

Sociology of Individual Voluntary Tax Compliance

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Abstract--- *Taxation plays an important role in any country. It is not only contributes towards the wealth of the nation but interestingly the health of the nation. Wealth comprises of contribution to the sources of revenue and distribution of revenue to the good use for the nation. The nation will prosper and having healthy lifecycle will eventually benefit its citizen at large. In 2001, Malaysia went to through transition from Official Assessment System (OAS) to Self- Assessment System (SAS). It is a system that allow the taxpayers to calculate their own tax liability within the boundaries of tax laws. It was different previously where the determination of tax liability, calculation and other tax administrative works lie greatly with Inland Revenue Board of Malaysia (IRBM). Managing own tax matters are known as voluntary tax compliance and this relieves the tax authorities from great deal of resources. The study is aimed to investigate the ethical, moral, religious and cultural background considerations on individual voluntary tax compliance whose main income is from doing business. This is a quantitative study. Total of 230 questionnaires distributed to respondents and 87% of the questionnaires returned with total number of valid 200 responses. Necessary tests including multiple regression analysis were used in this study. Findings showed that ethicality and religiosity have direct significant effect on the individual tax compliance among the taxpayers whose main income from doing business. However, morality and cultural background do not have significant effect in this relationship. It was believed this study will significantly contributes to the body of knowledge in the areas of voluntary tax compliance.*

Keywords--- *Voluntary Tax Compliance, Self-assessment System, Sociological Factors.*

I. INTRODUCTION

Taxation system is essential part of the government's revenue sources and expenditure (Abdul Aziz *et al.*, 2000). The system may vary across countries depending on the economic structure of the respective country which results in different share of total tax revenue collected and generated by different countries. Share of tax revenue in government's total revenue in Malaysia is comparatively high. In 1963, the total revenue for government was RM 1,150 million, where the 80% or about RM 915 million was contributed by tax revenue. Later in the year 2010, the government revenue increased to RM162, 131 million in which the share of tax revenue amounted to RM 107, 092 million. This shows an approximately, 66% of the government revenue has decreased (Tabandeh, *et al.*, 2013). In 2017, total revenue in Malaysia was RM 225,330 million with reported tax revenue of RM180, 190 million which is at about 80% of total revenues (The Star Online, 2017). Hence, tax revenue has been playing greater role in meeting national aspirations to be a developed country in near future. A well-structured tax system ensures national stability as the government does not need to overly rely on external funding to stay afloat. A government that collects tax implied that a nation's capacity for development and further economic growth, likewise, less tax collections may

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indicative that development and economic growth is stagnant and not competitive enough to meet its state affairs. (Edame & Okoi, 2014). Even though tax is considered to be a legal form of commitment to the government, it should be considered as an ethical duty rather than a responsibility as the government spends tax collected funds for the development of the nation at large (Bhatia, 1976; James and Nobes, 2000). According to Becker's (1974) economic theory of crime, tax evasion and other kinds of white-collar felonies have proven to grow more rapidly despite improved tax and other legislations. Among the earliest research is undertaken by Allingham & Sandmo (1972), affirmed that tax compliance based on rational flutter between expected benefits and associative costs of not complying with tax duties. This study is rather on economic perspectives as opposed to the current study. Hence, taxpayers' social aspects (ethicality, morality, religiosity and cultural background) may impacted the taxpayers' compliance in Malaysia.

