PERCEPTIONS OF TAX OFFICERS ON FACTORS THAT INFLUENCE THE AUTOMATIC EXCHANGE OF INFORMATION EFFECTIVENESS TO COMBAT TAX EVASION IN MALAYSIA

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UNIVERSITI UTARA MALAYSIA

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PERCEPTIONS OF TAX OFFICERS ON FACTORS THAT INFLUENCE THE AUTOMATIC EXCHANGE OF INFORMATION EFFECTIVENESS TO COMBAT TAX EVASION IN MALAYSIA

By

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A project paper submitted to
Tunku Puteri Intan Safinaz School of Accountancy,
Universiti Utara Malaysia,
in partial fulfillment of the requirement for the degree
Master of Science (International Accounting)

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I certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.

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ABSTRACT

Cross-border tax evasion is a growing global problem and has become the main agenda of the Organization for Economic Co-operation and Development with the introduction of financial information sharing initiatives through the Automatic Exchange of Information (AEoI) platform. This study aims to gain the perception of tax officers on the factors that influence the effectiveness of AEoI in combating tax evasion in Malaysia. This study examines three independent variables, namely tax officers' competency, data quality, and tax policy coordination as factors that influence the effectiveness of AEoI in the fight against tax evasion. Three hypotheses were developed to reflect the expected relationship between the independent and dependent variables. Questionnaire was used as an instrument for data collection in this quantitative research. A total of 220 tax officers who involve in the review of AEoI cases in Johor, Selangor, Kuala Lumpur and Putrajaya were selected as sample. Out of the total questionnaire distributed, 142 responded which represent 64.54% response rate. Primary data was analysed and presented descriptively in the form of percentages, tables, and statistical figures to facilitate the interpretation of data analysis results. The findings show that only tax officers' competency and data quality have a significant relationship with the effectiveness of AEoI in combating tax evasion. While tax policy coordination shows insignificant relationship. Therefore, it is concluded that the perception of tax officers on their competency and quality of the received data could help improve the effectiveness of AEoI in combating tax evasion in Malaysia but not so for tax policy coordination. Despite its limitations, this study could be considered as the first attempt related to the effectiveness of AEoI which may spark for further research in various aspects of AEoI in the future particularly in the Malaysian context.

Keywords: automatic exchange of information, tax evasion, tax officers' competency, data quality, tax policy coordination

ABSTRAK

Pengelakan cukai rentas sempadan adalah merupakan masalah global yang semakin meruncing dan telah menjadi agenda utama Pertubuhan Kerjasama Ekonomi dan Pembangunan dewasa ini dengan pengenalan inisiatif perkongsian maklumat kewangan melalui platform Pertukaran Maklumat secara Automatik (*AEoI*). Kajian ini bertujuan untuk mendapatkan persepsi pegawai cukai terhadap faktor-faktor yang mempengaruhi keberkesanan *AEoI* dalam memerangi pengelakan cukai di Malaysia. Kajian ini mengkaji tiga pembolehubah tidak bersandar, iaitu kecekapan pegawai cukai, kualiti data, dan penyelarasan dasar cukai sebagai faktor yang mempengaruhi keberkesanan *AEoI* dalam memerangi pengelakan cukai. Tiga hipotesis telah dibangunkan untuk menggambarkan hubungan jangkaan antara pembolehubah bebas dan bersandar. Soal selidik digunakan sebagai instrumen pengumpulan data dalam penyelidikan kuantitatif ini. Seramai 220 pegawai cukai yang terlibat dalam semakan kes *AEoI* di Johor, Selangor, Kuala Lumpur dan Putrajaya telah dipilih sebagai sampel. Daripada jumlah soal selidik yang diedarkan, 142 menjawab yang mewakili 64.54% kadar maklum balas. Data primer dianalisis dan dipersembahkan dalam bentuk peratusan, jadual, dan angka statistik bagi memudahkan tafsiran hasil analisis data. Dapatan kajian ini menunjukkan bahawa hanya kecekapan pegawai cukai dan kualiti data yang mempunyai hubungan yang signifikan dengan keberkesanan *AEoI* dalam memerangi pengelakan cukai. Manakala penyelarasan dasar cukai menunjukkan hubungan yang tidak signifikan. Oleh itu, disimpulkan bahawa persepsi pegawai cukai terhadap kecekapan mereka dan kualiti data yang diterima boleh membantu meningkatkan keberkesanan *AEoI* dalam memerangi pengelakan cukai di Malaysia tetapi tidak begitu untuk penyelarasan dasar cukai. Walaupun terhad, kajian ini boleh dianggap sebagai percubaan pertama yang berkaitan dengan keberkesanan *AEoI* yang mungkin mencetuskan penyelidikan lanjut dalam pelbagai aspek *AEoI* pada masa hadapan khususnya dalam konteks Malaysia.

