DETERMINANTS OF TAX COMPLIANCE INTENTION ON WITHHOLDING TAXES AMONG PAYERS IN KLANG VALLEY

By

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ABSTRACT

This study attempted to investigate the determinants of tax compliance intention in withholding tax in Klang Valley. A theoretical framework was developed based on the theory of planned behavior and economic deterrence model of tax compliance. The objectives of the study were to determine the level and relationship of attitude, subjective norms, and perceived behavioral control (clarity of law, tax knowledge and probability audit) towards tax compliance intention in a withholding tax among payers in Klang Valley. Online questionnaires were used for data collection. Reliability analysis, factor analysis, descriptive analysis, and multiple regression analysis were conducted using the data collected from 71 respondents chosen via random sampling. The results of multiple regression analysis showed that independent variables that significantly influence the intention towards tax compliance are attitude, tax knowledge and probability of audit. The findings also revealed that the independent variables tested explained 80.9% of the variance in tax compliance intention in withholding tax. Hence, the model used in this study was supported as suitable and was able to predict the dependent variable, tax compliance intention.

Keywords: compliance, attitude, subjective norms, knowledge, clarity of law and probability audit

ABSTRAK

Kajian ini bertujuan untuk menyiasat faktor penentu pematuhan cukai di bawah cukai pegangan di Klang Valley. Satu kerangka teori telah dibangunkan berdasarkan teori gelagat terancang dan model pencegahan ekonomi. Objektif kajian ini adalah untuk menentukan tahap dan hubungan antara sikap, norma subjektif, dan kawalan gelagat ditanggap (kejelasan undang-undang cukai, pengetahuan cukai dan kebarangkalian audit) dengan niat terhadap pematuhan cukai bagi pegawai kewangan di Klang Valley. Borang soal selidik atas talian digunakan untuk mengutip data. Analisa kebolehpercayaan, faktor, deskriptif dan regresi berganda telah dijalankan keatas data yang diperolehi daripada 71 responden yang dipilih dengan persampelan rawak. Keputusan analisa regresi berganda menunjukkan bahawa pemboleh ubah bebas yang mempengaruhi niat terhadap pematuhan cukai adalah sikap, pengetahuan cukai dan kebarangkalian audit. Hasil kajian turut mendapati bahawa pembolehubah bebas yang diuji menjelaskan 80.9% variasi dalam niat pematuhan cukai di bawah cukai pegangan. Oleh itu, model yang digunakan dalam kajian ini disokong sebagai sesuai dan dapat meramalkan pemboleh ubah bersandar, iaitu niat pematuhan cukai.

Katakunci: pematuhan cukai, sikap, norma subjektif, pengetahuan, kejelasan undang-undang cukai dan kebarangkalian audit.

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ABBREVIATIONS

IRBM	Inland Revenue Board of Malaysia
WHT	Withholding Tax
ADD	Agents, Dealers Or Distributors
PAYE	Pay-As-You-Earn
NR	Non Resident
ITA 1967	Income Tax Act
PMO	Perceived Moral Obligation
KMO	Kaiser-Meyer-Olkin
OAS	Official Assessment System
SAS	Self-Assessment System
SD	Standard Deviation
SME	Small Medium Enterprise
SPSS	Statistical Package for Social Science
TPB	Theory of Planned Behaviour
PBC	Perceive Behaviour Control
BEPS	Based Erosion Profit Shifting
TRA	Theory of Reasonable Action
BI	Behavioural Intention

CHAPTER ONE: INTRODUCTION

1.1 Introduction

The most important source of government revenue in nearly all countries is coming from taxation. Taxes is a compulsory levy that being impose to individuals or entities by governments. Each country has its own taxation system and in almost every country of the world used to raise revenue. Taxes plays a vital role in fostering economic growth and development of a country such as for government expenditures, allocation of resource, redistribution of income and economic stability. Government will use tax for fiscal policy and as well as serve other purposes for the betterment of the nation. In addition, the tax policy will come along with government expenditure policy, debt management and monetary policy. Besides, through policy review it will help to mitigate employment issue, budget allocation and stability of price.

There are two different forms of taxes in Malaysia which is direct tax and indirect tax. Indirect taxes such as sales tax, service tax, import duties, and excise duties are managed by the Royal Customs and Excise Department. While direct taxes are taxes on profits or incomes, which constitute of a redistribution of income from the private sector to the government and it is not in the form of production cost. The statutory body who is in charged with the direct tax is the Inland Revenue Board of Malaysia (IRBM). In 2021, IRBM has collected RM144,109,809,489.01 surpass the Ministry of Finance's target. There is an increase of 17.06% from total collection in 2020 with the amount of RM123,103,912,592.79. The difference of total collection for these two years is

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APPENDIX A

QUESTIONNAIRE

Good day to you!

