

The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.



**PERCEPTION OF TAXPAYERS TOWARDS TAX COMPLIANCE ON
JUSTICE, TAX RATE AND TAX PENALTY IN MALAYSIA**



MASTER IN TAXATION

UNIVERSITI UTARA MALAYSIA

DECEMBER 2022

**PERCEPTION OF TAXPAYERS TOWARDS TAX COMPLIANCE ON JUSTICE,
TAX RATE AND TAX PENALTY IN MALAYSIA**

By



Thesis Submitted to

Tunku Puteri Intan Safinaz School of Accountancy,

Universiti Utara Malaysia,

In Partial Fulfillment of The Requirement for the Degree Master in Taxation



Kolej Perniagaan
(College of Business)
Universiti Utara Malaysia

PERAKUAN KERJA DISERTASI/KERTAS PENYELIDIKAN/KERTAS PROJEK
(Certification of thesis / dissertation)

Kami, yang bertandatangan, memperakukan bahawa
(We, the undersigned, certify that)

HAMIZAH AZIZAH BINTI SOBRI (827513)

calon untuk Ijazah **MASTER IN TAXATION (MIT)**
(candidate for the degree of)

telah mengemukakan tesis / disertasi yang bertajuk:
(has presented his/her thesis / dissertation of the following title):

**PERCEPTION OF TAXPAYERS TOWARDS TAX COMPLIANCE ON JUSTICE, TAX RATE AND TAX
PENALTY IN MALAYSIA**

seperti yang tercatat di muka surat tajuk dan kulit tesis / disertasi.
(as it appears on the title page and front cover of the thesis / dissertation).

Bahawa tesis/disertasi tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan, sebagaimana yang ditunjukkan oleh calon dalam ujian lisan yang diadakan pada:

.
(That the said thesis/dissertation is acceptable in form and content and displays a satisfactory knowledge of the field of study as demonstrated by the candidate through an oral examination held on:
.

Pengerusi Viva :
(Chairman for Viva)

Tandatangan
(Signature)

Pemeriksa Dalam :
(Internal Examiner)

PROF. MADYA DR. MUNUSAMY A/L MARIMUTHU

Tandatangan
(Signature)

Tarikh: **12 DISEMBER 2022**
(Date)

Nama Pelajar : **HAMIZAH AZIZAH BINTI SOBRI (827513)**
(Name of Student)

Tajuk Tesis / Disertasi : **PERCEPTION OF TAXPAYERS TOWARDS TAX COMPLIANCE ON**
(Title of the Thesis / Dissertation) **JUSTICE, TAX RATE AND TAX PENALTY IN MALAYSIA**

Program Pengajian : **MASTER IN TAXATION (MIT)**
(Programme of Study)

Nama Penyelia/Penyelia-penyelia : **PROF. DR. HIJATTULAH BIN ABDUL JABBAR**
(Name of Supervisor/Supervisors)

Tandatangan



UUM
Universiti Utara Malaysia

PERMISSION TO USE

In presenting this project paper in partial fulfilment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this University may make it freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor or, in his absence, by the Dean of Tunku Puteri Intan Safinaz School of Accountancy where I did my project paper. It is understood that any copying or publication or use of this project paper parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my project paper.

Request for permission to copy or to make other use of materials in this project paper, in whole or in part should be addressed to:



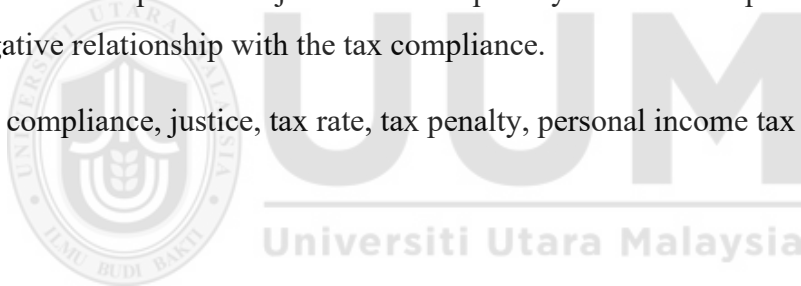
Dean of Tunku Puteri Intan Safinaz School of Accountancy
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman



ABSTRACT

Tax compliance is a degree of obligation of taxpayers towards the rule and regulations of taxes which free from any involvement in tax avoidance or tax evasion activities. In Malaysia, tax collection is one of the main incomes revenue to govern the country. Recently, the tax collection seems decrease due to tax compliance gap. Previous studies are focusing on the corporate tax, SME's or combination with personal income tax. As less attention was given specifically to personal income tax research, the current study has been conducted to examine the relationship between the perception of taxpayers on justice, tax rate and tax penalty towards the personal income tax compliance. There are two theories used in the study which are Fiscal Exchange Theory and Economic Deterrence Theory reflecting the variables. There are seventy-four returned questionnaires that measured the perception of taxpayers on justice, tax rate and tax penalty towards personal income tax compliance. The findings reveal that there is positive and significant relationship between justice and tax penalty with tax compliance. While then, tax rate has negative relationship with the tax compliance.

Keywords: tax compliance, justice, tax rate, tax penalty, personal income tax



ABSTRAK

Pematuhan cukai adalah kewajipan pembayar cukai terhadap peraturan dan undang-undang percukaian serta mereka yang tidak melibatkan aktiviti pengelakan cukai atau tidak membayar cukai. Di Malaysia, kutipan cukai adalah salah satu hasil pendapatan utama untuk pentadbiran negara. Baru-baru ini, kutipan cukai dilihat semakin berkurangan adalah mungkin disebabkan oleh jurang pematuhan cukai. Kajian terdahulu memberi tumpuan kepada cukai korporat, PKS atau gabungan Bersama cukai pendapatan peribadi. Oleh kerana kurang perhatian diberikan khusus kepada penyelidikan cukai pendapatan peribadi, kajian semasa telah dijalankan untuk mengkaji hubungan antara persepsi pembayar cukai terhadap keadilan, kadar cukai dan penalti terhadap pematuhan cukai pendapatan peribadi. Terdapat dua teori yang digunakan dalam kajian ini iaitu Teori Pertukaran Fiskal dan Teori Pencegahan Ekonomi yang mencerminkan pemboleh ubah yang digunakan. Terdapat tujuh puluh empat soal selidik yang dikembalikan untuk menganalisis persepsi pembayar cukai terhadap keadilan, kadar cukai dan penalti cukai terhadap pematuhan cukai pendapatan peribadi. Penemuan kajian menunjukkan bahawa terdapat hubungan positif dan signifikan antara keadilan dan penalti cukai dengan pematuhan cukai. Walaupun begitu, kadar cukai pula mempunyai hubungan negatif dengan pematuhan cukai.

Kata kunci: pematuhan cukai, keadilan, kadar cukai, penalti cukai, cukai pendapatan individu

ACKNOWLEDGEMENT

I would like to express my sincere gratitude and appreciation to those who gave the support and strength to complete this project which is part of requirement to fulfil the program of Master in Taxation. First of all, I would like to thank my supervisor, Prof. Dr. Hijattullah Abdul Jabbar for providing me with the necessary helps and guidance concerning this project implementation.

Furthermore, I am also grateful to all the respondents for spending their time to complete our questionnaires sets. Without their knowledge and experience, this project would be lack in quality of genuine outcomes. Thus, their support has been essential in completing this project.

Apart from that, I would like to give my sincere appreciation to my husband, families and colleagues for their kind cooperation and encouragement which helped me to succeed in this undertaking. Not to forget, lecturers who are associated to help and support me throughout the completion of this project.

Above all, I would like to thank the Almighty God, Allah s.w.t for His blessings and love to allowed me to put the fullest effort in completing this master project. Definitely, this project succession is associated by His permission.

Thank you.

TABLE OF CONTENT

PERMISSION TO USE	ii
ABSTRACT	iii
ABSTRAK	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENT	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATION	xi
CHAPTER 1: INTRODUCTION	1
1.1 Introduction	1
1.1.1 Tax Collection in Malaysia	3
1.2 Income Tax in Malaysia	3
1.3 Problem Statement	5
1.4 Research Questions	7
1.5 Research Objectives	8
1.6 Scope of the Study	8
1.7 Significant of the Study	8
1.8 Organization of Report	9
CHAPTER 2: LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Tax Compliance	11
2.2.1 Justice	12
2.2.2 Tax Rate	13
2.2.3 Tax Penalty	13

2.3 Previous Empirical Works	14
2.3.1 Tax Compliance	14
2.3.2 Justice	15
2.3.3 Tax Rate	15
2.3.4 Tax Penalty	16
2.4 Fiscal Exchange Theory	16
2.5 Economic Deterrence Theory	17
2.6 Summary of the Chapter	18
CHAPTER 3: METHODOLOGY	20
3.1 Introduction	20
3.2 Data Descriptions	20
3.3 Theory to be Employed	21
3.4 Variables	22
3.4.1 Dependent Variable	22
3.4.2 Independent Variable	22
3.5 Theoretical Framework	23
3.6 Econometric Model	24
3.7 Hypothesis Statements	24
3.7.1 Justice and Tax Compliance	24
3.7.2 Tax Rate and Tax Compliance	25
3.7.3 Tax Penalty and Tax Compliance	26
3.8 Proposal Empirical Method/ Data Analysis Technique	27
3.9 Population, Sample and Sampling Technique	27
3.9.1 Questionnaire Design and Measurement	28
3.9.2 Data Analysis Technique	30
3.10 Summary of the Chapter	30

CHAPTER 4: RESEARCH FINDINGS AND DISCUSSION	31
4.1 Introduction	31
4.2 Response Rate	31
4.3 Respondents' Profile	32
4.4 Descriptive Statistics	34
4.5 Regression Analysis	36
4.5.1 Least Square Method (LSM)	36
4.5.2 Robust Least Square (RLS)	38
4.6 Summary of the Chapter	39
 CHAPTER 5: CONCLUSION AND RECOMMENDATION	 40
5.1 Introduction	40
5.2 Recapitulation of the Study	40
5.3 Contribution to the Body of Knowledge	42
5.4 Limitation of Study	42
5.5 Recommendation	44
5.6 Conclusion	44
 REFERENCES	 46
APPENDIX A: QUESTIONNAIRE (ENGLISH)	49
APPENDIX B: QUESTIONNAIRE (MALAY)	58
APPENDIX C: EViews OUTPUT	67

LIST OF TABLES

Table 3.1	Variable Measurement for Questionnaire	28
Table 4.1	Questionnaires Response Rate	31
Table 4.2	Respondents' Profile	32
Table 4.3	Descriptive Statistics	34
Table 4.4	Mean for Each Variables' Question	35
Table 4.5	Regression Analysis – LSM	37
Table 4.6	Regression Analysis – RLS	38



LIST OF FIGURES

Figure 2.1	Fiscal Exchange Behavior Theory Model	17
Figure 2.2	Deterrence Theory Model	18
Figure 3.1	Theoretical Framework	23



LIST OF ABBREVIATION

GST:	Goods and Services Tax
ITA:	Income Tax Act
LHDN:	Lembaga Hasil Dalam Negeri
LSM:	Least Square Method
MoF:	Ministry of Finance
RLS:	Robust Least Square
SST:	Sales and Services Tax
R&D:	Research and Development
SAS:	Self-Assessment System



CHAPTER ONE

INTRODUCTION

1.1 Introduction

Tax revenue is one of the most important income in Malaysia as it helps in the growth and development of the country. Generally, taxes play an important role to finance the government and to funding the public project which will help in economic growth. During 19th century, according to Maria (2021), taxes collected are mainly with the purpose of funding of government but in these days, taxes have been used widely for country development and societies project such as medical and health, education, governance, research and development (R&D) and standard of living of citizens. Due to that, tax laws are very important to be complied and paid by all Malaysian taxpayers in order to fund back into the economy of the country. Besides, taxes contribute the largest amount of income to the government revenue in Malaysia (Mohamad et al., 2016).

Tax compliance can be determined as the degree of obligation of taxpayers towards the rules, law and regulations of taxes (Ling et al., 2016). Ling et al. (2016) also stated that by assessing the determinants of the perception of taxpayers, it may help in increasing the tax compliance. Tax compliance also can be defined as an awareness of people to oblige with the tax laws whether from federal, state, country or international level required and set by authorities accordingly to the prescribed period (Northeastern University, 2021). Purposely non-compliance towards the tax laws can be done through tax evasion or tax avoidance where it could be from various reason such as taxpayers' perceptions. Inability to comply with the tax laws, rules and regulations may give consequences to the individual or businesses which might involve penalties or fines. Tax compliance can be explained as an act to voluntary to be

obedient on the tax laws, rules and regulations. Taxes collected act as government revenue in general which will be used for society and citizens specifically on Malaysia. It also helps government to be able to conduct the country and provide good social welfare.