According to McManus and Warren (2006), a tax gap is the measure of differences between the tax collected by the government in a single year and the total tax that should have been collected by the government in a single year. These tax gaps arise for reasons that taxpayers intentionally or unintentionally made when paying taxes (Alabede, et al., 2011^a; Alabede, et al. 2011^b). The intentional are those errors left unnoticed. Some taxpayers might not know or might have low seriousness when complying with tax return submission and payment. These scenarios can be improved by educating the people. Whereas, intentionally include evasion, abusive avoidance and similar instances. In 2011, it has been reported that there are 6.4 million taxpayers in Malaysia but only 2.4 million taxpayers pay their taxes in Malaysia (Bedi, 2011). As this has been distressing phenomenal, the tax defaulters are keep increasing since 2001 and even within 2 years, the number increased 10 times (Choong & Wong, 2011). In 2005, Malaysia went through the paradigm shift by employing the Self-Assessment System (SAS) where responsibility of calculating taxes had shifted successfully from the Inland Revenue Board of Malaysia (IRBM) to taxpayers. As part of tax compliance, challenges are to ensure individuals pay taxes voluntarily. According to a report in Sin Chew Daily today, IRBM's chief executive officer Datuk Seri Sabin Samitah said so far, 25,874 tax defaulters had been barred from leaving the country with tax arrears totally more than RM1.35 billion (Kong, 2019). This will severely affect the government tax income. Hence, it is vital for taxpayers to comply with their tax laws as government can accomplish essential programs pertaining to national defence, infrastructure, education, public welfare and an increase of public goods and services.

The most common and serious challenge faced by the income tax administrators to ensure the tax payers are complying well with the taxes due to the government. Therefore, the government has undertaken various tax reforms and have regulated the tax system yet the tax non-compliance among taxpayer is relatively high (Chong, 2017). One of the recent diplomatic move by government is a special voluntary disclosure program ("SVDP") which expired on June 30, 2019 (with e-filing submission is due on 15 July 2019) is to encourage taxpayers to voluntarily disclose any previously undeclared income to the IRBM. The aim is to collect an estimated RM10 billion from 1 million taxpayers (The Star Online, 2019). As to date, IRB has identified 79,786 individuals, companies, organisations and cooperatives who have yet to pay tax (The Star Online, 2018). Government can accomplish various programmes to develop people and country but partly affected by the uncollected revenue.

According to Marti (2010), there is linkage between the existing tax system and the tax compliance phenomenon. Wentworth and Rickel (1985) stated that there has always been a major issue for the tax administration for tax compliance, either in developing or developed countries. For decades, researchers and institutions have been working towards tax compliance. But, the tax compliance issue still persist. Researchers have carried out numerous studies of the common factors which influences an individual tax compliance which are tax awareness (Kamaluddin & Madi, 2005; Choong & Edward Wong, 2011), tax fairness (Saad, 2014; Palil & Mustapha, 2011), and perception of government (Tan, Mohd Salleh & Md Kassim, 2017). Studies on tax compliance behaviour have been done is well developed countries and not in developing countries however the sociology factors that affects the income tax compliance in this country is still lacking. Hence this study is significant contributes in enlightening the tax payers, tax agents or the government on the factors that influence tax compliance activity. Thus, the aim of this study is to examine sociology effect of the individuals in Klang Valley on tax compliance by engaging the ethical, moral, religious and cultural background considerations.

II. LITERATURE REVIEW

2.1 Individual Voluntary Tax Compliance

The individual tax compliance study has been conducted by numerous researchers. Angus *et al.* (2016), stated that tax compliance is a process of fulfilling taxpayer's civil obligation for tax payment or tax returns. Voluntary tax compliance is the willingness of the tax payer on his own complies with tax authority's directives and regulations (Tilahun and Yidersal, 2014). Voluntary tax compliance is influenced by the individual's perception of government accountability. Based on the equity fairness and gender differences, Tilahum and Yidersal (2014) had investigated these factors that influence tax compliance. It was found that the elderly age people prefer to be more non-complying if there is no equity or fairness among the people. Awang and Amran (2014) studied ethical consideration on tax compliance by the taxpayers (individual and corporate) in general that tax avoidance and tax evasion are unethical and not complying in the obligations to pay taxes are absolutely affects the trust of stakeholders. This is as well very obvious among corporate entities. Isa (2014) study found that the smaller companies face difficulties in meeting tax obligations and the difficult areas for them were record keeping, tax ambiguity and tax computations. The least difficult areas were dealing with tax agents or authorities and submitting the returns within the stipulated time frame. Compliance behaviour was also is worth to be considered. Jayawardane (2016) found that most taxpayers view that the inland revenue authority of Sri Lanka were unfair in the dealing with tax matters among the individual taxpayers and have significantly affect the compliance decision among them. Downs and Stetson (2014) examines the impact and interaction of economic and moral social factors in the corporate tax compliance context. Their study found that non-compliance could be considered if expected benefits and perceived legality can be justifiable in a corporate setting. After reviewing the related literature, the compliance of tax duties is useful to be studied through the social aspects such as ethical, moral, religious and cultural background of the individual taxpayers especially those engaged in the business undertaking.

