. In other words, it can be defined as the extent to which economic agents pay the taxes that their government has levied. James and Alley (2004) described tax compliance as the extent to which taxpayers comply with the tax law.

In contrast, tax non-compliance is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally. In other words, it can be said as the opposite action or behavior from tax compliance. Tax non-compliance can be further divided into two categories that are tax avoidance and tax evasion. According to Mohani (2001), one common characteristic of tax evasion and tax avoidance is the manipulation of a person's affairs to reduce tax liability. Tax avoidance can be defined as the manipulation of personal affairs done within the law, while tax evasion is done illegally. However, this study focuses on both types of tax non-compliance.

Individual Income Tax in Malaysia:

Figure 1 shows that individual income tax is increasing yearly since the adoption of self-assessment system (SAS) in 2004. The annual individual income tax in 2004 was RM9470.66 million. This amount has increased up to RM10222.92 million in 2005 where it shows the increment of 752.26 million (Annual report Inland Revenue Board). The highest increments is in 2007 which is RM2754.34 million compare to the previous year,

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RM1182.53. This scenario shows that many individuals do pay their income tax or in other words there is compliance in paying of individuals' income tax.

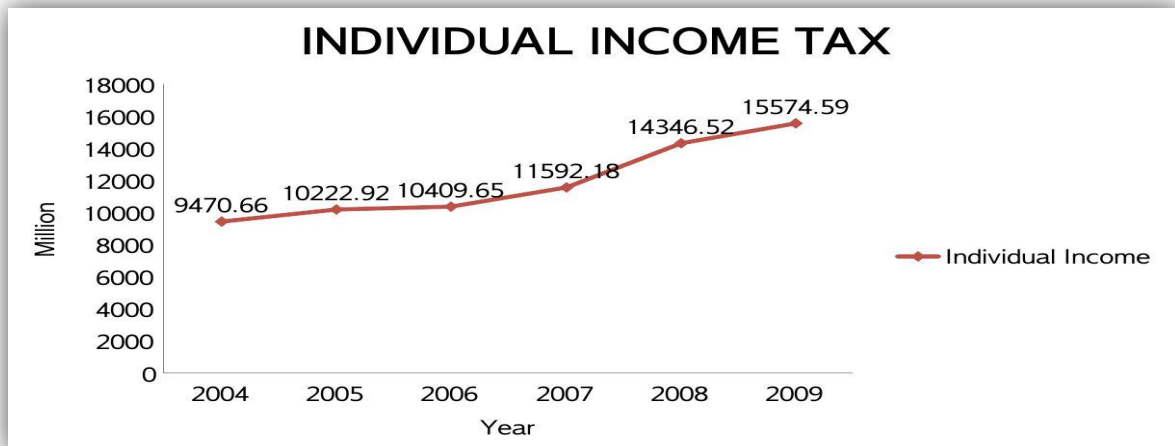


Fig. 1: Individual Income Tax.

Source: Annual report Inland Revenue Board.

Although, the individual income tax received by IRB has increased every year, there still exists non-compliance attitude among individual taxpayers. Figure 2 and Figure 3 show the Civil suit from 2006 to 2009. From these figures, it can be seen that the number of individual taxpayers that were not paying taxes is 6798 cases (RM171.94 million) in 2006 and increase to 8293 cases (RM157.57 million) in 2007. However, the number of cases decreased to 7030 (RM140.21 million) in 2008. In 2009, the individuals' cases of not paying tax increased to 9642 with the burden of tax amounted to RM193.01 million. This situation indicated that some of the individual taxpayers are not fully comply with tax. Therefore, it is the interest that we find out the reasons why.

The focus of this study is on the individual taxpayers who derived income from employment. According to SAS, all individual taxpayers must self-assessed and submit their income tax return every year before 30 April. IRB always notify taxpayers regarding this matter to ensure this system work efficiently. However, there are still a number of taxpayers who have not fully complied with the tax return. Therefore, the objectives of this study are; i) to investigate the relationship between demographic factors and non-compliance tax; to analyze the attitudes of tax non-compliance among individual taxpayer; and to explore the reasons of not complying with the tax return.

