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The Influence of Perception and Tax Knowledge on Non-Compliance in Indirect Tax among Public University Students in Selangor and Klang Valley

Yusri Hazrol Yusoff [1], Mohamad Shahril Isahak [1],
Muhamad Ridzuan Hashim [1], Norziaton Ismail Khan [1], Iddy Zuberi [2]

[1] Senior Lecturer, Faculty of Accountancy, Universiti Teknologi MARA, Malaysia
[2] Senior Officer, Ministry of Finance and Planning, Tanzania

yusrihazrol@uitm.edu.my, shahrilisahak@uitm.edu.my, muhamadridzuan@uitm.edu.my, norzi153@uitm.edu.my, zuberipbs@gmail.com
Tel: +60-33258 7361

Abstract
Studies on tax non-compliance remain limited. This is due to the challenges and difficulties of getting access to the correct information on indirect tax. However, these studies only focus on economic factors. The researchers focus on examining the relationships between non-economic factors and tax non-compliance. This study distributed a sample of 285 public universities student in Selangor and Klang Valley. The findings reveal a strong relationship between tax knowledge and perception of non-compliance behavior. Therefore, tax administrators must collaborate with universities or other educational institutions to create more awareness among Malaysians to comply with Malaysian tax systems.

Keywords: Tax non-compliance; Non-economic factor; Public universities students; Tax knowledge

1.0 Introduction
A critical issue faced by the Royal Malaysia Customs Department (RMCD) is non-compliance with tax collection. In 2019, the RMCD continued to issue the Bill of Demand (BOD) to collect the defaulted payment from the importers. The outstanding amount under BOD amounted to RM1,329,115,213.91 (RMCD, 2019). According to the Ministry of Finance, the BOD claims remain high, involving a large amount of outstanding debt for the country (RMCD, 2019). Therefore, it affects government expenditure, for example, for education, health care, and economic and social well-being. To combat non-compliance cases, the RMCD has implemented several measures, such as increasing the number of officers, more stringent enforcement of laws, and increasing the fine rate. However, the number of BOD issued to Malaysian importers still shows an increasing trend. Currently, the existing policy used by the RMCD does not focus on non-economic factors. Thus, this current study investigates the non-economic factors contributing to this situation.

To understand the non-economic factors, a few scholars (Sinnasamy, Bidin, & Ismail, 2015) have suggested that the factors should be considered for studying the non-compliance behavior of taxpayers. One of the non-economic factors is the perception of tax fairness (Sinnasamy et al., 2015). Che Azmi et al. (2016) have found that a negative perception of tax fairness and tax knowledge may influence

taxpayers to be non-compliant. Recently, there has been a heightened concern manifested by Malaysian taxpayers regarding the benefit of various initiatives and efforts administered by the Malaysian government. They also have a growing doubt over the overestimated expenses incurred and vocally express their dissatisfaction with imprudent spending by the government (Sinnasamy et al., 2015). Some perceived that the government was inappropriately allocating the national funds, leaving them displeased as they realized the significant amount of tax they contributed was not wisely managed (Palil, Akir, & Wan Ahmad, 2013). Discouraged by the mentioned practice, they perceive that it is relative and practically 'unfair' for them to constantly contribute to the tax revenues if such a problem persists. This is one of many existing examples to characterize perception and knowledge. Considering the above situation, which is currently happening in this country (Sinnasamy et al., 2015), this paper examines the impact of perception of tax fairness and tax knowledge on non-compliance behavior among public university students: (i) To examine the relationship between perception of tax fairness and indirect tax non-compliance behavior in Selangor and Klang Valley. (ii) To identify the relationship between perception of tax fairness and tax knowledge among public universities student in Selangor and Klang Valley. (iii) To understand tax knowledge mediates the relationship between perception of tax fairness and indirect tax non-compliance behavior among public university students in Selangor and Klang Valley.