2.2 Ethicality

Ethicality is the behavioural dimension of an individual in relation to the tax compliance. Ethical consideration is important aspect, especially for individual in complying with tax obligation. Even though the ethical attitudes and

behaviours differs across different individual taxpayers but these differences play important role in complying with tax obligations. In broad definition, ethics of taxpayers include that the taxpayer will comply with tax obligation provided the taxpayer believes that compliance is the rightful decision to make. (Alm & Torgler, 2011). McGee and Preobragenskaya (2007) found that if government that are in charge is corrupt and the tax system is not favourable towards its people, then being unethical can be expected. Therefore, tax system and government should be fair for people (Alasfour, 2017). Wenzel (2005) found that tax payments are considered costs to the taxpayers that they must avoid or reduce provided that chances for being detected by tax authorities and related penalties are strict to deter the taxpayers for doing so. Henderson and Kaplan (2005) argued that chances of being audited and detection procedures are very low in improving the tax compliance among taxpayers (Park and Hyun, 2003). As ethical considerations are not easily justifiable from one individual taxpayer to the other individual taxpayer, it is still subjective and remains property of the individual taxpayer in determining the compliance with the tax obligations. However, kinder approach whilst ensuring government's tax system and policies are not burdening the taxpayers in anyway (Alm & Torgler, 2011). Therefore, this ethical aspect is worth to be studied on the compliance of tax obligations among the individual taxpayers whose main income is from doing business.

2.3 Morality

Kirchgassner (2010) affirmed that high tax morale among taxpayers are beneficial to society and government, as not only the revenue collections improve but society gets better through various development plans. However, the author found that fairness, religion and trust in the tax system are very important even than tax burden to boost the tax morale. Trust is looking how the funds collected are well managed to develop and provide care to the society. Thus, taxpayers' behaviour in complying with tax payments is very much determined by tax morale which is regarded as attitude (McGee, 2005). Bosco and Mittone (1997) mentioned "Kantian morality approach" (Laffont, 1975; Sudgen, 1984) and "the altruistic approach" in his study on morality approach in relation towards tax behaviours. The "Kantian" morality approach depends on a level of judiciousness where when tax system is fair for all and false declaration on taxes will create psychological costs such as anxiety, guilt and reduction in self-image. It was mentioned that taxpayers feel these costs when what they doing are unfair to the fair tax system. The "altruistic" approach is more concerned towards the general society's welfare than personal welfare. Using this approach concludes that not complying to pay taxes individually will definite affect the funds needed for the society's welfare at large. Luttmer and Singhal (2014) mentioned about improving tax morale mean improving tax compliance with tax laws and portrays good social norms in compliance. Many researchers studied on penalties, knowledge, economic factors and tax non-compliance, mainly tax evasion (Sheikh Obid, 2004; Mohd Yusof, Lai & Yap, 2014; Sapiei and Kasipillai, 2013; Palil, 2010) but there are still lack of research in the aspect of morality which is worth to be studied here. Therefore, the tax compliance of a country can be essentiality influenced by the morality aspect within the society.

