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Tax Audit, Deterrence, And In-House Tax Professionals' Tax Compliance: Empirical Evidence from Malaysia

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ABSTRACT

The hitherto published studies have not yet explored the tax compliance behaviour of in-house tax professionals. It is assumed from the literature reviews on taxation that a tendency for tax non-compliance exists among the professionals who deal in tax matters in their business establishments when they do not comply with their respective tax systems. Deterrence theory suggests the tax audit or probability of getting audited influences an individual compliance pattern. Given this gap in the literature, this study endeavours to investigate the tax audit impact on Malaysian in-house tax professionals' tax compliance behaviour. Using purposive and snowball sampling techniques, the data was collected from 392 in-house tax professionals of businesses in Malaysia. SmartPLS is used to analyse the data and test the hypotheses. The findings of this study divulge probability of getting audited strongly impacts upon personal tax compliance of corporate in-house tax professionals. This study opens a gateway to producing extensive and expeditious empirical evidence that could support the relatedness between tax professionals' personal tax compliance and their decision-making on corporate tax compliance.

Keywords*: *Tax Audit, In-house Tax Professionals, Personal Tax Compliance, Deterrence Theory, SmartPls.

1. INTRODUCTION

Background

The economic sustainability of Malaysia is mostly derived from the source collection of direct tax revenue from corporate taxes, individual taxes, real property taxes, petroleum taxes, and stamp duties that account for approximately 65 percent of the national cumulative economy as stated in the annual budget 2020 (Ministry of Finance Malaysia, 2019a). Non-compliance with any of the above-mentioned taxes is social destruction, challenging the stability of the national revenue of Malaysia, and decreasing the strength of its economic stability by encouraging cheating and fraud to take place (Salawati et al., 2021). 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).

Referring to figure 1 and figure 2 below, Malaysia's total gross national income (GNI) has been moving upward steadily for the past two decades (World Bank, 2020a). Meanwhile, the tax revenue of Malaysia has been declining dramatically for the past two decades as well (World Bank, 2018). The rise in the GNI and the decline in tax revenue highlight the severe tax gap in Malaysia, indicating a loss in the national revenue from tax collection and a real cost created for society (Devos, 2013). To support further the problem, the data related to labour force explains that Malaysia's employment rate was in a healthy level and the country were managed to keep the unemployment rate within 3.5 percent. At an interval of about three years, when comparing two years values of Malaysian household income shows a significant improvement that is parallel with the trend of Malaysia's GNI. Malaysia is witnessing an improvement in the absolute poverty rate when compared to the rate in the previous decades, proving that the income earned by the residents is without any impediments. Further, the 'International Monetary Fund' (IMF, 2002) alerts that severe tax gaps may lead to the prevalence of shadow economy in the country.