FACTORS AFFECTING TAX COMPLIANCE AMONG SST 2.0 TAXPAYERS IN MALAYSIA

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ABSTRACT

Tax is a platform for the government to collect the additional revenues required to meet its imperative obligations and tax compliance has been recognized as an ongoing concern on a global scale. The present study was specifically conducted to examine the sales and service tax (SST) 2.0 compliance among SST registrants in Malaysia. The main objective of this study is to examine the relationship between tax knowledge, SST law complexity, tax fairness, and SST compliance among SST taxpayers. A total of 310 questionnaires were distributed to SST registrants in the Northern Region of Peninsular Malaysia for data collection. The data for this study was analyzed using the Statistical Package for Social Sciences (SPSS) and multiple regression analysis was employed to test the hypotheses of this study. The findings indicate a positive and significant relationship between taxpayers' SST knowledge and SST compliance. Complexity of law however showed a negative significant relationship with SST compliance. Meanwhile, the relationship between tax fairness on SST tax compliance was found to be non-significant. This research concluded with theoretical and practical implications for the Malaysian tax authority and government. This study contributes significantly to the government, tax agencies, and policymakers by providing empirical insights into the factors influencing sales and service tax compliance behavior among Malaysian SST taxpayers, as well as valuable information for SST registrants seeking to increase compliance in the future. The information is essential for the Malaysian government to develop more realistic strategies and policies regarding tax compliance behavior in Malaysia.

Keywords: SST 2.0, tax compliance, tax knowledge, tax law complexity, tax fairness

ABSTRAK

Cukai merupakan salah satu cara untuk kerajaan mengutip hasil tambahan yang amat diperlukan untuk pembangunan dan perkembangan negara, namun begitu pematuhan cukai telah dikenal pasti sebagai masalah serius yang berlaku secara berterusan pada skala global. Kajian ini dijalankan secara khusus untuk mengkaji pematuhan cukai jualan dan cukai perkhidmatan (SST) 2.0 di kalangan pendaftar SST di Malaysia. Objektif utama kajian ini adalah untuk mengkaji hubungan antara pengetahuan cukai, kerumitan perundangan cukai SST, keadilan sistem cukai SST, dan pematuhan SST di kalangan pembayar cukai SST. Sebanyak 310 borang soal selidik telah diedarkan kepada pendaftar SST di negeri-negeri utara semenanjung Malaysia dan data kajian dikumpul melalui pengedaran borang soal selidik. Data untuk kajian ini telah dianalisa menggunakan perisian *Statistical Package for Social Sciences (SPSS)* dan analisis regresi berganda digunakan untuk menguji hipotesis kajian ini. Hasil kajian mendapati terdapat hubungan yang positif dan signifikasi antara pengetahuan cukai SST dengan pematuhan SST. Bagaimanapun, kerumitan perundangan cukai SST pula menunjukkan terdapat hubungan yang negatif dan signifikasi dengan pematuhan SST. Sementara itu, didapati hubungan antara keadilan sistem cukai SST ke atas pematuhan cukai SST menunjukkan pengaruh yang tidak signifikan. Kajian ini disimpulkan dengan implikasi teori dan praktikal bagi pihak berkuasa percukaian dan kerajaan Malaysia. Kajian ini menyumbang secara signifikan kepada kerajaan, agensi percukaian dan penggubal dasar dengan memberikan maklumat empirikal tentang faktor-faktor yang mempengaruhi tingkah laku pematuhan cukai jualan dan perkhidmatan dalam kalangan pembayar cukai SST Malaysia, serta maklumat yang berguna untuk pendaftar SST yang ingin meningkatkan pematuhan pada masa hadapan. Maklumat ini adalah penting bagi kerajaan Malaysia untuk merancang strategi dan dasar pematuhan cukai yang lebih realistik mengenai tingkah laku pematuhan cukai di Malaysia.

Kata Kunci: SST 2.0, pematuhan cukai, pengetahuan cukai, kerumitan perundangan cukai, keadilan sistem cukai

DECLARATION

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; and any editorial work, paid or unpaid, carried out by a third party is acknowledged.

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LIST OF ABBREVIATIONS

SST 2.0	Sales and Service Tax version 2.0
FMM	Federation of Malaysian Manufacturers
GDP	Gross Domestic Product
RMCD	Royal Malaysian Customs Department
MOF	Ministry of Finance
GST	Goods and Service Tax
MSME	Micro, Small, and Medium-sized Enterprises
SME	Small, and Medium-sized Enterprises
TPB	Theory of Planned Behaviour
SPSS	Statistical Package for the Social Sciences
VIF	Variation Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study is conducted to gain a greater understanding of the factors that influence the Sales and Service Tax (SST 2.0) compliance of Malaysian taxpayers. Those enrolled with the Federation of Malaysian Manufacturers (FMM) in the Northern Region of Peninsular Malaysia were the selected taxpayers. Compliance with SST 2.0 was evaluated based on three criteria: tax knowledge, law complexity, and tax equity. This chapter elaborates on the study's background, problem statement, research questions, research objectives, research scope, significance, research limitations, definition of key terms, and research organization.

