A STUDY ON GENDER, TAX AGENT, AGE, INCOME LEVEL, TAX RETURN AND BUSINESS SECTORS TOWARDS TAX EVASION

By

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ABSTRACT

Tax evasion is alarming in Malaysia as more stringent measures are employed by Inland Revenue Board Malaysia (IRBM) to tackle this existing concerns. In general, tax evasion is an illegal act of non-payment or under payment of tax. Although many studies on tax evasion were carried out in the past, there are still limited studies that used proprietary tax audit data to identify the association between taxpayers' characteristics and tax evasion. Hence, this study will determine the significant difference between gender, tax agent engagement, age, income level, tax return filing experience and business sectors with tax evasion especially among taxpayers with business income in Klang Valley, Malaysia which has been identified to have low compliance rate in year assessment 2015. This study also employs actual data on the imposed penalty as a proxy in measurement for tax evasion. The results show that gender, age, income level, and tax return filing experience have significant difference with tax evasion while tax agent engagement and business sectors have no significant difference with tax evasion. The results of this study are highly relevant to IRBM in developing strategies to curb tax evasion as well as add value to the current works on literature related to taxation.

Keywords: tax evasion ; penalty imposed ; taxpayers' characteristics ; taxpayers with business income

ABSTRAK

Isu pelarian cukai di Malaysia semakin diberi perhatian pada masa kini. Lembaga Hasil Dalam Negeri Malaysia (LHDNM) telah mengambil langkah-langkah yang lebih tegas bagi menangani masalah tersebut. Pada umumnya, pelarian cukai adalah aktiviti haram yang menjurus kepada pengelakan dan pelarian cukai. Walaupun banyak kajian tentang pelarian cukai telah dilakukan pada masa lalu, masih terdapat kajian terhad yang menggunakan data audit cukai sebenar bagi mengenal pasti hubungan antara ciri-ciri pembayar cukai dan pelarian cukai. Di samping itu, kajian ini akan menentukan perbezaan signifikan di antara jantina, penglibatan ejen cukai, umur, tahap pendapatan, pengalaman pemfailan cukai dan sektor perniagaan dengan pengelakan cukai terutamanya di kalangan pembayar cukai yang mempunyai pendapatan perniagaan di Lembah Klang, Malaysia yang telah dikenalpasti mempunyai kadar pematuhan yang rendah bagi tahun 2015. Kajian ini juga menggunakan data penalti sebenar yang dikenakan atas pembayar cukai sebagai proksi dalam pengukuran pelarian cukai. Hasil daripada analisa menunjukkan bahawa jantina, umur, tahap pendapatan dan pengalaman pemfailan cukai mempunyai perbezaan yang signifikan dengan pelarian cukai manakala penglibatan agen cukai dan sektor perniagaan tidak mempunyai perbezaan yang signifikan dengan pelarian cukai. Hasil kajian ini sangat relevan kepada LHDNM dalam membangun strategi untuk mengekang pengelakan cukai serta menambah nilai literatur semasa.

Kata kunci: pelarian cukai; penalti yang dikenakan; ciri-ciri pembayar cukai; pembayar cukai dengan pendapatan perniagaan

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
ATO	Australian Tax Office
EPF	Employee Provident Fund
HMRC	Her Majesty's Revenue and Custom
IRBM	Inland Revenue Board of Malaysia
IRS	Inland Revenue Service
ITA	Income Tax Act
KMPG	Klynveld Peat Marwick Goerdeler
OECD	Organisation for Economic Development
OG	Other Group
SME	Small and Medium Enterprise
SOCSO	Social Security Organization

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This study attempts to determine factors related to tax evasion among taxpayers with business income in Klang Valley, Malaysia by examining the type of penalty imposed on actual tax audit data obtained from Inland Revenue Board of Malaysia (IRBM). This study also strives to clarify the factors that influence tax evasion activities of taxpayers with business income based on certain major tax evasion's key determinants as identified in earlier research by Jackson and Miliron (1986). Apart from the introduction to subjects focused in this study, the chapter starts with the background of the study, problem statement, the scope of the study, research objectives, the significance of the study, the motivation of the study and concludes with the summary for overall organization of the study.

1.1 Background of the studies

Tax evasion is an activity in which an individual intentionally produce false statement verbally or in writing by not reporting real income and claim inappropriate deductions with the purpose of reducing or evade tax. According to Mashadi (2016), a tax evasion is an act of omitting certain income that should be included on the tax return. This illegal act is an offense that falls under Section 113 and 114 of the Income Tax Act 1967.

There is a fine line that differentiates between tax evasion and tax avoidance and it is the legal boundaries that distinguish both activities. Tax avoidance can be accomplished by taking advantages of loopholes in the tax system to reduce or avoid from paying taxes

legally. Tax avoidance may also be possible with effective tax planning. Examples of tax avoidance can be done by income tax deduction and income deferral. Individual and businesses may utilize the eligible tax deductions granted to reduce tax due, as for the latter it involves postponing of income for the current year to the following year. This is usually done by businesses that use the accrual basis of accounting (Azhar Mohamad, 2016). Tax evasion, on the other hand is a financial crime done by way of misreporting of actual income added with the motive of willful evasion. This activity will not only hinders tax collection and increase tax gap but once identified, the company or individual involved will be imposed with severe penalties by the IRBM.

Self-assessment system was implemented in 2004 in Malaysia with the aim to encourage voluntary disclosures as well as increase tax collection whereby taxpayers are required to report income and claim deductions that they are entitled to in good faith. Hence, high integrity is required upon filing their return to avoid any compliance issues such as misreporting of income, claim ineligible deductions or purposely make filing mistake with the aim to reduce tax charged. One of the measures taken by IRBM to tackle tax evasion related issues is the deployment of desk and field audit to increase voluntary compliance amongst taxpayers. Desk audit with a focus on salary group taxpayers is normally conducted from IRBM office which concentrates on non-complicated taxation issues that can be handled via telephone or mail and interview taxpayers in IRBM office to obtain further information required. Field auditors, on the other hand, focus on taxpayers with business income. Field audit is usually carried out at taxpayer's business premise and it is the responsibility of field auditors to examine business-related records and documents as well as taxpayers' financial affairs to ensure income is reported correctly, claim only

allowable deductions and tax are paid accordingly based on tax laws and regulations (IRB Guide on Tax Audit , 2017).

1.2 Problem Statements

The IRBM 2015 Annual Report revealed that IRBM has conducted a "Special Study on The Effectiveness of IRBM's Strategies in Increasing Tax Collection". The results of the study found that compliance rate in Small and Medium Enterprises (SMEs) sector, especially taxpayers with business income is relatively low as compared to other sectors. The Table 1.1 below shows the field audit performance for the year 2013 to 2015.

Table 1.1
IRBM Annual Report on Field Audit Performance for the Year 2013 to 2015

Year	Number of Resolved Cases	Tax and Penalties (RM)
2013	28,676	740,620,000
2014	40,216	1,092,143,888
2015	37,305	3,972,423,691

Source: IRBM Annual Report 2015

Based on IRBM's 2014 and 2015 Annual Report, the number of resolved field audit cases increased from 28,676 in 2013 to 40,216 in 2014. The figure reduced to 37,305 in 2015 but the amount of taxes and penalties still increased. Field audits performance shown an increase of tax and penalties from RM740 million in 2013 to RM1, 092.14 billion in 2014. The amount further increased to RM 3,972,423 billion in 2015 (IRBM Annual Report, 2015).

According to IRBM 2015 Annual Report, compliance rate in Small and Medium Enterprises (SMEs) sector is low as compared to other sectors whereby the finding showed

that the low figure is contributed mainly by taxpayers that conduct businesses and this figure is supported by the increase in tax and penalties raised by field auditors.

It is reported that taxpayers with business income tend to evade tax by misreporting sales, purchases or other types of evasion such as produce fictitious invoice, documents, claim domestic expenses as business expenses and many others. The study was also conducted to assess the effectiveness of field audit activities in improving tax revenue whereby among the suggestions is the selection of quality and potential cases for field auditors. In addition, an internal study was done by IRBM also revealed that while the threshold of taxability among Malaysian is quite high, only 18% of the population actually paid taxes. These figures highlight the significant number of untapped population that falls outside the tax bracket and hint that evasion is obvious in the country (IRBM Annual Report, 2015).

1.3 Scope of Study

The focus of the study is on taxpayers with business income who are registered in IRBM Klang Valley branches that comprised of Jalan Duta, KL Bandar, Cheras, Petaling Jaya, Wangsa Maju, Shah Alam and Klang. The selected taxpayers' characteristics are represented by gender, engagement of tax agent, age, tax return filing experience, income level and business sectors. The taxpayers are selected based on those who have been audited by field auditors in the year of assessment 2015.

The reasons for this research done in Klang Valley area are due to its rich number of taxpayers recorded, vast types of business conducted as well as it represents most of the tax evasion statistic in Malaysia. The latest number of recorded active taxpayers in 2017 is 5,402,780 (IRBM Internal Report 2017).

1.4 Research Questions

Based on the internal research, it is clearly shown that tax evasion is an issue that needs to be tackled immediately by identifying cases with the high potential to be audited. (IRBM Annual Report, 2015). Therefore, as a result of the problem statement above, this study aims to answer the following question:

1) Is there any significant difference between gender, engagement of tax agent, age, income level, business sectors and tax return filing experience with tax evasion among taxpayers with business income in Klang Valley, Malaysia?

1.5 Research Objectives

The main objective of this study is to determine certain characteristics that influence tax evasion among taxpayers with business income in Klang Valley. There are six characteristics of taxpayers examined that may be relevant to the outcome of tax evasion. To be specific, the objective of the study is as follows:

1) To determine the significant difference between gender, engagement of tax agent, age, income level, business sectors and tax return filing experience with tax evasion among taxpayers with business income in Klang Valley, Malaysia.

1.6 Significance of Study

1.6.1 Contribution to Tax Administrator

The data and findings from this research will help the policy maker; IRBM in improving the selection of field audit cases with a focus on certain taxpayers' characteristics that may be related to tax evasion. With the implementation of Self-Assessment System (SAS), IRBM hopes to see a rise in voluntary disclosures, compliance as well as the collection in

general. However, while IRBM may seek taxpayers to submit their tax return in good faith, it is inevitable that some may take advantage via several ways to evade taxes.

Throughout the years, tax evasion trend is seen as a threat to more and more individual and corporate taxpayers are caught for misreporting income. The numbers are supported by the increase in tax and penalties from RM740 million in 2013 to RM1, 092.14 billion in 2014. The amount further increased to RM 3,972,423 billion in 2015 (IRBM Annual Report, 2015). With the majority of the evaders derived from taxpayers with business income, it clearly raised an alarm to IRBM to start investigating from the root of this matter. This study will serve to assist the tax administrator to improvise the current audit strategies by way of determining the characteristics of taxpayers with business income that can be associated with tax evasion. With better audit approaches and sophisticated analytics, IRBM may also be able to reduce their administrative and compliance costs. Furthermore, the findings from this study are beneficial in expanding the current tax base by identifying new potential taxpayers and reduce tax gap caused by tax evasion.

1.6.2 Contribution to Literature Review

Moreover, there is a limited number of studies that investigate tax evasion issues in Malaysia, particularly one that uses actual audit data from IRBM. Some of the known tax evasion studies conducted in Malaysia are research by Kasipillai, Aripin, and Amran (2003) which investigate the influence of education on tax avoidance and evasion. Another study by Kasipillai, Baldry and Rao (2000) focused on the size of hidden income and tax evasion in Malaysia. More recent studies are Ling (2008) that investigate the relationship between tax practitioners' perception, tax audit and tax evasion and another study by Jaffar, Abu Bakar and Mohd Tahir (2011) discussed ethics and tax evasion. The study by

Mohamad (2016) on the other hand focus on cash economy with tax evasion among Small and Medium (SME) in Malaysia. Most of the related studies employed primary data by way of questionnaire method due to the limitation in obtaining secondary data hence answers from taxpayers may be biased and there was a very small number of studies that actually used secondary data from IRBM database; specifically, one that contained taxpayers with business income data.

With secondary data obtained from IRBM's database, this research can determine characteristics that can be affiliated with tax evasion more accurately and fill the existing gap in currently available studies related to tax evasion in Malaysia.

1.7 Motivation of the Study

In 2015, there are quite a number of published news on tax evasion activities in Malaysia that involve both individuals and corporate taxpayers. The obvious tax gap has alerted IRBM in taking several drastic measures for tax evaders by imposing a 45% penalty rate on tax arrears (Kenyataan Media IRBM, 2017). The penalty rate was further proposed to be increased to 100% on tax arrears for repeated offenses on misreporting of income, refusal to give co-operation during investigation or audit process, organized tax evasion scheme as well as failure to comply with tax law even after a taxpayer was investigated or audited previously

Most studies conducted on tax evasion in Malaysia covered the demographic and non-demographic profiles contributed to tax evasion such as education, gender, age, religion and tax ethics (Rabbi, 2015). A similar study done by Hamid (2017) widened the demographic scopes to marital status, income level, occupational sector, location, as well

as other macroeconomic factors that include GDP, inflation and economic growth on tax arrears in Malaysia. Another study of tax evasion in Malaysia was conducted from taxpayers' perceptions on tax fairness, tax knowledge, enforcement level and social exchange (Soon, 2017). All of these studies, however, have only examined tax evasion determinants based on primary data that used questionnaires and survey as well as limited secondary data sources.

Therefore, due to the scarcity of empirical studies on tax evasion in Malaysia that utilize actual data in determining factors influencing tax evasion especially one that concentrates on taxpayers with business income, this study examines relevant determinants that may have link with tax evasion in Malaysia, which is measured by penalty imposed as proxy and focuses on taxpayers with business income that have been audited by IRBM field auditors in 2015.

1.8 Organization of the Study

The organization of the study is arranged according to the guidelines prepared by Tunku Puteri Intan Safinaz, School of Accountancy (TISSA), UUM College of Business, Universiti Utara Malaysia (UUM). Based on the guideline, this study consists of five chapters namely Introduction, Literature Review, Research Methodology, Findings and Conclusion and Recommendation.

In Chapter One, the author discusses the rationale for conducting the research which relates to the background of the study, problem statement, scope of the study, research questions, research objective, significance of study and motivation of the study. In the Second

Chapter, previous literature reviews are discussed and contain related theories and reviews by other authors through articles and published journals.

The description of the research flow is further explained in Chapter Three. This chapter explains the flow through the presentation of research framework, measurement, development of hypothesis, sampling design, data collection procedure and data analysis techniques. In Chapter Four, the research result based on secondary data is presented after it is statistically measured. It is vital to answer the research questions and meet the research objectives required for this study.

As for Chapter Five, the conclusion and recommendation of the study are revealed based on the result received from the sample data analysis. In the conclusion part, the author will list down the implications, limitations upon carrying out the study as well as suggestions for future research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter delivers relevant issues and concepts related to this study. It explores literature review concerning characteristics that may have an influence on tax evasion among taxpayers with business income. The hypotheses are developed in subsequence to the literature reviews. The chapter begins with an overview of individual taxation in Malaysia in section 2.1. In section 2.2 is the definition of tax evasion. Further in section 2.3 states the section related to Income Tax Act 1967 in regards to tax evasion and criteria in the selection of tax evasion cases. In section 2.4, the chapter further elaborates on penalty, fines and offenses and penalty as a measure of tax evasion and later in section 2.5 discusses tax evasion determinants and development of hypotheses. Lastly, the chapter is summarized in section 2.6.

2.1 Overview of Individual Taxation in Malaysia

The individual tax which is derived from both individual with employment income and business income is one of the main component of direct taxes' collection in Malaysia apart from corporate and petroleum income tax.

According to Malaysian Ministry of Finance, the amount of direct taxes collected in recent years has deteriorated with the amount collected in 2014 at RM 126.7 billion, the figures further dropped to RM111.8 billion in 2015 and based on the Government's economic report in 2015, the estimated tax collection for 2016 will be much lower.

