

Tax Professionals' Perceptions toward Tax Authority: Ways to Strengthen The Malaysian Tax Administrative System

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ABSTRACT

This article examines tax professionals' perceptions toward services provided by the tax authority, i.e. Inland Revenue Board Malaysia (IRBM). Using a survey questionnaire, the views of the tax professionals on twelve aspects of the IRBM services were analysed. E-filing system is perceived to be the most efficient service provided by the IRBM while the least efficient service is related to bureaucracy. Comments from tax professionals offer rooms for collaboration with the IRBM in improving the IRBM services specifically related to different environment faced by tax professionals in completing their daily tasks. It is hoped that this study also leads to increase understanding between tax professionals and the IRBM.

Keywords: *tax professionals' perceptions, tax authority, the Malaysian tax administrative system*

INTRODUCTION

This paper aims to investigate tax professionals' perceptions in dealing with tax authority, i.e. the Inland Revenue Board Malaysia (IRBM). Tax professionals and tax authority are two important players in a tax system besides taxpayers. A good collaboration between them

will lead to better tax implementation and administration. This is because tax professionals are agents of taxpayers, who are one of the sources of government revenue. In addition, they act as a middle man between taxpayers and tax authority. They are also the gatekeeper of tax compliance by facilitating taxpayers in their tax-related matters, and promote tax collection by the tax authority (Singh, 2005). In other words, not only tax professionals have to act in their clients' interests but at the same time required to uphold the provisions of the tax law. As a result, tax professionals may experience conflict in fulfilling their duties to the taxpayers as well as the tax authority (Jackson and Milliron, 1989; McKerchar, Bloomquist and Leviner, 2008).

In Malaysia, the authorised bodies in the Malaysian tax system are the IRBM and the Customs Department which deals with direct and indirect taxes. Since this paper is about direct tax, hence the discussion focuses on the IRBM only. The IRBM is an agency set up under the Ministry of Finance to act as an agent to provide services in assessing, administering, collecting and enforcing the payment of income tax and other taxes that are within the board's jurisdiction. As a service provider, the IRBM should provide quality services to fulfil the needs of taxpayers and tax professionals. This means that the IRBM officers have to be equipped with necessary knowledge and expertise to assist taxpayers effectively (Singh, 2005).

Malaysian tax professionals are required to register with the Chartered Tax Institute of Malaysia (CTIM), Malaysian Association of Tax Accountants (MATA) or other professional bodies and obtain license from the IRBM to practise as tax agents¹ Like accountants, tax professionals are also required to update their tax knowledge and skills through continuous professional development (CPD) programs. This is to ensure that they are competent in providing services to their clients. The CTIM, MATA and other professional bodies representing the accountants are authorised to take disciplinary action against unlicensed tax professionals to make sure that malpractice does not occur. In addition, the IRBM does not accept tax submission if it is found to be made by unlicensed tax professionals.

Studies show that in order to improve compliance, procedures related to tax compliance should be made simple and easy to comprehend (Cheung and Mak, 1999; Abdul, 2003). A study by McKerchar, Ingraham and Karlinsky (2005) highlights the importance of tax simplification and recommends that tax authority should not cease to strive for a fairer, simpler and more efficient tax system that

incorporates the value of voluntary compliance. Tax authority should also ensure that new updates and amendments of tax provisions are made available. It is believed that customer satisfaction in turn influences customer loyalty (Tambi, Che Ghazali and Abdul Rahim, 2008). Hence, the tax authority should take into account that the way it treats the taxpayers systematically affects the latter's tax morale, and therefore their willingness to pay taxes (Feld and Frey, 2003).

The relationship between tax agents and the tax authority is important in a tax system. However, review of the existing literature highlights the limited investigation into this relationship. In Australia, an annual survey has been carried out since 2007 to understand tax agents' perceptions of the Australian Taxation Office's (ATO) administration of the tax system and the relationship between tax agents and the ATO. Niemirowski and Wearing (2003) reported that nearly 75% (86% in the present sample) of taxpayers in Australia use a tax agent in filing their tax returns. Since tax professionals and tax authorities differ in their approaches to reaching the taxpayers which could cause friction and misunderstanding that may not be helpful to the taxpayers (Golding and Hansford, 2013), it is suggested that a proper code of conduct be developed and tax professional bodies take the lead in working with the tax authority to formulate a framework for carrying out their duties so that the rights of all parties are respected (Singh, 2005).

This paper is structured as follows. The next section elaborates the method of data collection adopted in this study. Then, it is followed by results of data analysis. Discussion and recommendations are presented in the last section of this paper.

