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The role of tax agents in sustaining the Malaysian tax system

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Abstract

In Malaysia, a self-assessment system has been implemented for all companies for more than a decade. The system necessitates corporate taxpayers to declare and calculate accurate sources of income, estimate income tax payable, keep records for audit purposes, and comprehend income tax legislation. In complying with these demands, many corporate taxpayers have to depend on the assistance of tax agents. Using survey data, this study aims to examine the role of tax agents in sustaining the SAS in Malaysia. This study enhances the understanding of the scope of tax agents' involvement under the system. Findings from this study are predominantly positive and should be beneficial for policy makers in their efforts to review and modify current tax systems.

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1. Introduction

The self-assessment system (SAS) has been implemented for all companies in Malaysia since 2001. The implementation of the SAS involves a substantial shift of responsibility onto taxpayers in terms of their compliance obligations. Under the SAS, it is the responsibility of the taxpayers to compute their tax liability. In order to compute the amount of tax liability, it is necessary for taxpayers to understand and interpret the laws that are applicable to their own situation. Moreover, corporate taxpayers are required to observe further tax

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requirements such as estimating income tax payable and paying monthly instalments, keeping sufficient records and documents, implementing the Monthly Tax Deduction (MTD) Scheme, and furnishing certain returns on behalf of their employees. Finally, corporate taxpayers are required to provide reasonable assistance and facilities to the Inland Revenue Board (IRB) officers during a tax audit. In complying with the above tax obligations, many corporate taxpayers have to rely on tax agents. Therefore, this study aims to examine the role of tax agents in sustaining the SAS in Malaysia.

Following the introduction, a review of key literature, discussion of research design and findings from survey are presented. The paper concludes with some policy implications, limitations of the study as well as suggestions for future research.

2. Literature review

Under the SAS, corporate taxpayers are required to comply with several tax obligations including furnishing accurate tax returns, keeping in safe custody sufficient records and documentation for seven years, estimating their own income tax payable for the current year of assessment, inform tax authorities of the estimate and pay the estimated tax via twelve monthly instalments (Inland Revenue Board of Malaysia, 2010; Choong, 2011). In addition, a company is expected to pay the balance of tax payable (if any) in the following year. A 10 percent penalty will be imposed if the difference between the tax estimate and actual income tax payable exceeds the 30 percent margin of error. To avoid such a penalty, revision of estimates is essential.

Hanefah, Ariff and Kasipillai (2001) reveal that the Malaysian business tax system appears to be becoming increasingly more complex, especially with the introduction of the SAS. This is supported by a study conducted by Ramasamy, Thurasamy, Haron and Ang (2003) suggesting the reason for ignorance of tax laws may be associated with an inability to understand the complex nature of tax laws. Though the IRB issues rulings and guidelines to assist the taxpayers on the application of the tax laws, Pope and Abdul-Jabbar (2008) highlight that a growing list of Public Rulings may further increase tax complexity. Instead, Pope and Abdul-Jabbar suggest that the IRB issues a Private Ruling or an Advance Ruling that applies to a specific taxpayer and a proposed arrangement, similar to the current practice adopted by Australia and Singapore, respectively. In the same study, Pope and Abdul Jabbar (2008) report that many small corporate taxpayers do not bother about bookkeeping and tax documentation requirements.

In response to the complex tax obligations, taxpayers often find it advantageous to seek assistance from tax agents (Erard, 1993). Existing literature shows that tax agents play an important role in tax compliance as tax agents assist taxpayers meeting their tax obligations. In Australia, Walpole (2009) reveals that 73 per cent of individuals and 94 per cent of companies choose to use tax agents. As at 31 July 2005, the number of registered tax agents in Australia was 25,965. Of these, 83 per cent are active tax agents and 45 per cent have 100 or more clients (Walpole, 2009, p.15). Prior studies indicate that there are a number of reasons for tax agent engagement which include educating taxpayers on their rights and responsibilities, informing the company's directors of relevant tax laws, updating them on a regular basis, and guiding taxpayers whenever there are problems with taxation (Slemrod & Sorum, 1984; Dubin, Graetz, Udell & Wilde, 1992). Findings from these studies also show that tax agents' assistance is positively associated with older, unmarried, self-employed and less educated taxpayers. A survey of small business organizations shows that taxpayers' motivations to seek the assistance of tax agents include having their tax return prepared correctly, avoiding serious penalties, paying the least tax required, and reducing the chances of being audited (Hite, Stock & Cloyd, 1992).