Table 2.1
Tax Revenue and Direct Taxes Composition for Year 2006 – 2015

Year	Total Tax Revenue	Composition of direct taxes to government revenue	Total direct taxes	Composition to total direct taxes			
				Corporate tax	Individual tax	Petroleum tax	Other direct taxes
	(RM'000)	(%)	(RM'000)	(%)	(%)	(%)	(%)
2006	86,631	49.84	61,573	43.00	16.56	33.58	6.86
2007	95,168	49.61	69,396	46.33	16.80	29.47	7.40
2008	112,898	51.40	82,138	45.95	18.22	29.45	6.38
2009	106,504	49.40	78,375	38.53	19.89	34.74	6.83
2010	109,515	49.49	79,009	45.90	22.54	23.68	7.88
2011	134,885	55.14	102,242	45.86	19.76	27.14	7.24
2012	151,643	56.24	116,939	43.86	19.65	29.02	7.47
2013	155,952	55.45	120,523	48.27	19.13	24.69	7.92
2014	164,205	57.45	126,742	51.47	19.27	21.27	7.99
2015	165,440	51.02	111,770	56.97	23.47	10.34	6.97

Source: Ministry of Finance Fiscal and Economic Data 2016

The composition of direct taxes especially individual tax dropped from 22.54 percent in 2010 to 19.76 percent in 2011 and contributed a stagnant 19 percent to the total tax revenue since. The figure remained to be below 20% until the year 2015 where it increased to 23.47 percent. The decline in tax revenue was seen in all other compositions including corporate tax, petroleum tax and other direct taxes when the worldwide economic experienced downturn during 2008 and 2009. The economy has slowly started to recover in 2010 and the tax revenue was back to increasing trend since.

Table 2.2
Malaysian Resident Individual Income Tax Rate for Year 2015

Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
0 – 2500	On the First 2,500	0	0
2,501 - 5,000	Next 2,500	0	0
5,001 - 10,000	On the First 5,000		0
	Next 5,000	1	50
10,001 - 20,000	On the First 10,000		50
	Next 10,000	1	100
20,001 - 35,000	On the First 20,000		150
	Next 15,000	5	750
35,001 - 50,000	On the First 35,000		900

	Next 15,000	10	1,500
50,001 - 70,000	On the First 50,000		2,400
	Next 20,000	16	3,200
70,001 - 100,000	On the First 70,000		5,600
	Next 30,000	21	6,300
100,001 - 150,000	On the First 100,000		11,900
	Next 50,000	24	12,000
150,001 - 250,000	On the First 150,000		23,900
	Next 100,000	24	24,000
250,001 - 400,000	On the First 250,000		47,900
	Next 150,000	24.5	36,750
Exceeding 400,000	On the First 400,000		84,650
	Next RM	25	.....

Source: IRBM Tax Rate 2015

The table above shown a summary of Malaysian resident individual income tax rate for the year 2015. Based on the previous statistic obtained from IRBM, the individual income tax rate in Malaysia has experienced some restructuring. The tax rate averaged 26.92 percent from the year 2004 until 2015 with 28 percent at its highest in the year 2005 and lowest rate at 25 percent in 2015. As announced in Budget 2015, effective from year of assessment 2015 the individual income tax rates were reduced from 1 percent to 3 percent in which the maximum tax bracket increased from exceeding RM100,000 to RM400,000. This measure taken by the Government is to increase the taxpayer's disposable income, enhance the nation's competitiveness as well as to retain and attract more talent and skilled workers into Malaysia.

2.2 Tax Evasion

There is no specific interpretation of tax as based on Income Tax Act 1967, however, under part VIII of Offenses and Penalties, tax evasion may be identified as an illegal act that falls under Section 113 and 114 of the Income Tax Act 1967. In general, tax evasion is usually associated with illegal and undesirable behavior related to financial crime by means of not

paying the full amount of tax or not paying at all. According to Mohamad (2016), tax evasion transpires in the informal economy where the entire activity is carried out in an informal manner in addition to the whole business being unregistered with the sole purpose to evade taxes.

2.2.1 Section 113 of Income Tax Act 1967

This Section relates to incorrect returns whereby any person who makes incorrect return with omission and understatement of any income of which he is required to report. It also applies to incorrect information that may relate to certain matter that affect his or any other person's chargeability to tax. The person can be convicted and may be liable to a fine of not less than one thousand ringgit and require to pay special penalty with double the amount of tax undercharged consequent to the incorrect return, unless the person can make justification to the court that the incorrect return was not intentional and made in good faith. (Income Tax Act 1967).

2.2.2 Section 114 of Income Tax Act 1967

This section relates to willful evasion whereby any persons with will and intention to evade tax, or assist other person to engage in similar activity by way of omission, false statement or entry and produce false answer either verbally or in writing relates to inquiries by tax officers. It is also associated with any activity carried out with intent for fraud, art or related contrivance.

Once charged with the guilt of the offenses, the person shall be convicted and fined of not less than one thousand ringgit with not more than twenty thousand ringgit, and may also lead to imprisonment for a period of not exceeding three years or both. In addition, the

person may also pay a special penalty treble the amount of undercharged tax as consequences to the offense (Income Tax Act 1967). The table 2.3 below shown offenses in relation to tax evasion, provisions and penalty amount.

Table 2.3
Offenses, Fines and Penalties

Types of Offences	Provisions under ITA 1967	Amount of Fine (RM)
Make an incorrect tax return by omitting or understating any income	113(1)(a)	1,000 to 10,000 and 200% of tax undercharged
Give any incorrect information in matters affecting tax liability of a taxpayer or any other person	113(1)(b)	1,000 to 10,000 and 200% of tax undercharged
Wilfully and with intent to evade or assist any other person to evade tax	114(1)	1,000 to 2,000 / imprisonment/both and 300% of tax undercharged
Assist or advise (without reasonable care) others to under-declare their income	114(1A)	2,000 to 20,000 /imprisonment/both

Source: IRBM Offences, Fines and Penalties 2015

2.2.3 Minimum Criteria in Selection of Cases that Falls under Section 113 and 114 of the Income Tax Act 1967

Table 2.4
Case Criteria Selection

Criteria	Individual Taxpayers
Income Tax Return Form	Individual taxpayer has submitted Income Tax Return
Status	Taxpayer has at least three years of active income
Tax Evasion Indicators	There is a difference between reported income and actual income which may be supported by external or internal information, evidence of asset owned, amount of cash in bank accounts, related companies' actual financial standing and others.
Assessment	Original assessment has been raised and there is evidence that suggests taxpayer reported lower income than actual with the motive to evade tax deliberately. Charges on whether Section 113 or 114 will be applied on taxpayer will be determined by the Dispute Resolution Department.

Source: IRBM Dispute Resolution Department 2015

2.3 Taxpayers with Business Income

Refer to the Organisation for Economic Co-operation and Development (2004), taxpayers with business income falls under the characteristics of any for-profit commercial entity other than those that exceed certain (high) asset threshold and small businesses include sole proprietor, partnership and corporate forms of organization. They also include individual return filers who have income from self-employment even if self-employment is not their primary source of income.

In Malaysia, individuals with business income are taxpayers with sole proprietorship and partnership business. Business as defined in ITA 1967 includes profession, vocation, trade and all types of manufacture, adventure that concerns the nature of trade but excludes employment. The types of business these taxpayers usually involved in are retail, direct selling, hawkers, agricultural, e-commerce, writers, entertainers profession such as singers and actors, product ambassador, clinic, legal firm or other professional services as well as commission based business.

As a taxpayer with business income, one must declare sales or purchases, expenses and balance sheet inclusive of any deductions and rebates that are entitled. Documents, records and accounts related to the business must be kept for a period of seven years for IRBM audit purposes. Taxpayers with business income may also engage accountants or tax agent to prepare their business accounts. To reduce the burden of tax in a single payment, taxpayers with business income must comply with Notice of Installment Payment or also known as CP500 for monthly installment payment. For partnership business, should there be changes in the course of business or change of partners, IRBM must be informed in writing.

The tax return submission and payment due date for taxpayers with business income is on 30th June yearly. A sole proprietorship must complete and submit Form B via e-Filing and for those with partnership business must also submit Form P in addition to Form B. Taxpayers conducting business will be able to deduct certain business expenses known as allowable expenses. These expenses must incur in the production of business income for example wages or salaries, employees' provident fund (EPF), SOCSO, business insurance claim related to burglary or fire, rental on business premises and interest on business loan. The non-allowable business expenses are generally all domestic and private expenses such as personal utility bill, children's education fees, personal credit card, car, and house or furniture installment.

Capital allowance is also given whereby deductions for capital allowance on business assets are claimable and can be deducted from adjusted income. Two types of allowance are the initial and annual allowance. The table 2.5 below shows the types of allowance for certain assets and rate given.

Table 2.5
Capital Allowance Rates

Types of Allowance	Types of Asset	Rate
Initial Allowance	All types	20%
Annual Allowance	Motor vehicles and heavy machinery	20%
	Plant and machinery	14%
	Office equipment, furniture and fittings	10%
	Computer	40%

Source: IRBM Capital Allowance Rates 2015

2.4 Penalty Imposed as Indicator for Tax Evasion

While tax evasion has been widely studied across the world, most of the studies have only explored the determinants of tax evasion based on primary data; questionnaires and survey. Tax evasion is often derived from a set of questions whereby the measurement is usually based on answers given by the respondents. The lists of questions will determine either respondent is non-compliant or very complaint in regards to tax evasion (Palil M. M., 2016) which may not be an accurate indicator.

Other tax evasion studies that use the same data collection methodology are by Richardson (2006), Kasipillai and Abdul (2006), McGee and Tyler (2006), Devos (2008), Hove (2016), Palil (2016), and Chan, Moorthy and Choo (2017). Few studies employed the secondary data approaches but information is limited for instance studies by Tanzi (1982), Embaye (2007) and Tabandeh, Jusoh, Nor Ghani and Zaidi (2012). These studies used currency to liquidity ratio as a proxy to tax evasion and other known studies on tax evasion by Khlif and Achek (2015) and Zandi and Rabbi (2015) use empirical studies on past research on tax evasion determinants. Few studies in relation to tax evasion and fraudulent reporting using real IRBM audit case data were done by Mashadi (2016), and Mohamad Yusof et al (2014).

Based on the above discussions, there is a scarcity of tax evasion determinant studies especially one that utilises actual tax evasion or non-compliance data acquired from the IRBM audited case and use penalty imposed as an indicator for tax evasion.

2.5 Tax Evasion Determinants and Development of Hypotheses

Tax evasion is influenced by various factors comprised of demographic, economic and certain behavioral determinants. According to Richardson (2006), demographic determinants include gender, age, education and occupation. Economic determinants include income level, income source, tax rates and sanctions while behavioral include complexity, fairness, revenue authority, peer influence and ethics. Past studies also suggested that tax evasion can be influenced by other variables for instance role of tax authority, probability of being detected and complexity (Palil, 2010), religion (Zandi & Rabbi), engagement of tax agent (Mashadi 2016), work experiences or tax return filing experience (Devos, 2008), and types of industry (Azhar Mohamad 2016 ; Mashadi 2016).

2.5.1 Gender

Numerous studies had included gender as one of the independent variables in the tax evasion research field. A study by Gerxhani (2007) revealed that men have 27 percent more possibility to evade tax as compared to women. There is a significant statistical evidence that men are less opposed to tax evasion then women (Akaah, 1989; Harris, 1990; Ross & McGee, 2011). Similar result by Inglehart, Basanez, Diez Medrano, Halman and Lujikx (2004) found that females were more likely to oppose on tax evasion and believe that it is never justifiable. The results were further strengthened by Devos (2008) findings where women were less tolerant than men on tax evasion.

However, one study conducted in Malaysia by Ross and McGee (2011) determined that the difference was not significant. There are few other different findings that concluded females' intention on fraudulent reporting are higher than males (Kaplan, Pany, Samuels & Zhang 2009). Kasipillai and Abdul (2006) on the other hand claimed that both men and women have similar tax aversion attitude towards evasion. Another study in Malaysia by

Jeyapalan and Hijattulah (2006) found there is no statistical difference between men and women.

Furthermore, another study in Malaysian context, on the contrary, found that male is positively related to the amount of tax arrears and is statistically significant in all IRBM's branches (Mohamad, Radzuan & Hamid 2017). With many mixed findings, it is shown that there are no absolute findings on the relationship between gender and tax evasion. Therefore it is hypothesized as follows:

H_1: There is a significant difference between gender and tax evasion among taxpayers with business income in Klang Valley, Malaysia.

2.5.2 Engagement of Tax Agent

In Malaysia, tax agents or professional accountants are usually divided into two categories which are known as Big Four and Non-Big Four. Big Four consists of Price Waterhouse Coopers (PWC), Ernst & Young, Klynveld Peat Marvick Goerdeler (KPMG) and Deloitte Kassim Chan while Non-Big Four comprised of other small and medium local tax agents or professional accountants.

There are few studies on the engagement of tax agent as one of the variables in the determinant of tax evasion. Devos (2008) study was consistent with Wallschutzky (1984) that found tax advisers have a significant influence on taxpayers on tax evasion relating to the deductibility and ambiguous expenses which taxpayers usually sought tax advisers feedback and responses. According to Devos (2008), taxpayers are mostly reliant on advice

that was given by tax agents on tax matters which indicate that the level of faith taxpayers have on tax agent and tax agents' decision have a massive impact on tax compliance.

In Malaysian context, study by Azhar Mohamad (2016) found that 95 percent of total sample on SMEs do not appoint tax agent and with use of secondary data retrieved from IRBM, finding shown SMEs that do not appoint tax agents have more tendency to evade tax as compared to those who appoint tax agents with knowledge on tax regulations. One particular study done on small and medium Bumiputra enterprise found that more than half of the total sample of Bumiputra SMEs appointed tax agents to handle their tax affairs. It is revealed that tax agents were engaged for tax advice as well as tax planning purposes. (Mansor & Hanefah, 2008). The study is consistent with the study by Tran Nam (1999) in which found that most small businesses rely on local tax agents with a more reasonable rate.

Based on the above literature review, there seemed to be mixed findings on the engagement of tax agent and tax evasion and especially lack of studies done in Malaysia, thus it is hypothesized that:

H_2: There is a significant difference between engagement of tax agent and tax evasion among taxpayers with business income in Klang Valley, Malaysia

2.5.3 Age

There's an extensive study that suggests age can influence tax evasion. According to Jackson and Miliron (1986), chronological age of taxpayers is one of tax evasion determinants. Early studies by Slemrod and Sorum (1985) confirmed that age affects tax

compliance positively and most of the researchers concluded that older taxpayers are opposed to tax compliance compared to younger taxpayers (Bosco & Mittone, 1997; Wenzel 2002; Alm & Torgler, 2004). The reason that explains older taxpayer to be less prone to tax evasion may due to their familiarity of tax system hence they tend to utilize tax deduction and plan their taxation wisely while younger taxpayers are still in accumulating assets phase and may evade tax by misreporting true amount of income or claim ineligible deductions (Wenzel, 2002).

A study done by McGee and Tyler (2006) used Mann Whitney U test to determine the significant difference among the various age group of taxpayers. It is found that the comparison between a younger group of people and older groups were significant at one percent level, therefore suggested that older people do not evade tax as they have more respect for the tax authority. The result of the study is consistent with findings by Ross & McGee (2011) which stated that people in higher age bracket have the intention to pay tax and are less likely to evade. A similar result by Devos (2008) found that senior respondents of age greater than 50 years old were less accepting towards tax evasion as compared to the younger categories. Perumal (2008) also stated that older taxpayers are more compliant and as found by Lee and Carley (2009), older taxpayers are opposed to tax evasion which may due to greater risk of aversion.

Nonetheless, there are several studies that have contrary results. Akaah (1989) found that age is not a determinant that affects tax compliance. In the Malaysian context especially, research done by Palil (2010) found that inconsistent results on the relationship between age and compliance for Malaysian taxpayers. It is also found that people aged 50 years and more were more prone to tax evasion and a higher chance of having high tax arrears

(Mohani, 2001). A study by Ross and McGee (2011) in Malaysia presented that the ANOVA and T-test conducted failed to provide any significant different therefore resulted that age is not a determination in Malaysia. However, a recent study by Mohamad et al. (2017) also indicated that older people show less concern on tax evasion issue due to their different priority in paying taxes as they may have more financial commitments to meet.

