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1.   INTRODUCTION

The introduction of the self-assessment system (SAS), which replaced the official assessment system (OAS) from 2001, is a major reform of the Malaysian tax system since the inception of the Income Tax Act (ITA) in 1967.[4] The SAS imposes greater accountability upon taxpayers in terms of computational, recordkeeping and filing requirements. Moreover, as tax officials are no longer reviewing all returns filed under the SAS, more resources are available for enforcement activities to ensure greater tax compliance. Tax compliance behaviour has always been an area of concern to tax policy makers, as non-compliance with reporting requirements affects revenue collection and the ability of the government to achieve its fiscal and social goals.[5]

Under self-assessment, various factors may have an impact on the level of tax compliance. To date, however, very few empirical studies to identify the determinants of corporate taxpayer compliance behaviour have been conducted, especially studies involving large corporations. Corporate Income Tax (CIT) is an important source of revenue for Malaysia's federal government, accounting for about 50% of the Inland Revenue Board of Malaysia's (IRBM) tax collection in 2009. This warrants research that can provide insight into the reasons for non-compliance among corporate taxpayers, hence contributing to the tax literature on CIT compliance behaviour in public companies. The relationships between corporate characteristics, tax compliance costs, attitudinal aspects and the compliance behaviour of Malaysian public listed companies (PLCs) are examined in this study.

2.   LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Tax compliance is defined as the accurate reporting of income and claiming of expenses in accordance with stipulated tax laws.[6] Thus, the failure of corporations to accurately report or pay CIT is considered corporate tax non-compliance.[7] There are two main approaches to understand tax compliance issues: the economic approach and behavioural approach.[8] The economic approach is premised on the concept of economic rationality, while the behavioural approach applies concepts from disciplines such as psychology and sociology.

The basic theoretical model applied in the economic approach is built on the work of Becker (1968) who analysed criminal behaviour using an economic framework known as the economics-of-crime model.[9] Allingham and Sandmo first employed this model in the context of tax compliance study in 1972.[10] The model is based on an expected

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[4] Kasipillai J, *A comprehensive guide to Malaysian taxation under self-assessment system* (2nd ed, McGraw Hill, Selangor, 2005) pp 31 33.

[5] Tan LM and Sawyer AJ, "A synopsis of taxpayer compliance studies   overseas vis-à-vis New Zealand" (2003) 9(4) *New Zealand Journal of Taxation Law and Policy* 431.

[6]

utility theory and a deterrence theory. The expected utility theory views taxpayers as perfectly amoral utility maximisers, who choose to evade taxes whenever the expected gain exceeds the cost of evasion (Allingham & Sandmo, 1972).[11] The deterrence theory is concerned with the effects of sanctions and sanction threats (Cuccia, 1994),[12] where an increase in the severity of penalties and the certainty of their imposition will discourage undesirable behaviour (Pate & Hamilton, 1992).[13] Their theoretical analysis suggested that punishment and/or sanctions determined taxpayer compli= i$$ vi

behavioural determinants.[23] Demographic determinants include age, gender, education and occupation, while economic determinants include income level, income source, tax rates and sanctions. Behavioural determinants include complexity, fairness, revenue authority contact, peer influence and ethics.

Rice[24] examined the nature of medium-sized corporations that evade income tax in the US, measured in terms of unreported income. Micro-data from the 1980 Taxpayer Compliance Measurement Program (TCMP) database, accessible from the Internal

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Despite any shortcomings, findings from prior studies have provided evidence of the factors affecting the reporting decisions of corporations. Rice[38] found that profit performance influenced tax compliance but did not observe a relationship between firm size and tax compliance. Tax compliance was positively associated with public disclosure lat

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firm is publicly traded), and economic characteristics (such as marginal tax rates, audit rates and penalty rates).

As mentioned previously, these existing studies were based on IRS reported data in the US, except for the Abdul-Jabbar[44]

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2.1   Tax compliance costs and non-compliance behaviour

Tax compliance costs are those incurred by taxpayers due to their obligations to comply with a country's relevant tax laws. The term 'corporate tax compliance costs' refers to the value of resources expended by corporate taxpayers in complying with tax regulations.[45] Tax compliance costs consist of internal costs (value of time spent by company staff on tax matters), external costs (fees paid to external tax professionals) and incidental costs (stationery items, computer, telephone and litigation costs). Some of the theoretical literature has suggested tax compliance costs as a possible determinant of tax compliance behaviour.[46] These authors have proposed tham om   S   e   cp

