AN EVALUATION OF THE MALAYSIAN TAX ADMINISTRATIVE SYSTEM, AND TAXPAYERS' PERCEPTIONS TOWARDS ASSESSMENT SYSTEMS, TAX LAW FAIRNESS, AND TAX LAW COMPLEXITY

A Dissertation submitted to the Graduate School in partial fulfilment of the requirements for the degree of Doctor of Philosophy,
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ABSTRAK

Rejim-rejim cukai di serata dunia sentiasa mencari jalan untuk meningkatkan kutipan hasil cukai negara. Memandangkan hasil cukai merupakan bahagian besar daripada jumlah hasil negara, maka kecekapan dan produktiviti sistem pentadbiran cukai akan menentukan amuan yang dikutip bagi sesuatu tahun taksiran berkenaan. Jika sistem pentadbiran cukai adalah cekap dan produktif, maka kutipan hasil cukai akan meningkat. Menurut kebanyakan penyelidik, kecekapan dan produktiviti juga boleh ditingkatkan melalui sistem taksiran sendiri.

Selain daripada itu, gelagat pematuhan pembayar cukai adalah juga mustahak dalam menentukan jumlah kutipan cukai pendapatan. Cukai pendapatan boleh dielak (avoid) ataupun dilarikan tanpa membayar (evade) oleh seseorang pembayar cukai. Pengelakan dalam lingkungan peraturan undang-undang cukai adalah dibenarkan, tetapi pengelakan tanpa membayar cukai adalah dianggap sebagai jenayah oleh rejim-rejim cukai. Denda maksimum akan dikenakan untuk pengelakan dengan niat tidak mahu membayar cukai pendapatan. Disebaliknya gelagat pematuhan pembayar cukai adalah juga tidak dapat diramalkan. Bagaimanapun ramai penyelidik telah mengkaji gelagat ini dari pelbagai sudut dan perspektif. Penyelidik juga telah mengenalpasti banyak variabel yang boleh mempengaruhi gelagat pematuhan pembayar cukai. Tetapi antara faktor utama yang boleh mempengaruhi gelagat pematuhan pembayar cukai adalah sistem pentadbiran cukai itu sendiri, keadilan undang-undang cukai dan kerumitan undang-undang cukai.

Dalam kajian ini, kecekapan dan produktiviti sistem pentadbiran cukai Malaysia dinilai. Dengan menggunakan analisis trend, didapati bahawa sistem pentadbiran cukai Malaysia pada amnya adalah cekap berbanding dengan negara Jepun, Australia dan New Zealand. Bagaimanapun ianya tidak cekap bila banding dengan Indonesia dan Amerika Syarikat. Tetapi jika kita tidak ambil kira Indonesia atas sebab-sebab yang disebut dalam disertasi ini, maka pada umumnya sistem pentadbiran cukai Malaysia adalah cekap dan produktif. Bagaimanapun analisis trend juga menunjukkan bahawa kos pentadbiran telah meningkat dan produktiviti sedang menurun. Ini adalah trend yang tidak sihat untuk sistem pentadbiran Malaysia secara keseluruhannya.

Persepsi pembayar cukai terhadap sistem taksiran, keadilan undang-undang cukai dan kerumitan undang-undang cukai dikumpul melalui suatu tinjaun (survey). Perbezaan dalam persepsi responden telah dianalisakan dengan menggunakan kaedah ANOVA satu hala. Perbezaan signifikan didapati dalam persepsi pembayar cukai. Pada keseluruhannya, responden bersetuju bahawa Sistem Taksiran Sendiri (STS) boleh dilaksanakan di Malaysia. Selain daripada responden dalam kumpulan pentadbiran dan perkeranian, responden dari kumpulan lain bersetuju STS boleh dilaksanakan di Malaysia. Pada pendapat responden dari kumpulan pentadbiran dan perkeranian, STS akan menjadi suatu beban kepada mereka. Besar kemungkinan mereka juga bimbang yang mereka perlu bayar cukai baru ataupun cukai tambahan jika STS dilaksanakan.

Berkenaan keadilan undang-undang cukai, majoriti daripada pembayar cukai menganggap undang-undang yang ada tidak adil kepada mereka. Bagaimanapun hanya kumpulan pentadbiran dan perkeranian yang menganggap undang-undang cukai adalah adil. Ini adalah kerana mungkin mereka puas hati dengan kadar cukai yang dikenakan atas mereka, dimana kadarnya adalah yang terendah berbanding dengan kumpulan pembayar cukai lain. Kadar cukai yang terendah di Malaysia adalah 2 peratus dan dikenakan ke atas pendapatan bercukai antara RM10,001 - RM20,000. Kadar cukai juga mungkin merupakan faktor yang penting dalam mempengaruhi gelagat pematuhan pembayar cukai. Pembayar cukai daripada kawasan bandar juga bersetuju bahawa undang-undang cukai adalah tidak adil. Maka untuk menggalakkan pematuhan secara sukarela di kalangan pembayar cukai, adalah penting untuk Lembaga Hasil Dalam Negeri (LHDN) dan kerajaan pusat untuk mengambil langkah-langkah tertentu untuk memastikan pembayar cukai mempunyai tanggapan yang betul terhadap cukai yang dikutip dan dibelanjakan oleh kerajaan.

Hasil kajian ini juga menunjukkan kerumitan undang-undang cukai wujud di Malaysia. Kesemua gologan responden bersetuju bahawa kerumitan undang-undang cukai merupakan salah satu faktor yang menghindari pematuhan secara sukarela. LHDN harus mengambil perhatian berkenaan perkara ini dan mengambil langkah-langkah yang tertentu untuk menghapuskan kerumitan undang-undang cukai jika pematuhan sukarela ingin digalakkan di Malaysia.

Salah satu hasil kajian ini menunjukkan bahawa hanya pembayar cukai yang bemiaga sahaja yang menggunakan akauntan atau ejen cukai untuk mengisi borang cukai tahunan mereka. Kesemua yang lain menyediakan borang cukai sendiri tanpa sebarang bantuan. Pada puratanya, peniaga-peniaga ini membayar sebanyak RM250.00 untuk tenaga profesional. Amaun ini adalah rendah jika dibandingkan dengan negara-negara lain. Bagaimanapun untuk menggalakan pematuhan sukarela adalah mustahak kos pematuhan adalah tidak tinggi.. Kos pematuhan tidak patut menjadi suatu beban kepada pembayar cukai selepas pelaksanaan STS di Malaysia. Jika kos pematuhan adalah tinggi maka ini sudah tentu akan menghalang pematuhan sukarela.

Sebagai rumusan, STS boleh dilaksanakan di Malaysia pada kos yang rendah. Tetapi usaha-usaha harus dibuat oleh kerajaan untuk memastikan pembayar cukai mempunyai persepsi yang positif terhadap keadilan undang-undang cukai. Kerumitan undang-undang cukai wujud di Malaysia, dan jika pematuhan sukarela ingin digalakkan maka langkah-langkah harus diambil untuk mengurangkannya. Meskipun kos pematuhan adalah tinggi di kalangan peniaga berbanding dengan pembayar cukai yang lain, tetapi ia boleh dianggap masih rendah berbanding dengan negara-negara maju dan lain.

ABSTRACT

Tax regimes all around the world are constantly looking for ways and means to improve their tax revenue collections. Since tax revenue forms the major portion of the total revenue in any economy, the efficiency and productivity of the tax administrative system determines the amount collected for any particular year of assessment. If the tax administrative system is efficient and productive collection of tax revenue would be high. It has also been argued by many researchers that efficiency and productivity could be improved by means of the self-assessment system.

Moreover, the compliance behaviour of the taxpayers is also important to income tax collections. Income tax could also be avoided or evaded by a taxpayer. Avoidance, within the legal framework, is allowed but evasion of taxes are looked upon as national crimes by the tax regimes. Heavy penalties are imposed for tax evasion. On the other hand, taxpayer compliance behaviour is unpredictable. Nevertheless, many researchers have studied this behaviour in many different perspectives. Researchers have also identified many variables that influence taxpayer compliance behaviour. But among the major factors that could influence taxpayer compliance behaviour are the tax administrative system, tax law fairness and tax law complexity.

In this study, the efficiency and productivity of the Malaysian tax administrative system was evaluated. Using trend analysis, it was found that the Malaysian tax

administrative system is moderately efficient and productive compared to Japan, Australia and New Zealand. However, it is not as efficient when compared to Indonesia and the U.S. But if we were to ignore Indonesia for reasons mentioned in this dissertation, then, generally, the Malaysian tax administrative system may be seen as efficient and productive. But the trend analysis also indicates that administration costs are on the rise and the productivity on the decline. This may be seen as an unhealthy trend for the Malaysian tax administrative system to remain efficient and productive.

Taxpayers' perceptions towards the assessment systems, tax law fairness, and tax law complexity were gathered through a survey. Differences in taxpayers' perceptions were analysed by one-way ANOVA. Significant differences were found in their perceptions. Interestingly, the respondents positively perceived the implementation of the self-assessment system (SAS) in Malaysia. Except for those in the administrative and clerical group, others agreed that SAS could be implemented in Malaysia. Those in the administrative and clerical group fear that a new assessment system would be a burden to them. It could also mean that they may need to pay new taxes.

With respect to tax law fairness, majority of the taxpayers perceived that the tax law is not being fair to them. Surprisingly, too, only the administrative and clerical group perceived that the tax law is fair or equitable to them. This could be because they are practically satisfied with the tax rate at which their income is subjected to tax. The lowest tax rate in Malaysia is 2 per cent on the chargeable income of RM10,001 - RM20,000.

Tax rate, therefore, may also be a determinant in the taxpayer compliance behaviour. City taxpayers also agreed that the tax law was not equitable. Thus, in order to encourage voluntary compliance among the Malaysian taxpayers, it is important for the IRB and the government to improve these particular groups of taxpayers' perceptions.

The findings of the study also indicate that tax law complexity exists in Malaysia. All the respondents agreed that tax law complexity is one of the factors that hinders voluntary compliance. Record keeping, too much detail in the tax law and ambiguity were ranked highly and perceived to be major factors that hinders voluntary compliance. The IRB might take note of this and take the necessary steps to eliminate tax law complexity, if voluntary compliance were to be encouraged among the taxpayers.

One of the major findings of this study is that only owner-managers hire tax professionals to help prepare their annual tax returns. All other taxpayers prepare their own tax returns. On the average, the owner-managers pay RM250.00 for professional services. This amount is considered low when compared to other developed and developing countries. Nevertheless, in order to encourage voluntary compliance, it is very important that the compliance costs are kept at a minimum. Compliance costs should not be a burden to the taxpayers even after the implementation of SAS in Malaysia.

In conclusion, SAS could be implemented in Malaysia at a minimum cost. **But** efforts must be taken by the government to ensure that the taxpayers positively perceive tax law fairness. Tax law complexity exists in Malaysia, and if voluntary compliance were to be encouraged then ways and means must be undertaken to minimise it. Although, compliance costs is much higher among the owner-managers compared to others, it is still comparatively low when compared to other countries.

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ASEAN	Association of South East Asian Nations
ATO	Australian Taxation Office
EIU	Economic Intelligence Unit
DGIR	Director-General of Inland Revenue
GDP	Gross Domestic Product
IRB	Inland Revenue Board
IRC	Internal Revenue Code
IRD	Inland Revenue Department
IRS	Internal Revenue Service
ITA	Income Tax Act, 1967.
MACPA	Malaysian Association of Certified Public Accountants
MIA	Malaysian Institute of Accountants
OAS	Official-Assessment System
PAYE	Pay As You Earn
ROB	Registrar of Businesses
SAS	Self-Assessment System
STD	Sshedular Tax Deduction
TCMP	Taxpayer Compliance Measurement Program
VAT	Value-Added Tax

Chapter 1 OVERVIEW

1.1 Introduction

The tax administrative system of a country has to be cost efficient and productive in order to maximise collection of taxes and other revenues. Although cost efficiency and productivity would enhance the tax administrative system, it would not be complete without a high voluntary compliance by the taxpayers'. High voluntary compliance could only be achieved if the taxpayers positively perceived the tax administrative system, tax law fairness or equity and tax law complexity (Christensen et al. 1994). This will then ensure high collection of tax revenue that could be used in developing the country. However, it may not be totally possible to eliminate tax law complexity, and all taxpayers to perceive the law to be fair. But it is imperative that majority of the taxpayers should perceive that the tax imposed on them is fair to them.

The issues that are linked to tax administrative system are: efficiency, productivity, and taxpayers' voluntary compliance. Efficiency and productivity of the tax administrative system have been studied in many perspectives (Barr, James and Prest, 1977; Barjoyai, 1993; and Ishi, 1993). Ishi (1993), in particular, compared the efficiency and productivity of the Japanese tax administrative system with U.S., Canada and UK. The objective was to determine if the cost-revenue ratio was efficient compared to the western countries. The comparative analysis was carried out for thirty

[1] Taxpayers are people who pay a percentage of their income to the government as tax (BBC English Dictionary, 1993).

years. The findings indicate that the Japanese tax administrative system was efficient when compared to those countries.

One other issue that is also linked to the tax administrative system is taxpayer's compliance with the tax laws. If a high compliance rate could be achieved then more tax revenue could be collected. It would even be better if high compliance rate could be achieved voluntarily. However, a high compliance rate could only be achieved if the taxpayers perceived the tax law to be fair or equitable to them, less complex, and the tax administrative system to be efficient and productive (Spicer and Becker, 1980; Porcano, 1984, and Long and Swingen, 1987). There are many ways to be cost-efficient and productive. One way that could improve efficiency and productivity of a tax administrative system is a change in the assessment system (Sandford, 1990 and Cheung et al. 1995). All the countries that have implemented Self-Assessment System (SAS) have cited reasons for the change mainly to improve efficiency and productivity in the tax administrative system. Countries that have implemented SAS over the last ten years are Australia, Ireland and Indonesia. The experience of these countries are discussed in chapter 2.

In this study, these issues are further explored in the context of the Malaysian tax administrative system. Is the existing tax administrative system efficient and productive? If not, could SAS be implemented in Malaysia? How do the taxpayers perceive the existing assessment system? Do they positively perceive tax law fairness and tax law complexity? Beginning from the next section, these issues will be discussed within the scope of this study.

1.2 Background of the Study

Ever since the federal income tax laws were first introduced in the states of Malaya by the British in 1948, which became the first ordinance, and the adoption of the Income Tax Act 1967, tax reforms in Malaysia have taken place twice, once in 1967 and the other in 1988. Tax reforms that were undertaken especially in 1988 mainly concerned the structure of the taxes rather than the administrative procedures. It was undertaken after Malaysia faced an economic recession in the mid-eighties. The recession had a tremendous effect on the Malaysian economy. It also taught Malaysia a very good lesson on managing her economy. Traditionally, Malaysia's main source of revenue had totally been dependent on the exports of rubber and tin. Prices of these commodities were very volatile in the international markets. Steps were then taken by the government to attract foreign investors to invest in Malaysia. Through the Promotion of Investment Act 1986, investors were wooed to invest in the manufacturing and other related industries. Many incentives were given to the investors especially in the manufacturing sector. Undeniably these efforts have been fruitful. Malaysian economy has experienced tremendous growth for the past eight years (Economic Reports 1989 - 1996).

Thus, although changes were made in the tax structures and other aspects of taxation such as incentives, no major changes had been made in the tax administrative system. The original administrative structure and procedures of 1948 have remained intact. This, however, was not so in the case of the economy and the number of taxpayers. Since 1988, the Malaysian economy had experienced

tremendous growth, and along with that the number of taxpayers have increased.[2] The shortage of tax staff further creates problems in the administration. Nevertheless, just increasing the number of tax staff will not overcome the current problems. The problems have to be studied in totally. Tax reforms should also consider a change in the tax administrative system in particular, the assessment system, which could bring about efficiency and productivity in the administrative system.

1.3 Problem Statement

In the 1994 annual report of the Inland Revenue Board (IRB)[3], it was stated that its general objective is to develop and implement a system of tax administration which is effective, fair and equitable. Accordingly, IRB's operational objectives are three- fold:

- To assess and collect the correct amount of revenue as provided under the law in the most effective manner and at a minimum cost.
- To instill public confidence in the fairness and integrity of the tax system.
- To encourage voluntary compliance.

[2] Number of taxpayers in 1990 was 1.9 million, 2.7 million in 1991 and 1992, 2.9 million in 1993 and 3.0 million in 1994 (Source: Performance and Program Budget 1995, Ministry of Finance, Kuala Lumpur)

[3] Prior to March 1, 1996, IRB was known as the Inland Revenue Department in the Ministry of Finance, Malaysia. Effective March 1, 1996 IRD has been corporatised and it is now known as the Inland Revenue Board (IRB).

Thus, in view of the general and operational objectives of the IRB, is the existing tax system effective, fair and equitable to the taxpayers? Is the present tax administrative system efficient? Are the tax staff productive in handling the tax returns submitted by the taxpayers? How do the taxpayers perceive the existing tax administration system? Is it effective, fair and equitable to them? High voluntary compliance can only be achieved if the taxpayers positively perceive the fairness of the tax system and non-complexity of the tax laws. Otherwise, the objectives of the IRB will not be met. If voluntary compliance could be encouraged among the taxpayers, then the Self-Assessment system (SAS) could be introduced in Malaysia as in the case of other developed and developing countries in the world. It has been argued that SAS will improve efficiency and productivity of the tax administrative system (Barr et al 1977 and James, 1996). This may or may not be true. Nevertheless, is the existing Malaysian tax administrative system efficient and productive? Can SAS be implemented in Malaysia at a minimum cost? Should the Official- Assessment System (OAS) be replaced by SAS as the assessement system? Do the taxpayers positively perceive SAS if it were introduced in Malaysia? How do the taxpayers perceive OAS compared to SAS?

1.4 Objectives of the Research

The main objective of this research was to investigate the efficiency and the productivity of the existing Malaysian tax administrative system. It was then compared with other countries that have implemented SAS. After controlling for certain factors, this research aims to study the state-of-the-art of tax collection in Malaysia. The second objective was to study the perceptions' of the individual

Malaysian taxpayers towards the existing tax administrative system or the Official-Assessment system (OAS) and the feasibility of introducing SAS in Malaysia. Their perceptions towards tax law fairness and tax law complexity were also studied The other objective was to determine among whom of the individual taxpayers is the cost of compliance higher.

1.5 Research Problem

Most of the developed nations have adopted SAS as their tax assessment system. Countries that have implemented SAS such as the USA, Canada, Japan, Australia, New Zealand, and other developing countries like Indonesia, Thailand, and Philippines have cited reasons like efficiency and productivity to switch to SAS. However, SAS too has its own strengths and weaknesses which will be discussed in chapter two. Many researchers (Barr et al. 1977; Sandford 1989, Pollock 1991, Mansury 1992, and Cheung et al. 1995) argued that SAS will lead to greater cost-efficiency for the government, taxpayers, and the economy as a whole. Many contented that SAS will force taxpayers into better understanding of the tax laws and system (Barr et al. 1977, Sandford 1989, and Mansury 1992).

This study therefore attempted to study the feasibility of introducing SAS in Malaysia. Thus, before SAS can be implemented in Malaysia, a number of research questions may be answered by this project. Is the IRB cost efficient in administering the Malaysian income tax system compared to the USA, Japan, Australia, New Zealand, and Indonesia who have introduced SAS? Is the IRB productive in administering the Malaysian income tax system compared to the USA, Japan,

Australia, New Zealand, and Indonesia who have introduced SAS? Will the Malaysian taxpayers positively perceive SAS compared to OAS? Do the Malaysian taxpayers positively perceive the fairness of the existing tax system? How do the Malaysian taxpayers perceive the complexity of the tax laws, and is the compliance costs of the Malaysian owner manager taxpayers higher/lower than other individual taxpayers?

The above research questions guided the generation of the relevant hypotheses developed from theories discussed in chapter three.

1.6 Significance of this Study

In Malaysia, the contribution of the individual income taxes to direct and total revenue is slowly decreasing over the last five years.[4] Although the contribution of individial income taxes constitute only half of that of corporate taxes to total direct taxes, more administrative staffs were engaged by the IRB to handle the individual tax files.[5] It is thus hoped that the findings of this study may indicate whether the IRB is more efficient and productive in administering the tax assessment system under the OAS.

The comparative analysis undertaken in this study is to provide answers as whether the IRE3 is efficient and productive in administering the existing tax system

[4] In 1994 the contribution of the individual income tax to total revenue was 13.63%. On the other hand, the contribution of corporate taxes to total revenue was 27.54%.

[5] Assessment officers engaged by the IRB for individual taxes were 3,787 in 1994, but only 205 officers were in charge of corporate taxes (Source: Federal Budget 1995).

compared to other countries that have implemented SAS. The findings may also be relevant to the IRB in the modernisation of its existing tax system.

The taxpayers' perceptions towards tax law fairness and complexity may be useful findings for the IRB. Since high voluntary compliance can only be achieved if the taxpayers positively perceive tax law fairness and tax law complexity, ways and means could be undertaken by the IRB to make the tax system simple in order to encourage voluntary compliance. Furthermore, one of the main objectives of the IRB is to encourage voluntary compliance by the individual taxpayers. That, however, could only be achieved if the taxpayers have a positive attitude towards the tax system. Tax education programs could be undertaken by the IRB based on the recommendations in this study. The particular groups of taxpayers could be identified based on the findings of this study and targeted by the IRB to educate them.

One other major contribution of this study is in terms of the methodology employed. Most researches employed the experimental or the laboratory method to study the taxpayers' perceptions towards the assessment system, tax law fairness, and tax law complexity. This study employed the survey method to study the taxpayers' perceptions, All the other studies were not comprehensive in nature. On the other hand, all factors affecting taxpayers compliance behaviour have been incorporated in this study. Previous research have studied these factors separately and not in toto. Furthermore, except for Siti Mariam (1994) study of tax professionals and tax staff perceptions towards the tax administrative system, no other study of this nature has been carried out in Malaysia. Even in Siti Mariam's study, the taxpayers were not

included. As such, this study may indeed be a major contribution to tax policy makers and other tax researchers in Malaysia.

1.7 Summary of the Findings

Malaysia's efficiency ratio computed for a period of eleven years, indicate that the ratio was high in 1987, 1988 and 1989, but had since dropped. However, beginning 1993, the ratio has stabilised. As a percentage of the tax revenue, it is true that the ratio has stabilised, but in actual fact, the administrative cost is on the rise for each of the years studied (See table 5.1). There was a 50 per cent increase in the total administration cost in 1994 compared to 1990. On the other hand, due to the buoyant economy, tax revenue too has increased by 100 per cent in 1994 compared to 1990. However, when compared to other countries, Malaysia's efficiency ratio is comparatively lower than Japan, Australia, and New Zealand but higher than Indonesia and the USA.

In terms of productivity, Malaysia's ratio declined from 1990 until 1993, but rose in 1994. The productivity ratios of all the countries studied do not indicate an upward trend except for Malaysia. Malaysia's ratio is on the upward trend beginning 1994. The upwards trend indicates that the productivity ratio of Malaysia is declining. This is an unhealthy trend in Malaysia's tax administrative system. It ought to be checked if IRB wants to improve efficiency and productivity of its administrative system.

The findings on the taxpayers perceptions indicate that, generally, the respondents positively perceived the implementation of SAS in Malaysia.

Furthermore, findings of the one-way ANOVA indicate that only certain variables showed significant results. Self-employed and owner-managers differ in their perceptions compared to other groups. Significant findings were found only for the demographic qualification variable against the group mean.

Although respondents positively perceived the implementation of SAS in Malaysia, majority do not perceive the tax law to be fair or equitable. This means that the general objective of the IRB, i.e., to instill public confidence in the fairness and integrity of the tax system is far from achieved. Generally, the city taxpayers perceived the tax law not to be equitable compared to the non-city taxpayers. Significant findings were found for certain demographic variables. All the findings are reported in chapters 5 and 6.

1.8 Organisation of the Dissertation

Chapter 2 compares the two assessment systems mentioned in this study; the OAS and the SAS. Strengths and weaknesses of each of the systems are outlined and discussed. The experience of the developed and developing nations in implementing SAS are then discusssed. Next, theory and hypotheses development are discussed in chapter 3. Chapter 4 describes the research design and methodology adopted in this study. Data analysis of this study is described in chapter 5. Chapter 6 discusses the findings and implications of the findings based on the hypotheses derived in chapter 3. Finally, in chapter 7, conclusions are based on the findings, followed by the delimitations of this study, and the subsequent recommendations to the IRB are stated based on the findings of this study.

CHAPTER 2 INTRODUCTION TO THE TAX ASSESSMENT SYSTEMS

2.1 Introduction

The tax system of a country does not only consists of the various taxes' imposed and collected but also include the assessment system practised by that country. Tax assessment system, on the other hand, could be classified into the traditional assessment system and the new assessment system. The former is known as the Official-Assessment system (OAS) and the latter as the Self-Assessment System (SAS). OAS is the traditional system of assessment practised by most of the developing and Asian nations.* Under the OAS, the taxpayers receive their annual tax returns from the Inland Revenue Board (IRB)[3], and it is the taxpayers statutory duty to declare all the necessary particulars and information pertaining to their income and expenses for that particular year of assessment. Taxpayers then submit the tax returns to the IRB for computation of their tax obligation for that particular year of assessment. Based on the information provided by the taxpayer, the IRB computes the tax payable and inform the taxpayer of such amount payable. Thus, the responsibility of determining taxable income and assessing income tax lies with the IRB, and not with the taxpayer. However, although the

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[1] Taxes are from two main sources. One is mainly from the direct tax system and the other is from the indirect tax system. In the direct tax system, in general, payroll taxes and corporate taxes form the main sources of revenue. Indirect taxes consists of such taxes like sales and service tax, Value Added Tax, and other consumption taxes. VAT is yet to be implemented in Malaysia, but there are Sales and Service Tax on goods and services.

[2] All the developed nations practise SAS, except UK. SAS will be implemented in UK effective 1997.

[3] Prior to March 1, 1996 IRB was known as the Inland Revenue Department in the Ministry of Finance. Effective March 1, 1996, the IRD was corporatised and is now known as the Inland Revenue Board (IRB).

IRB assesses the tax returns submitted by the taxpayers, it is the responsibility of the taxpayers to ensure that all sources of income are properly declared. In this system, the onus of proof lies with the taxpayer. Self-assessment system (SAS) is discussed in length in the next section.

2.2 The Self-Assessment System (SAS)

Self-assessment[4] according to Barr, James, and Prest (1977) has two broad functions; the primary functions and the secondary functions. The primary functions include those that are logically essential to the operation of income tax, such as:

1. The calculation of total income
2. The calculation of total tax-free income
3. The calculation of total taxable income, and
4. The calculation of tax due

The above primary functions are the responsibility of the taxpayers. Thus, in essence, self-assessment ia a system where the taxpayer rather than the tax office or the IRB is responsible for the calculation of his/her taxable income and the amount of tax due. Some taxpayers may not need to remit any amount to the tax department due to the withholding function found in the SAS but have to submit the tax forms for records

[4] Self-assessment means the evaluation process undertaken by an individual. With respect to taxation, self-assessment refers to the process undertaken by taxpayers to assess their own tax payable for a particular year of assessment.

purposes. The withholding function is an important and integral portion of SAS. Under the withholding function, taxes are deducted at source. A similar and more common function to the withholding system is the Pay As You Earn (P.A.Y.E) system. In the PAYE system, certain percentages of the taxpayer's monthly income is deducted at source. Since the tax has been deducted at source, the taxpayer either has to wait for a refund or pay the amount he owes to the tax department.

Aside from the withholding function, the other secondary functions according to Barr et al.(1977) include:

1. Official assistance to taxpayers, and
2. Checking and verification by the tax authorities of returns prepared by the taxpayer, widely known as the tax audit.

The secondary functions are not logically necessary for the operation of an income tax, but are needed in practice as an aid to the primary functions, These secondary functions are the responsibilities of the IRB. Checking and verification activities also known as tax audits are carried out by the tax office only on a sample of returns. For example, in the U.S, only 1 per cent or less' of the returns are subjected to tax audits. Thus, for the SAS to be successful, tax administration functions of withholding, checking, verification and auditing must be efficient. Most importantly, the withholding

[5] The highest audit rate was in 1995. The audit rate was 1.25 per cent, and was the highest in the decade (Wagenbrenner, 1995).

function[6] must be efficient in order for SAS to operate effectively. The refund system and the verification function should also be efficient in the SAS.

OAS is the conventional tax assessment system compared to SAS. Under the OAS, it is assumed that the taxpayers do not possess the necessary knowledge to compute their own tax payable. On the other hand, under SAS, taxpayers are forced to understand tax rules and regulations (Barr et al. 1977; Sandford 1989, and Cheung et al. 1995). This is because, taxpayers will have to compute their tax payable on their own, and remit the necessary amount to the tax department. Nevertheless, professional help can be sought by taxpayers who do not have the knowledge of computing their own tax liability. This best alternative, however, comes with a price tag, i.e., fees, that must be paid for these professional services.

SAS is implemented in most developed countries like the United States, Canada, Japan, New Zealand and Australia. Prior to the implementation of SAS, these countries had OAS as the assessment system. What then prompted these countries to introduce SAS? Why did many of the developed countries, such as the U.S., Canada, Japan, Australia, New Zealand, Ireland, and developing countries such as Indonesia, Thailand, and Philippines adopt SAS as their assessment system?

[6] Withholding tax requirements in Malaysia apply only to income such as interest, royalties, special classes of income, and contract payments. Except for interest, this applies to both resident and non-residents. Others are solely applicable for non-residents only. The Schedular Tax Deduction (STD) scheme introduced by the IRB on the employees salary beginning year of assessment is also a withholding tax.

The next section outlines briefly the experience of some of the developed and developing countries in implementing SAS. Lessons of these countries can act as guides to identify issues, problems, and opportunities pertaining to SAS, in general. Did SAS improve the tax administrative system of these countries? Theory associated with SAS will be discussed in chapter three. Hypotheses are generated from the theory and tested in this study. The main focus of this study is on the feasibility of introducing SAS in Malaysia based upon the benefits and problems associated with it.

2.3 Experience of Developed and Developing Nations in Implementing SAS.

A *U.S.A. and Canada*

In both the U.S. and Canada, SAS was introduced in the early 1940's[7] . It was introduced during the first world war to lessen the burden of the Internal Revenue Service (IRS). At the time of its introduction, the provisions of the income tax were simple which made compliance easy. This, however, is not true today. The Internal Revenue Code (IRC) has gone thicker and thicker with hundreds of provisions and regulations being added every now and then.

[7] see Barr et al. (1977).

SAS was introduced to improve voluntary compliance and to reduce tax administrative cost. Nevertheless, this has not deterred tax evasion and non-compliance. In 1983, the U.S. Department of Treasury found that the total revenue loss to the U.S. government as a result of tax non-compliance was over $90 billion, substantially more than the Federal deficit of $57.9 billion in that year (Witte and Woodbury, 1985). Milliron and Toy (1988) in their analysis of the Taxpayer Compliance Measurement Program (TCMP) data, found that the aggregate dollar amount of non-compliance for individuals reached a record high of over $86 billion for the 1982 tax year.

As a result, the tax gap in the U.S. is said to be growing bigger and bigger every day.[8] This alarming trend and the size of the tax gap have prompted many tax researchers to undertake studies relating to tax compliance by the individual taxpayers and tax preparers (Friedland et al., 1978; Spicer and Becker, 1980; Jackson and Jones, 1985; Milliron, 1985; Karlinsky and Koch, 1987; Madeo et al.,1987; Cook, 1990; and Reckers et al., 1991). Most of these researches focussed on the factors affecting tax compliance, and managed to find some solutions to such problems.

It was also a perceived notion that before the introduction of the SAS, computerisation of the tax procedures is vital. This, however, is not true in the case of the U.S., Canada and Japan. Computerised handling of tax returns was introduced in the U.S.

[8] Tax gap is the difference between taxes owed and taxes actually paid.

and Canada only in 1962, very much after the introduction of the SAS. In the case of Japan, computerised handling of tax returns was introduced only in the late 1960s.

B *Japan*

Compared to the U.S.A and Canada, Japan faced many problems in the initial stages of implementing the SAS. It was not smooth sailing for Japan in implementing the SAS. The Japanese government introduced the SAS immediately after the second-world war in 1947. The war had a great impact not only on the Japanese economy but also on the infrastructure and others. The Japanese economy was very weak after the war. Thus, more revenue was needed by the Japanese government to rebuild Japan.

One of the main sources was the personal income tax'. To collect as much revenue as possible and in a shorter period, all eligible taxpayers were registered with the tax department. As a result of this, the number of taxpayers rose from 700,000 before the war to around 7 million after it (Barr et al., 1977). This, however, did not mean that there were no problems in compliance. Before the war the 700,000 taxpayers did not have any experience in computing their own tax payable. Thus, when SAS was introduced there were more confusions among the taxpayers as they were forced to compute their own tax payable.

[9] Personal and corporate income tax are mandatory on the taxpayers. Since these taxes affected all the wage earners, self-employed, and the corporate sector, it was seen as the most convenient method of collecting revenue for the government.

More problems were faced by the Japanese authorities in ensuring that small and medium enterprises (SMEs) complied voluntarily with the tax laws and system. Many of the SMEs did not have proper books of records. The owners had little knowledge of maintaining proper accounting records. Furthermore, the accounting and legal profession were of little help at that time. This was because there were very few accountants then, and they had little experience in dealing with tax affiars in any detail. The legal profession, on the other hand, had no experience of their clients' tax affairs (Barr et al., 1977).

On the whole, the tax administrative system was poorly managed. Although, the tax office of Japan took more tax administrators that did not solve their problem in collecting income taxes more efficiently. This was more evident after the first year of operation of the SAS. About 70 per cent of taxpayers and 55 per cent of the taxes due were re-assessed by the tax authorities. As a result of the re-assessment, 40 per cent of the taxpayers were finally made to pay their tax payable to the tax office. If there had been no re-assessment, these taxpayers would not have paid income taxes for that year of assessment and the government would have lost the revenue supposed to be collected from these taxpayers if there had been no re-assessment. The root of the problem was because the taxpayers did not have the knowledge to comply with the tax laws under the SAS. SAS was totally alien to the taxpayers. Forcing the taxpayers to understand and comply voluntarily with the tax laws created more misunderstanding and confusions among them.

Recognising the imminent problems and weaknesses in the tax system, various steps were taken by the Japanese tax authorities. For instance, an intensive educational program was undertaken to promote tax literacy among taxpayers. The Japanese tax authorities realised that only through tax education, tax awareness and compliance could be increased. Furthermore, in order to improve book-keeping among SMEs and to promote honest self-assessment by taxpayers, the colour return system was introduced'" (Ishi, 1988).

The blue return system was devised to encourage taxpayers especially the SMEs to keep. a minimum set of accounting records. In order to achieve this objective, significant incentives were offered by the tax authorities. For example, taxpayers tiling a blue return were not subject to re-assessment as long as errors could not be found in their accounting books and records. Furthermore, these taxpayers were allowed to deduct reasonable amounts for wages paid to family members working in the same companies and to use special tax-free reserves (reserves for bad debts, losses due to price fluctuations, etc.).

On the other hand, taxpayers tiling white returns were not given the above incentives for tax purposes, and they were not obliged to keep books and records (lshi, 1993). Most of the farmers did not tile the blue returns, thus the tax authorities had to estimate their income on the basis of their crops. That was also true for the owner managers and the self-employed taxpayers. Over the years the initial problems were

[10] **The blue and white returns were introduced by the Japanese tax authorities based upon the recommendations made by the Shoup Mission in 1949 (see lshi ,1988 and 1993).**

solved. But it is not known whether this could be due to the introduction of the colour return system, or due to other reasons such as taxpayer education that paved the way for better compliance by the taxpayers.

C Australia

SAS was introduced in Australia, in stages, after careful studies were carried out by the Australian Taxation Office (ATO) In 1984, the AT0 established a Task Force to review the then lodgement of returns and assessing procedures. At that time the assessment system practised was the OAS. The Task Force, in their review, concluded that the old system or the OAS was not cost-effective and that SAS should be introduced. One of the main argument for introducing SAS was that it will be more cost-effective than the system practised then. the OAS.

Based on the recommendations of the Task Force, Australia introduced its first stage of self-assessment in 1986/87, effective financial year 1 July 1986. In the first stage of SAS, all the taxpayers were required to submit annual returns containing detailed information and their calculation of the amount of taxable income (Sandford and Wallschutzky, 1994). At this first stage of SAS, taxpayers were not asked to send their payments with their annual returns. Although the taxpayers had to compute their tax payable, the AT0 issued assessments based upon the computation submitted by the taxpayer. These returns, however, were not subject to further scrutiny by the ATO.

Normal and routine checking were still undertaken by the AT0 officials. This was to ensure that taxpayers complied with the tax requirements, and above all knew how to compute their tax payable. As a result of this the emphasis was placed more on the post-assessment checking (mainly through audits) and other advisory services rather than computing the tax payable (Still, 1992).

The second stage of self-assessment started in 1989/90 when a system of full self-assessment was introduced for companies and superannuation funds. In this full self-assessment system, the taxpayers were not only had to compute their tax payable but also to remit their tax payment to the ATO. This was found to be a more efficient method of collecting tax, since it allowed the AT0 to shift its primary focus from processing returns and issuing assessment, to helping taxpayers meet their obligations and taking relevant enforcement action.

In the third stage of implementing SAS in Australia, the Australian Government released a consultative document, known as "A Full Self-Assessment System of Taxation" in 1990. The main aim of this consultative document was to extend the full SAS to individual taxpayers. This document contained a number of legislative and administrative changes. The proposed changes included the following:

- introduction of a system of tax rulings;
- introduction of new interest and penalty provision;

- clarification of record-keeping requirements;
- removal of requirements on taxpayers to provide elections; and
- replacement of Commissioner's discretions with objective criteria.

Some of the above proposals were enacted through legislations. Although the three stages took more than four years for Australia to implement SAS, and full assessment has yet to be implemented, it nevertheless led to a more efficient tax administrative system. Australia has not achieved its goal towards implementing full self-assessment, especially among the individual taxpayers. It is expected that full implementation of SAS for all taxpayers may need to be delayed for some time (Sandford and Wallschutzky, 1994).

D *Ireland*

According to Cassells and Thornhill (1993) there were two main reasons why SAS was introduced in Ireland in 1988. First, there were serious imbalances in the Irish public finances in the middle and late eighties. This was more evident in the Irish government's debt/GDP ratio in 1987. The ratio was 117 per cent, which clearly indicated an unhealthy state of the public finances and economic situation of Ireland. It was urgently felt that ways and means must be sought to increase tax revenue (Cassells and Thornhill, 1993).

The second reason for introducing SAS was that tax compliance among the self-employed was considerably low. The report of the Irish Comptroller and Auditor General showed that total tax arrears for the self-employed sector as of 3 1 May 1988 was IR 1,3 18 million pound. This figure was found to be at least five times the expected annual tax yield from this sector. The Task Force came to the conclusion that OAS and the then existing collection system were not efficient to combat the real arrears problem. SAS was highly recommended as the alternative system.

In 1988, the Irish Finance Act was amended to incorporate the implementation of SAS. The government felt that the best means to achieve high compliance and less problems was to introduce SAS in stages as in the case of Australia. Since the main objective was to get the self-employed to comply with the tax laws, the usual practice of assessing on a preceding year basis was unaltered. When SAS was first introduced the government decided not to make it mandatory for taxpayers to calculate their tax payable. However, along with their annual return, a calculation form was provided to the taxpayers and they were encouraged to use it. These measures taken by the tax authorities were found to be effective in overcoming some of the problems mentioned above.

Furthermore, as a result of SAS, some significant improvements were made on the tax revenue collection. The following comparative figures show the impact of such changes in the assessment system.

(1) The anticipated tax revenue for the 1988/89 tax year under the old system was IR100 million sterling pound to IR1 10 million sterling pound. The actual yield under SAS was IR 174 million sterling pound.

Thus, the actual collection under SAS far exceeded the anticipated revenue under OAS. The actual amount of IR74 million sterling pound surpassed the anticipated revenue under the traditional assessment system or OAS.

(2) The number of annual tax returns received on time for the previous year under OAS was 92,803. The number received on time under the new basis was 134,344. It was not mentioned why there was such an immediate increase. The reasons could either be due to heavier penalties or tax education programs undertaken by the tax authorities.

(3) The number of outstanding tax appeals for the previous year under OAS was 105,603. Interestingly this number came tumbling down, since under SAS the total number of tax appeals was only 9,669.