Based on the above-discussed literature, age used widely as one of tax evasion determinants, however, there is no absolute result as the findings are mostly inconsistent especially those carried in Malaysia. Therefore, the relationship between age and tax evasion can be hypothesized as follows:

H_3: There is a significant difference between age and tax evasion among taxpayers with business income in Klang Valley, Malaysia.

2.5.4 Income Level

Current research on income level and tax evasion are consistent with earlier findings by Jackson and Miliron (1986) that revealed income level variable is mixed and not clear. A study by McGee (2006) has determined that the percentage of people who view tax evasion as unethical declines as their income increase. It is indicated that higher income group tends to evade tax as compared to those in lower income level. A study done by Devos (2008) indicated that respondents that fall under lower income bracket; less than $30,000 per annum accept the non-reporting cash earning more than those of higher income bracket. The reason may due to lower disposable income of those in low-income range thus were prone to find other sources of income preferably cash jobs as a way to breach gap that exists with those that earn more. Furthermore, there is evidence by Johns and

Slemrod (2008) that shown low-income earners are highly engaged in the attitude of tax evasion.

Certain researchers, however, do not agree with the results as Richardson and Sawyer (2001) stated their overall findings as mixed. A study conducted by Park and Hyun (2003) in South Korea also has similar results. One study by Lufti (2009) also found that income level has no significant relationship with tax evasion which means the level of income does not affect taxpayer's intention to evade tax as other factors may contribute to tax evasion and not income level of a taxpayer.

In the Malaysian context, a study by Loo (2006) revealed that high-income earners were less compliant than lower income earners. Likewise, a recent study by Mohamad et al. (2017) corresponds with Loo (2006) whereby income level is found to be positively related to tax arrears.

Based on the above literature review, income level has been considered as one of the independent variables related to tax evasion. The findings however still remain vague. Therefore the hypothesis is as follows:

H_4: There is a significant difference between income level and tax evasion among taxpayers with business income in Klang Valley, Malaysia.

2.5.5 Tax Return Filing Experience

There is a lack of research done between tax filling experience and tax evasion hence the result especially in Malaysian context is almost void. Tan (1998) studied the effects of

working and filing status of taxpayers and their perceptions of fairness in tax system and similar study was further carried out by Devos (2008) in Australia where both studies indicated that tax return filing experience affect tax compliance as perceived by taxpayers on fairness and tax burden on different income levels.

Another study by Hassan, Nawawi, Saiful and Salin (2016) focused more on tax education in relation to tax compliance found that 80 percent of the respondents agreed that taxpayers should be responsible on their income tax declaration and the frequency of filing either via electronic or manual filing equal to being compliant. With scarce literature review on similar variables, it is therefore hypothesized that:

H_5: There is a significant difference between the frequency of tax return filing experience and tax evasion among taxpayers with business income in Klang Valley, Malaysia**.**

2.5.6 Business Sectors

Limited studies conducted that utilize business sectors as determinant of tax evasion. Earlier research by Wallschutzky (1984) found that those income derived from agriculture, independent trades or self-employment are most susceptible to tax evasion as more opportunities for tax evasion appeared in these types of business. Those of salaried income are less likely to evade tax as they are not exposed to similar opportunities.

One particular study carried out recently in Malaysia by Azhar Mohamad (2016) found that service sector in Small Medium Enterprise has the highest tendency to evade tax followed by manufacturing and agriculture sectors. A study by Mohd Yusof et al (2014) on

the other hand, however, found that construction sector in SME has the highest rate of non-compliance as compared to service and manufacturing sectors, it is also stated that construction sector is most dominant in tax evasion activities such as underreporting if income, false transactions or claim unallowable expenses.

Tax administrators such as Australian Tax Office (ATO), Inland Revenue Service (IRS) and Her Majesty's Revenue and Custom (HMRC) also mentioned about high risk business sectors that prone to tax non-compliance and stated construction sector as one particular industry that should be given more attention (Rand Europe and National Audit Office, 2008). Based on the literature above, most of the result determined that there is a significant difference between business sectors and tax evasion, therefore, it is hypothesized as follows:

H_6: There is a significant difference between business sectors and tax evasion among taxpayers with business income in Klang Valley, Malaysia.

2.6 Summary

Studies on tax evasion are largely focused more on taxpayer's perception and attitude towards tax evasion. Most of the researches based their selection of independent variables according to Jackson and Miliron (1986) study on tax compliance, however, very few of these studies test on secondary data due to unavailability or constraints. Majority of the studies associate certain taxpayers' characteristics such as age, gender and income level with tax evasion and studies on tax agent engagement, business sectors and tax return filing experience however are found to be scarce.

The issues concerning studies based on taxpayer's attitude and perception as a proxy for tax evasion may not be inaccurate as it may subject to manipulation by the respondents. Hence, it is hoped that the suggested penalty imposed on taxpayers as a proxy for tax evasion adopted in this study will provide a plausible measure to document the relationship between tax evasion and taxpayers with business income in Klang Valley, Malaysia.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter further outlines the research methodology applied in this study to determine the significant difference between age, gender, income level, business sectors, tax agent engagement, tax return filing experience and tax evasion among taxpayers with business income in Klang Valley, Malaysia based on the developed hypotheses. There are five divided sections in the chapter. It starts with research design in Section 3.1, followed by research model in Section 3.2. Section 3.3 explains brief descriptions on the method of data analysis and Section 3.4 is the summary of research methodology discussion.

3.1 Research Design

This paper investigates characteristics of taxpayers with business income in Klang Valley with tax evasion. The taxpayers are selected based on those who have been audited by field auditors for the year of assessment 2015 obtained from IRBM's database. This is to determine the significant difference between tax evasion (penalty imposed as a proxy for tax evasion) and its determinants based on selected taxpayer's characteristics. The IRBM database contains tax audit information on annual basis and the data is confidential and can only be accessed by IRBM's authorized officers with the subject to approval in order to not violate the IRBM's policy and provision of Section 138 under ITA 1967, which relates to taxpayers' information secrecy. Statistical Package for the Social Science (SPSS) is employed to analyze the empirical data.

3.1.1 Research Population

The research population is taxpayers with business income in Klang Valley, Malaysia based on the definition set by IRBM in which the parameter is determined by taxpayers registered with Other Group (OG) file and was audited by field auditors in the year of assessment 2015. The population of this study is from the IRBM's audited taxpayer's database which consists of 4357 taxpayers with business income and audited by field audit in the year of assessment 2015.The taxpayers with business income are further selected based on seven IRBM branches comprised in Klang Valley, Malaysia. With access to IRBM's tax audit database, this study allows taxpayers to be the unit of analysis. Therefore, the unit of analysis in this study is taxpayers with business income belong to seven IRBM branches of Klang Valley.

3.1.2 Sample Size and Sampling Technique

The taxpayers are selected from IRBM's branches in Klang Valley which constituted of Jalan Duta, KL Bandar, Cheras, Petaling Jaya, Wangsa Maju, Shah Alam and Klang. Since this study is focused specifically on taxpayers with business income and has been audited by field audit in the year 2015, the sampling selection is based on criteria mentioned in the scope of study under Section 1.5 of Chapter One. Taxpayers are selected based on clustered sampling for the seven branches and followed with systematic random sampling for selection on taxpayers with business income, registered with OG file and have been selected for audit by field auditors in year 2015 as audit cases for the year 2016 onwards are still unavailable. The audited taxpayers may or may not have been penalized under Section 113 of the Income Tax Act which is the proxy for tax evasion in this study. Although Section 114 penalty also falls under tax evasion in IRBM's context, cases charged with penalty Section 114 are only cases related to court proceedings thus are not

available. The study will state 1 for penalty imposed as an indication of tax evasion and 2 for no penalty imposed as an indication for no tax evasion.

The total number of taxpayers with business income audited in year the 2015 is 4357 for the whole seven branches. According to Hai, Anderson, Tatham and Black (1998), one proper and accurate selection of sample size for generalization purposes are 15 to 20 for every each variable. Hence, the selected data should be at least 120 taxpayers (20 taxpayers x 6 variables). Therefore as per rule of thumb, 200 taxpayers were chosen with an estimate of 28 to 29 randomly selected taxpayers in each branch with the final sample selected of 200. For each taxpayer, these information are extracted: tax registration under OG file, identity card number, gender, business code, total aggregate income, tax agent information and tax return filing information for the year 2011, 2012, 2013, 2014 and 2015. In order to determine the significant difference between different types of business on tax evasion, the types of business based on business codes are further grouped into sixteen main sectors which are listed in Table 3.1 below:

Table 3.1
Business Sector

Business Sector
Manufacturing
Construction
Wholesale and Retail Trade
Food and Beverage Services Activities
Financial and Insurance/Takaful Activities
Real Estate Activities
Professional, scientific and technical Activities
Administrative and Support Service Activities
Public Administration and Defence, Compulsory Social Activities
Education
Human Health Activities
Arts, Entertainment and Recreation

Other Service Activities
Agriculture

Source: IRBM Form B Guidebook 2015

Furthermore, taxpayers income level are also grouped into few categories based IRBM's guideline on income level and tax rates that correspond. To determine the frequencies of tax return filing experience, this study applies benchmark used by (Devos) 2008 whereby the frequency of tax return filing experience was obtained for past five years. The study also acquire tax agent engagement information and the data is grouped to yes and no with an engagement of tax agent as former and non-engagement of tax agent for latter.

3.2 Hypothesis

The hypotheses developed based on the previous chapter are established as shown in Table 3.2.

Table 3.2
Summary of Hypotheses

	Hypothesis
H_1	There is a significant difference between gender and tax evasion among taxpayers with business income in Klang Valley, Malaysia.
H_2	There is a significant difference between engagement of tax agent and tax evasion among taxpayers with business income in Klang Valley, Malaysia.
H_3	There is a significant difference between age group and tax evasion among taxpayers with business income in Klang Valley, Malaysia.
H_4	There is significant difference between income level and tax evasion among taxpayers with business income in Klang Valley, Malaysia.
H_5	There is a significant difference between the frequency of tax return filing experience and tax evasion among taxpayers with business income in Klang Valley, Malaysia.
H_6	There is a significant difference between business sectors and tax evasion among taxpayers with business income in Klang Valley, Malaysia.

3.3 Data Analysis

3.3.1 Descriptive Analysis

Descriptive analysis is carried out to summarize information regarding population and sample selected in this study. The variables selected and analyzed into the descriptive analysis are gender, tax agent engagement, age, income level, tax return filing experience and business sectors. Descriptive analysis is employed to translate raw data into understandable information that describes certain factors in circumstances. Descriptive analysis is presented with the mean score and standard deviation of collected data. In addition, it also provides information concerning the distribution of scores or continuous variables known as skewness and kurtosis. This information is useful for parametrical statistical techniques used in this study namely T-test and analysis of variance (ANOVA). Skewness indicates symmetry of the distribution while kurtosis on the other hand delivers information about 'peakedness' of the distribution.

3.3.2 T-Test Analysis

T-test Analysis is employed to answer research question related to one categorical independent variable with only two groups and one continuous dependent variable. In this study, the t-test will be conducted for independent variables relating to gender (male and female) and engagement of tax agent (yes or no). The dependent variable is tax evasion by the penalty imposed as a proxy for tax evasion.

3.3.3 ANOVA Analysis

Analysis of variance (ANOVA) is usually used to compare mean scores of more than two groups. One way analysis of variance involves one independent variable which has a

different level and corresponds to certain condition is engaged to analyze age, income level, types of business and tax return filing experience of taxpayers' with business income and penalty imposed which is a proxy for tax evasion.

3.4 Summary

The chapter outlines basic organization of research methodology applied in this study. It also delivers a brief discussion on research design, the population as well as sample selection method adopted. In addition, the chapter explains the variables and categories defined for each of the variables for data analysis purposes. The chapter thus ends with an overview of a certain statistical techniques adapted to run tests required in this study.

CHAPTER FOUR

FINDINGS

4.0 Introduction

This chapter interprets the results of data obtained from IRBM's database related to taxpayers' characteristics with tax evasion among taxpayers with business income in Klang Valley, Malaysia. The results and analysis are arranged statistically and calculation is based on flow outlined in the previous chapter. The chapter begins with descriptive, t-test analysis and ends with ANOVA results.

4.1 Findings

4.1.1 Descriptive Analysis

With employment of secondary data acquired from IRBM's tax audit database, a total sample of 200 taxpayers are selected. The sample is comprised of all audited taxpayers with business income in the year 2015 in seven IRBM's branches constituted the Klang Valley. Descriptive analysis was carried out to develop taxpayer's profile based on independent and dependent variables consist of age, gender, income level, business sectors, engagement of tax agent, tax return filing experience and penalty imposed as an indication of tax evasion. The data is therefore presented in form of frequency and percentage in Table 4.1.

Table 4.1
Taxpayers' Profile (N=200)

Items	Frequency	Percentage %
Age		
25 – 34	15	7.5
35 – 44	42	21

45 – 54	75	37.5
55 – 64	50	25
65 – 74	15	7.5
75 – 84	3	1.5
Gender		
Male	163	81.5
Female	37	18.5
Income Level		
RM 35,001 - RM 50,000	13	6.5
RM 50,001 - RM 70,000	19	9.5
RM 70,001 - RM 100,000	49	24.5
RM 100,001 - RM 250,000	101	50.5
RM 250,001 - RM 400,000	13	6.5
RM 400,001 - RM 600,000	5	2.5
Engagement of Tax Agent		
Yes	70	35
No	130	65
Tax Return Filing Experience (Years)		
3	6	3
4	10	5
5	184	92
Business Sectors		
Manufacturing	13	6.5
Construction	48	24
Wholesale And Retail Trade	74	37
Food And Beverage Services Activities	9	4.5
Financial And Insurance / Takaful Activities	14	7
Real Estate Activities	4	2
Professional, Scientific And Technical Activities	13	6.5
Administrative And Support Service Activities	5	2.5
Public Administration And Defense, Compulsory Social Activities	2	1
Education	3	1.5
Human Health Activities	5	2.5
Arts, Entertainment And Recreation	2	1
Other Service Activities	3	1.5
Agriculture	5	2.5
Tax Evasion : Penalty Section 113 Imposed		
Yes	181	90.5
No	19	9.5

According to the Table 4.1, the 200 audited taxpayers with business income in Klang Valley, Malaysia are mostly dominated by males with 81.5 % and female only makeup of 18.5%. The gender ratio is supported by the composition of the whole population with male consists of 80% and female 20%. Majority of the taxpayers' age are those range between 45 to 54 years old (37.5%) and the least are those between 75 to 84 years old (1.5%). In terms of income level, more than fifty percent of the taxpayers have income level in RM100, 000 until RM 250,000 bracket (50.5%). Most of the taxpayers do not have tax agent to assist them on tax filing (65%) and less than half engaged tax agents for tax filing matters. As for tax return filing experience, it can be generalized that almost all of the taxpayers filed their tax return for the past five years (92%). In types of business conducted, 37% of the taxpayers carried business in wholesale and retail trade which is followed by construction (24%). Other types of business only contributed less than ten percent to the whole sample. Finally, the sample shows a total of 181 (90.5%) taxpayers indicated for tax evasion as they are penalized under Section 113 of the ITA when audits were carried out in 2015 by field auditors.

Table 4.2 shows the descriptive statistic for a proxy of the dependent variable (Penalty Imposed) and explanatory variables based on the final sample of 200 taxpayers. The statistic is shown in terms of median, means, standard deviation, skewness, kurtosis, maximum and minimum values for each of the variables.

Table 4.2
Descriptive Statistic

N=200	Mean	Median	Std. Dev.	Max.	Min.
Penalty Imposed	1.1	1	0.294	2	1
Tax Agent Engagement	0.034	2	0.478	2	1
Age	3.09	3	1.093	6	1
Income Level	3.49	4	1.056	6	1
Tax Return Filing Experience	4.89	5	0.39836	5	3
Business Sectors	4.14	3	3.0737	14	1

The mean for age (3.09) is similar to median age (3.0) with a wide range of age percentage within 45 to 54 years of age. As for income level, the mean is slightly lower (3.49) than median income level (4.0) and with most occurring value in income level that ranges between RM100, 001 to RM 250,000 (4). In terms of tax return filing experience, mean is a little lower (4.89) than median and mode in which both resulted with 5.00, whereby most of tax return filing experiences are those submit tax returns for the past five years. With regards to types of business, the businesses carried out are divided into 14 categories. The mean for types of business shown to be slightly higher at (4.14) as compared to median and mode with 3.00.Most of the businesses carried out from the sample are of wholesale and retail trade.