However, the perceptions of taxpayers on how the tax revenue is managed will be important in this research as the level of compliance can be determined based on the determinants of justice, tax rate and tax penalty. Perceptions which lead to act in contrast with tax compliance may contribute to the development of country and society. In the modern economic condition, Maria (2021) said that taxation is not only give thoroughly effects on the revenue of government only but also on the economy of the country. Hence, the level of tax compliance among taxpayers in Malaysia should be carefully monitor to avoid decreases in compliance to ensure the taxes are able to be collected accordingly.

None of taxpayers enjoy paying taxes however, they should realize that the contribution made will benefited them in future for funding public and society either in goods or services (Ling et al., 2016). As to that, the determinants of perceptions among taxpayers should not be neglected in order to come out with the tax compliance pattern (Ling et al., 2016). Gberegbe & Umoren (2017) find that perceptions of taxpayers on tax fairness had significantly positive relationship with the level of tax compliance. Non-compliance of tax can be done by evading or avoiding the taxes regardless which been used by taxpayers, it should be controlled to avoid subsequent events caused by that. This study will investigate further on the relationship between tax compliance and perceptions of the taxpayers (Gberegbe & Umoren, 2017).

Faizal et al. (2017) shows significantly positive relationship between justice and tax compliance through the multiple regression testing. Capasso et al. (2021) explained that tax compliance attitudes will be affected by combining of perceptions and trust, rule of law, accountability, justice, and efficiency of government. Saad (2012) stated that findings of tax

compliance resulting vary to different perceptions of taxpayers. Self-taxpayers are more likely to involved as they have choice to act non-compliance (Saad, 2012). This study will provide evidence from survey distributed generally to taxpayers in Malaysia without categorize to a specific state or types of taxpayers. The survey will gather the information on how the perceptions of taxpayers on tax compliance towards the three determinants. This study will examine based on the three independent variables which are focusing on the justice, tax rate and tax penalty will affect the tax compliance behavior based on the taxpayers' perception. This research will only focus on the Malaysian taxpayers on personal income tax.

1.1.1 Tax Collection in Malaysia

In the year of 2019, IRBM able to collect income tax amounting RM 145.11 billion followed by RM 123.09 billion and RM 127 billion for 2020 and 2021 (IRBM, 2019; IRBM, 2020; MoF, 2021). The tax collected of all three years from the estimated tax collection for 2019 & 2021 are 4.89 million and increase to 16.9 million, while 2020 has achieved the target (IRBM, 2019; MoF, 2021). Furthermore, tax arrears in these three consecutive years are showing consistent increases from 9.4 billion in 2019, 10.4 billion in 2020, and 12.9 billion in 2021 (IRBM, 2021).

This research will provide the explanation on theoretical and also evidence from survey which undergo several tests and analysis to proof the hypothesis gathered from previous empirical studies. Even so, there are several authors show different results on similar relationships of studies. The next section will briefly explain about tax in Malaysia based on tax laws and from previous study.

1.2 Income Tax in Malaysia

Generally, tax laws in Malaysia are mainly based on the Income Tax Act (ITA) 1967 which according to the latest amendment of 1 April 2022. Referring to the latest Inland Revenue Board Malaysia (2022) portal websites, other act used besides ITA 1967 includes Petroleum

Income Tax Act 1967, RPGT 1976, Promotion of Investment Act 1986, Stamp Act 1949, and Labuan Offshore Business Activity Tax Act (1990). Malaysia imposed two broad types of taxes which are direct and indirect taxes. As to this research, the focus is on direct income tax includes which is under administration of the IRBM (Miskam et al., 2013).

ITA (1967) is being referred for income tax purposes which the taxes will be calculated for every year of assessment according to the income accruing in or derived by any person from Malaysia. Besides, the tax that is generated from outside Malaysia but received in Malaysia, will also being taxed in accordance to Malaysian tax laws. However, offshore business activity which carried on by offshore company will not be charged of tax. While then, other than offshore companies, the tax will be chargeable and Labuan Offshore Business Activity Tax Act (1990) may be applied as reference. There are several classes of income that chargeable in Malaysia includes, (a) gain or profit from business, (b) gain or profit from an employment, (c) dividend, interest, discount, (d) rental, royalty, premium, (e) pensions, annuities, periodic payment, (f) gain or profit other than mentioned classes and also services that are fall under special classes of income (ITA, 1967).

Apart from direct taxes, there is one more important tax in Malaysia which is Sales and Service Tax (SST) which fall under indirect taxes category. Previously, Malaysia had introduced SST as main indirect taxes in Malaysia, which then replaced by the Goods and Service Tax (GST) effective from 1st April 2015 (Grant Thornton, 2022). However, after three years GST in practice, subsequently, SST was reintroduced with effect from 1st September 2018 to replace GST after it was repealed (Grant Thornton, 2022). Sales tax rates in Malaysia for most of the goods is at 10%. Besides, some selected goods are charged at half which is 5%. On the other hand, service tax in Malaysia is charged at fixed rate of 6%.

1.3 Problem Statement

Taxpayers will act to evade taxes when they are having perceptions on the benefits gain from taxes paid would be lower than the amount contributed (Mohddali et al., 2014). Government faces a lot of losses as the tax collected were not fully paid or unpaid as the taxpayers may have negative perception regarding the utilizations of the tax collected (Mohamad et al., 2016). It is also agreed by Saad (2012) that the authorities facing non-compliance tax issue with the taxpayers. Saad (2012) stated that the on-going tax non-compliance happened has attract the IRBM concerns. Due to that, the taxpayers are more likely to act non-compliance towards the taxes rather than paid to government without assurance it will be distributed fairly to citizens (Saad, 2012). Based on the annual report by (IRBM, 2018; IRBM, 2019), both years tax collection unable to achieve targeted tax to be collected. Besides, MoF (2021) also stated that the tax collection of the year 2021 also lower than expected. Sinnasamy et al. (2015) also agreed that taxes are becoming main revenue for developed and developing countries but the issue of tax non-compliance remains a serious issue globally.

Khalid & Yang (2021) also explain that many countries including Malaysia facing injustice where the increasing in inequality of income rather than reduction of poor citizens. Due to that problem, it will affect the government revenue on taxes which works as one of the highest revenues collected in Malaysia (Mohamad et al., 2016). As we know, the purpose of taxation paid such as income tax, sales and service tax, excise tax or import tax are collected for government revenue which will be used for development and distributed to citizens (Gberegbe & Umoren, 2017). The barrier will arise when the taxpayers have negative perceptions on taxes paid which leads them to not comply with the tax regulations.

Moreover, Faizal et al. (2017) has studied on the justice in taxes contributed which shows positive relationship with the tax compliance among taxpayers. There is also mentioned that

the non-compliance of taxes still happens due to their perception on justice when taxpayers has thought of similar economic standing should taxed at the same rate (Faizal et al., 2017). Even though tax authority has imposed strict action on them, the statistic shown by IRBM for the year 2013 and 2014 shows increasing in non-compliance with 588 cases to 618 cases (Faizal et al., 2017). The higher the trust of taxpayers towards the government on the taxes paid, the more taxpayers willingly to comply with the tax authority and tax policy (Damayanti et al., 2015).

Ling et al. (2016) also said that the tax fairness of the tax system may influenced the perception of justice towards the tax compliance by taxpayers. Besides, Damayanti et al. (2015) also believed that the tax rate might affect the compliance of tax but not more than the effect of justice perceptions. Social distribution is a reward from government to the society to reflects the taxes paid (Yee et al., 2017). It should be the benefits received by citizens such as development or improvement of infrastructure for the public convenience, thus, the inappropriate in handling the tax money may lead the taxpayers to act immoral (Yee et al., 2017). Moreover, referring to IRBM (2017), government had suffered continuously 20% tax gap. As to that, this research will take a look into the taxpayers' perception on justice in Malaysia.

However, Bargain et al. (2015) had thought that tax rate actually gives indirect effect as it may increase the income inequality which leads to decrease the tax compliance. While then, for Malaysian tax research, the issue arises by Mohdali et al. (2014), tax rate becoming a conflict to the tax compliance as taxpayers are intend to understate income for higher tax rate in order to lower the taxable income. Though, when the tax rate is stable, the non-compliance of tax is still high (Mohdali et al., 2014). The research also mentioned that the tax rate is one of influential determinants that affect tax compliance behavior (Mohdali et al., 2014). Due to that,

this research includes tax rate as one of the determinants to measure the significance of this variable.

However, Sinnasamy et al. (2015) argued that there are moderating effects of tax penalty in Malaysia towards the tax compliance level by taxpayers. It is agreed by Saad (2014) that there are mixed results of tax penalty relationship towards the tax compliance but most of the researchers found it to be significant. Moreover, based on the research of Faizal et al. (2017), there is a statement of IRBM had mentioned that there are increasing in non-compliance tax issue in Malaysia which involving high profile cases with tax penalties more than 400 million. Mohdali et al. (2014) also stated that the enforcement level including tax penalty still loose as non-compliance tax cases not reduce. The tax penalty just able to trigger the taxpayers to the punishment of being non-compliance but not influence their intention to act compliance (Mohdali et al., 2014).

Overall, there are few issues that need to be addressed for study which are the consistent increasing of income tax arrears in Malaysia, injustice treatment to society, conflict on tax rate should be imposed, and low enforcement level in charging tax penalty. These issues will be discussed further throughout this study.

1.4 Research Questions

The current study seeks to explain the income tax compliance perceptions among taxpayers in Malaysia as it attempts to get justification of the following research questions:

1.4.1 How the perception of taxpayers toward justice can influence the tax compliance in Malaysia?

1.4.2 How the perception of taxpayers toward tax rate by taxpayers can influence the tax compliance in Malaysia?

1.4.3 How the perception of taxpayers toward tax penalty by taxpayers can influence the tax compliance in Malaysia?

1.5 Research Objectives

The general objectives of the current study drawn from the research questions are to determine the factors influencing income tax compliance among taxpayers in Malaysia. Below are the objectives of the research:

1.5.1 To investigate the relationship between justice and tax compliance in Malaysia.

1.5.2 To investigate the relationship between tax rate and tax compliance in Malaysia.

1.5.3 To investigate the relationship between tax penalty and tax compliance in Malaysia.

1.6 Scope of Study

This study is carried out among individual income taxpayers in Malaysia for the year of 2022. Individuals involved in the survey come from personal income taxpayers among the citizens in Peninsular Malaysia which only involves non-business personal income taxpayers. There is no specific respondents or citizens to involve in this study as long as the requirements are being fulfilled. This research purposely to investigate taxpayers' perception on the income tax compliance act based on variables chose for the study which are justice, tax rate and penalty.

1.7 Significance of Study

First and foremost, this study can provide the government some views on how taxpayers perceptions on the tax compliance based on several indicators. Government has introduced such taxes with promises of future benefits. This research will unleash the citizens of Malaysia who involve in paying taxes, how their perception on such taxes. Furthermore, this study is significant to the tax authority to have some information of compliance perception and level of taxpayers towards the tax in Malaysia. Moreover, this study may contribute to the tax

compliance knowledge on how the taxpayers views the tax effects from the tax contributed which influence them to act compliance or non-compliance. Due to that, some actions may be taken accordingly to the result of the research.

On the other hand, this may be the extended study that investigate taxpayer's perception on compilation of three determinants which may affect the compliance act on tax. Hence, this study adds further to the existing literature of tax compliance in Malaysia. This study combining three factors that may influence the perception of taxpayers towards tax compliance which are justice, tax rate and tax penalty. This study of combining these three had been used in 2017 research, though, this study will specifically measure the perception of taxpayers on the independent variables used which may affect their decision to tax compliance.

Overall studies will be used two theories which are Fiscal Exchange Theory and Economic Deterrence Theory. The dependent variable, tax compliance and the first independent variable, justice, are using the same theory which is Fiscal Exchange Theory. While then, Economic Deterrence Theory is using by the other two independent variables which are tax rate and tax penalty. This study will explain more on how the dependent variable and independent variables are related to these two theories. A previous research that combining these three variables was using only one theory which is Fiscal Psychological Theory, while this study found two theories that are significant to two separate variables which gathered from other previous researches.

1.8 Organization of the Report

The study consists of five chapters starts with the background of the study, issues brought into the research including theories, method, data analysis, then, ended with discussing the results and conclusion made based on the survey data. Below are the briefs explanation of all chapters that will be covered.

The first chapter started with an introduction to explain on the background of the study, followed by problem statement to address issue of this study. Then, research question and research objectives of the study also shown in this chapter. It continues with significant of the study and organization of the report to show the flow of this research.

The second chapter discusses of the concept and theories of the variables. Moreover, there are also highlighted critical reviews of previous literatures for the dependent variable, tax compliance and also the independent variables which are justice, tax rate and tax penalty. It also includes the previous studies' hypothesis on the variables.

Chapter three is methodology, which explore on research frameworks and involve the hypothesis development of the study. It also includes research design, operational definition and measurement of variables. the another important of this chapter is data collection which explain on the sampling and data collection procedures. Besides, the data analysis technique will be shown in this particular chapter.

