Identifying the factors impacting upon personal tax compliance: a study involving tax affairs officers of Malaysian businesses

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Abstract

It is assumed from the literature reviews in taxation that a tendency for tax non-compliance exists among the officers who deal with tax matters in their business establishments in Malaysia when they do not comply with their respective tax systems. The hitherto published studies have not yet explored the tax compliance behaviour of tax affairs officers. Given this gap in the literature, this study endeavours to investigate the factors that impact corporate tax affairs officers' personal tax compliance behaviour in Malaysia. Using purposive and snowball sampling techniques, the data was collected from 392 tax affairs officers of businesses in Malaysia. SmartPLS is used to analyse the data and test the hypotheses. The findings of this study reveal that peers' tax compliance, audit probability, service quality of tax authority, and satisfaction with government spending strongly impact upon personal tax compliance behaviour of corporate tax affairs officers. This study opens a gateway to producing extensive and expeditious empirical evidence that could support the relation between tax affairs officers' personal tax compliance and their decision-making on corporate tax compliance.

Keywords: Tax Affairs Officers; Personal Tax Compliance; Corporate Tax Compliance; LHDN.

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1.　INTRODUCTION

The economic sustainability of Malaysia is for the most part derived from the collection of direct tax revenue, such as corporate taxes, individual taxes, real property taxes, petroleum taxes, and stamp duties, all of which account for approximately 65% of the national cumulative revenue, as stated in the 2020 annual Budget 2020 (Ministry of Finance Malaysia, 2019). The non-compliance with any of the abovementioned tax systems has been deemed an action that is damaging to society, through failing to contribute to the welfare of the society, challenging the stability of the national revenue and the economic stability of Malaysia, and encouraging cheating and fraud to take place in the country. Taxes are levied on the profits of the corporate sector and on the income of the salaries of personnel in a country. The taxes, thus raised from the above two sources, are used to provide services and benefits to the people of the country, or to use them for fulfilling various other purposes of the government (Sritharan & Salawati, 2019a).

The Malaysian government plays a significant role in raising income from these two sources, employing the mandatory income tax Act (Tax Act No. 47, 1967 and Amendment Act No. 53 of 1971, Section 103)[1] enacted under the Constitution of the country. To provide benefits to the citizens of the country, the Malaysian government uses the accumulated revenue from the treasury, the financial resource of the government, to provide the people of the country with goods and services, or to achieve its other objectives and plans mentioned in the official books of programs and calendars (Sritharan & Salawati, 2019b; Sritharan et al., 2022).

The total gross national income (GNI) of Malaysia has been moving upward steadily over the past two decades.[2] Meanwhile, the tax revenue of Malaysia as a proportion of GDP has been declining dramatically over the past two decades as well.[3] The rise in GNI and the decline in the tax revenue highlight that a severe tax gap exists in Malaysia, indicating a loss in the collection of national revenue, and a real cost being imposed on society (Sritharan et al., 2020). Further, the International Monetary Fund (IMF) (Schneider & Enste, 2002) alerts that severe tax gaps may indicate the prevalence of a shadow economy in the country. Although the corporate tax remains the largest financial contributor to the revenue of all the various taxes, tax planning is nevertheless carried out by corporate tax officer individuals on behalf of corporation taxpayers. There is a tendency for an individual not to comply with the tax system in respect of their own obligations, and there is a possibility for an individual to act similarly with the corporate tax system. In Malaysia, tax non-compliance is considered a behavioural character of the residents of the country, where the residents intentionally, or unintentionally do not

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[1] The Income Tax Act is enacted pursuant to the Malaysian Constitution. Section 103 of Income Tax Act 1967 details the payment of tax under part VII, collection and recovery of tax.

[2] See World Bank, 'Gross National Income, Malaysia. Current International Income Database', https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD ?locations=MY. GNI is generally the total output of the country, consisting of gross domestic product (GDP) together with the income of residents from abroad: World Bank, 'Gross national income', https://data.oecd.org/natincome/gross-national-income.htm.

[3] World Bank, 'Malaysia: Tax Revenue. World Tax Database', https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?end=2018&locations=MY&start=1996&view=chart.

comply with the tax system, violating the Income Tax Act No. 53, Section 103 under the Constitution of the country (Sritharan et al., 2021; Salawati et al. 2021).

According to the Inland Revenue Board of Malaysia (IRBM), a tax gap of MYR 13 billion was recorded in the year 2018 (Ministry of Finance Malaysia, 2019). One of the main causes for the existence of the tax gap in the tax system in the country is the non-compliance behaviour of the taxpayers. This issue of tax non-compliance is critical in Malaysia since 40% to 60% of the national revenue depends solely on the income tax.

Malaysia's tax authority confronts difficulties in collecting taxes, and in administrating a tax compliance system. IRBM chief executive officer Dato Sri Sabin Samitah has stated that 'to reach the target, we had a tough row to hoe' (IRBM, 2017). During the announcement of the Budget for the year 2019, then Minister of Finance Mr Lim Guan Eng launched a special voluntary disclosure program, allowing the remaining non-compliant taxpayers, who had not yet complied with the tax system, to disclose and report their income to the tax authority of Malaysia (Lim, 2018). This system eased the burden on the IRBM in collecting taxes.

Evidence shows that business entities in the country evade tax if and when the managers themselves evade their personal taxes (Bernama, 2017). According to the Malaysian government, in 2015 98.5% of the businesses in the country were small and medium-sized enterprises (SMEs).[4] As such, there is a need to investigate the relationship between personal tax compliance and corporate tax compliance (Bagdad et al., 2017). So far, the impacts of the personal tax system on the corporate tax system have not been widely studied; so the association between the two tax systems remains unclear, resulting in a significant research gap. Therefore, the objective of this study is to find empirical evidence for the impact that the factors affecting personal tax compliance behaviour have on Malaysian tax affairs officers of businesses.

