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Taxpayers' perceptions on tax evasion behaviour: an empirical study in Malaysia

ABSTRACT

Purpose: The success of Self-Assessment Tax System is voluntary compliance with the tax laws. When tax evasion is seen as unacceptable, taxpayers will tend to less evade tax. Hence, the understanding of taxpayers' attitude on tax morality towards a tax system has to be enhanced in order to minimize tax evasion cases. The objectives of this study are to examine the relationship between tax fairness, tax knowledge, enforcement level and social exchange towards taxpayers' attitude of tax morality under the Self-Assessment System in Malaysia and also to identify the relationship between taxpayers' attitude of tax morality and taxpayers' perceptions on tax evasion.

Methodology: Data were collected from 400 taxpayers through a questionnaire and analysed.

Findings: From the analysis it has been found out that tax knowledge is the most important tax system characteristic that affects taxpayers' attitude of tax morality. In addition, taxpayers' attitude of tax morality is significant to taxpayers' perceptions on tax evasion in Malaysia.

Value: The findings of this study would be useful for government to further improve the present tax system to increase voluntary tax compliance.

KEYWORDS: Tax evasion behaviour, taxpayers' attitude, tax knowledge, tax fairness

INTRODUCTION

The tax system and taxes are fundamental components of any attempt for a developing country such as Malaysia (McKerchar & Evans, 2009). Tax is a means of financing government expenditures and is an important component in a government's revenue (Tabandeh, Jusoh, Nor, & Zaidi, 2013). Tax compliance has always been an area of concern to policy makers, tax administrators and society in general (Isa, 2014). Tax resistance can happen through either tax evasion or tax avoidance (Kasipillai, Aripin, & Amran, 2003). Tax evasion is different from tax avoidance. Every Malaysian has his/her own right to tax avoidance, while tax evasion is generally viewed as unacceptable on the ground that it is illegal as it involves intentional non-compliance of tax law. Taxpayers' compliance has a positive linkage with their perceptions of the tax system (Kogler, Batrancea, Nichita, Pantya, Belianin, & Kirchler, 2013; Schwartz, 2014). Acceptability perception can be defined as a person's moral or duties on a particular thing.

Although the tax evasion law has been enforced in Malaysia, the number of tax evasion cases is in an increasing trend, as reported by the Chief Executive Officer of Inland Revenue Board, Malaysia in the Annual Reports of Inland Revenue 2008 to 2012.

Insert Table 1 here.

It is impossible to achieve 100% compliance of tax regulations in all countries (McGee, Ho, & Li, 2008). It is a concern and challenge for all governments and tax authorities, as it is impossible to convince all taxpayers to meet the terms and guidelines of the tax system since the commencement of income tax collection (James & Alley, 2002). Several future research avenues still exist to improve the understanding of the determinants of tax evasion worldwide (Khlif & Achek, 2015). Hence, efforts have to be taken to increase tax compliance from taxpayers. Taxpayers' perception on tax evasion is highly questionable in Malaysia. Obviously, taxpayers' perception of the severity of tax evasion is an essential element. The probability of evading tax is there when taxpayers think that tax evasion is reasonable, and some will justify based on moral ground (Nickerson, Pleshko, & McGee, 2009). Besides, taxpayers' attitude on tax morality, such as inequitable tax laws and poor tax administration could be among the reasons for non-compliance of tax amongst taxpayers (Odd-Heldge, 2005). Thus, an enhanced understanding of Malaysian taxpayers' attitude and

perception on tax evasion is needed to seek solutions toward reducing the level of tax evasion.

Therefore, this study was carried out with the general objective to examine the taxpayers' attitude on tax morality as well as taxpayers' perceptions on tax evasion in Malaysia.

LITERATURE REVIEW

Tax mentality is established with tax morale and tax discipline, the combination of attitudes and approval or agreement of tax non-compliance, and perceived the behaviour as a social norm (Kirchler, 2007; Nerré, 2008). Tax morale is defined as the willingness and motivation to comply to tax laws (Torgler, 2002; Torgler & Murphy, 2004; Calvet & Alm, 2013; McKerchar, Bloomquist, & Pope, 2013). However, tax discipline is the action of taxpayers that reflects their attitude on tax evasion (Nerré, 2008). In other words, the fiscal psychology model includes the components of tax mentality, tax morale and tax tension which explains human behaviour (McKerchar & Evans, 2009).

Insert Figure 1 here.

Taxpayers' Perceptions on Tax Evasion

Taxpayers' perceptions and attitude towards tax evasion was used interchangeably due to the justification that individual's perception shapes a person's attitude towards tax evasion. Most literatures concluded that tax evasion could be justified as acceptable in certain circumstances, such as due to the inequity of tax system (Bø, Lambert, & Thoresen, 2012). McGee, Aljaaidi and Musaibah (2012) stated that tax evasion has been always or almost always acceptable due to unfair tax system as viewed by 124 usable respondents from College of Business at Hadhramout University, Yemen and supported by 114 future leaders in Guatemala (McGee & Lingle, 2008). However, some studies revealed that tax evasion could never be justified as shown by 4392 sample population of Australia, New Zealand and U.S.A (McGee & Bose, 2007) supported by McGee, Benk, Yıldırım, and Kayıkçı (2011) study of Turkish Tax Practitioner Opinion. Palil and Mustapha (2011) emphasized that the level of tax perceptions is found to have a positive relationship with compliance behaviour in

Malaysia using Stepwise Multiple Linear Regression test with consistent results by Saad and Haniffa (2014).

