

# National Accounting Research Journal



FACULTY OF  
ACCOUNTANCY

UNIVERSITI TEKNOLOGI MARA

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## **UiTM AT A GLANCE**

**UNIVERSITI TEKNOLOGI MARA (UiTM)** started as a college known as Kolej RIDA in 1956. Incidentally, accounting programs such as LCCI, Australian Society of Accountants (ASA) and Institute of Cost and Work Accountants (ICWA) were among the pioneer programs offered by the then, School of Accountancy. Kolej RIDA continued to expand and in 1967 it was further upgraded and its name was changed to Institut Teknologi MARA (ITM).

As an Institute, ITM continued to add other accounting programs: Diploma in Accountancy (DIA), Malaysian Association of Certified Public Accountants (MACPA), Association of Certified and Chartered Accountants (ACCA), Chartered Institute of Management Accountants (CIMA) and the Advanced Diploma in Accountancy (ADIA) to its portfolio. What started, as a humble beginning in a small campus in Petaling Jaya, was later expanded to other areas throughout the country. In 1996, the ITM Act was amended to allow the Institute to offer various programs, viz, first degrees, Masters degrees and PhD programs. To commensurate with the university type of programs that the Institute was offering, ITM was officially conferred the university status in 1999. With effect from 26 August 1999, the Institute was known as Universiti Teknologi MARA or UiTM with 18 faculties and 13 branch campuses to its credit.

Today, being one of the most dynamic faculties in UiTM, the Faculty of Accountancy is also offering other accounting programs such as the Certified Accounting Technicians (CAT-UK), CPA Australia, Institute of Chartered Secretaries and Administration (ICSA-UK), Master of Accountancy and Doctor of Philosophy (PhD Accounting). Within the next year, several new programs such as Accounting Information System (AIS), Taxation, Management Accounting, Internal Auditing, Corporate Governance and Forensic Accounting and the newly known Malaysian Institute of Certified Public Accountants (MICPA) will be offered.

The Faculty's two-tier mission allows it to focus on two important aspects; nurturing of professional accounting graduates as well as becoming a renowned Centre of Excellence in Accounting Research & Consultancy. In tandem with its two-tier mission, the Faculty of Accountancy strives to produce quality graduates and quality research & consultancy.

# *The Self-assessment System And Its Compliance Costs*

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## **Abstract**

The self-assessment system has been implemented on companies since 2001 as to replace the former official assessment system. As such, procedural issues and compliance cost associated with the new assessment system are of significant interest to the taxpayers. This study was conducted in the year 2002 i.e. after one year the self-assessment system for companies has been put into practice. It focuses on the compliance cost in terms of the time spent by the taxpayers. In the study, time spent is used to measure the increment of compliance cost since time devoted to compliance activities is very much associated with the cost incurred. The respondents in this study are the small and medium enterprises (SMEs) and the tax agents in the northern region i.e. Perlis, Kedah and Penang. As this is an exploratory study, the researchers used convenience sampling, which enabled them to get fifty-six SMEs and forty-five tax agents in the stated area. From the survey on the SMEs, the findings reflected that the most prominent variable is the time spent for discussion with tax agents (78.83 percent), which represented the major source of increment in compliance cost under the new system, followed by learning the new tax laws (55.40 percent); paying taxes (50.00 percent); record-keeping (48.20 percent); and answering IRB queries (44.70 percent). Meanwhile, 90.00 percent of the tax agents suggested that there was an increase in time spent under the new system for the total hours spent in complying with the new system, learning the new tax laws, preparing tax returns, and discussion with clients. Only 63.70 percent of them implied that there was an increase in time spent in answering IRB queries.

**Key words:** Self-assessment system, Compliance Cost, Small and Medium Enterprises, and Tax Agents.

## 1.0 Introduction

Self-assessment system is a tax scheme of file and pay. It is essentially an approach whereby taxpayers are required by law to determine their taxable income, compute their tax liability and submit their tax returns based on existing tax laws and policy statements issued by the tax authorities (Kasipillai, 2000). In essence, the self-assessment system shifts the burden of proof of the tax liability from the Inland Revenue Board (IRB) to the taxpayers. In other words, the taxpayers have to prove that their computation of their tax liability is accurate, whereas the IRB officers only concentrate on tax audit to verify the return forms. Thus, the taxpayers will be more concerned on the accuracy of the tax liability to avoid any penalty. Therefore, they will engage the tax agents (with the assumption that the tax agents are more knowledgeable on tax related matters) to prepare their annual tax return, which will consequently increase the compliance cost of the taxpayers.

