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**DETERMINANTS OF NON-COMPLIANCE  
BEHAVIOUR ON EXCISE DUTY IN MALAYSIA**

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**DOCTOR OF PHILOSOPHY  
UNIVERSITI UTARA MALAYSIA  
OCTOBER 2017**

**DETERMINANTS OF NON-COMPLIANCE BEHAVIOUR ON EXCISE  
DUTY IN MALAYSIA**

**By**



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**UUM**  
**Universiti Utara Malaysia**

**Thesis Submitted to  
Tunku Puteri Intan Safinaz School of Accountancy,  
Universiti Utara Malaysia,  
in Fulfilment of the Requirement for the Degree of Doctor of Philosophy**



**TUNKU PUTERI INTAN SAFINAZ  
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(Title of the Thesis / Dissertation) : **DETERMINANTS OF NON-COMPLIANCE BEHAVIOUR ON EXCISE DUTY IN  
MALAYSIA**

---

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(Programme of Study) : **Doctor of Philosophy**

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## ABSTRACT

Statistical evidence shows that non-compliance with excise duty on cigarettes, liquor, and imported vehicles by importers is the key issue faced by the Royal Malaysian Customs Department (RMCD). However, studies in Malaysia rarely highlighted excise duty non-compliance. This study is the first attempt to examine the excise duty non-compliance determinants. It aimed at investigating the direct relationship between tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruption and excise duty non-compliance. This study also considered the moderating effect of the probability of detection and tax agents. The Deterrence theory and the Fischer model were used to delineate the economic and socio-psychological factors. Data were gathered from 500 useable respondents scattered throughout Malaysia via a survey questionnaire using the disproportionate stratified random sampling technique. Findings from the partial least square analysis revealed that the  $R^2$  value achieved a substantial amount of variance of 63% for the direct effects on excise duty non-compliance, increased to 65% for the indirect effects of tax agent, and 66% for probability of detection. Further, tax audit, tax fairness, peer influence, tax knowledge and corruption were significantly and positively related to excise duty non-compliance. Moreover, the relationship of tax audit and tax fairness became weaker for individuals with a high level of probability of detection. On the other hand, the significant and positive relationship of tax knowledge and excise duty non-compliance became stronger for individuals with a high level of probability of detection. However, the significant and negative relationship between penalty rate and excise duty non-compliance was weaker for individuals with high-level influence of the tax agent. This study contributes to the indirect tax non-compliance literature and policy-makers.

**Keywords:** excise duty non-compliance, illegal trade, smuggling, importers.

Universiti Utara Malaysia

## ABSTRAK

Bukti statistik menunjukkan bahawa ketidakpatuhan duti eksais ke atas rokok, minuman keras, dan kenderaan yang diimport oleh pengimport adalah isu utama yang dihadapi oleh Jabatan Kastam Diraja Malaysia (JKDM). Walau bagaimanapun, kajian di Malaysia jarang mengetengahkan ketidakpatuhan duti eksais. Kajian ini adalah percubaan pertama untuk mengkaji penentu ketidakpatuhan duti eksais. Ia bertujuan untuk mengkaji hubungan langsung antara kadar cukai, kadar penalti, audit cukai, keadilan cukai, pengaruh rakan sebaya, pengetahuan cukai, rasuah, dengan ketidakpatuhan duti eksais. Kajian ini juga menyiasat kesan penyederhana kebarangkalian pengesanan dan ejen cukai. Teori pencegahan dan model Fischer telah digunakan untuk menggambarkan faktor-faktor ekonomi dan sosio-psikologi. Data dikumpulkan daripada 500 responden yang bertaburan di seluruh Malaysia melalui kajian soal selidik dengan menggunakan teknik persampelan rawak berstrata yang tidak seimbang. Dapatan daripada analisis *partial least square* mendedahkan bahawa nilai  $R^2$  mencapai sejumlah besar varians sebanyak 63% untuk kesan langsung terhadap ketidakpatuhan duti eksais dan meningkat kepada 65% bagi kesan tidak langsung ejen cukai dan 66% untuk kebarangkalian pengesanan. Di samping itu, audit cukai, keadilan cukai, pengaruh rakan sebaya, pengetahuan cukai, dan rasuah berkait secara signifikan dan positif dengan ketidakpatuhan duti eksais. Selain itu, hubungan audit cukai dan keadilan cukai menjadi lebih lemah untuk individu yang mempunyai tahap kebarangkalian pengesanan yang tinggi. Sebaliknya, hubungan yang signifikan dan positif antara pengetahuan cukai dan ketidakpatuhan duti eksais menjadi lebih kuat untuk individu yang mempunyai tahap kebarangkalian pengesanan yang tinggi. Walau bagaimanapun, hubungan yang signifikan dan negatif antara kadar penalti dan ketidakpatuhan duti eksais menjadi lemah untuk individu yang mempunyai pengaruh ejen cukai yang tinggi. Kajian ini menyumbang kepada kajian ketidakpatuhan cukai tidak langsung dan penggubal dasar.

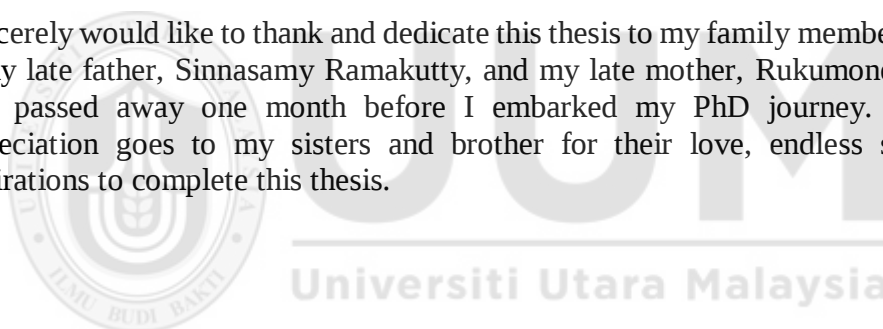
**Kata kunci:** ketidakpatuhan duti eksais, perdagangan haram, penyeludupan, pengimport

## ACKNOWLEDGEMENT

First and foremost, I express my glory to the Almighty God for granted me the strength, patience, and courage to complete this thesis. I would like to offer my sincere gratitude and thanks to my supervisors, Associate Professor Dr Zainol Bidin and Associate Professor Dr Syed Soffian Syed Ismail, for their guidance, knowledge, patience, encouragement, and support throughout my study. I am grateful to the Public Service Department of Malaysia and the Royal Malaysian Customs Department for sponsoring my study. I am also thankful to my bosses and colleagues at the Royal Malaysian Customs Department and the respondents of the survey for their valuable support and assistance during data collection.

I wish to extend my warmest thanks to the entire staff of Tunku Puteri Intan Safinaz School of Accounting, Universiti Utara Malaysia for their assistance and kindness throughout my study. The sincere appreciation also goes to Professor Ramayah Thurasamy for sharing his knowledge, experiences and resources in Partial Least Squares (PLS) Modelling. I would also like to express my gratitude to Dr Yusof Hamdani Jalalludin for his assistance and guidance in Statistical Package for the Social Science (SPSS).

I sincerely would like to thank and dedicate this thesis to my family members especially to my late father, Sinnasamy Ramakutty, and my late mother, Rukumoney Subrayan, who passed away one month before I embarked my PhD journey. Finally, my appreciation goes to my sisters and brother for their love, endless support, and inspirations to complete this thesis.



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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

Tax non-compliance is a complex phenomenon. Most of past researchers in taxation conducted extensive work on taxpayers' behaviour to establish the relationship between economic and non-economic factors in complying with direct taxes (Teik & Meng, 2011). However, only a few studies had been carried out to examine the behaviour of taxpayers in tax non-compliance with indirect taxes despite the escalating cases (Bidin, Shamsudin, Shaliheen, & Mohd Zainudin, 2011). A number of theories to explain the determinants of tax non-compliance behaviour exist, and one of which is deterrence theory which proposes that the taxpayers' compliance level relies on the cost and benefit made in an uncertain situation based on economy factors (Becker, 1968). This theory mainly focuses on individual taxpayers; thus, it is not clear whether it is applicable to corporate taxpayers, especially importers (Mohd Yusof, Ming Ling, & Bee Wah, 2014). Therefore, this study employed deterrence theory associated with Fisher's model by considering economic and socio-psychological variables in determining non-compliance behaviour among importers as taxpayers in the indirect tax context.

Identifying the determinants of tax non-compliance is important for tax administration in maximising tax collections and encouraging taxpayers' compliance. This study examined whether tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption as a predictor variables that influence non-compliance behaviour of importers in excise duty (import). The excise duty in this study involved commodities such as cigarettes, liquor, and imported vehicles. This study also

considered the moderating effect of probability of detection and tax agents in determining non-compliance behaviour of taxpayers. The probability of detection was selected as the moderating variable because non-compliance offences tend to be carried out by importers if they believe that the benefits are greater than if they were to be detected by the customs enforcement officers (RMCD Annual Report, 2013). Additionally, tax agent was chosen as a moderator because of their important role in customs declarations. More than 85% of tax agents were engaged by importers to make customs declarations (RMCD Annual Report, 2014). These two variables were introduced because they could affect the strength or nature of the relationship between the independent and dependent variables (Dawson, 2014).

## **1.2 Background of the Study**

Gross Domestic Product (GDP) is a common measure of a country's economic performance. The GDP mostly is measured by lawful activities but excludes unlawful activities hidden in nature, which lead to a gap between the potential economy and the 'second economy'. Numerous terms are used to define the 'second economy' such as the underground economy, hidden economy, informal economy, and the shadow economy. The 'second economy' occurs due to the concealment from government regulatory agencies such as tax non-compliance (Mohamed, 2012).

Tax non-compliance is a key problem faced by tax authorities around the world and Malaysia is not an exception. In Malaysia, the Royal Malaysian Customs Department (RMCD) is responsible for collecting and administering indirect taxes such as excise duty, import duty, export duty, goods and services tax, and vehicles levy. This study focused on excise duty (import), one of the components in indirect taxes which involves

three main commodities such as cigarettes, imported vehicles, and liquor. These commodities were the focus of this study because the amount of tax loss is quite substantial compared to other commodities such as textiles, tiles, and communication equipment (RMCD, Annual Report, 2014).

Of indirect taxes, excise duties are the largest component followed by sales tax, service tax, import duty, export duty, and vehicles levy. As shown in Table 1.1, excise duties contributed approximately 37% (including domestic and imported goods) of the total indirect taxes revenue from 2010-2014. Excise duty is becoming more important as a source of government revenue with the reduction of import tariffs (Preece, 2008). Furthermore, excise duty as a form of taxation plays a vital role in influencing the consumption of certain products (Preece, 2008). For instance, by introducing a sin tax to cigarettes, it is expected that the cigarette usage will be reduced to encourage a healthier way of life (Miskam, Noor, Omar, & Aziz, 2013). Thus, the effectiveness of excise duty collections has become a national priority in most countries (Preece, 2008). Table 1.1 indicates excise duties are the main sources of the federal government revenue.

Table 1.1

*The Components and the Amount Collected from Indirect Taxes in Malaysia*

| <b>Indirect Taxes</b>               | <b>2010</b>         | <b>%</b>    | <b>2011</b>         | <b>%</b>     | <b>2012</b>         | <b>%</b>     | <b>2013</b>         | <b>%</b>     | <b>2014</b>         | <b>%</b>     |
|-------------------------------------|---------------------|-------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
|                                     | <b>(RM Billion)</b> |             | <b>(RM Billion)</b> |              | <b>(RM Billion)</b> |              | <b>(RM Billion)</b> |              | <b>(RM Billion)</b> |              |
| Excise Duty (Domestic)              | 9.35                | 33.00       | 8.33                | 27.48        | 8.41                | 26.02        | 8.39                | 25.32        | 8.46                | 24.03        |
| <b>Excise Duty (Imported Goods)</b> | <b>2.42</b>         | <b>8.54</b> | <b>3.11</b>         | <b>10.26</b> | <b>3.77</b>         | <b>11.66</b> | <b>3.80</b>         | <b>11.47</b> | <b>4.47</b>         | <b>12.70</b> |
| Sales Tax (Domestic)                | 4.89                | 17.26       | 5.00                | 16.50        | 5.36                | 16.58        | 5.63                | 17.00        | 6.13                | 17.41        |
| Sales Tax (Imported Goods)          | 3.29                | 11.61       | 3.58                | 11.81        | 4.13                | 12.78        | 4.47                | 13.49        | 4.81                | 13.66        |
| Import Duty                         | 1.97                | 6.95        | 2.02                | 6.66         | 2.28                | 7.05         | 2.50                | 7.55         | 2.67                | 7.59         |
| Service Tax                         | 3.93                | 13.87       | 4.98                | 16.43        | 5.58                | 17.26        | 5.94                | 17.93        | 6.28                | 17.84        |

Table 1.1 (Continued)

| <b>Indirect Taxes</b> | <b>2010</b>         | <b>%</b>   | <b>2011</b>         | <b>%</b>   | <b>2012</b>         | <b>%</b>   | <b>2013</b>         | <b>%</b>   | <b>2014</b>         | <b>%</b>   |
|-----------------------|---------------------|------------|---------------------|------------|---------------------|------------|---------------------|------------|---------------------|------------|
|                       | <b>(RM Billion)</b> |            | <b>(RM Billion)</b> |            | <b>(RM Billion)</b> |            | <b>(RM Billion)</b> |            | <b>(RM Billion)</b> |            |
| Export Duty           | 1.81                | 6.39       | 2.09                | 6.90       | 1.97                | 6.10       | 1.93                | 5.83       | 1.90                | 5.40       |
| Vehicles Levy         | 0.15                | 0.53       | 0.16                | 0.53       | 0.16                | 0.50       | 0.17                | 0.51       | 0.16                | 0.45       |
| Others Taxes          | 0.52                | 1.84       | 1.04                | 3.43       | 0.66                | 2.04       | 0.30                | 0.91       | 0.32                | 0.90       |
| <b>Total</b>          | <b>28.33</b>        | <b>100</b> | <b>30.31</b>        | <b>100</b> | <b>32.32</b>        | <b>100</b> | <b>33.13</b>        | <b>100</b> | <b>35.20</b>        | <b>100</b> |

Source: RMCD Annual Report 2010-2014

Table 1.1 shows that excise duty (import) increased almost every year. For instance, the tax collected from indirect taxes, especially excise duties (import) in the year 2013 was RM3.30 billion, which increased to RM4.47 billion in the year 2014. However, the amount of excise duty (import) collected should be more than an actual collection if not due to non-compliance activities as shown in Table 1.2.

At this point, it is worthy of note to know about the standard procedures of import first before understanding about non-compliance in Malaysia. The importation process is based on the Customs Act (1967) and Customs Regulations (1977). According to the Act and Regulations, an importer can either act personally or engage tax agents in making a written declaration in customs form No.1. The form asks about tariff classification, valuation, origin rules, and Customs facilitation. Once the form is filled, Customs officers will verify the tariff classification of imported goods to determine the tax rate and calculate the tax payable. This calculation is based on the Harmonized System, which is the international system of tariff classification gazetted by the World Customs Organization (WCO). At this point, the customs taxes are assessed based on Customs Duties Order (2012). The importer is required to pay the amount of tax once the tax is calculated based on the tax rate. After the payment is made, the importer can claim the goods from the port.

However, in the importation process, numerous opportunities are available that can lead to non-compliance with the payment of excise duty. Various definitions exist of non-compliance. In Malaysia, the Excise Act (1976) defines non-compliance as follows:

- (i) Under-declaration of the true value of goods. In both exporting and importing countries, the goods undergoing customs clearance are under-invoiced by

preparing double invoices. This involved procedures of local importers and foreign exporters divide per unit cost between two invoices and used the altered invoice and other altered supporting documents such as bill of lading, packing list and purchase order for declaration to pay lower taxes.

- (ii) Tariff category is misclassified intentionally to pay lower duties/tax or none at all when in fact, it is dutiable/taxable based on the actual and correct tariff classification. For example wrong or vague description of goods declared to mislead assessment officers from imposing the correct tariff code and tax rate.
- (iii) Correct declaration of value and tariff classification but underpayment of excise duty on a false assessment of tax liability.
- (iv) Country of origin concealed. The goods are shipped direct to intermediate country with slight alteration before transferred to the importing country. The name of intermediate country stated as country of origin even though the goods are not originated from intermediate country.
- (v) Smuggling and illegal trade activities, where goods are imported without going through the Customs procedures.

Among the developing countries, Malaysia was listed as one of the top five countries that had the highest amount of illicit financial flows between 2012 and 2014 (Global Financial Integrity, 2012-2015). The total amount of illicit trade flows rose from USD 370.38 billion for the period of 2002-2011 to USD 394.87 billion for the period of 2003-2012 and USD 418.54 billion for the year 2004-2013. The illicit trade flows were caused by money flows through illicit network and trade mispricing. Further, the Global Financial Integrity (2014) estimated that up to 60 to 65% of fund flowing illegally especially from developing countries like Malaysia might be caused by the trade non-

compliance (Kar & Freitas, 2012). Indeed, the Malaysian government attested that tax non-compliance is the fundamental cause for illegal capital flows (Bernama, 2011). Moreover, for the past few years, the collection of RMCD have been stagnant and hovering around RM 30 billion (USD 10 million) caused by non-compliance behaviour by some taxpayers (“Malaysia: Customs audit,” 2012). Non-compliance with excise duty on cigarettes, imported vehicles, and liquor led to tax losses (RMCD Annual Report, 2014). For instance, 8 million sticks of white cigarettes of Luffman brand amounted approximately RM4 million were seized at West Port, Port Kelang, Selangor which were declared as plastic products (Mansor, 2015). The number of cases, the collected excise duty, and potential excise duty detected for the three commodities for the year 2010-2014 are shown in Table 1.2.



Table 1.2

*Additional Taxes Recovered from Double Invoicing, Misclassification, Country of Origin Concealed, Undervaluation, Illegal Trade Activities and Smuggling Offences for Cigarettes, Imported Vehicles and Liquor, 2010-2014*

| Year  | Cigarettes                                         |                    |                                                                |                              | Imported Vehicles                                  |                    |                                                                |                                 | Liquor                                             |                    |                                                                |                                 |
|-------|----------------------------------------------------|--------------------|----------------------------------------------------------------|------------------------------|----------------------------------------------------|--------------------|----------------------------------------------------------------|---------------------------------|----------------------------------------------------|--------------------|----------------------------------------------------------------|---------------------------------|
|       | Collected<br>Excise<br>Duty<br><br>(RM<br>Million) | Number<br>of Cases | Potential<br>Excise<br>Duty<br>Detected<br><br>(RM<br>Million) | % Excise<br>duty<br>Detected | Collected<br>Excise<br>Duty<br><br>(RM<br>Million) | Number<br>of Cases | Potential<br>Excise<br>Duty<br>Detected<br><br>(RM<br>Million) | %<br>Excise<br>duty<br>Detected | Collected<br>Excise<br>Duty<br><br>(RM<br>Million) | Number<br>of Cases | Potential<br>Excise<br>Duty<br>Detected<br><br>(RM<br>Million) | %<br>Excise<br>duty<br>Detected |
| 2010  | 3,170.98                                           | 2,690              | 310.75                                                         | 8.93                         | 11,127.76                                          | 285                | 32.58                                                          | 0.29                            | 1,555.90                                           | 812                | 30.39                                                          | 1.92                            |
| 2011  | 3,418.04                                           | 2,788              | 359.65                                                         | 9.52                         | 10,650.34                                          | 298                | 20.80                                                          | 0.19                            | 1,659.70                                           | 908                | 23.62                                                          | 1.40                            |
| 2012  | 3,515.75                                           | 3,377              | 254.73                                                         | 6.76                         | 11,778.74                                          | 418                | 74.04                                                          | 0.62                            | 1,602.28                                           | 1,015              | 29.79                                                          | 1.83                            |
| 2013  | 3,594.90                                           | 3,294              | 212.34                                                         | 5.58                         | 11,965.26                                          | 893                | 137.72                                                         | 1.14                            | 1,707.18                                           | 883                | 24.57                                                          | 1.42                            |
| 2014  | 3,620.12                                           | 2,512              | 283.77                                                         | 7.27                         | 12,810.34                                          | 698                | 48.91                                                          | 0.38                            | 1,720.20                                           | 1,044              | 27.61                                                          | 1.58                            |
| Total | 17,319.79                                          | 14,661             | 1,421.24                                                       | 38.06                        | 58,332.44                                          | 2,592              | 314.05                                                         | 2.62                            | 8,245.26                                           | 4,662              | 135.98                                                         | 8.15                            |

Source: RMCD Annual Report 2010-2014

Table 1.2 shows excise duty (import) non-compliance for the three commodities. If non-compliance is not addressed, it will tarnish the reputation of RMCD as the indirect tax administrator. However, the non-compliance phenomenon ostensibly exists yearly despite the penalty and fines imposed by the RMCD. Indeed, non-compliance is the main problem encountered by RMCD (Bidin et al., 2011). For example, it was reported that additional excise duty detected from non-compliance offences approached almost more than RM 1,800 million from the year 2010 to 2014 from the total of 14,661 cases for cigarettes, 2,592 for imported vehicles, and 4,662 for liquor as shown in Table 1.2. The number of cases detected for cigarettes decreased from 3,294 to 2,512 from 2013 to 2014. However, the additional total amount of excise duty detected increased from RM212.34 million in 2013 to RM283.77 million in 2014. Likewise, for imported vehicles the number of cases was 893 in 2013 and 698 in 2014, and the total amount of additional excise duty detected from these cases was RM137.72 million and RM48.91million for the year 2013 and 2014, respectively. While, the number of cases for liquor increased from 883 in 2013 to 1,044 in 2014 with the total amount of excise duty detected was RM24.57 million, an increase to RM27.61 million from 2013 to 2014. Although the cases and the total amount of excise duty detected fell for imported vehicles, but they still signified the losses in excise duty (import) revenue. This trend seems to continue and provides a reasonable ground for examining excise duty (import) non-compliance.

The phenomenon of non-compliance will hamper the government effort to accomplish the goal of a developed nation status in the year 2020 as non-compliance reduces the government's revenue. In fact, the Second Finance Minister Datuk Seri Ahmad Husni Hanadziah stressed that taxpayers should not evade their tax responsibilities as it could

depress the country's economic growth (Hamid, 2011). Furthermore, the existence of informal activities or shadow economy in Malaysia has become a critical problem that needs to be addressed so that the economic agenda of the country is not affected (McKerchar & Evans, 2009a).

Tax system efficiency relies on the principles of neutrality, equity, and fairness (Palil, 2010). Taxpayers should be able to understand these principles so that they would not engage in non-compliance or evasion. Tax non-compliance is a severe issue that exists globally including Malaysia (Hai & See, 2011b). Non-compliance signifies a failure to meet tax declaration requirements or failure to engage tax responsibilities intentionally or unintentionally (Kinsey, 1988a). Various terms are used to explain tax non-compliance including tax evasion, errors, misreporting, and cheating (Long & Swingen, 1987). Tax non-compliance enlarges tax gaps in Malaysia (Kasipillai, Baldry, & Rao, 2000). Tax gap and tax evasion are linked to a tax system (Miskam et al., 2013). A tax gap is a difference between taxpayer's liabilities to the government and the actual amount paid.

Due to the difficulty in inferring and observing tax non-compliance behaviour has resulted in the scarcity in the empirical analysis of this phenomenon (Fox, Luna, & Schaur, 2014). Indeed, Hanlon and Heitzman (2010) and Shackelford and Shevlin (2001) commented that more studies are needed in tax evasion and avoidance. Most of the tax compliance and non-compliance research focused on income and corporate taxes although there is a possibility for evasion and avoidance involving all types of taxes as highlighted by Robinson (2012). For instance, in developed countries Murray (1997) investigated the influence of tax administrative in sales tax evasion and

avoidance. Dutt and Traca (2010) investigated the relationship between tariff collection at the border and corruption by employing a structural model to examine tax evasion in international commodity flows. Fox et al. (2014) examined tax evasion on commodity flows in sales tax. Fox et al. (2014) found that trade distance induced tax evasion in the United States.

Prior literature on non-compliance with indirect taxes in developing countries is still minimal. Mishra, Subramanian, and Topalova (2008) examined tax evasion caused by tariff rates after the tax reform in India in 1991. Kubo and Lwin (2010) examined the reporting discrepancies between import and export records which caused tax evasion of the import duties through smuggling activities in Myanmar. While in China, Liu (2013) studied tax avoidance through re-imports in value-added tax. Liu's study was based on credits or rebates claimed by firms which are not claimable in China. However, the products were re-imported as inputs to obtain the tax rebate.

Studies on tax non-compliance in Malaysia are available even though the number is not big. These studies mainly focused on income and corporate taxes behaviour, excluding the studies by Tayib (1998) and Nor Aziah (2004) on local government taxes. However, studies on indirect tax non-compliance in Malaysia are still scarce (RMCD Annual Report 2014). For instance, Rohaya and Ezdiani (2011) studied service tax evasion, one of the components in indirect taxes while Miskam et al. (2013) researched tax evasion involving imported vehicles by associating it with smuggling activities in Malaysia. The potential determinants of imported vehicles identified were the car brand, penalty structure, tax rate, and car importers' size of business. On the other hand, Noor, Jamaludin, Omar, and Aziz (2013) showed the tax gap and influential determinants of

tax evasion in the service industry by using variables like size of business, tax rates, external auditors engaged by service providers, the level of threshold, the probability of detection, and penalty. Further, Bidin et al. (2011) studied the influence of behavioural intention in determining local sales tax compliance by using the theory of planned behaviour.

Taxpayers are also likely to evade taxes to reduce tariff and other trade regulatory barriers. However, non-compliance phenomenon not always highlighted by tax authority and researchers (Mashiri & Sebele-Mpofu, 2015). Giles, Tedds, and Werkneh (2002) defined non-compliance activities as all transactions, whether legal or illegal, market or non-market, done to evade or reduce taxes from the tax authority. The evasion of indirect taxes is often related to non-compliance and smuggling offences, especially to customs tariffs. The non-compliance offences affect monetary as well as non-monetary revenues such as embargo (trading ban), product quality and quotas (limitations on imported goods) (Stephens, Boddewyn, & Sproul, 1991).

Only a few academic scholars have done research on non-compliance because of the difficulties in identifying tax evaders, whether they are involved intentionally or unintentionally in tax payments (Hai & See, 2011b). Therefore, this study provides an empirical evidence regarding the phenomenon and the determinants of excise duty (import) non-compliance among importers as taxpayers in Malaysia. Understanding the sources of non-compliance enables the RMCD to tackle the non-compliance phenomenon. Further, this study focused on non-compliance by taxpayers (importers) which is still scarce; if studies exist at all, they mostly dedicated to examining direct taxes.

### 1.3 Problem Statement

RMCD has introduced various transformation programmes to improve the collection of indirect taxes, but non-compliance still exists every year. For instance, from the year 2010 to 2014, the amount of excise duty (import) collected for three commodities was RM83,897.49 million. However, the additional potential excise duty (import) detected amounted to RM1,871.27 million with an increasing number of excise duty (import) non-compliance offences cases (Table 1.2). The additional excise duty detected was from producing double invoices, misclassification of products, concealing the country of origin, undervalue products, illegal trade activities and smuggling offences involving taxpayers (importers) as shown in Table 1.2 (RMCD Annual Report, 2010-2014). This indicates exist a gap between the actual collections performance with possible collections of excise duty (import).

This study provides empirical evidence of deliberate excise duty (import) non-compliance problem in Malaysia. The Chief Commissioner of the Malaysian Anti-Corruption Commission, Datuk Seri Mohd Shukri Abdull, also pointed out that the analysis done on the customs and free trade zone forms showed the amount of branded liquor imported in 2011 was RM1.67 billion. However, only RM420 million was declared in Port Klang free trade zone, signifying that RM1.25 billion excise duties not paid ("MACC: Smuggling Syndicate Cost," 2014).

Despite the sanctions and punishments imposed by the Excise Act (1976), non-compliance by taxpayers (importers) exists on a yearly basis. Mansor, Tayib, and Yusof (2005) revealed that the revenue collected from indirect taxes by the RMCD is comparatively lesser each year than the cost involved in collecting the revenue. Non-

compliance among importers occur because the number of opportunities available to evade taxes through underreporting and misclassification of the value of imports (Fisman & Wei, 2004). Further, it was claimed that a syndicate exists involving customs agents, lorry drivers, and company owners (importers) transporting smuggled cigarettes and alcohol without going through the RMCD's procedures, resulting in a loss of excise duties collection amounting to hundreds of millions of ringgit (Zolkepli, 2014). This phenomenon is further exacerbated with the involvement of customs officers in corruption and abuse of authorization given to them in the declaration. For instance, in 2013, 72 customs officers were caught for corruption and power abuse and one officer for not following the customs procedures (RMCD Annual Report, 2013). Hence, identifying the factors of non-compliance among importers will enable the RMCD to enforce criminal proceedings for the excise duty offenders and undertake tax reform by introduce strategies needed to overcome this problem (Singh & Bhupalan, 2001).

There are various reasons identified in previous literature that indicated reasons for non-compliance. According to scholars, tax authorities could use fear as a means to ensure taxpayers' compliance with tax laws (Mohdali, Isa, & Yusoff, 2014). The use of fear hypothesis was developed by Becker (1968) to fight illegal behaviour of taxpayers. A tax structure comprises tax rates, tax audits, and penalties, which are used as a punishment to deter taxpayers (Mohdali et al., 2014). However, according to Bayer (2006), higher tax rates will induce tax evasion. Voluntary compliance relies on the tax knowledge in the existing law and provisions (Saad, 2014). Hence, the tax expertise of tax agents makes taxpayers rely extensively on them to handle matters related to tax (Hamid, 2014). Other scholars argue that higher tax compliance could be achieved if taxpayers perceive fairness in tax law, and the tax systems are productive and efficient

(Hai & See, 2011a; Mustafa & Hanefah, 1996). Moreover, if taxpayers believe other taxpayers are evading taxes, and such behaviour is tolerable, then the taxpayers will be motivated not to comply (Ho Juan, Ern, & Kwee, 2006). Tax non-compliance will worsen when customs officials are involved in corruptions because, according to Rose-Ackerman (1997), goods clearance procedures are under the control of customs officials.

Most of the prior literatures explaining compliance behaviour of taxpayers focused on direct taxes. While, understanding of indirect tax compliance by integrating economic, socio-psychology determinants in one conceptual framework still scarce. The factors identified in the basic model of Becker (1968) expanded in Fischer's model. Based on these model, 14 key variables identified. Among the factors selected for this study was tax rate, penalty rate, probability of detection, tax fairness and peer influence. Jackson and Milliron (1986) argued tax non-compliance decision might be affected by other factors not considered in the basic model. Other factors might be relevant in explaining non-compliance behaviour. Despite, various expansion done to the basic model nothing is known empirically about the influence of tax audit, tax knowledge, corruption or the moderating effect of probability of detection and tax agent as in this study to investigate on why importers resist to pay excise duty in Malaysia.

#### **1.4 Research Questions**

This study focused on non-compliance behaviour of importers with tax declaration requirements of the RMCD. This study aimed at answering the following research questions:

1. What is the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption) with excise duty non-compliance by importers?
2. To what extent the probability of detection has a significant moderating effect on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption) with excise duty non-compliance by importers?
3. To what extent tax agents have a significant moderating effect on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption) with excise duty non-compliance by importer

### **1.5 Research Objectives**

In line with the research questions above, the present study intended to meet the following objectives:

1. To examine the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption) with excise duty non-compliance by importers.
2. To examine the moderating effect of the probability of detection on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption) with excise duty non-compliance by importers.
3. To examine the moderating effect of tax agent on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption) with excise duty non-compliance by importers.

## **1.6 Significance of the Study**

The findings from this study will have significant contributions to both theory and practice in a number of ways as explained below.

### **1.6.1 Theoretical Contributions**

This study contributes theoretically to the literature in several ways. This study is one of the studies that attempted to understand the determinants of excise duty non-compliance by specifically focusing on importers as taxpayers. Further, this study focused on deterrence theory associated with Fisher's model (1992). Deterrence theory on tax non-compliance was pioneered by Becker (1968), who developed a model by associating the cost and behaviour relationship in an economic perspective. Many scholars showed that deterrence theory alone might be unable to explain tax non-compliance behaviour (Hanefah, 2007). The poor explanation of the Becker's model led to the development of the A-S model by Allingham and Sandmo (1972). Deterrence theory only focuses on economic factors and ignored social and psychological factors (Fischer, Wartick, & Mark, 1992; Kastlunger, Lozza, Kirchler, & Schabmann, 2013). Also, the inconsistent findings on the determinants of tax compliance suggest some moderating effects (Baron & Kenny, 1986).

Based on the limitations of previous works, this study expanded deterrence theory and Fischer's model by focusing on economy, social and physiological factors in determining tax non-compliance behaviour. Further, the application of deterrence theory associated with the Fischer's model in indirect tax non-compliance environment in Malaysia is one of the contributions to existing theory. New variables such as tax audit, tax knowledge, and corruption were integrated into deterrence theory and the

Fischer's model. The moderating effects of the probability of detection and tax agent in influencing non-compliance behaviour among importers are also new contributions of this study. In deterrence theory and Fischer's model, the probability of detection was tested as an independent variable. In this study, it was considered a moderating variable. Moreover, previous studies tended to examine tax agent as an independent or dependent variable. This study pioneered the indirect tax non-compliance study by using tax agent as a moderating variable. By studying seven independent variables (predictor variables) and two moderating variables, this study will provide evidence of the determinants of importers' tax non-compliance. Furthermore, the present study focused on a developing country to answer to a call that more explorations are needed to bridge the gap between developed and developing countries (Andreoni, Erard, & Feinstein, 1998; Chau & Leung, 2009; Fuest & Riedel, 2009).

#### **1.6.2 Practical Contributions**

This study will assist the RMCD by providing information about how to understand non-compliance behaviour of importers. This information is needed to determine the allocation of the resources in the budget presentation by the Finance Minister so that the tax audit could establish efficient measures to enforce laws and develop strategies to tackle non-compliance behaviour. Furthermore, the findings will provide input to reform the current tax system. Finally, information is needed to identify whether the close relationship between customs assessment officers and importers will lead to tax non-compliance behaviour. To curb the smuggling offences which are rampant on the three main commodities, this study is important as it offers recommendations on how to enhance voluntary compliance rather than enforce compliance to improve the federal government's indirect tax revenue.

## **1.7 Scope of the Study**

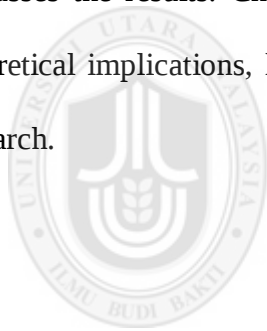
To meet the research objectives, this study focused on the operational zones used by importers that committed non-compliance offences. They are Pasir Gudang Port (Johor), West and North Port (Port Kelang), and North and South Port in Butterworth, Penang. These five ports are known as the major commercial ports in Malaysia that cater all types of cargoes by the sea. However, tax non-compliance occurs all over Malaysia by three modes of transportation of goods, i.e., sea, air, and roads. Hence, the non-compliance cases as illustrated in Table 1.2 covered three modes of transportation in Malaysia. Therefore, all states in Malaysia are more attractive for the purpose of retrieving the information and data required for this study. Therefore, respondents were drawn from all over Malaysia including Sabah and Sarawak. The data collection started from December 2015 to March 2016 involving excise duty offenders for cigarettes, liquor and imported vehicles for the year 2014.

## **1.8 Organization of the Thesis**

This thesis has six chapters. The thesis begins with an overview of the study, followed by the background of the study which explains the importance of tax in developed and developing countries. Then, the problem statement that illustrates the practical and theoretical gaps was introduced. This chapter also includes research questions, research objectives, and the significance of the study as well as the scope of the study. An overview of tax administration in RMCD is discussed in chapter two. This chapter also presents the history of RMCD, types of taxes imposed, and the definition of tax agents under Customs Act (1967).

In chapter three, non-compliance literature is reviewed. Then, the determinants of non-compliance behaviour of tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption are explained. The probability of detection and tax agent as moderating effects on excise duty non-compliance are discussed next. Deterrence theory and Fischer's model are also elaborated here.

Chapter four focuses on the research framework and hypotheses, which were developed from prior studies. This chapter also explains in great detail the research methodology. Issues such as the research design, sampling techniques, research instrument, data collection procedures, and data analysis are discussed. Chapter five presents and discusses the results. Chapter six concludes the research and highlights policy and theoretical implications, limitations of the research, and recommendations for future research.



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## **CHAPTER TWO**

### **OVERVIEW OF INDIRECT TAX SYSTEM**

#### **2.1 Introduction**

This chapter discusses the indirect tax system and its administration in Malaysia by focusing on excise duty. The background of indirect taxes since the era of Malacca Sultanate and during the British occupation in Malaya is discussed in the early part of this chapter. Next, the types of taxes imposed by the Royal Malaysian Customs Department (RMCD) are highlighted, followed by an in-depth discussion on the background of excise duty since the British occupation in Malaya. Finally, the rate of excise duty, the formula to derive the amount of tax payable, and offences and penalties for non-compliance as stipulated in the Excise Act (1976) are elaborated. The relevance of this chapter is to show that importers should make the correct excise duty declarations and payments according to rules and regulations to curb the non-compliance phenomenon.

#### **2.2 The Historical Background of Malaysian Indirect Taxation System**

A taxation system and tax collection exist since the Malay Sultanate of Malacca (1400-1511) and Johor Riau Empire (17<sup>th</sup> century). These duties were entrusted to the *Syahbandar* and *Bendahari* appointed by the Sultan. This system continued during the Portuguese and Dutch occupations in Malacca and was updated from time to time during the British colonial administration. It was during the British occupation that the Customs and Excise Department was established in 1948 with the formation of Malaya Federation in Peninsular Malaysia under the Customs Ordinance (1952). At that time the Customs Department was under the jurisdiction of Malaya High Commissioner headed by the Customs Comptroller since 1938 until Malaya achieved its independence

in 1957. The Federation Council had jurisdiction on issues about rules and regulations of customs under Section 135 of Customs Ordinance (1952). This Ordinance marked the beginning of maintaining the free port status of Peninsular of Malaya excluding Penang (“Royal Malaysian Customs Department”, n.d.).

Since the independence on 31<sup>st</sup> August 1957, the Customs and Excise Department at that time underwent a major reshuffle to accommodate the needs of the Malaya Federation. At this time, the Customs Department was led by a Comptroller who reported directly to Ministry of Finance. To ensure its efficiency, the Customs and Excise Department was divided based on three main trading zones. The northern region was based in Penang and covered Perak, Perlis and Kedah. The central zone comprised Negeri Sembilan, Kelantan, and Terengganu and was based in Kuala Lumpur. The southern zone was stationed in Singapore and consisted of Melaka, Pahang, Johor, and the Customs Department. A Customs Senior Assistant Comptroller headed each zone (“Royal Malaysian Customs Department”, n.d.).

On 16<sup>th</sup> September 1963 with the presence of Sarawak and Sabah into the Malaysia Federation a second reshuffle took place. At this time, the Customs and Excise Department was headed by a Customs and Excise Regional Comptroller. The Department was divided into territories consisting of Peninsular Malaysia (at that time known as West Malaysia), Sarawak, and Sabah. However, the Customs Ordinance and duty order were imposed independently in this three territories. Such decision affected the transit of goods from one state to another. Due to this difficulty, a meeting was held among the three Comptrollers from the three territories. The Customs Act No. 62 (1967) enacted was the result of the meeting. A single customs law was implemented entirely

in Malaysia under this law. In 1972, the Government Gazette legislated was implemented on 29<sup>th</sup> February 1972 known as the Sales Tax Act 1972. The Sales Tax exempted the products that fall under the Sales Tax (Exemption) Order 1972 and from being licensed under this order. This tax was imposed on all local and imported products (“Royal Malaysian Customs Department”, n.d.).

Another law known as the Service Tax Act was introduced in 1975. The service tax law enabled the Customs Department to collect service tax revenue which was collected under the Second Schedule of Service Tax Regulations, 1975 especially from the businesses that provided services and goods. Since 1<sup>st</sup> April 2015, the sales and service tax was substituted by goods and service tax. In 1976 the Excise Act was imposed to levy a tax on locally manufactured goods. Since the British occupation, this tax existed in the Straits Settlement consisting of Malacca, Penang, and Singapore (“Royal Malaysian Customs Department”, n.d.).

## **2.3 Types of Indirect Taxes Imposed in Malaysia**

The obligations to administer indirect taxes in Malaysia lie with the RMCD. There are various types of indirect taxes imposed and collected by the RMCD to generate tax revenue, which are bound to the Excise Duty Act (1976), Customs Act (1967) and Goods and Services Tax Act (2014) (“Royal Malaysian Customs Department”, n.d.). The overview of taxes is explained below.

### **2.3.1 Import Duty**

Under Section 2 of Customs Act (1967), import is defined as “to bring or cause to be brought into Malaysia by land, sea or air”. Import duty is levied on importing goods

into Malaysia by individuals or a commercial entity. In Malaysia, the import duty imposed is based on the CIF valuation method (cost, insurance, and freight) (Customs Act, 1967), which means that the import duty is levied not solely on goods but based on the total shipping value of the goods including the cost of freight and insurance during the shipment (Customs Act, 1967). However, some duties are calculated based on value and weight.

Imported goods should be landed at a legal landed place and time as prescribed in Section 2 of Customs Act, (1967). This importation is effected due to the permission granted from a proper customs officer. Exemptions will be given to land the goods on other days rather than as declared provided they are granted by the proper customs officer. It is the duty of every importer to declare their goods personally or through tax agents as prescribed in the customs tax system. The full detail of the declaration with the true accounts must be submitted. The details of the declaration consist of the number of packages, the description of packages, and the description of goods to be imported, weight, measurement or quantity of value and country of origin (Customs Act, 1967).

The declaration of customs goods and duties is based on the classification of goods as prescribed under Section 11 of Customs Act (1967). Customs duties levied on imported goods are fixed by the Finance Minister in the budget and should be paid by the importers. The customs officers are given the power to determine the rate according to the tariff classification as prescribed in the Customs Duties Order (1977). The tariff classification is based on the code established by the World Customs Organization. The tariff classification is to ensure that the RMCD clients make payment on customs relevant duties (Customs Act, 1967).

The system of goods classification imposed in Malaysia is referred to as the Harmonized System. The goods classification of the Customs Duties Order (1977) stipulates that every item has its classification and should not be classified more than one tariff code. The duties will be levied after the classification is effected. Under the Customs Duties Order (1977) the guidelines of the classification are highlighted by the schedule and appendices.

### **2.3.2 Export Duty**

Section 2 of the Customs Act (1967) defines export duty as “to take or cause to be taken out of Malaysia by land, sea or air or to place any goods in a vessel, conveyance or aircraft for the purpose of such goods being taken out of Malaysia by land, sea or air”. The valuation of products for export is based on a free-on-board (FOB) basis. The price of the products would be determined on the open market sale while the time is based on the payment of the duty when goods are released by the customs proper officer at various customs export points. This is done after the computation of export duty based on the value. The rates imposed varies for different products. The rate for the customs export duties is determined by the Customs Duties Order (1977).

### **2.3.3 Goods and Services Tax (GST)**

In many other countries, the goods and services tax is also known as a value-added tax, which is a multi-stage tax levied based on the goods and services consumed. The standard rate of GST imposed is 6%. In the supply chain, GST is levied from the supplier up to the retail level on the supply of services and goods of each stage. The tax paid under GST on the businesses input is not considered a product cost because at each level of the supply chain the GST paid in the business inputs is claimable. Hence, there

is an immaterial number of stages the particular services and goods go via the supply chain. The input tax incurred in the earlier level is subtracted by the business people at the following step in the supply chain of the goods (Goods and Services Tax Act, 2014).

The GST covers all sectors of the economy in Malaysia as a broad-based consumption tax. For instance, services and goods produced locally by a taxable person in the course or furtherance of business in Malaysia and also for imported goods are subject to the GST payment. The specific goods and services exempted are determined by the Finance Minister and the Gazette known as the Goods and Services Tax Act (2014) and categorised under zero rated and exempt supply orders. Further, the GST is levied if the businesses is registered under the Goods and Services Tax Act (2014) only. The liability of the registered person is based on the annual turnover of taxable supplies that reaches the threshold of RM500, 000.00 (Goods and Services Tax Act, 2014).

The registered person is the business person who produces taxable supplies of services and goods and is the only person allowed to collect and charge GST. The charge imposed is based on the value or selling price of the products. In the process of producing the products, whatever amount subjected to input (input tax) will be subtracted from the amount of the GST imposed (output tax) solely to those registered for the GST. In the circumstances where the total amount of the output tax is greater than the input tax in the appropriate GST taxable period, the differences incurred should be paid to the RMCD. However, if the input tax incurred is greater than the output tax paid, the differences in refundable by the RMCD (Goods and Services Tax Act, 2014).

#### **2.3.4 Excise Duty**

Excise duty is a tax imposed on imported and locally manufactured products. The Excise Act (1976) is a related law gazette for excise duty. The goods subject to excise duty comprise liquor, cigarettes, tobacco, tobacco products, motor vehicles, playing cards, and mahjong tiles. This kind of tax formally originated from the Straits Settlements in the 1890s during the British occupation of Malacca, Penang, and Singapore. At that time, there were two important justifications for the excise duty to be imposed. The first was to collect revenue of intoxicating liquors which were manufactured and sold. Secondly, the urge of British administrators to have jurisdiction on distilling and brewing intoxicating liquor involving all types (“Royal Malaysian Customs Department”, n.d.).

In 1932, the Enactment of Excise duty was legislated and implemented until 1961 when the Excise Act was enforced and implemented all over Malaya. The 1961 Excise Duty Act was sustained in Peninsular Malaysia until Malaysia was formed in 1963, but with the accordance of the excise laws of West Malaysia, Sabah, and Sarawak, but the Excise Act (1976) was enforced as a substitute to all existing legislations in 1976. The excise duty stipulated in the Excise Duties Order (2012) was imposed on certain locally manufactured and imported goods. There are two types of excise duties imposed in Malaysia: excise duty (domestic) levied on goods manufactured and sold in Malaysia and excise duty (import) payable to goods imported into Malaysia (Excise Act, 1976).

The Finance Minister has jurisdiction from time to time, by order printed in the Gazette, in fixing excise duties to be imposed and payable on any imported goods or locally manufactured goods. In line with this, the Finance Minister may approve the procedures

according to such duties which shall be levied and paid to the RMCD. The goods are subjected to excise duty on imported and locally manufactured goods. Imported goods such as motorcars/other motor vehicles, tobacco/cigarettes, intoxicating liquors, mahjong tiles, and playing cards are subjected to excise duty. The laws and regulations on excise duty in Malaysia consists of Excise Act (1967), Excise Duty Order (2012), Excise Regulations (1977), Excise Duties (Exemption) Order (2013), and Excise Duties (Motor Vehicles) (Payment) Order (2012).

#### **2.3.4.1 Licensing (Excise Regulations 1977)**

In Malaysia, the excise licensing system was emulated from the British system and was implemented since the British occupation in Malaya. Excise duties were imposed on the manufacturers to ensure the amount of excise duties collected were correct. This applies to the manufactured goods based on specific duty rates imposed. Manufacturing is defined in Section 2 Excise Duty Act (1976) as follows:

- (a) For the intoxicating liquors, “distilling, brewing, fermenting, bottling of intoxicating liquor, including the addition of any substance (other than water) to any intoxicating liquor and the blending, compounding and varying of intoxicating liquors with intent that the compound so formed shall be sold for human consumptions, but does not include any such compound prepared at the order of the purchaser and for his immediate consumption”.
- (b) For tobacco, any method that involves modifying raw or tobacco leaf into tobacco for the purpose of smoking, chewing and snuffing which includes producing cigarettes from the manufactured tobacco;
- (c) For petroleum involves purifying, mixing, and including adding any foreign material; and

- (d) For other cases, involves converting organic or non-organic materials by manually or using mechanical means to produce new products by altering the composition, shape, size and the originality or quality of materials as well as fixing of parts into piece of machinery or other commodity or other commodities but excluding fixing of equipment or machinery for the construction purposes.

The excise license granted to the manufacturers is solely the discretion of the Director General of Customs. The issuance of a license is subject to the manufacturers' compliance with the requirements of the rules and regulations relating to the construction and plan of the factory site.

#### **2.3.4.2 Application of Excise License**

The application for excise license is done by the owner, partners, or director of the company and forwarded to the State Director of Customs where the factory is located. The application must be supported by the following information (Excise Act, 1976).

- (i) The exact locality and address where it is intended to build the factory premises.
- (ii) Company's capital and number of workers.
- (iii) Main raw materials used.
- (iv) The formula of raw materials mixture in producing end products.
- (v) Three copies of Business Registration Certificate or copies of Memorandum and Articles.
- (vi) Plan and drawing certified by the applicant and the gazette architect showing the site, layout of premises, the inner locality, layout of the factory and layout of plant, machinery, equipment, and pipework.

### 2.3.4.3 License Fee

The prescribed annual fee for a license to manufacture dutiable items is stated in the Third Schedule, fees for licenses (Regulation 50) of Excise Duties (Amendment) (Payment) Regulations (2014), and Excise Act (1976). The list of fees imposed is illustrated in Table 2.1.

Table 2.1

*The License Fee under Excise Act (1976)*

| <b>The Excise Act 1976 Sections which the license is issued</b>                                                       | <b>Fee</b>            |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------|
| Section 20:                                                                                                           |                       |
| (a) For cigarettes manufacturing                                                                                      | RM4,800.00 for a year |
| (b) For tobacco manufacturing<br>(apart from cigarettes)                                                              | RM10.00 for a year    |
| not exceeding 45 kg per month                                                                                         | RM720.00 for a year   |
| exceeding 45 kg per month                                                                                             | RM4,800.00 for a year |
| (c) For manufacturing other dutiable goods<br>(Example : passenger motor vehicle,<br>mahjong tiles and playing cards) | RM4,800.00 for a year |
| Section 25:                                                                                                           |                       |
| (a) Warehouse Licenses                                                                                                | RM2,400.00 for a year |

Source: Excise Act 1976

The fees imposed on the manufacturer of excise dutiable goods are on a yearly basis as shown in Table 2.1. The licenses issued under Section 20 of Excise Act (1976) might be suspended, relocated or withdrawn by the Director-General at any time. If the licenses are suspended, the fees paid are not refundable.

### 2.3.4.4 Rates of Excise Duty

Tax rates play an important role in ensuring the amount is paid by the taxpayers to the tax authority. The amount paid will generate tax revenue for the government, which will be utilised for the development of the nation and provide amenities to the society

(“Royal Malaysian Customs Department”, n.d.). The tax rates on excisable goods such as motorcars, four- wheel drive vehicles, vans, multi-purpose vehicles, cigarettes, and liquor are illustrated in Tables 2.2 to 2.8.

Table 2.2

*Tax Rates for Motor Cars (Includes Racing Cars and Sports Cars)*

| Engine<br>Capacity (cc) | Import Duty |     | Excise<br>Duty | Goods and<br>Services Tax |
|-------------------------|-------------|-----|----------------|---------------------------|
|                         | CBU         | CKD | CBU & CKD      |                           |
| Not Exceeding 1,800 cc  | 30%         | 10% | 75%            | 6%                        |
| 1,800 - 1,999 cc        | 30%         | 10% | 80%            | 6%                        |
| 2,000 - 2,499 cc        | 30%         | 10% | 90%            | 6%                        |
| Above 2,500 cc          | 30%         | 10% | 105%           | 6%                        |

Source: Excise Duty Order 2012

Table 2.3

*Tax Rates for Four Wheel Drive Vehicles*

| Engine<br>Capacity (cc) | Import Duty |     | Excise<br>Duty | Goods and<br>Services Tax |
|-------------------------|-------------|-----|----------------|---------------------------|
|                         | CBU         | CKD | CBU & CKD      |                           |
| Not Exceeding 1,800 cc  | 30%         | 10% | 65%            | 6%                        |
| 1,800 - 1,999 cc        | 30%         | 10% | 75%            | 6%                        |
| 2,000 - 2,499 cc        | 30%         | 10% | 90%            | 6%                        |
| Above 2,500 cc          | 30%         | 10% | 105%           | 6%                        |

Source: Excise Duty Order 2012

Table 2.4

*Tax Rates for Others (VAN and Multi-Purpose Vehicle (MPV)*

| Engine<br>Capacity (cc) | Import Duty |     | Excise<br>Duty | Goods and<br>Services Tax |
|-------------------------|-------------|-----|----------------|---------------------------|
|                         | CBU         | CKD | CBU & CKD      |                           |
| Not Exceeding 1,500 cc  | 30%         | Nil | 60%            | 6%                        |
| 1,500 - 1,799           | 30%         | 10% | 65%            | 6%                        |
| 1,800 - 1,999           | 30%         | 10% | 75%            | 6%                        |
| 2,000 - 2,499           | 30%         | 10% | 90%            | 6%                        |
| Above 2,500 cc          | 30%         | 10% | 105%           | 6%                        |

Source: Excise Duty Order 2012

The excise duties are imposed on vehicles based on completely built-up (CBU) and completely knock down (CKD). These terms are normally practised in countries like Malaysia, China, India, and Thailand. These countries impose excise duty on imported vehicles. The terms CBU and CKD are used to describe the form used to import vehicles into the country (Excise Duty Order, 2012).

A CBU-imported vehicle means a vehicle imported into the country as a completely built-up vehicle from the origin country. This vehicle is considered an end product and can be driven when it lands on the shores. If the imported vehicles are quoted as CBU, it indicates that the vehicle is 100% built from the origin country (Excise Duty Order, 2012). For instance, an imported CBU Honda Civic into Malaysia might be from another plant such as Indonesia and Thailand or fixed in Japan (the original country of Honda). However, usually, the importation takes place from the neighbouring country. For example, a large number of imported Hondas in Malaysia are from the neighbouring country like Thailand due to their nearest geographical location. The status of the car produced relies on the quality control of the plant from the original country (Excise Duty Order, 2012).

On the other hand, a CKD motor vehicle is assembled locally by using most of the technology, main parts, and components which are from its original country (Excise Duty Order, 2012). The high tax rates on CBU vehicles imposed excessively by the government is to inspire foreign motorcar manufacturers to produce their vehicles and build factories in Malaysia, hence boosting the country's economy and increasing the employment rates. The major differences between CBU and CKD are based on the taxes imposed. A CBU unit might cost 30 percent higher than a CKD unit (Excise Duty

Order, 2012). The tax rates imposed on vehicles are as illustrated in Tables 2.2, 2.3, and 2.4.

An optimal cigarettes tax determination is necessary for the government to ensure the price of cigarettes after tax is high enough to reduce the consumption and leads a healthier life while generating tax revenue for the federal government (Nora, Abdullah, Rampal, & Mohd Noor, 2013). This kind of tax imposed is known as a sin tax. The excise duties on cigarettes are imposed on the cigarettes manufacturer or cigarettes importers. The taxes imposed on excise duty are based on the total number of sticks as shown in Table 2.5 (Excise Duty Order, 2012). The details of cigarettes calculation will be discussed in the next subsection.

The higher alcoholic beverages prices and taxes result in lower consumption (Chaloupka, Grossman, & Saffer, 2002). Hence, the Malaysian government imposes higher tax rates as shown in Table 2.5 to reduce the consumption of alcoholic beverages among Malaysians. The excise duty is imposed based on the quantity of the liquor purchased contrary to the goods and services tax. These tax depend on the price of purchased liquor (Chaloupka et al., 2002). Table 2.5 shows the tax rates for cigarettes and liquor.