Tax Fairness and Taxpayers' Attitude towards Tax Morality

According to a study by Walsh (2013), a fair tax system depicts the taxpayers' willingness to pay the charged tax and perceived to be moral and the impact on the opposition to tax evasion. This is because they believe that the services provided by the government are worth their tax charges. Therefore, a positive relationship between fairness of the tax system and taxpayers' attitude is established as proved by few researchers by correlation analysis and regression analysis (Sapiei & Kasipillai, 2013; Ritsatos, 2014; Oberholzer & Stack, 2014). When the treatment of tax system toward all taxpayers is fair, tax morality is perceived as high as they are satisfied and willing to pay the government. Azmi and Perumal (2008) indicated that the fairness of the tax system is important as this would lead to better taxpayers' attitude by factor analysis in Malaysian perspective. Mohamad, Nor, Bakar, and Nanta (2013) found out that tax fairness has a positive significant association with taxpayers' attitude by Man-Whitney and Kruskal Wallis test. On the contrary, taxpayers tend to engage in tax evasion and are more likely to perceive that tax evasion is acceptable when they claimed that the tax system is unfair and inequity to them, which was supported by Barth, Cappelen, and Ognedal (2006) as well as Fortin, Lacroix, and Villeval (2007). When income tax is imposed at a higher rate on poor taxpayers, it is difficult for them to pay the amount charged; thus, they are forced to deviate from their morale and this then causes them to respond immorally toward the implemented tax system. So, tax evasion arises at an acceptable level for taxpayers in certain situations. From the above studies, the following hypothesis is made:

H_1 : Tax fairness is found to have relationship with taxpayers' attitude on tax morality.

Tax Knowledge and Taxpayers' Attitude towards Tax Morality

The effects of tax knowledge on taxpayers' attitude toward tax evasion have been evaluated by a few researchers. Tax knowledge involves taxpayers' understanding on tax regulations and procedures to avoid tax evasion cases from gradually increasing (Kasipillai, Norhani, & Noor, 2003). Enhancing taxpayers' knowledge assists them to increase awareness about the tax system and laws in the country. Many studies concluded that the knowledge

perceived on the tax system changes taxpayers' attitude towards the system substantially, which implies that greater tax knowledge leads to a higher moral value of individual taxpayer. Therefore, they have a greater tendency to refrain from tax evasion in Malaysia (Palil & Mustapha, 2011; Mohamad et al., 2013). This is due to taxpayers taking the initiative to understand the tax system, thus improving their confidence level in exercising their accountability to the system. Tax knowledge highlights on the taxpayers' responsibility to determine and report their tax liability. Meanwhile, a survey carried out in Malacca, Malaysia ascertained that the target respondents were working and salaried individuals with insufficient education on tax knowledge (Loo & Ho, 2005). Therefore, they perceived that tax evasion was acceptable in certain conditions as they were less familiar with the system and have low morale due to lack of education regarding personal tax relief and the law of the system. Consequently, it is difficult for them to comply with taxation, which leads to higher tax evasion cases. Hence this study proposes to assess the significance of the relationship between tax knowledge and taxpayers' attitude toward a tax system with the following hypothesis:

H₂ : Tax knowledge is found to have relationship with taxpayers' attitude on tax morality.

Level of Enforcement and Taxpayers' Attitude towards Tax Morality

Mohamad et al. (2013) study showed that greater enforcement of the tax system may discourage taxpayers from tax evasion, as it is an immoral and unacceptable attitude. This result is consistent with other research studies conducted in Malaysia (Loo, McKerchar, & Hansford, 2009; Madi, Kamaluddin, Jangu, Ibrahim, Samah, & Jusoff, 2010; Jaidi, Noordin, & Kassim, 2013), Asia and Europe (Palil & Mustapha, 2011), Italy (Filippin, Fiorio, & Viviano, 2013). These studies found out that the taxpayers are sensitive towards tax audit and punishment. Thus, the authors believed that higher enforcement level facilitates strong linkage with taxpayers' attitude in order to increase tax morale. According to Madi et al. (2010), when taxpayers under-reporting their income in tax return, penalty and fines up to 60% are enforced on them. Kirchler (2007) emphasized that greater enforcement level may cause taxpayers to perceive the system as unjust. Thus, there is a higher tendency for law and legislation violations, which reflects the attitude of dishonesty and immorality of each individual as they perceive to evade the tax imposed on them. When the penalty imposed on tax evaders are greater, they tend to evade as they thought that the possibility of getting

caught is lower. This leads to a change in attitude and no fear for laws and legislations. On the other hand, some studies proved that there is no significant linkage between tax enforcement of the tax system towards taxpayers' attitude as supported by Torgler (2005) and Torgler and Schneider (2007). Hence, a hypothesis is formulated to examine the significance of the relationship between the enforcement level of the tax system and the attitude of taxpayers' on morality as below:

H₃ : Enforcement level is found to have relationship with taxpayers' attitude on tax morality.

