

**AN EVALUATION OF THE MALAYSIAN TAX ADMINISTRATIVE
SYSTEM, AND TAXPAYERS' PERCEPTIONS TOWARDS
ASSESSMENT SYSTEMS, TAX LAW FAIRNESS, AND TAX LAW
COMPLEXITY**

A Dissertation submitted to the Graduate School in partial **fulfilment** of the
requirements for the degree of Doctor of Philosophy,
Universiti Utara Malaysia

by

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ABSTRAK

Rejim-rejim cukai di serata dunia sentiasa mencari jalan **untuk meningkatkan** kutipan hasil cukai negara. Memandangkan hasil cukai merupakan bahagian **besar** daripada jumlah hasil negara, maka kecekapan dan produktiviti sistem **pentadbiran cukai** akan menentukan amuan yang dikutip **bagi** sesuatu tahun taksiran berkenaan. Jika **sistem** pentadbiran cukai adalah cekap dan **produktif**, maka kutipan hasil cukai akan meningkat. **Menurut** kebanyakan penyelidik, kecekapan dan produktiviti **juga** boleh ditingkatkan melalui sistem taksiran sendiri.

Selain daripada itu, gelagat pematuhan pembayar cukai adalah **juga** mustahak dalam menentukan jumlah kutipan cukai pendapatan. Cukai pendapatan boleh dielak (avoid) ataupun dilarikan **tanpa** membayar (evade) oleh seseorang pembayar cukai. Pengelakan dalam lingkungan peraturan undang-undang cukai adalah dibenarkan, tetapi pengelakan **tanpa** membayar cukai adalah dianggap sebagai jenayah oleh rejim-rejim cukai. Denda maksimum akan dikenakan untuk pengelakan dengan niat tidak mahu membayar cukai pendapatan. Disebaliknya gelagat pematuhan pembayar cukai adalah **juga** tidak dapat diramalkan. Bagaimanapun ramai penyelidik telah mengkaji gelagat **ini** dari pelbagai sudut dan perspektif. Penyelidik **juga** telah mengenalpasti **banyak** variabel yang boleh mempengaruhi gelagat pematuhan pembayar cukai. Tetapi antara faktor utama yang boleh mempengaruhi gelagat pematuhan pembayar cukai adalah sistem pentadbiran cukai itu sendiri, keadilan undang-undang cukai dan kerumitan **undang-undang** cukai.

Dalam kajian **ini**, kecekapan dan produktiviti sistem pentadbiran cukai Malaysia dinilai. Dengan menggunakan **analisis** trend, didapati bahawa sistem pentadbiran cukai Malaysia **pada** amnya adalah cekap berbanding dengan negara Jepun, Australia dan New Zealand. Bagaimanapun ianya tidak cekap bila banding dengan Indonesia dan Amerika Syarikat. Tetapi jika **kita** tidak ambil kira Indonesia **atas** sebab-sebab yang disebut dalam disertasi **ini**, maka **pada** umumnya sistem pentadbiran cukai Malaysia adalah cekap dan **produktif**. Bagaimanapun **analisis** trend **juga** menunjukkan bahawa kos pentadbiran telah meningkat dan produktiviti sedang **menurun**. **Ini** adalah trend yang tidak sihat untuk sistem pentadbiran Malaysia secara keseluruhannya.

Persepsi pembayar cukai terhadap sistem taksiran, keadilan undang-undang cukai dan kerumitan undang-undang cukai dikumpul melalui suatu tinjauan (survey). Perbezaan dalam persepsi responden telah dianalisis dengan menggunakan kaedah ANOVA satu **hala**. Perbezaan signifikan didapati dalam persepsi pembayar cukai. **Pada keseluruhannya**, responden bersetuju bahawa Sistem Taksiran Sendiri (STS) boleh dilaksanakan di Malaysia. Selain daripada responden dalam kumpulan pentadbiran dan perkeranian, responden dari kumpulan lain bersetuju STS boleh dilaksanakan di Malaysia. **Pada** pendapat responden dari kumpulan pentadbiran dan perkeranian, STS akan menjadi suatu **beban** kepada mereka. Besar kemungkinan mereka **juga** bimbang yang mereka perlu bayar cukai baru ataupun cukai tambahan jika STS dilaksanakan.