Though the self-assessment system was introduced as early as 1940s in several developed countries such as Canada, the United States, Australia and Japan, Malaysia has only implemented this new system in 2001 with 220,000 companies, which registered with the IRB (NST-Management Times, 2000)<sup>1</sup>. Generally, countries implemented the self-assessment system with a twofold objective, i.e. to lessen the burden of the Inland Revenue Services and to maximize the government's revenue. This is shown by a survey done by Small Business Deregulation Task Force in Australia, which reported that small businesses spend an average of 16 persons' hours per week on financial accounts, invoices, tax and other compliance matters. 25 percent of the time spent was devoted to the paperwork burden, created by the new government regulation under the self-assessment system (Small Business Deregulation Task Force, 1996).

Therefore, the researchers would like to examine whether the evidence on high compliance cost associated with the newly introduced self-assessment system exists in Malaysia. It is important because compliance cost forms part of the underlying principles of an efficient tax system as proposed by Adam Smith (1776). The principles are: (i) equity, that is the fairness with respect to the tax contributions of different individuals; (ii) certainty, that is a lack of arbitrariness or uncertainty about tax liabilities; (iii) convenience, with respect to the timing and manner of payment; (iv) efficiency, that is a small cost of collection as a proportion of revenue raised. A high compliance cost will defy one of the dimensions in an efficient tax system, which promotes low compliance cost to the taxpayers. Ideally, while trying to maximize the tax revenue, the government should at the same time minimize distortion and improving the income distribution of the society as what was mentioned by Colbert, the Finance Minister of Louis XIV (1619-1683), "The art of

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<sup>1</sup>The implementation of SAS is in stages starting with companies in the year 2001, followed by the sole proprietor, partnership and cooperatives in the year 2003 and finally salaried individual in the year 2004.

taxation consists in so plucking the goose as to obtain the most feathers for the smallest amount of hissing". (Barjoyai, 1993).

Low compliance cost is attainable if the taxpayers understand the tax laws and are well prepared for the new system. Ernst & Young carried out a survey on corporate awareness, readiness and expectation on the self-assessment system in Malaysia 15 month prior to its implementation. The survey showed that large portions of respondent companies were not prepared for the transition to the new system. The survey pointed out that only 5.60 percent of the respondents have the necessary systems, policies and documentation in place to be considered ready for the self-assessment system. Meanwhile, only 11.00 percent demonstrated a high level of awareness of the key attributes of the self-assessment system even though they endorsed the importance of the system (Banoo, 1999).

### **1.1 Objective and significance of study**

The objective of this study is to examine the level of increase in the compliance cost in terms of the time spent under the new self-assessment system as compared to the old official assessment system. The findings of this survey would be useful in predicting the compliance cost to be borne by the individuals when the self-assessment is fully implemented in the year 2004. Further, the findings of this survey would provide some insights to the IRB in terms of the compliance cost incurred by the companies under the newly introduced assessment system to further improve the implementation of the system that might benefit both the administrative body as well as the taxpayers.

### **1.2 Motivation of study**

The newly introduced self-assessment system drives us to study its compliance cost, as cost is a significant element in an efficient tax system. A study conducted by Heij (1995) highlighted the importance of compliance cost in a tax assessment system by suggesting that a rapidly growing foreign venture is expected to increase tax compliance costs in newly developed and developing Asian countries, like Malaysia with the business sector bearing most of the burden.



## 2.0 Literature Review

Taxation is seen as part of the price that should be paid for living in an organization (Nightingale, 2000). However, taxation is not merely a means of transferring money to the government, but it also has a tendency to reflect the prevailing social values and government's priorities, such as national defense, redistribution of income and wealth and economic stability (Nightingale, 2000).