Kata kunci: pertukaran maklumat secara automatik, pelarian cukai, kecekapan pegawai cukai, kualiti data, koordinasi polisi cukai

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LIST OF ABBREVIATIONS

AEoI	-	Automatic Exchange of Information
IRBM	-	Inland Revenue Board of Malaysia
OECD	-	Organisation for Economic Co-operation and Development
ITIS	-	International Transactions Information System
SVDP	-	Special Voluntary Declaration Program
CRS	-	Command Reporting Standard
CTS	-	Common Transmission System
EUSD	-	European Union Savings Directive
FATCA	-	Foreign Account Tax Compliance Act
CATA	-	Commonwealth Association of Tax Administrators
GDP	-	Gross Domestic Product
ATR	-	Annual Tax Return
G20	-	Group of 20
ETR	-	Exchange Tax Ruling
CbCR	-	Country by Country Reporting
HiDEF	-	Hasil International Data Exchange Facility
DGIR	-	Director General of Inland Revenue
SPSS	-	Statistical Package for Social Sciences
DTA	-	Double Tax Agreements
PKPP	-	Special Income Remittance Program

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Cross-border tax evasion has grown widespread and simple to execute as a result of the advancement of information and technology, as tax law enforcement is constrained by many jurisdictions. The Organisation for Economic Co-operation and Development (OECD) estimates that worldwide profit shifting costs the world $100-240 billion every year, which equates to 4% to 10% of global corporate tax collections (Brodzka, 2022). International cooperation and the exchange of better standard has encouraged effort toward standardised data amongst tax administrators that help to assure compliance with local tax legislation because tax evasion is a globally observed phenomenon (ATO, 2019).

Automatic Exchange of Information (AEoI) is the automatic exchange of tax-related information between the OECD countries without the need for a request from a member. The goals of AEoI are to prevent tax avoidance, tax abuse, unauthorised parties from abusing tax treaties and gather data regarding the satisfaction of a taxpayer's tax obligations (Pohan 2019). In other words, AEoI is used to combat international tax evasion, which is a source of concern for public policymakers because it affects national revenue collection, tax system fairness, and illegal activities such as money laundering, corruption, and terrorist financing (OECD, 2019a).

According to OECD (2022), this international network includes nearly 8,000 bilateral agreements, and tax-related information can be obtained from approximately 130 jurisdictions, including all G20 and OECD countries, as well as virtually all international financial centres

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APPENDIX

TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY (TISSA-UUM)

UNIVERSITI UTARA MALAYSIA

A SURVEY ON PERCEPTIONS OF TAX OFFICERS ON FACTORS THAT INFLUENCE THE EFFECTIVENESS OF AUTOMATIC EXCHANGE OF INFORMATION (AEoI) TO COMBAT TAX EVASION

Dear Respondent

I am a Master of Science (International Accounting) student from University Utara Malaysia and currently doing a research as the above title under the supervision of Associate Prof. Dr. Noraza Bt Mat Udin.

You have been selected as one of the respondents for this survey. Please be assured that your response will only be used for academic purpose and your identity will be kept STRICTLY CONFIDENTAL.

Do not hesitate to contact me if you have query in answering this questionnaire.

Thank you very much for your time and cooperation.

Yours sincerely,

Mohamad Zaki Bin Mohamad Roslani

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SECTION A: Demographic

Please tick (/) in the appropriate box.