Chapter 4: Results and Discussion

Then, this chapter is where the analysis of data occur in the research and the findings will be presented. It is a complete results and findings of the study which begins with response rate, respondent's profile, descriptive statistics and regression analysis. The data will be highlighted in various form such as figures, tables, or written.

Chapter 5: Conclusion and Recommendation

This final chapter will summarize the overall studies accordingly to the research objectives. Besides, it also includes limitations and recommendation for future research. It concludes overall research from the data gathered, analysis and how it reflects theories related.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This literature will focus on the perceptions of taxpayers on tax compliance by examine the indicators of justice, tax rate and tax penalty. This chapter reviews and summarizes the literatures regarding the dependent variable and independent variables in this study. The review will start from the concept of tax compliance as the dependent variable then followed by other variables literature review which are justice, tax rate and tax penalty as independent variables.

2.2 Tax Compliance

Tax is important for the country because it contributes majorly to the government revenue and may bring negative effects if taxpayers has perception to non-comply (Yee et al., 2017). Saad (2012) describes tax compliance is a willingness of taxpayers who able to act in accordance to the tax policies, laws, rules and regulations without needed additional enforcement from higher authority. Taxpayers should be able to file the tax return truthfully during the prescribed period of submission which is compulsory (Saad, 2012). Tax compliance issue does not only involve for direct tax such as corporate tax and individual income tax, it also includes indirect taxes such as sales tax, excise tax or import tax. Damayanti et al. (2015) find the behavior of the taxpayers in relation to the tax compliance. Higher tax compliance seems to be more achievable when taxpayers feels they are treated fairly by the tax authority (Faizal et al., 2017). This study will go further to study and investigate three determinants of tax compliance which are through the perceptions of taxpayers on justice, tax rate and tax penalty gathered from previous literatures.

2.2.1 Justice

Justice on taxes is the fairness in implementing the tax system and fair in distributing social welfare among Malaysian citizens and for the country's development Faizal et al. (2017). According to article by Faizal et al. (2017), perception on justice is one of determinants that showing positive relationship with the tax compliance in Malaysia. Perception of injustice among taxpayers towards the tax distributed may influenced them to act unethically to non-compliance activity (Faizal et al., 2017). Faizal et al. (2017) also explained that justice is an action which is one of the characteristics in a tax system, hence, injustice could be unethical action if done by government in return to the taxpayers' contribution in taxes. Ling et al. (2016) claimed that taxpayers are more likely to comply with the tax law, rules and regulations if they could be sure that the taxes paid are being used by government in fair to all citizens. According to Gberegbe & Umoren (2017), perception of fairness become as an important tool to influence tax compliance and act as vital role to tax reporting behavior. Faizal et al. (2017) found that taxpayers are more oblige with the tax compliance when a country perceived to be fair and justice with the citizens. The study also stated that if the citizens is treated in justice by tax authority, the tendency of taxpayers to act diligently is high (Faizal et al., 2017). Taxpayers are more likely to not comply if the money they paid for tax are not used wisely by the government (Yee et al., 2017). Besides, based on one survey made by Saad (2014), one of the respondents stated there are more likely to evade when they feel the money contributed is wasted and unfair treatment received. In addition, Capasso et al. (2021) mentioned in their study, the more understanding taxpayers on how the taxes paid contributes to social justice, they are more motivated to pay taxes.

2.2.2 Tax Rate

Tax rate is the rate that charged on income for tax computation purposes where the rate is varies to the level of income (Yee et al., 2017). Perceptions of unfair tax burden charged to the taxpayers may influence them to act in contrast with tax compliance as the taxpayers thought of the tax system imposed is unfair (Ling et al., 2016). Faizal et al. (2017) stated that Malaysia's current tax system or tax rate found to be fair, yet there is still no evidence to proof the perceptions of taxpayers on the tax rate could affect the tax compliance level. Saad (2014) identified that tax rate is one of the key variables that influenced to the tax compliance behavior among taxpayers among of 14 determinants. The study also stated that the taxpayers are more likely to appreciate the fairness of taxes rather than the tax rate (Saad, 2014). Furthermore, higher tax rate may influence taxpayers to evades while tax rate also can help taxpayers to evade the taxes (Lampenius et al., 2021). The study by Lampenius et al. (2021), also stated that tax avoidance by using tax rate can be done through manipulation of tax rate which one of it is profit shifting where they shift the tax to other country that has lower tax rate. However, for the domestic tax avoidance, it will be more on the lowering the tax base (Lampenius et al., 2021). While then, Uemura (2022) has contradict opinion that tax rate does not indicate the tax burden to taxpayers which caused them to evade, but their tax planning itself.

2.2.3 Tax Penalty

By acting non-compliance in the preparation of tax return should be paid, Saad (2014) said that tax penalty will be imposed accordingly to the amount and period of incompliance. It is done in order to ensure the taxpayers are submitting correct payment of taxes hence, tax penalty will be charged fairly. Taxpayers tend to wrongly report their income in order to benefits lower taxes to be paid (Saad, 2014). Tax agents also can influence the tax return prepared which will affect the taxes to be paid lower and it will give negative impacts to the taxpayers when getting

caught by tax authorities and tax penalty will be imposed accordingly. Mohdali et al. (2014) stated that the tax rate has high influence to become tax compliance determinants from the taxpayers in Malaysia before and after the implementation of Self-Assessment System (SAS). Gberegbe & Umoren (2017) said that the taxpayers will find it is as risks to not comply with tax when the amount evade will be lower than the tax penalty charged to them while it is an opportunity if the tax penalty lower than the income that they hide from tax authorities. Even worst, some of taxpayers could manipulate to reduce their tax as much as possible which may end up to zero (Faizal et al., 2017). Since 2013, the tax penalty cases keep increasing which may show as an indicator to improve the tax penalty rate or system (Faizal et al., 2017).

2.3 Previous Empirical Works

2.3.1 Tax Compliance

Most of the empirical works and results gather are from multiple regression method. Ling et al. (2016) gather the evidence from a survey distributed to the taxpayers using Likert scale type (1 = strongly disagree; 4 = strongly agree) for the measurement of level of compliance. A research by Kiow et al. (2017) on tax compliance behavior in Malaysia using Fiscal Exchange Theory which explains the way of government uses the money they paid for the taxes will affect their motivation to comply with tax. A study by Damayanti et al. (2015) also support this theory but the research made is from the population of Java, Indonesia. It is also stated that when the citizens received returns from the tax paid which they prefer in public and social benefits, the compliance may increase (Kiow et al., 2017). It relates to the current study as the analysis will be based on the perception of taxpayers on tax compliance based on three factors of justice, tax rate and tax penalty.

2.3.2 Justice

Gberegbe & Umoren (2017) gather the information of justice relationship with tax compliance through survey by distributing questionnaires. It also able to proof that the justice perceptions between government and citizens will increase the level of tax compliance among taxpayers Gberegbe & Umoren (2017). However, Saad (2014) unable to proof significant result on their study between the justice perceptions and tax compliance. Faizal et al. (2017) shows an empirical study that able to clarify that the perceptions of justice which taxpayers believe that tax authority treat them fairly, they are more likely to perform tax compliance and put a trust on the tax authority. Taxpayers tend to evade when they believe there is injustice treatment in the relationship of taxpayers with the government which do not worth the taxes that they paid (Faizal et al., 2017). Referring to the Fiscal Exchange Theory, the taxpayers' perception on justice are depending on their views towards government responsibility (Kiow et al., 2017). Due to the political and government accountability on taxes paid which able to make them feel worth in return, voluntary tax compliance may increase (Kiow et al., 2017).

2.3.3 Tax Rate

Miskam et al. (2013) used regression model in order to investigate and identify the relationship of tax rate to the non-compliance of taxes among taxpayers in Malaysia. From the multiple regression analysis, the research can approve significant relationship between the variable of tax rate with the tax compliance. The research by Magiya (2016); Rashd et al. (2017) using Economic Deterrence Theory for tax rate which effect the tax compliance. By using this theory, it is stated that the behavior of the taxpayers is impacted by factors such as tax rate in influencing their action to evade taxes (Magiya, 2016).

2.3.4 Tax Penalty

Mohdali et al. (2014) find tax punishment such as tax penalty or fine are insignificant to the tax compliance issue. However, there is other opinion from previous researcher, Park & Hyun (2003), it is positively affecting the incompliance of taxes among taxpayers. Miskam et al. (2013) also managed to show the positive relationship between tax penalty with the tax compliance test using the multiple regression analysis. By referring to a research by Magiya (2016); Manual & Xin (2016). The theory found that is related to this variable is Economic Deterrence Theory. Mentioned in the study, imposed tighter penalties can increase the chances of detecting evaders, hence, it increases the possibility of a taxpayers being caught or detected which described as a punitive measure to achieve deterrence (Magiya, 2016).

2.4 Fiscal Exchange Theory

Fiscal Exchange Theory is the combination of economic and psychological approach which can result in better explanation of tax compliance (Damayanti et al., 2015). This is a significant theory to be used in this study in accordance to prior research. This study will use Fiscal Exchange Theory for an independent variable of justice. Referring to prior studies, fiscal exchange theory is used to measure the impact towards of the determinants towards tax compliance (Yee et al., 2017). A study by Ledder et al. (2010) mentioned, this theory shows that the impact is works associates with the factors. As to this study, when taxpayers have thoughts and perceptions of having justice treatment by the government in term of social exchange, they are more likely to comply with taxes (Ledder et al., 2010). Taxpayers will measure the needs of complying with taxes when the exchange between public goods and services are fairly distributed as taxes understood by society as a contribution for social welfare (Ledder et al., 2010). Capasso et al. (2021) also explained that the transparency in fiscal exchange information to the public can increase the compliance level. Showing publicly the

benefits that society received in return of paying taxes will help to lower the doubt of fiscal exchange (Capasso et al., 2021). Below is the figure 2.1 by Devos (2014) which shows fiscal exchange affecting human behavior.

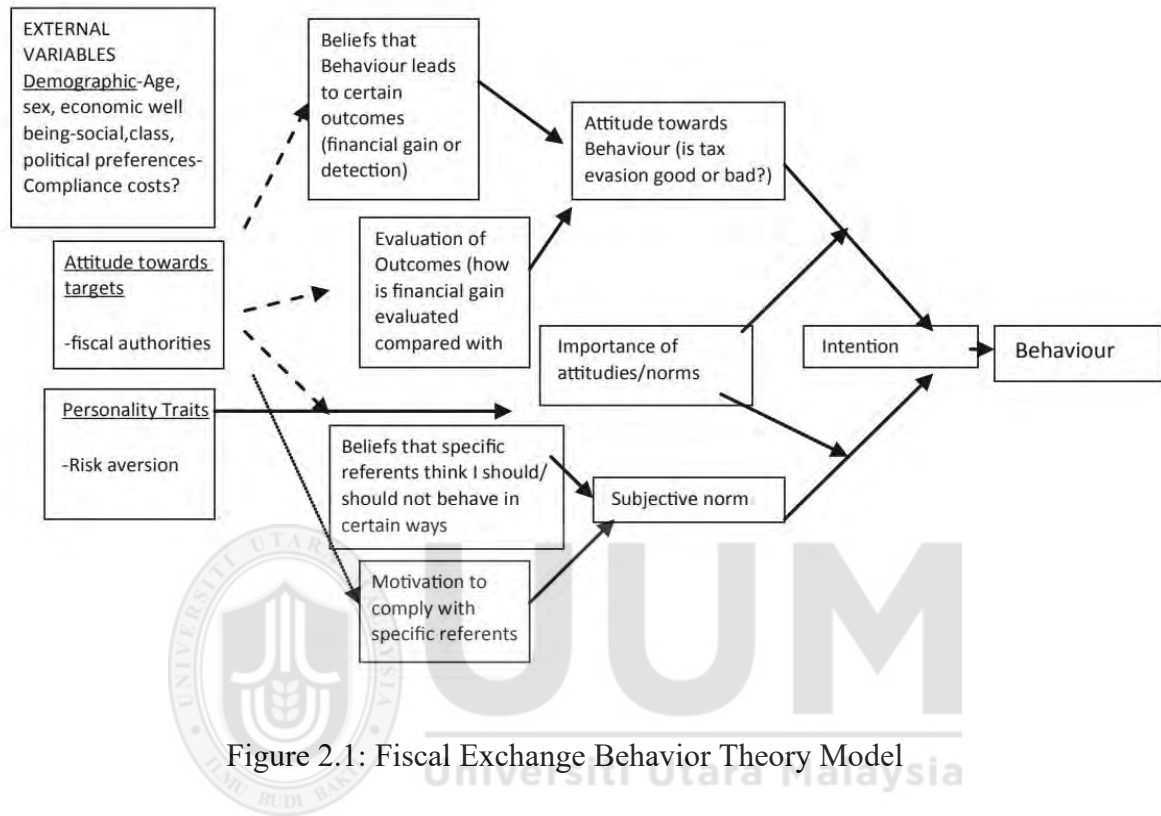


Figure 2.1: Fiscal Exchange Behavior Theory Model

2.5 Economic Deterrence Theory

Economic Deterrence Theory was used in prior studies for both tax rate and tax penalty in measuring the behavior of tax compliance. The theory is used as it reflects the optimization of policies or enforcement authority in fighting against unlawful acts of citizens from government (Mohdali et al., 2014). The risk or fear of being punished through penalties by strict authority can influence taxpayers to act morally and make a decision to comply with taxes (Mohdali et al., 2014). Alkhatib et al. (2018) also found the same effects towards tax rate by using Economic Deterrence Theory, which the higher tax rate imposed, the higher the compliance level of taxpayer. Though, the study also agreed that numerous previous studies found that it is not parallel as tax penalty due to taxpayers are tend to evade as an excuse of higher tax rate

(Alkhatib et al., 2018). Below is the figure 2.2 by Taddeo (2020) which shows the original deterrence theory model.