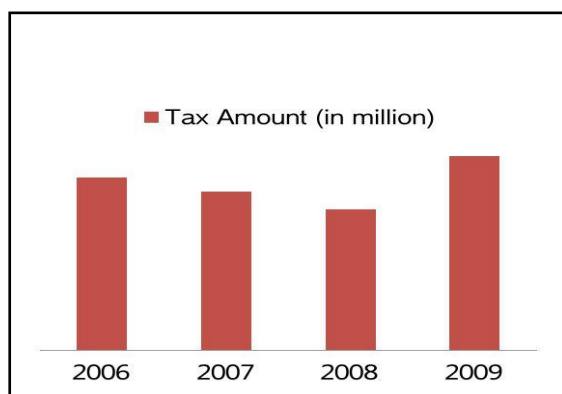


Fig. 2: Burden of Taxes.

Source: Annual report Inland Revenue Board.

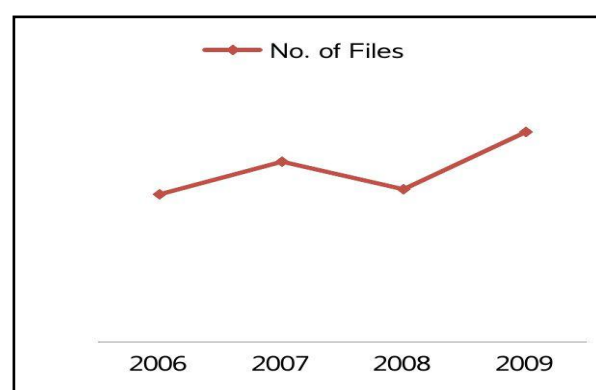


Fig. 3: Number of Individual Cases.

Previous studies:

Many previous researches examine the determinants or factors that affecting tax compliance and tax non-compliance attitude such as Schuetze (2002), Kasipillai and Hijatullah (2006), Ho *et al.* (2006), Lumumba *et al.* (2010), Palil (2010), Oh and Lim (2011) and Palil and Mustapha (2011). One of the major factors contributed to non-compliance attitude found by the researchers are demographic factor. This demographic factor was found to

have a significant relationship with tax compliance and also tax non-compliance. Study by previous researchers found that other demographic factors which are age, education, income and occupation are significant (Schuetze, 2002; Oh and Lim, 2011).

In another study conducted by Mustafa (2010) and Oh and Lim (2011) they found that gender is significant with the tax non-compliance and were accepted. This is consistent with the study by Kasipillai and Hijattullah (2006) where they found that both males and females having similar compliant attitudes.

Furthermore, previous study also found that tax compliant attitude also affected by tax knowledge (Palil, 2010). Although the level of the tax knowledge are different between each taxpayers, but this factors still contribute to the tax compliance behavior.

Table 1 shows the summary of the findings from the previous study on the relationship between demographic factor and income tax non-compliance. In terms of reasons why individual taxpayer do not comply with tax, study conducted by Ho *et al* (2006) found that, the reasons chose by respondents if individual taxpayer do not comply with tax is because the tax payable are too high. This follows with the second reasons where taxpayer's money are being misappropriated or spent on wasteful project.

Table 1: Summary of the findings from previous study.

Year	Authors	Key findings
2002	Schuetze	Female taxpayers were more compliant than males. On the other hand, the study reports that males were more compliant compared to females when a negatively framed message was used, and females were more compliant than males when a positively framed message was used.
2006	Ho <i>et al</i>	Significant difference with occupation, age and number of household
2006	Kasipillai and Hijattullah	Females were more compliance than males
2010 2010	Palil Mustafa	Females were more compliance Gender are significant with tax compliance, age, education and income are not significant.
2011	Richardson	Gender has no significant impact on compliance across 45 countries.
2011	Asante and Baba	Females were more compliance

Methodology:

The focus of this study is on the individual taxpayers who derived income from employment. Therefore, data for this study is taken by distributing the questionnaire among 200 government servants who worked in institutions of Higher Learning, State Owned Company and Government Link Company (GLC). Out of these, 49% are from higher learning institutions, 24% from State-owned Company and the remaining of 27% are from GLC. A convenience sampling method was used rather than a random sampling because it was considered much more likely to produce a real number of responses.