2.0 Literature Review and Hypotheses Development

2.1 Tax Non-compliance
In Malaysia, research on indirect tax non-compliance is limited. The challenge may arise due to legal restrictions enforced on confidential and protected information by the government; such information protection is secured under the Official Secret Act (OSA) 1972; the secrecy of tax non-compliance records involves court cases and Bill of Demand claims. There are virtually no non-compliant taxpayers willing to reveal their true identity.

Previous studies on tax non-compliance have suggested the prime factors for explaining non-compliance, including high tax rates, the probability of detection, the complexity of the law, and the methods employed to collect taxes (Yusof, Ling & Wah, 2014). Apart from the economic factors, non-economic factors are influencers that come from outside the tax system and affect the decision of taxpayers to comply with tax law (Nicoleta, 2011). Brizi, Giacomantonio, Schumpe, and Mannetti (2015) concluded that non-economic factors strongly influence taxpayers' behavior.

Furthermore, to understand taxpayers' non-compliance behavior, the non-economic factor is the best element to study because it comes from outside the tax system, such as social norms, attitudes, or knowledge. These elements could affect the decision of taxpayers to comply with the tax system and law (Nicoleta, 2011). In Malaysia, few studies concerning the impacts of non-economic factors on non-compliance are also available. The studies rather pay attention to education (Nicoleta, 2011), perception of the practice (Nur Fikhriah & Sri Wahyu, 2014), perception of taxpayers on tax knowledge and tax education (Palil et al., 2013), and tax fairness (Sinnasamy et al., 2015). In another perspective, non-economic factors, which economists had neglected, were introduced to explain tax compliance using the economic framework (Nicoleta, 2011). The present study expands the scope of existing empirical research by investigating the effects of perception of tax fairness and tax knowledge on tax non-compliance behavior among public universities student.

2.2 Theory of Planned Behaviour (TPB)
Concerning tax-related behavior, some evidence suggests that the Theory of Planned Behaviour (TPB) has been used as a framework to examine taxpayers' behavior. Sinnasamy et al. (2015) studied how Customs agents perceive import tax compliance in Malaysia. He used TPB as the underpinning theory and the most robust theoretical base to understand Customs agents' compliance. He also extended this theory to understand the influence of law, ethics, tax assessment service quality, and exchange of fairness. The result supports the theory suggesting that the TPB model provides a good description of tax compliance behavior. Several beliefs help develop and understand tax compliance behavior. Sinnasamy et al. (2015) found that TPB can determine and influence the Customs agents' behavior to comply. Nevertheless, they tend not to comply when they have opportunities. Thus, he suggests that efforts must be directed to the underlying beliefs associated with non-compliance behavior in increasing tax compliance.

Bidin, Othman, and Salleh (2015) conducted a study to identify the variables that could influence behavior with local sales tax. Using the TPB, they tested 338 local sales tax agents in Malaysia. Results show that attitude, subjective norms, law, and ethics are significantly and positively related to behavioral intention. All these independent variables could explain the 64% variance in behavioral intention to comply with local sales tax. They suggested that to understand the taxpayers' capability to comply, researchers shall find several factors that may influence taxpayer behavior. As the studies on non-compliance behavior on import duty are limited, the above premise is adopted to understand the general non-compliance behavior among taxpayers in import duty and examine the non-compliance behavior at the individual level within a similar capacity. Therefore, this study uses this theory to extend the perception of tax fairness from the attitude element to identify whether it can influence taxpayers to become non-compliant.

2.3 Perception of Tax Fairness
In the literature on tax compliance, taxpayers' perception of the tax system's fairness is recognized as an essential driver for compliance, which can significantly affect tax compliance behavior (Palil et al., 2013). Generally, a positive effect of perceived fairness in tax-related affairs is found, meaning that perceived fairness strengthens tax compliance. Saad (2012) found that the perception of tax fairness significantly influences tax compliance behavior more than the tax rate.

