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A SURVEY ON TAX COMPLIANCE BEHAVIOUR USING  
THEORY OF PLANNED BEHAVIOUR AMONG BUSINESS  
TAXPAYERS IN PENANG STATE, MALAYSIA



MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)  
UNIVERSITI UTARA MALAYSIA  
2018

A SURVEY ON TAX COMPLIANCE BEHAVIOUR USING  
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TAXPAYERS IN PENANG STATE, MALAYSIA

BY

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Project Paper Submitted to  
Othman Yeop Abdullah Graduate School of Business,  
Universiti Utara Malaysia  
In Partial Fulfillment of the Requirement for the Master of Science  
(International Accounting)



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## Abstract

The main concern of all countries in the world is tax non compliance. This refers to the variances among what is being paid against what would be paid if the taxpayers filled complete and precise returns and pay what they are obligated. In spite of the fact that there are many studies carried in relation to non compliance for established countries, there is though a little study done on tax non compliance for emergent countries such as Malaysia. The objectives of this study are to examine the relationship between Theory of Planned Behavior variables (Attitude, Subjective Norm and Perceived Behavioral Control), Tax Knowledge and Intention towards compliance behaviour among business taxpayers in Penang, Malaysia; to ascertain the most significant independent variable that affects the intention towards compliance behaviour among business taxpayers in Penang, Malaysia, and to identify the areas of difficulties among business taxpayers that contribute towards compliance behaviour in Penang, Malaysia. In this study, survey data has been chosen to opt as the main source data to collect business taxpayers' view on the topic being studied. Probability sampling was used. The sample of this study is 250 business taxpayers in Penang, Malaysia. Data was analyzed using Statistical Package for the Social Sciences (SPSS). All the TPB constructs was found to have a positive relationship with the intention towards compliance behaviour except tax knowledge which had negative relationship. The most significant variable in this study is subjective norm. In this study, areas of difficulties among business taxpayers was mostly ranked as to maintaining records for income tax purpose, the cash flow position when paying the monthly tax instalment and followed by estimating the tax payable. Findings of this study may provide inputs for policy makers or IRBM on the level of compliance behaviour among business taxpayers.

**Keywords:** Theory of Planned Behaviour, Tax compliance, Tax knowledge, Business taxpayers

## Abstrak

Keprihatinan utama semua negara di dunia adalah ketidakpatuhan cukai. Ini merujuk kepada variasi di antara apa yang dibayar terhadap apa yang akan dibayar jika pembayar cukai memenuhi borang nyata yang lengkap dan tepat dan membayar apa yang diwajibkan. Walaupun terdapat banyak kajian yang dijalankan berhubung dengan ketidakpatuhan terhadap negara-negara yang telah ditubuhkan, ada sedikit kajian yang dilakukan terhadap ketidakpatuhan cukai bagi negara-negara yang muncul seperti Malaysia. Objektif kajian ini adalah untuk mengkaji hubungan di antara pemboleh ubah Teori Gelagat Terancang, Pengetahuan Cukai dan Niat terhadap tingkah laku pematuhan di kalangan pembayar cukai perniagaan di Pulau Pinang, Malaysia untuk menentukan pemboleh ubah bebas yang paling penting memberi kesan ke arah tingkah laku pematuhan di kalangan pembayar cukai perniagaan di Pulau Pinang, Malaysia, dan untuk mengenal pasti bidang-bidang kesulitan di kalangan pembayar cukai perniagaan yang menyumbang kepada tingkah laku pematuhan di Pulau Pinang, Malaysia. Dalam kajian ini, data tinjauan telah dipilih untuk memilih sebagai data sumber utama untuk mengumpul pandangan pembayar cukai perniagaan mengenai topik yang sedang dikaji. Pensampelan kebarangkalian digunakan. Sampel kajian ini adalah 250 pembayar cukai perniagaan di Pulau Pinang, Malaysia. Data dianalisis menggunakan Pakej Statistik untuk Sains Sosial (SPSS). Semua pembinaan TPB didapati mempunyai hubungan positif dengan hasrat terhadap tingkah laku pematuhan kecuali pengetahuan cukai yang mempunyai hubungan negatif. Pemboleh ubah yang paling penting dalam kajian ini adalah norma subjektif. Dalam kajian ini, bidang-bidang kesulitan di kalangan pembayar cukai perniagaan kebanyakannya disenaraikan untuk mengekalkan rekod untuk tujuan cukai pendapatan, kedudukan aliran tunai apabila membayar ansuran cukai bulanan dan diikuti dengan menganggar cukai yang perlu dibayar. Penemuan kajian ini mungkin memberi input kepada pembuat dasar atau LHDNM mengenai tahap kelakuan pematuhan di kalangan pembayar cukai perniagaan.