In achieving the abovementioned objectives, the government should not neglect the distortion effects on the taxpayers' behavior with regard to the compliance cost. Adam Smith tried to highlight the importance of minimizing compliance cost to ensure a high compliance level among the taxpayers. His thought was shared by Nightingale (2000) who agreed that these principles still hold good today, and suggested that in a modern tax system an 'ideal' tax should conform as far as possible the following criteria, which are (i) simple, certain and convenience – simple for taxpayers to understand and easy for them to make payment; (ii) flexible – the structure and rate of a tax can be altered; (iii) administratively efficient – low administrative cost borne by the authority and low compliance cost by the taxpayer; (iv) neutral – does not distort economic choices, and (v) equitable – taxes must not only be fair but also be seen to be fair.

Regardless of the principles of an efficient tax system, which promotes low compliance cost, the self-assessment system is now widely practiced around the globe. Canada and the USA were among the first countries that implemented the self-assessment system. It was introduced in 1940s with the twofold objective that is to lessen the burden of the Inland Revenue Services and improve voluntary compliance level (Mustafa, 1998). Japan on the other hand, started to implement the self-assessment system after the Second World War in 1947 with an intention to boost the economic condition. Initially it was a hard time for Japanese tax authorities to ensure a high level of compliance due to poorly managed tax administrative system as well as a low level of tax literacy among taxpayers (Mustafa, 1998). However, over the years this system has been fruitful, as taxpayers became more well versed with the system and the improvement of bookkeeping.

Australia moved towards a self-assessment taxation system in 1986. According to Marshall et al. (1997), the Australian Taxation Office (ATO), which is responsible for the Australia-wide administration of the Commonwealth taxation system made such a move after considering the drawbacks of the traditional approach in processing income tax returns. The traditional approach which involved a scrutiny of every tax return to check for technical and arithmetical accuracy, calculation of tax payable, etc. was perceived as an ineffective and inefficient method to guarantee compliance with tax law.

The preceding approach also seemed not to be aligned with ATO policy, which encourages and facilitates voluntary compliance. Marshall et al. (1997) also suggested that the self-assessment system is based on a fair, honest and voluntary tax reporting. The taxpayers have the obligation to maintain proper records and to exercise reasonable care in treating matters concerning their tax liability.

The introduction of self-assessment system in United Kingdom was considered as the most fundamental reform of personal tax administration in about 50 years (James and Nobes, 1997/98). Though it was proposed in 1993, the move towards the self-assessment was done even earlier, to that direction by requiring the personal taxpayer to provide gross earnings, business expense and the net profit. The push factors that drove the implementation of self-assessment system were the increasing complex financial circumstances, which resulted in the complexity of tax environment as well as the great deal of work that lies with the Inland Revenue Board. Most of these developed countries highlighted the high compliance cost associated with the self-assessment system but it was compensated with the main objectives of implementing this self-assessment system, i.e to boost economic condition and minimizing the workload of the Inland Revenue. In other words, governments tend to earn a high revenue collection at the expense of the taxpayers.

Among developing countries that have introduced self-assessment system are Indonesia, Thailand, Philippines and Malaysia. Indonesia was among the earliest countries adopted the self-assessment system in 1984 due to the lack competent tax officials and the delay in issuing assessment notices to the taxpayers (Mustafa, 1998). However, the level of success in the implementation of the system is unknown.

Malaysia is now experiencing a major tax reformation. We are moving towards the self-assessment system after the long implementation of an official assessment system since 1948. This significant change results in a transfer of responsibility in filing returns, which is expected to increase the compliance costs. Although the examination of tax reform undertaken by most countries revealed that the tax reform is carried out with the objectives of improving the efficiency, equity, neutrality and administrative feasibility (simplicity) of their tax system, the governments tend to forget or seem to ignore the taxpayers' compliance cost (Shome, 1995). Therefore, this study is hoped to provide some feedback to the IRB on the level of increase in compliance cost experienced by the taxpayers during the early introduction of the new self-assessment system.

The introduction of the self-assessment system was proposed in the 1999 Budget. It is one of the major changes in the Malaysian tax system that forced companies to rethink their tax strategies. Managing Partner of Arthur Andersen, Datuk Zainal Putih claimed that the reforms would give local companies and individuals a chance

to strengthen themselves and to learn to be more self-disciplined in handling their tax-related matters (NST-Management Times, 1998). Veerinderjeet Singh from Arthur Andersen & Co further added that the self-assessment system would bring the Malaysian system up to date with that of developed countries (NST-Management Times, 1998). As to keep up with the new system, companies are expected to improve their internal policies, procedures and record keeping. It is highly important since all calculations for tax return are now shifted from the Inland Revenue Board officers to the companies themselves.