Social Exchange and Taxpayers' Attitude towards Tax Morality

Smith and Stalans (1991) defined social exchange as a direct reward interchange that provides taxpayers with their tax payment incurred. Taxpayers tend to comply with taxation when they anticipate that other citizens report their income honestly (Cullis, Jones, & Savoia, 2012). Besides, numerous researchers demonstrated that greater benefits provided by the government to citizens would cause them to react morally as the paid tax would benefit them and would lead to greater avoidance of tax evasion in exchange with rational incurred tax (Abubakari & Christopher, 2013; Lozza, Kastlunger, Tagliabue, & Kirchler, 2013; Oates & Schwab, 2013). The benefits delivered to citizens could be in the form of some project investments, and improvement of the infrastructure for public convenience. Therefore, their attitude toward the tax system tends to be more polite. Besides, appropriate use of received tax by the government could bring to higher tax compliance as well. Therefore, the Fiscal Psychology model was used to analyse the impact of tax compliance in prior studies. However, the unsuitable tax schedule for taxpayers would cause them to evade more taxation as supported by a survey by Roberts and Hite (1994) as well as Francis, Hasan and Sun (2012). Inappropriate usage of tax money could lead taxpayers' to respond immorally to the system by cheating the reported amount. Thus, this study developed a hypothesis to investigate the significance of the relationship between social exchange and the attitude of taxpayers' morality as detailed below:

H₄ : Social exchange is found to have relationship with taxpayers' attitude on tax morality.

Taxpayers' Attitude towards Tax Morality and Taxpayers' Perceptions on Tax Evasion

Cummings, Martinez-Vazquez, McKee, and Torgler (2009) have defined attitude as an individual moral responsibility to voluntarily pay the income tax imposed on them. The

taxpayers' perception on tax evasion is reflected by their attitude and morality. Alm and Torgler (2011) established that high level of trust improves taxpayers' attitude and reduces the effect on the tax evasion occurrence which was also supported by another researcher such as Halla (2012). A strong relationship between taxpayers and the government increases the taxpayers' tendency to refrain from tax evasion and willingness to honour or pay the tax incurred. Alabede, Ariffin abd Idris (2011) carried out a survey in Nigeria to examine their perception on tax evasion by moderated multiple regression. The results showed that taxpayers tend to comply with the implemented tax system. The root cause was that the system in Nigeria treated their taxpayers with minimal control and respect; therefore, their tax morality was higher. In addition, some studies indicated that higher tax morale is reflected by higher tax compliance, which means reduced tax evasion cases (Kogler et al., 2013; Hashimzade, Myles, Page, & Rablen, 2014; Oberholzer & Stack, 2014). When taxpayers have higher tax morale and honesty on tax, they tend to obey the regulated tax laws and the impact of negative relationship in reducing tax evasion perceptions (Traxler, 2010; McGee & Yoon, 2014). Therefore, they have higher tendency to comply with the tax system by maintaining higher morality and value. In contrast, the level of tax morale in Spain and the United States showed that the perception on tax evasion was that they were never acceptable to the taxpayers (Alm & Torgler, 2006). As taxpayers understand that dishonest attitude towards the tax system is immoral, they are more opposed to tax evasion perceptions. In conclusion, there was a positive relationship between taxpayers' attitude and tax compliance as shown in a survey in Malaysia (Saad, 2009). Based on the above studies, the following hypothesis is developed to examine the significance of the relationship between taxpayers' attitude and perceptions on tax evasion:

H₅ : Taxpayers' attitude towards tax morality is found to have relationship with taxpayers' perceptions on tax evasion.

Insert Figure 2 here.

As illustrated in the figure 2, there are four independent variables on the tax system characteristics consisting of tax fairness, tax knowledge, enforcement level of the tax system and social exchange. Independent variables had mediating effect on taxpayers' attitude

towards tax morality, while mediating variable impacted the dependent variable, which was the taxpayers' perception on tax evasion.

RESEARCH METHODOLOGY

To know the perceptions of the taxpayers, a questionnaire delivery and collection method was adopted. In order to ensure that the data were reliable and unbiased, the entire process of responding to the questionnaire was monitored. All questionnaires were collected once respondents completed the questionnaires to avoid loss of data. Besides, it enabled the respondents to clarify their queries on the spot to avoid biased results. Thus, it helped to increase the reliability of the survey responses. This method allowed the respondents to provide results with higher accuracy as the questionnaire survey form was completed anonymously. The information disclosed by respondents was kept strictly confidential and there was no concern about their privacy being violated.