METHOD OF DATA COLLECTION

A questionnaire was designed after interview sessions with tax experts were conducted. A pilot study was carried out prior to the distribution of the questionnaires to respondents. The finalised questionnaire was divided into three sections. Section 1 asked the respondents to indicate their perceptions toward the efficiency of the IRBM services in twelve areas of customer service, website, knowledge and co-operation of the IRBM officers, response to enquiry, bureaucracy, e-filing system, information on new updates/amendments, training by the IRBM, public rulings, consistency among the IRBM branches,

and the IRBM judgement on ambiguous matters in the Income Tax Act. The questions were prepared using a 5-point Likert scale, in which '1' represents "the least efficient" and '5' represents "the most efficient" Section 2 consisted of open-ended questions whereby the respondents were asked to give their suggestions/comments for improvements (if any) on the IRBM services. Section 3 sought the respondents' demographic information.

A list of tax professionals' names and addresses was obtained from the IRBM website. A random sampling selection process was performed based on various states in Malaysia. Eventually, 500 questionnaires were mailed to the selected respondents as well as distributed through faculty members in their visit to tax professional firms where accounting students were undergoing their practical training. A total of 75 usable responses were finally gathered and analysed. Even though the number of usable responses was low (15% response rate), the responses to all questions were normally distributed. Since some responses had to be excluded due to missing values, not all cases reached 75. Regardless of this, the sample size obtained was similar to the size of sample in the study of Zajkowski, Sampson and Davis (2007).

RESULTS

Respondents' Profile

The respondents' profile covers their age, gender, highest academic qualification, current position in organisation, annual gross income, and membership in professional bodies, as shown in Table 1. Majority of the respondents (51%) aged between 30 and 45 years. In terms of gender, the sample was split equally between male (47%) and female (53%) respondents. Most of the respondents have a bachelor's degree (71%), while the rest have masters'/PhD (4%), diploma (12%), and STPM/Certificates (4%). Of the total respondents, 35% are manager/director, 28% are partners, and 24% are supervisors. Others are either ordinary staff (12%) or trainee (1%). In respect of annual gross income, the survey found that 32% of the respondents earn above RM60,000 whereas 16% earn less than RM18,000. About 23% of the respondents earn between RM18,001 and RM36,000, and 28% earn between RM36,001 and RM60,000.

In terms of the type of firms attached, majority of the respondents (43%) are attached to medium-sized audit firm, 31% are attached to small-sized audit firm, and 7% 'Big 4' audit firm. The rest (12%) are attached to firms that provide accounting services only. With regard to work experience in their respective area, 46% of them have more than 10 years of work experience, 19% have either less than four years or between seven and 10 years of work experience while 16% have between four and seven years of work experience.

Table 1

Respondents' Profile

| PROFILE | | Frequency | Percentage |
|--------------------------------|--------------------|-----------|------------|
| Age | Below 30 years | 19 | 25.3 |
| | 30-45 years | 38 | 50.7 |
| | More than 45 years | 18 | 24.0 |
| | Total | 75 | 100.0 |
| Gender | Male | 35 | 46.7 |
| | Female | 40 | 53.3 |
| | Total | 75 | 100.0 |
| Highest Academic Qualification | Masters/PhD | 3 | 4.0 |
| | Bachelor Degree | 53 | 70.7 |
| | Diploma | 9 | 12.0 |
| | Certificate | 1 | 1.3 |
| | STPM | 2 | 2.7 |
| Total | 68 | 90.7 | |
| Current Position | Partner | 21 | 28.0 |
| | Manager/Director | 26 | 34.7 |
| | Supervisor | 18 | 24.0 |
| | Ordinary staff | 9 | 12.0 |
| | Trainee | 1 | 1.3 |
| | Total | 75 | 100.0 |
| Annual Gross Income | Less than RM18,000 | 12 | 16.0 |
| | RM18,001-36,000 | 17 | 22.7 |
| | RM36,001-60,000 | 21 | 28.0 |
| | Above 60,000 | 23 | 30.7 |
| | Total | 73 | 97.3 |

(continued Table1)

| PROFILE | | Frequency | Percentage |
|--------------------------|---------------------|------------------|-------------------|
| Type of Firm Attached | Accounting services | 9 | 12.0 |
| | Big four Audit Firm | 5 | 6.7 |
| | Medium Audit Firm | 32 | 42.7 |
| | Small Audit Firm | 23 | 30.7 |
| | Others | 5 | 6.7 |
| | Total | 74 | 98.7 |
| Working Experience | Less than 4 years | 14 | 18.7 |
| | 4-7 years | 12 | 16.0 |
| | 7-10 years | 14 | 18.7 |
| | Above 10 years | 34 | 45.3 |
| | Total | 74 | 98.7 |

Table 2 shows professional membership of the respondents. As shown, 40 of them are members of the Malaysian Institute of Accountants (MIA), 18 are members of the Association of Chartered Certified Accountants (ACCA), 9 are members of the Certified Public Accountants' (CPA), 5 are members of the Chartered Institute of Management Accountants (CIMA), 4 are members of the Malaysian Institute of Certified Public Accountants (MICPA), and 2 the Institute of Chartered Secretaries and Administrators (ICSA). Some respondents even have more than one professional membership.

