DETERMINANTS OF TAX NON-COMPLIANCE BEHAVIOUR OF BUSINESS INCOME EARNERS IN SHAH ALAM

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ABSTRACT

Tax authorities around the world continuously attempt to improve the level of tax compliance including Inland Revenue Board of Malaysia (IRBM) by combating tax non-compliance. IRBM defines tax non-compliance as the failure of an individual or an entity to register, submit tax forms within a prescribed time period, report the correct amount of income, and pay taxes. Previous studies confirmed that most individual category taxpayers are involved with tax non-compliance activities, however not many studies covered this issue in Malaysia especially on individuals who are business income earners. Thus, this study empirically investigates the influence of tax knowledge, tax morale and tax complexity on tax non-compliance behaviour of business income earners in Shah Alam. This study is supported by behavioural decision theory and theory of cognitive conflict. The data was collected through survey questionnaires and analysed using multiple regression analysis and other statistical techniques. A total of 500 questionnaires were distributed that yielded 328 usable questionnaires. The results reveal that there is a positive significant relationship between tax knowledge, tax morale and tax complexity on tax non-compliance behaviour of business income earners. This study concludes with the theoretical implications and practical recommendations for IRBM in order to improve tax collection such as developed and implement more stringent enforcement strategies to combat tax non-compliance in Malaysia. In addition, IRBM should play a more proactive role to encourage and educate business income earners by enhancing their knowledge on taxation. This study also highlights several limitations and suggests future studies in this area.

Keywords: tax non-compliance, business income earners, tax knowledge, tax morale, tax complexity

ABSTRAK

Pihak berkuasa cukai di seluruh dunia terus berusaha meningkatkan tahap pematuhan cukai termasuk Lembaga Hasil Dalam Negeri Malaysia (LHDNM) dengan memerangi ketidakpatuhan cukai. LHDNM mentakrifkan ketidakpatuhan cukai sebagai kegagalan individu atau entiti untuk mendaftar, mengemukakan borang cukai dalam tempoh masa yang ditetapkan, melaporkan jumlah pendapatan yang betul, dan membayar cukai. Kajian terdahulu menegaskan bahawa kebanyakan pembayar cukai kategori individu terlibat dengan aktiviti ketidakpatuhan cukai, namun tidak banyak kajian mengenai isu ini di Malaysia terutamanya ke atas individu yang berpendapatan perniagaan. Oleh itu, kajian ini secara empirikal menyiasat pengaruh pengetahuan cukai, moral cukai dan kerumitan cukai ke atas gelagat ketidakpatuhan cukai oleh golongan berpendapatan perniagaan di Shah Alam. Kajian ini disokong oleh teori gelagat keputusan dan teori kognitif konflik. Data dikumpul melalui soal selidik dan dianalisa dengan analisis regresi berganda dan teknik-teknik statistik lain. Sebanyak 500 soal selidik diedarkan yang menghasilkan 328 soal selidik yang boleh digunapakai. Keputusan mendapati bahawa terdapat hubungan positif yang signifikan antara pengetahuan cukai, moral cukai dan kerumitan cukai terhadap gelagat ketidakpatuhan cukai golongan berpendapatan perniagaan. Kajian ini merumuskan dengan implikasi teori dan cadangan praktikal bagi LHDNM untuk meningkatkan kutipan cukai seperti membangunkan dan melaksanakan strategi penguatkuasaan yang lebih ketat untuk memerangi isu ketidakpatuhan cukai di Malaysia. Di samping itu, LHDNM perlu memainkan peranan yang lebih proaktif untuk menggalakkan dan mendidik golongan berpendapatan perniagaan dengan meningkatkan pengetahuan cukai mereka. Kajian ini juga menunjukkan beberapa batasan dan mencadangkan kajian masa depan dalam bidang ini.

Kata kunci: ketidakpatuhan cukai, golongan berpendapatan perniagaan, pengetahuan cukai, moral cukai, kerumitan cukai

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In the Name of Allah S.W.T., the Most Gracious, the Most Merciful

All the praises and thanks are to Allah S.W.T, the Lord of ‘Alamin and peace be upon the Master of Messengers, Muhammad S.A.W

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LIST OF ABBREVIATIONS

ANOVA	Analysis of variance
ATO	Administrator Office of Australia Tax
BDT	Behaviour Decision Theory
BERNAMA	The Malaysian National News Agency
DV	Dependent Variable
GDP	Gross Domestic Product
GST	Good and Services Tax
HMRC	Her Majesty's Revenue and Custom
ICT	Information and Communication Technologies
IRBM	Inland Revenue Board of Malaysia
IRS	The U.S. Internal Revenue Services
ITRF	Income Tax Return Form
IV	Independent Variable
KMO	Kaiser-Meyer-Olkin
MBSA	Majlis Bandaran Shah Alam
MTD	Monthly Tax Deduction
RMCD	Royal Malaysia Custom Department
RM	Ringgit Malaysia
SAS	Self-Assessment System
ITA	Income Tax Act
SME	Small Medium Enterprise
SPM	Sijil Pelajaran Malaysia
SPSS	Statistical Package for the Social Science
SST	Sales and Services Tax
STD	Schedule Tax Deduction
STPM	Sijil Tinggi Pelajaran Malaysia
TCC	Theory of Cognitive Conflict
UUM	Universiti Utara Malaysia

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Tax plays an important role in any country to enhance its economic growth and national development. In Malaysia, taxes can be categorised into two types i.e. direct and indirect taxes. The direct tax is administered by the IRBM which includes corporate tax, petroleum tax, individual tax, stamp duty, real property gains tax and other taxes. In 2016, the IRBM collected direct taxes amounting to RM109,608 billion, contributing to 51.59% of the total estimated Federal Government Revenue of RM212,421 billion. On the other hand, the indirect taxes which at present is administered by the Royal Malaysia Customs Department (RMCD) includes import duty, excise duty and goods and services tax. In 2016, the RMCD collected indirect taxes amounting to RM59,735 billion, contributing to 16.9% of the total estimated Federal Government revenue of RM 212,421 billion (Ayob, 2017).

As noted by Lymer & Oats (2009) the rationale for the imposition of tax is intended for the government to finance expenditures and development as well as balancing the income gap between high-income and low-income earners. Tax collection is one of the major and most important contributors to the country's revenue. It is utilized by the government to finance and sustain the country and its communities such as funding schools, government administration, development of infrastructure, welfare programs and many more. Taxes also help to ensure a country's competitiveness in the global economy. Although, in general, according to Saad (2012), tax is something that benefits all, but there are those who try to avoid or escape from paying tax which has sparked tax non-compliance.

1.2 Background of the study

There are various types of taxpayers in Malaysia. Each taxpayer generates income from different sources such as employment, business, rental and dividends. For individual taxpayers, business income may be derived from sole proprietorship and partnership. Sole proprietorship is owned by an individual who run the business while the partnership can include any business venture of two or more persons i.e. company or individual who agree to incorporate the rights, property, labour or skill and share the profits of the business.

Previous studies found that business income earners are those usually involved in tax non-compliance activities. They reported that tax non-compliance by individual sole-proprietors is a serious, expensive and pervasive problem (Jackson & Jones, 1985; Worsham, 1996; Kasipillai, 1998). There are numerous groups that involved with tax non-compliance, especially business taxpayers which need serious attention from Inland Revenue Board of Malaysia (IRBM) because majority of tax contributions are business taxpayers (IRBM, 2013, 2014). Her Majesty's Revenue and Customs (HMRC), revealed that individuals and businesses involved with tax non-compliance activities represented 10% of the total tax gap and was worth around £3.5 billion (HMRC, 2016, 2017).

A study by Mansor, Saad and Ibrahim (2004) found that tax non-compliance is apparently the highest among sole proprietors and partnership in Malaysia. Further, Morse (2009) reported that individuals with business income evaded taxes and made large contributions to the tax gap. The problem of tax non-compliance among business income earners are continuing because it is quite difficult for the tax authorities to detect their omissions. This situation is explained by Vazquez and Rider (2003). They believed that the under reported income by sole proprietors was more difficult to be detected because they were not subject to third party reporting and withholding.

Generally, tax non-compliance issues have co-existed since the introduction of the tax system (Wentworth & Rickel, 1985). However, tax non-compliance scenario is not unusual to most tax administrators such as the Administrator Office of Australian Tax (ATO), Her Majesty's Revenue and Customs (HMRC), the Inland Revenue Board Malaysia (IRBM) and the U.S. Internal Revenue Services (IRS). A report by HMRC for the period of 2016 to 2017 showed that a total of £28.9 billion revenue was lost due to the activities of tax fraud, tax avoidance and evasion (HMRC, 2016, 2017).

As presented in Table 1.1, similar problem was also faced by IRBM when the cases of audit activities and amount of additional tax collection since year 2007 until 2014 showed an increase in total of RM24,515.19 billion (IRBM, 2014). These situations indicate that within eight years, non-compliance activities have grown constantly. This phenomenon indicates that tax non-compliance activities in Malaysia are critical and have become cancerous in the vicinity of the income tax system in Malaysia.

Table 1.1
Cases of Audit Activities and Amount of Additional Tax Collection from Year 2007 until 2014

Year	**Non-Company**	**Company**	**Taxes & Penalties (RM 'million)**
	No. of case finalized		
2007	267,327	11,848	1,410.57
2008	1,025,096	27,843	1,697.16
2009	1,331,204	68,456	3,054.95
2010	1,654,038	78,220	2,870.62
2011	1,831,271	79,642	2,672.78
2012	1,855,390	79,688	3,290.28
2013	1,674,827	83,093	5,041.41
2014	1,771,317	98,615	4,477.42
		Total	**24,515.19**

Source: Tax operational department of IRBM, 2016

Therefore, it is important to combat tax non-compliance because if it is not restrained, it can affect the constitutional, political and economic policies of the state and more importantly the perceptions and confidence of taxpayers on the fairness of government. There were various comprehensive studies of tax non-compliance for decades, trying to identify factors that contributed to tax non-compliance and suggested possible solutions to address this problem. These studies involved researchers from within and outside Malaysia and includes various aspects of research such as definition of tax non-compliance (Andreoni, Erard and Feinstein, 1998; Slemrod, 2007), theories and models of tax non-compliance (Braithwaite & Braithwaite, 1997); tax non-compliance among private employees (Saruji & Palil 2012); factors influences tax non-compliance (Ser, 2013) and forms of tax non-compliance (Mashadi, Ramli, Palil and Jaafar, 2016).

Study by Slemrod (2007) stressed that to measure tax non-compliance was not easy, because the respondents did not answer the question sincerely because of sensitive and personal nature. A pioneering researcher in the literature of income tax evasion (non-compliance) explained that tax non-compliance may take many forms, and not many are able to provide full analysis regarding this (Slemrod, 2007). However, researchers have been trying hard to explain the factors that influence the behaviour of tax non-compliance. Thus, this problem remains unresolved and continuing.

At present, the tax system for direct taxes in Malaysia requires the taxpayers to self-assess and pay the tax due to the IRBM together with submission of the return form. The Self-Assessment System (SAS) which commenced in 2004 for individual taxpayers highly depend on voluntary compliance. In other word, the taxpayers were required to voluntarily comply with the legal provisions and current tax regulations under SAS. Under SAS, the return forms submitted would be deemed to be the Notice of Assessment and accepted in good faith as correct unless proven otherwise through audit or investigation carried out by the IRBM. There were sanctions for those who failed to comply as a punishment to deter non-compliance. Penalties for late filing or late payment, for non-declaration or underreporting of income and unsubstantiated claims for deductions and reliefs would be imposed accordingly due to non-compliance.

The introduction of SAS had shifted the IRBM focus from formal assessment of tax to enforcement activities through audits and investigations. A study by Mat-Udin (2017) explained that with the implementation of SAS taxpayers are performing the primary tasks that were previously handled by the tax administrator and failing to perform the required tasks will result in committing non-compliance. Therefore, taxpayers must possess sufficient knowledge in taxation so that they can carry out their responsibilities successfully under SAS because insufficient knowledge in taxation could lead to non-compliance.

Studies by Mashadi et al. (2016), Palil (2010), Mohamad-Nor, Shafie and Wan-Hussin (2010), Kasipillai and Abdul-Jabbar (2006), and Jackson & Milliron (1986) revealed that tax non-compliance might take several types (forms) which includes:

i. Failure to register as qualified taxpayer;

ii. Failure to submit a tax return within the stipulated period, or late submission or non-submission;

iii. Understatement/ underreporting of income;

iv. Overstatement of deductions; and

v. Failure to pay assessed taxes by the due date, or late payment or non-payment

Failure to register as taxpayer is a form of tax non-compliance because tax registration is the start of the tax process. Thus, failure to register as a taxpayer means failure to comply with the entire taxation system. Without tax registration, individuals or companies will definitely fail to report their income in the return form and eventually fail to pay their taxes. It is very important for individuals or entities that have taxable income to voluntarily register as a taxpayer; to make them aware of their roles and responsibilities to the nation.

Table 1.2
Statistic of Tax Arrears (RM) and Enforcement Actions by IRBM, Shah Alam Branch from Year 2012 until 2015

Forms Tax Non-Compliance	**Cases**		**RM**
	Restrained Order - Section 104, ITA 1967	Civil Suits	
2012	180	502	278,773,930
2013	257	843	307,494,445
2014	730	663	423,467,929
2015	1,651	1,351	667,176,972

Source: Tax operational department of IRBM, 2016

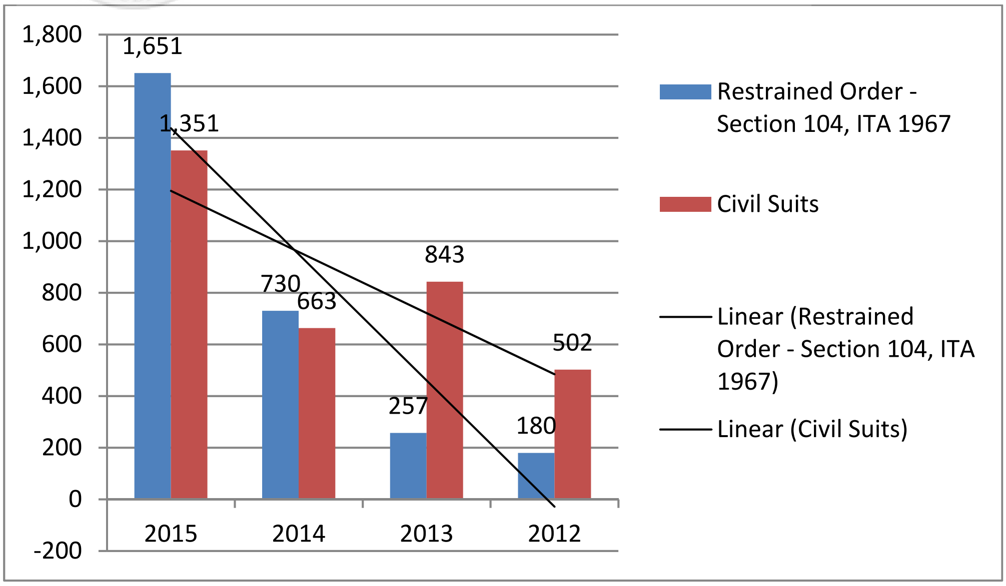

Figure 1.1
Statistic of Tax Arrears (RM) and Enforcement Actions by IRBM, Shah Alam Branch from Year 2012 until 2015
Source: Tax operational department of IRBM, 2016

Table 1.2 and Figure 1.1 show the statistic of IRBM, Shah Alam Branch on cases of travel restrictions - Section 104, ITA 1967, cases of civil suits and the amount of tax arrears for the year of assessment 2012 until 2015. Every year there are increasing cases and the most significant was in year 2015, which was 921 cases (56%) of travel restrictions while for civil suits, had increased 688 cases (51%). The amount of tax arrears or tax payable for the year 2012 to 2015 also showed an increasing trend each year in which the most significant increase was in year 2015 amounting to RM243,709,042 billion. This situation showed that the failure to pay taxes is one of the forms of tax non-compliance and that non-compliance is a major problem and on going despite multiple enforcement actions taken by the IRBM, Shah Alam branch.

Tax non-compliances create a huge problem not only to the tax authorities but also to taxpayers who had complied with the tax system in terms of unfairness. This is because under-reporting of income would affect the tax system, in which equality and fair system would be questioned and the biggest impact is on the development of the country as tax is the main source of income of a country to progress and sustain the development. Thus, the act of tax non-compliance is a major problem to the tax authorities as it subsequently shifts the burden to the taxpayers to comply and also distorts the development of a country as a result of loss of income. In Malaysia, underreporting of income is a criminal offence which imposes severe restrictions on taxpayers (Section 113 and 114 of the ITA 1967). The common method used by tax authorities to detect tax non-compliance is tax audit. There are various types of tax audit methods used by IRBM, the famous methods are desk audit and field audit.

A desk audit is held at the IRBM's office and normally focuses on straightforward issues or tax adjustments that are easily dealt with via correspondence. Taxpayer will be called for an interview at IRBM's office if further information is required. Generally, a desk audit would involve checking all information on income and expenses as well as various types of claims made by a taxpayer in his income tax return. Specific desk audit cases can be referred for field audit action. Under such circumstances, the taxpayer will be informed through a field audit notification letter as part of the normal process of commencing the field audit.