The questionnaire used in this study consists of three sections. Section A contains six questions regarding the demographic profile which are age, gender, type of sector, monthly income, marital status and academic qualification. Questions in section B was adopted from Kasipilai and Hijattullah (2006) and contains 15 statements regarding non-compliance attitude. In this section respondents must indicate their agreement by using seven-likert scale (1-perfectly acceptable and 7-totally unacceptable). In Section C, respondents were asked about the reasons of not complying with tax. The reasons in this section were adopted from Ho *et al*. (2006). Respondents must indicate whether they (1) strongly agree, (2) Agree, (3) Neither agree nor disagree, (4) Disagree and (5) strongly disagree with the reasons indicated in this section.

The descriptive analysis, independent sample t-test and analysis of variance were used to determine the relationship between demographic factor and tax non-compliance and to find out the reasons behind this.

RESULTS AND DISCUSSIONS

Demographic Profile:

Table 2 presents the demographic information, frequency and percentage of taxpayers who are involved in this study. From the table, it was found that 71% are female and the remaining is male. Majority of the respondents in this study are between age group of 31 to 45 which represents 52.5%. 19% respondents are more than 45 and the remaining 28.5% from the age group 25 to 30. The married respondents in this study are 73% which represents the majority of the respondents involved.

In terms of academic qualification, majority of the respondents are completed their diploma level which are 66.5%. With regards to the type of sector that respondents work, majority of them are from higher learning institutions which represent 49% while respondents from Government Link Company is 27% and the remaining is from State Owned Company. As for income level, 89% of respondents earn their income below RM5,000 and the remaining 11% earn their income which range from RM5001 to RM9000.

Reliability Analysis:

The cronbach alpha for all variable used in this study are above 0.8. This shows that the questionnaire is reliable. According to Hair *et al*. (2010) Cronbach's alpha values more than 0.7 would indicate that the items are

homogeneous and measuring the same constant. Meanwhile, Nunnally(1978) found that the very good score for Cronbach's alpha is over 0.8.

Table 2: Taxpayers Profile.

Demographic Information		Frequency	Percentage
Gender	Male	58	29.0
	Female	142	71.0
Total		200	100
Age	25 -30	57	28.5
	31-45	105	52.5
	46-55	32	16.0
	56-58	6	3.0
Total		200	100
Marital Status	Single	54	27
	Married	146	73
Total		200	100
Academic Qualification	Up to SPM	46	23.0
	STPM/ Certificate	21	10.5
	Diploma	57	28.5
	Degree	36	18.0
	Master/ Ph.D	40	20.0
Total		200	100
Type of Sector	Higher Learning Institutions	98	49.0
	Government Link Company	54	27.0
	State Owned Company	48	24.0
Total		200	100
Level of income	Below RM3000	89	44.5
	RM3001 -RM5000	89	44.5
	RM5001 – RM7000	21	10.5
	RM7001 – RM9000	1	0.5
Total		200	100

Findings:

Objective 1: to investigate the relationship between demographic factors and non-compliance tax:

Table 3 shows that four out of six factors that were used in this study are significant with the tax non-compliance. These four factors are marital status, academic qualification, type of sector and level of income. Gender and age have no significant relationship with tax non-compliance.

The result also found that respondents who are married (mean = 3.9416) are less complies compare with the single respondents (mean = 4.0420). This result is inconsistent with the study by Asante and Baba (2011) where they found that married respondents are more compliance compare to the unmarried respondents. Although the result is inconsistent, this situation may be because of the different respondent and culture where the current study was undertaken.

Information on academic qualification found that respondents who hold SPM are less comply with tax compare to respondents who hold STPM and above qualifications. This situation occurred may be because the respondents in this group are categorized as a lower income earner because their lower education. Besides, they may not entitle to pay the income tax or have no experience in the personal tax matter.

The result also shows that, respondents who worked at State Owned Company with mean 4.4347 is more comply with tax compare to respondents who worked at higher learning institutions (mean= 3.9633) and Government Link Company (mean= 3.5642). This finding is consistent with the study by Schuetze (2002) where the researcher found that the occupation is one of the factors that affected tax non-compliance among individual taxpayers.

Study by Johns and Slemrod (2008) found that the non-compliance tax is also affected by the income group. As for this study, respondents who earn income below RM 3000 (mean 3.5221) are less compliant compare to the respondents who earn income from RM3001 to RM7000. This situation may be due to the level of income that they got which are not qualified for them to pay tax. Respondents who earn high income which is from RM7001 to RM9000 (mean 3.4000) are also less compliant compare to the middle income earners. Study by Witte and Woodbury (1985) also found that middle income earners were more compliant compare to high and low income earners.

