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LEVEL OF TAX KNOWLEDGE AND PERCEPTION OF TAX FAIRNESS AMONG NON-ACCOUNTING STUDENTS

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Abstract

Given the significant increase in digital transactions, the emphasis on the importance of voluntary tax compliance is still prevalent. Taxpayers and future taxpayers need to have tax knowledge to record these transactions on the tax return form. Hence, the objective of this study is to examine the level of tax knowledge and fairness perceptions of non-accounting students. This study was conducted using an online questionnaire with the participation of 112 students who were currently enrolled in diploma programs. The results show the respondents possess a satisfactory level of tax knowledge and perceive the tax system as fair. The outcome of this study could offer valuable insights for the government and tax authority to further enhance the present tax system and promote a higher degree of voluntary tax compliance. It also offers a signal to policymakers of the significance of tax knowledge in facilitating the development of tax education programs, particularly in early childhood education programs.

Keywords: Tax knowledge; Fairness perceptions; Tax literacy; Tax awareness

1. INTRODUCTION

Tax revenue continued to be the main source of income collected by the Malaysian government in 2022. Taxes represent 70.9% of the total revenue, with a sum of RM208.8 billion (Ministry of Finance, 2023). In Malaysia, the largest recipient of government revenue is the social sector, followed by the economic sector, the security sector, and the general administration sector. Thus, to achieve sustainable revenue collection over the long term, one of the initiatives by the government is to enhance voluntary tax compliance by taxpayers. Tax compliance is the willingness of taxpayers to comply in accordance with the word and spirit of the tax rules without the use of strict enforcement tools (James & Alley, 2002). The implementation of the self-assessment system might require taxpayers to have relative tax knowledge to declare all sources of income and expenses incurred for the years of assessment and make a tax payment to the tax authority.

The self-assessment system, together with the growing influence of the digital world, highlights the increasing importance of tax knowledge. The growth was increased further due to the impact of the COVID-19 pandemic, which changed the way people interacted and transformed how businesses operated, shifting most processes towards digitalization (Alagesh, 2022). Although these transactions occurred in the digital economy or settled in online currency, they still had tax implications (Wassermann & Bornman, 2020). Hence, taxpayers need a solid understanding of taxation to properly record these transactions in their tax return form. According to Wassermann & Bornman (2020), individuals require specific tax knowledge to adequately meet their tax obligations in the digital economy. This encompasses three types of knowledge: general, procedural, and legal tax knowledge. However, non-accounting students might have limited knowledge on tax matters, whereas accounting students might have received a formal and structured education on taxation.

Putro & Tjen (2020) discovered that students who have received tax education were categorized within the literate level of tax knowledge, while those without tax education were in the illiterate group. This finding is also consistent with a study by Mohamad et al. (2013), which indicates that the level of tax knowledge and fairness perceptions among non-accounting students was average, indicating a sense of uncertainty in their responses. This divergence in tax knowledge highlights the significance of educational efforts to enhance tax literacy among non-accounting students, particularly in the constantly changing digital economy. Therefore, the tax course should be a compulsory subject across all disciplines. Thus, the objective of this study is to examine the level of tax knowledge and perception of tax fairness among non-accounting students in Malaysia in the digital economy.

There are two reasons why this study is very significant. This study focuses on the level of tax knowledge and fairness perceptions held by future taxpayers, considering the numerous economic problems that governments are facing after COVID-19. Further, the increase in digital transactions also leads to significant special tax knowledge. The government might use the study's conclusions to further enhance the current tax system and promote voluntary tax compliance. The understanding of taxes and the perception of the fairness of the tax system are very important in shaping tax compliance.

The rest of this paper is structured as follows: The second section briefly reviews and summarizes the relevant literature dealing with tax knowledge and fairness perceptions of the tax system. The third section describes the research method used in this study. The fourth section discusses the results and discussion. Finally, the fifth section presents the conclusion.

2. LITERATURE REVIEW

Tax Knowledge

Tax knowledge refers to complete knowledge and understanding of the tax rules and systems that have been enacted by the government to collect funds for national development. Tax knowledge is the ability of a taxpayer to know tax regulations, both regarding tax rates based on the law that will be paid as well as tax benefits that will be useful for the taxpayer's life (Handoko, Toni, & Simorangkir, 2020). Society is aware of the role of the government to collect taxes and the role of society, which earns income, to pay taxes to the government (Mohd Faizal, Mohd Zaini, & Somasundram, 2021). They consider taxation to be general knowledge and agree that it should be taught as a subject in secondary schools, and the students need to acquire some tax knowledge before they become real taxpayers (Mohd Yusof, Safeei, & Lee, 2022). Various strategies could be implemented through awareness campaigns, awareness of online tax payment, implementation of severe tax laws, development of tax applications, ease of tax payment, incentives for responsible taxpayers' campaigns (Mohd Faizal et al., 2021), formal education in the classroom, and training to increase tax awareness and knowledge.

