

Perception of Electronic Filing (E-Filing) Among Tax Agents in Northern Region of Malaysia

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ABSTRACT

Electronic filing is one of electronic services provided by Inland Revenue Board (IRB) in order to assist tax agents in submitting the tax return electronically and as its initiative towards Electronic Government. Besides reducing the cost of printing tax return forms and processing time, it is expected that E-Filing can avoid loss of tax return during submission through mail. This study has been conducted to explore the awareness and the usage of E-Filing among tax agents and to evaluate the respondents' opinion on the benefits and barriers of using E-Filing. Tax agents in northern region of Malaysia (Kedah, Perlis and Penang) have been chosen as sample of the study. The results showed that the overall mean score for the respondents' opinion on the benefits of E-Filing is 43.80 compared to the barriers of E-Filing which have overall mean score 35.00. Majority of the respondents realize the advantages of E-Filing may outweigh the disadvantages. This suggests that E-Filing has a great potential of being accepted and used among the tax agents in the future. This is consistent with Social Cognitive Theory and Theory of Planned Behavior which contended that if one believe the outcome of his behavior is beneficial, he is likely to perform the behavior.

1.0 INTRODUCTION

Inland Revenue Board of Malaysia (IRB) has recently launched its Electronic Filing (E-Filing) program as its initiative to develop an integrated taxation system. The board has actually introduced the E-Filing system to companies since year of assessment 2001 offering the company return forms (Form C) electronically. At that time, companies were able to download the Form C from IRB's website, fill in electronically, print out and submit the form manually to IRB either through postage or hand in personally to IRB's office.

It is hoped that through E-Filing, IRB will be able to determine the number of tax return by the taxpayers and update their database accordingly. Besides that, E-Filing can avoid loss of tax return during submission through mail. Furthermore, the introduction of E-Filing is hoped to help IRB in reducing the cost of printing tax return forms and processing time (Berita Harian, 21 May 2004, B7).

Starting from year assessment 2003, the system has been improved which enable companies to submit the Form C to IRB electronically. Through this process, submitting Form C will be more efficient, time saving and secured. IRB use Public Key Infrastructure (PKI) to secure the transaction made through the internet. This service also enables the tax agents to file the tax return electronically. However, the company director is required to provide his digital signature on the

electronic forms. This would serve the purpose of authorization to the tax agents, by the taxpayers consent, to transmit the tax return electronically to IRB. Apart from that, it also authenticates the electronic portion of the return and verification purpose (<http://www.hasilnet.org.my/>,2004).

1.1 Motivation

Even though it will cost more to process electronically filed returns, the IRB does reap two measurable benefits from E-Filing:

1. Currently, the cost of printing return forms is from RM6 million to RM8 million each year. If the taxpayers use E-Filing and file their tax returns electronically, hopefully such cost could be reduced.
2. At present, it takes about 15 minutes to process each return forms. The goal of IRB is to have a shorter time of processing by using E-Filing.

(Berita Harian, 21 May 2004, B7)

But, do taxpayers really use E-Filing? Are they aware of E-Filing? What are their opinions on E-Filing? How they perceived its benefits and barriers? In addition, the E-Filing system is still new in Malaysia and not much promotion has been done to introduce the system to taxpayers.

If the tax preparers are not voluntarily participating in E-Filing, IRB will not be able to improve tax collection efficiency. Since E-Filing is still at its infant stage, to our knowledge no study had been conducted on perceptions of E-Filing in Malaysia. Thus, this study takes a modest step in answering the above questions. This study provides useful information to the government in general and to the IRB specifically on the awareness and perception of the tax preparers towards E-Filing offered by IRB and how to improve the services they offer.

1.2 Research Objectives

Generally, the objective of this research is to gain understanding of taxpayers' perceptions towards E-Filing.

Specifically, the research objectives are:

1. to explore the awareness towards and usage of E-Filing among taxpayers;
2. to evaluate the respondents' opinion on the benefits and barriers of using E-Filing.

1.3 Significance of Research

Malaysia is rapidly moving into an information based environment, which emphasizes on the use of technology in providing services to the citizens. This

is evident by the Malaysian Government establishment of Multimedia Super Corridor (MSC) in 1998. The MSC therefore manifests the government's commitment in leading the information-based technology, be it in the world or in the region. Besides the governments effort in applying e-government as one of the flagship of Vision 2020, recent advances in the field of computer networks and telecommunications have increasingly improved in providing services to the citizens. However, there is no attempt to study the current situations and the acceptance of the citizen specifically the taxpayers on the services provided. Thus, this study may contribute to add input to knowledge on the current situation and the taxpayers' perceptions of E-Filing.