Table 4.3
Skewness-Kurtosis Test

	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Penalty Imposed	2.783	0.172	5.805	0.342
Gender	1.635	0.172	0.679	0.342
Tax Agent Engagement	-0.634	0.172	-1.615	0.342
Age	0.11	0.172	-0.156	0.342
Income Level	-0.555	0.172	0.561	0.342
Tax Return Filing Experience	-3.799	0.172	13.994	0.342
Business Sectors	1.738	0.172	2.381	0.342

The value of Skewness and Kurtosis test is shown in Table 4.3 above. Usually, positive skewness values indicate a positive skew which means the scores are clustered to the left

side of low values while negative skewness means the score are clustered to the right side of a higher side of a graph. According to Tabachnick and Fidell (2007), Kurtosis values below zero is a sign that distribution is flat with too many extreme cases. Kurtosis may result in underestimated variance but the risk is reduced with a large sample, preferably more than 200.

Pallant (2011) stated that value of skewness and kurtosis test perfect normal distribution is zero. Nonetheless, data distribution is still regarded as normal for the range between -1 and 1 (Bulmer, 1979). And as mentioned by George and Mallery (2010), the values of skewness and kurtosis is still acceptable between -2 and +2 in the establishment of normal distribution dataset. Based on this study, most the variables shown Skewness-Kurtosis values between -1,1, 2 and -2 except for tax return filing experience and the dependent variable. Certain variables with Skewness-Kurtosis values of more than 2 such as penalty imposed, tax return filing experience and business sectors indicate a highly skewed data and heavier tails than a normal distribution.

4.1.2 T-Test Result

The T-test is further carried out to compare mean score on tax evasion for male and female and engagement of tax agent.

Table 4.4
T-test for Gender and Tax Evasion

Group Statistics

	Gender	N	Mean	Std. Deviation	Std. Error Mean
Penalty	Male	163	1.07	0.262	0.021
	Female	37	1.19	0.397	0.065

Table 4.4.1
Independent Samples t-test Gender and Tax Evasion

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Penalty	Equal variances assumed	16.868	0	-2.179	198	0.03	-0.116	0.053	-0.22	-0.011
	Equal variances not assumed			-1.689	43.371	0.098	-0.116	0.068	-0.254	0.022

An independent samples t-test was employed to compare the tax evasion scores for males and female. The Levene's Test for equality of variances is p=0 which is less than the significance 0.05, thus the variances for both group male and female is not the same. The study thus uses information on the second line of t-test table which is equal variances not assumed. The Sig(2-tailed) column determine the differences between male and female. The value based on t-test is 0.098 which is significant at 0.10, confidence level at 90% which therefore suggests a significant difference between the two group.

Table 4.5
T-test for Engagement of Tax Agent and Tax Evasion

Group Statistics

	Engage Tax Agent	N	Mean	Std. Deviation	Std. Error Mean
Penalty	Yes	70	1.13	0.337	0.04
	No	130	1.08	0.268	0.023

Table 4.5.1
Independent Samples t-test for Engagement of Tax Agent and Tax Evasion

		Levene's Test for Equality of Variances		**t-test for Equality of Means**						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Penalty	Equal variances assumed	5.548	0.019	1.186	198	0.237	0.052	0.044	-0.034	0.137
	Equal variances not assumed			1.108	116.545	0.27	0.052	0.047	-0.041	0.144

An independent samples t-test was employed to compare the tax evasion scores for engagement of tax agent and non-engagement of tax agent. The Levene's Test for equality of variances is p=0.019 which is less than the significance value at 0.05, thus the variances for both group is not the same. Hence, the study uses information on the second line of t-test table which equal variances is not assumed. The Sig(2-tailed) column determine the differences between engagement of tax agent and non-engagement of tax agent. The value based on t-test is 0.27 which is more than 0.10 which therefore suggests no significant difference between the two group.

4.1.3 ANOVA Result

In order to compare the mean scores for more than two groups, the study conducted ANOVA which involves analysis of one independent variable and which in this study is tax evasion and penalty imposed as its proxy. The penalty imposed has two levels differentiated with yes or no. The independent variable will correspond to four other dependent variables; age, income level, tax return filing experience and business sectors.

Table 4.6
One Way ANOVA : Age and Tax Evasion

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.343	5	0.269	3.286	0.007
Within Groups	15.852	194	0.082		
Total	17.195	199			

Table 4.6.1
Multiple Comparisons between Age and Tax Evasion
Dependent Variable: Penalty
Tukey HSD

(I) Age Range	(J) Age Range	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
25 – 34	35 – 44	0.238	0.086	0.067	-0.01	0.49
	45 – 54	0.213	0.081	0.093	-0.02	0.45
	55 – 64	.313*	0.084	0.003	0.07	0.56
	65 – 74	.333*	0.104	0.02	0.03	0.63
	66 – 74	0.333	0.181	0.44	-0.19	0.85
35 – 44	67 – 74	-0.238	0.086	0.067	-0.49	0.01
	68 – 74	-0.025	0.055	0.998	-0.18	0.13
	69 – 74	0.075	0.06	0.808	-0.1	0.25
	70 – 74	0.095	0.086	0.878	-0.15	0.34
	71 – 74	0.095	0.171	0.994	-0.4	0.59
45 – 54	72 – 74	-0.213	0.081	0.093	-0.45	0.02
	73 – 74	0.025	0.055	0.998	-0.13	0.18
	74 – 74	0.1	0.052	0.395	-0.05	0.25
	75 – 74	0.12	0.081	0.675	-0.11	0.35
	76 – 74	0.12	0.168	0.98	-0.36	0.6
55 – 64	77 – 74	-.313*	0.084	0.003	-0.56	-0.07
	78 – 74	-0.075	0.06	0.808	-0.25	0.1
	79 – 74	-0.1	0.052	0.395	-0.25	0.05
	80 – 74	0.02	0.084	1	-0.22	0.26
	81 – 74	0.02	0.17	1	-0.47	0.51
65 – 74	82 – 74	-.333*	0.104	0.02	-0.63	-0.03
	83 – 74	-0.095	0.086	0.878	-0.34	0.15
	84 – 74	-0.12	0.081	0.675	-0.35	0.11
	85 – 74	-0.02	0.084	1	-0.26	0.22
	86 – 74	0	0.181	1	-0.52	0.52
75 – 84	87 – 74	-0.333	0.181	0.44	-0.85	0.19
	88 – 74	-0.095	0.171	0.994	-0.59	0.4
	89 – 74	-0.12	0.168	0.98	-0.6	0.36
	90 – 74	-0.02	0.17	1	-0.51	0.47
	91 – 74	0	0.181	1	-0.52	0.52

*. The mean difference is significant at the 0.05 level.

One way between groups analysis of variance was conducted to explore the impact of age on the penalty imposed as an indicator for tax evasion. Taxpayers were divided into six groups according to their age with Range 1: 25 to 34 years old, Range 2: 35 to 44 years old, Range 3: 45 to 54 years old, Range 4: 55 to 54 years old, Range 5: 65 to 74 years old and Range 6: 75 to 84 years old. Based on ANOVA test, there is a significant difference at 0.007 level in the penalty imposed and the six age groups. The post hoc comparisons using Tukey HSD test indicated that the mean score for Range 1 was significantly different from Range 4 and 74 to 82 which falls under Range 5. The test also pointed out that mean score for Range 4 was significantly different from age 74 to 77 that falls under Range 5 and 6, a similar result also applied to Range 5 and age 74 to 82 that falls in Range 5 and 6.

Table 4.7
One Way ANOVA : Income Level and Tax Evasion

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.949	5	0.59	8.031	0.000
Within Groups	14.246	194	0.073		
Total	17.195	199			

Table 4.7.1
Multiple Comparisons between Income Level and Tax Evasion
Dependent Variable: Penalty
Tukey HSD

(I) INCOME_LEVEL	(J) INCOME_LEVEL	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
RM 35,001 - RM 50,000	RM 50,001 - RM 70,000	.433*	0.098	0.000	0.15	0.71
	RM 70,001 - RM 100,000	.457*	0.085	0.000	0.21	0.7
	RM 100,001 - RM 250,000	.489*	0.08	0.000	0.26	0.72

	RM 250,001 - RM 400,000	.538*	0.106	0.000	0.23	0.84
	RM 400,001 - RM 600,000	0.338	0.143	0.171	-0.07	0.75
	RM 35,001 - RM 50,000	-.433*	0.098	0.000	-0.71	-0.15
	RM 70,001 - RM 100,000	0.024	0.073	1.000	-0.19	0.23
RM 50,001 - RM 70,000	RM 100,001 - RM 250,000	0.056	0.068	0.963	-0.14	0.25
	RM 250,001 - RM 400,000	0.105	0.098	0.889	-0.18	0.39
	RM 400,001 - RM 600,000	-0.095	0.136	0.982	-0.49	0.3
	RM 35,001 - RM 50,000	-.457*	0.085	0	-0.7	-0.21
	RM 50,001 - RM 70,000	-0.024	0.073	1.000	-0.23	0.19
RM 70,001 - RM 100,000	RM 100,001 - RM 250,000	0.032	0.047	0.984	-0.1	0.17
	RM 250,001 - RM 400,000	0.082	0.085	0.928	-0.16	0.32
	RM 400,001 - RM 600,000	-0.118	0.127	0.938	-0.48	0.25
	RM 35,001 - RM 50,000	-.489*	0.08	0.000	-0.72	-0.26
	RM 50,001 - RM 70,000	-0.056	0.068	0.963	-0.25	0.14
RM 100,001 - RM 250,000	RM 70,001 - RM 100,000	-0.032	0.047	0.984	-0.17	0.1
	RM 250,001 - RM 400,000	0.05	0.08	0.989	-0.18	0.28
	RM 400,001 - RM 600,000	-0.15	0.124	0.831	-0.51	0.21
	RM 35,001 - RM 50,000	-.538*	0.106	0.000	-0.84	-0.23
	RM 50,001 - RM 70,000	-0.105	0.098	0.889	-0.39	0.18
RM 250,001 - RM 400,000	RM 70,001 - RM 100,000	-0.082	0.085	0.928	-0.32	0.16
	RM 100,001 - RM 250,000	-0.05	0.08	0.989	-0.28	0.18
	RM 400,001 - RM 600,000	-0.2	0.143	0.726	-0.61	0.21
	RM 35,001 - RM 50,000	-0.338	0.143	0.171	-0.75	0.07
	RM 50,001 - RM 70,000	0.095	0.136	0.982	-0.3	0.49
RM 400,001 - RM 600,000	RM 70,001 - RM 100,000	0.118	0.127	0.938	-0.25	0.48
	RM 100,001 - RM 250,000	0.15	0.124	0.831	-0.21	0.51
	RM 250,001 - RM 400,000	0.2	0.143	0.726	-0.21	0.61

*. The mean difference is significant at the 0.05 level.

One way between groups analysis of variance was conducted to explore the impact of income level on the penalty imposed as an indicator for tax evasion. Taxpayers were divided into six group based on different income level as shown in table 4.7.1 above. According to ANOVA, the significant difference between six income level is at 0.000. The post hoc comparisons using Tukey HSD test indicated that the mean score for Level 1 was significantly different from Level 2, 3 and 4. The test also pointed out that mean score for Level 2 was significantly different from Group 1, a similar result also applied to Level 3 and Level 1. Furthermore, Level 3 and Level 1was also significant.

Table 4.8
One Way ANOVA : Tax Return Filing Experience and Tax Evasion

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.827	2	0.413	4.976	0.008
Within Groups	16.368	197	0.083		
Total	17.195	199			

Table 4.8.1
Multiple Comparisons between Tax Return Filing Experience and Tax Evasion
Dependent Variable: Penalty
Tukey HSD

(I) Tax Return Filing Experience	(J) Tax Return Filing Experience	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
3	4	0.033	0.149	0.973	-0.32	0.38
	5	0.257	0.12	0.082	-0.03	0.54
4	3	-0.033	0.149	0.973	-0.38	0.32
	5	.224*	0.094	0.046	0	0.44
5	3	-0.257	0.12	0.082	-0.54	0.03
	4	-.224*	0.094	0.046	-0.44	0

*. The mean difference is significant at the 0.05 level.

For tax return filing experience, a similar test was conducted in which tax return filing experience was categorized into three different years of experience. As shown in ANOVA, the significant difference between six income level is at 0.000. The post hoc comparisons using Tukey HSD test indicated that the mean score for Year 4 was significantly different from Year 3. The test also indicated that mean score for Year 5 was significantly different from Year 4.

Table 4.9
One Way ANOVA : Types of Business and Tax Evasion

ANOVA

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Between Groups	1.633	13	0.126	1.502	0.120
Within Groups	15.562	186	0.084		
Total	17.195	199			

To test one way between groups of variance for types of business variables, types of business were classified into 14 main business sectors whereby each sectors was further composed of smaller sectors. Result by ANOVA however shown that there was no significant difference between types of business and tax evasion among taxpayers with business income in Klang Valley, Malaysia.

4.2 Summary of the Hypotheses

	Hypothesis	Support /Do not Support
H_1	There is a significant difference between gender and tax evasion among taxpayers with business income in Klang Valley, Malaysia.	Support
H_2	There is a significant difference between tax agent engagement and tax evasion among taxpayers with business income in Klang Valley, Malaysia.	Do not Support
H_3	There is a significant difference between age and tax evasion among taxpayers with business income in Klang Valley, Malaysia.	Support
H_4	There is a significant difference between income level and tax evasion among taxpayers with business income in Klang Valley, Malaysia.	Support
H_5	There is a significant difference between tax return filing experience and tax evasion among taxpayers with business income in Klang Valley, Malaysia.	Support
H_6	There is a significant difference between service related business sector and tax evasion among taxpayers with business income in Klang Valley, Malaysia.	Do not Support

In conclusion, t-test conducted to determine the significant difference between gender and tax evasion exhibited similar result as the first hypothesis whereby there is a significant difference between gender and tax evasion. The second hypothesis stated that there is a significant difference between tax agent engagement and tax evasion among taxpayers with business income in Klang Valley, however, t-test result indicated otherwise. Thus, the result translates that engagement of tax agent selected in this study cannot be represented and has no association with tax evasion, therefore the null hypothesis is accepted.

Nonetheless, other independent variables in this study support most of the hypothesis developed. The third hypothesis stated that there is a significant difference between age and tax evasion. ANOVA was run to determine the significant difference age and tax evasion and the result supported the suggested hypothesis.

The ANOVA result also supports the fourth hypothesis whereby income level has significant difference with tax evasion, likewise for tax return filing experience but the result did not support the sixth hypothesis as there is no significant difference between business sectors and tax evasion among taxpayers with business income in Klang Valley.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.0 Introduction

This chapter concludes the study with summary and discussion on findings according to data analysis. The study attempts to determine the significant difference between age, gender, income level, types of business, tax agent engagement, tax return filing experience and tax evasion among taxpayers with business income in Klang Valley, Malaysia. Implications and limitations of the study are further added towards the end of the chapter providing insights, directions and future research suggestions. The chapter ends with overall summary and conclusion of the study.

5.1 Discussion on Findings

The study aims to determine the significant difference between gender, tax agent engagement, age, income level, tax return filing experience and business sectors by scrutinizing penalty imposed on taxpayers with business income as a proxy for tax evasion. There were six hypotheses developed to identify the association between these six independent variables and tax evasion among taxpayer's with business income in Klang Valley, Malaysia. Data collected with permission from IRBM's proprietary tax audit database and were selected based on audited cases by field auditors in 2015. A total of 200 sample were chosen and analysis with use of SPSS tools was performed. The findings of this study are imperative to either support or not support the developed hypotheses and give answers to research questions in this study. T-test and ANOVA were employed to compare means scores between the variables in order to ascertain the significant difference. In the first hypothesis, t- test resulted that gender between male and female is

significant at 0.098 based on the $p<0.10$ significant level with 90 percent confidence although the result may not be too robust. The outcome of the test is consistent with past studies that provided statistically significant evidence of gender and tax evasion. (Akaah,1989; Harris,1990; Ross & McGee, 2011). The result is also in harmony with the study by McGee and Tyler (2006). A later study by Zandi and Rabbi (2015) also stated that the likelihood for males to evade tax is higher than female if they have the opportunity. This may also relate to the total population of audited taxpayers where the ratio of male to female is 80:20, a strong indicator that since most audited taxpayers are male, hence tax evasion may associate more with male taxpayers.