Meanwhile, field audit would be performed at the taxpayer's premise. It involves the examination of the taxpayer's business records. A taxpayer will be given notice prior to a field audit. Besides, a penalties will be imposed for tax reported discrepancies wrong with the tax legislation under Section 112(3) and 113 (2) of the Income Tax Act, 1967.

Table 1.3
Desk Audit Cases, Additional Tax and Penalties from Year 2012 until 2015 at IRBM Shah Alam

Year	**Tax Findings (Cases)**	**Additional Tax (RM)**	**Penalties Subsection 113(2) RM**
2012	12,335	78,696,861.18	10,164,069.05
2013	19,902	55,482,483.30	8,271,407.52
2014	32,275	137,134,432.00	17,808,212.18
2015	20,877	103,782,514.07	10,610,480.06

Source: Tax operational department of IRBM, 2016

Table 1.3 shows the summarized desk audit and field audit findings which explains the total cases that was audited, additional tax and penalties of subsection 113(2) imposed to individual for non-compliance with the tax law in IRBM Shah Alam branch, since year 2012 until 2015. The total amount of additional tax and penalties imposed for the four years of desk audit is RM422 billion in total with year 2014 has the highest record for tax findings cases, additional tax and penalties subsection 113(2) imposed.

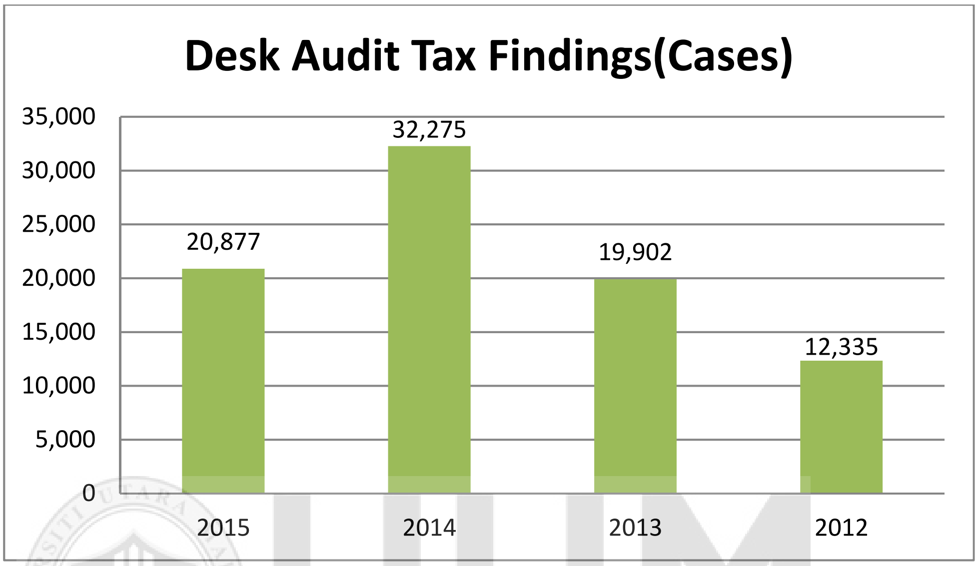

Figure 1.2
Desk Audit Tax Findings (Cases) from Year 2012 until 2015 at IRBM Shah Alam
Source: Tax operation department of IRBM, 2016

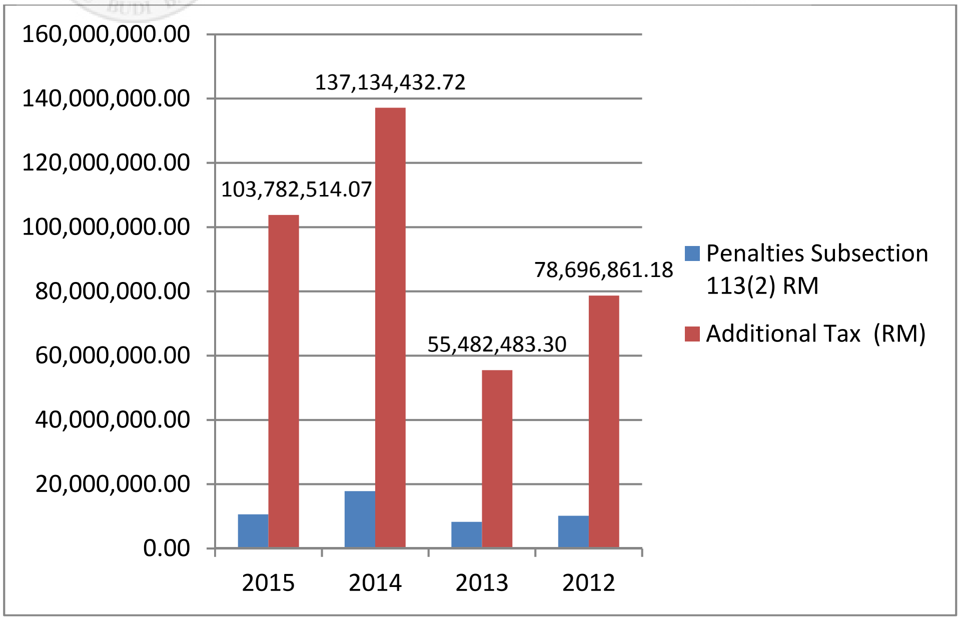

Figure 1.3
Desk Audit Tax Findings for Penalties Subsection 113 and Additional Tax from Year 2012 until 2015 at IRBM Shah Alam
Source: Tax operation department of IRBM, 2016

Figure 1.2 shows the cases of desk audit findings for year 2012 until 2015. The figure shows significant case increase in 2014, totalling 12,373 cases (38.8%). Meanwhile, Figure 1.3 shows additional taxes raised on audit findings and also the imposition of penalties of subsection 113 (2). Statistics in year 2014 showed cases of the audit findings, the imposition of additional taxes and penalties are the highest. This proves that the failure to report income or expenses claimed is a form of tax non-compliance and shows an increasing trend.

Table 1.4
Field Audit Cases, Additional Tax and Penalties for Year 2012 until 2015

Year	Tax Findings (Cases)	Without Tax Findings (Cases)	Additional Tax (RM)	Penalties Subsection 113(2) RM
2012	180	10	3,359,139.17	1,531,045.08
2013	184	4	1,597,793.62	1,423,103.10
2014	212	5	3,700,875.87	1,530,049.00
2015	93	2	2,353,863.82	965,627.07

Source: Tax operation department of IRBM, 2016

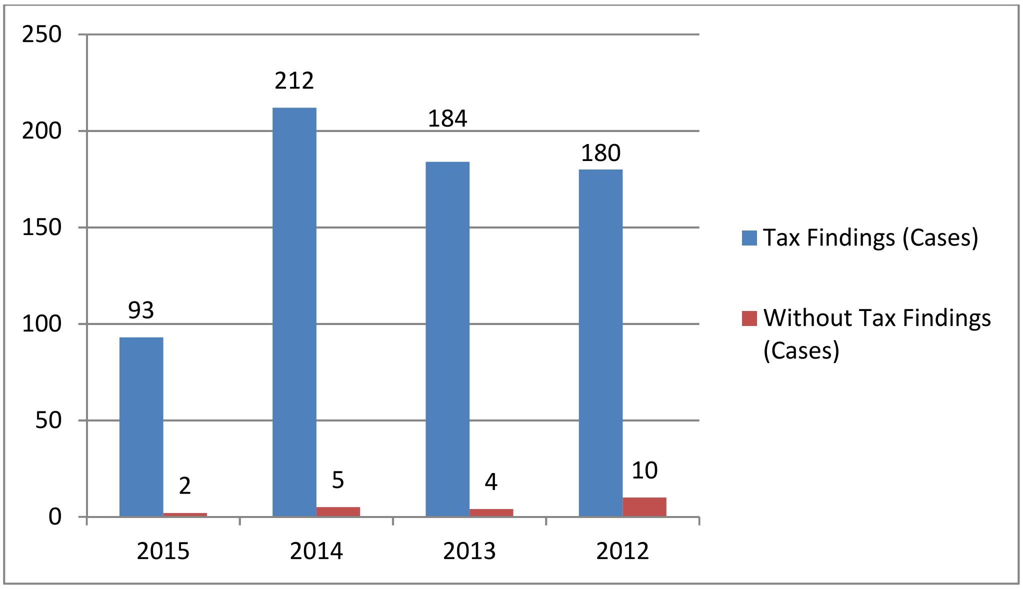

Figure 1.4
Field Audit Cases Additional Tax and Penalties for Year 2012 until 2015
Source: Tax operation department of IRBM, 2016

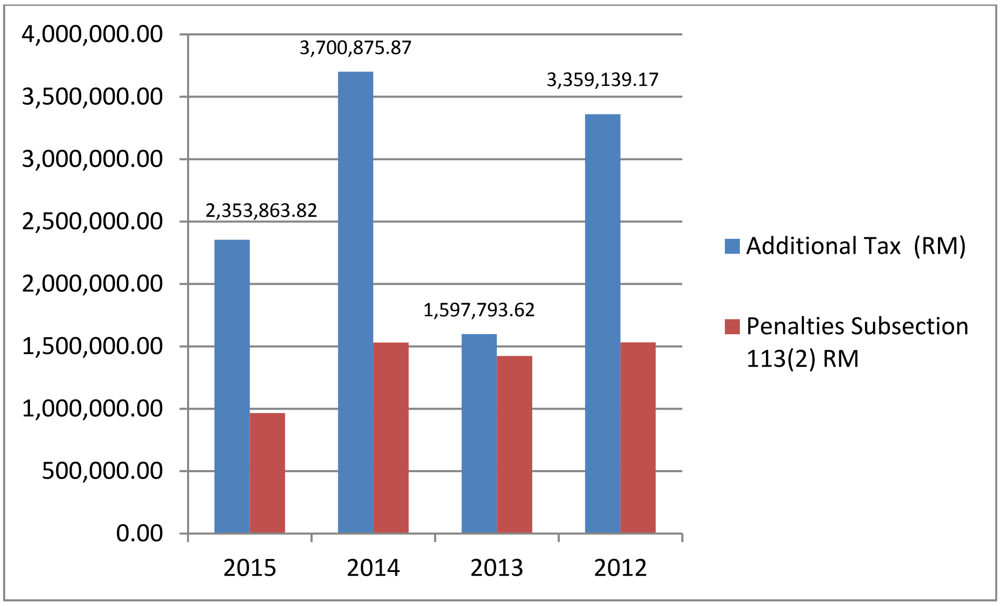

Figure 1.5
Field Audit Cases Additional Tax and Penalties Subsection 113(2) for Year 2012 until 2015
Source: Tax operation department of IRBM, 2016

Table 1.4, Figure 1.4 and Figure 1.5 show the total amount of additional tax and penalties imposed for four years of field audit is RM16.4 billion in total, and year 2014 had recorded as the highest year similar to that of the desk audit. Looking at the year 2015, even though the statistic showed a decrease in the number of tax findings cases as compared to year 2014 but it does not mean that the compliance rate were high. In year 2015, total tax findings cases was 93 whilst those without findings cases was only 2 with ratio of 8:2 cases do not comply. This figure showed that there was underreporting of income or over claimed of expense as a form of tax non-compliance, and this is continuously occurring in Shah Alam.

These phenomena provide evidence of the number of tax audit cases for both types of businesses that had increased from one year to another. Furthermore, huge amounts of tax recovered from tax audit programs indicated that it was a serious and pervasive problem that needed superior attention. In addition, since the implementation of the SAS for individual taxpayers in 2004, the numbers of tax defaulters had risen by tenfold within two years: 25,160 (2003) to 239,666 (2005) (Krishnamoorthy, 2006).

Table 1.5
Outstanding Tax Payment in IRBM Shah Alam

Failure to pay tax in stipulated time	Total travel restriction cases - Section 104	Total civil suit cases	Outstanding tax (RM)
2012	180	502	278,773,930
2013	257	843	307,494,445
2014	730	663	423,467,929
2015	1,651	1,351	667,176,972

Source: Tax operation department of IRBM, 2016

Table 1.5 shows the number of outstanding tax payment in IRBM, Shah Alam Branch for the period of 2012 to 2015. Each year it shows a significant increase of 10% (2013), 38% (2014) and increase to 58% (2015). The number of cases for travel restrictions and civil suits has also increased very significantly in 2015 as much as 127% and 104% respectively.

It shows the failure to pay taxes is on the rise and it is getting serious. This failure means that tax collection would be low, where taxes collected represents a major revenue source for the government for the country's development. A variety of enforcement actions by the IRBM had been taken in dealing with this problem such as travel restrictions - Section104, caveat, bankruptcy, and a civil suit was applied to bring taxpayers to court, however, the problem still remains. Hence, it was crucial to mitigate non-compliance by the sole proprietorship and partnership in order to safeguard the government revenue and at the same time to ensure the continuous development plans for the country.

1.3 Problem Statement

As reported by the Ayob (2017), direct tax remains a major component to Malaysian government source of income in 2016 in which it contributes about 51% of total revenue. However, the main obstacle to achieve higher collection of tax is due to the problem of tax non-compliance among taxpayers and it involves the violation of tax laws to evade tax payments (Saruji & Palil, 2012).

The report from the IRBM (2014) also revealed that the total tax collection from audit activities in 2014 had increased from RM3.29 billion to RM5.04 billion. According to Mashadi et al. (2016), those who were involved in tax non-compliance were not only from a particular group but it also involved various groups, including government employees (Jaffar, Yusof, Bakar and Tahir, 2014), private sector employees (Saruji & Palil, 2012) and the small and medium businesses (SMEs) (Ghani, Lai and Yap, 2014). It is clearly showed that the issue of non-compliance is progressing and it should immediately be handled by all tax authorities including the IRBM (Ghani, Lai and Yap, 2012; IRBM, 2014). The IRBM revealed that Malaysians evaded RM47 billion taxes in 2015 and 2016 of which in 2016 the amount of tax collected was RM114 billion instead of the targeted RM136.8 billion. Whilst, in 2015 the IRB received RM121 billion out of its projected RM145.2 billion tax collection. These situations show that the tax gap of 20 per cent has been consistent in recent years. The shortfall of RM47 billion in tax collection is due to taxpayers either under-declaring or failing to declare their income (BERNAMA, 2017).

For instance, the recent issue regarding understated business income by Specialist at Gleneagles Hospital who was charged with tax evasion totalling more than RM6.5 million is a serious non-compliance case (BERNAMA, 2016). Besides, in 2016 both individuals and companies in a total of 100,178 were blacklisted and subjected to restraining orders from travelling abroad for their failure to pay taxes totalling RM2.49 billion, of which 90,639 and 9,542 were charged under Section 104 of the Income Tax Act 1967 and Section 22 of Real Property gains Tax Act 1976 respectively (Utusan Online, 2016).

In Malaysia, most of previous studies on tax non-compliance have focused on individual taxpayers (employment) generally (Palil & Mustapha, 2011**;** Madi et al. 2010; Bahari & Ling, 2009; Loo & Ho, 2005; Kasipillai & Abdul-Jabbar, 2006; and Kasipillai, Aripin and Amran, 2003) and not much were focus specifically on business income earners especially among sole proprietors and partners in partnerships. Mansor et al. (2004) reported that individual business income owners i.e. sole-proprietor and partnerships, were highly involved in tax non-compliance in Malaysia. In 2017, IRBM found that about 20 percent of the 7,829 food traders visited during Op Saji's tax operation do not have income tax files and most of them are sole-proprietors and partnerships (BERNAMA, 2017). These phenomena show that tax non-compliance in

Malaysia, especially among business income earners is a perennial problem that contributes to the low tax collection which eventually affects the revenue and funding of Government's development agenda. Due to low tax collection and highly increase cases of tax non-compliance, the factors influencing the failure of taxpayers in fulfilling their obligations, especially after the implementation of SAS is needed and important. However, despite the seriousness of this problem, there were very few studies carried out to investigate further on this issue. This might be due to the reason that the access of data from business income earners is quite limited and difficult to obtain, perhaps it is also quite impossible to acquire data from the tax authority due to confidentiality matter. Therefore, using actual tax audit data obtained from the IRBM office, this study examines the factors affecting tax non-compliance of business income earners in Shah Alam, Selangor.

1.4 Significance of the Study

This study has contributed significantly from the theoretical and practical perspectives as follows:

1.4.1 Theoretical Contributions

The theoretical contribution of this study is by incorporating the behavioural decision theory and theory of cognitive conflict in the study of tax non-compliance and its determining factors in Malaysian context. Thus, this study also contributes to the body of knowledge specifically in the area related to tax non-compliance of Malaysian taxpayers. Individuals are affected by their surrounding environment which influences their behaviour towards tax non-compliance. In other words, an individual's behaviour is intentionally or unintentionally influenced by others in his or her immediate environment. Also, this study would be the first to examine the determinants of tax non-compliance behaviour of business income earners in Shah Alam which is one of the big and fastest grown city in Malaysia using behaviour decision theory (BDT) and theory cognitive conflict (TCC).