A target population can be defined as a group of people who completed the questionnaire survey related to the study (Lohr, 2009). Malaysian taxpayers were the target population for this study, because they possess the knowledge and experience of the Malaysian tax system. Therefore, the taxpayers' precious opinion on the tax system and perceptions on tax evasion were considered for this study. Under the Malaysian tax system, taxpayers who earn greater than RM 2,500 per month are subject to income tax (Shanmugam, 2004). Therefore, this survey focused on taxpayers who earned a monthly income of above RM2,500 in Malaysia. This study focused on three States with the highest number of income tax returns such as Selangor, Johor and Perak to represent the entire Malaysia. A sampling method was required as it was impossible to reach all Malaysian taxpayers.

In the 2014 Malaysia Population Review report by the Inland Revenue, the chief executive officer reported that the total population in Malaysia is approximately 29,768,915, and the number of active taxpayers is about 1,700,000. It was considered that a target sample size of 399 respondents would maximize the confidence of accuracy and reduce the chance for error. A 88.88% response rate was achieved for this questionnaire survey, which was equivalent to 400 out of the total 450 sets of survey.

DATA ANALYSIS

After the data were processed, it was analysed in SPSS, version 16.0. SPSS carried out the reliability test and inferential analysis.

Internal Reliability Test

According to the results, taxpayers' perceptions on tax evasion attained the highest Cronbach's alpha of 0.868, whereas tax knowledge obtained the lowest Cronbach's Alpha of 0.755. Taxpayers' attitude towards tax morality ($\alpha = 0.867$) had a very good reliability (DeVellis, 1991; Hair et al., 2003). Meanwhile, tax fairness ($\alpha = 0.798$) and enforcement level ($\alpha = 0.786$) had good reliability as their Cronbach's alpha values exceeded 0.7 (Hair et al., 2003).

A reliability result that exceeds the lower limit of 0.7 is accepted by a majority of the authors. Overall, the results of the Cronbach alpha of all the variables in this study ranged between 0.755 and 0.868. Thus, the questionnaire was considered reliable and consistent (George & Malley, 2005; Hair et al., 2006; Tavakol & Dennick, 2011).

Pearson's Correlation Coefficient

Pearson's correlation coefficient is a statistical measure of the strength and significance of all variables that are dignified at an interval and ratio level (Sekaran & Bougie, 2010). The results display the correlation matrix between the four independent variables (tax fairness, tax knowledge, enforcement level and social exchange) and the mediating variable, which was taxpayers' attitude towards tax morality. The correlation coefficient for all constructs ranged from 0.588 to 0.758. This indicates that there was no multicollinearity problem in this research as all correlation coefficients did not exceed the rule for multicollinearity detection of 0.8 (Gujarati & Porter, 2009).

Independent variables of enforcement level ($r = 0.678$) and social exchange ($r = 0.588$) had a moderate positive relationship with taxpayers' attitude towards tax morality as their correlation coefficient ranged from +0.40 to +0.69 (Dancey & Reidy, 2004). The independent variable, tax fairness ($r = 0.729$), had a strong positive relationship with taxpayers' attitude towards tax morality as its correlation coefficient value ranged within +0.7 to +0.8 (Dancey & Reidy, 2004). Besides, the coefficient for tax knowledge ($r = 0.758$)

was greater than +0.70, which means that it has the strongest positive relationship with taxpayers' attitude towards tax morality among the four independent variables.

Nevertheless, mediating variable is significant at the 0.05 level and the variable had a negative association with the dependent variable. In this scenario, there is a negative linear relationship between both variables and their movement opposed each other. The mediating variable, taxpayers' attitude towards tax morality ($r = -0.794$), had a strong negative correlation with taxpayers' perception on tax evasion as the correlation coefficient ranged from -0.70 to -0.80 (Dancey & Reidy, 2004).

Correlation matrix between the mediating (taxpayers' attitude towards tax morality) and dependent (taxpayers' perceptions on tax evasion) variables was -0.794, which indicates no multicollinearity problem because the correlation coefficient did not exceed the rule for multicollinearity detection, which was -0.8 (Gujarati & Porter, 2009).

Stepwise Multiple Linear Regression

Insert Table 2 here.

The coefficient of determination (R^2) is 0.703, which defined that 70.3% variation in taxpayers' attitude towards tax morality could be explained by the four independent variables (tax fairness, tax knowledge, enforcement level and social exchange). On the other hand, it indicates that 29.7% unexplained variation in taxpayers' attitude towards tax morality should be explained by variables other than the four independent variables.

Insert Table 3 here.

As per Table 3, the F-value is 273.584 with a p-value of 0.000. Since the p-value for ANOVA is less than the significance level (0.05), it means that all independent variables, namely tax fairness, tax knowledge, enforcement level and social exchange had significant relationships with the mediating variable, taxpayers' attitude towards tax morality. Thus, it shows that the independent variables are significant to predict the variation in the mediating variable (taxpayers' attitude towards tax morality). According to F-test analysis, it is

significant and all Beta for the independent variables have precise directions, the model was reliable and appropriate to determine the relationship between taxpayers' attitude towards tax morality and the four independent variables (Gujarati & Porter, 2009).