After a lapse of two years of SAS, further changes were made to the system. The preceeding year basis of assessment for income tax was abolished, and instead the current year basis of assessment was used. The system was then extended to corporation tax, and later to capital gains tax in 1991. Ireland clearly had benefited from implementing SAS, as shown above.

E *Indonesia*

SAS was implemented in Indonesia since 1984. Indonesia's experience in introducing SAS is of some relevance to a study of this nature in Malaysia. Indonesia is a member of the Association of South East Asian Nations (ASEAN), where Malaysia plays an important role as a founding member. One of the main reasons for Indonesia to introduce SAS was due to the lack of competent tax officials and delay in issuing assessment notices to the taxpayers. The delay in issuing notices led to corruption and other malpractices between the taxpayers and the tax officials (Mansury, 1992). Thus. to eradicate this social problem, the government introduced SAS in 1984.

The Indonesian experience can serve as a guide introducing SAS in Malaysia successfully'[11]. Since Indonesia with a much bigger population[12] than Malaysia successfully introduced SAS in 1984, Malaysia with less administrative problems and high literacy rate[13] can also implement SAS with less problems. This argument is fully

[11] This is mainly because corruption and other malpractices are not as rampant in Malaysia compared to Indonesia (Pollock, 199 I).

[12] Indonesia's total population is stated to be 198.5 million, and that of Malaysia is around 19.5 million Economic Intelligence (EIU 1993).

[13] The literacy rate in Malaysia is about 80% (Source: Asiaweek, June 9, 1995). According to Asiaweek, literacy generally means the ability to read and write a short simple statement about everyday life. Furthermore, literacy rates refer to the population over fifteen years of age and ten for Singapore.

supported by Pollock (199 1) who argued that due to low levels of corruption in Malaysia and Singapore, which can be credited to excellent civil services, SAS can be introduced successfully in these two countries. This study will investigate Pollock's claim and make recommendations whether SAS can be introduced in Malaysia with minimum cost.

Since proper maintenance of books and records by the SMEs are vital for the SAS, Indonesian tax authorities provided guidelines on the maintenance of such books and records. This is to ensure that tax compliance by the SMEs is maintained at a high level. Books and records must be kept in Indonesia using Latin letter and Arabic figures, and must be denominated in Rupiah and have to be composed in the Indonesian language or a foreign language approved by the Minister of Finance. These books must be kept for at least ten years, so that within this period, if the Director General of Taxes need to do a re-assessment, the books are available. Tax audit is periodically carried out on a selective basis in order to ensure that taxpayers fully comply with the tax laws. Penalties are imposed if it were found that books and records were not kept in the proper manner as prescribed by law. A stiff penalty is imposed if any manipulation of accounts were discovered by the tax authorities.

It is not known to what extent SAS is successful in Indonesia. Nevertheless, it is clear that SAS was implemented in Indonesia to overcome the inefficient tax administrative system, abolish bribery and other malpractices between the taxpayers and the tax officials. The various experiences gained by the developed and developing nations in implementing SAS can be the starting point for other nations that have not implemented SAS. By implementing SAS, not only benefits could be reaped, but could also modernise the tax administrative system. The next section highlights some of the benefits and problems associated with SAS.

2.4 Benefits and Problems of SAS

There are a number of potential benefits and problems that have been identified with SAS by a number of researchers (Barr et al., 1977; Sandford, 1989, 1990; Ishi, 1993; Cassels and Thornhill, 1993; and Cheung et al., 1995). Some of the potential benefits that have been identified are: Productivity and Cheapness; Greater Taxpayer Understanding and Promoting Voluntary Compliance; Increased Revenue. On the other hand, some of the problems that are associated with SAS are: High Set-Up Costs; Decline in the Quality of Assessments; Increase in the Compliance Costs.

2.4.1 Productivity and Cheapness

Barr et al. (1977) contend that by implementing self-assessement there would be net savings, mainly because less staff will be employed in the assessment department. This is because SAS reduces the need for issuing large volumes of assessment, thus this could lead to a significant reduction in bureaucracy and paperwork. As a result, more resources could be released to other important activities such as confronting non-compliant taxpayers and combating tax evasion (Cheung et al., 1995). Pollock (1991) also argued that SAS is the most radical way to save tax department labour and cut down on tax evasion.

The above arguments, however, may not be true in the real sense because the existing assessment officers will need to be retrained in other areas especially in the area of tax audit and computer usage. Thus, although the assessment functions will be reduced as a result of SAS, proportionally the tax audit function has to be increased. As such, the actual net savings from implementing SAS is not very clear. This is because according to Ishi (1993) tax collection is much more expensive under SAS than OAS as most of the collection work must be done by the revenue staff. This argument against SAS by Ishi contradicts Barr's contention that SAS will bring net savings to the government. Only by evaluating the efficiency and productivity of the tax department before and after the implementation of SAS could one determine whether there would be any net savings or

otherwise. Since SAS has not been introduced in Malaysia, this study therefore attempted to evaluate the efficiency and productivity of the existing tax administration system.

2.4.2 Greater Taxpayer Understanding

SAS will compel the taxpayer to acquire a better understanding of the tax system as it applies to him, and therefore, lead to better voluntary compliance. [14] Nevertheless, it is the responsibility of the tax department to ensure that taxpayers are given the proper education prior to the implementation of the SAS. In the case of Japan, forcing the taxpayers to comply voluntarily with the tax laws created confusions and problems. Thus, a need arises to determine empirically the extent to which taxpayers will understand the tax laws better if SAS were implemented. Whether there would be greater understanding or otherwise as a result of implementing SAS has yet to be determined? Naturally taxpayers will be forced to comply with the tax laws. Rut would forcing them to comply with the laws lead to greater taxpayer understanding?

2.4.3 Increased Revenue

Cheung et al (1995) argue that SAS will tend to ensure a steady inflow of revenue to the government as the payment of taxes is no longer dependent upon the tax

[14] **This argument is also supported by Mansury (1992). According to him self-assessment will increase taxpayers' awareness and understanding of the income tax requirements. Also, better informed taxpayers are less likely to under-assess their income. This, however, is only true if the audit function performs very well. Furthermore, to deter possible tax dodgers penalties must be imposed accordingly.**

department's assessing capabilities. This means that, since the withholding function has to play a major role where any increase in revenue will depend on this function. Taxpayers will have their taxes deducted at source depending on tax estimated to be paid for that year of assessment. Through this manner, the government can collect the taxes in advance rather than wait until all assessments have been carried out. It is anticipated that SAS would bring about an increase in revenue to the government. [15]

Ishi (1993) on the other hand, argues that SAS will result in a lower proportion of total tax liability being actually collected, which will not lead to increased revenue as suggested by others. The reason why revenue may not increase is because of the belief that income-earners who file their own taxes pay less tax than those whose taxes are withheld at source. Taxpayers with income withheld have no freedom of manipulating their taxable income, while self-assessed income-earners have a substantial margin to manipulate their income for tax purposes (Ishi, 1993). This could be true in the case of the self-employed taxpayers intentionally or unintentionally. They may unintentionally evade taxes due to improper record keeping. On the other hand, they may intentionally evade taxes by failing to report all incomes from all sources to the IRB. This constitutes the underground economy whose real revenue is difficult to assess.

[15] In the case of Ireland, the actual yield under the SAS far exceeded the anticipated tax yield under the OAS. The actual tax yield was IR174 milliom pound, compared to the anticipated yield which was IR100 to IR1 10 million pound. (Cassells and Thornhill, 1993)

Some authors are of the view that advantages associated with SAS are not always true. Accordingly, these authors put forward counter arguments against the advantages or benefits of SAS. The potential problems if SAS were implemented are discussed below.

2.5 Potential Problems of SAS

2.5.1 High Set Up Costs

It is argued by many authors that SAS involves high initial costs[16] in replacing an existing established system (Barr et al., 1977; Ishi, 1993; Cassells and Thornhill, 1993; Cheung et al.,1995). Since SAS replaces an existing established system, substantial resources have to be spent on tax education, provision of guidance and assistance to taxpayers, and in the setting up of an effective administrative system for audits to deter non-compliance (Cheung et al., 1995)

However, these high initial set-up costs are not permanent in nature. This is so because at the introduction stage of the SAS, will the above mentioned costs be borne. But once SAS is fully operational, the above costs might be minimised. In the long run it is hoped that these initial costs would be reduced and would bring about productivity in the tax department.

[16] High initial costs could be in the form of taxpayer education, simplification of tax rules and regulations, provision of guidance and assistance to taxpayers and in setting up an effective system for audits to deter non-compliance.

2.5.2 Decline in the Quality of Assessments

It is asserted by some (Ishi, 1993 and Cheung et al.,1995) that SAS may lead to a decline in the quality of assessments and in the tax administration, as a whole. In the case of quality of assessments, it is strongly argued by Cheung et al. (1995), that more errors (whether deliberate or otherwise) may be found. It is difficult to ensure that all taxpayers will have the necessary knowledge to compute their own tax payable. As a result of low tax literacy among the taxpayers, tax liability may be understated and this would result in the erosion of the equity of the tax system. To overcome this problem, the tax department should place more emphasis on audits to ensure that the system is adequately policed. Tax audits could be expensive if not carried out properly. Thus, proper planning is necessary to ensure that this extra cost will not lead to higher compliance cost on the taxpayers.

2.5.3 Higher Compliance Costs

Compliance costs, among others are related to tax advisory services and tax preparers' consultation fees and others. It is argued that the compliance costs of' the private sector will increase if SAS were introduced (Barr et al., 1977; Ishi, 1988; Cheung et al., 1995). This is because, as a result of SAS, taxpayers will be required to keep records and to employ tax agents in order to discharge their tax obligations. This is especially true where the general levels of literacy and numeracy are low and the individuals could not cope with their own tax affairs. However, only a comparison of'

costs before and after the implementation of SAS will determine whether the compliance costs of the individual taxpayers will be higher. Nevertheless, it has been argued by many that compliance costs must always be kept at a minimum in a good tax system (Sandford. 1989 & 1990; Baldwin, 1992; Greene and Maddalena, 1994).

2.5.4 Conclusion

From the above discussions on the benefits and problems in introducing SAS, some conclusions can be drawn. For instance, one of the benefits of implementing SAS is increased revenue. In the case of Ireland and Indonesia, this was proven to be true. The other benefits may or may not be due to SAS, but countries that have adopted SAS have shown that it worked in most cases. In the case of problems associated with SAS. high set-up costs will have to be incurred only in the initial stages. Whether compliance costs will increase after the introduction of SAS has yet to be determined.

2.6 Steps To Be Taken Before The Introduction of SAS

Some of the steps necessary before the introduction of SAS are outlined by Barr et al. (1977) and Cheung et al. (1995):

A Promoting Voluntary Compliance via Tax Education Programs

For any tax system to be successful, tax policy makers must ensure that the system is well accepted by the taxpayers, tax practitioners and the tax officials. A new

system will not be received well by the tax practitioners and the taxpayers if they do not possess the necessary knowledge. Therefore, to ensure the smooth implementation of SAS, the first agenda should be educating the taxpayers on voluntary compliance. A tax education program will not only improve the taxpayers' understanding of the new system but also increase their confidence and awareness towards the new system and recognise their obligations to pay voluntarily their fair share of the tax burden.

To achieve this, the benefits of compliance by the taxpayers must be made clear and taxpayer education programs should be expanded through the use of media, the publication of guidance notes, improvements in the area of counter services and the simplification of tax forms and returns (Cheung et al. 1995).[17]

B Tax Forms, Instructions, and Rulings

The tax department must be prepared to have the annual tax returns and forms made simple in order to increase voluntary compliance. If the forms and returns are complicated, then the objective of higher compliance would not be achieved. Simplified tax forms and instructions would ensure higher tax compliance.

Since under the SAS, taxpayers are expected to compute their own tax payable, tax rulings must be made available to the public at large. For instance in the U.S. every

[17] Japan and Australia's experience in promoting voluntary compliance in stages proves the point.

tax ruling is made available by the IRS to the taxpayers. These tax rulings are very important to the tax practitioners before they make any decisions and give professional advice to their clients. Tax rulings are compiled by professional agencies such as the Commerce Clearing House (CCH), Research Institute of America (RI A), Prentice Hall (PH), Bureau of National Affairs' Tax Management Portfolios (BNA), and others." It is important that binding rulings setting out the views of the Director-General (DG) of the tax department on the interpretation and application of the law are made available to the public. If these tax rulings are made available to the public, less confusion and misunderstandings will occur. Informed taxpayers are important for less confusion and to achieve better and higher compliance rate. It is thus more important for the IRB to be more transparent than it presently is.

C. Tax Audit and Retraining of Tax Officials

More attention has to be given to tax audit under the SAS than in OAS. Since under the SAS, assessment function will be non-existent, the audit function must be beefed up. Annual tax returns will have to be audited. However, not all returns will be audited but only for a portion of the total taxpayers", limited to those who have been known to evade taxes, based on information received from the public.

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[18] These tax services annually bind the tax rulings and are distributed to the tax practitioners, accountants, and other interested parties at a cost. With the advance of computer technology, most of these rulings are now available in CD-ROMs.(Raabe et al., 1991).

[19] In the U.S. the annual tax audit is only about 1% of the total returns received or less than that.

As a result of the shift in the emphasis and functions, from assessment and audit, tax staff who were previously attached to the assessment department must be retrained for other important functions under SAS, such as tax audit and computerisation. This will require a fundamental behavioural change among the tax officials, and retraining will help them cope with the new challenges. Retraining is also important to provide them the necessary interpersonal skills needed for taxpayer service activities.

D Public Consultation and Tax Practitioners' Support

The IRB must conduct public surveys to gauge the level of awareness, understanding, and views on the new system that will affect them. Taxpayers and tax practitioners' opinions will provide input to the IRB before implementing SAS. Taxpayers' opinions are invaluable in implementing SAS since they will be the most affected upon its introduction. Once the IRB has the support of the public and the tax practitioners, a smooth implementation of the SAS would be ensured. Otherwise, implementation of SAS would create unnecessary tensions and misunderstanding among the taxpayers and the tax professionals. This study's findings maybe useful to the IRB since the survey involves the individual taxpayers in Malaysia.

The next section discusses the historical perspective of the Malaysian tax system and the recent developments. Is Malaysia heading towards SAS? Will OAS be replaced by SAS? Are steps being taken by the government to ensure the smooth implementation

of SAS in Malaysia? Can SAS be implemented in Malaysia at a minimum cost? The next section gives a critical perspective by considering the historical background of' the Malaysian tax system, in general.

2.7 The Malaysian Tax System

2.7.1 Historical Background of the Malaysian Tax System

In 1910 the simplest form of indirect taxes was first introduced in Malaya.'" This was the first ever structured form of taxes based on the western model introduced in Malaya then (Edwards, 1970). A tax on income was first introduced in Malaya in 1917 which was repealed in 1922. The next form of tax on profit and income was introduced during the Second World War. Taxes collected during the war were mainly introduced to raise revenue for military purposes.

In 1946, the Malayan Union government was formed in Malaya. A commission headed by R.B. Hearsman was given the task to recommend a tax system for Malaya. The main objective of the taxation system introduced from the recommendations of the Commission was to achieve a more equitable distribution of the tax burden besides generating revenue for the government (Edwards, 1970).[21] In the beginning, the basis of

[20] Prior to her independence on August 30, 1957, Malaysia was known as Malaya. In 1963 when Sabah and Sarawak became part of Malaya, the name of the country was changed to Malaysia. Initially Singapore was part of Malaya, but in 1963, Singapore became autonomous and became an independent city state.

[21] This saw the birth of the first tax ordinance in Malaya. It was known as the Tax Ordinance 1947. And the first year of assessment for income tax was 1948.

taxation adopted by the Federation of Malay States was territorial whereby income derived and received by a taxpayer in Malaya from overseas were subjected to income tax. This created problems with respect to double taxation. Since income received from other countries were already subject to tax, they were again taxed in Malaya. To overcome the above problems, the Minister of Finance later introduced the world income scope as the basis of taxation in Malaya.

Tax Ordinance was introduced in Sabah and Sarawak much later. The first tax ordinance in Sabah was introduced in 1957, and in 1961 in Sarawak. As a result, peninsular Malaysia and the two states in the Borneo island had different tax ordinances. In order to harmonize and to bring out conformity in the implementation of the ordinances, an Income Tax Act was introduced by Parliament in 1967.[22] The provisions in the ITA 1967 were made mandatory and became effective beginning year of assessment 1968. Since then, the government has not repealed the act[23], but numerous amendments have been introduced to fulfill various objectives of the nation. The assessment system practised in Malaysia beginning year of assessment 1968 has been the OAS.[24]

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[22] The Income Tax Act (ITA) 1967 had a principal act and a supplementary act. The principal act covered mostly provisions regarding income and other earnings, whereas the supplementary act covered additional taxes such as Excess Profit Tax, Development Tax, and others. The Supplementary Act has since been abolished.

[23] A tax reform was undertaken by the government in 1988. This was due to the slowdown in the economy in the mid-eighties. In order to boost the economy, various incentives and others were given to investors in Malaysia under the tax reform (Barjoyai, 1993). The effort by the government has paved the way for Malaysia to achieve industrialised status by the year 2020.

[24] This is so because Malaysia had initially inherited all the practices from her colonial power, the United Kingdom. Even in the UK, SAS has yet to be implemented. It will only be fully implemented in 1997-1998(Rayney,1994).

2.7.2 The Official-Assessment System in Malaysia

The various sections in the ITA 1967 specifically define the OAS as practised in Malaysia which is based on a preceding year basis. Section 77(1) of the ITA 1967, states that tax returns must be duly completed and returned to the IRB within 30 days or such further period given by the Director-General of Inland Revenue (DGIR). Furthermore, according to Section 90(1)(a), where a taxpayer submits a tax return, the DGIR may accept the return and raise assessments accordingly. But the DGIR may also reject the return of income and according to the best of his judgement, raise an assessment based on other figures that are available with the IRB [Section 90(l)(b)]. Where no return of income has been made, the DGIR can, to the best of his judgement, raise an assessment under Section 90(2).

Upon receipt of the annual tax return from the taxpayers, salaried and self-employed, the assessment is carried out by the IRB assessment officers. If in their course of duty, the officers suspect that the particular taxpayer has overstated his/her expenditures, under-disclosed income, or does not provide necessary information on the total income, such cases are normally transfered to the Investigation Division of the IRB for further inquiries or investigations. If found guilty, the offending party will be charged with either fraud, willful default or negligence.[25]

[25] Section 114 (1), states that if a taxpayer evades taxes willfully through the omission of income, or maintain false accounts or records, then the taxpayer will be liable for a tine not exceeding ten thousand ringgit or imprisonment for a term not exceeding three years or both. On the other hand, a fine for failure to furnish tax returns shall not exceed one thousand ringgit or imprisonment for a term

2.7.3 Recent Developments in the Malaysian Tax System

Effective year of assessment 1995, the IRB has introduced a new system of collecting income tax from the employees or salaried taxpayers. It is known as the Schedular Tax Deduction (STD) scheme. Under the STD, employers are required to deduct every month tax from the remuneration of each of their employees in accordance with a schedule. This schedule takes into consideration the monthly remuneration of the employees, and number of dependents. Based on the schedule, employers have to remit the amount deducted from the employees salary to the IRB by the 10th of the following month.

The main reasons for implementing the STD by the IRB are to ensure that taxes are collected faster than before and also to collect more revenue. Prior to year of assessment 1995, salaried taxpayers had the option to pay the tax payable monthly or in full sum after being served with the assessment notice. It was not an efficient way ot collecting taxes from the taxpayers. Also, P.A.Y.E scheme has been in practice in Sabah and Sarawak since 1968. In order to bring conformity in the tax practices, STD has been introduced in peninsular Malaysia also. However, unlike taxpayers in Sabah and Sarawak, where their taxes are deducted based on current year basis, their counterparts' salaries in the peninsular are deducted based on the preceding year basis. According to

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not exceeding six month or both [Section 112 (l)].

the IRB's DGIR, there will be adjustments and an easing out process later. He has assured that eventually all taxpayers will be paying their taxes based on the current year. This is to take place within the next three years (Shukri, 1995).

Given the above scenario and latest developments in the tax administrative system, the IRB has already set its mind in implementing SAS in Malaysia. Implementing STD is the first step towards introducing SAS in Malaysia. Problems associated with STD will be thrashed out within three years before SAS is implemented. Introducing STD itself is not without its problems. For instance. some employers have the misconceptions that only permanent, local employees were liable to STD. Others were uncertain as to how STD affects directors of companies. In the same manner, some were not sure which of the various kinds of remuneration received by employees were liable to STD. With respect to fluctuating payments like overtime and commissions. some were of the view that they were outside the scope of STD (Shukri, 1995).

A simple system like STD has led to misconceptions and differing views among the employers. Employers appear to be more confused than before. This is more evident in the number of enquiries on the STD by these employers at the special counter set up by the IRB at its office. The special counter attracted about 7200 visitors in January and February 1995. Similarly, weekly telephone enquiries on STD matters reached 300 (Shukri, 1995).

To overcome the above problems, IRB, beside setting up the special counter for STD enquiries, has established a special unit called Unit Khidmat Majikan (UKM)[26]. This unit has been established in all the assessment branches of the IRB throughout the nation to assist the employers in understanding STD rules and procedures. Greater emphasis is also placed on employer-education. The methods used for such purpose include lectures for employers, telephone-answering services, as well as, the distribution of various pamphlets and guides.

2.8 Conclusion

This chapter identified the differences that exists in the traditional assessment system (OAS) and the new system (SAS). The experience of some of the developed and developing nations in implementing SAS has been discussed in length. Different countries experienced differently in implementing SAS. However, the main reasons for switching over to SAS were almost similar for most of the countries. Among the reasons for implementing SAS were to improve the efficiency and productivity of the tax administrative system, promote higher voluntary compliance, reduce administration costs, and promote greater taxpayer understanding on tax laws. Based on these benefits 'and problems of implementing SAS, the next chapter will discuss theory associated with SAS and the generation of hypotheses tested in this study.

[26] **Employers Assistance Unit (Unit Khidmat Majikan).**

CHAPTER 3 THEORY AND HYPHOTHESIS DEVELOPMENT

3.1 Introduction

The previous chapter outlined the differences in the tax assessment systems practised world wide. SAS, in particular is implemented in most of the developed and developing countries to ensure high voluntary compliance by the taxpayers, and to hring about an efficient and productive tax administrative system. OAS on the other hand, did not live up to its expectations. In the case of Australia and Ireland. the task force set up to study the weaknesses of their tax administrative system came to the conclusion that OAS was inefficient.

Taxpayer compliance which is related to the success of SAS has been studied in different perspectives by researchers in the U.S., UK, and Australia. These researches basically used two basic models. One is the financial self-interest model derived from Becker's (1967) economics-of-crime approach. The other is an expanded model which includes non-economic variables. This expanded model has been constructed by organizing variables identified in previous research.

The first model, the financial self-model. assumes that individuals maximize the expected utility of evasion by weighing the uncertain benefits of successful evasion against the risk of detection and punishment. Although this approach does not rule out a more complex utility function, the potential costs and benefits of evasion are typically envisioned in monetary terms. Thus, in this model, variables identified and said to drive

taxpayer compliance include tax rate. detection probability. and penalty structure (Fisher et al., 1992). The financial self-interest model is reflected in Figure 3.1 below.

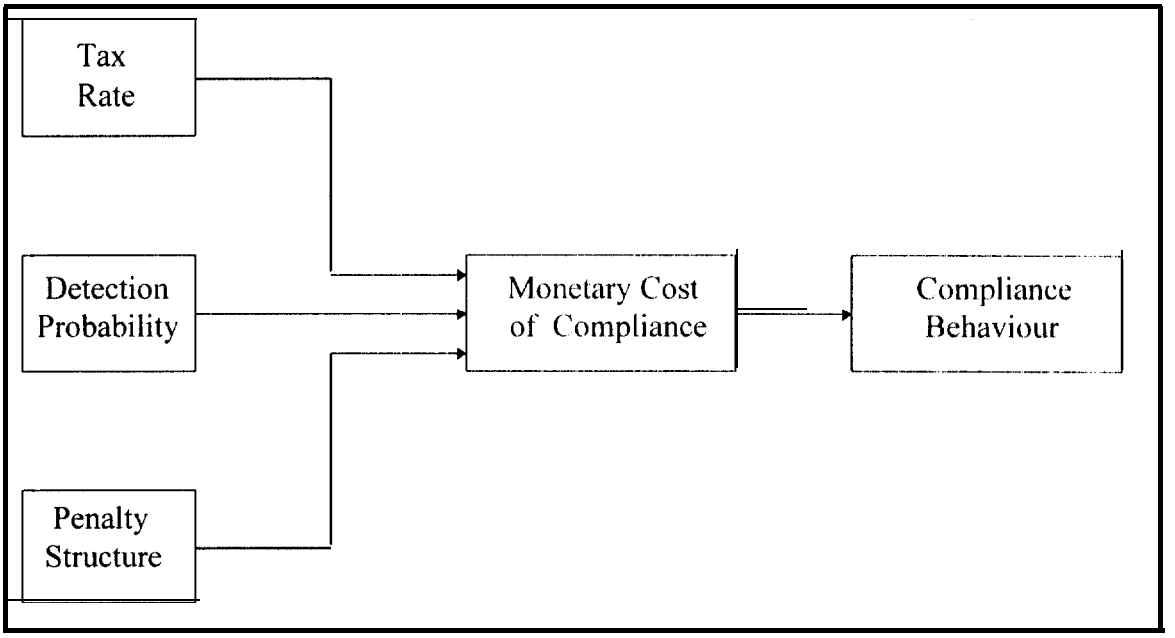

Figure 3.1: FINANCIAL SELF-INTEREST MODEL OF TAXPAYER COMPLIANCE. Source: Fisher et al.(1992)

Past empirical research have shown that taxpayer compliance bchaviour is indeed influenced by detection and punishment, the prevailing tax rate, and penalty structure. But these variables are not the only variables that affect taxpayer compliance behaviour. This is because. if these were the only variables that influence taxpayer compliance, then it has been argued that the overall compliance level would be far lower than what is observed (Alm, 1991). Thus, a financial self-interest model is not totally descriptive ot the factors influencing taxpayer compliance.[1] Furthermore, most of the empirical research

[1] see Cowell (1990) for a more complete discussion of the limitations of economic analysis for studying unlawful bahaviour.

suggests that the determinants of'taxpayer compliance are far more than the financial self-interest implies and that the relationships among these variables are not straightforward.

Jackson and Milliron (1986) in their review of taxpayer compliance literature have identified 14 key variables commonly addressed by researchers. 'These variables arc categorised into four types: demographic (e.g., age. gender), those that proxy for non-compliance behaviour (e.g., education. income level, income source. and occupation), attitudinal (e.g., ethics, perceived fairness of the tax system. peer influence), and structural (e.g., complexity of the tax system, IRS contact, sanctions, detection probability, and tax rates). Thus. in these past research, not only economic variables were included but sociological and psychological variables were also incorporated. The expanded model thus attempted to describe Fully the variables that influence taxpayer compliance. It is illustrated in Figure 3.2.

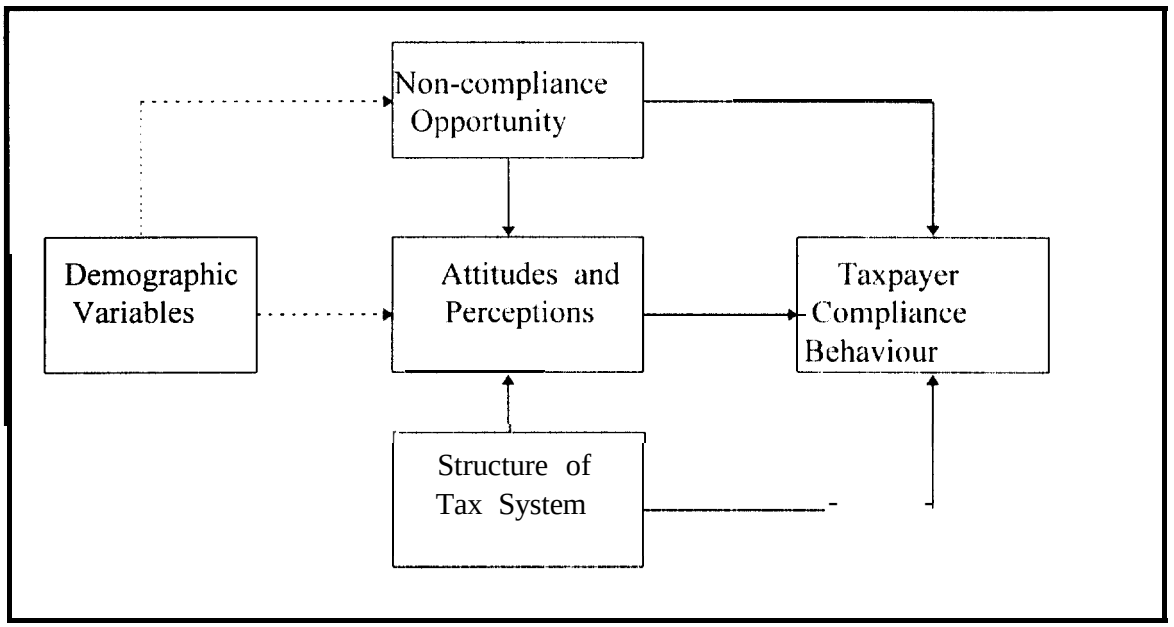

Figure 3.2: EXPANDED MODEL OF TAXPAYER COMPLIANCE
Source: Fisher et al.(1992)

In the above expanded model, factors in the financial self-interest model arc also included. The variables identified in the financial self-interest model such as the tax rate, detection probability, and penalty structure are included in the structure of the tax system. Thus, in this expanded model. not only the variables found in the economic model are included. but also other variables found to be significant in explaining taxpayer's compliance behaviour. Variables such as non-compliance opportunity and the structure of the tax system may influence attitudes and perceptions of the taxpayers. Since the focus of this study was on the taxpayers' attitudes and perceptions of the present Malaysian tax administration system. tax law fairness. and tax law complexity, the expanded model appear to be the most appropriate. It was hoped that taxpayers' perceptions on the existing tax system would determine their compliance behaviour.

Perceptions on a new system, like SAS would also provide understanding of taxpayers compliance behaviour. if such a new system were introduced in Malaysia, Furthermore, in this study one other variable identitied and studied separately by tax researchers was hypothesised to affect the taxpayers compliance behaviour. That variable is knowledge or understanding of the taxpayers of tax matters.

3.2 Knowledge and Understanding

One other variable associated with performance by tax preparers and professionals is knowledge or understanding of the tax system and tax laws. In the U.S. more attention is now given to the impact and extent of knowledge on the tax preparers work performance. Cognitive psychology in particular has given tax researchers in the U.S. to study the level of knowledge and understanding possessed by the tax preparers on their work performance. Most of these studies focused on three primary areas of interest: the relationship between knowledge and performance; the relationships among knowledge, incentives and performance; and reasoning processes (Shields. Solomon. and Jackson, 1995).

One of the earlier studies in knowledge and performance is that of Kaplan, Reckers, and Boyd (1988). This study investigated how professional tax experience interacts with the ambiguity of a tax issue to affect tax professionals' judgements. They hypothesised that when facing unambiguous issues, tax professionals' recommendations

would not be related to years of or specific experiences. When facing ambiguous issues, however. it was hypothesised that experience would interact with the probability of tax audit and the amount of deductions. The findings of the study were consistent with the hypotheses.

Bonner. Davis, and Jackson (1992) studied the relationship between knowledge and performance. Their findings revealed that a positive relation exists between technical tax knowledge and the quantity and the combined quantity-quality measures of performance, and a positive relationship between the quality measure of performance and the interaction of technical tax knowledge, functional business knowledge and the combined quantity-quality measure of performance. However, as hypothesised the results did not support a relation between functional business knowledge and the quantity measure of performance or between general problem-solving ability and performance. The results were also not significant for procedural knowledge to the quantity measure of performance, but both the declarative and procedural knowledge were significantly related to the quality and combined quantity-quality measure of performance. These earlier studies were later extended with another variable, motivation. Motivational factors such as incentives were hypothesised to have positive outcome on performance. Some other studies that considered motivational factors include those of Spilker (1 995) & Spilker and Prawitt (1995). Interestingly it was found that motivational factors did have positive effects on the subjects' performance.

All the above studies considered the relationship between knowledge and performance. All the studies adopted the experimental method. Tax knowledge may have positive effect on attitudes and perceptions of the tax preparers and taxpayers, which in turn would have positive effects on tax compliance behaviour (Jackson **and** Milliron, 1986). Thus, an extension of the second model would be appropriate in explaining the taxpayers tax compliance behaviour. The third model incorporating knowledge **is** depicted below.

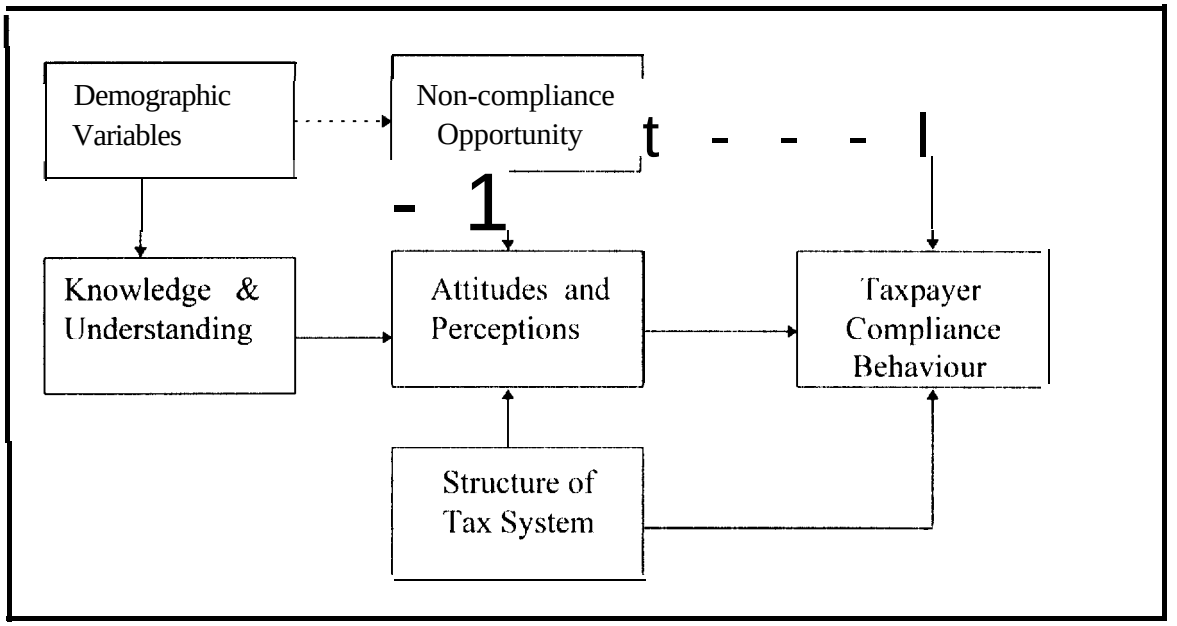

Figure 3.3: THIRD MODEL OF **TAXPAYER** COMPLIANCE
(Knowledge Based)

In the third model depicted above, variable knowledge is hypothesised to **have** impact on the taxpayer compliance behaviour. If the taxpayer was knowledgeable of tax

laws and tax system or even have some understanding about tax matters, that taxpayer would comply better with the tax law compared to others who do not possess such knowledge. If a taxpayer understands the tax computations or tax payable, and the tax system and are able to compute his/her tax payable, then that taxpayer is said to possess the necessary knowledge in taxation. Time set aside for reading tax related materials would also improve their understanding on tax matters. A better understanding of the tax system would lead to better compliance of the tax laws. This in turn would improve their attitudes and perceptions that would finally impact on their tax compliance behaviour.

In this respect, Japan's experience when SAS was first introduced is valuable. As described in chapter two, the main problem faced by the authorities when SAS was implemented was that the taxpayers did not have the necessary knowledge to comply with the tax laws under the SAS. Thus, the Japanese authorities immediately embarked on educating the taxpayers on the tax regulations under SAS. They realised that only through tax education, and tax awareness would compliance be improved. This study relied heavily on the third model. Can the taxpayers file their own tax returns? Do they incur any extra costs such as payment to the tax professionals? If they do, which category of taxpayers incur such cost? Do they spend time to read tax materials? This study investigated whether these taxpayers possess enough knowledge to tile their own tax return. Therefore, one of the major contributions of this study is improving the extended mode1 with an additional variable: knowledge and understanding of the tax systems on taxpayer compliance behaviour.

SAS has been linked to efficiency. productivity. greater taxpayer understanding of the law, increased tax revenue. and others as discussed in chapter two. Thus in this chapter. beginning with the next section, hyphotheses were derived or fbrmulatcd based on the benefits and problems outlined in the previous chapter.

3.3 EFFICIENCY AND PRODUCTIVITY OF THE MALAYSIAN TAX ADMINISTRATIVE SYSTEM

The costs of income tax administration in this country. as in others, have risen steadily over the years.[2] This is because taxes have become more complicated in operation and widespread in coverage. But. only be means of an evaluation of the present tax system would one be able to identify whether the existing system is more efficient and productive. The evaluation on the efficiency[3] and productivity[4] of the existing tax system is also necessary to determine whether the general and operational objectives of' the IRB. as stated in their annual reports have been achieved or otherwise. The general and operational objectives of IRB are mentioned in chapter 1.

Interestingly, the general objective of the IRB is to develop and implement a system of tax administration that is effective, fair and equitable. The terms used like effective, fair and equitable are not defined in the annual report. It was thus

[2] IRB's 1994 Annual Report shows an increase in the administration cost I'or the period 1989-1994.
[3] Efficiency is defined as the quality of being able to do a task successfully and without wasting time or energy (BBC English Dictionary, 1993).
[4] Productivity is the rate at which goods are produced, or the amount of' goods produced by each worker (BBC English Dictionary, 1993).

assumed that effective refers to efficiency, fair and equitable refers to vertical and horizontal equity. These. however, are only assumptions. The annual report does not state whether the general objective has ever been achieved or otherwise.'

Among its operational objectives, the IRB aims to assess and collect the correct amount of revenue under the law in the most effective and efficient manner and at a minimum cost, to instill public confidence in the fairness and integrity of the tax system, and to encourage voluntary compliance. Taxpayer compliance" is measured by comparing the number of tax returns issued by IRB and the number received from the taxpayers. For the year of assessment 1993, a total of X49.318 tax returns were issued. but only 1,666,237 tax returns were received by the IRB. The rate of compliance according to the IRB report is about 74.1 per cent. Table 3.1 compares the number of assessments issued and tax raised for years of assessments I 989 - 1993.

[5] In the 1993 Annual Report of the IRB, a cost expenditure analysis had been carried out to determine the efficiency and productivity of the department. The cost revenue ratio indicates an improvement in efficiency and productivity. A five year period chart shows that cost has been on a slow increase while revenue collection maintained at a steady average growth. The report concludes that this indicates that the Department has achieved its objective to collect maximum tax with rninimum cost.

[6] Roth et al. (1989, p.2) defines taxpayer compliance as follows:
" Compliance with reporting requirements means that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the Revenue Code, and court decisions applicable at the time the return is tiled." Thus, it is not merely submitting the return to the IRB, but compliance include proper filing, and accurate reporting voluntarily.

Table 3.1: **COMPARATIVE** DATA ON NUMBER OF ASSESSMENTS ISSUED AND TAX RAISED" (1989 - 1993)

Year of Assessment	Number of Assessments	Net Tax Assessed (RM)
1989	1,343,649	5,927,358,434
1990	1,736,390	10,065,899,812
1991	1,605,152	X.90.5.748.523
1992	923.,294	14,641,093,500
1993	2,291,138	14,878,748,327

Source: IRB Annual Reports 1989 - 1093.

* Total tax raised relates to income taxes including collections under sections 109 and 124. it does not include non-tax revenues. Sec.1 09 relates to deduction of withholding taxes from interest and royalty payments. whereas Sec. 124 relates to the collection of' amounts for offences that are compounded by the DGIR.

It is important to note that the tax returns were only issued to registered taxpayers, old and new. No reasons were given for the decline of number of assessments in 1091. What about those who were supposed to pay tax but were not registered with the IRB? The question then is whether these objectives have already been achieved by the IRB, especially with respect to taxpayer compliance'? Only a macro and micro analysis on the efficiency and productivity of the IRB. and the taxpayers perceptions would provide the necessary answers. Above all, do the taxpayers have the confidence in the fairness and the integrity of the tax system administered by the Malaysian IRB?