1.4.2 Practical Contributions

This study contributes practically by studying the factors of tax non-compliance behaviour of business income earners in Shah Alam i.e. tax knowledge, tax morale and tax complexity. The findings would be useful to Malaysian government in general and the IRBM Shah Alam branch in specific in their effort to reduce tax non-compliance and increase revenue generation to the government coffers. The findings would provide useful clues to the tax authorities for the purpose of addressing issues related to tax non-compliance in the future, especially among business income earners. This study will also enable the IRBM to improve their database and be more focus in detecting taxpayers who are inclined to non-compliance behaviour. Empirical evidence on the strategies used by the taxpayer for non-compliance would help in the detection procedures. In addition, the findings of this study will assist to focus on what needs to be emphasized by the IRBM to improve tax enforcement actions. Eventually, this effort will enable the IRBM to reduce the cost of collection to achieve the maximum recovery. Furthermore, the results of this study could be used to assist in reducing the tax gap and policy makers can use this information to improve any weaknesses in the tax system leading to tax gap. Besides, this study will benefit the country and can be used as future reference and assist in boosting taxes quality in Malaysia, to suit taxpayers demand and eventually increase the number of taxpayers in Malaysia.

1.5 Research Questions

Based on the above discussions, this study aims to seek answers to the following research questions:

i. Is there any relationship between tax knowledge and tax non-compliance behaviour among business income earners in Shah Alam?

ii. Is there any relationship between tax morale and tax non-compliance behaviour among business income earners in Shah Alam?

iii. Is there any relationship between tax complexity and tax non-compliance behaviour among business income earners in Shah Alam?

1.6 Research Objectives

This study examines the factors influencing tax non-compliance behaviour of business income earners. Specifically, the objectives of this study are as follows:

i. To examine the relationship between tax knowledge and tax non-compliance behaviour among business income earners in Shah Alam.

ii. To examine the relationship between tax morale and tax non-compliance behaviour among business income earners in Shah Alam.

iii. To examine the relationship between tax complexity and tax non-compliance behaviour among business income earners in Shah Alam.

1.7 Scope of the Study

This study focuses on business income earners specifically the owners of sole proprietor and partners in partnership business. The data of this study is collected from these groups of taxpayers registered under Majlis Bandaraya Shah Alam (MBSA) and the IRBM Shah Alam branch, Selangor. Shah Alam is chosen because Selangor is one of the developed states and a major contributor to Malaysian Gross Domestic Product as shown in Figure 1.6.

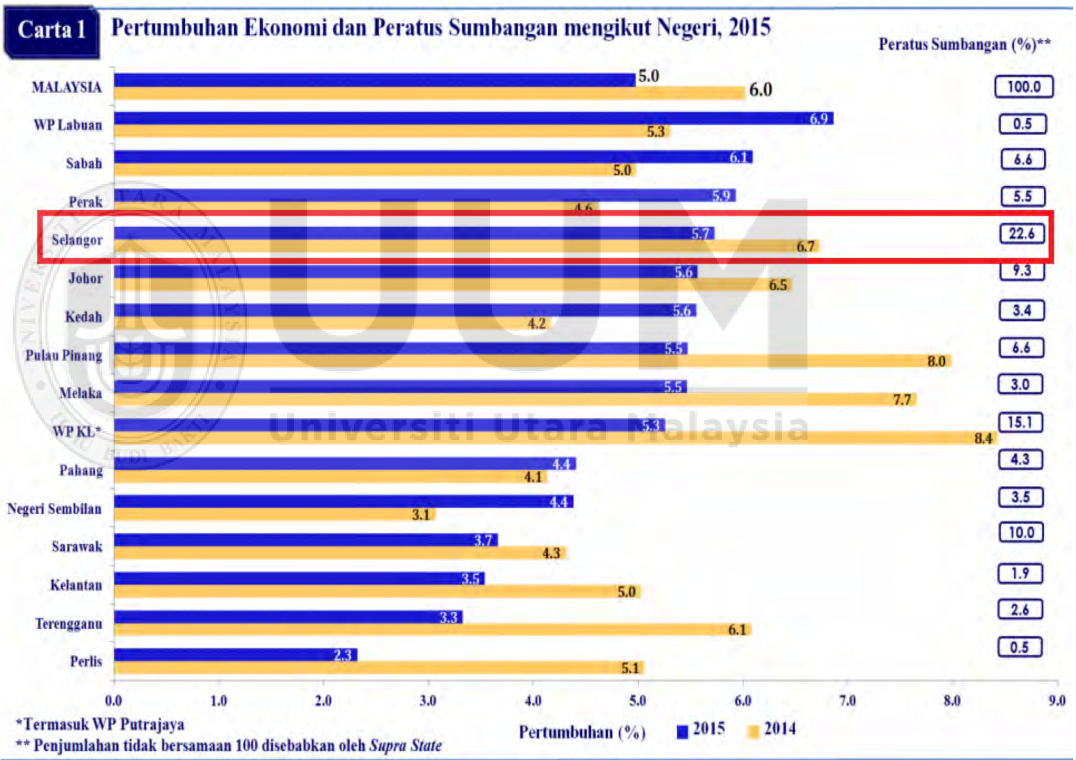

Figure 1.6
Economic Development and Contribution Percentage According to States in 2015
Source: Malaysian Gross Domestic, 2015

In addition, Shah Alam is the capital city of Selangor and certainly economic activities and businesses were located mainly in this area. Therefore, the place and the targeted respondents of this study is appropriate and suit with the objectives of this study.

1.8 Organization of the Thesis

This thesis has been divided into five chapters as follows:

Chapter One: Introduction

This chapter provides overview of the study. It presents the background of this study, problem statement, significance of the study, research questions, research objectives, scope of this study and organisation of the thesis.

Chapter Two: Literature Review

This chapter focuses on the relevant literature on tax non-compliance. This chapter also defines sole proprietorship and partnership business in Malaysia and then proceed with forms of tax non-compliance in Malaysia. This chapter also identifies the factors affecting the of tax non-compliance behaviour and also clarify previous research on this area. A few sections from the Income Tax Act 1967 that are related to this study are also included. Finally, this chapter discusses theories related to this study.

Chapter Three: Research Methodology

This chapter presents the conceptual framework of the study and hypotheses development. This chapter also explains the research design, data collection procedures, population and sample size, sampling technique, questionnaire design and also data analysis techniques. It also explains pilot test that had been carried out.

Chapter Four: Data Analysis and Findings

This chapter shows overall findings as a result of the data analysis. It consists of explanation on response rate, respondents profile, recode process, outlier detection and normality test. This chapter also presents descriptive statistics, reliability test, factor analysis, multiple regression and hypotheses testing.

Chapter Five: Discussion and Conclusion

This chapter recaps the study besides presenting the theoretical and practical implications of the study. This chapter ends with limitations and recommendations for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews previous studies of tax non-compliance and eventually explains the forms (types) of non-compliance in Malaysia. This is followed by discussions on the factors that might influence non-compliance behaviour of business income earners.

2.2 Tax Non-Compliance

As mentioned in chapter one, tax non-compliance is the major problem faced by most tax authorities worldwide and it is a challenging task of convincing taxpayers to comply with tax requirements (James and Alley, 2002). Generally, tax non-compliance is treated as a contrary conduct of tax compliance. Previous studies have defined tax non-compliance in various expressions such as the failure of the taxpayers to pay the proper amount of tax, perhaps due to the complexity or discrepancy in tax laws or tax administration procedures (Jackson & Milliron, 1986: Kasipillai & Jabbar, 2006). Kirchler (2006) defined tax non-compliance as the failure of taxpayers to report actual income, deductions and rebates claims and pay the exact amount of tax payable to the tax authorities on stipulated time.

Tax non-compliance behaviour classified into intentional or unintentional dimensions. Study by James and Alley (2002) explains tax non-compliance as a taxpayer's failure to perform tax responsibilities intentionally or unintentionally. Kinsey (1988) stated that tax non-compliance as sign failure to meet tax responsibilities intentionally or unintentionally. Alabede, Ariffin, and Idris, (2011) refer unintentional tax non-compliance is when the taxpayer accidently ignore, omit or misinterpret tax rules and regulations. Whilst, Saruji & Palil (2012) mention that tax non-compliance can be defined as the behaviour against law either intentionally or unintentionally. Meanwhile, deliberately understated income, over claimed expenditure, failure to submit tax return and payment of tax liabilities after the due date is considered as intentional tax non-compliance. In other words, all the definitions reflect that as long as taxpayer does not comply with tax rules and regulations intentionally or not (by mistake or error) will be considered as tax non-compliance because the end result is shortage in tax payment to the government.

Further, tax non-compliance is divided into tax evasion and tax avoidance in which both will have negative effects toward tax compliance and tax collections. Generally, tax evasion and tax avoidance is different by legality (Rahim, 2013). According to Ser (2013), tax evasion is where the taxpayer refuses to pay or pays the minimum tax in misstatement of the law, does not report income or does not expediently and illegally disburse expenses. On the other hand, Kasipillai et al. (2003) anticipated tax evasion as a conduct caused to reduce the taxes owed in reality. Tax evasion is willful disobedience; which resulted in the payment of less tax than it is actually owed. It is often associated with a transaction involving some elements of bullying behaviour, accompanied by a real intention on the part of taxpayers deliberately to mislead, deceive or hide from tax authorities. False invoices, payments in cash and hidden bank accounts are common features of tax evasion practices. Tax evasion is a more restrictive term that does not include unintentional non-compliance due to a memory or calculation errors, insufficient knowledge of tax law and so on. In Malaysia, Section 114 of the ITA 1967 states that 'any person who knowingly and with intent to evade or to assist any other person to evade tax:

a) Omits from a return made under this act any income which should be included;
b) Makes a false statement or entry in a return made under this Act, shall on conviction be liable to a fine of RM 1,000 to RM 20,000 or three years imprisonment or both; plus penalty of three times the tax undercharged'.

Therefore, it is important to distinguish tax evasion from tax avoidance. As mentioned earlier, tax evasion is illegal; an immoral action with the intention to manipulate and to reduce tax obligation and it is major tax non-compliance behaviour as compared to tax avoidance. Tax avoidance, however, is a method of manipulation within the tax law and known as tax planning and is legal by tax rules and regulation to reduce one’s tax obligation.

2.3 Sole Proprietorship and Partnership Businesses in Malaysia

In Malaysia, sole proprietorship is also known as self-employed. According to the IRBM, sole proprietors are individuals who conduct business in person and to generate profits from doing business, trade, vocation or profession with a decent income to be taxed. Other tax authority such as the United States

Internal Revenue Service (IRS) defines sole proprietor as someone who owns an unincorporated business by himself or herself. The IRBM defines a partnership as including any form of cooperation between two or more parties to consolidate the rights, power, labor or skill in doing business and creating a profit-sharing. Partnerships may exist between: individuals, two companies, individuals and companies, individual and trustee of a settlement. Examples of sole proprietors and partnership business are retail, direct selling, agriculture and livestock, food stall, clinics, law firms and other professional practitioners, writing and acting and stockbroking.

According to Morse (2009) individuals with business income evaded taxes and made large contributions to the tax gap. Thus, there should be reasons for such scenario to take place in the tax system. Vazquez and Rider (2003) stated that the underreporting of sole proprietorship income was more difficult to be detected because they were not subject to third party reporting and withholding. The study also revealed that any form of income that subjected to third party reporting had reduced the scope for misreporting and therefore, increases compliance. This was basically because underreporting of partnership's income required collusion among the partners, but the difficulties and risks of forming such conspiracies may explain the finding. In addition, partnerships are not a separate legal persons and each partner was liable to tax on his or her share of income in the partnership (OECD, 2011).

2.4 Forms of Tax Non-Compliance in Malaysia

In Malaysia not many past studies have clarified the forms of non-compliance in accordance with the provisions of the ITA 1967. The following table presents various definitions of tax non-compliance by Malaysian researchers which indirectly reflect the forms of non-compliance that exist in the Malaysian tax environment.

Table 2.1
Definitions/Forms of Tax Non-Compliance

Author/s (year)	Definitions/forms of tax non-compliance
Singh (2003)	Failure or delay in sending all required tax forms, do not accurately report all sources of income, overstatement expenses in accordance with tax legislation, and failure to pay or delay in paying taxes that have been determined.
Kasipillai & Jabbar (2006)	Failure to submit a tax return within the stipulated period, or late submission or non-submission; understatement of incomes; over-statement of deductions; and failure to pay assessed taxes by the due date, or late payment or non-payment.
Jabbar (2009)	Failure to submit a tax return, understatement of income, overstatement of deductions, and failure to pay assessed taxes by the due date.
Mohd Nor et al. (2010)	Misstatements or non-reporting of some income, non-submission of income tax return forms within the time stipulated by the ITA 1967 and non-payment of tax indicated in the return forms.

Based on the definitions presented in Table 2.1, tax non-compliance in Malaysia consist of four elements; i) failure to submit tax return, ii) failure to declare right amounts of incomes, iii) failure to claim exact deduction and allowable expenses, and iv) failure to pay the tax in the time stipulated by the tax law.

However, these studies did not highlight about the failure to register as a taxpayer once an individual/business is qualified as a form of tax non-compliance. Nevertheless, Josephine (2013) stated that the Australian Taxation Office and IRBM defined compliance as combination of elements such as registration, submission, declaration and payment (Mashadi et al. 2016). Therefore, this study extends the definitions of non-compliance to include failure to register as a taxpayer when fulfilling or meeting certain criteria as a form of tax non-compliance. Thus, forms of tax non-compliance contain five elements as follow:

i) Failure to register as a taxpayer when fulfilling or meeting certain criteria;

ii) Failure to submit a tax return within the stipulated period, and late submission;

iii) Failure to report tax liability correctly: incorrect declaration of income;

iv) Failure to claim expenditure, and tax relief or tax deduction duly and properly; and

v) Failure to pay tax liability by or before the due date or other advance arrangement schedules.

2.4.1 Failure to Register as Taxpayer When Fulfilling/Meeting Certain Criteria

Under SAS, every person who has income is expected to willingly register as a qualified taxpayer to pay tax. In this situation, the intrinsic motivation to pay tax i.e. tax morale will determine the level of compliance to register as qualified taxpayers. It is an obligation that must be complied as an individual who has high moral character. A study by Alabede et al. (2011) found that voluntary tax compliance means that citizens show their support to the Government. Moreover, non-registration as a taxpayer is one of the elements of non-compliance because tax registration is the starting point of the taxation process and failure to register means a failure of the entire taxation system. Avoiding tax registration means the person would definitely not report his/her income through submission of a tax return, failure to report the right amount of income will eventually resulted in not paying taxes.

In Malaysia, any entities or person who are resident in Malaysia under Section 7, ITA 1967 and received income or gained or profits earned from doing business, trade, vocation or profession from a decent income is subjected to tax. The entity or person must register as individuals who earn taxable income, and new employees are also subjected to the Scheduler Tax Deduction (STD). This entity also extends to include company start-ups, individuals or companies who wish to claim refund of the tax credit that has been deducted from dividend income. Registration as taxpayers is very important as a seed in taxation process growth and it is very important for the IRBM to focus and handle this form of non-compliance aggressively.

Not registering oneself as taxpayers with the tax authorities is the worst form of non-compliance. Moving forward, it is the responsibility of an income earner, irrespective of individuals or business entities to register as taxpayers to the tax authority voluntarily.

2.4.2 Failure to Submit a Tax Return Within the Stipulated Period; and Late Submission

Another form of tax non-compliance is the failure to submit tax return form to the tax authority which lead to affect tax collection. Submission of tax form can be done either manually (send by hand) or through online (e-filing). The obligation of filing the return form has been enacted in the Act under Section 77 and 77A. However to make it related to this research only a part of Section 77 is being referred. Section 77 (1) (a) and (b) require any individual other than a company, a trust or cooperative submit the tax form on or before 30 June (for doing business) and 30 April (which has no business income). Theoretically, it can be concluded that any person, who received business income according to Section 4(a) of this Act in the calendar year, must submit the return form not later than 30 June in the following year. However, for those who are receiving other than business income as per stated under Section 4(b), 4(c), 4(d), 4(e) and 4(f) are required to submit their form not later than 30 April in the following year.

Under Section 77A (1) every company, trust or cooperative has to submit their tax return within seven month after the close of their accounting period. Provided that, the person has chargeable income for that year of assessment;

or no chargeable income for that year of assessment but has chargeable income or has furnished a return or has been required under this Act to furnish a return, for the year of assessment immediately preceding that year of assessment.

2.4.3 Failure to Report Tax Liability Correctly: Incorrect Declaration of Income, Expenditure, and Tax Relief/Tax Deduction

The third category of tax non-compliance is under reporting taxes and over claimed expense. This form of tax non-compliance also refers to improper report of income in the tax form which clearly indicates that the offense is subjected to the provisions of Section 113 and 114 of the ITA 1967. The difference between the two provisions is that one section identifies the offense committed and the other manifests the form of punishment. Section 113 deals with tax mistakes of errors and negligence, and penalties imposed solely in the form of fines in cash, whereas Section 114 pays attention to taxpayers in error with careful planning not to pay taxes, more severe penalties, including penalties in cash and imprisonment.

This is considered as criminal offence that imposes heavy penalties. The practices of taxpayers is through tax evasion and tax avoidance, both are the tax non-compliance within the purview of the law where tax evasion is wrong but tax avoidance is justified in taxation law. This area of non-compliance poses a serious problem to the tax authorities as taxpayers have escaped taxation and the burden they refused to comply similar with the other taxpayers.

For income tax purposes, this form of tax non-compliance arises from three errors: underreporting taxable income, excess offset on income or taxes, and net mathematical errors. Offsets to income include income exclusions, exemptions, statutory adjustments, and deductions whilst offsets to tax are tax credits. Net mathematic errors involve arithmetic mistakes or transcription errors made by taxpayers that are corrected at the time the return is processed. In addition to developing an estimate of the aggregate underreporting gap, it is possible to break aspects of this estimate down into measures of the underreporting gap attributable to specific line items on the tax return. Under this part of compliance, any person who fails to do so will be found guilty pertaining to two provisions of the Act and those are, Section 113 regarding incorrect return and Section 114 willful evasion.