Besides that, there is no multicollinearity problem in this study as the Variance Inflation Factor for these independent variables are all below 10. Therefore, it can be concluded that there is no multicollinearity problem between the variables.

Insert Table 4 here.

According to Table 4, the p-value for tax knowledge (0.000) is less than 0.05 and this variable has the most significant relationship towards taxpayers' attitude towards tax morality due to the high Beta for the unstandardized coefficient, which is 0.462 among the four independent variables. Thus, H_2 is accepted under this scenario. The Beta for the unstandardized coefficient can be signifying that tax knowledge had a significant positive relationship with taxpayers' tax morality. The result obtained in this study is consistent with the prior study by Kasipillai et al. (2003) as well as Mohamad et al. (2013) and indicates that tax knowledge should be improved in order to discipline taxpayers in Malaysia. Tax knowledge is the taxpayers' understanding on tax regulations and procedures. Therefore, it depends on the tax education imparted to the taxpayers that would result in higher moral attitude toward the tax system. Positive attitude from taxpayers could mean that taxpayers have sufficient knowledge and awareness of the tax system implemented in Malaysia such as document pertaining, category of income included and obligations of filing tax returns. Therefore, it is important for the tax authorities to carry out appropriate taxation seminars or educational talks to the public and students in universities in order to increase taxpayers' awareness and knowledge as they are future taxpayers. This helps to reflect higher tax morality on tax system when higher knowledge is perceived by the taxpayers. Other than that, IRBM plays an important role to equip the public with the basic tax education by simplifying tax system implemented (Palil, Akir, & Ahmad, 2013). This may attract taxpayers more compliance towards taxation and reduce tax evasion cases. In conclusion, there is a significant positive linkage between tax knowledge and taxpayers' attitude towards tax morality.

The second significant variable is tax fairness, which had positive 0.419 Beta of unstandardized coefficient. Its p-value is important as well. If the p-value is less than 0.05, it would accept H_1 . Based on the table above, the p-value for tax fairness (0.000) is less than 0.05. Thus, H_1 is accepted for this variable. In this study, the findings show that tax fairness had a coefficient value of 0.419, which suggests that tax fairness had a significant positive relationship towards taxpayers' tax morality. Therefore, high fairness of a tax system would give positive impacts on taxpayers' attitude towards tax morality of the Malaysian tax system. Indirectly, when taxpayers' determine that the tax system is fair, it would be acceptable for them to pay taxes (Oberholzer & Stack, 2014). Besides, most respondents agreed that the proportion of tax rates was distributed fairly between higher-income and lower-income earners. Thus, a fair tax system as perceived by taxpayers assists to improve taxpayers' attitude towards tax morality. In conclusion, tax fairness had a significant positive relationship with taxpayers' attitude towards tax morality.

Enforcement level is the third significant variable for taxpayers' attitude towards tax morality. It had a 0.176 positive Beta of unstandardized coefficient. If the p-value is less than 0.05, it would tend to accept H_3 . As per Table, the p-value of enforcement level (0.000) is less than 0.05. Therefore, H_3 is accepted. Next, this research also highlights that enforcement level and taxpayers' attitude towards tax morality had a positive relationship, with a coefficient value of 0.176. Enforcement level is a very important determinant for taxpayers' attitude towards tax morality. From the analysis, it could be interpreted that enforcement level had a weak relationship towards taxpayers' attitude on tax morality. As a result, the Inland Revenue Board needs to produce higher enforcement procedures in order to strengthen taxpayers' attitude on tax morality (Filippin et al., 2013). Apart from that, the current enforcement level, such as higher penalties and fines that imposed facilitates government to reduce the expected value of tax evasion and also reflects higher taxpayers' morale which can be seen in Table 1. Therefore, tax evasion resolved cases are increasing every year, which were reported in the Annual Report of Inland Revenue. This has proved that IRBM is efficient in handling tax evasion cases and enforcement level that applied is useful and applicable for the taxpayers in Malaysia so that they are complying to taxation. Other than that, unexpected investigation is carried out by IRBM on taxpayers who do not make proper tax returns so that this helps to increase taxpayers' alertness and not to evade on any taxation

affairs and information (Jaidi et al., 2013). In a nutshell, enforcement level has a significant positive relationship with taxpayers' attitude towards tax morality.

Social exchange is not significant in this study, the p-value of which is greater than the 0.05 significance level. This variable has the least individual significant Beta of unstandardized coefficient on taxpayers' attitude towards tax morality. Hence, H_4 is rejected in this study. The result obtained in this study is not consistent with most of the prior researches, as the previous researches have strongly agreed that there is a relationship between social exchange and attitude on tax morality. Social exchange is the benefit received from the government for the tax paid. Under this situation, the social exchange variable does not bring any effect on taxpayers' responses, which means that taxpayers' do not concern on the benefit received from the government and thus this does not influence on taxpayers' attitude towards tax morality. The result of this study is supported by some researchers like Kehoe and Wright (2013) as well as Wang and Noe (2010). The taxpayers in Malaysia do not anticipate the government to contribute towards the society (Kehoe & Wright, 2013). Since there are no alternatives to guarantee for the benefit received, the taxpayers trust on Malaysian government spending and do not expect to receive any benefit from the government (Colquitt, LePine, Piccolo, Zapata, & Rich, 2012). Due to the small coefficient value, social exchange has not influenced the taxpayers' attitude on tax morality, which could indicate that social exchange does not have a significant relationship towards tax morality.

