

The Impact of Social Norms on Voluntary Tax Compliance in Malaysia

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Abstract

Tax compliance has always been a major issue for governments worldwide. This emphasizes the need to understand the factors that contributing to individual taxpayer's compliance decisions that go beyond the standard economics-of-crime approach to include the role of social norms. This study explores the impacts of social norms on taxpayers' attitudes towards voluntary tax compliance. Findings show that personal norms and subjective norms give a significant impact on the willingness of taxpayers to comply with tax laws. The tax authority is suggested to understand taxpayers' attitudes in developing appropriate strategy to ensure positive tax attitudes are instilled in Malaysia to easily increase voluntary tax compliance in Malaysia.

Keywords: *social norm; taxpayer; tax morale; tax compliance; Malaysia.*

1.0 INTRODUCTION

Tax compliance has always been a major issue for governments worldwide. Even though many studies have been conducted, most of the earlier studies on the factors that influence tax compliance only focused on the standard economics-of-crime approach (tax penalties, tax audits and tax rates) and individual psychological factors. It is only until recently that a number of studies exploring the effect of social interactions or peer influence on tax compliance which focusing on the surroundings of taxpayers. Society may influence the behavior of its members in many ways. The roles of individuals in society and accepted norms of behavior are noted to have a strong influence on tax compliance. Hence, individuals may adopted and adapted values and internalize it through observation from his/her society. However, there is still lack of studies identifying the elements that constructs social norms and the impact of social norms on tax compliance.

This study aims to explore the actual elements that form social norms that give impact on the willingness of taxpayers to abide by tax laws. The remainder of the paper is organized as follows. The next section briefly reviews the literature regarding the influence of social norms in tax compliance studies. This discussion is then followed by the presentation of the method used in this study. Next, the findings of the study are presented. The subsequent section provides a discussion of the overall findings together with the theoretical and policy implications. Several limitations of the current study are acknowledged and the final section concludes the paper.

2.0 SOCIAL NORMS AND VOLUNTARY TAX COMPLIANCE

Voluntary tax compliance refers to the moral principles or values held by individuals about paying their taxes (Torgler and Murphy, 2004). One of the external factors that have been examined in the compliance research is the social norms of individuals from the perspective of moral values and peer influences. Alm *et al.* (1995, p.7) highlighted that “social norms may therefore be a dominant, although also largely unexplored, factor in unravelling the puzzle of tax compliance”. Social norm is defined by Chang (2004) as a rule to govern individual’s behavior by means of social sanctions. While Alm (2011) would rather explained social norm as a pattern of behavior that is judged in a similar way by others and that therefore is sustained in part by social approval or disapproval. While both definitions were highlighting on social sanctions and whether the norms receives approval, Bobek (2011) adopted Cialdini and Trost (1998)’s definition to describe it as rules and standards that are understood by members of a group, and that guide and/or constrain social behavior without the force of laws.

Basically, it demonstrates a theory of pro-social behavior, the reciprocity theory which refers to responding to a positive attitude with another positive attitude and responding to a negative attitude with another negative attitude (for example: Rabin, 1998; Fehr and Falk, 2002). It is revealed that the most influential factor in influencing taxpayers’ compliance attitudes is a combination of taxpayers’ own values together with the values of others in their surroundings (Bobek *et al.*, 2007). The effect of social interactions is argued to be neglected in most tax evasion research for two reasons (Fortin, 2007, p. 2107). First, the reference group that strongly influences taxpayers’ attitudes is hard to identify. Second, it is difficult to separate the effects between taxpayers’ own values and the values from the taxpayers’ environment that shape taxpayers’ attitudes.

Prior research has identified few elements that construct the concept of social norms (Hite, 1996; Wenzel, 2004; Hofmann, 2008; Bobek, 2013, Torgler, 2002). There are four identified constructs in social norms namely personal norms, subjective norms, injunctive norms and descriptive norms (Cialdini and Trost, 1998; Bobek, 2013). Personal norms is an individual standards for behavior and his/her ethical beliefs, subjective norms on the other hand expressed expectation on close others such as family and friends. Injunctive norm is general societal expectations and lastly descriptive norm is basically describing how others actually behave through observation.

Scholars found that what are socially acceptable behaviors vary across culture (Frey, 1997; Cummings, 2004; Bobek, 2007; Alm, 2006). The study found that personal norms and subjective directly influence tax compliance while injunctive norms and descriptive norms have indirect influence (Bobek, 2007; Bobek, 2013; Blanthrone and Kaplan, 2008). Substantially, personal norms plays greater role than other norms (Hite, 1996; Cullis, 1997; Hoffman, 2008; Bobek, 2007; Bobek, 2013). Personal norm on tax compliance is influenced by other norms on large scale after communicating with others (Cialdini, 2004; Cialdini 2007; Hardin, 2000; Welch, 2005). This occurs as individuals internalize the behavior through social interaction to shape their personal norms (Etzioni, 2000). Overall, social norms appear to have a significant impact on taxpayers’ attitudes towards compliance but the actual element of social norm that affect tax compliance is still debatable.

3.0 RESEARCH METHOD

The drop-off survey was selected to be conducted for this study because it is considered as one of the most successful techniques to avoid low response rates in a survey (Dillman, 2007). It involved individual taxpayers in Malaysia comprising of salaried and self-employed taxpayers. The potential respondents for drop-off survey were selected based on proportionate stratified sampling according to three different groups; government servant, private company staff and self-employed. A total of 300

questionnaires were sent to 15 companies and 100 questionnaires were distributed personally to self-employed taxpayers.