Section 113 (1) states that any person who;

a) makes an incorrect return by omitting or understating any income of which he is required by this Act to make a return on behalf of himself or another person; or

b) gives any incorrect information in relation to any matter affecting his own chargeability to tax or the chargeability to tax of any other person, shall, unless he satisfies the court that the incorrect return or incorrect information was made or given in good faith, be guilty of an offence and shall, on conviction, be liable to a fine of not less than one thousand ringgit (RM 1,000.00) and not more than ten thousand ringgit (RM 10,000.00) and shall pay a special penalty of double the amount tax which has been undercharged in consequence of the incorrect return or incorrect information or which would have been undercharged if the return or information had been accepted as correct.

Section 114 (1) stipulates that any person who willfully and with intent to evade or assist any other to evade tax;

a) omits from a return made under this Act any income which should be included;
b) makes a false statement or entry in a return made under this Act;
c) gives a false answer (orally or in writing) to a question asked or request for information made in pursuance of this Act;
d) prepare or maintains or authorizes the preparation or maintenance of false books of account or other false records;
e) falsifies or authorizes the falsification of books of account or other records; or
f) makes use or authorizes the use of any fraud, art or contrivance, shall be guilty of an offence and shall, on conviction, be liable to a fine of not less than one thousand ringgit (RM 1,000.00) and not more than twenty thousand ringgit (RM 20,000.00) or to imprisonment for a term not exceeding three years or to both, and shall pay a special penalty of treble the amount of tax which has been undercharged in consequence of the offence or which would have been undercharged if the offence had not been detected.

Non-compliance is the main focus of the audit by the IRBM through desk audit or field audit and the penalties for such offence are the highest. Underreporting means the deliberate act of reporting less income or revenue than what was actually received. The act of underreporting income for the purpose of tax evasion is an illegal practice. When the taxpayers underreport their incomes, the government would lose tax revenue that could be allocated towards the development program for the nation and country. Additionally, underreporting of income could be considered as complex because it may consist of one or more acts of wrong-doing which commonly involves taxpayers understating their incomes, overstating business expenses, taking improper deductions or even claiming ineligible credits. Consequently, underreporting of income committed by taxpayers remain unresolved, and will affect the country's economic development.

2.4.4 Failure to Pay Tax Liability by or Before the Due Date or Other Advance Arrangement Schedules

The last form of tax non-compliance refers to failure to pay tax within the prescribed period or the total tax liability accrual but do not pay on time pursuant to Section 103(1). This arises mainly from inadequate remittances from taxpayers themselves. The provision of this section also requires the taxpayers to settle tax that had been calculated and to submit the forms within the stipulated deadline of their tax return. Tax payments receive on time are important to the tax authorities. Tax receipts are used for government spending and insufficient funds may cause the need to borrow and incur additional costs.

Provisions of act;

Section 103 (1): Except as provided in subsection (2), tax payable under an assessment for a year of assessment shall be due and payable on the due date whether or not that person appeals against the assessment.

Section 103 (3): Where any tax due and payable under subsection (1) has not been paid by the due date, so much of tax as is unpaid upon the expiration of that date shall without any further notice being served by increased by a sum equal to ten percent (10%) of the tax so unpaid, and that sum shall be recoverable as if it were tax due and payable under this Act.

Section 103 (4): Where the tax due and payable has been increased under subsection (3), any balance remaining unpaid upon the expiration of sixty days (60) from the due date shall without any further notice being served be further increased by a sum equal to five percent (5%) of the balance unpaid, and that sum shall be recoverable as if it were tax due and payable under this Act.

Section 103 (12): For the purpose of this section, due date means;

a) In the case of company, trust body or co-operative society the last day of the seventh month from the date following the close of the accounting period

b) In the case of a person referred under paragraph 77(1)(a), 30 June in the year following the year of assessment; and

c) In any other case other than the case referred to in paragraph (a) and (b), 30 April in the year following the year of assessment.

2.5 Factors Affecting Tax Non-Compliance

This research includes three factors that are believed to have impacts on tax non-compliance behaviour of business income earners. These factors previously were mostly studied on individual non-business income earners context as discussed below.

2.5.1 Tax Knowledge

The function of tax knowledge is very important as it contributes to taxpayer awareness and sensitivity to tax legislation (Oladipupo & Obazee, 2016). According to Hasseldine, Holland and Rijt (2009), tax knowledge refers to the process, with which taxpayers are aware of tax laws and other tax-related information. Moreover, tax knowledge is an important element in a voluntary compliance tax system, especially in determining the exact tax liability (Mat-Udin, 2017). According to Roshidi, Mustafa and Asri (2007), with sufficient tax knowledge, taxpayers can understand the tax system and tax policies more comprehensively. Furthermore, another study by Corchón (1992) summed up that non-compliance occurred when the taxpayers do not have the tax information and tax knowledge rather than lack of accurate tax information and tax knowledge. Studies by Kirchler et al. (2006) pointed out that possessing tax knowledge will drive to higher compliance rates.

In addition, tax knowledge has the potential to encourage taxpayers to be wiser in completing their tax returns. Tax knowledge helps to raise awareness about the responsibilities and obligations of citizens to the country (Oladipupo & Obazee, 2016). Individual's business income earners should try as much as possible to acquire the reasonable level of tax knowledge that applies to their businesses. Acquiring tax knowledge has many advantages. It would save the taxpayers from hiring consultants to compute taxes for their businesses and thereby saving huge tax consultancy cost. Apart from that, it can assist them to accurately compute tax payable and avoid unintentional non-compliance resulting from a low level of tax knowledge.

Besides, tax knowledge also save the taxpayer compliance cost, future tax cost and lessen tax complexity. Yaniv (1999) found that respondent with low level of tax knowledge will see tax system as a complex system, and they tend to hire a tax advisor to resolve their tax matters which would incur cost to them. Furthermore, Fallan (1999) found that better tax knowledge has changed attitudes towards tax system justice. Meanwhile, Palil (2010) found that the higher the tax knowledge, the less likely a person will avoid taxes and will reduce the level of tax non-compliance.

In Malaysia, to encourage the delivery of tax return forms easily and quickly, the IRBM has launched the e-filing system. However, from the perspective of the taxpayer it is still complicated in terms of getting the registration number of e-filing (the number of e-pin), the registration process for e-filing system itself, to manage e-filing ID and password (to remember and to reset if forgotten), e-filing also needs computer equipment and internet, and knowledge of an IT technology in which all contribute to a high tax compliance costs.

On a similar note, the absence of tax knowledge may lead to non-compliance behaviour among taxpayers, either intentionally or unintentionally. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, McKerchar and Hansford, 2008). In addition, having tax knowledge is very important to ensure tax non-compliance gap is narrowed and directly increase the tax collection result especially under the self-assessment system (SAS). SAS requires taxpayers to have sufficient and knowledge to comply with tax laws. This requirement ensures that taxpayers are able to provide the correct information and calculate the amount of income to be paid properly to increase voluntary compliance (Palil, 2010; Mat-Udin, 2013).

However, the problems in SAS are not stressing on aspects of tax knowledge to understand the terminology used and knowledge of the income tax obligation (Palil, 2010), but mainly focuses to individual business income earners. Furthermore, individual business income earners should know more about tax law regarding capital allowances, loss carry forward, statutory income so on as compared to individual receiving non-business income. An example to explain this situation is the treatment of depreciation in accounting and capital allowance in tax law. Generally, both concepts are the same i.e. treatment on business fixed assets however, in practice they are different in the rate, types of assets, methods and calculation. Even if a taxpayer possessed some basic knowledge in taxation, but as time passed by knowledge became out dated therefore, he/she would not be able to use the knowledge effectively to determine the correct tax liability (Mat-Udin, 2013).

2.5.2 Tax Morale

Tax morale can be defined as the intrinsic motivation to pay taxes. It is the willingness to pay taxes by the individuals. Contrary to tax evasion, tax morale does not measure individual's behaviour, but relate to individual's attitude. It can be seen as the moral obligation to pay taxes, the belief in contributing to the society by paying taxes. On the other hand, it also catches the moral regret or guilt over cheating on taxes. If taxpayer's regret or feeling of guilt is strong, she/he will be more willing to pay the taxes.

Kirchgassner (2010) stated that tax morale is regarded with attitude while tax compliance is related to action. According to Cummings, Martinez-Vazquez, McKee and Torgler, (2006), tax morale is considered as an intrinsic motivation to pay taxes which raises awareness about the obligation to pay taxes as social responsibility to society. However, making taxpayer complies with tax law has not been easy to any tax authorities including the IRBM. Many eligible taxpayers do not comply with their tax obligation annually, which was probably influenced by low compliance morale. There are various studies about tax morale that influences tax non-compliance by looking at various angles and perspectives.

According to Jackson and Milliron (1986), a compliant taxpayer is someone who filed accurate, timely and fully paid return without IRS enforcement efforts. This situation shows that the taxpayer with high morale without any coercion will file all tax returns, report tax liabilities and pay taxes as prescribed by tax legislation. Under SAS, tax morale plays a major role in which a person voluntarily willing to register as a taxpayer in which they are eligible to pay taxes. In this situation, the intrinsic motivation to pay taxes such as tax morale will determine the level of compliance by registering as taxpayers who qualify. It is an obligation as a person of high moral character. As reported by Alabede et al. (2011), voluntary tax compliance is a means of showing their support to the government.

Somehow, when people are ignorant of tax laws or less morale, they will find it difficult to comply with the tax laws, especially in relation to tax computation. They may also be ignorant of how taxation revenue contributes toward funding government's daily activities. Therefore, tax morale is needed to induce people to comply with the tax law with intrinsic motivation, willingness and awareness of the obligation that paying any forms of tax is a responsibility of all citizens. Many researchers stated that if the tax morale is high, it means that tax non-compliance is low and vice versa (Kirchgässner, 2010; Ahangar, Bandpey and Rokny, 2011). In other words, high tax morale is required from the taxpayer to achieve a high level of tax compliance.

Thus, in matters of taxation, taxpayer compliance behaviour is dependent on their morale values. High moral values among taxpayers, therefore not only increases the determination to pay taxes, but also expressed willingness to sacrifice for the country.

2.5.3 Tax Complexity

Tax complexity can be considered as a barrier to voluntary tax compliance. Oveson (2000) mentioned that tax complexity is a universal problem and has been cited as the most serious problem. Collin et al., (1992) stated that excessive complexity increases filing and administrative costs and it has impact on voluntary compliance.

Besides, complexity is also defined as the state or quality of being intricate or complicated (Mat-Udin, 2013). In addition, Mat-Udin (2013) stated that tax complexity is a subjective matter that varies from one person to another. There are various researches carried out to cover various aspects of tax complexity such as tax return (Milliron, 1985; Long & Swingen, 1987; Reckers et al, 1991), sophistication in tax legislation (Richardson & Sawyer, 2001), various forms of complexity such as return forms and computing (Cox & Eger, 2006) and the low level of readability (Saw & Sawyer, 2010).

Meanwhile, Long & Swingen (1987) in their study, investigated six most important elements of complexity in tax returns: ambiguity, calculations, changes in tax law, details of the law (like many rules and exceptions to the rule), recordkeeping, and determine whether the format or confusing instructions. A study by Hanefah, Ariff and Kasipillai (2001) stated that the implementation of SAS in 2004 led to Malaysian tax system more complex, especially for the sole-proprietor. The perception of tax complexity has also been increasing largely due of the adoption of the SAS in many countries (Loo, McKerchar and Hansford, 2009) because SAS transfers its tax compliance tasks to taxpayers instead of tax administrators (Mat-Udin, 2013).

There are also other studies highlighted about tax complexity for instance Shome (2004) and Chittenden, Kauser and Poutziouris (2003) who argued that tax complexity will impact and burden the small and medium enterprises (SMEs) rather than large firms in handling complex tax regulations. This trend, in general, occurs without previous preparation of the taxpayer, supporting an increased perception of tax complexity and its consequence in terms of tax compliance (Evans & Tran-Nam, 2010; McKerchar, Meyer & Karlinsky, 2008). Pope (1993) stated that the high cost of tax compliance is the result of the complex nature of the tax system and lower costs to the contrary.

To reduce compliance burden, SMEs seek the advice from taxation specialists (tax agents) in which will incur additional cost. This notion is supported by Kasipillai and Krever (2016). The study found that compliance costs are known to be proportionally higher among the SMEs and these entities are often not adequately prepared to accommodate the new tax provision into their existing businesses.

In Malaysia, the IRBM initiative to reduce tax complexity is by introducing an e-filing system for the purpose of facilitating the delivery of tax return form through online. This application was first introduced in 2003 to corporate taxpayers and later in 2004 extended to individual taxpayers. Tallaha, Shukor and Hassan (2014) found that the majority of the taxpayers perceive that e-filing system is easy to use and understand. However, researchers admit that there are a small number of taxpayers who found that e-filing is complicated than manual form. Tax complexity is a major contributor to forms of tax non-compliance particularly to elderly taxpayers who do not know and aware of information and communications technology (ICT) as compared to younger taxpayers. Thus, any non-compliance act committed by taxpayers that resulted in underreporting of the taxable income would indirectly result in an underpayment of tax. The following discussion would look at theories related with tax non-compliance.

2.6 Tax Non-Compliance Models and Theories

There are various models and theories that could be used to explain the phenomenon of tax non-compliance. However, for the purpose of this study, two theories are suitable to explain the conditions under study. These theories are discuss below.

2.6.1 Behavioural Decision Theory (BDT)

BDT explains about how people makes decisions. This theory was-introduced by Ward Edwards in 1961. BDT is a broad interdisciplinary theory with various major themes such as rationality, optimality, human judgment and choice, value and cognitive representation (Becker & McClintock, 1967;

Einhorn & Hogarth, 1981; Joyce & Libby, 1981; Slovic, Fischhoff and Lichtenstein, 1977).

This theory focuses on describing the less than optimal behaviour of the decision maker (Hammond, McClelland and Mumpower, 1980). In general, the basic assumptions of BDT are i) people is considered to make decisions about alternative actions; ii) uncertainty exists in the mind of the decision maker and iii) human beings are cognitive-limited information processors with limited knowledge of possible alternative actions and consequently the lack of computing skills required to achieve the degree of rationality.

In the context of taxation, it is closely related to the moral responsibility in which taxpayers makes various decisions. Decisions made by taxpayers were different from the studies in behavioural decision research which were in non-taxation context (Weingart, Thompson, Bazerman and Carroll, 1990). Decisions made by taxpayers are interconnected with each other and will extend for long periods of time. For example of a decision on record keeping, information resources and assistance, dealing with gray areas in tax laws, tax planning and investment decisions (Weingart et al. 1990).

Taxpayers with lack of tax knowledge, to them taxes are seen as something complicated and they may end up with a decision not to comply with any future consequences as a result of the decision. This is because compliance with tax laws is a complicated procedure that requires detailed knowledge and effort (Hasseldine & Li, 1999). As mentioned earlier, the BDT assumes that humanity is cognitively restricted and its limitations lead to limited rationality (Weingart et al. 1990). Simon (1955) explains that human behaviour is regarded as rational but is limited to attention, workmanship and constitutional capacity. BDT accepts the world with restricted rationality and sees decision makers acting only in terms of what he considers for the given circumstances. This theory acknowledges that humans operate with restricted cognitive and rational constraints. In addition, BDT also emphasizes that the decision maker's behaviour is unclear.

As mentioned by Carroll, Hall and Zeldes (1992) the BDT approach is not a substitute for other approaches, but it offers some useful concepts and methods for studying taxpayer's behaviour. This view is also in line with Alm (1991) which suggests that researchers explore alternative behavioural theories under uncertainty in explaining the behaviour of taxpayers. This is because the decision in the context of taxpayers depends on many factors and in explaining the behaviour of the taxpayers requires the change of existing theories to the behavioural theories proposed by psychologists, sociologists or anthropologists (Alm, 1991).

2.6.2 Theory of Cognitive Conflict (TCC)

Assessment through a system of norms will affect effectively in the decision-making process (Kamil, 2002). In understanding the strength of the relationship between morale values and attitudes toward the behaviour, the argument based on the cognitive theory is applicable. Cognitive theory explains the relationship between the individual morality development and values with their actions. High morale can be a fortress to selfishness and to be a catalyst to the spirit of the country (Kohlberg, 1984). There are various categories of cognitive theory and one of them that can be attributed to non-compliance is TCC.

This theory explains the situation of discomfort or tension in the individual when the individual feels that he has an idea or a notion that is not consistent with others. When there is a conflict situation, one that will try to reduce the amount of tension or discomfort by changing beliefs or changing their opinions. This discrepancy may be a conflict between the attitude and the attitude or behaviour with the behaviour or attitude and behaviour. In taxation, if an individual does not agree, oppose, or not in line with the others on the subject of taxation, tax laws that may be in response to the individual's unfair burden, complexity and difficulty. Here, we can see a contradiction between attitudes and behaviour. Disorders such as this will encourage someone to act on the fact that is contrary to the beliefs and behaviour. When someone is tampered with and encouraged to act, the process of learning takes place. Therefore the morality of individuals plays a very important role for the perception they are in line with public perception.