A first attempt to study the efficiency[7] and productivity of some of the tax instruments in the Malaysian economy was undertaken by Barjoyai (1993).[8] A general equilibrium model was used to evaluate the national tax reform proposals of 1988. The findings of the study showed that corporate tax was the most efficient and productive tax instrument in the Malaysian economy. On the other hand, payroll tax was found to be inefficient and unproductive. Likewise, Value-Added Tax (VAT)[9], if introduced in Malaysia, according to Barjoyai's findings would fulfill the three main criteria of efficiency, equity. and tax revenue productivity. However. since implementation of the VAT will lead to temporary increase in the prices of[10] the goods and services as in the other countries, the government is not prepared to introduce VAT as yet.'"

Ishi (1993) measured the efficiency[11] of the Japanese tax administration by comparing the relative size of the administrative costs with tax revenue. The comparison was carried out for thirty years (1960-1990). A further comparison was carried out with other developed nations such as the USA, Canada, and the UK. The objective was to

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[7] Here efficiency has been linked with the optimal tax based theory.

[8] Barjoyai Bardai 1993, "Malaysian Tax Policy: Applied General Equilibrium Analysis", Pelanduk Publications.

[9] There is no VAT in Malaysia, but there are Sales and Service Tax imposed on certain goods and services. Sales tax was first introduced on February 39. 1972 and its operation is governed by the Sales Tax Act 1972. There are three different rates of Sales Tax, i.e., 5 per cent. IO per cent and 15 per cent and its imposition would depend on the type of goods. Service Tax was introduced in Malaysia with effect from March 1, 1975. The legislation governing the tax is the Service Tax Act (STA) 1975. The STA applies throughout Malaysia excluding Langkawi, Labuan and the Free Trade Zones under the Free Zones Act, 1990. A flat rate of 5 per cent is charged **on** the prescribed services and goods under the Act.

[10] Study conducted by Barjoyai et al. (1995) shows that majority of the consumers and collectors (about 80%) perceive that there will bc a general rise in the prices of goods if VAT is introduced in Malaysia.

[11] Efficiency was measured using two different methods. The first method employed compared administrative costs with total revenue. The second method compared the number of personnel with administartive costs and tax revenue.

determine whether the tax administrative system practised in Japan was efficient compared to the above mentioned countries. The comparative analysis indicates that in the 1960s through 1980s, the Japanese tax system was administered less efficiently in terms of the cost-revenue ratio compared to the other countries. However. the ratio in Japan declined sharply in the mid-1970s. The reasons were mainly due to the rapid economic growth during the 1970s. and tax reforms undertaken by the tax authorities.

With respect to productivity of the UK tax administrative system," a comparison between U.S., Canada. and Sweden in 1977 showed that at that time, UK lagged behind other countries with respect to the productivity of their tax department (Barr et al.. 1977). UK lagged behind was mainly due to extensive use of computers by the Internal Revenue Service (IRS) of USA, compared to UK (Kay & King. 1980). Also, the actual returns handled by one of the branch offices of the IRS was twice that of some tax branches in UK. This indicate that IRS personnel were more productive in handling taxpayers' tiles than their counterparts in UK. What about the Malaysian tax personnel? Are they productive when compared to their counterparts in other countries? To what extent has IRB computerised its operations'?

One method to measure the productivity of the IRB personnel is to compare the number of employees and their number of' working days in hours to the total number of taxpayers. An average estimate for Malaysia based upon the above ratio is about 5.9

[12] Productivity is the rate at which goods are produced, or the amount of goods produced by each worker. (BBC English Dictionary, 1993).

hours. [13] This means that on average, the IRB's employees spend about 5.9 hours on each taxpayer's records. A comparative analysis on productivity of the tax department's employees with other countries will indicate whether the Malaysian tax personnel are productive in handling each taxpayer's records. However, a similar comparative study has not been undertaken in Malaysia. Thus, appropriately the first two hypotheses relating to efficiency and productivity tested in this study included:

H_1:	The Malaysian tax administration system is more efficient compared to other countries that have adopted SAS such as Japan. Australia, New Zealand, and Indonesia.
H_2:	The Malaysian tax administration system is more productive compared to other countries that have adopted SAS, such as Japan, Australia, New Zealand, and Indonesia.

[13] For 1993, the total number of employees was 6214; total number of working hours for that year was estimated to be 264 x 8 hours per day. Total number of taxpayers was 2.2 million. This gave the ratio of 5.9 hours (Source: IRB's 1993 Annual Report).

3.4 TAXPAYERS' PERCEPTIONS TOWARDS SAS, TAX LAW FAIRNESS AND TAX LAW COMPLEXITY

The perceptions of the taxpayer toward the existing tax administrative system (OAS), and SAS are important for tax policy makers. Only if the taxpayer positively perceive of the new system that would be implemented could the introduction of such a system take place smoothly. Furthermore, since SAS relies heavily on voluntary compliance, positive perception of the taxpayers is necessary for better compliance on the part of the taxpayers. However, many authors including Ishi (1989) & (1993) and Sandford (1990) have argued that SAS will lead to extra administrative burden to the taxpayers. This extra burden is due to the increase in private costs, such as hiring of tax professionals to submit the taxpayers' tax returns on their behalf. Will the extra cost affect the taxpayer compliance behaviour?

Dornstein (1987) conducted a survey of taxpayers' perceptions and attitudes toward taxes and the tax administrative system. The main focus of the research was on three major issues: tax consciousness; satisfaction with the fiscal system; and perceptions about the equitability of the tax system. The findings indicate that consciousness is positively related to the following:

1. Fiscal knowledge
2. The impact of the various taxes on one's economic interests and one's ability to realize life-style and standard of living aspirations.
3. The relative impact of the various taxes on one's income and expenditures.

The findings indicate that tax conscious and negative attitudes toward taxes and taxation are positively related. The findings suggest that the low-income groups perceived any tax applying to them as unjustly burdensome and hence tend to generally oppose any taxes. On the other hand. the high income groups perceived that some taxes are specifically aimed at them and thus claimed they are unfairly discriminated.

In another related study, public polls taken before and after the Tax Reform Act (1986) in the U.S., shows that although the taxpayers perceive the reforms positively. but over time public opinion became more negative (Scholz et al., 1992). This was so even when the marginal tax rates were reduced and tax loopholes were closed. In their study, Scholz et al. (1992) studied taxpayers bahaviour towards tax reform by adopting a cognitive approach. They found that prior attitudes of the taxpayer towards the state and their peers influence evaluations and changes in attitude independently of the objective impacts of reform on the individual. New laws according to their findings were condemned by taxpayers perceiving the system to be less legitimate, regardless of possible reduction in marginal tax rate.

Siti Mariam (1994) conducted a survey of opinion of tax professionals. and found that three-quarter" of the respondents were fairly or were very confident with the IRB calculation of the tax payable. Furthermore, fifty seven per cent of the respondents who were tax professionals indicated that the government should let the taxpayers compute their own taxes. To the question whether taxpayers would comply voluntarily with the tax law, only twenty nine per cent believed that they would do so. Interestingly only eight per cent of the respondents answered negatively to the question whether SAS should he implemented in Malaysia. Also, a significant ma.jority of the respondents who responded "no" indicated that unless a sufficient level of tax education and fiscal knowledge were acquired by the taxpayers, SAS would not be able to achieve its objectives.

The findings of the above study are important for achieving a high voluntary compliance. Since SAS emphasises on voluntary compliance. it is important that the taxpayers perceive the tax administrative system positively. A negative perception by the taxpayers will lead to poor voluntary compliance. Taxpayers were further grouped into city and non-city taxpayers. A sub-hypothesis was generated to study any significant differences in these two groups of taxpayers. Thus. appropriately the following hypothesis and sub-hypothesis were tested.

[14] A sample of three hundred and fifty nine tax professionals was drawn from the list. A response rate of 60.53% was achieved.

H_3:	There is no significant difference in the Malaysian taxpayers' perceptions between OAS and SAS.
H_{3a}:	There is no significant difference between city and non-city taxpayers' perceptions towards OAS and SAS.

3.4.1 Perceptions Towards Tax Law Fairness

Perceptions of the taxpayers on the tax law fairness or equity [15] is said to play an important role in voluntary tax compliance (Christensen et al., 1994). Most found equity or fairness perceptions to be positively related in some way to the level of tax compliance (Spicer and Becker, 1980 & Porcano, 1984). Spicer and Becker (1980) demonstrated through a laboratory setting that perceptions of equity can significantly affect tax compliance. Porcano (1984) on the other hand, suggests that there is a general referential standard of equity that overrides differences in individual backgrounds. In another related study by Porcano and Price (1992) tax preparers perceived the tax system

[15] Fairness and equity have been used interchangeably in most of the studies. Tax law fairness refers to a tax system that is reasonable, right and just. On the other hand, tax equity is said to have two dimensions: vertical and horizontal. Vertical equity can be defined as occuring when individuals in differing positions are treated differently. 'This is in contrast to horizontal equity which can be defined as occuring when individuals in the same position are treated in the same manner. In this study the generic term "equity" is used since both horizontal and vertical equity have been found to be positively related to tax compliance (Song and Yarbrough. 1978; Hite, IWO). Additionally. Kinsey et al. (1991) note that taxpayers' individual tax situations affected their evaluation of fairness. Thus, an individual taxpayer can view the tax system as equitable or not equitable depending on whether the reason is due to vertical or horizontal equity.

to be significantly fairer than the taxpayers. Some studies have also attempted to determine if educating taxpayers about the tax system results in increased compliance. For instance, White et al. (I 990). Christensen et al.(1994). Roberts (1994). and Wartick (1994) found that educating taxpayers concerning the tax system enhances fairness perceptions.

Gerbing (1988) developed a multidimensional model of taxpayer perceptions of fairness. Tax fairness judgements, opinions about fairness of the Tax Reform Act 1986, and demographic data were collected through a mail survey from 225 taxpayers in the Dallas/Fort Worth metropolitan area. Factor and item analysis of the tax fairness judgments identified four underlying dimensions of fairness: general fairness and distribution of the tax burden, exchange with the government, attitude towards taxation of the wealthy, and preferred tax rate structure. The finding supports the position that fairness is a multidimensional concept. Other concepts identified by the analysis were self-interest, complexity, attitude towards government spending, and attitude towards evasion. A cluster analysis, further yielded five distinct taxpayer profiles. The taxpayers' attitudes towards the tax system were found to be significantly different. Significant differences were also found on certain tax backgrounds and demographic variables.

Taxpayer's perceptions toward tax law fairness. before and after implementing a new tax system is important to ensure high voluntary compliance. In the case of the I.S. Tax Reform Act 1986 (TRA), perceptions of the taxpayers were found to be different

before and after TRA (Scholz, 1992). In the two polls taken before the implementation of TRA 1986, more respondents thought the TRA would increase fairness than otherwise (Sharp, 1990). In the polls taken after its implementation, the results were totally different. More taxpayers thought that TRA would decrease fairness than otherwise. The ratio of the percentage of 'quite fair' or 'reasonably fair' responses to 'somewhat unfair' or 'quite unfair' responses increased from 36:60 in 1986 to a much more favourable 46:44 in 1987. But once the taxpayers began filing under the new tax system, the ratio dropped to 40:53 in 1988 and 32:62 in 1989 (Scholz, 1992). This was despite broad and favourable reporting about TRA in the media.

A recent study by Simmons and Cheng (1996)[16] on taxpayers' attitude towards the Hong Kong tax system revealed positive results. Findings of their exploratory study indicate that in general, taxpayers approved the government expenditure policies, although they did not believe that their views were taken into account in formulating tax policies. Furthermore, the taxpayers agreed that taxation in Hong Kong was at a fair level. and they considered themselves to be fairly taxed in comparison with others.

To test for any significant differences in the perceptions of the taxpayers towards the existing tax law fairness, the following null hyphotheses were tested.

[16] **A total number of 654 respondents were interviewed on the streets of Hong Kong. Respondents were chosen randomnly; every tenth person walking in the street was selected.**

H_1:	There is no significant difference in the Malaysian taxpayers' perceptions towards tax law fairness.
H_{4a}:	There is no significant difference between the city and non-city taxpayers* perception towards tax law fairness.

3.4.2 Tax Law Complexity

There are many quantitative and qualitative factors associated with SAS. Factors such as tax law fairness, tax law complexity" and compliance cost are identified to be hindrances to voluntary tax compliance. Complexity in the tax returns was part of the tax law complexity problems studied by various researchers such as Milliron (1985), and Long and Swingen (1987). Cook (1990), and Reckers et al. (1991).[18] In the UK, SAS will be implemented effective 1997. and many authors (Richards, 199 I; Greene and Maddalena, 1994) have called for the simplification of the tax forms in order to achieve the objectives of SAS that will lead to higher voluntary compliance. According to them simplification of the tax laws and forms must be in place before the implementation of'

[17] Tax law complexity includes both the complexities of the Act itself (what does the law require be reported), and the complexity of required record keeping and completing returns (how to report it), see Strader and Foglisso (1989).

[18] All the above studies have been carried out in the U.S., and are primarily experimental in design. This study has adopted the survey approach method which is non-experimental.

the SAS. Since the **success** of SAS also depends on the quality and **clarity** of the **tax** return used in assessing income. it is vital that such return must be simple[19]. Interestingly, Hong Kong taxpayers agreed that it was easy to understand their tax rules and regulations (Simmons and Cheng, 19%). This finding was part of their study on the taxpayers' attitudes towards the Hong Kong tax administrative system.

The impact of income tax complexity (reading complexity and content complexity) on the task performance of professional accountants was studied by Karlinsky and Koch (1 987). An experimental design was employed. The experimental task was for the respondents to determine whether Sections 179 or 3 18 in the Revenue Code were simple or complex. Ninety-eight professional accountants from Dallas and Los Angeles volunteered to participate in the experiment. Results indicate that presentation style exacerbated the effect of' an already difficult tax law concept. On the average, subjects correctly answered fifty per cent of the questions on Section 3 18; whereas for Section 179, the professionals answered more than seventy live per cent correctly.

Long and Swingen (1987) in a related study to the current study, investigated six most important causes of tax return complexity: ambiguity, computations, changes in tax law, details in the law (such as many rules and exceptions to rules), record keeping, and forms to determine whether the format or instructions are confusing. The subjects were

[19] **Non-compliance because of tax law complexity and its significance to public policy is discussed in detail by Long and** Swingen **(199** 1).

tax accountants, tax lawyers, tax educators and commercial preparers. Results show that all three groups of respondents on the average assigned very similar complexity ratings. The correlation between the average complexity scores assigned by them was very high, ranging from 0.85 for commercial preparers to 0.96 between accountants and educators. The main weakness of the study was the use of a small sample size. Even the authors agree that ideally a nationwide survey would produce better results that could he generalised.

Goedde (1988) in a study of tax practitioners' perceptions on simplification and fair-mess of the federal income tax asked the respondents to rank the six tax return complexity factors. The respondents ranked the factors as follows (where 1 is most important and 6 is the least important):

1. Changes
2. Ambiguity
3. Detail
4. Record Keeping
5. Computations, and
6. Forms

This indicates that the respondents perceived that changes in the tax law, ambiguity, and details in the tax law are important factors in tax law complexity.

Computations and forms were lowly ranked. indicating that they were not obstacles in tax law complexity. Thus, to increase compliance, changes and details in tax laws have to be kept at a minimum so as not to confuse the taxpayers. Since tax forms must he simple to the taxpayers for successful implementation of' SAS, the follow-ing hypotheses were tested:

H_5:	There is no significant difference among the Malaysian taxpayers' perceptions towards tax law complexity.
H_{5a}:	There is no significant difference between the city and non-city taxpayers' perceptions towards tax law complexity.

3.5 COMPLIANCE COST OF TAXPAYER

The compliance costs'" of taxpayers and tax preparers are important components of the total operating costs. Thus in order to achieve an ideal equitable tax sy stem, administrative and compliance costs must be kept at a minimum. One **of** the **operational**

[20] Compliance costs oftaxpayers consist of number of hours spent for preparing tax returns, administrative expenses, and any money spent on tax professional assistance (Sandford 1973 and 1990; Slemrod and Sorum, 1984, and Blumenthal and Slemrod, 1992).

objectives of the IRB of Malaysia is lo assess and collect the correct amount of revenue as provided for under the law in a cost efficient and effective manner.

The first study on compliance costs of taxpayers was carried out by Martin (1944). Based on a series of educated guesses. he estimated that individual compliance costs amounted to 1.2 per cent of federal tax revenues. A similar preliminary study based on survey information was carried out by Wicks (1966). Wicks distributed questionnaires to 380 of his economics students al the University of Montana with the request that they mail the questionnaires to their parents. Wicks concluded from his findings that the average Montana taxpayer spent USD $88 worth of time and money while complying with the federal income tax. He also observed no relationship between a household's compliance cost and its tax liability, even though the cost of compliance did vary systematically by occupation. His findings revealed that self-employed individuals had the highest average costs, while individuals in the professional, managerial, and sales occupations reported significantly greater than average compliance costs.

An exhaustive study on compliance costs was carried out by Sandford (1973). A survey method was used in gathering data from professional tax advisors, and individual taxpayers. The findings indicate that compliance costs amounted to hetwecn 1.9 and 3.4 per cent of total tax revenue. He also concluded that low income taxpayers had, on the average, higher compliance costs as a fraction of income than higher income taxpayer.

Sandford, Godwin and Hardwick (1989) conducted a survey on taxpayers to determine their compliance costs in UK. Their findings revealed that compliance costs amounted to 3.4 per cent of the revenues collected. Among the findings, the authors also noted that compliance costs rose with overall income, but low-income, self-employed taxpayers expended a larger percentage of' their income on compliance than did high-income, self-employed taxpayers. In another study. Sandfhrd (1989) estimated that the total tax operating costs in UK amounted to just over l .5 per cent of the gross domestic product in 1986-1987 and that compliance costs were about twice the administrative costs, Based on these findings of his study, Sandford recommended that efforts must be made by the government to reduce the high compliance costs faced by small businesses.

In another comprehensive study conducted by the l Jniversity of Bath on compliance costs, Sandford (1990) noted that costs for small traders and the overall level of compliance costs started to rise in the mid-1980s. The reason for the rise in the compliance costs for small businesses was mainly due to heavier penalties imposed by the tax authorities for not complying with the tax regulations. As a result, many small businesses had to hire accountants to file their returns. Getting professional help meant extra financial burden for the taxpayers. This led to an increase in the compliance costs of the taxpayers.

Slemrod and Sorum (1984) carried out a survey on a random sample of 2000 Minnesota residents. The questionnaire contained two parts. The first part contained demographic information. and the second part contained questions on the number of' hours spent during the year to compute their tax liability, money spent in filing tax retuns, and also the taxpayer's attitude towards filing retuns. The response rate of the survey was 32.7 per cent. The results indicate that on the average. respondents spent 26.7 hours of their time on tax filing, and spent $61 on professional tax advice and other outlays. Based on these averages. the authors estimated that time spent by U.S. taxpayers on compliance was between 1.4 and 2.1 billion hours, and the total resource cost of compliance was between 17 and 27 billion dollars. Interestingly, Slemrod and Sorum also found that self-employed respondents experienced considerably higher-than-average compliance costs.

In Australia, Pope and Fayle (1 990) surveyed 1.0% individual taxpayers to estimate the total compliance costs of individuals. From their survey. they estimated that the total individual compliance costs ranges from 6.8 per cent to 10.8 per cent of the total tax revenues. Further. their findings indicated that compliance costs were heaviest for those at the bottom of the income distribution (10.5 per cent for taxpayers earning less than A$1 0,000, falling to 1.5 per cent for those earning between A$30,000 and A$50,000, and to 3.8 per cent in the over A$50,000 bracket).

Blumenthal and Slemrod (1992) carried out a similar survey on Minnesota residents after the implementation of the Tax Reform Act in 1986. The objective of the survey was to compute the compliance costs of taxpayers after a major overhaul of the tax system in 1986. The results of the study revealed that:

1. Low-to-middle income taxpayers have below-average compliance costs.
2. High-income taxpayers pay more for professional assistance and have much higher than average total costs.
3. Self-employed taxpayers spend significantly more time and money on compliance than others.

The above findings are of the various studies carried out in the US, UK, und Australia.*' Such a study has not been carried out in a developing country like Malaysia. Furthermore, all the above studies have shown that compliance cost is regressive, and self-employed taxpayers spent more time and money in compliance. Is that the case with Malaysian taxpayers? Only if compliance costs of the taxpayers were kept at a minimum, voluntary compliance would be higher. The success of SAS depends heavily on voluntary compliance. and thus, it is very important that compliance costs are at a mininum in order to achieve higher compliance. Although SAS is a new tax administrative system

[21] A study on compliance costs in Japan was to be undertaken by Ishi in 1993. But due to some problems and poor co-operation by the Ministry of Finance, Japan. Ishi abandoned the project. That was Ishi's response to this author's letter dated September 5, 1995.

compared to OAS, this does not mean that compliance costs must be high. Thus, appropriately the following hyphothesis was tested.

H_6:	The compliance costs of Malaysian owner-manager taxpayers are higher than the other individual taxpayers.

3.6 Conclusion

In this chapter, theory related to voluntary compliance which is an important factor in the success of SAS was discussed. Based upon the discussions and related theory, six hyphotheses were developed and tested in this study. This study attempted to integrate the relevant theories related to taxpayer compliance, efficiency and productivity of the IRB in the context of voluntary compliance. Most if not all of the previous studies discussed in the literature studied the issues relating to voluntary compliance but not in toto. This study hoped to overcome the various weaknesses found in the previous studies. Even the research method adopted in this study differs from the other studies relating to SAS. The next chapter will discuss the research method and design used in this study.

CHAPTER 4 Research Design and Methodology

4.1 Introduction

This chapter outlines the research design and methods adopted in this study. As described in chapter three, this study consists of two main components that are related and important to the tax administrative systems that were studied. First, the study was concerned about the efficiency and productivity of the IRB over a time span of at least five years. Thus, the appropriate design to compare the efficiency and productivity of IRB is the longitudinal study. An in-depth discussion on the longitudinal study is found in the section on data collection below.

The second part of the study investigated the taxpayers' perceptions, and attitudes towards the existing OAS, the SAS, fairness of the existing tax system, and tax law complexity. For that purpose, the field survey method was adopted as it was found to be most suited for studies of this nature.[1] The next section will discuss the advantages and disadvantages of the survey method adopted in this research to study the perceptions of the Malaysian individual taxpayers.

[1] According to Kerlinger (1986) survey research has the advantage of wider scope: since a great deal of information can be obtained from a larger population. Survey research information is also accurate within sampling error.

4.2 Survey Research Method

Survey research method was used in this research to investigate the taxpayers' perceptions about the various factors described in the previous chapters. since only a sample of the total taxpayers will be selected as respondents. From these samples it was hoped that the characteristics of the taxpayers behaviour can be inferred. Furthermore, the taxpayers' views. opinions, and attitudes toward tax system in general were considered to be more accurately captured in a survey rather than other methods. Kerlinger (1986) argues that sample survey can also determine the incidence. distribution. and interrelations among sociological and psychological variables such as opinion and attitudes of the respondents. Nevertheless, when compared to other methods. the survey research method has its own advantages and disadvantages. Some of the advantages arc discussed below. followed by the disadvantages of this method. These advantages and disadvantages have been discussed by Kerlinger (1986) . Babbie (1 990), and Miller (1991). Some of the advantages of the survey research method are listed below.

1. The scope and coverage is wider. More information can be obtained as compared to other methods. A nationwide survey can be undertaken through mail or by conducting personal interviews.

2. Although surveys are more expensive than laboratory and field experiments, the amount and quality of information they yield they are more economical. Surveys are expensive and obviously time consuming. But since a wider cross-section of the respondents can be selected, more information can be obtained.

3. Survey research information is also accurate - within sampling error. A sample of 600 to 700 individuals or families can give a remarkably accurate portrait of a community- its values, attitudes. and beliefs.

4. Sample surveys are undertaken by tht: researchers for purposes of understanding the larger population from which the sample was initially selected.[2]

5. A large number of cases studied in a given survey, provide opportunities for findings to be replicated among several subsets of the survey sample. The replication of a particular finding among different subgroups strengthens the assurance that it represents a general phenomenon in society. Furthermore, careful reporting of the methodology of a given survey promotes replication by other researchers among other samples and subgroups.'

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[2] It is most appropriate in this study since the total population is about 2.2 million taxpayers. Since it was not practical to undertake a study on the whole population, due to time constraint and budget, it is thus best to select a sample from the population. The sample was selected scientifically i.e., randomnly.

[3] It is hoped that this study would be replicated by other researchers. For instance, this study is concerned about the perceptions of the individual taxpayers. other studies may consider the corporate taxpayers including foreign corporations.

However, as in other methods, the survey method has its own disadvantages. Some of them are listed below :

1. Survey information does not penetrate very deeply below the surface. This method is best adapted to extensive rather than intensive research. This, however, depends on the number of samples selected from the total populatio If the sample size is reasonably large more information can be obtained that would enable the researcher to go below the surface.

2. Survey research demands large investments of time, energy, and money. It can be time consuming before certain percentage of the respondents can be covered in the survey.[4]

3. This method requires a good deal of research knowledge and sophistication. The survey investigator must know sampling, question and schedule construction, interviewing, the analysis of data, and other technical aspects of the survey. This, however, can be overcome if the researcher undergoes a rigerous coursework, whereby the above knowledge can be learned.[5]

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[4] The same problems were encountered by this researcher In order to capture about three hundred respondents' perceptions, a lot of time was spent to get the permission of the head of departments or the relevant departments such as the human resource department of the organisations concerned. Money too, had to be spent on phone calls and travelling. The PhD research grant from UUM is most appreciated. It came in handy and at least the financial side was taken care of.

[5] The coursework attended by the researcher at the University of Memphis was very helpful.

Although, the survey method has certain disadvantages, this study employed survey methods as it appeared to be the most appropriate and suitable method. A sample of taxpayers was assumed to represent other groups of taxpayers. In this study various subgroups of taxpayers from the total number of taxpayers had to be studied, thus appropriately the survey research method was perceived as the most appropriate approach.

4.3 Data Collection Method

4.3.1 Secondary Research

To evaluate the efficiency and productivity of the IRB efforts were made to compile annual reports for the past ten years.[6] In order to compare the efficiency and productivity of the Malaysia's IRB with other IRDs of Malaysian neighbouring countries and other developed nations, letters were sent to the officers of the respective IRDs. Almost all of them responded and mailed back the requested information, except for Thai and and Philippines. Thailand's IRD did not respond at all to the letter requesting for information, but my letter addressed to the IRD of Philippines was returned, stating that the office has moved. Various attempts were made to get the latest address of the IRB but was not successful

[6] Some of the past years annual reports were available in the UUM,s library, while others were obtained from the IRB,s library in KL. Ten year annual reports were gathered, from 1985 to 1994. The 1994 annual report was the latest report published by the IRB.

Other countries like Australia, New Zealand. Indonesia. and Japan furnished the information requested. In the case of U.S., the letter sent to the Internal Revenue Service (IRS), replied that information requested was classified as confidential under their federal constitution, and thus have to wait until the IRS would get the necessary clearance from the relevant authorities. They mentioned in their letter that they would only provide this researcher with the requested information by end of June 1996 only if they could get all the clearances by then.[7] Finally, in August 1996 the IRS sent me all the information requested in 1995. Thus. a comparative analysis with I ISA has been made possible with the information received from the IRS.

Other information beside the annual reports were obtained from journals and other published sources.[8] Information and certain statistics were obtained from the Malaysian IR B's office . the libraries of the Malaysian Institute of Accountants (MIA), and the Malaysian Association of the Certified Public: Accountants (MACPA). All the offices are located in Kuala Lumpur.

[7] **A photocopy of the letter is attached in the appendix.**

[8] **Published sources includes journals and others** such as the Economic Intelligence Unit's publication, and **various country reports. and Asiaweek.**

4.3.2 Primary Research

4.3.2.1 Personal and Structured Interview

Information can be gathered in different ways under the survey research methods, such as: personal interview, mail questionnaire, panel or telephone. According to Kerlinger (1986), and Miller (1 991) of these methods, the personal interview far overshadows the others as the most powerful and useful tool of social scientific survey research. There are direct and indirect methods of collecting data from the respondents. Jnterviews and cluestionnaires are direct method of' collecting data. The direct method according to Kerlinger (1986) has its own strengths and weaknesses. It is a strength because most of the information needed can he obtained directly by this method. On the other hand. it could be a weakness too, whereby, although the researcher can take all necessary steps to carry out the interview, but the respondents may he unwilling, reluctant, or unable to give readily and directly information pertaining to income, and attitudes towards religion and minority groups. In such cases, direct questions may yield data that are not valid.'

[9] In this study all the necessary precautions were undertaken before the survey was carried out. Every effort was made to minimise bias and by not asking sensitive questions. But quite a number of respondents when approached by the researcher were reluctant to participate in the study. citing various reasons. This was especially so with the self-employed taxpayers. Matters relating to income tax are relatively sensitive to the Malaysian taxpayer,. In order to reduce bias such respondents were left out in this study

An interview method is also far superior to other methods such as mailed questionnaire and others. In choosing among the mailed questionnaire, personal interview. and telephone survey technique. Miller (199 1) gave the most favourable ranking to the personal interview method against other methods. The most favourable ranking or number one had been given in respect to highest percentage of return, highest accuracy of information. largest sample coverage, completeness, and overall reliability and validity. However. the personal interview method has been ranked as the least favourable in terms of cost. and ease of securing information. Time required to secure information has been given an intermediate ranking or "2", compared t o others. The comparison is shown in 'Table 4.1.

Table 4.1: Choosing Among the Mail Questionnaire, Personal Interview, and Telephone Survey

Factors In fluencing Coverage and Information Secured	Mailed Questionnaire	Personal Interview	Telephone Survey
Lowest relative cost	1	3	2
Highest percentage of return	3	1	2
Highest accuracy of information	3	1	3
Largest sample coverage	3	1	2
Completeness	3	1	2
Overall reliability and validity	2	1	3
Time required to secure information	3	2	1
Ease of securing information	1	3	2
Total number of rankings: 1,2,3	2,2,4	5,1,2	1,5,2

Source :(Miller, 1991; pp. 168)

Personal interview is flexible and adaptable to individual situations. By flexibility, it means that the interviewer can make sure that the respondent has understood the questions and the purpose of the research. Before the start of the interview the purpose and objective of the research can be explained to the respondent (Oppenheim. 1983).[10] This. however, may lead to bias by the interviewer. The interviewer may give an ittk ling of his/her own opinion or expectations in the way he/she reads the questionnai re. The interviewer's own expectations and selective understanding and recording of the answers may produce bias (Kerlinger. 1986. Oppenheim, 1983, & Miller, 1001). The majoi disadvantage of the interview method is practical. Furthermore, interview takes a lot of time and money. Getting information from one indiv idual may take longer time than expected. As such. it is costly and time consuming. There are travelling and subsistence expenses to be met, as well as payment to the interviewers and research assistants.

There remains the undisputed advantage that information collected through the interview method is more reliable than other data collecting methods such as the mail questionnaire (Oppenheim, 1983). Although some interv iews may produce a systematic bias, others may make random errors which may cancel out in the long run. Due to its richness of information. the interview method is highly recommended by the authorities (Kerlinger, 1986; Oppenheim, 1983, and Miller I 991). Thus, this study adopted the personal interview method rather than others as it has been ranked highly by v arious authors.

[10] This was undertaken by the researcher in this study.

4.4 Subjects

Individual taxpayers were selected from private and public organisations. Only taxpayers who had been paying taxes for the past five years were selected. Private companies chosen for this study were Tenaga Nasional, Telekoms, Banks, Sime Tyres, Takagi, Pioneer Industries, and others. Government organisations such as Politeknik Muadzham Shah Jitra (Polimas), secondary schools. Accountant-General's Office, Employees Provident Fund (EPF), Perbandnran Kemajuan Negeri Kedah (PKNK), Majlis Perbandaran Kota Setar (MPKS), Dewan Bandaraya Kuala Lumpur (DBKL), and others were selected in this study.

Respondents who were taxpayers for at least five years[11] were randomly selected from the list provided by the personnel or human resource department. In the case of self-employed taxpayers. such as enterpreneurs, doctors. lawyers, and others including architects and engineers, various methods were employed to identify them. An attempt was made by the researcher to obtain a list of self-employed taxpayers from the Registrar of Businesses (ROB). but it was not fruitful. ROB does not have a comprehensive list that was required for this study. According to the officer in the ROB, quite a number of the registered self-employed entrepreneurs may have moved and very seldom inform the ROB about their new addresses. As such. the list was unreliable. There were some who had registered with ROB but these businesses never took off the ground for the simple

[11] Only those respondents who had been paying taxes for at least five years were chosen because they have the knowledge and experience with the IRB and the tax laws of Malaysia.

reasons of insufficient capital or did not obtain the necessary licences or tenders with the relevant authorities. The IRB, too, depends on this incomplete list as they too do not have a comprehensive list of small businesses and others.

An attempt was also made to obtain a comprehensive list from Majlis Perbandaran Kota Setar (MPKS). Unfortunately, the MPKS also does not have a comprehensive list of all the businesses in Alor Setar. According to their officer, only owners of restaurants and coffee shops have to be registered with them. This is merely to ensure that these coffee shops and restaurants are hygenic to be patronised by the public. The enforcement is carried out by the Health division of MPKS.

Due to the above problems, the researcher had to employ other approaches to collect the necessary data. Two approaches were employed. One, the list used by the Institute for Entrepreneurial Development or Institut Pembangunan Keusahawanan (IPK), IIUM was used to identify the respondents, and the list provided by the tax agents in Alor Setar and Kuala Lumpur. Since the owner manager taxpayers employed the services of these tas agents, thus it was most appropriate to use their clients as respondents. All respondents were selected randomly from the list provided by the tax agents and the IPK, UUM. Secondly, professional taxpayers such as medical doctors, lawyers, and others were identified from the list provided by their relevant regional professional bodies.

The respondents were selected using the multi-stage stratified sampling design. The design is shown in Table 4.2 below. A total of 300 respondents based upon the multi-stage stratified sampling design were identified as respondents in this study. Furthermore, respondents used in this study not only were chosen from the north of Malaysia, but also from Kuala Lumpur. Two main regions were thus chosen, the north and the central or more precisely the city taxpayers. It is envisaged that there will be differences in the opinions, attitudes and knowledge of the two groups of taxpayers. Thus, taxpayers from the northern region are representative of the non-city taxpayers in Malaysia, such as Kuantan, Kuching, and Kota Kinabalu. Taxpayers from K.L. are to represent taxpayers from the other cities such as Georgetown, Penang, and Johor Baru.

Table 4.2: Multi - Stage Stratified Sampling Design

Demographic Variables	Strata	Number of Respondents
Age	4	120
Occupation	6	180
Total	10	300

4.5 Sampling Design

As mentioned earlier, the multi-stage stratified sampling design was used to select the number of respondents in this study. This sampling design has been adopted in this study as iit is a more sophisticated design compared to other designs such as random sampling, It is also the most appropriate design lo be employed since in this study a sample of the respondents will represent the population al large based upon certain characteristics such as gender. income, or occupation. One or more strata can also be used in the design. However. i n dissertations o r other professional research, two to five stratifying variables arc generally common ranges (Balian, 1982). Balian (1982) suggests t h a t a multi-stage stratified s a m p l e may provide a precise representation of large population while utilizing a very small sampling percentage. But Balian emphasises that the number of subjects in each category of each strata must be at or around thirty Among the random sampling techniques available, the multi-stage stratified sampling is the most highly ranked. This is depicted in the Figure 4.1 (Bailan, 1982, p. 109). In order to obtain a highly reliable findings thus the most highly ranked stratified sampling, is used in this study.

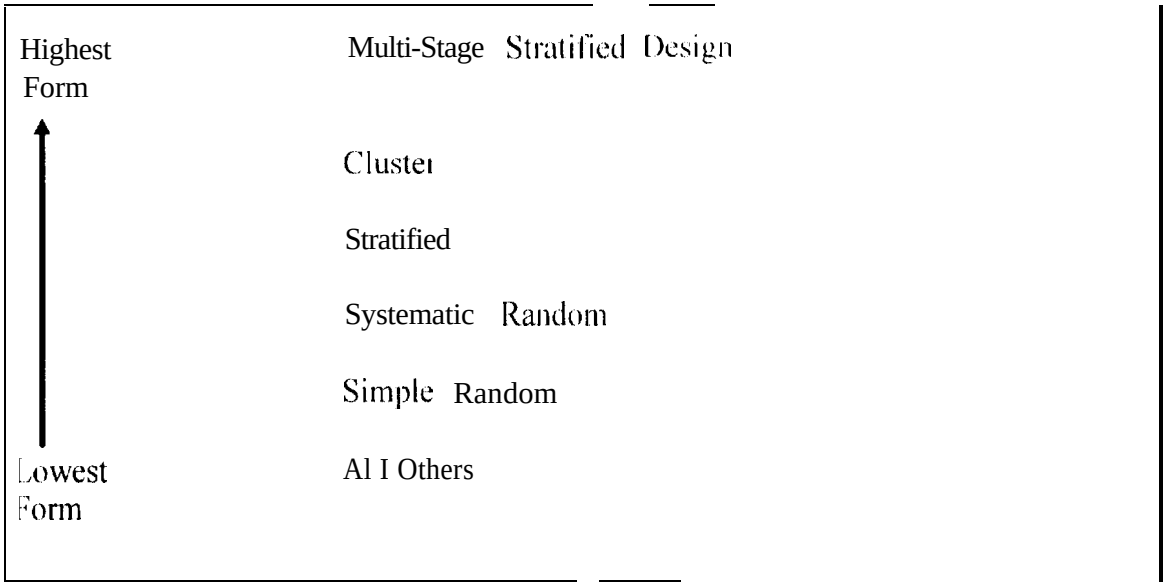

Figure 4.1: SAMPLING METHOD HIERARCHY
Source: Bailan 1982, pp. 109

Table 4.3: Demographic Variables

Age	Occupation
20 - 30	Managerial, Executive
31 - 40	Engineering, Technical
41 - 50	Administrative, Clerical
51 - 60	Professional
	Owner- Manager
	Others

The number of' respondents chosen based on the strata arc: shown in Table 4.3. The demographic variables identified for this study were age and occupation. Age had four strata ranging from twenty to sixty. and occupation had six strata beginning wi th managerial, and executives to others who did not fall under any of the above category of

occupation. Self-employed were captured in the owner-manager category. Based on the number of strata for the two demographic variables, a total of three hundred respondents were identi lied

4.6 Instrument Development

4.6.1 Questionnaire Design

All information pertaining to the respondents' perceptions toward SAS, OAS, tart law fairness. and tax law complexity were captured by means of a questionnaire. Since the questionnaire is a package that presents the questions, every precaution was taken to design the questions carefully. Before embarking on the building of the questionnaire, this researcher read through the chapters on composing questions, creating item scales and bui lding questionnaires by Alreck and Settle (1995) and Miller (1991) very thoroughly. These chapters were of great help in ensuring that the questions asked were reliable and valid. The reliability and validity tests were later undertaken after conducting the pilot test. These results of the pilot test will be discussed in the next section.

Each questionnaire had a cover letter explaining to the respondent the purpose and nature of the research. A brief description of the differences between OAS and SAS were described. The type of information sought was also indicated with an assurance that all responses will be kept in strict confidence. The cover letter was included even though the

questionnaires were administered personally by the researcher. This was to ensure the respondents have more confidence in giving their unbiased response.[12]

The questionnaire was further broken down into four main sections. Section A contained questions about tax law fairness and the tax administrative systems practised in Malaysia. Questions were also asked to test the taxpayers knowledge on SAS and the existing tax system. The second section contained questions pertaining to tax law complexity. The next section included questions regarding the compliance cost of the taxpayer. Finally, the last section contained questions concerning the respondent's demographic background. Questions that were sensitive were not included. Only those questions that were relevant to test the study's hyphotheses were included. Each section contained only those questions that were directly used in testing the hyphotheses developed in Chapter three. Some of the questions asked in section A were taken from other studies such as Dornstein (1087). Gerbing (1988), and Siti Mariam (1994). Questions asked in Section C (tas law complexity) were adopted from Long & Swingen (1987). Nevertheless, the particular question on the format and instructions of the tax return was separated into two parts. 'This was done to avoid double barreled questions. Thus, separate questions were asked on the format and the instructions of the tax return. This was done after the pilot study was carried out.