**Kata kunci:** Teori Gelagat Terancang, Pematuhan Cukai, Pengetahuan Cukai, Pembayar cukai perniagaan

## **Acknowledgement**

All praises and gratitude are due to god for his infinite mercy, guidance and protection throughout the duration of my studies. I wish to extend my humble appreciation and gratitude to my parents, Panirselvam and Amutha for their sound upbringing, prayers, love, encouragement and support.

I am highly indebted to my amiable supervisor Dr. Idawati Ibrahim for her meticulous supervision, objective criticism and constructive observations. She is the brain behind the success of this project. Also, my appreciation and gratitude to the entire staff of TISSA UUM for their useful contribution towards the success of this study.

My special appreciation and gratitude to my lovely family members especially my children, Raavaniya and Yaagnesh, my parents in law and my siblings and sister in law for their love and encouragement.

I would equally wish to extend my gratitude and appreciation to my lovely friends; Charanjeet, Vivian Tariro, Syazwani, Usman, to mention but few for their valuable input throughout my master journey at UUM.

I would to thank my spiritual guru, Paranjothi Subramaniam for his love and blessing to my family and me.

Finally, I wish to dedicate the entire project to my loving husband Logeswaran for his all-time support both morally and financially, encouragement, patience, love, perseverance and understandings. Without his encouragement, I would have not been able to complete this master journey.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Background of Study

One way of the government finances its expenditures is via tax collection and it is proven to be a vital source of the government revenues (Jusoh, Nor & Zaidi 2012). In other words, tax is used as main tool by the government to collect revenue to achieve the economic and social objectives and for the redistribution of income. In most countries, direct and indirect taxes are to be the main type of taxes which are imposed by its government. Direct tax means an individual or business is responsible for paying taxes directly to its government where by, the self-assessment needs to be done on a yearly submission. Indirect taxes is collected by the customs department and it can be transferred to another person, which is levied to one people or business but paid partly or fully by the others.

Tax collection plays a vital role in promoting a country's economic growth where it broods the revenue needed by a country to fund its government's economic growth policies and also creating an outline for expansion of its private sector activities. Besides that, a good revenue system is required by the country to improve their balance sheet, to bring down their external debt and to increase their international reserves.

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## APPENDICES

### APPENDIX 1: COVER LETTER



Pusat Pengajian Perakaunan  
Tunku Puteri Intan Safinaz  
TRUNK PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY  
Universiti Utara Malaysia

Dear Valued Respondent,

#### **A SURVEY ON COMPLIANCE BEHAVIOUR AMONG BUSINESS TAXPAYERS IN PENANG, MALAYSIA**

This a survey of a master research on compliance behaviour among business taxpayers. The researcher appreciates your kind assistance by taking your valuable time to complete the survey questionnaire, which is in English Language. The researcher recognizes that your time is precious and many demands are made upon it by your daily workload. Your participation in this survey will provide valuable insights for the success of this research.

All completed questionnaires will be the property of the researcher, which is considered as privilege and will be treated with strict confidentiality. Thus the completed questionnaires will be only used for academic purposes.

Should you have any queries or you are interested in the outcome of this research, kindly contact the researcher.

Your Sincerely,

Gayatri Panirselvam  
Msc International Accounting student  
Tunku Puteri Intan Shafinaz,  
School of Accountancy,  
University Utara Malaysia  
06010, Sintok, Kedah, Malaysia  
H/P:6012-510-8981  
Email: [Gayatri\\_@oyagsb.uum.edu.my](mailto:Gayatri_@oyagsb.uum.edu.my)

Supervised by,  
Dr. Idawati Bin Ibrahim  
Tunku Puteri Intan Shafinaz,  
School of Accountancy,  
University Utara Malaysia  
06010, Sintok, Kedah, Malaysia

**APPENDIX 2: QUESTIONNAIRE (PILOT TEST)**

**Section A: Demographic Information**

Kindly tick “” in the appropriate box that represents your response.

1. Gender

Male  
Female

2. Age

≤ 25  
26 - 35  
36 - 45  
46 – 55  
56 – 60

3. Race

Malay  
Chinese  
Indian  
Others



4. Who prepare your tax return?

Myself  
Management Service  
Others please specify.....

5. Who prepare your company accounts?

Myself  
Management Service  
Approved Account preparer  
Others please specify.....

6. Type of Business

Trading  
Manufacturing  
Construction

Services  
Agriculture  
Others, please specify.....

