TAX EVASION BY BUSINESS INCOME TAXPAYERS IN KLANG VALLEY MALAYSIA

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ABSTRACT

Income tax is one of the major sources of revenue for Malaysian government. It has become an essential tool for the implementation of various government policies aimed at improving the welfare of the citizens and the development of the country. Tax evasion is alarming in Malaysia as more stringent measures are employed by Inland Revenue Board Malaysia (IRBM) to tackle this existing concerns. In general, tax is an illegal act of non-payment or under payment of tax. Although many studies on tax evasion were carried out in the past, there are still limited studies that used proprietary tax audit data to identify the association between taxpayers' characteristics and tax evasion. Hence, this study will determine the significant difference between gender, age, business size and income level with tax evasion especially among taxpayers with business income in Klang Valley, Malaysia which has been identified to have low compliance rate in year assessment 2018. This study also employs actual data on the understatement of income as a proxy in measurement of tax evasion. The result shows that gender and income level have significant difference with tax evasion while age and business size have no significant difference with tax evasion. The result of this study are highly relevant to IRBM in developing strategies to curb tax evasion as well as add value to the current works on literature related to taxation.

Keywords: tax evasion; understatement of income; taxpayers' characteristics; taxpayers with business income

ABSTRAK

Isu pelarian cukai di Malaysia semakin diberi perhatian pada masa kini. Lembaga Hasil Dalam Negeri Malaysia (LHDNM) telah mengambil langkah-langkah yang lebih tegas bagi menangani masalah tersebut. Pada umumnya, pelarian cukai adalah aktiviti haram yang menjurus kepada pengelakan and pelarian cukai. Walaupun banyak kajian tentang pelarian cukai telah dilakukan pada masa lalu, masih terdapat kajian terhad yang menggunakan data audit cukai sebenar bagi mengenal pasti hubungan antara ciri-ciri pembayar cukai dan pelarian cukai. Di samping itu, kajian ini akan menentukan perbezaan signifikan di antara jantina, umur, tahap pendapatan dan saiz perniagaan dengan pengelakan cukai terutamanya di kalangan pembayar cukai yang mempunyai pendapatan perniagaan di Lembah Klang, Malaysia yang telah dikenalpasti mempunyai kadar pematuhan yang rendah bagi tahun 2018. Kajian ini juga menggunakan data meninggalan pendapatan oleh pembayar cukai sebagai proksi dalam pengukuran pelarian cukai. Hasil daripada analisa menunjukkan bahawa jantina dan tahap pendapatan mempunyai perbezaan yang signifikan dengan pelarian cukai manakala umur dan saiz perniagaan tidak mempunyai perbezaan yang signifikan dengan pelarian cukai. Hasil kajian ini sangat relevan kepada LHDNM dalam membangun strategi untuk mengekang pengelakan cukai serta menambah nilai literature semasa.

Kata kunci: pelarian cukai; peninggalan pendapatan; ciri-ciri pembayar cukai; pembayar cukai dengan pendapatan perniagaan.

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ANOVA   Analysis of Variance

IRBM   Inland Revenue Board of Malaysia

ITA   Income Tax Act

MTD   Monthly Tax Deduction

SAS   Self-Assessment System

SPSS   Statistical Package for Social Science

TISSA   Tunku Puteri Intan Safinaz School of Accountancy

UUM   Universiti Utara Malaysia

CHAPTER ONE : INTRODUCTION

1.0 Introduction

Tax evasion, has always been a problem to tax administrative system in any countries, either in developed countries, or in emerging countries. The problem of tax evasion is as old as the institution of tax system Wentworth & Rickel (1985). This project paper aimed to acertain the determinant factors that related to tax evasion among taxpayers with business income in Klang Valley, Malaysia by examining the type of penalty imposed on tax audit data derived from Inland Revenue Board of Malaysia (IRBM) in year 2018. This project paper also strives to determine the significant difference between gender, age, business size and income level with tax evasion activities of taxpayers with business income based on earlier identified research by Jackson & Milliron (1986) on certain major tax evasion's key determinants. The background of the project paper begins in Chapter 1, followed by problem statement, the scope of the study, research objectives, the significance of the study, the motivation of the study and overall organization of the study as the conclusion of this chapter.

1.1 Background of the studies

An individual who intentionally produce incorrect verbal or written statement which result in not reporting their real income and claim inappropriate deductions with the purpose of reducing or evade tax would be classified as a tax evasion. Under Section 113 and 114 of the Income Tax Act 1967, tax evasion is considered illegal.

There are legal boundaries that distinguish between tax avoidance and tax evasion. Tax avoidance is an act to reduce or to avoid from paying taxes legally that can be accomplished by taking advantages of loopholes in the tax system. With effective tax planning, tax avoidance may also be possible. Income tax deduction and income deferral are examples of tax avoidance that can be done legally. Individual and businesses may utilize the eligible tax deductions

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Appendices

Appendix A: *T-Test*

T-Test

Group Statistics

	gender	N	Mean	Std. Deviation	Std. Error Mean
tax_evasion	1	114	176786.16	220394.311	20641.818
	0	45	303962.11	849172.610	126587.179

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
tax_evasion	Equal variances assumed	4.781	.030	-1.484	157	.140	-127175.952	85715.729	-296480.732	42128.827

Appendix B: *Correlations*

Correlations

		tax_evasion	gender	age	income_lev	size
tax_evasion	Pearson Correlation	1	-.118	.046	.879**	.000
	Sig. (2-tailed)		.140	.567	.000	.998
	N	159	159	159	159	159
gender	Pearson Correlation	-.118	1	.128	-.034	.083
	Sig. (2-tailed)	.140		.109	.673	.299
	N	159	159	159	159	159
age	Pearson Correlation	.046	.128	1	.080	.121
	Sig. (2-tailed)	.567	.109		.317	.129
	N	159	159	159	159	159
income_lev	Pearson Correlation	.879**	-.034	.080	1	.034
	Sig. (2-tailed)	.000	.673	.317		.667
	N	159	159	159	159	159
size	Pearson Correlation	.000	.083	.121	.034	1
	Sig. (2-tailed)	.998	.299	.129	.667	
	N	159	159	159	159	159

**. Correlation is significant at the 0.01 level (2-tailed).