2.3   Tax attitudinal aspects and non-compliance behaviour

There are propositions in the literature suggesting that the compliance behaviour of taxpayers is also influenced by their attitudes and perceptions.[48] In order to address the research problem comprehensively, this study attempted to validate a number of propositions that were tested in earlier tax compliance behaviour studies. The propositions are grouped into tax attitudinal aspect variables consisting of perceptions on tax law complexity, fairness in the tax rate structure, tax deterrence sanctions, tax law fairness and tax psychological costs. As such, Hypothesis 3 (*H_3*) and the sub-hypotheses were formulated as follows:

> *H_3 : There is a relationship between tax attitudinal aspects and non-compliance of corporate taxpayers.*

> *H_{3a} : There is a relationship between perceived tax complexity and non-compliance of corporate taxpayers.*

> *H_{3b} : There is a relationship between perceived tax deterrence sanctions and non-compliance of corporate taxpayers.*

> *H_{3c} : There is a relationship between perceived fairness in the tax rate structure and non-compliance of corporate taxpayers.*

> *H_{3d} : There is a relationship between perceived fairness of the tax system and non-compliance of corporate taxpayers.*

> *H_{3e} : There is a relationship between perceived level of psychological costs and non-compliance of corporate taxpayers.*

3.   RESEARCH METHOD

Three main approaches have been employed in tax compliance research: experimental, survey and tax audit approaches.[49] Each of these approaches has been employed in tax research with its own merits and limitations. An experimental approach was unsuitable for this study because students were normally used as experimental subjects, which is only appropriate for studies related to individual taxpayers. A tax audit approach was not possible, given the confidentiality requirements surrounding corporate tax returns and the limitation in utilising IRBM data. Therefore, a survey approach which has been used in prior studies to measure tax compliance behaviour of corporate taxpayers was deemed most appropriate for this study.[50]

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3.1   Research sampling design

3.1   Research sampling design

more than 65% of the sample population, while only one response was received from the technology sector.

Table 4: Descriptive statistics of the sample

Items	Categories	Frequency	Percentage
Respondents' Designation			

utilised both internal resources and external tax professionals to deal with their income tax matters. Twenty-four companies completely outsourced their tax-related activities, while only five companies were very dependent on their internal tax expertise.

Overall, reasonable variations were seen in corporate characteristics such as industry classification, annual sales turnover, length of time in business, tax liability and sources of income tax work.

4.2   Descriptive analysis of the variables

This section provides descriptive analysis of the variables of this study, namely tax compliance costs, tax attitudinal aspects and tax compliance behaviour.

4.3   Tax compliance costs

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related components within each construct were significantly correlated. This is required for results of factor analysis to be acceptable.[69]

Table 5: Perceptions towards tax attitudinal aspects

Attitudinal Aspect	Mean	Median	Standard Deviation	Number of items	Cronbach alpha
Tax Complexity	3.53	3.67	1.25	3	0.899
Tax Rate Structure	3.15	3.00	1.24	3	0.760
Tax Deterrence Sanctions [a]	2.98	3.00	0.96	3	0.699
Tax Law Fairness [a]	3.87	4.00	0.88	3	0.786
Tax Psychological Costs	3.96	4.00	1.16	1	-

[a]One item of each aspect was taken out to get an acceptable alpha coefficient.

Table 6: Rotated component matrix for factor analysis

Variable Name	Tax Attitudinal Aspect
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1.98 indicated the strong disagreement of respondents with this non-compliance behaviour. Comparatively, for the over-claiming of expenses, the mean score was slightly higher (2.61). Nevertheless, an overall mean of 2.30 for the under-reporting of income and over-claiming of expenses is an indication of marginally compliant behaviour among corporate taxpayers. The mean score of the respondents' views towards partial non-compliance behaviour for both scenarios was higher, compared to the findings of full compliance behaviour. An overall mean score of 3.28 provided some indication of marginally non-compliant behaviour.

Table 7: Res S R Q G hi&ws\tow¶rds **non-compliance behavior**

Tax Compliance Behaviour	*Full*			*Partial*		
	Mean	*Median*	*SD*	*Mean*	*Median*	*SD*
Under-reporting of income	1.98	1.00	1.33	3.38	4.00	1.63

With other variables held constant, non-compliance behaviours were positively related to company size while negatively related to business age and tax liability. The results further indicated that non-compliance with respect to the under-reporting of income was greater for companies with a higher perceived tax complexity level, and higher perceived level of fairness in the tax rate structure.[71] Non-compliance was lower, however, for companies with higher perceived tax deterrence sanctions. The findings also suggested that companies with higher psychological costs tended to be more non-compliant.