In summary, it can be said that tax non-compliance for employed individual taxpayers are influenced by demographic factor i.e.: marital status, academic qualification, type of sector and level of income. However, age and gender are not shows any significant different between taxpayers. These results are consistent with study by Richardson (2008).

Objective 2: To analyze the attitudes of tax non-compliance among individual taxpayer:

Table 4 shows the descriptive analysis on the attitude agreement regarding tax non-compliance. Respondents gave their agreement about the statement by using 7-likert scale that are (1) perfectly

acceptable;(2) Acceptable; (3)Slightly acceptable; (4)Neutral; (5) Slightly unacceptable ; (6) Unacceptable; and (7) Totally unacceptable. Mean and standard deviation for each statement in this study are shown in Table 4. From the result, it shows that S1,S6 and S12 are consistent with the study by Kasipilai *et.al*.(2006). Although study by Kasipillai *et.al* focusing northern area but for this three items, it shows that the mentality of the respondents for these items are same. For other statements, the result is different. This is may be because of the different nature of the study undertaken.

Table 3: Demographic Information and Tax Non-Compliance.

Demographic Information		Mean	Standard Deviation	Significant*
Gender	Male	3.7529	1.16392	0.192
	Female	4.0568	1.04037	
Age	25 -30	3.9696	0.86667	0.685
	31-45	3.9137	1.25599	
	46-55	4.1729	0.87200	
	56-58	3.8333	0.65963	
Marital Status	Single	4.0420	0.89389	0.050*
	Married	3.9416	1.14737	
Academic Qualification	Up to SPM	3.5812	1.38262	0.028*
	STPM/ Certificate	4.2571	0.76863	
	Diploma	3.9018	0.91626	
	Degree	4.0907	1.01908	
	Master/ Ph.D	4.2483	1.01094	
Type of sector	Higher Learning Institutions	3.9633	0.99193	0.000*
	Government Link Company	3.5642	1.33577	
	State Owned Company	4.4347	0.71999	
Level of income	Below RM3000	3.5221	1.19634	0.000*
	RM3001 -RM5000	4.3423	0.82353	
	RM5001 – RM7000	4.3048	0.86988	
	RM7001 – RM9000	3.4000	1.08353	

*significant at 5% level.

Table 4: Descriptive Analysis for Non-Compliance Attitude.

No	Statement	Mean	S.D
S1	If one is paid in cash for a job and then not reporting it in the tax return:	4.37	1.433
S2	Under SAS, a tax return by taxpayer will be accepted as notice of assessment. Consequently, it is not wrong to omit or understate your taxable income:	3.81	1.350
S3	The probability of being audited is so low that it is worthwhile to understate a little on your taxable income:	3.97	1.583
S4	It is all right to occasionally understate certain income or claim a disallowable expense if you are generally a law-abiding individual:	3.97	1.525
S5	Failing to declare some earnings from investments or commissions that the Inland Revenue Board would not be able to find out is:	4.23	1.416
S6	Income tax rates are just too high, so it is not really cheating when you interpret the rules a little to find ways to pay less than you are supposed to:	4.07	1.544
S7	When you know you deserve a deduction that you are not entitled for, it makes sense to replace it with some other deduction which IRB would not easily trace:	4.17	1.517
S8	Declaring your principal income fully, but intentionally not including part-time income is:	4.23	1.492
S9	It is not so wrong to understate some income since it does not really hurt anyone:	4.14	1.452
S10	Under the scheduler Monthly Tax Deduction Scheme(MTD), income tax is deducted monthly by the employer, hence, it is okay not to declare and pay anymore income tax:	3.90	1.400
S11	It is not so wrong to declare less on taxable income since the government spends too much on extravagant projects:	3.89	1.628
S12	As several businessmen pay no income taxes at all, if someone like you understate a little, it is not a big deal:	3.85	1.404
S13	With the high cost of goods and services these days, it is okay to claim more expenses to help make ends meet:	3.54	1.530
S14	Bartering goods with a friend and not reporting it on your tax return is:	3.63	1.308
S15	When you are not really sure whether or not an expense is allowable, it makes sense to claim the deduction anyway:	3.80	1.376

From this study, the result found that the most unacceptable attitude by the respondents is S1. This situation indicated that respondents agreed that any cash received from any job, the taxpayers must report it to IRB. The second unacceptable attitude is S8. From the statement, the result indicated that taxpayers must declare every income that they get whether it is from full time job or part time job. The attitude which is slightly acceptable by the respondents in this study is S13. This is may be because of the economic situation where they have to incurred high cost for every goods and services, so the respondents think that they can claim more expenses to help them make end meets.