The constructs were developed to measure the social norms and taxpayers' attitudes towards tax compliance. Items for voluntary tax compliance (VTC) were adapted from Kirchler (2010) while items for social norms were taken from Bobek (2013) and Wenzel (2007). Social norms items were grouped into four identified norms; personal norms, subjective norms, injunctive norms and descriptive norms. All constructs were measured on a 5-point Likert scale (1 = strongly disagree, 5 = strong agree).

4.0 FINDINGS

The total usable responses received were 226 out of 400 distributed questionnaires. The percentage of Malay (89%) involved in this study appeared to be over representative compared to Chinese (6%) and Indians (4%), but the overall sample was considered acceptable because it reflected the actual ranking of Malaysian proportion in the population based on census 2010 (Department of Statistics of Malaysia, 2011). Almost 90% of the respondents were salaried taxpayers and 10% were self-employed taxpayers. The overall mean score for voluntary tax compliance was 3.40 which demonstrated neutral stance towards voluntary tax compliance. The inclination towards agreement can only be viewed on their duty as citizens to support the country and helping others.

The average mean for personal norms which was 2.85, inclined towards disagreement. More than 63% of the respondents disagreed that it was acceptable to overstate tax deductions. However, when they were asked whether they have the feeling of either guilty or ashamed or justified or pleased to claim additional deduction of RM2,000 when they were filling up their tax return, similar percentages (approximately 30%) for three main groups namely disagree, neutral and disagree were expressed for all these statements. These findings were contradicting the finding of the first statement for personal norms. This is probably due to the amount of RM2,000 which can be considered as little to some group of people.

The majority of the respondents showed that the people in their surroundings such as colleagues, family and friends did not have strong influence on their decision whether or not to comply with tax laws as shown by the subjective norms overall mean score of 2.99. As for injunctive norms, the average mean score was 2.88 which pointed to the inclination of disagreement in terms how they perceived the society would feel guilty or ashamed or afraid when they claimed additional deduction of RM2,000.

Similarly, almost 50% of the respondents highly agreed that generally, tax evasion was widely spread in Malaysia although their responses on whether people honestly declared all income in their tax return were equally distributed into three major opinions namely disagree, neutral and agree. On the other hand, they have shown neutral opinion about people taking small tax deductions or overstate tax deductions on their tax return. Overall, the findings for descriptive norms showed mixed findings.

Multiple regression analyses were conducted to analyze the impact of each element of social norms on voluntary tax compliance. The findings revealed that only personal norms and subjective norms were significant in explaining taxpayers' attitudes towards voluntary tax compliance as clearly shown in Table 1. The multiple regressions for voluntary tax compliance produced an adjusted $R^2 = 0.169$, $F(4, 226) = 12.477$, $p = 0.00$.

Table 1: Findings of the Multiple Regression Analyses

Variables	Voluntary Tax Compliance (VTC)		
	B	SE	β
Personal Norms	0.249	0.076	0.238**
Subjective Norms	0.243	0.061	0.295*
Injunctive Norms	-0.079	0.096	-0.063
Descriptive Norms	-0.009	0.090	-0.006

Note: ** $p < 0.01$, * $p = 0.00$

5.0 DISCUSSION FINDINGS

Malaysians appear to have high tendency to comply voluntarily as clearly shown by the mean score for voluntary tax compliance. This finding supports the prior research conducted in Malaysia (Mohdali, Isa and Yussof, 2014) and this is probably because majority of the respondents are salaried taxpayers who are subject to Monthly Tax Deduction (Amendment) (No. 2) Rule 2014, Income Tax Act 1967. Thus, almost all salaried taxpayers do not have much choice but to comply with tax laws.

Despite most respondents agree that tax evasion is widespread in Malaysia, they still think it is not socially acceptable to avoid paying taxes. This is supported by several studies (Bobek, 2007; Wenzel, 2004) as what others were perceived to be doing does not give a strong impact on what individuals believe that he/she should comply with tax. This is in line with the findings from the multiple regression analyses findings. The findings confirm that the only social norms elements that have significant influence on voluntary tax compliance are personal norms and subjective norms. Trivedi (2003) supports the finding as peer or close family members have the biggest influence on taxpayers' tax morale. Other element of social norms namely injunctive and descriptive norms seem to have less impact in shaping the attitudes of taxpayers towards tax compliance. As argued by Cialdini (2007), although descriptive norms have often been ignored in compliance study, findings show that descriptive norms give insignificant impact on taxpayers' tax morale.

One important policy implication for the Inland Revenue Board of Malaysia is probably to inform Malaysian taxpayers the correct information personally in regards to any arising tax issue in order to ensure they have accurate and verified information from the tax authority. This is because with the heavy use of social media recently and sharing information is widespread regardless of whether the information is correct or not, it may give a negative impact on taxpayers in developing their personal and subjective norms towards tax compliance attitudes.

The most apparent limitation of this study was the disproportion of the total salaried and self-employed taxpayers who were involved in this study. Even though several attempts have been made, the self-employed taxpayers remained at only 10% of the total respondents. Exploring self-employed taxpayers might give interesting views in terms of the influence of social norms on their tax compliance attitudes since they have more opportunities to evade as compared to salaried taxpayers (Braithwaite, 2003).

6.0 CONCLUSION

The empirical evidence in this study has shown that social norms are likely to give a significant impact in encouraging people to comply with tax laws. However, only personal and subjective norms appear to have positive impacts on taxpayers' positive attitudes towards tax laws. Therefore, the Inland Revenue Boards of Malaysia is suggested to disseminate tax information directly to taxpayers in order to ensure taxpayers' personal and subjective norms are positively developed in increasing voluntary tax compliance in Malaysia. It is also suggested for future research to focus more on self-employed taxpayers to explore taxpayers with different opportunities in terms of evading as compared

to salaried taxpayers. Even though with its limitations, this study has confirmed the most influential elements in encouraging taxpayers willingness to comply with tax laws are personal and subjective norms.

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