7. Highest education level

STPM or less  
Diploma / Vocational course  
Undergraduate / Bachelor's degree  
Postgraduate / Professional  
Doctorate (PhD)

### Section B

**Below is the hypothetical tax scenario and a number of statements that reflect on compliance behaviour. Kindly assist to tick in each line that best describes how you feel about the statements using the scale below**

- 1=Strongly disagree**
- 2=Disagree**
- 3=Neither agree nor disagree**
- 4=Agree**
- 5=Strongly agree**

*Sally is a full-time teacher with taxable income of MYR50,000 a year. As a hobby, she likes to make handicraft items during her leisure time. Her friends learnt about the attractive souvenirs and asked Sally to make some items for them. In return, they paid Sally MYR 500 in total. Since then, she has received a lot of orders from her colleagues and other neighbours. As a full-time teacher, she did not have enough time to meet the orders on her own and asked assistance from her two sisters. She paid each of them 10 percent of the amount received. During that year, she made a net total amount of MYR10,500 out of her activity. Although she should declare all her income, she could really use the money by not declaring the MYR 10,500. She is confident that the LHDNM would not detect this amount if she omits it from her tax return form since there is no record of the cash received. What would you do if you faced a similar situation in the future?"*

		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Code</b>	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
IN1	I would report my income fully, including the amount of MYR10,500 from the sales of handicrafts.					
IN2	I would not attempt to cheat by omitting to report the extra amount of MYR10,500 in my tax return form					
		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Code</b>	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
IN3	I would not declare the MYR10,500 because that amount arises from trading goods with friends and neighbors.					
AA1	I would be upset if I did not declare the extra amount of MYR10, 500.					
AA2	I would feel guilty if I did not declare the extra amount of MYR10, 500.					
AA3	I would feel pleased if I did not declare the extra amount of MYR10, 500.					
IA1	The likelihood of being audited by the Inland Revenue Department is high.					
IA2	It would be financially beneficial for me not to declare the extra amount of MYR10,500					

SN1	My family and peers would think that I should not declare the extra MYR10,500					
SN2	My family and peers would think that I should declare the extra MYR10,500.					
SN3	My family and peers would approve of my decision to understate my income by MYR10,500.					
SN4	My family and peers would not declare the extra MYR10,500 if faced with a similar situation					
PBC1	Due to my limited knowledge, skills and resources, it is hard for me to omit the MYR10,500 in my tax return form successfully.					
		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Code</b>	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
PBC2	With my tax knowledge, skills and resources, it would be definitely easy for me to not declare the extra amount of MYR10,500 in my tax return form successfully.					
PBC3	I would successfully omit the extra amount of MYR10,500 in my tax return form if I wanted to.					
PBC4	With my tax knowledge, skills and resources, I would have no difficulty to omit the extra MYR10,500 in my tax return form successfully.					
PBC5	There are no barriers that would prevent me from understating my income by MYR10,500 successfully.					

**Below are the statements concerning personal perception of tax knowledge of the current income tax system. Kindly assist to tick one answer in each line that best describes how you feel about the statements.**

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Code	Question	1	2	3	4	5
GK1	The income tax system is a legitimate way for the government to collect revenue to manage an economy.					
		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Code	Question	1	2	3	4	5
GK2	To my knowledge, individuals are subject to a single flat rate of income tax under the current tax system.					
LK1	As far as I am aware, non-compliant taxpayers can be imprisoned, if found guilty of evading tax.					
LK2	Similar to other criminal offences, I believe that individuals can also be prosecuted for not complying with the Income Tax Act.					

LK3	I believe that I do not have to abide by the deadline for the submission of tax return form (s) as the deadline is only a guideline and does not result in penalties.					
TK1	As far as I am aware, everyone who earns income sourced in this country needs to register with the Inland Revenue Board, regardless of whether that person is resident or not.					
TK2	I am sure that I am not required to file a tax return on interest income that I earn from money deposited in a bank account in Malaysia as it will be subject to income tax at source.					
		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Code</b>	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
TK3	To my knowledge, I can deduct all personal expenses in calculating my tax liability.					
TK4	I have little idea about the deductions that I can claim as a taxpayer in the computation of my tax liability.					

**Section C: Problematic Areas**

In which of the following areas your company/ Business is facing difficulties (Please tick more than one box if applicable)

Estimating income tax payable

Understanding income tax legislation

Implementing income tax changes

Maintaining records for income tax purpose

Increasing burden of record keeping for tax purpose Cash

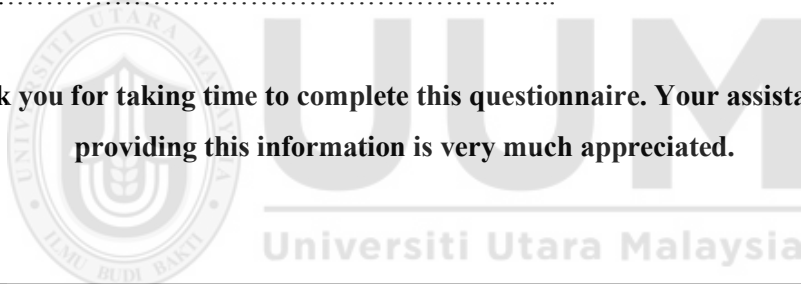
flow position when paying monthly tax installments Short

period of time to lodge the tax returns Dealing

with tax authority Dealing with

external adviser ( tax agent) Others

.....  
**Thank you for taking time to complete this questionnaire. Your assistance in providing this information is very much appreciated.**



**APPENDIX 3: QUESTIONNAIRE (ACTUAL)**

**Section A: Demographic Information**

Kindly tick “” in the appropriate box that represents your response.