1.2 Background of Study

Taxation is well-known as a crucial economic tool that contributes to the nation's income generation by providing money for national development and economic growth projects (Liang et al., 2019). Taxes enhance a nation's Gross Domestic Product (GDP), which in turn affects the economy, raises living standards, and encourages job creation. As a result, administrations require long-lasting and reliable sources of revenue to foster economic development and boost economic growth (Yahya et al., 2021).

Malaysia's primary source of revenue is generated by taxes that are both indirect and direct. The Internal Revenue Board of Malaysia (IRBM) is accountable for

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APPENDIX A

QUESTIONNAIRE

Questionnaire On Factors AffectingTax Compliance Among SST 2.0 Taxpayers in Malaysia.

I am a Master Degree candidate and currently working on my Master Project Paper with a proposed title of "**Factors Affecting Tax Compliance Among SST 2.0 Taxpayers In Malaysia**". For that purpose, I would appreciate your kind co-operation to fill in this questionnaire.

There are 5 sections in this questionnaire and will only take approximately 5 minutes to be filled in. Please be assured that your responses will only be used for academic purposes. Hence,your identity will never be known throughout any part of this study.

Your participation in answering this questionnaire and your feedback will be much appreciated.

Thank you in advance for your time

Ravinder Kaur a/p Santosh Singh
Master of Science (Master in Taxation)
Universiti Utara Malaysia

SECTION A - DEMOGRAPHIC PROFILE

Instruction: The following item are related to personal information. Please answer the following items. Your personal information will be kept confidential.

*Mark only one box

1. Gender*

	Male
	Female

2. Age*

	20-29
	30-39
	40-49
	50-59
	60 and above

3. Education Level*

	Secondary
	Diploma
	Degree
	Postgraduate

4. Work Experience*

	Below 1 year
	1 - 5 years
	6 - 10 years
	11 years & above

5. Please state your current position in the firm*

	Chief Executive Officer
	Manager
	Owner
	Assistant Manager
	Accountant
	Other

6. Current firm's type of business*

	Company
	Sole Proprietor
	Association
	Partnership
	Professional
	Other

7. Location of current firm*

	Kedah
	Pulau Pinang
	Perak
	Others

SECTION B – SST 2.0 TAX COMPLIANCE

Instruction: The following item are related to SST 2.0 taxpayers' tax compliance. Please indicate your degree of agreement by selecting one of five response categories indicated in the scale of 1 to 5 (1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree). Please SELECT the number that best suits with your conditions.

***Mark only one box per row**

	1	2	3	4	5
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
I feel satisfied when I make an honest tax declaration in the SST tax return					
There is NO problem in under-declaring the amount in SST 2.0 tax declaration					
I think the likelihood of being audited by the RMCD is high when tax return incorrect					
I had the intention to NOT comply to SST taxes because the deduction and rebate given were unfair to taxpayer					
If I am detected not reporting my exact returns, I believe that Custom Officers are					

tolerant towards my offense and most probably I will escape without any punishment					
I will take part of voluntary disclosure program when I fail to comply with the tax law					
I ensure the SST declarations are correct because I fear that my reputation would be ruined if I were to get caught for not complying					

SECTION C – TAXPAYERS' SST 2.0 KNOWLEDGE

Instruction: The following item are related to taxpayers' SST 2.0 tax knowledge. Please indicate your degree of agreement by selecting one of five response categories indicated in the scale of 1 to 5 (1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree). Please SELECT the number that best **suits** ***with your conditions.***

***Mark only one box per row**

	1	2	3	4	5
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
I am aware of requirement regarding records keeping pertaining to sales of taxable goods or services for a period of seven years from issuance date					

I am aware of SST return submission and payment due date					
I am aware of penalty on late payment and failure to pay the amount of tax due and payable					
The earnings collected from the sales and service tax is one of the sources of income for government of Malaysia					
The sales and service tax revenue will be used for the social economic development of the country					

SECTION D – SST 2.0's TAX LAW COMPLEXITY

Instruction: The following item are related to SST 2.0 tax law complexity. Please indicate your degree of agreement by selecting one of five response categories indicated in the scale of 1 to 5 (1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree). Please SELECT the number that best suits with your conditions.

