

Does Tax Knowledge Motivate Tax Compliance in Malaysia?

Sahari Salawati¹, Nivakan Sritharan¹, Sharon Cheuk Choy Sheung¹ & Ahmad Syubaili Mohamed¹

¹Faculty of Economics & Business, Universiti Malaysia Sarawak, Sarawak, Malaysia

Correspondence: Sahari Salawati, Faculty of Economics & Business, Universiti Malaysia Sarawak, 94300 Samarahan, Sarawak, Malaysia. E-mail: ssalawati@unimas.my

Received: October 1, 2020

Accepted: December 2, 2020

Online Published: January 6, 2021

doi:10.5430/rwe.v12n1p238

URL: <https://doi.org/10.5430/rwe.v12n1p238>

Abstract

This study aims to clarify whether tax knowledge of individual taxpayers motivates tax compliance in Malaysia. Studies with similar topics express the fact that there still exists a gap in profiling the demographic characteristics of knowledgeable taxpayers and better compliant taxpayers in Malaysia. Age, gender, income groups, and education level were the demographic variables used to study the association. The study applied a survey method for data collection. The population targeted was the individual taxpayers across Malaysia, whereby a sample of 419 respondents involved in this study. T-test, One-Way ANOVA, and Pearson correlation analysis had been employed to analyse the data. The outcome of the study reveals that knowledgeable taxpayers are not better tax complainers of taxpayers in Malaysia. Further, the relationship between tax knowledge and tax compliance is negative and insignificant. This paper studied the association of tax knowledge with tax compliance level, which attempt to contribute to the literature and aids tax administration to intensify not only tax law educations but also tax penalties for tax evaders.

Keywords: tax compliance, tax knowledge, demographic factors

1. Introduction

Tax non-compliance is a behavior, in which the residents of Malaysia intentionally or unintentionally do not comply with the tax system, violating the Income Tax Act. No. 53, Section 103. The existence of tax non-compliance in Malaysia was identified by the government of Malaysia as well as the Inland Revenue Board of Malaysia who confirms that a tax gap of RM 13 billion is recorded (Ministry of Finance Malaysia, 2019). This issue, tax non-compliance, is critical in Malaysia since forty to sixty percent of national revenue solely depends on income taxes. Reducing the tax gap should require the formation of strategies, which could be possible once the cause for the tax gap is found out. The cause for the tax gap, which is the non-compliance behavior of residents, slows down the government's operational activities since the national revenue is mostly allocated for the operational expenditure than for the developmental expenditure (Refer to Figure 2). The extracts are taken from some of the past research studies, Present news articles, released by the Inland Revenue Board (IRBM) of Malaysia to the public from 2016 to 2019, reveal that there exists a gap between the total amount of taxes to be collected and the actual amount of taxes collected as tax.

According to the Inland Revenue Board of Malaysia, the tax gap (differences between expected tax collection and actual tax collection) was RM 20.7, RM 1.0, RM 3.4, and RM 13.3 billion for the years 2015, 2016, 2017, and 2018, respectively. The tax authority of Malaysia confronts difficulties in collecting taxes and in executing of tax compliance system (Inland Revenue Board of Malaysia, 2018). During the announcement of the budget for the year 2019, the Minister of Finance launched a special voluntary disclosure program to allow taxpayers who have not yet been complied with the tax system.

Malaysia established its Self-Assessment System (E-filing) for taxation in 2004. The pre-SAS system, which is also known as the 'Official Assessment System' (OAS), is different from the post 'Self-Assessment System', simply called 'SAS', which is currently used for taxation in the country, and executed electronically and solely by the taxpayers themselves, whereas the pre-SAS system is executed manually by the taxpayer and the Inland Revenue Board of Malaysia (IRBM). Thus, taxpayers are expected to be knowledgeable regarding the tax system in order to comply with the tax system since the latest Malaysian tax system (SAS) requires taxpayers' decision making. However, taxpayers in Malaysia, especially the educated, are indifferent and unresponsive to the tax compliance