Table 2*Professional Membership*

| Professional Bodies | Frequency |
|----------------------------|------------------|
| MIA | 40 |
| ACCA | 18 |
| CPA | 9 |
| MICPA | 4 |
| ICSA | 2 |
| CIMA | 5 |

Perceptions towards IRB Services

As explained in the methodology section, this study evaluates 12 aspects of services rendered by the IRB. Results of the responses are shown in Table 3. Of all the aspects evaluated, the respondents perceived that e-filing is the most efficient service provided by the IRB (mean = 3.71). This is followed by public rulings (mean = 3.64), IRB website (mean = 3.49), information regarding new updates/ amendments (mean = 3.42), co-operation of the IRB officers (mean = 3.38), customer service (mean = 3.35), knowledge of the IRB officers (mean = 3.28), and training provided by the IRB (mean = 3.08).

On the other hand, the four least efficient aspects of services perceived by tax professionals are quick response to enquiry (mean = 2.96), the IRB judgment on ambiguous matters (mean = 2.89), consistency among the IRB branches (mean = 2.86) and bureaucracy (mean = 2.79).

Table 3

Tax Professionals' Perceptions towards IRB Services

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|----------|----------------|----------------|-------------|-----------------------|
| E-filing system | 73 | 1 | 5 | 3.71 | 0.94 |
| Public rulings | 74 | 1 | 5 | 3.64 | 0.92 |
| Website | 74 | 1 | 5 | 3.49 | 0.88 |
| Information regarding new updates/ amendments | 74 | 1 | 5 | 3.42 | 0.98 |
| Co-operation of IRB officers | 74 | 1 | 5 | 3.38 | 0.87 |
| Customer service | 74 | 1 | 5 | 3.35 | 0.96 |
| Knowledge of IRB officers | 74 | 1 | 5 | 3.28 | 0.87 |
| Training provided by IRB | 73 | 1 | 5 | 3.08 | 0.95 |

(continued Table 3)

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-----------------------------------|----------|----------------|----------------|-------------|---------------------------|
| Quick response to enquiry | 74 | 1 | 5 | 2.96 | 0.97 |
| IRB judgment on ambiguous matters | 73 | 1 | 5 | 2.89 | 0.88 |
| Consistency among IRB branches | 71 | 1 | 5 | 2.86 | 0.98 |
| Bureaucracy | 73 | 1 | 5 | 2.79 | 0.93 |

The 12 aspects of services were further investigated to examine differences in perception by type of firms. Results are shown in Table 4. It was found that tax professionals from the Big-4 firms are less satisfied with the services provided by the IRBM than those from small audit firms. They perceived the IRBM as being somewhat efficient in public rulings (mean = 3.40), quick response to enquiry (mean = 3.20), and e-filing (mean = 3.00) while being less efficient in other aspects of services (mean < 3.00). The result is slightly similar to McKerchar et al.'s (2005) study in which they found that tax professionals were frustrated with the tax administration and laws. However, the present study showed that tax professionals from small-sized audit firms perceived the IRBM provides efficient services in all aspects with the highest mean of 4.04 for the e-filing system. All tax professionals perceived the IRBM are not providing consistent services among the IRBM branches and perceived bureaucracy in the IRBM as hindering efficient services.

The efficiency aspects of the IRBM services were further explored by comparing the differences in perceptions of tax professionals by the length of work experience. Results shown in Table 5 indicate that tax professionals who have been working between four and seven years perceived the IRBM services as being efficient (all means are above 3.00). However, it was observed that the longer they work, tax professionals tended to perceive that the IRBM is less efficient in providing training. This may be because the tax

professionals have gained more experience and knowledge the longer they work in their field. They may also get access to other relevant training programmes conducted by other parties that could facilitate their work.