[12] The questionnaire was precoded for each response, and also format codes were included as to ensure smooth data entry after all data have been gathered.

The questionnaire was drafted in English and this posed problems to the lower income groups of respondents. As such, with the help of two lecturers at the School of Languages UUM, the questionnaire was translated to Bahasa Melayu. Thus, two separate sets of questionnaires, one in English and the other in Bahasa Melayu were used to carry out the pilot test and the actual survey. Every care was undertaken with the help of the lecturers from the School of Languages to ensure that the translation wax correct

The Likert scale was extensively used in the various sections. The scale used was from "1", Strongly Agree, "2", Agree, "3" Neutral, "4" Disagree, and "4" Strongly Disagree. Since the three main sections contained several items on the taxpayers' perceptions on the tax system and others, thus Likert scale is the most appropriate (Alreck & Settle, 1995) and Miller (1991). Furthermore, according to Miller (1991) the Likert-Type scale is highly reliable when it comes to a rough ordering of people with regard lo a particular attitude or attitude complex. Also the score includes a measure of intensity as expressed on each statement.

4.7 Research Procedure

Alter successfully defending the research proposal sometime in early October 1995. this researcher immediately set down to get the research going. First, letters were sent out to the various IRDs' of the countries mentioned in the comparative analysis. Then the researcher began to develop the questionnaire that was used in the study. Many drafts had to be made after consulting the various committee members. Input given by my

supervisor, other committee members, and colleagues wei e fruitful in lhc design of the questionnaire.

A sample of thirty respondents representing the various category of taxpayers, based on their occupation were chosen to he part of' the pilot test.' [13] The pilot test was conducted not only in Alor Setar but also in Pulau Pinang. After having completed the pilot test. various statistical analyst3 were undertaken. Attention wa s more focused on the reliability[14] and the validity of the questionnaire. 'I he various sections were found to be reliable and valid after certain questions were eliminated. Based on Cronbach's alpha, the overall reliability coefficient scores obtained for the questionnaire was 0.78. The various sections of the questionnaire had reliability coefficient scores as follows:

Tax Fairness..	0.71
Tax Administrative System	0.70
Tax Complexity	0.75

Generally. the above reliability coefficients indicate that there is a high level of consistency in the responses given by the respondents. Reliability coefficients of 0 70 and above are considered more than acceptable for most behavioural science applications

[13] Pilot test or pretenting the questionnaire is very important. Only by pretesting of the questionnaire will reveal if any serious errors. oversights. or problems such as misunderstanding of certain statement c an be corrected before the actual survey is undertaken.

[14] Reliability means freedom from random error. Thus. accordingly the most fundamental test of reliability is repeatability-the ability to gel the same data values from several measurements made in the same way (Alreck & Settle. I 195. pp.58)

(Nunnally, 1978). As for validity, only those who have been taxpayers for at least five years were selected as respondents. Also. frequent discussions were held with my fellow colleagues at UUM pertaining to the design of the instrument and method adopted. The rest of the questionnaire contained questions pertaining to compliance costs and demographic factors. The above findings support previous research reported in the methodology section with regard to the high reliability of the instrument used.

After having got the results of the pilot test, the full survey was conducted.[15] Since. the method chosen was to undertake a personal interview, the researcher had to make the necessary arrangements with the respective human resource managers of the various orgnnisations. Most of' them were helpful, except for some who declined to participate in this study, citing various reasons such as heavy work load, had to meet deadlines, and findings may not be beneficial lo their companies.

Although, the interview took more time than anticipated but the response rate was very encouraging. The data were sorted out according to regions and were keyed into the spreadsheet. The SPSS for Windows. version 6 was used for data analysis. Initially the SPSS spreadsheet was used lo capture the data. Microsoft Excel was used to carry out the trend analysis.

[15] The personal interview had to he carried out by the researcher himself in order to ensure that the survey is properly carried out and to obtain a high response rate. This ensured the high response rate in this study. Although a 100 per cent repsonse rate was expected when the study was first undertaken, nevertheless a final response rate of 82.7% can be considered high for a study of this nature.

4.8 Conclusion

The research design and the methods used in this study are described in this chapter. Various research methods are compared and the method chosen in this study is justified. The strengths and weaknesses of each design and method are compared. Findings of the pilot test based on the instrument used in the study are discussed. Data analysis is described in the next chapter.

Chapter 5 DATA ANALYSIS

5.1 Introduction

This chapter presents the results of the analysis of data generated. Findings of the data analysis are outlined and discussed with respect to the six hypotheses developed in chapter 3. The first two hypotheses are tested whether the IRB's tax administrative system are efficient and productive compared to those countries that have implemented SAS. Accordingly, following that, the next section will outline the findings based on hypotheses three to six. Thus, chapter five is divided into two main sections. Data analysis on the efficiency and productivity will be outlined first followed by that of the perceptions of the taxpayers.

5.2 Data Analysis on the Efficiency of the IRB of Malaysia.

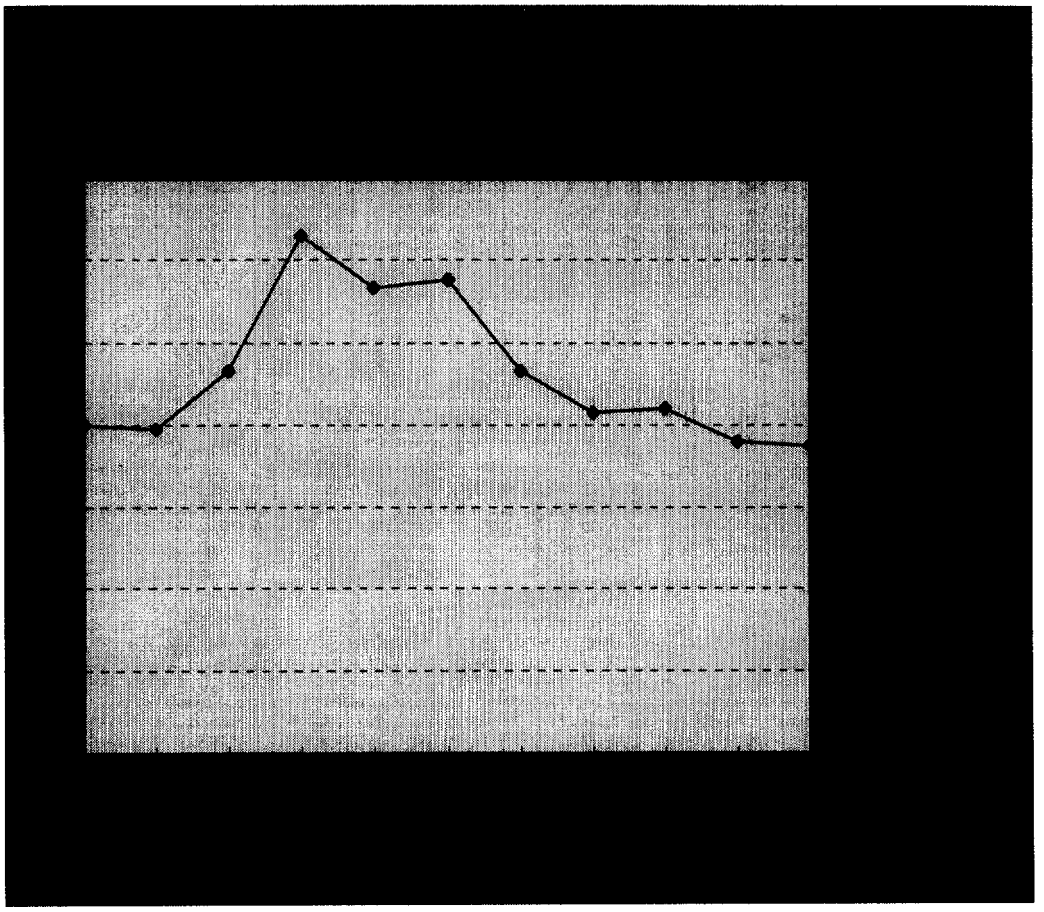

Figure 5.1: Malaysian Administrative Cost as a Percentage of Tax Revenue (1984 - 1994).
Source: **Annual Reports 1984-1994, Inland Revenue Board of Malaysia.**

Figure 5.1 shows the comparative analysis of the IRB's administrative cost against total tax revenue for eleven years (1984 - 1994). Interestingly as shown in Figure 5.1 and Table 5.1, the ratio of costs to revenue went up in 1985, and reached its peak in 1987. Those were the years when Malaysia faced a recession and a weak economy. However, after the recession, the ratio declined sharply from 1989 onwards. The main reason for the decline is solely due to the impressive economic growth that Malaysia experienced from thence (an average of 8.5% annually) Economic Reports (1984 - 1995). Although, the administrative costs have gone up over the years, but due to the increase in tax revenue,(Table 5.1) the ratio had declined substantially. Thus, the rise in the administrative cost is actually offset by the sharp increase in the tax revenue rather than a decline in the administrative cost.

Table 5.1: Malaysia'a Administrative Cost and Total Tax Revenue (1984 - 1994)

Year	Administration Cost (RM)	Total Tax Revenue* (RM)	Ratio
1984	67,860,985	8,453,699,627	0.80
1985	73,236,166	9,264,530,805	0.79
1986	80,836,159	8,669,929,518	0.93
1987	81,136,133	6,448,280,063	1.26
1988	84,690,719	7,507,245,482	1.13
1989	89,323,662	7,776,803,679	1.15
1990	97,336,307	10,423,253,443	0.93
1991	110,063,139	13,199,407,239	0.83
1992	129,196,146	15,405,581,484	0.84
1993	129,901,165	17,197,226,091	0.76
1994	145,176,977	20,121,600,656	0.72

Source: **Annual Reports 1984-1994, Inland Revenue Board of Malaysia**

* Total tax revenue consists of direct taxes including non-tax revenue. Direct taxes comprise corporate taxes, petroleum income taxes, personal income taxes, estate duty, film hire duty, real property gains tax (RPGT), share transfer, stamp duty, business registration, and betting and sweepstakes (Annual Report, IRB).

Table 5.2: Comparison of cost of collection as a percentage of total revenue, between countries (1990 - 1994).

Year	Malaysia	Indonesia	Australia	New Zealand	Japan	USA
1990	0.93	0.76	1.15	1.95	1.17	0.52
1991	0.83	0.74	1.16	2.11	1.33	0.56
1992	0.84	0.61	1.27	2.20	1.51	0.58
1993	0.76	0.61	1.26	2.37	1.61	0.60
1994	0.72	0.59	1.22	2.13	1.69	0.58

Source: **Annual Reports 1990-1994.**

In addition to the above analysis, a comparison of cost of collection as a percentage to total revenue was undertaken. This analysis (Table 5.2) revealed interesting results. Malaysia's cost of collection ratio in 1990 was 0.93. However, the ratio declined gradually and in 1994 it was only 0.72. This indicates Malaysia's cost of tax revenue collection ratio has declined over the years. Among the countries studied, New Zealand has the highest cost of tax revenue collection ratio. In 1993, it stood at 2.37 and in 1994 it was 2.13. The U.S. and Indonesia have the lowest cost-revenue ratio among the countries studied. This is not surprising though, since the U.S.A. is the most advanced country in the world and the wide use of computers in the tax administration may explain the factors for the

low cost of collection. Indonesia's cost of collection ratio was 0.59 in 1994 which is even lower than Malaysia.

5.3 Comparative Efficiency Ratios (1990 ▪ 1994).

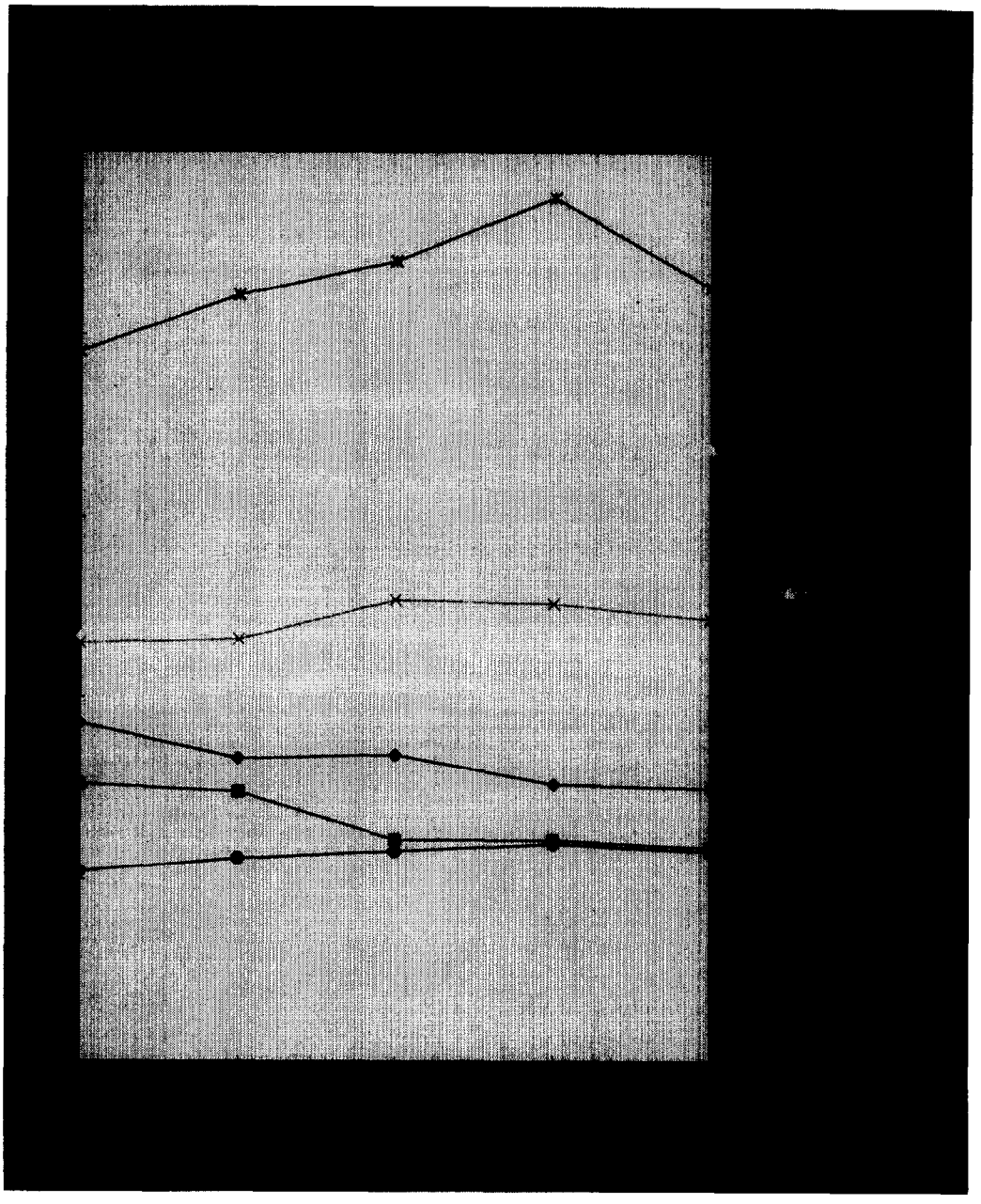

Figure 5.2: Comparative Efficiency Ratio (1990 ▪ 1994)

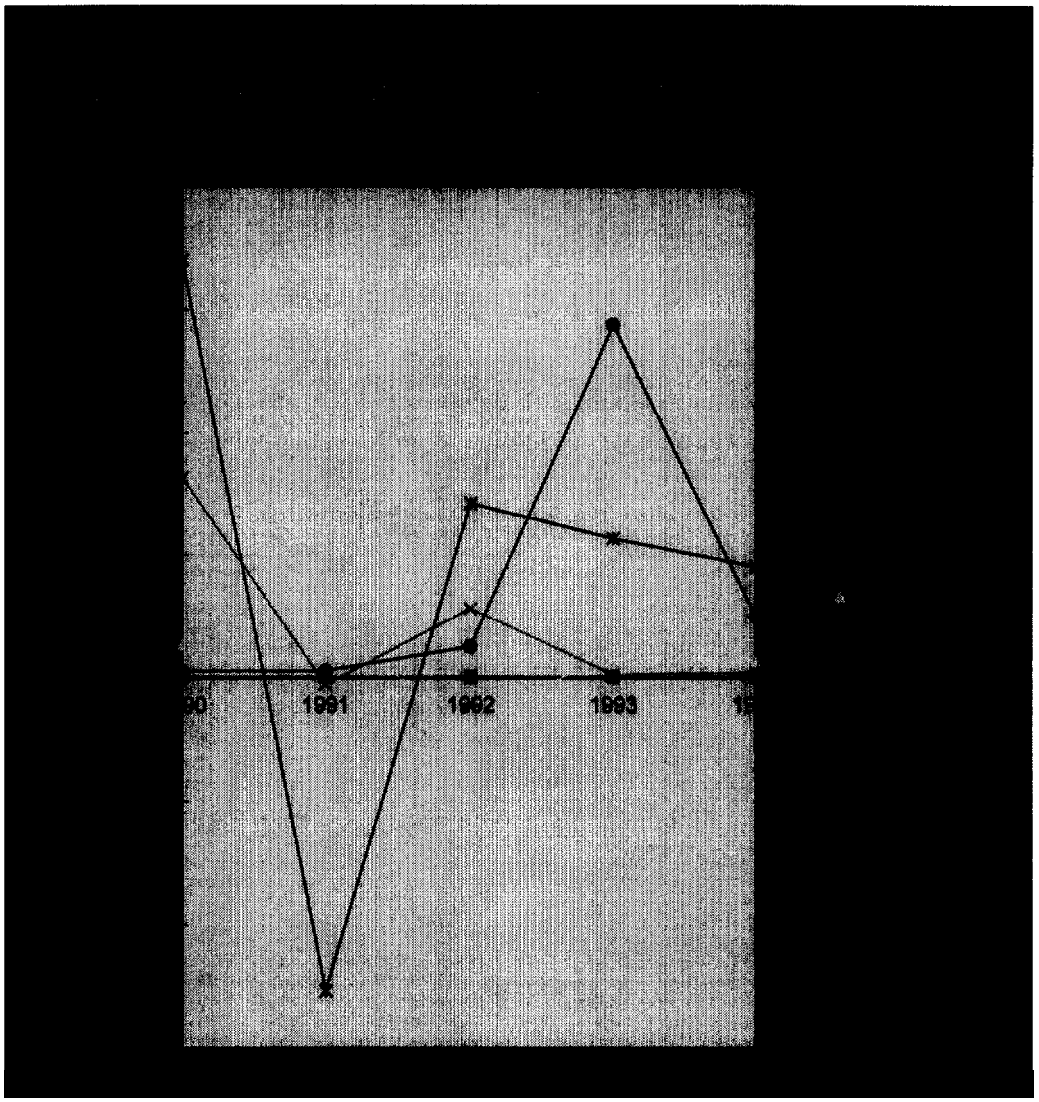

Figure 5.3: Ratio of Administrative Cost and Gross Domestic Product
Source: **IMF World Economic Outlook, September 1995, OECD Economic Outlook June 1996 and Economic Report 1995/96 Ministry of Finance, Malaysia.**

Further analysis of administrative cost against the gross domestic product of the countries is shown in figure 5.3, Due to the slow economic growth in the U.S.A, Japan, Australia and New Zealand, the ratio of administrative cost to gross domestic product (GDP) is very volatile. In the case of Indonesia and Malaysia, the ratio is steady and not very volatile. This is because both countries have been

experiencing a high GDP rate for the past eight years. But Malaysia's GDP growth rates have been always higher than that of Indonesia. Malaysia's GDP growth has been most impressive compared to other countries. This is shown in Table 5.3,

Table 5.3: Gross Domestic Product (1990 - 1994)

Country/Year	1990	1991	1992	1993	1994
Malaysia	9.8	8.7	7.8	8.0	9.2
Indonesia	7.1	6.6	6.1	7.0	6.5
Australia	1.4	- 1.6	2.6	4.0	5.2
New Zealand	0.1	- 3.7	0.3	5.5	4.1
Japan	4.8	4.0	1.1	0.1	0.6
USA	0.8	- 1.2	2.3	3.1	4.1

Source: **IMF World Economic Outlook, September 1995, OECD Economic Outlook June 1996 and Economic Report 1995/96 Ministry of Finance, Malaysia.**

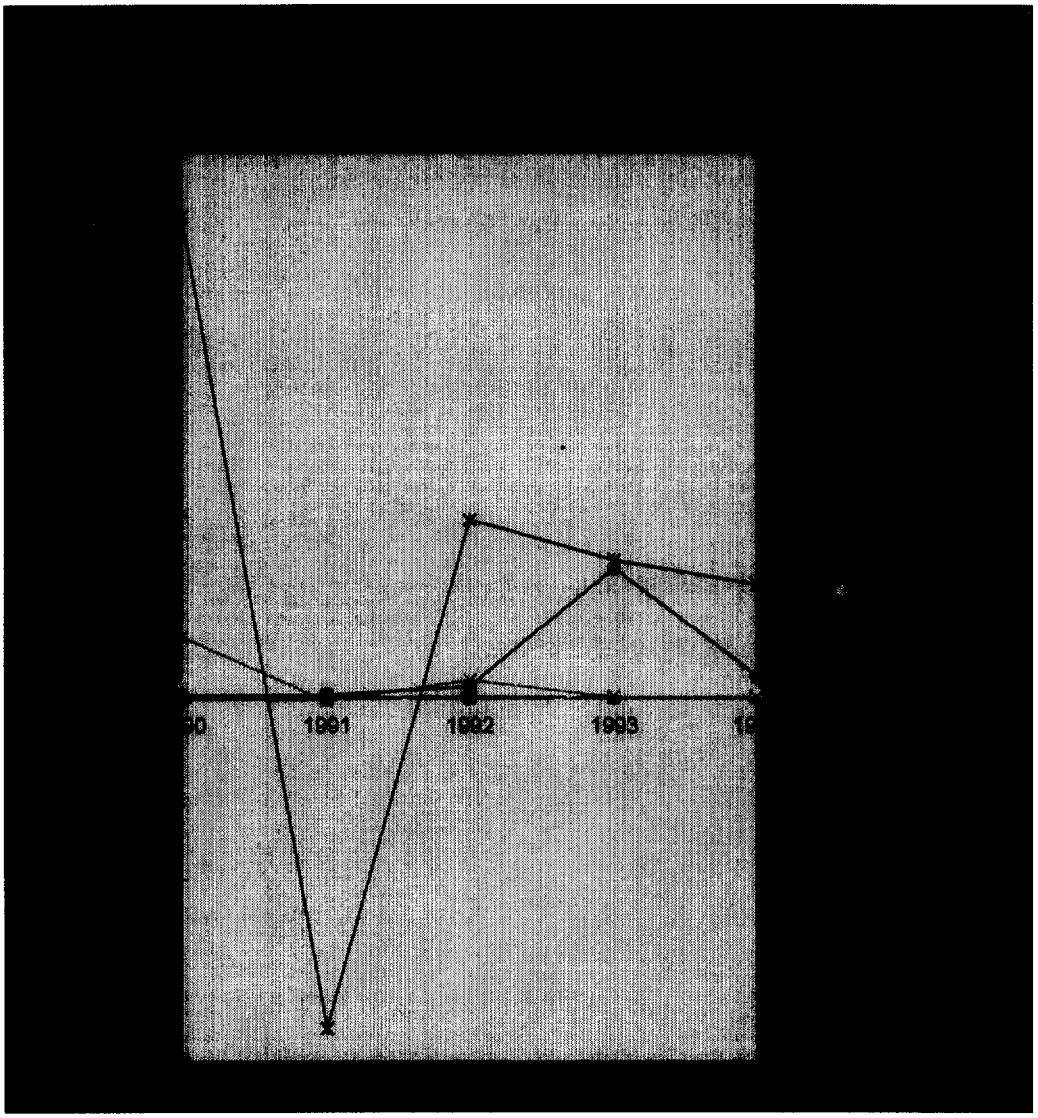

Figure 5.4: Ratio of Tax Revenue to Gross Domestic Product (1990 - 1994)

The above figure shows the ratio of tax revenue to GDP for the years 1990 - 1994. Due to slow economic growth in the developed countries, the ratio is very volatile compared to Malaysia. On the other hand, Malaysia's impressive economic growth has brought along high tax revenue.

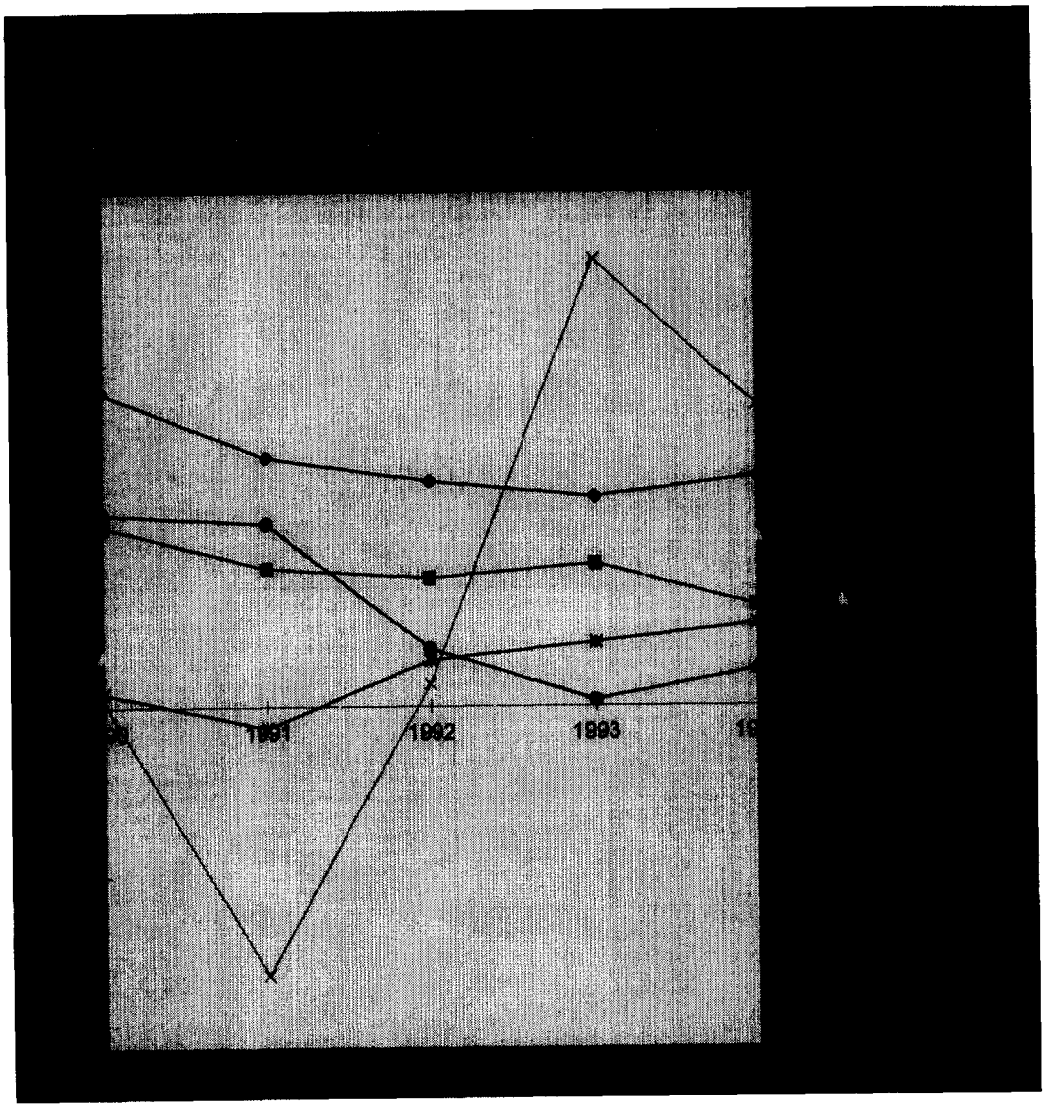

Figure 5.5: Administrative Cost as per Ratio of Tax Revenue and GDP (1990 - 1994).

Figure 5.5 shows the findings of the ratio of administrative cost on tax revenue and GDP. Malaysia's ratio is high compared to other countries. This could be mainly due to the impressive economic growth and increased tax revenue. Nevertheless, the ratio is on a declining trend.

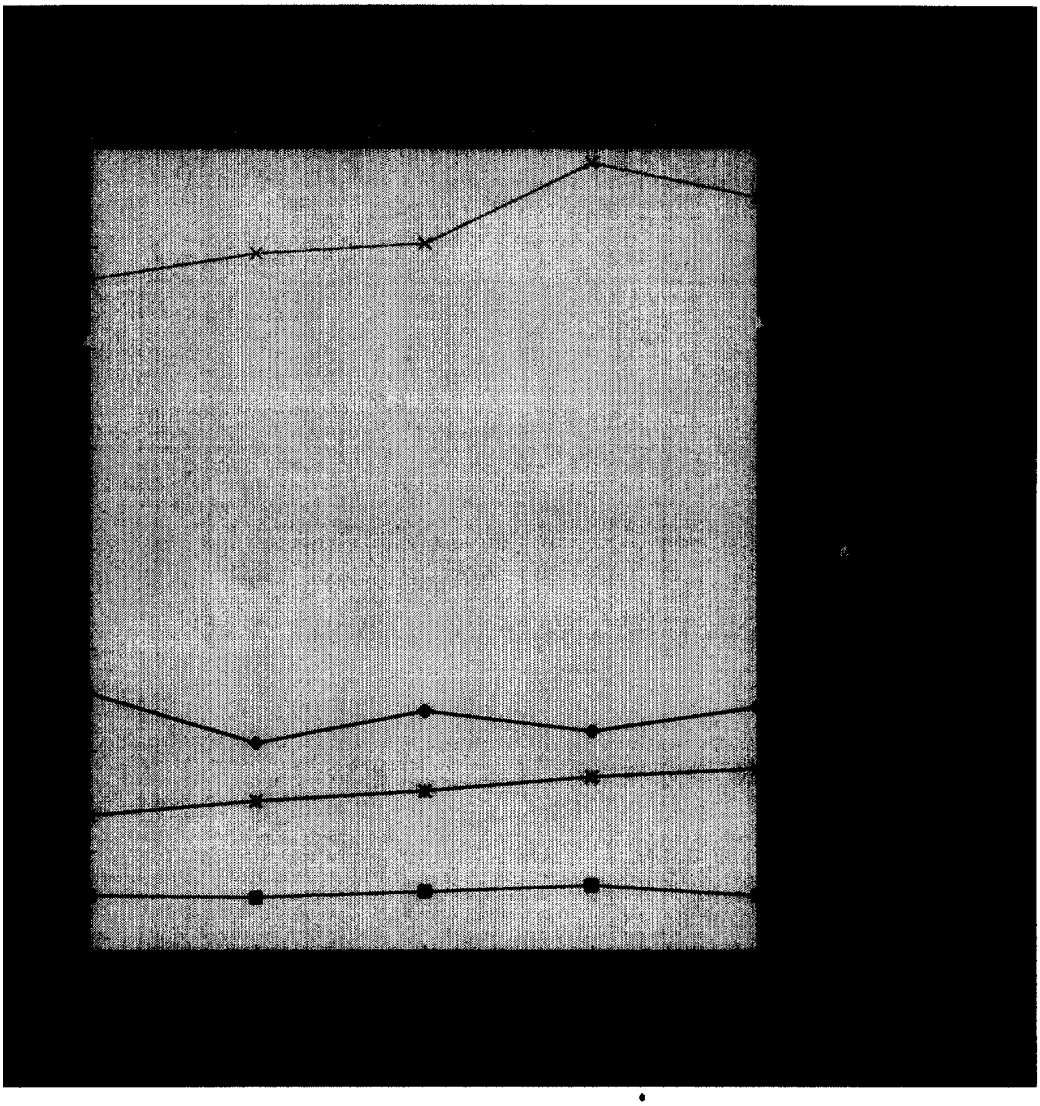

Figure 5.6: Administrative Cost per Taxpayer (1990 - 1994).

The ratio of the administrative cost per taxpayer for the years 1990 - 1994 is shown in figure 5.6. Malaysia's ratio is lower than Australia and New Zealand but higher than the U.S. and Indonesia.

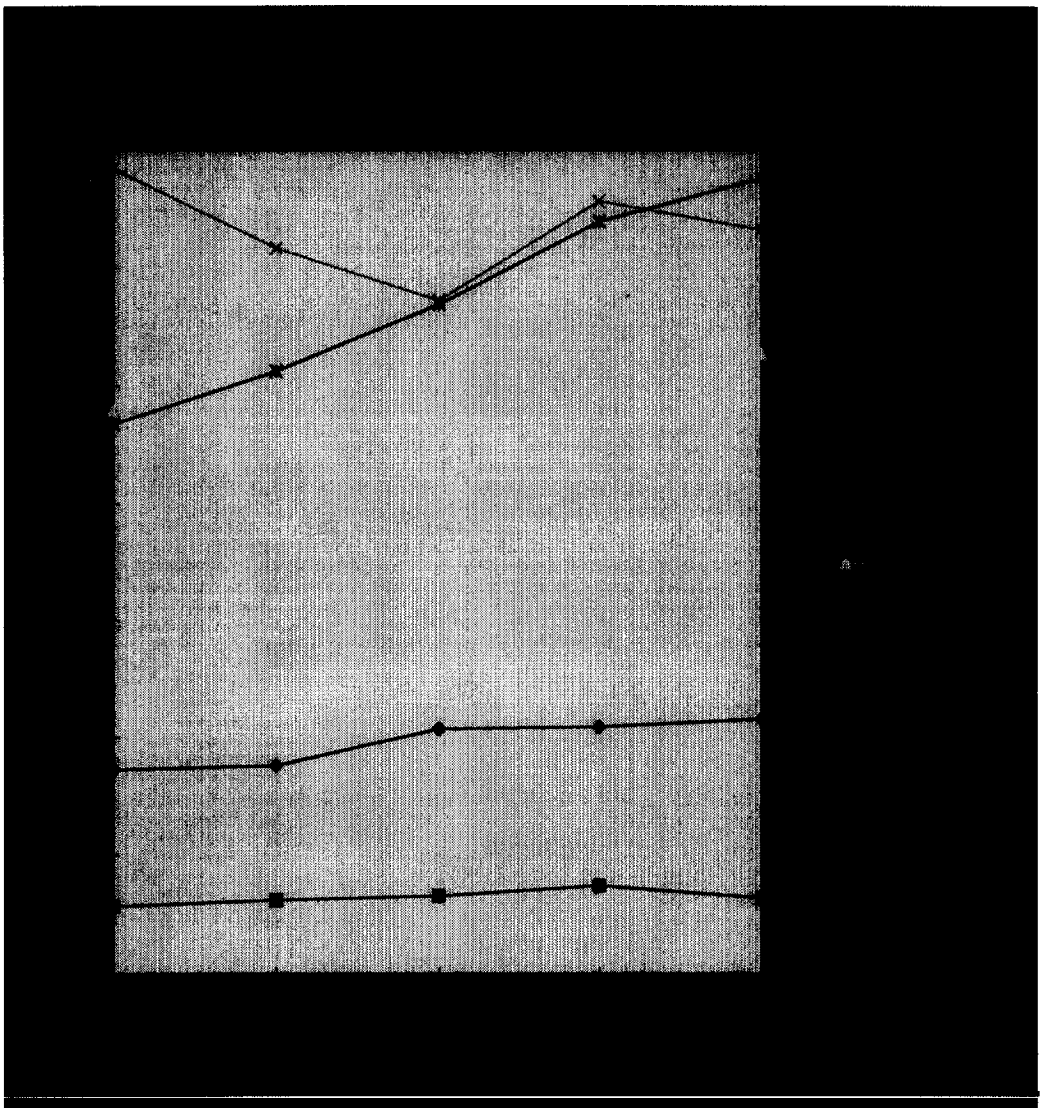

Figure 5.7: Ratio of Administrative Cost to Tax Staff (1990 - 1994).

The ratio of the administrative cost per tax staff for the years 1990 - 1994 is shown in figure 5.7. Malaysia's ratio is comparatively lower than the U.S., Australia and New Zealand, but higher than Indonesia. Figures 5.2 to 5.7 shows the various ratio analyses on the efficiency of the tax administrative system. Figure 5.2 compares the efficiency ratios of Malaysia against Indonesia, Japan, Australia, and New Zealand for the years 1990 - 1994. The cost-revenue ratio for Malaysia has been gradually falling over the five year period. However, as shown in Figure 5.2,

Indonesia and New Zealand also experienced a sharp fall in the ratio compared to other countries. In the case of Japan, the ratio has been on the rise for the period covered. It was a different scenario for Japan in the mid-l 970s and 1980s, when the ratio declined sharply, and was even lower than that of Canada (Ishi, 1993). Due to rapid industralisation and strong economic growth, Japan's cost-revenue ratio indicated an efficient tax administrative system in the 70s and 80s. The findings of this study reveals that the Japanese tax administrative system in the 90s is not efficient as in the 70s and 80s.

Generally, Malaysia's tax administrative system is efficient compared to other countries such as New Zealand, Japan, and Australia after controlling for certain factors such as technology advancement and size of the country. Further analyses were undertaken to determine whether the Malaysian tax administrative system is efficient. These are shown in figures 5.3 to 5.7. Nevertheless, as indicated in Table 5.1, the administration cost of Malaysia is on the rise, and the only reason why the ratio had been falling is due to the increase in tax collections. Tax revenue is on the rise mainly due to the economic growth over the period studied. The administration cost must be controlled from rising further for tne IRB to remain efficient.

Malaysia's tax administrative system is also not as efficient as Indonesia and the U.S. Indonesia and the U.S's cost-revenue ratio have always been much lower than that of Malaysia. Figure 5.2 shows that the Indonesian and the USA's tax administrative systems are the most efficient among the countries studied.

5.3.1 Test of Hypothesis 1

Hypothesis 1 was tested based on the trend analysis reflected in Figure 5.2. The hypothesis test was anchored on its null form as follows:

$H0_1$: The effkiency of the Malaysian tax administrative system does not differ from other countries which implement SAS (Japan, Indonesia, USA, New Zealand and Australia)

Based on the trend analysis in Figure 5.2, Malaysia's tax administrative system is more efficient than Japan, Australia, and New Zealand, but not when compared to Indonesia and the U.S. Accordingly, hypothesis one is true only when the Malaysian tax administrative system is compared with Japan, Australia, and New Zealand. It is not as efficient as the Indonesian and the USA's tax administrative systems.

5.3.2 Conclusion

The efficiency of the Malaysian tax administrative system was compared to other countries that have implemented SAS. Efficiency was measured in terms of the percentage of the administrative cost against the total tax revenue (direct taxes including non-tax revenue). This method of measuring efficiency was used by Ishi (1993) and Barr et al. (1977). The Malaysian tax administrative system was found to be fairly efficient compared to Japan, Australia and New Zealand. However, it is

not as efficient as Indonesia and the U.S. It is not surprising that the U.S. tax administrative system is the most efficient, due to heavy computerisation and the use of other up to- date technology, and probably too due to the assessment and collection systems. In the case of Indonesia, it is not possible to conclude that the figures reported reflect the actual situation. Indonesia with such a large population has a low ratio reflecting a more efficient tax administrative system than Malaysia. Nevertheless, based on the trend analysis it could be concluded that the Malaysian tax administrative system is more efficient than Japan, Australia, and New Zealand but not as efficient as Indonesia and the U.S. Overall, we could conclude that Malaysia's tax administrative system is efficient. This may be explained by the bouyant economy experienced by Malaysia for the past eight years. Thus, as long as the economic growth of the country is sustained at the present rate then tax revenue would keep flowing in, and this would ensure that the tax administrative system remains efficient.