Fairness and trust also explain why most people comply with tax laws and why some are motivated to evade taxes. Yusof et al. (2014) highlight the importance of mutual trust and cooperation between taxpayers and tax authorities to achieve voluntary compliance. Inasius

(2013) suggest that fair treatment of taxpayers and the trustworthiness of tax authorities will enhance voluntary compliance. Jayawardane (2015) found that the level of voluntary compliance is strongly influenced by the different perceptions of tax fairness due to the other taxpayer's trust in the government's spending.

The perception begins to develop in the taxpayer's mind regarding the national policies and government ruling in a country. Perception of the taxpayer on the government towards taxes refers to how social groups provide an appreciation or even opposition over the existing tax system (Jayawardane, 2015). Logically, taxpayers, especially those who pay a high tax, will be more sensitive to what and how the government spends its money on. Voluntary compliance will likely increase if the government is wisely spending the national revenue, for example, on education, health and safety, and public transportation (Jayawardane, 2015). So, the more people believe that the government takes good care of their paid taxes and spends it carefully, the more compliant they tend to be (Palil et al., 2013). In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them, they will feel betrayed and attempt to evade it. Therefore, the government should prudently spend the taxpayers' money because how the government spends the money produces different levels of compliance.

Based on the above conjectures, the taxpayer's perception of the government on taxes contributes to the perceived fairness of taxation, which, in turn, positively influences the taxpayer's intention not to comply. Many studies in direct tax, such as Saad (2012) and Gberegbe, Gabriel, and Nkanbia-Davies (2015), have proven that perception of tax fairness is a significant relationship to tax compliance. This is because taxpayers are very sensitive to the distribution of the budget by the government. They will compare what they get with their surrounding friends. In addition, they will keep following the nation's expenses and whether the tax distribution can influence the people's benefit (or not). Direct comparison may not be appropriate due to the differences in periods and the measures and methods used in each study.

H1: There is a direct relationship between perception of tax fairness and indirect tax non-compliance behavior.
H2: There is a relationship between perception of tax fairness and tax knowledge.

2.4 Tax Knowledge

When considering individual taxpayers' attitudes, tax law knowledge is essential, and tax knowledge forms a significant positive association with tax compliance level (Che Azmi et al., 2016). In the Self-Assessment System, filing tax returns before the due and accurate computation of tax liabilities need a certain level of tax knowledge (Palil et al., 2013) mention that when one has tax knowledge, the compliance level with the tax system could be stimulated. Even though the aspects of individual attitudes such as tax ethics and the equality of the tax system may lead to tax evasion, it should also be noted that general tax knowledge has a close association with taxpayers" compliance level (Che Azmi et al., 2016). On the other hand, Nicoleta (2011), in their findings, indicates that tax knowledge has a negative association with tax compliance behavior. The study found that the better the tax knowledge, the more likely the taxpayers could identify the loopholes in the tax system and regulations, resulting in tax non-compliance. Additionally, Bidin et al. (2015) argued that tax knowledge has no significant direct relationship with individual taxpayers' compliance behavior.

H3: Tax knowledge mediates the relationship between perception of tax fairness and indirect tax non-compliance behavior.
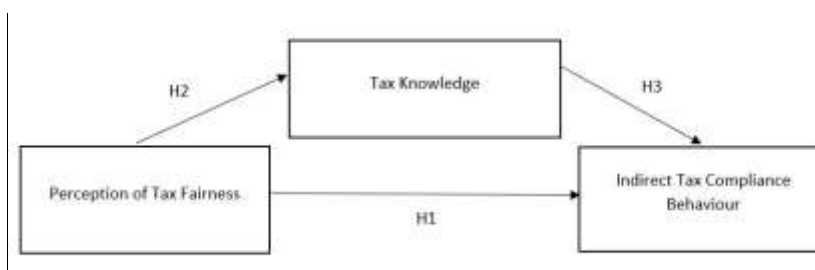

Fig. 1: Schematic Diagram of the Research Framework

Numerous studies have been undertaken to observe the role of perceptions of tax fairness in tax compliance or non-compliance behavior (e.g., Saad, 2012; Gberegbe et al., 2015; Bidin et al., 2015; Brizi et al., 2015; Che Azmi et al., 2016). However, these studies provided mixed and inconclusive findings. While some researchers found a positive association between the two variables (Palil et al., 2013; Saad, 2012), others could not support such findings (Sinnasamy et al., 2015). Some studies indicated a negative relationship between perceptions of tax fairness and compliance behavior (Che Azmi et al., 2016). Palil et al. (2013) contend that such mixed findings are probably due to the different definitions of perceptions of tax fairness used in these studies. At the same time, these findings may provide evidence of the perceptions of tax fairness toward import duty in Malaysia.