According to the Minister of Finance, as a result of the implementation of the self-assessment system, tax collection has increased almost 50 percent for the year of assessment 2001. To be exact, the amount collected was RM20.8 billion compared to only RM13.9 billion in the year of assessment 2000 under the old system (Utusan Online, April 2002)<sup>2</sup>. Although the tax revenue has increased tremendously, it is essential to take into consideration all the costs and burden faced by the taxpayers in complying with the new regulations. This is important to ensure that the government will not maximize their revenues at the expense of the taxpayers. In other words, regardless of any system implemented, taxpayers must perceive that they will be treated equitably and can rely on the government's published administrative regulations. Without such an assurance, the credibility of the tax system will be undermined (Tax Executive, Pending Income Tax Issues, 2001).

### 3.0 Research Methodology

#### 3.1 Data collection

The data was collected using questionnaires distributed to the small and medium enterprises (SMEs)<sup>3</sup> and the tax agents in the northern region i.e. Perlis, Kedah and Penang. The questionnaires were self-developed but the variables tested to ensure that they measure the compliance cost are based on the research by Evans et al. (1997). Time spent is used as a proxy for compliance cost measurement. The variables to measure the compliance cost include; the time spent for learning the new tax laws; time spent for record keeping; time spent for preparing tax returns; time spent for discussion with tax agents; time spent for answering tax authority queries, and time spent for paying tax. Separate questionnaires were prepared for companies and tax agents since they were to be analyzed separately. The questionnaires were divided into two parts (referred to as Sections A and B). In Section A, the demographic information was questioned while in Section B the data on the compliance cost were questioned in terms of time spent. For section B, the questions for tax agents were slightly modified to suit the nature of their activities. Some of the variables included were (1) total hours spent for the whole

<sup>2</sup>The increment of tax revenue may be attributed to other factors apart from the implementation of SAS.

<sup>3</sup>According to the Ministry of International Trade and Industry (MITI), SMEs are defined as "companies with employees not exceeding 150 and with an annual sales turnover not exceeding RM250 million" (SMI Directory, 1999).

compliance process, (2) time spent for learning the new tax laws, (3) time spent for preparing tax returns, (4) time spent for discussion with clients, and (5) time spent for answering tax authority queries.

### 3.2 Research sample

The respondents in this study were the SMEs and the tax agents in the northern region i.e. Perlis, Kedah and Penang. The reason for choosing the SMEs was because in the study conducted by Loh et al. (1997), it was found that income tax compliance cost of Malaysian companies were higher for smaller companies than for larger companies. Therefore, it is important to obtain the data on compliance cost from these smaller companies since they were possibly the most affected group under the new self-assessment system.

Besides the SMEs, our sample also included the tax agents. The rational of including the tax agents was because past studies have suggested that the uncertainties in providing appropriate facts, proper evaluation in tax audit as well as increased enforcement penalties under the self-assessment system have influenced taxpayers to turn to tax agents in the process of filing returns which consequently resulted in a higher compliance cost (Marshall et al., 1997). It is evidenced in the United States where 60 percent of the returns are professionally prepared under the self-assessment system that increased their compliance cost (Newberry et al., 1993). Therefore, it is important to include tax agents in this study since the increase in time spent for the tax agents under the self-assessment system will also reflect the increase in the compliance cost that will be borne by the taxpayers through the fees charged by these agents for handling tax-related matters.

According to the directory of the Ministry of International Trade and Industry (MITI) on SMEs, the total number of SMEs for the whole of Malaysia was 10,400. However, only the SMEs located in the northern region were selected as the sample. The researchers managed to get 56 respondents from SMEs. As for the tax agents, about 45 tax agents in the northern region participated in the research. The method of sampling used is the non-probability sampling i.e. convenience sampling<sup>4</sup> since this is an exploratory study for the self-assessment system. Even though the generalization of the results from this type of sampling is limited, convenience samples are best utilized for exploratory research as stated by Zikmund (1994).

### 3.3 Data analysis

The descriptive analysis was used to analyze the data collected from both groups of respondents. Each group i.e. the SMEs and tax agents were analyzed separately. Analysis of frequency, mean and standard deviation were used to describe all the items included in the questionnaire.