5.4 Comparative Productivity Ratios (1990 - 1994)

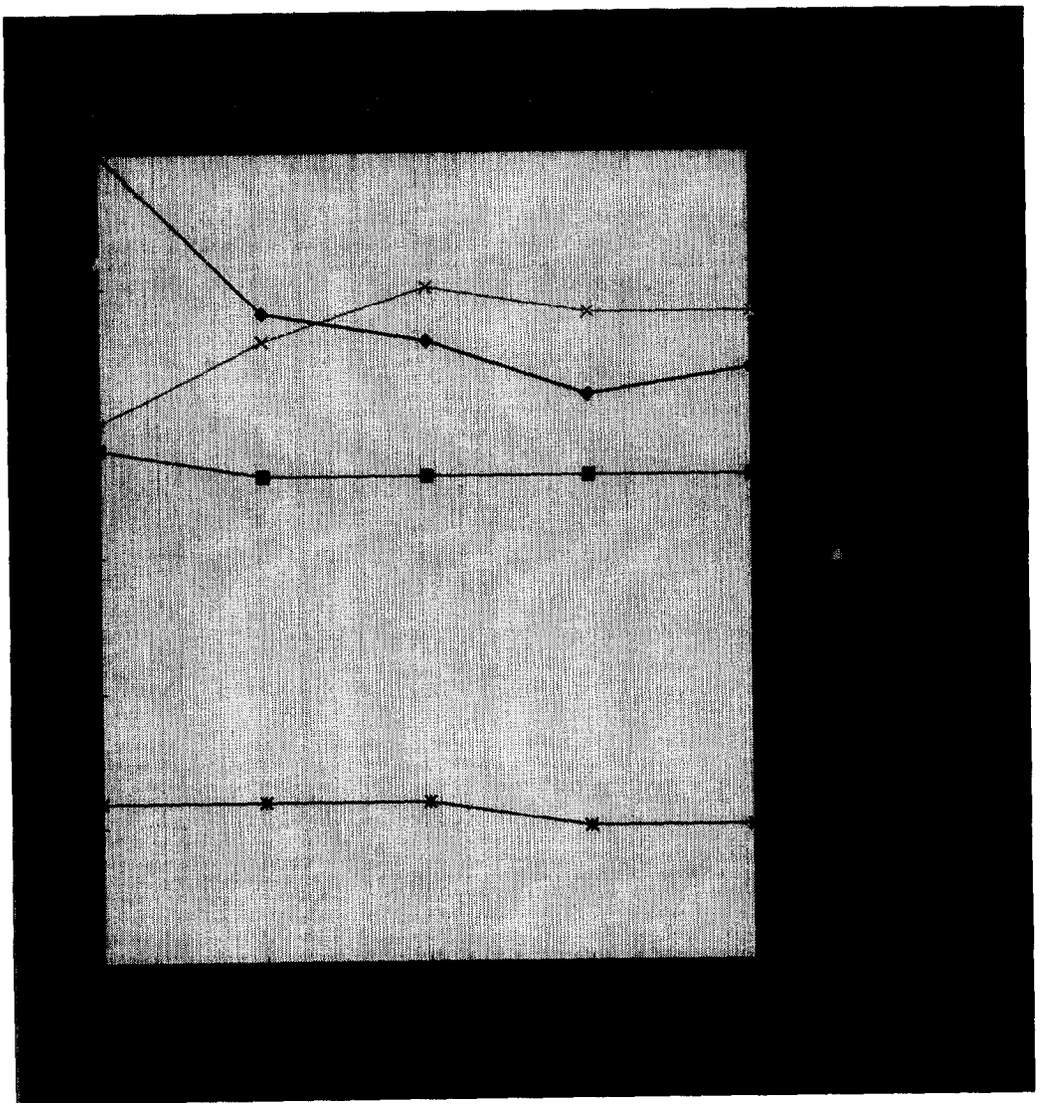

Figure 5.8: Comparative Productivity Ratio (1990 - 1994).

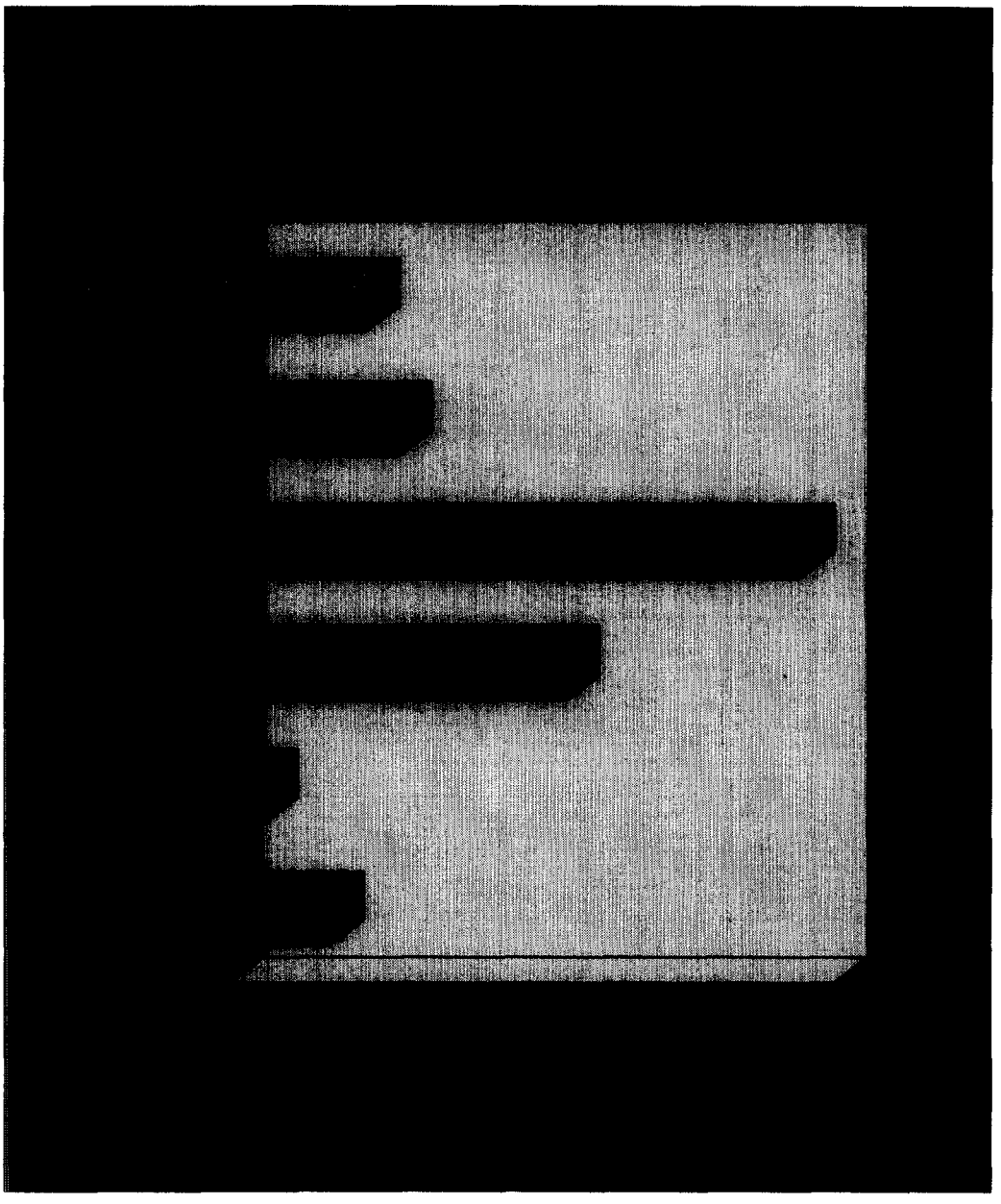

Figure 5.9: Number of Tax Staff as a Percentage of the Population

Table 5.4: Number of Tax Staff and Population (1994)

1994	Tax Staff	Population (m)
Malaysia	6724	18.5
Indonesia	24849	189.7
Australia	17950	17.9
New Zealand	5932	3.5
Japan	56589	125.0
U.S.A.	109505	261.3

Source: Annual Reports of the various IRD and Country Report of the Economist Intelligence Unit, 1st Quarter, 1994.

One way to measure the productivity of the tax staff is to compare the number of tax staff with the number of taxpayers in the country. This method was employed by Ishi (1993) and Barr et al. (1977) to measure Japan and the U.K's productivity. Although, it would be more accurate to measure productivity by comparing the number of tax staff to the total number of tax returns processed in a year, it was not possible to obtain the figures regarding the total number of tax returns processed.

Figure 5.8 illustrates the comparative productivity ratios for the years 1990 -1994. On the other hand, for purposes of comparison, Figure 5.9 shows the number of tax staff as a per cent of the nation's population. Figures were obtained for Indonesia, Japan, Australia, and New Zealand from their IRDs annual reports and the Economist Intelligence Unit Country Report, first quarter 1994. Japan was left out of this analysis, because figures were not available.

Based on the trend analysis in Figure 5.8, Malaysia's ratio had been declining steadily from 1990. The ratio declined in 1993 and rose again in 1994. On the other hand, Indonesia's ratio is below that of Malaysia, and more interestingly the ratio had been steady over the years studied. There was no volitility in Indonesia's ratio. In the case of Australia, the ratio had been declining gradually, and it was similar to New Zealand in 1994.

In addition to the above analysis, the number of tax staff against the total population in each of the country was computed. This is illustrated in Figure 5.9.

Malaysia's population is somewhat similar to Australia (18.5 million compared to 17.9 million in 1994). Although the population is about the same, the number of tax staff in Australia is nearly three times greater than Malaysia. Compared to Australia, Malaysia has a much smaller number of tax staff to the total population. New Zealand, on the other hand, with a population of only 3.53 million has 5932 tax personnel in 1994. The bar chart in Figure 5.8 shows that Malaysia's ratio is much lower than Australia, New Zealand, U.S.A, and Japan. But it is not as low as Indonesia. Again, Indonesian ratio is the lowest among the countries compared. Indonesian's population is about three quarter that of the USA, but Indonesia's total tax staff is only 24,849 compared to the U.S. 109,505 in 1994. There is a possibility that the actual number of taxpayers in Indonesia are more than what is reported in the annual reports.

54.1 Test of Hypothesis 2

Hypothesis 2 was tested in its null form and is stated below:

HO,: The Malaysian tax administrative system is not productive compared to other countries that have adopted SAS, such as Australia, New Zealand, USA, and Indonesia.

The trend analysis in Figure 5.3 was used to determine whether the Malaysian tax administrative system is more productive than other countries that have implemented SAS. As illustrated in Figure 5.3, the Malaysian tax administrative system is more productive than Australia and New Zealand but not

when compared to Indonesia and the USA. Thus, it could be concluded that the Malaysian tax administrative system is more productive compared to Australia and New Zealand but not as productive as Indonesia and the U.S.

5.4.2 Conclusion

The productivity of the Malaysian tax administrative system was compared to other countries that have implemented SAS. Productivity, on the other hand, was measured in terms of the number of tax staff as a percentage of taxpayers for the period studied (1990 - 1994). The Malaysian tax administrative system was found to be fairly productive compared to Australia and New Zealand. However, it was not as productive compared to Indonesia and the USA. The USA's productivity ratio was the lowest among the countries compared. Generally, from the above analysis it may be concluded that Malaysia's tax administrative system is productive. Nevertheless, it cannot be said that it would remain productive in the future, since the ratio is on the rise indicating a decline in the productivity.

The first two hypotheses investigated the efficiency and productivity of the Malaysian tax administrative system. In order to gauge the taxpayers' perceptions towards tax law fairness, tax law complexity and cost of compliance, a survey was undertaken and the findings of the survey are reported below.

5.5 Respondents

As mentioned in chapter three, the study is divided into two parts. The first part dealt on the efficiency and the productivity of the IRB, while the second part dealt on a survey of taxpayers towards the tax administrative systems, tax law fairness and tax law complexity. This section describes the profile of the respondents. A total number of two hundred and forty eight (248) respondents' perceptions were captured. The perceptions of the taxpayers and the testing of the hypotheses are described later in this section. The profile of the respondents are presented in the following section.

Table 5.5: Profile of the Respondents (N =248)

Age	**Frequency**	**Per cent**
20 - 30	49	19.8
31 - 40	130	52.4
41 - 50	60	24.2
51 - 60	9	3.6
Sub-Total	248	100.0
Race		
Malay	222	89.5
Chinese	16	6.5
Indian	7	2.8
Others	3	1.2
Sub-Total	248	100.0
Marital Status		
Single	34	13.7
Married	210	84.7
Divorced	1	0.4
Widower	3	1.2
Sub-Total	248	100.0
Dependents		
None	61	24.6
1 - 3	93	37.5
4 - 6	81	32.7
More than 6	13	5.2
Sub-Total	248	100.0

Current Employment		
Private Sector	68	27.4
Government	123	49.6
Self-Employed	51	20.6
Others	6	2.4
Sub-Total	248	100.0
Occupational Status		
Managerial, Executive	52	21.0
Professional	25	10.1
Engineering, Technical	33	13.3
Administrative, clerical	73	29.4
Owner Manager	51	20.6
Others	14	5.6
Sub-Total	248	100.0
Monthly Income (RM)		
Less than 1,000	9	3.6
1,001 - 3,000	184	74.2
3,001 - 6,000	42	16.9
6,001 - 10,000	9	3.6
10,000 and above	4	1.7
Sub-Total	248	100.0
Qualification		
SRP/LCE	13	5.2
SPM/MCE	74	29.8
STPM/HSC	16	6.5
Certificate	3	1.2
Diploma	50	20.2
Bachelor	72	29.0
Master	10	4.0
Ph.D.	2	0.8
Professional	8	3.3
Sub-Total	248	100.0
Gender		
Male	164	66.1
Female	84	33.9
Sub-Total	248	100.0
Region		
Non-City	161	64.9
City	87	35.1
Sub-Total	248	100.0

5.5.1 Profile of the Respondents

The respondents demographic data are shown in Table 5.5. Each variable is described and discussed in the context of the objectives of the study. A total number of two hundred and forty eight taxpayers opinions were gathered in this study.

Although the sample size determined was three hundred, due to problems mentioned in chapter 4, this study only managed to gather the opinion of 248 taxpayers out of 300. There were 11 unusable responses, thus the response rate was 82.7 per cent.

A Age

More than 50 per cent (52.4%, N=130) of the respondents were in the age group 3 1 - 40. Less than 20 per cent (19.8%, N=49) of them were in the age group 20 - 30. About 24.2 per cent of them were in the age group 41 - 50 , and the remaining 3.6 per cent were in the 5 1 - 60 age group.

B Race

The respondents were also asked to which race they belong to. Nearly 90 per cent (89.5%, N=222) of the respondents were Malays. Chinese taxpayers constituted about 6.5 per cent of the total respondents, 2.8 per cent were Indians, and 1.2 per cent of the respondents were others. Others include non-muslim burniputras and natives of Sabah and Sarawak.

C Marital Status

Almost 85 per cent (84.7%, N=210) of the respondents were married. Those who were single represented about 14 per cent of the total respondents. The rest of the respondents comprised of divorcees and widowers (1.6%, N=4).

D Dependent

About 25 per cent (24.6%, N=61) of the respondents do not have any dependents. On the other hand, about 38 per cent (37.5%) have l-3 dependents. Almost 33 per cent have 4-6 dependents, and about 5 per cent have more than 6 dependents.

E Current Employment

Nearly half (49.6%, N=123) of the respondents were from the various government departments identified in chapter four. They formed the largest group of respondents in this study. About 27 per cent of the respondents were from the private sector. The private sector include private corporations and companies mentioned in chapter four. The remaining 23 per cent of the respondents were either self-employed or other categories of employment.

F Occupational Status

Majority (29.4%, N=73) of the respondents fell under the administrative or clerical group. Managers and executives constituted about 21 per cent of the total respondents. Almost another 21 per cent of the respondents were owner managers. Engineers and technical staff formed 13.3 per cent of the total respondents. On the other hand, professional group of taxpayers represented the other 10 per cent of the total respondents. Professionals include public accountants, medical doctors, and lawyers. This shows a fair distribution of the respondents and fair representation of the various groups in this study.

G Monthly Income

Most of the respondents (74.2%) monthly income were in the range RM1 ,001 and RM3,000. About 17 per cent of the respondents monthly income were between RM3,001 - RM6,000. Another 3.6 per cent of the respondents have monthly income between RM 6,001 and RM10,000, and about the same percentage of the respondents monthly income was less than RM1,000. Only 1.6 per cent had monthly income over RM10,000.

H Educational Qualification

The respondents were asked to state their highest qualification attained. Nearly one-third (29.8%, N=74)) of the respondents possesed SPM/MCE. 29 per cent of them possesed a bachelor's degree. Diploma holders represented about 20

per cent of the total respondents. The others possesed at least SRP/LCE, STPM/HSC or other certificates.

I Gender

Two-thirds (66.1%, N=164) of the respondents were males. The other one-third (33.9%, N=84) were females. Most of the female respondents were single. Married women have to file their tax returns jointly with their husband, and in most cases, the tax returns were filed by the husbands rather than their wives. That could be one of the reasons why there were more male respondents than female respondents.

J Regional Distribution

The respondents were grouped into two regions, city and non-city respectively. More than half (64.9%, N=161) came from the non-city area, whereas the remaining 35 % were taxpayers living in the city, i.e., Kuala Lumpur.

5.6 Perceptions of the Malaysian Taxpayers Towards Tax Administrative Systems (OAS v SAS).

From this section, perceptions of the respondents towards tax administrative systems, tax law fairness, tax law complexity, and compliance cost will be discussed. First, all variables concerning the test of hypothesis three will be

discussed. The other topics will be discussed in the appropriate sections of this paper. Hypothesis 3 stated is stated in its null form for testing purposes.

$H0_3$: There is no significant difference in the Malaysian taxpayers' perceptions between OAS and SAS.

The construct containing ten items in this section were tested against the demographic variables. Not all showed significant results. Nevertheless, the analysis shows significant results for certain demographic variables. To check the relationship between the age groups and items in the construct the cross-tabulation was employed. Cross-tabulation' was also carried out for occupational status against all responses in the construct. These are found in Tables 5.6 and 5.7.

One-way Anova was then undertaken to capture any significant differences in the respondents' perceptions. To test the hypotheses (H3 - H5), the one-way Anova was undertaken on the group mean to test for any significant differences in the perceptions of the respondents between OAS and SAS, tax law fairness, and tax law complexity. The next section describes the descriptive statistics by way of cross-tabulations (Tables 5.6 and 5.15) and the mean response of the respondents (Table 5.16). The respondents' responses were cross-tabulated according to their age and occupational status groups. These two demographic variables have been identified earlier in chapter 4.

[1] Cross-tabulation is a way to show how much the frequency or percentage distribution of one variable differ according to various levels of another variable. (Alreck & Settle, 1995).

5.6.1 Perceptions of the Respondents towards OAS and SAS by Demographic Characteristics: Age and Occupation (cross-tabulation)

The cross-tabulated findings of the respondents' perceptions towards OAS and SAS are discussed below.

A The Present Offkial-Assessment System (OAS) is convenient

Table 5.6: The present OAS is convenient.

	Disagree		Agree	
	1	2	-3	**Total**
Age Group				
20 - 30	7.8	4.9	7.4	20.1
31 - 40	16.8	17.2	18.0	52.0
41 - 60	7.0	8.6	12.3	27.9
Total	31.6	30.7	37.7	100.0
Occupational Status				
Managerial	9.5	7.0	6.1	22.6
Professional	3.9	3.0	3.9	10.8
Engineering	3.5	3.5	7.0	14.0
Administrative	7.8	9.5	13.9	31.2
Owner Manager	7.0	7.4	7.0	21.4
Total	31.7	30.4	37.9	100.0

To the first question in this section , as to whether OAS is convenient or otherwise, nearly 37 per cent of the respondents either agreed or strongly agreed that it is convenient. About 32 per cent either disagreed or strongly disagreed that OAS is convenient (Table 5.6). Overall, the respondents were equally divided in their responses. Their responses were similar across the sample. About 18 per cent of the middle age group perceived that OAS is convenient. When cross-tabulated by occupational status, almost 14 per cent of the administrative and clerical group either agreed or strongly agreed that OAS is convenient (Table 5.6). This response was two times more than the engineering and owner manager groups. The findings

indicate that the administrative and clerical group do not want to incur extra burden by switching to another system that they are not familiar with. They are comfortable with the existing assessment system and do not want any change in the systems.

B The present OAS is not complicated

Table 5.7: The present OAS is not complicated

	Disagree		Agree	
	1	**2**	**3**	**Total**
Age Group				
20 - 30	4.9	5.7	9.4	20.1
31 - 40	12.7	16.0	23.0	51.7
41 - 60	5.7	7.8	14.8	28.3
Total	23.3	29.5	47.2	100.0
Occupational Status				
Managerial	6.5	6.5	9.6	22.6
Professional	2.6	3.5	4.8	10.9
Engineering	5.2	2.5	6.5	14.2
Administrative	5.7	8.3	17.0	31.0
Owner Manager	3.9	8.3	9.1	21.3
Total	23.9	29.1	47.0	100.0

Almost 47 per cent (47.2%, N=115) of the respondents either agreed or strongly agreed that OAS is not complicated. The reason could be because they are already familiar with the current assessment system, thus almost half of them said that it is not complicated. About 30 per cent were neutral in their responses, and the rest (23.3%, N=57) have no idea at all (Table 5.7). Cross-tabulated findings further revealed that 23 per cent of the middle age taxpayers either agreed or strongly agreed that OAS is not complicated (Table 5.7). On the other hand, majority (17.0 %) of the respondents in the administrative and clerical

group either agreed or strongly agreed that OAS is not complicated. This is nearly two times more than the managerial and the owner managers groups. The results are consistent with the response to the first item in this construct.

C The government should let the taxpayers compute their own income taxes

Table 5.8: The government should let the taxpayers compute their own income taxes.

	Disagree		Agree	
	1	2	3	**Total**
Age Group				
20 - 30	2.8	4.0	13.0	19.8
31 - 40	13.8	4.9	33.6	52.3
41 - 60	6.9	3.6	17.4	27.9
Total	23.5	12.5	64.0	100.0
Occupational Status				
Managerial	3.9	3.9	14.6	22.4
Professional	3.0	1.7	6.0	10.7
Engineering	5.6	2.6	6.0	14.2
Administrative	7.7	3.0	20.2	30.9
Owner Manager	3.4	1.2	17.2	21.8
Total	23.6	12.4	64.0	100.0

The respondents were further asked whether the government should allow the taxpayers to compute their own taxes. Their responses are found in Table 5.8. Quite a significant majority (64 %, N=158) either agreed or strongly agreed that they should be allowed to compute their own taxes. Only 24 per cent (N=58) either disagreed or strongly disagreed that the taxpayers should be allowed to do so. A further analysis of the mean shows that the respondents agreed that the computations of the income taxes should be done by the taxpayers themselves. Almost 34 per cent of the middle age taxpayers in the total sample (Table 5.8) either agreed or strongly agreed that taxpayers should compute their own income taxes. Interestingly, in the occupational status, majority (20.2%) in the administrative and clerical group perceived that they should be allowed to compute

their own taxes. This indicates that the respondents strongly perceived that computation of the income tax should be done by them and not by the IRB. Even those in the administrative and clerical group agreed that computation should be done by them. This particular group's agreement to this statement comes as a surprise. They strongly perceived that they should be allowed to compute their own income tax. One reason could be due to the simplicity of the annual tax return.

D As an individual taxpayer, I know how to compute my own income taxes.

Table 5.9: As an individual taxpayer, I know how to compute my own income tax.

	Disagree		Agree	
	1	2	3	**Total**
Age Group				
20 - 30	3.7	2.8	13.4	19.9
31 - 40	8.5	5.7	37.8	52.0
41 - 60	3.3	4.1	20.7	28.1
Total	15.5	12.6	71.9	100.0
Occupational Status				
Managerial	4.3	1.7	16.4	22.4
Professional	1.3	1.7	7.8	10.8
Engineering	2.2	2.2	9.9	14.3
Administrative	4.7	6.0	19.8	30.5
Owner Manager	3.9	1.7	16.4	22.0
Total	16.4	13.3	70.3	100.0

As a follow-up to the previous question, the respondents were asked whether they know how to compute their own taxes. This question too generated a very high positive answer from the respondents. Almost 72 per cent of the total sample either agreed or strongly agreed that they know how to compute their own

taxes. These taxpayers strongly agreed they have the necessary knowledge especially tax knowledge to compute their own tax payable. Only about 15 per cent of them either disagreed or strongly disagreed they do know how to compute their own tax payable. This question was specifically included to determine whether the taxpayers knew how to compute their own income taxes. As shown in Table 5.9, among the various age group, majority in all of the three age groups either agreed or strongly agreed that they know how to compute their own income taxes. Even when analysed by occupational status, the findings indicate that irrespective of their occupational status, majority either agreed or strongly agreed that they know how to compute their own taxes (Table 5.9).

E The present OAS should not be replaced by the SAS

Table 5.10: The present OAS should not be replaced with the SAS.

	Disagree		**Agree**	
	1	2	-3	**Total**
Age Group	7.8	6.2	6.2	20.2
20 - 30	19.8	18.5	13.6	51.9
31 - 40	11.5	7.4	9.0	27.9
41 - 60	39.1	32.1	28.8	100.0
Total				
Occupational Status				
Managerial	12.2	4.4	6.0	22.6
Professional	3.9	4.4	2.6	10.9
Engineering	4.4	4.4	5.2	14.0
Administrative	9.2	12.7	9.2	31.1
Owner Manager	10.0	5.7	5.7	21.4
Total	39.7	31.6	28.7	100.0

The respondents were equally divided in their opinions when asked whether OAS should be replaced with another assessment system. About 29 per cent (28.8%, N=70) either agreed or strongly agreed that OAS should not be replaced. Almost 40 per cent (39.1%, N=95) of them either agreed or strongly agreed that OAS should be replaced. This indicates that quite a majority are in

favour of switching to another assessment system especially to SAS. When analysed further by age and occupation, interesting results were obtained. Nearly 20 per cent of the middle age group either disagreed or strongly disagreed that OAS should not be replaced by SAS. However, an equal percentage were undecided. Almost 12 per cent of the older group too either disagreed or strongly disagreed that OAS should not be replaced. When analysed further by occupation, majority of the managerial and owner managers either disagreed or strongly disagreed that OAS should not be replaced. The others were not quite divided in their responses. Most of them were unsure whether OAS should be replaced or otherwise. This also could be because they are not familiar with SAS and how the system operates.

F The SAS will be more fair compared to the existing OAS

Table 5.11: The SAS will be more fair compared to the existing OAS.

	Disagree		Agree	
	1	**2**	**3**	**Total**
Age Group				
20 - 30	1.2	7.8	11.0	20.0
31 - 40	7.8	15.5	28.6	51.9
41 - 60	4.5	8.5	15.1	28.1
Total	13.5	31.8	54.7	100.0
Occupational Status				
Managerial	3.0	6.9	12.6	22.5
Professional	1.3	5.6	3.9	10.8
Engineering	2.2	4.3	7.8	14.3
Administrative	5.2	8.2	17.2	30.6
Owner Manager	2.6	6.2	13.0	21.8
Total	14.3	31.2	54.5	100.0

The respondents were further asked whether SAS in their opinions will be more fair than OAS. Nearly 55 per cent (54.7%, N=134) either agreed or strongly agreed that SAS will be a more fairer assessment system than OAS (μ= 3.535).

This is in line to the previous question when majority of them agreed that OAS should be replaced by SAS. Only 13.5 per cent of the respondents either disagreed or strongly disagreed to this question. However, almost 32 per cent of them were neutral. Some mentioned in the questionnaire that since SAS had not yet been implemented, it is thus not possible to give their opinions. But Table 5.11 shows that all the age groups perceived positively towards SAS.

G The self-assessment system will be complicated

Table 5.12: The SAS will be complicated.

	Disagree		Agree	
	1	2	3	Total
Age Group				
20 - 30	8.2	5.3	6.2	19.7
31 - 40	21.0	14.4	17.3	52.7
41 - 60	11.1	7.0	9.5	27.6
Total	40.3	26.7	33.0	100.0
Occupational Status				
Managerial	10.9	7.0	4.8	22.7
Professional	3.9	3.5	3.5	10.9
Engineering	6.1	2.5	5.7	14.3
Administrative	11.3	8.7	10.0	30.0
Owner Manager	7.4	5.7	9.0	22.1
Total	39.6	27.4	33.0	100.0

Almost 40 per cent (40.4%, N=98) of the respondents either disagreed or strongly disagreed that SAS if implemented will be complicated. A short write-up on what is SAS was included in the questionnaire. Differences between OAS and SAS were also included. 32.9 per cent of the respondents either agreed or strongly agreed that SAS will be complicated. The mean also indicates that the respondents perceptions to this particular question was neutral. Adminstrative and clerical group were undivided in their responses. This indicates that since SAS has not be

implemented it is quite impossible for the respondents to give an unbias opinion. Refer Table 5.12.

H SAS will not be convenient

Table 5.13: SAS will not be convenient.

	Disagree		Agree	
	1	2	3	**Total**
Age Group				
20 - 30	7.4	7.8	4.9	20.1
31 - 40	24.6	18.0	9.0	51.6
41 - 60	14.8	6.1	7.4	28.3
Total	46.8	31.9	21.3	100.0
Occupational Status				
Managerial	12.2	7.8	2.6	22.6
Professional	4.8	4.3	1.7	10.8
Engineering	6.5	4.8	3.0	14.3
Administrative	12.6	8.7	9.2	30.5
Owner Manager	10.4	6.2	5.2	21.8
Total	46.5	31.8	21.7	100.0

Nearly 47 per cent (46.8%, N=114) of the respondents either disagreed or strongly disagreed that SAS will not be convenient (Table 5.13). This response is 10 per cent higher than those who agreed that OAS is convenient. On the other hand, only 21 per cent either agreed or strongly agreed that SAS will not be convenient. About 32 per cent were neutral. The majority in the middle and older age groups either disagreed or strongly disagreed that SAS will not be convenient.

I SAS should not be introduced in Malaysia

Table 5.14: SAS should not be introduced in Malaysia.

	Disagree		Agree	
	1	2	3	**Total**
Age Group				
20 - 30	8.3	6.7	4.6	19.6
31 - 40	23.8	17.5	10.8	52.1
41 - 60	9.6	9.1	9.6	28.3
Total	41.7	33.3	25.0	100.0
Occupational Status				
Managerial	11.5	5.3	5.3	22.1
Professional	5.8	3.5	1.8	11.1
Engineering	6.2	6.6	1.8	14.6
Administrative	8.4	11.5	11.5	31.4
Owner Manager	10.1	5.4	5.3	20.8
Total	42.0	32.3	25.7	100.0

The next question asked the respondents whether SAS should or should not be implemented in Malaysia. About 42 per cent (41.7%, N=l 00) of the respondents either disagreed or strongly disagreed that SAS should not be introduced in Malaysia. The mean too reflects the same response. Those who either agreed or strongly agreed constituted only about 25 per cent. Once again, majority (24%) of the middle age group either disagreed or strongly disagreed that SAS should not be introduced in Malaysia. The young and older age groups were undivided in their opinions. In the occupational status, the majority of the administrative and clerical group either agreed or strongly agreed that SAS should not be introduced in Malaysia. An equal percentage of them were neutral in their responses. In contrast, almost a similar percentage of the managers and owner managers perceived otherwise. They agreed that SAS should be introduced in Malaysia.

J If SAS is introduced in Malaysia, I would need to hire tax professionals to prepare my annual tax return.

Table 5.15: If SAS is introduced in Malaysia, I would need to hire tax professional to prepare my annual tax return.

	Disagree		Agree	
	1	2	3	Total
Age Group				
20 - 30	8.9	2.0	8.9	19.8
31 - 40	22.4	8.9	20.7	52.0
41 - 60	13.4	7.4	7.4	28.2
Total	44.7	18.3	37.0	100.0
Occupational Status				
Managerial	13.8	4.3	4.3	22.4
Professional	6.5	1.3	3.0	10.8
Engineering	4.7	2.6	6.9	14.2
Administrative	13.4	8.2	9.0	30.6
Owner Manager	4.7	2.6	14.7	22.0
Total	43.1	19.0	37.9	100.0

In response to the question whether the taxpayers would have to hire tax professionals to file their tax returns if SAS is introduced, almost 45 per cent either disagreed or strongly disagreed to the question. Only 37 per cent either agreed or strongly agreed that they would have to hire tax professionals if SAS is introduced in Malaysia. The middle age group perceived strongly that they may need to hire tax professionals to file their tax returns . Their response was three times more than the other two age groups. An equal percentage of the middle age group too disagreed they may need professional help. This response is line with the earlier question on whether the respondents have the necessary knowledge to compute their own tax payable. More than half agreed they have the knowledge to do so. Nevertheless, owner-managers strongly perceived that they would need the help of the tax professionals if SAS is introduced in Malaysia. This is not surprising, because the findings in this study also shows that those who use

professional help to prepare their tax returns are owner-managers rather than other individual taxpayers (see Table 5.58).

5.6.2 Mean response of the taxpayers' perceptions.

The ten statements in the construct were ranked according to the mean response of the respondents. This is presented in Table 5.15. On a scale of 1 to 5, the respondents strongly perceived that they know how to compute their own income taxes. The mean for this statement was the highest, 3.8 out of a maximum of 5.0. The second statement with a high mean was the item that computation of their own income taxes should be allowed by the government. Respondents too perceived that SAS will be more fair compared to the existing OAS. Overall, the findings indicate that the taxpayers are confident enough to compute their own tax payable and they have the knowledge to comply with the tax laws of Malaysia. The respondents agreed SAS should be introduced in Malaysia and disagreed it will not be convenient to them.

Table 5.16: Mean response of the taxpayers towards OAS and SAS.

	Strongly Disagree 1	2	3	4	Strongly Agree 5
As an individual taxpayer, I know how to compute my own income taxes.				● 3.8	
The government should let the taxpayers compute their own income taxes.				♦3.6	
The SAS will be more fair compared to the existing OAS.				♦3.5	
The present OAS is not complicated.				● 3.2	
The present Official-assessment system (OAS) is convenient				♦3.1	
The present OAS should not be replaced by the SAS.			♦2.9		
The SAS will be complicated.			♦2.9		
. If SAS is introduced in Malaysia, I would need to hire tax professionals to prepare my annual tax return.			♦2.9		
SAS should not be introduced in Malaysia.			♦2.8		
SAS will not be convenient.			♦2.7		

5.6.3 Findings of One-way ANOVA (OAS v SAS).

One-way analysis of variance was conducted on all of the above statements against all demographic variables of the respondents. This was carried out to determine if there exists any significant difference among the different categories of respondents. Significant findings are discussed below. For non-significant findings, see Appendix B.

A. SAS will not be convenient (INCONVENIENT)

Table 5.17: Results of One-Way ANOVA Between SAS will not be convenient (INCONVENIENT) and Age

Source	DF	sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	3	8.0219	2.6740	2.6748	.0479*
Within Groups	240	239.9248	.9997		
Total	243	247.9467			

*** statistically significant at 0.05 level**

One-way ANOVA was carried out for **INCONVENIENT** and only age showed significant difference at 0.05 level (Table 5.17). Furthermore, a post-hoc multiple range test using Scheffe's procedure did not reveal any significant difference at 0.05 level. Thus, all respondents irrespective of their age group perceived alike towards inconvenient. As reported in Table 5.13 (cross-tabulation), majority of the respondents disagreed that SAS will not be convenient.

B. If SAS is introduced in Malaysia, I would need to hire professional help to prepare my annual tax return (HIRE).

Table 5.18: Results of One-Way ANOVA Between If SAS is introduced in Malaysia, I would need to hire professional help to prepare my annual tax return (HIRE) and Demographic variables.

Group	Probability	Mean	Number
OCCUPATIONAL STATUS	**.0000***		
Managerial, Executive		2.4038	52
Professional		2.6000	25
Engineering, Technical		3.1818	33
Administrative, Clerical		2.8592	71
Owner Manager		3.5294	51
Others		‘2.2143	14
Total		2.8821	246
QUALIFICATION	**.0109***		
SRP/LCE		3.2308	13
SPM/MCE		3.2055	73
STPM/HSC		3.0625	16
Certificate		3.0000	3
Diploma		2.6327	49
Bachelor		2.6250	72
Master		2.2000	10
Ph.D.		4.5000	2
Professional		3.2500	8
Total		2.8821	246
CURRENT EMPLOYMENT	**.0001***		
Private Sector		2.8060	67
Government		2.6393	122
Own Business		3.5294	51
Others		3.1667	6
Total		2.882 1	246
Scores not significantly different for other demographic variables			

*** statistically significant at 0.01 level**

Table 5.18 shows significant results of one-way ANOVA between **Hire** and occupational status, qualification, and current employment. They were all significant at 0.01 level. Scores for other demographic variables were found not to be significant. The Scheffe post-hoc multiple range tests further revealed that for occupational status, owner managers and self-employed differed significantly in their perceptions from the managers and executives, and respondents in the other groups. Significant findings were also found between qualification and the need to hire tax professionals. However, the Scheffe post-hoc test did not reveal any significant differences in the groups perceptions.

The findings clearly indicate that self-employed taxpayers perceived strongly if SAS is implemented in Malaysia, they would need to employ tax professionals to file their tax returns. The same results were obtained by cross-tabulation (Table 5.15). This is not surprising because even now under the existing assessment system, most of them employ tax professionals to file their tax returns. Thus, irrespective of the assessment systems practised, self-employed taxpayers will seek professional help. Professional help may be convenient to them as they need not have to go through the hassle if the returns were not prepared according to the requirements of the IRB. Furthermore, besides preparing the tax returns, tax professionals could also assist in computing the least amount of tax payable to the IRB. This could also because only these professionals possess the necessary tax knowledge to claim what is allowed under the tax laws.

C. **SAS should not be introduced in Malaysia (NO-SAS).**

Table 5.19: Results of One-Way ANOVA Between (SAS should not be introduced in Malaysia) NO-SAS and Demographic variables.

Group	Probability	Mean	Number
OCCUPATIONAL STATUS	**.0888 ****		
Managerial, Executive		2.6800	50
Professional		2.5600	25
Engineering, Technical		2.5455	33
Administrative, Clerical		3.1127	71
Owner Manager		2.6383	47
Others		2.7857	14
Total		2.7750	240
CURRENT EMPLOYMENT	**.0944 ****		
Private Sector		2.6970	66
Government		2.9098	122
Own Business		2.6383	47
Others		1.8000	5
Total		2.7750	240
QUALIFICATION	**.0738 ****		
SRP/LCE		3.0833	12
SPM/MCE		3.0571	70
STPM/HSC		2.8750	16
Certificate		2.3333	3
DIPLOMA		2.8200	50
Bachelor		2.4571	70
Master		2.3000	10
Ph.D.		4.0000	1
Professional		2.7500	8
Total		2.7500	240
MONTHLY INCOME	**.0270 ***		
Less than RM1,000		3.9750	8
RM1,001 - RM3,000		2.7640	178
RM3,001 - RM6,000		2.7143	42
RM6,001 - RM10,000		2.7500	8
RM10,000 and above		1.7500	4
Total		2.7750	240
Scores not significantly different for other demographic variables			

*** statistically significant at 0.05 level**

**** statistically significant at 0.10 level**

Although significant results were found between **NO-SAS** and occupational status, current employment, and qualification, and monthly income, only variable monthly income was significant at 0.05 level of confidence. The rests were significant at 0.10 (Table 5.19). In the occupational status groups, respondents in the administrative and clerical group perceived differently from managers, engineers and technical group, and owner managers. These respondents agreed that SAS should not be introduced in Malaysia. This is consistent with the earlier findings that this particular group of respondents do not favour the idea of switching to a new assessment system in Malaysia. The reason could be mainly because it may bring extra burden to them, financially or otherwise. It may also be due to the fear of complying with new tax laws or having to incur extra taxes. One other reason could be due to poor tax knowledge.

5.6.4 Group Mean Data Analysis.

Table 5.20: Results of One-Way ANOVA Between Tax Administration (TAXADMIN) Gmean and Demographic Variables.

Demographic Variable	Cases	Mean	SD	F Ratio	F Prob.
Age	232	3.12	0.39	1.31	.2724
Employment	232	3.12	0.39	1.41	.2418
Occupation	232	3.12	0.39	1.53	.1829
Monthly Income	232	3.12	0.39	1.04	.3853
Qualification	232	3.12	0.39	2.15	.0320*

*** statistically significant at 0.05 level**

A group mean was computed for all the respondents' responses to each statement in this section. The group mean computed was then used in the one-way Anova against all demographic variables. Table 5.20 shows the findings.

Significant findings were only found for qualification. The finding was significant at 0.05. The rest of the results were not significant. Refer Appendix B for non-significant findings.

5.6.5 Test of Hypothesis 3 Against the Group Mean

Since significant results were only found for qualification against the group mean for **TAXADMIN,** hypothesis 3 was only rejected for this variable but not for the others. Thus, taxpayers perceptions differed only by qualification toward OAS and SAS. Furthermore, no significant differences were found in the groups perceptions by means of the Scheffe post-hoc multiple range test.

5.6.6 Comparison of Taxpayers' Perceptions by Regions (t-test).

Taxpayers' perceptions towards OAS and SAS by regions were also tested for any significant differences. They were grouped into two regions, namely city and non-city taxpayers. City taxpayers were from Kuala Lumpur and non-city taxpayers were from the north (Alor Setar and Kangar). T-test was employed to test for any significant differences between city and non-city taxpayers towards OAS and SAS. The sub-hypothesis was tested in its null form and is found below.