The second hypothesis suggested that tax agent engagement has significant difference with tax evasion, however, the hypothesis is proved to be unsupported by t-test result. Limited studies on tax agent engagement especially in Malaysian context stated that SMEs without tax engagement is more prone to evade tax compared to those that did engage tax agents (Azhar Mohamad, 2016). Mansor and Hanefah (2008) also mentioned 80% of Bumputra SMEs engaged tax agent service for advice and tax planning purposes. Result for this study, however, did not find any significant difference between the two variables, therefore tax agent engagement is not an indication for tax evasion among taxpayers' with business income as taxpayers' may still involve in evasion activities regardless with tax agent engagement.

Meanwhile, the third hypothesis proposed that there is significant difference between age and tax evasion. A result from ANOVA supported the hypothesis with significant difference at 0.007; confidence level of 99%. Based on the multiple comparisons which were conducted between groups, there is a significant different for the age group between

younger taxpayers (25 to 34 years) and older taxpayers (55 to 64 and 65 to 74 years). In addition, taxpayers under age range 55 to 64 years is also significantly different from those age between 74 to 77 years and older taxpayers (65 to 74 years) shown significant difference with taxpayers within age range 74 to 82 years. The result, however, is contradicted with past studies as a majority of the previous researches stated that older taxpayers are more compliant than younger taxpayers. The study is consistent with Abdul (2003) in which he revealed that most of the non-compliers are those aged between 30 and 50 years which in case of this study, tax evasion are apparent for taxpayers aged between 35 years until 84 years. In addition, the study is also in harmony with a Malaysian study by Mohani (2001) whereby people aged 50 years and more were less compliant therefore chances of evading taxes is high. Likewise for a recent study by Mohd Yusof et al (2017) which indicated that age has a positive relationship with tax arrears. Reasons may due to older people have more commitments aligned with higher job positions and work experience. With the increase in income, the tax rate will also increase accordingly, hence may cause older taxpayers to manipulate loopholes in the tax system for evasion purposes as less concern is prioritized for tax payment when there are other commitments to adhere.

Likewise for the fourth hypothesis, income level has significant different with tax evasion and the hypothesis is supported by ANOVA result with significant at 0.000; $p>0.001$; a confidence level of 99%. This study compares scores for six different income level whereby the comparison between lower income level and middle income level found a difference to be significant ($p< 0.000$). A similar result for comparison between low income level and upper income level. Results indicate that middle income group range between RM70,000 to RM 250,000 tends to be more prone to evasion as compared to lower income level. The result is consistent with Loo (2006) which study revealed that

higher income earners were less complaint hence linked to more tax arrears. Similar findings were found in a Malaysian study by Mohani (2001) which mentioned people in lower income level are more tax compliant compared to those in upper income level as being in a country with unsatisfactory income redistribution, upper income earners feel tax system in unfair thus will involve in tax evasion activities.

Moreover, an analysis was conducted for tax return filing experience variable and the result is significant at 0.008 between groups. Comparison between mean scores for Year 4 and 5 is significant at $p<0.046$ and same goes for Year 5 and 4. Mean scores for Year 3 with Year 4 and 5, however, is found to be insignificant. The result translated that taxpayers with more tax return filing experience (4 and 5 years) are more relatable to tax evasion compared to those that have lower experience (3 years and less). The reasons may due to taxpayers being more familiar with the tax system and aware of loops available for evasion as their filing experience increased. With limited literature available, one such study done to examine the relationship between tax return filing experience was by Tan (1989) and Devos (2008). While there may be no absolute findings found in Devos (2008), this study may reciprocate with Tan (1989) although research method applied is different. Tan focused more on the effect of tax return filing and perceptions on tax system's fairness and the findings indicated that filing status has effect in perceptions on tax system's fairness related to the tax burden on a different group of income.

In the final hypothesis, the study suggested that there is a significant difference between business sectors and tax evasion. The ANOVA however, shows a contradicting result. There is no significant difference between both variables hence the result is inconsistent with past study done in Malaysia on similar variables. According to Mohamad Azhar

(2016), service industry is more susceptible to tax evasion given most of the service related sectors transactions are on cash basis. Mohd Yusof et al (2014) and Lai (2013) also mentioned construction sector being most vulnerable to tax evasion. The result of this study however, found no significant different on different business sectors carried out by taxpayers with business income. Hence, it is suggested that tax evasion will incur in all business sectors regardless.

Overall, the findings support four out of six developed hypothesis in this study. Variables with significant difference clearly denote that gender, age, income level and tax return filing experience are highly associated with tax evasion while tax agent engagement and business sectors are seen to have no great importance in relation to tax evasion. In light of IRBM's effort on increasing compliance, e Filing was introduced in 2005 to ease the process of tax return submission and indirectly reduce the current existing tax gap caused by noncompliance, specifically tax evasion. With several reliefs available for personal income tax deductions as well as allowable expenses and capital allowances are given to taxpayers with business income, submission of tax return is expected to be done with good faith and integrity. In reality however, while taxpayers may submit their tax return accordingly, income and deductions or expenses claimed may differ from actual income and entitled deductions and expenses hence resulted in the high numbers of resolved audit cases throughout the year 2013 to 2015 as stated in the problem statement.

Currently, audit cases selection is done by Tax Compliance Department in which audit cases are channeled to auditors according to types of errors committed by taxpayers. The result of this study implies that variables like gender, age, income level and tax return filing experience may be taken into consideration upon selection of audit cases. Findings of

this study also suggested that there's assertion of tax evasion activities especially for male, given that male dominate 80% of the total gender composition. Secondly, it is found that middle and old aged taxpayers range between 45 – 84 years old are more susceptible to tax evasion despite majority past findings stated that older taxpayers are more opposed to tax evasion. Thirdly, taxpayers under income level between RM70,000 to RM250,000 should be highlighted upon audit case selection as most of the evasion occurred are taxpayers that come from this range of income. Finally, for tax return filing experience, while non-submission of tax return form usually indicates non – compliance, the findings of this study however found that taxpayers that submit their tax return frequently (more than 4 years) are also those that engaged in tax evasion activities thus tax return filing experience variable for audit case selection should be emphasized more.

Although four out of six tested taxpayers' characteristics provide significant results on determinants of tax evasion, it appears that all of the variables tested do have the association with tax evasion even though two of them are not significant.

5.2 Implication

In the recent years, IRBM has up scaled its effort towards addressing the ever inevitable tax evasion issues. A two pronged measures were taken by the policy maker to enhance collection and increase compliance level to curb leakages and evasion related activities. While self-assessment was implemented to increase voluntary compliance among taxpayers in Malaysia, to ensure that information reported is true and correct seems to be a challenging task. Deployment of desk and field audits to check on the credibility of taxpayers' return form is a still a contest to auditors and IRBM is always improving audit

case selections and persistently finds appropriate and adequate measures including developing data analytics for precaution and detect tax evasion in general.

Unlike most tax evasion studies done in the past, this study utilized actual tax audit data from IRBM's database to test the hypothesis developed for each variable. This study employs real data on the penalty as a proxy in measurement for tax evasion. Majority of past studies measure tax evasion with use of publicly available statistics as real data on IRBM's audit case is difficult to obtain. Gemmel and Hasseldine (2012) also stated that generally, researchers do not have the permission to access these type of data due to confidential aspects.

Some of the studies employed primary research whereby tax evasion are measured based on questionnaires and answers from respondents may not be accurate due to bias and easily manipulated by the respondents. Moreover, tax evasion measured with use of survey instruments may also be questionable as certain respondents may not even be taxpayers. According to Fuest and Riedel (2009), with respect to tax evasion issues, they are several considerable doubts as to which extent do interviewees confess their fraudulent behavior. It is also argued that the results from these surveys may also be perceived to be sensitive based on ways a questionnaire or survey is formulated (Schneider & Savasan, 2007).

Therefore, it is hoped that tax evasion's measure adopted in this study could represent a more accurate and robust measure as an indicator for tax evasion among taxpayers with business income in Klang Valley. In addition, the study will also add new findings to the available works of literature related to tax evasion, especially in the Malaysian context. This study also provides valuable feedback to IRBM to improve the existing audit case

selection criteria. Moreover, information gathered in this study can provide IRBM to outline better policy and have more understanding of tax evasion activities that surround taxpayers with business income in Klang Valley, Malaysia.

5.3 Limitation of the Study

Despite implications of the study, few limitations have to be emphasized for future studies. One particular issue in tax evasion is the issues of definition and measurement. Tax evasion term has always been interchangeably used with tax avoidance when in reality both terms differ greatly in meaning and legal boundaries. Tax evasion refers to illegal activities whereby taxpayer purposely omits income and deduct ineligible expenses and deductions in order to reduce or not paying tax at all. Tax avoidance, on the other hand, is legal and usually accomplished by tax planning and take advantages of ambiguities in the tax system to reduce or avoid from paying tax altogether.

Previous studies employed different approaches to measure tax evasion and this measure was taken in this study may lead to discrepancies between findings in related studies. As discussed in Chapter 3, dependent variable measurement in this study use Section 113 penalty imposed on taxpayers as a proxy for tax evasion. This study, however, does not provide justifications whether the tax evasion measure adopted can provide comparatively robust findings to measures used in other studies.

Furthermore, another limitation is the model applied in this study are based on early research by Jackson and Miliron (1986) which identified 14 major key determinants of tax evasion. These determinants are further categorized by Fischer, Wartick and Mark (1992) where he developed the Fischer Model consisted of demographic, opportunity for non-

compliance, attitudes and perceptions and tax system. The adapted model may not be sufficient to address tax evasion issues comprehensively. Tax evasion among taxpayers with business income could be in different structures and arrangements and to formulate one model to cater all variables and differences will be difficult.

The variables identified in this study are taxpayers' characteristics that may explain tax evasion among taxpayers with business income may not suffice as there are other factors that lead to tax evasion activities such education, taxpayers' attitude and perceptions as well as tax system and structure. Finally, this study only observes tax evasion activities among taxpayers with business income audited at one particular point of time which is the year 2015. A one year study may not be adequate to provide insights on tax evasion trend among taxpayers with business income. In addition, only taxpayers registered in Klang Valley are taken as samples for the study may not represent the whole taxpayers' population in Malaysia.

5.4 Direction for Future Research

Since there seemed to be different techniques exist in the estimation of tax evasion, added that a limited number of approaches taken in the exploration of tax empirical literature, future research on the measurement of tax evasion need to consider other methodologies to enhance the understanding of this issues. Academician and tax authority collaboration may be established in dedication to research and allow access to certain tax information that is not publicly available.

Moreover, future research may expand the total population and sample of current studies and include other variables that are not included in related tax compliance model such as

types of business' ownership either sole proprietor or partnership, taxpayers' status as High Net worth Individual (HNWI), assets owned in terms of property, shares or vehicles, financial status of a taxpayers and number of business or companies owned. When more data is accessible in future, researchers can explore and determine more variables that may be associated with tax evasion in Malaysia. A time series study may also be suggested to understand and familiarize tax evasion trend especially related to taxpayers with business income in Malaysia.

5.5 Conclusion

This is the final chapter that discussed empirical findings for data used in this study. Discussion includes data analysis results and justifications based on prior researches. Implication and limitations of the study are also highlighted and direction for future research is suggested on some issues being emphasized in this study. The main contribution of the study is a determination of significant difference between taxpayers' characteristics with tax evasion among taxpayers with business income in Klang Valley, Malaysia. While only four out of six of the tested hypothesis is supported, this study contributes to the existing literature that gender, age, income level and tax return filing experience can be associated with tax evasion among taxpayers' with business income. It is also hoped that future studies will continue with research agenda discussed in this study and address limitations indicated in this chapter.

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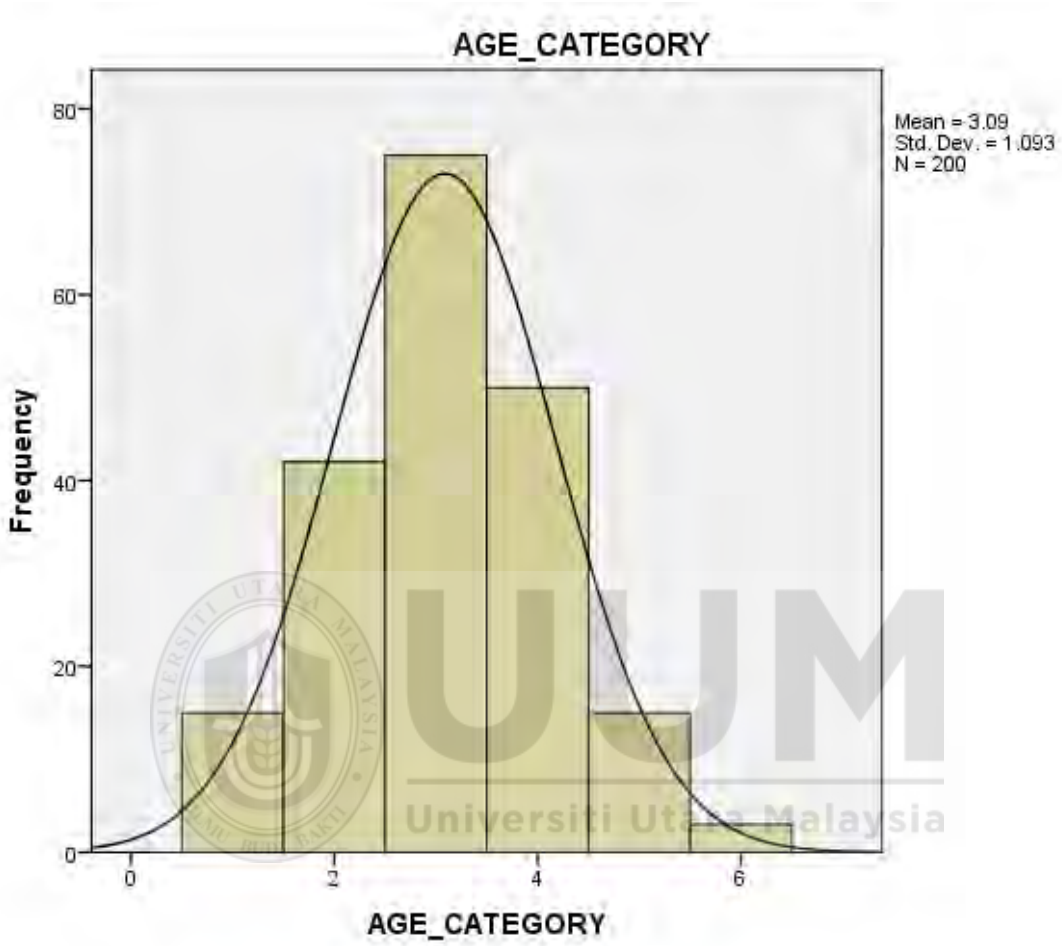