2.4 Religiosity

Religion is one important social aspect in every believer's life (Aliman, Ariffin, & Hashim, 2018; Palil, Md Akir & Wan Ahmad (2013). It is essentially made taxpayers to recognise the tax system within a country, voluntarily

compute the income to be taxed and motivates the taxpayers to comply that tax laws to pay taxes due to them (Sezgin et al., 2011). Saiyyidah (2010) explained on Islamic work practices that religion should be upheld in fulfilling duty to the God and money earned should be spent in way it should benefit oneself and the community. In the past research, Benk et al. (2016) categorizes the believer's relationship with religion into two aspects, association with religion and pledge towards the associated religion (Worthington et al. 2003) and the religion affecting the intention to do good and bad is not clearly justified in prior researches, especially in the study by Worthington et al. (2003). Mohdali and Pope (2014) researched on the pledge, which is the commitment towards religion that were held into intrapersonal and interpersonal commitment towards religion. Furthermore, they argued religious commitment should create religious values which are rather positive not negative to assist the taxpayers voluntarily pay taxes according to tax regulations and laws. In nutshell, they concluded that religiosity significantly decides the taxpayers' behaviours to comply in paying taxes. On the other study done by Stack and Kposowa (2006) affirmed that taxpayers who do not associated with any religion is most likely to commit tax wrongdoings. To conclude, the religiosity aspect of taxpayers do play important role in tax compliance and looking at Malaysia holding various religious taxpayers, religion can be seen as important social aspect in examining the tax compliance.

2.5 Cultural Background

Individualism refers to the extent where the members within the group degree to which members of a culture place a greater emphasis on the group versus the individual himself/herself. In those cultures where individualism is dominant, every person is expected to focus on what is best for him/her. In the collectivist cultures, the individuals are, from birth, integrated into strong, cohesive groups which continue to protect them throughout their lives in exchange for unquestioning loyalty (Yong and Martin, 2016). A cultural background towards compliance particularly deals with the societal norms or cultural standard where the public develops sufficient tax morale and tax compliance in a society (Wenzel, 2004). For example, if the behaviour of tax non-compliance is acceptable due to certain cultural behaviour in a country, then the level of non-compliance will increase. A study conducted by Jayawardane (2015) suggests that the relationship between tax payers and authorities and tax regulation represent a linkage with the cultural background of a society. The study also showed that a mutual understanding could be achieved between tax payers and tax authorities. Chuenjit (2014) investigated the concept of the culture of taxation and the approaches used in his study and found that differences in the culture of taxation bring out different tax collection results such as the culture of giving tax reward, fair tax, tax participation and different socio-demography. According to Brandts, Saijo and Schram (2003), it is very hard to directly correlate the cultural effects of a society or a social norm to an institutional environment such as the tax system. Hence, different studies conducted on the cultural effects have shown mixed results based on the evidence that has compiled. In order to significantly correlate on the tax system, a substantial amount of solid experiments and evidence is necessary. However, Alm and Torgler (2006) stated that it is difficult to just ignore the cultural background that affects the morality and tax compliance of a region. The political and economic environments of a country play a huge role in shaping the culture of tax morality and tax compliance. The study found that Switzerland, a country who exercises direct democracy, has shaped the mentality and culture of their people in influencing tax morale. In line with Cummings et.al (2006), the cultural differences of an individual voluntary tax compliance is influenced by the tax regime and government

behaviour. Thus, the quality of the government in relation to collection taxes and distribution of collected revenues affects the trust of taxpayer compliance and the cultures influences ways the taxpayers motivated to pay taxes.

After reviewing the past studies that have put forward the individual constructs (ethicality, morality, religiosity and cultural background) and association with other constructs, it can be assured that less number of research has been carried out to investigate the empirical research between these social factors influencing the individual tax voluntary compliance, particularly in Klang Valley setting. Therefore, present research lessen the gap and adds up to existing knowledge by proposing sociology aspects that very much influencing the need to comply in paying taxes.

H1. There will be a significant relationship between the ethicality and individual voluntary tax compliance.