An understanding of the role of tax agents in meeting taxpayers' obligations is vital in assessing the sustainability of the SAS. It is observed that previous studies, which were largely conducted in Western countries, focused more on individual rather than corporate taxpayers. Though many tax researchers (for example Rice, 1992; Joulfaian, 1999) have acknowledged that prior tax compliance studies on individuals provide a formal framework analysis for corporate tax compliance decisions, Kamdar (1997) argues that further work is necessary before drawing any conclusions on corporate tax compliance behaviour. There is still very little literature on tax compliance behaviour of corporate taxpayers in the Asia-Pacific region. Therefore, this study offers some insights into better understanding on the role of tax agents in Malaysia.

3. Research design

A survey instrument was employed to collect the relevant information from corporate taxpayers. The survey involved a pre-test and a pilot test before being distributed to potential respondents (Hair, Money, Samouel & Page, 2007, p.246). A detailed discussion of the questionnaire development was also conducted with audit managers from the IRB who contributed some suggestions and comments. To reach an adequate number of responses for this study, the questionnaires were distributed to the corporate taxpayers using three sampling methods, namely stratified random, snowball, and random sampling (refer Isa, 2014). A total of 145 usable responses were finally collected for this study.

4. Findings and discussion

4.1. Profile of companies

The respondents of this study comprise 41 percent of companies that have been in business for 10 years or below, 24 percent between 11 to 20 years, and the remaining 31 percent have been in business for more than 20 years. This indicates that most companies may have tax-related experience. In terms of distribution by industry, the highest response is from Trading/Retailing (30 percent), followed by Services (22 percent), Manufacturing (11 percent), and Property/Construction (9 percent). The number of employees and annual sales turnover are employed in determining the size of a company. Small companies with less than 51 employees represent 52 percent of the respondents. However, the percentage of small companies with annual sales turnover of RM5 million and below is smaller (38 percent). Large companies with more than 1000 employees and annual turnover of over RM500 million represent more than 25 percent of the respondents. The respondents are also categorized based on the companies with/without field audit experience and companies with/without tax agents. Almost half of the respondents (49 percent) have audit experience and about 80 percent of the respondents employ tax agents to handle their tax compliance activities.

4.2. Role of tax agents

Discussion of the role of tax agents in tax compliance activities is based on six survey statements measured by using a six-point Likert-type scale. The main reason underpinning the choice of this scale is to avoid a central tendency error, which refers to the tendency of respondents to answer using the middle response, which is a "Neutral" or "Neither Agree nor Disagree". The pattern of choosing a neutrality answer is common when conducting research in Asian countries, including Malaysia (Trompenaars & Charles, 1998, p.81). The respondents are required to express opinions on the extent of their agreement with each statement ranging from "Strongly Disagree (1)" to "Strongly Agree (6)".

All the six survey statements examined two types of reasons corporate taxpayers employ tax agents for their tax compliance activities: Internal Factors and External Factors. A mean score analysis was mainly used in examining the extent of each factor. A standard deviation (SD) score was also provided to measure the dispersion of the score from the mean (Field, 2009, p.38). For the purpose of the mean score analysis, respondents who indicated "Strongly Disagree", "Disagree", and "Somewhat Disagree" were grouped as a single category as "Disagree". Similar treatment was applied to the respondents who indicated "Strongly Agree", "Agree", and "Somewhat Agree" who were grouped as a single category "Agree". Since the measurement for the Internal Factors and External Factors involved more than one item for each factor, reliability and validity tests were performed. The measurement used in this study was considered to be internally valid, highly reliable and consistent, as the alpha coefficients were above the acceptable value of 0.7 (Field, 2009, p.675), as shown in

Table 1.

Table 1: Reliability Coefficient on Reasons for Employing Tax Agents

Reasons for Employing Tax Agents	Number of Items	Alpha Coefficients
Internal Factors	3	0.801
External Factors	3	0.831

A mean score comparison was then conducted to identify any significant difference for each factor (Internal and External) among different business characteristics namely business length, industry, size by the number of staff, size by annual turnover, and company with/without audit experience. Analysis of Variance (ANOVA) and Independent Sample T-Test (T-Test) were employed for this purpose.