Meanwhile, in matters of taxation, non-compliance behaviour of those individuals with business income earner is dependent on their morale values. High moral values among taxpayers can not only increase the determination to carry out their responsibilities as citizens but also expressed their willingness to sacrifice to help developing countries.

2.7 Conclusion

This chapter provides an overview of the concept and forms of tax non-compliance; individual business income earners in Malaysia and factors related to tax non-compliance and also present related theories of the scope of this study. From the review of previous studies and theories presented, it can be concluded that non-compliance behaviour can be influenced by various factors, specifically under SAS, the influential factors are those that contribute towards voluntary compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the conceptual framework and the relations between independent and dependent variables of this study. In addition, this chapter also presents hypotheses development, research design, data collection, population and sample selection, variables measurement, pilot test, and finally, brief conclusion.

3.2 Conceptual Framework

The conceptual framework, which is normally based on theory, provides a guide for testing the hypothesis. According to Hair, Money, Samouel and Page (2007), the conceptual framework is a diagram that connects variables based on theory and logic to visually display the hypotheses that will be tested. This study emphasised on determinants of tax non-compliance behaviour of business income earners in Shah Alam. As discussed in the previous chapter, there are three independent variables that are believed to be the determinants, they are: tax knowledge, tax morale and tax complexity.

The conceptual framework of this study is developed based on the assumptions of the behavioural decision theory (BDT) and theory of cognitive conflict (TCC) that provides underlying predictions and justification toward the aims of this study. BDT justifies and supports the relationship between tax knowledge as well as tax complexity and tax non-compliance. Meanwhile, TCC supports the relationship between tax morale and tax non-compliance.

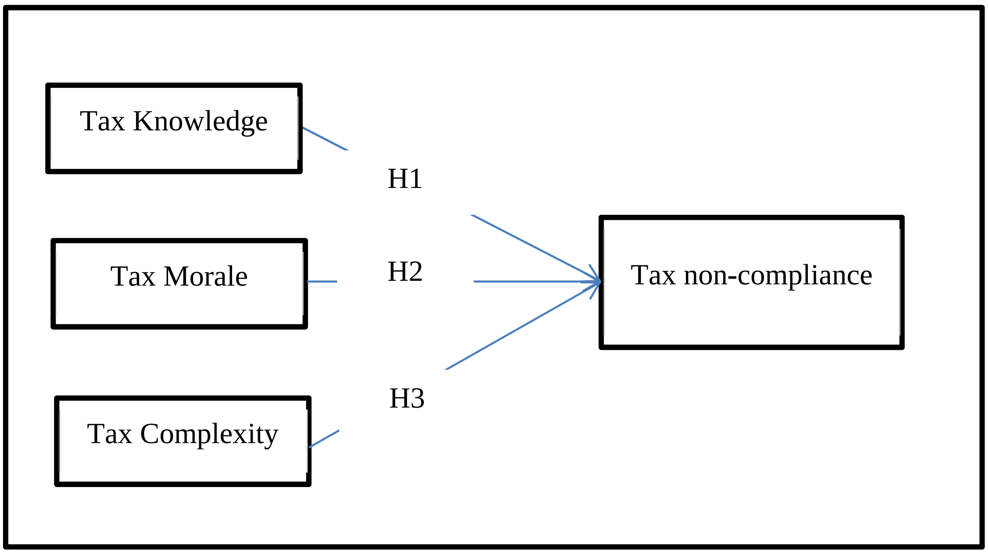

Figure 3.1
Conceptual Framework of This Study

3.3 Hypotheses Development

3.3.1 Tax knowledge and Tax Non-Compliance Behaviour

Not many studies had examined the relationship between tax knowledge and tax non-compliance behaviour especially among business income earners. In general, it is known and majority of studies are related to tax compliance (Kasipillai at el. 2003; Obid, 2004; Kirchler et al. 2006; Loo et al. 2008; Mukhlis, Utomo and Soesetio, 2015; and Oladipupo & Obazee, 2016). In these studies, it was found that tax knowledge has a significant and positive direct influence on compliance behaviour. Another study by Roshidi et al. (2007) also found that tax knowledge influences tax compliance significantly and positively, as similar result also reported by (Fallan, 1999).

Palil (2010) suggested that tax knowledge has a significant impact on tax compliance even though the level of tax knowledge varies significantly among respondents. In addition, tax knowledge is the most influential factor to determine taxpayers’ compliance behaviour under the self-assessment system (SAS) in Malaysia (Loo, 2006; Mat-Udin, 2013 and Saad, 2014).

Ajzen (2011) pointed that knowledge on a specific issue can affect behaviour related either positively or negatively depending upon the accuracy of the knowledge. Even so, Krichler et al. (2006) mention that if taxpayers have a deep knowledge of tax, they are more likely to evade taxes through aggressive tax planning in which lead to tax non-compliance. Therefore, due to lack of knowledge or no tax knowledge will effect on tax non-compliance.

Meanwhile, Palil (2010) found that the higher the tax knowledge the less likely a person will avoid taxes and will reduce the level of tax non-compliance. Hence, this study hypothesised the following:

H1*: *There is a relationship between tax knowledge and tax non-compliance behaviour of business income earners in Shah Alam.

3.3.2 Tax Morale and Tax Non-Compliance Behaviour

A study by Alm and Torgler (2006) found variety of factors affecting tax non-compliance and tax morale contributes 20% of parts that describe the behaviour of tax non-compliance of taxpayers. Previous studies focus more on the relationship between tax morale and tax compliance, rather than relation on tax morale with tax non-compliance. This statement has been supported with the previous findings such as Reckers, Sanders and Roark, (1994) who found that tax morale significantly influence tax compliance behaviour. While, Kaplan and Reckers (1985) and Hanno & Violette (1996) reported a direct relationship to morale obedience against tax compliance.

Studies by Kaplan and Reckers (1985), Ritsema et al. (2003), Obid (2004), Kirchgässner (2010) and Ahangar et al. (2011) also reported that there is a correlation between tax morale and tax compliance. Besides, another study by Torgler, Schaffner and Macintyre (2007) found that tax morale has the impact on tax compliance irrespective of which methodology is used.

Based on numerous previous studies related to tax compliance outside Malaysia, tax morale may have impact on tax non-compliance of Malaysia business income earners. Hence, this study hypothesised the following:

H2*: *There is a relationship between tax morale and tax non-compliance behaviour of business income earners in Shah Alam.

3.3.3 Tax Complexity and Tax Non-Compliance Behaviour

Complexity of the tax laws is identified as barriers to voluntary compliance and based on previous research tax complexity is one of the factors that contributes to non-compliance (Collin et al. 1992; Richardson, 2006; Kirchler et al. 2006; Zeng, 2014). According to Richardson (2006) tax complexity is the most important determinant of tax non-compliance. Whilst, study by Cox and Eger (2006) found that contributors to the increase of tax non-compliance is tax complexity procedures.

Oveson (2000) found that an increase in tax non-compliance is due to the procedural tax complexity. In addition, Kirchler et al. (2006) found that when the tax law was perceived as less complex, taxpayers were more likely to comply. Thus, in a more current study by Zeng (2014) showed that the tax law system is the most important factor that affects the participants' tax compliance behaviour.

Study by Nugent (2013), found the tax law complexity is significantly related, complex and ambiguous tax laws may give rise to greater tendency for taxpayers to non-comply than if tax laws were precise and explicit. Some researches had found a positive association between complexity and non-compliance, whether intentional or unintentional (Ritsema et al. 2003; Kaplan & Blanthorne, 2008). While another studies reviewed by Mat-Udin (2013) have found that the effect of complexity on compliance varied based "on the individual characteristics, such as income level, education level, perceptions of fairness and equity and the opportunity to evade (Slemrod, 1989)". Meanwhile, Saad (2014) reported that perceived complexity of the tax system and level of tax knowledge are the contributing factors to non-compliance behaviour among taxpayers. Hence, this study hypothesised the following:

H3*: *There is a relationship between tax complexity and tax non-compliance behaviour of business income earners in Shah Alam.

3.4 Research Design

This study has adopted a quantitative approach because it involves a large sample size that requires a distribution of structural survey instruments like questionnaires (Gall, Borg and Gall 2003). The reliability of quantitative study is more apparent as compared to qualitative study because it less bias due to less interaction with the respondent. However, the potential of bias could occur especially during the development of the questionnaire. Thus, it would be important to avoid any leading question.

The unit of analysis is individual business income earners (sole-proprietor and partners) in Shah Alam who were selected via random sampling. The questionnaires cover the independent variables i.e. tax knowledge, tax morale and tax complexity as well as the dependent variable i.e. tax non-compliance of business income earners in Shah Alam. The data collection of this study is explained in the following section.

3.5 Data Collection Procedures

The data collection procedures employed in this study is through a survey-based method in the form of a questionnaire to the respondents. Questionnaires are given by hand to the taxpayer who have business premise in Shah Alam and also to the business taxpayer who visits the Business Desk Audit and Field Audit department at the IRBM (Shah Alam Branch). A cover letter was attached with the questionnaire to explain the purpose of this study and to seek the cooperation of respondents to complete the questionnaires. Sekaran and Bougie (2016) emphasized on the usability of the questionnaire as an instrument medium when dealing with research involving many respondents. In addition, the questionnaire is also one of the most well-known data collection methods as fair results can be obtained and researchers are able to record responses from questionnaires answered easily.

Hence, a total of 500 questionnaires were distributed to the respondents. Initially, two weeks were allocated to them to return the completed questionnaire to the researcher. However, in order to increase the response rate, additional three weeks were given for the respondent to return the questionnaire before starting the analysis process.

3.6 Population and Sample Size

Zikmund, Babin, Carr and Griffin (2013) noted that a population (universe) is any complete group that share some common set of characteristics. This study focuses on sole proprietorship and partnership businesses and was conducted in Shah Alam, Selangor. This area is chosen for the study because Selangor is one of the developed states and a major contributor to the Malaysian Gross Domestic Product (GDP) which is around 22.6 percent. Based on the information obtained from the MBSA source, until 31 December 2015, all business registered (sole-proprietor and partnership) are divided based on Section (area) in Shah Alam and the total population of this study is 5,871 businesses. Table 3.1 shows the total businesses based on Section in Shah Alam.

Table 3.1
Total Number of Businesses in Shah Alam

Section	No. of Businesses
1-7	483
8-24	1,576
25-36	1,422
U1-U20	2,390
Total	**5,871**

Source: Majlis Bandaraya Shah Alam (MBSA), 2016

These groups of respondents are chosen because IRBM acknowledged that the numbers of these groups are highly involved in non-compliance behaviour and also the total number of these groups is on the rise as it is less complicated to start these types of businesses. Ideally, samples are selected so that they represent population interest (Tabachnick & Fidell, 2007). Suitable samples should be considered for generalization with the conviction of the construction being investigated.

Krejcie and Morgan (1970) suggested the ideal sample size for the population. Since the total population of this study is 5,871 business therefore, a recommended usable questionnaire responses is 361 respondents. Thus, to ensure sufficient number of usable questionnaire is achieved and taking into consideration for non-responses rate, 500 questionnaires were distributed to the targeted respondent in this study. This sample size should be considered adequate for analysis in discovering factors influencing tax non-compliance. The response rate is discussed in the next chapter.

3.7 Sampling Technique

The type of sampling technique use is random sampling technique due to time constraint and to reduce cost effectively. This sampling procedure is also guided by the ease of researcher in terms of easy access, distance and geographical position and legal permissions (Kumar, 2014). In Shah Alam, there are about 5,871 businesses but researcher only go to a few selected location especially the main hub for business in Shah Alam, such as Section 7, 13, 14, 16, 18 and 24. It is easier to distribute the questionnaires in this area because these places are the business center of Shah Alam. Therefore, business income earners can be located within these particular areas.

3.8 Questionnaire Design

The questionnaire is provided in both English and Malay languages to make it clearer and comprehensible as shown in Appendix. In order to meet the need of this questionnaire research, it is carefully designed and divided into two sections. The first section seeks demographic information (gender, age, marital status, business background, and personal taxation background) whilst the second section contains 22 items related to tax non-compliance, tax knowledge, tax morale and tax complexity. In order to ease the administrator and increase the response rate, a cover letter is provided and prepared to inform respondents on the confidentiality issue. In addition, the logo of Universiti Utara Malaysia was used in the letter to gain the respondent's trust.

As explained in the previous chapter, there are three variables chosen in this research to examine their influences on tax non-compliance namely tax knowledge, tax morale and tax complexity. These variables are measured with items that were adapted from several studies as shown in Table 3.2. A Likert scales with anchors ranging from 1 = strongly disagree to 5 = strongly agree are applied to all statements in section two of the questionnaire. The measurement items of variables are related and fall under forms of tax non-compliance such as failure to register as qualified taxpayer; failure to submit a tax return within the stipulated period, or late submission or non-submission; understatement/underreporting of income; overstatement of deductions; and failure to pay assessed taxes by the due date, or late payment or non-payment. The list of measurement items for tax knowledge, tax morale and tax complexity are shown in Table 3.2.

Table 3.2
List of Measurement Items of Variables

Variables	Items of Measurement	References	
Tax Non-compliance	• Overall, I think income tax system in Malaysia is fair.	Adopt	Ser (2013)
	• Overall, the system of tax administration in Malaysia is efficient and effective.	Adopt	Ser (2013)
	• Overall, current tax law in Malaysia is not complex.	Adopt	Ser (2013)
	• Overall, current tax system is not induces me to non-compliant.	Adopt	Ser (2013)
	• Overall, I think the amount of income tax that I have paid is too high.	Adopt	Ser (2013)
	• Overall, paying taxes is reducing my personal income.	Adopt	Ser (2013)
Tax Morale	• I would cheat on tax if I have the chance.	Adopt	Ser (2013)
	• It is NOT wrong if a taxpayer does not report all of his or her income in order to pay less income tax.	Adopt	Ser (2013)
	• I would not feel guilty if I excluded some of my income when completing my tax return.	Adopt	Mat-Udin (2013)
	• Since the supporting documents do not need to be submit to the IRBM, I can manipulate the figures in the tax return.	Adopt	Ser (2013)

Tax Knowledge	• To my knowledge, only the business income should be reported, other income such as rental and commission with small amount not need to be reported.	Adopt	Mat-Udin (2013)
	• To my knowledge, records/documents pertaining to income and expenditure NOT should be kept for a period of seven years after submission of the Tax Return.	Adopt	Mat-Udin (2013)
	• Tax must be reported and paid to the IRBM when the businesses have profit only.	Adopt	Mat-Udin (2013)
	• To my knowledge, my personal expenditure could be claim or included in the business expenditure.	Adopt	Mat-Udin (2013)
	• I do not register/ report my business income as a taxpayer to the IRBM because the profitability of my business is small or my business has just started.	Adapt	Mat-Udin (2013)
	• Responsibility to deduct the Monthly Tax Deduction (MTD) to each employee is NOT the responsibility of the business owner.	Adapt	Mat-Udin (2013)
Tax Complexity	• IRBM tax laws are too complex and change frequently.	Adopt	Mat-Udin (2013)
	• I think the **TERMS** used in tax publication (eg. IRBM guide books/note) and in tax return forms are difficult and burden to understand.	Adopt	Saad (2011)
	• The rules and regulations to file tax return form is complicated and burdensome.	Adopt	Saad (2011)
	• I have problem with completing and filing the income tax return form (ITRF).	Adopt	Saad (2011)
	• I think it is difficult to keep all records relating to the year for tax purposes.	Adopt	Saad (2011)
	• My businesses need to pay double taxation of income tax and Good & Service Tax (GST).	Adapt	Kasipillai & Krever (2016)

3.9 Data Analysis Technique

The data collected in this study was analyzed using the Statistical Package for the Social Science (SPSS) version 20.0. Descriptive analysis provides a summary of the information collected from the respondents including its mean and standard deviation. The researcher also analyzed the data using multiple regression analysis to see whether there is a relationship between the independent variables and dependent variable and to decide whether the hypotheses could be accepted or rejected.

3.10 Pilot Test

Pilot test needs to be carried out before distributing questionnaires to larger scale respondents and to ensure the research is successfully conducted (Teijlingen and Hundley, 2001). Pilot test is also aims to increase and improve the weakness of the questionnaire before being distributed to respondents so that it becomes clear, accurate and reach the required quality level. According to Connelly (2008), extant literature suggests that a pilot test sample should be 10% of the sample projected for the larger parent study. However, Hertzog (2008) cautions that this is not a simple or straight forward issue to resolve because these types of studies are influenced by many factors. Nevertheless, Isaac and Michael (1995) suggested 10 – 30 participants; Hill (1998) suggested 10 to 30 participants for pilots in survey research; Julious (2005) in the medical field, and van Belle (2002) suggested 12; Treece and Treece (1982) suggested 10% of the project sample size. Therefore, researchers believed that 10 would be a minimum number of respondents in the pilot test and 30 might be considered as maximum number of respondents. Therefore, a pilot test has been carried out with 22 respondents who have their on-going business in Section 7, 13, 14, 16, 18 and Section 24 in Shah Alam. The results of pilot test are presented the next section.

3.10.1 Reliability Test

The reliability test is performed to ensure that the variables does provide consistent results and were error free. One of the methods to test for the reliability is through Croanbach's Alpha. Croanbach's Alpha can be explained as a correlation coefficient that ranges from 0 to 1. Thus, coefficient which is closer to 1 indicates the best result. If the result is below than 0.6, it indicates lower reliability and some items need to be deleted to improve the coefficient value. The summary of reliability analysis for each construct is shown in Table 3.3.