The multiple linear regression equation can be formulated as follows based on the values in Table 4.

$$Y = -0.167 + 0.419X_1 + 0.462X_2 + 0.176X_3 + \varepsilon$$

Where;

Y = Taxpayers' Attitude on Tax Morality

X_1 = Tax Fairness

X_2 = Tax Knowledge

X_3 = Enforcement Level

Simple Linear Regression

Insert Table 5 here.

As per Table 5, the coefficient of determination (R^2) is 0.630, which means that 63% variation in taxpayers' perceptions on tax evasion could be explained by taxpayers' attitude towards tax morality. It indicates that 37% variation of taxpayers' perceptions on tax evasion should be explained by variables other than the mediating variable.

Insert Table 6 here.

Table 6 shows that the F-value is 592.674 with a p-value of 0.000. Since the ANOVA p-value is less than the significance level (0.05), it implies that the mediating variable, the taxpayers' attitude towards tax morality, had a significant relationship with the dependent variable, taxpayers' perceptions on tax evasion. Therefore, it reflects that taxpayers' attitude towards tax morality was significant in predicting the variation in taxpayers' perceptions on tax evasion. According to F-test analysis, the variable is significant and the Beta for the mediating variable had a precise trend, the model is reliable and appropriate to determine the relationship between taxpayers' attitude towards tax morality and taxpayers' perceptions on tax evasion.

Insert Table 7 here.

It can be seen from table 7 that the p-value of taxpayers' attitude towards tax morality was 0.00, which is lower than the significant level of 0.05. In addition, Beta of unstandardized coefficient for taxpayers' attitude towards tax morality is -0.639. Therefore, H_5 is accepted. The findings show that taxpayers' attitude towards tax morality and taxpayers' perceptions on tax evasion had a negative relationship with coefficient value of -0.639. The understanding of taxpayers' perception is vital for the Inland Revenue Board and the government and it helps to minimize the tax gap that may influence taxpayers' opinion and perception (Hashimzade et al., 2014). A negative relationship between the two variables revealed that taxpayers' perceived higher tax morality would result in lower acceptability of taxpayers' perceptions on tax evasion in Malaysia. This result is inconsistent with the study results of Oberholzer and Stack (2014). The act of tax evasion is not only determined by

monetary issues; moral issues also significantly impact taxpayers' decision as well. If taxpayers have higher moral value, they tend to be honest in their tax payment. Consequently, if the Inland Revenue Board desires to minimize tax evasion rate in Malaysia, it needs to increase taxpayers' attitude towards morality by improving the current tax system. Thus, it could be concluded that there was a strong significant negative relationship between taxpayers' attitude towards tax morality and taxpayers' perceptions on tax evasion.

The multiple linear regression equation can be formulated as follows based on the values in Table 7.

$$Y = 4.692 - 0.639X_1 + \varepsilon$$

Y = Taxpayers' Perceptions on Tax Evasion

X_1 = Tax Morality

IMPLICATION OF THE STUDY

The above ranking shows that the most effective way for the Inland Revenue Board and related taxation units in Malaysia to improve taxpayers' attitude towards tax morality is to enhance them with sufficient tax knowledge in order to ensure that taxpayers' tax knowledge is maintained at a high level. To achieve a high standard of tax knowledge, the Inland Revenue Board management must enhance the performance of their employees. Regardless of position, whether they are from the front office or back office, employees are encouraged to provide taxpayers with the general knowledge and education on how to file a tax return and the importance of paying taxes. Besides, the Inland Revenue Board and related units need to conduct seminars or talks for taxpayers who do not have any knowledge about filing and paying taxes. Besides, tax education is important for inexperienced taxpayers because they do not have any knowledge on tax-deductible items or programmes. Therefore, the correct information will help them to complete the tax return process smoothly and familiarize themselves with the tax system in Malaysia.

In contrast, improvements on tax fairness in the system can help the Inland Revenue Board to improve taxpayers' attitude towards tax morality. The management should always evaluate the fairness of the tax system and update out-dated clauses in order to generate

taxpayers' confidence that they are under the protection of the Inland Revenue Board. The related units and management, similarly, can show their concern towards taxpayers by collecting their opinion on the distribution of tax rates, special provision offered in the income tax law, fair share of income and others. This investigation benefits the Inland Revenue Board with better understanding on the taxpayers' concern, feedbacks and unsatisfied matters in the tax system. This can help the Inland Revenue Board to detect problems immediately and enable the management to solve the issues before they become serious.

Furthermore, Inland Revenue Board management should set up stricter laws and regulations for taxpayers to comply with the current tax system, since the enforcement level was found to positively influence taxpayers' attitude towards tax morality in this study. The Inland Revenue Board management and related units can improve the rules on the taxation system such as higher penalties and sanctions imposed on taxpayers who fail to pay taxes. Taxpayers' awareness of tax penalties and sanctions may encourage their attitude towards morality, and consequently, may increase their tax morality.

