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**DETERMINANTS OF TAX NON-COMPLIANCE AMONG  
SMALL AND MEDIUM-SIZED CORPORATIONS IN  
SARAWAK: TAX AUDIT DATA**



**UNIVERSITI UTARA MALAYSIA**

**2020**

**DETERMINANTS OF TAX NON-COMPLIANCE AMONG  
SMALL AND MEDIUM-SIZED CORPORATIONS IN  
SARAWAK: TAX AUDIT DATA**

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**Project Paper Submitted to:  
Othman Yeop Abdullah Graduate School of Business,  
Universiti Utara Malaysia  
In Partial Fulfillment of the Requirement for the Master of Science  
(International Accounting)**



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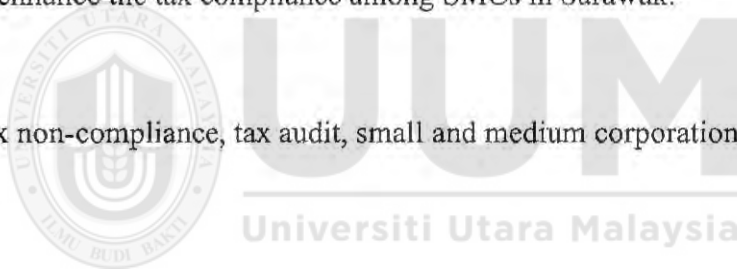
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## ABSTRACT

One of country's sources of income to stimulus economic development is based on a tax managed to be collected. In Malaysia, the Inland Revenue Board of Malaysia (IRBM) is an agency appointed to govern the direct tax collection which is known as income tax. Income tax is the main contributor to most of the country's revenue. Performance statistics shown that the tax collection reported by the IRBM increasing annually. However, non-compliance issue tremendously increased with an increase in the number of tax audit cases finalized with audit adjustments and penalties. This study is carried out to identify the determinant of non-compliance among the Small and Medium Corporations (SMCs). Secondary data is obtained from the IRBM taxation Audit Case Management System as quantitative data for the purpose of this study. Samples of the study population used the SMCs tax audit case finalized in year 2018 at Sarawak's IRBM branches. The focus of the study is on company location, industry type, company size and financial liquidity of SMCs. The results showed that there was a significant difference between SMCs tax non-compliance in Sarawak branches and the type of industry as well as the size of the company factors. However, there is no significant difference between SMCs tax non-compliance in Sarawak branches and the company location and company's financial liquidity factors. The result of this study is expected to provide additional information to tax literatures and assistance to the IRBM in Sarawak to enhance the tax compliance among SMCs in Sarawak.

**Keywords:** tax non-compliance, tax audit, small and medium corporations





## ABSTRAK

Salah satu sumber pendapatan sesebuah negara bagi menjana pembangunan ekonomi adalah berdasarkan kepada cukai yang berjaya dikutip. Di Malaysia, Lembaga Hasil Dalam Negeri Malaysia (LHDNM) adalah agensi yang dilantik bagi mentadbir urus cukai langsung iaitu cukai pendapatan. Cukai pendapatan adalah penyumbang utama kepada sebahagian besar pendapatan negara. Statistik prestasi kutipan cukai yang dilaporkan oleh pihak LHDNM menunjukkan peningkatan setiap tahun, namun masalah ketidakpatuhan cukai juga turut meningkat dengan pertambahan bilangan kes audit cukai yang diselesaikan dengan pelarasan audit dan penalti. Kajian ini dilakukan adalah untuk mengenalpasti penentu ketidakpatuhan cukai di kalangan pembayar cukai Syarikat Kecil dan Sederhana (SKS). Penggunaan data sekunder yang diperolehi daripada Sistem Pengurusan Kes audit cukai LHDNM sebagai data kuantitatif bagi tujuan kajian ini. Sampel populasi kajian menggunakan data kes audit cukai SKS yang diselesaikan pada tahun 2018 oleh semua cawangan LHDNM Sarawak. Fokus kajian adalah kepada lokasi syarikat, jenis industri, saiz syarikat dan kecairan kewangan syarikat SKS. Hasil kajian membuktikan wujudnya perbezaan yang signifikan antara ketidakpatuhan cukai SKS cawangan-cawangan di Sarawak dengan jenis industri dan saiz syarikat. Walau bagaimanapun tiada perbezaan yang signifikan antara lokasi syarikat dan faktor kecairan kewangan syarikat SKS. Hasil kajian ini diharapkan dapat memberi maklumat tambahan kepada literatur percukaian dan seterusnya membantu pihak LHDNM di Sarawak mempertingkatkan lagi pematuhan cukai di kalangan SKS di Sarawak.