Apart from gaining some academic values, the findings of the research is hoped to give a very useful insight to Malaysian government especially the IRB. It is hoped that this findings will help the authorities to make a wise decision on the matter.

2.0 LITERATURE REVIEW

E-Filing

The phenomenon of E-Filing of tax returns and electronic payment of tax liability started since Inland Revenue Service's (IRS), United States of America implemented their Individual Income Tax electronic system in 1985 (GAO, 1995). According to Investopedia.com Dictionary (2004), E-Filing means the process of submitting tax forms over the internet using computers and tax preparation software. E-Filing is defined as electronic tax return consisted of data transmitted to tax authority. It contains the same information as comparable return filed entirely on paper documents (MRS, 2002). To make use of this service, the taxpayers must have specific hardware and software. Upon transmitting the tax return electronically, an acknowledgement will be provided electronically to inform the transmitter that the return has been received (KRC, 2000).

The boom in E-Filing has highlighted new service options for accounting firms, which can prepare taxpayers' return and then send them electronically to tax authority. In U.S., about 80 percent of the individual tax returns e-filed on 2002 and 38 million returns were sent via accounting firms or tax preparation companies (Abelson, 2003). The biggest advantage of a tax preparation service is that they are more aware about deductions and factors to keep track of for next year's tax season (Johnson, 2004). Therefore, the tax preparers could be the primary key to the success of E-Filing.

Benefits of E-Filing

The good news of E-Filing as suggested by Johnson (2004) is that E-Filing save much of the taxpayers' time. Moreover, the system is believed to be quick and easy to use. In addition to its simplicity, another

advantage of E-Filing is the speed of time. The tax returns are transmitted by hitting the keyboard button and the return is on its way within seconds.

E-Filing has meant a lot than shorter lines at the post office during tax season (Russell, 2004). According to GAO (2002) apart from being paperless, E-Filing benefits taxpayers by providing receipt of their refunds several weeks sooner than if they filed paper returns and greater assurance that their return had been received, the returns are mathematically accurate and information on the returns has been accurately posted to the taxpayers' account in tax authority's records.

Spoge and Trewin (2003) in their article supported the advantage of accuracy by comparing data entry made with paper tax filing and E-Filing. With the paper tax filing, the tax returns arrives at the tax authority service centers via mail, is sorted then data entry clerks enter the data into the system. When filing electronically, the information is imported electronically into the system upon acceptance, eliminating the data entry by the clerks and avoiding the human error factor. Besides benefits to the taxpayers, E-Filing also favors the tax authority. It saves millions in man-hours and crushes the cost of processing and storing paper returns (GAO, 2002).

Barriers of E-Filing

One of the disadvantages of E-Filing is the services are not offered to accommodate the low literate citizens and those with disabilities. This was proved by West (2003) in his survey which stated only 20 percent of the government sites met the World Wide Web Consortium (W3C) accessibility test. Additionally, Norris (2001) highlights the low levels of technology ownership and access among those in the lower socio-economic groupings. For the poor citizens, they might not be able to use E-Filing as the electronic devices are quite costly. Perhaps they would continue to prefer traditional services with paper return.

Hill and Hazlett (2003) in their paper argued as far as many services are concerned, use of the Web may not actually benefits the citizens. For example, logging onto the Webs takes longer than making a telephone call. Furthermore, in some situations interpersonal interaction are required. Another issue to be considered is the citizens' willingness to use the technology. Survey of IRS (2002) showed that taxpayers prefer paper filing to be better than E-Filing. Lack of awareness, knowledge on how to e-file, concern about privacy or security issues, lack of access to tax software are among other major inhibitors. Besides that, companies refuse to use E-Filing because of its difficulty with attachments, data may not be secure or confidential and the beliefs that E-Filing provides no benefits (NCCS, 2002).

Perception and its related theory

Longman Dictionary (1995) defined perception as the way one regard something and one beliefs about what it is like. According to Goldstein D.M. (2004), the word perception includes ideas or any experience which starts from sensory stimulation and results in nervous system activity in sensory pathways. Any memory of such an experience is also a perception.

There are a few theoretical models which are related to perception and its effects on human behavior. Social Cognitive Theory (Bandura, 1991), the dominant learning theory at the present time, provides a framework for understanding human behavior and behavioral change. According to this theory, the behavior of a person involves influences of one's thoughts, emotions and biological properties and one's action. For example, a person's expectation, beliefs, self-perceptions, goals and intentions give shape and direction to behavior.