2. OVERVIEW OF STUDY SETTING

Located in South East Asia, Malaysia practises a federal, parliamentary, constitutional, and elective monarchical system of government; and it comprises 13 states and three federal territories. Each of the states has its own respective Constitution, legislative assembly and executive council headed by an elected member of the legislative assembly, the Chief Minister, whereas the federal territories, including the capital and administrative city, Kuala Lumpur, Putrajaya, and the island of Labuan have the same status as states but are headed by the federal state only. All the Peninsular Malaysian states are led by hereditary rulers, while Sabah and Sarawak are led by appointed state rulers. As in other countries, Malaysian states are sub-divided into districts, with districts in Sarawak and Sabah grouped into administrative divisions. More than half of the population are Malays, with minorities of Chinese, Indians, and the indigenous people of the country. The official language of Malaysia is Malay, while English remains an active second language. Even though the established religion of Malaysia is Islam, its Constitution has granted freedom of religion to non-Muslims of the country as well.

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[4] See SME Corporation Malaysia, 'Profile of SMEs', https://smecorp.gov.my/index.php/en/profile-of-smes.

According to the International Monetary Fund (IMF), the Malaysian economy in 2020 was the sixth largest economy in South East Asia and the 39th largest in the world (IMF, 2020). Malaysia has recently upgraded its economy to the status of a newly industrialised market economy, which is a social-economic classification employed by political scientists and economists. The term 'Newly Industrialised Market Economy' refers to the economy of a developing country the economic growth of which is much higher and faster than that economy of other developing countries.

The government of Malaysia implemented at goods and services tax (GST) in 2015 at the rate of 6%, which has since been repealed and replaced with the sales and service tax (SST). With a trade-to-GDP ratio, averaging over 130%, the nation has become one of the most open economies globally. About 40% of the jobs in Malaysia are related to export activities, and Malaysia is expected to reach its transition from an upper-middle income economy to a higher-income economy by the year 2024 (World Bank, 2021c).

However, the Covid-19 (Coronavirus) pandemic has affected most of the Malaysian economy, especially the income that is generated by the low-income earning group as defined by the national poverty line. The Malaysian government has been continuously taking appropriate measures to subsidise the low-income earning groups to safeguard them from the economic impact of the crisis including poverty and hunger. Minister in the Prime Minister's Department in charge of the economy Datuk Seri Mustapa Mohamed has stated that 'seizing new growth opportunities and overcoming potentially long-lasting challenges brought on by the COVID-19 crisis will necessitate bold structural reforms in the medium term' (World Bank, 2020).

The equality of income in the country remains high, but a gradual decline in equality has been felt and observed by economists in recent years. The Malaysian government has stopped focusing on broad-based subsidies and has started to move toward supporting low-income groups in the form of cash transfers. Malaysia has been ranked 55th of 157 countries in the World Bank's Human Capital Index (World Bank, 2019). Malaysia is in a situation where it is increasingly concerned with furthering the quality of education, health, and nutrition of the people in the country, and about the protection of their social outcomes in the country.

In most countries, small and medium-sized enterprises (SMEs) contribute to their countries, driving their economy towards growth, and thereby solving the unemployment issues of the countries. According to the SME Corporation Malaysia SMEs conduct business in all industries in Malaysia, especially in manufacturing services, agricultural production, construction services, and mining and quarrying services.[5] The basic criteria set by the government of Malaysia for SMEs relate to sales turnover and the number of employees. The general concept of small-medium enterprise is generally classified into three main categories of 'Micro', 'Small', and 'Medium' sized businesses, depending on the abovementioned sales turnover and number of employees criteria. The Department of Statistics Malaysia (2020) indicates that the contribution made by the Malaysian SMEs is one of the major sources of job creation as well, for the Gross Domestic Product (GDP) of the nation, where as noted in section 1 they represent more than 98.5% of businesses. The government of Malaysia continuously issues special tax updates through the government regulations, including

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[5] SME Corporation Malaysia, 'SME definitions',
  https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-definition.

regulation numbered 46 and with amendment 23 of 2018 (Supriyono, Utami & Muktiyanto, 2021). From the SMEs in Malaysia, employment has been offered to 7.3 million people in the year 2019, which is relatively a growth when compared with that of the previous year of 2018 (7.1 million) (Department of Statistics, Malaysia, 2020).

Establishment of an SME in Malaysia is notably easy and barrier-free, with financial institutions in the country providing substantial initial financial support. The World Bank (2016) has highlighted that in order to transition from its (present) economic level to a higher income economic condition, Malaysia will need to depend to a significant extent on the contribution to be made by SMEs established in the future. The recent study by Razak, Abdullah and Ersoy (2018) highlights that Chinese entrepreneurs have dominated the SME sectors in Malaysia and that their contribution to the national economy through their SMEs has been extraordinary since the 1990s. Even though Malaysia remains a multi-racial country, the other ethnic groups such as Malays, Indians and Bumiputeras have been observed to be far behind in entrepreneurship and seem disinterested in this endeavour. The SME 'Capability Programme' and the 'Coach and Grow Programme' (CGP) are two of the Malaysian government's initiatives seeking to encourage all Malaysians to take up entrepreneurship in the country. Unfortunately, it has been found that the average life span of Malaysian SMEs is five years, and that most Malaysian entrepreneurs fail to sustain their businesses over a long period of time (Perera & Baker, 2007). Poor strategic planning, lack of management skills, lack of entrepreneurs' personality traits, poor marketing techniques, etc. have been found to be the common factors that impede Malaysian SMEs' sustainability in the market.

The Malaysian tax system was established prior to 1910, during the era of the early Malay rulers (Kasipillai & Shanmugam, 1997). Since then, the tax system in Malaysia has been modified on many occasions time, in line with the many episodes of colonisation that the country has been subjected to in its history. The early settlements of Malaya, which comprised Singapore, Malacca, and Penang, introduced a draft bill imposing a tax on the people which was later withdrawn. As the people of early Malaya were not interested in the contribution of tax to the government, the tax system was replaced with a different funding system to cover the government expenditures. During the time of Japanese rule (1942-1945), a restructuring of the collection of taxes was implemented. Later, in 1947, during the time of British rule, tax expert R B Heasman was appointed as a special officer to investigate the Malaysian tax system (Heasman, 1947). Four years after the formation of Malaysia, the existing income tax system came to be regulated by the *Income Tax Act 1967* (ITA).