My name is Siti Fatma Zuhra Din. I'm currently pursuing Master in Science International Accounting from University Utara Malaysia (UUM). I'm in my final year working on my project paper for my dissertation project. The purpose of this research is to determine factors of tax compliance intention in withholding tax among finance officer in Klang Valley. The questionnaire is open for everyone who employed and registered tax file. By completing this survey, you are deemed giving your consent to provide the information in the questionnaire to be utilized for the interest of this academic research purpose only.

The questionnaire consists of:

Section A - Demographic Information
Section B - Compliance behaviour

The questionnaire will take less than 10 minutes to complete. The valuable information provided by respondents of this questionnaire will be kept confidential and anonymous.

Many thanks for your supportive gesture by completing the questionnaire.

If you have further queries, please do not hesitate to contact reseacher at sitifatmazuhra@gmail.com

Supervised by: Prof. Dr. Zainol Bin Bidin

Please circle one answer in each line that best describes how you feel about the statements.

SECTION A
BELOW A NUMBER OF STATEMENTS THAT REFLECT COMPLIANCE BEHAVIOUR.

	STATEMENTS	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	INTENTION:					
1.	I plan to report all payments subject to withholding tax.	1	2	3	4	5
2.	I would report my withholding tax accordingly, including any payments that subject to withholding tax	1	2	3	4	5
3.	I will make an effort to report all withholding tax	1	2	3	4	5
4.	I would NOT attempt to cheat by omitting to report any payments that subject to withholding tax in my tax return form	1	2	3	4	5
	ATTITUDE:					
1.	I believe that is my responsibility to remit withholding tax	1	2	3	4	5
2.	I feel guilty if I did **NOT** remit withholding tax	1	2	3	4	5
3.	I feel pleased if I did remit withholding tax	1	2	3	4	5
4.	I feel upset if I did NOT remit withholding	1	2	3	4	5
	SUBJECTIVE NORM:					
1.	Peers think that I should remit withholding tax	1	2	3	4	5
2.	Peers influence me to remit withholding tax to IRBM	1	2	3	4	5
3.	Peers support my decision to remit withholding tax to IRBM	1	2	3	4	5

4.	Peers do **NOT** encourage me to remit withholding tax	1	2	3	4	5
5.	Boss think that I should remit withholding tax	1	2	3	4	5
6.	Boss influence me to remit withholding tax to IRBM	1	2	3	4	5
7.	Boss support my decision to remit withholding tax to IRBM	1	2	3	4	5
8.	Boss do **NOT** encourage me to remit withholding tax	1	2	3	4	5
	STATEMENTS	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	TAX KNOWLEDGE					
1.	I know that I need to declare all payments made to non-resident(payee)	1	2	3	4	5
2.	I know about the tax regulation relating to omission of withholding tax.	1	2	3	4	5
3.	I would **NOT** omit to report all payments subject to withholding tax in my tax return form.	1	2	3	4	5
4.	I know to interpret tax regulations relating to omission of withholding tax.	1	2	3	4	5
	WITHHOLDING TAX LAW CLARITY					
1.	Withholding tax law is simple	1	2	3	4	5
2.	Withholding tax law is easy					
3.	Penalty of withholding tax is clearly stated in law	1	2	3	4	5
4.	Withholding tax administration payment is clearly stated	1	2	3	4	5
5.	The example included in Public Ruling are clear	1	2	3	4	5
6.	The content in payment letter is easy to understand	1	2	3	4	5
	PROBABILITY AUDIT					
1.	I aware of the penalties for withholding tax non-compliance	1	2	3	4	5

2.	I aware of the risks in withholding tax non-compliance	1	2	3	4	5
3.	It is likely for payers to be discovered by the IRBM if they were not to comply withholding tax	1	2	3	4	5
4.	It is likely for payers to be punished by the IRBM if they were not to comply withholding tax	1	2	3	4	5
5.	I do remit withholding tax as required by the regulations because I know the probability of being audited is very high	1	2	3	4	5
6.	I do aware the rate of penalty imposed in withholding tax if late payment made to IRBM	1	2	3	4	5

SECTION B
DEMOGRAPHIC INFORMATION

Please tick (√) where appropriate.