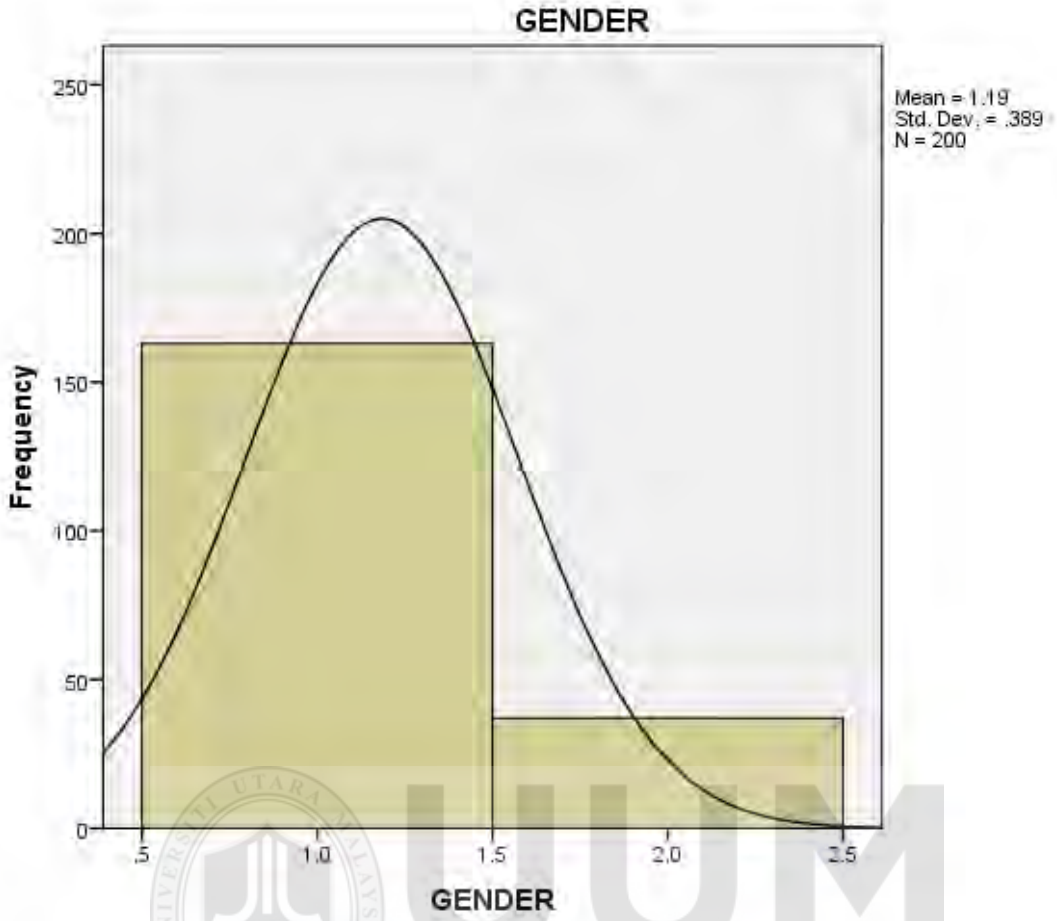

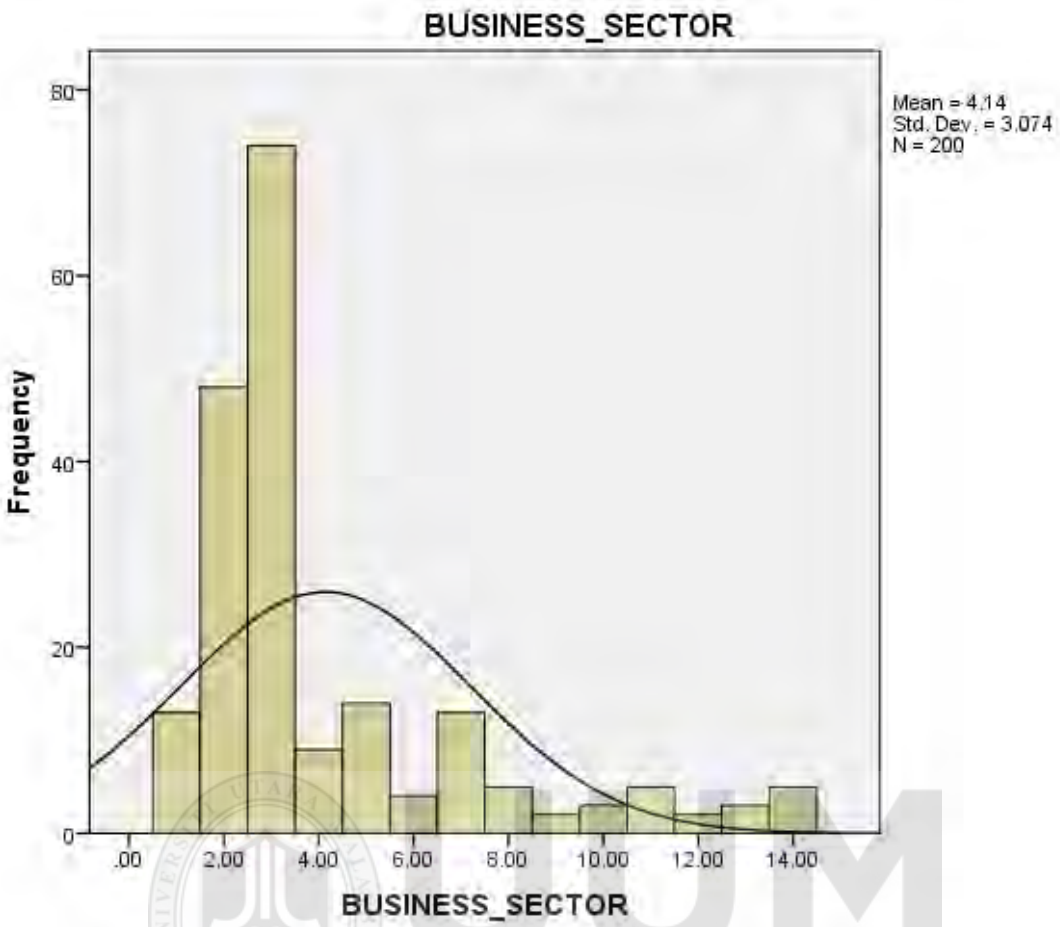

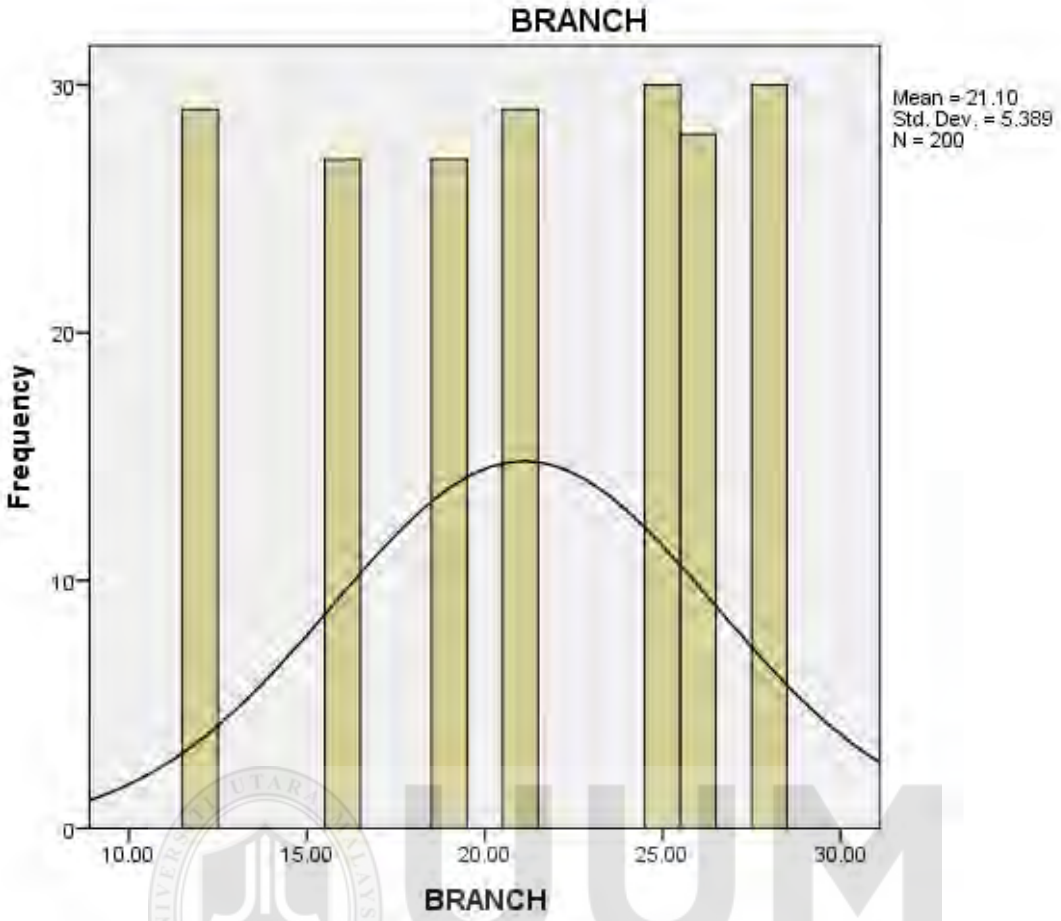

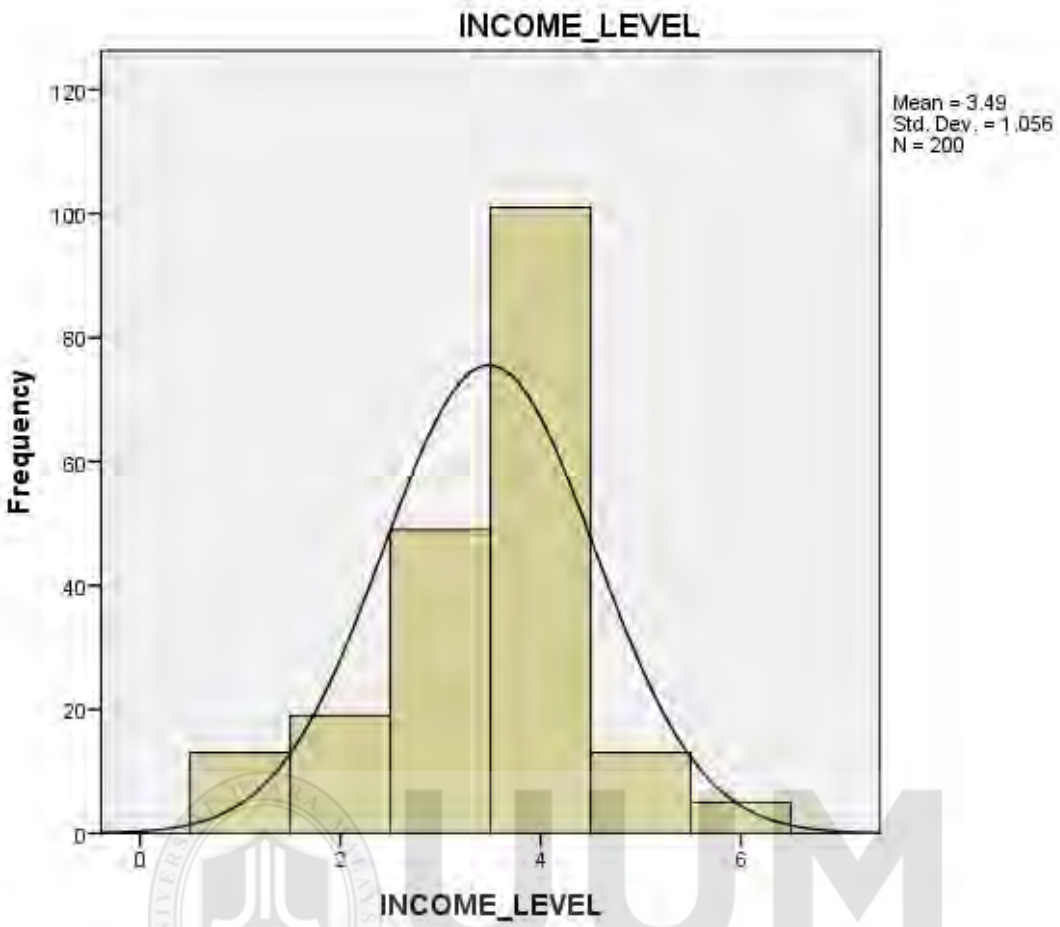

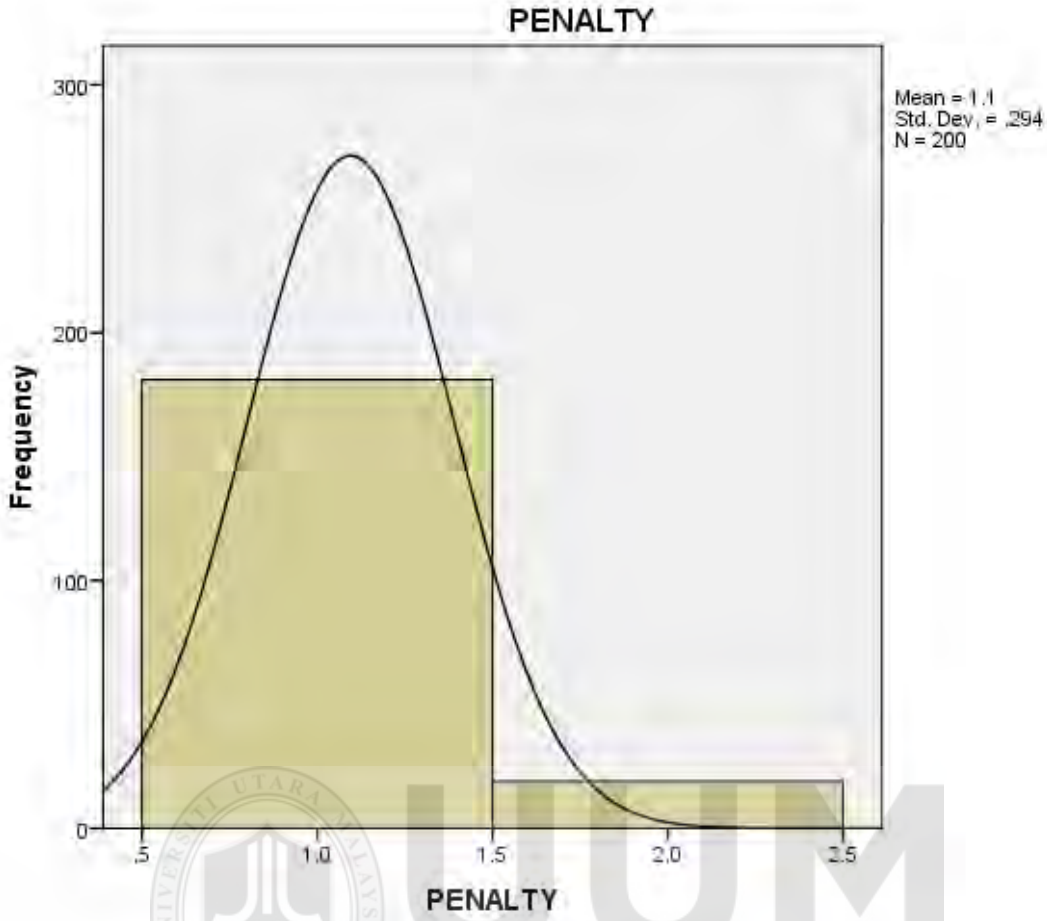

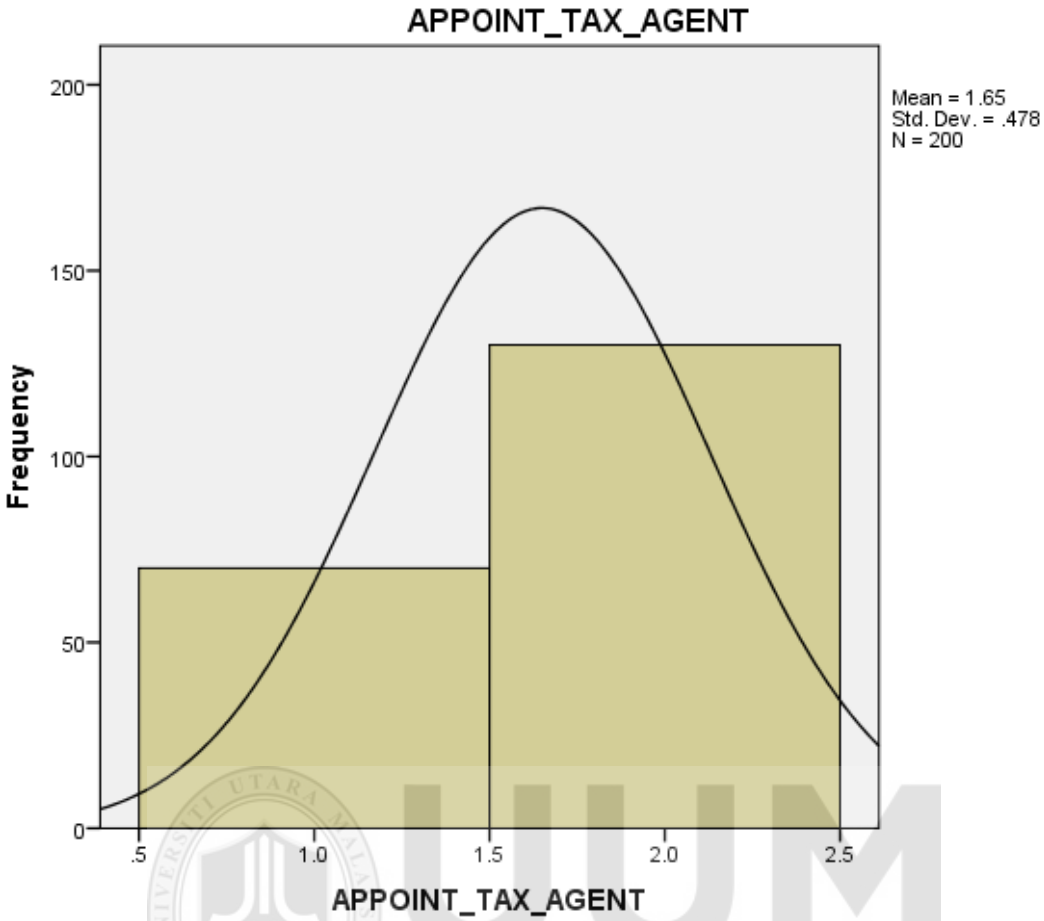

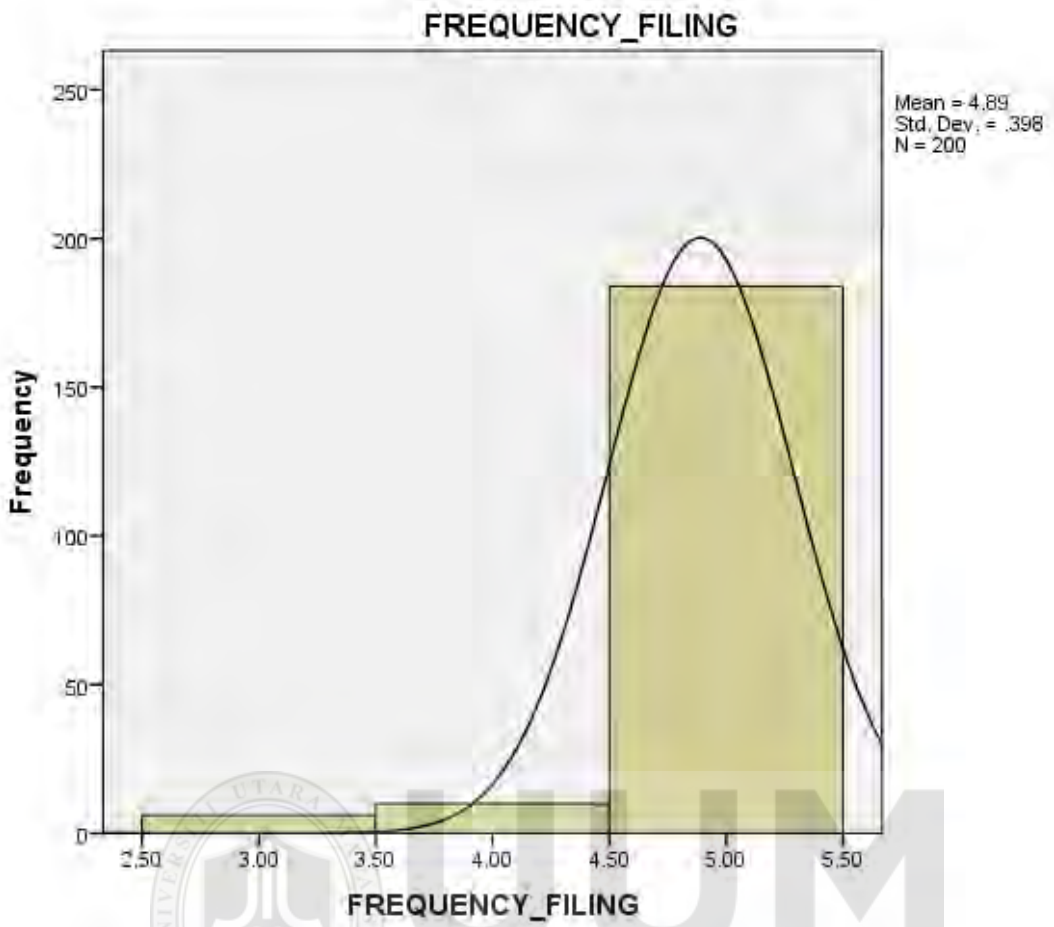

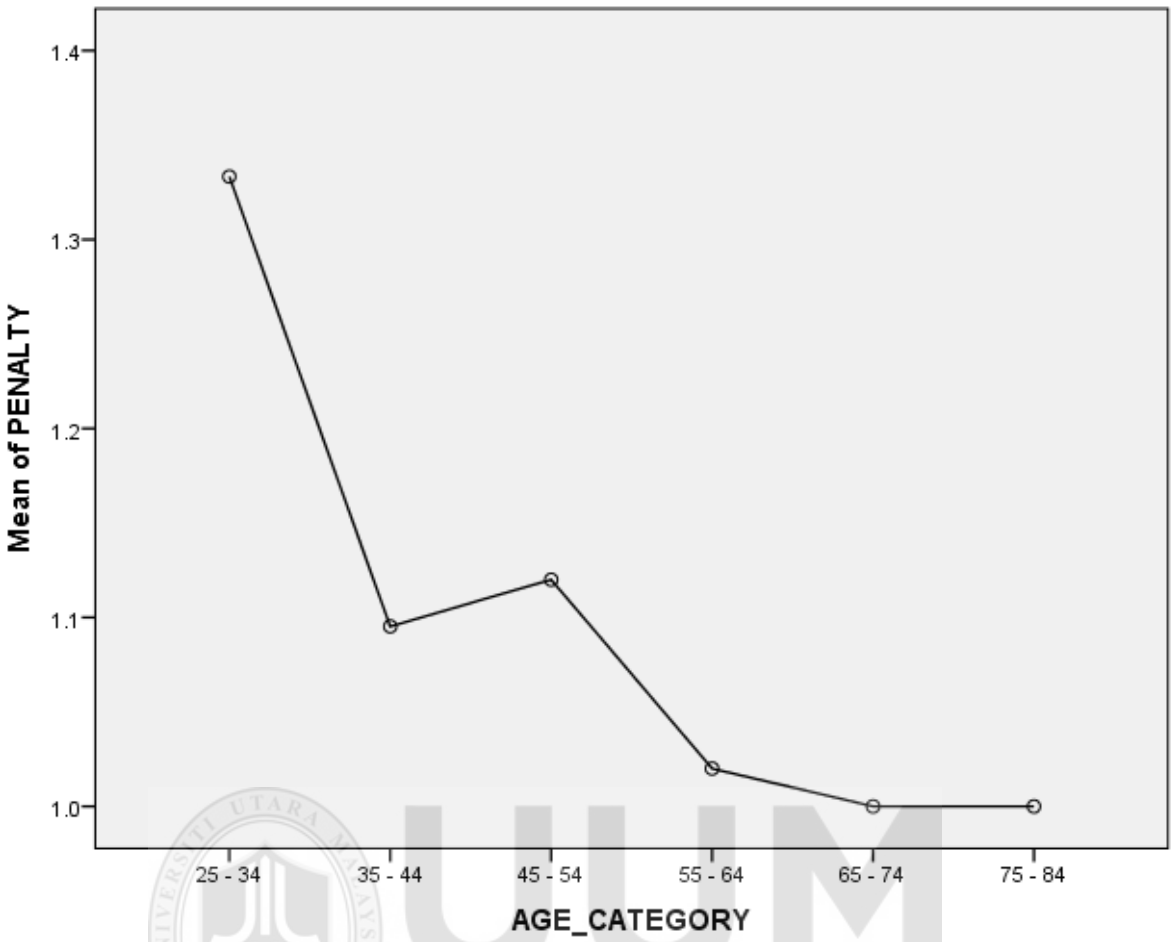

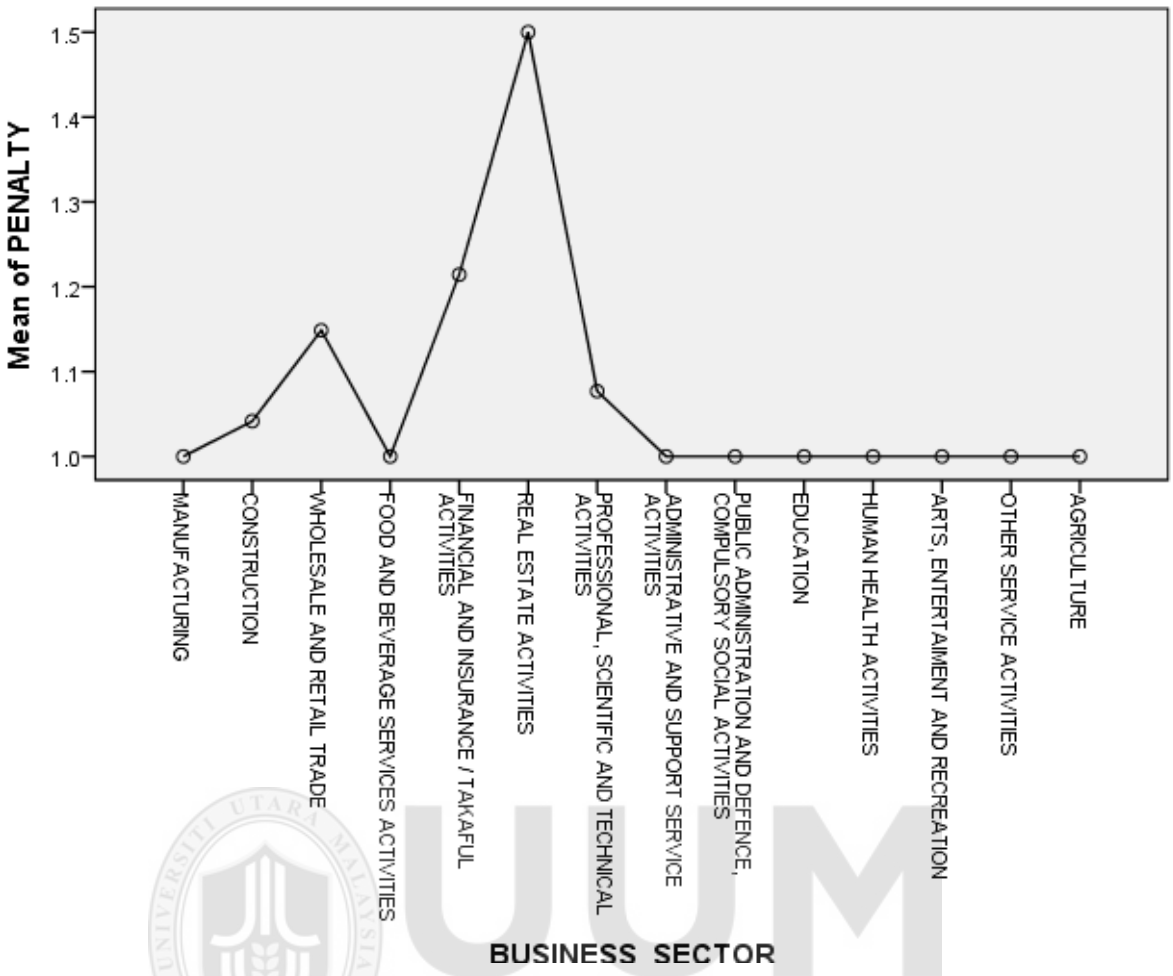

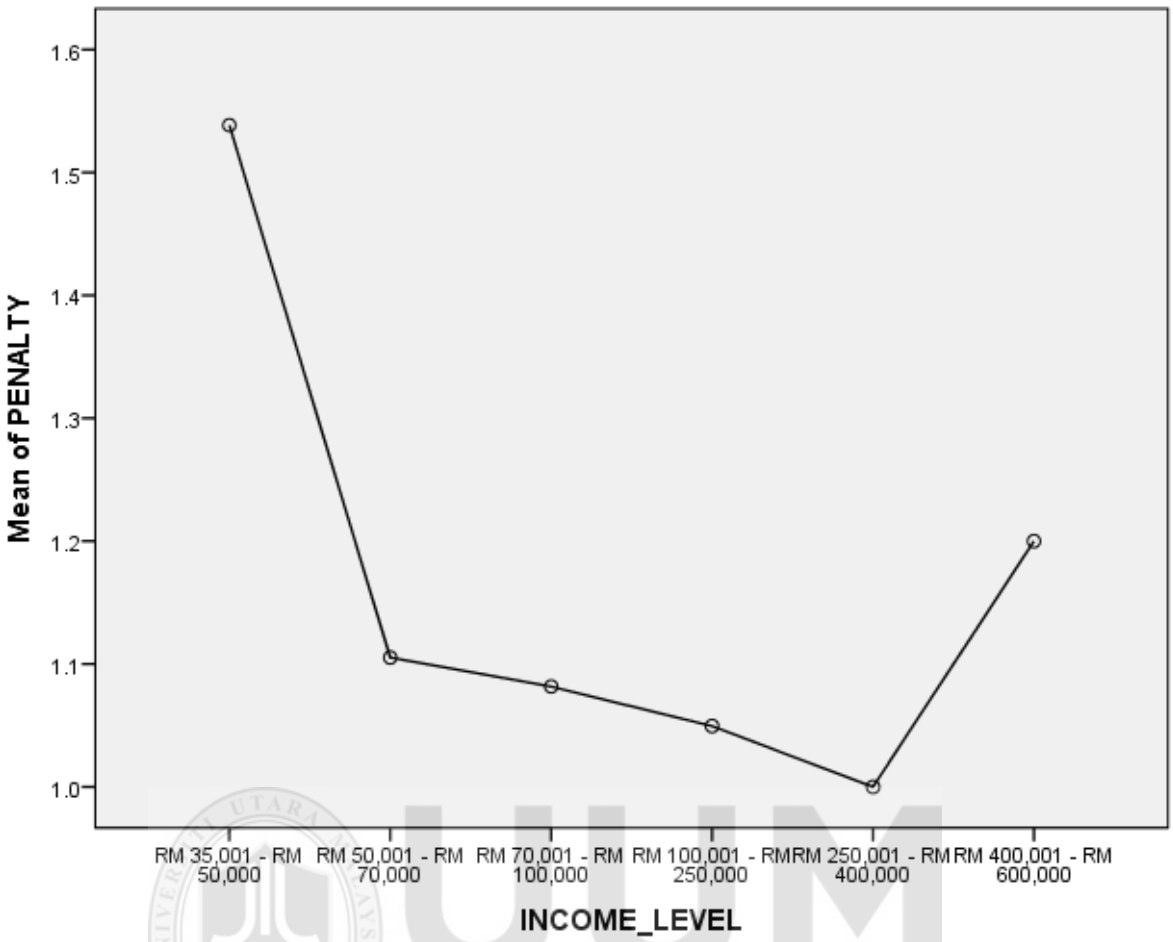

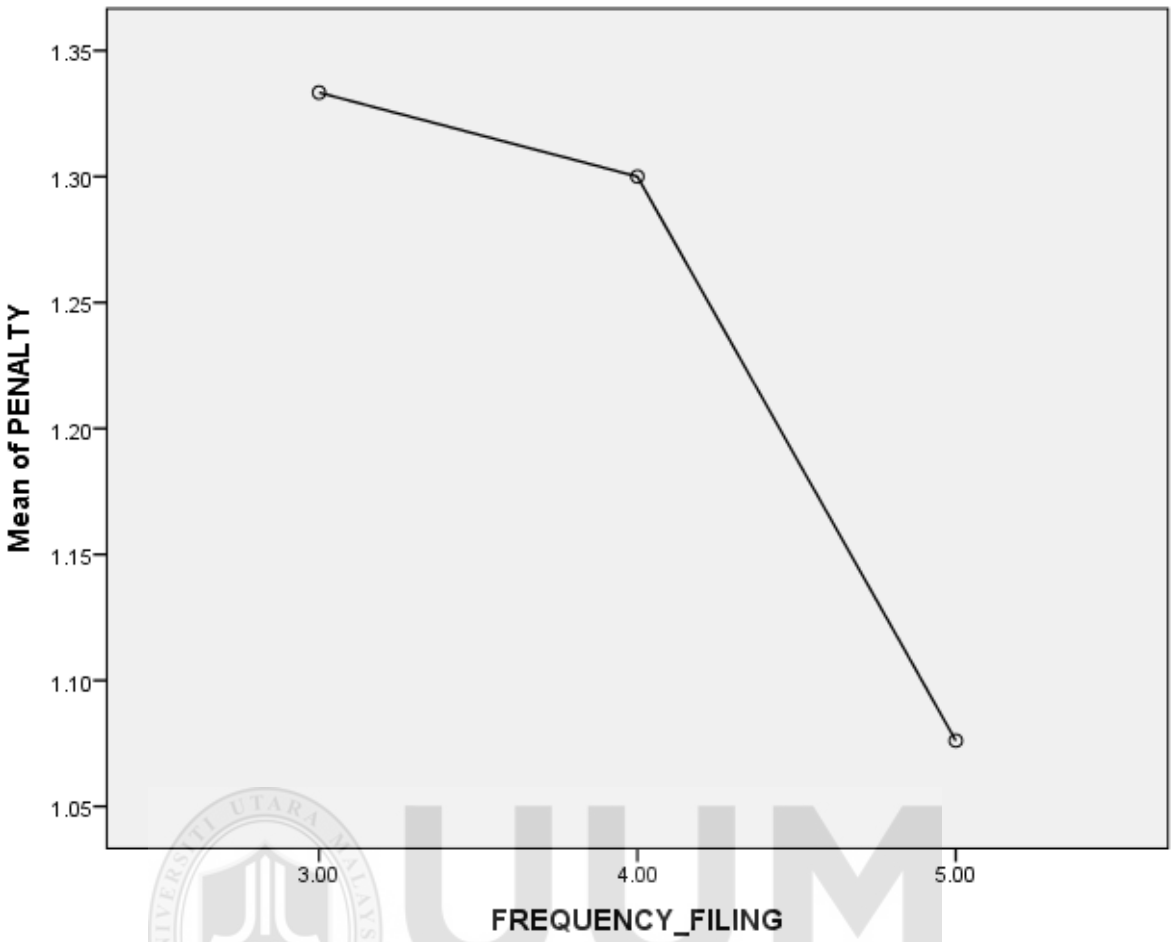

Multiple Comparisons

Dependent Variable: Penalty

Tukey Hsd

(I) Business_Sector	(J) Business_Sector	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Manufacturing	Construction	-.042	.090	1.000	-.35	.27
	Wholesale And Retail Trade	-.149	.087	.910	-.44	.15
	Food And Beverage Services Activities	.000	.125	1.000	-.43	.43
	Financial And Insurance / Takaful Activities	-.214	.111	.811	-.59	.16
	Real Estate Activities	-.500	.165	.140	-1.06	.06
	Professional, Scientific And Technical Activities	-.077	.113	1.000	-.46	.31
	Administrative And Support Service Activities	.000	.152	1.000	-.52	.52
	Public Administration And Defence, Compulsory Social Activities	.000	.220	1.000	-.75	.75
	Education	.000	.185	1.000	-.63	.63
	Human Health Activities	.000	.152	1.000	-.52	.52
	Arts, Entertaiment And Recreation	.000	.220	1.000	-.75	.75
	Other Service Activities	.000	.185	1.000	-.63	.63
	Agriculture	.000	.152	1.000	-.52	.52
Construction	Manufacturing	.042	.090	1.000	-.27	.35
	Wholesale And Retail Trade	-.107	.054	.768	-.29	.08

	Food And Beverage Services Activities	.042	.105	1.000	-.32	.40
	Financial And Insurance / Takaful Activities	-.173	.088	.787	-.47	.13
	Real Estate Activities	-.458	.151	.132	-.97	.05
	Professional, Scientific And Technical Activities	-.035	.090	1.000	-.34	.27
	Administrative And Support Service Activities	.042	.136	1.000	-.42	.50
	Public Administration And Defence, Compulsory Social Activities	.042	.209	1.000	-.67	.75
	Education	.042	.172	1.000	-.54	.63
	Human Health Activities	.042	.136	1.000	-.42	.50
	Arts, Entertaiment And Recreation	.042	.209	1.000	-.67	.75
	Other Service Activities	.042	.172	1.000	-.54	.63
	Agriculture	.042	.136	1.000	-.42	.50
	Manufacturing	.149	.087	.910	-.15	.44
	Construction	.107	.054	.768	-.08	.29
	Food And Beverage Services Activities	.149	.102	.973	-.20	.50
Wholesale And Retail Trade	Financial And Insurance / Takaful Activities	-.066	.084	1.000	-.35	.22
	Real Estate Activities	-.351	.148	.509	-.86	.15
	Professional, Scientific And Technical Activities	.072	.087	1.000	-.22	.37
	Administrative And Support Service Activities	.149	.134	.998	-.31	.60

	Public Administration And Defence, Compulsory Social Activities	.149	.207	1.000	-.56	.85
	Education	.149	.170	1.000	-.43	.73
	Human Health Activities	.149	.134	.998	-.31	.60
	Arts, Entertaiment And Recreation	.149	.207	1.000	-.56	.85
	Other Service Activities	.149	.170	1.000	-.43	.73
	Agriculture	.149	.134	.998	-.31	.60
	Manufacturing	.000	.125	1.000	-.43	.43
	Construction	-.042	.105	1.000	-.40	.32
	Wholesale And Retail Trade	-.149	.102	.973	-.50	.20
	Financial And Insurance / Takaful Activities	-.214	.124	.901	-.63	.21
	Real Estate Activities	-.500	.174	.198	-1.09	.09
	Professional, Scientific And Technical Activities	-.077	.125	1.000	-.50	.35
Food And Beverage Services Activities	Administrative And Support Service Activities	.000	.161	1.000	-.55	.55
	Public Administration And Defence, Compulsory Social Activities	.000	.226	1.000	-.77	.77
	Education	.000	.193	1.000	-.66	.66
	Human Health Activities	.000	.161	1.000	-.55	.55
	Arts, Entertaiment And Recreation	.000	.226	1.000	-.77	.77
	Other Service Activities	.000	.193	1.000	-.66	.66
	Agriculture	.000	.161	1.000	-.55	.55
Financial And Insurance / Takaful Activities	Manufacturing	.214	.111	.811	-.16	.59
	Construction	.173	.088	.787	-.13	.47