Table 2.5  
*Tax Rates for Cigarettes and Liquor*

| <b>Commodities</b> | <b>Import<br/>Duty</b> | <b>Excise<br/>Duty</b>       | <b>Goods and<br/>Services Tax</b> |
|--------------------|------------------------|------------------------------|-----------------------------------|
| Cigarettes         | RM0.20 /<br>Stick      | RM0.28 /<br>Stick and<br>20% | 6%                                |
| Brandy / Whiskies  | RM58.00                | RM30.00<br>and 15%           | 6%                                |

Table 2.5 (Continued)

| Commodities | Import Duty | Excise Duty     | Goods and Services Tax |
|-------------|-------------|-----------------|------------------------|
| Rum / Vodka | RM55.00     | RM30.00 and 15% | 6%                     |
| Beer        | RM5.00      | RM7.40 and 15%  | 6%                     |

Source: Excise Duty Order 2012

#### 2.3.4.5 Formula for Calculating Excise Duty (Import)

Excise duty is one of the main contributors to the indirect taxes components in Malaysia as shown in Table 1.1. The excise duties are imposed on locally manufactured products and imported goods as stated by Section 6 of Excise Act (1976). The computation of excise duty is based on the *specific* rates or *ad-valorem* of the value or quantity of the products or goods (Excise Duty Order, 2012). The high excise duty levied on cigarettes, tobacco, and alcohol is to reduce the consumption of unhealthy products (Hoe, 2010). The formula for calculating the excise duty on cigarettes, liquor, and imported vehicles are as follows:

##### Example 1 Calculation for Cigarette “John Black” Brand.

The price includes the cost of insurance and freight. One carton/slop contains 10 packets while each packet has 20 sticks of cigarettes.

The value of cigarettes sticks = 10 packets x 20 sticks = 200 sticks. Each stick cost RM0.80. The value of 200 sticks will be RM 200 x 0.80 = RM160.00 (value)

Table 2.6  
*Calculation for Cigarette John Black Brand*

|                                                                |                                                  |                       |
|----------------------------------------------------------------|--------------------------------------------------|-----------------------|
| <b>Import Duty Rate</b>                                        | RM0.20 x 200 sticks                              | RM40.00               |
| <b>Excise Duty Rate</b>                                        | = RM0.28 per stick + value + Import Duty and 20% |                       |
| <b>Duty Rate</b>                                               | (a) = RM0.28 x 200 sticks                        | RM56.00               |
| <b>Rate</b>                                                    | (b) = (RM160.00 + RM40.00) x 20%                 | RM40.00               |
|                                                                |                                                  | Total Value = RM96.00 |
| <b>GST Rate</b>                                                | = (Value + Import Duty + Excise Duty) x 6%       |                       |
|                                                                | = (RM160.00 + RM40.00 + RM96.00) x 6%            | RM= RM17.76           |
| Total duty to be paid = RM40.00 + RM96.00 + RM17.76 = RM153.76 |                                                  |                       |

Source: Excise Duty Order 2012

According to Table 2.6, the import duty is RM0.20 per stick, excise duty imposed RM0.28 per stick and 20% while the GST rate is 6%. The total payable duty depends on the number of sticks imported and the rate of customs duties at that time. For the above calculation, one carton of John Black contains 200 sticks. The value of tax imposed on import duty, excise duty, and GST is stipulated by the Excise Duty Order (2012) as shown in Table 2.5. The total duty payable for this importation will be RM153.76.

#### Example 2 Calculation for Liquor Chivas Regal

One bottle of Chivas Regal contains 4.5 litres, and the value of one bottle including the value of cost, insurance, and freight is RM305.00. The calculation for one bottle is as follows:

Table 2.7

*Calculation for Liquor Chivas Regal*

|                                                                  |                                                                                                     |                         |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------|
| Import Duty Rate                                                 | = $\left[ \frac{\text{Quantity} \times \% \text{ Volume (alcohol content)}}{100} \right]$ x RM58.00 |                         |
|                                                                  |                                                                                                     | RM104.40                |
| Excise Duty Rate                                                 | = $\left( \frac{\text{Quantity} \times \% \text{ Volume}}{100} \right)$ x RM30                      |                         |
|                                                                  |                                                                                                     | RM54.00 (a)             |
|                                                                  | = (Value + Import Duty) x 15%                                                                       |                         |
|                                                                  | = (RM305.00 + RM104.40) x 15%                                                                       | RM61.41(b)              |
|                                                                  |                                                                                                     | Total Value = (a) + (b) |
|                                                                  |                                                                                                     | RM115.41                |
| GST Rate                                                         | (Value + Import Duty + Excise Duty) x 6%                                                            |                         |
|                                                                  | = (305.00 + 104.40 + 115.41) x 6%                                                                   | RM31.49                 |
| Total duty to be paid = RM104.40 + RM115.41 + RM31.49 = RM251.30 |                                                                                                     |                         |

Source: Excise Duty Order 2012

Table 2.7 shows the total tax payable for liquor. The taxes imposed on the excise duty are based on the content of the alcohol whereas the tax rates imposed are based on the Excise Duty Order (2012). Based on Table 2.5, the Chivas Regal brand is categorised under brandy or whiskies which carry RM58.00 import duty, excise duty is RM30.00 and 15% while the GST is 6%. The volume of the alcohol content of this brand is 40, and the amount of duty payable is as shown in Table 2.7.

Example 3 Calculation for New Bayerische Motoren Werke (BMW) Imported Vehicle

The price of a new BMW imported car (completely built-up) with cost, insurance, and freight (CIF) value is RM257, 570.00. The excise duty payable is shown in Table 2.8.

Table 2.8

*Calculation for New Bayerische Motoren Werke (BMW) Imported Vehicle*

| Brand | Engine Capacity (cc) | Model                                         | Cost, Insurance and Freight value (CIF in RM) |
|-------|----------------------|-----------------------------------------------|-----------------------------------------------|
| BMW   | 4395                 | 750Li Limousine RHD (YE82)                    | 257,570.00                                    |
|       |                      | <b>Import Duty:</b>                           |                                               |
|       |                      | = CIF value x 30%                             | (a) 77,271.00                                 |
|       |                      | = 257,570 x 30%                               |                                               |
|       |                      | <b>Excise Duty:</b>                           |                                               |
|       |                      | = CIF value + Import Duty x Excise Duty       | (b) 351,583.05                                |
|       |                      | = 257,570 + 77,271 x 105%                     |                                               |
|       |                      | <b>GST:</b>                                   |                                               |
|       |                      | = CIF value + Import Duty + Excise Duty x GST |                                               |
|       |                      | = 257,570 + 77,271 + 351,583.05 x 6%          | (c) 41,185.44                                 |
|       |                      | Total tax payable:                            |                                               |
|       |                      | = (a) + (b) + (c)                             |                                               |
|       |                      | Total duty to be paid                         |                                               |
|       |                      | = 77,271.00 + 351,583.05 + 41,185.44          | 470,039.49                                    |

Source: Customs (Values of Imported Completely Built-up Motor Vehicles) (New) (Amendment) (No.2) Order 2013

Table 2.8 indicates the excise duty payable for a BMW car. The reference is made to the rates provided by the Excise Duty Order (2012) while the value of the CBU car is stipulated in the Customs (Values of Imported Completely Built-up Motor Vehicles) (New) (Amendment) (No.2) Order (2013). According to the two references, the excise duty payable is RM470,039.49.

#### 2.3.4.6 Removal of Excisable Goods (Section 28 Excise Act 1976)

No dutiable goods shall be relocated from any premises which are licensed except:

- Upon payment of excise duty.
- Under bond for locating to the other licensed warehouse.
- For export or consumption in a place outside Malaysia, such as free trade zones and licensed manufacturing warehouse.

A relevant form for the removal of excisable goods from a licensed premise must be applied to the nearest customs office with the excise duty duly paid. The release of the vehicles from a licensed assembly plant is allowed after the payment of duty is made by using the relevant customs forms. The vehicles released from the assembly plants must be stored in a showroom approved by the State Director. Passenger vehicles are to be registered not later than four years after the release from assembly plants. The duties are paid by the owner (Excise Act, 1976).

#### **2.3.4.7 Refund and Remission (Section 11A, 13 and 14 of Excise Act 1976)**

The excise duty and other charges overpaid are refundable. A refund is allowed if it is made within a year after the tax payment made. The refund of taxes and charges may occur due to incorrect calculation of duties, incorrect classification of goods that caused higher tax rates imposed, the incorrect addition of figures, and over a collection of specified rates. Furthermore, the Director General of Customs has power in remitting the whole or part of excise duty. This can be done due to damage of any taxable goods, destroyed by inevitable accident, or the goods are lost before removal from excise control (Excise Act, 1976).

#### **2.3.4.8 Offences and Penalties**

Any excise duty licensee who ignores his liabilities stipulated in the Excise Act (1976) commits an offence and is liable to the penalty imposed. The relevant sections are as outlined below.

- (a) Section 71 of Excise Act (1976) provides that, whoever,
  - (i) Prepares in writing or oral, or signs in any of the statement, other document or certificate as prerequisite in Excise Act (1976), which is falsified;

- (ii) Prepares in writing or oral, or signs any document or statement, prepared for judgement of any officer of the excise on any application presented to him, which is falsified;
- (iii) Forges or falsifies, or uses when counterfeited or falsified, any document which is needed under Excise Act (1976); or
- (iv) Fraudulently modifies any document or imitates the signature, initials and seal, or other marks of any customs officer of Excise Act (1976) done for the confirmation of any such document or for secured the goods or for any other intention in the business transactions pertaining to Excise Act (1976);

If convicted, is subject to imprisonment for a period, not more than 12 months or to a fine not more than RM5,000 or both fine and imprisonment.

- (b) Section 71 of Excise Act (1976) provides that, whoever:
  - (i) Acts contrarily against the Excise Act (1976) provisions, accepting or possessing, control or have custody of any excise dutiable goods by law but not have any evidence to prove that the duty have been paid or which have been illegally manufactured, fermented or distilled, otherwise; or
  - (ii) Collaborate otherwise involved with illegal activities in removing or withdrawing of any excise dutiable goods from any brewery, distillery, or other manufacturing places of excise dutiable goods or from any licensed warehouse or security place which excise dutiable goods may have transferred; or
  - (iii) With the knowledge, harbouring, hide or possessing, or allows harbouring, any excise dutiable goods which illegally removed; or

- (iv) With the knowledge and intention of excise dutiable goods and purposely have the intention to defraud the Government of excise duty or have the intention to evade of any Excise Act (1976) provision; or
  - (v) With the knowledge involved in fraudulent activities to evade any excise duty; or
  - (vi) With the knowledge involved in manufacturing excise dutiable goods, or tobacco, which contradicts the provision of Section 20; or
  - (vii) Unless with authority by law, alters, breaks, opens, or in any way get involved with any mark, seal, lock or other fastening placed by a proper customs officer; or
- (c) Purposely involved in matters related to the instrument, aircraft, vessel and vehicles or other methods concerning excise duty, if found guilty of offence will be liable to:
- (i) A fine not less than ten times if convicted at the first time of the amount of excise duty involved or RM10,000 whichever is lower on the first conviction, to be fined not less than 20 times of the excise duty or the amount involved is RM10,000, either both or whichever is higher. If uncertain with the amount of duty and no duty involves can caused penalty imposed not more than RM10,000; and
  - (ii) The fine not lower than twenty times of the excise duty involved or 10,000 or whichever is lower will be imposed for the second time and following convictions or the amount of duty involved is RM20,000 or higher than forty times of the amount, or whichever is higher may cause the jail term for not higher than 5 years or both of imprisonment and fine.

While, if the prosecution carried out related to excise dutiable goods, the defendant would be deemed to have knowledge on the offences committed unless proved otherwise by the defendant.

- (d) Section 75 of Excise Act (1976) stated that individual with knowledge 1) on possession of dutiable goods but not pay taxes; 2) keeping apparatus or utensils meant for fermenting; 3) distilling machines used for the manufacturing tobacco considered as committed an offence under Excise act. They are liable for imprisonment not more than 3 years or imprisonment upon conviction of fined RM2,000 but not exceeding RM10,000 or both based on the merit of the case.

#### **2.4 The Role of Tax Agent**

The role played by tax agents is different from that of accounting professionals (Hamid, 2014). For example, auditors are expected to be independent while tax agents perform as advocates for their clients (Tan & Sawyer, 2003) while concurrently staying objective in their professional behaviour. Tax agents also perform an intermediary role in the tax system between the RMCD and importers (Excise Act, 1976).

Prior literature in tax compliance indicates that taxpayers rely on tax agents because of the latter's expertise to deal with tax matters (Hamid, 2014). Further, Doyle, Hughes, and Glaister (2009) maintained that tax agents determine the amount payable by their clients. Marshall, Armstrong, and Smith (1998) proposed that tax agents also represent taxpayers when negotiating with the tax authority and not solely restricted in preparing tax returns.

The code of ethics for tax agents is stated in Section 90 of Customs Act (1967). To become a tax agent, three requirements are to be met as follows:

- (a) Attend the courses as specified by the Director-General on matters related to customs and pass the examination.
- (b) A written approval should be produced from the person that the tax agents are representing in customs declaration.
- (c) An assurance is given to be faithful and avoid corrupt conduct of tax agents and his clerks acting for him to the senior officer of customs.

Further, any application for permission to act as an agent for business transactions is related to import and export matters. This kind of transactions should be permitted and considered by a senior officer of customs subject to the terms and conditions. Under Section 90(4) of Customs Act (1967), if the agent commits any breach of this act and regulations, his/her license will be suspended and cancelled.

## **2.5 Summary**

This chapter presented an overview of the indirect tax system in Malaysia. Indirect taxes are imposed and collected by the RMCD while personal tax by the Inland Revenue Board of Malaysia. Indirect taxes are currently administered under the provisions of the Customs Act 1967, Excise Act 1976, and Goods and Services Tax Act 2014. However, taxpayers are found to evade the payment of indirect tax particularly excise duty, which is a constant problem for the RMCD, resulting in a significant loss of the government revenue. The following chapter reviews the relevant literature in tax non-compliance behaviour.

## **CHAPTER THREE**

### **LITERATURE REVIEW**

#### **3.1 Introduction**

This chapter reviews the literature related to tax non-compliance by highlighting relevant issues of tax avoidance and tax evasion. It also discusses deterrence theory and the Fischer's model used in this study, relevant theories of Fischer's model, and the expanded model of Fischer's model. Next, a discussion on the independent, dependent, and moderating variables of tax non-compliance and the relevant theories is offered. The final part of this chapter deals with a summary of prior literature.

#### **3.2 The Definition and Concept of Tax Non-compliance**

Tax authorities play a fundamental role in ensuring tax compliance among taxpayers. However, despite the regulations and laws, some taxpayers are still non-compliant. James and Alley (2002) described tax non-compliance as a failure of taxpayers to accommodate tax responsibilities whether the failure is done intentionally or unintentionally. This statement contradicts Kirchler (2007), who argued that when the level of compliance diverges, tax non-compliance may not break the law.

Studies on tax non-compliance in indirect taxes are still scarce. In the customs context, smuggling activities are one of the important determinants of non-compliance. Smuggling is defined as a conduct that violates the law by importing and exporting products secretly without paying customs taxes (Alano, 1984). Illegal importation of goods from one territory to another is also a form of smuggling (Deflem & Henry-Turner, 2001). Merriman, Yurekli, and De Beyer (2003) defined smuggling as excise duties evasion of goods which is prevented by border control. Smuggling is a criminal

offence because it is committed with the purpose of evading taxes, hence reducing government income (Buehn & Farzanegan, 2012). In addition to a loss of government income, smuggling also results in productivity damage and fairness. However, due to the complexity in discovering or concluding such conduct Fox et al. (2014), Hanlon and Heitzman (2010) and Shackelford and Shevlin (2001) called for more studies to be carried out.

Current researchers usually focus on firms' income tax even though evasion and avoidance involves many different types of taxes. Smuggling activities consist of three types which are incorrectly declaring the amount, for instance declaring less quantity and price, incorrectly declaring the descriptions of goods, and stating at lesser than legally practiced (Cooper & Bhagwati, 1974). The popular smuggling methods and customs frauds involve fake invoicing, complicated transactions attempts (using two invoices, the false invoices are used for declaration and the genuine invoices are used for record purposes (double invoicing), tariff code miss-classification, and over-stated and under-stated valuation and shipments (Thanasegaran & Shanmugam, 2007). In Malaysia, indirect taxes are avoided by falsifying the declaration, smuggling, or customs fraud (Miskam et al., 2013).

Smuggling has negative economic consequences. Dominguez (1975) stated that smuggling reflects the failure of government revenue collections and modifies the internal system of society by producing influential illegal organizations and modifies the consumption trend. Moreover, it also has negative impacts on the distribution of income. It is claimed that the supply and demand of primary forces leads to smuggling. The state involvement leads to the blockage between domestic and international prices

via trade limitations involving excise duties and customs duties, leading to black market actions. Hence, smuggling is an action utilized to generate revenue from transporting goods via state border by breaching the current practicing rules. Income is earned by smuggling activities via evading the state restrictions, related costs, and regulations. Such activity is a criminal nature because it involves corruptions and bribery (Farzanegan, 2007).

According to Kinsey (1988b), from the tax legislation perspective, tax non-compliance is illustrated as taxpayers' failure to perform tax responsibilities intentionally or unintentionally. Non-compliance occurs due to taxpayers' negligence, for instance by overlooking in paying tax, individual mistakes in tax calculation, and inadequate information and tax knowledge. However, tax administrators all over the world strive to motivate voluntary compliance of taxpayers even though it is a challenging task. Hence, many studies have been conducted to investigate the determinants of tax avoidance and non-compliance. Prior research identified that the main factor of non-compliance was perception (McKerchar, 1995; Smith & Kinsey, 1987; Vogel, 1974). Taxpayers' confidence relies on their perception of fairness in the tax system. Taxpayers' will lose confidence if they have negative perception of fairness in the tax system especially on tax rate and penalty impose which will lead towards tax avoidance and non-compliance.

Many studies on tax compliance used three theoretical perspectives in explaining the phenomenon. They are economic deterrence models, general deterrence theory, and fiscal psychology. These theories propose that tax non-compliance can be prevented by penalties (Tittle, 1980). Tax non-compliance is a universal fact that exists in all societies

(Cowell, 1990). While intentional non-compliance occurs when taxpayers purposely sabotage the tax rules and regulations for their personal interest, unintentional non-compliance is the result of taxpayers' act of unawareness, failure to declare, or miscalculation in practicing tax laws. Taxpayers' non-compliance behaviour that causes the underreporting and non-declaration result in underpayment or non-payment of taxes known as tax evasion (Alabede, Ariffin, & Idris, 2012a).

Tax non-compliance is treated as a contrary conduct or attitude of tax compliance. Tax non-compliance examples are tax evasion and tax avoidance which has negative impacts on tax compliance and tax collections. Tax evasion as defined by James and Alley (2002) is the attempt to reduce tax liability by illegal means whereas tax avoidance is reducing taxation by legal means. Kasipillai, Aripin, and Amran (2003) maintained that tax evasion reduces the taxes owed in reality. On the other hand, they described tax avoidance as taxpayers declaring their tax affairs creatively according to the rules and regulations (any tax law not breached) to lower the tax liabilities, and this action is legal in the tax administrator's point of view.

Tax evasion has existed for a long time. Tax evasion is a constant threat to governments and tax authorities. Due to the negative consequences, it has been examined by social scientists in different fields such as sociology, political science, accounting, psychology, and policy planning (Webley, 1991). Tax evasion is commonly defined as techniques used to break the prerequisite of tax code by minimizing tax liabilities. Hence, it is an offence if caught and will result in criminal proceeding imposed on the taxpayers. Legally speaking, there is a difference between tax evasion and tax avoidance in that tax evasion is illegal while tax avoidance is not. Tax avoidance can

be defined as using loopholes to reduce the tax liability which involves every attempt of legal means (Ronan, 2010). The legal tax avoidance policies in many countries involve completely organizing monetary matters to reduce taxes. However, these policies furnished with possibilities for tax evasion. However, from the economic perspective and the impacts on collections, tax evasion and avoidance are the same (Ronan, 2010). Many taxpayers engage the services of tax consultants to avoid tax payments where the tax consultants will utilize the ambiguous circumstances to practice tax evasion (Ronan, 2010). Therefore, it can be summarized that the tax experts' advices are associated with tax evasion practice. Any policies imposed for tax evasion without suggesting a remedial measure to tax experts who motivate evasion do not significantly expand the tax base (Ronan, 2010). Any taxable individual who avoids paying his/her tax obligations intentionally commits tax evasion; therefore he/she is liable to criminal punishments (Engel & Hines, 1999).

Any violations of tax rules and regulations are considered tax non-compliance which includes tax evasion and tax avoidance. In this study, tax evasion is related to smuggling activities involving the use of false invoice for declaration, of tariff code, and overstated and under-stated valuation and shipments of goods. On the other hand, tax avoidance is described as using the loopholes in the Excise Act (1976) to lower or completely not paying excise duties.

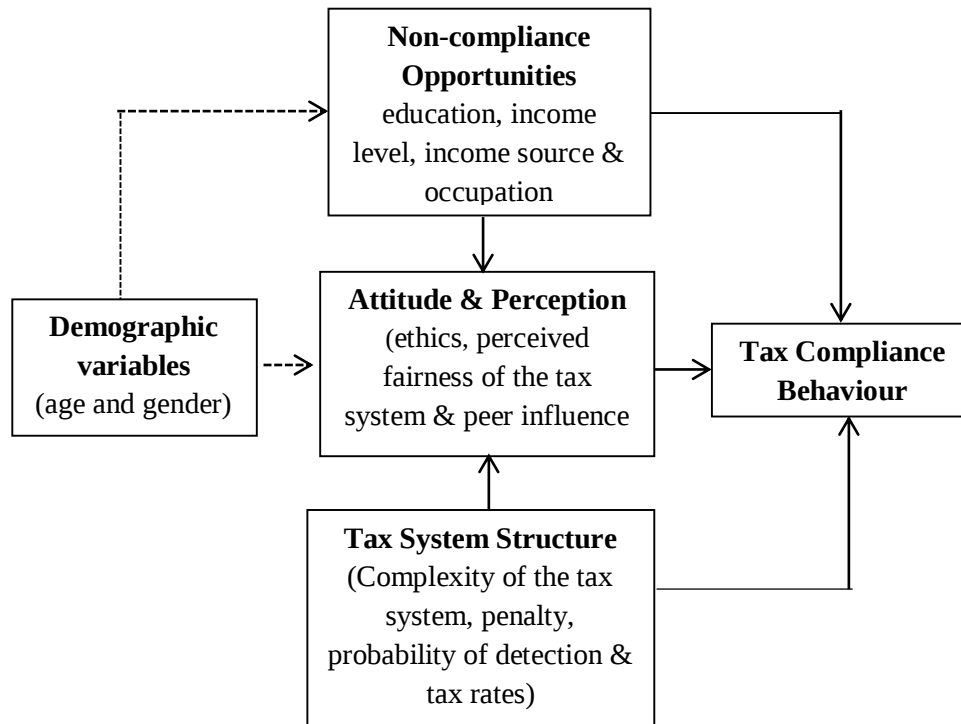
### **3.3 Deterrence Theory**

A tax compliance model was pioneered by Becker (1968) developed from deterrence theory using the economic crime approach. The deterrence effect of tax rate, penalty structure, and probability of detection determine the monetary cost of compliance

which drives compliance behaviour. The potential costs and benefits usually are weighed in monetary terms. This theory assumes that taxpayers choose to evade tax whenever the expected gain exceeds the cost needed for legitimate tax declarations. This theory also assumes that taxpayers decision to comply with is made in an environment of uncertainty based on the fear of being caught and punished. Hence, this theory introduces sanctions and threat of punishment to maximise public and private policies in curbing unwanted illegal behaviour and motivating tax compliance.

### **3.4 Fischer's Model**

The early attempts to link various tax compliance determinants into one comprehensive tax compliance model were made by Fischer et al. (1992). Their model was developed based on Jackson and Milliron's (1986) work that identified 14 key variables practically used by most researchers. Fischer further divided these factors into four groups to create an expanded model of tax compliance known as the Fischer model. As illustrated in Figure 3.1, Fischer divided the economic and non-economic determinants into four groups namely (a) demographic (age and gender), (b) non-compliance opportunity (education, income level, income source, and occupation), (c) attitude and perception (ethics, perceived fairness of the tax system, and peer influence), and (d) tax system structure (complexity of the tax system, penalty, probability of detection, and tax rates). In essence, this model is a comprehensive model incorporates economic, sociological and psychological determinants as shown in Figure 3.1.



*Figure 3.1*  
Fischer's Model of Tax Compliance Theories (Fischer, Wartick, & Mark, 1992)

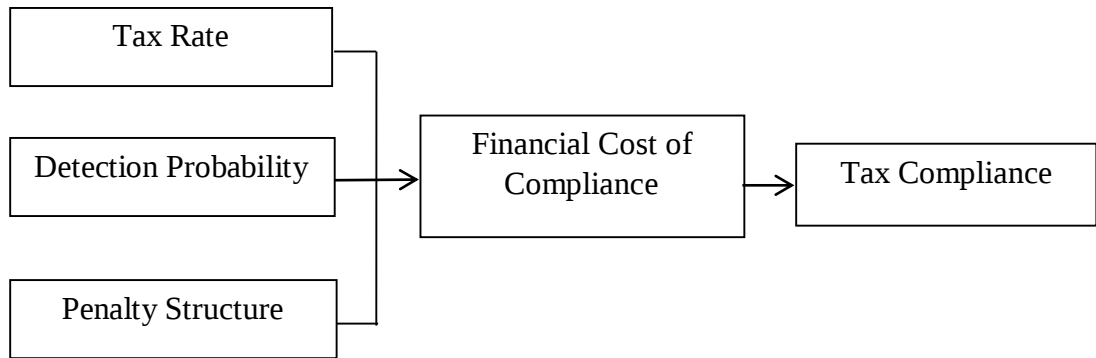
### 3.5 Theories and Models that Support Fischer's Model

The Fischer's model consolidates economic and non-economic variables to provide a better explanation of compliance behaviour (Fischer et al., 1992). The model has received empirical support in many studies (Andreoni et al., 1998; Chau & Leung, 2009; Houston & Tran, 2001; Richardson, 2006a; Ritsema, Thomas & Ferrier, 2003). The potential total effects between the variables are also explained in the model (Chan, Troutman & O'Bryan, 2000). In previous tax compliance studies, the possible reason for inconsistent findings is the failure to identify the total consequences between important tax compliance determinants. The Fischer model is established based on tax compliance theoretical model consisting of financial self-interest model and the social psychological model of tax evasion (Fischer et al., 1992).

### **3.5.1 Financial Self-Interest Model**

The financial self-interest model was developed by Becker (1968) from the economics of crime approach (Allingham & Sandmo, 1972). This model was derived from deterrence theory, expected utility theory, and economic theory. The perceived taxpayer's ultimate goal is to increase the utility of evasion such as in gambling. Taxpayers will make an effort to increase their anticipation by evaluating the profit they will gain if they succeeded from evasion and the risk of strict penalties and being caught (Fischer et al., 1992).

Empirical evidence supported the proposition that taxpayers' compliance behaviour was determined by the penalty structure, detection probability, and tax rates (Dubin & Wilde, 1988; Witte & Woodbury, 1985). However, Alm, Jackson and McKee (1992c) criticized the model by arguing that the overall compliance will be lower than what have been observed if the model proposes only those determinants, indicating the variables are insufficient to assess tax compliance behaviour precisely. Alm (1991) and Cowell (1990) further argued that the association between the determinants and tax compliance is not straight forward. Further, in the financial self-interest model the sociological and psychological variables are not included. In order to create a tax compliance model correctly additional variables are required (Fischer et al., 1992). The financial self-interest model is as shown in Figure 3.2.



*Figure 3.2*

The Financial Self-interest Model of Tax Compliance. Adapted from “Perceived Detection Probability and Taxpayer Compliance: A Conceptual and Empirical Examination” by Fischer, 1993. Ann Arbor: UMI, p. 23.

### 3.5.2 Social Psychological Model

Weigel, Helsing, and Elffers (1987) established a model with psychological and social factors. The social factors of taxpayers are further split into situational instigation and situational constraints. The situational instigation comprises social norms and financial strains while the impact of non-compliance opportunities, social and legal controls are forms of situational constraint. The psychological conditions are grouped into personal instigation and personal constraints. Personal instigation is illustrated by personal strains and personal orientation while personal constraints are perceived opportunity to evade, perceived risk of punishment, and intolerance of tax evasion. One limitation of this model is that it neglects the importance of economic variables. Figure 3.3 illustrates the model of Weigel et al. (1987).

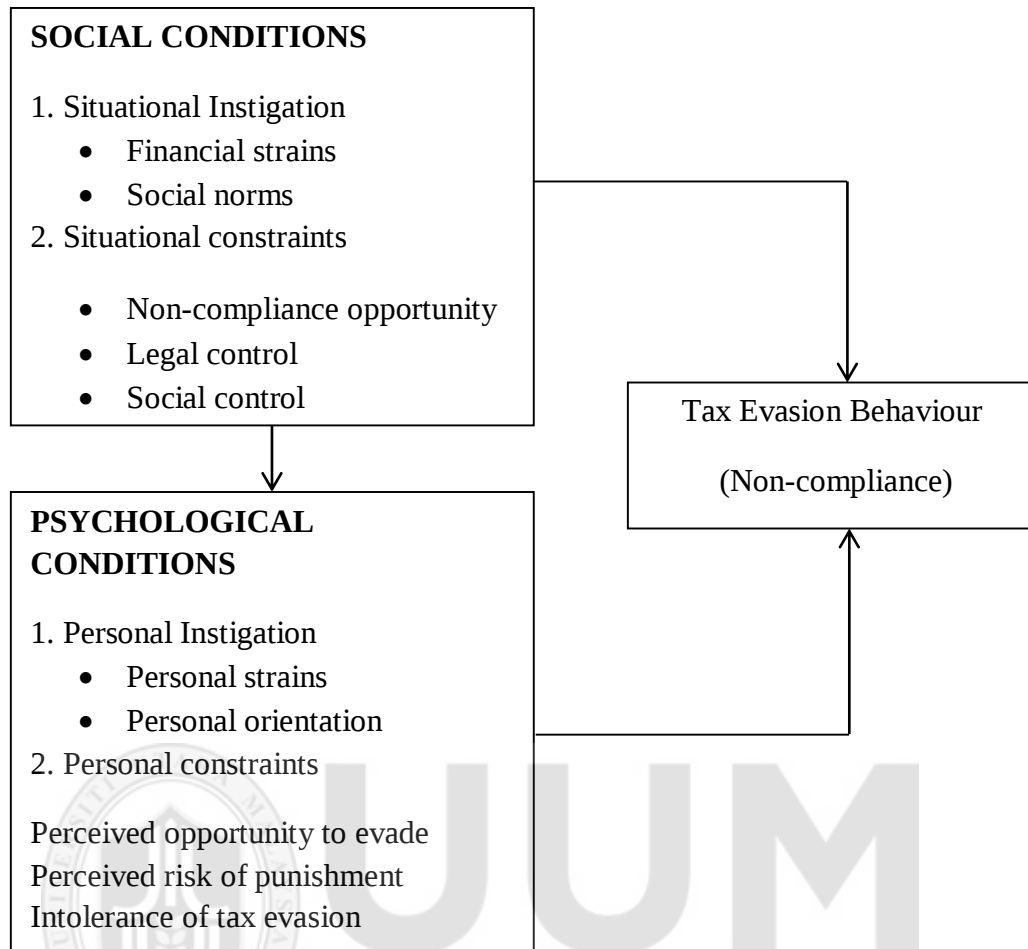


Figure 3.3  
Weigel's Social and Psychological Model.

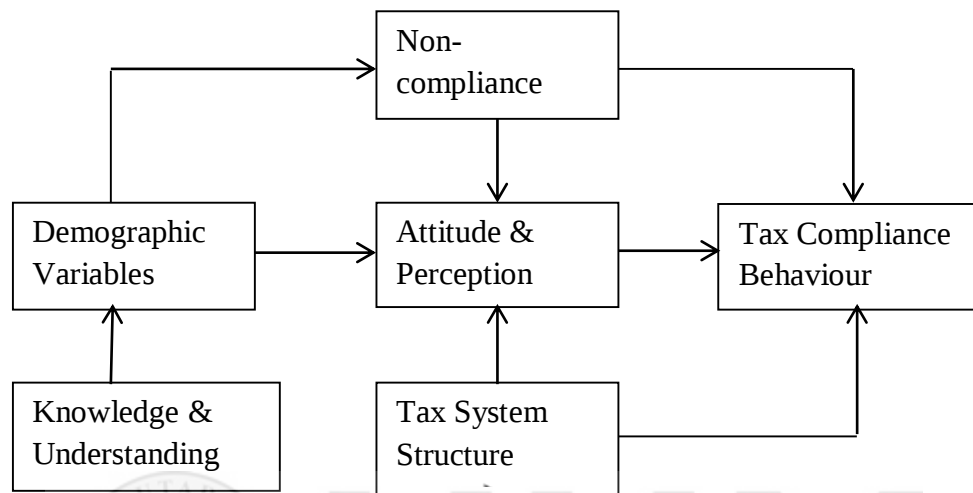
### 3.6 Fischer's Expanded Models

Some researchers used the Fischer model as a base by adding one or more variables to the original model constructed to match the research objectives. The expanded models are as follows.

#### 3.6.1 Mustafa's Model

Mustafa (1997) measured complexity, tax law fairness, taxpayer's perception of the assessment system, and the tax administration system in Malaysia. In his study, the Fischer model was expanded by adding new variables such as the understanding of tax

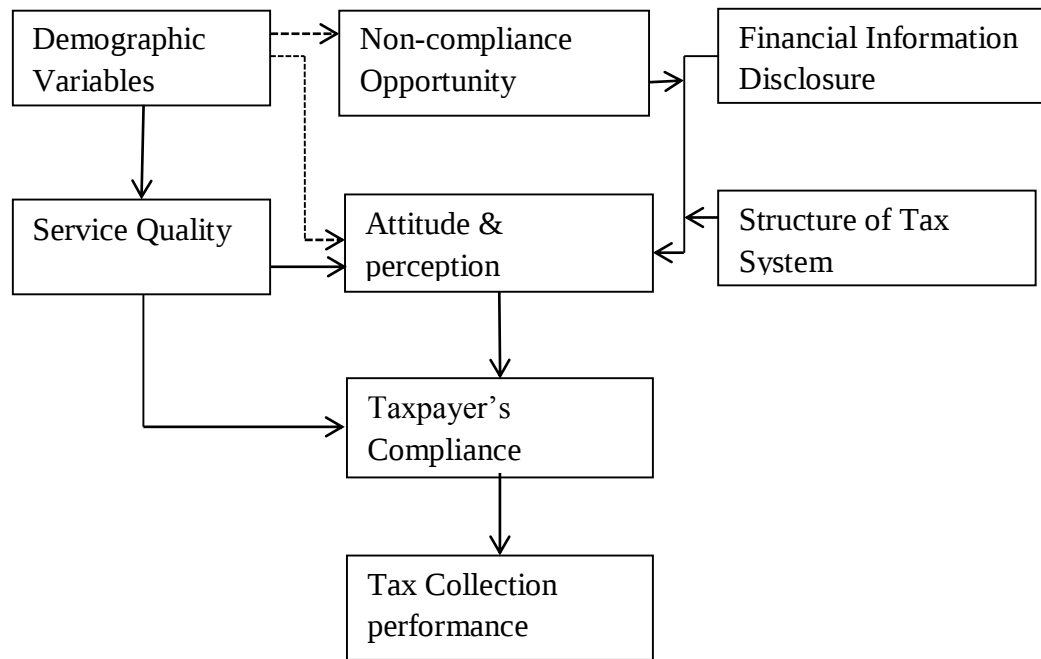
system and knowledge. Mustafa showed that the understanding of the tax system and knowledge motivated taxpayers' compliance level. A single statement item was used to measure the understanding of taxpayers and tax knowledge. The Mustafa model is illustrated in Figure 3.4.



*Figure 3.4*  
Mustafa's Knowledge Based Model of Tax Compliance. Adapted from "An Evaluation of Malaysian Tax Administrative System and Taxpayers Perception Towards Assessment System, Tax Law Fairness and Tax Law Complexity" by Mustafa, 1997, Universiti Utara Malaysia, p. 49

### 3.6.2 Tayib's Model

Tayib (1998) examined the factors influencing the assessment of tax collection in Malaysia. The Fischer model was adapted by adding financial information disclosure and the quality of service provided by the local government. Tax collection performance was the dependent variable, which was proposed to be influenced directly by tax compliance behaviour. Tayib, however, did not measure the quality of public service comprehensively. Tayib's model is shown in Figure 3.5.

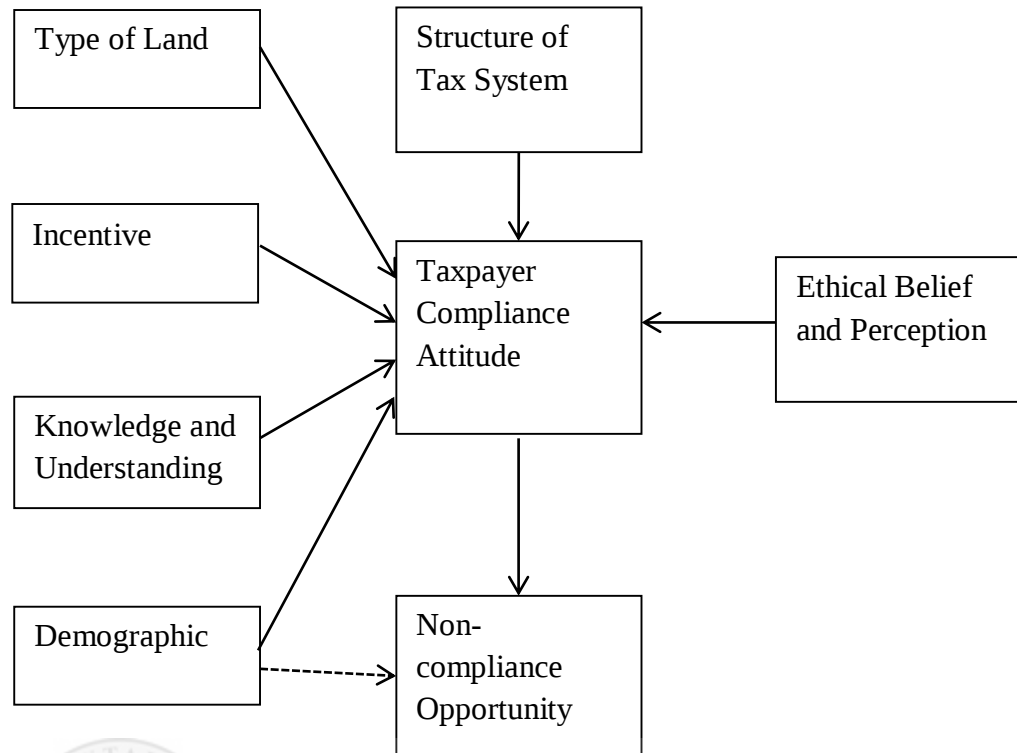


*Figure 3.5*

Tayib's Local Tax Based Model of Compliance Behaviour. Adapted from "The Determinants of Assessment Tax Collection: The Malaysian Local Authority Experience" by Tayib, 1998, University of Glamorgan, United Kingdom, p.108

### 3.6.3 Manaf's Model

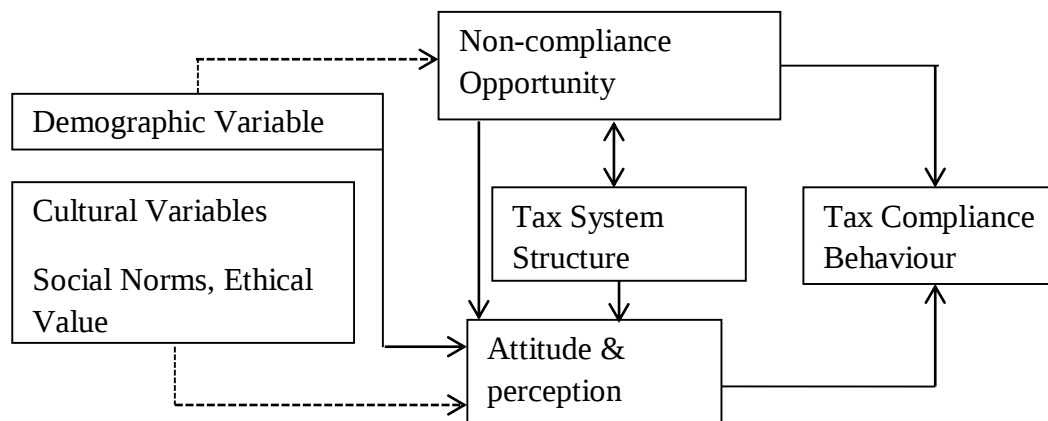
Manaf (2004) investigated land tax administration and compliance attitude in Malaysia. Manaf (2004) too used Fischer model with modification from Mustafa (1997). Type of land and incentives were added as the new variables in the model. She also included race as a demographic construct to analyse the effect of taxpayer's behaviour based on culture. Manaf's model is presented in Figure 3.6.



*Figure 3.6*  
 Manaf's Land Based Tax Compliance Model. Adapted from "Land Tax Administration and Compliance Attitude in Malaysia" by Manaf, 2004, University of Nottingham, United Kingdom, p.64

#### 3.6.4 Chau and Leung's Model

Chau and Leung (2009) analysed tax compliance behaviour. They also modified the Fischer model by introducing culture as a new variable. They asserted that culture is an environmental determinant of tax compliance behaviour. Chan and Leung's model is illustrated in Figure 3.7.



*Figure 3.7*

Chau and Leung's Culture Based Model of Tax Compliance. Adapted from "A Critical Review of Fischer's Tax Compliance Model: A Research Synthesis" by Chau & Leung, 2009. *Journal of Accounting and Taxation*. p. 38

### 3.7 Tax Rate and Tax Non-compliance

Tax rate is defined as an effect of the dollar paid for the import/export based on the customs' classification that adheres to the harmonized system-nomenclature, which determines tax compliance behaviour (Weerth, 2008). This subsection explains how tax rates determine taxpayers' compliance decision with tax law. Clotfelter (1983) stated that "reducing tax rates is not the only policy that has potential to discourage tax evasion" (pp.369). Although the real impact is still debatable and vague, tax rates are an important factor in determining compliance decision (Kirchler, 2007). Previous studies showed mixed results of the association between tax rates and tax non-compliance. Deterrence theory proposes that marginal tax rates influence taxpayer's compliance behaviour.

However, only a few studies have examined the relationship between tax rate and tax non-compliance in an indirect tax environment. From the customs perspective, Fisman and Wei (2004) found that the higher the tax rates of the products the greater the revenue lost. They argued China's tax rate on import was against the laffer curve. They found

that one percent of an increase in a product tax rate caused an increase in tax evasion by three percent, motivating taxpayers to report higher taxed products as being lower taxed and under declaring the unit values of import. In India, Mishra et al. (2008) examined the effectiveness of tariff policies on customs duties evasion in 1990s tax reform. They found a positive association between customs tariffs, import tax evasion and the quality of customs institutions or customs enforcement. Kubo and Lwin (2010) investigated smuggling offences related to import duties in Myanmar. They demonstrated that increasing import duties caused wider variations in the tax rates across the trading partners in product classification, which became an attractive avenue for smugglers. That is, they found a positive relationship between import duty and smuggling; the higher the import rate, the higher will be the smuggling offences. Bouet and Roy (2012) showed a significant and positive relationship between tariff rates and evasion in their comparative study between Nigeria, Kenya, and Mauritius.

In Malaysia, few empirical studies analysed the relationship between tax rate and tax non-compliance in indirect taxes such as excise duty. Mohd Yusof et al. (2014) studied 375 audited cases of small and medium sized corporations (SMCs) by using economic deterrence theory. They found a positive result; the higher marginal tax rates experienced the greater the level of tax non-compliance behaviour. Meanwhile, Md-Yassin, Hasseldine, Paton, Datt, Tran-Nam, and Bain (2010) examined 1,075 corporations audited and investigated by the Inland Revenue Board of Malaysia and showed that tax rates had a significant and positive association with non-compliance behaviour. In Pakistan, Awan and Hannan (2014) examined the causes for tax evasion from the taxpayers' and tax collectors' perspectives. The authors collected data from 150 taxpayers and 50 tax officers via two separate structured questionnaires. Their

result indicated that tax rate had a significant and positive impact on tax non-compliance. In Nigeria, Atawodi and Ojeka (2012) surveyed 150 small and medium-enterprises and showed that tax complexity and higher tax rates were the most critical factors in affecting non-compliance in small and medium-sized enterprises.

However, tax compliance did not necessarily increase if lower tax rates were imposed (Kirchler, 2007; Trivedi, Shehata, & Lynn, 2003). Also, Nur-tegin (2008) found that reducing tax rates would not lower the level of tax non-compliance. Data were collected from 4,538 firms in 23 transition economies. These contrasting findings suggest the effects of tax rate on tax non-compliance are still vague. Richardson (2006b) performed a cross-country survey and found no significant relationship between marginal tax rates and tax evasion. Feinstein (1991) found marginal tax rates and tax evasion had a negative effect. His 1982 and 1985 data were derived from the Taxpayer Compliance Measurement Programme. Mas'ud, Aliyu, Gambo, Al-Qudah, and Al Sharari (2014) also used cross-country data from 2012 to 2013 to examine the influence of tax rate on Afrikaans' tax compliance. They found that the tax rate significantly and negatively influenced tax compliance behaviour in Africa.

In summary, the effect of tax rates on tax compliance have shown mixed results as shown above. According to deterrence theory, a higher tax rate will induce taxpayers to engage in non-compliance behaviour. Allingham and Sandmo (1972) argued that taxpayers' decision to comply or not to comply is determined by the assessment of benefits of evading tax and the cost involved in evading tax. The following subsections discuss how penalty rate has an impact on tax non-compliance.

### **3.8 Penalty Rate and Tax Non-compliance**

Penalty is defined as a deterrent measurement used by the tax authority to improve tax compliance (Devos, 2013). Based on previous studies, the relationship between penalty rate and tax non-compliance varies. The first systematic non-compliance behaviour model was developed by Becker (1968). Becker's assumption was based on criminal behaviour and expected utility. The potential evaders will perform criminal behaviour by weighing the rewards and cost, i.e., by considering the severity of penalties and the risk of detection. If the rewards are higher than the expected cost, taxpayers are more prone to evade taxes. The model was further explored by Allingham and Sandmo (1972) and Srinivasan (1973) by focusing on tax evasion from the general economic theory. They also found that penalty and audit probability increased compliance. That is, the higher penalty will deter tax evasion.

Prior literature in the association between penalty rate and tax non-compliance in indirect taxes is still minimal. Miskam et al. (2013) examined the determinants of smuggling activities and tax evasion in Malaysia involving excise duty as an indirect tax of passenger cars in Malaysia. Penalty rate was one of the variables tested apart from car brands, tax rate, and business size of car importers. The data were derived from smuggling cases investigated from 2009-2011 by the Malaysian tax authority. Their finding indicated that penalty had a negative influence on tax evasion on smuggling activities for vehicles. That is, the higher the penalty rate, the lower the smuggling activities will be.

In a Self-Assessment System (SAS), penalties as a vast deterrence strategy create dissatisfaction, concern, and stress among taxpayers (Yong, 2005). Loo, Mckerchar,

and Hansford (2009) explored individual taxpayers' behaviour in Malaysia as a result of the introduction of SAS. They used a mixed-method design. The quantitative methods (experiment and survey) and qualitative method (case study) were done simultaneously in three phases from November 2004 to July 2005. They showed a positive relationship between penalties and tax compliance.

Chirico, Inman, Loeffler, MacDonald, and Sieg (2016) asserted that penalty will be an effective method to curb non-compliance with property taxes if taxpayers believe that it will be enforced. However, taxpayers will assume that the large penalties imposed are a sign of ineffective and desperate tax authorities with empty threats (Chirico et al., 2016). Virmani (1989) found that a higher penalty rate induced people to behave dishonestly. Verboon and van Dijke (2012) investigated procedural justice in relation to deterrence effects such as severity of penalties. They hypothesised that procedural justice has a strong influence on taxpayers' behaviour and attitudes including compliance with tax authorities. If punishments are perceived to be excessive and improper, negative attitudes particularly toward taxes and generally authorities will develop (Kirchler, Muelbacher, Gangl, Hoffman, Kogler, Pollal, & Alm, 2012). Kirchler et al., (2012) also found that 86% of the respondents preferred fine as a proper authorization and jail term as unsuitable for tax evasion in their study on Austrian taxpayers.

Devos (2014a) investigated the relationship between individual tax evaders in Australia and tax law enforcement such as penalties. He used the mixed-method approach. The tax evaders' data were retrieved from the Australian Tax Office (ATO). A mail survey distributed was to the tax evaders containing 30 questions. The data were derived from

the audited report for the year 2004-2006 which was subject to AUD5,000 and above of penalty. Semi-structured interviews were used to ask about sensitive issues. They demonstrated that a higher penalty rate deterred tax non-compliance behaviour. Their result corroborated Beck, Davis and Jung's (1991) and Becker, Büchner and Slesking's (1987) experimental findings. However, Alm, Jackson, and McKee (1992b) stated that the laboratory method for a tax compliance research produce minimum outcomes compared to the direct observation method.

In addition to the impact of penalty rate on tax compliance behaviour, perceived alertness of breach of law has similar effects. The tendency of tax evasion will be reduced if taxpayers are alert with the offences and the consequences they have to face when committing non-compliance behaviour. If taxpayers are not alert of the possibility of being arrested and charged, then they are more prone to commit tax evasion, which will motivate them to be dishonest and make them think that they will save some money if they are not detected. Hence, disseminating information about the offences and punishment to taxpayers if they evade tax is a significant measure that should be given due consideration (Modugu & Anyaduba, 2014).

Kirchler (2007) and Kirchler, Hoelzl, and Wahl (2008) associated the psychological, sociological and economy assumption with tax compliance. The interaction between taxpayers and the authority may have a significance influence under the slippery slope framework. The interaction will determine whether taxpayers will comply voluntarily or involuntarily. However, the latest empirical evidence on the dominance of enforced compliance and power on tax evasion showed a contradictory result (Wahl, Kastlunger, & Kirchler, 2010). Wahl et al. (2010) argued that strategic tax paying behaviour will be

increased with a threatening and strict prosecution. Taxpayers are induced to pay tax if they are certain of being caught; however, if they perceived that there is a tendency of not being arrested, evasion will occur. The authorization power to implement prosecution and punishment will ensure compliance. Tyler (2006b) maintained that appropriate and efficient law of behaviour and legitimate power are a focal point in tax compliance.

Literature indicates that penalties increase tax compliance (Chau & Leung, 2009). However, an increasing number of research found no significant relationship between tax compliance behaviour and penalties (Kirchler, 2007; Torgler, 2007). Tax compliance behaviour could be improved if the tax structure in penalizing tax evaders are effective and efficient (Chau & Leung, 2009). Hasseldine, Hite, James and Toumi (2007) revealed a significant and positive relationship between the seriousness of criminal penalties and tax compliance.

Cords (2005) argued that an individual will likely comply with the requirements of the tax laws if the expected cost of tax compliance is less than the expected cost of non-compliance. He further elaborated that the nature, the size of the penalties, the detection, and the expected cost incurred for the non-compliance if caught will determine the compliance behaviour. That is, law implications will influence compliance. Snow and Warren (2005a) asserted that “to encourage voluntary compliance with the tax code, the United States Internal Revenue Service relies heavily on a policy and levying penalties when undeclared tax is detected, with penalties linked to the amount of tax evasion discovered” (pp.868). Snow and Warren (2005a) claimed that the low penalties imposed for evasion detection will induce rational behaviour on taxpayers.

Witte and Woodbury (1985) conducted a study on a group of self-employed taxpayers and found a positive association between strict lawful penalties and compliance. They also revealed that intimidation of wrong impression is a stronger hindrance for tax evasion than intimidation of lawful penalties. Devos (2004) confirmed the earlier finding. He investigated the level of penalty and non-compliance for taxation offences in the United Kingdom, Australia, and New Zealand. He analysed audited and investigated data from the Australian Taxation Office, the Commonwealth Director of Public Prosecutions, the New Zealand Revenue Department, the Ministry of Justice, and the British Board of Inland Revenue. He found a positive relationship between penalty and tax compliance. He concluded that the penalty perceived is greater than the actual penalty. He also suggested that a combination of penalties and rewards are more effective in maximizing compliance level than penalty alone.

In summary, the findings on the impact of penalties and tax compliance are more diverse. The penalty imposed when detected may cause voluntary or enforced compliance, which means that whether taxpayers are compliant depends on their perception of the tax authority and tax structure. However, many studies found that penalties and tax compliance had a positive relationship (Park & Hyun, 2003). The following subsection explains how tax audits influence tax non-compliance.

### **3.9 Tax Audit and Tax Non-compliance**

Tax audit is defined as an examination done on taxpayers to identify whether they have fulfilled their tax obligations and assessed tax liabilities correctly (OECD 2006). Due to limited literature on indirect tax, references are made to the direct tax literature.

Generally speaking, the literature indicates mixed findings of tax audit and tax non-compliance relationship.

In Malaysia, Mohdali et al. (2014) studied salaried and self-employed taxpayers. They explored taxpayers' compliance and non-compliance behaviour by examining the impact of threat and punishment. They found that taxpayers were motivated to avoid taxes when they were threatened with tax audits. A similar result was reported by Helhel, and Ahmed (2014). Muhammad (2013) studied Inland Revenue Board of Malaysia (IRBM) auditors and taxpayers' compliance. This research applied the qualitative grounded theory methodology developed by Glaser and Strauss (2009). The in-depth interview involving 49 IRBM tax auditors was done to determine the enforcement regulatory styles when conducting audits. Based on the analysis, five enforcements regulatory styles were highlighted: firm enforcement, explaining and educating, bargaining, threatening, and avoiding. This study also rectified some negative perceptions towards auditors. For instance, the result showed that the negative perceptions toward auditors as being rigid and always finding fault were incorrect. The efficiency of audit as deterrence effect relies on auditors' roles as educator and explainer on the wrong doing rather than punish them. This method further will ensure future compliance level through the awareness of tax law disseminated by auditors. Therefore, technical knowledge and audit skills are required for tax auditors to perform various task given to them (McManus, 2006).

Apart from their crucial role as a detector in preventing non-compliance, tax auditors are always recommended to translate the complicated tax laws and conduct thorough inspections on records and books of the taxpayers. Isa and Pope (2011) explored the

corporate tax audit experiences to determine tax compliance behaviour of taxpayers. Of 2,400 surveys sent out, only 59 usable survey were received from members of the Chartered Taxation Institute of Malaysia. They found tax audit had a significant and positive deterrence impact on taxpayers' behaviour.

Using the bomb-crater effect, Fochmann and Kroll (2016) proposed that an agent expectation of tax compliance depends on audit frequency. The conventional model that predicts that an agent has knowledge on tax audit and tax responsibility is not always valid due to the complexity of the tax system (Pukeliene & Kažemekaityte, 2016). The experiment conducted by Kogler, Mittone, and Kirchler (2016) revealed that immediate feedback from audits caused taxpayers to evade significantly more than those who received audit feedback later.