Russell, B. (2004) in his Theory of Knowledge stated that belief is one of the characteristics of behavior. One would behave or act according to what they belief. However, if their action results differently from what they belief, their belief would change and so their behavior.

Another related theory is by Ajzen (1991) called the Theory of Planned Behavior. The theory has now been applied widely to voluntary behavior. Briefly, according to this theory, human action is guided by three kinds of consideration; behavioral beliefs, normative beliefs and control beliefs.

Thus, based on these theories, this study tries to relate perception of E-Filing among tax agents to their behavior; the action to e-file or not to e-file in the future.

3.0 RESEARCH METHODOLOGY

It is really difficult to find out the exact number of tax agents for the purpose of population framework. It

seems that none of the tax researchers managed to gather the population of the tax agents. Even the IRB officers were unable to provide us a complete detail of the tax agents. Therefore, in our study we used purposive sampling (Sekaran, 2003). It is a type of non probability sampling in which the sample is based on researchers' judgments of which respondents to include in the sample. Only tax agents who prepare tax return for companies were included in this study.

Since this is an exploratory study, we concentrate on tax agents located in northern region of Malaysia (Kedah, Perlis and Penang) to get the initial grasp to develop a further study. Personally administered questionnaire survey approach was used as a mode of our data collection.

As this study is an exploratory in nature, a descriptive analysis has been adopted for the purpose of analysis. Frequency test has been used to describe about the data collected. Mean analysis has been carried out to measure the central data point (the average) of the respondents' opinion on the benefits and barriers of implementing E-Filing.

4.0 SURVEY FINDINGS

4.1 Sample Profile

We managed to get a total of 63 completed questionnaires by all participating respondents. As presented in Table 1, the result showed that 22.2% of the respondents are partners, 11.1% directors, 27% managers, 11.1% assistant managers and 9.5% senior auditor. It appears that majority of the participated respondents have more than five years experience with respect to tax matters (73%) and professional qualification as their highest level of education (58.7%). Besides that, nearly half of them rated themselves as intermediate with respect to level of computer skills. When asked to state their purpose of using internet, more than 80% of them use internet to check email and to seek general information. See Table 1 below.

Table 1: Respondents' Descriptive Result

	Frequency	Percent (%)
Position:		
Partner	14	22.2
Director	7	11.1
Manager	17	27.0
Assistant Manager	7	11.1
Senior Auditor	6	9.5
Other	12	19.1
Total	63	100.0
Highest level of education:		
Professional qualification	37	58.7
Degree	17	27.0
Diploma	7	11.1
SPM	1	1.6
Other	1	1.6
Total	63	100.0

Years of working experience:		
< 5 years	17	27.0
> 5 years	46	73.0
Total	63	100.0
Level of computer skills:		
Intermediate	31	49.2
Extensive	24	38.1
Expert	4	6.3
Undetermined	4	6.3
Total	63	100.0
Purpose of using internet		
Email	53	84.1
General information	52	82.5
Entertainment	14	22.2
Shopping	7	11.1
Banking	12	19
Visit government websites	41	65.1
Others	3	4.8
Type of company		
Local/regional firm	31	49.2
Sole practitioner	28	44.4
Large CPA firm	3	4.8
Unclassified	1	1.6
Total	63	100.0

4.2 Awareness and usage of E-Filing

Generally, this section was designed to get the respondents' response towards the awareness and usage of E-Filing. The result showed that most of the tax agents preferred using the manual and traditional method when preparing Company Return Form (Form C). This includes 22 local/regional firms, 22 sole practitioners and only 1 large CPA firms (see Table 2).

In finding out the awareness of E-Filing among the tax agents, it showed that more than 80% of the respondents know what is E-Filing while the remainder appears to be unaware (Table 3). Those who were aware of E-Filing were then asked for more specific question about where they learned about E-Filing. Nearly half of the respondents (49%) knew E-Filing from newspaper, journals, electronic media and IRB websites (Table 4).

Table 2: Type of company and Method of Tax Preparation

	Manual	Tax Software	IRB e-file	Own software	MS Excel
Local/Regional Firm	22	8	5	0	2
Sole Practitioner	22	6	0	0	1
Large CPA Firm	1	2	0	1	0

Table 3: Awareness of E-Filing

	Frequency	Percent
Aware	52	82.5
Not Aware	11	17.5
Total	63	100.0

Table 4: Sources of knowledge about E-Filing

	Frequency	Percent
IRB's website	25	51.0
Newspaper/Journals/Electronic	24	54.5
Other tax agents	5	11.4
Other way	6	35.3

However, when asked if they ever used E-Filing, all the respondents showed a negative results. The respondents were further asked on the reasons for not using E-Filing. Most of them pointed out that they concerned about the security (58.6%), they were not

sure how did the program works (57.6%), they did not feel comfortable sending taxpayers data electronically (55.2%) and 52.5 % of them did not have the appropriate software (Table 5).

