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**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

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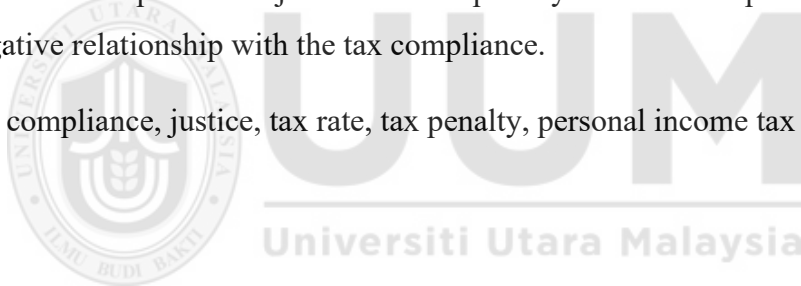
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ABSTRACT

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

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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

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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.

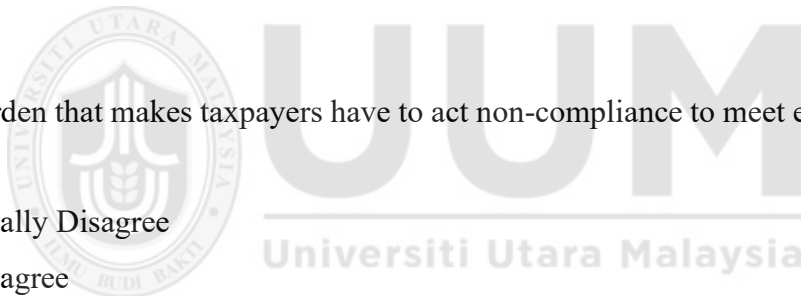
- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

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.

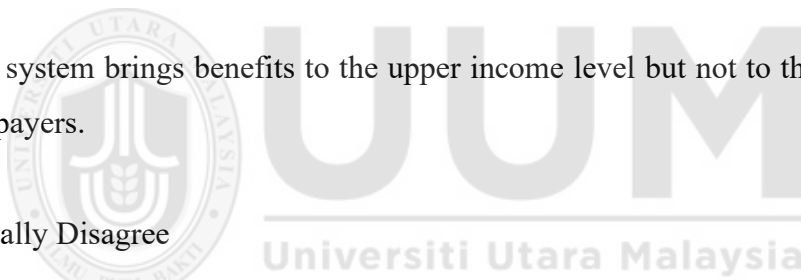
- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

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.

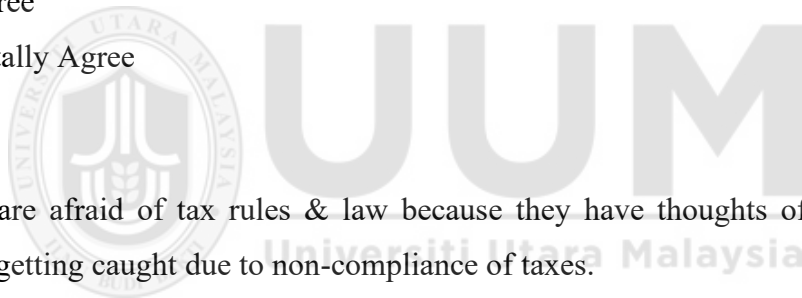
- 1. Totally Disagree
- 2. Disagree
- 3. Agree
- 4. Totally Agree

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: EViews 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

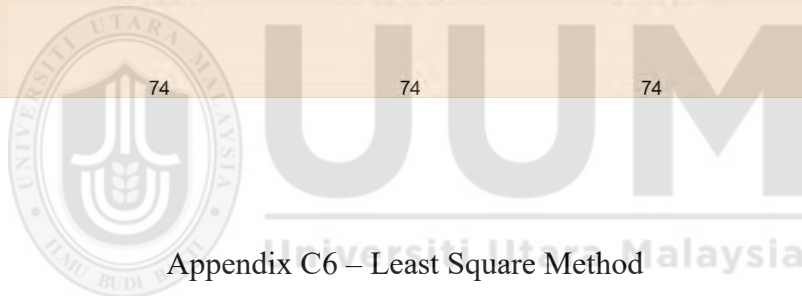
TAXRAT	Q1	Q2	Q3	Q4	Q5
Mean	3.46	3.38	3.54	3.27	2.95

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	