Table 3.3
The Instruments' Reliability Coefficients

	Construct	Number of items	Cronbach's Alpha
1	Tax Non-Compliance	6	0.810
2	Tax Morale	4	0.895
3	Tax Knowledge	6	0.744
4	Tax Complexity	6	0.849

In conclusion, the Croanbach's Alpha value for each constructs ranging from 0.744 to 0.895. Since the Croanbach's Alpha value of all constructs is more than 0.6, no items were deleted because the value falls within the acceptable level.

3.10.2 Descriptive Analysis

Descriptive analysis is used to determine frequency and mean score of every single item in demographic factors in order to summarize the population and sample studies. It will change the raw data into a set of information in describing a set of factors under the situation. The mean and standard deviation of the data collected is also presented in descriptive analysis. According to Hair, Black, Babin, Anderson and Tatham (2010), the spread or variability of the sample values from the mean will be explained by the standard deviation. If the value of standard deviation is high, the reaction in a sample distribution of number will fall away from the mean and opposite reaction would occur if the standard deviation is small, where the sample distribution of number will fall closer to the mean.

3.10.3 Simple Regression Analysis

As mentioned by Zikmund, Babin, Carr and Griffin (2013), simple linear regression is a liner regression model with a single predictor. Hence, it only involved one independent variable and one dependent variable. This analysis is used in this study to identify tax non-compliance by individual business income earners.

3.10.4 Multiple Regression Analysis

Next in order to analyze and test the significant relationship between dependent variable and independent variables, the method of multiple linear regression analysis is used. Multiple regression analysis is an extension of simple regression analysis allowing a metric dependent variable to be predicted by multiple independent variables (Zikmund et al. 2013). Multiple regression analysis is used in this study to analyze the influence of the independent variables on dependent variable.

3.11 Summary

This chapter discusses the research methodology of this study. The conceptual framework and research hypotheses development of this study are explained accordingly. In addition, data collection, questionnaire design, variables measurement and pilot test are also discussed. The population of the study, sample size and sampling technique are also covered. Finally, this chapter explains techniques of data analysis.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the analysis of the respondents' responses based on the data gathered from the completed questionnaires. The analysis describes the response rate, respondents' profile, data screening and results for descriptive statistics, followed by reliability test, factor analysis and regression analysis. The SPSS software (version 20) was employed to carry out the analysis.

4.2 Response Rate

Data of the current study was collected from business income earners who are registered with the MBSA by using questionnaire. There were 423 returned questionnaires out of 500 questionnaires distributed. From the 423 returned questionnaires, 13 were disqualified because they were not business income earners or a taxpayer. Another 82 questionnaires were returned but incomplete. The response rate is shown in Table 4.1.

Table 4.1
Response Rate

	Number	**%**
Questionnaires Distribute	500	100
Questionnaires Returned	423	84.6
(-) Disqualified Questionnaires	(13)	2.60
(-) Incomplete Questionnaires	(82)	16.4
Usable Questionnaire	328	65.6

The literature suggests that a response rate of at least 50% is adequate for analysis and reporting, and that a response rate of 60% is good and a response rate of 70% is classified as very good (Babbie, 2007; Grove, 2006), thus it can be concluded that a response rate of 65.6% for this study is good for analysis and reporting.

4.3 Respondents' Profile

The respondent profile is categorized into gender, age, marital status, education level, business ownership status, type of business, business operating period, business performance for the past three years, registered taxpayer status and the person who filled tax return form. The profiles of the respondents are shown in Table 4.2.

Table 4.2
Respondents Profile (n=328)

Variables	Frequency	Percentage (%)
Gender		
Male	211	64.3
Female	117	35.7
Total	**328**	**100**
Age		
≤ 25	11	3.4
26-35	43	13.1
36-45	138	42.1
46-55	117	35.7
Above 55	19	5.8
Total	**328**	**100**
Marital Status		
Single	45	13.7
Married	276	84.1
Divorced	7	2.1
Total	**328**	**100**
Highest level of Education		
SPM	110	33.5
STPM	14	4.3

Diploma	64	19.5
Undergraduate	92	28
Postgraduate	40	12.2
Doctorate	8	2.4
Total	**328**	**100**
Business ownership		
Sole proprietor	305	93.6
Partnership	21	6.4
Total	**326**	**100**
Type of Business		
Manufacturing	0	0
Whole sale and retail	239	72.9
Professional services	78	23.8
Construction and real estate	0	0
Transportation	11	3.4
Total	**328**	**100**
Business operating period		
1-5 years	153	46.6
6-10 years	108	32.9
More than 10 years	67	20.4
Total	**328**	**99.9**
Performance in 2015		
Profit	241	75.5
Loss	78	24.5
Total	**319**	**100**
Performance in 2014		
Profit	256	79.8
Loss	65	20.2
Total	**321**	**100**
Performance in 2013		
Profit	244	75.5
Loss	79	24.5
Total	**323**	**100**
Registered tax payer		
Yes	249	77.6
No	72	22.4
Total	**321**	**100**
Filing of tax return		
Myself	107	34.2
Spouse	30	9.6
Tax Agent	152	48.6
Friend	9	2.9
Others	15	4.8
Total	**313**	**100**

Out of 328 respondents, 211 of them were male (64.3 percent) and the balance of 117 were female (35.7 percent). From the 328 respondents, the highest age groups are between 36 to 55 years old (77.8 percent) followed by 26 to 36 years old (13.1 percent), above 55 years (5.8 percent) and the balance (3.4 percent) of the respondents are less than 26 years old. In terms of the level of education, majority of the respondents are SPM holders (33.5) percent followed by undergraduate (28 percent). Diploma holders, postgraduate and STPM holders make up 19.5 percent, 12.2 percent and 4.3 percent respectively. The balances of 2.4 percent are doctorate holders (8 respondents).

For marital status, 84.1 percent of the respondents are married, followed by single status of respondents of 13.7 percent and the remaining 2.1 percent comprise other marital status, i.e., divorced. Business ownership the majority of the respondents (305 respondents/ 93.6 percent) are sole proprietor followed by partnership (21 respondents/ 6.4 percent).

For category type of business, 72.9 percent of the respondents run their businesses as wholesaler or as retailers. Followed by professional services with 23.8 percent respondents and transportation with 3.4 percent respondents. However, no respondents had businesses either in manufacturing, construction or in real estate. In term of business operating period, 1-5 years is the highest respondents with 46.6 percent. Next, 6-10 years with 32.9 percent and last of 20.4 percent are more than 10 years.

Next, for business performance over the past three years (2013 to 2015), year 2014 records showed respondents had the highest profit of 79.8 percent, while some 20.2 percent of the respondents made a loss. For year 2013 and 2015, respondents posted 75.5 percent profit and the balance of 24.5 percent of respondents faced losses for both years. Regarding registration as taxpayer, out of 328 respondents, only 249 (76 percent) respondents did register~~ed~~ and the remaining of 72 (24 percent) respondents did not register yet.

Finally the category for filing of tax return, 48.6 percent of the respondents have requested their tax agents to do it on their behalf , 34.2 percent of respondents registered on their own, followed by repondents's spouse 9.6 percent and the balance of 2.9 percent were done by respondents friends.

According to Sekaran & Bougie (2013) if 25% and more of the questionnaire is not answered, discard it but it is important to report this in final report. However, if less than 25% it is necessary to decide whether to assign mid-point number (if interval scale), ignore the blank response (assign missing value) and assign the items the mean value. For the purpose of this study, due to some missing responses in the first section of the questionnaire (i.e. demographic information) is less than 25% thus, the missing responses were ignored. In addition, the respondent profile is not included as independent and dependent variables in this stud, it is just to inform about the background of respondents involved in answering the questionnaires. Therefore, the results of this study were not affected by the missing responses in the demographic section.

4.4 Recode Process

Recode process used in this data analysis is aimed at obtaining new results from the original data modification so that the results are in line with the original purpose of this study. Recode is implemented at the level of reliability test so that the value of Cronbach's alpha is a coefficient. Then it affects the validity test results performed at the factor analysis. Recode is very important as it affects the final result in the Multiple Regression part as the independent variables tested affect dependent variables in terms of positive or negative; significant or insignificant. Recode is also important for determining certain items of independent variables to be dropped because they do not directly affect dependent variables.

In this study, there are four variables i.e. tax non-compliance, tax knowledge, tax morale and tax complexity. For tax non-compliance, there are 6 items in total and only item one to four have been recorded, while item five and six are retained. For tax morale and tax knowledge, consisting of four items and six items respectively and all of them have been recoded while tax complexity variable required no recoded.

4.5 Outlier Detection

Outlier detection is another essential step in data screening process which has high influence on the result of any statistical data analysis. Hence, the use of any multivariate technique calls for the identification and treatment of outliers in the response (Hair et al., 2010; Meyers, Gamst & Guarino, 2006). The outlier can be detected using Mahalanobis distance examined through Boxplot

(Pallant, 2013). The Mahalanobis distance is examined and interpreted using a $p < 0.001$ and the corresponding χ^2 value with the degrees of freedom equal to the number of variables (Tabachnick & Fidell, 2007). In this study, it was observed that all values are $p>0.001$. Therefore, in this study, no outlier case was detected in the data collected.

4.6 Normality Test

Normality is the fundamental assumption for multivariate techniques, such as multiple regressions, and it is indicated by the shape of the distribution of the data for an individual metric variable. Hair, Anderson, Tatham and Black (2006) stated that normality is the benchmark for statistical approaches.

There are many ways to test the normality of data distribution. One of these is Normal Q-Q plot in which data that has achieved normal distribution on a normal probability plot will align the plots in a straight line (Coakes & Steed, 2009) as shown in Figure 4.1. Also, confirmed by visual inspection of the histogram of the same data shown in Figure 4.2.

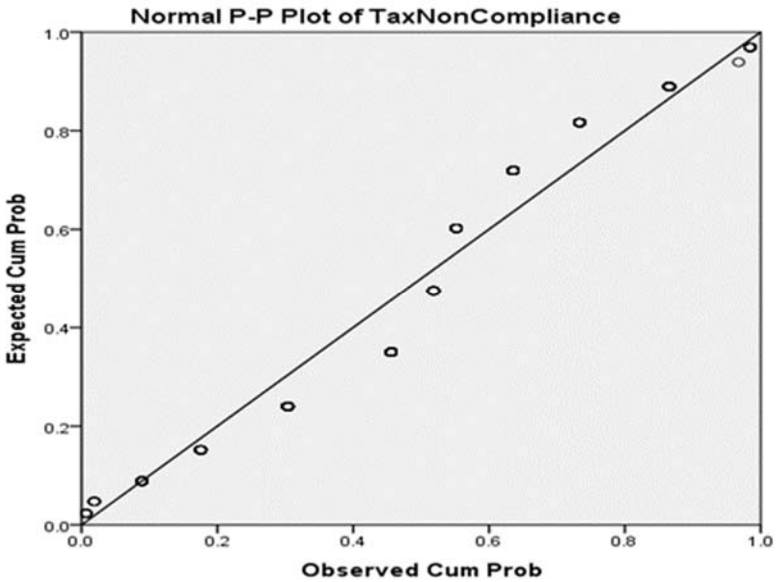

Figure 4.1
Observed value Normal Q-Q Plot (SPSS output)

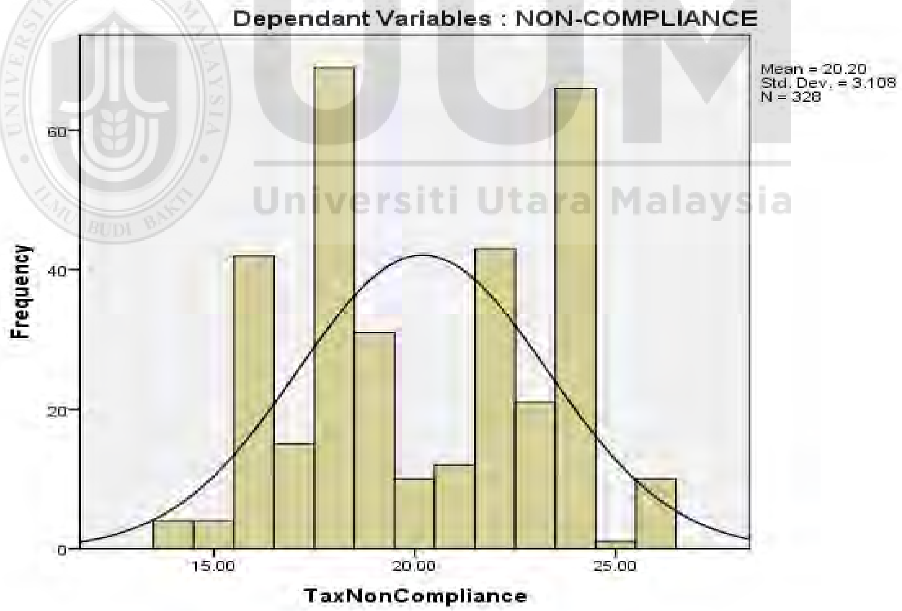

Figure 4.2
Histogram with Normal Curve Plot (SPSS output)

Many researchers have described the shape of the data distribution using skewness and kurtosis normality tests is an indicator that shows to what extent distribution of data leans from the centre (symmetry) around the mean

(George & Mallery, 2006). According to Hair et al. (2006), values of skewness that are outside the range of +1 to -1 imply a substantially skewed distribution. In this study, the skewness values were investigated and it was found that all variables are within the +1 to -1 limit.

Kurtosis is a test of flatness or peakedness of data distribution. Negative values for kurtosis refer to shapes flatter than normal while the positive values for kurtosis refer to the data distribution being more peaked than normal (George & Mallery, 2006). Similar to skewness measurements, kurtosis is considered as being within a normal range if it computes anywhere between +1 to -1 (George & Mallery, 2006). However, Coakes and Steed (2009) recommended that kurtosis is acceptable at a range of +3 to -3. Kurtosis for the data of this study was investigated and found that all variables are within the +3 to -3 limit. On the basis of the results of the statistical and graphical assessments of the data distribution, normality of this study's data was assumed. Table 4.3 illustrates the skewness and kurtosis of each variable of this study.

Table 4.3
Summary of Skewness and Kurtosis Value of the Variables

Variables	**Skewness**		**Kurtosis**	
	Statistic	**Std. Error**	**Statistic**	**Std. Error**
TaxNonCompliance	0.055	0.135	-1.275	0.268
TaxMorale	-0.051	0.135	0.108	0.268
TaxKnowledge	-0.011	0.135	-0.552	0.268
TaxComplexity	0.173	0.135	-0.563	0.268

4.7 Multicollinearity

Multicollinearity exists when independent variables are strongly correlated with each other. An extreme case of multicollinearity exists when two or more variables are perfectly interrelated which is also known as singularity. Multicollinearity appears when any individual predictor variable is highly correlated with another group of predictor variables (Mayer, 1999). In examining for any multicollinearity effects, the act of the tolerance and its inverse which is the variance inflation factor (VIF) is used. As explained by Hair, Sarstedt, Ringle, and Mena (2012); and Sekaran and Bougie (2013), to determine whether or not this effect occurs, the average points for the tolerance value must be greater than 0.10, or the VIF value should not exceed 10.

Based on the multiple regression analysis as illustrated in Table 4.4, the results show that the tolerance values range between 0.446 to 0.645; and the VIF value ranges from 1.550 to 2.244. The values indicate that the tolerance value is substantially greater than 0.10 and the VIF is less than 10. Thus, it can be concluded that there is no multicollinearity among the variables of this study (Hair et al. 2012).

Table 4.4
Test for Multicollinearity on Assessment of Tolerance and VIF Values

Model		Tolerance	VIF
	Tax knowledge	0.446	2.244
1	Tax morale	0.626	1.597
	Tax complexity	0.645	1.550

a. Dependent Variable: Tax non-compliance

4.8 Descriptive Statistics

The use of descriptive statistics involves the measures of central tendency and frequencies, such as mean, median, range, variance and standard deviation (Vogt, 2007). Further, Vogt (2007) stated that descriptive statistics helps to summary large data with one number as well as explains the characteristics of a relationship with table and graphical approaches.

In order to examine the relationship of each of the variables (dependent and independent), descriptive statistics, such as mean and standard deviation, were used as a way of clarification. The items in each variable were measured on a Likert scale of 1 to 5, where response of 1 indicated disagreement, while a response of 5 indicated agreement to the statement. Values nearer to five are favourable, while values close to zero were considered unfavourable. A score equal to or more than four shows a high agreement with particular criterion; a score equal to or less than two is considered as low, and mean score of three is considered as moderate agreement. The descriptive statistics analysis of the data is illustrated in Table 4.5

Table 4.5
Tax Non-Compliance (n=328)

No.	Variables	Min	Max	Mean	Std. Deviation
	Tax Non-compliance				
1	Overall, I think income tax system in Malaysia is fair.	2	5	3.63	0.684
2	Overall, the system of tax administration in Malaysia is efficient and effective.	2	4	3.34	0.677
3	Overall, current tax law in Malaysia is not complex.	1	5	2.83	0.891
4	Overall, current tax system is not induces me to non-compliant.	2	4	3.15	0.870
5	Overall, I think the amount of income tax that I have paid is too high.	2	5	3.47	0.881
6	Overall, paying taxes is reducing my personal income.	3	5	3.78	0.705

As shown in Table 4.5, except item no.3, the mean of all items are above 3.0. The highest mean score is item 6 (3.78); respondents believe that paying taxes had an impact of reducing their personal income. The lowest mean score is item 3 (2.83), whereby respondents tend to disagree that current tax law in Malaysia is not complex. Analysis on items 1 to 4, responses shows that tax non-compliance is low. Therefore items 1 to 4 will be recoded, while items 5 and 6 are retained. The results of the recoded analysis will be discussed further. Based on mean result above show that tax non-compliance is perceived exist in Malaysia.