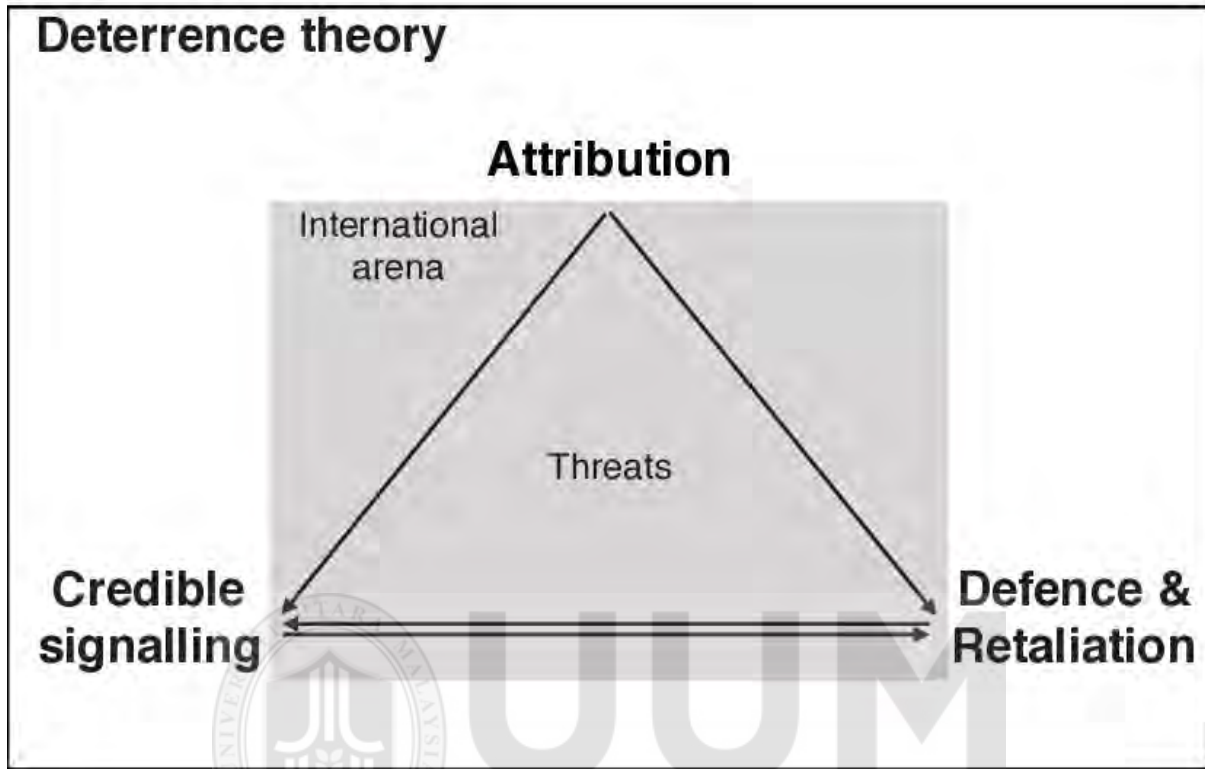


Figure 2.2 Deterrence Theory Model

Sinnasamy et al. (2015) also shown different effects in their research when applying Economic Deterrence Theory on tax rate which is in contrast with tax penalty. While greater tax penalty helps to increase the tax compliance, the greater of the tax rate will decrease the tax compliance level among taxpayers (Sinnasamy et al., 2015).

2.6 Summary of the Chapter

By reviewing the literatures from previous researchers, it can be concluded that the impact of taxpayers' perceptions on tax compliance are vary. Though, most of the studies found that the positive impacts can be seen from the perceptions of taxpayers with the tax compliance. However, the results somehow depending on the types of perceptions based on the chosen

independent variables. Based on the previous literature, justice has evidence that there is positive relationship, while there is also a research that unable to proof the significant of the variable towards tax compliance. Previous study on tax penalty shows positive relationship towards tax compliance. While then, tax rate has both significant and insignificant relationship with the tax compliance form the previous researches. There are mixed findings on the variables used to find the impact of the taxpayers' perceptions on the tax compliance. This study will further study and investigate the determinants accordingly by using multiple regression.



CHAPTER THREE

RESEARCH METHODOLOGY AND HYPOTHESIS DEVELOPMENT

3.1 Introduction

This chapter clarify the methods and procedures used for data derivation in this study. Chapter three specifically consists of data description, theory to be employed, method of data collection, population of the study and sample size, sampling technique, variables measurement, and data analysis.

3.2 Data Descriptions

The surveys were distributed to investigate whether there are relationships between justice, tax rate and tax penalty towards tax compliance. It will show whether the perceptions of those three independent variables included in the survey have relationship with tax compliance.

The surveys were distributed to the taxpayers in Malaysia as a whole without specific into any state by online platform called Google Form. This platform is used in order to reach out various respondents from different states easily. This is also a suitable and safe method to be used as to our current condition due to pandemic COVID-19. So, it will ensure that this study able to receive response from Malaysian taxpayers from various locations while still keep the social distancing at the good level.

The data used for this study is primary data collection method. Primary data method allows the researchers to collect a wide range of different data from human respondents (Sekaran & Bougie, 2016). This study used questionnaire to get original data from respondents rather than interviews, observation, unobtrusive and physical measurement. A questionnaire is specific written set of questions which respondent can record their answers in reflect to the issues.

Mode of data collection that is used in this study is Google Form administered questionnaires which have lower disadvantages among the three type of mode of data collection. The most important advantages from this method would be respondent can directly answer the questionnaires at any time by using any devices with internet connection. It also easy to access and no specific time is needed to perform the survey with the respondents.

Even though distribution of questionnaires consuming more time and effort, it is very effective to get almost 100% immediate responses from the respondents (Sekaran & Bougie, 2016). All questionnaires were distributed to the taxpayers in Malaysia as a whole despite of the states they are located. It might not able to generalize all taxpayers in Malaysia but at least would give a field of vision to perceive the taxpayers' perceptions on the tax compliance.

3.3 Theory to be Employed

People tend to change their behavior accordingly to the situation and environment that they find suitable with them. Besides, individual may act differently depending on their perceptions on certain situation and reason. The action of people also influenced by their thoughts, perceptions, trust or belief on a particular situation. This study will use theoretical framework of Fiscal Exchange Theory as a basis to investigate the influences of independent variable, justice towards the tax compliance. Besides, there will be Economic Deterrence Theory for another two variables which are tax rate and tax penalty. This study will accumulate all the three independent variables as factors to influence their perceptions on the tax compliance.

3.4 Variables

3.4.1 Dependent Variable

Dependent variable of this research = Tax Compliance (Y)

Dependent variable has been used in this study is tax compliance. This variable chose in order to investigate whether there is any relationship of independent variables used to the tax compliance. As to previous study, there are various opinion and determinants which can influence the perceptions of taxpayers on the tax compliance like the study mainly referred from Faizal et al. (2017); Mohdali et al. (2014); Sinnasamy & Bidin (2017). Hence, the tax compliance would be good to be used for this study.

3.4.2 Independent Variable

First independent variable of this research = Justice (X1)

Second independent variable of this research = Tax Rate (X2)

Third independent variable of this research = Tax Penalty (X3)

Independent variables chose in this study are work as factors or determinants to the perceptions of taxpayers whether it influenced the taxpayers' perception on tax compliance. There are several studies used to adopt these independent variables. Magiya (2016) includes justice, social distribution and tax penalty as determinants for the taxpayers' perception on tax compliance which also align with Sinnasamy & Bidin (2017). While then, Mohdali et al. (2014) and Khalid & Yang (2021) were used tax penalty and income inequality in their studies on tax compliance. Besides, Gberegbe & Umoren (2017); Faizal et al. (2017) were include justice as one of factors to be studied in their tax compliance research. Moreover, Sinnasamy et al. (2015) and Kiow et al. (2017) were chose tax rate as one of variables to influence the tax compliance. Hence, this research compiled three of the variables and use justice, tax rate and tax penalty to

study on the relationship with tax compliance. It can be concluded that there are various opinion and determinants could be used to study the perceptions of taxpayers towards tax compliance. So, this study was not adopted the independent variables from only a single study but combining the variables have been used in multiple researches.

3.5 Theoretical Framework

This diagram shows the relationship between the independent variables which are justice, tax rate and tax penalty towards the dependent variable which is tax compliance. Below is the schematic diagram to show the clear view on the variables' relationship:

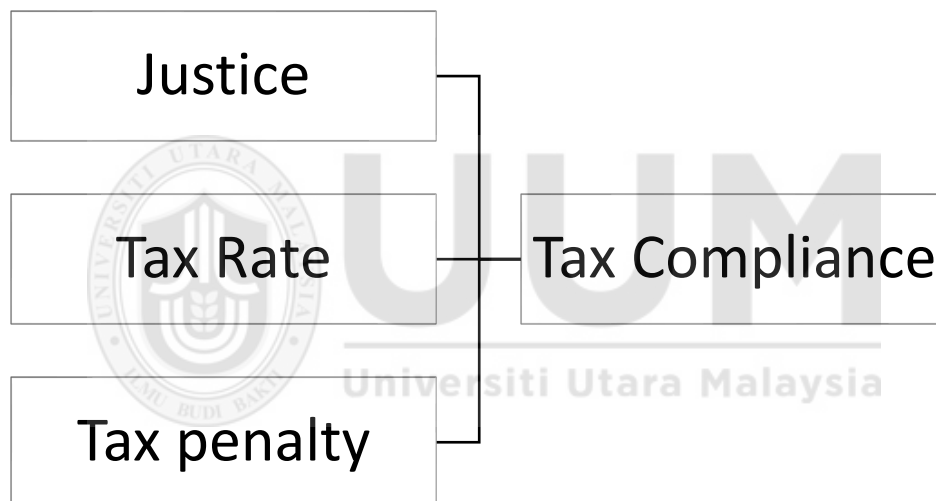


Figure 3.1: Theoretical Framework

3.6 An Econometric Model

$$\text{TAXCOM} = \beta_0 + \beta_1\text{JUSTIC} + \beta_2\text{TAXRAT} + \beta_3\text{PENALT} + \mu$$

Where;

β_0 = Constant

$\beta_1 - \beta_3$ = Change in dependent variable with unit change in independent variable

TAXCOM = Tax Compliance

JUSTIC = Justice

TAXRAT = Tax Rate

PENALT = Tax Penalty

3.7 Hypothesis Development

Research by Sinnasamy et al. (2015), states that the justice or fairness has positive relationship towards the tax compliance in Malaysia. That means, the perception of taxpayers towards justice do affect the level of tax compliance. The taxpayers will be motivated to act non-compliance when they have perceptions of injustice tax system treated on them. However, Sinnasamy & Bidin (2017) indicate that the perceptions of taxpayer do contribute to positive relationship with the tax compliance. It is shows that the justice does not influenced taxpayers to act non-compliance on taxes (Sinnasamy & Bidin, 2017). Taxpayers also explained that the authority has imposed rules and regulations strictly towards them which disallowed them to act non-compliance (Sinnasamy & Bidin, 2017).

3.7.1 Justice and Tax Compliance

Based on a study, Gberegbe & Umoren (2017) which used questionnaires data collection are able shows the positive relationship between the justice or fairness towards the tax compliance. Ling et al. (2016) also stated that the unfair perceptions on tax system will lead the taxpayers to act non-compliance on taxes which shows positive relationship. One of the subjects that interrelated with justice is income inequality which has shown result of affecting the tax

compliance level. It stated that the increases in gap of income inequality had influenced to the tax evasion occurrence (Ling et al., 2016). Ling et al. (2016) also stated that the unfair in social and economy provided would influence act of non-compliance of taxes among taxpayers. Kiow et al. (2017) explained that if the taxpayers felt like government does not benefits them fairly and appropriately in return to their paid taxes, they think that not oblige to the taxes as a possible behaviour to be done by them and influence them to act non-compliance. While then, the trust on the government to provide social exchange in justice, it will be able to strengthen the perceptions of taxpayers to comply with taxes (Damayanti et al., 2015).