Tax knowledge has become the most influential factor in the tax self-assessment system (Damajanti & Karim, 2017), and it has led to better tax compliance by the taxpayers, according to tax regulators, authorities, and policymakers (Bhalla, Sharma, & Kaur, 2022). The more tax knowledge is obtained, the better will be the understanding of tax compliance and the consequences of tax evasion (Sanusi, Nik Abdullah, & Chin, 2021). The lack of knowledge and awareness of taxes and the tax systems will encourage society to be non-compliant with the tax system (Saad, 2014) and to be unwilling to pay taxes, intentionally or unintentionally (Kirchler, Niemirowski, & Wearing, 2006).

Fairness Perceptions

The perception of tax fairness has become a focal point in the debate of tax compliance amongst academics and policymakers as it is found to be an important factor in tax morale (Alexender & Orlic, 2022). Defined as negotiable transactions between taxpayers and the government, the interpretation of tax fairness is always related to the capability of taxpayers to fulfill their tax obligations (Nartey, 2023). Therefore, perceptions of tax fairness are undeniably affected and are close to the tax compliance decision. The conceptual framework of tax fairness has highlighted three major dimensions of fairness, which are distributive fairness, procedural fairness, and retributive fairness (Khamis & Mastor, 2021). Distributive justice refers to the concern for equality of outcome, whereby the allocation must be determined according to individuals' merits, efforts, and needs. In procedural fairness, the legitimacy context must be considered, where the approval and consideration of taxpayers should be engaged in the process of decision-making. Retributive fairness concerns the satisfaction of taxpayers when enforcement power in the form of punishment is implemented against those who are involved in non-compliance tax activities.

Previous studies have given huge attention to the perception of tax fairness due to its significant implication for individual willingness to pay tax. Farrar et al. (2020) claimed that perceptions of fairness hold significance as they influence individuals' inclination to regard authorities as legitimate and trustworthy, thereby deterring retaliatory actions and promoting a shift toward cooperative behaviors. This statement explicitly indicates that taxpayers who feel that the tax system is unfair will be reluctant to comply with tax payments. Hassan, Naem, & Gulzar (2021) noted that perceptions of tax fairness among Pakistani taxpayers play an important role in tax compliance. The study shows that when taxpayers have confidence that their funds will be effectively utilized by the government and result in improved services, their willingness to adhere to tax regulations increases. This is aligned with the study of Hassan et al, (2021), Pui Yee, Moorthy & Keng Soon (2017) that concluded unfair government spending policy causes a decline towards any tax regulation compliance.

The study by Castaneda (2023) also showed a similar effect of tax fairness perception on tax compliance when they found out that people are reluctant to pay tax unless the government can prove equality in tax reduction. At the same time, the perception that the tax system is unfair also triggers the justification of tax evasion, which indirectly manifests literal associations between fairness and tax compliance.

In the digital economy, where cross-border transactions and online activities are prevalent, taxpayers may perceive fairness based on how taxes are applied to digital services, e-commerce, and online platforms (Khamis & Mastor, 2021). Besides, simplified, and user-friendly digital tax reporting mechanisms can also enhance taxpayers' perceptions of fairness by making compliance more accessible and efficient. Nevertheless, such circumstances still lead to the conclusion that tax fairness is agreed upon as an important determinant of tax compliance intentions around the world, irrespective of demographics, coordinates, economic systems, social climates, political regimes, or cultural backgrounds (Batrancea et al., 2019).

3. METHODOLOGY

The research is conducted using a quantitative approach that involves employing descriptive analysis. This study used purposive sampling. This paper uses survey questions that were adapted from Saad (2011) and modified to meet the objectives and samples for this paper. The survey used Malay language to cater to respondents who did not take a taxation subject in their course program. This study used purposive sampling specifically targeting non-accounting students from Universiti Teknologi MARA Cawangan Negeri Sembilan Kampus Seremban. The population of samples for this paper were diploma students from the Faculty of Administrative Science and Policy Studies, the School of Computing and Mathematics, and the Faculty of Sport Science and Recreation. The sample size was determined based on Green's (1991) method. Memon et al. (2020) posited that Green's rule of thumb has been used in many recent studies. Green (1991) stated $N \geq 50+8m$, where m is the total number of independent variables. Therefore, given the presence of two independent variables, a minimum of 66 respondents was required for this study, and a total of 112 respondents was deemed reasonable for this study.

There were two (2) parts of the questions: Part A focused on the demographic or background of respondents, and Part B measured the level of tax knowledge and perceptions of tax fairness among the respondents. There are six (6) statement items in the survey questions that were used to measure the level of tax knowledge and six (6) statement items to measure the level of perceptions of tax fairness. All statement items were measured using a 5-point Likert's Scale ranging from strongly disagree (1) to strongly agree (5). Values between 1 and 2 are categorized as having a fair level of tax knowledge and fairness perceptions; values between 3 and 4 are categorized as having a moderate level of tax knowledge and fairness perceptions; and values of 5 are categorized as having a good level of tax knowledge and fairness perceptions.

The questionnaire was developed using the Google Form application and distributed to the student's WhatsApp group. Google Forms and the group WhatsApp platform were used since they were convenient to administer and effective for data collection. This study used means score analysis, which involved the process of summing up all the values within a set of numbers and subsequently dividing the sum by the total count of values.