Thornton and Shaub (2013) investigated audit service performances of public accounting firms auditors as assessed by jurors, who were responsible for evaluating auditors. Data were taken from 168 court cases in the United States of America. Their findings confirmed the current United States tax regulations. Auditors' quality was lower if they chose to implement aggressive tax planning services for tax preparation services. This aggressive tax planning in tax system might cause taxpayers losing confidence on auditors and induced for tax non-compliance.

Taxpayers' compliance is determined by tax auditors' attitude when conducting audit. It was found that respectful treatment during audit encourages taxpayers to comply voluntarily (Kirchler, 2007). However, taxpayers' internal motivation will be reduced if they perceived as being helpless during an autocratic audit process (Frey, 2003).

Other scholars such as Jackson and Jaouen (1989) and Shanmugam (2003) found that tax audit had a positive effect on tax compliance. The result showed that tax audit had played a significant role in enhancing tax compliance among taxpayers. Tax audits have an influential impact on tax compliance (Butler, 1993). Similar findings were reported by Witte and Woodbury (1985). However, Beron, Tauchen and Witte (1988) found contradictory results; they did not find a significant correlation between audit and tax evasion. They concluded that audit will be effective to those who exorbitantly under declare.

Dubin, Graetz and, Wilde (1987) did not find a significant relationship between tax declaration and higher audit rates. Devos (2007) distinguished deterrence between general and specific deterrence. According to Devos, general deterrence by audit will discourage taxpayers from committing an offence while specific deterrence by audit will hinder lawbreakers from repeating their offences. Dubin, Graetz, and Wilde (1990) asserted that general deterrence has a “spillover effect”. They claimed that whether taxpayers will be audited or not the tax collection will increase and will still declaring more taxes even if audit increases.

In the game theory and principal agent model, taxpayers have to bear the cost of being audited if caught for under declaration (Mohd Isa, 2012). However, Andreoni et al. (1998) argued that honest taxpayers will still face considerable costs of audits. Furthermore, taxpayers will feel the stress from being audited. Tax auditors are also likely to be suspicious of taxpayers because of the assumed selfishness of the latter. Thus, when a high audit rate is perceived, the compliance level among taxpayers will improve (Plumley, 1996). Kamdar (1997) showed that audit rates and tax compliance

had a significant and positive relationship. Similarly, Alm (2007) demonstrated that higher penalties and audit rates had a significant effect on tax compliance.

The probability of audits negatively varies with the highest magnitude of tax evasion as suggested in tax evasion economic models (Allingham & Sandmo, 1972). It is still controversial whether taxpayers' oppressive prediction actually determine tax compliance. Spicer and Thomas (1982) argued that various audit probabilities determine taxpayers' feedback in line with tax evasion economic model. Moreover, the judgments from taxpayer's subjective perceived probability are crucial compared to objective audit probability (Kirchler et al., 2008).

Prior studies on taxpayers' knowledge on audit probability and their decision whether to comply or not have produced mixed results. For instance, Friedland (1982) found that taxpayers' vague knowledge of being audited improved tax compliance. However, other scholars like Alm and McKee (2006) and Spicer and Thomas (1982) demonstrated that the vague knowledge of audit lowered tax compliance.

Snow and Warren (2005b) argued taxpayers' compliance determined by the probability being audited is not an efficient policy. Research on taxpayers and tax auditors' interactions in determining tax compliance is still scarce (Kinsey, 1991). For instance, the personal interactions between the Inland Revenue Service in America and taxpayers caused strong readiness to abide with tax law. The experimental result showed that respondents audited earlier were motivated significantly to comply in the future (Spicer & Thomas, 1982; Webley, 1987).

A research done on European tax structures found that countries conducting thorough enforcement actions have a lesser tax obedience rate (Feld & Frey, 2007). However, research on past audit data showed that taxpayers' future compliance behaviour was not determined much by audit experience (Erard, 1997).

Tax audits and tax compliance were also found to have a negative association. Andreoni et al. (1998) argued that audit experience by taxpayers might motivate them to evade more audits in the future as an attempt to regain losses for money paid as penalty for tax malpractices from tax authority. Furthermore, tax audits are most likely perceived as an efficient evasion deterrence for trustworthy taxpayers but inefficient for routine and regular evaders (Hessing, Elffers, Robben, & Webley, 1992).

In summary, the economic deterrence model proposes that tax audits have influence on tax compliance. Tax auditors have significant influence on voluntary compliance if taxpayers are treated in a respectful manner during the audit exercise. Similarly, auditors' tax law knowledge and fairness will motivate taxpayers. The following subsection discusses tax fairness and tax non-compliance.

### **3.10 Tax Fairness and Tax Non-compliance**

Tax fairness in tax compliance can be defined in two different dimensions. The first dimension is the benefit received with the dollars paid as tax while the other one is on equity and the taxpayers' burden when referring to other individuals in tax matters (Jackson & Milliron, 2002). Hence, tax fairness is the comparison between the tax paid with the benefits and contributions received by taxpayers in return. It also involves the

comparison of tax feelings of how one is treated compared to others (Kirchler, 2007). Studies that explored tax fairness and tax non-compliance had produced mixed results.

To the researcher's knowledge, limited studies are available that examined taxpayers evaluation and tax fairness in indirect taxes. Therefore, the tax fairness variables of this study were mostly adapted from direct taxes. The tax fairness variables apply to the indirect tax context because tax fairness is determined by taxpayers perception of the amount of the tax paid and the benefits received in return. Prior literature indicates that fairness has a universal definition. According to Christensen, Weihrich and Newman (1994), fairness is difficult to define because "(1) it is multidimensional, (2) can be defined at the individual level or for society at large, (3) fairness is intertwined with complexity and (4) a lack of fairness may be perceived justification or a cause of non-compliance" (p.72). Saad (2012a) proposed seven dimensions of fairness perceived by taxpayers of tax compliance. They are:

1. General fairness (the overall tax system evaluation).
2. Exchange fairness (taxpayers and government's reciprocal exchange).
3. Horizontal fairness (taxpayers' equal treatment of tax in similar economic positions).
4. Vertical fairness (taxpayers' ability to pay based on tax rate).
5. Retributive fairness (fairness on punishment imposed).
6. Personal fairness (judgment on tax system favouring individual).
7. Administrative fairness (related to the content of tax law's procedures imposed by tax authority).

However, Wenzel (2003) proposed three types of fairness perceived by taxpayers from the social-psychological perspective. They are:

1. Retributive justice (looked as applicable penalties when offences committed).
2. Distributive justice (looked like cost and benefits exchanges).
3. Procedural justice (looked at the measures of wealth allocation).

Faizal and Palil (2015) examined three dimensions of fairness: distributive fairness, procedural fairness, and retributive fairness. They carried out a study to examine which dimension is related to tax compliance behaviour in Malaysia involving 82 academicians as their respondents. They found that distributive and retributive fairness were positively associated with compliance but not behaviour to comply. Based on the findings, they recommended that compliance behaviour can be better demonstrated if the fairness dimension can be distinguished. They also found that the tax authority was perceived to have rendered procedural fairness.

Saad (2012a) investigated the influence of fairness perceptions and information dissemination on tax compliance using a mixed-method approach. A survey was carried out to 2,267 salaried individuals in government and private sectors, but only 852 responded. The thematic analyses developed by Braun and Clarke (2006) were used to analyse interview data. The findings showed that administrative fairness, vertical fairness, personal fairness, and retributive fairness had positive relationships with tax compliance. They also demonstrated that inadequate dissemination of the tax revenue collection caused negative perceptions towards the government.

Mustafa (1997) studied fairness perceptions of the former income tax system known as the Official Assessment System (OAS) on non-city and city taxpayers. They found that non-city taxpayers had higher fairness perceptions than city taxpayers'. Azmi and Perumal (2008) undertook a study by adapting Gerbing's (1988) questionnaire to assess fairness perception of Malaysian taxpayers in four tax offices in Kuala Lumpur. They proposed that taxpayers' perception of fairness was related to self-interest, general fairness, and the tax structure. Their result showed that perceived tax fairness positively influenced tax compliance behaviour. However, their findings on the fairness magnitude contradicted Gerbing's (1988) and Gilligan and Richardson's (2005) studies in Australia and Hong Kong respectively.

Kamala (2008) empirically tested tax fairness perceptions dimensions in determining Malaysian taxpayers' compliance attitude. The respondents were registered taxpayers from the IRBM branches from Wangsa Maju, Jalan Duta, Cheras, and Kuala Lumpur. She showed that general fairness was significantly and positively associated with tax compliance. However, the self-interest dimension was significantly and negatively associated with tax compliance behaviour.

Dong and Gu (2007) compared the fairness perception of Malaysian and New Zealand taxpayers. They found that New Zealand taxpayers were more tolerant in fairness perception than Malaysian taxpayers. However, the fairness perception was relatively similar regardless of the economic environment and region.

Brainyyah and Rusydi (2013) tested tax compliance as a dependent variable and tax fairness, tax knowledge, and tax complexity as independent variables. They conducted

their study among small and medium enterprises (SME) in Malang, Indonesia. They showed a significant and positive effect of tax fairness on tax compliance. In another study, Daniel, Akowe, and Awaje (2016) assessed the influence of tax fairness on small scale enterprises in Bassa, i.e., the local government in Nigeria. They demonstrated that perceived fairness in tax system determined compliance behaviour. If the tax system is perceived unfairly, then taxpayers are likely to engage non-compliance behaviour. Murphy (2004b) used survey data of 2,292 taxpayers detained for tax avoidance. He revealed that procedural fairness and tax compliance had a direct and positive relationship. Kirchler et al. (2008) found a negative relationship between distributive fairness and tax compliance. If taxpayers assume they are imposed with a higher tax burden, they are less likely to comply and evade tax (Spicer & Becker, 1980). Also, if the society assumes that the tax authority is biased, compliance will decrease, and tax evasion will increase. On the contrary, if people assume that the tax authority is fair, voluntary compliance will be higher.

Van Dijke and Verboon (2010) investigated trust in tax authorities to moderate the effect of procedural fairness on tax compliance behaviour. They conducted a study on 60 undergraduate psychology students in the Netherlands Open University who participated on a voluntary basis. They showed a significant and positive relationship between trust in tax authorities and procedural fairness of tax authorities. Again, Verboon and van Dijke (2011) analysed 469 employees Dutch working members those who had experience with the tax authority. The result indicated that procedural fairness and deterrence variables were associated positively with tax compliance.

Kim (2002) conducted an experiment to investigate tax fairness and tax compliance based on two levels of public transfer (PT) versus non-public transfer (NPT). Forty-six MBA students participated in the experiment. The result showed no significant association between reported income and risk preferences between PT and NPT and fairness in determining tax compliance behaviour.

Most of the tax authorities claimed, tax fairness as a significant determinant to spur the tax compliance. For instance, Bobek (1997) claimed that fairness perceptions had been highlighted as an attempt to enhance tax compliance by the United States Inland Revenue Service (tax authority). Head (1992) affirmed the fundamental principles of fairness. When fairness is perceived to be breached by the taxation policy, taxpayers are likely not to comply.

Jackson and Milliron (2002) proposed horizontal fairness as another element of fairness. Goetz (1978), on the other hand, defined horizontal fairness as equal treatment given to individuals in the equal environment. Further, an equal amount of tax paid by taxpayers in a similar economic situation suggests horizontal fairness. However, Holmes (2001) argued that most tax systems violate horizontal fairness to achieve political, economic and social goals.

According to Takenishi and Takenishi (1990), fairness judgment is multi-dimensional, and it applies to both direct and indirect taxes. They utilised multiple regression analysis and identified positive relationship between procedural fairness among the Japanese citizens' in the consumption tax compliance.

The previous finding showed that taxpayers in various countries had different level of fairness perceptions of their income tax system. For example, Gilligan and Richardson (2005) found significant disputes in fairness assumptions especially in terms of self-interest, general fairness, special provisions, and tax rate structure in Australia and Hong Kong. In his survey, McKerchar (2003) found that 60% of the individual taxpayers perceived the tax system as being unfair when declaring their tax returns.

In the United States, the tax system was progressively perceived as being unfair as revealed by Etzioni (1986) who measured fairness on tax rate from 1961 to 1980. Verboon and Van Dijke (2007) did research on Dutch taxpayers. They found that tax systems and distributive fairness were perceived to be moderately fair. However, they showed a declining fairness perception of the tax system (Verboon & Van Dijke, 2007). The contradiction was explained by the different evaluations used, and the study was about Dutch workers working for eight hours in a week only.

Tan (1999) conducted a study in New Zealand and concluded that the tax system was perceived as being moderately fair by the taxpayers. This finding contradicts Hasseldine, Kaplan and Fuller's (1994) result where they demonstrated taxpayers perceived the tax system to be biased. Tan (1999) identified a biased perception between higher and middle wages income earners.

In summary, studies on the effect of fairness in a tax system and the types of fairness on non-compliance behaviour are still scarce. However, the perceived fairness of the tax system, tax policy, tax law, regulations, and tax burden are purported to determine the compliance level among taxpayers. Hence, tax system and perceived fairness are

considered contributing factors to tax evasion (Jackson & Milliron, 2002; Richardson, 2008). Furthermore, due to the differences in tax systems, laws, sample selections and methods used in previous studies, fairness in various countries is difficult to ascertain (Saad, 2011). The next section discusses peer influence on non-compliance behaviour of taxpayers.

### **3.11 Peer Influence and Tax Non-compliance**

Ajzen and Fishbein (1980) defined peer influence as pressure from close persons such as friends and family who have an influence on an individual decision making. According to Kirchler et al. (2008), the group associated with taxpayers influence tax compliance behaviour. Further, Prinz, Muehlbacher, and Kirchler, (2014) stated that social norm is one of the important factors that determine taxpayers' actual or perceived compliance behaviour apart from particular measures imposed by the tax authority. A vast number of researchers argued that social pressure can take place especially to those who have faced a loss of prestige, shame and guilt for their misconduct in paying tax (Casagrande, Cagno, Pandimiglio, & Spallone, 2015). Individuals are more prone to evade taxes if they believe other individuals are evading too (Hashimzade, Myles, Page, & Rablen, 2014).

Mixed results were found on other peoples' influence and taxpayers perceptions of their peers on tax compliance (Ali & Raihana, 2013). However, studies on indirect taxes context are still minimal. Bidin et al. (2011) found that subjective norm (peer influence) had a significant and positive relationship with local sales tax compliance intention.

Bidin, Idris, and Shamsudin (2009) investigated compliance behaviour of zakah (Islamic tithe) on employment income in Malaysia. They found that peer influence (subjective norms) was significantly and positively related to intention through attitude toward paying zakah.

Most taxpayers believe that tax evasion is tolerable because others perceived as evading taxes are acceptable and tolerable (Ho & Wong, 2008). However, Sia, Salleh, Sambasivan, and Kasipillai (2008) showed no significant differences between non-compliant and compliant taxpayers with peer influence.

Pukeliene and Kažemekaityte (2016) found a significant influence of social norms on tax non-compliance behaviour in European Union countries. Additionally, Alon and Hageman (2013) examined on a sample of 5,000 firms in Soviet Bloc transition economies. They showed that peer influence had a negative effect on tax compliance. The higher the level of corruption and a higher level of trust from peers such as friends and family reduced tax compliance. Frey and Torgler (2007) also found a negative relationship between support from peer influence and tax compliance in their cross-national study.

Torgler (2012) investigated peer influence and tax compliance in ten Eastern European countries that joined the European Union in 2004 and 2007. Political interest was investigated along with trust and institutions to determine tax compliance behaviour. Political interest was defined as taxpayers' interest in talking about political issues with friends (Torgler, 2012). The result of this study showed a significant and negative

relationship between political discussions among peers and non-compliance behaviour when individuals were dissatisfied.

Bobek and Hatfield (2003) used the theory of planned behaviour to investigate taxpayers' compliance intention in the United States among students and non-students. They found that peer influence had a significant and positive relationship with tax compliance. Again, using the same theory, Bobek, Hatfield and Wentzel (2007) found that peer influence was significantly related to taxpayers' tax position. The more they accepted the opinion of others the lower the tax compliance. Similarly, Trivedi, Shehata and Mestelman (2004) showed that peer influence had a significant and positive relationship with intention to comply in Canada. According to Kirchler (2007), taxpayers relies on the group of people who are associated with them. In earlier research, Richardson and Sawyer (2001) also found support for peer influence in determining tax compliance. Moreover, the importance of peer influence was acknowledged by Fischer et al. (1992) in their model of taxpayers' compliance. Westerman, Beekun, Stedham and Yamamura (2007) demonstrated that the stronger the influence of peers the higher the individualism behaviour in societies.

Hanno and Violette (1996) focused on a group of people consisting of spouse, friends, employers and family members to investigate peer influence on tax compliance. However, they found that taxpayers were moderately influenced by the referent groups. Steenbergen, McGraw and Scholz (1992) found other people were key in determining taxpayers' compliance to pay tax.

Jackson and Milliron (2002) interviewed 12 tax agents in public accounting firms and found that peers created “preparer vulnerability” by giving aggressive advice to taxpayers as clients in an ambiguous tax environment. Previous studies reviewed by Conference, Salter and Lymer (2003) identified that tax agents’ aggressive behaviour in tax compliance was influenced by other people’s opinions. Furthermore, their aggressiveness as a tax preparer relied on the demand driven by their clients’ tax position.

Westerman et al. (2007) explored the influence of peer in determining ethical decision making in Germany, Italy and Japan involving 165 subjects. They made two key observations: peers had a stronger influence on individual ethical decision making than the national culture, and the high power distance (distance measure) and higher individualism had stronger effects on peer and ethical decision making.

In an experimental study by Kahle and White (2004) involving accounting firms tax agents in the United States, they demonstrated that tax aggressive decision making to comply was determined by clients. Tax agents were bound by their client’s preferences when making decisions. The importance of peer influence on tax agents’ compliance behaviour was also reported by Smart (2012). Smart revealed that peer influence had a significant and positive influence on tax agents’ compliance behaviour to tax law. The study involved members of the New Zealand Institute of Accountants.

In summary, tax compliance decisions made by taxpayers or tax preparers rely on the referent group associated with them. Peer influence is one of the important determinants

of compliance behaviour of taxpayers. It is one of the constructs in Fischer's model. The next section will discuss tax knowledge and tax non-compliance.

### **3.12 Tax knowledge and Tax Non-compliance**

Tax knowledge is taxpayers' ability to understand tax rules and regulations (Palil, 2010). However, according to Eriksen and Fallan (1996), tax knowledge of tax law can be used as an opportunity to evade taxes. Many scholars showed that tax knowledge influenced tax compliance behaviour (Ahmad, Mohd-Hanefah, & Mohd-Noor, 2007; Oladipupo, & Obazee, 2016). Harris (1989) argued that tax knowledge received via formal education by attending courses can be used to evade tax. Previous scholars demonstrated that tax knowledge and tax compliance are significantly related (Singh, 2003).

Prior studies investigated tax knowledge and its effect on taxpayers' understanding (Eriksen & Fallan, 1996; Harris, 1989; Singh, 2003). However, these studies only focused on direct tax. Since there are limited studies on indirect tax, the literature on direct tax is used as a basis to identify the relationship between tax compliance and tax knowledge. The literature shows mixed findings between tax knowledge and tax non-compliance.

Mazlan (2015) investigated the determinants of import tax non-compliance among importers in Malaysia and showed that tax knowledge acquired by importers motivated them to evade import taxes. Importers were eager to improve their tax knowledge to identify loopholes in the tax system to maximise profit by evading import taxes. That

is, he found a significant and positive relationship between tax knowledge and import tax non-compliance.

In other studies, Tan and Chin Fatt (2000) and Loo and Ho (2005) showed a negative relationship between tax knowledge and tax compliance. Loo et al. (2009) explored the effect of tax knowledge on tax compliance after the introduction of self-assessment system in Malaysia. They showed that tax knowledge had a positive relationship with compliance behaviour.

Kasipillai, Noraza, and Zaimah (2003) argued that taxpayers knowledge of tax system can increase the tax compliance level. Taxpayers' knowledge and confidence in the tax system will increase when they acquire the essential tax knowledge which motivates compliance. Tax authorities play a very important role in educating the public on the tax system to accomplish compliance. The compliance cost and the reliance on tax agents could be reduced if taxpayers have the ability to understand the tax system. Mansor, Saad, and Ibrahim (2004) suggested that the Inland Revenue Board organises courses and seminars at a reasonable price to reduce misinterpretation and demoralise taxpayers with respect to regulations and tax rules.

Junainah (2002) showed that individual taxpayers in Kota Kinabalu were quite reluctant to join the SAS implementation because of the difficulty in calculating and declaring tax return. The old system was simpler and hence preferable. Fatt and Khin (2011) also revealed that petty traders were not exposed to good tax knowledge of SAS and recommended that the IRBM should consider the level of understanding of tax among petty traders before imposing any penalty for non-compliance.

Fauziati, Minovia, Muslim, and Nasrah (2016) assessed the impact of tax knowledge on tax compliance on small and medium enterprises in Indonesia and found no impact of tax knowledge on tax compliance.

Saad (2014) emphasised the importance of tax knowledge in deterring non-compliance behaviour. In his study involving 2,267 potential participants from six different regions in New Zealand, he showed that taxpayers had inadequate knowledge of the technical parts of the income tax system, rendering them to think that the system was complex and motivating them to non-compliance.

Lewis (1982) determined the relationship between tax knowledge and attitude in completing tax declarations among taxpayers. He found that changes in attitude through increased tax knowledge had a significant effect on tax compliance. He also revealed a negative attitude associated with low tax knowledge of taxation. Hence, tax knowledge can enhance tax attitudes and will result in lowering the desire to evade taxes and raising the compliance level. Collins, Milliron and Toy (1992) found that tax knowledge was negatively associated with compliance behaviour among 220 households in the United States. However, in an earlier study, Harris (1989) found no direct and significant impact on tax knowledge on compliance behaviour.

The absence of knowledge might induce non-compliance behaviour among taxpayers. McKerchar (1995) investigated 200 small businesses in the rural community in Australia. She found that small businesses in Australia were not aware of tax knowledge, which could lead to unintentional non-compliance behaviour. Eriksen and

Fallan (1996) showed that tax knowledge was an effective measure to lowering tax evasion.

The literature indicates that tax knowledge plays a vital role in ensuring the success of a tax system. However, the inconsistent results found might be caused by different tax jurisdictions or different measurements used. Voluntary compliance could be achieved if taxpayers understand tax law so that they can make a tax declaration correctly and completely. However, tax knowledge also has negative impacts on taxpayers because they can use it to identify the loopholes of the tax system to manipulate tax declaration and hence evade and avoid tax. The next section discusses the impact of corruption on non-compliance behaviour.

### **3.13 Corruption and Tax Non-compliance**

Corruption is the misuse of authority for personal gain (Aguilera & Vadera, 2008). Corruption is distinguished into two types namely grand corruption and petty corruption (UNDP, 2008). Grand corruption involves high-rank public officers' misuse of their discretionary power such as ministers or senior officers for their attainment. On the other hand, petty corruption refers to lower rank public officers accepting bribe on a daily basis to smoothen the transaction. The bribe is also known as 'grease money' (UNDP, 2008). Hence, bribery is "a practice of buying favours from the bureaucrats responsible for formulating and administering the government's economic policies" (Habib & Zurawicki, 2002, p.302). Firms use a bribe to influence decision making and gain control over bureaucracy (Melé, 2009). Firms are more prone to bribe if their competitors use the same practices (Collins, Uhlenbruck, & Rodriguez, 2009). A firm's bribery has a huge impact on tax compliance (Leff, 1964).

If taxpayers perceive that the tax authorities are unfair, corrupted and use their discretionary power to abuse the tax law, they are likely not to comply (Faridy, Copp, Freudenberg, & Sarker, 2014). However, only a few research has investigated the relationship between corruption and tax non-compliance in indirect taxes. In Malaysia, a few studies have been conducted on corruption. For instance, Mazlan (2015) investigated customs officials' involvement in corruption and import tax non-compliance. He showed a significant and positive relationship between corruption among customs officials and import duty non-compliance. Othman, Shafie and Hamid (2014) conducted an interview session with 12 government officials including customs officers involved in corruption cases and enforcement. They found that factors such as moral impurity, power, and opportunity were contributors to corruption. Aggressive informal payment by the firm as a bribe or pressure by civil servants motivates corruption (Hodess, Banfield, & Wolfe, 2003).

Antonakas, Giokas and Konstantopoulos (2013) examined corruption in tax administration via 12 interviews carried out from January to February in Athens, Greek. The first group comprised executives of control from tax and customs services. The second group involved customs officers who had committed corruption offences and brought to court. The third group was customs agents, businessmen and accountants who had related experience. The result indicated that corruption in tax administration had a negative effect on the economic performance via the impact on the fiscal deficit and tax revenue.

Dutt and Traca (2010) analysed bilateral trade flows and the impact caused by corruption. They found that corrupted customs officers in the importing country are

accepting a bribe from exporters when tariffs were high caused tax evasion. The result showed a positive relationship between tariff rate and corruption for tax evasion. The higher the tariff rate, the higher will be the corruption among customs officers, leading to tax evasion.

Mishra et al. (2008) examined the trade reform in India in the 1990s and the effect of tariff policies on evasion of customs duties. The study involved 40 top trading partners who imported a number of products. They found a positive relationship between corruption, tariff rates, and evasion. Slemrod (1992) found a significant and positive association between the corruption of government and compliance. A perception of corruption in the government was related to taxpayers' trust and fairness and their tax compliance behaviour.

Bardhan (2006) argued that the magnitude of regulations in the economy influences corruption. He proposed two types of corrupt behaviour. The first one involves civil servants demanding bribes for what they are expected to do, privileged through their position as a protector. The second one involves civil servants demanding a bribe to operate what they are not supposed to do such as permitting firms to break regulations. The first explanation is regarding extortion behaviour among civil servants, and the other is about evasion. Customs officers involve in both types of corruptions (Rose-Ackerman, 1997). Further, she mentioned something that firm's valued control by Customs officials in Customs clearance caused the existence of extortion.

Payments made to customs officials to lower regulatory barriers for trade could cause evasion. This will increase the tendency for the officers and importers/exporters to share

the payments of successful tax non-compliance. Kaufmann and Wei (1999) mentioned this aspect is only applicable in the limited and in the poor regulation which aggravates the officers to involve in corruption. They revealed that firms' managers in Uganda are paying more bribes on average by spending more time in consulting with public officers.

In Philippines, it is a norm for businesses to give a small bribe to the services provided by customs to facilitate legalised transactions. Businesses cooperate with corrupt customs officials when practising undervaluation, misclassification and misdeclaration in formal entry declaration process to evade official trade barriers (Parayno, 1999).

Rosid, Evans, and Tran-Nam (2016) studied the influence of corruption on personal tax compliance in Indonesia. A sequential mixed-method was applied. Semi-structured interviews were carried out with three tax officers, three taxpayers, and three tax agents. In the second phase, a survey involved 397 respondents composed of 196 self-employed and 201 employed taxpayers. The findings indicated that a higher level of corruption perception would hinder voluntary tax compliance.

The World Enterprise Survey and the Business Environment and Enterprise Performance showed that tax officials' involvement in corruption either voluntarily or through extortion positively reduced reported sales and tax payments by firms (Alm, Martinez-Vazquez, & McClellan, 2016). Jahnke (2017) revealed that individual experiences with corruption in Africa and the extortion of bribe caused to be tolerant to tax evasion.

DeBacker, Heim, and Tran (2012) studied illegal corporate activities among foreign control corporation in the United States and the corruption culture overseas. This study was done to investigate the Inland Revenue Services' audit data from 1996-2007 of foreign-owned corporations by considering their corruption norms in influencing tax evasion behaviour. The study also examined the size of the corporation and the effect of corruption norms on tax evasion. The results showed that small and medium-sized firms with high corruption norms were likely to evade tax. In other words, there was a negative relationship between firm size and corruption because small firms' tax planning was directly and strongly influenced by the tax authority. Moreover, enforcement efforts decreased tax evasion significantly among foreign-control firms, but they did not make any difference on firm's owners from corrupted countries.

Ahmad and Brookins (2007) found that a higher corruption level in developing countries was associated with the inefficiency of government. Kaufmann (1997) proposed that increasing industrialisation can control corruption in developing countries. However, such hypothesis was not supported because of the discrepancies of the corruption level between countries with the same level of development.

In an experimental study involving graduate students, Bilotkach (2005) studied tax evasion via underreporting activity in Ukraine. The subjects played a role as businessmen who hide 50% of their profit and 50% set as a tax rate of the reported profit. The findings showed that 50 of 96 subjects in the government official roles indicated their willingness to accept bribes. However, 46 of 96 preferred to hide 50% of their profit. The experiment showed that corruption and tax evasion had a positive relationship.

Public officers who demand informal payments reflect more severe organised corruptions bribery (Nielsen & Ballas, 2000) because they are pressuring for money or gifts they are not entitled to (Melé, 2009). According to Sajo (2003), institution pressures happen when the government is the sole provider of the essential services needed. Hence, payment made by firms through extortion to avoid bureaucratic delays can be camouflaged as bribery (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003) or law abiding act that gives opportunities for corrupted officers (Nielsen, 2003). In short, informal payments due to pressure will weaken the operations of government institutions.

If corruption becomes dominant, a higher tax rate will reduce revenue. Sanyal, Gang, and Goswami (2000) examined the association between tax evasion, corruption and Laffer curve. The findings showed that the Laffer curve behaviour was a result of corrupt administration (low tax revenue due to a higher tax rate). This study further found that net income gained from a truth-disclosing audit probability will be higher than taxes, audits, and penalties in fraud zone.

Ashforth, Gioia, Robinson and Trevino (2008) studied the association between corruption and tax compliance in transition economies from the institutional and economic perspectives. Shleifer and Vishny (1994) demonstrated that the lack of control over agencies and weak government led to a higher level of corruption. Further, Hall and Jones (1999) revealed that corruption deterred economic growth and investment. Doing business in a country with a high level of corruption will increase cost and investment risk, suggesting that corruption is positively related to cost and investment risk (Robertson & Watson, 2004).

In summary, previous research showed that corruption had a significant impact on tax compliance. The complexity of tax system, and a high tax rate were found to be determinants of corruption. From an organisation perspective, corruption occurs when there is extortion by government officials in the environment where they have the authority to provide essential services needed (Sajo, 2003). The next subsection discusses the influence of probability of detection as a moderator of non-compliance.

### **3.14 Probability of Detection as a Moderator of Tax Non-compliance**

The probability of detection is defined as a likelihood of the tax authority in discovering taxpayers' non-compliance and find the rectification (Jackson & Milliron, 2002). In classical economic theories like deterrence theory, taxpayers are assumed in a gambling position whether to be compliant or evade taxes. In other words, they have to choose either to involve in legal or criminal activities (Castro, & Scartascini, 2015). In prior research, inconsistent findings on tax compliance and their determinants, specifically on deterrent factors were reported (Dubin et al., 1987; Dubin & Wilde, 1988). Since compliance in many countries cannot be explained by tax compliance theories (Feld & Frey, 2002a; Slemrod, 2009; Torgler, 2003c; Torgler, Demir, Macintyre, & Schaffner, 2008), economic scholars proposed the need for moderators to be introduced (Kirchler, 2007). Edwards and Lambert (2007) argued that in research involving social situations or individual differences, a moderator variable is introduced to see its influence on strengthening or mitigating the relationship between the independent variables and a dependent variable. The following discusses the probability of detection as a potential moderator as it had not given much attention before. Since there is not much literature on indirect taxes, discussions are made by making reference to direct taxes literature.

In Malaysia, Noor et al. (2013) examined service tax evasion in the service industry among 275 non-compliant service providers from the year 2009 to 2011. They found a significant and positive relationship between probability of detection and service tax evasion. Kalangi (2014) investigated economic factor (audit rate) and psychology factor (perceived audit probability) and their impact on tax compliance in Indonesia. The result provided support for a positive and significant influence of tax audit and probability of detection on tax compliance. In Nigeria, Modugu and Anyaduba (2014) found a positive relationship between probability of detection and tax compliance. However, the tax experiment study conducted by Marriott, Randal and Holmes (2013) on 2,600 students in New Zealand found no significant effect of probability of detection on tax compliance behaviour.

According to Kirchler, Kogler and Muehlbacher (2014), taxpayers are willing to abide by the tax law for fear of being detected or fined (enforced compliance) or due to the feeling of obligation to contribute their share (voluntary compliance). The study was based on a slippery slope framework. A survey was conducted on self-employed taxpayers in Austria by analysing the perceived power of tax authority (probability of detection and fines) and trust. They demonstrated that strong compliance was associated with high power and high trust. In a different study, Ștefura (2012) showed that potential taxpayers would report less income if the probability of detection was low. However, if the probability of detection was perceived to be high, the higher the income would be reported. In a similar vein, Eisenhauer (2008) found that self-employed individuals had a higher prospect of avoiding tax than other categories of people when they perceived that the probability of detection was low.

Ahmed and Braithwaite (2005) explored perceived deterrence, perceived fairness, work practice, and tax morale on 2,040 Australian small business taxpayers. They found that small business taxpayers' perception of the power of tax authority stimulated compliance by assessing being caught and its consequences. In their experimental study, Slemrod, Blumenthal and, Christian (2001) informed 1,724 personal Minnesota taxpayers that their returns would be "closely examined" notified on the letters sent to them. They observed that altering the perceived level of detection was significant in raising the compliance level and recovered probability of detection and compliance behaviour has negative correlation.

Taxpayer's behaviour relies on the calculation of expected utility maximisation (Allingham & Sandmo, 1972), consistent with the economic theory of crime established by Becker (1968). The level of sanction if arrested and the probability of being arrested relate negatively with tax evasion. If taxpayers perceive that they will be detected through an audit in that particular year, they will declare everything accurately. Hence, the probability of detection has a significant role in determining taxpayers' reporting behaviour. For instance, Riahi-Belkaoui (2004) analysed individual decision of tax planning and tax evasion. Data were gathered from 30 countries. The relationship between tax law regulations and tax compliance was significant and positive. Riahi-Belkaoui concluded the most effective way to deter tax evasion is by creating tax morale among taxpayers.

Blumenthal, Christian, and Slemrod (1998) tested on the responses of taxpayers and their relationship between the probability of being audited. The result from the experiment showed that the income level and taxpayers behaviour varied in determining

evasion behaviour with the existence of probability of being detected. However, Blumenthal et al. (1998) not clearly indicated the direction of relationship whether positive or negative. Different level of probability of detection produces different level of compliance. For instance, higher probability of detection will lead to higher compliance (Bergman, 1998; Eisenhauer, 2008). However, other researchers results identified contradict in some environments (Slemrod et al., 2001; Yong, 2005).

Martinez-Vazquez and Rider (2005) found that increased enforcement had a positive effect on compliance. Such result was also reported elsewhere (Alm, 1991; Pforsich, Gill, & Sanders, 2010). The probability of detection has greater consequences to most individuals compared to anticipated compliance (Alm, McClelland, & Schulze, 1992). Therefore, Fischer et al. (1992) proposed perceived detection risk to influence taxpayers' compliance behaviour than actual detection risk. Perceived detection risk in their compliance regression models was developed by Klepper and Nagin (1989). Roth, Scholz and, Witte (1989) suggested that tax law, demographic characteristics, individual experiences, and professional tax advice determine an individual's perception of detection risk. If the assumption of risk rises and taxpayers assume a low level of detection risk, their compliance level will increase even though the rise is small (Kagan, 1989).

Detection risk has been examined as a possible determinant of compliance. Roth et al. (1989) found evidence of the effect of modification in detection risk on compliance. Other scholars also demonstrated that detection risk was positively associated with compliance (Kinsey, 1991). A similar proposition was put forth by Fischer et al. (1992).

In summary, the probability of detection affects the degree of compliance differently. However, Bergman (1998), Eisenhauer (2008), and Slemrod et al. (2001) found that an increase in the probability of detection led to a higher level of compliance. The next section discusses tax agents as a moderator.

### **3.15 Tax Agent as a Moderator of Tax Non-compliance**

Tax agents under Section 90 of Customs Act (1967) are defined as a person who has passed the examination and successfully attended the courses conducted by the RMCD on matters related to customs. Tax agents are given written authority to act on behalf of importers. Their duties involve preparing importation and exportation forms, advising importers and exporters on duties need to be paid, and arranging goods delivery for importers (Customs Act, 1967). The literature suggests no one terminology or definition that refers to the person hired to offer tax consultations to taxpayers. As a consequence, different terminologies have been used including ‘tax agent’ (Mohd Isa, 2012); ‘tax practitioner’ (Dubin, Graetz, Udell, & Wilde, 1992; Tan, 1999); ‘tax professionals’ (Kahle & White, 2004); and ‘tax preparer’ (Klepper, Mazur, & Nagin, 1991). Tax agents in this study include the employees hired by a tax agent's firm.

Previous research indicated mixed results on tax agents and taxpayers’ compliance behaviour. Tax agents play a vital role in determining the compliance level of importers as taxpayers. In direct and indirect taxes, tax agents are engaged to make tax declarations due to their expertise in tax rules and regulations. However, tax agents and tax non-compliance were not explored in indirect taxes. Therefore, the present study uses the direct tax context to discuss the role of tax agents in an indirect tax environment.

In Malaysia, Hai and See (2011a) investigated whether 195 sole proprietors' tax non-compliance behaviour was manipulated by a tax and account preparer. The theory of reasoned action model by Fishbein and Ajzen (1975) was used. The finding indicated that tax agent had a positive association with tax compliance behaviour.

In a different study, Lai and Choong (2009) examined the tax preparers' perspective on Self-Assessment System (SAS) and tax complexity on corporate taxpayers. The sample was obtained from 700 tax preparers who attended the "Budget 2008 Tax Seminars" organised by the Malaysian Institute of Accountants. They found the implementation of SAS increased taxpayers' compliance cost by hiring tax preparers and benefits the tax authority. They concluded that SAS was not introduced efficiently because the relationship between the tax authority and tax preparers did not improve as a result of the lack of knowledge between tax staffs, especially on complicated business issues.

Choong, Tong, and Tan (2008) investigated Malaysian taxpayers' opinion towards tax practitioners from two perspectives. The first one was related to the present tax practitioners and the second on the nature of best practitioners. The sample was drawn from the target population consisting of sole proprietors, partnership, self-business people, and working adults. A non-probability sampling technique was selected to choose 100 respondents. The study showed a significant and positive relationship between preferred tax practitioners and tax compliance.

In Germany, Blaufus, Hechtner and Möhlmann (2014) investigated the association between the expenses incurred for tax preparation by tax professionals and tax compliance. A negative relationship was found between expenses that exceeded the

estimated tax savings, causing non-compliance. Devos (2012b) studied the impact of tax professionals on tax compliance in Australia. He audited taxpayers who had been imposed penalty between the year 2004 and 2006. He revealed a statistically significant positive association between the advice furnished by tax professionals and taxpayers' compliance behaviour.

Shafer and Simmons (2008) examined tax professionals' readiness to provide violent tax avoidance of corporate clients with Machiavellianism effect (tricks and dishonest conduct). A survey was conducted on 1,000 tax professionals comprising public accounting and private industry in Hong Kong. The result showed that Machiavellianism effects influenced tax professionals' judgments from considering corporate ethics and social responsibility. The researchers concluded that corporate responsibility mediated the association between Machiavellianism and a social/ethical decision made by tax professionals. They also found that Machiavellianism had a significant direct effect on social and ethical responsibility in determining corporate tax compliance.

Stephenson (2007) examined the conflict between taxpayers' intention to hire tax preparers to lessen the probability of tax audit and increase tax declaration accuracy. Data gathered from 510 tax preparers were drawn from the South-eastern University Income Tax School mailing list. He found the support that tax preparers were more aggressive in tax planning than taxpayers' preference.

Marshall, Smith, and Armstrong (2006) demonstrated that tax preparers' unethical behaviour did not produce any significant relationship with tax compliance.

Niemirowski and Wearing (2003) studied 62 tax agents in Australia and found similarities between taxpayers' and tax preparers' compliance behaviour. The minimal difference was only found in the level of tax knowledge and risk transferred to tax agent to minimise tax non-compliance.

Even though tax agents help remove computational and informational obstacles in tax compliance, they also have the skills and knowledge to facilitate their customers in manipulating chances for tax non-compliance (Murphy, 2004a). According to Klepper et al. (1991), tax agents play a dual role. Based on their exclusive information they have in tax law, tax agents play a role as 'enforcers' and 'exploiters' of the tax law. Further, Klepper et al. (1991) proposed that tax agents will be enforcers of the law in unambiguous situations. In this situation, tax agents will make sure compliance by preparing vigilant tactics in tax minimization. On the other hand, they have the tendency to become exploiters of the law and encourage tax avoidance in an ambiguous situation. Tax agents will manipulate the grey area of the tax law with the expertise and knowledge they have. Numerous research has been done to identify whether taxpayers who self-prepare tax declarations are more non-compliant than those whose declarations are professionally prepared by tax agents. However, professionally declared taxes by tax agents are more prone to non-compliance as suggested in findings. For instance, a study conducted by Smith and Kinsey (1987) through audit found that certified practising accountants and attorneys had saved higher dollar of tax when audited the tax returns prepared by them. Erard (1993) also found higher non-compliance from the tax returns declared by paid preparers. Ayres, Jackson and Hite (1989) found tax returns prepared by tax agents in the United States audited in 1979 showed 74% of them non-compliant. In Australia, 70% of the taxpayers' returns were

prepared by tax agents. Hence, the Australian Taxation Office encountered a serious potential loss of tax revenues due to non-compliance.

Tax agents consider their customers as a motivator for the aggressive tax declaration (Attwell & Sawyer, 2001; Schisler, 1994). Sakurai and Braithwaite (2001) conducted a study on 2,040 Australian taxpayers. They found three categories of tax consultations needed by taxpayers. The 'honest and risk-averse' was the most preferable and demanded category. The second demanded category was 'cautious minimization of tax'. Tax professionals prevent hassle and are experienced in determining chances to lessen tax. The final category needed by taxpayers was those with 'creative accountant, aggressive tax planning type'. In this category professionals needed by taxpayers are those who have strong contacts and aware of the matters related to the tax authorities' objectives at that moment. These is contradict from the second type of professionals; the creative professionals are vulnerable with minimizing taxes. Based on the findings, Sakurai and Braithwaite (2001) concluded these is less preferable to honest taxpayers.

In summary taxpayers' preferences in selecting tax preparers rely on they want to achieve in declaring tax returns. For instance, if they prefer tax minimization they will seek for aggressive tax preparers who have, at the same time, a concern on the risk of penalties and audit rate imposed by tax authorities. On the other hand, taxpayers will value tax practitioners' consultations if the former is confused with the tax system. The tax preparers' knowledge and expertise enable them to play an important role in tax non-compliance.

### **3.16 Summary**

Tax non-compliance is an increasing topic of research in developed and developing countries. Each country has its strategies in managing tax compliance. Tax laws, regulations and determinants of non-compliance vary from one country to another. Economic factors such as tax rate, penalty rate, tax audit and probability of detection were shown to both positive and negative relationships with compliance. Social and individual factors also play an important role in determining tax compliance among taxpayers. For instance, tax fairness, tax knowledge, peer influence, and corruption are the factors beyond the tax authority's control.

The Fischer model was reviewed as a base to develop a proposed model of the present study. Based on the review, no single model can integrate the determinants of tax non-compliance. Hence, a continuous adaptation and expansion of the model are needed to suit the current environment by giving economic, social, cultural and psychological considerations.

## **CHAPTER FOUR**

### **METHODOLOGY**

#### **4.1 Introduction**

The research methodology from various previous studies adapted to suit the objectives of the study is described in this chapter. Details of the theoretical framework, hypotheses development based on the research questions of this study are discussed. This chapter also describes the research design, the measurements of the variables, the data collection procedure, and data analysis.

#### **4.2 Conceptual Framework**

A conceptual framework is developed to formulate testable hypotheses and operationalized based on theory (Hair, Money, Samouel & Page, 2007; Kumar, Talib & Ramayah, 2013). This study's conceptual framework is developed based on deterrence theory and Fischer's model. The model has seven independent variables comprising tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruptions. Probability of detection and tax agents are the moderating variables while excise duty non-compliance is the dependent variable (refer Figure 4.1).

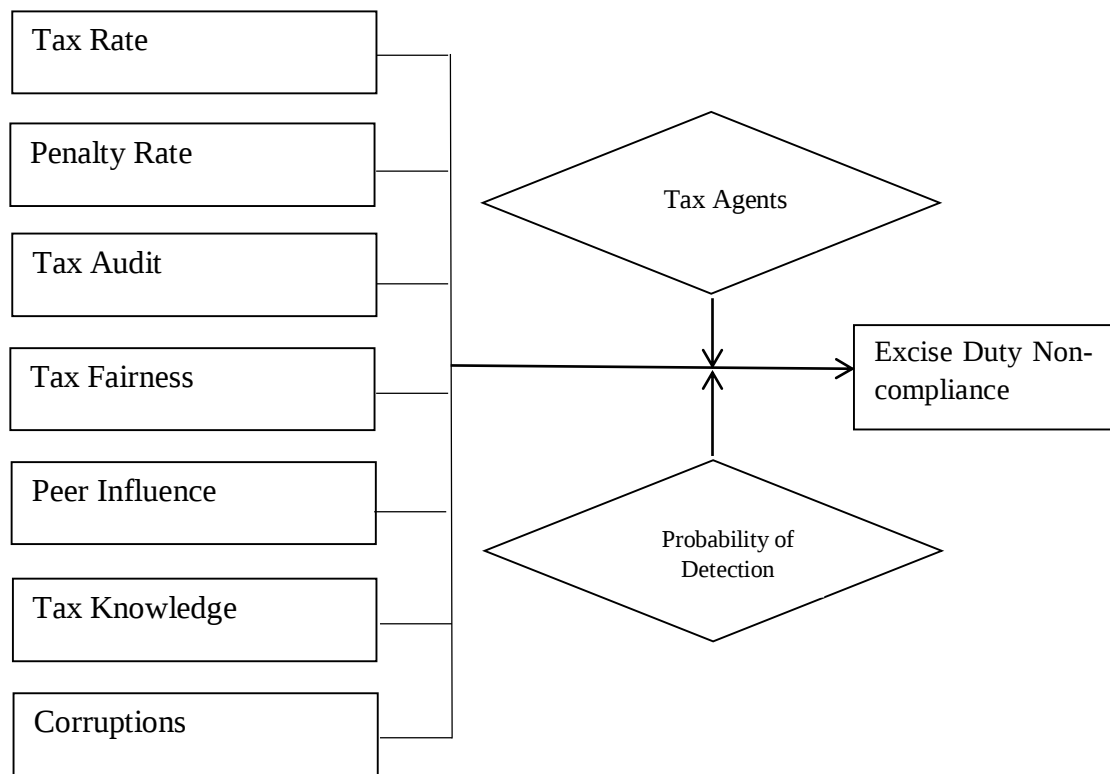


Figure 4.1  
Conceptual Framework of the Current Study

#### 4.3 Tax Non-compliance Behaviour Based on Deterrence Theory and Fischer's Model

Most tax compliance literature was based on deterrence theory pioneered by Becker (1968). This theory is about an individual's intention to maximise the expected utility by engaging in tax non-compliance. In this theory, taxpayers are assumed to gamble by weighing the uncertain benefits gained by successful evasion against the risk of being caught and punished. Thus, this theory focuses on the potential costs and benefits of non-compliance in monetary terms. Further, this theory proposes that tax rate, probability of detection, and penalty determine the monetary cost of compliance which motivates compliance behaviour. If these were the determinants influencing taxpayers' compliance will be far lower in determining the overall compliance level of taxpayers' (Alm, 1991).

Jackson and Milliron (1986) reviewed taxpayers' compliance behaviour literature and identified 14 associated key variables. Further, Fischer et. al (1992) categorised these variables into four groups. They are demographic variables (age and gender), those that proxy with non-compliance opportunity (education, income level, income source, and occupation), attitude and perception (ethics, perceived fairness of the tax system, and peer influence) and tax system structure (complexity of the tax system, penalty, probability of detection, and tax rates). Hence, the Fischer model of tax compliance blends economic, sociological, and psychological factors.

#### **4.4 Modification of Fischer's Model**

The current study used two constructs of the Fischer model, i.e., tax system structure and attitude and perceptions. It also added and omitted a few variables to suit the nature and environment of tax non-compliance among importers on excise duty. The Fischer model was applied to the indirect tax environment based on three similarities: (a) the tax amount paid based on self-assessment by taxpayers or through tax agents; (b) the tax owed to the tax authority; and (c) the tax law in making tax declaration.

Taxpayers maximise their utility in a gambling situation by evaluating between the uncertain profit gained from successful non-compliance and the chance of being detected and punished (Fischer et al., 1992). Hence, the tax system structure in the Fischer model comprising tax rate, penalty rate, and probability of detection was adapted in this study. Compliance behaviour of taxpayers is determined by the monetary cost of compliance (Fischer et al., 1992). Tax rate and penalty rate were tested as direct determinants of excise duty non-compliance while probability of detection was tested as a moderating variable to identify the control effects on the independent and

dependent variable relationships (Sekaran & Bougie, 2013). Further to identify whether moderator strengthening the relationship between the independent and dependent relationship (Dawson, 2014).

Tax audit was added in the tax system structure based on its significant deterrent effects on importers as taxpayers. Previous studies indicated that audit experiences had an effect on taxpayers' compliance behaviour (Isa & Pope, 2011). Tax audit variable was included to test the impact of audit experience and the frequency of audit implemented by RMCD in the current tax system structure on non-compliance. Therefore, tax audit was tested as having a direct effect on excise duty non-compliance.

The expanded Fischer's model includes opportunity and attitude in evading taxes. The tax system structure might affect the attitude and perceptions of taxpayers (Fischer et al., 1992). Furthermore, attitude and perceptions produce a positive or negative assessment of an object. Taxpayers with a positive attitude towards tax evasion are more prone to non-compliance than those with a negative attitude (Barbuta-Misu, 2011). Taxpayers' attitude and perception comprising tax fairness and peer influence are given an important consideration by Fischer et al. (1992). Hence, tax fairness and peer influence were predicted to influence excise duty non-compliance directly.

Taxpayers' knowledge of the current tax rules, regulations and provisions will enhance voluntary compliance (Saad, 2012b). Moreover, tax professionals are employed by taxpayers for numerous reasons including to declare accurate tax returns due to the lack of tax knowledge and the complexity of the existing tax laws. Furthermore, taxpayers fear they will be penalised for making mistakes (Devos, 2012b). However, tax

knowledge may also be used to manipulate the loopholes in tax laws. Hence, tax knowledge is a key element in determining compliance and non-compliance behaviour. Tax knowledge variable was added to have a direct effect on excise duty non-compliance.

The impact of corruption on economic growth has been debated extensively in the prior literature. Bribes can be a direct incentive for civil servants to perform or support private agents to defeat the tax law burdens (Sequeira & Djankov, 2014). Hence, corruption in tax administration exists due to the interaction between a tax authority and businesses, which will benefit both but cause losses in tax revenue (Antonakas et al., 2013). Therefore, corruption was identified to have a direct effect on excise duty non-compliance.

The compliance level of taxpayers relies on the tax preparers' behaviour. If tax preparers prefer to be aggressive in tax declaration, then there is a hidden cost of the risk of audit. Further, the burden is transferred to the taxpayers without their understanding or approval. Erard (1993) found that tax agents had a significant influence on their clients' compliance. In the context of RMCD, most importers rely on tax agents for customs declaration on goods importation (RMCD Annual Report, 2014). Hence, a tax agent variable was selected to moderate non-compliance behaviour of importers. As a moderator, tax agents could strengthen the relationship between the independent and dependent variables (Dawson, 2014).

Demographic factors consisting of age and gender might not affect non-compliance level of excise duty significantly. No significant gender differences among importers

were observed because most of the importation businesses in cigarettes, liquor and imported vehicles are dominated by males (RMCD Annual Report 2012). However, since most of the prior compliance studies in developed and developing countries had tested demographic factors such as age extensively and found consistent and significant results (Chau & Leung, 2009; Devos, 2008; Ritsema et al., 2003). Therefore, this study decided not to consider age and gender.

The non-compliance opportunity constructs comprising education, income level, income source, and occupation are dimensions associated with the income tax environment. Since excise duty is an indirect tax which is paid based on the value of imported goods, tariff code, and tax rates, they were not considered in this study.

#### **4.5 Hypotheses Development**

Hypotheses are formulated based on the research questions derived from the problem statement in chapter one and past literature. Hence, hypotheses can be one-tailed (directional) or two-tailed (non-directional) (Cohen & Holliday, 1982). In this study, directional hypotheses were developed in line with research question, past literature, and researcher's knowledge as practitioner.

For the moderator variables, the existence of an interaction effect not only be predicted, but also its form. A moderator increases or decreases the relationship between two other variables should be specified as part of the priori hypotheses as formed in this study based on Dawson (2014). Hence, the moderators of probability of detection and tax agent are hypothesized in a positive relationship for all the constructs except for tax fairness in a negative relationship. The hypotheses are stated as such to describe that

one construct moderates the direct relationship between two other constructs will be stronger or weaker with a positive or negative moderator relationship.

#### **4.5.1. The Relationship between Tax Rate and Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

According to the Fischer model, tax rate is one of the factors purported to influence tax non-compliance behaviour. Prior studies investigating tax rate and tax compliance produced mixed results. For instance, Fisman and Wei (2004) examined the tax rate influence on tax evasion of trade flow between Hong Kong and China. They revealed that evasion gap was highly associated with tax rates. Products with higher tax rates caused a loss in revenue. High tax rates had induced taxpayers to underreport unit values and labelled higher taxed products as lower taxed products (mislabelling). Additionally, if the marginal tax rate is increased, taxpayers are likely to understate their tax returns (Clotfelter, 1983; Skinner & Slemrod, 1985), reflecting non-compliance (Atawodi & Ojeka, 2012). Also, Mohd Yusof et al. (2014) reviewed tax non-compliance among small-and-medium-sized corporations (SMCs) in Malaysia and found a positive significant relationship between marginal tax rate and corporate tax non-compliance.

Deterrence theory suggests that an increase in tax rate will decrease the compliance level (Allingham & Sandmo, 1972; Clotfelter, 1983). In a cross-national study, Richardson (2006a), revealed that tax rates had no significant relationship with tax evasion. A similar finding was reported by Wu and Teng (2005) who showed that increases in tax rates induced willingness in cheating. Pommerehne and Weck (1994) showed a positive relationship between marginal tax rate and tax evasion. Similarly,

Alm et al. (1992c) found that tax rates increases led to tax evasion. Therefore, the current study proposed the following hypothesis:

H1a: There is a positive relationship between tax rate with excise duty non-compliance.

The impact of a tax rate established if taxpayers are aware of the probability of detection. Trivedi et al. (2003) argued that probability of detection will affect taxpayers who are intentionally involved in evading tax. Moreover, tax non-compliance will be prejudice to those who are paying and complying the tax laws. The probability of detection as a moderator is evaluated in monetary terms. Taxpayers will engage in non-compliance by weighing the successful evasion and risk being detected and punished with the cost incurred for lawful compliance. Therefore, a higher tax rate for the three commodities in this study will induce more smuggling and illegal trade offences. The stronger enforcement measures of high probability of detection might affect the strength or nature of the relationship between tax rate and excise duty non-compliance (Dawson, 2014). Hence, the hypothesis for moderating effect between tax rate and non-compliance in this present study was formulated below:

H1b: The positive relationship between tax rate and excise duty non-compliance will be stronger when probability of detection is high.