Nevertheless, as shown in Table 6 below, 39.7% of the respondents were very likely to consider E-Filing

in the near future, 9.5% not very likely and 12.7% still undecided.

Table 5: Reasons for NOT using E-Filing

	Frequency	Percent
The benefits are not worth	25	42.4
Not sure how the program works	34	57.6
Clients are not interested	23	40.4
Not sure of the criteria of E-Filing	27	45.8
Not comfortable sending data electronically	32	55.2
Too costly to E-file	24	40.7
Time consuming	20	34.5
Concern about the security	34	58.6
No appropriate software	31	52.5
No modem	15	26.3
Other reason	4	28.6

Table 6: Would consider E-Filing in the near future

	Frequency	Percent
Very likely	25	39.7
Somewhat likely	22	34.9
Not very likely	6	9.5
Not at all likely	2	3.2
Don't know	8	12.7
Total	63	100.0

4.3 Respondents' Opinions on the Benefits and Barriers of E-Filing

In achieving the second objective, a set of questions with respect of benefits and barriers of adopting E-Filing in transmitting tax returns to IRB were given to respondents to answer regardless of whether they have used E-Filing or not. Table 7 shows the ranking of the respondents' opinion on the benefits that would be obtained from adopting E-Filing. The first in the rank is related to the fact that E-Filing would result in reduction in paper work (mean= 3.78). This is followed by the aspects that E-Filing would result in no postage expenses (mean= 3.76), produce instant confirmation of receipt (mean= 3.74), it is fast and quick process (mean= 3.59), and requires less file storage (mean= 3.46) and so forth with ranging (in descending order) from 3.44 to 2.27.

Besides benefits, the adoption of E-Filing was expected to face some barriers. According to the respondents' opinion on the barriers of adopting E-Filing (Table 8), the belief of data may not be secure or confidential was ranked to be the first barrier (mean= 3.58). This is followed by lack of standards/regulations from government on E-Filing (mean= 3.53), lack of security associated with the

nature of open network (mean= 3.47) and mindset shift towards using E-Filing (mean= 3.38). This is not surprising since most of the tax agents are still using the manual and traditional approach in preparing Company Return Form (Form C). Other barriers with means ranging (in descending order) from 3.35 to 2.53) were presented in Table 8.

The overall mean score for the respondents' opinion on the benefits of adopting E-Filing is 43.80 with standard deviation of 5.89 (Table 7). On the other hand, the overall mean score for the respondents' opinion on the barriers of adopting E-Filing seemed to be lower than its counterpart, i.e. 35.00 with standard deviation of 4.90 (Table 8). This suggests that there is a gap of 8.80 between the opinion on benefits and barriers of adopting E-Filing. Therefore, one sample t-test was carried out to determine whether there is a significant difference between the respondents' opinion on the benefits and barriers of E-Filing. As shown in Table 9, there is a significant difference between the mean score of benefits and barriers. It seems that the respondents' perception on the benefits of E-Filing overwhelming their perception on barriers of E-Filing.

Table 7: Respondents' opinion on the Benefits of E-Filing

	N	Min	Max	Mean	Std. Dev.
Reduction in paper work	60	1	5	3.78	.993
No postage expenses	58	1	5	3.76	.844
Instant confirmation of receipt	58	2	5	3.74	.849
It is fast and quick process	58	2	5	3.59	.838
Less file storage space	59	1	5	3.46	1.039
Quicker preparation and processing	57	1	5	3.44	.926

More accurate way to file	58	2	5	3.34	.785
Easy to learn	58	2	5	3.33	.659
Easy to use with little hassle	58	2	5	3.31	.654
E-Filing is simple/easy/convenient to use	58	1	5	3.26	.870
Allows for corrections of mistakes	56	1	5	3.25	.879
Private and secure way to file	58	1	5	2.97	.816
Clients' demand of E-Filing	60	1	4	2.27	.821
Valid N (listwise)	55				
Overall	55	33	61	43.80	5.890