Like other Commonwealth countries, before commencement of the self-assessment system (SAS) for collecting taxes, Malaysia practised the official assessment system (OAS), whereby the taxpayers and their tax amounts payable were evaluated by the tax authority of Malaysia (IRBM). The manual practice of the OAS was transformed into the new mechanical and computerised self-assessment system by then Prime Minister Hon. Tun Dr Mahathir Mohamad in 2001 for the corporate sectors, and for the individual taxpayers. Many developed and developing countries had already adopted the self-assessment system before Malaysia started to adopt it. Under self-assessment, taxpayers have the responsibility to perform all the taxation procedures before they are evaluated by the tax authority. As the taxpayers are entrusted with the said responsibility, the tax compliance level in the country depends greatly on the behaviour of every individual taxpayer. The Malaysian self-assessment system must fulfil the objectives of collecting the correct tax amount effectively, upholding the trust and

integrity of Malaysian taxpayers, and encouraging voluntary compliance behaviour. One study conducted immediately after the introduction of SAS measured the perception of the taxpayers towards the self-assessment system, finding that taxpayers were more comfortable with that system than with the official assessment system (Kasipillai, 2002).

3. CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

The term 'individual in taxation refers to a natural person (Inland Revenue Board of Malaysia, 2018). Self-employed individuals (SE) and salary and wage earners (SW) pay their contribution to the government to secure the economic equilibrium of the nation (Ahmed & Kedir, 2015). Individuals who fall under 'SE' or 'SW' categories are required to submit their assessment, based on their income during each calendar year. The sources of income include gains and profits from a trade, profession, and business, salaries, remuneration, and gains and profits from employment, dividends, interests or discounts, rents, royalties or premiums, pensions, annuities or other periodic payments and other gains or profits of another income nature; all these sources of income can be taxed as stated in section 4 of the ITA (Inland Revenue Board of Malaysia, 2018). In the year 1974, the basis of taxation was replaced with 'derived and remittance', which means that the tax from an individual is charged from the income of the individual that is derived in the country, Malaysia, and also from the income that is remitted to Malaysia from outside the country. The income remitted to Malaysia from outside the country by a non-resident of the country is not subject to taxation. This system has been amended, thereby exempting all the income remitted to the country from outside of Malaysia from taxation, and the current scope of the charge is limited only to the 'derived basis'. The Malaysian tax system allows married taxpayers to submit their assessments jointly, or separately (Ahmed & Kedir, 2015).

The income earners who are above the chargeable income level of MYR 5,001 are subjected to the payment of tax with interest, increasing from 1% to 30%, based on the income threshold which they fall under. The chargeable income is obtained after deducting the personal reliefs from their total income. Table 1 below clearly explains the chargeable income and the relative tax rate charged by the Inland Revenue Board of Malaysia.

Table 1: Chargeable Income and Tax Rate

Chargeable Income	Calculation (RM)	Rate %	Tax (MYR)
0 - 5,000	On the first 5,000	0	0
5,001 - 20,000	On the first 5,000		0
	Next 15,000	1	150
20,001 - 35,000	On the first 20,000		150
	Next 15,000	3	450
35,001 - 50,000	On the first 35,000		600
	Next 15,000	8	1,200

50,001 - 70,000	On the first 50,000		1,800
	Next 20,000	14	2,800
70,001 - 100,000	On the first 70,000		4,600
	Next 30,000	21	6,300
100,001 - 250,000	On the first 100,000		10,900
	Next 150,000	24	36,000
250,001 - 400,000	On the first 250,000		46,900
	Next 150,000	24.5	36,750
400,001 - 600,000	On the first 400,000		83,650
	Next 200,000	25	50,000
600,001 - 1,000,000	On the first 600,000		133,650
	Next 400,000	26	104,000
1,000,001 - 2,000,000	On the first 1,000,000		237,650
	Next 1,000,000	28	280,000
Exceeding 2,000,000	On the first 2,000,000		517,650
	Next ringgit	30	….........

Tax compliance with the tax law means true and honest reporting of tax with correct calculation of liability, timely filing of the tax return, and timely payment of the amount that is due to be settled to the tax authority (Kiow, Salleh & Kassim, 2017). Most of the individual and corporate taxpayers in Malaysia are hesitant to pay their taxes to the tax authority; and to cut down their tax liabilities, they engage in various strategies and actions (Ahmed & Kedir, 2015). Corporate tax compliance is an action that is performed by a corporate taxpayer, fulfilling the obligation of a taxpayer to the corporate sector and adhering to the rules and regulations of the corporate sector. Governments around the world certainly maintain an immense focus on collecting taxes. However, they experience difficulties when collecting taxes from the taxpayers.

McBarnet's model explains that compulsion in tax compliance creates capitulated compliance that occurs without the taxpayers' willingness, whereas committed compliance refers to the taxpayers' voluntary tax compliance (McBarnet, 2019). Tax avoidance takes place where individuals, while remaining taxpayers, seek ways to reduce their tax payments owed to the government. By contrast, tax evasion refers to intentional non-compliance with the tax system, where the taxpayers understand and realise the obligation that they have to the government but evade those obligations (Slemrod & Yitzhaki, 2002).

3.1   Peers' tax compliance

In taxation, the term 'peers' refers to those who are in association with a taxpayer, especially the individual taxpayer's relatives, friends, co-workers, and colleagues

(Lefebvre et al., 2015). The individual taxpayer's behaviour is affected, and influenced by the behaviour of his neighbours, or by the behaviour of those with whom the individual frequently interacts (Alm, Bloomquist & McKee, 2017; Inasius, 2019). This study has employed an experimental method to test the role of the peers on the tax compliance behaviour, and it has found that there is a positive relationship between the neighbours' tax compliance behaviour and the individual's tax compliance behaviour. However, the study further concludes that this information, regarding neighbours' compliance behaviour, does not always improve an individual's tax compliance behaviour. In addition, Alm et al. (2017) explain that tax compliance behaviour is so wide that it cannot be narrowed down to information about neighbours' behaviour.