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<sup>4</sup>Convenience sampling refers to the procedure of obtaining units or people who are most conveniently available (Zikmund, 1994).

## 4.0 Results Of The Study

Reliability test was conducted to determine the consistency of the responses to the questionnaires. It revealed that the coefficients of the Cronbach Alpha were 0.8059 and 0.7884 for the questions on companies and tax agents respectively. Generally, the above reliability coefficients indicated that there was a high level of consistency in the responses given by the respondents since the reliability coefficients were above 0.65 which are considered acceptable (Nunnally, 1978).

### 4.1 Demographic factors of the respondents

The summaries of the respondents' background are illustrated in Table 1 and 2. From Table 1, it was found that 28.60 percent of the respondents for the SMEs were from the trading and services sector. Under the turnover, it could be seen that 83.90 percent of the respondents are from the organization with a turnover of RM25 million and below. Under the tax personnel, 58.90 percent of them do not have any tax personnel in their offices. With regards to hiring tax agent, 91.10 percent of them hire tax agents to handle their tax-related matters. Table 2 shows the demographic factors of the tax agents. It was depicted that 84.10 percent of these tax agents employed fewer than 6 employees.

Table 1: Demographic Factors of the Companies

Variables	Frequency	
	No. of Respondents	(%)
Sector		
1. Industrial products	9	16.10
2. Trading / services	16	28.60
3. Consumer products	3	5.40
4. Construction	14	25.00
5. Properties	1	1.80
6. Others	13	23.20
Turnover		
1. RM25 million and below	47	83.90
2. Above RM25 million	9	16.10
Tax personnel		
1. Yes	23	41.10
2. No	33	58.90
Hire tax agent		
1. Yes	51	91.10
2. No	5	8.90

**Table 2: Demographic Factors of the Tax Agents Variables Frequency**

Variables	Frequency	
	No. of Respondents	(%)
No. of firms with clients in these business sectors		
1. Industrial products	28	63.60
2. Trading / services	40	90.90
3. Consumer products	26	59.10
4. Construction	32	72.70
5. Finance	3	6.80
6. Hotels	7	15.90
7. Properties	19	43.20
8. Plantations	8	18.20
9. Mining	4	9.10
10. Others	10	22.70
No. of total employees		
1 - 5	37	82.22
6 - 10	4	8.90
11 - 15	2	4.44
16 - 20	1	2.22
21 - 25	1	2.22

## **4.2 Analysis of frequencies and means analysis of the respondents regarding the compliance costs**

### **4.2.1 Companies**

#### **i) Learning the new tax laws:**

With regards to learning the new tax laws, Table 3 showed that 44.60 percent of the companies stated that their compliance cost did not change; 44.60 percent indicated that their compliance costs increased between 1.00 percent to 30.00 percent; while 10.80 percent reported that their compliance costs increased by more than 30.00 percent. From the mean analysis, overall, the companies claimed that their compliance costs in terms of learning the new tax laws increased by 10.00 percent.

#### **ii) Record-keeping:**

Regarding the record-keeping process in Table 3, 51.80 percent of the companies did not experience any changes when the self-assessment was introduced; 28.60 percent showed an increment of up to 30.00 percent; and 19.60 percent experienced more than 30.00 percent increment. The mean for the increase in compliance costs in relation to record keeping under self-assessment system is about 10.00 percent.

#### **iii) Discussion with tax agents:**

As for the time spent for discussion with tax agents, Table 3 indicated that 21.15 percent of the companies did not record any changes after the implementation of the self-assessment system; 48.07 percent experienced an increase of compliance

costs of up to 30.00 percent; while 30.76 percent said that their compliance costs increased by more than 30.00 percent. The mean for the increase in compliance costs for discussion with tax agents is about 10.60 percent.

iv) Answering IRB queries:

Under the self-assessment system, Table 3 disclosed that 55.40 percent of the respondents reflected that there was no change in relation with answering the tax authority queries; 28.60 percent are of the opinion that their time spent increased up to 30 percent; while 16.10 percent experienced more than 30.00 percent increase in the time spent on answering the IRB queries. The mean for the overall increase would be less than 10.00 percent.