H2. There will be a significant relationship between the morality and individual voluntary tax compliance.

H3. There will be a significant relationship between the religiosity and individual voluntary tax compliance.

H4. There will be a significant relationship between the cultural background and individual voluntary tax compliance.

III. METHODOLOGY

The Figure 1 is the research framework of this study. The dependent variable in this framework is the individual voluntary tax compliance and the independent variables include ethicality, morality, religiosity and cultural background. The research is to study the impacts of social aspects on the individual voluntary tax compliance.

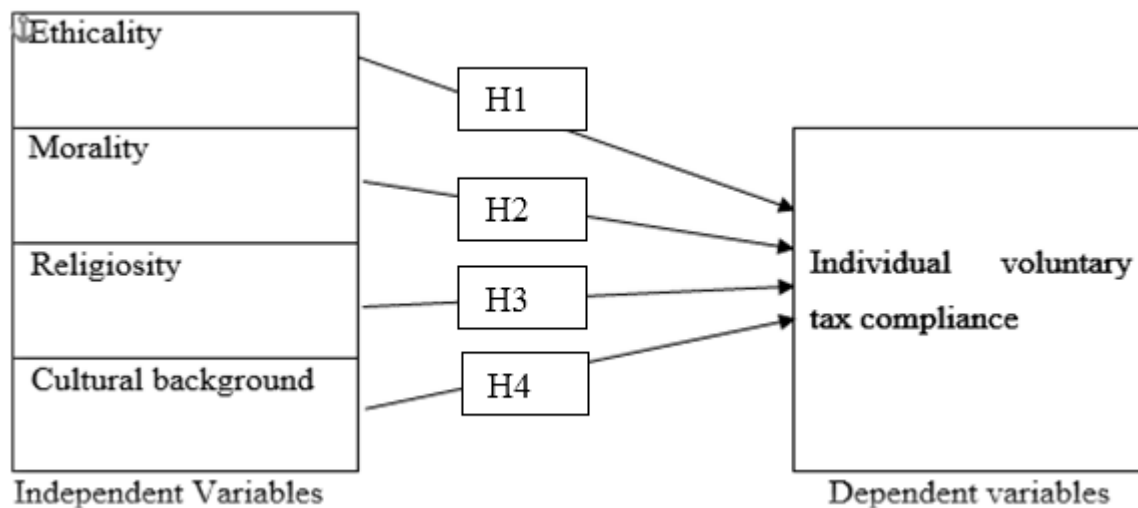


Figure 1: Research Framework

The respondents are the individual tax payers who are residing in the area of Klang Valley. This study focused in Klang Valley due to the city being a good economic development area (Hway-Boon, Ong & Shay, 2017). The target population for this study are those individual taxpayers whose main income is from doing business. The sampling method engaged in this study was convenience sampling (Iredele, 2018; Suyanto & Trisnawati, 2016) due to unavailability of the complete population units. This study adopts the theory of planned behaviour (Ajzen, 1991). Questionnaires are employed for data collection in this quantitative study. The first section of the questionnaire in

the main segment is to examine the demographic profile of respondents. The second part of the questionnaire focus on estimation to test tax compliance among the taxpayers. The elements that need to quantify in latter segment comprise ethnicity, religiosity, tax morale and cultural background .The ideas in this survey are measured by the five scale from (1) "Strongly disagree" to (5) "Strongly agree ". Total 230 questionnaires distributed to respondents and 87% of the questionnaires returned with total no of 200 responses.

IV. RESULTS AND FINDINGS

Based on data collected for the questionnaires, the data has been conducted accordingly and analysed by engaging Statistical Package for the Social Science (SPSS) Version 22 package. The reliability test shows that all 5 variables which consists of 29 items in total, have a Cronbach’s Alpha of more than 0.7, which meant all the items in the questionnaire are acceptable and reliable. The Shapiro-Wilk test defined that data are normal and the P-Plot shows that dataset linear and fit for further analysis.