The study by Ho, Loo and Lim (2006) found that taxpayers in China use relationship-based reasoning to make judgments on tax compliance issues. The study further highlighted that people are always ready to react to the social norms and behaviour of their neighbours and their peers. Conversely, however, the study by Alshira'h, Abdul-Jabbar and Samsudin (2019) found that peer influence does not have any significant effect on tax compliance among Jordanian taxpayers. Their findings have been supported by Bornman (2004), who explained that taxpayers have been found to be complying with the tax system while their peers were not.

Referring to the decision-making of an individual on tax compliance, Alshira'h et al. (2019) discovered that the influence exerted by the peers of an individual may be the determinant of tax compliance in other regions apart from Jordan, given that the culture of Jordanians is highly individualism-oriented and resistant to the social interaction among the people of the country, providing an explanation for the insignificance of their relationship on tax compliance. Interestingly, another study, by Obaid, Ibrahim and Udin (2020), in the same study setting of the Middle East found that the influence of peers strongly determines the tax compliance behaviour of individuals in Yemen. This finding highlights the relationship between the social grouping and an individual in the decision-making. A similar outcome has been reported by an Indonesian study that explained that the reference group has the most significant influence on tax non-compliance behaviour among small and medium enterprises (Inasius, 2019).

The mixed conclusions reached by researchers do not provide a clear understanding of the relationship between the peer tax compliance behaviour and individual tax compliance behaviour. Also, studies focusing on the tax compliance behaviour of an individual impacted by reference to his peers in developing countries are lacking. Lutfi, Idris and Mohamad (2017) suggest that peer tax compliance is not an easily observable variable, as it is involved with social pressure; an anonymous method of data collection, in this regard, should be employed to obtain a truthful and honest reflection of perceptions from the individuals concerned.

3.2   Probability of tax audit

According to Allingham and Sandmo (1972), taxpayers comply to a high level with the tax system if they find that the probability of their non-compliance being detected is high. Some studies have found that there is a positive relationship between tax audit and tax compliance (Ayers, Seidman & Towery, 2019; Modugu & Anyaduba, 2014). A supplemental analysis carried out by Ayers et al. (2019) reported that the probability of audit alters the expectation of managers on future tax submissions. Previous studies have reported mixed results on the association between the probability of audit and the level of tax compliance. For example, DeBacker et al. (2013), using US revenue

authority data and financial statement data, explained that legal enforcement, like an audit, may increase subsequent corporate misbehaviour.

At the same time, the recent study by D'Agosto et al. (2018) found a positive relationship between tax audit and tax compliance behaviour in terms of deterrence theory. The study collected data from the tax return registry and audit database of the Italian Revenue Agency between 2004 and 2009, focusing on the self-employed and sole proprietors of businesses. The study found that the rate of Italian tax compliance had been increased relatively by three types of audits, namely on-site audit (soft audit), desk audit (deep audit), and mixed audit (a mixture of on-site and desk audit). However, this study suggested that the data used in the research related to a period a decade earlier, and that there was a need for a further study using more recent data and with a wider geographical setting, or in a different region.

In relation to deterrence theory, the literature provides mixed conclusions on the relationship between the two variables. For example, while other researchers have discovered that even though a high rate of audits normally increases the level of tax compliance among the taxpayers, or the reporting of their income to the tax authority, the results are not statistically significant (Evans, Carlon & Massey, 2005). In a study conducted in Australia, a possible explanation for the above fact has been put forward that the respondents who participated in the study might have had a lack of audit experience and that 63% of the respondents had not been subjected to any audits carried out by the Australian Taxation Office (ATO). Of the participants of the study, only around one-third had undergone audits in the prior three years. The lack of statistical significance of the results of the study reveals that mere threats of audit may not be enough to encourage an individual to comply with the tax system, and thereby change the individual's behaviour. However, once a business has been audited, the importance of tax compliance is felt by the individuals involved in that business, and a change in the behaviour of the individuals can also be noticed.

3.3   Service quality of tax authority

The study by Supriyono et al. (2021) collected data from various business entrepreneurs and learned that the individuals involved in businesses in Indonesia are motivated to report their income to the tax authority, being influenced by the level of service quality of the authority. If the tax policies adopted by the government seem to be unfair to the people, they tend to form a negative perception of the tax system, and the role played by the tax authority in collecting tax for the country; the cause for the formation of such perception among the people is that 'tax socialisation' theory (arousal of awareness on tax compliance) does not apply among the people (Chong & Arunachalam, 2019; Richardson, 2008). The lessening of complexities in the tax system and maintaining leniency in the administration of tax collection by the tax authority could lead taxpayers to become more tax compliant (Alm et al., 2017). Nevertheless, the adoption of mixed self-assessment (e-filing) and official assessment (manual submission) systems around the world has not led to any standard finding as to the relationship between the service quality of tax authority and taxpayers' compliance behaviour (Palil, Hamid & Hanafiah, 2013). Further, the relationship between tax compliance by small and medium-sized businesses and their perception of the tax authority remains unclear. Supriyono et al. (2021) suggest testing this variable on a large-scale study of respondent, for example, by survey and direct interview since this issue has been solely studied from a qualitative approach. In view of the above fact, this study further explores the service quality of the Malaysian tax authority, which adopts the self-assessment system of taxation.