Last but not the least, an improvement on taxpayers' attitude towards tax morality can help the Inland Revenue Board to improve taxpayers' perception on tax evasion. The management should always evaluate on taxpayers' attitude of tax system according to taxpayers' attitude on morale in order to minimize tax evasion cases in Malaysia. Elements of tax morality include taxpayers' honesty, collaboration as well as willingness to pay for tax charges. When taxpayers have higher tax morale, they tend not to refuse or refrain tax evasion behaviour as it is an immoral behaviour. Therefore, taxpayers' morale directly reflects their actual attitude. As stated in the study, if taxpayers perceive that the government is fair, they tend to be honest and willing to pay for the taxes. As a result, when taxpayers are cooperating with the Inland Revenue Board, they will not agree with tax evasion behaviour and this directly minimize tax evasion cases in Malaysia.

In conclusion, the purpose of this study was to share the knowledge, experience and findings with future researchers. By utilizing this study as a guideline, they will have a better understanding to perform an improved study in the future.

LIMITATIONS OF THE STUDY

There are few limitations in this study. A small sample of 400 respondents was targeted to complete the survey through purposive and snowball sampling techniques. This small sample size may not be convincing enough to interpret the actual taxpayers' attitude towards tax morality and perceptions on tax evasion in Malaysia. Additionally, most respondents were mainly from Selangor, Johor and Perak States. Only a small number of respondents completed the questionnaires from other States. This will be the limitation with respect to small amount of respondents from other States such as Penang, Perlis, Selangor, Kelantan, Terengganu, Pahang, Negeri Sembilan, Sabah and Sarawak. Thus, the result could barely represent the whole Malaysia because there could be different opinions or responses from different States.

Furthermore, there was a language barrier from the respondents. The questionnaire was designed using simple English. Although it is an International language and generally recognized by most Malaysians, there were respondents who found it difficult to understand the questionnaire in English. The reason for that was because they came from different educational level and background. Hence, some might have poor understanding of the English language. Therefore, the results from these respondents might not be accurate and reliable.

RECOMMENDATIONS FOR FUTURE STUDY

Following suggestions and recommendations are proposed to overcome the limitations of this study. Firstly, it is recommended that future research on a similar topic can be conducted to improve data accuracy and integrity by engaging a larger sample size. Additionally, future research can widen the sampling frame to include other preferred locations extensively, not only in Malaysia. Besides, other sampling methods such as cluster sampling techniques are recommended while doing the research that is related to this study. The future researchers can divide the population into few different income level groups and then, a simple random sample cluster is selected from the population. Cluster sampling method is better and more appropriate as it is cheaper in terms of travel expenses and administration costs (Answers Corporation, 2013).

Since Malaysia is a multi-racial country, the questionnaire is suggested to be designed in multiple languages so that all respondents will be able to understand the questions clearly and avoid any misunderstanding. If the questionnaire is translated into four main spoken languages in Malaysia, which are English, Malay, Chinese and Tamil, it will aid in generating a more accurate result during the process. Besides, more questions on the respondents' demographic profile should be included so that the data related to the respondents can be diversified clearly.

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FIGURES

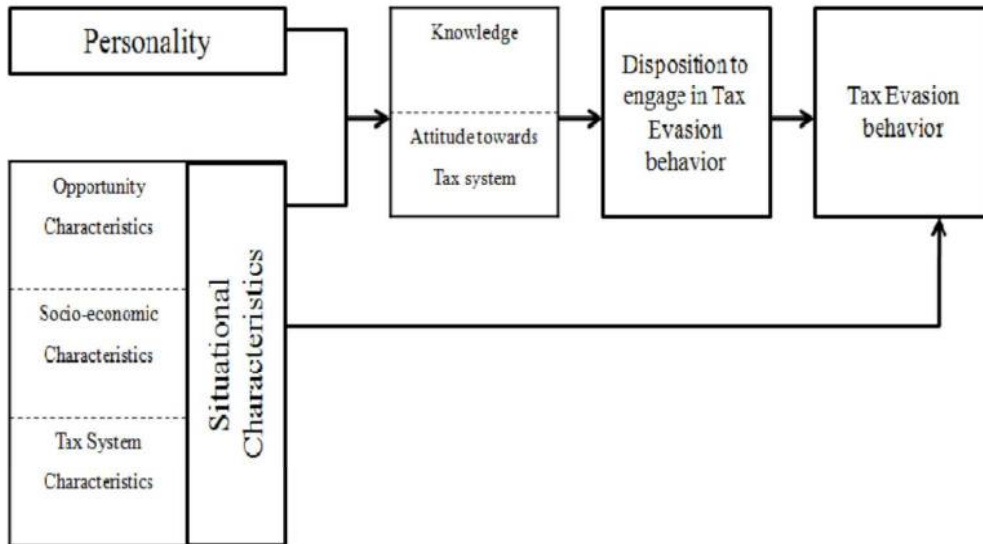


Figure 1: Fiscal Psychology Model (adapted from Groenland and Veldhoven, 1983)