	Wholesale And Retail Trade	.066	.084	1.000	-.22	.35

	Food And Beverage Services Activities	.214	.124	.901	-.21	.63
	Real Estate Activities	-.286	.164	.898	-.84	.27
	Professional, Scientific And Technical Activities	.137	.111	.994	-.24	.52
	Administrative And Support Service Activities	.214	.151	.978	-.30	.73
	Public Administration And Defence, Compulsory Social Activities	.214	.219	.999	-.53	.96
	Education	.214	.184	.996	-.41	.84
	Human Health Activities	.214	.151	.978	-.30	.73
	Arts, Entertaiment And Recreation	.214	.219	.999	-.53	.96
	Other Service Activities	.214	.184	.996	-.41	.84
	Agriculture	.214	.151	.978	-.30	.73
	Manufacturing	.500	.165	.140	-.06	1.06
	Construction	.458	.151	.132	-.05	.97
	Wholesale And Retail Trade	.351	.148	.509	-.15	.86
	Food And Beverage Services Activities	.500	.174	.198	-.09	1.09
	Financial And Insurance / Takaful Activities	.286	.164	.898	-.27	.84
Real Estate Activities	Professional, Scientific And Technical Activities	.423	.165	.375	-.14	.99
	Administrative And Support Service Activities	.500	.194	.363	-.16	1.16
	Public Administration And Defence, Compulsory Social Activities	.500	.250	.768	-.35	1.35
	Education	.500	.221	.584	-.25	1.25

	Human Health Activities	.500	.194	.363	-.16	1.16
	Arts, Entertaiment And Recreation	.500	.250	.768	-.35	1.35
	Other Service Activities	.500	.221	.584	-.25	1.25
	Agriculture	.500	.194	.363	-.16	1.16
	Manufacturing	.077	.113	1.000	-.31	.46
	Construction	.035	.090	1.000	-.27	.34
	Wholesale And Retail Trade	-.072	.087	1.000	-.37	.22
	Food And Beverage Services Activities	.077	.125	1.000	-.35	.50
	Financial And Insurance / Takaful Activities	-.137	.111	.994	-.52	.24
	Real Estate Activities	-.423	.165	.375	-.99	.14
Professional, Scientific And Technical Activities	Administrative And Support Service Activities	.077	.152	1.000	-.44	.59
	Public Administration And Defence, Compulsory Social Activities	.077	.220	1.000	-.67	.82
	Education	.077	.185	1.000	-.55	.71
	Human Health Activities	.077	.152	1.000	-.44	.59
	Arts, Entertaiment And Recreation	.077	.220	1.000	-.67	.82
	Other Service Activities	.077	.185	1.000	-.55	.71
	Agriculture	.077	.152	1.000	-.44	.59
	Manufacturing	.000	.152	1.000	-.52	.52
	Construction	-.042	.136	1.000	-.50	.42
	Wholesale And Retail Trade	-.149	.134	.998	-.60	.31
Administrative And Support Service Activities	Food And Beverage Services Activities	.000	.161	1.000	-.55	.55
	Financial And Insurance / Takaful Activities	-.214	.151	.978	-.73	.30
	Real Estate Activities	-.500	.194	.363	-1.16	.16

	Professional, Scientific And Technical Activities	-.077	.152	1.000	-.59	.44
	Public Administration And Defence, Compulsory Social Activities	.000	.242	1.000	-.82	.82
	Education	.000	.211	1.000	-.72	.72
	Human Health Activities	.000	.183	1.000	-.62	.62
	Arts, Entertaiment And Recreation	.000	.242	1.000	-.82	.82
	Other Service Activities	.000	.211	1.000	-.72	.72
	Agriculture	.000	.183	1.000	-.62	.62
	Manufacturing	.000	.220	1.000	-.75	.75
	Construction	-.042	.209	1.000	-.75	.67
	Wholesale And Retail Trade	-.149	.207	1.000	-.85	.56
	Food And Beverage Services Activities	.000	.226	1.000	-.77	.77
	Financial And Insurance / Takaful Activities	-.214	.219	.999	-.96	.53
Public Administration And Defence, Compulsory Social Activities	Real Estate Activities	-.500	.250	.768	-1.35	.35
	Professional, Scientific And Technical Activities	-.077	.220	1.000	-.82	.67
	Administrative And Support Service Activities	.000	.242	1.000	-.82	.82
	Education	.000	.264	1.000	-.90	.90
	Human Health Activities	.000	.242	1.000	-.82	.82
	Arts, Entertaiment And Recreation	.000	.289	1.000	-.98	.98
	Other Service Activities	.000	.264	1.000	-.90	.90
	Agriculture	.000	.242	1.000	-.82	.82
	Manufacturing	.000	.185	1.000	-.63	.63
Education	Construction	-.042	.172	1.000	-.63	.54
