



Faculty of Economics and Business

Determinants of Corporate Taxpayers' Behaviour: The Moderating and Mediating Effect of Financial Constraints and Personal Tax Compliance

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**Doctor of Philosophy
2024**

Determinants of Corporate Taxpayers' Behaviour: The Moderating and Mediating Effects of Financial Constraints and Personal Tax Compliance

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A thesis submitted

In fulfillment of the requirements for the degree of Doctor of Philosophy

(Accounting)

Faculty of Economics and Business
UNIVERSITI MALAYSIA SARAWAK
2024

DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.



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Date: 19th April 2024

ACKNOWLEDGEMENT

First of all, I want to thank God for his provision, wisdom and capability to undertake this rigorous and challenging task.

I wish humbly and most respectfully acknowledge and appreciate the support, encouragement, and guidance of my supervisor Dr. Salawati binti Sahari, extended to me. I would like to thank Dr Salawati for willing to spend her times in my research, which cannot be completed without her advises and comments on the present study. A special mention of my gratitude to our dean Professor Dr Rossazana Ab. Rahim and Postgraduate Coordinator Dr Muhammad Asraf Abdullah.

Also, I thank my father Mr Suppiah Sritharan and my mother Mrs Puvaneswary Sritharan for the motivation and the love and encouragement, shown to me during this time. I wish to express my sincere appreciation to my brother, Mr Kartheepan Sritharan, and my sister, Mrs Sinthujah Premakumar, for their financial support and for the encouragement, during the time of my postgraduate study. I express my gratitude to all my friends. Also thank to the respondents, who have participated in the online questionnaires and in the interview sessions. I have to particularly thank the entire faculty and supporting staff of the 'Faculty of Economics and Business' and the 'Centre for Graduate Studies' for their kind guidance in my work. I am highly appreciative and thankful to everyone. Thank You

ABSTRACT

In contemporary Malaysia, the growing tax gap presents a significant challenge to the integrity of the national revenue system. This study explores the complex factors that contribute to corporate taxpayers' compliance behaviour, specifically focusing on Malaysian in-house tax compliance decision-makers. The research aims to address the urgent issue of increasing tax gaps within the Malaysian revenue system caused by non-compliance among taxpayers. Grounded in Kelman's Social Influencing Theory, this investigation explores the complex relationship between personal tax compliance behaviour and its influence on corporate tax compliance decisions. By conducting empirical tests to examine the hypothesis that personal tax compliance behaviour serves as a mediator for corporate tax compliance decisions, this study provides insights into the various factors that shape taxpayers' adherence to regulatory frameworks. Through rigorous data collection from 392 Malaysian in-house tax compliance decision-makers via a comprehensive survey questionnaire supplemented by interviews with 8 tax experts, this research employs sophisticated analytical techniques including Path Analysis using SmartPLS. The findings illuminate the intricate relationship between personal tax compliance behaviour and corporate tax compliance decisions. This research underscores the significance of understanding the underlying psychological and social influences that shape taxpayers' compliance behaviours. By clarifying the role of Kelman's Social Influencing Theory in mediating corporate tax compliance decisions, this study contributes to the advancement of theoretical research on tax compliance and offers practical insights for policymakers and tax authorities. By identifying the crucial factors and mechanisms that influence compliance decisions, this research provides valuable insights aimed at reducing the growing tax gap and strengthening the integrity of the Malaysian tax revenue system.

Keywords: Tax compliance behaviour, Kelman's Social Influencing Theory, Tax Gap, Malaysian Tax Revenue, Path Analysis.

Penentu Tingkah Laku Pembayar Cukai Korporat: Kesan Penyederhanaan dan Pengantaraan Kekangan Kewangan dan Pematuhan Cukai Peribadi

ABSTRAK

Di Malaysia kini, jurang cukai yang semakin meningkat memberikan cabaran besar kepada integriti sistem hasil negara. Tesis ini mengkaji faktor kompleks yang menyumbang kepada tingkah laku pematuhan pembayar cukai korporat secara khusus memberi tumpuan kepada responden yang terlibat dalam membuat keputusan pematuhan cukai dalaman Malaysia. Penyelidikan itu bertujuan untuk menangani isu peningkatan jurang cukai dalam sistem hasil Malaysia yang disebabkan oleh ketidakpatuhan di kalangan pembayar cukai. Berdasarkan Kelman's Social Influencing Theory, tesis ini mengkaji hubungan kompleks antara tingkah laku pematuhan cukai peribadi dan pengaruhnya terhadap keputusan pematuhan cukai korporat. Melalui kaedah ujian empirikal, hipotesis di uji untuk menilai tingkah laku pematuhan cukai peribadi yang berfungsi sebagai pengantara untuk keputusan pematuhan cukai korporat. Kajian ini juga mengkaji pelbagai faktor yang membentuk pematuhan pembayar cukai kepada rangka kerja kawal selia. Melalui pengumpulan data daripada 392 responden melalui soal selidik, tinjauan komprehensif dan temu bual dengan 8 pakar cukai, penyelidikan ini menggunakan teknik Analisis Laluan SmartPLS. Penemuan ini menerangkan komplikasi hubungan antara tingkah laku pematuhan cukai peribadi dan keputusan pematuhan cukai korporat. Penyelidikan ini menggariskan kepentingan memahami pengaruh psikologi dan sosial yang membentuk tingkah laku pematuhan pembayar cukai. Sebagai penjelasan peranan Kelman's Social Influencing Theory dalam pengantaraan keputusan pematuhan cukai korporat, kajian ini menyumbang kepada kemajuan penyelidikan teori tentang pematuhan cukai dan menawarkan pandangan praktikal untuk pembuat dasar dan pihak berkuasa cukai. Dengan mengenal pasti faktor dan

mekanisme penting yang mempengaruhi keputusan pematuhan, penyelidikan ini juga memberikan pandangan berharga yang bertujuan untuk mengurangkan jurang cukai yang semakin meningkat dan mengukuhkan integriti sistem hasil cukai Malaysia.