3.0 Research Methodology

This quantitative study uses the quantitative method for data collection and analysis. The questionnaire was distributed to respondents identified through a simple random sampling procedure. This study's simple random sampling removes all hints of bias (Bidin et al. (2015). The respondent representatives of the student population by the Ministry of Higher Education in 2021. Referring to Sekaran (2003), the sampling of 285 respondents was enough to represent the population. There are 62,259 students in public universities in Selangor and Klang Valley (MOHE, 2020). These students must be involved and have experience paying indirect taxes such as sales tax and import duties. Usually, these activities happen when students purchase through online platforms such as Lazada, Shoppee, and many more. Therefore, this project targets these students to be sampled and measure their level of perception of when the indirect taxation system has been practiced in their life. The study used primary data collected through questionnaires and the Likert scale to determine the agreement on statements given (based on 5 points Likert scale: 1 = Extremely Disagree, 2 = Slightly Disagree, 3 = Unsure, 5 = Slightly Agree, and 5 = Extremely Agree). All the questions were adapted from previous studies conducted by Saad (2012) for the perception of tax fairness and non-compliance behavior and Bidin et al. (2015) for tax knowledge. Samples were taken from 5 public universities. The students are taking either Diploma, Bachelor's, Master's, or Ph.D. programs. Three hundred fifty questionnaires were distributed, with 285 questionnaires returned (81.43%).

4.0 Findings

Table 1 gives a descriptive analysis of the respondents involved:

Table 1. Summary of respondents' background

n=285		
University	**Quantity**	**%**
University Putra Malaysia	57	20
Universiti Malaya	52	18.3
Universiti Teknologi Mara (UiTM)	91	31.9
Universiti Teknologi Malaysia	40	14
Universiti Kebangsaan Malaysia	45	15.8
Programme	**Quantity**	**%**
Ph.D./Master	100	35.1
Bachelor Degree	148	52
Diploma	37	12.9

These statistics give insights into the firm's profile on who participated in the current study. Based on Table 1 analysis, 100% of the respondents are on the summoned list. University trait shows that UiTM dominated the statistics, followed by the UPM, which is only 20%. Most students study for a bachelor's degree (35%), followed by Ph.D./Master (35%). This is because the main program in a public university is a bachelor's degree.

Figure 2 and Tables 2 show the analysis results using WarpPLS 6.0. Kock and Lynn (2012) stated that the relationship is significant when the P-value is less than 0.05. Therefore, it can be seen that perception of tax fairness significantly influences non-compliance behavior among public universities student (p=0.04). Perception tax of fairness strongly and significantly influences import duty non-compliance behavior when the tax knowledge is tested as a mediator variable (p<0.01). A mediator contributed R^2 is 0.63. Hair et al. (2014) stated that this value is acceptable in behavior studies. Yusof et al. (2014) found that the low value of R^2 in this variable shows that most of the independent variables selected cannot explain the level of tax non-compliance. Therefore, only 7% of the variance in the tax non-compliance rate can be enlightened by the selected independent variables (Yusof et al., 2014). This means the remaining variance is unenlightened. Juahir, Norsiah, and Norman (2010) found that this study's low rate of R^2 is equivalent, almost 10%. The argument of low rate R^2 is acceptable because it is limited access to tax collection data, and this is a cross-sectional study.
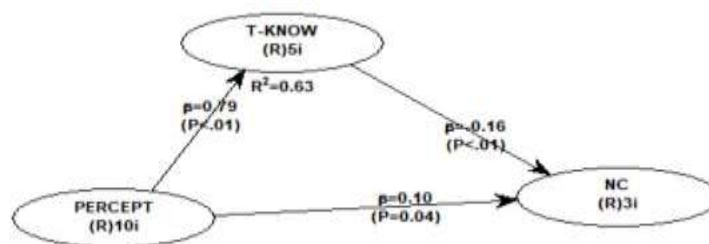