	Wholesale And Retail Trade	-.149	.170	1.000	-.73	.43

	Food And Beverage Services Activities	.000	.193	1.000	-.66	.66
	Financial And Insurance / Takaful Activities	-.214	.184	.996	-.84	.41
	Real Estate Activities	-.500	.221	.584	-1.25	.25
	Professional, Scientific And Technical Activities	-.077	.185	1.000	-.71	.55
	Administrative And Support Service Activities	.000	.211	1.000	-.72	.72
	Public Administration And Defence, Compulsory Social Activities	.000	.264	1.000	-.90	.90
	Human Health Activities	.000	.211	1.000	-.72	.72
	Arts, Entertaiment And Recreation	.000	.264	1.000	-.90	.90
	Other Service Activities	.000	.236	1.000	-.80	.80
	Agriculture	.000	.211	1.000	-.72	.72
	Manufacturing	.000	.152	1.000	-.52	.52
	Construction	-.042	.136	1.000	-.50	.42
	Wholesale And Retail Trade	-.149	.134	.998	-.60	.31
	Food And Beverage Services Activities	.000	.161	1.000	-.55	.55
Human Health Activities	Financial And Insurance / Takaful Activities	-.214	.151	.978	-.73	.30
	Real Estate Activities	-.500	.194	.363	-1.16	.16
	Professional, Scientific And Technical Activities	-.077	.152	1.000	-.59	.44
	Administrative And Support Service Activities	.000	.183	1.000	-.62	.62

	Public Administration And Defence, Compulsory Social Activities	.000	.242	1.000	-.82	.82
	Education	.000	.211	1.000	-.72	.72
	Arts, Entertaiment And Recreation	.000	.242	1.000	-.82	.82
	Other Service Activities	.000	.211	1.000	-.72	.72
	Agriculture	.000	.183	1.000	-.62	.62
	Manufacturing	.000	.220	1.000	-.75	.75
	Construction	-.042	.209	1.000	-.75	.67
	Wholesale And Retail Trade	-.149	.207	1.000	-.85	.56
	Food And Beverage Services Activities	.000	.226	1.000	-.77	.77
	Financial And Insurance / Takaful Activities	-.214	.219	.999	-.96	.53
	Real Estate Activities	-.500	.250	.768	-1.35	.35
Arts, Entertaiment And Recreation	Professional, Scientific And Technical Activities	-.077	.220	1.000	-.82	.67
	Administrative And Support Service Activities	.000	.242	1.000	-.82	.82
	Public Administration And Defence, Compulsory Social Activities	.000	.289	1.000	-.98	.98
	Education	.000	.264	1.000	-.90	.90
	Human Health Activities	.000	.242	1.000	-.82	.82
	Other Service Activities	.000	.264	1.000	-.90	.90
	Agriculture	.000	.242	1.000	-.82	.82
	Manufacturing	.000	.185	1.000	-.63	.63
Other Service Activities	Construction	-.042	.172	1.000	-.63	.54
	Wholesale And Retail Trade	-.149	.170	1.000	-.73	.43

	Food And Beverage Services Activities	.000	.193	1.000	-.66	.66
	Financial And Insurance / Takaful Activities	-.214	.184	.996	-.84	.41
	Real Estate Activities	-.500	.221	.584	-1.25	.25
	Professional, Scientific And Technical Activities	-.077	.185	1.000	-.71	.55
	Administrative And Support Service Activities	.000	.211	1.000	-.72	.72
	Public Administration And Defence, Compulsory Social Activities	.000	.264	1.000	-.90	.90
	Education	.000	.236	1.000	-.80	.80
	Human Health Activities	.000	.211	1.000	-.72	.72
	Arts, Entertaiment And Recreation	.000	.264	1.000	-.90	.90
	Agriculture	.000	.211	1.000	-.72	.72
	Manufacturing	.000	.152	1.000	-.52	.52
	Construction	-.042	.136	1.000	-.50	.42
	Wholesale And Retail Trade	-.149	.134	.998	-.60	.31
	Food And Beverage Services Activities	.000	.161	1.000	-.55	.55
Agriculture	Financial And Insurance / Takaful Activities	-.214	.151	.978	-.73	.30
	Real Estate Activities	-.500	.194	.363	-1.16	.16
	Professional, Scientific And Technical Activities	-.077	.152	1.000	-.59	.44
	Administrative And Support Service Activities	.000	.183	1.000	-.62	.62

Public Administration And Defence, Compulsory Social Activities	.000	.242	1.000	-.82	.82
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Human Health Activities	.000	.183	1.000	-.62	.62
Arts, Entertaiment And Recreation	.000	.242	1.000	-.82	.82
Other Service Activities	.000	.211	1.000	-.72	.72