A tax agent acts as an intermediary between RMCD and importers for the purpose of goods clearance. Further, tax agent can directly affect the importers' level of compliance (Devos, 2012b). Tax rate and tax non-compliance are related to monetary cost (Devos, 2012b). Most importers rely on tax agents' expertise and technical knowledge for goods importation procedures (Buyonge & Kireeva, 2008). The

influence of a tax agent on non-compliance involves risk and potential cost saving of importers for their cargo clearance. If importers are aggressive in saving cost by non-compliance, a tax agent will fulfil the client's expectations to minimise the cost when the tax rate is high. A tax agent as a moderating variable might strengthen the direction between the independent and dependent variables (Dawson, 2014). Therefore, the moderating effect hypothesis was formulated:

H1c: The positive relationship between tax rate and excise duty non-compliance will be stronger when tax agent's influence is high.

#### **4.5.2 The Relationship between Penalty Rate with Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

A penalty is correlated with punishment or sanctions. There are mixed findings on the impact of penalties on tax non-compliance. A majority of tax compliance literature showed a significant association between penalties and tax compliance behaviour (Maciejovsky, Schwarzenberger, & Kirchler, 2012). Tax compliance was determined by the severity of penalties (Chau & Leung, 2009). Devos (2013) found a positive association between penalties and tax compliance. Slemrod (2004) revealed that penalty severity deterred taxpayers from reporting accurate tax returns based on the tendency of profit is greater than the tendency in losing which indicated the negative relationship between penalty rate and tax compliance. Doran (2009) argued that tax penalties play a fundamental role in enhancing compliance for two reasons. Firstly, there is an assumption that non-compliant taxpayers are frightened with legal sanctions. Secondly, complied taxpayers must be assured that non-compliant taxpayers are penalised. Therefore, the following hypothesis was proposed:

H2a: There is a positive relationship between penalty rate with excise duty non-compliance.

The classical model of deterrence relies on the belief of taxpayers. Compliance behaviour of taxpayers is shaped by the legal punishment such as penalty and their perceptions of probability of detection. The theory assumes that taxpayers will not violate tax laws by engaging in tax non-compliance if the predictable penalties are higher than the additional savings from tax evasion conduct (Murphy, 2004a). The low penalty rate imposed might not efficient compared to the benefit of successful evasion. Hence, the probability of detection might strengthen the association between penalty rate and excise duty non-compliance (Dawson, 2014). Therefore, the following hypothesis was proposed:

H2b: The positive relationship between penalty rate and excise duty non-compliance will be stronger when probability of detection is high.

Compliance depends on importers' preferences whether they are 'risk adverse' or 'risk seeking' to non-compliance opportunities (Devos, 2012b). The excise duty law ambiguity will motivate tax non-compliance exploitation (Devos, 2012b). Importers' risk preferences determine the type of advice tax agents provide to benefit the importers. The positive association between penalty rate and excise duty non-compliance will be strengthened by a tax agent influence (Dawson, 2014). Therefore, the following hypothesis was developed:

H2c: The positive relationship between penalty rate and excise duty non-compliance will be stronger when tax agent's influence is high.

#### **4.5.3 The Relationship between Tax Audit with Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

Taxpayers' non-compliant behaviour will be detected through investigations and tax audit. However, there are mixed findings on tax audit and tax non-compliance. For

example, Tagkalakis (2013) showed a significant positive correlation between tax audit and tax compliance. A similar finding was reported by Isa and Pope (2011) and Beron, Witte and Tauchen (1990). However, Frey (2003) found that tax audit reduced compliance behaviour. Alm, Jackson, and, McKee (1992a) found that tax audit effects were nonlinear and small, which reduced the deterrent impacts on taxpayers' compliance. A similar finding was reported by Alm, Deskin, and McKee (2004) and Alm and McKee (2006) in their experimental study. Therefore, the following hypothesis was developed:

H3a: There is a positive relationship between tax audit with excise duty non-compliance.

Tax non-compliance among importers will be reduced if RMCD increases probability of being detected through an audit. Under section 44 of Excise Act (1976) at all-time Customs officers has access to inspect any places or premises, business records, containers any goods or materials regarding importers business. This measure only effective for importers not willing to take risk of probability being caught and punished (opposed ambiguity). However, reduces or motivates non-compliance for those love ambiguity (willing to take the risk to gain profit from non-compliance behaviour). Therefore, ambiguity preferences about the probability of being detected through audit may not be an effective policy for RMCD to increase importers' compliance. This is based on goods classification in Harmonised System nomenclature divided into 21 sections and 96 chapters based on their usage and what they are made from (Kappler, 2011). The goods descriptions usually are technical and bound to law only understood by experts (Kappler, 2011). RMCD's auditors categorised or divide goods on their basis of their preferences and knowledge in auditing any dutiable goods. Goods found

committed an offence based on their jurisdiction of classification and this act are liable for goods forfeiture. This is not a desirable instrument for reducing tax non-compliance. Hence probability of detection will strengthen the positive relationship between tax audit and excise duty non-compliance (Dawson, 2014). Therefore, the following hypothesis was proposed:

H3b: The positive relationship between tax audit and excise duty non-compliance will be stronger when probability of detection is high.

A tax agent is obligated to provide advice and services to clients by fulfilling various compliance regimes regulated by various border agencies and protect them from being penalised if audited. In auditing, RMCD expects accurate goods declarations and excise duty payment. However, importers as taxpayers try to minimise their tax liabilities by exploiting tax rules and regulations (Maclean, 2006; McKerchar, 2007). If RMCD increases tax enforcement through audit, tax agents will advise non-compliance based on importers' risk preferences and their audit experience. Therefore, the higher the audit rate, the higher will be excise duty non-compliance when tax agents fulfil importers' preferences. Hence, a tax agent might affect the strength of the relationship between tax audit and excise duty non-compliance (Dawson, 2014). Hence, the following hypothesis was proposed:

H3c: The positive relationship between tax audit and excise duty non-compliance will be stronger if tax agent's influence is high.

#### **4.5.4 The Relationship between Tax Fairness with Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

Tax fairness has an important role in determining tax non-compliance behaviour. Most of the prior studies pertaining tax compliance or tax non-compliance and tax fairness

indicated mixed results. Taxpayers' attitude and perceptions of a tax system's fairness has been identified as a fundamental determinant that significantly impacts on tax compliance behaviour (Alabede, 2012). If taxpayers perceive the tax system to be unfair, they are motivated to engage in non-compliance behaviour (Gilligan & Richardson, 2005). According to Kirchler (2007) and Wenzel (2004b), fairness can be categorised as retributive justice, procedural justice, and distributive justice. Retributive justice concerns with the fairness of applicable penalties against individuals who do not abide by tax rules and regulations. Procedural justice concerns with the fairness of revenue distribution and distributive justice are defined as fairness in the interchange of revenue based on costs and benefits.

In relation to distributive justice, comparisons are made based on individual, groups and social levels. At the individual level, fairness is mostly related to the tax burden. If individuals and groups perceive that their tax burden is greater than other individuals' and groups', they will be non-compliant. At the social level, if the tax system is perceived unfair it may motivate tax non-compliance (Kirchler, 2007). Spicer and Lundstedt (1976) stated that if taxpayers believe that the tax system is unfair, they are more prone not to comply with the tax rules and regulations. According to Porcano (1984), the fairness of tax system is determined by the ability to pay and fulfilled needs of taxpayers. Additionally, Richardson (2006a) found a significant and negative correlation between tax evasion and tax system fairness. Murphy (2004b) revealed procedural fairness and tax compliance were directly and positively related. Similarly, Verboon and van Dijke (2011) demonstrated that procedural fairness and deterrence were positively related to tax compliance. Hence, the following hypothesis was proposed.

H4a: There is a negative relationship between tax fairness with excise duty non-compliance.

The economic theory emphasises deterrence by increasing the probability of detection based on punitive and persuasive approaches. The focus of this section is based on the persuasive approach of tax fairness to shaping importers' non-compliance behaviour. Importers' (taxpayers) ultimate goal is to maximise their utility based on the cost-benefit approach. Tax non-compliance is viewed from money paid as tax, assumed worthwhile if financial gains from taxes paid outweigh the cost needed to comply with the tax laws. For instance, if the money paid as tax is used to increase the political, economic, and social welfare of people and not spent or invest in non-beneficial government projects, the tax paid is fair. It is concluded that perceived fairness will contribute to voluntary cooperation in paying taxes. Further, the enforcement measures carried out by Customs authorities through probability of detection by inspecting imported goods at port. The efficiency and fairness for the traders relies on the inspection time and logistics cost which could lead the price increase of the imported goods (Han, 2011). Hence, the probability of detection has a strong effect on strengthening the relationship between tax fairness and excise duty non-compliance (Dawson, 2014). Based on the above explanation of the moderating effect of probability of detection, it was hypothesised that:

H4b: The negative relationship between tax fairness and excise duty non-compliance will be stronger when probability of detection is low.

The World Customs Organization, the World Trade Organization, and various ASEAN legislations specify the excise duty imposed, which translates to fairness in a tax system.

Importers' perceived tax system fairness based on the amount of tax paid evaluated by customs assessment officers. If the importers perceive that the tax rate imposed on similar goods varies among the states in Malaysia, they are likely not to comply. They are likely to go for aggressive tax declarations through tax agents (Hite, Hasseldine, Al-Khoury, James, Toms & Toumi, 2003). Tax agents as a moderating variable might strengthen the negative relationship between tax fairness and excise duty non-compliance (Dawson, 2014). Therefore, the following hypothesis was proposed:

H4c: The negative relationship between tax fairness and excise duty non-compliance will be stronger if tax agent's influence is low.

#### **4.5.5 The Relationship between Peer Influence with Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

Peer influence comprises members of the family, current or future employer, close friends, and spouse or significant others (Hanno & Violette, 1996). Peer influence is the perception of other people's action in a particular situation will lead to the approval or disapproval of behaviour of an individual (O'Shaughnessy, 2014). Peer influence and tax compliance showed mixed results in previous findings. The tax compliance literature indicates that taxpayers are more likely to evade taxes if they believe their peers are doing so (Grasmick & Scott, 1982; Spicer & Becker, 1980). This phenomenon can be explained by the theory of reasoned action which proposes that an individual's intention is formed by attitude and subjective norms (Ajzen & Fishbein, 1980). Attitude, whether positive or negative, will influence behaviour (Ajzen & Fishbein, 1980) whereas subjective norms refer to an individual's belief in referent groups that causes him/her to perform a specific behaviour (Bobek, Roberts & Sweney, 2007). For instance, if tax evasion is a group norm and expectation, individuals are likely to perform the same behaviour (Chan et al., 2000). According to Mason and Calvin

(1978), the knowledge received from peers on taxes and politics will increase tax evasion. Alon and Hageman (2013) found a negative relationship between particularised trust (belief in peers, family and peers) and tax non-compliance. Similarly, Torgler (2012) found that dissatisfied individuals were more prone to discuss political issues with peers especially on the tax paid and the benefits received . Therefore, the following hypothesis was proposed:

H5a: There is a positive relationship between peer influence with excise duty non-compliance.

The economic model of compliance focuses increasingly on the probability of detection as an enforcement measure to deter non-compliance behaviour. Importers rely on their peers to declare goods to the RMCD by comparing the possibility of being caught and the cost of getting punished. Importers are influenced by peer behaviour depends on peers experience being caught and penalised due to the high probability of detection. Therefore, the probability of detection may strengthen the original association between predictor variables and non-compliance of excise duty as a criterion variable (Dawson, 2014). Hence, the following hypothesis was formulated:

H5b: The positive relationship between peer influence and excise duty non-compliance will be stronger when probability of detection is high.

Competition forces importers to pay a lower customs duties and taxes because higher customs duties and taxes translate into a higher cost of importation. Therefore, tax agents are usually engaged to prevent or evade the cost (Weerth, 2009). Tan (2011) mentioned that the advice given by tax agents to their clients depends on the client's risk profile. Hite and McGill (1992) found that tax agents' aggressiveness in preparing

tax returns was influenced by the opinion given by their peers. Hence, the positive relationship between peer influence and excise duty non-compliance may be strengthened by tax agents' high influence (Dawson, 2014). Therefore, the following hypothesis was proposed:

H5c: The positive relationship between peer influence and excise duty non-compliance will be stronger if tax agent's influence is high.

#### **4.5.6 The Relationship between Tax Knowledge with Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

Tax knowledge is needed to ensure voluntary compliance of taxpayers (Saad, 2014). Intentional or unintentional non-compliance behaviour among taxpayers is caused by the absence of tax knowledge (McKerchar, 1995). Tax knowledge is essential in shaping compliance behaviour (Mansor et al., 2004; Palil, 2010). Loo, McKerchar, and Hansford (2008) and Loo et al. (2009) found that tax knowledge was an influential factor in determining taxpayers' compliance behaviour. The higher the tax knowledge, the higher the compliance level (Kasipillai & Abdul Jabbar, 2003; Kirchler, Niemirowski, & Wearing, 2006).

However, Harris (1989) showed no direct and significant influence of tax knowledge on compliance behaviour. Collins et al. (1992) found a negative relationship between tax knowledge and tax compliance. In sum, the literature shows mixed findings in tax compliance studies. Thus, the proposed hypothesis was:

H6a: There is a positive relationship between tax knowledge with excise duty non-compliance.

Importers are assumed rational economic evaders for assessing the cost and benefit of tax non-compliance. If they are caught because of the high probability of detection, they have to pay more including the penalty. Hence, adequate knowledge can be used not to comply. Also, higher probability of detection is likely to encourage importers to apply knowledge of tax laws to undervalue, misclassify, and underreport tax declarations. Hence, probability of detection might strengthen the direction between tax knowledge and excise duty non-compliance variables (Dawson, 2014). Therefore, the following hypothesis was proposed:

H6b: The positive relationship between tax knowledge and excise duty non-compliance will be stronger when probability of detection is high.

Customs declarations need a correct classification of the commodity. The six digit-concept identified for each 5000 commodity code is accepted universally and applied by more than 200 customs administration around the globe (WCO, 2014). There are 99 chapters under 16 headings in the customs commodity code for product categories. Technical knowledge of the classification of goods is needed for customs declarations. Therefore, tax agents are assigned to make customs declarations based on their understanding and knowledge of suitable customs commodity codes to the correct product. If importers' ultimate goal is to maximise profit by aggressive tax planning, their tax agent will advise under-declaration, misclassification of tariff category, smuggling and falsifying country of origin (Uzzaman, & Yusuf, 2010). Tax agents as a moderator variable might strengthen the positive direction of the association between tax knowledge and excise duty non-compliance (Dawson, 2014). Therefore, the following hypothesis was formulated:

H6c: The positive relationship between tax knowledge and excise duty non-compliance will be stronger if tax agent's influence is high.

#### **4.5.7 The Relationship between Corruption with Excise Duty Non-compliance in the Presence of Probability of Detection and Tax Agent as Moderators**

Corruption is an escalating problem in most developing countries (Alabede, 2012). The mixed findings are indicated pertaining corruption and tax non-compliance. Uslaner (2010) argued that corruption will deter taxpayers from paying taxes. Torgler (2003a) claimed that overcoming corruption will restrict taxpayers' compliance behaviour. Similarly, Spicer and Lundstedt (1976) maintained that taxpayers would feel deceived if they perceive their tax burdens are not spent fairly. The successful control of corruption is positively related to tax compliance (Picur & Riahi-Belkaoui, 2006). Uslaner (2010) revealed the greater compliance level could be achieved with fewer corruptions. Akdede (2011) found a negative relationship between corruption and tax evasion. Also, Alon and Hageman (2013) found that trust as moderator weakened the negative relationship between corruption and tax compliance.

Customs officers are responsible for determining the value of imported goods and the total tax paid for the imported goods through classification (Flatters & MacLeod, 1995). Taxpayers true tax liabilities rely on the assessment made by the customs officials. Customs officers' involvement in corruptions is related to misclassification of imported goods, lower rating to the restricted categories of goods, and understating the volume of shipments (Flatters & MacLeod, 1995). Hence, the suggested hypothesis was:

H7a: There is a positive relationship between corruption with excise duty non-compliance.

Corruption among customs officers involves unlawful consideration to serve importers as taxpayers. That is, the misuse of official powers is in the process of implementation and enforcement of the existing tax laws in importation procedures. It is proposed that the involvement of corrupted customs officers will be high when probability of detection is high. That is when there is an increasing number of inspections of containers at entry ports, road blocks and routine inspections at the smuggling-prone places such as rivers at Kelantan, Perlis, Bukit Kayu Hitam, Thailand, and Indonesia borders, corruptions are likely to be higher. Importers perceive excessive non-compliance cost is needed with existing tax laws when caught and penalised . Further, Çule and Fulton (2009) concluded that increases in corruptions and tax non-compliance in a business environment, if acceptable, will lower compliance cost. Hence, the positive relationship between corruption and excise duty non-compliance will be strengthened when probability of detection is high. Therefore, the following hypothesis was proposed:

H7b: The positive relationship between corruption and excise duty non-compliance will be stronger when probability of detection is high.

Customs officers have discretionary powers and interact daily with tax agents who represent importers for goods declarations and clearance from ports. Almost every duty carried out by customs officers is vulnerable to corruption. These include valuation and classification; cargo examination; exemptions and drawback schemes; and licenses issuance. Potential corrupted customs officers will be involved with tax agents through bribery to reduce trade barriers imposed for importation. Tax agents will perform aggressive tax consultations for the taxpayers if an ambiguous tax environment exists as a result of corruptions. Hence, the positive relationship between corruption and

excise duty non-compliance will be strengthened with high tax agents' influence. The following hypothesis was proposed:

H7c: The positive relationship between corruption and excise duty non-compliance will be stronger if the tax agent's influence is high.

A summary of the hypotheses developed is shown in Table 4.1.

Table 4.1  
*Summary of Hypotheses and Research Questions*

| Research Questions                                                                                                                                                                                                                                                             | Hypotheses (H)                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| 1. What is the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruption) with excise duty non-compliance by importers?                                                                             | H1a, H2a, H3a, H4a, H5a, H6a and H7a |
| 2. To what extent the probability of detection have a significant moderating effect on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruption) with excise duty non-compliance by importers? | H1b, H2b, H3b, H4b, H5b, H6b and H7b |
| 3. To what extent tax agent have a significant moderating effect of tax agent on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruptions) with excise duty non-compliance by importers?      | H1c, H2c, H3c, H4c, H5c, H6c and H7c |

#### 4.6 Research Design

In social science research, there are two different philosophical paradigms known as positivism and interpretivism. According to the positivist approach, the researcher views the social world objectively and confirms it by using a systematic process (McKerchar, 2010). Practically, the positivist approach is associated with quantitative research. On the other hand, the interpretivist approach are based on face to face interview, computer assisted interviews and interviews through electronic media

(Carroll & Swatman, 2000). In this study, a survey method was used based on the quantitative research approach. According to Richardson and Sawyer (2001), a survey method is commonly used by most tax compliance researchers. Similarly, Torgler (2007) stated that the preference in using a survey method is to assist a researcher in acquiring data pertaining attitude and socio-economic variables of the taxpayers. In developed and developing countries, this method was used vastly in tax compliance studies (Fjeldstad & Semboja, 2001; Kasipillai & Abdul-Jabbar, 2006; Nor Aziah, 2004; Saad, 2011; Verboon & van Dijke, 2011). Creswell (2013) further maintained that in a complex study with many variables, a quantitative method is the most suitable approach.

#### **4.7 Questionnaire Design**

Questionnaires were prepared in both Malay and English languages. Despite the Malay language being the national language in Malaysia, the English language is widely used in commerce (Foo & Richards, 2004). Therefore, the questionnaires were prepared in both languages. The questionnaire had eight sections (refer Appendix A). Section A asked demographic questions of importers, such as gender, age, race, the level of education, and current position. Section B was related to non-compliance of excise duty while Section C had questions on the tax system structure. Questions like tax rate, penalty rate, and tax audit were asked. In Section D, questions were about attitude and perceptions of tax fairness and peer influence. Section E was about excise duty tax knowledge, Section F corruption in RMCD and Section G was probability of detection. Finally, Section H was about tax agents' influence in customs declaration.

A seven-point Likert scale was used to indicate the degree of agreement and disagreement to the statements given. The scale ranged from 1= strongly disagree, 2= disagree, 3= disagree somewhat, 4= neutral, 5= agree somewhat, 6= agree to 7= strongly agree. The seven-point Likert scale was chosen because it provides sufficient choice to evaluate participants' opinion.

#### **4.8 Operational Definition of Variables**

The model of this study has seven independent variables, two moderating variables, and one dependent variable. The independent variables are tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption. Probability of detection and tax agent are the moderating variables. Excise duty non-compliance is the dependent variable. The dependent, independent and moderating variables were acquired from prior literature, defined in numerous dimensions, and measured using different items. The items were measured using an interval scale (Kumar et al., 2013).

##### **4.8.1 Dependent Variable**

Various terms used to define a dependent variable namely criterion or outcome variable (Kumar et al., 2013). The researcher's goal is to explain the variability, describe or predict the dependent variable. A dependent variable is the key theme of research (Kumar et al., 2013). Excise duty non-compliance as the dependent variable is explained in the next paragraph.

##### **4.8.1.1 Excise Duty Non-Compliance**

Excise duty non-compliance is defined as customs fraud, which involves (a) producing double invoices (actual invoice used for record purposes and fake invoice used for

declaration); (b) misclassification of products (tariff or duty of the products rely on which classification it falls, importers improperly describe the product for lower tariff); (c) concealing the country of origin (country of origin misstated to avoid quotas, embargoes or anti-dumping laws); (4) undervaluing products (declaring lower value than the actual value of goods); and (5) smuggling (Excise Act, 1976). Tax non-compliance also involves failure to fulfil tax liabilities, whether those failures are intentional or unintentional. For example, sometimes taxpayers' unintentional mistakes are misinterpreted as tax evasion by tax authorities. Therefore, the non-compliance outcome might be legal tax evasion or avoidance of tax rules and regulations (Kirchler, 2007). Tax evasion is defined as an illegal behaviour involving the violation of tax law directly to avoid tax payment (Richardson, 2008). In line with this, Webley (2004) maintained that tax evasion is an illegal behaviour as it involves breaking the law intentionally by undervaluing, understating and falsifying tax declaration to reduce the payable amount. Therefore, tax compliance and non-compliance are associated with ethical and non-ethical decision-making process in tax declaration (Singh, 2003). Indirect tax evasion is regularly correlated with smuggling offences on customs tariff. Tax evasion from importation and exportation of commodities to evade Customs duties is done by mis-declaration and under-invoicing (Miskam et al., 2013).

Tax rules and regulations are ambiguous (Kirchler, 2007). According to Slemrod, Blumenthal and Christian (2001), even though there is a legal borderline that differentiates between tax evasion and tax avoidance, practically these two terms are still vague. Again, they explained that the tax laws itself are ambiguous; at times the rules and regulations are clear, but taxpayers are not aware or misinterpret it. Now and then the law is not complicated but ignored through certain activities and transactions

by the administration. Hence, tax non-compliance in the present study refers to under-declaration, double invoicing, falsifying documents, incorrect statements such as under-value of goods and misclassification of tariff codes and goods that do not pass through customs clearance to evade excise duty. The offences on excise duty are detected through audit, investigations on companies' profiles, and information received from the public on smuggling and illegal trade offences of three main commodities.

In measuring non-compliance variable, items were adapted from Kirchler and Wahl (2010). Tax non-compliance was measured with nine items to identify the actual behaviour and the acceptability of excise duty non-compliance. For example, the intention was measured by items such as "There is no problem in under declaring in Customs declarations" and "I will attend a course which informs me about the current possibilities for evading tax (1 = strongly disagree, 7= strongly agree). A total score was calculated as an index of excise duty non-compliance.

#### **4.8.2 Independent Variables**

Independent variable is known as a 'predictor' or 'explanatory' variable (Kumar et al., 2013). This variable influences a dependent variable in either a positive or negative direction (Kumar et al., 2013). The variance of a dependent variable is estimated by an independent variable. In other words, an increase of each unit in the independent variable will cause an increase or decrease in the dependent variable (Kumar et al., 2013). The subsequent section explains on independent variables of this study.

#### **4.8.2.1 Tax Rate**

Tariff (tax) rate is defined as the rate levied on import or export goods for raising revenue (Customs Act, 1967). A tax rate is operationally defined as the rate imposed on cigarettes, liquor and imported vehicles bound under Excise Act (1976) and Customs Duties Order (2012). A tax rate is determined by the class of goods under the Harmonised System. The classification of goods is developed and maintained by the World Customs Organization via the International Convention on the Harmonised Commodity Description and a coding system known as the Harmonised System (WTO, 2014). The five items to measure tax rates were adapted from Alabede (2012b). The questions asked whether participants believed the tax rates are the cause of smuggling activities. The total score of the five items was taken as an index for the tax rate.

#### **4.8.2.2 Penalty Rate**

Punishment is imposed for breaking the Excise Act (1976) for providing incorrect or untrue documents and statement, falsifying documents, fraudulently altering documents, and failing to make declarations on dutiable imported goods. Previous literature indicates that a higher penalty rate was imposed to reduce tax evasion (Borck, 2004). Penalty rate in the current study is the penalty rate imposed under the Excise Act (1976) to deter taxpayers from evading tax. Penalty severity was measured by five items using a hypothetical scenario. Participants indicated on a seven-point Likert scale whether they agreed or not with a particular penalty rate imposed for tax non-compliance. Two items were about paying tax with a fine while the remaining three items asked willingness to pay fine or face the risk. All items were adapted from Devos (2005). The total score of the five was taken as an index for penalty rate.

#### **4.8.2.3 Tax Audit**

From the customs perspective, the audit is defined as a systematic examination of books, records, businesses system and commercial data stored by importers directly or indirectly involved in the payment of tariff or taxes (Excise Act, 1976). RMCD performs the audit to ensure taxes paid are correct and accurate, detect customs fraud and take appropriate action, and motivate awareness and compliance with the customs laws and regulations (Excise Act, 1976). Tax audit involves an examination of customs declaration forms, supporting documents for importation such as invoice, bill of lading, packing list and relevant permits and other financial affairs. The audit is carried out to detect whether the actual tax payable is in accordance with tax laws provisions (Excise Act, 1976). The tax audit in the present study is based on taxpayers' experience, and the impact of an audit carried out by customs auditors. Five items to measure tax audit were adapted from Isa and Pope (2011). The items measured taxpayers' attitude and perceptions of audit and audit experience conducted by customs auditors. The total score was taken as an index for a tax audit.

#### **4.8.2.4 Tax Fairness**

Tax fairness is the comparison between the taxes paid and benefit or contributions received by taxpayers in return. It also involves the comparison of tax feelings of how one is treated compared to others (Kirchler, 2007). Tax fairness perception is important to ensure tax compliance (Bobek, 1997). Accordingly, tax fairness was operationally defined as the fairness in excise duty system in RMCD and taxpayers' perception of the government especially the benefits received as a return from the excise duty paid. Tax fairness was measured by seven items. Three items asked about the fairness of tax system. A sample item was "Generally I feel that Customs tax is fair to tax". Four

questions asked the fairness received from the government in exchange for the tax paid. The seven items were derived from Gilligan and Richardson (2005). The total score was taken as an index for tax fairness.

#### **4.8.2.5 Peer Influence**

Peer influence is mostly correlated with the person close to an individual such as friends, business partners, colleagues and relatives (Hai & See, 2011b). Peer influence is the perception of the social pressure whether to execute or not to execute the desired behaviour (Ajzen, 1991). In the context of this study, peers refer to family members, counterparts (other importers), tax agents, friends and society. To measure this variable, five items were adapted from Bobek et al., (2007). The total score was taken as an index for peer influence.

#### **4.8.2.6 Tax Knowledge**

Tax knowledge is defined as taxpayer' ability to understand tax rules and regulations and calculate the tax liabilities (Ahmad, & Brookins 2007). Many past studies in Malaysia measured taxpayers' tax knowledge by the understanding of concepts and tax law (Manaf, Hasseldine, & Hodges, 2005). However, Eriksen and Fallan (1996) evaluated taxpayers' knowledge on tax laws and the ability to compute tax liabilities on their own. For the purpose of the current study, tax knowledge was measured by tax law particularly the rules, regulations and procedures on the importation of cigarettes, liquor and imported vehicles under the Excise Act (1976). Participants were asked about the current tax rate, license renewal, procedures for importation, examination of importers' premises without a search warrant, and sanctions imposed to those committed in customs fraud. To measure this variable, this study adapted the instrument

of Eriksen and Fallan (1996). Seven questions were asked. A sample item was “Customs officers can search without a warrant in any premises and vehicles if they have reasonable cause to believe that goods are concealed or deposited goods therein against Excise Act (1976)”. The total score was taken as an index for tax knowledge.

#### **4.8.2.7 Corruption**

Corruption is defined as giving a bribe to corrupted customs officers to facilitate and evade official trade barriers through undervaluation, misdeclaration and misclassification (Parayno, 1999). Corruptions are most attractive in tax administration based on their monopoly power which will be an incentives for taxpayers to involve in tax non-compliance. Corruptions in tax administration involve tax authority and businesses (Antonakas et al., 2013), leading to losses of tax revenue and genuine entrepreneurs. When businesses face tax complexity and other customs procedures, they are likely to offer bribes to the tax authority (Antonakas et al., 2013).

Corruption in this study is defined as customs officers’ involvement in accepting bribe by allowing firms to avoid tax laws, especially in customs clearance procedures. They misuse the authority given to them for personal gains. Eight items to measure corruption were adapted from Collins et al. (2009). Participants were asked about how often their firm is involved in corrupt transactions through “commissions” or “gifts-in-kind”. The total score was taken as an index for corruption.

#### **4.8.3 Moderator Variables**

A moderator or moderating variable alters the direction or strengthens the association between the independent and dependent variables (Kumar et al., 2013). Dawson (2014)

noted that the strength or nature of two variables affected by a moderator variable is known as an interaction effect. The following subsections discuss probability of detection and tax agent as moderator variables.

#### **4.8.3.1 Probability of Detection**

Probability of detection is defined as uncertainty of undeclared goods that will be detected by investigations and examinations of customs declarations documents and containers (Excise Act, 1976 ). Uncertainty might increase tax non-compliance (Scotchmer & Slemrod, 1989). Tax evasion will be worse if the current penalty rates are relatively low. From the RMCD's perspective, probability of detection involves the information given by an informer on the misconduct of importers in evading taxes by underreporting, misclassification and under-value. Based on this information, the containers and customs forms will be inspected thoroughly. Moreover, the routine inspections conducted as a prone area for smuggling offences will be carried out.

Probability of detection was measured by six items, which covered probability of detection after under-reporting and the risk taken by considering the cost involved when committing non-compliance behaviour. The six items were adapted from Wenzel (2004b). The total score was taken as an index for probability of detection.

#### **4.8.3.2 Tax Agent**

Tax agents are defined as external professionals engaged based on their expertise and superior knowledge in handling tax matters on behalf of taxpayers (Sapiei & Kasipillai, 2013). Tax agents act as advocates for their clients (Tan & Sawyer, 2003). Due to the tax agents' expertise, taxpayers rely highly on them in handing tax declarations (Hamid,

2014). Mohd Isa (2012) revealed that many corporate taxpayers in Malaysia relied on tax agents for tax compliance and a tax planner. According to Devos (2012a), three vital factors why tax agents are engaged in tax declaration: tax complexity, to get a legal reduction in tax, and to avoid making mistakes. However, tax agents are also used for aggressive tax planning to avoid taxes (Lubbe & Nienaber, 2012). Many importers hired tax agents for their goods clearance from the landed ports (RMCD's Annual report, 2013). In this study, tax agents were defined as tax agents engaged by importers for customs declarations. The tax agents appointed by importers had been attended course on matters pertaining Customs and pass the examination as stated under Section 90 of Customs Act (1967).

To measure tax agents, five items adapted from Sakurai and Braithwaite (2001) were used. The questions asked participants to interpret tax agents' influence on tax non-compliance. The total score was taken as an index for tax agent.

#### **4.9 Data Collection Procedure**

Data for analysis could be obtained from the primary (first-hand information received by the researcher based on the interest of the study) or secondary sources (sources that already exist such as government report, organisational report and accounting documents) (Sekaran & Bougie, 2013). Further, the data can be collected either by quantitative or qualitative method (Sekaran & Bougie, 2013). The quantitative method involves the collection of information from respondents such as questionnaires while qualitative method involves in-depth interviews or focus group discussion (Sekaran & Bougie, 2013).

Data in this study were obtained from primary sources using a quantitative survey method. Questionnaires were distributed personally to improve the response rate. Also, this technique of data collection was used because the researcher had access to the mailing address of respondents. The other alternative to approach this targeted groups are through the RMCD's database.

The questionnaires distributed to the potential respondents with the support from the RMCD's Head of Enforcement Division in every state. Before that, the researcher directly met the Enforcement Division to explain the nature of the current study and discuss the potential number of respondents required. The potential respondents were provided with questionnaires attached with the covering letter from 'Universiti Utara Malaysia' (refer Appendix B). The letter emphasised the purpose of the study and that the respondents' anonymity would be maintained.

#### **4.10 Population**

Population refers to the whole group of people, things or events that a researcher is interested in investigating (Kumar et al., 2013). For the purpose of this study, population (offenders) refers to the list of all importers (companies) of cigarettes, imported vehicles, and liquor who committed offences under the Excise Act (1976) which are kept confidentially in the RMCD office. The list of offenders for the year 2014 throughout Malaysia is shown in Table 4.2.

Table 4.2

*The number of Population for Cigarettes, Imported Vehicles and Liquor in Malaysia for the Year 2014*

| Commodity         | Number of Companies<br>Committed an Offence<br>N |
|-------------------|--------------------------------------------------|
| Cigarettes        | 552                                              |
| Imported Vehicles | 320                                              |
| Liquor            | 403                                              |
| Total             | 1,275                                            |

Source: RMCD Annual Report 2014

#### 4.11 Unit of Analysis

A unit of analysis refers to a single member of the sample studied (Kumar et al., 2013).

The unit of analysis in the current study was companies registered under Companies Commission of Malaysia (*Suruhanjaya Syarikat Malaysia*) and have committed an offence for cigarettes, liquor and imported vehicles under Excise Act (1976). To represent the company, managers were recruited to respond to the survey because they occupy strategic positions in their companies and were directly involved in ensuring tax compliance of their companies and statutory laws. They were also directly involved in operations and customs declarations.

#### 4.12 Sample Size Determination Using Gpower Analysis

In research, it is a common practice to use samples to generalise the population involved (Saad, 2011). A model and its characteristics should be considered when determining a sample size (Hair, Ringle, & Sarstedt, 2011). Cohen (1992) argued that an effective technique to determine a sample size is by using power analysis to achieve reasonable power. Hence, Gpower software was used for the said purpose. Since the model has 11 predictors (7 direct predictors, 2 moderators predictors and 2 interactions), the effect size was set as medium (0.15) and power needed as 0.80, conducted by using a priori

power analysis recommended by Lowry and Gaskin (2014) and Hair, Hult, Ringle and, Sarstedt (2016). Based on the analysis, the minimum sample size required was 123 as shown in Figure 4.2. The researcher set out to collect data which was equal to or larger than the required number. To collect sufficient data, it was recommended that researchers increase the sample size to compensate for low or non-response rate and outliers (Israel, 2009; Kotrlik & Higgins, 2001). Hence, the sample size for the current study was increased to 600 to overcome the possibility of low or non-response rate. The minimum sample size required is shown in Figure 4.2 and the sample size drawn for offenders for each commodity is shown in Table 4.3.

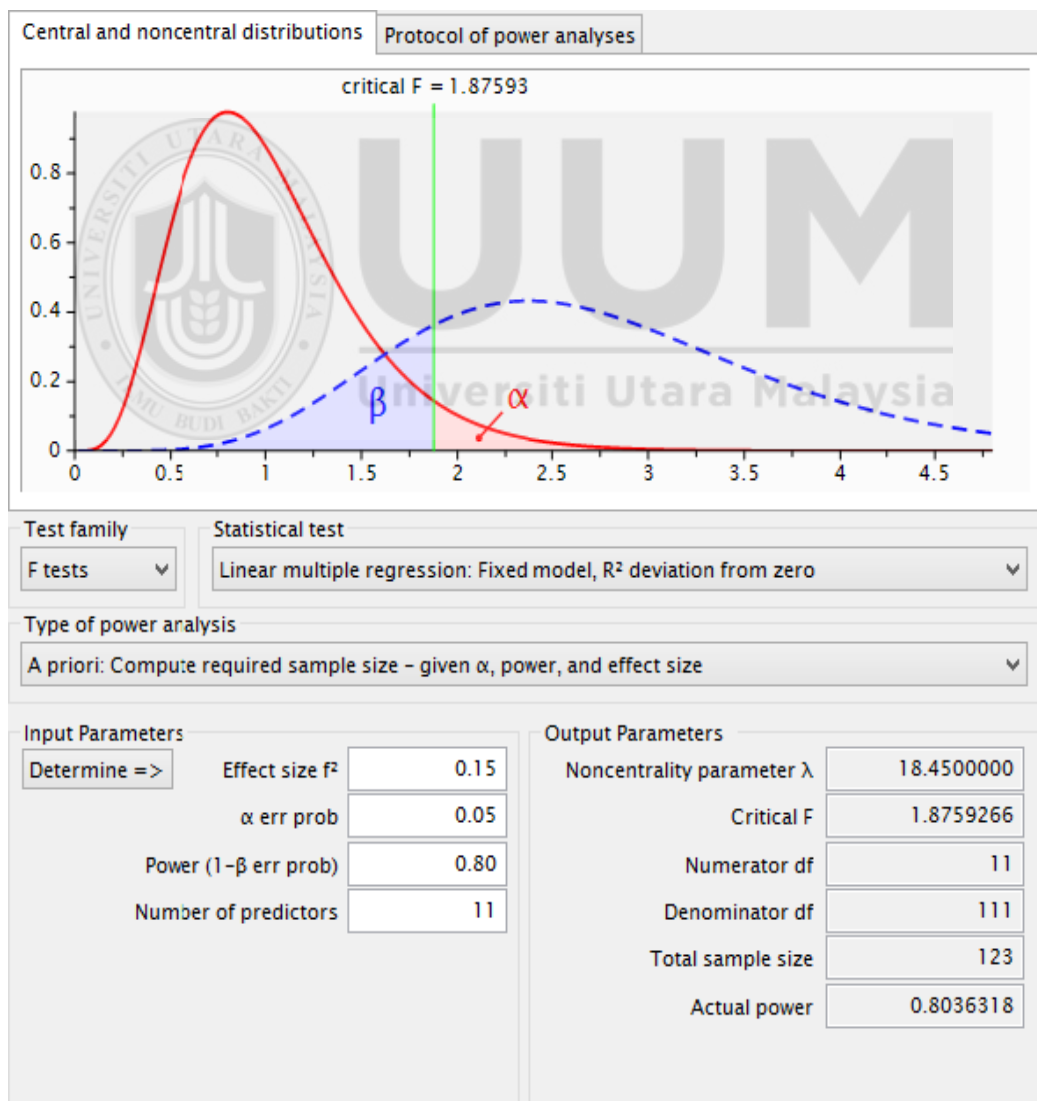


Figure 4.2  
Gpower Calculator to Determine Minimum Sample Size

Table 4.3

*The Number of Offenders for Cigarettes, Imported Vehicles and Liquor and Sample Size*

| <b>Commodity</b>  | <b>Companies<br/>Committed an<br/>Offence<br/>N</b> | <b>Stratified<br/>Sample<br/>Size</b> | <b>Percentage<br/>of<br/>Respondents</b> |
|-------------------|-----------------------------------------------------|---------------------------------------|------------------------------------------|
| Cigarettes        | 552                                                 | 260                                   | 43.33                                    |
| Liquor            | 403                                                 | 190                                   | 31.67                                    |
| Imported Vehicles | 320                                                 | 150                                   | 25.00                                    |
| Total             | 1,275                                               | 600                                   | 100.00                                   |

Source: RMCD Annual Report 2014

#### 4.13 Sampling Techniques

This study used a disproportionate stratified random sampling technique to select the sample. According to Kumar et al. (2013), the disproportionate sampling technique is selected when there is more variability within the stratum. The population in this study was homogeneous and divided into subgroups based on commodities known as strata. A simple random sampling was used to draw the sample from each stratum (Kumar et al., 2013). For the purpose of this study, there were three strata of offenders divided by commodities, i.e., cigarettes, liquor, and imported vehicles. From each commodity group, samples were drawn using simple random sampling, which was carried out by using SPSS version 22.

#### 4.14 Pilot Study

Before the main study, a pilot study or pre-testing was carried out to test the adequacy and improve a survey instrument (Saad, 2012a). Further, the pilot test was done to ensure both content validity and face validity (Kumar et al., 2013). In pretesting some of the questions were reconstructed and rewritten to suit the research objectives. Here, the emphasis was given on the clarity of the instructions and appropriate wording

(Synodinos, 2003). Experts in taxation and methodology from Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia were asked to review and comment on the questions. The questionnaire was improved by integrating their suggestions and comments. The reliability and validity of the translated instruments were pretested among potential participants (Synodinos, 2003). The questionnaires were then distributed to 45 offenders for cigarettes, liquor, and imported vehicles from Penang State Enforcement Division. The response rate from the study was 100%. However, only three questionnaires were not useable because the offenders did not assign tax agents for their tax declaration.

The reliability analysis was conducted to test the internal consistency of the measurement (Nunnally, 1978). The reliability was analysed using SPSS Version 22. The closer the reliability coefficient to 1.0 the better it would be. Sekaran and Bougie (2013) maintained that a reliability coefficient of more than .80 is good, but a coefficient in the range of .70 is acceptable and less than .60 is poor. The result of the reliability analysis for the pilot study is ranging from .93 to .64 considered acceptable as shown in Table 4.4.

Table 4.4  
*The Reliability Test Results for Pilot Study (n=42)*

| <b>Latent Variables</b>    | <b>Number of Items</b> | <b>Cronbach Alpha</b> |
|----------------------------|------------------------|-----------------------|
| Excise Duty Non-compliance | 9                      | .719                  |
| Tax Rate                   | 2                      | .814                  |
| Penalty Rate               | 4                      | .772                  |
| Tax Audit                  | 3                      | .934                  |
| Tax Fairness               | 7                      | .623                  |
| Peer Influence             | 5                      | .637                  |
| Tax Knowledge              | 7                      | .867                  |
| Corruption                 | 8                      | .887                  |
| Probability of Detection   | 6                      | .735                  |
| Tax Agent                  | 4                      | .640                  |

The feedback from the pilot study received was used to conduct the reliability test on the instrument as shown in Table 4.4. This pilot study highlighted the difficult, unnecessary and ambiguous questions. As a result, a penalty rate question number 4 was removed to increase the reliability coefficient .44 to .77.

#### **4.15 Data Analysis**

This section explains the statistical technique to analyse the data collected.

##### **4.15.1 Partial Least Square (PLS) Structural Equation Modelling Approach**

The most two common approaches performed in structural equation model (SEM) to estimate the relationships are covariance-based SEM (AMOS and Lisrel) and variance-based SEM (partial least squares) (Hair, Balck, Babin, & Anderson, 2010; Hair et al., 2011). The main difference between CB-SEM and PLS-SEM is that CB-SEM mainly focuses on theory testing confirmation while PLS-SEM on theory prediction (Hair et al., 2011). The consideration whether to use CB-SEM or PLS-SEM relies on the study objectives and the characteristics of data (Hair et al., 2016).

Nowadays, PLS-SEM is commonly used by researchers due to its ability in handling convergence issue (Henseler, 2010). Secondly, it is considered a “silver bullet” because it has the potential to explain the causal relationship between multiple independent and dependent variables in theoretical models (Hair et al., 2010). Furthermore, PLS-SEM performs well in non-normal data distribution, and it can examine the theory and its measures simultaneously (Chin & Newsted, 1999). As this study is prediction orientation, PLS-SEM was chosen. Also, PLS-SEM is appropriate for complex models. Since this study has multiple variables, the use of PLS-SEM was appropriate.

Another reason for selecting PLS-SEM is that it has two dominant unification approaches. PLS-SEM can examine the measurement model (outer model) and structural model (inner model) (Lee, Petter, Fayard, & Robinson, 2011) simultaneously. The relationship between the latent variable and its manifest variables is explained in the measurement model while the unobserved variables and their relationships are explained in the structural model. The constructs in this study were reflective. The PLS algorithm was performed to obtain the results for loadings between the reflective constructs and their indicators in the measurement model.

PLS-SEM tools are rarely applied in indirect tax non-compliance studies. The use of PLS-SEM was to show that PLS-SEM tools can be successfully applied to indirect tax non-compliance model also. SmartPLS version 3.2.4 was used to explain the relationships between the variables.

To test moderation, Dawson (2014) model was used. Dawson (2014) explained that a moderator variable would affect the strength or nature of the association between independent and dependent variables. The effect of a moderator is described as a two-way interaction plot. In this plot, the simple slope analysed slope differences are tested (Dawson, 2014).

#### **4.16 Summary**

This chapter presented explained the methods and procedures to achieve the objectives of the current study. The conceptual model was developed based on deterrence theory and extended Fischer model (1992). The model has seven independent variables, two moderating variables, and one dependent variable. Based on the model, 21 hypotheses were developed.

Survey questionnaires were used to collect data. Disproportionate sampling technique was used to select the sample. PLS-SEM was employed to analyse the data. Before the main study, Statistical Package for the Social Sciences (SPSS) Version 22 was used to test the reliability of the data collected for the pilot test. In the next chapter, the results of the survey are presented.



## **CHAPTER FIVE**

### **RESEARCH FINDINGS**

#### **5.1 Introduction**

This chapter presents the results of the survey. This chapter comprises 11 sections. The first section is the introduction followed by preliminary data analysis. Section three covers the estimation technique for missing data and outliers. The next section provides non-response bias analysis. Section six focuses on the assumptions of multivariate tests while the next section elaborate the participants' profile. Section eight describes the characteristics of the data. The structural model to test the research hypotheses for a direct relationship and indirect relationship, the estimation of the coefficient of determination ( $R^2$ ), the effect size ( $f^2$ ) and predictive relevance ( $Q^2$ ) is assessed in section nine and ten. The importance of performance map analysis (IPMA) is presented in section eleven. Finally, section twelve summarises the chapter.

#### **5.2 Data Editing and Coding**

The raw data were edited to ensure their completeness after they were collected. After the data had been entered into SPSS, the editing process began. There are two ways of editing: precoding and post coding (De Vaus, 2013). This study employed the precoding technique whereby all items in the questionnaire were pre-coded with numerical values. Otherwise, it cannot be counted or manipulated for analysis (Sekaran & Bougie, 2013).

To ensure the less favourable of low value and more favourable in high value, the indicators were recoded in the same directions (Hair et al., 2016). Therefore, the

indicators with negative statements were recoded in a positive direction. The indicators recoded involved tax rate item number 1, penalty rate item number 4, tax agent item number 8, the probability of detection item number 1, 2, 3, and 6, and excise duty non-compliance item number 2 and 3.

### **5.3 Analysis of Missing Values**

Before the analysis, data screening was conducted to check for missing values to meet the requirement of the SEM analysis (Schumacker & Lomax, 2004). Furthermore, the data organisation and conversion into the appropriate form ensure the quality of data for analysis (Kristensen & Eskildsen, 2010). The participants' failure to answer one or more questions caused missing data (Sekaran & Bougie, 2013). An observation was removed from the data file if the missing data exceeded 15% (Hair et al., 2016). A statistical package like PLS requires missing data remedied by a mean value replacement. Hair et al. (2016) suggested the indicator variable's missing value is replaced with the mean of indicator's valid values. The mean replacement applied in this study was based on the rule of thumb recommended by Hair et al. (2016). The mean value replacement is used if the missing value per indicator is less than 5% (Hair et al., 2016). In this study, the missing value represented less than 5% per indicators as illustrated in Table 5.1. The rule of thumb recommended by Hair et al. (2016) suggested that the mean value replacement used when there are less than 5% values missing per indicator.

Table 5.1  
*Number and Percentage of Missing Data*

| <b>Construct</b>           | <b>Missing Value</b>                                               |
|----------------------------|--------------------------------------------------------------------|
| Excise Duty Non-compliance | 8                                                                  |
| Tax Rate                   | -                                                                  |
| Penalty Rate               | 7                                                                  |
| Tax Audit                  | 9                                                                  |
| Tax Fairness               | 3                                                                  |
| Peer Influence             | 2                                                                  |
| Tax Knowledge              | -                                                                  |
| Corruption                 | -                                                                  |
| Probability of Detection   | -                                                                  |
| Tax Agent                  | 7                                                                  |
| Total                      | 36                                                                 |
| No of Data Points          | Observed variables-<br>66 indicators x 521 respondents<br>= 34,386 |
| Percentage of Missing Data | $36/34,386 \times 100 = 0.10$ percent                              |

Thirty-six missing data indicated 0.10 percent of the overall 34,386 data entries. Even though the result of missing data is small but could lead erroneous to the result and should be remedied. Hence, the Expectation Maximisation (EM) or mean value replacement method available in SPSS version 22 was performed to estimate the value of each mean and covariance evaluation (Little & Rubin, 2014). The missing value of an indicator variable replaced with the valid values of that indicator which reduces the variability in the data (Hair et al., 2016). The EM method was applied because it has less bias and fewer convergence problems with randomly missing data condition.

#### 5.4 Analysis of Outliers

Hair et al. (2016) defined outliers as extreme answers to certain questions or the entire questions. Outliers occur due to data entry error. For instance, “77” is typed instead of “7” in the seven-point Likert scale. Hair et al. (2010) stated that outliers occur if the values in the data stand out from the observation due to unusually high or low values. Outliers in this study were remedied to avoid biased results. Further, Kumar et al.

(2013) noted that “to avoid biased results, the data must be checked for both univariate (outliers on one variable alone) and multivariate (outliers on a combination of variables) outliers” (p.168). This study used regression procedures to identify univariate and multivariate outliers. Univariate outliers were analysed by looking at the z-score calculated in the survey data set. Univariate outliers happen when the z-scores are greater than  $\pm 3.0$  as suggested by Coakes and Steed (2003). In this study, only one case was deleted based on the guideline. For multivariate outliers, the Mahalanobis Distance ( $D^2$ ) approach was applied. The approach evaluated every observation’s distance point from the mean centre of the entire observations (Hair et al., 2010). Any Mahalanobis Distance ( $D^2$ ) or degrees of freedom greater than  $\pm 1.96$  or  $\pm 2.58$  was removed from the data. In this regard, 20 companies were identified having degrees of freedom greater than  $\pm 1.96$  or  $\pm 2.58$  and removed. From 521 companies, 500 companies remained after outliers were removed.

## **5.5 Non-Response Bias**

Non-response bias could mislead statistical analysis and bias on research outcomes (Araña & León, 2013). The non-response bias was tested by comparing early and late responses. In this study, early responses referred to those who had responded within December 2015 and January 2016. On the other hand, late participants were those who responded after multiple reminders and follow-ups from February to March 2016. An independent sample t-test was carried out to check the mean between the two groups. A p value of less than 0.05 was used to determine significance differences in the mean values in the two groups (Gaur & Gaur, 2006; Pallant, 2013). The result of the independent samples t-test is shown in Table 5.2.

Table 5.2  
*The Independent Samples t-Test Results for Non-Response Bias*

| Construct                  | Response | n   | Mean  | SD    | Levene's Test for Equality of Variances |                | t-test for Equality of Means |                          |
|----------------------------|----------|-----|-------|-------|-----------------------------------------|----------------|------------------------------|--------------------------|
|                            |          |     |       |       | F                                       | Sig. (p-value) | t                            | Sig. (p-value) (2tailed) |
| Excise Duty Non-Compliance | Early    | 247 | 4.784 | 0.656 | 1.229                                   | 0.268          | 0.297                        | 0.767                    |
|                            | Late     | 253 | 4.767 | 0.630 |                                         |                | 0.297                        | 0.767                    |
| Tax Rate                   | Early    | 247 | 5.563 | 0.880 | 0.206                                   | 0.650          | -0.690                       | 0.490                    |
|                            | Late     | 253 | 5.616 | 0.839 |                                         |                | -0.690                       | 0.491                    |
| Penalty Rate               | Early    | 247 | 4.844 | 1.085 | 1.709                                   | 0.192          | 0.602                        | 0.547                    |
|                            | Late     | 253 | 4.784 | 1.160 |                                         |                | 0.603                        | 0.547                    |
| Tax Audit                  | Early    | 247 | 5.223 | 0.880 | 0.205                                   | 0.651          | 0.996                        | 0.320                    |
|                            | Late     | 253 | 5.143 | 0.910 |                                         |                | 0.996                        | 0.320                    |
| Tax Fairness               | Early    | 247 | 4.890 | 0.982 | 0.299                                   | 0.585          | -0.297                       | 0.767                    |
|                            | Late     | 253 | 4.915 | 0.970 |                                         |                | -0.297                       | 0.767                    |
| Peer Influence             | Early    | 247 | 4.971 | 0.922 | 0.844                                   | 0.359          | 0.439                        | 0.661                    |
|                            | Late     | 253 | 4.934 | 0.964 |                                         |                | 0.439                        | 0.661                    |
| Tax Knowledge              | Early    | 247 | 5.415 | 1.150 | 0.160                                   | 0.689          | 0.286                        | 0.775                    |
|                            | Late     | 253 | 5.386 | 1.166 |                                         |                | 0.286                        | 0.775                    |
| Corruption                 | Early    | 247 | 4.751 | 1.554 | 0.196                                   | 0.658          | -0.817                       | 0.415                    |
|                            | Late     | 253 | 4.863 | 1.503 |                                         |                | -0.816                       | 0.415                    |
| Probability of Detection   | Early    | 247 | 4.584 | 1.060 | 0.024                                   | 0.878          | 0.198                        | 0.843                    |
|                            | Late     | 253 | 4.566 | 1.030 |                                         |                | 0.198                        | 0.843                    |
| Tax Agent                  | Early    | 247 | 4.978 | 0.666 | 0.705                                   | 0.402          | -0.066                       | 0.947                    |
|                            | Late     | 253 | 4.982 | 0.707 |                                         |                | -0.066                       | 0.947                    |

Table 5.2 shows two sets of results. The first was the Levene's test equality of variance and the second t-test equality of mean. The Levene's test was used to verify whether there was any equal variance between the early and late groups before determining the appropriate *t* values in the independent *t*-test. This was done by checking whether the *F* value was significant at 0.05 or not. If the *F* value was greater than 0.05, equal variances assumed were accepted. Conversely, if *F* value was less than 0.05, the variance of two groups was significantly different. Hence, the equal variances not assumed should be used (Gaur & Gaur, 2006; Hinton, McMurray, & Brownlow, 2014).

Based on the above procedure, 500 participants were classified as early (247) and late responders (253). The Levene's test equality of variance showed that the variance between the groups was not significantly different on all variables. The t-test results indicated no significant differences in all variables between the early and late groups because the *p* values displayed were greater than 0.05. Hence, it can be concluded that both groups were not significantly different.

## **5.6 Assumption of Multivariate Tests**

Certain conditions must be fully filled before performing a multiple regression analysis to ensure that the interpretation of regression model is valid. Four main assumptions of multiple regression tests were checked, i.e., normality, linearity, multicollinearity, and homoscedasticity issues.