1. Gender ☐ Male ☐ Female

2. Race ☐ Malay ☐ Chinese ☐ Indian

☐ Others

3. Age ☐ < 25 years ☐ 36-45 years ☐ > 56 years

☐ 26-35 years ☐ 46-55 years

4. Marital Status ☐ Single ☐ Married ☐ Others

5. Highest Level of Education Degree ☐ PhD Degree ☐ Bachelor

☐ Master Degree ☐ Others

6. Current position holds at company/office ☐ Technical Staff ☐ Non-Technical Staff

7. IRB's Branch of withholding tax file

- [ ] Petaling Jaya
- [ ] Bangi
- [ ] Tidak Bermastautin
- [ ] Klang Bandar
- [ ] Wangsa Maju
- [ ] Kuala Lumpur
- [ ] Shah Alam
- [ ] Cheras
- [ ] Lain-lain (Nyatakan): ___________

8. Monthly Income (Total Gross)

- [ ] Up to RM 3,500
- [ ] RM 3,501 – RM 5,000
- [ ] RM 5,001 – RM 6,500
- [ ] RM 6,501 – RM 8,000
- [ ] RM 8,001 – RM 9,500
- [ ] RM 9,501 and above

9. Job experience

- [ ] Less than 10 years
- [ ] 10 – 19 years
- [ ] More than 20 years

10. How many times have you (or your representative, such as tax consultant, spouse, etc.) remit withholding tax payment?

- [ ] Never
- [ ] Once
- [ ] 2 – 5 times
- [ ] More than 5 times

11. Have you attended any tax seminar (for free or paid) that organized by IRB or any agencies/institutional?

- [ ] Yes, I have
- [ ] Never

Thank you for your kindly participation to complete this questionnaire.

Your assistance and attention in providing the above information is highly appreciated.

APPENDIX B

1. Results Reliability

1.1 Intention

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.947	.949	4

Item Statistics			
	Mean	Std. Deviation	N
SECTION B COMPLIANCE BEHAVIOUR 1. INTENTION I plan to report all payments subject to withholding tax.	4.20	1.103	71
I would report my withholding tax accordingly, including any payments that subject to withholding tax	4.25	1.052	71
I will make an effort to report all withholding tax	4.35	.896	71
I would NOT attempt to cheat by omitting to report any payments that subject to withholding tax in my tax return form	4.41	.888	71

1.2 Attitude

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.902	.908	4

Item Statistics			
	Mean	Std. Deviation	N
2. ATTITUDE I believe that is my responsibility to remit withholding tax	4.45	.891	71
I feel guilty if I did NOT remit withholding tax	4.39	.902	71
I feel pleased if I did remit withholding tax	4.10	1.097	71
I feel upset if I did NOT remit withholding	4.18	.946	71

1.3 Subjective Norm

After deleting -ve statement

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.946	.948	6

Item Statistics			
	Mean	Std. Deviation	N
3. SUBJECTIVE NORM Peers think that I should remit withholding tax	3.87	1.042	69
Peers influence me to remit withholding tax to IRBM	3.94	.953	69
Peers support my decision to remit withholding tax to IRBM	3.99	.962	69
Spouse think that I should remit withholding tax	3.84	1.052	69

Spouse influence me to remit withholding tax to IRBM	3.77	1.126	69
Spouse support my decision to remit withholding tax to IRBM	3.90	1.087	69

1.4 Tax Knowledge

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.658	.739	4

Item Statistics			
	Mean	Std. Deviation	N
4. TAX KNOWLEDGE I know that I need to declare all payments made to non-resident(payee)	4.37	.837	70
I know about the tax regulation relating to omission of withholding tax"	4.21	.849	70
I would NOT omit to report all payments subject to withholding tax in my tax return form	3.43	1.470	70
I know to interpret tax regulations relating to omission of withholding tax."	3.97	.932	70

1.5 Clarity of law

After deleting WHT is simple

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.897	.897	5

Item Statistics			
	Mean	Std. Deviation	N
Penalty of withholding tax is clearly stated in law	4.09	.853	69
Withholding tax administration payment is clearly stated	3.94	.873	69
The example included in Public Ruling are clear	3.88	.850	69
The content in payment letter is easy to understand"	3.83	.923	69
Withholding tax law is easy	3.55	.900	69

1.6 Probability Audit

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.945	.947	6

Item Statistics			
	Mean	Std. Deviation	N
6. PROBABILITY AUDIT I aware of the penalties for withholding tax non-compliance	4.73	1.121	71
I aware of the risks in withholding tax non-compliance	4.24	.836	71
It is likely for payers to be discovered by the IRBM if they were not to comply withholding tax	3.89	.903	71
It is likely for payers to be punished by the IRBM if they were not to comply withholding tax	4.03	.925	71
I do remit withholding tax as required by the regulations because I know the probability of being audited is very high	4.07	.915	71
I do aware the rate of penalty imposed in withholding tax if late payment made to IRBM	4.15	.905	71