Table 4.6
Tax Morale (n=328)

No	Variables	Min	Max	Mean	Std. Deviation
	Tax Morale				
1	I would cheat on tax if I have the chance.	1	3	2.23	0.541
2	It is NOT wrong if a taxpayer does not report all of his or her income in order to pay less income tax.	1	3	2.00	0.606
3	I would not feel guilty if I excluded some of my income when completing my tax return.	1	3	2.15	0.491
4	Since the supporting documents do not need to be submit to the IRBM, I can manipulate the figures in the tax return.	1	4	2.27	0.666

For tax morale mean score as shown in Table 4.6. All items are less than 3. Generally, have disagreement in all statement. The highest mean value is 2.27. Furthermore, the lowest mean score of tax morale variable is 2.00, whereby respondents highly disagree, it is not wrong if a taxpayer does not report all of his or her income in order to pay less income tax. On the whole, the overall mean value of tax morale is 2.16. The higher the score in this variable, which means tax non-compliance is low. Conversely, the lower score in this variable means tax non-compliance is high. For easy interpretation later, the responses on the four items were reverse coded and their means were computed and be used in further analysis.

Table 4.7
Tax Knowledge (n=328)

No	Variables	Min	Max	Mean	Std. Deviation
	Tax Knowledge				
1	To my knowledge, only the business income should be reported, other income such as rental and commission with small amount not need to be reported.	1	5	2.13	0.715
2	To my knowledge, records/documents pertaining to income and expenditure NOT should be kept for a period of seven years after submission of the Tax Return.	1	4	2.12	0.733
3	Tax must be reported and paid to the IRBM when the businesses have profit only.	1	4	2.29	0.891
4	To my knowledge, my personal expenditure could be claim or included in the business expenditure.	1	4	2.40	0.832
5	I do not register/ report my business income as a taxpayer to the IRBM because the profitability of my business is small or my business has just started.	2	4	2.37	0.622
6	Responsibility to deduct the Monthly Tax Deduction (MTD) to each employee is NOT the responsibility of the business owner.	2	4	2.25	0.482

In terms of tax knowledge, the mean values for all the items are less than 3, meaning that there are disagreements in all statement. The highest mean score is 2.40; based on respondents knowledge they disagreed that personal expenditure could be claim or included in the business expenditure. The lowest mean value is 2.12, whereby based on respondents knowledge, they know that records/documents pertaining to income and expenditure should be kept for a period of seven years after submission of the tax return form. For easy interpretation, the responses on the six items were reverse coded and their means were computed and to be used in further analysis.

Table 4.8

Tax Complexity (n=328)

No	Variables	Min	Max	Mean	Std. Deviation
	Tax Complexity				
1	IRBM tax laws are too complex and change frequently.	2	5	3.00	0.794
2	I think the TERMS used in tax publication (eg. IRBM guide books/note) and in tax return forms are difficult and burden to understand.	2	5	3.37	1.026
3	The rules and regulations to file tax return form is complicated and burdensome.	2	5	3.02	0.863
4	I have problem with completing and filing the income tax return form (ITRF).	2	5	2.67	0.929
5	I think it is difficult to keep all records relating to the year for tax purposes.	2	5	3.24	0.999
6	My businesses need to pay double taxation of income tax and Good & Service Tax (GST).	1	5	3.84	0.815

In Table 4.8, in terms of tax complexity, the responses mean shown values for all the items are more than 3, except item 4. Hence, generally, there is agreement in this statement. The highest mean score is 3.84; respondents perceive that-businesses need to pay double taxation of income tax and Good & Service Tax (GST). The lowest mean value is 2.67, whereby respondents have problem with completing and filing the income tax return form (ITRF). The higher score means that respondents agreed that tax is a complex matter and this induces to tax non-compliance. On the other hand, the lower the score means that respondent perceived tax is not complex and compliance is good.

4.9 Reliability Test

Reliability analysis or reliability test is being carried out in this study using Statistical Package for Social Science (SPSS) software. The purpose of this test is to find out the reliability of the items measuring each variable; tax non-compliance, tax morale, tax knowledge and tax complexity.

The reliability of the items depends on its stability and consistency in measuring the concepts of the study (Sekaran & Bougie, 2016). Reliability is measured from Cronbach's Alpha coefficient value. If the coefficient value is high, it indicates higher reliability and vice versa. As a rule of thumb, the coefficient value of 0.7 and above is adequate as it reflects higher reliability (Sekaran & Bougie 2016; Hair et al. 2010).

In this study, tax non-compliance is the only dependent variable (DV) and there are three independent variables (IV). All the variables form a constructs and it need to be tested for reliability. As shown in Table 4.9, findings show that reliability levels are satisfied for all variables. The values of Cronbach Alpha in the range of 0.734 to 0.841 have exceeded the rule of thumb of 0.7. This result showed that the respondent's answers are highly consistent and the items used in this study to measure the variables can be considered good.

Table 4.9
Reliability Analysis of Variables (n= 328)

Variables	No. of items	Cronbach's Alpha
Tax Non-compliance	6	0.734
Tax Morale	4	0.872
Tax Knowledge	6	0.812
Tax Complexity	6	0.841

4.10 Factor Analysis

Factor analysis is one of the statistical methods to determine the variability among particular factors, and also to minimise a large number of related factors to a more manageable number (Pallant, 2007). By using principal axis factor analysis with varimax rotation, the analysis was conducted to extract all the four variables, i.e. tax non-compliance, tax morale, tax knowledge and tax complexity and all variables need to be reverse code for this analysis.

As presented in Table 4.10, the data matrix examination indicates that the factor analysis application on the three variables is fit since the Kaiser-Meyer-Olkin (KMO) value for tax morale is 0.643 and tax complexity is 0.620, with variance explained ranging between 63.7% and 83.4%. The value of KMO that was higher than 0.50 is acceptable (Hair et al. 2010). However, KMO value for tax non-compliance and tax knowledge is not in the acceptable range thus, one of the items under tax non-compliance (i.e. item 1) and three of the item under tax knowledge (i.e. item 3, item 5 and item 6). These items needs to be eliminated (dropped) because of low factor loading (below 0.5) and did not fit into the factor model. After such items are eliminated, the new value of KMO's decision is 0.558 and 0.621 for tax non-compliance and tax knowledge respectively, with variance explained ranging between 79.62% and 63.79%. The values of KMO for these construct fall under the acceptable range as recommended by Hair et al. (2010). The above process explains the value of KMO for each items under each variables is fit with the model and it is found that all the items exceed the value of 0.50.

In addition, the value of KMO for each variable also needs to be tested to ensure each variables combines, so that it fits into the model. Results of KMO values for each variables KMO measure of sampling adequacy value was 0.555, exceeding the recommended value of 0.50 (Hair et al. 2010), while Bartlett's test of sphericity was 427.842, which was also found to be significant (p= 0.000).

Table 4.10
Factor Analysis (n= 328)

Variables	**No of Items**	**No of Factors**	**KMO**	**Variance Explained (%)**
Tax Non-Compliance	5	1	0.558	79.62
Tax Morale	4	1	0.643	74.73
Tax Knowledge	3	1	0.621	63.79
Tax Complexity	6	1	0.620	83.42

4.11 Simple regression analysis

As mentioned by Zikmund et al. (2013), simple linear regression is a liner regression model with a single predictor. Hence, it only involved one independent variable and one dependent variable.

Table 4.11
Pearson Correlations Matrix

Variable	Tax non-compliance	Tax Knowledge	Tax Morale	Tax Complexity
Tax non-compliance	1			
Tax Knowledge	-0.350**	1		
Tax Morale	-0.568**	0.538**	1	
Tax Complexity	0.523**	-0.534**	-0.288**	1**

**. Correlation is significant at the 0.01 level (2-tailed).

As presented in Table 4.11, the result of the correlation conducted on the three independent variables shows they are significant in mixed result (positively and negatively) correlated with tax non-compliance. Table 4.11, shows that only tax complexity tax are correlated positively with tax non-compliance at 0.523 and significant at the 0.01 level. On the other hand, correlations between tax knowledge and tax morale with tax non-compliance are negative at -0.350 and -0.568 respectively and significant at the 0.01 level.

While, correlation between tax knowledge and tax morale are positively at 0.538 and significant. However, weak correlation between tax knowledge and tax morale variables with tax complexity variable. Overall, the result of the correlation analysis suggests that there is a fair degree of linear relationships among the variables of the study.

4.12 Multiple Regressions

Multiple linear regression is the most common form of linear regression analysis. As a predictive analysis, the multiple linear regression is used to explain the relationship between a dependent variable and two or more independent variables. The major used of multiple regressions is to identify the strength of the effect that the independent variables have on a dependent variable. R-squared (R^2) is a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determinations for multiple regression. The definition of is fairly straight-forward; it is the percentage of the response variable variation that is explained by a linear model or:

R^2 = Explained variation / Total variation
R^2 is always between 0 and 100%:

- 0% indicates that the model explains none of the variability of the response data around its mean.
- 100% indicates that the model explains all the variability of the response data around its mean.

The regression result as presented in Table 4.12, shows that adjusted R^2 = 0.479, which indicates that the predictor variables, i.e., tax knowledge, tax morale and tax complexity explain 47.9% of the variance in dependent variable i.e. tax non-compliance behaviour of business income earners in Shah Alam.

Table 4.12
Summary of the Regression Model (n= 328)

Model Summary[b]				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.695[a]	0.483	0.479	1.38595

a. Predictors: (Constant), Tax Knowledge, Tax Complexity, Tax Morale
b. Dependent Variable: Tax Non-compliance

Table 4.13 exhibits the multiple regression analysis results which show that all independent variables are significant at 1% level with p-value of 0.000 in explaining the model ($p<0.01$). The results show a significant positive relationship between tax knowledge and tax non-compliance. On the other hand, the results show a significant negative relationship between tax morale and tax non-compliance while the results of tax complexity shows a significant positive relationship with tax non-compliance.

Table 4.13
Multiple Regressions Analysis

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	17.403	0.965		18.031	0.000
	Tax Knowledge	0.200	0.057	0.188	3.510	0.001
	Tax Morale	-0.521	0.046	-0.535	-11.287	0.000
	Tax Complexity	0.222	0.022	0.470	9.939	0.000

a. Dependent variable: Tax Non-compliance

4.13 Hypotheses Testing

For the purpose of this study, three hypotheses were developed to examine the relationship between the independent variables (tax knowledge, tax morale and tax complexity) and dependent variable (tax non-compliance). Hence, the hypotheses of the study were tested as follows:

Hypothesis 1: There is a relationship between tax knowledge and tax non-compliance behaviour of business income earners in Shah Alam.

Table 4.13 shows that tax knowledge is positively associated with tax non-compliance at 1% significant level (p=0.001) thus, confirms that there is a relationship between tax knowledge and tax non-compliance behaviour of business income earners in Shah Alam. The regression result shows that Hypothesis 1 is supported.

Hypothesis 2: There is a relationship between tax morale and tax non-compliance behaviour of business income earners in Shah Alam.

Table 4.13 also shows that tax morale is negatively associated with tax non-compliance at 1% significant level (p=0.000) thus, confirms that there is a relationship between tax morale and tax non-compliance behaviour of business income earners in Shah Alam. The regression result shows that Hypothesis 2 is supported.

Hypothesis 3: There is a relationship between tax complexity and tax non-compliance behaviour of business income earners in Shah Alam.

Table 4.13 shows that tax complexity is positively associated with tax non-compliance at 1% significant level (p=0.000) thus, confirms that there is a relationship between tax complexity and tax non-compliance behaviour of business income earners in Shah Alam. The regression result shows that Hypothesis 3 is supported.

4.14 Summary of Findings

The results of the hypotheses testing indicate that the regression results documented in Table 4.13 support all hypotheses of this study (H1, H2, & H3). The summary of the hypotheses findings is presented in Table 4.14.

Table 4.14
Summary of Findings

Hypothesis	Statement	Findings
H1	There is a relationship between tax knowledge and tax non-compliance behaviour of business income earners in Shah Alam.	Supported
H2	There is a relationship between tax morale and tax non-compliance behaviour of business income earners in Shah Alam.	Supported
H3	There is a relationship between tax complexity and tax non-compliance behaviour of business income earners in Shah Alam.	Supported

4.15 Summary

In this chapter, the data of the study are analysed and presented by using statistical tools. The chapter starts by reporting the response rate and descriptive analysis. Also, reliability test was conducted to ensure the reliability of data in this study. Factor analysis was used to test the correlation of the data in the study using KMO and Bartlett's test of Sphericity. Finally, the findings of the Pearson correlation and multiple regressions analysis were used to test the acceptability of the hypotheses.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter summarises and discusses the research findings based on the research questions and research objectives. It begins with a recapitulation of the study, which discusses the findings and provides a summary of this study. Further, the significance of the findings in terms of theoretical and practical implications to policymakers and other stakeholders is presented. Finally, the study provides limitations and recommendations as well as conclusion of the study.

5.2 Recapitulation of the Study

This study examines the factors i.e. tax knowledge, tax morale and tax complexity that influence tax non-compliance behaviour of business income earners in Shah Alam. As presented in chapter four, out of the 500 questionnaires distributed to sole-proprietors and partners, 423 were returned by respondents (84.6%). Out of the total of 423 returned questionnaire, 13 were disqualified and another 82 questionnaires returned with incomplete feedback. Thus, leaving 328 completed and usable questionnaires for analysis.

The findings of this study indicate that the explanatory power of tax non-compliance by the three independent variables is 47.9%, which means that tax non-compliance model is appropriate to highlight the factors that influence the tax non-compliance behaviour among the business income earners in Shah

Alam. Specifically, the results of this study show that all factors have a significant effect on tax non-compliance behaviour. The discussion on the hypotheses developed in this study are presented as follows:

Hypothesis 1: As mentioned in chapter four, the findings presented in Table 4.13 indicate that there is a relationship between tax knowledge and tax non-compliance behaviour of business income earners in Shah Alam. The result showed a positive and significant relationship between these two variables.

Previous studies were more focussed on the relationship between tax knowledge and tax compliance, rather than the relationship of tax knowledge and tax non-compliance. The results of previous studies found that tax knowledge and tax compliance have positive and significant relationship (Oladipupo & Obazee, 2016; Mukhlis et al. 2015**;** Loo, 2006; Loo et al. 2008; Kasipillai & Jabbar, 2006; Kirchler et al. 2006 and Obid, 2004).

However, this research findings also show a positive and significant relationship between tax knowledge and tax non-compliance. The results of this study are supported by Krichler et al. (2006), that taxpayers who have tax knowledge, they are also more likely to be tax non-compliance. This is because taxpayers who possess tax knowledge might become more aggressive in tax planning. They will try to manipulate and misinterpret tax legislation and hence intent to reduce tax payments or refuse to pay taxes. The results of this study indicate that although businesses income earners in Shah Alam possess tax knowledge, they are still involved with non-compliance activities as they know the strategy to avoid from paying tax.

Hypothesis 2: The second hypothesis proposed that there is a relationship between tax morale and tax non-compliance behaviour of business income earners in Shah Alam.. The result shows a negative and significant relationship between the two variables.

This finding is similar with the findings in the previous researches such as studies that reported a direct relationship of morale obedience against tax non-compliance (see Kaplan and Reckers, 1985; Ritsema et al. 2003; Obid, 2004; Kirchgässner, 2010; Ahangar et al. 2011). This indicates that tax morale affects tax non-compliance; whereby the lower tax morale increases the level of tax non-compliance among taxpayers and taxpayers are more likely not to pay taxes with induce to more tax evasion activities. Conversely, if the tax morale is higher, then the level of tax non-compliance would be reduced as taxpayers will voluntarily comply with tax requirements.

The results of this study show that tax morale affects the business income earns on tax non-compliance activities in Shah Alam. Therefore, it is important to increase the tax morale level of business income earners to reduce tax non-compliance level among of business income earners in Shah Alam.

Hypothesis 3: The third hypothesis proposed that there is a relationship between tax complexity and tax non-compliance behaviour of business income earners in Shah Alam. The results show that there is a positive and significant relationship between tax complexity and tax non-compliance.

The result of this study is in line with previous studies that have found a positive significant relationship between the tax complexity and tax non-compliance, such as Oveson (2000); Ritsema et al. (2003); Kirchler et al. (2006); Blanthorne & Kaplan (2008) and Mat-Udin (2013); Nugent (2013); Zeng (2014).

This indicates that tax complexity affects tax non-compliance behaviour; whereby the level of tax complexity increases the level of tax non-compliance among business income earners. However, if the level of tax complexity is low, then the level of tax non-compliance would be reduced as taxpayers will be more compliant to tax requirements. Therefore, high level of tax non-compliance among business income earners in Shah Alam is due to the complexity in taxation matters.