4.6.2   Over-claiming of expenses

When it came to the over-claiming of expenses, the regression was a rather poor fit. The adjusted R2 was merely 19.3%, but the overall relationship was significant (F=2.873, p<0.01). Only four variables were found to be significant determinants of the non-compliance behaviour of corporate taxpayers. The predictors were tax liability (t=-1.908, p<0.10), business age (t=-3.384, p<0.01), tax complexity (t=2.168, p<0.05) and tax fairness (t=2.220, p<0.05). With other variables held constant, non-compliance behaviour was negatively related to tax liability and business age. Companies with a lower tax liability and those with shorter business age were more non-compliant. The result also signified that non-compliance was greater for companies with a high perceived tax complexity level and perception of fairness in the tax rate structure.

4.6.3   Overall non-compliance

The predictor variables explained almost 30% of the variability in the overall non-compliance behaviour of corporate taxpayers.[72] Business size (t=2.140, p<0.05), business sector (t=-1.744, p<0.10), tax liability t=-2.820, p<0.01), business age (t=-3.862, p<0.01), tax complexity (t=2.652, p<0.05), tax deterrence sanctions (t=-1.980, p<0.10) and tax psychological costs (t=2.952, p<0.01) were found to be significant determinants of corporate non-compliance behaviour. Medium-sized PLCs with annual sales turnover of between MYR100 million and MYR500 million were found to be more likely ed

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Table 9: Summary of Hypotheses Evaluation

Construct	Hyp

invariably suffer from substantial measurement errors (Rice, 1992).[80] As such, it should be acknowledged that these challenges are the limitations of this study.

Future research should consider conducting in-depth interviews as a complement to surveys, as they would be useful in providing a deeper understanding and explanation of the relationship between the variables. The use of case studies may provide better quality responses to some issues of interest, including probing the impact of lower compliance costs on compliance decisions. Future studies might consider the use of the experimental method, where the non-compliance behaviour of taxpayers is measured through a controlled experiment.[81] Future studies may also consider other specific types of non-compliance behaviour, such as failure to submit a tax return and/or failure to remit taxes by the due date.[82]

Dealing with taxation matters, particularly in emerging economies, remains a challenge due to limited awareness, administrative flaws and a lack of government commitment to enforcing tax laws. This study has systematically identified, and analysed the areas that deserve due attention, focusing in this case on the compliance behaviour of corporate-taxpayers. To this end, the findings of this study have made a significant contribution to the body of tax knowledge, as well as to tax policy makers charged with devising specific measures to enhance voluntary compliance.

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[80] Rice, n 17.

[81] Trivedi VU, Shehata M and Mestel-Man S, "Attitudes, incentives and tax compliance" (2005) 53(1) *Canadian Tax Journal* 29-30.

[82] See Baldry J and Kasipillai J, "Malaysia: Income tax enforcement" 1996 2(9) *Asia-*

APPENDIX: QUESTIONNAIRE

SECTION B: PERCEPTIONS AND OPINIONS

6. Kindly respond to the following statements to indicate your **opinion** to each of the statements. There are no right and wrong answers. *(Please tick one box on a 6 point scale for each statement.)*

SECTION C: COMPLIANCE BEHAVIOUR

7. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

   (a) Taking into account all known and likely business circumstances, to what extent do you agree with Mr A's possible action of not reporting that cash sale of MYR100,000 as his business income?

   (b) Would he be likely to report only part of the MYR100,000 as business income?

Very Likely	R	g	f	e	d	c	Very Unlikely

8. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

   (a) Taking into account all known and likely business circumstances, to what extent do you agree with Mr B's possible action of claiming MYR10,000 as his business deduction?

   (b) Would he be likely to deduct only part of the MYR10,000 as a business deduction?

Very Likely	R	g	f	e	d	c	Very Unlikely

SECTION D: GENERAL INFORMATION AND SUGGESTIONS

Kindly tick the most appropriate responses or fill in the appropriate details in the space provided.

9. What is your company main business **activity**?
    †   Manufacturing   †   Plantation and Agriculture
    †   Services   †   Finance and Banking
    †   Property and Construction   †   Others (please state) _____

10. What was the **turnover** of the company in 2009:
    †   Less than MYR100 million   †   MYR500,000,001–MYR1,000,000,000
    †   MYR100,000,000–MYR500,000,000   †   More than MYR1,000 million

11. How much company **income tax** in total, in relation to the 2009 year of income did the company remit to the Malaysian Inland Revenue Board?
    †   Nil (no tax liability)
    †   Less than MYR5 million