In the above context, Kasipillai and Baldry (1998) have found that better interactions between the Inland Revenue Board (IRBM) and taxpayers cause better tax compliance. It has also been suggested that the Malaysian tax compliance level may increase if the tax collection authority upgrades the relevant technology for the benefit of taxpayers (Abdul-Jabbar & Pope, 2008). Experiments reveal that people who are treated fairly with good acknowledgment by the authorities tend to comply more with the tax system (Braithwaite, 2009). The Organisation for Economic Co-operation and Development (OECD) (2010) explains that among the three types of fairness in taxation, two, namely procedural fairness – the perception that the tax authority is just and fair in dealing with clients – and retributive fairness – the perception that the tax authority is fair in applying penalties – are relevant to how the tax authority deals with taxpayers.

If this study finds a significant relationship between the tax authority dealings and the compliance behaviour of the taxpayers, the modern risk treatment model termed 'Right from the Start' adopted by the Swedish Tax Agency could also be recommended to the Inland Revenue Board of Malaysia for adaptation. The Swedish Tax Agency introduced 'Right from the Start' as a compliance method based on the principle that the tax authority has a role to play in creating an environment which encourages compliance. Skatteverket (2005) introduced the 'Right from the Start' model[6] to be used in taxation to prevent errors that can occur when seeking to achieve and improve tax compliance among taxpayers, based on the principle that the tax authority has a role to play in creating an environment in which tax compliance can be lifted to a higher level.

3.4   Satisfaction with government spending

Studies that have focused on the relationship between government spending and the tax compliance behaviour among taxpayers in developing countries are very scarce. Due to the unavailability of empirical evidence to explain the relationship between government spending and tax compliance, it is assumed that taxpayers are concerned to ensure that the government spends their tax contributions justly and reasonably in keeping with its needs and requirements (Palil et al., 2013).

Doerrenberg (2015) explains that taxpayers, especially those who pay high levels of taxes to the government, carefully and vigilantly observe the activities of the government with regard to its spending of their money, their contribution of tax, so as to know how much of money is withdrawn from the government budget to be spent, what the money is spent for, and so forth (Mohani, 2001). Similar findings have been obtained by Alasfour, Samy and Bampton (2016) in the case of Jordan, where the non-compliance of citizens with the tax system is morally acceptable since the people of Jordan have formed a negative impression of the government and its spending due to perceptions of its engagement in corruption and misuse of the taxpayers' money. The purpose of that study, using a survey questionnaire with a multivariate test procedure, was to investigate how the individuals in Jordan determine their tax morale level and their tax compliance level. The findings revealed that if the expenditures made by the government with the taxpayers' contribution had been considered worthwhile, taxpayers' thoughts for non-compliance would be negated. It is also assumed that taxpayers tend to avoid paying taxes to the tax authority if they predict that the

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[6] The 'Right from the Start' model investigates the issues in taxation that cause tax non-compliance; analyses the root cause of the issues; and addresses the issues at an early stage before they become problematic to the tax authority.

expenditures made by the government are not as fruitful and beneficial as they should be (Braithwaite, 2009).

To minimise the impact of tax compliance on individual taxpayers who work in organisations, institutions, business entities, etc. in developed Western countries and to discourage any bad intention of tax evasion, the tax paying method termed 'Pay As You Earn' (PAYE) has been adopted whereby the taxes due to be paid to the government by the individuals concerned are deducted from their salary by their employers and are sent to the tax authority. The adoption of the PAYE system negates the concept of the relationship between perception of government spending and tax behaviour, as the taxpayers are deprived of the opportunity to take their decision on tax compliance based on their perception towards the government (Roberts & Hite, 1994). Very few studies have focused their attention on the perception that the people have towards government spending.

Allingham and Sandmo (1972) have modelled an individual taxpayer's compliance behaviour, and this model also suggests that taxpayers' compliance with the tax laws is based on a simple expected utility function, which is an individual's preference towards goods or services, beyond the monetary value. According to the model, the level of tax evasion can be measured either by the penalty rate imposed on the taxpayer or by the increased probability of the taxpayer being caught for tax evading (Yitzhaki, 1974). Further, this theory also explains the relationship between the level of legal action, taken and the level of tax evasion (Jugurnath et al., 2017). This theory would fit into the study since this research studies the perception of penalty rate and the probability of audit.

3.5   Hypothesis development

According to Alm et al. (2017), the tax compliance behaviour of an individual is strongly affected by the tax compliance behaviour of the individual's neighbours, or by the people with whom the individual frequently interacts. It is possible for individuals to become compliant with the tax system, disclosing and reporting their income to the IRBM, when they come to know or believe that the other people around them who are in association with the individuals also take the same action. Conversely, when the neighbours of an individual avoid taxes, there will be a high degree of possibility for the individual to follow suit. For the participation of two groups of respondents in an experiment, a 'two-treatment setting' was established for this study. In one treatment setting of the experiment, a group of respondents was informed that their neighbours had complied with the tax system, and in the other setting, another group of respondents was informed that their neighbours had been audited and that they had paid their taxes with penalties. The results of the experiment indicated that the behaviour of an individual is subject to significant changes and impacts made by the behaviour of other people concerning tax compliance. Obaid et al. (2020) note that there are individuals who do not associate with other people so as to be influenced by them on tax compliance, and for such people, peer influence cannot be a factor to determine their tax compliance behaviour.

Therefore we postulate:

H1: *There is a positive association between peer tax compliance and personal tax compliance.*

According to Ayers et al. (2019), in business, managers' decisions to comply with the tax system are determined by the probability of audit. The study by DeBacker et al. (2013) put forward a different view, claiming that legal enforcement increases tax aggressiveness, which prompts the corporate sectors to take action to reduce tax payments after an audit. Businesses comply with the tax system more when they have the probability of their businesses being audited by the tax authority; and soon after the audit, they become non-compliant with the tax system. Such a pattern of behaviour in businesses is termed a U-shaped impact. Subsequently, D'Agosto et al. (2018) stated that there is a positive, and significant relationship between tax audit and tax compliance. Different types of audits are carried out by the tax authority in Italy, relating to the types of cases of tax non-compliance they handle, which improves the level of tax compliance significantly in the country. However, the adoption of on-site and desk audits has shown a great effect on tax compliance.