$H0_3a$: There is no significant difference in the perceptions of the city and non-city taxpayers towards OAS and SAS.

5.6.7 Test of Sub-Hypothesis 3a.

A SAS will be more fair than OAS (SAS-FAIR).

Table 5.2 1: Comparison of City and Non-City Taxpayers' Perceptions (t-test)

Sources/ Variables Information	Non-City	City	t-value	df	2-Tail Prob
SAS-Fair	3.6415	3.3372	2.31	243	.022 *

*** statistically significant at 0.05 level**

The p value in Table 5.20 indicates significant results. It is significant at 0.05 level of confidence. The mean of the respondents on the other hand, indicates city taxpayers do not perceive SAS will be more fair than OAS. The taxpayers from the non-city areas, however, agreed that SAS will be more fair than OAS. Refer Table 5.2 1.

The findings revealed that except for SAS-FAIR, none of the other items were significant. Refer Appendix B for all non-significant findings. Since no significant findings were found for this particular sub-hypothesis except for SAS-FAIR, it could be concluded that H3a could only be rejected for SAS-FAIR and not others.. The reason could be due to insufficient data or information. Thus, except for SAS-FAIR, city and non-city taxpayers generally perceived alike towards OAS and SAS.

5.6.8 Conclusion

Generally, the findings indicate that the Malaysian taxpayers perceived positively towards SAS. They have positive attitude towards the implementation of SAS in Malaysia. The respondents when posed several questions pertaining to the implementation of SAS in Malaysia, majority favoured the idea of switching to the system especially the managerial, professional, owner managers and the middle age groups. Only those in the administrative and clerical group do not support the idea of implementing SAS in Malaysia. This is a good indicator that SAS, if introduced in Malaysia will not be opposed by majority of the taxpayers. However, efforts must be made to educate the administrative and clerical group. Their fear may be due to insufficient tax knowledge or others such as having to incur extra income taxes if SAS is implemented. Nevertheless, SAS should be considered by the IRB to be implemented in Malaysia after considering all factors related to it.

5.7 Perceptions of the Malaysian Taxpayers Towards Tax Law Fairness.

In this section, hypothesis four was tested. This hypothesis was specifically generated to test the taxpayers' perceptions towards the existing tax law fairness. Hypothesis four stated in the null form is as follows.

HO_{4}: There is no significant difference in the Malaysian taxpayers' perceptions towards tax law fairness.

The second section of the questionnaire comprised questions pertaining to tax law fairness. First, the cross-tabulated responses of the respondents are discussed (Tables 5.22 to 5.31), followed by the one-way ANOVA findings and the testing of hypothesis four against the group mean. The t-test findings on the two groups of taxpayers are then discussed.

5.7.1 Perceptions of the Respondents towards Tax Law Fairness by Demographic Characteristics (cross-tabulation).

A The Malaysian income tax system is generally fair

Table 5.22: The Malaysian income tax system is generally fair.

	Disagree		Agree	
Statement	**1**	**2**	3	**Total**
Age Group				
20 - 30	6.5	6.1	7.3	19.9
31 - 40	20.2	13.8	18.6	52.6
41 - 60	9.3	4.8	13.4	27.5
Total	36.0	24.7	39.3	100.0
Occupational Status				
Managerial	9.9	6.4	6.0	22.3
Professional	2.2	3.4	5.2	10.8
Engineering	6.4	4.3	3.0	13.7
Administrative	10.7	4.8	15.9	31.4
Owner Manager	6.0	6.0	9.8	21.8
Total	35.2	24.9	39.9	100.0

The first question in this section asked the respondents if they perceived the existing tax system to be fair. A definition of what fairness in the context of tax law was provided. This was to ensure that the respondents will give an unbiased response. A total of 36 per cent (N=84) of the respondents either disagreed or strongly disagreed that the system is fair. Another 39 per cent (N=97) of them, however, either agreed or strongly agreed that the existing system is fair. The middle age agroup was equally divided in their perceptions. However, 13 per cent of the older group perceived that the income tax system is generally fair (Table 5.22). On the other hand, a high percentage of the administrative and clerical group perceived that the system is

generally fair (Table 5.22). This was followed by the owner-managers and the managerial group. The engineering group did not perceived the system to be fair.

B The Malaysian income tax system is equitable

Table 5.23: The Malaysian income tax system is equitable.

	Disagree		Agree	
Statement	1	2	3	**Total**
Age Group				
20 - 30	6.1	7.8	6.1	20.0
31 - 40	20.5	17.2	14.4	52.1
41 - 60	9.4	6.6	11.9	27.9
Total	36.0	31.6	32.4	100.0
Occupational Status				
Managerial	9.1	7.8	5.2	22.1
Professional	3.9	4.3	2.6	10.8
Engineering	7.0	3.9	3.0	13.9
Administrative	10.9	7.8	12.6	31.3
Owner Manager	5.2	8.3	8.4	21.9
Total	36.1	32.1	31.8	100.0

To the question whether the existing tax system is equitable or otherwise, about 36 per cent (N=88) either disagreed or strongly disagreed that is so. On the other hand, 32 per cent (N=79) of the respondents either agreed or strongly agreed that it is equitable. Again tax equity was defined for the respondents. They were told that the main concern in this questionnaire was about horizontal equity rather than vertical equity. The difference between the two was also included. Refer to the questionnaire in Appendix A. Compared to others, majority in the administrative group strongly perceived that the income tax system is equitable. Refer Table 5.23.

C The Malaysian tax rules and regulations are simple

Table 5.24: The Malaysian tax rules and regulations are simple.

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	5.3	6.1	7.8	19.2
31 - 40	14.3	10.7	27.9	52.9
41 - 60	8.2	7.0	12.7	27.9
Total	27.8	23.8	48.4	100.0
Occupational Status				
Managerial	7.4	5.2	9.6	22.2
Professional	1.7	3.0	6.1	10.8
Engineering	3.0	4.3	7.0	14.3
Administrative	8.7	3.9	18.3	30.9
Owner Manager	7.0	6.1	8.7	21.8
Total	27.8	22.5	49.7	100.0

When the respondents were asked whether the existing tax rules and regulations were simple, almost 48 per cent (48.3%, N=118) of them either agreed or strongly agreed. Only 28 per cent (N=68) either disagreed or strongly disagreed that they were simple. The mean indicates that the respondents generally agreed that the tax rules and regulations are simple. More middle age taxpayers (27.9%) either agreed or strongly agreed tax rules and regulations are simple, compared to the young and older groups of taxpayers (Table 5.24). In the occupational status, across the sample, most of them either agreed or strongly agreed that they are simple.

D The Malaysian individual tax rates are high

Table 5.25: The Malaysian individual tax rates are high.

	Disagree		Agree	
Statement	1	2	3	**Total**
Age Group				
20 - 30	4.0	2.8	13.0	19.8
31 - 40	7.8	10.1	34.4	52.3
41 - 60	5.2	5.3	17.4	27.9
Total	17.0	18.2	64.8	100.0
Occupational Status				
Managerial	2.6	3.4	16.3	22.3
Professional	1.7	2.6	6.4	10.7
Engineering	2.1	1.3	10.7	14.1
Administrative	5.2	7.7	18.5	31.4
Owner Manager	4.3	4.3	12.9	21.5
Total	15.9	19.3	64.8	100.0

A significant majority (65%) of the respondents perceived that the existing tax rates were high for individuals. Only 17 per cent (N=42) perceived otherwise. Twice the number of middle age group perceived the tax rates were high compared to the older group. Nevertheless, across the sample, all the age groups perceived that the tax rates were high (Table 5.25). Even in the occupational status there was a consensus that the tax rates were high. Although the tax rates for the individuals had been lowered over the last five years, yet the taxpayers perceived the rates were still high. Effective year of assessment 1996, another 2% was slashed from the various individual tax rates (National Budget 1996). This indicates that taxpayers are never happy with the tax rates.

E Tax revenue is wisely spent on infrastructure and projects that are beneficial to taxpayers.

Table 5.26: Tax revenue is wisely spent on infrastructure and projects that are beneficial to taxpayers.

	Disagree		Agree	
Statement	1	2	3	**Total**
Age Group				
20 - 30	8.4	5.3	6.1	19.8
31 - 40	20.6	16.5	15.3	52.4
41 - 60	14.1	5.6	8.1	27.8
Total	43.1	27.4	29.5	100.0
Occupational Status				
Managerial	10.7	5.6	6.0	22.3
Professional	4.3	3.8	2.6	10.7
Engineering	6.0	4.7	3.4	14.1
Administrative	15.0	6.4	9.8	31.2
Owner Manager	6.8	6.8	8.1	21.7
Total	42.8	27.3	29.9	100.0

Almost 43 per cent (N=107) of the respondents either disagreed or strongly disagreed that tax revenue was being wisely spent on infrastructure and projects that were beneficial to taxpayers (μ= 2.770). This is shown in Table 5.26. On the other hand, about 30 per cent (29%, N=73) either agreed or strongly agreed that the tax revenue was being wisely spent. Majority (20.6%) of the middle age group either disagreed or strongly disagreed the projects were beneficial to the taxpayers. Likewise, majority in the managerial and administrative and clerical groups either disagreed or strongly disagreed they were beneficial.

F The Malaysian tax law is strict on evasion

Table 5.27: The Malaysian tax law is strict on evasion.

	Disagree		Agree	
Statement	1	2	3	**Total**
Age Group				
20 - 30	8.5	5.7	5.7	19.9
31 - 40	19.9	8.9	23.2	52.0
41 - 60	11.4	6.1	10.6	28.1
Total	39.8	20.7	39.5	100.0
Occupational Status				
Managerial	9.9	3.9	8.2	22.0
Professional	4.4	2.7	3.9	11.0
Engineering	6.0	2.3	5.7	14.0
Administrative	12.5	6.0	12.5	31.0
Owner Manager	6.9	5.6	9.5	22.0
Total	39.7	20.5	39.8	100.0

The respondents were further asked if they perceived the tax law to be strict on evasion. About 40 per cent (39.8%, N=98) of them either disagreed or strongly disagreed that the law was strict on evasion. About the same percentage of the respondents either agreed or strongly agreed that the tax law was strict on evasion. Overall, the respondents were divided on this question. Even the mean indicates a neutral response by the respondents on this statement. See Table 5.27.

G Enforcement of the Tax Rules and Regulations is weak

Table 5.28: Enforcement of the tax rules and regulations is weak.

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	5.2	6.5	8.1	19.8
31 - 40	16.1	12.8	23.4	52.3
41 - 60	8.5	6.5	12.9	27.9
Total	29.8	25.8	44.4	100.0
Occupational Status				
Managerial	4.7	6.8	10.7	22.2
Professional	3.0	2.6	5.1	10.7
Engineering	5.1	3.4	5.6	14.1
Administrative	10.3	8.1	12.8	31.2
Owner Manager	7.3	6.0	8.5	21.8
Total	30.4	26.9	42.7	100.0

Further to the previous question, the respondents were asked if the enforcement of the tax rules and regulations was weak. Almost half of the respondents (44.4%, N=l 10) either agreed or strongly agreed that the IRB was weak in enforcing the tax rules and regulations (Table 5.28). Another 30 per cent perceived otherwise. Majority in the managerial and administrative groups perceived the enforcement of the tax rules and regulations was weak.

H Tax reliefs for the wealthy are too high

Table 5.29: Tax reliefs for the wealthy are too high.

	Disagree		Agree	
Statement	1	2	3	**Total**
Age Group				
20 - 30	2.4	6.9	10.6	19.9
31 - 40	12.2	16.4	23.6	52.2
41 - 60	8.9	8.9	10.1	27.9
Total	23.5	32.2	44.3	100.0
I Occupational Status				
Managerial	3.4	7.8	11.2	22.4
Professional	1.3	6.0	3.4	10.7
Engineering	4.3	3.9	5.6	13.8
Administrative	8.2	10.4	12.9	31.5
Owner Manager	5.6	4.4	11.6	21.6
Total	22.8	32.5	44 7	100 0

In order to gauge the respondents' perceptions towards tax law fairness, they were asked whether the tax reliefs for the wealthy were high. About 44 per cent (N=109) of them either agreed or strongly agreed that they were high. Only about 24 per cent perceived otherwise. In the occupational status, a majority in the managerial group, (11.2%) either agreed or strongly agreed the tax reliefs were high. Refer Table 5.29.

I Tax rates on the wealthy must be high

Table 5.30: Tax rates on the wealthy must be high.

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	2.4	6.9	10.6	19.9
31 - 40	12.2	16.4	23.6	52.2
41 - 60	8.9	8.9	10.1	27.9
Total	23.5	32.2	44.3	100.0
Occupational Status				
Managerial	1.3	5.2	15.9	22.4
Professional	1.3	1.3	8.2	10.8
Engineering	2.5	2.5	9.0	14.0
Administrative	1.3	3.9	26.2	31.4
Owner Manager	3.0	3.4	15.0	21.4
Total	9.4	16.3	I 74.3	100.0

Almost 75 per cent (74.9%, N=185) of the respondents either agreed or strongly agreed that the tax rates on the wealthy must be high. The mean too was very high indicating overall the respondents agreed that the tax rates on the wealthy must be high. Only about 9 per cent either disagreed or strongly disagreed that should be the case. Majority (23.6%) of the middle age taxpayers perceived that the tax rates on the wealthy must be high. This finding was significant at 0.10. On the other hand, the administrative and clerical group also agreed with the statement (Table 5.30).

J The Malaysian tax rates on the wealthy are just

Table 5.31: The Malaysian tax rates on the wealthy are just.

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	7.0	9.8	2.0	18.8
31 - 40	23.0	19.3	10.7	53.0
41 - 60	13.5	5.3	9.4	28.2
Total	43.5	34.4	22.1	100.0
Occupational Status				
Managerial	7.8	10.3	4.3	22.4
Professional	3.9	3.9	2.6	10.4
Engineering	6.5	4.7	3.0	14.2
Administrative	17.2	9.1	4.7	31.0
Owner Manager	7.3	7.8	6.9	22.0
Total	42.7	35.8	21.5	100.0

Quite a majority (43%, μ=2.725) of the respondents either disagreed or strongly disagreed that Malaysian tax rates on the wealthy are justified. Only about 22 per cent either agreed or strongly agreed they are just (Table 5.31). The administrative and clerical group perceived strongly that the tax rates on the wealthy are not just. About 17 per cent either disagreed or strongly disagreed the tax rates on the wealthy are just.

5.7.2 Conclusion

Most if not all of the taxpayers perceived tax law to be not fair to them. They mostly either disagreed or strongly disagreed that the existing tax system was equitable. Although, the administrative group differed in their opinions to certain statements, but generally, all groups perceived alike towards tax law fairness. This finding is consistent with the findings of Gerbing (1988), and Porcano & Price (1992) where the taxpayers perceived the tax law to be not fair or equitable. The administrative and clerical group to some extent perceived the tax law to be fair. This could be because they do not pay high income taxes, and probably because they do not encounter any problems with the IRB or other authorities. One other reason could be because they may only have one source of income compared to other groups. In the case of other taxpayers, besides salary and remuneration, they may have other sources of income such as dividend, rent, royalty or other taxable incomes. Reporting income from many different sources may pose problems to the high income group.

5.7.3 Mean Response of Taxpayers' Perceptions Towards Tax Law Fairness.

Table 5.32
Mean response of the taxpayers' perceptions towards tax law fairness.

	Strongly Disagree 1	2	3	4	**Strongly Agree** 5
The Malaysian individual tax rates are high.				♦3.9	
Tax rates on the wealthy must be high.				♦ 3.9	
Tax reliefs for the wealthy are too high.				♦3.3	
The Malaysian tax rules and regulations are simple.				♦3.2	
Enforcement of the tax rules and regulations is weak.				♦3.2	
The Malaysian income tax system is generally fair.				♦3.0	
The Malaysian income tax system is equitable.			♦2.9		
The Malaysian tax law is strict on evasion.			♦2.9		
Tax revenue is wisely spent on infrastructure and projects that are beneficial to taxpayers.			♦2.8		
The Malaysian tax rates on the wealthy are just.			♦2.7		

Table 5.32 summarises the mean response of the taxpayers from the highest to the lowest. Generally, the taxpayers perceived individual tax rates to be high, tax rates on the wealthy must be high, that tax reliefs on the wealthy are too high, tax rules and regulations were simple, and enforecement of the tax rules and regulations was weak. This indicate , overall, the taxpayers do not perceive the tax law to be fair to them. Thus, this study's findings are consistent with the findings of other studies (Schisler, 1995 and Porcono & Price, 1992).

5.7.4 Results of One-Way ANOVA

The findings of the one-way analysis of variance pertaining to the items in this construct are presented in the tables below.

A. The Malaysian income tax system is fair (SYS-FAIR).

Table 5.33: Results of One-Way ANOVA Between The Malaysian income tax system is fair (SYSFAIR) and Occupational Status.

Source	DF	sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	5	11.4022	**2.2804**	**2.6474**	.0237*
Within Groups	241	207.5937	.8614		
Total	**246**	218.9960			

*** statistically significant at 0.05 level**

Table 5.33 shows the results of one-way ANOVA between **SYS-FAIR** and occupational status. It indicates a significant finding ($p < 0.05$). The Scheffe post-hoc

test, however, did not reveal any significant differences in any two groups of respondents.

B. The Malaysian income tax is equitable (EQUITY).

Table 5.34: Results of One-Way ANOVA Between The Malaysian income tax is equitable (EQUITY) and Monthly Income

Source	DF	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	4	6.6136	1.6534	1.9162	.1084*
Within Groups	239	206.2184	.8628		
Total	243	212.8320			

*** statistically significant at 0.10 level**

Significant results were found for equitable tax system against monthly income. The findings were, however, significant only at 0.10. Refer Table 5.34. No two groups showed significant differences in their opinions when further analysed by the Scheffe post-hoc multiple range test.

C. The Malaysian tax rules and regulations are simple (RULES-REG).

Table 5.35: Results of One-Way ANOVA Between The Malaysian tax rules and regulations are simple (RULES-REG) and Monthly Income.

Source	DF	sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	4	8.5184	2.1296	2.3647	.0537*
Within Groups	239	215.2357	.9006		
Total	243	223.7541			

*** statistically significant at 0.05 level**

Table 5.35 shows significant findings between monthly income and RULESREG. The level of significance is 0.05. However, the Scheffe's post-hoc test did not reveal any significant differences in the groups perceptions.

D. The tax rates on the wealthy must be high (HI-RATE)

Table 5.36: Results of one-way ANOVA Between The tax rates on the wealthy must be high (HI-RATE) and Demographic variables.

Group	Probability	Mean	Number
OCCUPATIONAL STATUS	**.0730 ****		
Managerial, Executive		3.9231	52
Professional		4.0400	25
Engineering, Technical		3.6667	33
Administrative, Clerical		4.2329	73
Owner Manager		3.8200	50
Others		4.0714	14
Total		3.9798	247
AGE	**.0280** *		
20 - 30		4.1020	49
31 - 40		4.0385	130
41 - 50		3.6833	60
51 - 60		4.5000	8
Total		3.9798	247
MONTHLY INCOME	**.0285** *		
Less than RM1 ,000		4.1111	9
RM1,001 - RM3,000		3.9728	184
RM3,001 - RM6,000		4.0488	41
RM6,001 - RM10,000		4.3333	9
RM10,000 and above		2.5000	4
Combined		3.9798	247
Scores not significantly different for other demographic variables			

*** statistically significant at 0.05 level**
**** statistically significant at 0.10 level**

Findings on **HI-RATE** indicates that only three demographic variables showed significant results. The three are occupational status ($p < 0.10$); age ($p < 0.05$), and monthly income ($p < 0.05$). Scores were found to be not significant for other demographic variables.

Those in the administrative and clerical group differed significantly in their perceptions from those in engineering and owner-managers. The mean indicates that the administrative and clerical strongly agreed that tax rates must be high on the wealthy. In the age group, those between 41 - 50 differed significantly from the other three groups. They perceived the tax rates on the wealthy had to be high. See Table 5.36 for significant results.

5.7.5 Group Mean Data Analysis

Table 5.37: Results of One-Way ANOVA Between Tax Law Fairness (TAXFAIRNESS) Gmean and Demographic Variables

Demographic Variable	Cases	Mean	SD	F Ratio	F Prob.
Age	231	3.17	0.37	0.43	.7312
Employment	231	3.17	0.37	0.35	.7859
Occupation	231	3.17	0.37	0.90	.4789
Monthly Income	231	3.17	0.37	2.58	.0385*
Qualification	231	3.17	0.37	0.57	.7998

*** statistically significant at 0.05 level**

The group mean analysis revealed that significant results exists between **TAXFAIRNESS** and monthly income. It is significant at 0.05 level. The others were

not significant. A post-hoc test was then undertaken. Significant results were found for those earning between RM1,001 - RM3,000 and RM3,001 - RM6,000. The means suggest that the former group do not perceive the tax law to be fair as compared to the middle income group.

5.7.6 Test of Hypothesis 4

Hypothesis 4 was rejected for monthly income but not for other demographic variables. Refer Table 5.37 for the significant results. Tax law is perceived to be not equitable by those in the low income group compared to the middle income taxpayers.

5.7.7 TAXFAIRNESS and Monthly Income

Table 5.38 shows the findings of the group mean of **TAXFAIRNESS** and demographic variables. Only monthly income was significant at 0.05. Other variables were not significant against the group mean.

Table 5.38: Results of One-Way ANOVA Between Tax Law Fairness (TAXFAIRNESS) and Monthly Income

Source	DF	sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	4	1.3653	.3413	2.5759	.0385*
Within Groups	226	29.9465	.1325		
Total	230	31.3118			

*** statistically significant at 0.05 level**

5.7.8 Comparison of Taxpayers' Perceptions by Regions (t-test).

In this section, taxpayers' perceptions towards tax law fairness were tested against the taxpayers' regions. Taxpayers were grouped into two regions. Those from Kuala Lumpur and Alor Setar were classified as city and non-city taxpayers respectively. Out of the two hundred and forty eight taxpayers (248), one hundred and sixty were non-city taxpayers, and the rest comprised of the city taxpayers. T-test was employed to test for any significant differences in the taxpayers' perceptions. Significant findings are reported below in Table 5.39, non-significant findings are reported in Appendix B. The sub-hypothesis is stated in the null-form.

$H0_4a$: There is no significant difference in the perceptions of the city and non-city taxpayers towards tax law fairness.

Table 5.39: Comparison of City and Non-City Taxpayers' Perceptions (t-test)

Sources/ Variables Information	Non-City	City	t-value	df	2-Tail Prob
Sys-fair	3.099	2.8256	2.19	245	.030 *
Evasion	3.0881	2.8046	1.88	244	.061 **
Jus-tax	2.8228	2.5465	2.04	242	.043 *
IRB-Prod	3.1950	2.9186	2.04	243	,043 *

* statistically significant at 0.05 level
** statistically significant at 0.10 level

A The Malaysian income tax system is generally fair (SYS-FAIR)

The perceptions of the two groups of respondents differed with respect to a fair tax system. The p value is 0.03, and the results are significant at 0.05. By comparing the means of the two groups, respondents from the city did not perceive the existing system to be fair as their counterparts in the non-city areas.

B The Malaysian tax law is strict on evasion (EVASION)

At 0.1 level of significance, the respondents perceived differently towards **EVASION** in Malaysia. The city respondents disagreed that the Malaysian tax law is strict on evasion.

C The Malaysian tax rates on the wealthy are just (JUS-TAX)

The findings are significant at 0.05. This indicates that the two groups of respondents perceived differently towards the question posed to them. The respondents were asked whether the Malaysian tax rates on the wealthy are just. The means of the two groups indicate that the city taxpayers strongly disagreed that the tax rates are just.

D IRB is productive (IRB-PROD)

The results are significant at 0.05 and the mean of the city taxpayers indicates they do not perceive IRB as productive compared to their counterparts in the non-city areas. This could be because the city taxpayers may have more interactions with the IRB than the non-city taxpayers.

E SAS will be more fair than OAS (SAS-FAIR)

The p value indicates a significant results. It is significant at 0.05. The mean of the respondents on the other hand, indicates the city taxpayers do not perceive SAS will be more fair than OAS. The taxpayers from the non-city areas, however, agreed that SAS will be more fair than OAS. Scores not significantly different for other variables in the other sections.

57.9 Test of Sub-Hypothesis 4a.

The two groups of taxpayers differed in their perceptions only on certain items. They differed significantly on whether the income tax system is fair, evasion, tax rates on the wealthy are just, IRE3 is productive and SAS will be more fair than OAS. Based on the results of the t-test, the sub- hypothesis was rejected.

57.10 Conclusion

Overall, majority of the respondents perceived that tax law was not fair to them. Further, one-way Anova findings indicates significant differences in the perceptions of the taxpayers towards **TAXFAIRNESS.** The results indicate that taxpayers differed in their opinions towards tax law fairness by monthly income. More specifically, the lower income group do not perceive the tax law to be fair to them. Furthermore, city taxpayers differed significantly in their perceptions towards tax law fairness compared to the non-city taxpayers. They too perceived that the IRB is not productive. Thus, the IRB should concentrate on these groups of taxpayers if voluntary compliance is to be encouraged.

5.8 Perceptions of the Malaysian Taxpayers Towards Tax Law Complexity

In this section, hypothesis five was tested. Hypothesis five stated in the null form is found below.

$H0_5$: There is no significant difference in the Malaysian taxpayers' perceptions towards tax law complexity.

The descriptive statistics are described first before the findings of the one-way ANOVA are discussed. Percentage responses of the taxpayers towards tax law complexity are shown in Tables 5.40 to 5.46

5.8.1 Perceptions of the Respondents towards Tax Law Complexity by Demographic Characteristics.

A There are ambiguities in the tax law which may lead to more than one defensible position (Ambiguity).

Table 5.40: There are ambiguities in the tax law which may lead to more than one defensible position (Ambiguity).

	Disagree		Agree	
Statement	1	2	3	**Total**
Age Group				
20 - 30	1.7	5.4	12.4	19.5
31 - 40	5.8	17.8	28.9	52.5
41 - 60	2.8	11.2	14.0	28.0
Total	10.3	34.4	55.3	100.0
Occupational Status				
Managerial	1.8	8.8	11.4	22.0
Professional	0.4	4.8	5.7	10.9
Engineering	1.8	5.7	7.0	14.5
Administrative	3.5	8.3	18.9	30.7
Owner Manager	3.5	5.7	12.7	21.9
Total	11.0	33.3	55.7	100.0

To this question, more than half (55.3 %, N=134) either agreed or strongly agreed that ambiguities do exist (μ=3.566). Only 10 per cent (10.3%, N=25) either disagreed or strongly disagreed that there exist such ambiguities. Although 14 per cent of the older age group either agreed or strongly agreed that tax law complexity exist in Malaysia, about the same percentage (11.2%) were not sure if that was the case. The managerial, administrative and the owner managers too perceived ambiguities in the tax laws exist. See Table 5.40.

B Too many computations must be made (Computations).

Table 5.41: Too many computations must be made (Computations).

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	4.9	4.9	10.2	20.0
31 - 40	12.2	13.0	27.2	52.4
41 - 60	5.3	7.3	15.0	27.6
Total	22.4	25.2	52.4	100.0
Occupational Status				
Managerial	6.0	6.5	9.9	22.4
Professional	2.6	3.5	4.7	10.8
Engineering	3.5	4.7	6.0	14.2
Administrative	6.0	6.0	19.0	31.0
Owner Manager	3.4	5.3	12.9	21.6
Total	21.5	26.0	52.5	100.0

Majority of the respondents (52.5%, N=129) either agreed or strongly agreed many computations must be made in arriving at the tax payable. The mean indicates that respondents generally agreed or strongly agreed the computations in the tax payable are a factor in tax law complexity (Table 5.41). About 22% (22.3%, N=55) thought otherwise. Clearly, majority of the administrative and owner managers either agreed or strongly agreed that computations is a factor in tax law complexity and could be an obstacle in voluntary compliance.

C **There have been frequent changes in the tax law (Changes).**

Table 5.42: There have been frequent changes in the tax law (Changes).

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	2.0	8.2	9.9	20.1
31 - 40	7.4	17.2	27.4	52.0
41 - 60	7.8	6.2	13.9	27.9
Total	17.2	31.6	51.2	100.0
Occupational Status				
Managerial	3.5	7.8	11.3	22.6
Professional	1.7	3.9	5.2	10.8
Engineering	3.9	1.7	8.8	14.4
Administrative	6.5	7.8	16.5	30.8
Owner Manager	2.2	10.0	9.2	21.4
Total	17.8	31.2	51.0	100.0

Respondents were further asked if changes in the tax law had been frequent. Again more than half (51.2%, N=125) either agreed or strongly agreed to the statement. Those who either disagreed or strongly disagreed comprised about 17.2 % of the total respondents. On the other hand, the administrative and the managerial groups perceived that changes were frequent in the tax laws. Refer Table 5.42.

D There is excessive detail in the law, such as numerous rules and exception to rules (Detail).

Table 5.43: There is excessive detail in the law, such as numerous rules and exception to rules (Detail).

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	1.6	7.1	11.5	20.2
31 - 40	4.5	17.8	29.6	51.9
41 - 60	4.1	8.2	15.6	27.9
Total	10.2	33.1	56.7	100.0
Occupational Status				
Managerial	0.9	8.7	12.7	22.3
Professional	0.9	3.9	6.1	10.9
Engineering	2.2	5.2	7.0	14.4
Administrative	3.0	7.9	19.7	30.6
Owner Manager	3.0	8.3	10.5	21.8
Total	10.0	34.0	56.0	100.0

The respondents were asked whether they agreed if there was excessive detail in the law, such as numerous rules and exception to rules. As shown in Table 5.43, majority (56.8%, N=138) either agreed or strongly agreed that there was excessive detail in the tax laws. Only a very small percentage (10.3%, N=25) of the respondents either disagreed or strongly disagreed on this statement. Once again the response was the same across the sample.

E Detailed special records must be kept by taxpayer to comply with the tax law (Record Keeping).

Table 5.44: Detailed special records must be kept by taxpayer to comply with the tax law (Record Keeping).

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	1.6	2.0	16.3	19.9
31 - 40	5.3	6.1	41.3	52.7
41 - 60	2.4	3.7	21.3	27.4
Total	9.3	11.8	78.9	100.0
Occupational Status				
Managerial	2.5	2.6	17.3	22.4
Professional	1.3	1.3	8.2	10.8
Engineering	0.4	2.6	11.3	14.3
Administrative	3.0	3.5	24.7	31.2
Owner Manager	2.2	2.2	16.9	21.3
Total	9.4	12.2	78.4	100.0

When the respondents were further asked as to whether detailed records must be kept to comply with the tax law, nearly 80 per cent (78.9%, N=193) either agreed or strongly agreed that was so. The mean for this statement was the highest, indicating record keeping is the most important factor in tax law complexity. Less than 10 per cent (9.3 %, N=23), however, either disagreed or strongly disagreed that was the case. Table 5.44.

F Format of the tax returns are confusing (Format).

Table 5.45: Format of the tax returns are confusing (Format).

	Disagree		Aeree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	5.3	4.9	9.8	20.0
31 - 40	11.0	14.3	27.4	52.7
41 - 60	10.5	4.9	11.9	27.3
Total	26.8	24.1	49.1	100.0
Occupational Status				
Managerial	4.3	6.1	12.1	22.5
Professional	4.3	2.6	3.9	10.8
Engineering	3.9	3.0	7.4	14.3
Administrative	9.1	5.6	16.5	31.2
Owner Manager	4.3	6.9	10.0	21.2
Total	25.9	24.2	49.9	100.0

This question asked the respondents whether the format of the tax returns were confusing. Almost half (49%, N=120, mean=3.298) either agreed or strongly agreed that the format was confusing (Table 5.45). On the other hand, about 27 % either disagreed or strongly disagreed that the format was confusing. Majority of the taxpayers in the managerial, administrative and owner-manager groups either agreed or strongly agreed the format of the tax returns was confusing. This, however, was not the case for the professional group. They perceived the format of the tax return was not confusing. The level of knowledge and understanding of tax law could be the reasons for the differences.

G Instructions of the tax returns are confusing (Instructions).

Table 5.46: Instructions of the tax returns are confusing (Instructions).

	Disagree		Agree	
Statement	**1**	**2**	**3**	**Total**
Age Group				
20 - 30	5.7	5.7	8.6	20.0
31 - 40	11.1	16.0	25.8	52.9
41 - 60	10.6	6.2	10.3	27.1
Total	27.4	27.9	44.7	100.0
Occupational Status				
Managerial	3.9	5.6	13.0	22.5
Professional	5.2	2.6	3.0	10.8
Engineering	3.9	3.5	6.9	14.3
Administrative	9.5	7.8	13.9	31.2
Owner Manager	4.3	7.4	9.5	21.2
Total	26.8	26.9	46.3	100.0

As a follow-up to the previous question, the respondents were asked if the instructions of the tax forms were confusing. Again, majority (44.6%, N=109, μ=3.242) perceived they were confusing. About 27.5% (N= 67) either disagreed or strongly disagreed the instructions were confusing. Most of the taxpayers in the administrative and clerical group perceived the instructions to be confusing. Refer Table 5.46.

5.8.2 Conclusion

Significant majority of the respondents perceived tax law complexity exists in Malaysia. To all the questions posed, more than half of the respondents across the sample agreed there were ambiguities in the tax law, numerous computations must be made, frequent changes were made in the tax laws, excessive detail in the tax law, detailed records must be kept, and the format and instructions in the tax returns were confusing. Although, these are only perceptions of the taxpayers, necessary steps must be undertaken by the IRB to overcome tax law complexity to ensure a high tax compliance by the taxpayers. It is even more important if voluntary compliance is to be encouraged among all Malaysian individual taxpayers.

5.8.3 Respondents mean response towards tax law complexity.

Table 5.47: Mean response of the taxpayers towards tax law complexity.

	Strongly Disagree 1	2	3	4	Strongly Agree 5
Detailed records must be kept				♦3.9	
Ambiguities in the tax laws				♦3.6	
Excessive detail in the law...				♦3.6	
Frequent changes in the tax laws..				♦3.5	
Too many computations				♦3.4	
Format of the tax returns confusing				♦3.3	
Instructions are confusing				♦3.2	

Overall, the mean of each item in this construct indicates that tax law complexity could be a factor in non-compliance by the taxpayers. The respondents strongly perceived that special and detailed records must be kept for tax purposes. These records are different from the financial records that are normally expected for financial reporting purposes. Keeping separate records may also mean extra expenses must be borne by the taxpayers. All the other factors were also equally perceived to be important in complying with the tax laws.

5.8.4 Results of One-Way ANOVA

Table 5.48: Results of One-Way ANOVA Between The format of the tax return is confusing (FORMAT) and Demographic variables.

Group	Probability	Mean	Number
QUALIFICATION	**.1048 ****		
SRP/LCE		3.0769	13
SPM/MCE		3.3662	71
STPM/HSC		3.6875	16
Certificate		3.6667	3
DIPLOMA		3.3000	50
Bachelor		3.3472	72
Master		2.7000	10
Ph.D.		1.5000	2
Professional		2.8750	8
Total		3.2980	245
AGE	**.0140 ***		
20 - 30		3.2857	49
31 - 40		3.3953	129
41 - 50		3.2542	59
51 - 60		2.1250	8
Total		3.2980	245
MONTHLY INCOME	**.1095 ****		
Less than RM1,000		3.6250	8
RM1,001 - RM3,000		3.3770	183
RM3,001 - RM6,000		3.0732	41
RM6,001 - RM10,000		2.6667	9
RM10,000 and above		2.7500	4
Total		3.2980	245
Scores not significantly different for other demographic variables			

*** statistically significant at 0.01 level**

**** statistically significant at 0.10 level**

A The format of the tax return is confusing (FORMAT).

Results of the one-way ANOVA (Table 5.48) shows significant differences between **FORMAT** and certain demographic variables such as qualification, age, and monthly income. Qualification and monthly income were significant at 0.10, whereas age was significant at 0.01. By means of a post-hoc test carried out, the findings indicate that the professional group perceived differently from the SPM/MCE, STPM/HSC, Diploma, and bachelor degree holders. A Scheffe post-hoc multiple range tests further revealed that respondents in the age group between 51 - 60 differed significantly in their perceptions towards format of the tax returns from those in the age groups between 20 -30, and 31 - 40. Based on the mean response, taxpayers in the 51 - 60 age group disagreed that the format of the tax returns was confusing. The other groups perceived otherwise. This means, the format of the tax return was only perceived to be complex by the young and new taxpayers but not the others. The new taxpayers who are also young perceived the format to be complex. This may be because filing tax returns was a new experience for them.

B Instructions of the tax return are confusing (INSTRUCTION).

Table 5.49: Results of One-Way ANOVA Between Instructions of the Tax Returns are Confusing (INSTRUCTION) and Demographic variables.

Group	Probability	Mean	Number
OCCUPATIONAL STATUS	**.0364***		
Managerial, Executive		3.5577	52
Professional		2.8400	25
Engineering, Technical		3.3030	33
Administrative, Clerical		3.2083	72
Owner Manager		3.2449	49
Others		2.7692	13
Total		3.2418	244
AGE	**.0503***		
20 - 30		3.2245	49
31 - 40		3.3488	129
41 - 50		3.1379	58
51 - 60		2.3750	8
Total		3.2418	244
Scores not significantly different for other demographic variables			

*** statistically significant at 0.05 level**

Significant results were also found between **INSTRUCTION** and two demographic variables; occupational status and age (Table 5.49). Respondents in the Managerial and executive post perceived differently from the professionals and others. Interestingly, respondents in the age group between 51 - 60 perceived differently compared to the other three groups. The mean of this particular age group implied they disagreed the instructions in the tax returns were confusing.

C Frequent changes in the tax law (CHANGES).

Table 5.50: Results of One-Way ANOVA Between Frequent changes in the tax law (CHANGES) and Current Employment

Source	DF	sl.lm of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	3	6.7001	2.2334	2.4112	.0675*
Within Groups	240	222.2999	.9262		
Total	243	229.0000			

*** statistically significant at 0.10 level**

Table 5.50 shows the results of one-way ANOVA between **CHANGES** and current employment. The results are significant at 0.10. Singnificant differences were, however, not found between any two groups of respondents.

D Excessive detail in the law (DETAIL).

Table 5.51 Results of One-Way ANOVA Between Excessive detail in the law (DETAIL) and Qualification

Source	DF	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	8	13.0836	1.6354	2.2409	.0254*
Within Groups	234	170.7765	.7298		
Total	242	183.8601			

*** statistically significant at 0.05 level**

The results are also significant for **DETAIL** (excessive detail in the law) and qualification. The level of significance is 0.05. Nevertheless, a Scheffe post-hoc test

did not reveal any significant differences between any two groups of respondents. See Table 5.5 1.

5.8.5 Group Mean Data Analysis

Table 5.52: Results of One-Way ANOVA Between Tax Law Complexity (TAX- COMPLEX) Gmean and Demographic Variables

Demographic Variable	Cases	Mean	SD	F Ratio	F Prob.
Age	237	3.51	0.64	1.42	.2374
Employment	237	3.51	0.64	0.35	.7926
Occupation	237	3.51	0.64	0.73	.6004
Monthly Income	237	3.51	0.64	0.69	.5979
Qualification	237	3.51	0.64	1.27	.2620

Table 5.52 shows the results of one-way ANOVA between **TAX-COMPLEX** group mean and demographic variables. As shown in Table 5.52, none of the findings are significant. All the respondents perceived alike towards tax law complexity. Therefore, hypothesis 5 generated to test whether there were any significant differences in the Malaysian taxpayers' perceptions towards tax law complexity could not be rejected based on the group mean. These findings are similar to Long and Swingen (1987), where all three groups of respondents; tax accountants, tax lawyers, tax educators and commercial preparers assigned very similar complexity ratings.

5.8.6 Test of Hypothesis 5

Hypothesis 5 was failed to be rejected based on the group mean. All findings pertaining to tax law complexity were non-significant. Refer Table 5.52.

5.8.7 Mean Ranking of Taxpayers' Responses

The seven tax return complexity factors were ranked according to the mean responses of the respondents. Table 5.53 shows the mean responses and their ranking.