**Kata kunci:** ketidakpatuhan cukai, audit cukai, syarikat kecil dan sederhana



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## LIST OF ABBREVIATIONS

ITA	Income Tax Act
ITRF	Income Tax Return Form
CMS	Case Management System
LTU	Large Taxpayer Unit
IRS	Internal Revenue Service
TCD	Tax Compliance Department
GDP	Gross Domestic Product
IRBM	Inland Revenue Board of Malaysia
IRD	Inland Revenue Department
OECD	Organization for Economic Co-operation and Development
SME	Small and Medium Enterprises
SMC	Small and Medium Corporations
SAS	Self-Assessment System
TCMP	Tax Compliance Measurement Program
RPGT	Real Property Gain Tax

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of Study

Taxation is an important element of the country's development. This is due to tax collection being used by the government to administer and manage the country, and subsequently used in expenditure to develop the country. The Inland Revenue Board of Malaysia (IRBM) is one of the main agencies under the Ministry of Finance which is responsible for collecting and administering the country's direct tax under petroleum income tax, real property gains tax, estate duty, stamp duties and such other taxes as may be agreed between the Government and IRBM. IRBM is established under the Inland Revenue Board Act of Malaysia 1995 to acquire more power especially in finance and staff management to increase the quality of taxation administration. Formerly known as the Inland Revenue Department (IRD), it was incorporated on 1st March 1996 and is known as the Inland Revenue Board of Malaysia (IRBM, 2017).

In the year 2018, IRBM had successfully collected direct taxes amounting to RM123.23 billion by contributing 52.92% of the total of federal revenue collection amounting to RM232.88 billion (IRBM, 2018). Total collection of direct taxes by component for the year 2016, 2017 and 2018 is shown in Table 1.1.



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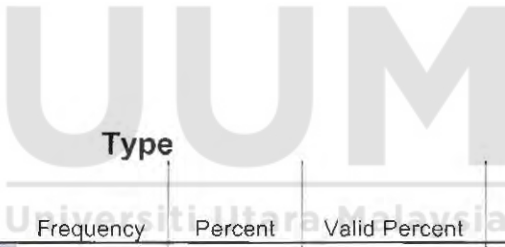
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DESCRIPTIVE – FREQUENCY

		Statistics				
		Control	Type	Location	Size	Liquidity
N	Valid	235	235	235	235	235
	Missing	0	0	0	0	0
Mode		2	7	41	1	1
Skewness		-10.770	.344	.480	1.195	2.949
Std. Error of Skewness		.159	.159	.159	.159	.159
Kurtosis		114.966	-.745	-1.090	-.120	8.226
Std. Error of Kurtosis		.316	.316	.316	.316	.316
Range		1	18	3	7	2
Minimum		1	1	40	1	1
Maximum		2	19	43	8	3
Sum		468	2155	9804	647	271

Frequency Table

		Type			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	Agriculture, Forestry & Fishery	15	6.4	6.4	6.4
	Mining & Quarry	3	1.3	1.3	7.7
	Manufacturing	12	5.1	5.1	12.8
	Electrical, Steam, Gases & Air condition	2	.9	.9	13.6
	Property Developer	14	6.0	6.0	19.6
	Contractor	22	9.4	9.4	28.9
	Wholesale trade	34	14.5	14.5	43.4
	Retailer trade	33	14.0	14.0	57.4
	Motor vehicle & Motorcycle Repair	9	3.8	3.8	61.3
	Transportation & Storage	16	6.8	6.8	68.1
	Accommodation & Food and Beverage Services Activity	5	2.1	2.1	70.2
	Information & Communication	1	.4	.4	70.6

Finance Activity & Takaful Insurance	12	5.1	5.1	75.7
Real Estate Activity	12	5.1	5.1	80.9
Professional & Technical Activity	5	2.1	2.1	83.0
Administration & Support Service Activity	22	9.4	9.4	92.3
Education	6	2.6	2.6	94.9
Health, Humanity, Social Work Activity	3	1.3	1.3	96.2
Other Services Activity	9	3.8	3.8	100.0
Total	235	100.0	100.0	

### Location

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Kuching	1	.4	.4	.4
	Sibu	110	46.8	46.8	47.2
	Miri	78	33.2	33.2	80.4
	Bintulu	46	19.6	19.6	100.0
	Total	235	100.0	100.0	

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### Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below RM500,000	125	53.2	53.2	53.2
	RM500,001 to RM1,000,000	30	12.8	12.8	66.0
	RM1,000,001 to RM1,500,000	15	6.4	6.4	72.3
	RM1,500,001 to RM2,000,000	16	6.8	6.8	79.1
	RM2,000,001 to RM2,500,000	5	2.1	2.1	81.3
	RM2,500,001 to RM3,000,000	5	2.1	2.1	83.4
	RM3,000,001 to RM5,000,000	14	6.0	6.0	89.4
	Above RM5,000,000	25	10.6	10.6	100.0
	Total	235	100.0	100.0	