Therefore we postulate:

H2: *There is a positive association between probability of tax audit and personal tax compliance.*

Having a strong influence on tax compliance behaviour, tax socialisation relates to the service quality of the tax authority (Supriyono et al., 2021). Service quality must be upheld by the tax authority because taxpayers frequently face difficulties in calculating, paying, and reporting their taxes. The tax authority is obliged to improve its service quality in terms of knowledge, skills, and other facilities so that it can facilitate the taxpayers in fulfilling their tax compliance requirements. Indonesian taxpayers have revealed that they fail to comply with the tax system because they cannot acquire the required regulatory information that they are looking for from the tax authority, and also that they do not understand what the tax authority demands and expects from them. A similar argument was presented by Alm et al. (2017), that the service paradigm for tax administration, where tax officers act as facilitators and share their services, increases the level of tax compliance.

Therefore we postulate:

H3: *There is a positive association between service quality of tax authority and personal tax compliance.*
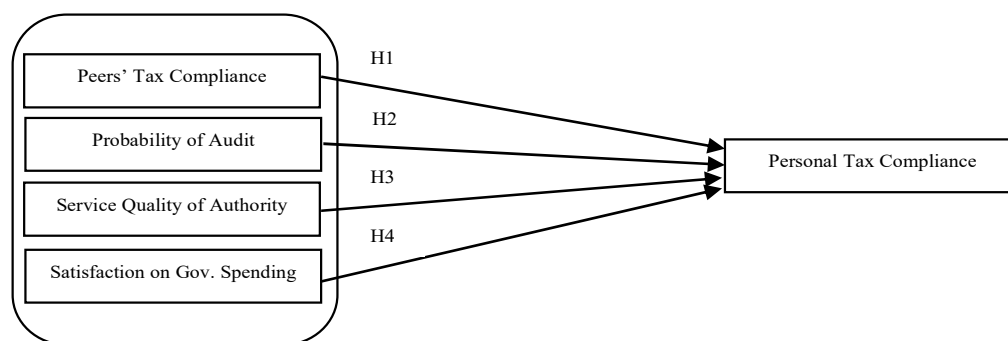
The collected tax is directed to the treasury of the federal government, and the flow of funds is expected to be transparent to the public (Doerrenberg, 2015). Further, being taxpayers, the citizens of the country take note of the money that is handled and spent by the government. If the taxpayers perceive that the expenditures made by the government are not worthwhile and fruitful, the resulting perception negatively impacts upon their tax compliance behaviour (Braithwaite, 2009). With a similar argument, Mohani (2001) rationalises that the people who pay higher levels of tax to the government monitor the government diligently when it handles taxpayers' money. An empirical study by Alasfour et al. (2016) reveals that the people of Jordan have the tendency not to comply with the tax system in the country due to the negative perception that they have formed of the government as having been hit heavily by corruption. Having developed the corruption perception index, Transparency International (2018) has highlighted that Jordan continues to be ranked 59th out of the 180 countries in terms of perceptions of corruption. Meanwhile, Transparency International (2021) has ranked Malaysia 57th out of the 180 countries in the same index, allowing the variable

'satisfaction with government spending' to be an important determinant for personal tax compliance.

Therefore we postulate:

H4: *There is a positive association between satisfaction with government spending and personal tax compliance*.

Fig. 1: The research model

```
 ┌──────────────────────────────┐          H1
 │  ┌────────────────────────┐  │ ───────────────┐
 │  │  Peers' Tax Compliance │  │                │
 │  └────────────────────────┘  │          H2    │
 │  ┌────────────────────────┐  │                │   ┌──────────────────────────┐
 │  │   Probability of Audit │  │ ───────────────┼──▶│                          │
 │  └────────────────────────┘  │          H3    │   │ Personal Tax Compliance  │
 │  ┌────────────────────────┐  │                │   │                          │
 │  │Service Quality of Auth.│  │ ───────────────┘   └──────────────────────────┘
 │  └────────────────────────┘  │          H4
 │  ┌────────────────────────┐  │
 │  │Satisfaction on Gov. Sp.│  │
 │  └────────────────────────┘  │
 └──────────────────────────────┘
```

4.   RESEARCH METHOD

The various websites displaying information, such as names, contact details, nature of businesses, etc. of public and private business establishments based in Malaysia were of immense assistance to the researchers in the distribution of the questionnaire, via email, to individuals who deal with the tax affairs of Malaysian business entities. This study has chosen the purposive sampling method, which is an appropriate sampling method for determining the general degree of importance of a phenomenon, in this case the variables of interest of the responding individuals (Sekaran, 2016), together with snowballing to increase the response rate. The sample size is 400 (Sekaran, 2016). The 'Smart PLS' system is used to test all the hypotheses.

With surveys a frequently used method to collect data for tax-related studies (Richardson & Sawyer, 2001), Saunders et al. (2003) explain that questionnaires can be classified into the self-administered and interviewer administered forms. The survey method is also subject to both 'pros' and 'cons', and Kleven et al. (2011) note that survey approaches may be subject to unreliable data. Therefore, it was seen as necessary for respondents to act honestly and responsibly in completion of the survey in this study. To improve the freedom of the respondents to answer the questionnaire honestly, the researchers considered that providing an anonymous questionnaire would be the best choice. This survey questionnaire was of the self-administered questionnaire type, using an online platform such as Google E-forms. Further, this questionnaire also collected the respondent's profile, in terms of the individual demographic information, as well as

their represented business profiles. The sample chosen for this study involved individuals who manage/handle their/others' tax affairs in business – so this survey was required to be completed by an individual who handles tax affairs in business. The survey questionnaire consisted of two major sections: the first about personal tax compliance and factors that impact personal tax compliance and the second relating to the respondents' information about themselves as well as about the businesses they work in. The items under each dimension were anchored on a seven-point Likert scale, i.e., Completely Disagree = 1, Mostly Disagree = 2, Somewhat Disagree = 3, Neither Agree nor Disagree = 4, Somewhat Agree = 5, Mostly Agree = 6, and Completely Agree = 7. Specific details of the survey questions as related to the model constructs are set out in the Appendix.