Fig. 2: Results of Analysis

Table 2. Hypotheses Results

Hypotheses	P Value	β value	Results	Relationship
H1	0.04	0.10	ACCEPTED	Influence
H2	<0.01	0.79	ACCEPTED	Strong Influence
H3	<0.01	0.16	ACCEPTED	Strong Influence

The analysis from Table 2 and figure 2 is showed respondents believe that tax non-compliance can be strongly influenced by the perception of tax fairness when it is supported by tax knowledge. The p-value supports this analysis result for the relationship between the perception of tax fairness and non-compliance behavior is 0.4, while the p-value for the relationship between perception of tax fairness and intention not to comply is 0.01. This means that when the perception of tax fairness is high, taxpayers increasingly become compliant, and this relationship must not interfere with tax knowledge. The path coefficient (β) value is explained by the weighted effect of the relationship tested. β values of effect size between 0.02 and 0.15 indicate it is small; between 0.15 and 0.35, it is considered medium; and exceeding 0.35 indicates a significant effect (Cohen, 1988). Therefore, H1 is indicated by a small effect. While H2 indicates a significant effect in the relationship tested. H3 is indicated as a medium effect in the contribution of hypotheses tested.

5.0 Discussions

The concept of perception of tax fairness was identified when taxpayers' opinion of government spending in return for the indirect tax payment. A few studies that have examined the effect of perception of tax fairness have suggested that perception of tax fairness is a vital tax compliance or non-compliance determinant (Bidin et al., 2015). The results of his study demonstrate that perception of tax fairness is an essential factor in influencing import tax behavior. The results contradict previous findings, which indicate a strong influence of perception of tax fairness on tax compliance behavior (Che Azmi et al., 2016). Therefore, this study adopted an appropriate theory, i.e., the TPB, which enabled the researcher to clarify the taxpayers' behavior. Besides, this study confirms that perception of tax fairness is one of the attitudinal elements influencing taxpayers' behavior. Although many studies have examined the effect of tax fairness on tax behavior, only a handful of studies have examined the effect of perception of tax fairness within the scope of tax non-compliance in indirect tax, such as Bidin et al. (2015) and Sinnasamy et al. (2015). This study also found that tax knowledge supported a strong relationship as a mediator. This needs a lot of effort from tax agencies and public universities to create more awareness among universities student. Understanding from an early stage will help tax authorities combat non-compliance behavior in the future. From another perspective, the lack of such studies prevents comparing the current results with the results of prior studies. The outcome may suggest looking at indirect taxes, e.g., excise duty and import sales tax. Such a hypothesis might be examined in future studies. The limitation of the study's focus on public universities because we only have data from the Ministry of Education on public universities. Another limitation involves time, whereas the period to collect data from a private university requires more time.

6.0 Conclusions

Consistent with these findings, the results from the current study indicate that the effects of Perception of Tax Fairness on tax knowledge are inconclusive. Therefore, it is clear whether a good perception and the certainty and severity of a good image in tax collection will increase the level of compliance behavior of Malaysian taxpayers. It is a good approach when the tax authority educates taxpayers to become more responsible. Therefore, the tax authority, such as RMCD, may have to be aware of the harm tax non-compliance causes to society. These study results are good to use in multi-racial countries such as Malaysia. This study also can be held by the tax administration to synchronise multi-racial taxpayers. Tax administrators also benefit from reducing costs when non-economic factors such as the perception of tax fairness and tax knowledge are used. For further research, this study suggests extending the samples to other multiracial countries such as Singapore and Indonesia. The difference in the results will help the tax authority improve their policy.

Acknowledgement

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