***Mark only one number per row**

	1	**2**	**3**	**4**	**5**
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
There have been frequent changes in the SST tax law					
The sentences and wording in the SST Act and regulations are lengthy and NOT user-friendly					
I think the term used in tax publications (eg. SST Act, Guides & Regulation) and in tax return forms are NOT difficult for people like me to understand					
Most of the time I need to refer to others for assistance when dealing with SST matters					
I DO NOT need to make a					

lot of effort to understand the explanations given in SST guide books and other similar explanatory material					
I found that the SST act are easy to understand					

SECTION E – SST 2.0's TAX FAIRNESS

Instruction: The following item are related to SST 2.0 tax fairness. Please indicate your degree of agreement by selecting one of five response categories indicated in the scale of 1 to 5 (1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree).Please SELECT the number that best suits with your conditions..

***Mark only one number per row**

	1	2	3	4	5
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Generally, I believe SST is fair tax					
The tax penalties imposed are applied consistently by the tax authority					
Being sales tax or service tax registered DO NOT affect the competitiveness of my business and having to add sales tax or service tax rate to my prices					

From the Sales or Service tax I paid, I get enough return in the form of public services					
The government is NOT being transparent in spending taxpayer's money					
I believe that the Malaysian government is spending public fund wisely					

-END OF QUESTIONNAIRE -

APPENDIX B

DATA COLLECTION APPROVAL LETTER FROM UNIVERSITI UTARA MALAYSIA

UNIT PENGAJIAN SISWAZAH
POSTGRADUATE STUDIES UNIT (PSU)
UUM COB
Universiti Utara Malaysia
06010 UUM SINTOK
KEDAH DARUL AMAN
MALAYSIA

UUM
Universiti Utara Malaysia

Tel: 604-928 7155 / 7104 / 7119 / 7121 / 7156
Laman web (Web): http://psucob.uum.edu.my/

UUM/COB/P-40
29 May 2023

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

DATA COLLECTION

COURSE : MASTERS PROJECT
COURSE CODE : BPMZ6996
LECTURER : DR. RUSNIZA BINTI ABDUL RAHMAN

This is to certify that the following is a postgraduate student from UUM College of Business, Universiti Utara Malaysia. She is pursuing the above mentioned course which requires her to undertake an academic study and prepare an assignment. The details are as follows:

NO.	NAME	MATRIC NO.
1.	RAVINDER KAUR A/P SANTOSH SINGH	829530

In this regard, I hope that you could kindly provide her with assistance and cooperation for her to successfully complete the assignment given. All the information gathered will be strictly used for academic purposes only.

Your cooperation and assistance are very much appreciated.

Thank you.

"MALAYSIA MADANI"
"BERKHIDMAT UNTUK NEGARA"
"KEDAH SEJAHTERA - NIKMAT UNTUK SEMUA"
"ILMU BUDI BAKTI"

Upholding the principles of trust and integrity

NURUL NADIAH RUSLE
Assistant Registrar
for Director
Postgraduate Studies Unit
UUM College of Business

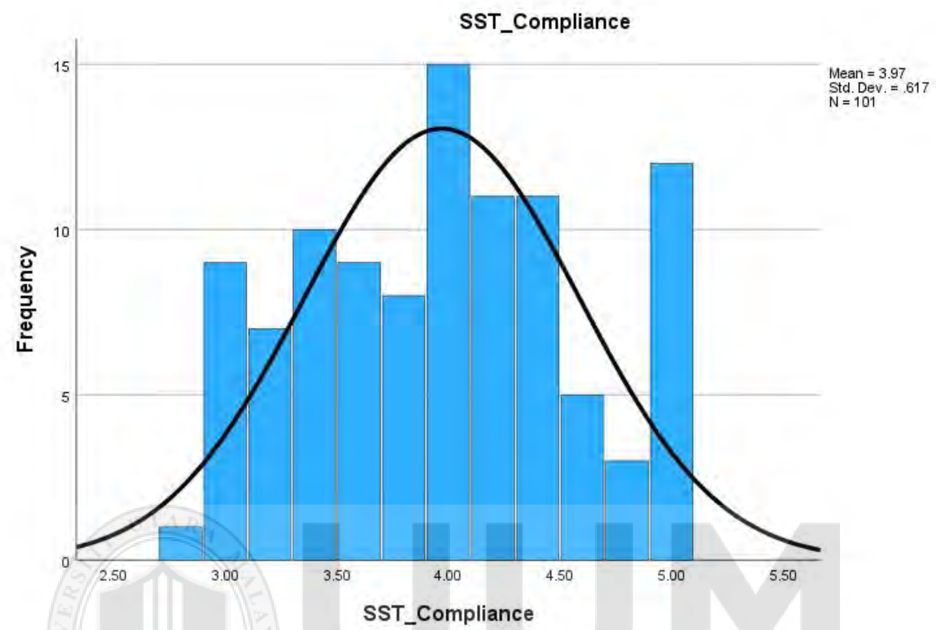
c.c. - Student's File (829530)