5.3 Theoretical Implications of the Study

The literature review has evidenced that tax non-compliance is an on-going issue and increasingly contagious and seem unresolved not only in Malaysia, but also a major problem faced by tax authorities worldwide. Various perspectives and factors have been studied which affect tax non-compliance in order to find solution or at least to reduce the gap of tax non-compliance, however it is still persistent. This study contributes to the body of knowledge specifically in the area of tax non-compliance by providing empirical evidence on the relationship between tax knowledge, tax morale as well as tax complexity and tax non-compliance behaviour of business income earners in Shah Alam.

Tax researchers agreed that generally taxpayers attitude and intentions concerning non-compliance were directly reflected in taxpayer subsequent behaviour (Jackson and Miliron, 1986). This study suggests that behavioural decision theory and theory of cognitive conflict are suitable to explain the change in responsibilities that the taxpayers faced with the implementation of SAS in Malaysia. SAS operates on knowledge oriented basis whereby taxpayers are assumed to possessed necessary knowledge in taxation to perform the required responsibilities. With the implementation of SAS, taxpayers face new environment and challenges i.e. tax complexity. Therefore, they need to possess sufficient and up to date tax knowledge in order to perform the responsibilities and handling tax complexity successfully.

Generally, the findings of this study are of importance to academics, professionals and researchers as well as students in taxation. The findings provide an additional outlook to understand tax non-compliance and its determinants especially among business income owners in Malaysian context. Additionally, this study is valuable to

5.4 Practical Implication of the Study

The findings of this study is valuable to the IRBM in administering more effectively and efficiently tax matters of business income earners who can potentially make significant contributions to the portion of Government revenue. As such, this study recommends that the IRBM plays a more proactive role to encourage and educate taxpayers of this group by enhancing their knowledge in taxation. In addition, the findings of the study show the need for the government to develop and implement more stringent enforcement strategies to combat tax non-compliance and improve the tax collection system. It is believe that that the more knowledgeable the taxpayers the lesser tax non-compliance problems to be faced by the Government as McGee and Lingle (2006) stressed that the level of education and awareness as well as the strict and effective measures put in place by tax authorities, the non-compliance attitude was less or minimal.

Based on the above discussions, all parties, including the IRBM need to design and implement a robust strategy to increase trust and accountability of taxpayers on taxation. Among the measures that can be taken is to give exposure and knowledge on an ongoing basis on the importance and benefit of the taxpayer's tax. The organization of informative and modernised seminars, lectures and workshops will help increase the knowledge of taxpayers and make them feel more comfortable with their contribution of tax payments which will eventually assist to increase their standard of living and enable the Government's development agenda.

The results of this study also assist policymakers in better understanding the tax non-compliance behaviour in Malaysia. In the long-term, the Government should improve administrative strategies to encourage voluntary compliance among taxpayers besides finding techniques to facilitate and motivate taxpayers to fulfil their obligations to pay tax. In addition, the Ministry of Education can come up with a curriculum on taxation that is more specific, particularly to ensure students' compliance behaviour when they ultimately become taxpayers. In other words, such an effort can prepare the potential taxpayers to carry out their responsibility as taxpayers. Furthermore, the tax authority should have a good relationship and interaction with taxpayers by consistently organising effective programmes for the society in order to enhance their confidence and trust towards the tax authority. This effort would help to develop good tax morale among taxpayers besides reducing the complexity faced by them in fulfilling their obligations under the tax laws.

5.5 Limitations and Recommendations

The current study has some limitations that must be considered. Firstly, the finding cannot be generalised extensively in Malaysia, as the scope of the study is limited to Shah Alam city only. Hence, it is suggested that future studies be carried out to extend the sample by covering other cities in Malaysia to find out whether there are similarities or differences in the results.

Secondly, the findings might not reflect the true picture of tax non-compliance behaviour of business income earner's in Malaysian taxation system as this is a self-report data. In addition, the honesty of respondent in answering the questionnaires survey is slightly doubtful. Thus, future studies are recommended to employ various data collection methods or adopt mix-method approach.

Finally, another limitation of this study is that it only investigated three independent variables and their relationship with tax non-compliance. It is recommended that future researches take into consideration other variables so that a more comprehensive understanding can be obtained on the factors that related to tax non-compliance behaviour among business income earners in Malaysia.

5.6 Conclusion

As a conclusion, this study has provided empirical evidence about the factors that determine taxpayers' non-compliance behaviour of business income earners in Malaysia. The research results provide support for all hypotheses developed in this study. More importantly, this study has met the research objectives as mentioned in Chapter One despite some of the limitations.

The results of this study reveal that tax knowledge and tax complexity are positively and significantly affect tax non-compliance behaviour. Also, this study reveals that tax morale is negatively and significantly affect tax non-compliance behaviour of business income earners. Therefore, the Malaysia government and tax authority should take note of the factors that influence taxpayers' behaviour, which could be useful to further refine strategies to reduce the non-compliance problems.

Although this study has successfully tested the research hypotheses and made valuable theoretical and practical contributions however, there are several limitations which pave the way for future studies to investigate this phenomenon further.

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Pusat Pengajian Perakaunan Tunku Puteri Intan Safinaz

TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY

Universiti Utara Malaysia

Dear respondents,

I am a postgraduate student from Universiti Utara Malaysia (UUM) and currently conducting a study for my Master of Science (International Accounting). I would like to invite you to participate in this survey '**A study on Business Income Earners in Shah Alam'**. There are 3 sections in this questionnaire which will take approximately 10 minutes to be completed.

Your participation in this survey is completely anonymous. Your responses will be strictly kept confidential and data collected from this survey will be reported for academic purpose only. Your participation in this survey is highly appreciated. Do not hesitate to contact me if you have any enquiries regarding this survey.

Yours Sincerely,

…………………………………..

Zahrul Zaid Bin Abdul Wahab
012-7088607
zzekry@yahoo.com

Pusat Pengajian Perakaunan
Tunku Puteri Intan Safinaz

TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY

Universiti Utara Malaysia

Tuan/ Puan yang dihormati,

Saya seorang pelajar siswazah dari ***Universiti Utara Malaysia (UUM)*** *dan kini sedang menjalankan satu kajian untuk Master of Science (Perakaunan Antarabangsa). Saya ingin mendapatkan kerjasama anda untuk mengambil bahagian dalam kaji selidik iaitu '****Kajian ke atas golongan berpendapatan perniagaan di Shah Alam'****. Terdapat 3 bahagian dalam kaji selidik ini dan ia akan mengambil masa lebih kurang 10 minit untuk diselesaikan.*

Penyertaan anda dalam kaji selidik ini adalah secara sukarela. Jawapan anda adalah sulit, dirahsiakan dan data yang dikumpulkan daripada kajian ini akan dilaporkan bagi tujuan akademik sahaja. Penyertaan anda dalam kajian ini amat dihargai. Sila hubungi saya sekiranya anda mempunyai sebarang pertanyaan lanjut berkaitan dengan kajian ini.

Yang ikhlas,

……………………………………..

Zahrul Zaid bin Abdul Wahab
012-7088607
zzekry@yahoo.com

Section A: Demographic Information
This section relates to personal background. Kindly tick "✓" in the appropriate box that represents your response.

Bahagian A: Maklumat Demografi
Bahagian ini berkaitan dengan latar belakang peribadi. Sila tandakan "✓"di kotak berkenaan yang mewakili jawapan anda.

1. **Gender**/ Jantina

☐ Male/ *Lelaki* ☐ Female/ *Perempuan*

2. **Age**/ Umur (tahun)

☐ ≤ 25
☐ 26 - 35
☐ 36 - 45
☐ 46 - 55
☐ Above 56/ *Lebih 56*

3. **Marital status**/ *Status perkahwinan:*

☐ Single/ *Bujang*
☐ Married / *Kahwin*
☐ Divorced / *Bercerai*

4. **Highest education level**/ *Tahap pendidikan;*

☐ SPM
SPM

☐ STPM / Certificate
STPM/Sijil

☐ Diploma / Vocational course
Diploma/Kursus Vokasional

☐ Undergraduate / Bachelor's degree
Ijazah sarjana muda

☐ Postgraduate / Professional
Siswazah/ Profesional

☐ Doctorate (PhD)
Doktor (PhD)

5. **Business ownership status**/ *Status pemilikan perniagaan:*

☐ Sole-Proprietor/ *Milikan tunggal*
☐ Partnership/ *Perkongsian*

6. Type of business
Jenis perniagaan yang dijalankan:

☐ Manufacturing
Pengilangan

☐ Construction and real estate
Pembinaan dan hartanah

☐ Wholesale, retail trade, hotels and restaurants
Borong, perniagaan runcit, hotel dan restoran

☐ Professional services
Perkhidmatan professional

☐ Transport, storage and communication
Pengangkutan, gudang dan komunikasi

☐ Other – please describe:
Lain-lain – sila nyatakan: ______________________

7. Business operating period
Tempoh operasi perniagaan:

- ☐ 1 – 5 years/ *tahun*
- ☐ 6 – 10 years/ *tahun*
- ☐ More than 10 years/ *Lebih 10 tahun*

8. Business performance for the past 3 years
Prestasi perniagaan bagi tempoh 3 tahun kebelakangan

Year/ Tahun 2015	☐	Untung/ Profit	☐	Rugi/ Losses
Year/ Tahun 2014	☐	Untung/ Profit	☐	Rugi/ Losses
Year/ Tahun 2013	☐	Untung/ Profit	☐	Rugi/ Losses

9. **Are you currently a registered taxpayer?**
Adakah anda berdaftar sebagai pembayar cukai?

- ☐ Yes/ *Ya*
- ☐ No/ *Tidak*

If your answer is NO, please provide reason.
Jika jawapan anda adalah TIDAK, sila beri alasan:

____

10. Who filled in your last tax return form?
Siapa yang melengkapkan borang nyata cukai anda terkini?

- ☐ Self/ Sendiri
- ☐ Spouse/ Pasangan
- ☐ Tax agent/ Ejen cukai
- ☐ Friend/ Rakan
- ☐ Others (please verify)
  Lain-lain – sila nyatakan:

  ____

Section B: Tax Non-Compliance
Bahagian B: Ketidakpatuhan Cukai

Please indicate the extent of your agreement or disagreement with the following statements. Kindly tick "✓"in the appropriate box.
Sila nyatakan tahap setuju atau tidak setuju anda dengan kenyataan berikut. Sila tandakan"✓" di kotak yang berkenaan.

	Part 1:Tax Non-Compliance Overall *Bahagian 1: Ketidakpatuhan Cukai Secara Umum*	**Strongly Disagree** *Sangat Tidak Setuju*	**Disagree** *Tidak Setuju*	**Neutral**	**Agree** *Setuju*	**Strongly Agree** *Sangat Setuju*
1	Overall, I think income tax system in Malaysia is fair. *Secara keseluruhan, saya berpendapat sistem cukai pendapatan di Malaysia adalah adil.*	☐	☐	☐	☐	☐
2	Overall, the system of tax administration in Malaysia is efficient and effective. *Secara keseluruhan, sistem pentadbiran cukai di Malaysia adalah cekap dan berkesan.*	☐	☐	☐	☐	☐
3	Overall, current tax law in Malaysia is not complex. *Secara keseluruhannya, undang-undang cukai semasa dalam Malaysia tidak kompleks/ rumit.*	☐	☐	☐	☐	☐
4	Overall, current tax system is not induces me to non-compliant. *Secara keseluruhan, sistem cukai semasa tidak mendorong saya untuk tidak patuh.*	☐	☐	☐	☐	☐
5	Overall, I think the amount of income tax that I have paid is too high. *Secara keseluruhan, saya berpendapat jumlah cukai pendapatan yang telah bayar terlalu tinggi.*	☐	☐	☐	☐	☐
6	Overall, paying taxes is reducing my personal income. *Secara keseluruhan, membayar cukai mengurangkan pendapatan peribadi saya.*	☐	☐	☐	☐	☐

Part 2: Tax Moral *Bahagian 2: Moral Cukai*		**Strongly Disagree** *Sangat Tidak Setuju*	**Disagree** *Tidak Setuju*	**Neutral**	**Agree** *Setuju*	**Strongly Agree** *Sangat Setuju*
1	I would cheat on tax if I have the chance. *Saya akan menipu pelaporan cukai jika saya mempunyai peluang.*	☐	☐	☐	☐	☐
2	It is NOT wrong if a taxpayer does not report all of his or her income in order to pay less income tax. *TIDAK menjadi kesalahan jika seseorang pembayar cukai tidak melaporkan semua pendapatannya dengan niat untuk membayar cukai yang rendah.*	☐	☐	☐	☐	☐
3	I would not feel guilty if I excluded some of my income when completing my tax return. *Saya berasa tidak bersalah jika tidak melaporkan sebahagian pendapatan saya semasa melengkapkan borang cukai.*	☐	☐	☐	☐	☐
4	Since the supporting documents do not need to be submit to the IRBM, I can manipulate the figures in the tax return. *Oleh kerana dokumen sokongan tidak perlu dihantar kepada LHDNM, saya boleh memanipulasi angka dalam borang cukai.*	☐	☐	☐	☐	☐

Part 3: Tax Knowledge *Bahagian 3: Pengetahuan Cukai*		**Strongly Disagree** *Sangat Tidak Setuju*	**Disagree** *Tidak Setuju*	**Neutral**	**Agree** *Setuju*	**Strongly Agree** *Sangat Setuju*
1	To my knowledge, only the business income should be reported, other income such as rental and commission with small amount not need to reported. *Sepengetahuan saya, hanya pendapatan perniagaan sahaja perlu dilaporkan, lain-lain pendapatan seperti sewa dan komisen yang berjumlah kecil tidak perlu dilaporkan.*	☐	☐	☐	☐	☐
2	To my knowledge, records/documents pertaining to income and expenditure NOT should be kept for a period of seven years after submission of the Tax Return. *Setahu saya, rekod dan dokumen berkaitan pendapatan dan perbelanjaan TIDAK perlu disimpan selama tempoh 7 tahun selepas penghantaran borang cukai.*	☐	☐	☐	☐	☐

Part 3: Tax Knowledge (Continue) *Bahagian 3: Pengetahuan Cukai (sambungan)*		**Strongly Disagree** *Sangat Tidak Setuju*	**Disagree** *Tidak Setuju*	**Neutral**	**Agree** *Setuju*	**Strongly Agree** *Sangat Setuju*
3	Tax must be reported and paid to the IRBM when the business have profit only. *Cukai perlu dilaporkan dan dibayar kepada LHDNM apabila terdapat keuntungan sahaja.*	☐	☐	☐	☐	☐
4	To my knowledge, my personal expenditure could be claim or included in the business expenditure. *Setahu saya, perbelanjaan peribadi saya boleh dituntut atau dimasukan dalam perbelanjaan perniagaan.*	☐	☐	☐	☐	☐
5	I do not register/ report my business income as a taxpayer to the IRBM because the profitability of my business is small or my business has just started. *Saya tidak mendaftar/ melaporkan pendapatan perniagaan kepada LHDM kerana keuntungan perniagaan saya kecil atau perniagaan saya baharu dimulakan.*	☐	☐	☐	☐	☐
6	Responsibility to deduct the Monthly Tax Deduction (MTD) to each employee is NOT the responsibility of the business owner. *Tanggungjawab membuat Potongan Cukai Berjadual (PCB) kepada setiap pekerja BUKAN tanggungjawab pemilik perniagaan*	☐	☐	☐	☐	☐

Part 4: Tax Complexity *Bahagian 4: Kerumitan Cukai*		**Strongly Disagree** *Sangat Tidak Setuju*	**Disagree** *Tidak Setuju*	**Neutral**	**Agree** *Setuju*	**Strongly Agree** *Sangat Setuju*
1	IRBM tax laws are too complex and change frequently. *Undang-undang percukaian LHDM terlalu rumit dan kerap berubah.*	☐	☐	☐	☐	☐
2	I think the **<u>TERMS</u>** used in tax publication (eg. IRBM guide books/note) and in tax return forms are difficult and burden to understand. *Saya berpendapat bahawa **<u>UNGKAPAN</u>** yang digunakan dalam bahan cetakan cukai (seperti buku/nota panduan dan penerangan LHDNM) dan Borang Nyata Cukai sukar dan terlalu banyak untuk difahami*	☐	☐	☐	☐	☐

	Part 4: Tax Complexity (Continue) *Bahagian 4: Kerumitan Cukai (Sambungan)*	**Strongly Disagree** *Sangat Tidak Setuju*	**Disagree** *Tidak Setuju*	**Neutral**	**Agree** *Setuju*	**Strongly Agree** *Sangat Setuju*
3	The rules and regulations to file tax return form is complicated and burdensome. *Kaedah-kaedah dan peraturan-peraturan untuk memfailkan borang nyata cukai adalah rumit dan membebankan.*	☐	☐	☐	☐	☐
4	I have problem with completing and filing the income tax return form (ITRF). *Saya menghadapi masalah untuk mengisi dan menyerahkan Borang Nyata Cukai (BNCP).*	☐	☐	☐	☐	☐
5	I think it is difficult to keep all records relating to the year for tax purposes. *Saya rasa memang sukar untuk menyimpan semua rekod yang berkaitan sepanjang tahun bagi tujuan cukai.*	☐	☐	☐	☐	☐
6	My businesses need to pay double taxation of income tax and Good & Service Tax (GST). *Perniagaan perlu bayar cukai berganda iaitu cukai pendapatan dan Cukai Barangan & Perkhidmatan (GST).*	☐	☐	☐	☐	☐

Thank you
Terima kasih