### **5.6.1 Normality Test**

Previously, it was argued that an accurate model estimation of SmartPLS could be done with non-normal data (Cassel, Hackl, & Westlund, 1999). However, recently Hair,

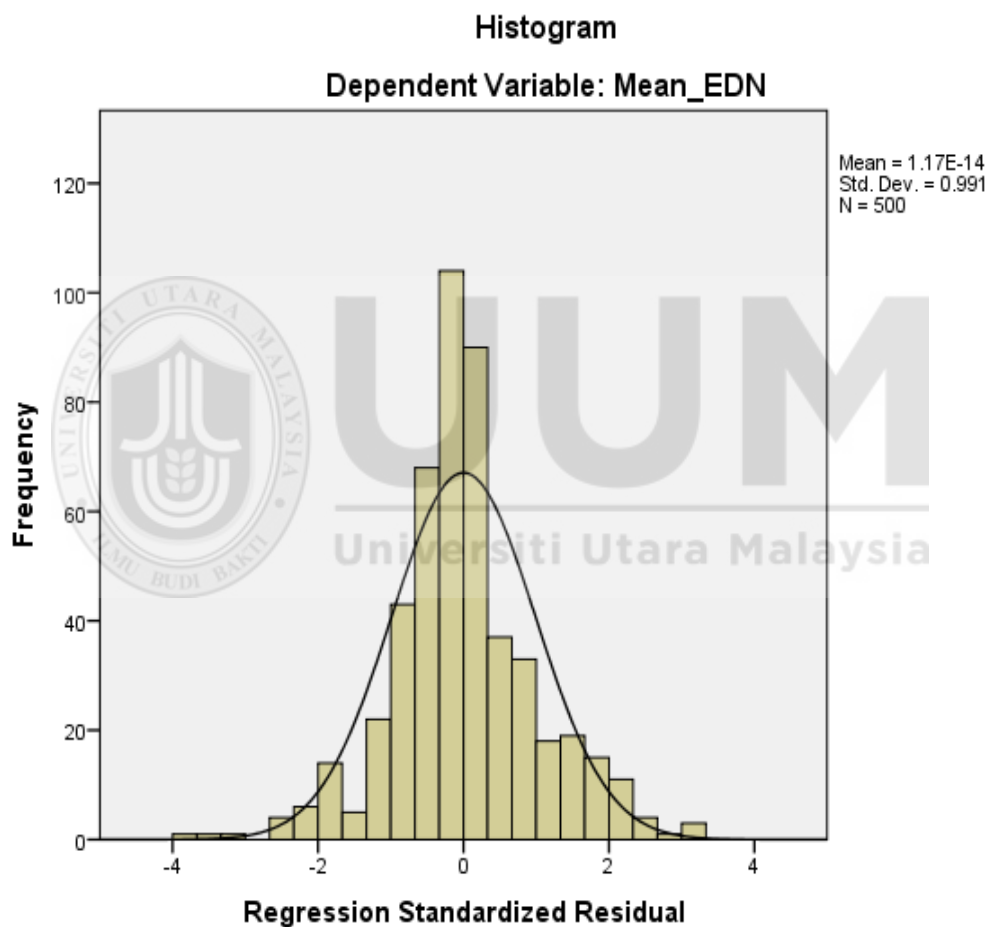
Sarstedt, Ringle and Mena (2012) suggested that normality test should be performed by researchers as an important test in structural equation modelling. They argued that bootstrapped standard errors could be inflated by extreme non-normal data (Hair et al., 2011). Moreover, the statistical significance of the path coefficients will be underestimated (Dijkstra, 1983). In this study, three measures were used to check for normality namely skewness and kurtosis, histogram, and normal probability plot.

According to Tabachnick and Fidell (2007), skewness relates to the distribution symmetry. On the other hand, kurtosis provides information on the peakedness of the data distribution. Data are considered reasonably normal if the skewness values are within the acceptable range of +3 to -3 as suggested by Kline (1998). Similarly, the kurtosis values ranging from +3 to -3 are considered acceptable (Coakes & Steed, 2003). The skewness and kurtosis values for the current study are as shown in Table 5.3.

Table 5.3  
*Result of Skewness and Kurtosis for Normality Test*

| Variables                  | Skewness  |            | Kurtosis  |            |
|----------------------------|-----------|------------|-----------|------------|
|                            | Statistic | Std. Error | Statistic | Std. Error |
| Excise Duty Non-compliance | -0.104    | 0.109      | 0.313     | 0.218      |
| Tax Rate                   | -1.100    | 0.109      | 0.782     | 0.218      |
| Penalty Rate               | -0.009    | 0.109      | -0.731    | 0.218      |
| Tax Audit                  | -0.294    | 0.109      | -0.172    | 0.218      |
| Tax Fairness               | 0.293     | 0.109      | -0.366    | 0.218      |
| Peer Influence             | 0.039     | 0.109      | -0.660    | 0.218      |
| Tax Knowledge              | -0.799    | 0.109      | -0.101    | 0.218      |
| Corruption                 | -0.644    | 0.109      | -0.307    | 0.218      |
| Probability of Detection   | 0.416     | 0.109      | -0.652    | 0.218      |
| Tax Agent                  | -0.171    | 0.109      | 0.191     | 0.218      |

As shown in Table 5.3, the minimum and maximum skewness values for all the variables were -1.100 and 0.416 respectively, which were lower than 3. As for kurtosis, the values of all variables ranged from -0.731 to 0.782, which were lower than 3. Based on the skewness and kurtosis values, the normality assumption was not violated. The histogram of residuals was also performed to check the normality assumption. As shown in Figure 5.1, the normality assumption was met.



*Figure 5.1*  
Histogram of Residuals

The normal probability plot also assessed to establish normality. Figure 5.2 shows the cumulative distribution of data values with the cumulative distribution of theoretical normal distribution presented in diagonal straight line. As shown, the normal

distribution not deviant and closely followed the straight diagonal line for all the variables and individual variable as shown in Appendix C.

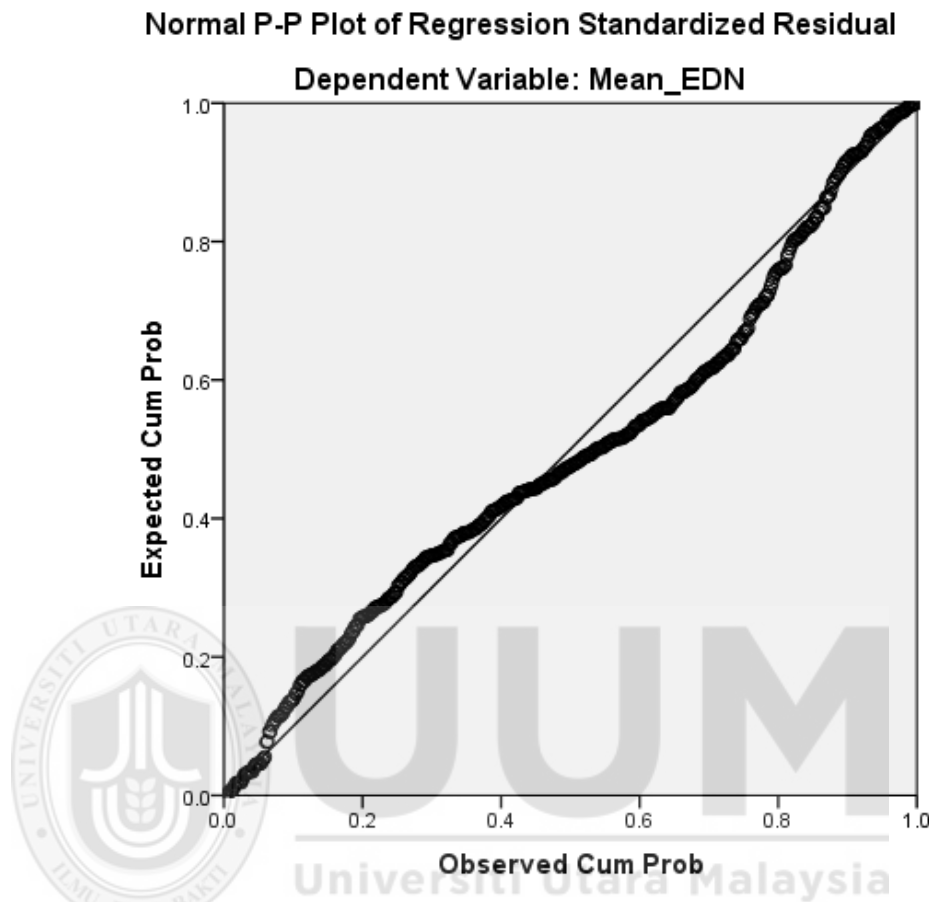
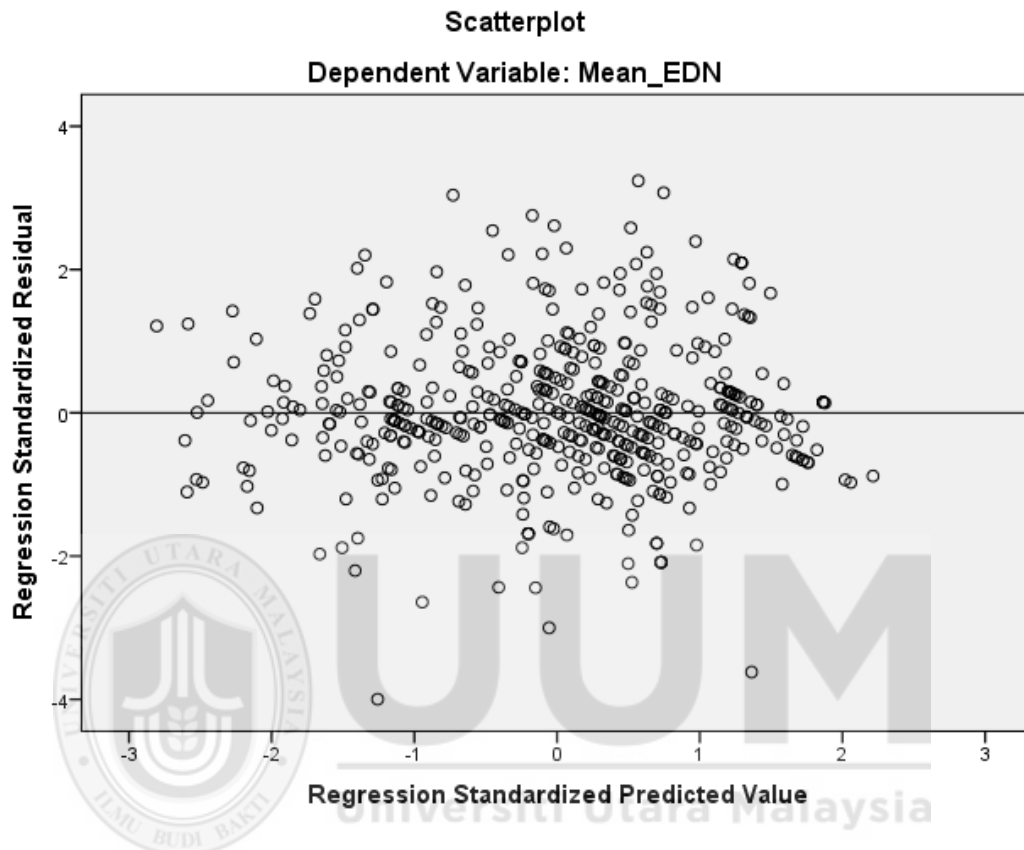


Figure 5.2  
Normal Probability Plot

### 5.6.2 Homoscedasticity Test

According to Hair et al. (2010), homoscedasticity is the assumption that the dependent variable exhibits equal levels of variance across the range of predictor variables. Each predictor variable value must be equally dispersed as the dependent variable values (Hair et al., 2010). Homoscedasticity can cause the coefficient estimates to be underestimated. Furthermore, in some cases, the insignificant variables could be significant. In this study, homoscedasticity and the independence of error terms were examined by the scatter plot of dependent variable residuals. The residual plot was

developed by plotting standardised residual values (\*ZRESID) against standardised predicted values (\*ZPRED). The scatter plot for homoscedasticity test is illustrated in Figure 5.3.



*Figure 5.3*  
Scatter Plot

As indicated, no relationship between the residual and predicted values was revealed. According to Hair et al. (2010), if the scatter plot failed to demonstrate any non-linear shaped pattern, triangle, and diamond-shaped, then homoscedasticity or independence of residuals is established.

### 5.6.3 Linearity

Linearity test refers to examining the linear association between a dependent variable that is constant across a range of values of independent variables (Hair et al., 2010). To

obtain this point, the common method performed is the normal P-P plot of regression standardised residual plot. The standardised predicted value (\*ZPRED) was plotted against the standardised residual value (\*ZRESID). Figure 5.3 shows the scatters for each regression model in the analysis. The scatter plot exhibited no evidence of a non-linear pattern of the residuals, and there was no sign of a curved pattern of residual dispersion (read from left to right), which might imply a non-linear relationship. The graph also shows that the residual scores were concentrated at the centre of the zero point, suggesting that the linearity assumption was met.

#### **5.6.4 Multicollinearity Test**

Multicollinearity exists when the independent variable is highly and significantly correlated with another independent variable and distorts the regression results (Hair et al., 2010). A multicollinearity issue can be detected when the correlation value is greater than 0.90 (Hair et al., 2010). The multicollinearity test was conducted by examining the variance influence factor (VIF) and the tolerance values.

The VIF value is the amount of variability of the selected independent variable which is explained by other independent variables. On the other hand, the tolerance value is the inverse of VIF (Hair et al., 2010). The VIF value must be lower than 10 while the tolerance value higher than 0.1 is acceptable (Hair et al., 2010). A VIF value closer to 1.00 represents little or no multicollinearity issue.

Table 5.4 shows the VIF and tolerance values. While the tolerance values ranged from 0.332 to 0.827, the VIF values ranged from 1.209 to 3.01, indicating that multicollinearity was not an issue in this study.

Table 5.4  
*Multicollinearity Test*

| Variable                 | Collinearity Statistics |       |
|--------------------------|-------------------------|-------|
|                          | Tolerance               | VIF   |
| Tax Rate                 | 0.759                   | 1.317 |
| Penalty Rate             | 0.705                   | 1.419 |
| Tax Audit                | 0.332                   | 3.013 |
| Tax Fairness             | 0.567                   | 1.763 |
| Peer Influence           | 0.390                   | 2.564 |
| Tax Knowledge            | 0.430                   | 2.326 |
| Corruption               | 0.520                   | 1.922 |
| Probability of Detection | 0.827                   | 1.209 |
| Tax Agent                | 0.574                   | 1.742 |

## 5.7 Respondents' Profile

Table 5.5 to Table 5.11 describes the profile of 500 respondents who committed offences under the Excise Act (1976).

### 5.7.1 Gender

Table 5.5 shows that male respondents committed excise duty offences more than female, i.e. 80% as opposed to 19.4%.

Table 5.5  
*Respondents by Gender*

| Gender  | Frequency | Percent |
|---------|-----------|---------|
| Male    | 401       | 80.2    |
| Female  | 97        | 19.4    |
| Missing | 2         | 0.4     |
| Total   | 500       | 100     |

### 5.7.2 Race

Table 5.6 shows that Malay (39.4%) and Chinese (39.2%) respondents were almost equally represented. While 13.4% of the respondents were Indians and 7.4% other races including Kadazan, Bajau, and Iban in Sabah and Sarawak.

Table 5.6  
*Respondents by Race*

| <b>Race</b> | <b>Frequency</b> | <b>Percent</b> |
|-------------|------------------|----------------|
| Malay       | 197              | 39.4           |
| Chinese     | 196              | 39.2           |
| Indian      | 67               | 13.4           |
| Others      | 37               | 7.4            |
| Missing     | 3                | 0.6            |
| Total       | 500              | 100            |

### 5.7.3 Age

Those who were between 30 and 39 (32.8%) years old and 40 and 49 (33.4%) years old equally committed excise duty offences. Meanwhile, only three respondents were 60 years old and above as illustrated in Table 5.7.

Table 5.7  
*Respondents by Age*

| <b>Age</b>   | <b>Frequency</b> | <b>Percent</b> |
|--------------|------------------|----------------|
| 20-29        | 74               | 14.8           |
| 30-39        | 164              | 32.8           |
| 40-49        | 167              | 33.4           |
| 50-59        | 87               | 17.4           |
| 60 and above | 3                | 0.6            |
| Missing      | 5                | 1.0            |
| Total        | 500              | 100            |

### 5.7.4 Education Level

Respondents who had Sijil Pelajaran Malaysia (SPM) and diploma holders or Sijil Tinggi Pelajaran Malaysia were more likely than other educational groups to commit an offence, as shown in Table 5.8.

Table 5.8  
*Respondents by Education Level*

| <b>Education Level</b> | <b>Frequency</b> | <b>Percent</b> |
|------------------------|------------------|----------------|
| SPM                    | 197              | 39.4           |
| Diploma / STPM         | 172              | 34.4           |
| Degree                 | 110              | 22.0           |
| Others                 | 16               | 3.2            |
| Missing                | 5                | 1.0            |
| Total                  | 500              | 100            |

#### 5.7.5 Nature of Goods Imported

Table 5.9 shows the biggest group of offenders was those who committed an offence for cigarettes importation (43.6%), followed by those who imported liquor (31.9%) and vehicles (21.4%).

Table 5.9  
*Respondents by Nature of Imported Goods*

| <b>Nature of Imported Goods</b> | <b>Frequency</b> | <b>Percent</b> |
|---------------------------------|------------------|----------------|
| Cigarettes                      | 218              | 43.6           |
| Liquor                          | 156              | 31.2           |
| Imported Vehicles               | 107              | 21.4           |
| Missing                         | 19               | 3.8            |
| Total                           | 500              | 100            |

#### 5.7.6 Current Position in the Firm

As shown in Table 5.10, the biggest group of offenders was managers (48.0%), followed by senior managers (14.2%), assistant managers (11.6%) and partners (11.2%). Only 5% of the offenders were probation managers.

Table 5.10  
*Respondents by Current Position in the Firm*

| <b>Current Position in the Firm</b> | <b>Frequency</b> | <b>Percent</b> |
|-------------------------------------|------------------|----------------|
| Probationary Manager                | 25               | 5.0            |
| Assistant Manager                   | 58               | 11.6           |

Table 5.10 (Continued)

| <b>Current Position in the Firm</b> | <b>Frequency</b> | <b>Percent</b> |
|-------------------------------------|------------------|----------------|
| Manager                             | 240              | 48.0           |
| Senior Manager                      | 71               | 14.2           |
| Partner                             | 56               | 11.2           |
| Others                              | 41               | 8.2            |
| Missing                             | 9                | 1.8            |
| Total                               | 500              | 100            |

### 5.7.7 State of Offence Committed

As shown in Table 5.11, the offenders came from all over the country, with Johor Bahru leading in the survey (13.6%), followed by Kuala Lumpur (12.6%), and Sabah 60 companies (12.0%). The least number of offenders was from Perlis.

Table 5.11  
*Respondents by State of Offence Committed*

| <b>State of Offence Committed</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------------------------|------------------|----------------|
| Johor Bahru                       | 68               | 13.6           |
| Kuala Lumpur                      | 63               | 12.6           |
| Sabah                             | 60               | 12.0           |
| Sarawak                           | 48               | 9.6            |
| Melaka                            | 48               | 9.6            |
| Terengganu                        | 36               | 7.2            |
| Pulau Pinang                      | 35               | 7.0            |
| Selangor                          | 32               | 6.4            |
| Pahang                            | 30               | 6.0            |
| Kelantan                          | 27               | 5.4            |
| Ipoh                              | 20               | 4.0            |
| Alor Setar                        | 15               | 3.0            |
| Negeri Sembilan                   | 10               | 2.0            |
| Perlis                            | 8                | 1.6            |
| Total                             | 500              | 100            |

### 5.8 Descriptive Analysis

Descriptive statistics were performed to describe the basic features of each variable.

The descriptive statistics run were mean, standard deviation, minimum and maximum

values for each item. Table 5.12 to 5.21 show the range and variance in each item and construct.

### 5.8.1 Excise Duty Non-compliance

Table 5.12 shows taxpayers' non-compliance behaviour on excise duty. The participants were required to express their opinion on excise duty non-compliance behaviour from items EDN1 to EDN9. The result showed higher mean values ranging from 5.34 to 5.67 for items EDN1, EDN5, EDN7, and EDN8, which represented unintentional non-compliant indicators with standard deviations of 1.34, 1.41, 1.22 and 1.33 respectively. EDN9 showed a mean value of 5.33 and a standard deviation of 1.73. EDN2 had a mean value of 4.68 with a standard deviation of 1.88. However, the mean values for EDN3 and EDN4 were 2.73 and 3.51 respectively and a standard deviation of 1.53 and 1.83 respectively. Overall, the result suggested that the participants might not comply with their tax obligations when there is a possibility to do so.

Table 5.12  
*Descriptive Statistics on Excise Duty Non-compliance*

| Measure                                                                                                               | Code | n   | Min | Max | Mean | Standard Deviation |
|-----------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Excise Duty Non-compliance</b>                                                                                     |      |     |     |     |      |                    |
| I pay excise duty as required by the Excise Regulations because of a sense of responsibility.                         | EDN1 | 500 | 1   | 7   | 5.34 | 1.337              |
| It is <u>NOT</u> everyone's responsibility to pay the correct amount of excise duty.                                  | EDN2 | 500 | 1   | 7   | 4.68 | 1.883              |
| I am paying excise duty as required by the Excise Regulations because I do not know exactly how to evade these taxes. | EDN3 | 500 | 1   | 7   | 2.73 | 1.525              |
| There is no problem in under declaring the value of goods in Customs declaration.                                     | EDN4 | 500 | 1   | 7   | 3.51 | 1.832              |

Table 5.12 (Continued)

| Measure                                                                                                                                                               | Code | n   | Min | Max | Mean | Standard Deviation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| I pay my excise duty as required by Excise Regulations after considering into how I could legally save taxes.                                                         | EDN5 | 500 | 1   | 7   | 5.40 | 1.412              |
| If everyone paid the correct amount of excise duty we would receive better public facilities.                                                                         | EDN6 | 500 | 1   | 7   | 4.69 | 1.886              |
| <b>Excise Duty Non-compliance</b>                                                                                                                                     |      |     |     |     |      |                    |
| I ensure the excise duty declarations are correct because I fear that my reputation would be ruined if I were to get caught for not following the Excise Regulations. | EDN7 | 500 | 1   | 7   | 5.67 | 1.219              |
| Under-reporting the excise duty declaration is not ethical for me                                                                                                     | EDN8 | 500 | 1   | 7   | 5.62 | 1.330              |
| I will attend a course which informs me about the current possibilities for reducing tax.                                                                             | EDN9 | 500 | 1   | 7   | 5.33 | 1.726              |

### 5.8.2 Tax Rate

The views of the participants on the tax rate imposed on cigarettes, liquor and imported vehicles are presented in Table 5.13. The results of the descriptive statistics in the table revealed that the majority of the respondent strongly agreed concerning the higher tax rate caused the smuggling activities. These views are convened in items TR2 to TR5 with high mean values ranging from 5.83 to 5.93 and the standard deviation ranging from 1.07 to 1.16. However, the mean score for TR1, 4.43 with standard deviation 1.84 is a reflection of the higher tax rate is not a cause to pay less tax.

Table 5.13  
Descriptive Statistics on Tax Rate

| Measure                                                                                                                                                               | Code | n   | Min | Max | Mean | Standard Deviation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Tax Rate</b>                                                                                                                                                       |      |     |     |     |      |                    |
| The current tax rates imposed on cigarettes, liquor and imported vehicles are too high. So it is not cheating when you find ways to pay less tax than you suppose to. | TR1  | 500 | 1   | 7   | 4.43 | 1.837              |
| The amount of excise duty paid is too high for cigarettes, liquor and imported vehicles.                                                                              | TR2  | 500 | 1   | 7   | 5.83 | 1.159              |
| The higher the tax rate for cigarettes, liquor and imported vehicles, the higher the price will be.                                                                   | TR3  | 500 | 2   | 7   | 5.89 | 1.073              |
| The high excise duty rates for cigarettes, liquor and imported vehicles will increase the cost of importation.                                                        | TR4  | 500 | 1   | 7   | 5.87 | 1.116              |
| The high excise duty rates imposed on cigarettes, liquor and imported vehicles motivates smuggling activities.                                                        | TR5  | 500 | 1   | 7   | 5.93 | 1.103              |

### 5.8.3 Penalty Rate

The penalty rate illustrated in Table 5.14. This scores obtained based on the hypothetical scenario related to the penalty imposed for falsifying the Customs declarations. The mean value for all the items measuring penalty quite high which are ranging from 4.43 to 5.20 with a standard deviation ranging from 1.54 to 1.95. Based on the close examinations all of the participants were aware of the consequences and the penalty imposed if the offence committed.

Table 5.14

*Descriptive Statistics on Penalty Rate*

| Measure                                                                                                    | Code | n   | Min | Max | Mean | Standard Deviation |
|------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Penalty Rate</b>                                                                                        |      |     |     |     |      |                    |
| Importer X deserves the harsher punishment.                                                                | PR1  | 500 | 1   | 7   | 4.80 | 1.788              |
| X should be personally responsible for receiving the penalty.                                              | PR2  | 500 | 1   | 7   | 4.73 | 1.906              |
| X knew the probable consequences of his / her evasion.                                                     | PR3  | 500 | 1   | 7   | 4.91 | 1.849              |
| X should ignore the penalty and take the risk of being caught and prosecuted in Court.                     | PR4  | 500 | 1   | 7   | 4.43 | 1.946              |
| I pay taxes as required by the Excise Regulations because the punishments for tax evasion are very severe. | PR5  | 500 | 1   | 7   | 5.20 | 1.539              |

**5.8.4 Tax Audit**

Table 5.15 provides an overview of the taxpayer's audit experiences carried out by Customs Auditors in items TAU2 to TAU5. Whereas, item TAU1 on their compliance level based on the frequencies of an audit carried out which showed the high mean value of 5.30 and with standard deviation 1.30. This is an indication that taxpayers are more compliant if tax audit conducted quite often. For the items TAU2 to TAU5 the higher mean scores ranging from 4.72 to 5.60 with a standard deviation ranging from 1.24 to 1.83. These indicate that strong agreement that auditors are showing interest in finding fault in their declarations rather than educate them to perform the proper Customs declarations. Furthermore, they are forced to accept the audit results even though they are not agreed.

Table 5.15  
*Descriptive Statistics on Tax Audit*

| Measure                                                                                                                                             | Code | n   | Min | Max | Mean | Standard<br>Deviation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|-----------------------|
| <b>Tax Audit</b>                                                                                                                                    |      |     |     |     |      |                       |
| I pay taxes as required by the Excise Regulations because Customs Department often carries out tax audits.                                          | TAU1 | 500 | 1   | 7   | 5.30 | 1.298                 |
| I accepted decisions made by Customs Auditors even if I disagreed with them.                                                                        | TAU2 | 500 | 1   | 7   | 5.14 | 1.379                 |
| The Audit findings are accurate and clear.                                                                                                          | TAU3 | 500 | 2   | 7   | 5.16 | 1.240                 |
| I am confident that the Customs Auditors will not reveal my confidential business information to others.                                            | TAU4 | 500 | 1   | 7   | 5.60 | 1.350                 |
| Customs Auditors are more interested to find fault and penalised the company for the wrong doings, than helping the company to do the right things. | TAU5 | 500 | 1   | 7   | 4.72 | 1.826                 |

#### 5.8.5 Tax Fairness

Tax fairness was expressed through items TF1 to TF7. The higher the mean represent, the fairer perception on tax system structure as in Table 5.16. Items TF1, TF2, TF4 and TF5 have mean scores above 5 with standard deviation 1.34, 1.37, 1.12 and 1.15 respectively. These descriptive statistics suggests that the participants were overwhelmingly agreed the excise duty tax system structure is fair. However, the participants indicate the mean value of 4 for items TF3, TF6 and TF7. This confirmed that participants perceived the government moderately spending taxpayers' money with standard deviation 1.98, 1.85 and 1.88 respectively.

Table 5.16  
*Descriptive Statistics on Tax Fairness*

| Measure                                                                                             | Code | n   | Min | Max | Mean | Standard Deviation |
|-----------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Tax Fairness</b>                                                                                 |      |     |     |     |      |                    |
| Generally, I feel that excise duty is a fair tax.                                                   | TF1  | 500 | 1   | 7   | 5.16 | 1.337              |
| I believe that excise duty tax system is a fair system that the government uses to collect revenue. | TF2  | 500 | 1   | 7   | 5.23 | 1.372              |
| From the excise duty that I paid, I get enough return in the form of public services.               | TF3  | 500 | 1   | 7   | 4.09 | 1.984              |
| Customs Officers tries to be fair when making their decisions on excise duty assessments.           | TF4  | 500 | 1   | 7   | 5.41 | 1.123              |
| The Customs Officers respect the taxpayer's rights as a citizen.                                    | TF5  | 500 | 2   | 7   | 5.48 | 1.147              |
| The government is NOT being transparent in spending taxpayer's money.                               | TF6  | 500 | 1   | 7   | 4.92 | 1.850              |
| I believe that the Malaysian government is spending public fund wisely.                             | TF7  | 500 | 1   | 7   | 4.03 | 1.883              |

### 5.8.6 Peer Influence

The participants view on tax non-compliance, and peer influence was expressed through item PI1 to PI5 and presented in Table 5.17. The participants had an opinion that people who are important to them highly influenced their tax declarations with the mean values greater than 5 with the standard deviation of these items to range from 1.25 to 1.37. However, only item PI3 and PI5 has the mean score of 4.00 and 4.84. This expressed that they are moderately sure that people who are important to them declared the goods accurately with the standard deviation of 1.71 and 1.75.

Table 5.17  
*Descriptive Statistics on Peer Influence*

| Measure                                                                                                                | Code | n   | Min | Max | Mean | Standard<br>Deviation |
|------------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|-----------------------|
| <b>Peer Influence</b>                                                                                                  |      |     |     |     |      |                       |
| Most people who are important to me think that I should declare all my imported goods accurately.                      | PI1  | 500 | 2   | 7   | 5.36 | 1.179                 |
| In general, I want to do what most people who are important to me think that I should do with regard to excise duty.   | PI2  | 500 | 2   | 7   | 5.32 | 1.251                 |
| Most people who are important to me would not declare their goods accurately when importing goods.                     | PI3  | 500 | 1   | 7   | 4.00 | 1.714                 |
| I would be deterred from under-reporting if I believe that I will lose respect of most people who are important to me. | PI4  | 500 | 1   | 7   | 5.23 | 1.366                 |
| I usually make decisions to pay taxes based on my friends' experiences or suggestions.                                 | PI5  | 500 | 1   | 7   | 4.84 | 1.747                 |

#### 5.8.7 Tax Knowledge

The descriptive statistics with regard the respondent's knowledge and understanding of tax rules and regulations as in Table 5.18. The result shows that the mean scores concerning the participants' knowledge range from 5.23 to 5.59 together with standard deviation from 1.27 to 1.52. Participants were well informed on tax rules and regulations.

Table 5.18  
*Descriptive Statistics for Tax Knowledge*

| Measure                                                                                                                                                                                              | Code | n   | Min | Max | Mean | Standard Deviation |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Tax Knowledge</b>                                                                                                                                                                                 |      |     |     |     |      |                    |
| I am aware of the current tax rate of taxes imposed on the cigarettes, vehicles and liquor when doing importation.                                                                                   | TK1  | 500 | 1   | 7   | 5.31 | 1.465              |
| The license issued to the taxpayers' under Excise Act 1976 should be renewed yearly or every 2 years.                                                                                                | TK2  | 500 | 1   | 7   | 5.29 | 1.524              |
| In my opinion, I know all the procedures required for cigarettes, vehicles and liquor importation.                                                                                                   | TK3  | 500 | 2   | 7   | 5.23 | 1.474              |
| As far as I am concern, non-compliant taxpayers can be imprisoned if found guilty of evading tax.                                                                                                    | TK4  | 500 | 1   | 7   | 5.36 | 1.372              |
| Similar to other criminal offences, I believe that individuals can also be prosecuted for not complying with the Excise Act 1976.                                                                    | TK5  | 500 | 1   | 7   | 5.59 | 1.269              |
| All imported goods will be seizure if there is reasonable cause that the goods were connected to an offence that has been committed against the Excise Duty Act 1976.                                | TK6  | 500 | 1   | 7   | 5.54 | 1.276              |
| Customs Officers can search without a warrant in any premises and vehicles if they have reasonable cause to believe that goods are concealed or deposited goods therein against the Excise Act 1976. | TK7  | 500 | 1   | 7   | 5.48 | 1.385              |

### 5.8.8 Corruption

The perception of the participants towards corruption was evaluated with items CRP1 to CRP8, and the descriptive analyses of these items are shown in Table 5.19. This item evaluated the participants' opinions regarding Customs officers' involvement in

corruption with a mean score above 4 and close to 5 and standard deviation of 1.57 to 1.87. These imply that the participants agreed with the Customs officers' involvement in accepting a bribe in declarations and customs clearance procedures.

Table 5.19  
*Descriptive Statistics on Corruption*

| Measure                                                                                                          | Code | n   | Min | Max | Mean | Standard Deviation |
|------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Corruption</b>                                                                                                |      |     |     |     |      |                    |
| Personal payments to Customs Officers are required to “get things done”.                                         | CRP1 | 500 | 1   | 7   | 4.59 | 1.869              |
| Businesses generally engage in various types of corruption in order to compete effectively.                      | CRP2 | 500 | 1   | 7   | 5.04 | 1.639              |
| Engaging in various types of corruption is a normal part of doing business in Malaysia.                          | CRP3 | 500 | 1   | 7   | 4.96 | 1.567              |
| Provide “gifts-in-kind” as a method for improving the responsiveness of Customs Officers.                        | CRP4 | 500 | 1   | 7   | 4.73 | 1.739              |
| Bribery to the Customs Officer is one of the most important considerations when doing importation business.      | CRP5 | 500 | 1   | 7   | 4.64 | 1.840              |
| Engaging in corruption is one of the ways to get things done.                                                    | CRP6 | 500 | 1   | 7   | 4.81 | 1.805              |
| Firms which do not engage in corruption will be at a competitive disadvantage compared to firms that do.         | CRP7 | 500 | 1   | 7   | 4.91 | 1.769              |
| Providing “commissions” is one of the, method for enhancing/maintaining your relationship with Customs Officers. | CRP8 | 500 | 1   | 7   | 4.78 | 1.851              |

### 5.8.9 Probability of Detection

Table 5.20 shows the views of the participants on the probability of detection in items POD1 to POD6 shows mean value 4 with standard deviation 1.31 to 1.71 respectively

suggest that participants viewed that uncertainty of undeclared goods will be detected are moderate. Comparatively, the participants agreed with mean scores 5.17 and 5.32 for items POD4 and POD5 that probability of examining the customs declarations documents is very high with standard deviation 1.34 and 1.31 respectively.

Table 5.20  
*Descriptive Statistics on Probability of Detection*

| Measure                                                                                                                                       | Code | n   | Min | Max | Mean | Standard Deviation |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Probability of Detection</b>                                                                                                               |      |     |     |     |      |                    |
| It is worth paying small tax penalties rather than paying the actual taxes because the likelihood of being caught is minimal.                 | POD1 | 500 | 1   | 7   | 4.13 | 1.712              |
| The RMCD rarely finds out if someone has under-declared his tax by intentionally misclassifying the tariff code to pay less excise duty.      | POD2 | 500 | 1   | 7   | 4.17 | 1.684              |
| It is unlikely for taxpayers to be discovered and punished by the RMCD if they evaded excise duties.                                          | POD3 | 500 | 1   | 7   | 4.39 | 1.680              |
| Customs Officers will detect if your firm has not kept the importation documents as required in the Excise Act 1967.                          | POD4 | 500 | 1   | 7   | 5.17 | 1.342              |
| I ensure the tax declaration is correct because there is a high probability that I may get caught if I did not follow the Excise Regulations. | POD5 | 500 | 1   | 7   | 5.32 | 1.311              |
| I believe that the probabilities of being detected by RMCD for not declaring the exact amount of taxes are low.                               | POD6 | 500 | 1   | 7   | 4.28 | 1.709              |

### 5.8.10 Tax Agent

The descriptive statistics of items TA1 to TA8 for tax agent as presented in Table 5.21.

The results indicate that the tax agents engaged by participants are not an honest person in item TA1 with a low mean value of 3.76 and the standard deviation is 1.65. Moreover, for item TA8 the mean value score of 4.08 and standard deviation 1.90 shows that the tax agents are not well informed about Customs Regulations requirements and they are not complying with them. For the items TA2 to TA7 the majority of the participants strongly agreed with mean scores more than 5 and standard deviation ranging from 1.01 to 1.40. Tax agents appointed are legalised person under Section 90 of the Customs Act (1967). Moreover, they performed aggressive tax planning to avoid taxes.

Table 5.21  
*Descriptive Statistics on Tax Agent*

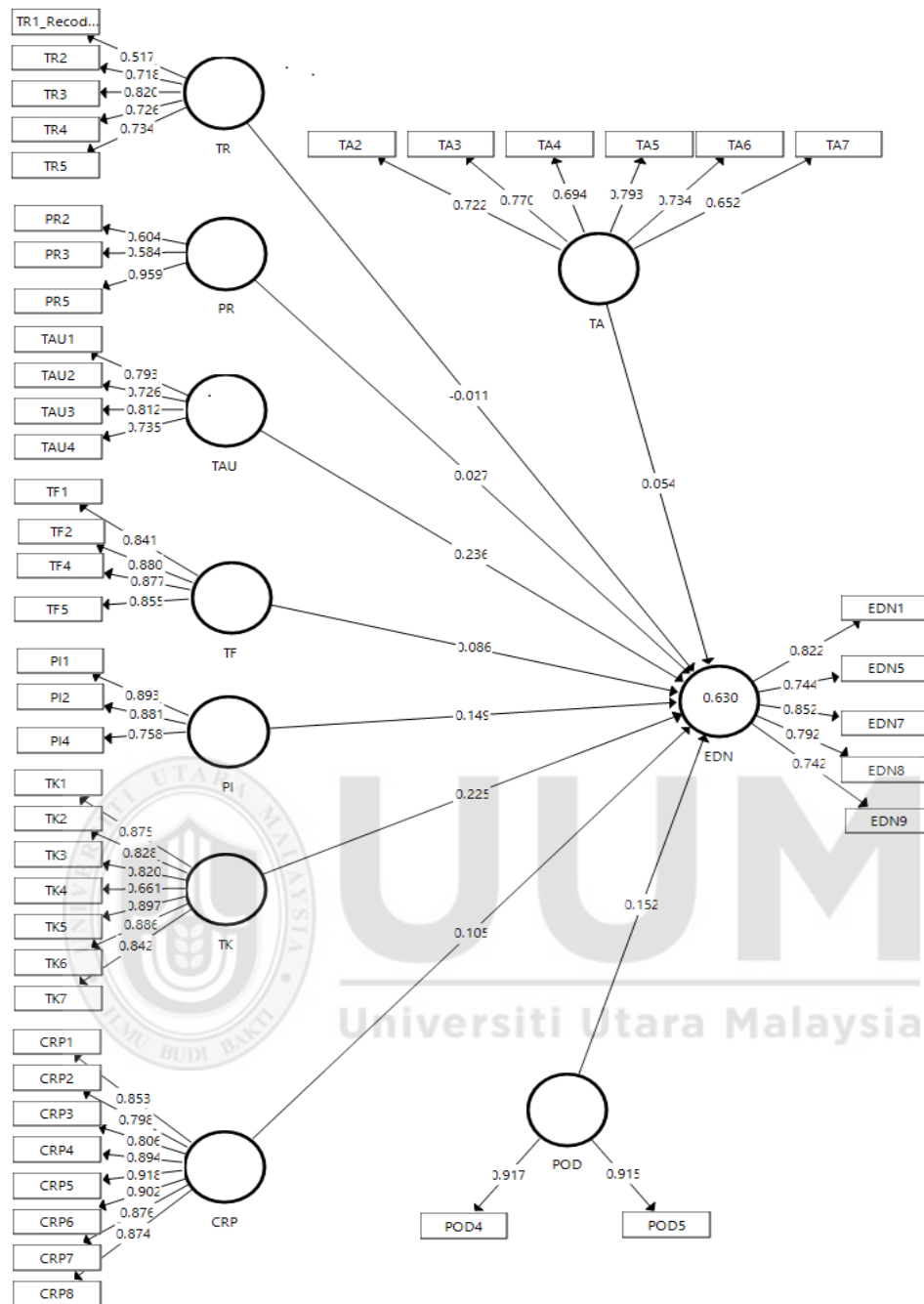
| Measure                                                                                       | Code | n   | Min | Max | Mean | Standard Deviation |
|-----------------------------------------------------------------------------------------------|------|-----|-----|-----|------|--------------------|
| <b>Tax Agent</b>                                                                              |      |     |     |     |      |                    |
| My tax agent is a very honest person.                                                         | TA1  | 500 | 1   | 7   | 3.76 | 1.652              |
| My tax agents help me to interpret ambiguous or grey areas of the tax law in my favour.       | TA2  | 500 | 1   | 7   | 5.02 | 1.281              |
| I have a tax agent who is clever in the way he/she arranges my affairs to minimise tax.       | TA3  | 500 | 1   | 7   | 5.07 | 1.306              |
| My tax agent has suggested complicated schemes that I could get into to avoid tax.            | TA4  | 500 | 1   | 7   | 5.06 | 1.402              |
| My tax agent has good relationship with Customs Officers.                                     | TA5  | 500 | 1   | 7   | 5.50 | 1.105              |
| My tax agent has attended and has passed the Customs Agent Basic Course conducted by RMCD.    | TA7  | 500 | 3   | 7   | 5.67 | 1.012              |
| My tax agent is aware of the Customs Regulatory requirements and is very compliant with them. | TA8  | 500 | 1   | 7   | 4.08 | 1.903              |

## **5.9 Model Evaluation**

The measurement and structural models were examined (Hair et al., 2016). A measurement model is also known as an outer model validated by the indicators of the respective latent variables. On the other hand, a structural model is also known as an inner model which evaluates the relationships between the latent constructs. The evaluation of the measurement and structural models is discussed in subsequent sections.

### **5.9.1 Assessing the Measurement Model (Outer Model)**

Reliability, convergent and discriminant validity of the model were checked to evaluate the measurement model. All the constructs in this study were measured by multiple items. Hence, it is necessary to categorise them as reflective or formative measures before assessing the measurement model. Misspecification of the measurement model can cause measurement error which will affect the construct's content validity and the structural relationship between them (Coltman, Devinney, Midgley, & Venaik, 2008). All multiple items were conceptualised as reflective measures where the indicators are highly correlated (Hulland & Business, 1999). These values were used to confirm the item's internal consistency to the respective constructs as shown in Figure 5.4. Confirmatory Factor Analysis (CFA) was to examine two types of validity, i.e. convergent and discriminant validity. Convergent validity of a measurement model is confirmed by assessing the outer loadings of the indicators, average variance extracted (AVE) and composite reliability (Gholami, Sulaiman, Ramayah, & Molla, 2013). The measurement model of the current study is as illustrated in Figure 5.4.



*Figure 5.4*  
Measurement Model for the Current Study

### 5.9.1.1 Convergent Validity

The reliability of individual indicators or measures is assessed by the correlations or loadings of the respective constructs and their indicators (Barroso, Carrión, & Roldán, 2010; Hulland & Business, 1999). The common acceptable threshold for loadings is

0.70 or greater, which indicates that a higher shared variance exists among the constructs and their measures are better compared to the error variance (Barroso et al., 2010; Götz, Liehr-Gobbers, & Krafft, 2010). However, loadings of 0.50 and below are also acceptable especially if involving newly developed measures (Hair et al., 2010; Henseler, Ringle, & Sinkovics, 2009). In fact, Chin (2010) explained that the weak indicators might increase a model's predictiveness as the PLS algorithm helps to minimise residual variance issues, provided other reliable indicators exist. This is in line with the argument of Hair et al. (2011), where sometimes poor indicators are retained to establish composite reliability and content validity.

The internal consistency is measured by the composite reliability of the constructs, which is done after the indicator's reliability is satisfied. For a reflective construct, the threshold value suggested by Fornell and Larcker (1981) of 0.70 is acceptable and retained in the study model. The reliability of the reflective constructs is also measured by the AVE scale. An AVE value of 0.50 or greater is acceptable (Fornell & Larcker, 1981). An AVE that measures 50 percent or more should be explained by the construct than its indicator variance. If the value is lower than 0.50, more variance is retained in the item's errors compared to the variance explained by the constructs in the model (Hair et al., 2016). The convergent validity's scores are shown in Table 5.22.

Table 5.22

*The Results of Measurement Model (Convergent Validity)*

| <b>Construct</b>           | <b>Item</b> | <b>Loading</b> | <b>Cronbach Alpha</b> | <b>Composite Reliability</b> | <b>Average Variance Extracted</b> |
|----------------------------|-------------|----------------|-----------------------|------------------------------|-----------------------------------|
| Corruption                 | CRP1        | 0.853          | 0.952                 | 0.960                        | 0.750                             |
|                            | CRP2        | 0.798          |                       |                              |                                   |
|                            | CRP3        | 0.806          |                       |                              |                                   |
|                            | CRP4        | 0.894          |                       |                              |                                   |
|                            | CRP5        | 0.918          |                       |                              |                                   |
|                            | CRP6        | 0.902          |                       |                              |                                   |
|                            | CRP7        | 0.876          |                       |                              |                                   |
|                            | CRP8        | 0.874          |                       |                              |                                   |
| Excise Duty Non-compliance | EDN1        | 0.822          | 0.851                 | 0.893                        | 0.627                             |
|                            | EDN5        | 0.744          |                       |                              |                                   |
|                            | EDN7        | 0.852          |                       |                              |                                   |
|                            | EDN8        | 0.792          |                       |                              |                                   |
|                            | EDN9        | 0.742          |                       |                              |                                   |
| Peer Influence             | PI1         | 0.893          | 0.800                 | 0.883                        | 0.716                             |
|                            | PI2         | 0.881          |                       |                              |                                   |
|                            | PI4         | 0.758          |                       |                              |                                   |
| Probability of Detection   | POD4        | 0.917          | 0.808                 | 0.912                        | 0.839                             |
|                            | POD5        | 0.915          |                       |                              |                                   |
| Penalty Rate               | PR2         | 0.604          | 0.767                 | 0.770                        | 0.542                             |
|                            | PR3         | 0.584          |                       |                              |                                   |
|                            | PR5         | 0.959          |                       |                              |                                   |
| Tax Agent                  | TA2         | 0.722          | 0.825                 | 0.872                        | 0.532                             |
|                            | TA3         | 0.770          |                       |                              |                                   |
|                            | TA4         | 0.694          |                       |                              |                                   |
|                            | TA5         | 0.793          |                       |                              |                                   |
|                            | TA6         | 0.734          |                       |                              |                                   |
|                            | TA7         | 0.652          |                       |                              |                                   |
|                            | TAU1        | 0.793          |                       |                              |                                   |
| Tax Audit                  | TAU2        | 0.726          | 0.768                 | 0.851                        | 0.589                             |
|                            | TAU3        | 0.812          |                       |                              |                                   |
|                            | TAU4        | 0.735          |                       |                              |                                   |
|                            | TF1         | 0.841          |                       |                              |                                   |
| Tax Fairness               | TF2         | 0.880          | 0.886                 | 0.921                        | 0.746                             |
|                            | TF4         | 0.877          |                       |                              |                                   |
|                            | TF5         | 0.855          |                       |                              |                                   |
|                            | TK1         | 0.875          |                       |                              |                                   |
| Tax Knowledge              | TK2         | 0.828          | 0.925                 | 0.940                        | 0.694                             |
|                            | TK3         | 0.820          |                       |                              |                                   |
|                            | TK4         | 0.661          |                       |                              |                                   |
|                            | TK5         | 0.897          |                       |                              |                                   |
|                            | TK6         | 0.886          |                       |                              |                                   |
|                            | TK7         | 0.842          |                       |                              |                                   |
|                            | TR1         | 0.517          |                       |                              |                                   |
| Tax Rate                   | TR2         | 0.718          | 0.750                 | 0.833                        | 0.504                             |
|                            |             |                |                       |                              |                                   |

Table 5.22 (Continued)

| Construct | Item | Loading | Cronbach Alpha | Composite Reliability | Average Variance Extracted |
|-----------|------|---------|----------------|-----------------------|----------------------------|
|           | TR3  | 0.820   |                |                       |                            |
|           | TR4  | 0.726   |                |                       |                            |
|           | TR5  | 0.734   |                |                       |                            |

Table 5.22 shows the scores obtained from the reflective analysis of the measurement model. The loadings for all reflective items surpassed 0.50 and were retained even though they did not meet the threshold 0.70 to assure the composite reliability and content validity (Hair et al., 2016). However, the penalty rate item number 1 and 4, the tax audit item number 5, the tax fairness item number 3, 6, and 7, the peer influence item number 3 and 5, the probability of detection item number 1, 2, 3 and 6, the tax agent item number 1 and 8, and the excise duty non-compliance item number 2, 3, 4 and 6 were below 0.40, hence were dropped from the model. All AVE values were 0.5 and greater, in support of Fornell and Larcker's (1981) recommendation that the cut-off value for AVE should be 0.5 or higher. The values indicated that each construct shared greater overall amount in the variance with its measurement items as compared with other constructs in the model. According to Gefen, Straub, and Boudreau (2000), the composite reliability values of factors should exceed the suggested rule of thumb of 0.70. Moreover, the Cronbach's alpha values exceeded 0.60 which met the rule of thumb requirements of Hair et al. (2010). Thus, from the overall results, it can be concluded that the items in this study's model had adequate convergent validity.

#### 5.9.1.2 Discriminant Validity

The outer model's construct validity is established by discriminant validity. Discriminant validity is a compulsory test for testing hypotheses. Discriminant validity

differentiates between the own respective construct and not related to other constructs (Hair et al., 2016). The cross-loadings and the Fornell-Larcker criterion are two measures to assess discriminant validity.

#### **5.9.1.2.1 Cross Loadings**

Discriminant validity is established by comparing the indicator loadings with cross-loadings (Chin, 1998b). The outer loading of the respective construct should be higher than other constructs' cross-loadings (Chin, 1998b). Table 5.23 presents the entire scores for loadings and cross-loadings of the measures in the model.



Table 5.23

*Discriminant Validity Analysis (Cross Loadings)*

| Indicator | Construct    |              |              |              |              |              |       |       |       |       |
|-----------|--------------|--------------|--------------|--------------|--------------|--------------|-------|-------|-------|-------|
|           | CRP          | EDN          | PI           | POD          | PR           | TA           | TAU   | TF    | TK    | TR    |
| CRP1      | <b>0.853</b> | 0.309        | 0.296        | 0.204        | -0.041       | 0.479        | 0.252 | 0.187 | 0.244 | 0.242 |
| CRP2      | <b>0.798</b> | 0.392        | 0.320        | 0.330        | -0.006       | 0.429        | 0.332 | 0.272 | 0.167 | 0.176 |
| CRP3      | <b>0.806</b> | 0.365        | 0.315        | 0.353        | 0.029        | 0.430        | 0.323 | 0.259 | 0.105 | 0.224 |
| CRP4      | <b>0.894</b> | 0.327        | 0.321        | 0.256        | -0.016       | 0.486        | 0.254 | 0.187 | 0.245 | 0.219 |
| CRP5      | <b>0.918</b> | 0.287        | 0.308        | 0.225        | -0.056       | 0.462        | 0.282 | 0.184 | 0.133 | 0.252 |
| CRP6      | <b>0.902</b> | 0.257        | 0.299        | 0.206        | -0.085       | 0.476        | 0.232 | 0.166 | 0.134 | 0.248 |
| CRP7      | <b>0.876</b> | 0.292        | 0.372        | 0.206        | -0.070       | 0.458        | 0.261 | 0.177 | 0.192 | 0.259 |
| CRP8      | <b>0.874</b> | 0.316        | 0.349        | 0.181        | -0.065       | 0.475        | 0.275 | 0.198 | 0.256 | 0.243 |
| EDN1      | 0.196        | <b>0.822</b> | 0.576        | 0.503        | 0.407        | 0.356        | 0.610 | 0.579 | 0.536 | 0.260 |
| EDN5      | 0.418        | <b>0.744</b> | 0.443        | 0.321        | 0.172        | 0.379        | 0.448 | 0.366 | 0.454 | 0.255 |
| EDN7      | 0.225        | <b>0.852</b> | 0.649        | 0.541        | 0.392        | 0.394        | 0.667 | 0.607 | 0.564 | 0.374 |
| EDN8      | 0.308        | <b>0.792</b> | 0.532        | 0.535        | 0.240        | 0.382        | 0.537 | 0.507 | 0.551 | 0.292 |
| EDN9      | 0.386        | <b>0.742</b> | 0.453        | 0.461        | 0.147        | 0.385        | 0.482 | 0.417 | 0.459 | 0.120 |
| PI1       | 0.210        | 0.621        | <b>0.893</b> | 0.513        | 0.375        | 0.397        | 0.642 | 0.649 | 0.627 | 0.283 |
| PI2       | 0.325        | 0.596        | <b>0.881</b> | 0.453        | 0.275        | 0.409        | 0.617 | 0.594 | 0.588 | 0.315 |
| PI4       | 0.447        | 0.495        | <b>0.758</b> | 0.369        | 0.111        | 0.428        | 0.525 | 0.529 | 0.478 | 0.285 |
| POD4      | 0.307        | 0.556        | 0.498        | <b>0.917</b> | 0.303        | 0.343        | 0.585 | 0.541 | 0.503 | 0.315 |
| POD5      | 0.228        | 0.549        | 0.473        | <b>0.915</b> | 0.434        | 0.298        | 0.554 | 0.495 | 0.475 | 0.281 |
| PR2       | -0.187       | 0.101        | 0.190        | 0.085        | <b>0.604</b> | 0.086        | 0.202 | 0.145 | 0.291 | 0.042 |
| PR3       | -0.238       | 0.043        | 0.154        | 0.050        | <b>0.584</b> | 0.067        | 0.163 | 0.093 | 0.274 | 0.020 |
| PR5       | 0.027        | 0.387        | 0.300        | 0.448        | <b>0.959</b> | 0.187        | 0.448 | 0.371 | 0.323 | 0.167 |
| TA2       | 0.498        | 0.286        | 0.216        | 0.204        | 0.006        | <b>0.722</b> | 0.224 | 0.141 | 0.161 | 0.035 |
| TA3       | 0.554        | 0.352        | 0.253        | 0.263        | 0.013        | <b>0.770</b> | 0.267 | 0.184 | 0.204 | 0.072 |
| TA4       | 0.619        | 0.313        | 0.276        | 0.267        | 0.032        | <b>0.694</b> | 0.280 | 0.198 | 0.129 | 0.089 |
| TA5       | 0.416        | 0.261        | 0.359        | 0.194        | 0.104        | <b>0.793</b> | 0.280 | 0.220 | 0.348 | 0.222 |
| TA6       | 0.230        | 0.429        | 0.475        | 0.283        | 0.282        | <b>0.734</b> | 0.412 | 0.375 | 0.517 | 0.322 |

Table 5.23 (Continued)

| Indicator | Construct |       |       |       |       |              |              |              |              |              |
|-----------|-----------|-------|-------|-------|-------|--------------|--------------|--------------|--------------|--------------|
|           | CRP       | EDN   | PI    | POD   | PR    | TA           | TAU          | TF           | TK           | TR           |
| TA7       | 0.115     | 0.377 | 0.454 | 0.281 | 0.276 | <b>0.652</b> | 0.405        | 0.397        | 0.546        | 0.327        |
| TAU1      | 0.167     | 0.632 | 0.552 | 0.529 | 0.569 | 0.328        | <b>0.793</b> | 0.585        | 0.485        | 0.276        |
| TAU2      | 0.404     | 0.492 | 0.541 | 0.372 | 0.125 | 0.425        | <b>0.726</b> | 0.535        | 0.442        | 0.239        |
| TAU3      | 0.273     | 0.532 | 0.553 | 0.505 | 0.348 | 0.328        | <b>0.812</b> | 0.629        | 0.532        | 0.304        |
| TAU4      | 0.176     | 0.472 | 0.521 | 0.493 | 0.238 | 0.285        | <b>0.735</b> | 0.556        | 0.367        | 0.390        |
| TF1       | 0.188     | 0.480 | 0.539 | 0.408 | 0.228 | 0.227        | 0.581        | <b>0.841</b> | 0.374        | 0.287        |
| TF2       | 0.226     | 0.549 | 0.571 | 0.469 | 0.287 | 0.253        | 0.634        | <b>0.880</b> | 0.406        | 0.301        |
| TF4       | 0.211     | 0.558 | 0.624 | 0.529 | 0.356 | 0.381        | 0.685        | <b>0.877</b> | 0.581        | 0.399        |
| TF5       | 0.208     | 0.595 | 0.671 | 0.536 | 0.343 | 0.385        | 0.684        | <b>0.855</b> | 0.622        | 0.396        |
| TK1       | 0.167     | 0.559 | 0.617 | 0.456 | 0.326 | 0.429        | 0.557        | 0.506        | <b>0.875</b> | 0.220        |
| TK2       | 0.219     | 0.526 | 0.581 | 0.420 | 0.268 | 0.398        | 0.502        | 0.476        | <b>0.828</b> | 0.252        |
| TK3       | 0.248     | 0.538 | 0.594 | 0.424 | 0.266 | 0.447        | 0.569        | 0.533        | <b>0.820</b> | 0.234        |
| TK4       | 0.047     | 0.409 | 0.363 | 0.304 | 0.218 | 0.125        | 0.274        | 0.288        | <b>0.661</b> | 0.215        |
| TK5       | 0.184     | 0.621 | 0.602 | 0.503 | 0.360 | 0.408        | 0.540        | 0.555        | <b>0.897</b> | 0.304        |
| TK6       | 0.187     | 0.579 | 0.585 | 0.487 | 0.387 | 0.450        | 0.535        | 0.521        | <b>0.886</b> | 0.328        |
| TK7       | 0.243     | 0.540 | 0.540 | 0.493 | 0.268 | 0.385        | 0.470        | 0.473        | <b>0.842</b> | 0.302        |
| TR1       | 0.099     | 0.288 | 0.294 | 0.244 | 0.039 | 0.185        | 0.259        | 0.347        | 0.319        | <b>0.517</b> |
| TR2       | 0.189     | 0.186 | 0.189 | 0.165 | 0.101 | 0.172        | 0.240        | 0.231        | 0.159        | <b>0.718</b> |
| TR3       | 0.225     | 0.226 | 0.230 | 0.242 | 0.135 | 0.192        | 0.266        | 0.246        | 0.220        | <b>0.820</b> |
| TR4       | 0.282     | 0.184 | 0.194 | 0.246 | 0.113 | 0.182        | 0.284        | 0.231        | 0.172        | <b>0.726</b> |
| TR5       | 0.173     | 0.242 | 0.258 | 0.219 | 0.143 | 0.172        | 0.298        | 0.304        | 0.193        | <b>0.734</b> |

The result in Table 5.23 showed that all the loadings of the measurement items on their latent variables were higher than any other cross-loadings, which confirmed adequate discriminant validity for further analysis.