Scale: From Strongly Disagree = 1 to Strongly Agree = 5

Table 8: Respondents' opinion on the Barriers of E-Filing

	N	Min	Max	Mean	Std. Dev.
Data may not secure or confidential	60	2	5	3.58	.809
Lack of standards/regulations from government on E-Filing	59	1	5	3.53	.916
Lack of security in the open network	58	2	5	3.47	.842
Mindset shift towards using E-Filing	58	2	5	3.38	.697
E-Filing may incur more cost	60	1	5	3.35	1.071
Internet or web is too slow and unreliable	58	1	5	3.31	1.063
Lack of knowledge and personnel to maintain E-Filing	58	1	5	3.22	1.027
Difficulty with attachments	59	1	5	3.00	.910
Keying errors not user friendly enough	58	2	4	2.98	.477
E-Filing may be more time consuming	58	1	4	2.91	.904
Difficult to learn and understand how to E-File	58	1	4	2.53	.754
Valid N (listwise)	55				
Overall	55	25	46	35.00	4.900

Scale: From Strongly Disagree = 1 to Strongly Agree = 5

Table 9: One-Sample Test (Overall Benefits and Overall Barriers)

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
					Test Value = 43.8 (Mean for Total benefits)	
Total barriers	-13.311	54	.000	-8.80000	-10.1254	-7.4746

5.0 DISCUSSION

The Inland Revenue Board's mission statement is to collect taxes for the nation at minimum cost, to improve compliance and to institute effective enforcement through prevailing legal procedures. The mission statement is further complemented with IRB's three-fold operational objectives:

- to assess and collect the correct amount of revenue as provided under the law in the most effective manner and at a minimum cost;
- to instill public confidence in the fairness and integrity of the tax system; and
- to encourage voluntary compliance. (<http://www.hasilnet.org.my/>,2004).

IRB has made considerable progress toward achieving these objectives, but much work remains to be done. Initial efforts focused on expanding the availability of electronic filing, both for companies and individuals. While those were necessary steps, it is learned that offering E-Filing options does not by itself lead to their use. It depends on continuing to increase the awareness and value of E-Filing.

Based on this study, it seems that the use of E-Filing among tax agents is relatively low. It seems that none of the tax agents use E-Filing. The primary reasons for not doing so are they concerned about privacy and security (58.6%) they were not sure how the program works (57.6%), and they did not feel comfortable sending taxpayers' data electronically (55.2%). IRB efforts to increase E-Filing need to address these reasons.

On the other hand, 39.7% of the tax agents are very likely to e-file in near future and 34.9% of them are somewhat likely. Majority of the respondents realize the advantages of E-Filing may outweigh the disadvantages. The overall mean score for the respondents' opinion on the benefits of E-Filing is 43.80 compared to the barriers of E-Filing which have overall mean score 35.00. This suggests that E-Filing has a potential of widely accepted and used among the tax agents in the future. This is consistent with Social Cognitive Theory and Theory of Planned Behavior which contended that if one belief the outcome of his behavior is beneficial, he is likely to perform the behavior.

6.0 CONCLUSION

E-Filing is one of electronic services provided by IRB in order to assist tax agents in submitting the tax return and as its initiative towards Electronic Government. This is an exploratory study which attempts to seek responses from the tax agents on the E-Filing system introduced by IRB. The questions were designed to provide information from the tax agents sample to support the objectives of the study.

The findings of the study are useful to provide a platform for the present and future study on E-Filing. This study resulted in a greater understanding of the selected tax agents' population's on their awareness and perception of E-Filing. Although none of them are e-filers but they are aware of E-Filing and believe that E-Filing has lots of benefits. It is up to the IRB to develop a strategy to increase the use of E-Filing. As matter of fact, in Malaysia, E-Filing is still at its early stage and it is optional compared to several countries which had implemented E-Filing such as United States, United Kingdom and Australia.

As pointed out earlier, this study covered only northern region of Malaysia which include Kedah, Perlis and Penang. Thus, the results of this study are hardly to be generalized as it does not represent the whole population of tax agents in Malaysia. Perhaps for future research, it will be interesting to conduct the study in more developed states such as Selangor and Wilayah Persekutuan Kuala Lumpur. Further studies of how to motivate the tax agents to use E-Filing would be useful. The variables used in this study could be expanded and improved in the next study.

E-Filing has significant potential to improve the citizens' perception of the IRB, increase customer satisfaction, improves IRB operational performance and may save money for the both IRB and taxpayers. However, for this to happen, IRB must exploit fully this opportunity by motivating taxpayers and tax agents to make use of the available electronic filing options.

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