The purposive sampling method was adopted to perform the sampling in the first instance. Related research studies suggest performing snowballing sampling to increase the responses from the respondents, with both methods representing non-probability sampling techniques. Thus the respondents chosen to participate under purposive sampling were requested to forward the invitation to the survey to their known individual contacts who also manage/handle some tax affairs in their businesses.

Structural equation models are often used to assess unobservable 'latent' constructs. The use of SEM is commonly justified in the social sciences because of its ability to impute relationships between unobserved constructs (latent variables) and observable variables. SEM, therefore, allows the researcher to diagnose which observed variables are good indicators of the latent variables. To avoid the social desirability bias in this study, the researchers adopted a combination of two approaches to record the responses among officers of tax affairs. The questions in the questionnaire consisted of positive and negative questions, which recorded the tax compliance and non-compliance decision-making among officers of tax affairs. The positive questions were measured in direct mode, and the negative questions were measured in reversal mode.

5.   RESEARCH RESULTS

The actual population of respondents for this study are the tax affairs officers of Malaysian businesses. The tax affairs officers in Malaysia can be the owner of a business, or an appointed qualified officer, depending on the size and the nature of the business. There is no specific statistical report to disclose specifically the population of tax affairs officers in Malaysia. In the case of respondents to the survey in this study, 72.2% of the respondents were males, and 27.3% females. In terms of ethnic background, the largest group of the respondents, the tax affairs officers of businesses, were Chinese, representing 47%, followed by Malays, Indians, and other Bumiputras representing 33.16%, 16.07%, and 3.06%, respectively. The majority of respondents were also between the ages of 31 and 40, representing 62.24% of the sample. Among them, 45.66% worked in the food and beverage industry, followed by the retail and manufacturing industries at 18.62% and 11.99% respectively. The next section examines the validity and reliability of the constructs.

5.1   The measurement model

Table 2: Measurement Model

Constructs	Loading	Weight	AVE	CR
Satisfaction with government spending				
SATS1	0.745			
SATS2	0.871		0.596	0.854
SATS3	0.702			
SATS4	0.762			
Service Quality of Tax Authority				
SERV1	0.661			
SERV2	0.731			
SERV3	0.712		0.711	0.843
SERV4	0.705			
SERV5	0.664			
SERV6	0.656			
Peers' Compliance				
PEER1		0.616		
PEER 2		0.512		
PEER 3		0.645		
PEER 4		0.629		
PEER 5		0.618	0.719	0.817
PEER 6		0.525		
PEER 7		0.621		
PEER 8		0.617		
Personal Compliance				
PTAX1		0.628		
PTAX 2		0.623		
PTAX 3		0.523		
PTAX 4		0.638		
PTAX 5		0.615	0.680	0.816
PTAX 6		0.515		
PTAX 7		0.615		
PTAX 8		0.619		
PTAX 9		0.512		
PTAX 10		0.627		
Audit Probability				
PROB1		0.793		
PROB2		0.849	0.747	0.922
PROB3		0.867		
PROB4		0.848		

The SmartPLS application was used to analyse the collected data. The fundamental appeal of PLS-SEM is allowing the researcher to estimate complex models with many constructs and indicators, and complicated structural paths without imposing distributional assumptions on the data (Hair et al., 2019). The first step in the measurement model is to check the fitness between the constructs and the latent variables. The PLS algorithm reveals the outer loading values for reflective constructs and outer weight for the formative constructs. In this study, satisfaction with government spending, and service quality of tax authority are the reflective construct models and the rest are formative constructs. Table 2 shows the factor loading of reflective constructs as well as the factor weight of the formative constructs. Factor loading and factor weight reveal values above the benchmark value of 0.6, except for indicators of peer tax compliance and individual tax compliance.

The second step in the measurement model is to assess the internal consistency reliability, most often using composite reliability (CR) (Hair et al., 2019). Composite reliability (CR) shows the indication of indicators on the latent variables ranges between 0.816 and 0.922, reporting the values above the benchmark, 0.7.

The third step is assessing the convergent validity (Hair et al., 2019). This explains the extent to which the constructs converge to explain the variance of the items. The average variance extracted (AVE) is reported between the range of 0.596 and 0.747, exceeding the recommended benchmark level of 0.5.

Finally, the researcher is required to assess the discriminant validity, representing the extent to which a construct is empirically distinct from other constructs in the structural model (Hair et al., 2019). Discriminant validity is examined by looking at the correlation between constructs and the square root of the variance extracted for a construct. The top values presented in Table 3 show the square root of the construct's average variance extracted and the rest of the values show the correlation between the construct and are less than the square root of the average variance extracted. In summary, the measurement model confirms the goodness of the measurement. Generally, formative constructs are exempted from discriminant validity.

5.2   The structural model

The structural model was estimated using SmartPLS 3 software. Based on the analysis, the R^2 value for the relationship between independent variables, the factors, and the dependent variable, tax compliance among tax affairs officers of Malaysian businesses was 0.839. Thus, it can be summarised that 83.9% of the variance in the tax compliance level among tax affairs officers of Malaysian businesses are explained by the selected variables (refer to Table 4).