#### **5.9.1.2.2 Fornell-Larcker Criterion (Square Root of AVE)**

The Fornell-Larcker criterion was a second method performed to test discriminant validity. According to Fornell and Larcker (1981), each construct's AVE's square root should be larger than to its squared correlations with other constructs in the model. The discriminant validity by Fornell-Larcker criterion is established if the AVE's score is equal to 0.50 or larger. The Fornell-Larcker criterion scores as illustrated in Table 5.24.



Table 5.24

*Discriminant Validity Analysis (Fornell-Larcker Criterion)*

| Construct | CRP          | EDN          | PI           | POD          | PR           | TA           | TAU          | TF           | TK           | TR           |
|-----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| CRP       | <b>0.866</b> |              |              |              |              |              |              |              |              |              |
| EDN       | 0.375        | <b>0.792</b> |              |              |              |              |              |              |              |              |
| PI        | 0.375        | 0.677        | <b>0.846</b> |              |              |              |              |              |              |              |
| POD       | 0.292        | 0.603        | 0.530        | <b>0.916</b> |              |              |              |              |              |              |
| PR        | -0.040       | 0.354        | 0.310        | 0.402        | <b>0.736</b> |              |              |              |              |              |
| TA        | 0.534        | 0.477        | 0.483        | 0.350        | 0.183        | <b>0.729</b> |              |              |              |              |
| TAU       | 0.325        | 0.701        | 0.705        | 0.622        | 0.439        | 0.443        | <b>0.767</b> |              |              |              |
| TF        | 0.242        | 0.635        | 0.700        | 0.566        | 0.355        | 0.366        | 0.751        | <b>0.863</b> |              |              |
| TK        | 0.214        | 0.651        | 0.671        | 0.534        | 0.363        | 0.463        | 0.599        | 0.582        | <b>0.833</b> |              |
| TR        | 0.267        | 0.335        | 0.347        | 0.326        | 0.149        | 0.262        | 0.390        | 0.404        | 0.320        | <b>0.710</b> |

Note: The values in the diagonals cells (bold) are the square root of the AVE while other values are the correlation.

Table 5.24 indicates that the diagonal values in the correlation matrix (AVE's square root of the own construct) were greater than other column and row where they were located. Therefore, the outer model's discriminant validity of this study was confirmed. As such, the outer model's construct validity was established, and the subsequent hypotheses testing would be reliable and valid.

### **5.10 Assessing the Structural Model (Inner Model)**

The structural model is assessed when construct's measures reliability and validity have been confirmed. That is, the model's predictive capabilities and the hypothesised relationship between constructs in the research model were examined. This includes analysing the variance explained ( $R^2$ ) of the endogenous constructs and the significance of the path coefficient estimates to establish theoretical model goodness (Chin, 2010). Also, whether the data support the hypothesised research model showed by  $R^2$  or coefficient of determination values and path coefficients (Chin, 1998a). Further, the effect size was used to test whether the change in an exogenous construct has a substantive effect on the endogenous constructs (Hair et al., 2016). The blindfolding procedure was also performed to calculate the predictive relevance capability. Finally, the Importance-Performance Map Analysis (IPMA) was carried out to analyse the structural model's importance of each latent variable of the construct and the performance of latent variables.

#### **5.10.1 Coefficient of Determination ( $R^2$ )**

The  $R^2$  values represent the dependent variable's variance that is explained by the independent variables in the research model. The values of  $R^2$  are between 0 and 1. The greater the  $R^2$ , the higher the level of predictive accuracy or the larger the percentage

of variance explained. The determination of acceptable  $R^2$  values relies on the research model complexity and the individual study's disciplines (Hair et al., 2016). As a rule of thumb, Hair et al. (2011) recommended  $R^2$  values of 0.75, 0.50, or 0.25 respectively in the structural model for endogenous latent variables described as substantial, moderate or weak. The  $R^2$  values are shown in Table 5.25 to represent the direct effect of excise duty non-compliance and the indirect effect of probability of detection and tax agent.

Table 5.25  
*The Coefficient of Determination Values ( $R^2$ )*

| <b>Endogenous Construct</b>                           | <b><math>R^2</math></b> |
|-------------------------------------------------------|-------------------------|
| Excise Duty Non-compliance                            | 0.630                   |
| Excise Duty Non-compliance (Tax Agent)                | 0.646                   |
| Excise Duty Non-compliance (Probability of Detection) | 0.660                   |

In this study's model, three endogenous constructs namely excise duty non-compliance, tax agent, and probability of detection showed  $R^2$  value of 0.63, 0.65, and 0.66 respectively. Based on the rule of thumb suggested by Hair et al. (2011)  $R^2$  values for this study showed a substantial values. This values represents the exogenous latent variables combined effect on the endogenous latent variable is substantial or the amount of variance in the endogenous constructs substantially explained by all of the exogenous constructs linked to it.

#### **5.10.2 Effect Size ( $f^2$ ) for Direct Relationship (Main Effect)**

The effect size was calculated to identify whether the changes in  $R^2$  had a substantive impact on a dependent latent variable. In the model,  $f^2$  was specified as the change in  $R^2$  in the endogenous construct when exogenous construct was retained or omitted in the structural model. The change in the  $R^2$  values was used for effect size ( $f^2$ )

estimation. The formula to calculate the effect size is shown below following Hair et al. (2016):

$$f^2 = \frac{R^2 \text{ included} - R^2 \text{ excluded}}{1 - R^2 \text{ included}}$$

In the equation,  $R^2$  included represents the value of  $R^2$  of the endogenous construct when the exogenous construct is included, and  $R^2$  excluded indicates the  $R^2$  value of the endogenous construct when an exogenous construct is omitted. The effect size for the direct relationship is shown in Table 5.26.

Table 5.26

*Effect Size for Excise Duty Non-compliance as Endogenous Construct*

| Construct                | $R^2$<br>Included | $R^2$<br>Excluded | $R^2$ Included-<br>$R^2$ Excluded | 1- $R^2$<br>Included | Effect<br>Size |
|--------------------------|-------------------|-------------------|-----------------------------------|----------------------|----------------|
| Tax Rate                 | 0.630             | 0.630             | 0.000                             | 0.370                | 0.00           |
| Penalty Rate             | 0.630             | 0.629             | 0.001                             | 0.370                | 0.00           |
| Tax Audit                | 0.630             | 0.613             | 0.017                             | 0.370                | 0.05           |
| Tax Fairness             | 0.630             | 0.627             | 0.003                             | 0.370                | 0.01           |
| Peer Influence           | 0.630             | 0.622             | 0.008                             | 0.370                | 0.02           |
| Tax Knowledge            | 0.630             | 0.609             | 0.021                             | 0.370                | 0.06           |
| Corruptions              | 0.630             | 0.625             | 0.005                             | 0.370                | 0.01           |
| Tax Agent                | 0.630             | 0.628             | 0.002                             | 0.370                | 0.01           |
| Probability of Detection | 0.630             | 0.618             | 0.012                             | 0.370                | 0.03           |

According to Cohen's (1988), the values of effect size are interpreted as follow: 0.02 (small), 0.15 (medium), and 0.35 (large). Based on the scores in Table 5.26, the effects size ranged from small to or no effect. This indicates that the omitted construct from the model did not have a substantial impact on the endogenous construct.

### 5.10.3 Effect Size ( $f^2$ ) for Probability of Detection and Tax Agent as Moderators

The endogenous construct's  $R^2$  value was evaluated by adding the moderating effect of exogenous constructs, and the SmartPLS algorithm was performed to analyse the

interaction model  $R^2_i$ . The exogenous constructs were omitted one by one, and again the SmartPLS algorithm was run to get the main effect of the respective constructs. As suggested by Dawson (2014), the effect size of the moderators was calculated as follows: where  $R^2_i$  denotes the interaction value after the all exogenous constructs are added to the moderator-endogenous constructs. In this study, probability of detection and tax agent represented the endogenous constructs, where ‘i’ was the interaction model and ‘m’ was the main effect model. Table 5.27 and Table 5.28 show the effect sizes results after the moderating indirect interactions.

$$f^2 = \frac{R^2_i - R^2_m}{1 - R^2_i}$$

The exogenous constructs were retained and omitted one by one to assess whether a significant influence has in their respective endogenous constructs as shown in Table 5.27 and Table 5.28.

Table 5.27  
*Effect Size for Probability of Detection as Moderator (Endogenous Construct)*

| <b>Construct</b> | <b><math>R^2</math><br/>Interaction</b> | <b><math>R^2</math> Main<br/>Effect</b> | <b><math>R^2</math> Interaction -<br/><math>R^2</math> Main Effect</b> | <b><math>1 - R^2</math><br/>Interaction</b> | <b>Effect<br/>Size</b> |
|------------------|-----------------------------------------|-----------------------------------------|------------------------------------------------------------------------|---------------------------------------------|------------------------|
| Tax Rate         | 0.660                                   | 0.660                                   | 0.000                                                                  | 0.340                                       | 0.00                   |
| Penalty Rate     | 0.660                                   | 0.659                                   | 0.001                                                                  | 0.340                                       | 0.00                   |
| Tax Audit        | 0.660                                   | 0.655                                   | 0.005                                                                  | 0.340                                       | 0.01                   |
| Tax Fairness     | 0.660                                   | 0.658                                   | 0.002                                                                  | 0.340                                       | 0.01                   |
| Peer Influence   | 0.660                                   | 0.660                                   | 0.000                                                                  | 0.340                                       | 0.00                   |
| Tax Knowledge    | 0.660                                   | 0.654                                   | 0.006                                                                  | 0.340                                       | 0.02                   |
| Corruptions      | 0.660                                   | 0.659                                   | 0.001                                                                  | 0.340                                       | 0.00                   |

Table 5.28

*Effect Size for Tax Agent as Moderator (Endogenous Construct)*

| <b>Construct</b> | <b>R<sup>2</sup><br/>Interaction</b> | <b>R<sup>2</sup> Main<br/>Effect</b> | <b>R<sup>2</sup> Interaction -<br/>R<sup>2</sup> Main Effect</b> | <b>1-R<sup>2</sup><br/>Interaction</b> | <b>Effect<br/>Size</b> |
|------------------|--------------------------------------|--------------------------------------|------------------------------------------------------------------|----------------------------------------|------------------------|
| Tax Rate         | 0.646                                | 0.646                                | 0.000                                                            | 0.354                                  | 0.00                   |
| Penalty Rate     | 0.646                                | 0.642                                | 0.004                                                            | 0.354                                  | 0.01                   |
| Tax Audit        | 0.646                                | 0.646                                | 0.000                                                            | 0.354                                  | 0.00                   |
| Tax Fairness     | 0.646                                | 0.645                                | 0.001                                                            | 0.354                                  | 0.00                   |
| Peer Influence   | 0.646                                | 0.644                                | 0.002                                                            | 0.354                                  | 0.01                   |
| Tax Knowledge    | 0.646                                | 0.646                                | 0.000                                                            | 0.354                                  | 0.00                   |
| Corruptions      | 0.646                                | 0.646                                | 0.000                                                            | 0.354                                  | 0.00                   |

Table 5.27 shows the probability of detection as an endogenous construct explained by the exogenous constructs and their effect sizes ranged between 0.00 and 0.01. Further, Table 5.28 shows the value of the effect size that ranged between 0.00 and 0.01 when tax agent was explained by the exogenous constructs. As a whole, the result indicated that the exogenous constructs in this research model either had small effect sizes or no effect on their endogenous construct. This result showed the endogenous construct when interacted with moderators did not have substantial impact when each of the exogenous construct omitted from the model.

#### 5.10.4 Path Coefficient and Hypotheses Testing

Path coefficient in PLS-SEM structural model is used to assess the strength of the relationship between independent and dependent variables. Path coefficients of the hypothesised relationships between the constructs are performed by bootstrapping or resampling techniques (Hair et al., 2016).

#### 5.10.5 Bootstrapping

Bootstrapping is a well-known non-parametric approach for assessing direct and indirect effects (MacKinnon, Lockwood, & Williams, 2004). Bootstrapping is also

known as one of the resampling strategies meant for estimation and hypotheses testing. This procedure will generate empirical t-values used to evaluate the significance level of the coefficient in the research model (Hair et al., 2016).

#### 5.10.6 Path Coefficient and Hypotheses Testing for Direct Relationship (Direct Effect)

The path coefficient results were obtained by performing PLS algorithm and bootstrapping with 600 bootstrap samples as suggested by Hair et al. (2016) which was bigger than the actual sample size of 500 to meet the condition. This study's research model was run with all the variables to confirm the direct and indirect relationships between the independent, dependent, and moderator variables. Table 5.29 shows the results of the structural or inner model and Figure 5.5 illustrates the structural model for the direct effect.

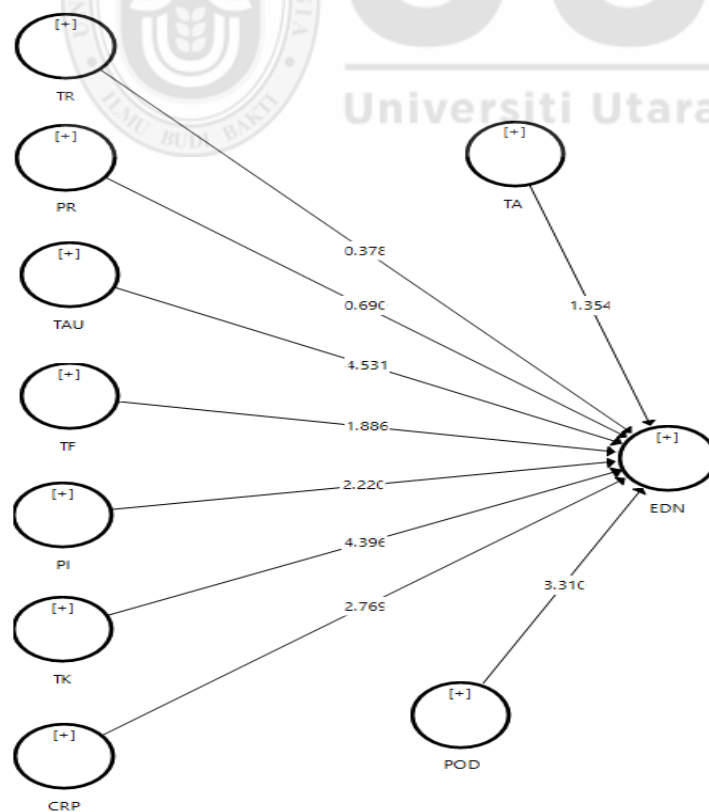


Figure 5.5  
Structural Model for Direct Effect (t-statistic values)

Table 5.29  
*Inner Model Results for Direct Relationship*

| Hypothesis Number | Hypothesized Effect | Path Coefficient ( $\beta$ Value) | Standard Deviation | T Statistics | P Values | Decision      |
|-------------------|---------------------|-----------------------------------|--------------------|--------------|----------|---------------|
| H1a               | TR -> EDN           | -0.011                            | 0.029              | 0.378        | 0.353    | Not Supported |
| H2a               | PR -> EDN           | 0.027                             | 0.039              | 0.690        | 0.245    | Not Supported |
| H3a               | TAU -> EDN          | 0.236                             | 0.052              | 4.531        | 0.000*** | Supported     |
| H4a               | TF -> EDN           | 0.086                             | 0.046              | 1.886        | 0.030**  | Supported     |
| H5a               | PI -> EDN           | 0.149                             | 0.067              | 2.220        | 0.013**  | Supported     |
| H6a               | TK -> EDN           | 0.225                             | 0.051              | 4.396        | 0.000*** | Supported     |
| H7a               | CRP -> EDN          | 0.105                             | 0.038              | 2.769        | 0.003*** | Supported     |

Note: \*\*\*  $p < 0.01$ ,  $t = 2.330$ ; \*\*  $p < 0.05$ ,  $t = 1.645$

EDN: Excise Duty Non-compliance; TR: Tax Rate; PR: Penalty Rate; TAU: Tax Audit; TF: Tax Fairness; PI: Peer Influence; TK: Tax Knowledge; CRP: Corruption

Table 5.29 shows that path coefficients are represented by  $\beta$ -values and significant results by t-values. The results were generated using the bootstrapping techniques to test H1a – H7a.

The result of the structural model (inner model) showed a non-significant relationship between tax rate and excise duty non-compliance ( $\beta = -0.011$ ,  $t = 0.378$ ,  $p > 0.1$ ), suggesting that H1a was not supported. H2a was also not supported as there was no significant relationship between penalty rate and excise duty non-compliance ( $\beta = 0.027$ ,  $t = 0.690$ ,  $p > 0.1$ ). However, H3a was supported as tax audit showed a positive relationship with excise duty non-compliance ( $\beta = 0.236$ ,  $t = 4.531$ ,  $p < 0.01$ ). Tax fairness also had a positive relationship with excise duty non-compliance ( $\beta = 0.086$ ,  $t = 1.886$ ,  $p < 0.05$ ). H5a, H6a, and H7a were also supported as excise duty non-compliance was positively influenced by peer influence ( $\beta = 0.149$ ,  $t = 2.220$ ,  $p < 0.05$ ), tax knowledge ( $\beta = 0.225$ ,  $t = 4.396$ ,  $p < 0.01$ ), and corruption ( $\beta = 0.105$ ,  $t = 2.769$ ,  $p < 0.01$ ) respectively.

#### **5.10.7 Path Coefficient and Hypotheses Testing for Moderating Effect (Interaction Effect)**

The moderating or interaction effect exists when a moderator variable influences the strength or nature of a predictor variable (independent variable) and the criterion variable (dependent variable) relationship (Dawson, 2014; Henseler & Fassott, 2010a). Furthermore, when the influence of an exogenous variable on an endogenous variable is contingent because of the existence of another variable caused the moderating effect (Hair et al., 2016). In this research model, probability of detection and tax agent were hypothesised to moderate between the independent and dependent variables. As shown in Table 5.30 and Table 5.31, the path coefficient results from bootstrapping showing  $\beta$  values and t-values obtained by adding the moderating effect of the dimension individually to the excise duty non-compliance as the dependent variable.

According to Henseler and Chin (2010), in PLS-SEM there are four approaches to analysing the moderating effect. They are product indicator, two-stage approach, hybrid approach, and orthogonal approach. Since probability of detection and tax agent as moderators were continuous variables, the product indicator approach was employed for calculation method and mean-centred product term generation as suggested by Henseler and Fassott (2010a) and Hair et al. (2016). Table 5.30 and Table 5.31 show the path coefficients of the proposed moderating effect of the individual dimension. To know whether there was moderation or not, the t-values were considered. The moderating effect results are presented in Figure 5.6 and 5.7 and Table 5.30 and 5.31.

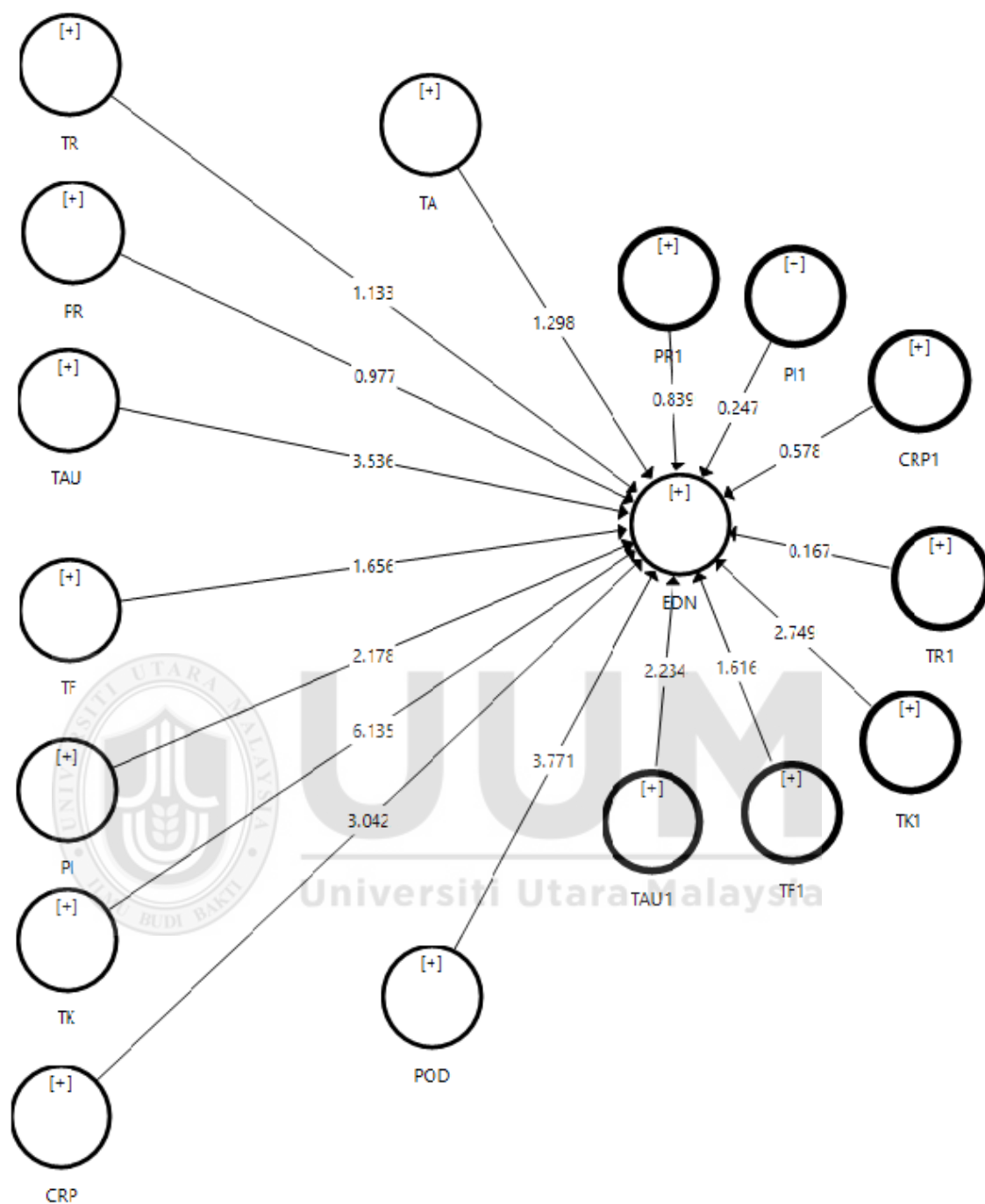


Figure 5.6  
Structural Model for Probability of Detection as Indirect Effect (t-statistic values)

Table 5.30

*Results of Probability of Detection as a Moderating Effect*

| Hypothesis Number | Hypothesized Effect | Path Coefficient ( $\beta$ Value) | Standard Deviation | T Statistics | P Values | Decision      |
|-------------------|---------------------|-----------------------------------|--------------------|--------------|----------|---------------|
| H1b               | TR1 -> EDN          | 0.004                             | 0.024              | 0.167        | 0.433    | Not Supported |
| H2b               | PR1 -> EDN          | -0.021                            | 0.026              | 0.839        | 0.209    | Not Supported |
| H3b               | TAU1 -> EDN         | -0.075                            | 0.032              | 2.234        | 0.010**  | Supported     |
| H4b               | TF1 -> EDN          | -0.045                            | 0.030              | 1.616        | 0.068*   | Supported     |
| H5b               | PI1 -> EDN          | 0.009                             | 0.035              | 0.247        | 0.403    | Not Supported |
| H6b               | TK1 -> EDN          | 0.067                             | 0.024              | 2.749        | 0.003*** | Supported     |
| H7b               | CRP1 -> EDN         | 0.015                             | 0.027              | 0.578        | 0.285    | Not Supported |

Note: \*\*\* $p < 0.01$ ,  $t = 2.330$ ; \*\* $p < 0.05$ ,  $t = 1.645$ ; \* $p < 0.1$ ,  $t = 1.280$

Table 5.30 shows that the moderating effects of the three hypothesised relationships (H3b, H4b, and H6b) were supported. H3b was supported ( $\beta = -0.075$ ,  $t = 2.234$ ,  $p < 0.05$ ), showing the negative relationship between tax audit and excise duty non-compliance with the moderating effect of probability of detection. H4b was also supported ( $\beta = -0.045$ ,  $t = 1.616$ ,  $p < 0.05$ ), exhibiting a moderating effect of probability of detection on tax fairness and excise duty non-compliance. H6b, which proposed that a positive relationship between tax knowledge and excise duty non-compliance will be stronger when probability of detection is higher, was also supported ( $\beta = 0.067$ ,  $t = 2.749$ ,  $p < 0.01$ ). However, no moderation effect of probability of detection on the relationship between tax rate, penalty rate, peer influence, corruption and non-compliance [H1b ( $\beta = 0.004$ ,  $t = 0.167$ ,  $p > 0.1$ ), H2b ( $\beta = -0.021$ ,  $t = 0.839$ ,  $p > 0.1$ ), H5b ( $\beta = 0.009$ ,  $t = 0.247$ ,  $p > 0.1$ ) and H7b ( $\beta = 0.015$ ,  $t = 0.578$ ,  $p > 0.1$ )].

Figure 5.7 and Table 5.31 illustrate the moderation of tax agent and its significance level.

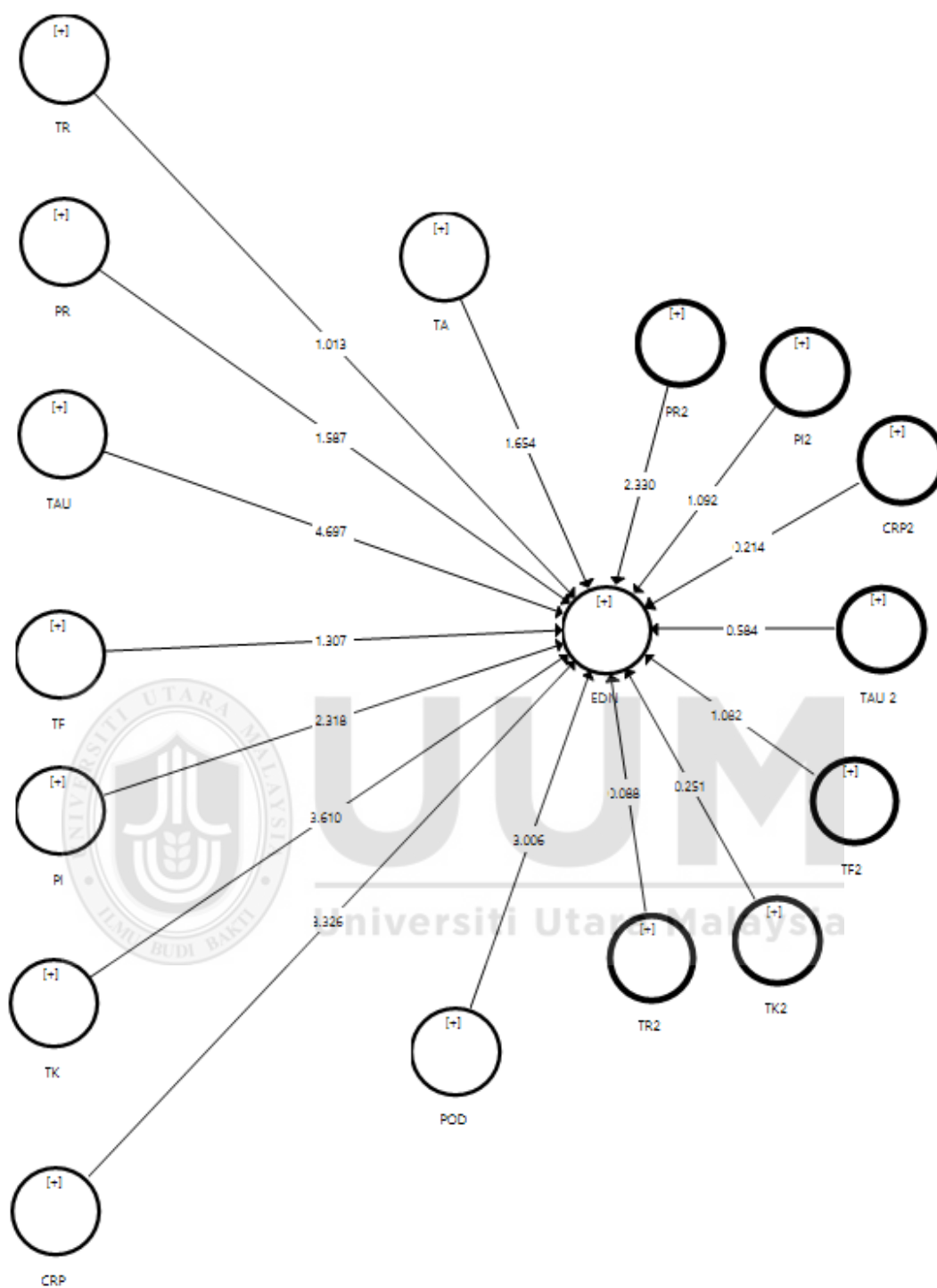


Figure 5.7  
Structural Model for Tax Agent as Indirect Effect (t-statistic values)

Table 5.31

*Results of Tax Agent as a Moderating Effect*

| Hypothesis Number | Hypothesized Effect | Path Coefficient ( $\beta$ Value) | Standard Deviation | T Statistics | P Values | Decision      |
|-------------------|---------------------|-----------------------------------|--------------------|--------------|----------|---------------|
| H1c               | TR2 -> EDN          | -0.003                            | 0.039              | 0.088        | 0.465    | Not supported |
| H2c               | PR2 -> EDN          | -0.049                            | 0.021              | 2.330        | 0.010*** | Supported     |
| H3c               | TAU2 -> EDN         | -0.031                            | 0.053              | 0.584        | 0.280    | Not supported |
| H4c               | TF2 -> EDN          | 0.051                             | 0.047              | 1.082        | 0.140    | Not Supported |
| H5c               | PI2 -> EDN          | -0.061                            | 0.056              | 1.092        | 0.138    | Not Supported |
| H6c               | TK2 -> EDN          | 0.009                             | 0.035              | 0.251        | 0.401    | Not Supported |
| H7c               | CRP2 -> EDN         | -0.005                            | 0.025              | 0.214        | 0.415    | Not Supported |

Note: \* $p < 0.01$ ,  $t = 2.33$

Table 5.31 shows that H2c ( $\beta = -0.049$ ,  $t = 2.330$ ,  $p < 0.01$ ) was supported. A negative relationship between penalty rate on excise duty non-compliance was stronger with the influence of tax agent. However, H1c, H3c, H4c, H5c, H6c, and H7c were not supported. Tax agent did not moderate the relationship between tax rate ( $\beta = -0.003$ ,  $t = 0.088$ ,  $p > 0.1$ ), tax audit ( $\beta = -0.031$ ,  $t = 0.584$ ,  $p > 0.1$ ), tax fairness ( $\beta = 0.051$ ,  $t = 1.082$ ,  $p > 0.1$ ), peer influence ( $\beta = -0.061$ ,  $t = 1.092$ ,  $p > 0.1$ ), tax knowledge ( $\beta = 0.009$ ,  $t = 0.251$ ,  $p > 0.1$ ), corruption ( $\beta = -0.005$ ,  $t = 0.214$ ,  $p > 0.1$ ) and excise duty non-compliance.

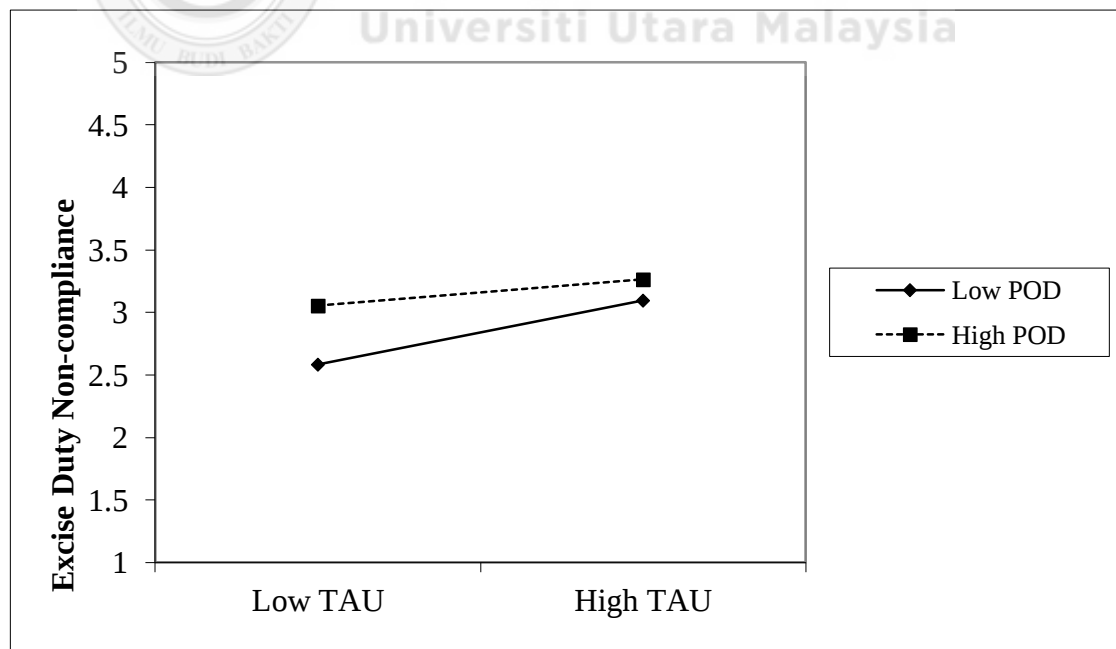
### 5.10.8 Interaction Plot for Moderators

According to Henseler and Fassott (2010b) “the idea of a moderating effect is that the slope of the independent variable is no longer constant, but depends linearly on the level of the moderator” (p.723). Hayes (2013) stated that using a graphic presentation enables easier interpretation of a moderation effect. Hair et al. (2016) also supported the use of slope plots to interpret moderation. Therefore, Dawson’s (2014) template for a moderating effect visualisation was adapted. The significant moderating path coefficients are illustrated graphically from Figure 5.8 to Figure 5.11. Path coefficient

values of independent variables, moderators, and interaction effects were used to calculate and plot the graphical slopes of the moderators.

#### 5.10.8.1 Interaction Plot for Probability of Detection

The slope plot indicates that the relationship between exogenous and endogenous constructs was different based on the high and low levels of the moderating effects represented by two lines (Hair et al., 2016). The effect of probability of detection was plotted for easier interpretation based on the path coefficient values derived with moderating effect as shown in Appendix D. The predicted values of an endogenous construct (excise duty non-compliance) with high and low values of moderator showed the predicted relationship between exogenous and endogenous constructs at different levels of a moderator construct (Hair et al., 2016). The relationship between endogenous and exogenous constructs with different level of moderators is shown in Figure 5.8, 5.9 and 5.10.

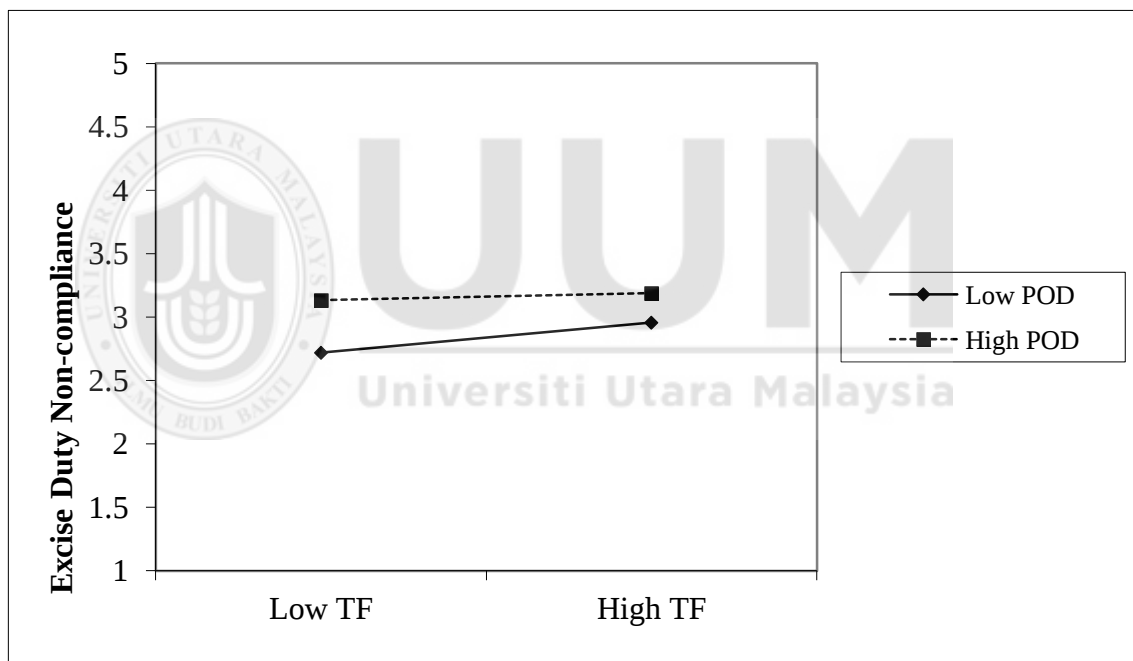


Note: POD: Probability of Detection; TAU: Tax Audit

Figure 5.8

Moderating Effect of Probability of Detection on the Tax Audit and Excise Duty Non-compliance Relationship

Figure 5.8 demonstrates a positive relationship between tax audit and excise duty non-compliance with a high moderating effect slope (dotted line) being much flatter. Thus, tax audit became weaker for individuals who perceived a high level of probability of detection. On the other hand, for individuals who perceived a low level of probability of detection (solid line) the slope was much steeper. That is, with a low level of probability of detection, the relationship between tax audit and excise duty non-compliance became stronger. The subsequent Figure 5.9 shows the moderating effect of probability of detection on tax fairness and excise duty non-compliance.



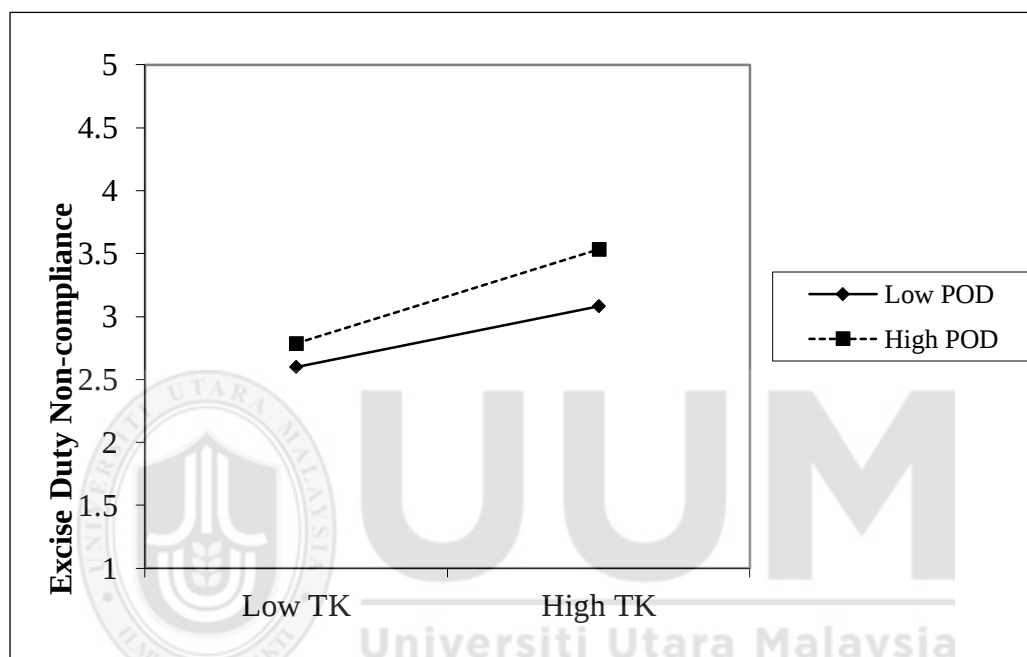
Note: POD: Probability of Detection; TF: Tax Fairness

*Figure 5.9*

Moderating Effect of Probability of Detection on the Tax Fairness and Excise Duty Non-compliance Relationship

Figure 5.9 illustrates the positive relationship between tax fairness and excise duty non-compliance with a high probability of detection effect slope (dotted line) being much flatter than to low probability of detection effect slope (solid line). The relationship

between tax fairness and excise duty non-compliance was weak for individuals who perceived a high level of probability of detection. For low level of probability of detection (solid line), the slope was much steeper. Therefore, for individuals who perceived a low level of probability of detection, the relationship between tax fairness and excise duty non-compliance became stronger.



Note: POD: Probability of Detection; TK: Tax Knowledge

Figure 5.10

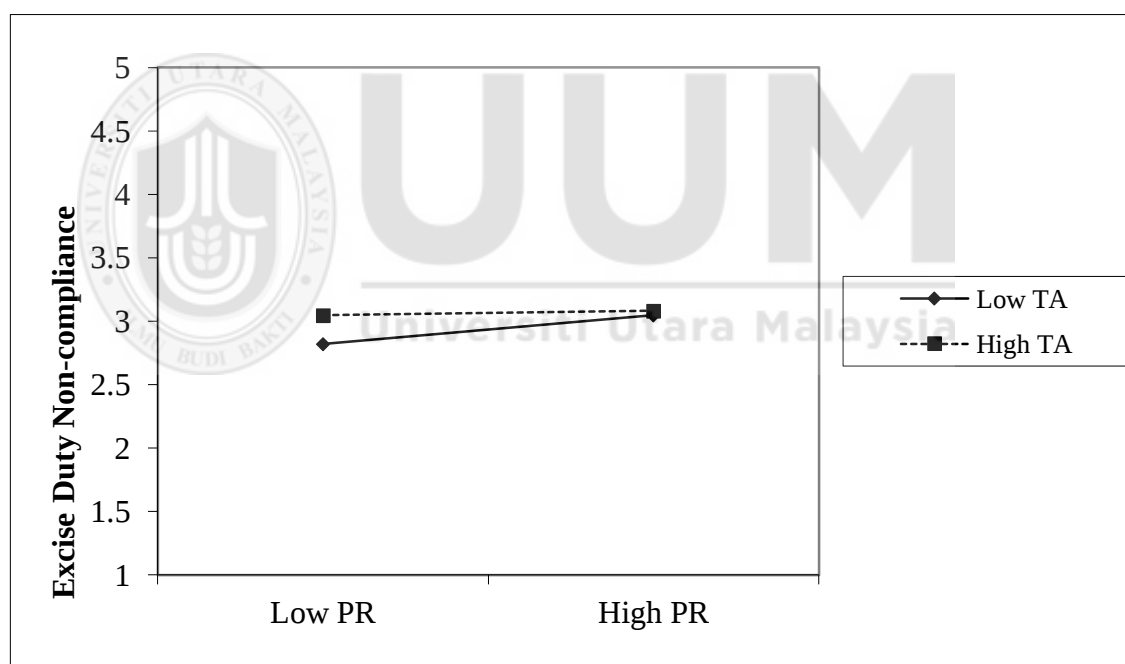
Moderating Effect of Probability of Detection on the Tax Knowledge and Excise Duty Non-compliance Relationship

Figure 5.10 shows the positive relationship between tax knowledge and excise duty non-compliance with probability of detection as a moderator. The high moderating effect is steeper than the low moderating effect. Therefore, for individuals who perceived a high level of probability of detection, the relationship between tax knowledge and excise duty non-compliance became stronger. The slope for the low level of probability of detection was much flatter. Hence, individuals who perceived a

low level of probability of detection, the relationship between tax knowledge and excise duty non-compliance became weaker.

#### 5.10.8.2 Interaction Plot for Tax Agent

The relationship between exogenous and endogenous constructs differs depending on a high or low level of moderator construct (tax agent). The interaction terms suggested that it will become more positive as a tax agent's influence increases. The result of interaction terms for tax agent is based on the path coefficient values derived with moderating effect as shown in Appendix E and illustrated in Figure 5.11.



Note: TA: Tax Agent; PR: Penalty Rate

Figure 5.11

Moderating Effect of Tax Agent on the Penalty Rate and Excise Duty Non-compliance Relationship

As illustrated in Figure 5.11 the relationship between penalty rate and excise duty non-compliance was positive, which indicates that the slope of the low level of tax agent

was steeper. Hence, individuals whose tax agent had a low-level influence, the relationship between penalty rate and excise duty non-compliance was stronger (solid line). However, the slope was flatter when the influence of a tax agent was higher. That is, the relationship between penalty rate was weaker for individuals who had tax agents with a high-level influence.

#### **5.10.9 Assessing Predictive Relevance ( $Q^2$ )**

A research model's predictive validity confirmed by cross-validated redundancy is denoted by  $Q^2$ .  $Q^2$  represents the reuse of sampling techniques developed by Geisser (1974) and Stone (1974). Also, according to Fornell and Cha (1994), the redundant communality values should be greater than zero for all endogenous variables to ascertain the predictive validity as shown by  $Q^2$  values in this study (Table 5.32). In SmartPLS, the blindfolding technique was applied to test the predictive relevance of endogenous constructs with the multiple or single items in a reflective measurement model (Hair et al., 2016). As a basis, predictive relevance scores of 0.02 are considered small, 0.15 medium, and 0.35 large (Hair et al., 2016).

The sample reuse technique or blindfolding is designed by excluding every  $d$ th data point for an endogenous construct's indicator, and the data points are retained for parameters estimation (Chin, 1998b; Henseler et al., 2009; Tenenhaus, Vinzi, Chatelin, & Lauro, 2005). This process requires omission distance ranging from 5 to 12 as recommended by Hair et al. (2016). In this study, the omission distance applied was 7, which indicates that the blindfolding technique will eliminate every seventh data point of the target construct's indicator. This blindfolding process will continuously omit and predict every indicator's data point which comprises 7 blindfolding rounds of latent

variables (Hair et al., 2016). The higher the  $Q^2$  value, the higher the predictive relevance. The result is shown in Table 5.32.

Table 5.32  
*Construct Cross Validated Redundancy*

| <b>Endogenous Construct</b> | <b>SSO</b> | <b>SSE</b> | <b><math>Q^2 (=1-SSE/SSO)</math></b> |
|-----------------------------|------------|------------|--------------------------------------|
| Excise Duty Non-compliance  | 2,500.00   | 1,531.87   | 0.387                                |
| Tax Agent                   | 2,500.00   | 1,510.01   | 0.396                                |
| Probability of Detection    | 2,500.00   | 1,496.98   | 0.401                                |

Table 5.32 shows that the  $Q^2$  values ranged from 0.39 to 0.40, indicating that the research model had sufficient predictive relevance.

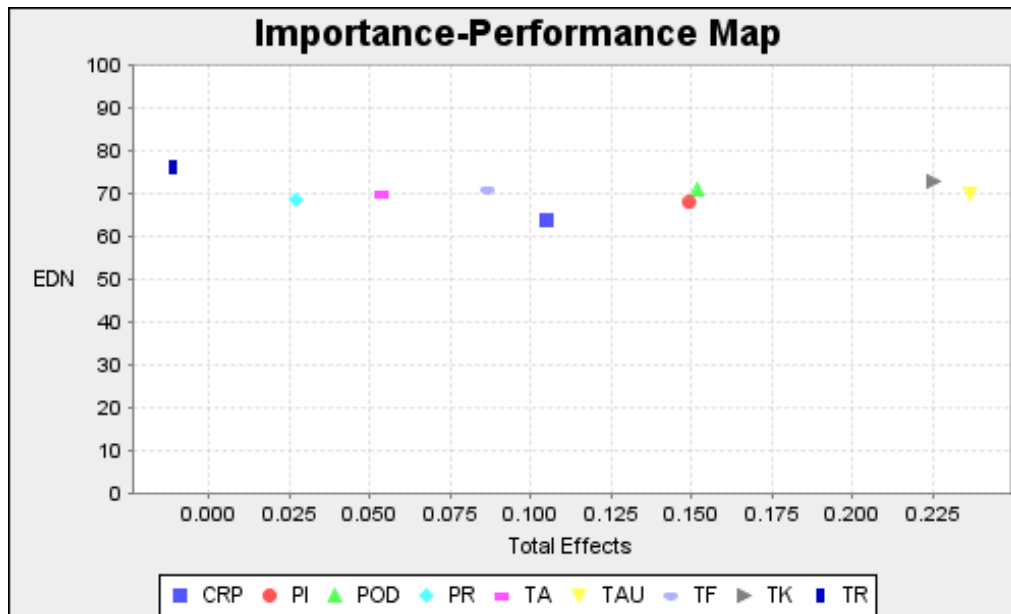
### 5.11 Importance-Performance Map Analysis (IPMA)

The IPMA method is also known as ‘importance-performance matrix’, ‘importance-performance map’ or ‘priority map analysis’. It is carried out to analyse a structural model’s total effects (importance of predecessor construct in forming the target construct) and the average values of the latent variables (performance) (Hair et al., 2016; Ringle & Sarstedt, 2016). The analysis was done by using excise duty non-compliance, probability of detection, and tax agent as the target constructs or outcome variables (endogenous latent variable). The IPMA builds to identify the specific latent variables that are highly important to the outcome construct but has low performance need to be addressed and improved (Hair et al., 2016). In a structural model, IPMA relatively evaluates the importance scores obtained from the total effects of the estimated or predicted relationships for explaining the variance of the endogenous target constructs (Völckner, Sattler, Hennig-Thurau, & Ringle, 2010). The impact of high importance latent variables and low performance would be diagnosed on a

particular endogenous latent variable (Hock, Ringle, & Sarstedt, 2010). Subsequently, the results provided by IPMA's analysis enable management to identify and improve high importance and low-performance latent variables in excise duty non-compliance study (Hock et al., 2010; Schloderer, Sarstedt, & Ringle, 2014). The total effect scores for latent variables were obtained from the path model estimation. Meanwhile, the index values (performance) was performed by the latent variables means of rescaling which ranges from 0 (lowest performance) to 100 (highest performance) (Anderson & Fornell, 2000). Table 5.33, 5.34 and 5.35 illustrate the scores of total effects and index values in the IPMA analysis. Figure 5.12, 5.13 and 5.14 show the total effect and index values scores in a priority map.

Table 5.33  
*IPMA Results for Excise Duty Non-compliance as Target Construct*

| <b>Latent Variable</b>         | <b>Total Effect<br/>(Importance)</b> | <b>Index Value<br/>(Performance)</b> |
|--------------------------------|--------------------------------------|--------------------------------------|
| Tax Rate (TR)                  | -0.011                               | 76.392                               |
| Penalty Rate (PR)              | 0.027                                | 68.420                               |
| Tax Audit (TAU)                | 0.236                                | 69.904                               |
| Tax Fairness (TF)              | 0.086                                | 70.823                               |
| Peer Influence (PI)            | 0.149                                | 67.850                               |
| Tax Knowledge (TK)             | 0.225                                | 72.804                               |
| Corruption (CRP)               | 0.105                                | 63.765                               |
| Tax Agent (TA)                 | 0.054                                | 69.851                               |
| Probability of Detection (POD) | 0.152                                | 70.740                               |



Note: EDN: Excise Duty Non-compliance; CRP: Corruption; PI: Peer Influence; POD: Probability of Detection; PR: Penalty Rate; TA: Tax Agent; TAU: Tax Audit; TF: Tax Fairness; TK: Tax Knowledge; TR: Tax Rate

Figure 5.12

Priority Map for Excise Duty Non-compliance as Target Construct

The IPMA result is shown in Table 5.33 and Figure 5.12, which indicated the total effects involved in the relationship between all the constructs and excise duty non-compliance as the key target construct. Based on Table 5.33 and Figure 5.12, it can be concluded that tax audit and tax knowledge were very important in determining excise duty non-compliance due to their relatively higher importance values than other variables. The tax rate variable had little relevance because it had low importance even though the performance was relatively the highest compared to other constructs. Even though variables such as penalty rate, peer influence, probability of detection, tax agent, and tax fairness scored relatively high in performance, they had little relevance in influencing excise duty non-compliance. Also, the corruption variable was lower in performance than other variables and relatively high in importance compared to tax rate, penalty rate, tax agent and tax fairness.