Berkenaan keadilan undang-undang cukai, majoriti daripada pembayar cukai menganggap undang-undang yang **ada** tidak adil kepada mereka. Bagaimanapun hanya kumpulan pentadbiran dan perkeranian yang menganggap undang-undang cukai adalah adil. **Ini** adalah kerana **mungkin** mereka puas **hati** dengan kadar cukai yang dikenakan **atas** mereka, dimana **kadarnya** adalah yang terendah berbanding dengan kumpulan pembayar cukai lain. Kadar cukai yang terendah di Malaysia adalah 2 peratus dan dikenakan ke **atas** pendapatan bercukai antara **RM10,001 - RM20,000**. Kadar cukai **juga mungkin** merupakan faktor yang penting dalam mempengaruhi gelagat pematuhan pembayar cukai. Pembayar cukai daripada kawasan bandar **juga** bersetuju bahawa undang-undang cukai adalah tidak adil. Maka **untuk** menggalakkan pematuhan secara sukarela di kalangan pembayar cukai, adalah penting **untuk** Lembaga Hasil Dalam Negeri (LHDN) dan kerajaan **pusat untuk** mengambil langkah-langkah tertentu **untuk** memastikan pembayar cukai mempunyai tanggapan yang betul terhadap cukai yang dikutip dan dibelanjakan oleh kerajaan.

Hasil kajian **ini juga menunjukkan** kerumitan undang-undang cukai wujud di Malaysia. Kesemua **golongan** responden bersetuju bahawa kerumitan undang-undang cukai merupakan **salah** satu faktor yang menghindari pematuhan secara sukarela. LHDN harus mengambil perhatian berkenaan perkara **ini dan** mengambil langkah-langkah yang tertentu **untuk** menghapuskan kerumitan undang-undang cukai jika pematuhan sukarela **ingin** digalakkan di Malaysia.

Salah satu hasil kajian **ini** menunjukkan bahawa hanya pembayar cukai yang bemiaga sahaja yang menggunakan akauntan atau ejen cukai untuk mengisi borang cukai tahunan mereka. Kesemua yang lain menyediakan borang cukai sendiri **tanpa** sebarang bantuan. **Pada** puratanya, peniaga-peniaga **ini** membayar sebanyak **RM250.00** untuk tenaga profesional. Amaun **ini** adalah **rendah** jika dibandingkan dengan negara-negara lain. Bagaimanapun untuk menggalakan pematuhan sukarela adalah mustahak kos pematuhan adalah tidak tinggi.. Kos pematuhan tidak **patut** menjadi suatu **beban** kepada pembayar cukai selepas pelaksanaan STS di Malaysia. Jika kos pematuhan adalah tinggi maka **ini** sudah tentu akan menghalang pematuhan sukarela.

Sebagai rumusan, STS boleh dilaksanakan di Malaysia **pada** kos yang **rendah**. Tetapi usaha-usaha **harus** dibuat oleh kerajaan untuk memastikan pembayar cukai mempunyai persepsi yang **positif** terhadap keadilan undang-undang cukai. Kerumitan undang-undang cukai wujud di Malaysia, dan jika pematuhan sukarela **ingin** digalakkan maka langkah-langkah **harus** diambil untuk mengurangkannya. Meskipun kos pematuhan adalah tinggi di kalangan peniaga berbanding dengan pembayar cukai yang lain, tetapi **ia** boleh dianggap masih **rendah** berbanding dengan negara-negara maju dan lain.

ABSTRACT

Tax regimes all around the world are constantly looking for ways and means to improve their tax revenue collections. Since tax revenue forms the major portion of the total revenue in any economy, the efficiency and productivity of the tax administrative system determines the amount collected for any particular year of assessment. If the tax administrative system is efficient and productive collection of tax revenue would be high. It has also been argued by many researchers that efficiency and productivity could be improved by means of the self-assessment system.

Moreover, the compliance behaviour of the taxpayers is also important to income tax collections. Income tax could also be avoided or evaded by a taxpayer. Avoidance, within the legal **framework**, is allowed but evasion of taxes are looked upon as national crimes by the tax regimes. Heavy penalties are imposed for tax evasion. On the other hand, taxpayer compliance behaviour is unpredictable. Nevertheless, many researchers have studied this behaviour in many different perspectives. Researchers have also identified many variables that influence taxpayer compliance behaviour. But among the major factors that could influence taxpayer compliance behaviour are the tax administrative system, tax law fairness and tax law complexity.

In this study, the efficiency and productivity of the Malaysian tax administrative system was evaluated. Using trend analysis, it was found that the Malaysian tax

administrative system is moderately efficient and productive compared to Japan, Australia and New Zealand. However, it is not as efficient when compared to Indonesia and the U.S. But if we were to ignore Indonesia for reasons mentioned in this dissertation, then, generally, the Malaysian tax administrative system may be seen as efficient and productive. But the trend analysis also indicates that administration costs are on the rise and the productivity on the decline. This may be seen as an unhealthy trend for the Malaysian tax administrative system to remain efficient and productive.