2. Validity (Factor analysis)

2.1 Intention

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.783
Bartlett's Test of Sphericity	Approx. Chi-Square	323.730
	df	6
	Sig.	<.001

Component Matrix[a]	
	Component
	1
I would report my withholding tax accordingly, including any payments that subject to withholding tax	.952
I will make an effort to report all withholding tax	.942
SECTION B COMPLIANCE BEHAVIOUR 1. INTENTION I plan to report all payments subject to withholding tax.	.936
I would NOT attempt to cheat by omitting to report any payments that subject to withholding tax in my tax return form	.897
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

2.2 Attitude

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.755
Bartlett's Test of Sphericity	Approx. Chi-Square	217.474
	df	6
	Sig.	<.001

Component Matrix[a]	
	Component
	1
I feel guilty if I did NOT remit withholding tax	.927
2. ATTITUDE I believe that is my responsibility to remit withholding tax	.923
I feel upset if I did NOT remit withholding	.886
I feel pleased if I did remit withholding tax	.805
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

2.3 Subjective norm

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.851
Bartlett's Test of Sphericity	Approx. Chi-Square	580.094
	df	28
	Sig.	<.001

Rotated Component Matrix[a]		
	Component	
	1	2
Spouse support my decision to remit withholding tax to IRBM	.917	
Spouse think that I should remit withholding tax	.908	
Spouse influence me to remit withholding tax to IRBM	.883	
Peers influence me to remit withholding tax to IRBM	.691	.600

Peers support my decision to remit withholding tax to IRBM	.672	.633
Peers do NOT encourage me to remit withholding tax		-.893
Spouse do NOT encourage me to remit withholding tax	-.415	-.754
3. SUBJECTIVE NORM Peers think that I should remit withholding tax	.599	.653
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 3 iterations.		

2.4 Tax knowledge

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.680
Bartlett's Test of Sphericity	Approx. Chi-Square	100.675
	df	6
	Sig.	<.001

Component Matrix[a]	
	Component
	1
I know about the tax regulation relating to omission of withholding tax"	.900
I know to interpret tax regulations relating to omission of withholding tax."	.879

4. TAX KNOWLEDGE I know that I need to declare all payments made to non-resident(payee)	.823
I would NOT omit to report all payments subject to withholding tax in my tax return form	.335
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

2.5 Clarity of law

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.815
Bartlett's Test of Sphericity	Approx. Chi-Square	218.643
	df	15
	Sig.	<.001

Component Matrix[a]		
	Component	
	1	2
The content in payment letter is easy to understand"	.905	
Withholding tax administration payment is clearly stated	.857	
The example included in Public Ruling are clear	.845	
Penalty of withholding tax is clearly stated in law	.816	
Withholding tax law is easy	.779	

5. WITHHOLDING TAX CLARITY OF LAW Withholding tax law is simple		.949
Extraction Method: Principal Component Analysis.		
a. 2 components extracted.		

2.6 Probability audit

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.873
Bartlett's Test of Sphericity	Approx. Chi-Square	408.541
	df	15
	Sig.	<.001

Component Matrix[a]	
	Component
	1
I aware of the risks in withholding tax non-compliance	.914
I do aware the rate of penalty imposed in withholding tax if late payment made to IRBM	.907
6. PROBABILITY AUDIT I aware of the penalties for withholding tax non-compliance	.906
It is likely for payers to be punished by the IRBM if they were not to comply withholding tax	.893

It is likely for payers to be discovered by the IRBM if they were not to comply withholding tax	.860
I do remit withholding tax as required by the regulations because I know the probability of being audited is very high	.852
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

2. Multiple regression

First Attempt and without check construct validity

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.907[a]	.823	.809	1.60551	1.883

a. Predictors: (Constant), PAudit, SubNorm, TKnow, Clarity, Attitude

b. Dependent Variable: Intention

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	778.282	5	155.656	60.386	<.001[b]
	Residual	167.549	65	2.578		
	Total	945.831	70			

a. Dependent Variable: Intention

b. Predictors: (Constant), PAudit, SubNorm, TKnow, Clarity, Attitude

Co-efficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF

1	(Constant)	-.992	1.200		-.827	.411		
	Attitude	.849	.094	.782	9.022	<.001	.363	2.756
	SubNorm	-.076	.050	-.104	-1.533	.130	.595	1.680
	TKnow	.276	.085	.227	3.250	.002	.556	1.797
	Clarity	-.022	.079	-.022	-.284	.778	.442	2.262
	PAudit	.046	.063	.062	.722	.473	.368	2.718
a. Dependent Variable: Intention								