**Table 3: Frequencies and Means of the Respondents (Companies) Regarding the Time Spent under the Self-Assessment System**

Variables	Frequency		Mean	Std. Deviation
	No.	(%)		
Learning new laws				
1. No change	25	44.60	2.02	1.17
2. Increase 1% - 10%	14	25.00		
3. Increase 11% - 30%	11	19.60		
4. Increase 31% - 50%	3	5.40		
5. Increase > 50%	3	5.40		
Record-Keeping				
1. No change	29	51.80	2.09	1.40
2. Increase 1% - 10%	10	17.90		
3. Increase 11% - 30%	6	10.70		
4. Increase 31% - 50%	5	8.90		
5. Increase > 50%	6	10.70		
Discussion with tax agent				
1. No change	11	21.15	2.62	1.50
2. Increase 1% - 10%	11	21.15		
3. Increase 11% - 30%	14	26.92		
4. Increase 31% - 50%	8	15.38		
5. Increase > 50%	8	15.38		
Answering IRB queries				
1. No change	31	55.40	1.86	1.23
2. Increase 1% - 10%	14	25.00		
3. Increase 11% - 30%	2	3.60		
4. Increase 31% - 50%	6	10.70		
5. Increase > 50%	3	5.40		
Paying taxes				
1. No change	28	50.00	2.11	1.42
2. Increase 1% - 10%	12	21.40		
3. Increase 11% - 30%	5	8.90		
4. Increase 31% - 50%	4	7.10		
5. Increase > 50%	7	12.50		

v) **Paying taxes:**

According to Table 3, 50.00 percent of the respondents said that they did not go through any change in the process of paying taxes; 30.30 percent incurred the compliance costs of up to 30.00 percent; and 19.60 percent increased their compliance costs by more than 30.00 percent. The mean increment for the compliance costs for the process of paying taxes under the self-assessment system is higher than 10.00 percent.

#### **4.2.2 Tax agents**

i) **Total hours spent on complying with the new self-assessment system:**

For the tax agents, Table 4 showed that 6.80 percent of the respondents indicated no change in the time spent under the new system; 29.60 percent claimed to have experienced an increase of up to 30.00 percent; while 63.60 percent stated that they experienced an increase of more than 30.00 percent in the time spent. Overall, the mean for the increment in total hours spent was 31.00 percent.

ii) **Learning the new tax laws:**

Table 4 also depicted that only 6.80 percent of the respondents said that there was no difference before and after the implementation of self-assessment system in terms of time spent on learning the new tax laws. 31.80 percent of them thought that they had incurred an additional cost of up to 30.00 percent, while 61.40 percent of them were of the opinion that they spent an additional time of more than 30.00 percent to learn about the new laws under the self-assessment system. The mean for the increase in time spent under the new system was 31.00 percent.

iii) **Preparing tax returns:**

From Table 4, we can see that 6.80 percent of the respondents stated that they did not spend extra time on preparing tax returns under the new system. However, 27.30 percent of them reported an increment of up to 30.00 percent in preparing tax returns, while 65.90 percent declared that they experienced an increase of more than 30.00 percent in preparing tax returns under the self-assessment system. The mean for the increment was about 30.64 percent.

iv) **Discussion with clients:**

As stated in Table 4, 9.10 percent of the tax agents denied any changes in discussion with their clients after the self-assessment system was implemented. Meanwhile, 38.70 percent of them indicated experiencing an increase of up to 30.00 percent in time spent for discussion with clients under the new system. Another 52.30 percent of them underwent an increase of more than 30.00 percent in time spent for discussion with clients regarding tax-related matters under self-assessment system. The mean for the increase was about 30.41 percent in general.



## v) Answering IRB queries:

As for the last variable, it is shown in Table 4 that 36.40 percent of the tax agents stated that they did not have to spend additional time in answering tax authority queries under the new system. 38.70 percent of them claimed that they increased their time spent of up to 30.00 percent for answering the IRB queries under the new laws and the balance 25.00 percent of the tax agents experienced an increase of more than 30.00 percent in the time spent under the new system. The mean for the additional time spent in relation to answering the queries from the tax authority under the new system was about 10.41 percent.