Universiti Pengurusan Terkemuka
The Eminent Management University

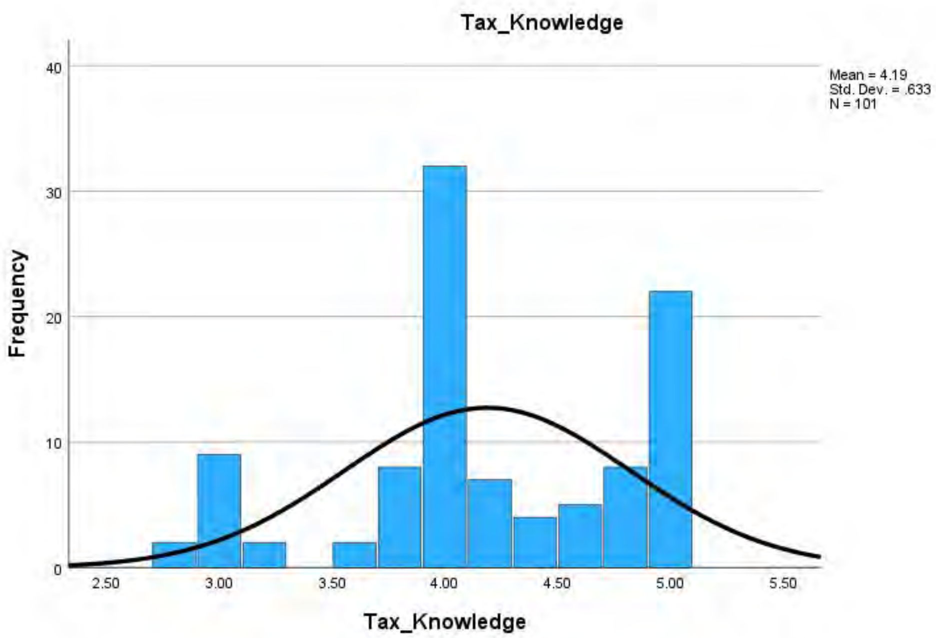
APPENDIX C

The Normal Probability Plot (Histogram Plots for All the Individual Variables)

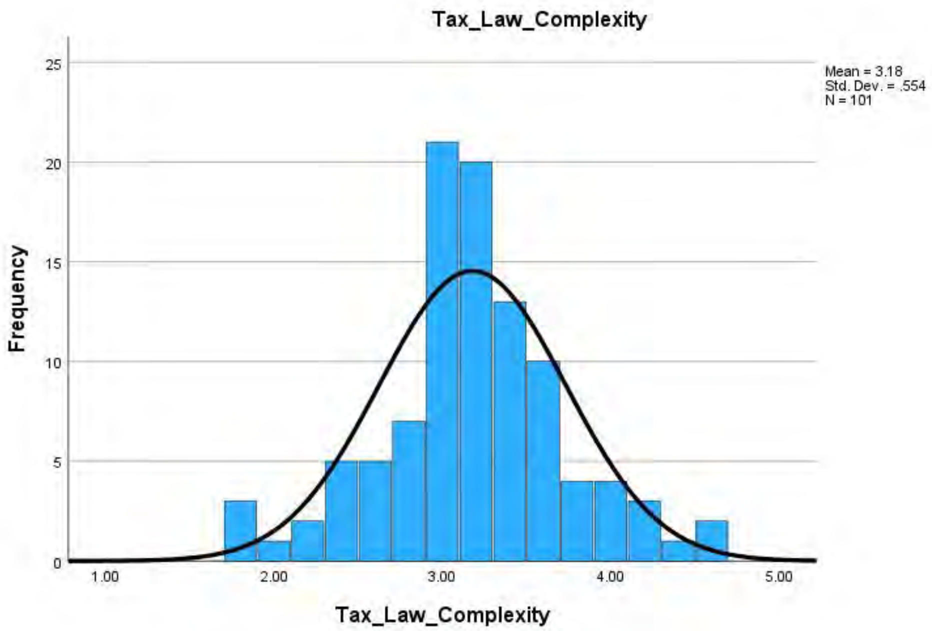
Dependent Variable: SST Compliance



Independent Variable: Tax Knowledge



Independent Variable: Tax Law Complexity



Independent Variable: Tax Fairness