1. Gender

Male

Female

2. Age

≤ 25

26 - 35

36 - 45

46 – 55

56 – 60

3. Race

Malay

Chinese

Indian

Others

5. Who prepare your company accounts?

Myself

Management Service

Approved Account preparer

Others please specify.....

6. Type of Business

Trading

Manufacturing

Construction

Services

Agriculture

Others, please specify.....



7. Highest education level

STPM or less  
Diploma / Vocational course  
Undergraduate / Bachelor's degree  
Postgraduate / Professional  
Doctorate (PhD)

**Section B**

**Below is the hypothetical tax scenario and a number of statements that reflect on compliance behaviour. Kindly assist to tick in each line that best describes how you feel about the statements using the scale below**

- 1=Strongly disagree**
- 2=Disagree**
- 3=Neither agree nor disagree**
- 4=Agree**
- 5=Strongly agree**

*Sally is a full-time teacher with taxable income of MYR50,000 a year. As a hobby, she likes to make handicraft items during her leisure time. Her friends learnt about the attractive souvenirs and asked Sally to make some items for them. In return, they paid Sally MYR 500 in total. Since then, she has received a lot of orders from her colleagues and other neighbours. As a full-time teacher, she did not have enough time to meet the orders on her own and asked assistance from her two sisters. She paid each of them 10 percent of the amount received. During that year, she made a net total amount of MYR10,500 out of her activity. Although she should declare all her income, she could really use the money by not declaring the MYR 10,500. She is confident that the LHDN would not detect this amount if she omits it from her tax return form since there is no record of the cash received. What would you do if you faced a similar situation in the future?"*

		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Code</b>	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
IN1	I would report my income fully, including the amount of MYR10,500 from the sales of handicrafts.					
IN2	I would not attempt to cheat by omitting to report the extra amount of MYR10,500 in my tax return form					
IN3	I would not declare the MYR10,500 because that amount arises from trading goods with friends and neighbors.					
AA1	I would be upset if I did not declare the extra amount of MYR10, 500.					
AA2	I would feel guilty if I did not declare the extra amount of MYR10, 500.					
		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neither agree nor disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Code</b>	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
AA3	I would feel pleased if I did not declare the extra amount of MYR10, 500.					
IA1	It would be financially beneficial for me not to declare the extra amount of MYR10,500					
SN1	My family and peers would think that I should not declare the extra MYR10,500					

SN2	My family and peers would think that I should declare the extra MYR10,500.					
SN3	My family and peers would not declare the extra MYR10,500 if faced with a similar situation					
PBC1	Due to my limited knowledge, skills and resources, it is hard for me to omit the MYR10,500 in my tax return form successful..					
PBC2	I would successfully omit the extra amount of MYR10,500 in my tax return form if I wanted to.					
PBC3	With my tax knowledge, skills and resources, I would have no difficulty to omit the extra MYR10,500 in my tax return form successfully.					
PBC4	There are no barriers that would prevent me from understating my income by MYR10,500 successfully.					

**Below are the statements concerning personal perception of tax knowledge of the current income tax system. Kindly assist to tick one answer in each line that best describes how you feel about the statements.**

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Code	Question	1	2	3	4	5
LK1	Similar to other criminal offences, I believe that individuals can also be					

	prosecuted for not complying with the Income Tax Act.					
LK2	I believe that I do not have to abide by the deadline for the submission of tax return form (s) as the deadline is only a guideline and does not result in penalties.					
TK1	To my knowledge, I can deduct all personal expenses in calculating my tax liability.					
TK2	I have little idea about the deductions that I can claim as a taxpayer in the computation of my tax liability.					

**Section C: Problematic Areas**

In which of the following areas your company/ Business is facing difficulties (Please tick more than one box if applicable)

- Estimating income tax payable
- Understanding income tax legislation
- Implementing income tax changes
- Maintaining records for income tax purpose
- Increasing burden of record keeping for tax purpose
- flow position when paying monthly tax installments
- period of time to lodge the tax returns
- with tax authority
- external adviser ( tax agent)
- Cash
- Short
- Dealing
- Dealing with
- Others

.....  
**Thank you for taking time to complete this questionnaire. Your assistance in providing this information is very much appreciated.**