1. State

☐ Johor ☐ Putrajaya

☐ Selangor ☐ Kuala Lumpur

2. Gender

☐Male ☐Female

3. Age

☐20 – 29 years old ☐30 – 39 years old

☐40 – 49 years old ☐ Above 50 years old

4. Highest Education Level

☐Bachelor's Degree ☐Master's Degree & above

5. Do you have any professional qualification?

☐ Yes ☐ No

If yes, please name the qualification ______________________

6. Service Tenure

☐1-5 years ☐ 6-10 years

☐11-15 years ☐16-20 years

☐ More than 20 years

7. Years in Current Position

☐ 1-5 years ☐ 6-10 years ☐ More than 10 years

The following SCALE is related to Section B and C:

1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

SECTION B: Perception on Effectiveness of AEoI to Combat Tax Evasion

Please choose the appropriate number based on the scale to show your preference for each of the statements below:

1. AEoI data is effective in compliance activities to prevent tax evasion.	**1**	**2**	**3**	**4**	**5**
2. AEoI data is effective in preventing the misuse of Double Tax Agreements (DTA) by unauthorised parties.	**1**	**2**	**3**	**4**	**5**
3. AEoI data is effective in prosecuting tax non-compliance cases.	**1**	**2**	**3**	**4**	**5**
4. AEoI data is effective in increasing tax collection.	**1**	**2**	**3**	**4**	**5**
5. AEoI data is **less** effective in tracking tax evasion activities.	**1**	**2**	**3**	**4**	**5**

SECTION C: Perception on Factors that Influence the Effectiveness of AEoI to Combat Tax Evasion

Please circle the appropriate number based on the scale to show your preference for each of the statements below:

C.1 Tax Officers' Competency					
1. Tax officers understand the guidelines and framework for reviewing AEoI cases.	**1**	**2**	**3**	**4**	**5**
2. Tax officers possess the necessary knowledge about AEOI and related standards to review AEoI cases.	**1**	**2**	**3**	**4**	**5**
3. Tax officers underwent continuous training and exposure to increase their competence in reviewing AEoI cases.	**1**	**2**	**3**	**4**	**5**
4. Tax officers are capable of reviewing AEoI cases.	**1**	**2**	**3**	**4**	**5**
5. Tax officers are prepared for result-oriented handling of AEoI cases.	**1**	**2**	**3**	**4**	**5**
6. Tax officers acquire **less** critical thinking skills in handling AEoI cases.	**1**	**2**	**3**	**4**	**5**

C.2 Data Quality					
1. AEoI data completeness affects the usefulness of compliance reviews of cross-border tax evasion cases.	**1**	**2**	**3**	**4**	**5**
2. AEoI data consistency is essential in conducting compliance reviews of cross-border tax evasion cases.	**1**	**2**	**3**	**4**	**5**

3. AEoI data accuracy is essential in conducting compliance reviews of cross-border tax evasion cases.	**1**	**2**	**3**	**4**	**5**
4. AEoI data timeliness is **not** very important, as the most current data has more potential to be considered high quality.	**1**	**2**	**3**	**4**	**5**
5. AEoI data received from OECD member countries is compatible with the format for compliance checks carried out on financial transactions abroad.	**1**	**2**	**3**	**4**	**5**
6. AEoI data received from OECD member countries is valid in the correct format and properly stored for the purpose of compliance checking.	**1**	**2**	**3**	**4**	**5**

C.3 Tax Policy Coordination					
1. IRBM has good policy coordination with the OECD's global forums in handling AEoI data.	**1**	**2**	**3**	**4**	**5**
2. IRBM has good policy coordination with financial institutions that supply AEoI data in the Hasil Data Exchange Facility (HiDEF).	**1**	**2**	**3**	**4**	**5**
3. IRBM has good policy coordination with the tax office or branch that conducts reviews on AEoI cases.	**1**	**2**	**3**	**4**	**5**
4. IRBM has good policy coordination among internal departments that are responsible for determining the review policy on AEoI cases.	**1**	**2**	**3**	**4**	**5**
5. IRBM has good policy coordination between OECD member countries that have signed Tax Treaties to standardise coordination on AEoI initiatives.	**1**	**2**	**3**	**4**	**5**
6. IRBM has **less** policy coordination for improving the effectiveness of continuous training, which is critical for AEoI implementation.	**1**	**2**	**3**	**4**	**5**

Thank you for your participation.