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



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EVIDENCE FROM IRBM KL BANDAR BRANCH**

By

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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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(International Accounting)**



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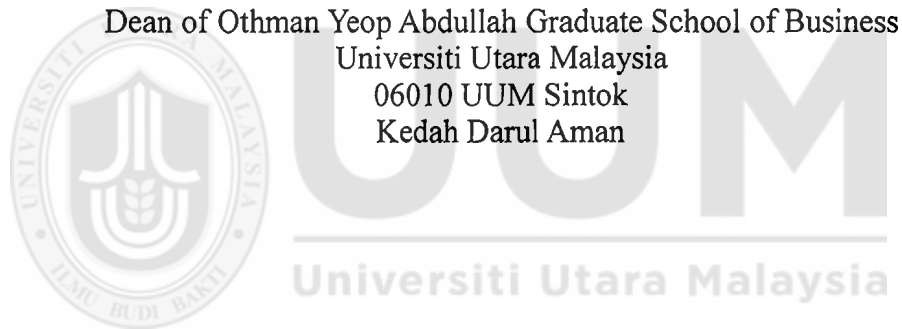


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ABSTRACT

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

Hasil cukai adalah sumber terbesar dana kerajaan. Walau bagaimanapun, keberleluasaan di dalam ketidakpatuhan cukai masih merupakan masalah yang paling serius kepada pihak berkuasa cukai di seluruh dunia. Isu mengenai ketidakpatuhan cukai telah menjadi subjek banyak perbincangan antara kedua-dua ahli akademik dan pengamal di Malaysia. Dalam banyak kes, ia adalah mustahil untuk membuktikan ketidakpatuhan. Oleh itu, meningkatkan pematuhan sukarela di kalangan Syarikat bersaiz Kecil dan Sederhana (SMC) itu adalah satu usaha yang bernilai. Dalam usaha untuk berbuat demikian, pemahaman yang mendalam tentang faktor-faktor yang menggalakkan ketidakpatuhan adalah penting. Di Malaysia, SMC adalah sumber hasil cukai / fiskal kepada kerajaan Persekutuan. Walau bagaimanapun, masih terdapat sejumlah besar pembayar cukai korporat ini yang tidak mematuhi pihak berkuasa cukai iaitu Lembaga Hasil Dalam Negeri Malaysia. Tujuan kertas ini adalah untuk mengkaji sama ada saiz syarikat, jenis industri dan tempoh syarikat itu mempengaruhi ketidakpatuhan cukai di kalangan SMC di Malaysia. Kajian ini menganalisis dan menguji kes yang telah diaudit dan diselesaikan oleh cawangan Kuala Lumpur Bandar, Lembaga Hasil Dalam Negeri Malaysia (LHDNM) pada tahun 2015. Data dikumpulkan daripada Sistem Pengurusan Kes (CMS) yang diekstrak oleh pegawai yang bertanggungjawab dari LHDNM. Populasi kajian ini memberi tumpuan kepada kes-kes SMC diselesaikan pada tahun 2015 oleh juruaudit cukai di cawangan Kuala Lumpur Bandar. Sebanyak 382 kes dikumpulkan dari LHDNM cawangan Kuala Lumpur Bandar. Daripada kes tersebut, hanya 329 kes adalah syarikat yang tidak patuh dan akan dianalisis. Dapatan kajian menunjukkan bahawa dua faktor iaitu saiz syarikat dan jenis industri adalah mempengaruhi dengan ketara ketidakpatuhan cukai di kalangan SMC. Dapatan kajian ini boleh digunakan oleh pihak berkuasa cukai dan pembuat dasar untuk menentukan syarikat atau SMC untuk diaudit pada masa depan. Di samping itu, adalah diharapkan dapatan kajian ini akan digunakan untuk membantu pihak LHDNM bagi meningkatkan pematuhan di kalangan pembayar cukai. LHDNM boleh membangunkan strategi yang lebih cekap dan berkesan pada masa akan datang dalam usaha untuk mengumpul cukai sewajarnya. Limitasi dalam kajian ini juga dibentangkan dalam kertas ini.

Kata kunci: Malaysia, Syarikat-syarikat bersaiz Kecil dan Sederhana (SMC), Kes yang telah diaudit cukai, Ketidakpatuhan cukai

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LIST OF ABBREVIATIONS

IRBM	Inland Revenue Board of Malaysia
CTD	Corporate Tax Department
SMC	Small and Medium Sized Corporations
KLBB	Kuala Lumpur Bandar Branch
LHDNM	Lembaga Hasil Dalam Negeri Malaysia
TCMP	Tax Compliance Measurement Program



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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.

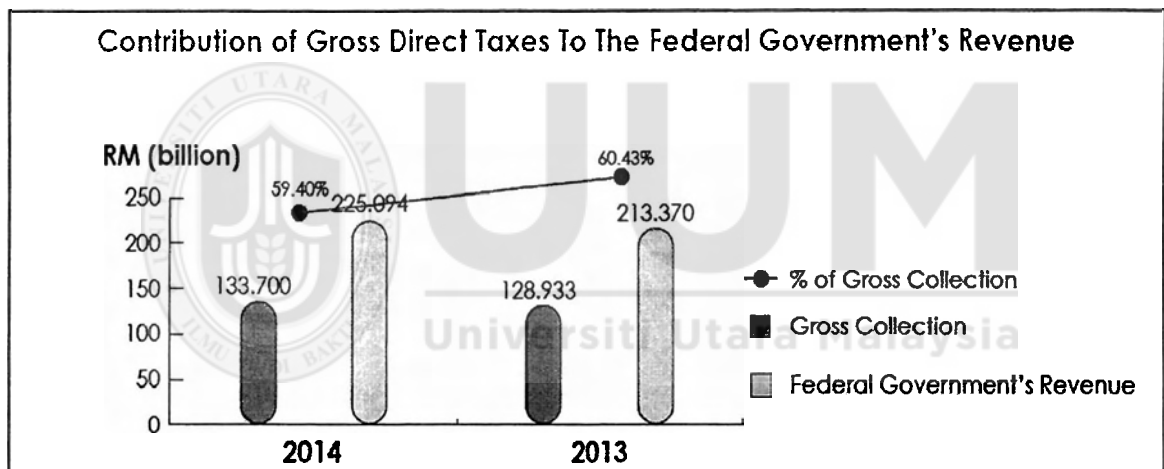


Figure 1.1 Contribution of Gross Direct Taxes to the Federal Government's Revenue

Sources: IRBM Annual Report 2014

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