H1: There is a positive relationship between justice and tax compliance

3.7.2 Tax Rate and Tax Compliance

Based on the Economic Deterrence theory, the increase of the tax rate will reduce the tax compliance among taxpayers (Sinnasamy et al., 2015). The study also stated that the tax rate has negative relationship towards the tax compliance including taxpayers for company (Sinnasamy et al., 2015). While then, it also stated between the relationship of both the dependent variable and independent variable, tax agents also play an important role to make the evasion succeed (Sinnasamy et al., 2015). Besides, a research by Miskam et al. (2013) shows the tax rate has negative impact towards the tax compliance. It is also agreed by Nejad (2011) which describes the higher of tax rate will contribute to lower tax compliance among taxpayers.

In addition, Yee et al. (2017) also has an opinion which fair tax systems in tax rate proportion will help to increase tax morality of taxpayers to act compliance. Moreover, a study by Mohdali et al. (2014) describes that higher tax rate will discourage the taxpayers to act compliance. The study also explain that the taxpayers are prone to understate income as higher tax rates pressured them to act non-compliance (Mohdali et al., 2014; Sinnasamy et al., 2015). Apart

from tax rate, somehow it can also be associated with tax penalty imposed in affecting their compliance behaviour on taxes (Mohdali et al., 2014).

H2: There is a negative between tax rate and tax compliance

3.7.3 Tax penalty and Tax Compliance

Tax penalty impacts on the tax compliance has moderate effects as the action would be conducted based on the rate of tax penalty charged in compared to the taxes (Sinnasamy et al., 2015). When the taxes to be paid lower than the tax penalty would be charged, tendency to act non-compliance or evade would be increased. Damayanti et al. (2015) also stated that the strict of tax system imposed by tax authority will increase the level of compliance of taxpayers on taxes. Ling et al. (2016) also stated that penalties would be one of the factors to influence the non-compliance action on the taxes. Besides, as a study conducted by Miskam et al. (2013), tax penalty works in parallel with tax compliance where the higher penalties being imposed to the taxpayers for late payment or evading taxes, the tax compliance will increase. The study describes that tax penalty is a contributing factor towards tax compliance (Miskam et al., 2013).

Mohdali et al. (2014) in a study stated that tax penalty is one of the most influential determinants to measure tax compliance among taxpayers. As the tax penalty arise, the tax compliance will increase, though, it needs strong enforcement level to ensure the effectiveness (Mohdali et al., 2014). Though, a study by Yee et al. (2017) describes that the strict enforcement level where the greater tax penalty being imposed will associate to injustice perception among taxpayers which will decrease the compliance level. It is also aligned with a study by Sinnasamy et al. (2015) where the tax penalty has negative relationship with tax compliance when the amount of losing is smaller than the profit if taxpayers reported lower taxable income.

H3: There is a relationship between tax penalty and tax compliance

3.8 Proposed Empirical Method/ Data Analysis Technique

This study adopted a convenience sampling technique. Convenience sampling techniques is a technique that referring to the collection of the data from the respondents that are convenient to provide it. By using this technique, this study distributed the questionnaires to the respondents among Malaysian' taxpayers who willingly to involve and provide the information according to the study by answering the questionnaires. This study chooses to distribute the questionnaire in Malaysia as a whole since the research adopted was studied on Malaysia's population and to support the outcome resulted from previous study on the tax compliance based on Malaysian' taxpayer perceptions.

3.9 Population, Sample and Sampling technique

This research is selecting Peninsular Malaysian taxpayers as the population and the sample because it stated in the past research by Faizal et al. (2017) that the perception of Malaysian taxpayers in respect of certain determinants could impact the tax compliance level. Hence, this research further the previous research to find the relationship between justice, tax rate and tax penalty with tax compliance. The tax non-compliance still occur even though strict actions have been taken by tax authority, IRBM to against the unethical behavior (Faizal et al., 2017).

The sampling number for this research followed the rules of the thumb proposed by Roscoe (1975), where it is appropriate to have sample sizes larger than 30 and less than 500 for most the research. This study used questionnaires with help from Google Form to distribute the survey and able to gather. The survey originally prepared in English version with five parts of questions which includes respondents' profile, one dependent variable and three independent variables. Though, throughout the pilot test of 20 respondents, feedback gathered mostly on the language preferences which expected to have in Malay version too instead of English only for their better understanding especially on taxation terms. Hence, to ensure the survey

conducted are able to receive genuine response and understandable by respondents, the questionnaires then provided in both version Malay and English as shown in Appendix A and Appendix B to smoothen the survey process. Overall respondents gathered has achieved 74 responses of Malaysian' taxpayers from various states.

3.9.1 Questionnaire Design and Measurement

This is the measurement used for dependent variable which is tax compliance and independent variables which are justice, tax rate and tax penalty. It includes the definition, measurement type and sources of measurement gathered.

Table 3.1: Variables Measurement for Questionnaires

Variable	Type	Definition	Measurement	Sources
Tax Compliance	DV	Tax compliance can be defined as the degree of obligation of taxpayers towards the rules, law and regulations of taxes. Tax compliance also can be defined as an awareness of people to oblige with the tax laws which refer to the willingness of taxpayers to pay the taxes accordingly.	Likert Scale (1 – strongly disagree, 2 – disagree, 3 – agree, 4 – strongly agree)	Faizal et al. (2017)
Justice	IV	Justice on taxes is the fairness in implementing the tax system by tax authorities towards the taxpayers.	Likert Scale (1 – strongly disagree, 2 – disagree, 3 – agree, 4 – strongly agree)	Faizal et al. (2017)
Tax Rate	IV	Tax rate is rate being charged on income or goods for tax computation purpose. The rate will be different between personal income tax, corporate tax and indirect tax.	Likert Scale (1 – strongly disagree, 2 – disagree, 3 – agree, 4 – strongly agree)	Yee et al. (2017)

Tax Penalty	IV	Tax penalty is the charges being imposed if taxpayers do not comply with the taxes accordingly to correct amount should be paid within the prescribed period.	Likert Scale (1 – strongly disagree, 2 – disagree, 3 – agree, 4 – strongly agree)	Yee et al. (2017)
-------------	----	---	---	-------------------

Tax compliance as dependent variable and justice as independent variable are referring to the measurement from a study by Faizal et al. (2017). While then, another two independent variables, tax rate and tax penalty are based on a research by Yee et al. (2017). The questionnaires are adapted from a study by Ahmad et al. (2017); Rozi et al. (2019) where the research also examined on tax compliance in Malaysia. This questionnaire was used with the same independent variables by Rozi et al. (2019) which are justice, tax rate and tax penalty. The study also focused on tax in Malaysia but to measure on the non-compliance of tax while this study is focusing on the perception towards personal income tax compliance.

Based on the Table 3.1, all variables are referring to the previous study which had used Likert scale measurement in their studies. All of the variables use for this study are measured from the scale of 1 – strongly disagree, 2 – disagree, 3 – agree, 4 – strongly agree where the neutral choice is not included in order to reduce the option to avoid actual opinion (Melinda et al., 2014). Based on the study, responses of extremeness opinion by the respondents can be affected as neutral option is available especially on a sensitive question (Melinda et al., 2014). Though, Melinda et al. (2014) also mentioned, without neutral option still cannot guaranteed the respondents will always choose an extreme response as 1 – strongly disagree or 4 – strongly agree, but, 2 – disagree and 3 – agree also help to get the propensity perception of respondent. The questionnaires design and questions which referred to Ahmad et al. (2017); Rozi et al. (2019) are presented in the Appendix A and B.

3.9.2 Data Analysis Technique

This study will use multiple regression analysis for data analysis technique. The technique was adopted from previous researches which mostly used the technique for study related to perceptions of taxpayers towards the tax compliance. Gberegbe & Umoren (2017); Capasso et al. (2021); Faizal et al. (2017); Ling et al. (2016); Magiya (2016); Manual & Xin (2016); Mohdali et al. (2014) are among the researcher that used multiple regression in order to proof and show the relationship and results of perceptions of taxpayers' effect on the tax compliance. Besides, multiple regression is a statistic technique to measure the level and characteristics between one or more independent variables towards the dependent variable (Ling et al., 2016). It is also a reliable method to identify the impacts of independent variables to classify which gives impact to the dependent variables. As to this study, the analysis will be conducted to measure the impact of perceptions of taxpayers towards the tax compliance based on the determinants of justice, tax rate and tax penalty.

3.10 Summary of the Chapter

This chapter discussed on the research methodology used in this study. Data description, theory to be employed, and theoretical framework are being discussed in this chapter. It also stated and discussed on the population of taxpayers involved in this study, sampling data and technique to be used. The data collection methods are using survey which distributed to the taxpayers by referring to the determinants used by previous research. Besides, this section also explains the hypothesis development for each variable, the proposed empirical data and analysis technique that will be used in this study. the measurement and design of questionnaires were discussed in the chapter 3.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The objectives of this study are to investigate the relationship between all independent variables and tax compliance in Malaysia, to analyze the relationship between justice, tax rate and tax penalty with the perception of taxpayers towards the tax compliance in Malaysia. This chapter presents the results for descriptive statistics and multiple regression. This research employed EViews 12th edition software to carry out the analysis by using the data collected from questionnaires responses.

4.2 Response Rate

The data of current study are gathered from individual personal income taxpayers in Malaysia through the questionnaire instrument. Based on the responses returned, all 74 responses received from 100 surveys that were distributed are complete and can used for data analysis. As referring to the table 4.1, it is concluded that the overall response rate received from this survey is 74% which means 26% responses were not returned.

Table 4.1: Questionnaires Response Rate

Questionnaires Response Rate	Frequency	Response rate (%)
No. of distributed questionnaires	100	
Response questionnaires	74	74%

4.3 Respondents' Profile

Most of the respondents are taxpayers by paying the personal income tax then followed by indirect taxpayers and corporate tax. This part is for descriptive analysis that consists of all the respondent's profile description provide by respondents. The description includes gender, age, education level, employment status, income, and categories of taxpayers they are provided as shown in the Table 4.2.

Table 4.2: Respondents' Profile

Respondents' Profile	Frequency	Percentage (%)
Gender:		
Male	25	33.8
Female	49	66.2
Age (years):		
Below 18	-	-
18 to 30	31	41.9
31 to 45	29	39.2
Above 45	14	18.9
Education Level:		
SPM/ relevant certificate	1	1.4
STPM/ A-Level/ Diploma	6	8.1
Degree/ Professional	45	60.8
Master	21	28.3
PhD	1	1.4

Employment Status:

Employed	59	79.7
Unemployed	8	10.8
Student	7	9.5

Income (RM):

25, 500 and below	13	17.5
25,501 to 60,000	21	28.4
60,001 to 120,000	37	50
Above 120,000	3	4.1

Based on the above table, it is clearly that most of the respondents are female with 66.2% compared to male with 33.8%. The respondents majorly among the age of 18 to 30 years old with 41.9% followed by age range of 31 to 45 by 39.2%. The least percentage of respondents are from the age of above 45 with 18.9% while no respondents of this research among the age range of below 18 years old.

Furthermore, on the education level, SPM level and PhD level contribute the least responses with 1.4% each and followed by STPM/ A-level/ Diploma level by 8.1%. While then, it is about 60.8% which is more than half of the respondents are from Degree/ Professional certificate holder. In addition, the second higher percentage of respondents are coming from the Master level by 28.3%.

On the other hand, looking into employment status of the respondent, most of them are employed and they contribute about 79.7% in this survey which is more than half of the respondents. There is just a thin line between unemployed and students which only hold 10.8% and 9.5% respectively.

Finally, table 4.2 shows the level of income of respondents of this survey which equal to 50% contribution to this survey are between RM60,001 to RM120,000. The income level of RM25,001 to RM60,000 of respondents contributing 28.4% from overall responses followed by 17.5% from income of RM25,500 and below. The least respondent is coming from the range of RM120,000 and above with only 4.1% of contribution.

There are few tests were conducted include descriptive statistics and regression analysis. Each of tests includes all variables and showing the significant and insignificant results in details.

4.4 Descriptive Statistics

For the purpose of describing the nature of the variables, the study was used the mean and standard deviation as estimators. The mean reflects the responses' average value for the variable considered, while the standard deviation reflects the variability extent of the variable.