The result revealed that tax audit and tax knowledge showed intermediate importance and performance compared with other constructs in the model. Hence, to improve excise duty non-compliance, RMCD should focus on the performance of tax audit and tax knowledge. Moreover, attention should be given to enhancing the importance and performance of peer influence as this construct functions as a precursor to tax audit and tax knowledge. Table 5.34 and Figure 5.13 show the values and plots for the identification and determinants of high importance and low-performance variables for probability of detection as a target construct.

Table 5.34

*IPMA Results for Probability of Detection as Target Construct*

| Latent Variable          | Total Effect<br>(Importance) | Index Value<br>(Performance) |
|--------------------------|------------------------------|------------------------------|
| Tax Rate                 | -0.040                       | 76.407                       |
| Penalty Rate             | 0.035                        | 68.444                       |
| Tax Audit                | 0.180                        | 69.901                       |
| Tax Fairness             | 0.074                        | 70.824                       |
| Peer Influence           | 0.130                        | 67.850                       |
| Tax Knowledge            | 0.307                        | 72.805                       |
| Corruption               | 0.147                        | 63.763                       |
| Probability Of Detection | 0.160                        | 70.740                       |

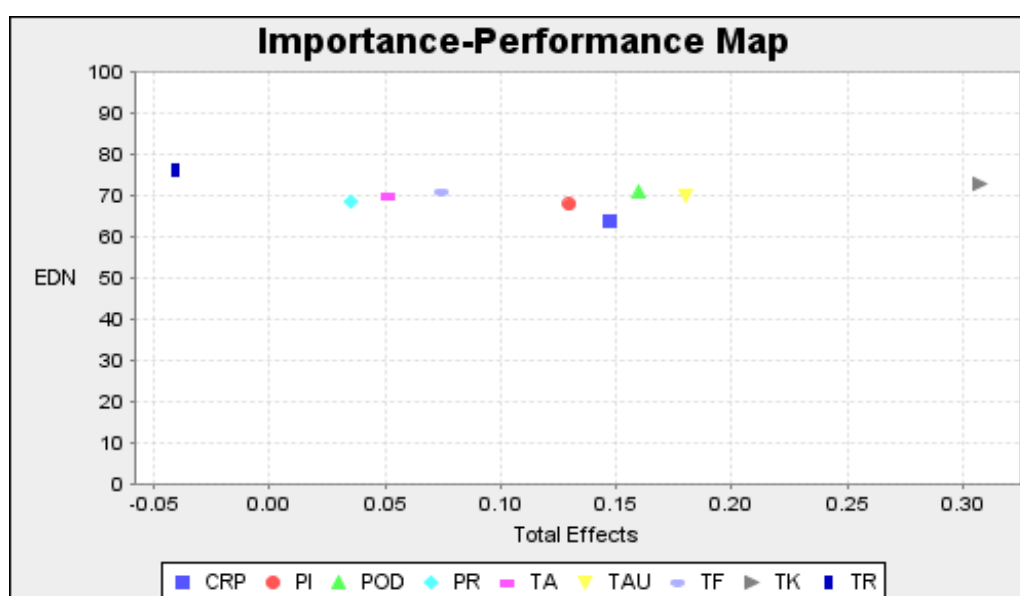


Figure 5.13

Priority Map for Probability of Detection as Target Construct

The path modelling from the importance-performance analysis allows the detection of improvement for excise duty non-compliance with probability of detection as a moderator. This result can be used as a platform in identifying the important areas that RMCD management should focus on to reduce excise duty non-compliance. Table 5.34 and Figure 5.13 show the graphical representation of each exogenous latent variable's performance on probability of detection as an endogenous latent variable. As shown, if the index value of tax knowledge raises by a unit, the probability of detection should raise by 0.31 points with ceteris paribus evaluation of the scores (Ringle & Sarstedt, 2016). The tax knowledge determinant was relatively high to increase the probability of detection based on its high value on importance. Hence, further effort should be considered in expanding and maintaining this performance area. Although tax audit, corruption, and peer influence total effects were significantly low, future actions for the high-performance level should be taken into account. On the other hand, tax fairness and penalty rate need to be substantially improved as a result of the current performance level. Tax rate had a negative value in its total effect because it was not significantly different from zero (Schloderer et al., 2014). Table 5.35 and Figure 5.14 show the values and plots for the identification and factors of high importance and low-performance variables for tax agent as a target construct.

Table 5.35  
*IPMA Results for Tax Agent as Target Construct*

| <b>Latent Variable</b> | <b>Total Effect<br/>(Importance)</b> | <b>Index Value<br/>(Performance)</b> |
|------------------------|--------------------------------------|--------------------------------------|
| Tax Rate               | -0.036                               | 76.405                               |
| Penalty Rate           | 0.065                                | 68.453                               |
| Tax Audit              | 0.244                                | 69.901                               |
| Tax Fairness           | 0.063                                | 70.824                               |
| Peer Influence         | 0.161                                | 67.850                               |
| Tax Knowledge          | 0.185                                | 72.804                               |
| Corruption             | 0.139                                | 63.763                               |
| Tax Agent              | 0.066                                | 69.847                               |

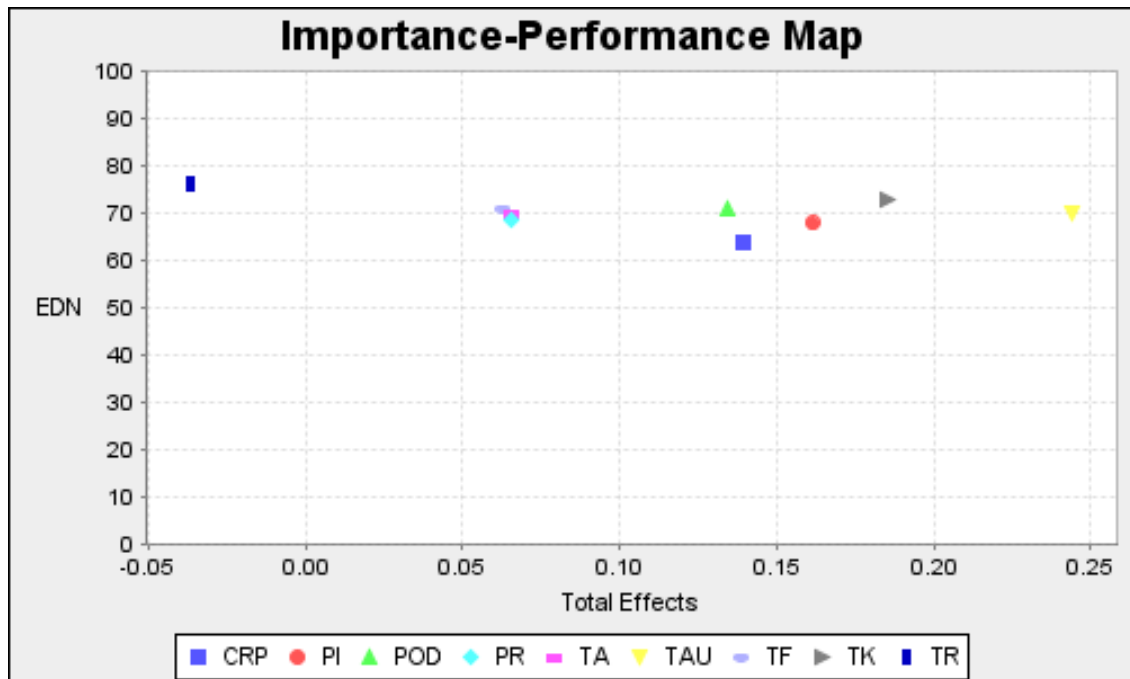


Figure 5.14  
Priority Map for Tax Agent as Target Construct

Table 5.35 and Figure 5.14 show the IPMA values and plots in the PLS analysis. The path coefficients calculated indicated that the exogenous latent variables influenced the total impact of excise duty non-compliance when tax agents were a moderator. From the importance-performance map, it can be concluded tax audit was the highest priority in reducing excise duty non-compliance with tax agent having a moderating effect. This is followed by tax knowledge, peer influence, and corruption. The four constructs showed the good importance and high performance. Hence, they should be emphasised in reducing excise duty non-compliance. Other factors such as penalty rate and tax fairness had shown high performance and marginally significant in contributing to the total effects of excise duty non-compliance. Therefore, the RMCD management could focus on them too. Even though tax rate had the highest performance but the total effect's value was not significantly different from zero, indicated by a negative sign (Schloderer et al., 2014).

### 5.12 Summary

This chapter presented the results of the study. The data were checked for normality, linearity, multicollinearity and homoscedasticity which met the rule of thumb values. The measurement or outer model evaluated by using partial least squares structural equation modeling. This model evaluated to test the reliability and validity of the constructs. Indeed, this study has shown the analyses are in line with the rule of thumb of composite reliability, convergent validity, average variance extracted and discriminant validity Fornell-Larcker and Cross Loadings criterion. All the assessment criteria set by (Hair et al., 2016; Hair et al., 2011; Henseler et al., 2009) are met and exceeded which further enable for structural model assessment. The structural model was examined to test the direct relationship hypotheses. Five out of seven hypotheses were accepted while two were rejected. For and indirect relationship of probability of detection out of seven, three hypotheses accepted and four are rejected. While for tax agent as moderator one hypothesis accepted out of seven. The coefficient of determination ( $R^2$ ) values of endogenous constructs for direct effect 0.63 and for moderating effect of tax agent and probability of detection were 0.65 and 0.66 respectively showed the substantial values as suggested by Hair et al. (2011). The effect size, predictive relevance, total effects and performance also discussed for direct and indirect relationships. The next chapter presents key findings and contributions of this study.

## **CHAPTER SIX**

### **CONCLUSION AND RECOMMENDATION**

#### **6.1 Introduction**

This final chapter discusses the findings presented in chapter five as well as the implications and conclusions of this study. This chapter begins with a summary of the study to remind readers what the study was all about.

#### **6.2 Summary of the Study**

Tax non-compliance is one of the continuing problems faced by many tax authorities around the globe. However, many compliance studies focused on direct taxes like income and corporate taxes and a handful on indirect taxes, particularly in Malaysia. Furthermore, tax compliance studies tended to ignore subterranean activities, also known as underground economy, shadow economy, second economy and hidden economy where tax evasion is intentionally committed.

Tax non-compliance by importers involving cigarettes, liquor, and imported vehicles is escalating annually. These three commodities fall under the Excise Duty Act (1976). Tax evasion on these commodities reached more than RM 1.8 billion for the year 2010-2014. If tax non-compliance is not addressed, national development programmes will be affected significantly. To change the undesirable behaviour of taxpayers, a better understanding of beliefs and attitudes towards tax non-compliance is needed. Therefore, this study was carried out to answer three key research questions: (1) what is the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruption) with excise duty non-compliance

by importers?; (2) to what extent the probability of detection has a significant moderating effect on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruption) with excise duty non-compliance by importers?; and (3) to what extent tax agent has a significant moderating effect on the relationship between predictor variables (tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, corruption) with excise duty non-compliance by importers? To answer the questions, the study used deterrence theory and the Fischer model.

### **6.3 Discussion**

The discussion on the research findings is based on the research questions outlined earlier.

#### **6.3.1 First Research Question**

Hypotheses H1a to H7a pertained to the main effect (direct) relationship between importer's tax non-compliance and tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge, and corruption.

##### **6.3.1.1 Tax Rate and Excise Duty Non-compliance**

The effect of tax rate in tax non-compliance studies is still debatable. Some empirical research showed that higher tax rates led to higher compliance (Allingham & Sandmo, 1972; Fischer et al., 1992). Contrarily, other researchers found that higher tax rate motivated non-compliance behaviour (Mohd Yusof et al., 2014; Bouet & Roy, 2012; Kubo & Lwin, 2010; Mas'ud et al., 2014; Mishra et al., 2008). Nur-tegin (2008) stated that taxpayers are risk averse and will oblige to tax law when the tax rate is high.

However, in this study, the tax rates imposed on cigarettes, liquor, and imported vehicles did not affect tax non-compliance. That is, tax rate was not identified as one of the factors in reducing excise duty non-compliance. The result echoes that reported by Richardson (2006a) who found an insignificant relationship between tax rate and tax evasion in a cross-country analysis. A similar finding was reported by Modugu, Eragbhe, and Izedonmi (2012).

In this study, the tax rate was determined by Customs Duties Order (2012). However, deterrence theory and the Fischer model consider a progressive tax system in direct taxes. Excise duty as an indirect tax relies on the classification on which imported goods are categorised. The Malaysian government raises excise duty to reduce the consumption of cigarettes, liquor, and imported vehicles and simultaneously increase tax compliance. Since cigarettes, liquor, and imported vehicles are luxurious products, they reveal the social status of an individual. The consumption of these products generated from income effect (consumer's discretionary income change based on increase or decrease of the goods and services demand) as well as substitution effect (an effect caused raised at the price based on the goods demanded by consumers). If the income effect is higher than the substitution effect, the higher tax rates will not affect tax non-compliance. The demand for the products relies on the disposable income of the consumer. Importers will increase the importation of cigarettes, liquor, and imported vehicles when there is an escalating demand from consumers regardless of the amount of the tax rate, so importers will not report accurate customs declarations.

#### **6.3.1.2 Penalty Rate and Excise Duty Non-compliance**

This study hypothesised that penalty rate has a positive relationship with excise duty non-compliance. However, the result did not support the hypothesis. Penalty was found to be insignificantly related to excise duty non-compliance. The result is consistent with Cowell (2004) and Eide (2000) but contradicts Devos (2014a) and Miskam et al. (2013), who showed a significant and positive relationship between penalty and tax non-compliance.

Taxpayers are assumed to be “a perfectly moral, risk neutral or risk averse, utility maximising individual who chooses to evade tax whenever the expected gain exceeded the cost” (Milliron & Toy, 1988). In the RMCD context, penalty is not regarded as a deterrent to high-risk evaders. Specifically, those who have committed tax offences for a longer period, they assume that penalty is an unwanted investment. Persistent offenders tend to be less affected by penalty even though they have been arrested and penalised many times before (Anwar & Loughran, 2011). Therefore, punishment for offenders should be greater than the benefits gained for committing tax compliance offences.

The finding of this study suggests that the effectiveness of penalty imposed by the RMCD relies on the moral perception of offenders. Offenders who view penalties as not being a serious deterrent will cause them to engage in offences.

#### **6.3.1.3 Tax Audit and Excise Duty Non-compliance**

Tax audit is one of the main factors to increase the degree of tax compliance. This is in line with the Becker’s theory (1968) which proposes that the decision to comply with

tax relies on the risk under an uncertainty condition (Kaplanoglou & Rapanos, 2015). Moreover, the descriptive statistics of this study provided strong evidence that excise duty non-compliance level would increase if tax audit is heightened. Furthermore, it is confirmed that “tax paying life span” contradict with later and early audits which have tendency to increase tax non-compliance by importers in excise duty (Kastlunger, Kirchler, Mittone, & Pitters, 2009). For a certain period, tax compliance will decrease if the audit is not performed. In this study, the hypothesis supported a significant and positive relationship between tax audit and excise duty non-compliance.

The study's result is also consistent with several past empirical studies on tax audit and tax non-compliance behaviour (Dubin, 2007; Mohdali et al., 2014; Shanmugam, 2003; Snow & Warren, 2005b). The finding suggests that customs auditors should not treat importers as offenders unless they are proven guilty of tax non-compliance. Furthermore, the efficiency of customs auditors depends on their competency, accounting, communication, business, interpersonal, and auditing skills (Fatt & Khin, 2012). Most importantly they need to be prominent in the Excise Act (1976). In line with this, auditors should be equipped with forensic accounting skills. When inspecting person/companies that import goods and services, the customs auditors should use the field audit as an avenue to interact with taxpayers to build trust and mutual respect and educate them. Customs auditors should have the ability to solve minor issues regarding tax audit over a telephone conversation. Moreover, customs auditors should carry out their audit according to the Excise Act (1976) to ensure that they do not burden taxpayers.

#### **6.3.1.4 Tax Fairness and Excise Duty Non-compliance**

This study revealed that the higher the tax fairness was perceived, the higher the excise duty non-compliance, contrary to expectation. However, the finding is consistent with previous works (Gilligan & Richardson, 2005; Hofmann, Hoelzl, & Kirchler, 2008).

The result suggests that excise duty is not imposed fairly on taxpayers even though they still comply with paying taxes. Interviews conducted with excise duty offenders revealed that customs officers did not assess the tax rate according to the law in determining the class of goods dutiable under the Excise Act (1976) based on the value, weight and measures. As a result, excise duties payment for similar goods imported is not standardised in various states in Malaysia. Furthermore, taxpayers have no rights to contest the customs officers' decision on valuation, weight, and inspection. Leventhal (1980) stated that "procedures are considered fair if the following criteria are met: procedures should be consistent, accurate, free of errors, representative, ethical and correctable" (pp.42).

Moreover, tax exemptions for the whole or any part excise duties granted under the Excise Act (1976) are not fairly distributed to eligible taxpayers. Tax authorities who fairly legislated decision-making rules enjoy more voluntary compliance (Feld & Frey, 2007; Van Dijke, De Cremer, & Mayer, 2010; van Dijke & Verboon, 2010). Previous studies suggested that tax authorities and taxpayers built good relationships built due to the acceptance of the decision made by the tax authority, reflecting that trust has developed (Braithwaite, 2003; Murphy, 2004b). RMCD should enact procedural fairness because it supports the legitimacy of the tax system (Tyler, 2006a).

The Malaysian government should emphasise fairness in the allocation process. Offenders consider that the allocation is not fair when the cost and benefit are not fairly distributed. In the tax compliance perspective, the benefits perceived by offenders are in the form of public goods received weigh by the actual taxes paid in dutiable excise goods importation.

#### **6.3.1.5 Peer Influence and Excise Duty Non-compliance**

Subjective norms refer to social pressure that influences an individual's perception whether to comply or not to comply with tax laws (Ajzen, 1991). Important referents will determine how taxpayers should behave (Ajzen, 1991). The result of this study found that social pressure motivated taxpayers' tax non-compliance behaviour.

The finding of this study showed that peer influence or subjective norms were positively and significantly related to excise duty non-compliance. The finding corroborates the theory of reason action and theory of planned behaviour that propose that peer influence is one of the main factors in influencing behavioural intention and previous studies (Bobek et al., 2007; Borrego, Lopes, & Ferreira, 2013; Kahle & White, 2004). In excise duty non-compliance, peer influence involves importers and tax agents. These two groups affect importers' tax compliance. Business partners (other importers) and tax agents are the people with whom the importers connect on a regular basis. Importers are more compliant when they perceive that others declare excise duty accurately, according to the tax law. Conversely, when importers perceive that these groups do not make customs declarations accurately, they are likely to do the same.

Tax agents also have the ability to influence importers' decision to comply or not to comply. Being a representative of the importers, tax agents act to meet the importers' expectation even though non-compliance can pose a dilemma to them. Therefore, tax agents are encouraged to creatively think of ways to solve importation business and while encouraging tax compliance among importers.

#### **6.3.1.6 Tax Knowledge and Excise Duty Non-compliance**

Tax knowledge is an important factor that determines tax compliance (Eriksen & Fallan, 1996). Most studies emphasised customs declarations tax knowledge without considering the knowledge of tax evasion consequences. Therefore, this study included both types of knowledge to improve excise duty compliance. Importers should have knowledge on how to perform customs declaration accurately. Moreover, they must have sufficient knowledge of the excise duty non-compliance consequences. Excise duty defaulters will be penalised monetarily, imprisoned, and charged in court. As a result, excise duty non-compliance phenomenon will be reduced. However, importers' declarations of goods are to maximise their expected utility by weighing the profits gained from successful evasion against the detection by customs officers and the consequences faced.

This study revealed that tax knowledge and excise duty non-compliance was positively and significantly related. The finding is consistent with past studies (e.g., Mei Tan & Chin-Fatt, 2000). The RMCD importation declaration requires many complex and technical procedures such as tariff classification, valuation, origin rules, and facilitation provided by other agencies especially at border such as port authorities, port operators, agriculture department, chemistry department, road transport department, and tax

agents. This study revealed that sufficient importation knowledge was used to identify the loopholes to maximise the profit by paying less or evading excise duties. Tariff classification and valuation knowledge were used to manipulate the tax rate imposed. Hence, adequate importation knowledge induced unethical behaviour among importers.

Importers' adequate knowledge of importation also enabled them to produce double invoices, one from the local importers and the other from foreign exporters to save the per-unit cost of two invoices. Forged invoices are also used for customs declaration. Customs officers can detect the unlawful goods listed on invoices if they are experienced. Importers will conceal the documents for importation by altering the purchase order, altering the confirmation order, and declaring fewer goods than imported to attain lower tariff.

Importers also misstate the country of origin listed to enjoy a lower tariff, anti-dumping laws, quotas, and embargoes. In some circumstances, goods are shipped to an intermediary country, which is stated as a country of origin even though the goods are not originated from there. Misdescription to alter classification is another fraud identified to lower or free tariff rate. To curb these activities, customs officers should have wide discretion to conduct inspections.

#### **6.3.1.7 Corruption and Excise Duty Non-compliance**

Tax-interrelated corruption involves importers paying for two types of corrupt services: 'tax evasion' and 'preferred customer treatment' such as cargo speedier clearance, licenses and rulings priority for processing and applications (Pashev, 2005). Importers need the customs department for their importation. They are forced to oblige to the

customs requirements due to their monopoly power (Widdowson, 2013). Importers pay a bribe to customs officers to save opportunity and compliance cost, especially to acquire speed services or shortcut regulatory procedures on the importation process. The cost of paying a bribe is less than the benefit gained from tax evasion (Pashev, 2005). Importers tend to engage in corruption when the customs administration is perceived to be ineffective, when the tax is burdensome, and when the price for corrupt services is low.

On the relationship between corruption and excise duty non-compliance behaviour, the study found a positive and significant association. The result is consistent with previous literature on corruption and tax evasion (Dutt & Traca, 2010; Kaufmann & Wei, 2000; Parayno, 1999). The result of this study established the perception of corruption of customs officers. Customs officers' involvement in corruption is related to the misuse of authority for individual profit. Corruption in this study differentiated extensive corruption from minor corruption. Extensive corruption is the involvement of higher rank officers for a higher volume of importation for monetary attainment whereas minor corruption involves lower rank officers at checking points who take a small amount of payment to facilitate the goods transactions.

Customs officers are highly motivated to accept bribes if they are not satisfied with their salary status, monetary incentives policies and career enhancement fairness. Therefore, RMCD should focus on incentives of anticorruption rather than emphasise on deterrents. Customs officers' corruptions are more prone at 'hot spot places' such as Penang Port in Penang, Port Kelang in Selangor and Pasir Gudang in Johor. Hence, these places should be highlighted and observed closely. The detected and proved

Customs officers for corruption should be considered for severe punishment such as rank demotion or expelled from the department if the offence committed. This is to curb corruption among Customs officers and reduce the excise duty non-compliance.

### **6.3.2 Second Research Question**

Probability of detection was defined as one of the enforcement strategies imposed by tax authorities to deter tax non-compliance behaviour. If probability of detection is not enforced strictly, it is unfair to those who pay taxes. In this study, two types of probability of detection were identified as suggested by Fischer et al. (1992): ‘objective audit probability’ based on audit and ‘perceived detection probability’ affected by behaviour. Becker’s (1968) crime approach assumed taxpayers’ gambled by measuring unpredictable gain with successful non-compliance conversely with detection and sanctions. Taxpayers still choose to cheat the tax authority if the probability of detection, prosecution, and penalties is minimal (Loeffler, Sieg, MacDonald, Chirico, & Inman, 2016). The importers’ ultimate goal in the importation process is to maximise profit. This is achieved by anticipating the potential cost and benefit in monetary term. Therefore, probability of detection was introduced as a moderator.

#### **6.3.2.1 Probability of Detection Moderating Tax Audit and Excise Duty Non-compliance**

Tax audit in customs involves the examination of a trader’s system, accounting records, and premises (Excise Act, 1976) to inspect intentional and unintentional compliance by verifying the amount of revenue legally due. Intentional non-compliance relates to the conduct or act to deliberately evade tax liabilities. Probability of detection proposed in deterrence theory by Becker (1968) and Fischer determined whether taxpayers are likely to evade taxes or not (Devos, 2014b). Tax audit involves a cost to the RMCD as

well as importers. Therefore, tax audit should be conducted carefully according to law to maximise importers' compliance with minimal cost and interruptions (Gupta & Nagadevara, 2007).

Tax audit was found to be related significantly and negative with excise duty non-compliance with probability of detection as a moderator. As illustrated in figure 5.8, it indicates the relationship between tax audit and excise duty non-compliance is positive. It is reliable for importers with a low level of probability of detection than to those with a high level of probability of detection. However, for the direct effect result, tax audit and excise duty non-compliance shows the significant and positive relationship. This relationship changed to negative with the inclusion of probability of detection as moderating effect. The result is consistent with past studies (Kumar & Nagadevara, 2006; Shao, Zhao, & Chang, 2002).

#### **6.3.2.2 Probability of Detection Moderating Tax Fairness and Excise Duty Non-compliance**

Tax fairness is one of the non-economic factor needed for better understanding of tax compliance and non-compliance (Wenzel, 2004b). Tax fairness was significantly and negatively related to excise duty non-compliance with probability of detection as moderator. The interactions slope analysis for this effect as illustrated in figure 5.9. This indicating tax fairness effect when importers perceived probability of detection is high and more accepting tax non-compliance. In contrast, the weak relationship of excise duty non-compliance was confirmed for importers who showed a low level of probability of detection with tax fairness.

The rationale findings of this study revealed the importer's goal is to maximise profit by considering two options under uncertainty conditions. First, on being compliant with tax law with certain losses regarding excise duty paid. Second, on received material gain through tax non-compliance if not detected and faced sanctions if detected (Allingham & Sandmo, 1972). The rationale decision made by importers is to maximise expected utility. The result suggested that RMCD should ensure the benefit acquired from non-compliance is lower than acquired via compliance. The importer's compliance will be a rational choice if the RMCD finds balance between this two measures. It is concluded that the higher tax fairness and low level of probability of detection will deter importers non-compliance.

#### **6.3.2.3 Probability of Detection Moderating Tax Knowledge and Excise Duty Non-compliance**

Most of the prior literature highlighted that taxpayer's knowledge related to the sensitivity or awareness on tax rules and regulations (Hasseldine, Holland, & Rijt, 2012). This study examined whether the relationship between tax knowledge of tax law and excise duty non-compliance will influence importers compliance with probability of detection as moderator. Taxpayers emphasised on incentives and profit maximisation after adjusting the risk of detection consistent with Deterrence Theory (Oladipupo & Obazee, 2016).

The result of this study is congruent with the prediction in hypotheses  $H_{6c}$  that the positive relationship between tax knowledge with excise duty non-compliance will be stronger when probability of detection is high. Thus, the relationship between the tax knowledge and excise duty was positive for the main effect. Further, strengthen the positive relationship as the consequence of the interaction of probability of detection.

This study recommended that probability of detection performed as an intermediary between tax knowledge and excise duty non-compliance. Therefore, taxpayers with high tax knowledge were more likely to involve in excise duty non-compliance compared with low tax knowledge. The result in figure 5.10 shows those importers perceived the higher the probability of detection, with higher tax knowledge will motivate to excise duty non-compliance. Importers with high tax knowledge might change their behaviour. The enforcement factor such as increasing probability of detection might shape up importers behaviour and attitudes towards tax compliance. Harmonised Tariff Schedules Gazette by World Customs Organization and Customs Duties Order (2012) determine the excise duty payable. Therefore, higher tax knowledge on tariff might encourage importers fraudulently paid lower excise duties by altering the tariff codes (misclassification). Moreover, with the excise duty knowledge, importers will undervalue imported cigarettes, liquor and imported vehicles to underpay excise duties (undervaluation of goods). Under the Deterrence Theory importers (taxpayers) assumed as 'perfectly moral', 'risk neutral' and 'risk-averse' practising 'cost-benefit' approach whether to comply or not comply (Devos, 2014b).

#### **6.3.2.4 Probability of Detection Moderating Tax Rate and Excise Duty Non-compliance**

Tax rate and probability of detection are two variables always emphasised in Deterrence Theory and Fischer's model (1992). These theoretical models showed the level of compliance relies on the risk preferred by taxpayers'. In other words, taxpayers become criminals based on their non-compliance behaviour differ with the law. The decision of this behaviour determined by assessing cost and benefit (Becker, 1968). Tax rate or tariff rate is a classification system under Harmonized Tariff Schedule. Goods are identified by code to determine the duty. Therefore, the illegal conduct

(misclassification importation fraud) practised by importers to falsify the descriptions of goods to pay taxes preferable to them. This caused the actual taxes owed not paid to RMCD.

The empirical result appeared that tax rate and excise duty non-compliance insignificant and inconclusive with probability of detection as moderator. Further, both direct and indirect effects show statistically insignificant. These findings were in line with the study by Kirchler et al. (2008) when they established that underreporting and evasion have no effect on the tax rate. As such probability of detection did not possess indirect effect for the perception and prediction of excise duty non-compliance. This could be tax rate do not correlate with the main effect as well as moderating effect and established the relationship (Walsh, Evanschitzky, & Wunderlich, 2008).

The explanation for this result could be that importers will involve in concealing customs declarations with logical prediction as long as non-compliance is beneficial. This does not reflect higher or lower tax rate imposed on excise goods but only indicating importers behaviour (Smith & Kinsey, 1987). Probability of detection only virtually predicts importers behaviour on evading taxes.

#### **6.3.2.5 Probability of Detection Moderating Penalty Rate and Excise Duty Non-compliance**

Probability of detection is law enforcement measures carried out to increase the anticipated cost of illegal goods transactions which reduces smuggling. Smuggling offences involved legal goods are traded illegally. There are few studies supported that probability of detection and penalty rate as main tax compliance determinant (Becker, 1968; Fischer et al., 1992; Hasseldine, 2000; Kirchler, 2007).

The explanation for this finding could be the severity of the penalty is not a law enforcement strategy to reduce smuggling. This outcome is parallel to the finding of Varma and Doob (1998) when they confirmed that penalty is not meeting the deterrent objective and relies on cost and benefit when committing tax offences. In this study's perspective, for the penalty rate and excise duty non-compliance the relationship was statistically insignificant and positive. However, the moderating effect of probability of detection on the influence of excise duty non-compliance behaviour is insignificant and negative. Therefore, whatever the enforcement measures applied by RMCD to deter non-compliance phenomenon. The perception of penalty rate and the probability of detection have a negative influence on excise duty non-compliance.

The possible answer for this results was that penalty regarded as an effective deterrent factor if offenders are detained through enforcement strategies and prosecuted successfully. However, the offender will make the rational choices by comparing the offending cost with benefit cost from smuggling (non-compliance). Hence, judges have to impose higher penalty compared to the current penalty to deter from committing tax offences. To achieve this, requires the cross-border relationship for importation businesses. The main problem encountered by RMCD is a lack of information and co-ordination from an export country which hampered the prosecution. The cooperation needed to verify the authenticity of documents such as invoice, bill of lading, packing list and country of origin. Therefore, the penalty does not emerge as an important factor in excise duty non-compliance with probability of detection as moderator.

#### **6.3.2.6 Probability of Detection Moderating Peer Influence and Excise Duty Non-compliance**

Social norm or peer influence playing an important role in regulating human behaviour on tax compliance (Battiston & Gamba, 2016). There are three classes of peer pressure grouped as 'honesty', 'opportunity' and 'conformism' (Battiston & Gamba, 2016). The first class related to pressuring taxpayers who are more prone to avoid taxes to honest taxpayers. Secondly, consist of importers not personally emphasised on social norms choose to be compliant to fulfil tax agents honest preference in customs declarations. The 'conformism' referred to the perceive probability of audit lead to conditional cooperation to raise common behaviour in the community (Fellner, Sausgruber, & Traxler, 2013).

The result from the analysis presents hypothesis  $H_{5c}$  suggested that the positive relationship between peer influence and excise duty non-compliance will be stronger when probability of detection is high. The finding did not support  $H_{5b}$  which indicates probability of detection not have a strong moderating effect on the influence of peer and excise duty non-compliance. This implies that probability of detection not affected the strength between peer influence and excise duty non-compliance.

The finding is evidence that the self-interest importer's goal is to optimise gain and did not drive to other group interest for tax non-compliance. In certain circumstances, individual will define them as an important person in shaping up peers belief in tax compliance behaviour. In this study's perspective importers are not influenced by their perception that some other importers group or agents have better opportunities in minimising tax burden. This might not lead to intergroup injustice perception on importers. In other words, importers are not predicted the influence of other groups.

Contrarily, importers pursue their interest when considering the consequences of probability of detection.

#### **6.3.2.7 Probability of Detection Moderating Corruption and Excise Duty Non-compliance**

Importers have two choices whether to declare goods accurately and pay taxes or conduct illegal trade to pay fewer taxes or evade taxes completely. The decision will be made to maximise their utility of their conduct and likelihood being detected by RMCD and fined (Stefura, 2011). One of the common factor practised by importers to evade taxes is through smuggling. Smuggling involves transferring goods from export country to import country by violating tax law. The income generated through breaking the rules and regulations and relevant costs (Amir, Masron, & Ibrahim, 2010). This misbehaviour related to corruption between RMCD, tax agents and importers. There are two sides of corruption identified in RMCD namely 'demand side' and 'supply side'. The demand side denotes corrupted taxpayers distort or concealed their tax responsibilities. Contrarily, supply-side related to the involvement of Customs officers with importers to hide their corrupted behaviour.

The hypothesis H7b not supported or statistically insignificant that probability of detection will affect the relationship between corruption and excise duty non-compliance. This demonstrates the strength of the relationship between corruption and excise duty non-compliance is not rely on probability of detection and moderation not occurs. In other words, probability of detection as the third variable did not affect the correlation between the dependent and independent variables (Namazi & Namazi, 2016).

The possible interpretations for this result may be that there is a high probability of detection and severe punishment imposed by RMCD to curb corruption. Time to time internal audit and monitoring operations carried out at most of the importation ports such as North and South Port in Butterworth, Penang, North, South and West Port in Selangor, Pasir Gudang and Tanjung Pelepas Port in Johor. These ports are operating effectively due to the strong management and information system. Practically, the probability being detected, caught and punished imposed aggressively by RMCD. For instance, the customs ports were installed scanner machines to scan the containers plying in terminal gates. This machine has detection equipment and alarm communication system to detect illegal goods. Customs officers, importers and tax agents' perception of severity of punishment for corruption indirectly influence compliance behaviour.

### **6.3.3 Third Research Question**

Customs agent (tax agent) playing a role as an intermediary integrating importers (customers) and suppliers (exporters). They are involved in goods clearance at Customs ports and importers compliance with trade matters rely on them (West, 2010). Tax agents highly engaged by importers based on their technical knowledge on importation procedures. Hence, in this study's context tax agent was introduced as moderating variable which anticipated could affect the association between exogenous and endogenous latent variables by strengthening the direction between the constructs in this study's model. The relationship between exogenous latent variables with excise duty non-compliance differs with the involvement of tax agent and this relationship hypothesised as H1c-H7c. The coefficient of determination ( $R^2$ ) value increased from 63% for the main effect to 64.60% with the inclusion of tax agent as moderator. This

showing the collaborative effect of exogenous constructs on an endogenous construct which confirmed the predictive capacity of this study's model with tax agent as a third or moderator variable (Hair et al., 2016).

Even though, there are a number of literature examined the consequences of the tax rate, penalty rate, tax audit, tax fairness, peer influence, tax knowledge and corruption as exogenous constructs with tax non-compliance as endogenous construct mainly on the direct relationship. As far as researcher's concerned none of the studies tested tax agent as moderator. Therefore, the lack of tax agent studies as moderator restricted researcher to make a comparison to the current study's findings with the previous studies.

#### **6.3.3.1 Tax Agent Moderating Penalty Rate and Excise Duty Non-compliance**

Penalty rate is one of the components identified in Deterrence Theory and Fischer's model (1992) that influence tax agents and importers compliance. Penalty rate towards excise duty non-compliance associated with severity of criminal and civil penalties to ensure individual compliance of tax responsibilities. Penalised non-compliance taxpayers' was attributed to a common practice for the tax authorities to ensure tax compliance (Eek, Loukopoulos, Fujii, & Gärling, 2002; Fehr & Gächter, 2002).

The hypotheses  $H_{2c}$  predicted the positive relationship between penalty rate and excise duty non-compliance would be stronger and negative relationship will be weaker with tax agent involvement. More precisely tax agent marked significant negative effect on the penalty rate and excise duty non-compliance relationship. This indicates the lower the level of tax agents commitments in customs declaration, the stronger will be the

negative relationship between penalty rate and excise duty non-compliance as illustrated in figure 5.11. Therefore, the reliance of tax agents in customs declarations should be reduced to ensure excise duty's compliance. If importers highly relied on tax agents for their importation procedures and goods clearance will induce to non-compliance on excise duty.

The enforcement effect on tax non-compliance indicates the stringent enforcement effect will decrease non-compliance (Davis, Hecht, & Perkins, 2003; Hanno & Violette, 1996). Moreover, in Argentina Castro and Scartascini (2015) revealed that property tax payment relies on economic motives compared to non-economic motives by considering penalties and enforcement. As in this study's findings, Perez-Truglia and Troiano (2015) found penalties affected on the smaller amount debt repayment of taxpayers. Since many years RMCD relied on civil and criminal penalties as a key method applied in managing tax compliance (Allingham & Sandmo, 1972; Rotunno & Vézina, 2012; Slemrod, 2007; Torgler, 2011). The perception of law and enforcement on tax compliance was earlier explored by Deterrence Theory to explain and predict taxpayers' behaviour. Importers may accept tax agent's recommendations irrespective whether conservative or aggressive tax planning. In this matter, if importers highly influenced by them will increase tax non-compliance with aggressive tax suggestions. However, it relies on importers risk preferences. Thus, Deterrence Theory by Becker (1968) contributes feasible justifications for the new findings in this study.

Importers will be penalised upon conviction. When tax agents are more aggressive than importers, the hidden cost of penalties will be transferred to importers without their approval or knowledge. Hence, RMCD's law enforcement is one of the determinants

identified affecting importers intention to comply. RMCD as indirect tax administrator-enforced the excise law. Provisions of section 71-79 of Excise Act (1976) stated that penalties imposed for the offences such as incorrect declarations, falsifying documents, illegal manufacturing of excise dutiable goods, selling liquor without a license, illegal possession of excise goods. Punishment to the offenders regarded as a lesson to the public not committing an excise duty offences with the strict effects and consequences. This is considered as one of the regulatory strategy to reduce tax non-compliance and as a control measure for the public to comply law as found in this study's result (Langham, Paulsen, & Härtel, 2012).

The penalty imposed for excise duty offences considered high to decrease tax non-compliance phenomenon. For instance, under Section 74 of Excise Act (1976), the penalty on evasion of excise duty is not less than ten times the amount of the excise duty of RM50,000 for illegal importation. While for illegal manufacture of dutiable goods is RM10,000. In line to this, according to section 81 of Excise Act (1976) failure to pay penalties and duties will cause imprisonment. Financial penalty and imprisonment are the best way to curb the tax evaders from recurring the offences in future. This statement was strongly supported by this study with tax agent's involvement as intermediaries.

If the legal punishment is severely and immediately enforced will prevent importers and tax agents committed in tax fraud. Therefore, penalty rate was presumed turned as a deterrence if could full filled five specific aspects to curb tax non-compliance (Morris, 2010). Firstly on the tax complexity and their consequences as deterrence. Second, on RMCD's penalty strategy where in some instances the more penalty was imposed than

collected timely. Third, on importers rationality as taxpayers weighing their economic cost with detection to determine the compliance level. Fourth, the effectiveness of penalty imposed by RMCD should be understood, and offenders are detained and penalised. Finally, on the determination of the penalty amount imposed to offenders.

#### **6.3.3.2 Tax Agent Moderating Tax Rate and Excise Duty Non-compliance**

Tax rate is regarded as a vital phenomenon in understanding tax non-compliance behaviour. Most of the prior literature revealed that the influence of tax rate and tax non-compliance in theoretical prediction became the sensitive issue (Slemrod & Yitzhaki, 2002). In pioneering studies by Becker (1968) stated tax rate is an important determinant in tax non-compliance issue. However, it depends on the prediction of risk and punishment if the offence committed. Measuring tax non-compliance by tax rate became challenging task because of the difficulties to measure it, which is not directly observed. The indirect approach is needed to understand the behaviour of tax non-compliance (Fisman & Wei, 2004). Therefore, tax agent was introduced as moderating variable in this study. However, there are various discrepancies on the significant level of the constructs in the study models. Some researchers found significant relationship while others found a non-significant relationship (Venkatesh, Morris, Davis, & Davis, 2003). Empirically, tax rate with tax agent as a moderating effect hypothesised as H<sub>1c</sub> in chapter four proved as not significant with excise duty non-compliance.

This result marked that tax rate is not an influential factor as suggested in previous literature. Tax agent as an indirect effect (moderator) failed to support the positive relationship with tax rate to determine cigarettes, liquor and imported vehicles compliance. Tax agent as moderator did not strengthen the relationship between tax

rate and excise duty non-compliance. In this study's context increasing or decreasing the tax rate with the influence of tax agent as preparer for customs declarations will not affect the importer's compliance behaviour.

#### **6.3.3.3 Tax Agent Moderating Tax Audit and Excise Duty Non-compliance**

Most of the prior literature suggested tax audit will motivate taxpayers' compliance (Dubin, 2007; Palil & Mustapha, 2011). These findings are in line with Deterrence Theory that tax audit could deter taxpayers' tax non-compliance. However, it is a debatable issue regarding tax audit to deter non-compliance, some researchers recommended while others revealed had weak effects as in this study's finding (Andreoni, Erard, & Feinstein, 1998; Kirchler, 2007). This study examined the relationship between tax audit and excise duty non-compliance with tax agent as moderator to understand whether can influence the importer's behaviour to comply with excise law. Tax audit measured by emphasised on the audit experience conducted by Customs Auditors and the frequency of the audit carried out by RMCD.

It is revealed that the relationship between tax audit and excise duty non-compliance with tax agent as moderator was statistically insignificant and inconclusive and not supported hypotheses H<sub>3c</sub>. The result is reversed from the contention of other previous literature that tax audit might improve importers compliance. These findings recommended that tax audit of excise duty is not a key factor in determining excise duty compliance. Therefore, in this study's context, tax audit performed by Customs Auditors not necessarily will influence compliance among importers with the involvement of tax agent as moderator.

The reasonable answer to account for this finding is the tax audit do not exist in tax agents mind when considering detection for wrongdoings in excise law. On the other hand, all the importation transactions documents related to tax computation, tariff code, tax rate and accounts records were kept by the importers. They will face the consequences such as monetary penalties and other costs when offence committed. Therefore, importers incur compliance cost for them to comply with tax responsibilities. Hence, in this study's environment, tax agent as the third variable did not strengthen the relationship of tax audit and excise duty non-compliance (Namazi & Namazi, 2016). In another word, Tax agent also known as an interaction effect does not affect the strength of direct effect between tax audit and excise duty non-compliance (Henseler & Fassott, 2010a).

#### **6.3.3.4 Tax Agent Moderating Tax Fairness and Excise Duty Non-compliance**

The tax fairness was classified as another key factor in determining tax compliance among importers. In the Fischer's' model tax fairness variable categorised under attitude and perception construct. This is regarding the importers measured the benefits received from the government in return of the excise duty paid (Alm, Jackson, & McKee, 1992c). The effect on non-compliance behaviour relies on the presence of public necessities (Tan & Sawyer, 2003). Tax fairness in tax system was considered as more significant compared to penalty structure for generating taxpayers compliance (Tan & Sawyer, 2003).

Tax agents represent more than seventy-five percent of Malaysian importers and have potential to influence directly or indirectly with importers compliance (RMCD Annual Report, 2014). This study hypothesised  $H_{4c}$  to investigate the relationship between the

tax fairness and excise duty non-compliance with the influence of tax agent as moderator. The result from this study further identified whether tax agents influenced as intermediaries between RMCD and importers would improve the RMCD's collections. Further to examine whether the fairness perceived by tax agents will induce importers compliance in excise duty.

However, the findings from this study highlighted that the tax fairness is not a prominent factor influencing importers compliance with tax agent as intermediaries. The results also showed tax agents only act as an advisor to importers, non-salaried employees to RMCD, the third person to the importers and RMCD. They also are protectors of their tax declarations practices and finally have influences in the tax system. Tax agents are not tax payers; they are merely involved indirectly on behalf of importers to pay excise duty. Therefore, the perceived fairness in government spending on tax paid did not influence them to pay less tax. In reality, the real taxpayers are importers which influence tax fairness perceived with tax paid. Furthermore, this outcome suggested that tax agent does not indirectly affect the importer's behaviour on tax non-compliance based on tax fairness. Hence, tax agent did not strengthen the significant positive relationship between main effect but only produced an insignificant positive relationship with tax agent as moderator. Therefore, the moderation effect of tax agent not occurred (Preacher, Rucker, & Hayes, 2007).

The aggressive tax planning of tax agents also affected importers fairness perception. The outcome from the interview conducted among importers indicated tax agents approaches was to minimised the tax amount paid with ambiguous tax legislation, loopholes and tax avoidance possibilities. However, importers might not accept

aggressive tax planning based on tax fairness received caused importers are not prone to tax agents advice. This study's finding contradicts with findings of Tan and Sawyer (2003) which indicate the fairness exchange is a strong influence with tax agents involvement in determining taxpayers' compliance.

#### **6.3.3.5 Tax Agent Moderating Peer Influence and Excise Duty Non-compliance**

Peer influence or subjective norm defined as individual's referent others such as friends, family, close colleagues and business partners. It involves behaviour whether to agree or disagree of tax non-compliance. Fischer's model (1992) highlighted peer influence in attitude and perception construct. Most of the prior literature applied Theory of Planned Behaviour when discussing the importance of peer influence or prediction of human social behaviour (Ajzen, 1991). The empirical investigations supported that peer influence will lead to an assessment of individual's intention to comply or not to comply with tax responsibilities based on the beliefs and feelings of others (Bobek & Hatfield, 2003; Bobek, et al., 2007; Hanno & Violette, 1996). In this study's context, the role of tax agent as moderating variable introduced to examine the strength or nature of the relationship between peer influence and excise duty non-compliance was hypothesised as H5c in chapter four.

The empirical result from this study displayed insignificant negative relationship on tax agent's intention to influence importers tax compliance. This in line with the findings by Hessing, Elffers and Weigel (1988) identified no relationship between taxpayers compliance versus non-compliance decisions with perceived subjective norm of tax agents. The indirect influence is not strong regarding the ethical beliefs between 'principal-agent' associations. Tax agent did not influence the strength of the excise

duty non-compliance with peer influence predictor (Aguinis, Edwards, & Bradley, 2016). One of the feasible interpretation for this result could be the importer's aggressive return might incur high fees and more time. Clearly, it is revealed importers are motivated to hire tax agent with more conservative returns in declaring tax liabilities. As tax agent might be persuaded by importers regarding the way importers would like to represent in excise declarations. This finding also supported the interview results conducted with tax agents. They claimed that they are obligated to fulfil importers requirements as received payment for the service delivered.

#### **6.3.3.6 Tax Agent Moderating Tax Knowledge and Excise Duty Non-compliance**

In the Customs tax system structure, tax declarations are based on self-assessment via Customs Information System which will be replaced by U-customs soon. In line to this, importers are highly relying on tax agents to meet their tax responsibilities. Tax agents are substituting importers in tax compliance matters. Therefore, their advice in tax laws, the decision in tax planning and attitude will have an impact on importers tax compliance. Tax agents experiences and knowledge caused them emerged as an important person who can lead to taxpayers tax compliance (O'Donnell, Koch, & Boone, 2005; Park & Hyun, 2003).

The structural results after bootstrapping to determine the significance effect moderator effect of tax agent emerged as an insignificant positive result not supported H<sub>6c</sub>. This finding indicates that the existence of tax agent on the relationship between tax knowledge and excise duty non-compliance did not strengthen the positive relationship. This is evidence that whatever the tax agents influence on importers will be, their perception about the tax agent's tax knowledge does not have an effect on tax non-

compliance behaviour of importers. This finding is consistent with the result of Hite and McGill (1992), they revealed tax agent is not the main consideration to cause the potential impact on taxpayers decision.

The possible answer for this finding might be that even though tax agent has knowledge on customs declarations but Customs Assessments officer will determine whether to approve or disapprove the declarations. The Customs assessments officer has the discrete power to decide the customs declarations based on their knowledge and understanding of the goods descriptions. The present outcome is based on the interview conducted among importers indicated that they do not solely rely on tax agent to ensure they will not cheat by tax agent's aggressive tax declarations. Therefore, importers attended the courses and seminars conducted by RMCD to improve tax knowledge.

#### **6.3.3.7 Tax Agent Moderating Corruption and Excise Duty Non-compliance**

Importation business requires interaction involves Customs Department either directly or indirectly through the third party like tax agents. Importers rely on tax agent to deal with RMCD's officials. Customs tax agents only specialised dealing with RMCD's officials. The agents and RMCD's officials' relationship might be developed over the years. This will lead to illegal payments to RMCD's officials to alleviate tax complexity and trade facilities in excise goods importation. The common practices of Customs officials and tax agents corruption include creating false invoices, offering holiday trips, providing or sponsoring to the organisations recommended by Customs officials.

The outcome of this study confirmed that corruption has an insignificant negative relationship with excise duty non-compliance when adding tax agent as moderator. For

the main effect, the corruption and excise duty non-compliance established a significant and positive relationship. Tax agent as moderator shows the insignificant negative relationship. Therefore, this relationship did not influence the importer's tax non-compliance behaviour as the finding from this study. This result indicates corruption is not a key factor for the tax agent in inducing Customs officials to involve in illegal trade transactions which lead to importers non-compliance. The path coefficient of corruption value showed insignificant negative value did not affect the excise duty non-compliance variable based on tax agent as a third or moderating variable. There is no effect size for corruption with tax agent interaction which is not extreme moderating variable (Chin, Marcolin, & Newsted, 2003).

This analysis provides evidence that tax agent's planning and tax transactions did not cause the importers non-compliance. This may be caused by RMCD's stringent law enforcement which deter the tax agents to manipulate Customs assessment officers for the benefits of the importers as their clients. The RMCD's tax policies efficiency in reducing the complex and bureaucratic procedures reduced face to face interactions of Customs Officers and tax agents in importation transactions. This will prevent the tax agents pay bribes to Customs Officers for 'blind eye' on customs operations to reduce import transactions process or for totally illegal transactions. Malaysian policy on import liberalisation such as World Trade Organizations Agreement on facilitation and an ASEAN Framework Agreement on the facilitation of goods in transit reduced malpractices in customs declarations such as double invoicing, misdescription, misclassification and tax law ambiguity caused by tax complexity.

## **6.4 Implications of the Study**

The findings of the study have theoretical and practical implications.

### **6.4.1 Theoretical Implications**

Most of the prior literature used Fischer's model in direct tax context (Alabede, 2012b; Chau & Leung, 2009; O'Shaughnessy, 2014). Only Alshir'ah, Abdul-Jabbar, and Samsudin (2016) attempted to apply Deterrence Theory and Fischer's model in the indirect tax context. The study was conducted to investigate sales tax compliance in the small and medium enterprise in Jordan. Therefore, this study further contributed to the literature by expanding Fisher's model in indirect tax environment in Malaysia. The expansion of Fischer's model incorporated with the development of new constructs including tax audit, tax knowledge, and corruption as the main effect. This study further analysed the potential effect of probability of detection and tax agents as moderators.

#### **6.4.1.1 Tax Audit Construct**

Tax audits are performed to monitor the licensee or companies administered under the Excise Act (1976). Therefore, tax audit was added in deterrence theory and the Fischer model (1992) as a significant determinant of excise duty non-compliance. This study provided evidence that tax audit had a significant and positive relationship with excise duty non-compliance for the direct effect but the relationship became negative when interacted with probability of detection as a moderator construct. The new variable might be useful for future researchers especially for those intending to carry out similar studies of indirect taxes in other countries.

#### **6.4.1.2 Tax Knowledge Construct**

This study also introduced tax knowledge as a new construct. Tax knowledge has been extensively used in direct and indirect taxes to ensure the accuracy of tax declarations. In this study, tax knowledge was added to identify the loophole in the excise duty tax system for non-compliance behaviour. The finding in this study indicated a significant and positive association between tax knowledge and excise duty non-compliance, which was further strengthened with probability of detection. The result showed that tax knowledge exerted a considerable influence on tax non-compliance behaviour.

#### **6.4.1.3 Corruption Construct**

The newly corruption construct was added to deterrence theory and the Fischer model to contribute to the existing tax non-compliance literature. This study revealed a positive and significant relationship between corruption and excise duty non-compliance.

#### **6.4.1.4 Probability of Detection as Moderating Construct**

Deterrence theory and the Fischer model propose probability of detection as the main effect to examine tax compliance. This study considered probability of detection as a moderating variable.

#### **6.4.1.5 Tax agent as Moderating Construct**

This study also introduced tax agent who is an authorised agent under Section 90 of Customs Act (1967) in the model. Tax agents presumably advise importers to be compliant with customs declarations and are aware of the penalties imposed. The negative relationship indicated that the severity of penalty and greater probability of

detection led to this result. This study contributes to tax research in the importance of tax agents as a moderator.

#### **6.4.1.6 Excise Duty Study**

Miskam et al.'s (2013) study were the only one in Malaysia that investigated excise duty by using secondary data from the RMCD, the Ministry of Finance, the Malaysian International Trade and Industry, the Statistical Department of Malaysia, and the Malaysian Automotive Association. There is a scarcity of research on indirect tax non-compliance, especially studies that used actual tax non-compliance data. This study contributes to the literature by examining excise duty offenders' perceptions and the impact of non-compliance phenomenon.

This study is also among a few studies that focused on importers. In comparison, other tax compliance studies emphasised individual taxpayers and tax agents. Under the Excise Act (1976), importation involves trades across borders and importers are the taxpayers. The excise duty levied on the imported goods and transported across state border involves tax for the services provided by the RMCD. Importers need to make declarations through self-assessment and are required to file accurate declarations and provide adequate supporting documents and tax calculation to claim the goods from the port. This study provides an understanding of importers which was neglected in indirect taxes studies.

#### **6.4.1.7 Importers (Taxpayers) Tax Non-compliance Model**

Prior studies applied deterrence theory and the Fischer model to direct tax non-compliance. In this study, the selected constructs of the two theories were tested in

indirect tax non-compliance environment. Economic factors (tax rate, penalty rate, tax audit, probability of detection) and non-economic factors (tax fairness, peer influence, tax knowledge, corruption, and tax agent) were incorporated in the research model. The integration of deterrence theory and the Fischer model provide a better understanding of importers' tax non-compliance as shown in Figure 6.1, 6.2 and 6.3.