### Liquidity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2	206	87.7	87.7	87.7
	Between 2 and 10	22	9.4	9.4	97.0
	More than 10	7	3.0	3.0	100.0
	Total	235	100.0	100.0	



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**REGRESSION RESULTS:**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.472 <sup>a</sup>	.223	.109	.77359

a. Predictors: (Constant), size8, type19, location1, type12, type18, type11, size6, size5, type15, type17, type2, type3, type13, size3, liquidity2, type14, type9, size4, type1, size7, type16, liquidity3, location3, type5, type10, size2, type6, location4, type8, type4

b. Dependent Variable: LogAdjustment

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.061	30	1.169	1.953	.004 <sup>b</sup>
	Residual	122.082	204	.598		
	Total	157.143	234			

a. Dependent Variable: LogAdjustment

b. Predictors: (Constant), size8, type19, location1, type12, type18, type11, size6, size5, type15, type17, type2, type3, type13, size3, liquidity2, type14, type9, size4, type1, size7, type16, liquidity3, location3, type5, type10, size2, type6, location4, type8, type4

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.007	.150		26.637	.000		
	type1	-.171	.245	-.051	-.700	.485	.711	1.406
	type2	-.299	.477	-.041	-.628	.531	.888	1.126
	type3	-.391	.264	-.105	-1.479	.141	.753	1.328
	type4	-.713	.797	-.080	-.894	.372	.475	2.106
	type5	-.307	.253	-.089	-1.210	.228	.707	1.414
	type6	-.055	.226	-.020	-.244	.807	.588	1.699
	type8	-.288	.196	-.122	-1.466	.144	.548	1.824
	type9	-.577	.298	-.135	-1.940	.054	.781	1.281
	type10	-.219	.249	-.067	-.877	.381	.645	1.551
	type11	-.132	.378	-.023	-.349	.727	.856	1.169
	type12	-.927	.788	-.074	-1.177	.241	.968	1.033
	type13	-.468	.264	-.126	-1.768	.079	.752	1.330
	type14	-.750	.269	-.202	-2.791	.006	.727	1.375

type15	.304	.382	.054	.797	.427	.840	1.190
type16	-.034	.220	-.012	-.156	.876	.621	1.609
type17	-.419	.356	-.081	-1.180	.239	.810	1.235
type18	-1.270	.477	-.174	-2.664	.008	.889	1.125
type19	-.516	.300	-.121	-1.722	.087	.770	1.299
location1	.545	1.118	.043	.487	.627	.480	2.081
location3	.100	.124	.058	.804	.422	.742	1.348
location4	.105	.153	.051	.685	.494	.692	1.445
liquidity2	.089	.186	.032	.477	.634	.867	1.154
liquidity3	-.204	.320	-.042	-.637	.525	.862	1.160
size2	.266	.173	.109	1.537	.126	.762	1.312
size3	.558	.222	.167	2.514	.013	.866	1.155
size4	.253	.231	.078	1.095	.275	.753	1.328
size5	.320	.378	.057	.848	.397	.858	1.166
size6	1.152	.368	.203	3.127	.002	.902	1.109
size7	.486	.230	.141	2.109	.036	.856	1.168
size8	.632	.180	.238	3.516	.001	.830	1.204

a. Dependent Variable: LogAdjustment

Model	Beta In	T	Sig.	Collinearity Statistics			
				Partial Correlation	Tolerance	VIF	Minimum Tolerance
1	type7	.b	.	.	.000	.	.000
	location2	.b	.	.	.000	.	.000
	size1	.b	.	.	.000	.	.000

a. Dependent Variable: LogAdjustment

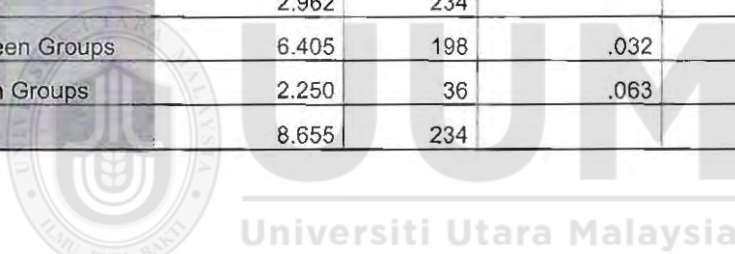
b. Predictors in the Model: (Constant), size8, type19, location1, type12, type18, type11, size6, size5, type15, type17, type2, type3, type13, size3, liquidity2, type14, type9, size4, type1, size7, type16, liquidity3, location3, type5, type10, size2, type6, location4, type8, type4