Table 4.3: Descriptive Statistics (n=74)

Variable	Mean	Standard Deviation	Minimum	Maximum
TAXCOM	3.45	0.450	2	4
JUSTIC	3.39	0.557	2	4
TAXRAT	3.41	0.593	2	4
PENALT	3.41	0.582	2	4

Independent variable that are tested to reflects the relationship with the tax compliance are justice, tax rate and tax penalty which using short form of TAXCOM, JUSTIC, TAXRAT and PENALT throughout this chapter for analysis. From the descriptive statistic testing as shown in the Appendix B, overall received the mean of more than 3.00 which shows that perception of taxpayers on JUSTIC, TAXRAT and PENALT with 3.39, 3.41 and 3.41 respectively can

affect the personal income tax compliance with 3.45. This result shows that the compliance of personal income tax is influenced by all these three variables. All variables are having low standard deviation which are below than 1, thus, it indicates that the data gathered are around the mean and not spread out as the score of 0.557 for justice, 0.593 for tax rate, and 0.582 for tax penalty.

Table 4.4: Mean for Each Variables' Question (n=74)

JUSTIC	Q1	Q2	Q3	Q4	Q5	
Mean	3.55	3.19	3.58	3.22	3.43	
TAXRAT	Q1	Q2	Q3	Q4	Q5	
Mean	3.46	3.38	3.54	3.27	2.95	
PENALT	Q1	Q2	Q3	Q4	Q5	Q6
Mean	3.45	3.42	3.38	3.50	3.31	3.42

Referring to the table of 4.4, all five questions for JUSTIC are scored mean higher than 3.00. The highest mean achieved for justice is for Q3 with 3.58 which reflects that they have perception that government wasting a lot of money from the tax collected. The lowest mean score is Q2 with 3.19 for the perception that taxpayers are confident that the government spends the taxes paid fairly. The rest are scored at 3.55, 3.22 and 3.43 of mean where it means the taxes paid higher than the benefits, they do not want to pay taxes if the government cannot be trusted, and the government may use the money for irrelevant projects.

Furthermore, looking into TAXRAT mean, the highest score is for Q3 with 3.54 and indicates that the taxpayers have perception of taxpayers preferred to pay taxes of the tax rate is reduced.

While then, the lowest means, 2.95 for Q5 reflects they are not agreed that the tax rate charged for the lower-income and upper-income level are fair. Other questions are scored at mean of higher than 3.00 which means the perception of taxpayers having unfair tax rate, taxpayers of lower-income level actually paid higher, and only benefits more to the upper-income level.

Then, overall mean for PENALT can be seen as almost similar with JUSTIC as all are scored more than 3.00 while the highest score, 3.50 is for Q4 which indicates that they believe a strict enforcement level on penalties can increase tax compliance level among taxpayers. While the least one, Q5 mean with score 3.31 that reflects their perception on abrupt tax investigation by IRBM do increase awareness on tax compliance. The other questions, the taxpayers have thoughts that tax enforcement help to encourage taxpayers to comply as they also sensitive to tax penalty and the higher tax penalty charged will encourage them to act compliance as they also think the chances of getting caught is high for acting non-compliance.

4.5 Regression Analysis

Regression analysis test is conducted to identify whether independent variables justice, tax rate and tax penalty affect the perception towards tax compliance. All variables are tested through two regression analysis method which are Least Square and Robust Least Square. As Robust Least Square Method provide an alternative less restrictive assumptions for the Least Square Method which will conducted to increase the probability of significant. As to this study, tax rate is not able to get below of 0.05, Robust Least Square is tested for to increase the probability. All the actual analysis result gathered and explain on this part will be included in the Appendix C.

4.5.1 Least Square Method

Least Square Method used to determine the probability, coefficient and R-squared value. As referring to the table 4.5, two independent variables are showing regression analysis Least

Square Method to measure the independent variables, JUSTIC, TAXRAT & PENALT to the dependent variable TAXCOM.

Table 4.5: Regression Analysis – LSM (n=74)

Regression Analysis	TAXCOM	JUSTIC	TAXRAT	PENALT
Probability	0.001	0.000	0.477	0.000
Coefficient	0.894	0.506	-0.063	0.311
R-squared	0.663			

Probability is measured by using 5% or 0.05 indicator where the amount of probability value (p-value) is significant when it is less than 0.05. Based on the table, JUSTIC and PENALT are showing p-value below 0.05 with 0.000 which indicates, the justice and tax penalty has significant relationship to the tax compliance. Hence, justice and tax penalty are explained the tax compliance in a good way where these two variables changes may affect the perception of taxpayers towards income tax compliance. Though, the TAXRAT p-value amounting 0.477 which is more than 0.05 indicators of significant variable. Thus, tax rate is not significant to the perception of taxpayers towards the personal income tax compliance.

Move on to the coefficient result, the measurement is using 1% or 0.01 indicator for the interpretation. As looking into the JUSTIC coefficient amount, increases of 1% justice, tax compliance increases by 50.6% which represents justice has significant relationship and influenced to the tax compliance. Hence, the more justice increases, the more taxpayers will comply with taxes. On the other hand, PENALT coefficient amount shows that increases of tax penalty by 1%, tax compliance will increase by 31.1%, so, this independent variable is significant and influence the tax compliance among taxpayers. However, TAXRAT coefficient value is showing opposite with the other two variables which is negative amount, -6.3%. The

increases of tax rate do not increase the tax compliance by 6.3%. Thus, tax rate is not significant to the tax compliance behavior.

Next, interpreting the R-squared value that indicates 66.3% of variation in dependent variable is due to independent variables by 50.6% of justice, 31.1% of tax penalty and -6.3% of tax rate. Based on the R-squared, justice is showing the most fitted independent variable that reflects to the changes in tax compliance perception among taxpayers.

4.5.2 Robust Least Square Method

In the regression analysis by using Least Square Method, only justice and tax penalty have significant result and influencing to the changes of tax compliance. While then, tax rate has no significant to the dependent variable as resulting negative coefficient relationship. That means the tax rate move opposite direction with tax compliance. Hence, Robust Least Square also included into analysis as to test whether it may change the result of independent variable of tax rate.

Table 4.6: Regression Analysis – RLS (n=74)

Regression Analysis	JUSTIC	TAXRAT	PENALT
Probability	0.0000	0.4848	0.0001
Coefficient	0.5662	0.0054	0.2476
R-squared		0.6008	

Referring to table 4.6, p-value of JUSTIC is remain the same at 0.0000 which indicates significant as it is below 0.05. Though, PENALT has slightly different amounting 0.0001 where still significant as to previous test which resulting below than 0.05 indicator of p-value. Apart from the two independent variables, TAXRAT shows result p-value more than 0.05 with

0.4848. Thus, through Robust Least Square, tax rate still remains not significant in p-value. Moving towards the coefficient value, all variables are having different result from the Least Square Method. Justice increase by 1% will make the tax compliance increase by 56.62% which indicates that justice is significant and influence to the changes of tax compliance. Next, tax penalty increases by 1% resulting of tax compliance increases by 24.76%, this is showing the independent variable significantly influenced the dependent variable. Moreover, tax rate increases by 1%, the tax compliance will increase by 5.4% which shows there is significant relationship between tax rate and tax compliance. as opposed to the Least Square, Robust Least Square shows different results when less restrictive assumptions are included. Even though the percentage is quite low compared to other two variables, it has relatively impact towards the tax compliance among taxpayers.

4.6 Summary of the Chapter

Chapter four is the part where the discussion of the data collected and analysis is performed. Started with response rate of respondents, respondents' profile and ended with analysis of the data. The data analysis used two method which are descriptive statistics and regression analysis. Both analyses were explained together with the results gathered from data collection through questionnaires. The analysis conducted using EViews software 12th version and the results generated can be seen in the Appendix C of this research.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter discuss on the data and results gathered from the respondents and analysis conducted to perform the result. There are also include contribution of this study and limitations faced throughout this research completion. A conclusion of overall study will describe generally on the data collected and results indicated.

5.2 Recapitulation of the Study

This study conducted a research of taxpayers' perception towards tax compliance on justice, tax rate and tax penalty in Malaysia. The current research uses primary data collection which is through questionnaires distributed. There are 100 questionnaires were distributed and 74 returned completely. By using the data collected, EViews software adapted to do the analysis for the study which are descriptive statistical analysis and regression analysis which mixed results are collected. Justice and tax penalty are consistently interpreted positive and significant relationship with the tax compliance. While then, tax rate also has significant relationship with the tax compliance. Through the analysis of descriptive statistics, all are having significant mean where it is more than 3.00 unless one of the questions in the tax rate is resulting lower. The result indicates that the taxpayers do not have perception of tax rate are fairly charged to the lower-income and upper-income level of taxpayers. Though, overall studies still showing all three independent variables of justice, tax rate and tax penalty are significant to the dependent variables.

Moving to regression analysis, Least Square Method and Robust Least Square Method has the same significant relationship between justice and tax penalty with the tax compliance. However, tax rate has two results which different from one another. Least Square resulting insignificant relationship between tax rate and tax compliance by having -6.3% score. Even though, the different is small amount, it is considered as opposite direction between independent and dependent variable. However, through the Robust Least Square, all independent variables are significant to the changes of dependent variable based on coefficient value. Though, the p-value still eliminate tax rate to as it is not significant. Justice and tax penalty are having p-value of less than 0.05 which indicates significant.

This current study shows the result align with the previous study literature where justice and tax rate have positive and significant relationship with the tax compliance which the changes of these two independent variables may affect the dependent variable to be changed. Besides, tax rate has also not diminished the previous literature where there are mixed findings of tax rate effects towards the tax compliance. Even though the research found on negative relationship between tax rate and tax compliance is very limited, this study shows that there is probability for insignificant relationship between this variable and tax compliance.

Moreover, as this study using two theories, the reflection of result towards theory will be different. Fiscal Exchange Theory which imply understanding of the way of taxes paid used by government will motivate taxpayers' motivation to comply is accepted in this study by both tax compliance and justice variables. The perception of taxpayers is also influenced by their view towards government responsibilities. While then, tax rate and tax penalty also achieved to reflect the Economic Deterrence Theory where the optimization of policies or enforcement, and punitive measure affect their perception on tax compliance as the high risk of being caught do increase their tendency to comply.

5.3 Contribution to the Body of Knowledge

This study may contribute to other scholars in order to increase the sources of articles in various platform. Besides, it may promote the body of knowledge to further study on the topic, issue or determinants to provide clearer view on tax compliance. Aside from that, this study can be utilized by future researcher to gather the data collection method, tax compliance determinants, and analysis technique used in this study. It is also can be used for university like students to review or as an exposure to the tax compliance. Moreover, since the tax revenue is one of important and highly needed for country and society development, tax authorities or policy makers can use this research to understand the reason behind of the actions of non-compliance among taxpayers in Malaysia. Besides, this study can enrich the literature in Malaysia on the tax compliance perceptions among taxpayers by using the three independent variables used which are justice, tax rate and tax penalty. As there are few previous studies that specifically focused on the personal income tax compliance, this study may help to add the current literature on personal income tax compliance for future research. In addition, as this study use three independent variables that are significant to the tax compliance, researchers may use to add these variables into future study. Researchers can use this study to develop new method and generate new theories that may be different to Fiscal Exchange Theory and Economic Deterrence Theory to suit the research.

5.4 Limitations of the Study

There are few limitations to conduct this study especially on the collection of data. This study has a very limited sources of secondary data. Most of the study founded to investigate this issue by using primary data such as survey. Since this study is conducted during the endemic of COVID-19, it is very crucial to reach people directly to conduct the survey. It may affect the results of the data if there is any question that the respondent misunderstood, hence the answer

might be not reflected the actual perceptions of the taxpayers. Due to that, the only available method to be used is by distributing through online platform by using Google Form. Besides, this study is cross-sectional in nature so we assessed the respondent on their perceptions at a specific time. The time to conduct the survey are very limited and might affect the results of limited respondent.

Furthermore, this research only examined on the perceptions of taxpayers on the tax compliance on three types of variables which are justice, tax rate, tax penalty. There are other determinants might influence the tax compliance level too like government initiatives, income inequality, social exchange, tax authorities, government-citizens relationship and enforcement level. Gberegbe & Umoren (2017) also stated there are other factors to the tax non-compliance which are persuasion and gender. This paper also does not discuss on how the independent variables give impact in details on the tax compliance, it only covers in the angle of the perceptions of taxpayers.

Other than that, this research does not take a look into the affect and the consequences of the tax compliance to the country of Malaysia but only on the taxpayers' perceptions. Moreover, there are limited articles to be refer in details to all variables towards the tax compliance. Hence, the previous study relationship may not be applicable as a similar result for this study. As economy of Malaysia and global are changing and evolve accordingly to the situations and development, the variables used might not be the latest reason of tax compliance reduction among taxpayers in Malaysia. In addition, this survey conducted only managed to get returned completely of 74 responses to represents Malaysian taxpayers, the result might be not be reflects Malaysian taxpayers as a whole.