Table 1: Pearson Correlation Analysis

<i>Variables</i>	<i>Tax compliance</i>	<i>Ethical</i>	<i>Moral</i>	<i>Religious</i>	<i>Cultural background</i>
Tax compliance	1				
Ethical	0.886**	1			
Moral	0.864**	0.919**	1		
Religious	0.945**	0.905**	0.906**	1	
Cultural background	0.840**	0.891**	0.896**	0.880**	1

** . Correlation is significant at the 0.01 level (2-tailed).
 N is equal to 200 respondents

As per table 1, the person correlation analysis shows significant positive relationship among all the variables. Therefore, the hypotheses are supported. The finding is further justified by (Ho & Wong., 2008; Palil & Mustapha, 2011).

Table 2: Multiple Regression Analysis

<i>Model</i>	<i>Beta</i>	<i>P-value</i>
(Constant)	0.094	0.052
Ethicality	0.218	0.001*
Morality	-0.059	0.391
Cultural background	-0.025	0.658
Religiosity	0.823	0.000**

Dependent Variable: Tax compliance
 ** Significant at the 0.01 level
 * Significant at the 0.05 level;

Based on Table 2, the multiple regression analysis shows that ethicality and religiosity have strong significant effect on the individual tax compliance behaviour. On the other hand, morality and cultural background doesn’t have significant effect on individual tax compliance behaviour.

V. CONCLUSION

From the results, several conclusions can be made regarding the impacts of ethicality, morality, religiosity and cultural background considerations on individual voluntary tax compliance. This study found that not all of the proposed variables seem to influence individual taxpayers doing business regarding their individual tax compliance.

The results revealed that both ethicality and religiosity showed a significant relationship with individual tax compliance. However, there is no significant relationship between morality and cultural background. Ethical considerations could be an efficient way to improve tax compliance (Ho & Wong, 2008). In a study conducted by Marshall, Smith and Armstrong (2010), the inevitable ethical problem for tax agents dealing with individual taxpayers are confidentiality. Disclosing client's information surfaces an ethical issue that leads to clients trust. The results also supported Zandi et. al (2015) study, which determined that in religiosity have a significant effect on tax compliance. Besides that, the socio-economic background of taxpayers such as gender, age and educational qualification has significant influence on individual tax compliance. The results had similar conclusions to studies done by Oladipupo & Obazee (2016), which proposed that one of the measures to enhance voluntary compliance is by assuring that taxpayers has certain level of qualifications, ability and confidence to fulfil their tax responsibility.

Achieving ethical compliance appears to be too difficult in practice with (1) past political developments eroded the trust in addition (2) to changes in the government who yet regain the trust as well as those national debts and budget deficit. Therefore, institutional reform could be way forward (Xavier, 2019). The government should sensitize the tax payers on the importance of paying tax. It is also recommended that the government ought to be transparent on how the revenues collected from taxation is being utilized so that the tax payers do not feel that their money is being misused. Religion is seen as an important tool to develop the attitude, behavior and character of the people. As Malaysia is bestowed with multi-religious practices, awareness can be raised by the respective leaders. For example, in Islamic and Christian teaching, *sadaqah* (contribution) or tithing is highly encouraged to nurture the values of giving to the needy, which are then can be applied in contributing to the development of the nation (Benk et al. 2016; Byung & Sung, 2018). Further research can be done on this study area by conducting a larger sample size to get a better and more accurate response from individual taxpayers. Larger sample size can lead to bigger responses in number. The ratio of the respondent across the various sectors in the sample could be studied to gauge the sectorial issues in relation to the tax compliance in this country. In addition, comparisons can be done between countries especially between emerging economic markets of these social factors. This study can assist countries to make use of the findings to improve tax compliance such as finding the best practices, formulating relevant policies and if needed, to educate the ruling government to be prudent in administering the spending to enhance trust among its people.

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