## REGRESSION: TYPE OF INDUSTRIES

		ANOVA				
		Sum of Squares	df	Mean Square	F	Sig.
type1	Between Groups	13.043	198	.066	2.371	.001
	Within Groups	1.000	36	.028		
	Total	14.043	234			
type2	Between Groups	2.462	198	.012	.895	.690
	Within Groups	.500	36	.014		
	Total	2.962	234			
type3	Between Groups	10.887	198	.055	3.959	.000
	Within Groups	.500	36	.014		
	Total	11.387	234			
type4	Between Groups	1.483	198	.007	.539	.996
	Within Groups	.500	36	.014		
	Total	1.983	234			
type5	Between Groups	10.366	198	.052	.673	.953
	Within Groups	2.800	36	.078		
	Total	13.166	234			
type6	Between Groups	18.440	198	.093	2.235	.003
	Within Groups	1.500	36	.042		
	Total	19.940	234			
type7	Between Groups	24.281	198	.123	.920	.651
	Within Groups	4.800	36	.133		
	Total	29.081	234			
type8	Between Groups	23.116	198	.117	.801	.828
	Within Groups	5.250	36	.146		
	Total	28.366	234			
type9	Between Groups	7.155	198	.036	.867	.733
	Within Groups	1.500	36	.042		
	Total	8.655	234			
type10	Between Groups	13.611	198	.069	1.904	.012
	Within Groups	1.300	36	.036		
	Total	14.911	234			
type11	Between Groups	3.894	198	.020	.708	.927
	Within Groups	1.000	36	.028		
	Total	4.894	234			
type12	Between Groups	.996	198	.005		
	Within Groups	.000	36	.000		
	Total	.996	234			

type13	Between Groups	8.137	198	.041	.455	1.000
	Within Groups	3.250	36	.090		
	Total	11.387	234			
type14	Between Groups	9.837	198	.050	1.154	.313
	Within Groups	1.550	36	.043		
	Total	11.387	234			
type15	Between Groups	4.094	198	.021	.930	.634
	Within Groups	.800	36	.022		
	Total	4.894	234			
type16	Between Groups	17.440	198	.088	1.268	.200
	Within Groups	2.500	36	.069		
	Total	19.940	234			
type17	Between Groups	5.847	198	.030		
	Within Groups	.000	36	.000		
	Total	5.847	234			
type18	Between Groups	2.962	198	.015		
	Within Groups	.000	36	.000		
	Total	2.962	234			
type19	Between Groups	6.405	198	.032	.518	.998
	Within Groups	2.250	36	.063		
	Total	8.655	234			



## LOCATION OF COMPANIES

### ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
location2	Between Groups	53.311	198	.269	1.864	.014
	Within Groups	5.200	36	.144		
	Total	58.511	234			
location3	Between Groups	49.611	198	.251	3.608	.000
	Within Groups	2.500	36	.069		
	Total	52.111	234			
location4	Between Groups	34.296	198	.173	2.309	.002
	Within Groups	2.700	36	.075		
	Total	36.996	234			



## LIQUIDITY OF COMPANIES

### ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
liquidity1	Between Groups	.000	198	.000		
	Within Groups	.000	36	.000		
	Total	.000	234			
liquidity2	Between Groups	18.940	198	.096	3.444	.000
	Within Groups	1.000	36	.028		
	Total	19.940	234			
liquidity3	Between Groups	6.791	198	.034		
	Within Groups	.000	36	.000		
	Total	6.791	234			

## SIZE OF COMPANIES

### ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
size1	Between Groups	54.311	198	.274	2.351	.002
	Within Groups	4.200	36	.117		
	Total	58.511	234			
size2	Between Groups	22.170	198	.112	1.008	.512
	Within Groups	4.000	36	.111		
	Total	26.170	234			
size3	Between Groups	13.043	198	.066	2.371	.001
	Within Groups	1.000	36	.028		
	Total	14.043	234			
size4	Between Groups	12.711	198	.064	1.050	.448
	Within Groups	2.200	36	.061		
	Total	14.911	234			
size5	Between Groups	4.894	198	.025		
	Within Groups	.000	36	.000		
	Total	4.894	234			
size6	Between Groups	4.894	198	.025		
	Within Groups	.000	36	.000		
	Total	4.894	234			
size7	Between Groups	12.166	198	.061	2.212	.003
	Within Groups	1.000	36	.028		
	Total	13.166	234			
size8	Between Groups	20.340	198	.103	1.849	.015
	Within Groups	2.000	36	.056		
	Total	22.340	234			