Table 4

Efficiency of IRB Services by Type of Firm

| | Accounting Services (mean) | Big 4 (mean) | Medium Size (mean) | Small Size (mean) |
|---|---|-------------------------|-----------------------------------|------------------------------|
| E-filing system | 3.22 | 3.00 | 3.63 | 4.04 |
| Public rulings | 3.33 | 3.40 | 3.77 | 3.74 |
| Website | 3.11 | 2.80 | 3.61 | 3.70 |
| Information regarding new updates/ amendments | 3.22 | 2.80 | 3.39 | 3.70 |
| Co-operation of IRB officers | 3.11 | 2.80 | 3.29 | 3.65 |
| Customer service | 3.11 | 2.80 | 3.26 | 3.65 |
| Knowledge of IRB officers | 3.00 | 2.80 | 3.26 | 3.52 |
| Training provided by IRB | 2.67 | 2.60 | 3.27 | 3.17 |
| Quick response to inquiry | 2.67 | 3.20 | 2.77 | 3.22 |
| IRB judgment on ambiguous matters | 2.78 | 2.60 | 2.90 | 3.00 |
| Consistency among IRB branches | 2.75 | 2.80 | 2.83 | 2.87 |
| Bureaucracy | 2.44 | 2.60 | 2.93 | 2.83 |

Table 5*Efficiency of IRB Services by Work Experience*

| | Less than 4 years | 4-7 years (mean) | 7-10 years (mean) | Above 10 years (mean) |
|---|------------------------------|-----------------------------|------------------------------|--------------------------------------|
| E-filing system | 3.93 | 3.67 | 3.86 | 3.59 |
| Public rulings | 3.71 | 3.92 | 3.71 | 3.45 |
| Website | 3.79 | 3.33 | 3.57 | 3.36 |
| Information regarding new updates/ amendments | 3.50 | 3.67 | 3.50 | 3.24 |
| Co-operation of IRB officers | 3.36 | 3.33 | 3.21 | 3.45 |
| Customer service | 3.07 | 3.42 | 3.21 | 3.45 |
| Knowledge of IRB officers | 3.29 | 3.58 | 3.29 | 3.18 |
| Training provided by IRB | 3.64 | 3.42 | 2.85 | 2.82 |
| Quick response to inquiry | 2.93 | 3.17 | 3.14 | 2.79 |
| IRB judgment on ambiguous matters | 3.14 | 3.17 | 2.85 | 2.70 |
| Consistency among IRB branches | 2.93 | 3.50 | 2.75 | 2.59 |
| Bureaucracy | 3.00 | 3.17 | 3.00 | 2.47 |

Comments by Tax Professionals

Based on the analysis of open-ended questions in section 2 of the questionnaire, it was found that most tax professionals had concerns about the IRBM officers. To increase efficiency, they suggested that tax officers should be trained continually to enhance their knowledge and to update themselves with current technical issues and changes in

tax laws. This will enable the tax officers to promote tax awareness among taxpayers. It was also found that the tax professionals were not satisfied with the inconsistent handling of certain tax cases among the IRBM branches and suggested that relevant measures should be taken to rectify this situation. In addition, the tax professionals also recommended that the IRBM officers should be friendlier, helpful, supportive and less bureaucratic when dealing with issues such as the tax appeal process. The comments given by the tax professionals in this study are in line with the suggestions made by Singh (2005).

Even though the tax professionals were not entirely happy with the IRBM officers in executing their responsibilities, they expressed desire to work collaboratively with them. They suggested that this can be achieved by co-organizing seminars and training programs as well as having continuous discussions on ambiguous issues that affect the public. In addition, tax professionals and the IRBM can also work together to educate the public.

DISCUSSIONS AND CONCLUSIONS

This paper seeks to report tax professionals' views toward the efficiency of the IRBM services. Twelve aspects of the IRBM services were evaluated with e-filing system being perceived as the most efficient service provided by the IRBM while bureaucracy was perceived to be hindering the IRBM in providing their services to the public. Differences in perceptions were also identified by different types of firm the tax professionals are currently attached to. Those attached to the Big-4 firms seemed to be less satisfied with the services provided by the IRBM than the tax professionals attached to other types of audit firms. This could be due to the different tasks performed in different firms. McKerchar et al. (2005) also revealed a similar finding where agents expressed overwhelming frustration at all aspects of taxation and difficulties they had in keeping abreast of change and the volume of rules.

Furthermore, tax professionals with longer service experience also perceived the services provided by the IRBM as being less efficient especially in terms bureaucracy, consistency among the IRBM branches, the IRBM judgement on ambiguous matters, speed of response, and training. To enhance efficient service, tax professionals and the IRBM need to update their knowledge on current issues in the tax system.

The finding of the present study can be used by the IRBM to improve their services. In particular, the IRBM could provide staff with certain expertise to deal with more complex and technical issues faced by tax professionals in big firms. In addition, the results of this study have shown that the IRBM and tax professionals can work closely together in serving the taxpayers. More studies need to be conducted to investigate the dynamic relationships between the taxpayers, tax professionals and tax authority within the tax system toward the strengthening of tax administration and compliance.

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