Table 5.53: Ranking of Factors Affecting Tax Law Complexity

Factor	Mean	Rank
Detailed records must be kept	3.92	1
Excessive detail in the law	3.61	2
Ambiguities in the tax laws..	3.57	3
Frequent changes in the tax laws..	3.50	4
Too many computations..	3.41	5
Format of the tax returns confusing.....	3.30	6
Instructions are confusing..	3.24	7

Respondents perceived all the factors associated with tax law complexity exist in the Malaysian tax laws ($\mu > 3$). The mean was then used to rank the respondents perceptions towards tax law complexity. Record keeping is ranked first, followed by detail and ambiguity. Goedde (1988) findings revealed that respondents ranked changes in the tax law as the most important factor in tax law complexity followed by ambiguity and detail. In this study, record keeping is highly ranked according to the mean response. However, like in Goedde's study, forms (format and instructions) were not perceived to be a major factor in tax law complexity. Format and instructions

of the tax returns were perceived to be least important in tax law complexity. Although, even in this study, format and instructions of the tax returns were lowly perceived to be factors associated with tax law complexity, but the mean indicates that they are important.

5.8.8 Comparison of Taxpayers Perceptions by Regions (t-test).

City and non-city taxpayers' perceptions towards tax law complexity were tested for any significant differences. They were grouped into two regions, namely city and non-city taxpayers. City taxpayers came from Kuala Lumpur and non-city taxpayers were those from the north (Alor Setar). T-test was employed to test for any significant differences between city and non-city taxpayers towards tax law complexity. The sub-hypothesis in the null form is stated below.

$H0_5a$: There is no significant difference in the perceptions of the city and non-city taxpayers towards tax law complexity.

5.8.9 Test of Sub-Hypothesis 5a.

The two groups of taxpayers perceived alike towards tax law complexity. There was no significant difference in their opinions towards tax law complexity. All non-significant findings are reported in Appendix B. Based on the results of the t-test, it could be concluded that the sub- hypothesis could not be rejected or failed to be rejected.

5.8.10 Conclusion

Overall, city taxpayers do not positively perceive a fair tax system, tax laws are just on tax evasion, tax rates are just on the wealthy, IRB is productive, and that SAS will be more fair than OAS. The results indicate they mostly either disagreed or strongly disagreed on the above statements compared to the non-city taxpayers. Generally, the non-city taxpayers perceived positively towards the tax administration and tax law fairness. City taxpayers normally are the least satisfied lot towards the government services. It is thus, not a surprise this group of taxpayers differed in their perceptions towards the existing tax administrative system. Nevertheless, in order to encourage voluntary compliance among the city taxpayers, it is important for IRB to understand how these taxpayers perceived towards the tax administrative system. Due to their dissatisfaction, this particular group may not fully comply with the tax laws. IRE3 should pay more attention to this particular group of taxpayers in order to encourage voluntary compliance in Malaysia.

5.9 Compliance Cost

This section discuss the findings of the taxpayers perceptions towards cost of compliance with the tax laws in Malaysia. A number of questions were posed to the respondents to capture their actual cost of tax compliance and their perceptions towards tax law requirements such as full records, bills and receipts to be kept for deductions, number of hours taken for keeping books of records for tax purposes and others. The percentage response of the respondents are shown in Tables 5.54, 5.55 and 5.56 respectively. Hypothesis six was tested in the null form.

$H0_6$: There is no significant difference in the compliance costs of the owner -managers and other individual taxpayers.

5.9.1 Percentage response of the taxpayers towards cost of compliance.

Table 5.54: Percentage response of the taxpayers towards cost of compliance.

Statement	Yes (%)	No (%)
1. Do you keep all bills and receipts of transactions for maintaining books of record?	73.1 (N=177)	26.9 (N=65)
2. Do you keep books of records for tax return preparation?	66.0 (N=159)	34.0 (N=82)
3. Do you read the tax instructions, tax manuals or other related tax material before preparing your annual tax return?	71.4 (N=170)	28.6 (N=68)
4. Do you prepare your own annual tax return?	72.5 (N=171)	27.5 (N=65)
5. Do you also incur other miscellaneous expenses in the preparation of your annual tax return?	17.5 (N= 1 0)	82.5 (N=47)

Table 5.55: Percentage response of the taxpayers towards record keeping

Statement	< 5 hrs	5 - 10 hrs	> 10 hrs
1. Please specify the total number of hours taken in a month for record keeping.	80.6 (N=150)	14.0 (N=26)	5.4 (N=10)
2. Please state the total number of hours taken for research.	81.5 (N=132)	16.0 (N=26)	2.5 (N=4)
3. If your tax return is prepared by a tax agent or an accountant, how many hours (in total) do you spend with him/her?	62.5 (N=30)	27.1 (N=13)	10.4 (N=5)

Table 5.56: Taxpayers response towards tax return preparation

Who prepares your annual tax return?	Frequency	Per cent
Tax Agent	16	22.5
Tax Accountant	33	46.5
Friend/s	4	5.6
Family members	18	25.4
Total	71	100.0

Nearly three quarter (73.1%, N=177)) of the respondents said they keep all their bills and receipts of transactions for purposes of maintaining books of records. Only 26.9 per cent said they do not keep any bills or receipts. Furthermore, when asked whether they keep any books of records for tax return preparation, 66.0 per cent said they do, and 34.0 per cent said they don't. When asked to specify the total number of hours taken in a month for record keeping, 80.6 per cent said it was less than 5 hours, 14.0 per cent said it was between 5 and 10 hours, and only 5.4 per cent said they took more than 10 hours. Refer Tables 5.54 and 5.55.

The next question asked the respondents whether they read tax instructions, tax manuals or any other related tax material before preparing their annual tax return. Majority (71.4%) said they do, and only 28.6 per cent said they don't. This shows the respondents do read the instructions before preparing their annual tax return. When asked to state the total number of hours taken for research before preparing their tax returns, again majority (8 1.5%) said it was less than 5 hours (Table 5.30). Accordingly, majority (72.5%) said that the annual tax returns were prepared by them (Table 5.33). Those who said No comprise only 27.5 per cent of the total respondents. For those whose annual tax returns were prepared by others, nearly half (46.5%) said they were prepared by a tax accountant. On the other hand, 22.5 per cent said that their returns were prepared by a tax agent. Refer Table 5.35. Again majority (62.5%) said that they spend less than 5 hours in total with the tax professionals to prepare their tax returns.

5.92 Respondents Response Towards Cost of Compliance by Demographic Characteristics (cross-tabulation).

Further analysis by means of cross-tabulation were undertaken. As in the previous analyses, the same demographic characteristics were used in the cross-tabulation with each item in the construct. The findings are reported in Tables 5.57 - 5.65.

A Bills and Receipts

Table 5.57: Do you keep all bills and receipts of transactions for maintaining books of records?

Statement	Yes	No	Total
Age Group			
20 - 30	14.0	5.8	19.8
31 - 40	39.3	13.2	52.5
41 - 60	19.8	7.9	27.7
Total	73.1	26.9	100.0
Occupational Status			
Managerial	13.6	8.3	21.9
Professional	8.3	2.7	11.0
Engineering	8.3	6.2	14.5
Administrative	22.8	7.9	30.7
Owner Manager	18.9	3.0	21.9
Total	71.9	28.1	100.0

The cross-tabulated results re-affirmed the frequency distributions discussed previously. Majority (39.3%) in the middle age group said they keep all bills and receipts of transactions for maintaining books of records. In fact, majority (73.1%) agreed they keep all bills and receipts for record purposes. When analysed further by occupational status, majority (71.9%) do keep bills and receipts for maintaining books of records. Among the owner-managers only 3.0 per cent do not keep bills and receipts. This group of owner-managers may practice creative accounting. Final accounts may be prepared by tax agents based on estimations only.

B Books of Records

Table 5.58: Do you keep books of records for tax return preparation?

Statement	Yes	No	Total
Age Group			
20 - 30	13.7	5.8	19.5
31 - 40	36.1	16.6	52.7
41 - 60	16.2	11.6	27.8
Total	66.0	34.0	100.0
Occupational Status			
Managerial	12.8	9.3	22.0
Professional	8.8	2.2	11.0
Engineering	6.6	7.9	14.5
Administrative	18.5	12.8	31.3
Owner Manager	18.5	2.6	21.1
Total	65.2	34.8	100.0

To this question, majority (66.0%) in all age groups said they do keep books of records for tax return preparation. Although 16.2 per cent of the 41-60 age group said they do keep books of records, an equal percentage said they do not keep such books of records. In the owner-manager group, about 3 per cent said they do not keep such books of records. If they do not keep such books of records, it could then be assumed that their accounts are prepared based on estimations which may not reveal the actual financial position of the businesses. It is important for the IRB to educate this group of taxpayers on the importance of maintaining proper books of records, not only for complying with the tax laws but also for managing the business well.

C **Total Number of Hours Taken for Record Keeping.**

Table 5.59: Please specify the total number of hours taken in a month for record keeping.

Statement	< 5 Hours	5 - 10 Hours	> 10 Hours	Total
Age Group				
20 - 30	17.7	2.7	0.5	21.0
31 - 40	41.9	7.5	25.8	52.2
41 - 60	21.0	3.8	10.3	26.9
Total	80.6	14.0	5.4	100.0
Occupational Status				
Managerial	16.0	1.6	0.5	18.1
Professional	11.1	1.6	1.0	13.7
Engineering	9.8	1.5	0.5	11.8
Administrative	25.9	5.7	1.1	32.7
Owner Manager	14.9	4.6	4.2	23.7
Total	77.7	15.0	7.3	100.0

The respondents were further asked if they do keep books of records, how much time is spent in a month for such purposes. Table 5.59 shows the responses of the taxpayers in all age groups and also according to the occupational status. About 42 per cent in the middle-age group said they take less than five hours. On the other hand, almost 26 per cent in the same age group said they take more than ten hours. Majority (25.9%) in the adminstrative and clerical group said they take less than five hours for record keeping.

D Tax Manuals and Tax Instructions

Table 5.60: Do you read the tax instructions, tax manuals or other related tax material before preparing your annual tax return?

Statement	Yes	No	Total
Age Group			
20 - 30	14.7	5.9	20.6
31 - 40	37.4	15.1	52.5
41 - 60	19.3	7.6	26.9
Total	71.4	28.6	100.0
Occupational Status			
Managerial	14.7	7.1	21.8
Professional	8.5	2.7	11.2
Engineering	8.9	4.9	13.8
Administrative	23.2	8.1	31.3
Owner Manager	15.6	6.3	21.9
Total	70.9	29.1	100.0

About 71 per cent (71.4%) in all age groups said they read tax instructions, tax manuals, and other material before preparing their annual tax return. Almost 15 per cent in the middle age group, however, do not read such materials before preparing their annual tax return. Interestingly, almost 16 per cent of the owner-managers said they do read such materials. However, another 6.3 per cent of the owner-managers do not read any materials. This may be because they totally depend on the tax professionals to help prepare their annual tax return. As such, they do not see any reason why they must read such materials.

E Total Number of Hours Taken for Research.

Table 5.61: Please state the total number of hours taken for research.

Statement	< 5 Hours	5 - 10 Hours	> 10 Hours	Total
Age Group				
20 - 30	17.3	1.0	0.9	19.2
31 - 40	42.6	10.5	0.6	53.7
41 - 60	21.6	3.7	1.9	27.1
Total	81.5	15.2	3.4	100.0
Occupational Status				
Managerial	16.5	1.6	0.5	18.6
Professional	8.6	1.6	1.0	11.2
Engineering	11.3	1.6	1.5	14.4
Administrative	26.5	4.0	2.6	33.1
Owner Manager	15.9	5.6	1.2	22.7
Total	78.8	14.4	6.8	100.0

Table 5.61 shows the total number of hours taken by the taxpayers for research and others. Majority (8 1.5%) in all age groups stated they spend less than five hours to read tax and other related materials. About 43 per cent of the middle-age group said they spend less than five hours. Another 10.5 per cent said they spend between five to ten hours for research. In the occupational status, most of the administrative and clerical group (26.5%) said they spend less than five hours. Interestingly, almost 16 per cent of the owner-managers said they spend less than five hours for reading tax related materials.

F Annual Tax Return

Table 5.62: Do you prepare your own annual tax return?

Statement	Yes	No	Total
Age Group			
20 - 30	14.4	5.1	19.5
31 - 40	37.3	16.5	53.8
41 - 60	20.8	5.9	26.7
Total	72.5	27.5	100.0
Occupational Status			
Managerial	20.7	2.3	23.0
Professional	9.0	1.4	10.4
Engineering	9.9	4.5	14.4
Administrative	26.6	3.6	30.2
Owner Manager	5.4	16.7	22.1
Total	71.6	28.4	100.0

When asked if the annual tax returns were prepared by themselves, majority (72.5%) in the age groups said yes. About an equal percentage (71.6%) in the occupational status said the tax returns were prepared by them. Almost 17 per cent of the owner-managers said the tax returns were not prepared by them. However, about 5.4 per cent of the owner-managers said the tax returns were prepared by them. Refer Table 5.62.

G Preparation of Annual Tax Return

Table 5.63: Who prepares your annual tax return?

Statement	Tax agent	Tax Accountant	Friend/s	Family members	Total
Age Group					
20 - 30	2.4	9.7	2.0	2.8	16.9
31 - 40	9.9	27.4	5.4	17.9	60.6
41 - 60	2.8	11.7	2.4	5.6	22.5
Total	15.1	48.8	9.8	26.3	100.0
Occupational Status					
Managerial	0.0	0.4	1.4	1.4	3.2
Professional	0.0	0.4	0.0	2.9	3.3
Engineering	0.0	0.8	4.2	7.2	12.2
Administrative	0.0	0.0	0.0	11.0	11.0
Owner Manager	22.5	44.9	0.0	2.9	70.3
Total	22.5	46.5	5.6	25.4	100.0

This question was elicited to find out who were hired or otherwise by the taxpayers to prepare their annual tax returns. About 23 per cent of the owner-managers hired tax agents to prepare their tax returns. No other group hired tax agents to prepare their annual tax returns other than the owner-managers. Almost 47 per cent of the owner-managers hired tax accountants. Only a very small percentage of the other groups hired tax accountants. In the administrative group, almost all who do not prepare their own tax return get it prepared through a family member.

H Total Number of Hours Spent With Tax Agent.

Table 5.64: If your tax return were prepared by a tax agent or an accountant, how many hours (in total) do you spend with him/her?

Statement	< 5 Hours	5 - 10 Hours	> 10 Hours	Total
Age Group				
20 - 30	2.1	0.0	0.0	2.1
31-40	42.6	10.5	0.6	2.1
41-60	21.6	3.7	1.9	27.1
Total	81.5	15.2	3.4	100.0
Occupational Status				
Managerial	2.1	0.0	0.0	2.1
Professional	0.0	2.1	0.0	2.1
Engineering	4.3	2.1	2.1	8.5
Administrative	0.0	0.0	0.0	0.0
Owner Manager	55.3	23.5	8.5	87.3
Total	61.7	27.7	10.6	100.0

Table 5.64 shows that majority (81.5%) in all age groups spend less than five hours with their tax agents or accountants. More than 50 per cent (55.3%) of the owner-managers spend less than five hours with their tax agents or accountants. About 23.5 per cent spend between 5 - 10 hours. Those who said they spend more than ten hours comprise only 8.5 per cent of the total respondents.

I Average Amount Spent For Tax Return Preparation

Table 5.65: How much do you spend on the average for preparation of your annual tax return?

Statement	Less than RM100	RM101 - RM200	RM201 - RM300	RM301 RM500	Total
Age Group					
20 - 30	2.4	7.1	7.1	2.4	19.0
31 - 40	7.1	14.3	28.7	7.1	57.2
41 - 60	2.4	4.8	9.5	7.1	23.8
Total	11.9	26.2	45.3	16.6	100.0
Occupational Status					
Managerial	**0.0**	0.4	0.0	0.0	0.4
Professional	0.0	0.8	1.4	0.0	2.2
Engineering	0.0	0.5	0.0	0.0	0.5
Administrative	0.0	0.0	0.0	0.0	0.0
Owner Manager	11.2	24.8	46.3	14.6	96.9
Total	11.2	26.5	47.7	14.6	100.0

Almost half (46.3%) of the owner-managers incurred between RM201 - RM300 for preparation of their annual tax return. About 25 per cent said they spend between RM101 - RM200. Those who incurred between RM301 - RM500 comprise about 15 per cent of the respondents. A very small percentage of the managers and the professionals spend between RM 10 1 - RM200 on professional services. This indicates, on the average about RM250 is incurred by the taxpayers for tax professional help. Furthermore, those who incur such expenditure are mainly the owner-managers.

5.9.3 Results of one-way ANOVA

The respondents, perceptions towards compliance cost in Malaysia were gathered and a one-way ANOVA was employed to determine if any significant difference exist between any two groups of respondents. Two demographic variables namely age and occupation used in the previous analysis were again used in this section. The findings are shown in Tables 5.66 and 5.67 respectively.

Table 5.66: Results of One-Way ANOVA Between Compliance Cost and AGE.

AGE and Compliance Cost	Probability	Mean	Number
Bills and Receipts	**.0585***		
20 -30		1.2917	48
31 - 40		1.2520	127
41 - 50		1.3103	58
51 - 60		1.1111	9
Total		1.2686	242
Books of Record	**.4162**		
20 - 30		1.2979	47
31 - 40		1.3150	127
41 - 50		1.4310	58
51 - 60		1.3333	9
Total		3.2418	241
Hours Spent	**.5876**		
20 - 30		1.5000	8
31 - 40		1.4483	29
41 - 50		1.3750	8
51 - 60		2.0000	3
Total		1.4792	48
Tax Manuals	**.9857**		
20 - 30		1.2857	49
31 - 40		1.2880	125
41 - 50		1.2727	55
51 - 60		1.3333	9
Total		1.2857	238

Prepare Own Tax Return	**.5305**		
20 - 30		1.2609	46
31 - 40		1.3071	127
41 - 50		1.2037	54
51 - 60		1.3333	9
Total		1.2754	236
Total Research	**.4299**		
20 - 30		1.0968	31
31 - 40		1.2184	87
41 - 50		1.2632	38
51 - 60		1.3333	6
Total		1.2099	162
Total Number of Hours	**.7753**		
20 - 30		1.1795	39
31 - 40		1.2474	97
41 - 50		1.2927	41
51 - 60		1.3333	9
Total		1.2473	186
Who Prepares Your Tax Return	**.8062**		
20 - 30		1.1	12
31 - 40		1.2474	43
41 - 50		1.2927	13
51 - 60		1.3333	3
Total		1.2473	71

*** statistically significant at 0.05 level**

5.9.4 Results of one-way ANOVA Between Cost of Compliance and AGE.

In this construct, a number of questions were posed to the respondents in order to capture their perceptions towards the cost of compliance in Malaysia. For the demographic variable age, except for bills and receipts none of the other items were significant. Those in the 41 - 50 age group said that they keep all bills and receipts for tax purposes. This is shown in Table 5.67.

5.9.5 Results of One-Way ANOVA Between Cost of Compliance and Occupational Status.

Table 5.67: Results of One-Way ANOVA Between Compliance Cost and Occupational Status.

Occupation and Compliance Cost	Probability	Mean	Number
Bills and Receipts	**.0126***		
Managerial, Executive		1.3800	50
Professional		1.2400	25
Engineering, Technical		1.4242	33
Administrative, Clerical		1.2571	70
Owner Manager		1.1400	50
Others		1.0714	14
Total		1.2686	242
Books of Records	**.0004***		
Managerial, Executive		1.4200	50
Professional		1.2000	25
Engineering, Technical		1.5455	33
Administrative, Clerical		1.4085	71
Owner Manager		1.1250	48
Others		1.2143	14
Total		1.3402	241
Prepare own tax return	**.0000***		
Managerial, Executive		1.0980	51
Professional		1.1304	23
Engineering, Technical		1.3125	32
Administrative, Clerical		1.1194	67
Owner Manager		1.7551	49
Others		1.1429	14
Total		1.2754	236
Total Number of Hours	**.0034***		
Managerial, Executive		1.0909	33
Professional		1.1250	24
Engineering, Technical		1.1579	19
Administrative, Clerical		1.2456	57
Owner Manager		1.5366	41
Others		1.0833	12
Total		1.2473	186
Who Prepares Tax Return	**.0000***		
Managerial, Executive		3.8000	5
Professional		3.7500	4

Engineering, Technical	3.7273	11
Administrative, Clerical	4.0000	7
Owner Manager	1.9524	42
Others	2.5000	2
Total	2.6761	71

*** statistically significant at 0.01 level**

All the items in this construct showed significant results (Table 5.68). They are all significant at 0.01 level. Generally, the owner-manager taxpayers kept the bills and receipts for record purposes, kept books of records, and majority if not all, hired tax professionals to prepare their tax returns, and spent more than five hours on average with the professionals. This strongly indicates that the compliance costs of the owner managers are much higher than the other groups of taxpayers. On the average, these owner-managers paid RM250.00 for professional help. Almost all the other groups of taxpayers prepared their own tax returns and did not rely on professional help.

5.9.6 Test of Hypothesis 6

Based on the one-way ANOVA results, it could be concluded that the compliance costs of the owner-managers are much higher than the other groups of taxpayers. Almost all of these owner-manager taxpayers hire tax professionals to file their tax returns. They too spend more time for record keeping compared to other individual taxpayers. The null hypothesis six was rejected based on the above findings. The results supports the findings that the compliance costs of the owner-managers are higher than other individual taxpayers.

5.9.7 Knowledge and Understanding

The above findings also revealed that generally, Malaysian taxpayers do possess the necessary knowledge to understand tax compliance procedures. More than 70 per cent of the respondents said that they do read tax instructions and tax manuals before preparing their annual tax returns. An equal percentage said that they prepare their own tax returns. Only the self-employed taxpayers hire tax professionals. Majority of the taxpayers except for the self-employed said that they would not hire tax professionals even after SAS is implemented in Malaysia. If the taxpayers do not hire tax professionals even after the implementation of the SAS, then the compliance costs could be kept at a minimum. This to some extent ensure a high voluntary compliance could be achieved after SAS is implemented in Malaysia.

As illustrated in Table 5.8, respondents totally agreed that they knew how to compute their own income taxes. This indicate that they did not rely on professional help to compute their income tax payable. The reason could also be due to high tax literacy rate among the taxpayers. A study conducted by Jeyapalan (1996) on taxpayers understanding and knowledge on tax laws revealed interesting results. Taxpayers understanding and knowledge of the tax laws were measured by means of an index known as Taxpayer Understanding and Knowledge Index (TUKI). One of the major findings of the study indicated that there was a positive relationship between high gross income and taxpayer's knowledge. The higher the gross income, the higher the taxpayer's knowledge. But TUKI was found to be low for those earning more than RM80,000 annually. Interestingly too, respondents who were 36 years and

above had a higher understanding than respondents who were below 36 years. Furthermore, Jeyapalan (1996) concluded from the findings that those with postgraduate university education were the most knowledgeable group compared to others according to educational background. The findings of this study are consistent with the findings of Jeyapalan. Nevertheless, since knowledge and understanding could have effect on the taxpayer's compliance behaviour, the findings of this study suggest that most of them would comply voluntarily with the tax laws.

5.10 Conclusion

The above findings indicate majority of the owner-managers rely on tax professionals to prepare their annual tax returns. Ordinary individual taxpayers either prepare their own tax returns or get it prepared through a friend or a family member. Only a small percentage of the managerial and professional groups use tax agents. Interestingly, majority of them said that they do read the relevant tax instructions and materials before preparing their tax returns. Knowledge gained through these materials could be translated into better tax compliance.

Chapter 6 FINDINGS AND IMPLICATIONS

6.1 Introduction

This chapter will discuss the findings and their implications based on the data analysis in chapter five. The discussions are presented according to the hypotheses tested in the previous chapter. Thus, findings and implications of the first two hypotheses related to the efficiency and productivity of the Malaysian tax administration system will be discussed first followed by the findings on the other four hypotheses.

6.2 Findings on the Efficiency and Productivity

6.2.1 Efficiency of the Malaysian Tax Administrative System

The comparative analysis was undertaken for five years (1990 - 1994). Although efforts were executed to acquire data for a ten year period, but all the Inland Revenue departments of Indonesia, Japan, Australia, and New Zealand and the U.S. sent in data only for the five years mentioned earlier. Efficiency ratios' were computed for each of the country studied. Figure 5.2 in chapter five shows the comparative ratios. As discussed in chapter five, based on the cost-revenue ratio

[1] Efficiency Ratio : Total Administration Cost/ Total Tax Revenue (Ishi, 1993)

analysis and other related ratio analysis, Malaysia's tax administration system was more efficient compared to Japan, Australia, and New Zealand.

However, Malaysia's ratios were always higher than Indonesia and the USA (see Figure 5.2, chapter 5). This implies although Malaysia's tax administrative system is more efficient than the others surprisingly, however, it was not so when compared to Indonesia and the USA. If, however, Indonesia is to be ignored, then it is possible to conclude that Malaysia's tax administrative system is generally efficient in collecting tax revenue. Nevertheless, what cannot be ignored is the fact that is shown in Table 5.1 of chapter 5, where total administration cost had gone up by 50 per cent in 1994 compared to 1990.[2] This increase, however, had been offset by the high growth in the tax revenue. Total tax revenue, on the other hand, had gone up by 100 per cent in 1994 compared to 1990. Thus, the decline in the efficiency ratio was mainly because of the economic growth experienced by Malaysia beginning 1988 and the tax reforms undertaken by the government. It is hard to conclude that the Malaysian tax administrative system is indeed efficient. Japan experienced the same situation during the 1970s when Japan's cost-revenue ratio fell due to the rapid economic growth and the tax reforms undertaken by the authorities. But as shown in this study, Japanese cost-revenue ratio in the nineties was higher than in the seventies and eighties, indicating an inefficient tax administrative system.

[2] Total administration cost in 1990 was RM97,336,307 and in 1994 was RM145,176,977.

6.2.1.1 Findings of one-way ANOVA

In the questionnaire distributed to the taxpayers, a statement concerning the efficiency of the IRB was also included. The aim was to study whether the taxpayers perceived the tax administration to be efficient or otherwise. An one-way Anova was then conducted on the demographic variables of the respondents. Tables 6.1 and 6.2 sumrnarises the frequency distribution of the responses and the significant findings respectively.

Taxpayers were divided in their opinions whether IRB was efficient or otherwise. Table 6.1 shows that about 34 per cent of them either agreed or strongly agreed that IRB was not efficient, but an equal percentage (33 %) either disagreed or strongly disagreed to the question posed. About 34 per cent were neutral. Significant results of the one-way ANOVA are reported in Table 6.2.

Table 6.1: IRB is not Efficient

	Frequency	Per cent
Strongly Disagree	13	5.3
Disagree	66	27.0
Neutral	83	34.0
Agree	54	22.1
Strongly Agree	28	11.6
Total	244	100.0

Table 6.2 shows the significant results of one-way Anova between **IRBEFF** and occupational status, qualification, and current employment. The Scheffe post-hoc test revealed for employment, respondents who owned businesses perceived differently from those in the private sector. They perceived the IRB to be efficient compared to other taxpayers. On the other hand, taxpayers in the private sector perceived IRB to be not efficient (μ = 3.3676). For other demographic variables, the Scheffe post-hoc test did not reveal any significant differences in the groups perceptions.

Table 6.2: Results of One-Way ANOVA Between Inland Revenue Board is not Efficient (IRBEFF) and Demographic variables.

Group	Probability	Mean	Number
OCCUPATIONAL STATUS	**0.0397****		
Managerial, Executive		3.3077	52
Professional		2.9600	25
Engineering, Technical		3.0909	33
Administrative, Clerical		3.2222	72
Owner Manager		2.6531	49
Others		3.0769	13
Total		3.0738	244
QUALIFICATION	**0.0091***		
SRP/LCE		2.6667	12
SPM/MCE		2.9189	74
STPM/HSC		3.1250	16
Certificate		2.6667	3
Dinloma		3.0816	49
Bachelor		3.4571	70
Master		2.5000	10
Ph.D		1.5000	2
Professional		2.8750	8
Total		3.0738	244

CURRENT EMPLOYMENT 0.0052*		
Private Sector	3.3676	68
Government	3.0826	121
Own Business	2.6531	49
Others	3.0000	6
Total	3.0738	244
Scores not significantly different for other demographic varaibles.		

*** statistically significant at 0.01**
**** statistically significant at 0.05**

6.2.2 Implications

The trend analysis indicated that the Malaysian tax administrative system was efficient compared to Japan, Australia, and New Zealand. But not so when compared to Indonesia and the U.S. Taxpayers in the various categories except for the owner managers perceived the tax administrative system as not efficient. One reason why owner-managers perceived IRB was efficient could be due to the small sample size. Furthermore, owner-managers hire professional help to file their returns, thus they are not with direct contact with the IRB. Taxpayers in the private sector too perceived IRB was not efficient. It is very important for the IRB to improve its image by providing efficient services to the taxpayers at a minimum cost. Since it has been argued in the literature that SAS would improve efficiency, probably the authorities should consider implementing SAS in Malaysia for all taxpayers.

6.3 Productivity of the Malaysian Tax Administrative System

Figure 5.3 in chapter five compared the productivity ratios[3] of the countries studied for the period 1990 - 1994. In the case of Japan, data on the number of taxpayers were not furnished by the Inland Revenue of Japan. The trend analysis in Figure 5.3 indicates that Malaysia's IRB is productive compared to Australia and New Zealand, but not against Indonesia and the U.S. Malaysia's productivity ratio had a sharp fall in 199 1, but had gone up again in 1994. Although in 1994 Malaysia's ratio was still lower than Australia and New Zealand but Malaysia's ratio was climbing upwards whereas other countries' ratios were stable. One of the reasons for the fall in the Malaysian productivity could be due to the increase in the number of taxpayers. The number of taxpayers is shown in Table 6.3. There was a sharp jump in the number of taxpayers and the tax staff in 1994. Due to industralisation and full employment, the number of taxpayers has increased by almost one million in 1994 compared to 1990. This explains why the ratio is on the upward trend but this is an unhealthy trend for the IRB.

Table 6.3: Malaysia's Tax Staff and Taxpayers (1990 - 1994)

Year	Tax Staff	Taxpayers	Ratio
1990	5635	1.9 million	0.30
1991	6259	2.7 million	0.24
1992	6225	2.7 million	0.23
1993	6214	2.9 miilion	0.21
1994	6724	3.0 million	0.22

Source **: Performance and Program Budgeting 1995, Ministry of Finance, Kuala Lumpur.**

[3] Productivity ratio is computed by using the following formula: Number of tax staff/ total taxpayers.

6.3.1 Findings of one-way ANOVA

Taxpayers were asked whether they perceived IRB to be productive or otherwise. The frequency distribution is shown in Table 6.4. More than 40 per cent of taxpayers either agreed or strongly agreed that the IRB was productive. Only about 30 per cent either disagreed or strongly disagreed that the IRB was productive. The findings show that majority of the taxpayers do perceive IRB to be productive although they were unsure whether IRB was efficient. This has to be maintained by the IRB to ensure smooth implementation of SAS in Malaysia. One-way Anova findings indicate no significant findings for all the demographic variables tested.

Table 6.4: IRB is Productive

	Frequency	Per cent
Strongly Disagree	15	6.1
Disagree	58	23.7
Neutral	73	29.8
Agree	86	35.1
Strongly Agree	13	5.3
Total	247	100.0

6.3.2 Implications

Generally, the productive ratio of Malaysia beginning 1994 is on the upward trend indicating a decline in the productivity. This may affect the overall productivity of the department. Steps must be taken to ensure that the ratio is well manageable. Nevertheless, respondents across the sample perceived IRB as productive. There were no significant differences in their perceptions towards the productivity of the IRB. IRB in order to remain a productive department must computerise its operations. Computerisation is the way forward for the IRB in the future. Although at present computers are widely used, but there are still shortcomings in the use of computers at IRB.

6.4 Taxpayers' Perceptions

6.4.1 Towards Tax Administrative System (OAS v SAS)

As presented in chapter 5, the cross-tabulation of the respondents response to each of the question posed indicates that majority of them positively perceived the implementation of SAS in Malaysia. Most agreed SAS should be implemented in Malaysia. Majority agreed they possess the necessary knowledge to compute their tax payable without any professional help. Only the self-employed taxpayers differed in their opinions. They agreed they would need to hire tax professionals to prepare their tax returns. This, however, is true even under the present assessment system, the

OAS, where the self-employed taxpayers rely on professional help to file their tax returns. But what is interesting though, is that the salaried taxpayers are ready for the change. This finding is consistent with Siti Mariam (1994). In her study, majority of the tax professionals agreed that SAS could be implemented in Malaysia.

6.4.2 Tax Law Fairness

Generally, the taxpayers were not totally divided in their perceptions towards tax law fairness. Majority perceived the tax rules and regulations were simple. This is important for voluntary compliance. If the tax rules are complex they would hinder voluntary compliance. Nevertheless, the respondents perceived that the tax rates were high, and enforcement of tax rules was weak, and tax revenue was not spent wisely on infrastructure and other beneficial projects for the taxpayers. This finding is in contrast to that of Simmons and Cheng (1996). The findings of their study revealed the opposite. Overall, Hong Kong taxpayers believed that the government spends taxpayers' money in a reasonable and appropriate manner.

Overall, the group mean was significant for the variable monthly income. Respondents in the lower income group perceived that the tax law was less equitable compared to other groups. This finding is consistent with the others (Porcano and Price 1992; and Schisler 1995). In both of the studies, the taxpayers did not perceive the tax system to be fair. Only the tax preparers perceived the tax system to be fair.

6.4.3 Tax Law Complexity

The cross-tabulated results in chapter five indicates that to all the statements posed pertaining to tax law complexity, majority of the respondents agreed that ambiguity in the tax laws exist, too many computations had to be made by the taxpayers, changes in the tax law had been frequent, too much detail in the law, records must be kept for compliance, and format and instructions of the tax returns were confusing. Although the test on the grand mean and **TAXCOMPLEX** did not reveal any significant findings, but the one-way analysis of variance on **FORMAT and INSTRUCTION** revealed interesting results. For both **FORMAT and INSTRUCTION,** those in the older age group 51 - 60 disagreed that the format and instructions on the tax return were confusing. They perceived differently from the other three age groups.

6.4.4 Taxpayers' Compliance Costs

Overall, compliance costs of the owner managers in Malaysia are much higher than the other individual taxpayers. Owner-managers spend more time and money to comply with the tax laws. Majority of them use professional help to file their tax returns. On the average, they spend about RM250.00 for tax professional help. This finding is consistent with Sandford (1990), Slemrod and Sorum (1984), Pope and Fayle (1990) and Blumenthal and Slemrod (1992). In all of these studies, the findings indicate self-employed taxpayers spend significantly more time and money on

compliance than others. However, the money spent by the self-employed taxpayers in Malaysia are not very high when compared to their counterparts in the developed countries. On the other hand, the findings indicate that other groups of taxpayers do not hire tax professionals at all to file their tax returns. These groups of taxpayers also agreed that even if SAS is implemented in Malaysia, they would not require the services of tax professionals.

6.5 Implications

Generally, taxpayers positively perceived the change in the assessment system. But the respondents' perceptions towards tax law fairness and complexity were not positive. Taxpayers from the city, the administrative and the clerical group perceived the tax administrative system to be not equitable. Most if not all of the taxpayers perceived that tax law complexity exists. Significant results were found for those in the lower age group. Thus, before SAS is implemented in Malaysia, efforts must be made by the IRB to educate the new and young taxpayers in order to improve tax compliance. Although, only certain groups of taxpayers do not perceive the tax administrative system to be not equitable, but in order to encourage voluntary compliance among the taxpayers, it is imperative that these groups of taxpayers have a positive attitude towards tax law fairness. Otherwise, these groups of taxpayers would be the potential taxpayers not to comply fully with the tax laws.

6.6 Conclusion

This chapter discussed the findings of the data analysis found in chapter five. Malaysia's tax administration was efficient compared to some countries who have implemented SAS, but not against the U.S.A and Indonesia. IRE3 should take the necessary steps to ensure that the administration costs are controlled and kept at a minimum. The only reason why the ratio is stable is because of the high tax revenue generated from the economic growth for the past eight years.

Malaysia's productivity ratio when compared to countries who have implemented SAS, performs better than Australia and New Zealand but not against Indonesia and USA. USA has the lowest ratio compared to others. What is alarming is the rise in the Malaysia's ratio in 1994 after declining from 1991. It is important that productivity of the IRB is maintained in order to be competitive.

Findings of the taxpayers' perceptions on OAS v SAS, tax law fairness, and tax law complexity were mixed. Taxpayers perceived positively perceived SAS, but results were mixed for tax law fairness and complexity. For SAS to be implemented successfully, it is important that taxpayers perceived positively towards tax fairness and complexity. More attention must be given to the taxpayers from the city, lower income group and those in the lower age group.

CHAPTER 7 CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

7.1 Introduction

This chapter concludes based on the data analysis in chapter 5 and findings discussed in chapter 6. Limitations of the study are outlined. Other variables and issues that could be used in future studies are identified. Finally, recommendations to the IRB of Malaysia are made based upon the findings of this study.

7.2 Summary of the Findings

In the first part of the study, the efficiency and the productivity of the Malaysian tax administration system were compared to other countries that have adopted SAS. Interestingly, although the Malaysian tax administrative system was found to be efficient compared to Japan, Australia, and New Zealand. It was not efficient compared to Indonesia and the U.S. The comparative productivity ratio too indicated Malaysia's tax personnel were not productive compared to their counterparts in Indonesia and the U.S. Furthermore, the ratio showed an upward trend indicating a decline in productivity. These findings support the position that efficiency and the productivity of the IRE3 could be improved further if SAS were implemented in Malaysia.

Findings of the taxpayers' perceptions were mixed. Although the taxpayers positively perceived the implementation of SAS, but overall they did not positively perceived tax law fairness and tax law complexity. Normally taxpayers would not look forward towards a new tax administrative system, but findings of this study shows otherwise. Generally, Malaysian individual taxpayers perceived positively towards the implementation of SAS.

On the other hand, certain groups of taxpayers perceived differently towards the efficiency and productivity of the IRB. More efforts must be undertaken to educate the young and city taxpayers. The format and instructions of the tax return must be reviewed and made simple for the young taxpayers,

7.3 Limitations of the Study

This study employed the survey method and all limitations associated to it are also common to this study. The survey was limited to individual taxpayers in Alor Setar and Kuala Lumpur. The higher income group of the taxpayers were not as many as the other income groups. The findings thus may not be generalisable to all individual taxpayers in Malaysia. For a generalisable finding, a nationwide survey is recommended in the future studies. Furthermore, taxpayers were asked to compare between OAS and SAS, and to choose the best assessment system. Majority agreed that OAS should be replaced by SAS. Since SAS is not implemented, it is not possible to say that whether the respondents really understood how SAS works.

One of the major contribution to the theory of tax compliance was adding another variable: knowledge. Knowledge in this study was not captured as a separate variable but as part of the other variables. It was not operationalised to the fullest extent. Thus, future studies could operationalise knowledge by using tax cases or asking the taxpayers to compute the tax payable based on a hypothetical case. An experimental method may be best suited to study the taxpayers level of knowledge in tax. More research is suggested to study the knowledge structure of the taxpayers and their behaviour towards tax compliance.

Compliance costs of the owner managers were found to be much higher than others. However, the number of respondents in this category was not large. Only fifty one of the total sample were self-employed taxpayers. Thus, it could not be generalised for all owner-managers. A nation wide survey should be undertaken in order for the findings to be meaningful and to be generalisable. Nevetheless, the findings are relevant for the authorities as it indicate that the compliance cost is much higher in the owner-managers than other individual taxpayers.

7.4 Other Variables and Issues Identified for Future Research

In this study, only perceptions of the taxpayers on tax administration system, tax law fairness and tax law complexity were captured. Perceptions of the tax preparers and the tax staff of the IRB were left out. Future research may study the perceptions of the tax preparers and the tax staff towards the variables identified in this study. Schisler (1995) in his study on tax law fairness found that the taxpayers had significantly lower equity perceptions of the tax system than did the tax preparers. Porcono and Price (1992) too found tax preparers perceived the tax system to be significantly fairer than the taxpayers. It would be interesting to study the perceptions of the tax staff towards the tax system that they are administering at present.

In this research only the individual taxpayers' perceptions were studied. Perceptions of the corporate taxpayers and compliance behaviour may be explored further in other studies. This may be undertaken by other researchers. Other issues related to tax compliance have not been explored in Malaysia. For instance, ethical behaviour of the taxpayers and its influence on tax compliance. Aggressiveness of the tax preparers and the taxpayers has not been studied. Finally, taxpayers' perceptions should be gathered after SAS is implemented in Malaysia and the findings could be compared to this study.