4.3. Internal factors

This section presents respondents' opinions on the reasons they employ tax agents are based on Internal Factors. The Internal Factors refer to statements that are associated with availability of internal technical knowledge, complexity of income tax knowledge, and cost effectiveness. About 70 percent of the respondents agree that the reason for employing tax agents is due to lack of internal technical knowledge (INT 1). Another 82 percent of the respondents agree that the reason for employing tax agents is because income tax matters are too complicated (INT 2). Finally, 75 percent of the respondents agree that it is more cost effective to employ tax agents to manage their corporate tax compliance activities than managing them themselves (INT 3). All statements have a mean score of between 4.12 and 4.54, which reveals a relatively modest agreement towards Internal Factors. Internal Factors analysed by respondents' business characteristics show that significant differences are observed in all business characteristics. These findings are summarised in

Table 2.

Table 2: Internal Factors for Employing Tax Agents

	Mean	SD	Disagree ^a	Agree ^b
Lack of internal technical knowledge (INT 1)	4.12	1.58	35(30.7%)	79(69.3%)
Income tax matters are too complicated (INT 2)	4.54	1.34	21(18.4%)	93(81.6%)
It is more cost effective to use external tax professionals (INT 3)	4.48	1.39	28(24.6%)	86(75.4%)
Internal Factors	4.38	1.22	-	-

Number of respondents equals to 114. The percentage of responses is given in parenthesis. ^a Refers to respondents who indicated "1 - Strongly Disagree", "2 - Disagree", and "3 - Somewhat Disagree". ^b Refers to respondents who indicated "6 - Strongly Agree", "5 - Agree", and "4 - Somewhat Agree".

This study demonstrates that Internal Factors are modestly indicated as the reason for engaging tax agents. A likely explanation for this is that most respondents (57 percent) have been in business for more than ten years, probably indicating longer tax-related experience. In addition, corporate taxpayers may have employed experienced internal personnel to handle tax compliance matters; thus, reliance on tax agents for tax technical knowledge is minimal. However, as many corporate taxpayers perceive income tax matters to be too complicated, it is necessary for them to engage tax agents to assist them in complying with those requirements. Generally, corporate taxpayers agree that it is more cost effective for the companies to employ tax agents than to rely solely on internal personnel to handle all tax matters. The cost saving associated with using tax agents may refer to both time and monetary costs incurred by corporate taxpayers in managing tax matters under the SAS.

The study also reveals that companies that have been in business for a long period (more than 20 years) score significantly lower on Internal Factors as compared to the other two groups of companies. This finding supports the earlier explanation that companies that have been in business for a long period may have more experience in handling tax matters. Thus, these experienced companies are less reliant on tax agents for tax technical knowledge and may perceive tax matters as less complicated. However, employing tax agents to manage the many tax compliance requirements is necessary for these companies as it is more cost effective.

The respondents in the "Oil and Gas" industry score significantly low on Internal Factors relative to respondents in the "Trading/Retailing" industry. There are several likely explanations for this result. First, tax matters for the "Oil and Gas" industry are different and/or may be more complex than other industries. For

example, companies from other industries are to comply with the *Income Tax Act, 1967*, but companies in the “Oil and Gas” industry are to comply with the *Petroleum Income Tax Act 1967*. Therefore, companies in the “Oil and Gas” industry may have employed tax experts to manage their corporate tax matters. Consequently, respondents in the “Oil and Gas” industry are generally tax experts and they may find that technical knowledge is available internally, so tax matters are not too complicated for them. Finally, as most respondents (91 percent) in the “Oil and Gas” industry have an annual turnover of RM500 million and over, tax agents’ fees may be regarded as minimal relative to other consultation, management and operation fees. In contrast, about 50 percent of the respondents from the “Trading/Retailing” industry are regarded as small companies, having an annual turnover of RM5 million or less. Moreover, more than 60 percent of respondents in the “Trading/Retailing” industry have been in business for less than 10 years. An earlier study showed that small and new companies are less aware of tax matters and thus they are more reliant on tax agents for their tax compliance activities (Isa & Pope, 2011).