Table 3: Discriminant Validity

	Individual Tax Compliance	Satisfaction with Government Support
Satisfaction with Government Spending	**0.772**	
Service Quality of Authority	0.347	**0.843**

Table 4: Path Coefficient

Path	Description	Hypothesis	Path Coefficient	t-value	p-value	Results
PEER→PTAX	Peers' Tax Compliance → Personal Tax Compliance	H1	0.975	1.685**	0.041	Supported
PROB→PTAX	Probability of Audit → Personal Tax Compliance	H2	0.683	3.251**	0.000	Supported
SERV→PTAX	Service Quality of Tax Authority → Personal Tax Compliance	H3	0.584	1.990**	0.023	Supported
SATS→PTAX	Satisfaction with Government Spending → Personal Tax Compliance	H4	0.114	1.691 **	0.043	Supported
				$R^2=0.839$		
				$F^2=0.330$		

The pathway analysis shows that a significant positive ($\beta=0.975$, $p<0.05$) relationship exists between peers' tax compliance and personal tax compliance, a positive and significant ($\beta=0.683$, $p<0.05$) relationship between the probability of audit and personal tax compliance, and a positive and significant ($\beta=0.584$, $p<0.05$) relationship between service quality of tax authority and personal tax compliance. Satisfaction with government spending is also found to be a significant predictor ($\beta=0.114$, $p<0.05$) of personal tax compliance among tax affairs officers of Malaysian businesses.

6.   DISCUSSION AND CONCLUSION

The outcome of the analysis highlights that the structural model drawn in this study indicates a good model fit with an R-Square value of 0.839, and F-Size of 0.330. The interpretation is that the relationship between the factors of personal tax compliance (independent variables) among the tax affairs of Malaysian businesses and the personal tax compliance behaviour (dependent variable) can be explained to an extent of 83.9% by the variables studied. Moreover, the effect size (f-square) of more than 0.2 is an indication of a significant effect on the construct and validity of the model.

Interpretation of the hypothesis test, path coefficient, clearly articulates that hypothesis H1, a positive association between peer tax compliance and personal tax compliance, is supported. This correlates with previous studies by Alm et al. (2017), and Obaid et al. (2020) by confirming the impact of peers on personal tax compliance decision-making. The decision-making of associates around an individual leads to application of a similar decision of the individual's own. At the same time, as mentioned earlier, the converse of this association may also occur, in which unfavourable decisions by associates causes non-compliance with personal taxes.

Testing indicates that hypothesis H2, a positive association between the probability of tax audit and personal tax compliance, is also supported. This outcome parallels Ayers et al. (2019) and D'Agosto et al. (2018) and contradicts DeBacker et al. (2013) which studied corporate tax compliance in the United States and revealed that audit probabilities increase the tax aggressiveness of corporate businesses.

This study further highlighted that hypothesis H3, a positive association between service quality of the tax authority and personal tax compliance, is supported. Previous studies have reached consistent conclusions on this issue, and Alm et al. (2017) and Supriyono et al. (2021) in particular stated the same conclusion and confirmed that the service paradigm for tax administration, where the tax officers act as facilitators and share their services, will increase the level of tax compliance.

Finally, hypothesis H4, is a positive association between satisfaction with government spending and personal tax compliance, was also supported. Studies by Alasfour et al. (2016), Braithwaite (2009), and Mohani (2001) made a similar finding and share the insight that the citizens of the country take note of the money that is handled and spent by the government.

In conclusion, this study investigated the influencing factors on personal tax compliance behaviour among tax affairs officers in Malaysian business. According to Bagdad et al. (2017), as referred to in section 1, an assumption is presumed that there is a tendency for personal tax non-complying taxpayers also to exhibit non-compliance with corporate tax obligations. Since this study predicted that four variables, peers' tax compliance, probability of audit, service quality of tax authority, and satisfaction with government spending would have an influence upon the personal tax compliance behaviour of tax affairs officers, future researchers should measure the corporate tax compliance intentions of these officers to investigate whether their personal decision-making has an influence upon their corporate tax compliance decision-making. To produce an extensive and effective exploration of the said nexus, the selection of one type of data collection approach would not be sufficient, and the researchers should implement supplementary data collection methods in addition to the primary data collection method in order to strengthen the robustness of their findings.

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8. APPENDIX

Code	Indicator	Code	Indicator
PTAX1	I would feel guilty if I under-report my actual income in my annual tax return.	PEER1	Most taxpayers expect me to report all my income on the annual tax return.
PTAX2	To feel guilty for under-reporting income tax is good.	PEER2	Generally, I would do what most taxpayers expect me to do.
PTAX3	Under-reporting my income tax makes me better off.	PEER3	Most people who are important to me (e.g. family, friends, and business partners) expect me to report all my income on the annual tax return.
PTAX4	There are a number of government services, infrastructures and facilities for which I am thankful.	PEER4	Generally, I would do what people who are important to me would expect me to do.
PTAX5	Under-reporting income is acceptable if any portion of the money collected is wasted by government.	PEER5	Most taxpayers under-report their actual income on their annual tax returns.
PTAX6	Paying as little tax as possible is important.	PEER6	Generally, I would do what most other taxpayers do.
PTAX7	Government has spent the money collected from tax efficiently.	PEER7	The people who are important to me (e.g. family, friends, and business partners) under-report their actual income on their annual tax return.
PTAX8	Under-reporting my income will not hurt the society as a whole.	PEER8	Generally, I would do what people who are important to me do.

PTAX9	I feel that I have made a positive contribution to my country by fully reporting all of my income.	SATS1	I believe the government utilizes a realistic amount of tax revenue to achieve social goals.
PTAX10	Scenario question.	SATS2	I think the government spends too much tax revenue on unnecessary welfare assistance.
SERV1	The revenue authority has extensive means to force corporations to be honest about income tax.	SATS3	We receive fair value of services from the government in return for our corporate tax paid.
SERV2	Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third-party reports in a systematic way.	SATS4	We pay high corporate taxes when compared to the services we get from the government.
SERV3	If we evaded taxes and got caught, the penalties would be very high for my company.	PROB1	If there was a discrepancy in the annual tax return, how likely is that it would be audited?
SERV4	Inland revenue board treats me fairly in my dealings with them.	PROB2	If my company were to be chosen for a compulsory audit, how likely would a discrepancy be identified?
SERV5	Inland revenue board treats us respectfully in our dealings with them.	PROB3	The penalties are severe if my discrepancy were discovered in audit.
SERV6	We trust IRMB and government when dealing with them on corporate tax matters.	PROB4	The chances of being audited are so low that it is worthwhile trying to economize a little on corporate income taxes for various reasons.