7.5 Recommendations to the Malaysian IRB

SAS could be implemented in Malaysia. Individual Malaysian taxpayers positively perceived the implementation of SAS. Taxpayers believed they have the necessary knowledge to comply with the tax laws if SAS were implemented in Malaysia. Although the efficiency ratios indicated the Malaysian tax administration system was efficient, but the decline in the ratio was mainly due to the buoyant economy experienced by Malaysia for the past eight years. In actual fact, the administration cost was on the rise. Likewise, the productivity ratio was on the upward trend indicating a decline in the productivity of the tax staff as a percentage to the total number of taxpayers. The number of tax staff has increased over the years. The increase could be because of the big increase in the number of taxpayers. All in all, in order to improve the efficiency and productivity of the existing tax administrative system of Malaysia, it is best that SAS were implemented in Malaysia to replace OAS. This may bring about efficiency and productivity in the tax administrative system (Barr et al. 1977; Kay 1980).

However, before SAS were implemented in Malaysia, certain steps must be taken by the IRB to improve the taxpayers' perceptions towards the existing tax administrative system. First, IRB should establish a task force to undertake studies petaining to the implementation of SAS in Malaysia. Taxpayers must be educated, especially the young and the self-employed. Training and re-training programmes must be developed to cater for the each group of individual taxpayers'. Specific

programmes would be needed for the tax administrators and the tax agents or professionals. This must be an on going process. Besides the taxpayers awareness week, and the weekly radio talk shows, other means to educate the taxpayers must be undertaken. Tax education should be incorporated in the secondary schools curriculum. These school children would be the future taxpayers of Malaysia. An early education on tax, could lead to better understanding of the tax system. This in turn may lead to better compliance by the future taxpayers. All other possible avenues must be explored by the IRB. Initially, a separate column should be provided in the taxpayers tax returns. This is to encourage the taxpayers to compute their own tax payable. Colour tax returns as in Japan may be introduced in Malaysia to encourage voluntary compliance, especially among the self-employed, young and new taxpayers. IRB may also provide incentives to encourage voluntary compliance.

Tax refund system must be improved. Numerous complaints have been made by the taxpayers lately on the delay of getting their tax refund (NST June 4, 1996). The success of SAS depends on a good withholding and refund systems. The implementation of the STD beginning year of assessment 1995 is a good move. But the refund system must be efficient in order to encourage voluntary compliance by the taxpayers. Tax personnel of the IRB must be trained to do tax audit. Since SAS relies on voluntary compliance, tax audit must be undertaken by the IRB to ensure maximum compliance by the taxpayers.

Electronic tax filing could be considered by the IRB. Many countries including Australia have implemented electronic tax filing. This would cut costs and improve efficiency and productivity of the Inland Revenue Board. In essence, IRB should introduce SAS in stages. Full self-assessment could start with companies and corporations and then extended to all types of taxpayers. Under Section 107B of ITA (1967), companies and businesses in Malaysia are required to make five instalment payments on their tax payable to the IRB. These instalments are mandatory and based on the estimated taxable income for the year of assessment. The estimated tax payable for the current year of assessment takes into consideration the amount of tax assessed in the preceding year. All instalments are to be paid beginning January or February of each year. But once the IRB issues the notice of assessment, the amount paid via instalments would be deducted from the actual amount of tax payable. This, to some extent is self-assessment but the amount estimated payable is for the preceding year rather than the current assessment year. Since this has been in practice from year of assessment 1989, it is thus logical that SAS be implemented in Malaysia for companies as soon as possible. It may then be extended to individual taxpayers.

7.6 Conclusion

The main objective of this study was to determine whether the present tax administrative system is efficient and productive. Also, could SAS replace OAS in Malaysia without any hitches and problems. Findings revealed that individual taxpayers significantly perceived SAS to be a better system than OAS. Majority significantly perceived the tax system to be not fair with respect to tax rates and others. Most if not all, perceived the existing tax law to be complex. A negative perception by the taxpayers towards tax equity and complexity would lead to non-compliance. It is very important for the IRB to educate the public and make them aware of their social responsibility.

More attention must be given to the young, self-employed and taxpayers from the city area. The findings indicate that these groups of taxpayers significantly differ in their opinions toward tax fairness and tax law complexity. These groups of taxpayers could be the potential non-compliants. Although the compliance cost of the self-employed is not extremely high, it should be maintained even after the implementation of SAS. Nevertheless, the present tax system of Malaysia does posses some of the necessary features for a successful implementation of SAS. All the above findings have tax policy ramifications.

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Appendix A

A STUDY OF THE FEASIBILITY OF INTRODUCING THE PERSONAL SELF-ASSESSMENT SYSTEM (SAS) IN MALAYSIA.

Dear Respondent

This survey questionnaire is part of my Doctoral research to study whether the personal **Self-Assessment System (SAS)** can be introduced in Malaysia. The existing system of assessment in Malaysia is **known** as **the Official Assessment System (OAS).** Under this system, we as taxpayers annually receive tax returns **(Form B)** from the Inland Revenue Department (IRD), and return them to the IRD after having filled all particulars and information pertaining to our income for that year of assessment. IRD will then notify us of the amount of tax payable by means of **Form J.** Tax payable is assessed by the IRD and not by the taxpayers.

The alternative system is known as the **Self-Assessment System (SAS).** Under the **SAS,** taxpayers will assess their own tax payable for a particular year of assessment. Taxpayers will then have to submit the annual tax returns along with the cheque as payment to the IRD. In this system, tax payable is assessed by the taxpayers and not by the IRD.

This study attempts to gauge your perception towards the **OAS, SAS** , and our existing tax administrative system in general. **All responses will be kept in strict confidence.**

I appreciate your time and co-operation and thank you for participating in this survey.

Yours sincerely

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06010 Sintok Kedah

SECTION A

Perceptions Toward Tax Fairness and Tax Administrative System

Please pick a number from the scale below to show how much you ***agree*** or ***disagree*** with each statement and circle the appropriate number in the boxes provided.

SCALE

1 = Strongly Disagree
2 = Disagree
3 = Neutral
4 = Agree
5 = Strongly Agree

	Strongly Disagree				Strongly Agree	
The Malaysian income tax system is generally fair' . . .	1	2	3	4	5	01
The Malaysian income tax system is equitable*	1	2	3	4	5	02
The Malaysian tax rules and regulations are simple....	1	2	3	4	5	03
The Malaysian individual tax rates are high	1	2	3	4	5	04
Tax revenue is wisely spent on infrastructure and projects that are beneficial to taxpayers	1	2	3	4	5	05
The Malaysian tax law is strict on evasion	1	2	3	4	5	06
Enforcement of the tax rules and regulations is weak..	1	2	3	4	5	07
Tax reliefs for the wealthy are too high	1	2	3	4	5	08
The tax rates on the wealthy must be high	1	2	3	4	5	09

[1] Fair here refers to a tax system that is reasonable, right, and just.

[2] Tax equity is said to have two dimensions: vertical and horizontal. In this question we are concerned with the horizontal equity i.e., equalizing the tax burden among people in similar economic circumstances.

	Strongly Disagree				Strongly Agree	
The Malaysian tax rates on the wealthy are just.....	1	2	3	4	5	10
The Inland Revenue Department is not efficient	1	2	3	4	5	11
The Inland Revenue Department (IRD) is productive.	1	2	3	4	5	12
The government should let the taxpayers compute their own income taxes.....	1	2	3	4	5	13
The self-assessment system is complicated	1	2	3	4	5	14
The self-assessment system will be more fair compared to the existing official-assessment system...	1	2	3	4	5	15
The self-assessment system will not be convenient.....	1	2	3	4	5	16
As an individual taxpayer, I know how to compute my own income taxes.....	1	2	3	4	5	17
If self-assessment system is introduced in Malaysia, I would need to hire professional help to prepare my annual tax return.....	1	2	3	4	5	18
The present official-assessment system is convenient.	1	2	3	4	5	19
The present official-assessment system is not complicated	1	2	3	4	5	20
The present official-assessment system should not be replaced by the self-assessment system.....	1	2	3	4	5	21
The self-assessment system should not be introduced in Malaysia.....	1	(2	3	4	5	22

Please indicate below **which type of tax system** you prefer most?
(Please tick [√] in the space provided for the tax system you prefer most.)

Official Assessment System .....
Self-Assessment System..... E l 23

SECTION B

Tax Law Complexity

There are a number of factors that contribute to the complexity of the Malaysian individual income tax returns, such **as: Ambiguity, Computations, Changes, Detail, Record Keeping, and Forms.**

1. Using the same scale as in ***Section*** **A (1 to 5), please circle** the appropriate number to show how much you agree or disagree with each of the statements below regarding tax law complexity in Malaysia.

	Scale: Strongly Disagree				Strongly Agree	
A Ambiguity						
There are ambiguities in the tax law which may lead to more than one defensible position.....	1	2	3	4	5	24
B Computations						
Too many computations must be made.....	1	2	3	4	5	25
C **Changes**						
There have been frequent changes in the tax law.....	1	2	3	4	5	26
D Detail						
There is excessive detail in the law, such as numerous rules and exception to rules.....	1	2	3	4	5	27
E Record Keeping						
Detailed special records must be kept by taxpayer to comply with the tax law.....	1	2	3	4	5	28
F Forms						
1 The format of the tax forms are confusing.....	1	2	3	4	5	29
2 The instructions for tax forms are confusing.....	1	2	3	4	5	30

SECTION C

COMPLIANCE COST

Please **circle** the appropriate answer below to show how often or otherwise you face the situations in preparing your annual tax return.

1 Do you keep all bills and receipts of transactions for maintaining books of records?..... Yes | No 31

2 Do you keep books of records for tax return preparation?..... Yes | No 32

3 If your answer to question No.2 is Yes, please specify the total number of hours taken in a month for record keeping.
Please check [√] one space only.

Less than 5 hours..... _____
5 to 10 hours ..a..... _____
More than 10 hours... _____ 33

4 Do you read the tax instructions, tax manuals or other related tax material before preparing your annual tax return'..... Yes | No 34

5 If your answer to question No.4 is Yes, please state the total number of hours taken for research. ***Please check [√] one space only.***

Less than 5 hours..... _____
5 to 10 hours..... _____
More than 10 hours... _____ 35

6 Do you prepare your own annual tax return? ..... Yes | No 36

A If your answer is Yes, Please Go **To Section Cl.**
B If your answer is No, proceed with question No. 7

7 If your answer to question No.6 is NO, who prepares your annual tax return? ***Please check [√] one space only.***

Tax Agent.. ..... _____
Tax Accountant..... _____
Friend/s ..... _____
Family members ..... _____
Others (please specify). ..... _____ 37

8 If your tax return is prepared by a tax agent or an accountant, how many hours (in total) do you spend with him/her? ***Please check [√] one space only.***

Less than 5 hours..... _____
5 to 10 hours ..... _____
More than 10 hours... _____ 38

9 On average, how much do you have to pay your tax adviser for the preparation of your tax return? ***Please state the amount in the space provided below.***

RM_____ 39

10 Do you also incur other miscellaneous expenses in the preparation of your annual tax return?..... | Yes | No | 40

11 If your answer to question No.10 is Yes, please state the amount incurred on average? ***Please state the amount in the space provided below.***

RM_____ 41

KAJIAN MENGENAI BERKEMUNGKINAN SISTEM TAKSIRAN SENDIRI (STS) INDIVIDU DILAKSANAKAN DI MALAYSIA

Tuan/ Puan/Cik

Kajian ini adalah sebahagian daripada penyelidikan saya untuk Ijazah Doktor Falsafah, di mana salah satu objektif kajian adalah untuk mengesyorkan samada **Sistem Taksiran Sendiri (STS)** dapat dilaksanakan di Malaysia. Untuk pengetahuan anda sebagai pembayar cukai, sistem taksiran yang diamalkan sekarang oleh Lembaga Hasil Dalam Negeri **(LHDN)** adalah dipanggil **Sistem Taksiran Rasmi (STR).** Di Bawah **STR,** kita pembayar cukai menerima **Borang B** ataupun dipanggil sebagai **Borang Nyata Pendapatan** setiap tahun dari LHDN. Setelah diisi dengan semua butir-butir berkenaan pendapatan kita bagi tahun taksiran berkenaan, Borang B perlu dihantar kembali ke LHDN untuk ditaksir. LHDN akan buat taksiran berdasarkan maklumat yang disertakan dan memberitahu kita amuan yang perlu dibayar melalui **Borang J.** Maka, di bawah sistem ini cukai pendapatan ditaksir oleh LHDN dan bukannya oleh pembayar cukai.

Sistem alternatif lain adalah dipanggil sebagai **Sistem Taksiran Sendiri (STS)** yang sekarang diamalkan di kebanyakan negara-negara maju. Di bawah sistem ini, pembayar cukai mesti meghitung cukai yang perlu dibayar dan akan kembalikan **Borang B** bersama-sama dengan cek untuk bayaran cukai tersebut. Ini bermakna di bawah sistem ini, cukai perlu bayar bagi tahun taksiran di taksir oleh pembayar cukai sendiri dan bukannya oleh **LHDN.**

Salah satu objektif kajian ini adalah untuk mendapatkan pendapat ataupun persepsi anda sebagai pembayar cukai terhadap sistem taksiran yang tersedia ada STR, STS, dan sistem pentadbiran cukai pada amnya. Kesemua jawapan anda akan digunakan untuk kajian ini sahaja dan akan di **RAHSIAKAN.**

Sekian, terima kasih saya ucapkan kepada anda yang member-i kerjasama dalam kajian ini.

Yang benar

Mustafa Mohd Hanefah
Pensyarah
Sekolah Perakaunan
Universiti Utara Malaysia

BAHAGIAN A

Persepsi Anda Terhadap Keadilan Cukai

Dengan menggunakan skala seperti dalam **kotak, bulatkan nombor** yang bersesuaian untuk menunjukkan samada anda setuju atau tidak dengan setiap kenyataan di bawah.

SKALA
1 = Amat Tidak Setuju 2 = Tidak Setuju 3 = Berkecuali 4 = Setuju 5 = Amat Setuju

	Amat Tidak Setuju				Amat Setuju	
Sistem cukai pendapatan Malaysia adalah adil.....	1	2	3	4	5	01
Sistem cukai pendapatan adalah saksama	1	2	3	4	5	02
Peraturan cukai Malaysia adalah mudah	1	2	3	4	5	03
Kadar cukai individu Malaysia adalah tinggi.	1	2	3	4	5	04
Hasil kutipan cukai Malaysia dibelanjakan dengan cermat oleh kerajaan ke atas projek dan infrastruktur yang akan membawa manfaat kepada pembayar cukai	1	2	3	4	5	05
Undang-undang cukai Malaysia adalah ketat berkenaan pelarian cukai pendapatan	1	2	3	4	5	06

	Amat Tidak Setuju				Amat Setuju	
Penguatkuasaan undang-undang cukai di Malaysia adalah lemah.....	1	2	3	4	5	07
Pelepasan cukai **bagi** orang-orang **kaya** adalah terlalu tinggi.....	1	2	3	4	5	08
Kadar cukai **bagi** orangorang **kaya** mestilah tinggi	1	2	3	4	5	09
Kadar cukai **bagi** orang-orang **kaya** di Malaysia adalah adil.....	1	2	3	4	5	10

Persepsi Anda Terhadap Sistem Pentadbiran Cukai

Lembaga Hasil Dalam Negeri (LHDN) adalah tidak cekap.....	1	2	3	4	5	11
L.H.D.N adalah **produktif**. . . . . *.....	1	2	3	4	5	12
Kerajaan **harus** membenarkan pembayar cukai menghitung cukai pendapatan sendiri.....	1	2	3	4	5	13
Sistem Taksiran Sendiri (STS) adalah **rumit**	1	2	3	4	5	14
Sistem Taksiran Sendiri (STS) adalah lebih adil berbanding dengan Sistem Taksiran Rasmi (STR)	1	2	3	4	5	15
Sistem Taksiran Sendiri (STS) tidak sesuai	1	2	3	4	5	16
Sebagai pembayar cukai, **saya** tahu bagaimana hendak menghitung cukai pendapatan **saya** sendiri	1	2	3	4	5	17
Jika STS dilaksanakan di Malaysia, **saya** perlukan bantuan profesional **untuk** menyediakan borang nyata pendapatan tahunan (annual tax return)	1	2	3	4	5	18

	Amat Tidak Setuju				Amat Setuju	
Sistem Taksiran Rasmi (STR) yang sedia ada adalah lebih sesuai.....	1	2	3	4	5	19
Sistem Taksiran Rasmi (STR) tidak rumit.....	1	2	3	4	5	20
Sistem Taksiran Rasmi yang sedia ada tidak perlu diganti dengan Sistem Taksiran Sendiri..	1	2	3	4	5	21
STS tidak perlu dilaksanakan di Malaysia	1	2	3	4	5	22

Sila tandakan [√] pada kotak yang disediakan di bawah berkenaan sistem taksiran cukai yang anda paling suka.

Sistem Taksiran Rasmi (STR).....		23
Sistem Taksiran Sendiri (STS).....		

BAHAGIAN B

Persepsi Terhadap Kerumitan Undang-Undang Cukai

Terdapat banyak faktor yang ada kaitan dengan kerumitan dalam **Borang B** individu di Malaysia, seperti: **Kekaburan, Pengiraan, Perubahan, Butiran Terperinci, Menyimpan Rekod dan Borang.**

1 Dengan menggunakan **skala** seperti didalam **Bahagian A, bulatkan nombor yang** sesuai untuk menunjukkan samada anda setuju atau tidak dengan setiap kenyataan di bawah.

	Skala					
	Amat Tidak Setuju				Amat Setuju	
A Kekaburan: Terdapat banyak kekaburan dalam undang-undang cukai Malaysia yang boleh akibatkan kesamaran.....	1	2	3	4	5	24
B Pengiraan: Terlalu banyak pengiraan yang harus dibuat.....	1	2	3	4	5	25
***C* Perubahan:** Terdapat perubahan yang kerap dalam undang-undang cukai.....	1	2	3	4	5	26
D Butiran Terperinci: Terdapat banyak butiran terperinci dalam undang-undang cukai seperti banyak peraturan pengecualian kepada peraturan tersebut.....	1	2	3	4	5	27
E Menyimpan Rekod: Rekod khas terperinci mesti di simpan oleh pembayar cukai untuk mematuhi undang-undang cukai.....	1	2	3	4	5	28
F Borang: 1. Format borang cukai adalah mengelirukan..,.....	1	2	3	4	5	29
2. Arahan dalam borang cukai adalah mengelirukan.....	1	2	(3	4	5	30

BAHAGIAN C

KOS **PEMATUHAN**

Sila **bulatkan** jawapan yang sesuai **bagi** menunjukkan kekerapan **anda** menghadapi situasi-situasi berikut dalam penyediaan Borang B.

1 Adakah **anda** menyimpan semua bil dan resit urusniaga untuk menyediakan buku rekod? ..... | Ya | Tidak | 31

2 Adakah **anda** menyimpan buku-buku rekod untuk menyediakan Borang B..... | Ya | Tidak | 32

3 Jika jawapan **anda** untuk **soalan** No.2 adalah **Ya,** sila nyatakan jumlah jam dalam sebulan untuk menyimpan rekod. Sila tanda [√] **satu** ruang sahaja.

Kurang dari 5 jam..... _____
5 jam hingga 10 jam. _____
Lebih dari 10 jam..... _____ 33

4 Adakah **anda** membaca arahan-arahan **cukai,buku** panduan cukai atau bahan-bahan cukai yang lain sebelurn menyediakan Borang **B?**..... | Ya | Tidak | 34

5 Jika jawapan **anda** untuk **soalan** No.4 adalah **Ya,** sila nyatakan jumlah jam yang diambil untuk tujuan tersebut. Sila tanda [√] satu ruang sahaja.

Kurang dari 5 jam..... _____
5 jam hingga **10 jam** _____
Lebih dari 10 jam..... _____ 35

6 Adakah **anda** menyediakan Borang B **anda sendiri?**..... | Ya | Tidak |

A Jika jawapan **anda** adalah **YA,** Sila Ke **Bahagian Cl**

B Jika jawapan anda adalah **TIDAK,** teruskan dengan **Soalan No. 7** 36

7 Jika jawapan **anda untuk Soalan No. 6,** adalah **TIDAK,** siapakah yang menyediakan Borang B? Sila tanda [√] satu ruang sahaja.

Ejen Cukai..... _____
Akauntan Cukai..... _____
Kawan..... _____
Ahli Keluarga..... _____
Lain-lain _____ 37

8 Jika Borang B anda disediakan oleh ejen cukai ataupun akauntan cukai, berapakah jumlah jam yang diperlukan untuk anda bersamanya? Sila tanda [√] satu ruang sahaja.

Kurang dari 5 jam..... _____
5 jam hingga 10 jam. _____
Lebih dari 10 jam..... _____ 38

9 Secara purata, berapakah jumlah yang anda perlu bayar kepada ejen/akauntan cukai untuk menyediakan Borang B?

RM_____ 39

10 Adakah anda juga menanggung belanja-belanja lain dalam penyediaan Borang B ? ..... | Ya | Tidak | 40

11 Jika jawapan anda untuk soalan **No.10** adalah **Ya,** sila nyatakan amaun tersebut di ruangan yang disediakan.

RM_____ 41

BAHAGIAN D

LATAR BELAKANG

Sila tandakan [√] ***satu kotak yang berkenaan..***

UMUR

20 - 30.. ..... ☐
31 - 40..... ☐
41 - 50..... ☐
51 - 60..... ☐
60 ke atas..... ☐ 42

BANGSA

Melayu ..... ☐
China..... ☐
India..... ☐
Lain-lain (sila nyatakan) . . ☐
_____ 43

TARAF PERKHAWINAN

Bujang..... ☐
Berkhawin ..... ☐
Bercerai ..... ☐
Duda/ Janda.. ..... ☐ 44

BILANGAN TANGGUNGAN

Sila nyatakan bilangan tanggungan anda

_____ 45

TEMPAT PEKERJAAN

Sektor swasta.. ..... ☐
Keraj aan..... ☐
Berniaga..... ☐
Lain-lain (sila nyata ☐
kan)_____ ☐ 46

JAWATAN SEKARANG

Pengurus, Eksekutif.. ..... ☐
Profesional.. ..... ☐
Jurutera, Teknikal.... ..... ☐
Pentadbiran, Kerani.. ..... ☐
Pemilik dan Pengurus.. ..... ☐
Lain-lain (sila nyatakan) ☐ 47

_____

PENDAPATAN SEBULAN

Kurang RM1,000.... ☐
RM1,001 - RM3,000. ☐
RM3,001 - RM6,000. ☐
RM6,001 - RM10000 ☐
RM10,000 dan lebih.. ☐ 48

KELULUSAN

(Tandakan kelulusan yang tertinggi sahaja)

SRP/LCE..... ☐
SPM/MCE..... ☐
STPM/HSC.. ..... ☐
SIJIL ..... ☐
DIPLOMA..... ☐
SARJANA MUDA..... ☐
SARJANA.. ..... ☐
Ph.D..... ☐
PROFESIONAL ..... ☐ 49

TARAF

Mastautin..... ☐
Bukan Mastautin..... ☐ 50

JANTINA

Lelaki..... ☐
Perempuan ..... ☐ 51

APPENDIX B

Non-significant results

Section Al: Tax Administration OAS v SAS

Table1 : Results of One-Way ANOVA Between OWNTAX* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.3978	0.7547
Occupational Status	1.9697	0.0838
Monthly Income	1.8968	0.1117
Qualification	0.6543	0.7314
Race	0.6738	0.5689

* The government should let the taxpayers compute their own income taxes.

Table 2: Results of One-Way ANOVA Between SASCOMP* and Demographic Variables

Variable	F Ratio	F Prob.
Age	2.0256	0.1110
Current Employment	2.2344	0.0849
Occupational Status	0.4616	0.8046
Qualification	1.7282	0.0927
Monthly Income	0.5886	0.6712
Race	0.2721	0.8455

* The self-assessment system is complicated.

Table 3: Results of One-Way ANOVA Between SASFAIR* and Demographic Variables

Variable	F Ratio	F Prob.
Age	1.7287	0.1617
Current Employment	0.0531	0.9838
Occupational Status	0.3085	0.9076
Qualification	0.4561	0.8859
Monthly Income	0.7380	0.5669
Race	0.8065	0.4913

* The self-assessment system will be more fair compared to the existing official-assessment system.

Table 4: Results of One-Way ANOVA Between INCONV* and Demographic Variables

Variable	F Ratio	F Prob.
Current Employment	1.9713	0.1189
Qualification	0.8823	0.5321
Monthly Income	1.8824	0.1142
Race	0.8581	0.4635

* The self-assessment system will not be convenient.

Table 5: Results of One-Way ANOVA Between KNOWHOW* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.4646	0.7073
Current Employment	0.4716	0.7023
Occupational Status	1.2638	0.2803
Qualification	1.3702	0.2103
Race	1.7301	0.1614

* As an individual taxpayer, I know how to compute my own income taxes,

Table 6: Results of One-Way ANOVA Between HIRE* and Demographic Variables

Variable	F Ratio	F Prob.
Age	1.6166	0.1861
Monthly Income	0.8962	0.4668

* If SAS is introduced in Malaysia, I would need to hire professional help to prepare my annual tax return.

Table 7: Results of One-Way ANOVA Between OASCONV* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.5772	0.6305
Current Employment	0.2169	0.8846
Occupational Status	0.6769	0.6414
Qualification	0.5000	0.8556
Monthly Income	0.6844	0.6034
Race	0.9900	0.398211

* The present OAS is convenient.

Table 8: Results of One-Way ANOVA Between OASCOMP* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.7518	0.5222
Current Employment	0.1263	0.9445
Occupational Status	0.8802	0.4950
Qualification	1.1707	0.3176
Monthly Income	0.9763	0.4211
Race	0.4561	0.7132

* The present OAS is not complicated.

Table 9: Results of One-Way ANOVA Between REPLACED* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.0676	0.9771
Occupational Status	0.8637	0.5062
Qualification	0.9694	0.4606
Monthly Income	1.0537	0.3802
Race	0.1655	0.9196

* The present OAS should not be replaced by the Self-assessment system.

Table 10: Results of One-Way ANOVA Between NOSAS *and Demographic Variables

Variable	F Ratio	F Prob.
Age	1.6564	0.1771
Race	0.6707	0.5708

* The self-assessment system should not be introduced in Malaysia.

Section A2

Table 11: Results of One-Way ANOVA Between SYSFAIR* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.4144	0.7428
Current Employment	1.9601	0.1206
Monthly Income	1.2451	0.2925
Qualification	0.9727	0.4580
Race	0.4610	0.7097

* The Malaysian income tax system is generally fair

Table 12: Results of One-Way ANOVA Between EQUITY* and Demographic Variables

Variable	F Ratio	F Prob.
Age	1.1254	0.3394
Current Employment	1.4586	0.2265
Occupational Status	1.5396	0.1782
Qualification	1.0429	0.4045
Race	0.1722	0.9151

* The Malaysian income tax system is equitable

Table 13: Results of One-Way ANOVA Between RULESREG* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.2142	0.8865
Current Employment	0.7272	0.5367
Occupational Status	0.9702	0.4367
Qualification	0.7397	0.6563
Race	0.6132	0.6071

* The Malaysian tax rules and regulations are simple

Table 14: Results of One-Way ANOVA Between HIGHRATE* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.0333	0.9918
Current Employment	0.5211	0.6682
Occupational Status	1.4726	0.1994
Qualification	1.2882	0.2503
Monthly Income	1.5176	0.1977
Race	0.4044	0.7499

* The Malaysian individual tax rates are high

Table 15: Results of One-Way ANOVA Between BENEFIT * and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.2870	0.8348
Current Employment	1.2095	0.3069
Occupational Status	0.4666	0.8009
Qualification	0.5707	0.8015
Monthly Income	0.2377	0.9169
Race	0.1620	0.9219

* Tax revenue is wisely spent on infrastructure and projects that are beneficial to taxpayers.

Table 16: Results of One-Way ANOVA Between EVASION* and Demographic Variables

Variable	F Ratio	F Prob.
Age	1.3719	0.2520
Current Employment	1.1202	0.3415
Occupational Status	0.3321	0.8932
Qualification	0.9441	0.4808
Monthly Income	0.9695	0.4249
Race	1.2088	0.3072

* The Malaysian tax law is strict on evasion.

Table 17: Results of One-Way ANOVA Between WEAK* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.2429	0.8663
Current Employment	0.4048	0.7497
Occupational Status	0.8766	0.4974
Qualification	1.2764	0.2565
Monthly Income	1.1649	0.3269
Race	0.4003	0.7529

* Enforcement of the tax rules and regulations is weak.

Table 18: Results of One-Way ANOVA Between HIRELIEF* and Demographic Variables

Variable	F Ratio	F Prob.
Age	1.8132	0.1453
Current Employment	0.4462	0.7202
Occupational Status	1.0495	0.3893
Qualification	0.5824	0.7920
Monthly Income	0.5644	0.6887
Race	1.7868	0.1503

* Tax reliefs for the wealthy are too high

Table 19: Results of One-Way ANOVA Between HIRATES* and Demographic Variables

Variable	F Ratio	F Prob.
Current Employment.	1.1312	0.3371
Qualification.	0.4608	0.8828

* Tax rates on the wealthy must be high.

Table 20: Results of One-Way ANOVA Between JUSTAX* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.5299	0.6622
Monthly Income	1.7232	0.1455
Qualification	0.8054	0.5984

* The Malaysian tax rates on the wealthy are just.

Section B

TAX LAW COMPLEXITY

Table 21: Results of One-Way ANOVA Between AMBIGUITY* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.8192	0.4844
Current Employment	0.0880	0.9666
Occupational Status	0.1165	0.9887
Qualification	0.8408	0.5676
Monthly Income	0.7254	0.5754

* There are ambiguities in the tax law which may lead to more than one defensible position.

Table 22: Results of One-Way ANOVA Between COMPUTATIONS* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.3095	0.8185
Current Employment	0.3384	0.7975
Occupational Status	0.6989	0.6248
Qualification	1.3237	0.2323
Monthly Income	0.8890	0.4711

* Too many computations must be made.

Table 23: Results of One-Way ANOVA Between CHANGES* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.5578	0.6434
Occupational Status	0.1991	0.9626
Qualification	1.0832	0.3756
Monthly Income	0.6274	0.6434

* There have been frequent changes in the tax law.

Table 24: Results of One-Way ANOVA Between DETAIL* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.4574	0.7123
Current Employment	1.3527	0.2580
Occupational Status	0.4531	0.8108
Monthly Income	1.1424	0.3372

* There is excessive detail in the law, such as numerous rules and exception to rules.

Table 25: Results of One-Way ANOVA Between RECORD* and Demographic Variables

Variable	F Ratio	F Prob.
Age	0.1213	0.9475
Current Employment	0.3776	0.7693
Occupational Status	0.2772	0.9253
Qualification	0.6745	0.7138
Monthly Income	0.4547	0.7689

* Detailed special record must be kept by taxpayer to comply with the tax law.

Table 26: Results of One-Way ANOVA Between FORMAT* and Demographic Variables

Variable	F Ratio	F Prob.
Current Employment	0.5445	0.6523
Occupational Status	1.5697	0.1693

* The format of the tax forms are confusing.

Table 27: Results of One-Way ANOVA Between INSTRUC* and Demographic Variables

Variable	F Ratio	F Prob.
Current Employment	0.7060	0.5493
Qualification	1.5451	0.1425
Monthly Income	1.6716	0.1572

* The instructions for tax forms are confusing.

Comparisons of Taxpayers Perceptions by Region (t-test)

Table 28: Section Al: OAS v SAS

Sources/Information	t-value	df	2-Tail Prob.
IRBEFF	-0.95	242	0.343
OWNTAX	0.09	245	0.930
SASCOMP	0.96	241	0.336
INCONV	-0.32	242	0.747
KNOWHOW	-0.07	244	0.946
HIRE	0.21	244	0.838
OASCONV	1.12	242	0.266
OASCOMP	1.05	242	0.293
REPLACED	0.36	241	0.720
NOSAS	-0.01	238	0.988

Table 29: GENDER DIFFERENCES: OAS v SAS

Sources/Information	t-value	df	2-Tail Prob.
IRBEFF	-1.48	242	0.141
IRBPROD	0.69	243	0.491
OWNTAX	0.28	245	0.779
SASCOMP	0.96	241	0.336
SASFAIR	-1.17	243	0.242
INCONV	0.07	242	0.948
IKNOWHOW	-1.16	244	0.247
OASCONV	-0.60	242	**0.550**
OASCOMP	-1.00	242	0.319
REPLACED	-0.67	241	0.506
NOSAS	-0.87	238	0.387

Section A2

Table 30: GENDER DIFFERENCES: TAX LAW FAIRNESS

Sources/Information	t-value	df	2-Tail Prob.
Equity	1.42	242	0.157
RulesReg	0.25	242	0.800
HighRate	0.10	245	0.921
Benefit	1.13	246	0.260
Weak	-0.49	246	0.627
Hirelief	0.24	244	0.809
Hirates	-0.24	245	0.811

Table 31: GENDER DIFFERENCES: TAX LAW FAIRNESS

Sources/Information	t-value	df	2-Tail Prob.
Sysfair	-0.95	245	0.344
Equity	-0.83	242	0.408
RulesReg	-0.59	242	0.554
HighRate	-0.03	245	0.976
Benefit	-0.67	246	0.503
Evasion	0.00	244	0.998
Weak	-0.57	246	0.571
Hirelief	-0.25	244	0.799
Hirates	-1.06	245	0.291

Section B: TAX LAW COMPLEXITY

Table 32: TAX LAW COMPLEXITY

Sources/Information	t-value	df	2-Tail Prob.
AMBIGUITY	0.79	240	0.431
COMPUTATIONS	-1.25	244	0.211
CHANGES	0.41	242	0.680
DETAIL	-0.25	241	0.804
RECORD	0.74	243	0.459
FORMAT	-1.45	243	0.149
INSTRUCTIONS	-0.98	242	0.329

Table 33: GENDER DIFFERENCES: TAX LAW COMPLEXITY

Sources/Information	t-value	df	2-Tail Prob.
AMBIGUITY	-1.46	240	0.145
COMPUTATIONS	-0.89	244	0.374
CHANGES	-0.49	242	0.627
DETAIL	-1.20	241	0.232
RECORD	0.18	243	0.857
FORMAT	-1.03	243	0.305
INSTRUCTIONS	-1.18	242	0.239

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

July 26, 1996

Mr. Mustafa Mohd Hanefah
School of Accounting
Universiti Utara Malaysia
06010 Sintok Kedah
Malaysia

Request Dated: December 12, 1995
Person to Contact: Ms. Laughlin
Telephone Number: (202) 622-6250
Refer Reply To: CP: EX: GLD: D: F/96- 163

Dear Mr. Hanefah:

We are enclosing documents responsive to your Freedom of Information Act request of the above-referenced date for Internal Revenue Service statistics for years 1990 through 1994.

We apologize for the delay in responding to your request. We have undergone a reduction in our staff which has caused a backlog.

Sincerely,

Constance R. Laughlin

Constance R. Laughlin
Disclosure Program Assistant
FOIA Branch

Enclosures'

NOV 16 1995

Mr. Mustafa Mohd Hanefah
School of Accounting
University Utara Malaysia
06010 Sintok Kedah, Malaysia

Re: Your letter dated September 5, 1995

Dear Mr. Hanefah:

Thank you for your letter dated September 5, 1995.

Here, I enclosed the statistics you requested. I hope that they would be helpful to you.

Sincerely yours,

A Yamada

Akiko Hamada
Assitant Chief
Office of International
Operations

INLAND REVENUE

TE TAR1 TAAKE

JR 217/92

Rulings
National Office
Freyberg Building
Aitken Street
PO Box 2198
Wellington NEW ZEALAND
Ph (04) 472 1032
Fax (04) 474 7153 (Analysts)
(04) 474 7112 (Correspondence)

Ref: HO 464 - 10.P.ll.l

11 October 1995

Mustafa Mohd Hanefah
School of Accounting
Universiti Utara Malaysia
060 10 Sintok Kedah
Malaysia

Dear Mustafa Mohd Hanefah

Thank you for your letter of 5 September 1995 in which you have requested statistics from the Inland Revenue Department's annual reports for the past five years.

I have enclosed copies of the Department's annual reports from 1 July 1989 - 30 June 1994.

I trust this information is of assistance to you.

Yours sincerely

Kim Eriksen
Senior Technical Officer
Rulings

DEPARTEMEN KEUANGAN REPUBLIK INDONESIA

DIREKTORAT JENDERAL PAJAK

JALAN JEND. GATOT SUBROTO NO. 40 ▪ 42 JAKARTA 12190

TROMOL POS NO. 124 – JAKARTA 10002

TELEPON : 510208 ; 511609 FAX : 584792 TELEX : 62324 KPDJP IA.

NOMOR : S-269 /PJ.21/1995

SIFAT : -

LAMPIRAN : 1 (Satu)

PERIHAL : Data Statistik Penerimaan dan Pengeluaran Direktorat Jenderal Pajak.

Jakarta, 8 Nopember 1995

Kepada Yth :

Sdr. Ketua Sekolah Tinggi Ilmu Ekonomi Indonesia
Jl. Kayujati Raya II A
Jakarta 13220

Sehubungan dengan surat Saudara Nomor 853/Sekr/STEI/X/1995 tanggal 9 Oktober 1995 perihal tersebut diatas, bersama ini disampaikan data statistik Realisasi Penerimaan, Realisasai Anggaran dan jumlah pegawai Direktorat Jenderal Pajak selama 5 Tahun Anggaran terakhir.

Demikian agar dipergunakan sebagaimana mestinya.

A.n. Direktur Jenderal Pajak
Direktur Perencanaan dan
Potensi Perpajakan

I Made Gde Erata
NIP 060014249

Tindasan :
Yth. Bapak Direktur Jenderal Pajak
(sebagai laporan) . .

Model KPS 13 e

UNIVERSITY OF OXFORD

(My Direct Line: 2-7457)

NISSAN INSTITUTE OF JAPANESE STUDIES
27 WINCHESTER ROAD
OXFORD
OX2 6NA
Telephone (0 1865) 2-74570
International: 44.1865.274570
Fax: (01865) 2-74574
International: 44.1865.274574

September 13, 1995

Mr. Must& M. Hanefah
School of Accounting
Universiti Utara Malaysia
06010 Sintok Kedah, Malaysia

Mr. Hanefah,

Your letter of September 5, 1995 has fortunately been forwarded to me in Oxford where I am staying this summer for my research. I will be back to Tokyo very soon. In response to your inquiry about tax compliance costs in Japan, I regret to say I cannot help you in your study. The reason is quite simple. At the moment, I give up proceeding my study, because the Japan's Ministry of Finance is not cooperative with me. Without any assistance from the MOF, it is impossible to get access to necessary data and information. Since tax compliance poses a very subtle problem among the taxpayer, they would no doubt hesitate to generate any quantitative estimates.

I hope you will be able to continue your study successfully with no Japanese data. Best wishes.

Sincerely,

Hiromitsu Ishi

ديوان بندراي كوالالمفور
DEWAN BANDARAYA KUALA LUMPUR
JABATAN PENGURUSAN ORGANISASI
BAHAGIAN PENGURUSAN SUMBER MANUSIA
Tingkat 23-24
Bangunan DBKL
Jalan Raja Laut
50350 Kuala Lumpur.

Rujukan Kami :

Rujukan Tuan :

Tarikh :
15 April 1996
26 Zulkaedah 1416

Ketua-Ketua Jabatan
Dewan Bandaraya Kuala Lumpur.

KEBENARAN MEMBUAT KAJIAN MENGENAI BERKEMUNGKINAN SISTEM TAKSIRAN SENDIRI (STS) INDIVIDU DILAKSANAKAN DI MALAYSIA

Dengan hormatnya saya merujuk kepada perkara di atas.

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3. Tujuan kajian ini adalah merupakan sebahagian daripada penyelidikan beliau untuk Ijazah Doktbr Falsafah dan jabatan ini pada dasarnya tiada mempunyai sebarang halangan dan berharap pihak tuan/puan dapat memberikan bantuan serta kerjasama kepada beliau.

Sekian, terima kasih.

' BERKHIDMAT UNTUK NEGARA '
' BERSEDIA MENYUMBANG BANDARAYA CEMERLANG '

(SANUSI BIN SAMID)
Pengarah,
Jabatan Pengurusan Organisasi.