The respondents in large companies score significantly lower on Internal Factors relative to two other smaller groups of companies. Similarly, tax matters for large companies are likely to be more complex, and therefore they may have tax experts to manage their tax compliance activities, and tax fees are relatively small to them compared to other operating costs. This study also discovers that companies without audit experience are less likely to employ tax agents based on Internal Factors. Further analysis indicates that 57 percent of the companies without audit experience have been in business for more than 10 years and 70 percent of these companies have annual sales turnover of RM5 million and over. Earlier findings showed that a longer number of years in business and larger companies may have more tax-related experience and therefore are less likely to employ tax agents because of Internal Factors.

4.4. External factors

This section presents respondents’ opinions on the reasons they employ tax agents on the basis of External Factors. The External Factors imply the reasons corporate taxpayers employ tax agents are because external opinions on tax issues are needed, updates on tax information are easily available, and advice for income tax planning is required. More than 90 percent of the respondents agree that the reason they employ tax agents is because they need to seek external opinions on tax issues (EXTERNAL 1). Another 94 percent of the respondents agree that the reason they employ tax agents is because updates on tax information are easily available from the tax agents (EXTERNAL 2). Finally, more than 85 percent of the respondents agree that the reason for employing tax agents is because they require advice for income tax planning (EXTERNAL 3).

All the statements have a mean score of between 4.85 and 5.12, which reveals a strong agreement towards External Factors. Findings from the study demonstrate that almost all corporate taxpayers are highly reliant on tax agents for external opinions, tax updates, and advice on tax planning. However, External Factors analysed by respondents’ business characteristics reveal that no significant difference is observed in all areas. This study reveals that, disregarding business characteristics, all corporate taxpayers are highly reliant on tax agents for External Factors. These findings are shown in

Table 3.

Table 3: External Factors for Employing Tax Agents

	Mean	SD	Disagree ^a	Agree ^b
External opinions on tax issues are required	5.05	1.02	9(7.9%)	104(91.2%)
Updates on tax information are easily available from them	5.12	0.98	7(6.1%)	107(93.9%)
Advice for income tax planning is required	4.85	1.18	15(13.2%)	99(86.8%)
External Factors	5.01	0.91	-	-

Number of respondents equals 114. The percentage of responses is given in parenthesis. ^a Refers to respondents who indicated “1 - Strongly Disagree”, “2 - Disagree”, and “3 - Somewhat Disagree”. ^b Refers to respondents who indicated “4 - Somewhat Agree”, “5 - Agree”, and “6 - Strongly Agree”.

5. Conclusions

The purpose of this study is to examine the role of tax agents in tax compliance activities. These are categorized into Internal Factors and External Factors. Internal Factors suggest the reasons corporate taxpayers employ tax agents are because technical knowledge is not available internally, income tax matters are too complicated, and it is more cost effective for corporate taxpayers to employ tax agents than to manage the tax matters themselves. Findings from this study shows that corporate taxpayers moderately agree with the primary influence being Internal Factors. However, this study also demonstrates that business characteristics are found to have some impact on the Internal Factors. The External Factors suggest the reasons corporate taxpayers employ tax agents are because external opinions on tax issues are needed, updates on tax information are easily available, and advice for income tax planning is required. This study discovers that almost all corporate taxpayers employ tax agents largely because of External Factors. No significant difference is found in all business characteristics for External Factors. Findings from this study suggest that, generally, tax knowledge is available internally except in the case of small and new companies. However, on-going tax education programs are necessary to expand the level of tax literacy among corporate taxpayers, especially for small and new companies. Moreover, it is necessary for tax agents to equip themselves with advanced tax knowledge, particularly for income tax planning, in order to meet corporate taxpayers' expectations.

This paper has reported findings based on a relatively small sample of 145 respondents; hence, it is difficult to reach any strong conclusions. It is expected that a study using a larger sample of data in the future will provide more comprehensive findings. Nevertheless, this study provides some feedback from corporate taxpayers on the role of tax agents under the SAS. As this study use corporate taxpayers as respondents, the key direction for future research is to examine tax agents' perspective on their role in sustaining the SAS. These are predominantly positive and should be beneficial to tax authorities, particularly the IRB and tax agents, in their efforts to improve the overall level of tax compliance.

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