5.5 Recommendation

Based on previous studies, there are many factors that may influence taxpayers' perceptions towards tax compliance such as government initiatives, income inequality, social exchange, tax authorities, government-citizens relationship and enforcement level, justice, tax rate and tax penalty. However, this current research only chooses three variables to be examined which are justice, tax rate and tax penalty. As to that, it is suggested that future research could be conducted to include other factors as independent variables to get broad reason on taxpayers' perceptions. Besides, as this research managed to get only 74 respondents, it does not reflect Malaysian taxpayers as a whole, hence, other researchers might extent this research with better and sufficient data to get more accurate results. It is also suggested to includes physical questionnaires distribution in order to ensure the questions are correctly understandable. Moreover, this research does not take a look into the importance and the benefits of tax compliance to the country of Malaysia but only on the taxpayers' perceptions on tax compliance, thus, future researcher may involve in other aspects of tax compliance which not only focusing on taxpayers' perceptions such as taxpayers' behavior, taxpayers' intentions, or taxpayers' ethics. Furthermore, as economy of Malaysia and global are changing and evolve accordingly to the situations and development, this current research might not be applied the same to the future Malaysian economic situation correctly, so, further research which more up to date may be conducted to get more reliable findings.

5.6 Conclusion

The research of perceptions of taxpayers on tax compliance in Malaysia able to provide evidence that addresses the research question, research objective and research hypotheses. The evidence is gathered from primary data by distributing questionnaires among taxpayers of Malaysia population and received responses of 74 respondents. Overall, perceptions of

taxpayers can be divided into various determinants and not influenced by only single factor. Dependent variable used in this study is tax compliance while the three independent variables are justice, tax rate and tax penalty. Due to that, proper research is done in order to analyze the variables used whether it is can gives effect on the perception of taxpayers towards the tax compliance. Tests that were conducted in this study include descriptive statistics and regression analysis. There are few ways to act non-compliance on taxes such as tax avoidance and tax evasion. None of the ways should be categorized as better to another as both will impact the level of tax compliance and it will show non-obliged behavior towards the tax laws, rules and regulations. While then, in descriptive statistics, justice and tax penalty able to get significant result unless tax rate. Similar to regression analysis, only justice and tax penalty that has significant relationship with tax compliance leaving tax rate as insignificant. To sum up everything, there is significant relationship between independent variables and dependent variable in this research, though, there are still limitation to deem clear positive relationship. In the end, this study encourages other researcher to further study on this topic related to tax compliance with variables of justice, tax rate and tax penalty as there is scarcity in literature of these variables and studies. Besides, better quantity of responses data gathered may help to show better significant level of variables.

REFERENCES

- Ahmad N., Mokhtar A. S. M., Mahdzor M. M. F., Hadi M. F. E., & Jeli, N. H. I. M. (2017). Tax Compliance Cost Among SME's: Evidence from The Southern Region of Malaysia. 149–156. <https://doi.org/10.15405/epsbs.2018.07.02.16>
- Alkhatib, Abdul-Jabbar & Marimuthu (2018) The Effects of Deterrence Factors on Income Tax Evasion among Palestinian SMEs. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, (2018), 44-152, 8(4)
- Bargain, O., Dolls, M., Immervoll, H., Neumann, D., Peichl, A., Pestel, N., & Siegloch, S. (2015). Tax policy and income inequality in the United States, 1979-2007. *Economic Inquiry*, 53(2), 1061–1085. <https://doi.org/10.1111/ecin.12172>
- Capasso, S., Cicatiello, L., de Simone, E., Gaeta, G. L., & Mourão, P. R. (2021). Fiscal Transparency and Tax Ethics: Does Better Information Lead to Greater Compliance? *Journal of Policy Modeling*, 43(5), 1031–1050. <https://doi.org/10.1016/j.jpolmod.2020.06.003>
- Damayanti, T. W., Sutrisno, Subekti, I., & Baridwan, Z. (2015). Trust and Uncertainty Orientation: An Efforts to Create Tax Compliance in Social Psychology Framework. *Procedia - Social and Behavioral Sciences*, 211, 938–944. <https://doi.org/10.1016/j.sbspro.2015.11.124>
- Faizal, S. M., Palil, M. R., Maelah, R., & Ramli, R. (2017). Perception on Justice, Trust and Tax Compliance Behavior in Malaysia. *Kasetsart Journal of Social Sciences*, 38(3), 226–232. <https://doi.org/10.1016/j.kjss.2016.10.003>
- Gberegbe & Umoren (2017) The Perception of Tax Fairness and Personal Income Tax Compliance of Sme's in Rivers State. *Journal of Research in Business and Management*, (2017), 40-51, 5(2)
- IRBM. (2018). *Annual Report 2017*.
- Khalid M. & Yang L. (2021) Income Inequality and Ethnic Cleavages in Malaysia: Evidence from Distributional National Accounts (1984–2014). *Journal of Asian Academic* (2021), 72
- Kiow, T. S., Salleh, M. F. M., & Kassim, A. A. M. (2017). The Determinants of Individual Taxpayers' Tax Compliance Behaviour in Peninsular Malaysia. *International Business and Accounting Research Journal*, 1(1), 26–43. <http://ibarj.com>
- Lampenius, N., Shevlin, T., & Stenzel, A. (2021). Measuring Corporate Tax Rate and Tax Base Avoidance of U.S. Domestic and U.S. Multinational Firms. *Journal of Accounting and Economics*, 72(1), 101406. <https://doi.org/10.1016/j.jacceco.2021.101406>
- Ledder S., Manneti L., Holzl E., & Kirchler E. (2010). Regulatory Fit Effects on Perceived Fiscal Exchange and Tax Compliance. *Europe PMC Author Manuscripts*, 39(2).
- LHDN. (2019). *Laporan Tahunan 2018 LHDNM*.
- Ling, S. C., Osman, A., Muhammad, S., Yeng, S. K., & Jin, L. Y. (2016). Goods and Services Tax (GST) Compliance among Malaysian Consumers: The Influence of Price, Government

Subsidies and Income Inequality. *Procedia Economics and Finance*, 35, 198–205.
[https://doi.org/10.1016/s2212-5671\(16\)00025-3](https://doi.org/10.1016/s2212-5671(16)00025-3)

- Magiya, S. O. (2016). Determinants of Tax Compliance among Small and Medium Sized Enterprises in Nairobi East Tax District.
- Manual V. & Xin A. (2016) Impact of Tax Knowledge, Tax Compliance Cost, Tax Deterrent Tax Measures towards Tax Compliance Behavior: A survey on Self-Employed Taxpayers in West Malaysia. *Journal of Business and Management Vol. 1, No. 1, (2016), 56-70*
- Melinda, Edwards, & Smith. (2014). The Effects of The Neutral Response Option on The Extremeness of Participant Responses.
- Miskam, M., Noor, R. M., Omar, N., & Aziz, R. A. (2013). Determinants of Tax Evasion on Imported Vehicles. *Procedia Economics and Finance*, 7, 205–212.
[https://doi.org/10.1016/S2212-5671\(13\)00236-0](https://doi.org/10.1016/S2212-5671(13)00236-0)
- MoF. (2021, August 31). Direct, Indirect Tax Collection Stands at RM67.4 Bln and RM24.8 Bln Respectively as of July 2021.
- Mohamad, A., Zakaria, M. H., & Hamid, Z. (2016). Cash Economy: Tax Evasion Amongst SMEs in Malaysia. *Journal of Financial Crime*, 23(4), 974–986. <https://doi.org/10.1108/JFC-05-2015-0025>
- Mohdali, R., Isa, K., & Yusoff, S. H. (2014). The Impact of Threat of Punishment on Tax Compliance and Non-compliance Attitudes in Malaysia. *Procedia - Social and Behavioral Sciences*, 164, 291–297. <https://doi.org/10.1016/j.sbspro.2014.11.079>
- Park C. & Hyun J. (2003) Examining the Determinants of Tax Compliance by Experimental Data: A Case of Korea. *Journal of Policy Modeling*, (2003), 673-684, 25(8)
- Rashd N. M. F., Hamid N. A., Amin N. M., Fahmi M., Rasit Z. A., & Yazid S. A. (2017). The Relationship Between Tax Evasion and GST Rate. *World Applied Sciences Journal*, 1930–1935.
- Rozi N., Salam N., Sobri H., & Zulkifli S. (2019). The Influence of Social Exchange, Enforcement Level and Tax Fairness on Tax Evasion Among SME's.
- Saad, N. (2012). Tax Non-Compliance Behaviour: Taxpayers View. *Procedia - Social and Behavioral Sciences*, 65, 344–351. <https://doi.org/10.1016/j.sbspro.2012.11.132>
- Saad, N. (2014). Tax Knowledge, Tax Complexity and Tax Compliance: Taxpayers' View. *Procedia - Social and Behavioral Sciences*, 109, 1069–1075.
<https://doi.org/10.1016/j.sbspro.2013.12.590>
- Sekaran & Bougie (2016) *Research Methods for Business: A Skill-Building Approach*. 7th Edition, John Wiley & Sons, Haddington.
- Sinnasamy, P., Bidin, Z., & Ismail, S. S. S. (2015). A Proposed Model of Non-compliance Behaviour on Excise Duty: A Moderating Effects of Tax Agents. *Procedia - Social and Behavioral Sciences*, 211, 299–305. <https://doi.org/10.1016/j.sbspro.2015.11.038>

Uemura, T. (2022). Evaluating Japan's Corporate Income Tax Reform using Firm-specific Effective Tax Rates. *Japan and the World Economy*, 61, 101115. <https://doi.org/10.1016/j.japwor.2022.101115>

Yee, C. P., Moorthy K., & Soon C. K. (2017). Taxpayers' Perceptions on Tax Evasion Behaviour: An Empirical Study in Malaysia. *International Journal of Law and Management*, 59(3), 413–429. <https://doi.org/10.1108/IJLMA-02-2016-0022>



APPENDIX A: QUESTIONNAIRE (ENGLISH)



Perceptions of Taxpayers Towards Personal Income Tax Compliance on Justice, Tax Rate and Tax Penalty in Malaysia

Good day to you,

I am Hamizah Azizah Sobri, student of Master in Taxation, Universiti Utara Malaysia (UUM). The purpose of this survey is to study The Perception of Taxpayers Towards Income Tax Compliance on Justice, Tax Rate and Tax Penalty in Malaysia.

As to that, I hope that you could provide some time to answer this survey. Your perceptions towards this survey are very important and significant to the accuracy of this study.

I am very honoured to receive response from you. The information gather in this survey will remain confidential and would not be disclose for any other purposes than academic study.

This survey may require around 10-15 minutes to be completed.

PART A: RESPONDENT'S PROFILE

Gender:

- Male
- Female

Age (years):

- Below 18
- 18 to 30
- 31 to 45
- Above 45

Education:

- SPM/ relevant certificate
- STPM/ A-level/ Diploma
- Degree/ Professional
- Master
- PhD



Employment Status:

- Employed
- Unemployed
- Student

Income per year (RM):

- () 25,500 and below
- () 25,501 – 60,000
- () 60,001 – 120,000
- () above 120,000

PART B: TAX COMPLIANCE

Tax compliance can be defined as the degree of obligation of taxpayers towards the rules, law and regulations of taxes. Tax compliance also can be defined as an awareness of people to oblige with the tax laws which refer to the willingness of taxpayers to pay the taxes accordingly.

This part will involve your view and opinion on tax compliance in Malaysia.

1. In my opinion, tax compliance is an ethical behaviour and legal.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

2. Current tax system does not influence the taxpayers to oblige with the tax law.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

3. Complying with taxes is an ethical behaviour if most of the taxpayers do so.

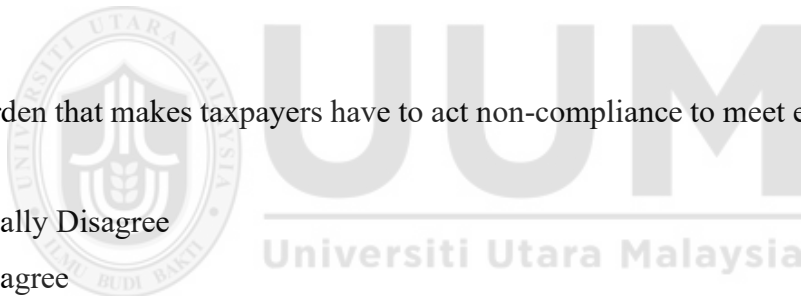
- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

4. Taxpayers will act non-compliance on taxes if there are chances to do so.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

5. Tax is a burden that makes taxpayers have to act non-compliance to meet economic needs.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree



PART C: JUSTICE

Justice on taxes is the fairness in implementing the tax system and fair in distributing social welfare.

1. Amount of taxes that need to be paid are higher compared to the benefits provided by government.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

2. Taxpayers are confident that government spent the taxes paid fairly.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

3. Government wasting a lot of money from the tax collected.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

4. Taxpayers do not want to pay taxes if the government that handle the distribution towards society cannot be trusted.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

5. Taxpayers believe that it is not wrong to declare a lower 'tax income' as government will use the money to support irrelevant projects for society.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree



PART D: TAX RATE

Tax rate is the rate that charged on income for tax computation purposes.