In summary, the mean score of 1.00 – 2.33 shows that the taxpayers are less comply with tax. The score of 2.34 – 4.67 shows the respondents are moderately comply with tax and the score of 4.68 – 7.00 show that taxpayers are highly comply with the tax. Therefore, from the analysis the grand mean score for non-compliance

tax is 3.9687 out of 7.00. This situation indicated that it taxpayers in this study are moderately complying with the tax.

Objective 3: To explore the reasons of not complying with the tax return:

Table 5 shows eight possible reasons indicated by the respondents as themselves would likely not comply. Majority of the respondents agreed that the important reason why they will not comply with tax is if the amount of taxes to be paid is considered to be too high. Although the tax is one of major source of government revenue, the high tax will make the taxpayers feel that paying tax is a burden for them. Therefore they would not likely to comply with tax. This result is consistent with study by Ho *et. al* (2006).

The second important reason agreed by taxpayer is R7 "Others are getting more than their fair share of benefits financed out of taxpayers' money". This is followed with R3 "taxpayers' money are being misappropriated" and R6 "they are not getting a fair share of benefits financed out of taxpayers' money". This situation may be due to the benefits that the taxpayers only see which is in terms of monetary; they did not look at the facility that was provided by the government. Therefore, IRB must increase the awareness regarding paying of tax among taxpayers in Malaysia.

Table 5: Descriptive Statistics of reasons not complying with tax.

Reasons		Mean	S.D
R1	The penalty for non-compliance is considered to be low.	2.76	1.297
R2	The amount of taxes to be paid is considered to be too high.	2.01	1.025
R3	Taxpayers' money is being misappropriated.	2.50	0.885
R4	Taxpayers' money is spent on wasteful projects.	2.57	1.073
R5	Chances of being caught for non- compliance is believed to be low.	2.64	1.080
R6	They are not getting a fair share of benefits financed out of taxpayers' money.	2.50	0.857
R7	Others are getting more than their fair share of benefits financed out of taxpayers' money.	2.38	0.911
R8	Others are not complying with their tax obligation.	2.51	1.051

The penalty for non-compliance is considered to be low is the less important reason agreed by the taxpayers for not comply with tax. This situation indicated that taxpayers in this study are known about the penalty imposed by the government and process of taxation. In summary, majority of the respondents are agreed these eight reasons as factors for taxpayers to not comply with tax return.

Conclusions:

The objectives of this study are to investigate the relationship between demographic factors and tax non-compliance among government servants, to analyzed the attitude of tax non-compliance among individual taxpayers and to explore the reasons of not complying with tax. 200 government servants who involved in this study are from Higher Learning Institutions (49%), State-owned company (24%) and Government Link Company (27%). Result from this study found that marital status, level of income, academic qualifications and type of working sector have a relationship with tax non-compliance. Another two factors which are gender and age have no relationship with the tax non-compliance.

This study also indicated that the amount of taxes to be paid is considered to be too high as the most important reason agreed by the taxpayers. The less important reasons agreed by them for not comply with tax return is the penalty for non-compliance is considered to be low. However, from all of the eight reasons indicated, it shows that the taxpayers are agreed with it.

As a conclusion, from this study it can be said that majority of the taxpayers are moderately comply with the tax. In order to increase compliance in the future, IRB can increase the number of awareness by giving a seminar on tax education by using different strategies so that, taxpayers in Malaysia generally can be a good citizenship.

This study also identified three limitations. The first limitation is related to the selection of the respondents. The questionnaire of this study was only distributed to the respondents who work in higher learning institutions, Government Link Company and State Owned Company which only covered certain area. Second limitation is the majority of the respondents involved in this study are on the age group of 31-45. Therefore, this study may be biased towards a certain group of respondents and is not truly represent the entire population in Malaysia. The third limitation is regarding the questions. Respondents may be misunderstand the question because of the terminologies used and may be not clear enough for them to understand. This situation may lead to the wrong interpretation and conclusion made.

Future study can used a larger sample such as individual taxpayers who derived income from both employment and business in Malaysia so that, the result can be more conclusive.

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