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DETERMINANTS OF TAX NON-COMPLIANCE AMONG SMCS: EVIDENCE FROM IRBM KL BANDAR BRANCH

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MASTER OF SCIENCES (INTERNATIONAL ACCOUNTING)
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DETERMINANTS OF TAX NON-COMPLIANCE AMONG SMCS: EVIDENCE FROM IRBM KL BANDAR BRANCH

By

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(International Accounting)
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I certify that any help received in preparing this thesis and all source used have been acknowledge in this thesis.

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ABSTRACT

Tax revenues are the biggest sources of government funds. However, the pervasiveness of tax non-compliance remains a serious concern to most tax authorities around the world. The issue on tax non-compliance has been the subject of much discussion among both academicians and practitioner in Malaysia. In many cases it is impossible to prove non-compliance. Increasing voluntary compliance among Small-and-Medium-sized Corporations (SMCs) is thus a worthwhile endeavor. In order to do so, an in-depth understanding of the factors fostering non-compliance is essential. In Malaysia, SMCs are source of tax/fiscal revenue to the Federal government. However, there is still a huge number of this corporate tax payer which did not comply with the tax authority i.e. Inland Revenue Board of Malaysia. The purpose of this paper is to examine whether company size, types of industry and age of the company are influencing the tax non-compliance among SMCs in Malaysia. This study analyzes and test the tax-audited cases finalized by the Kuala Lumpur Bandar branch of Inland Revenue Board of Malaysia (IRBM) in year 2015. Data are gathered from Case Management System (CMS) extracted by officer in charge from IRBM. Population of the study is focused on the SMCs cases resolved in year 2015 by tax auditor in Kuala Lumpur Bandar Branch. A total of 382 cases gathered from the IRBM of Kuala Lumpur Bandar branch. Out of those cases, only 329 cases are tax non-compliance company and to be analyzed. The finding shows that two factors i.e. size of the company and types of industry are found to significantly influence tax non-compliance among SMCs. The finding of this study could be used by the tax authorities and policy makers to determine company or SMCs to be audited in future. In addition, it is hoped that the study’s finding would be used to help the IRBM to increase compliance among taxpayers. The IRBM may develop more efficient and effective strategies in the future in order to collect tax appropriately. The limitation of this study is also presented in this paper.

Keywords: Malaysia, Small-and-medium-sized corporations (SMCs), Tax audited cases, Tax non-compliance
ABSTRAK


Kata kunci: Malaysia, Syarikat-syarikat bersaiz Kecil dan Sederhana (SMC), Kes yang telah diaudit cukai, Ketidakpatuhan cukai
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<tr>
<td>IRBM</td>
<td>Inland Revenue Board of Malaysia</td>
</tr>
<tr>
<td>CTD</td>
<td>Corporate Tax Department</td>
</tr>
<tr>
<td>SMC</td>
<td>Small and Medium Sized Corporations</td>
</tr>
<tr>
<td>KLBB</td>
<td>Kuala Lumpur Bandar Branch</td>
</tr>
<tr>
<td>LHDNM</td>
<td>Lembaga Hasil Dalam Negeri Malaysia</td>
</tr>
<tr>
<td>TCMP</td>
<td>Tax Compliance Measurement Program</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION

1.1 Background of the Study

Tax revenues are the biggest sources of government funds (IRBM, 2014). In year 2014, the direct taxes collected by Inland Revenue Board of Malaysia (IRBM) are contributing 59.40% of total federal government’s revenue (Figure 1.1 and Figure 1.2), which means that non-compliance could affect the revenue collection indirectly. Thus, it is important to ensure that all taxpayers in Malaysia to pay tax appropriately.

![Graph showing contribution of gross direct taxes to federal government's revenue]

Figure 1.1 Contribution of Gross Direct Taxes to the Federal Government's Revenue

Sources: IRBM Annual Report 2014
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REFERENCES