Kata kunci: *Tingkah laku pematuhan cukai, Teori Pengaruh Sosial Kelman, Jurang Cukai, Hasil Cukai Malaysia, Analisis Laluan*

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LIST OF ABBREVIATIONS

AI	Artificial Intelligence
ATO	Australian Taxation Office
AVE	Average Variance Extracted
BIT	Behavioural Insights Team
CFA	Confirmatory Factor Analysis
CGP	Coach and Grow Programme
CIPFA	Chartered Institute of Public Finance and Accountancy
CMB	Common Method Bias
CSR	Corporate Social Responsibility
CR	Composite Reliability
DOSM	Department of Statistics Malaysia
DV	Dependent Variable
GDP	Gross Domestic Product
GNI	Gross National Income
EFA	Expletory Factor Analysis
GST	Goods and Services Tax
HTMT	Heterotrait – Monotrait Ratio

ICT	Information Communication Technology
IFA	International Federation of Accounts
IMA	Institute of Malaysian Accountants
IMF	International Monetary Fund
ITA	Income Tax Act
ITRF	Income Tax Return Form
IPSAS	The International Public Sector Accounting Standards Board
IRA	Italian Revenue Agency
IRBM	Inland Revenue Board of Malaysia
IV	Independent Variable
MCO	Movement Control Order
MERS	Middle East Respiratory Syndrome
NEF	National Equity Fund
MIA	Malaysian Institute of Accountants
MNC	Multi-national Companies
MOF	Ministry of Finance
MYR	Malaysian Ringgit
OAS	Official Assessment System
OECD	Organization for Economic Co-operation and Development

PAYE	Pay, As You Earn
PLS	Partial Least Square
PR	Public Ruling
PwC	PricewaterhouseCoopers
RFRA	Religious Freedom Restoration Act
RMC	Royal Malaysian Customs
RQ	Research Question
SAMENTA	Small and Medium Enterprise Association
SARS	Severe Acute Respiratory Syndrome
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SAS	Self-Assessment System
SD	Standard Deviation
SE	Self-employed
SEM	Structural Equation Modeling
SME	Small and Medium Sized Enterprises
SOP	Safety Operational Procedures
SRI	Strategic Reform Initiatives
SST	Sales and Service Tax
SVA	Small Value Assets

SW	Salary and Wage
TBL	Triple Bottom Line
TRC	Tax Reform Committee
US	United States
VIF	Variance Inflation Factor
WHO	World Health Organisation

CHAPTER 1

INTRODUCTION

1.1 Study Background

The economic sustainability of Malaysia is mostly derived from the revenue sources of direct tax: Corporate taxes, Individual taxes, Real property taxes, Petroleum taxes, and Stamp duties; all the above taxes account for approximately 65 percent of the national cumulative economy as stated in the annual budget of 2020 (Ministry of Finance Malaysia, 2019). In Malaysia, the non-compliance of taxpayers with any of the above-mentioned taxes is deemed a social destruction, weakening the constant flow of the national revenue from its sources, challenging the stability of the economy of the country, and thereby by encouraging cheating and financial fraud to take place in the country (PricewaterhouseCoopers, 2022).

Tax compliance is an economic responsibility of an individual and an organization, and also a social responsibility to its stakeholders, such as the government (Gulzar et al., 2018). The two pillars of the 'Corporate Social Responsibility' (CSR) are the social responsibility and the Economic responsibility, which further underpin the significance of tax compliance (Kitzmueller & Shimshack, 2012). The definition of social pillar is 'Sustainable Business' that should have the support of its stakeholders, including the tax authority, while the economic pillar covers tax compliance, proper governance, and risk management. A detailed discussion on the nexus between corporate social responsibility (CSR) and tax compliance is presented in section 2.11.3 of chapter 2.

Taxation is a system established as a mandatory Act of Parliament, in the constitution of a country, for levying taxes on the profits of corporate sectors and on the income of

salaries of personnel in the country (Kasipillai, 2002). The taxes, thus raised from the above two sources, are used to provide services and benefits to the people of the country or to use them for fulfilling some other purposes of the government. The practice of taxation originated in the ancient kingdom of Egypt for fulfilling the needs and purposes of the country. The system of taxation, currently practiced by almost all the countries across the globe, was practiced by the United States of America for the maintenance of the ‘American Civil War’, from 1861 to 1865, and afterwards, many more countries followed suit, whereas Malaysia practices the system of taxation for providing services and benefits to the people of the country (Palil, 2010).

This study is concerned with the tax system practiced in Malaysia. To provide economic benefits and social benefits to the people of the country, the Malaysian government plays a significant role in raising income from the said two sources by employing the mandatory income tax Act (Tax Act No. 47 of 1967, and revised Act No. 53 of 1971, Section 103) enacted in its constitution (Mohdali et al, 2017). At times the Malaysian government takes back the accumulated revenue by means of withdrawal from the economy, the treasury, and spends it for the national developments and for the provision of benefits to the people of the country (Refer to Figure 1.1). The government may inject back the remainder of the revenue into the economy; it may use it to provide people of the country with goods and services; or it may use it to achieve its other goals and plans, mentioned in the official books of programs and calendars (Refer to Figure 1.2).