



## Economic Factors Impact on Individual Taxpayers' Tax Compliance Behaviour in Malaysia

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### Abstract

Individual tax payers' tax compliance is influenced by several factors. One of the major factors, the Economic factor, is studied in this paper. Readings with similar topics emphasises that there still exists a gap in the developing countries. Malaysia is a multi-racial country with economic factors to influence on tax compliance. Some of the factors impacting are: probability of being audited, perception on government spending, perception on equity and fairness and penalty rates, which are considered to be playing an important role on individual tax compliance behaviour. The researcher used survey method of research design and targeted the individual tax payers across Malaysia as population. A sample of 419 respondents had been taken for this study, using convenient sampling method. Pearson correlation and multiple regression analysis had been employed to analyse the data. The results of the study disclose that probability of being audited, perception on government spending, penalty rate and an individual's personal financial position are the main important variables that influence individual tax payers' tax compliance behaviour in Malaysia. This paper studied economic factor variables, which finally fills the gap existed in the literature and contributes as a justification for policymakers.

### Key words

Tax compliance, tax evasion, individual taxpayers, economic factors, LHDN

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## 1. Introduction

### 1.1. Background

By means of 'Taxation', governments finance their expenditures. To do so, they impose charges on the income of citizens and on the profits of corporate entities. It is obligatory that all adult, salaried employees with certain income of payment that they receive for their work, pay tax to the government as per the enactment in the constitution of the government. The system of taxation initially originated in the ancient Egyptian Kingdom. The current structure and the method of taxation has been practiced worldwide by almost all the countries, ever since it was introduced and practiced in the United States of America during World War 1, in the year 1862, for funding the war. Most countries have started to adopt the same policy of taxation for different purposes and needs. In like manner, Malaysia also does the same with its own regulations.

In Malaysia, the government executes taxation for two courses of development: providing "Economic benefits", and "Social benefits". The Government takes charge to provide economic benefits to the nation, by collecting the revenue, by allocating fund for the economy, and disbursing the earned income to the national economy. It may inject back a part of the revenue into the economy; it may launch provisions of