1. Current tax rate is considered unfair towards taxpayer.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

2. Taxpayers from lower income level paid lower compared to upper income level.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

3. Taxpayers preferred to pay taxes if the tax rate is reduced.

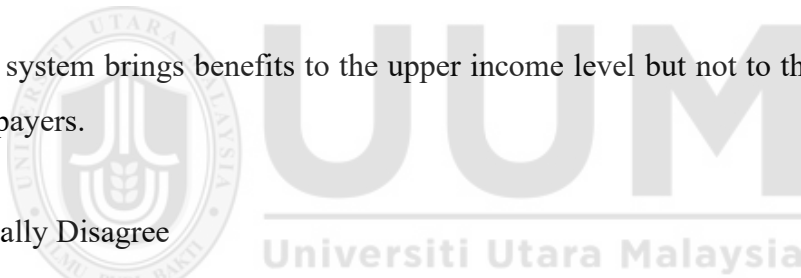
- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

4. Current tax system brings benefits to the upper income level but not to the lower income level of taxpayers.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

5. Taxpayers agreed that the tax rate charged fairly towards the upper and lower level income of taxpayers.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree



PART E: TAX PENALTY

Tax penalty is the charges being imposed if taxpayers do not comply with the taxes accordingly to the correct amount should be paid within the prescribed period.

1. A strict tax enforcement system may help to encourage taxpayers comply with taxes.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

2. Taxpayers are sensitive towards tax penalty.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

3. Higher tax penalty charged towards the taxpayers encourage them to act compliance.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

4. A strict tax enforcement level on penalties can increase tax compliance level among the taxpayers.

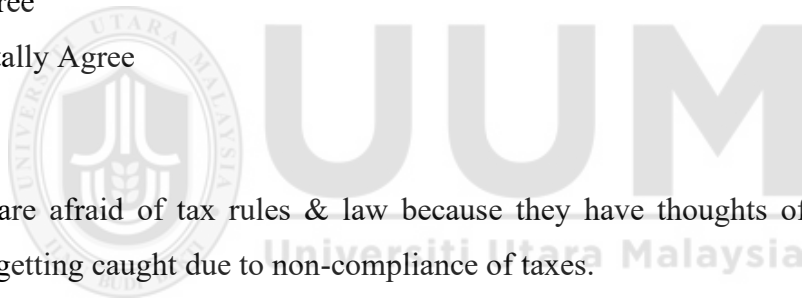
- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

5. An abrupt tax investigation by IRBM will increase awareness among taxpayers on tax compliance.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

6. Taxpayers are afraid of tax rules & law because they have thoughts of there are high chances of getting caught due to non-compliance of taxes.

- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree



APPENDIX B: QUESTIONNAIRE (MALAY)



Persepsi Pembayar Cukai Terhadap Cukai Pendapatan Individu ke atas Keadilan, Kadar Cukai dan Penalti di Malaysia

Salam sejahtera,

Saya Hamizah Azizah Sobri, pelajar Ijazah Sarjana Percukaian, Universiti Utara Malaysia (UUM). Tujuan kaji selidik ini adalah untuk mengkaji Persepsi Pembayar Cukai Terhadap Pematuhan Cukai Pendapatan Individu ke atas Keadilan Kadar Cukai, dan Penalti di Malaysia.

Oleh itu, saya berharap bahawa anda boleh memberikan sedikit masa untuk menjawab kaji selidik ini. Persepsi anda terhadap kaji selidik ini adalah sangat penting dan signifikan kepada ketepatan kajian ini.

Saya amat berbesar hati menerima jawapan daripada anda. Maklumat yang dikumpulkan dalam kaji selidik ini akan kekal sulit dan tidak akan didedahkan untuk sebarang tujuan lain daripada kajian ini.

Kaji selidik ini mungkin memerlukan sekitar 10-15 minit untuk disiapkan.

PART A: MAKLUMAT RESPONDEN

Jantina:

- Lelaki
- Perempuan

Umur (tahun):

- Bawah 18
- 18 to 30
- 31 to 45
- Atas 45

Pendidikan:

- SPM/ sijil yang relevan
- STPM/ A-level/ Diploma
- Ijazah Sarjana Muda/ Profesional
- Ijazah Sarjana
- PhD



Status pekerjaan:

- Bekerja
- Tidak bekerja
- Pelajar

Gaji tahunan (RM):

- () 25,500 dan ke bawah
- () 25,501 – 60,000
- () 60,001 – 120,000
- () melebihi 120,000

BAHAGIAN B: PEMATUHAN CUKAI

Pematuhan cukai boleh didefinisikan sebagai tahap kewajipan pembayar cukai terhadap peraturan, undang-undang dan peraturan cukai. Pematuhan cukai juga boleh ditakrifkan sebagai kesedaran orang ramai untuk mematuhi peraturan cukai yang merujuk kepada kesediaan pembayar cukai untuk membayar cukai dengan sewajarnya.

1. Pada pendapat saya, pematuhan cukai adalah perbuatan yang beretika dan mematuhi undang-undang.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

2. Sistem cukai semasa tidak mendorong pembayar cukai untuk mematuhi peraturan cukai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

3. Mematuhi cukai adalah beretika jika kebanyakan pembayar cukai melakukannya.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

4. Pembayar cukai akan melanggar peraturan cukai jika mempunyai peluang untuk melakukannya.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

5. Cukai adalah sangat membebankan sehingga menyebabkan pembayar cukai perlu melakukan pengelakan cukai bagi memenuhi keperluan ekonomi.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

BAHAGIAN C: KEADILAN

Keadilan cukai adalah keadilan dalam melaksanakan sistem cukai dan adil dalam pengagihan cukai kepada masyarakat.

1. Jumlah cukai yang perlu dibayar oleh pembayar cukai adalah tinggi berbanding dengan faedah yang disediakan oleh kerajaan.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

2. Pembayar cukai mempunyai keyakinan yang tinggi bahawa kerajaan membelanjakan wang cukai dengan adil.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

3. Kerajaan membazirkan banyak wang daripada cukai yang dikutip.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

4. Pembayar cukai tidak mahu membayar cukai jika kerajaan yang menguruskan pengagihan kepada masyarakat tidak boleh dipercayai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

5. Pembayar cukai percaya bahawa adalah tiddak salah untuk mengisytiharkan ‘pendapatan boleh dikenakan cukai’ yang lebih rendah kerana kerajaan akan membelanjakan wang tersebut untuk projek yang tidak munasabah untuk masyarakat.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju



BAHAGIAN D: KADAR CUKAI

Kadar cukai ialah kadar yang dikenakan ke atas pendapatan atau barangan bagi tujuan pengiraan cukai.

1. Kadar cukai semasa dianggap tidak adil untuk pembayar cukai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

2. Berbanding dengan jumlah cukai yang dibayar oleh golongan berpendapatan tinggi, golongan berpendapatan rendah membayar lebih.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

3. Pembayar cukai lebih bersetuju untuk membayar cukai sekiranya kadar cukai dikurangkan.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

4. Sistem cukai kini memberi faedah kepada pembayar cukai dari golongan berpendapatan tinggi tetapi tidak kepada golongan berpendapatan rendah.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

5. Pembayar cukai bersetuju bahawa kadar cukai diagihkan secara adil antara golongan berpendapatan tinggi dan golongan berpendapatan rendah.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

BAHAGIAN E: PENALTI

Penalti adalah caj yang dikenakan jika pembayar cukai tidak mematuhi cukai yang sewajarnya berdasarkan jumlah yang sepatutnya perlu dibayar mengikut tempoh yang ditetapkan.

1. Penguatkuasaan sistem cukai yang lebih tegas boleh menggalakkan pembayar cukai mematuhi peraturan cukai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

2. Pembayar cukai adalah sensitif terhadap tax penalty.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

3. Tax penalti yang tinggi kepada pembayar cukai boleh menggalakkan mereka untuk mematuhi cukai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

4. Tahap penguatkuasaan cukai yang lebih tegas ke atas tax penalty boleh meningkatkan tahap pematuhan cukai dalam kalangan pembayar cukai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

5. Penyiasatan mengejut oleh LHDN akan meningkatkan kewaspadaan dalam kalangan pembayar cukai berkenaan pematuhan cukai.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

6. Pembayar cukai takut kepada undang-undang dan peraturan kerana berpendapat bahawa kemungkinan tertangkap disebabkan tidak mematuhi cukai adalah tinggi.

- 1. Sangat Tidak Bersetuju
- 2. Tidak bersetuju
- 3. Setuju
- 4. Sangat Setuju

APPENDIX C: EIEWS OUTPUT

Appendix C1 – Mean TAXCOM

TAXCOM	Q1	Q2	Q3	Q4	Q5
Mean	3.62	3.42	3.47	3.51	3.80

Appendix C2 – Mean JUSTIC

JUSTIC	Q1	Q2	Q3	Q4	Q5
Mean	3.55	3.19	3.58	3.22	3.43

Appendix C3 – Mean TAXRAT

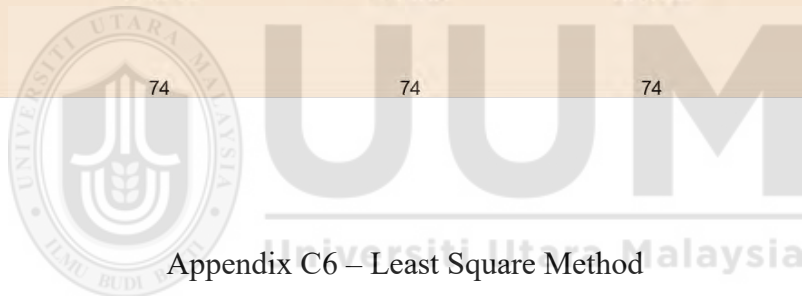
TAXRAT	Q1	Q2	Q3	Q4	Q5
Mean	3.46	3.38	3.54	3.27	2.95

Appendix C4 – Mean PENALT

PENALT	Q1	Q2	Q3	Q4	Q5	Q6
Mean	3.45	3.42	3.38	3.50	3.31	3.42

Appendix C5 – Descriptive Statistic

	TAXCOM	JUSTIC	TAXRAT	PENALT
Mean	3.456456	3.394595	3.412162	3.408108
Median	3.555556	3.400000	3.500000	3.400000
Maximum	4.000000	4.000000	4.000000	4.000000
Minimum	2.333333	2.000000	1.750000	2.000000
Std. Dev.	0.449577	0.556873	0.593100	0.582333
Skewness	-0.413849	-0.573830	-0.660777	-0.580123
Kurtosis	2.304203	2.566921	2.649241	2.402184
Jarque-Bera	3.605089	4.639436	5.764407	5.252622
Probability	0.164879	0.098301	0.056011	0.072345
Sum	255.7778	251.2000	252.5000	252.2000
Sum Sq. Dev.	14.75475	22.63784	25.67905	24.75514
Observations	74	74	74	74



Appendix C6 – Least Square Method

Dependent Variable: TAXCOM				
Method: Least Squares				
Date: 11/20/22 Time: 03:02				
Sample: 1 74				
Included observations: 74				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.894297	0.222223	4.024312	0.0001
JUSTIC	0.506199	0.080534	6.285573	0.0000
TAXRAT	-0.063387	0.088702	-0.714613	0.4772
PENALT	0.311054	0.069797	4.456531	0.0000
R-squared	0.663462	Mean dependent var		3.456456
Adjusted R-squared	0.649038	S.D. dependent var		0.449577
S.E. of regression	0.266339	Akaike info criterion		0.244443
Sum squared resid	4.965543	Schwarz criterion		0.368987
Log likelihood	-5.044379	Hannan-Quinn criter.		0.294125
F-statistic	46.00000	Durbin-Watson stat		2.497472
Prob(F-statistic)	0.000000			

Appendix C7 – Regression Robust Least Square

Dependent Variable: TAXCOM Method: Robust Least Squares Date: 11/20/22 Time: 03:05 Sample: 1 74 Included observations: 74 Method: M-estimation M settings: weight=Bisquare, tuning=4.685, scale=MAD (median centered) Huber Type I Standard Errors & Covariance				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.497614	0.198814	2.502911	0.0123
JUSTIC	0.566170	0.072050	7.858028	0.0000
TAXRAT	0.055434	0.079358	0.698537	0.4848
PENALT	0.247603	0.062445	3.965149	0.0001
Robust Statistics				
R-squared	0.600835	Adjusted R-squared	0.583727	
Rw-squared	0.828804	Adjust Rw-squared	0.828804	
Akaike info criterion	101.1317	Schwarz criterion	111.0421	
Deviance	3.528758	Scale	0.193932	
Rn-squared statistic	233.6544	Prob(Rn-squared stat.)	0.000000	
Non-robust Statistics				
Mean dependent var	3.456456	S.D. dependent var	0.449577	
S.E. of regression	0.278651	Sum squared resid	5.435255	