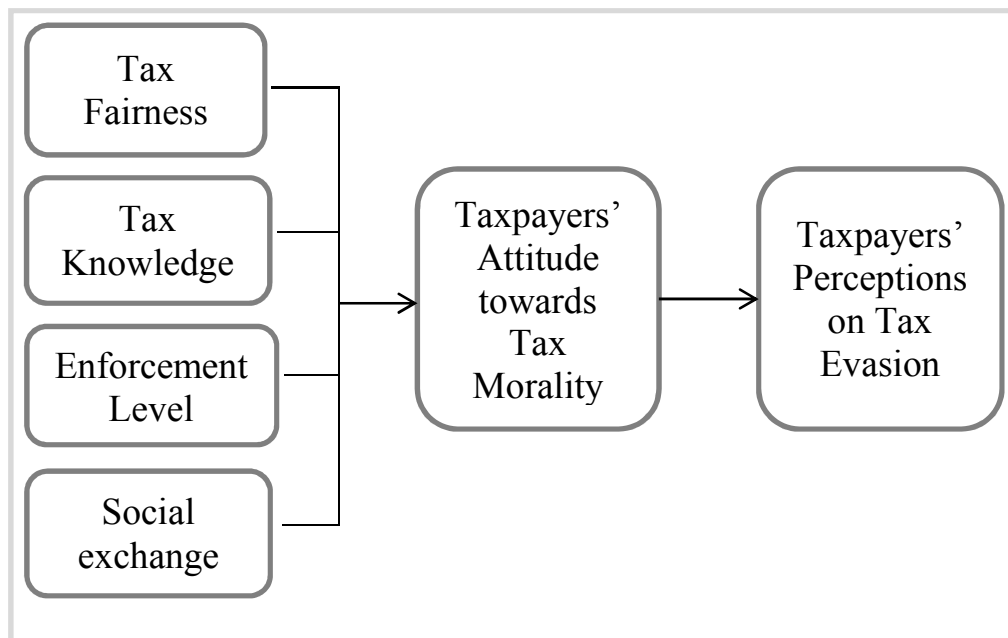


Figure 2: Proposed Research Model

Adapted from: Saad N. (2009). Fairness Perceptions and Compliance Behaviour: The Case of Salaried Taxpayers in Malaysia after Implementation of Self-Assessment System. *eJournal of Tax Research*, 8(1), 32-63.

Table 1: Statistics on Tax Evasion

YEAR	NUMBER OF TAX EVASION CASES
2008	7,030
2009	9,642
2010	12,192
2011	10,501
2012	19,304

Source: Inland Revenue Board. *Tax audit and investigation framework* Inland Revenue Board of Malaysia, Kuala Lumpur.

Table 2: Model Summary of Stepwise Multiple Regression Model

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate (Std.)
1	.759 ^a	.576	.575	.69837
2	.831 ^b	.690	.689	.59800
3	.839 ^c	.703	.701	.58602

- a. Predictors: (Constant), TK
- b. Predictors: (Constant), TK, TF
- c. Predictors: (Constant), TK, TF, EL

Table 3: ANOVA of the Stepwise Multiple Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	230.956	1	230.956	473.542	.000 ^a
	Residual	169.727	348	.488		
	Total	400.682	349			
2	Regression	276.593	2	138.297	386.731	.000 ^b
	Residual	124.089	347	.358		
	Total	400.682	349			
3	Regression	281.860	3	93.953	273.584	.000 ^c
	Residual	118.822	346	.343		
	Total	400.682	349			

- a. Predictors: (Constant), TK
- b. Predictors: (Constant), TK, TF
- c. Predictors: (Constant), TK, TF, EL
- d. Dependent Variable: TM

Table 4: Coefficients for the Stepwise Multiple Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.571	.134		4.269	.000		
	TK	.848	.039	.759	21.761	.000	1.000	1.000
2	(Constant)	-.066	.128		-.516	.606		
	TK	.562	.042	.503	13.397	.000	.634	1.578
	TF	.467	.041	.424	11.297	.000	.634	1.578
3	(Constant)	-.167	.128		-1.308	.192		
	TK	.462	.048	.414	9.573	.000	.459	2.180
	TF	.419	.042	.380	9.871	.000	.579	1.726
	EL	.176	.045	.167	3.916	.000	.473	2.113

a. Dependent Variable: TM

Table 5: Summary of the Simple Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794 ^a	.630	.629	.52505

a. Predictors: (Constant), Tax Morality

Table 6: ANOVA of the Simple Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	163.385	1	163.385	592.674	.000 ^a
	Residual	95.935	348	.276		
	Total	259.320	349			

a. Predictors: (Constant), Tax Morality

b. Dependent Variable: Taxpayers' Perceptions

Table 7: Coefficients for the Simple Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	4.692	.093		50.596	.000		
TM	-.639	.026	-.794	-24.345	.000	1.000	1.000

Source: SPSS, version16.0