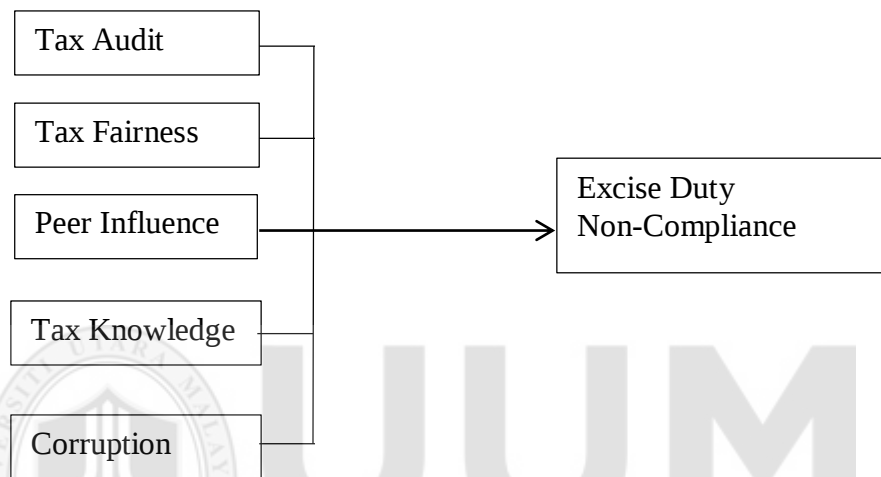


Figure 6.1  
*Importers (taxpayers) Tax Non-compliance Model for Direct Effect*

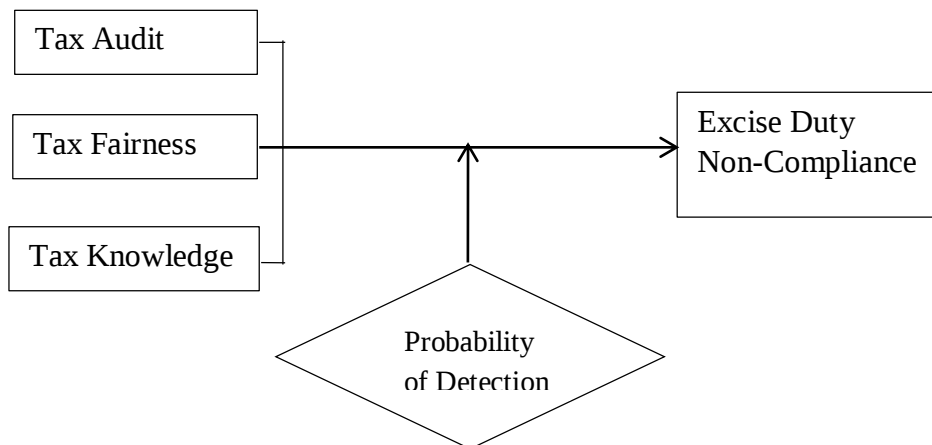


Figure 6.2  
*Importers (taxpayers) Tax Non-compliance Model for Probability of Detection as Moderator*

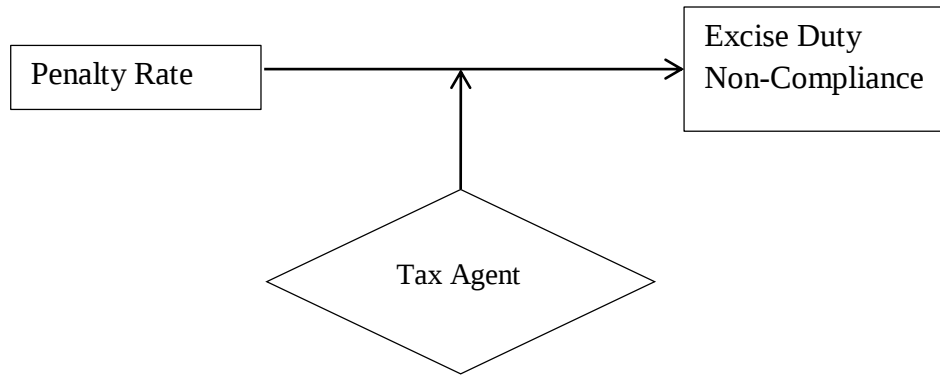


Figure 6.3

*Importers (taxpayers) Tax Non-compliance Model for Tax Agent as Moderator*

#### 6.4.2 Practical Contributions and Policy Implications

The findings have implications for the RMCD as the indirect tax authority and policy makers.

##### 6.4.2.1 Implications for Custom's Policy

Most tax authorities use traditional enforcement methods such as tax rate, audit and penalties to ensure tax compliance (Kirchler, 2007). However, such sanctions may develop a negative attitude of taxpayers towards the tax authority. Moreover, prior tax literature revealed minimal support for punishment in improving compliance. In certain cases, enforcement strategies that solely rely on punishments could exacerbate situations. This study found that the significant role of tax fairness, tax knowledge, corruption and peer influence (subjective norms) in tax non-compliance, suggesting that the RMCD should have an in-depth understanding of importers' motives, characteristics and circumstances to ensure tax compliance.

The RMCD should ensure customs assessment officers are competent in handling complex trade flows resulting from globalisation. They should be knowledgeable, open-minded and courteous with the flow of goods expansion, information technology, capital and people. Apart from legal trade, these will induce more illegal trade on the integrated market and borderless good flows. As evidence in this study importers used tax knowledge to identify loopholes in Customs procedures to evade excise duty. RMCD should prepare assessment officers to face challenges such as the growth of trade quantities caused more transactions have to process by Customs. This will increase the work task with the existing or lower resources. Placing fresh graduates as assessment officer could have a negative impact on the credibility of RMCD due to their lack of knowledge and uncertainty when processing Custom forms.

The Customs assessment officers also need to know the reduced tariff and non-tariff barriers in trade liberalisation especially on imposing exemptions and tariff reductions. This is applicable when processing Customs importation forms. A good understanding of rules of origin in the supply chain from the import countries is needed. The trade trends are developing which involves many participants' countries in merchandise trade. The significant change in trade structure escalating the merchandise trade around the globe. Further, the export components of total merchandise have grown. The exchange of significant parts of goods needed as an intermediate input for importers. This type of structure requires many Custom authorities to handle. Therefore, RMCD should consider the cooperation of other countries Customs authorities around the globe and provide adequate Customs officers to face current trade trends.

The responses from importers indicate that RMCD did not consider their view or judgment Customs declarations. Fairness in Customs declarations is required by considering their view pertaining classification, valuation, weight, measures and examination of goods under excise act. If the importers believed their opinion accepted in dispute process are more willing to accept the decision or result made by RMCD even though not favourable to importers (Tyler, 2010).

The emergence of worldwide crime networks escalates the smuggling activities. This syndicate is sharing the information among them. This situation is worsening with the weak cooperation among other Customs authorities cause the problem to detect and prevent smuggling activities among the law enforcement agencies. Hence, RMCD should foster the collaboration with other country's authorities. This will reduce the long delays and disruptions of trade flows caused by massive cargo inspections by Customs. RMCD should balance between reducing the risk to prevent smuggling by weighing the cost by unpredictable delays in goods supply chain.

#### **6.4.2.2 Customs Officers' Integrity**

The empirical evidence indicated that corruption is an important factor in encouraging importers to comply voluntarily. The findings from the survey revealed that corruption needs to be rectified by the RMCD. The RMCD should improve inspections at vulnerable zones to address corruption such as the origin of goods assessment, classification and valuation, cargo inspections, drawback and exemption facilities, audit, trans-shipment operations, passenger inspections, and license issuance and approvals. Better inspections can be done by involving the Malaysian Anti-Corruption Commission (MACC).

RMCD should reform the system in cargo processing ports by simplifying the importation procedures at corruption vulnerable ports. The RMCD also should limit the face-to-face interactions with customs officers and importers to reduce the opportunity for customs officers to deal illegally with importers. The RMCD should also reform and modernise the customs procedures by setting up a one-stop border post at every port for border management collaboration. This strategy should be implemented because importation procedures involve other governmental agencies such as the agriculture and agro-based department, the chemistry department, and the road transport department for excise goods clearance.

Customs administration should pay attention to improving Customs officers' salary to improve their life standard. Most of the Customs officers are paid with low salary and faced high-risk working conditions tempted to increase their income via informal means are escalating. Customs officers would support wholeheartedly any reform and modernization systems if their employment conditions improved.

#### **6.4.2.3 Publish and Disseminate Customs Activities**

The RMCD enforce the law by imposing criminal and civil sanctions. Hence, developing awareness of tax crime and its impact on the society, in the long run, should be implemented as an ongoing strategy. Currently, those who committed an offence are banned from leaving the country, given summonses, imprisoned, and declared bankrupt. These offences and their punishments end up mostly in law reference journals. The strict law enforcements are not effectively publicised. Hence, most taxpayers perceive the RMCD as being weak and inefficient in enforcing the law.

The awareness program and all the activities conducted by RMCD could be disseminated effectively by creating 'Facebook' account with importers with the growth of smart phone users. This will enable to gain the confidence of taxpayers that Customs has transformed to the new era of 'Digital Customs'. The assurance of this program's success will be achieved by placing the well trained and competent desk officers. Every state are responsible for updating current issues pertaining RMCD such as computerised Customs clearance system, the exchange of information by an electronic system, available websites to interact with information and promote transparency. The importer's ambiguity on classification and evaluation can be rectified by sending a messenger to get an immediate response to ensure error free declarations. Furthermore, RMCD could use web tutorial on YouTube regarding the proper processes for Customs declarations to educate the importers. This will ensure the effectiveness and quality of services administered by RMCD to improve the compliance level of importers.

#### **6.4.2.4 Code and Conduct for Importers**

This study's findings indicate the professional standard for importers is required in promoting tax compliance. Importers are taxpayers generate income to RMCD. However, currently, most of the awareness program on tax rules and regulations are delivered to Customs agents which were stated under Section 90 of Customs Act (1967). None of the provisions of Customs Act (1967) stated on requirements to be qualified importers. Therefore, RMCD should embrace the standard professional level of importers as traders. A harmonised Customs practices across the countries requires importers advance knowledge on the declaration, classification, current tax rate, cargo security and inspecting procedures for cargo clearance. This kind of information needed

for importers to strengthen the import procedures and facilitate the goods movement across the country's borders. RMCD should initiate providing training and support to ensure importers produce required entry documents for importation and other supporting information. Currently, importers rely solely on tax agent (Customs agents) as intermediaries to assist them on tax laws.

This study also suggested risk assessment based on importers and their company should be extended and included to identify risk importers. The deterrence variables such as penalty rate and tax audit could be considered for previous compliance achievement and preparation for future voluntary compliance. Importers business records, other criminal records and financial transactions report conducted by special task force unit comprising of auditors, import expert, and industry expert formed for compliance assessment. Based on this report the corrective measures or actions could be carried out to improve compliance level.

#### **6.4.2.5 Implications for International Organizations**

Customs administrator's strength and capability enhanced by the World Customs Organization (WCO) known as Customs Co-operation Council. WCO is an intergovernmental organisation established in 1952. The tax compliance at WCO level could be promoted by revising the international trade standard and convention via an agreement with World Trade Organization (WTO) by simplifying the trade documents, interpret the border procedure and computerised the documents processed at international border level. The international customs law need to establish a standard mechanism with the introduction of modernised Customs Code as part of the respective

country's legal system. This is to ensure the trade facilitation to be cost effective, fair to all taxpayers' and free from corruption.

Based on 'Digital Customs' era WCO should develop risk management strategy by weighing the data security, privacy and fair. The risk assessment should cover import, export, and cargo trans-shipment in the wider framework by including deterrence and socio-psychology elements. Hence, this study could be used as a platform on describing deterrence and socio-psychology aspects to ensure tax compliance. This study showed the relevancy for WCO to accommodate socio-psychology factors which describe the behaviour of the risk assessment management. Moreover, WCO could identify the importers and tax agents' behaviour and attitude as a competent practice model for risk assessment. This method will be more efficient in managing import and export procedures which are entirely conducted by a human being at borders.

A higher growth of illegal trade in conflict customs ports by organised crime not only could be solved with severe sanctions as this study's findings. WCO should promote more bilateral relationship not only with other Customs authorities but also with importers. This is based on escalating usage of cross-border e-commerce which is highly welcomed by importers for the fast delivery. However, this will cause international trade supplies are exposed to illegal trade activities. Therefore, the WCO safety framework on a standard to secure and facilitate global trade should include non-economic factors as revealed in this study to have proper and better knowledge of global trade procedures and policies. Therefore, WCO enables to promote tax compliance through global trade and policy suggestions.

### **6.4.3 Limitations of the Study**

There are some key limitations of the present study. The use of self-reported survey like other compliance studies may not represent the actual behaviour of respondents (van Dijke & Verboon, 2010). This limitation occurs especially when information is sought on tax sensitive and embarrassing issues.

Another limitation for the survey research is on non-response bias. The questionnaires were distributed to 600 respondents throughout Malaysia. Only 500 are useable responses received resulting 83.33% of response rate. The incomplete responses caused non-response bias which was rectified by estimation as discussed in chapter five. It was expected the sensitive and personal questions would be deterred from participating in this survey. They are more concerned whether the author will able to link the responses back to their companies. However, all the practical measures by comparing early respondents with late respondents were taken to ensure non-response bias is not a problem.

Further, respondents answered the questions differently based on their interpretation and understanding. Even though the reasonable measures were made to ensure the wordings was precise and simple. This might lead the respondents' misinterpretations. Despite the disadvantages in self-reported survey contributes to both conceptual and practical advantages of respondent's participation in social sciences (Harrison, McLaughlin, & Coalter, 1996).

#### **6.4.4 Recommendations for Future Research**

The model proposed in this study has a potential to offer good explanations of importers non-compliance in Malaysia as evidenced by the findings. Hence, the model could be replicated to other indirect taxes such as import tax and goods and services tax or value added tax. Future research should consider additional variables to extend the research model such as tax morale, the complexity of tax law, and practitioners' attitude. These variables are non-economic variables that are purported to play an increasingly important role in non-compliance.

Future research should also explore mixed methodology to interpret complex non-compliance behaviour. The mixed methodology enables future researchers to solicit embarrassing, sensitive and incriminating information issues like tax fairness and corruption.

As tax rate was not found to be an influential factor in determining tax non-compliance, future research may wish to investigate the relationship again. Such investigation will provide insights into how to manage tax rate to motivate compliance.

The importers as taxpayers' highly influenced by tax agents to determine their compliance motive. Future research needs to consider tax agents as a key factor. This could be an expansion of the tax non-compliance scope to assess the relationship and understand tax agents' roles as intermediaries. This study's outcome could be regarded as a complement to understanding indirect tax non-compliance in a broader perspective.

## 6.5 Conclusion

Tax non-compliance remains a complex challenge for tax authorities, policy makers and researchers. Even though many strategies have been developed and carried out, tax non-compliance has not been fully solved. Optimum compliance could be achieved by addressing different aspects of non-compliance. This study provides empirical evidence by integrating economic, social and psychological determinants of non-compliance. It offers additional insight into the relationship between importers, tax agent, and numerous tax compliance determinants. The findings offer an understanding for the RMCD to develop and design new strategies to achieve optimum voluntary compliance of importers.



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## APPENDIX A

### Questionnaire

#### SECTION A: DEMOGRAPHIC BACKGROUND

##### BAHAGIAN A: MAKLUMAT DEMOGRAFI

In this section you are provided with questions related to your background. For each question, please tick (/) the answer that represents you.

(Dalam bahagian ini dibekalkan soalan yang berkaitan dengan latar belakang anda. Bagi setiap jawapan tandakan (/) yang mewakili diri anda)

1. Gender (*Jantina*)  
☐ Male (*Lelaki*) ☐ Female (*Perempuan*)
2. Race (*Bangsa*)  
☐ Malay (*Melayu*) ☐ Cina (*Chinese*) ☐ Indian (*India*)  
☐ Others (*Lain-lain*) Please Specify (*Sila nyatakan*)  
\_\_\_\_\_
3. Age (*Umur*)  
☐ 20 - 29 ☐ 30 - 39 ☐ 40 - 49 ☐ 50 - 59  
☐ 60 and above
4. Highest level of education (*Tahap Pengajian Tertinggi*)  
☐ SPM ☐ Diploma / STPM ☐ Degree (*Ijazah*)  
☐ Others (specify) \_\_\_\_\_  
(*Lain-lain, nyatakan*)
5. Nature of Goods Imported (*Jenis barangan yang diimport*)  
☐ Cigarettes (*Rokok*) ☐ Liquor (*Arak*) ☐ Import Vehicles (*Impot Kenderaan*)
6. Please state your current position in the firm (for example :Probationary Manager, Assistant Manager, Manager, Senior Manager, Partner, etc)  
(*Sila nyatakan jawatan anda sekarang di firma ( Contohnya :Pengurus Percubaan, Penolong Pengurus, Pengurus, Pengurus Kanan,Rakan Kongsi,dll).*)

**SECTION B: EXCISE DUTY NON-COMPLIANCE**  
**BAHAGIAN B: KETIDAKPATUHAN DUTI EKSAIS**

Please read the following statements or questions and respond by circling the number that best describes your opinion. 1, indicates that you are extremely unlikely to perform the behaviour, whereas 7, indicates that it is likely that you will perform the behaviour.

*Sila baca pernyataan atau soalan seperti di bawah dan jawab dengan cara membulatkan nombor yang menyatakan pendapat anda. 1 menunjukkan anda sangat tidak setuju untuk bertindak mengikut sikap tersebut manakala, 7 menunjukkan anda sangat bersetuju bertindak mengikut sikap tersebut.*

|                                               |   |   |   |   |   |   |                                   |
|-----------------------------------------------|---|---|---|---|---|---|-----------------------------------|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) |   |   |   |   |   |   | Strongly Agree<br>(Sangat Setuju) |
| 1                                             | 2 | 3 | 4 | 5 | 6 | 7 |                                   |

| EXCISE DUTY NON-COMPLIANCE |                                                                                                                                                                                                                                                                                                                                                                      |   |   |   |   |   |   |   |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1.                         | I pay excise duty as required by the Excise Regulations because of a sense of responsibility.<br><i>(Saya membayar duti eksais seperti yang dikehendaki dalam Peraturan-peraturan Eksais kerana rasa tanggungjawab).</i>                                                                                                                                             | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.                         | It is <b>NOT</b> everyone's responsibility to pay the correct amount of excise duty.<br><i>(<b>BUKAN</b> menjadi tanggungjawab semua orang untuk membayar jumlah duti eksais yang betul).</i>                                                                                                                                                                        | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.                         | I am paying excise duty as required by the Excise Regulations because I do not know exactly how to evade these taxes.<br><i>(Saya membayar duti eksais berdasarkan Peraturan-peraturan Eksais kerana saya tidak tahu bagaimana caranya untuk mengelak cukai-cukai ini).</i>                                                                                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4.                         | There is no problem in under declaring the value of goods in Customs declaration.<br><i>(Adalah tidak menjadi masalah jika membuat pengikraran dengan merendahkan nilai barangan dalam pengikraran Kastam).</i>                                                                                                                                                      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5.                         | I pay my excise duty as required by Excise Regulations after considering into how I could legally save taxes.<br><i>(Saya membayar duti eksais seperti yang dikehendaki oleh Peraturan-peraturan Eksais selepas mengambil kira cara untuk menjimatkan cukai selaras dengan undang-undang).</i>                                                                       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6.                         | If everyone paid the correct amount of excise duty we would receive better public facilities.<br><i>(Jika semua orang membayar duti eksais yang betul, kita akan menerima kemudahan awam yang lebih baik).</i>                                                                                                                                                       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 7.                         | I ensure the excise duty declarations are correct because I fear that my reputation would be ruined if I were to get caught for not following the Excise Regulations.<br><i>(Saya memastikan pengikraran duti eksais dibuat dengan betul kerana saya bimbang nama baik saya akan tercemar jika saya ditangkap kerana tidak mengikut Peraturan-Peraturan Eksais).</i> | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

|    |                                                                                                                                                                                                  |   |   |   |   |   |   |   |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 8. | Under-reporting the excise duty declaration is not ethical for me.<br>(Pengikraran dengan merendahkan nilai dalam pengikraran duti eksais adalah tidak beretika bagi saya).                      | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 9. | I will attend a course which informs me about the current possibilities for reducing tax.<br>(Saya akan menghadiri kursus yang memberi tunjuk ajar mengenai kecenderungan mengurangkakan cukai). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**SECTION C: TAX SYSTEM STRUCTURE**  
**BAHAGIAN C: STRUKTUR SISTEM CUKAI**

|                                               |   |   |   |   |   |   |                                   |
|-----------------------------------------------|---|---|---|---|---|---|-----------------------------------|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) |   |   |   |   |   |   | Strongly Agree<br>(Sangat Setuju) |
| 1                                             | 2 | 3 | 4 | 5 | 6 | 7 |                                   |

|    | <b>TAX RATE / KADAR CUKAI</b>                                                                                                                                                                                                                                                                                                                                                          |   |   |   |   |   |   |   |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1. | The current tax rates imposed for cigarettes, liquor and imported vehicles are too high. So it is not really cheating when you find ways to pay less tax than you suppose to.<br>(Kadar cukai semasa yang dikenakan keatas rokok, arak dan kenderaan import adalah sangat tinggi. Maka tidak menjadi penipuan jika dapat mencari jalan untuk kurang bayar cukai dari yang sepatutnya). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. | The amount of excise duty paid are too high for cigarettes, liquor and imported vehicles.<br>(Amaun duti eksais yang dibayar adalah sangat tinggi keatas rokok, arak dan kenderaan import).                                                                                                                                                                                            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | The higher the tax rate for cigarettes, liquor and imported vehicles, the higher the price will be.<br>(Semakin tinggi kadar cukai bagi rokok, minuman keras dan kenderaan diimport, semakin tinggi harga akan naik).                                                                                                                                                                  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. | The high excise duty rates for cigarettes, liquor and imported vehicles will increase the cost for importation.<br>(Kadar cukai yang tinggi keatas rokok, minuman keras dan kenderaan diimport akan menyebabkan peningkatan dalam kos pengimportan).                                                                                                                                   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5. | The high excise duty rates imposed for cigarettes, liquor and imported vehicles motivates smuggling activities.<br>(Kadar tinggi duti eksais yang dikenakan keatas rokok, arak dan kenderaan import mengalakkan berlakunya aktiviti penyeludupan).                                                                                                                                     | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| PENALTY RATE / KADAR PENALTI |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |   |   |   |   |   |   |   |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
|                              | One of the importers X declared as electrical goods in Customs form. From the information received, 2 containers were detected as containing liquor but declared as electrical goods. The total amount of tax evaded was RM400 million. RMCD investigated him and penalised with a compound of RM10,000 and paid the total amount owed to RMCD.<br><i>(Seorang pengimport X telah mengikrar dagangannya dalam borang kastam sebagai barangan elektrik. Hasil maklumat yang diterima, didapati 2 buah kontena berisi arak telah diikrar sebagai barangan elektrik. Jumlah cukai yang telah dielak adalah sejumlah RM400 juta. KDRM telah membuat siasatan dan mengenakan kompaun sebanyak RM10,000 dan membayar cukai yang terhutang kepada KDRM).</i> |   |   |   |   |   |   |   |
| 1.                           | Importer X deserves the harsher punishment<br><i>(Pengimport X patut menerima hukuman yang lebih berat.)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.                           | X should be personally responsible for receiving the penalty.<br><i>(X sepatutnya bertanggungjawab secara peribadi untuk menerima penalti).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.                           | X knew the probable consequences of his / her evasion.<br><i>(X menyedari akan akibat daripada mengelakkan cukai).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4.                           | X should ignore the penalty and take the risk of being caught and prosecuted in Court.<br><i>(X sepatunya mengabaikan penalti dan menghadapi risiko ditangkap dan didakwa di Mahkamah).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5.                           | I pay taxes as required by the Excise Regulations because the punishments for tax evasion are very severe.<br><i>(Saya membayar cukai sepertimana yang dikehendaki Peraturan-Peraturan Eksais kerana hukuman melarikan cukai adalah berat).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| TAX AUDIT / AUDIT CUKAI      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |   |   |   |   |   |   |   |
| 1.                           | I pay taxes as required by the Excise Regulations because Customs Department often carries out tax audits.<br><i>(Saya membayar cukai seperti yang dikehendaki oleh Peraturan-Peraturan Eksais kerana Jabatan Kastam kerap menjalankan audit).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.                           | I accepted decisions made by Customs Auditors even if I disagreed with them.<br><i>(Saya menerima keputusan yang dibuat oleh Juruaudit Kastam walaupun saya tidak bersetuju dengan mereka).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.                           | The Audit findings are accurate and clear.<br><i>(Penemuan Audit adalah tepat dan jelas).</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4.                           | I am confident that the Customs Auditors will not reveal my confidential business information to others.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

|    |                                                                                                                                                                                                                                                                                                                                |   |   |   |   |   |   |   |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
|    | (Saya yakin Juruaudit Kastam tidak akan mendedahkan maklumat sulit perniagaan saya pada orang lain).                                                                                                                                                                                                                           |   |   |   |   |   |   |   |
| 5. | Customs Auditors are more interested to find fault and penalised the company for the wrong doings, than helping the company to do the right things.<br>(Juruaudit Kastam lebih berminat untuk mencari kesalahan dan menghukum syarikat bagi kesalahan yang dilakukan daripada membantu syarikat melakukan perkara yang betul). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

#### SECTION D: ATTITUDE AND PERCEPTION

##### BAHAGIAN D: SIKAP DAN TANGGAPAN

|                                               |                                   |   |   |   |   |   |
|-----------------------------------------------|-----------------------------------|---|---|---|---|---|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) | Strongly Agree<br>(Sangat Setuju) |   |   |   |   |   |
| 1                                             | 2                                 | 3 | 4 | 5 | 6 | 7 |

| TAX FAIRNESS / KEADILAN CUKAI |                                                                                                                                                                                                                                         |   |   |   |   |   |   |   |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1.                            | Generally, I feel that excise duty is fair tax.<br>(Pada umumnya, saya rasa duti eksais adalah adil).                                                                                                                                   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.                            | I believe that excise duty tax system is a fair system that the government uses to collect revenue.<br>(Saya percaya bahawa sistem duti eksais adalah jenis sistem cukai yang adil, yang digunakan oleh Kerajaan untuk mengutip cukai). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.                            | From the excise duty that I paid, I get enough return in the form of public services.<br>(Daripada duti eksais yang saya bayar, saya mendapat pulangan yang baik dalam bentuk kemudahan awam).                                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4.                            | Customs Officers tries to be fair when making their decisions on excise duty assessments.<br>(Pegawai Kastam cuba berlaku secara adil apabila membuat keputusan tentang taksiran duti eksais).                                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5.                            | The Customs Officers respect the taxpayer's rights as a citizen.<br>(Pegawai Kastam menghormati hak-hak pembayar cukai sebagai warganegara).                                                                                            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6.                            | The government is <b>NOT</b> being transparent in spending taxpayer's money.<br>(Kerajaan <b>TIDAK</b> bersikap telus dalam membelanjakan duit pembayar cukai).                                                                         | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 7.                            | I believe that the Malaysian government is spending public fund wisely.<br>(Saya percaya bahawa Kerajaan Malaysia membelanjakan dana awam secara berhemah).                                                                             | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| <b>PEER INFLUENCE / PENGARUH RAKAN SEBAYA</b> |                                                                                                                                                                                                                                                                                       |   |   |   |   |   |   |   |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 8.                                            | Most people who are important to me think that I should declare all my imported goods accurately.<br>(Kebanyakan orang yang mustahak kepada saya berpendapat bahawa saya sepatutnya membuat pengikraran dengan tepat kesemua barangan yang diimport).                                 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 9.                                            | In general, I want to do what most people who are important to me think that I should do with regard to excise duty.<br>(Pada amnya, Saya nak buat apa yang kebanyakan orang yang mustahak bagi saya berfikir apa yang sepatutnya saya buat berhubung dengan duti eksais).            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 10.                                           | Most people who are important to me would not declare their goods accurately when importing goods.<br>(Kebanyakan orang yang mustahak bagi saya tidak membuat pengikraran yang betul apabila mengimport barangan).                                                                    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 11.                                           | I would be deterred from under-reporting if I believe that I will lose respect of most people who are important to me.<br>Saya akan dihalang daripada membuat pengikraran, merendahkan nilai sekiranya saya percaya akan hilang rasa hormat dikalangan orang yang penting bagi saya). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 12.                                           | I usually make decisions to pay taxes based on my friends' experiences or suggestions.<br>(Biasanya saya membuat keputusan untuk membayar cukai berdasarkan pengalaman atau cadangan kawan-kawan).                                                                                    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

## SECTION E: TAX KNOWLEDGE

### BAHAGIAN E: PENGETAHUAN CUKAI

|                                               |   |   |   |   |   |   |                                   |
|-----------------------------------------------|---|---|---|---|---|---|-----------------------------------|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) |   |   |   |   |   |   | Strongly Agree<br>(Sangat Setuju) |
| 1                                             | 2 | 3 | 4 | 5 | 6 | 7 |                                   |

|    |                                                                                                                                                                                                                                              |   |   |   |   |   |   |   |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1. | I am aware of the current tax rate of taxes imposed for the cigarettes, vehicles and liquor when doing importation.<br>(Saya sedar tentang kadar cukai terkini yang dikenakan keatas rokok, kenderaan dan arak semasa membuat pengimportan). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. | The license issued to the taxpayers' under Excise Act 1976 should be renewed yearly or every 2 years.<br>(Lesen yang dikeluarkan dibawah Akta Eksais 1976 seharusnya diperbaharui setiap tahun atau 2 tahun sekali).                         | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | In my opinion, I know all the procedures required for cigarettes, vehicles and liquor importation.<br>(Pada pendapat saya, saya mengetahui segala prosedur yang diperlukan bagi pengimportan rokok, kenderaan dan arak).                     | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

|    |                                                                                                                                                                                                                                                                                                                                                                                                        |   |   |   |   |   |   |   |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 4. | As far as I am concern, non-compliant taxpayers can be imprisoned if found guilty of evading tax.<br>(Setakat yang saya tahu, pembayar cukai yang tidak mematuhi boleh dipenjarakan jika didapati bersalah mengelak cukai).                                                                                                                                                                            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5. | Similar to other criminal offences, I believe that individuals can also be prosecuted for not complying with the Excise Act 1976.<br>(Seperti kesalahan jenayah yang lain, saya percaya bahawa individu juga akan dihadapkan ke mahkamah jika tidak mematuhi Akta Eksais 1976).                                                                                                                        | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6. | All imported goods will be seizure if there is reasonable cause that the goods were connected to offence that has been committed against the Excise Duty Act 1976.<br>(Semua barang-barang yang diimport akan dirampas sekiranya ada alasan munasabah bahawa barang-barang tersebut bersabit dengan kesalahan yang telah dilakukan dibawah Akta Eksais 1976).                                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 7. | Customs Officers can search without warrant in any premises and vehicles if they have reasonable cause to believe that goods are conceal or deposited goods therein against the Excise Act 1976.<br>(Pegawai Kastam boleh menggeledah tanpa waran mana-mana premis atau kenderaan jika mempunyai sebab yang munasabah barang-barang disembunyikan atau disimpan bertentangan dengan Akta Eksais 1976). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

## SECTION F: CORRUPTION

### BAHAGIAN F: RASUAH

|                                               |                           |   |   |   |   |   |                                   |
|-----------------------------------------------|---------------------------|---|---|---|---|---|-----------------------------------|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) | Universiti Utara Malaysia |   |   |   |   |   | Strongly Agree<br>(Sangat Setuju) |
| 1                                             | 2                         | 3 | 4 | 5 | 6 | 7 |                                   |

|    |                                                                                                                                                                                                     |   |   |   |   |   |   |   |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1. | Personal payments to Customs Officers are required to “get things done”.<br>(Bayaran individu kepada pegawai-pegawai Kastam adalah diperlukan untuk “melaksanakan sesuatu perkara”).                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. | Businesses generally engage in various types of corruption in order to compete effectively.<br>(Perniagaan biasanya terlibat dalam pelbagai jenis rasuah untuk bersaing dengan berkesan).           | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | Engaging in various types of corruption is a normal part of doing business in Malaysia.<br>(Penglibatan dalam pelbagai jenis rasuah adalah perkara biasa dalam menjalankan perniagaan di Malaysia). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. | Provide “gifts-in-kind” as a method for improving the responsiveness of Customs Officers.                                                                                                           | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

|    |                                                                                                                                                                                                                                                                                                                |   |   |   |   |   |   |   |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
|    | (Memberi “hadiah berupa barangan” adalah satu kaedah untuk meningkatkan reaksi bertindak Pegawai-pegawai Kastam).                                                                                                                                                                                              |   |   |   |   |   |   |   |
| 5. | Bribery to the Customs Officer is one of the most important considerations when doing importation business.<br>(Rasuah adalah salah satu pertimbangan yang paling penting apabila menjalankan perniagaan impot).                                                                                               | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6. | Engaging in corruption is one of the ways to get things done.<br>(Penglibatan dalam rasuah adalah salah satu cara untuk melakukan sesuatu).                                                                                                                                                                    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 7. | Firms which <b><u>do not engage</u></b> in corruption will be at a competitive <b><u>disadvantage</u></b> compared to firms that do.<br>(Firma-firma yang <b><u>tidak terlibat dalam rasuah</u></b> akan berada dalam situasi persaingan yang lemah berbanding dengan firma-firma yang terlibat dalam rasuah). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8. | Providing “commissions” is one of the, method for enhancing / maintaining your relationship with Customs Officers.<br>(Memberi ‘komisen’ adalah salah satu kaedah untuk meningkatkan / mengekalkan hubungan anda dengan Pegawai-pegawai Kastam).                                                               | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

## SECTION G: PROBABILITY OF DETECTION

### BAHAGIAN G: KEBARANGKALIAN PENGESANAN

|                                               |   |   |   |   |   |   |                                   |
|-----------------------------------------------|---|---|---|---|---|---|-----------------------------------|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) |   |   |   |   |   |   | Strongly Agree<br>(Sangat Setuju) |
| 1                                             | 2 | 3 | 4 | 5 | 6 | 7 |                                   |

|    |                                                                                                                                                                                                                                                                                                        |   |   |   |   |   |   |   |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1. | It is worth paying small tax penalties rather than paying the actual taxes because the likelihood of being caught is minimal.<br>(Adakah berbaloi membayar penalti cukai yang rendah daripada membayar cukai sebenar kerana kemungkinan untuk ditangkap adalah minimum).                               | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. | The RMCD rarely finds out if someone has under-declared his tax by intentionally mis-classifying the tariff code to pay less excise duty.<br>(KDRM jarang dapat mengesan mereka yang membuat pengikraran rendah cukai dengan sengaja menggunakan kod tarif yang salah untuk kurang bayar duti eksais). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | It is unlikely for taxpayers to be discovered and punished by the RMCD if they evaded excise duties.<br>(Agak mustahil berkemungkinan pembayar cukai dikesan dan dihukum oleh KDRM jika mereka mengelak duti eksais).                                                                                  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. | Customs Officers will detect if your firm has not kept the importation documents as required in the Excise Act 1967.                                                                                                                                                                                   | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

|    |                                                                                                                                                                                                                                                                                                            |   |   |   |   |   |   |   |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
|    | (Pegawai Kastam akan dapat mengesan jika syarikat anda tidak menyimpan dokumen pengimportan mengikut keperluan Akta Eksais 1976).                                                                                                                                                                          |   |   |   |   |   |   |   |
| 5. | I ensure the tax declaration is correct because there is a high probability that I may get caught if I did not follow the Excise Regulations.<br>(Saya memastikan pengiklanan cukai adalah betul kerana kebarangkalian untuk ditangkap adalah tinggi jika saya tidak mengikut Peraturan-peraturan Eksais). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6. | I believe that the probabilities of being detected by RMCD for not declaring the exact amount of taxes are low.<br>(Saya percaya kemungkinan untuk dikesan oleh KDRM dalam membuat pengiklanan cukai yang rendah adalah rendah).                                                                           | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

## SECTION H: TAX AGENTS

### BAHAGIAN H: AGEN CUKAI

1. Did your company employ tax agents to handle tax matters'? (Tick the appropriate answer)

(Adakah syarikat anda melantik agen cukai untuk menguruskan hal-hal percukaian?) (Tandakan jawapan yang sesuai)

☐ Yes (Ya)

☐ No (Tidak)

If "No" please stop here. (Jika "Tidak" sila berhenti di sini)

If "Yes" please proceed to section H. (Jika "Ya" sila teruskan di bahagian H)

|                                               |   |   |   |   |   |   |                                   |
|-----------------------------------------------|---|---|---|---|---|---|-----------------------------------|
| Strongly Disagree<br>(Sangat Tidak Bersetuju) |   |   |   |   |   |   | Strongly Agree<br>(Sangat Setuju) |
| 1                                             | 2 | 3 | 4 | 5 | 6 | 7 |                                   |

|    |                                                                                                                                                                                          |   |   |   |   |   |   |   |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 2. | My tax agent is a very honest person.<br>(Agen cukai saya adalah orang yang sangat jujur).                                                                                               | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | My tax agents helps me to interpret ambiguous or grey areas of the tax law in my favour.<br>(Ejen cukai saya membantu mentafsir undang-undang cukai yang samar-samar bagi memihak saya). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. | I have a tax agent who is clever in the way he / she arranges my affairs to minimize tax.<br>(Saya mempunyai agen cukai yang pandai menguruskan hal-ehwal cukai untuk mengurangkannya).  | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5. | My tax agent has suggested complicated schemes that I could get into to avoid tax.<br>(Agen cukai saya mencadangkan skim yang rumit bagi membolehkan saya mengelakkan cukai).            | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

|    |                                                                                                                                                                                                              |   |   |   |   |   |   |   |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 6. | My tax agent have good relationship with Customs Officers.<br>(Agen cukai saya mempunyai hubungan yang baik dengan Pegawai Kastam).                                                                          | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 7. | My tax agent is an agent authorized by RMCD.<br>(Agen cukai saya adalah agen yang telah ditauliahkan oleh KDRM).                                                                                             | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8. | My tax agent has attended and has pass the Customs Agent Basic Course conducted by RMCD.<br>(Agen cukai saya telah menghadiri dan telah lulus Kursus Asas Agen Kastam yang diadakan oleh KDRM).              | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 9. | My tax agent is aware of the Customs Regulatory requirements and is very compliant with them.<br>(Agen cukai saya memang sedar akan keperluan Peraturan Perkastaman dan adalah seorang yang akur dengannya). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |



**UUM**  
Universiti Utara Malaysia

## APPENDIX B

### Data Collection Approval Letter From Universiti Utara Malaysia



OTHMAN YEOP ABDULLAH  
GRADUATE SCHOOL OF BUSINESS  
Universiti Utara Malaysia  
06010 UUM SINTOK  
KEDAH DARUL AMAN  
MALAYSIA



Tel.: 604-928 7101/7113/7130  
Faks (Fax): 604-928 7160  
Laman Web (Web): [www.oyagsb.uum.edu.my](http://www.oyagsb.uum.edu.my)

KEDAH AMAN MAKMUR • BERSAMA MEMACU TRANSFORMASI

UUM/OYAGSB/K-14  
02 November 2015

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

#### LETTER FOR DATA COLLECTION AND RESEARCH WORK

This is to certify that **Perabavathi A/P Sinnasamy (Matric No: 900063)** is a bonafied student of Doctor of Philosophy (PhD), Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia. She is conducting a research entitled **"Determinants of Non-compliance Behaviour on Excise Duty"** under the supervision of Assoc. Prof. Dr. Zainol bin Bidin.

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

Your cooperation and assistance is very much appreciated.

Thank you.

"SCHOLARSHIP, VIRTUE, SERVICE"

Yours faithfully

ROZITA BINTI RAMLI

Assistant Registrar

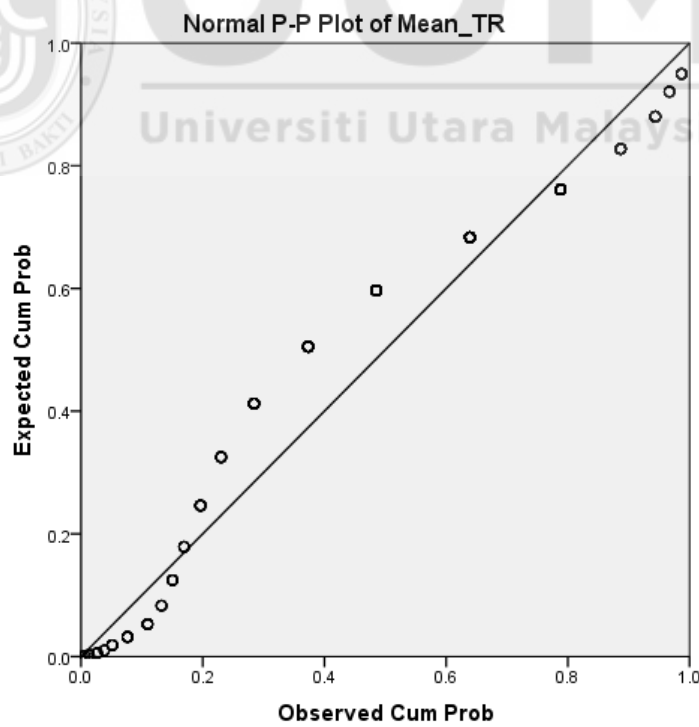
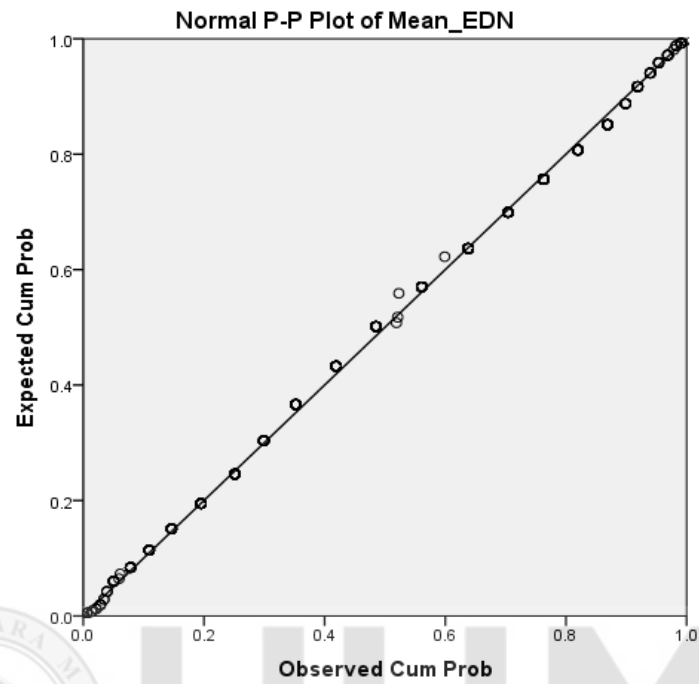
for Dean

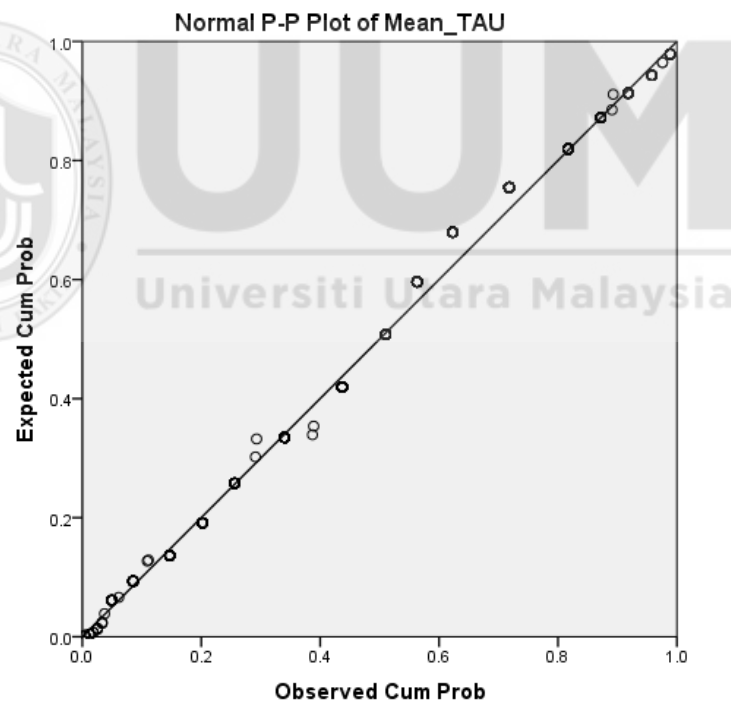
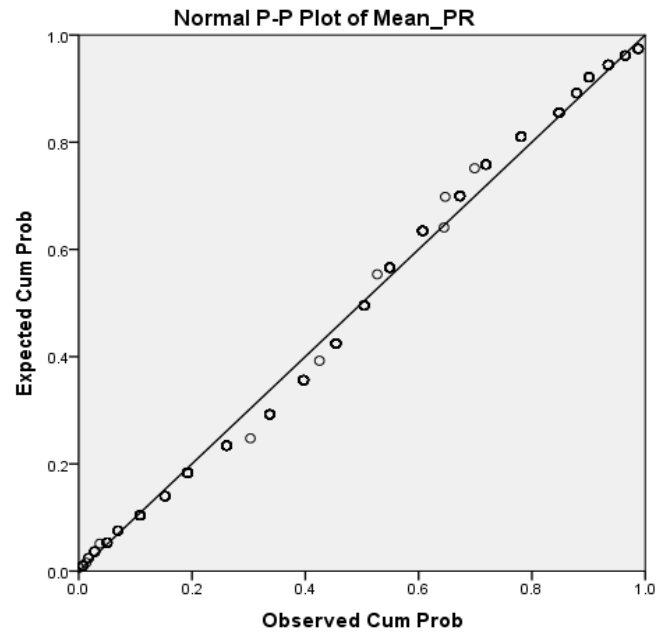
Othman Yeop Abdullah Graduate School of Business

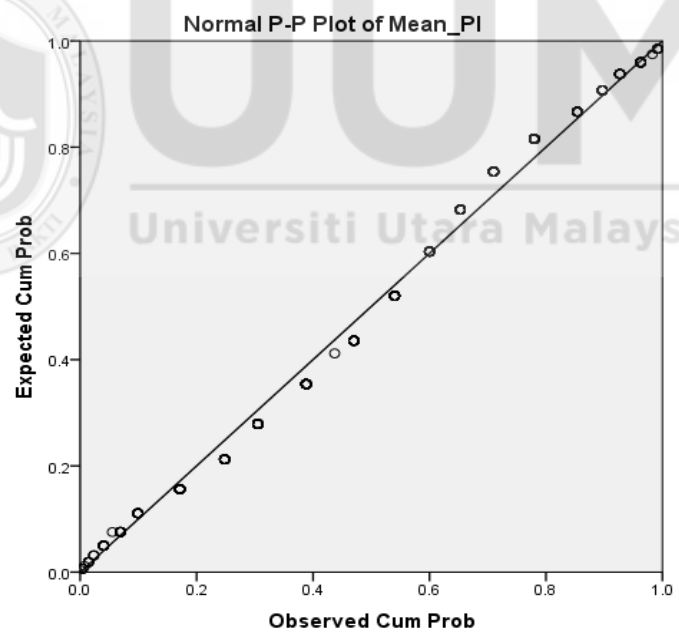
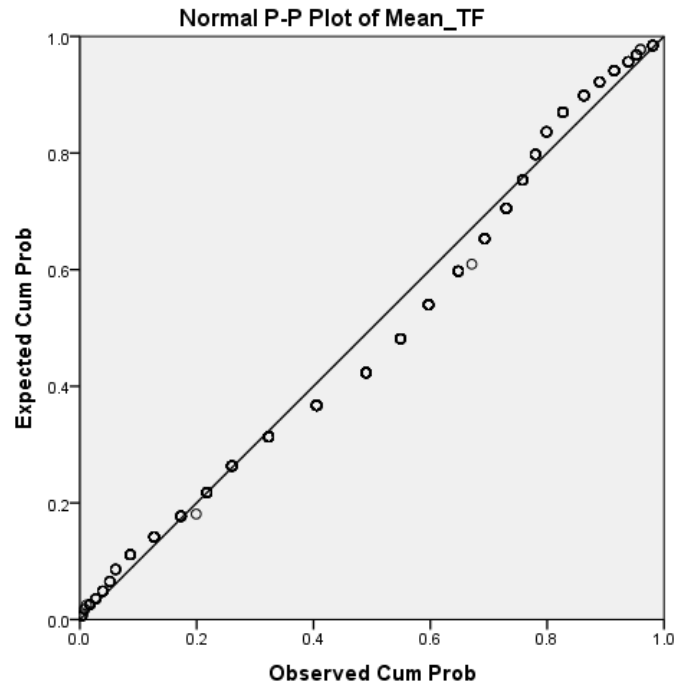
c.c - Supervisor  
- Student's File (900063)

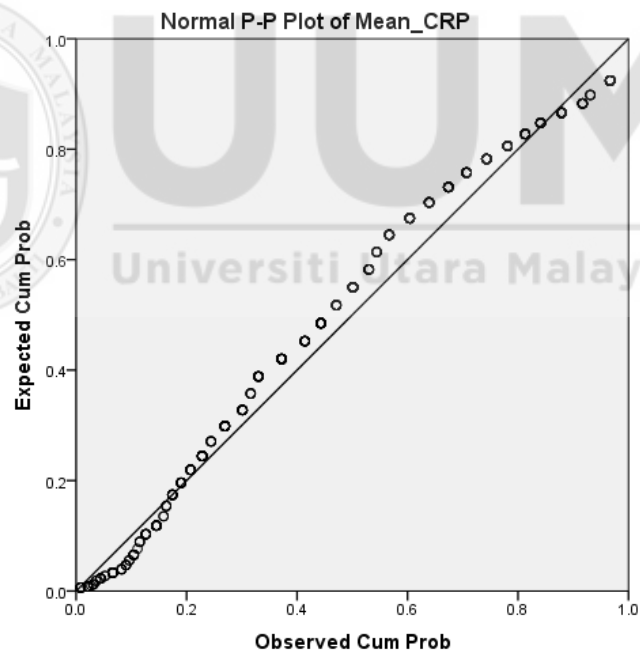
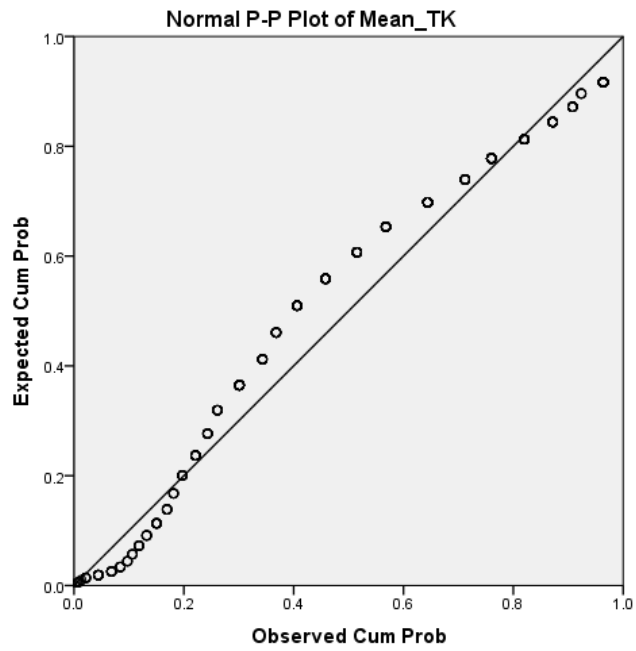


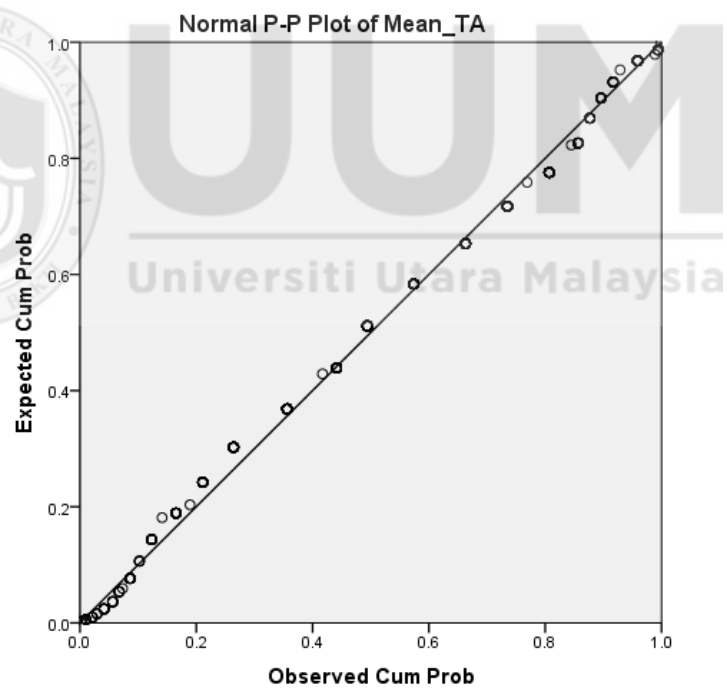
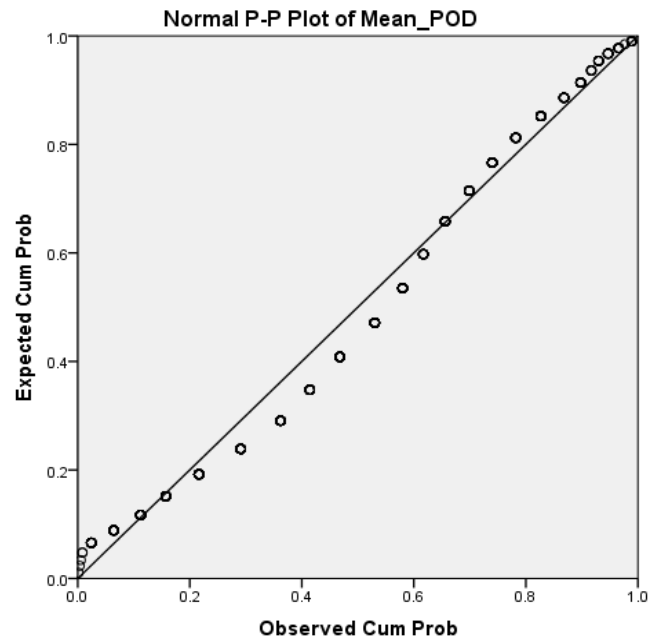
**APPENDIX C**  
**The Normal Probability Plot (Normal P-P Plots for All the Individual Variables)**











**APPENDIX D**  
**Path Coefficient Values for Probability of Detection Interaction Plot**

| Hypothesized Effect | Path Coefficient ( $\beta$ Value) |
|---------------------|-----------------------------------|
| CRP -> EDN          | 0.147                             |
| CRP1 -> EDN         | 0.015                             |
| PI -> EDN           | 0.130                             |
| PI1 -> EDN          | 0.009                             |
| POD -> EDN          | 0.160                             |
| PR -> EDN           | 0.035                             |
| PR1 -> EDN          | -0.021                            |
| TA -> EDN           | 0.051                             |
| TAU -> EDN          | 0.180                             |
| TAU1 -> EDN         | -0.075                            |
| TF -> EDN           | 0.074                             |
| TF1 -> EDN          | -0.045                            |
| TK -> EDN           | 0.307                             |
| TK1 -> EDN          | 0.067                             |
| TR -> EDN           | -0.040                            |
| TR1 -> EDN          | 0.004                             |

**APPENDIX E**  
**Path Coefficient Values for Tax Agent Interaction Plot**

| Hypothesized Effect | Path Coefficient ( $\beta$ Value) |
|---------------------|-----------------------------------|
| CRP -> EDN          | 0.139                             |
| CRP2 -> EDN         | -0.005                            |
| PI -> EDN           | 0.161                             |
| PI2 -> EDN          | -0.061                            |
| POD -> EDN          | 0.134                             |
| PR -> EDN           | 0.065                             |
| PR2 -> EDN          | -0.049                            |
| TA -> EDN           | 0.066                             |
| TAU -> EDN          | 0.244                             |
| TAU 2 -> EDN        | -0.031                            |
| TF -> EDN           | 0.063                             |
| TF2 -> EDN          | 0.051                             |
| TK -> EDN           | 0.185                             |
| TK2 -> EDN          | 0.009                             |
| TR -> EDN           | -0.036                            |
| TR2 -> EDN          | -0.003                            |