Taxpayers' perceptions towards the assessment systems, tax law fairness, and tax law complexity were gathered through a survey. Differences in taxpayers' perceptions were analysed by one-way ANOVA. Significant differences were found in their perceptions. Interestingly, the respondents positively perceived the implementation of the self-assessment system (SAS) in Malaysia. Except for those in the administrative and clerical group, others agreed that SAS could be implemented in Malaysia. Those in the administrative and clerical group fear that a new assessment system would be a burden to them. It could also mean that they may need to pay new taxes.

With respect to tax law fairness, majority of the taxpayers perceived that the tax law is not being fair to them. Surprisingly, too, only the administrative and clerical group perceived that the tax law is fair or equitable to them. This could be because they are practically satisfied with the tax rate at which their income is subjected to tax. The lowest tax rate in Malaysia is 2 per cent on the chargeable income of RM10,001 - RM20,000.

Tax rate, therefore, may also be a determinant in the taxpayer compliance behaviour. City taxpayers also agreed that the tax law was not equitable. Thus, in order to encourage voluntary compliance among the Malaysian taxpayers, it is important for the IRB and the government to improve these particular groups of taxpayers' perceptions.

The findings of the study also indicate that tax law complexity exists in Malaysia. All the respondents agreed that tax law complexity is one of the factors that hinders voluntary compliance. Record keeping, too much detail in the tax law and ambiguity were ranked highly and perceived to be major factors that hinders voluntary compliance. The IRB might take note of this and take the necessary steps to eliminate tax law complexity, if voluntary compliance were to be encouraged among the taxpayers.

One of the major findings of this study is that only owner-managers hire tax professionals to help prepare their annual tax returns. All other taxpayers prepare their own tax returns. On the average, the owner-managers pay **RM250.00** for professional services. This amount is considered low when compared to other developed and developing countries. Nevertheless, in order to encourage voluntary compliance, it is very important that the compliance costs are kept at a minimum. Compliance costs should not be a burden to the taxpayers even after the implementation of SAS in Malaysia.

In conclusion, SAS could be implemented in Malaysia at a minimum cost. **But** efforts must be taken by the government to ensure that the taxpayers positively perceive tax law fairness. Tax law complexity exists in Malaysia, and if voluntary compliance were to be encouraged then ways and means must be undertaken to minimise it. Although, compliance costs is much higher among the owner-managers compared to others, it is still comparatively low when compared to other countries.

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LIST OF ABBREVIATIONS

ASEAN	Association of South East Asian Nations
ATO	Australian Taxation Office
EIU	Economic Intelligence Unit
DGIR	Director-General of Inland Revenue
GDP	Gross Domestic Product
IRB	Inland Revenue Board
IRC	Internal Revenue Code
IRD	Inland Revenue Department
IRS	Internal Revenue Service
ITA	Income Tax Act, 1967.
MACPA	Malaysian Association of Certified Public Accountants
MIA	Malaysian Institute of Accountants
OAS	Official-Assessment System
PAYE	Pay As You Earn
ROB	Registrar of Businesses
SAS	Self-Assessment System
STD	Sshedular Tax Deduction
TCMP	Taxpayer Compliance Measurement Program
VAT	Value-Added Tax

Chapter 1 OVERVIEW

1.1 Introduction

The tax administrative system of a country has to be cost efficient and productive in order to maximise collection of taxes and other revenues. Although cost efficiency and productivity would enhance the tax administrative system, it would not be complete without a high voluntary compliance by the taxpayers'. High voluntary compliance could only be achieved if the taxpayers positively perceived the tax administrative system, tax law fairness or equity and tax law complexity (Christensen et al. 1994). This will then ensure high collection of tax revenue that could be used in developing the country. However, it may not be totally possible to eliminate tax law complexity, and all taxpayers to perceive the law to be fair. But it is imperative that majority of the taxpayers should perceive that the tax imposed on them is fair to them.

The issues that are linked to tax administrative system are: efficiency, productivity, and taxpayers' voluntary compliance. Efficiency and productivity of the tax administrative system have been studied in many perspectives (Barr, James and Prest, 1977; Barjoyai, 1993; and Ishi, 1993). Ishi (1993), in particular, compared the efficiency and productivity of the Japanese tax administrative system with U.S., Canada and UK. The objective was to determine if the cost-revenue ratio was efficient compared to the western countries. The comparative analysis was carried out for thirty

¹ Taxpayers are people who pay a percentage of their income to the government as tax (BBC English Dictionary, 1993).

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