**Table 4: Frequencies and Means of the Respondents (Tax Agents) Regarding the Time Spent under the Self-Assessment System**

Variables	Frequency		Mean	Std. Deviation
	No.	(%)		
Hours spent on complying				
1. No change	3	6.80	3.66	1.16
2. Increase 1% - 10%	4	9.10		
3. Increase 11% - 30%	9	20.50		
4. Increase 31% - 50%	17	38.60		
5. Increase > 50%	11	25.00		
Learning new laws				
1. No change	3	6.80	3.64	1.16
2. Increase 1% - 10%	4	9.10		
3. Increase 11% - 30%	10	22.70		
4. Increase 31% - 50%	16	36.40		
5. Increase > 50%	11	25.00		
Preparing tax returns				
1. No change	3	6.8	3.64	1.28
2. Increase 1% - 10%	8	18.20		
3. Increase 11% - 30%	4	9.10		
4. Increase 31% - 50%	16	36.40		
5. Increase > 50%	13	29.50		
Discussion with clients				
1. No change	4	9.10	3.41	1.34
2. Increase 1% - 10%	9	20.50		
3. Increase 11% - 30%	8	18.20		
4. Increase 31% - 50%	11	25.00		
5. Increase > 50%	12	27.30		
Answering IRB queries				
1. No change	16	36.40	2.41	1.37
2. Increase 1% - 10%	9	20.50		
3. Increase 11% - 30%	8	18.20		
4. Increase 31% - 50%	7	15.90		
5. Increase > 50%	4	9.10		

## 5.0 Discussion And Conclusion

The results reflected that, for companies, the time spent for discussing with tax agents represented the major source of increment in compliance cost under the new self-assessment system, where 78.83 percent of the taxpayers suggested that there was an increase in time spent; followed by learning the new tax laws (55.40 percent); paying taxes (50 percent); record-keeping (48.20 percent); and answering IRB queries (44.70 percent). The reason that discussion with tax agents contributed to the major source of increment in compliance cost could be due to the fact that almost all (about 96 percent) of the companies in the sample engaged tax agents in their tax-related matters, hence when the self-assessment system was introduced, they spent more time to discuss the new system with their agents as most of the tax-related work were performed by these agents. This finding is consistent with previous studies, which have suggested that the uncertainties in providing appropriate facts, proper evaluation in tax audit as well as increased enforcement penalties under the self-assessment system have influenced taxpayers to turn to tax agents for assistance (Marshall et al., 1997). It is also evidenced in the United States where 60 percent of the returns were professionally prepared under the self-assessment system (Newberry et al., 1993). This experience is also mirrored in Australia in 1992 where approximately 72 per cent of the taxpayers sought professional assistance to prepare returns under the self-assessment system as compared to only 20 percent in 1980 when the old system still prevailed (Marshall et al., 1997). The increase in the engagement of tax agents by the taxpayers under the new self-assessment system is further supported by the findings on the increase in the time spent for the tax agents themselves. About 90 percent of the tax agents suggested that there were 30 percent increase in time spent under the new system for the total hours spent on complying with the new system, learning the new tax laws, preparing tax returns, and discussion with clients. Therefore, it could be concluded that, the introduction of the self-assessment system in Malaysia have resulted in an increase in the compliance cost to the taxpayers in terms of time spent with the major contribution being the engagement of the tax agents.

## 6.0 Recommendations

The findings of this study provide the IRB with some insights on the level of the increase in the compliance cost to the taxpayers and also the main factor that contributed to the increase under the new self-assessment system as compared to the old official assessment system. In relation to the above, it is therefore suggested that the government could further improve by educating the public regarding the new rules and laws under the new system so that they are able to understand the system better, hence reducing their reliance on the tax agents in handling their tax-related matters and eventually reducing their compliance cost.

This could be done by organizing more seminars and courses on self-assessment system and by providing more information through public campaigns to increase the awareness of the taxpayers on the importance of understanding and managing their taxes under the new system.

## **7.0 Limitations And Future Research**

Since this study is exploratory in nature, the generalization of the results is limited since the sample selection is based on convenience sampling and only involved the SMEs and tax agents in the northern region. Another drawback is that the variables included in this study involved internal costs such as time spent for learning the new tax laws, time spent for record keeping, time spent for preparing tax returns, time spent for answering tax authority queries and time spent for paying tax, which are subjective and difficult to quantify and has to be estimated. However, these variables were used in a previous study by Evans et al. (1997). Another limitation is that there are other types of compliance costs that were not included in this study, for example; computation costs and planning costs. Recommendation for future researchers is that probability sampling could be used, all types of companies could be studied and other sources of compliance costs could be included in their studies.

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