4. RESULTS AND DISCUSSION

Table 1 shows that the major respondents of the sample population were female students (75.9%), and the age group was about the same from 18 years old to 21 years old. There was not much difference in terms of age since they are still pursuing their diploma program. The questionnaire also provides information whether the students received any source of income during their study. From the total samples, 7.1% say that they did receive income during their study and mostly were coming from employment income such as working as a part timer.

Table 1. **Demographic Characteristic of Respondents**

Demographic Factors		Respondents (n = 112)	Percentage (%)
Gender	Male	27	24.1
	Female	85	75.9
Age	18-21	111	99.1
	22-25	1	0.9
Source of income	Yes	8	7.1
	No	104	92.9
Types of income	Employment	6	75.0
	Business	2	25.0

The results related to the mean score for tax knowledge are presented in Table 2, which lists the six statements and the mean scores received for each statement. Five (5) indicate strongly agree, while one (1) indicates strongly disagree. To interpret the data, a higher mean value indicates better knowledge and a stronger understanding of taxation. The statement with the highest mean score was 4.28, in which the respondents possess a good level of knowledge regarding the fact that the income tax system is a means for the government to collect tax revenue for the economy's sustainability. The mean was more than 3.94 but less than 4.06 for 3 of the 6 statements, indicating that respondents generally possess a moderate level of knowledge that any tax noncompliance leads to punishment. They are also aware that any individual who earns income in Malaysia needs to register with the tax authority. On the contrary, the mean score for statement number six was 3.65, in which half of the respondents acknowledged their limited knowledge of tax deductions that can be claimed by taxpayers. On the other hand, in one case, the mean was 3.23, which indicates that the average respondent possesses uncertain knowledge about whether individuals are subject to a single flat rate of income tax. The weighted average of 3.87 means that the respondents in general had a moderate level of tax knowledge.

Table 2. **Mean Score on Level of Tax Knowledge of Non-Accounting Students**

No	Statement	Mean
1	The income tax system is a legitimate way for the government to collect revenue to manage an economy.	4.28
2	As far as I am aware, non-compliant taxpayers can be imprisoned, if found guilty of evading tax.	4.06
3	To my knowledge, individuals are subject to a single flat rate of income tax under the current tax system.	3.23
4	As far as I am aware, everyone who earns income sourced in this country needs to register with the Inland Revenue Board, regardless of whether that person is resident or not.	3.94
5	Similar to other criminal offenses, I believe that individuals can also be prosecuted for not complying with the Income Tax Act.	4.06
6	I have little idea about the deductions that I can claim as a taxpayer in the computation of my tax liability.	3.65
	Weighted Average	**3.87**

Table 3 presents the mean score of fairness perceptions of non-accounting students. The higher the mean, the more favorable the perception of the income tax system, while the lower mean reflects a favorable perception. The statement with the highest mean score was 4.08. This suggests that the respondents generally agree that it is fair that middle-income earners are taxed at a lower rate than high-income earners. The mean was more than 3.46 but less than 3.97 for 4 of the 6 statements, indicating that respondents generally agree with the fairness perception of the income tax system in terms of government utilization of tax revenue, the fairness of the amount that should be paid as tax payment, and the fairness of the benefits received by low-income earners. However, the mean score of 3.50 indicates that some of the respondents hold the perception that the government spends too much tax revenue on excessive welfare assistance. The weighted average of 3.81 means that the respondents in general had a moderate level of fairness in their perception of the tax system.

Table 3. **Mean Score on Fairness Perceptions of Non-Accounting Students**

No	Statement	Mean
1	I believe the government utilizes a reasonable amount of tax revenue to achieve social goals, such as the provision of benefits for low-income families.	3.89
2	I believe everyone pays their fair share of income tax under the current income tax system.	3.94
3	It is fair for individuals with similar amounts of income to pay a similar amount of income tax.	3.46
4	It is fair that low-income earners receive more benefits from the government compared to high-income earners.	3.97
5	It is fair that middle-income earners are taxed at a lower rate than high-income earners.	4.08
6	I think the government spends too much tax revenue on unnecessary welfare assistance.	3.50
	Weighted Average	**3.81**

5. CONCLUSION

Tax knowledge and fairness perception are the relevant factors that lead to tax compliance. Several studies have proven that a lack of tax knowledge and an unfair perception of the tax system are detrimental to tax non-compliance. To understand the importance of these two components of the tax system, this study delved into the intricate landscape of tax knowledge and perceptions of tax fairness among non-accounting students in the rapidly evolving digital economy. The findings have revealed that the respondents have demonstrated a good understanding of tax knowledge despite their non-accounting backgrounds, which is similar to the findings of Mohd Faizal et al. (2021). In contrast, Mohamad et al. (2013) reported an average level of tax knowledge and fairness perceptions, which present some uncertainty. Most of the respondents are aware that tax revenue is the government's main source for national sustainability. They also understand that any tax violation is subject to punishment, and taxpayers must be registered with the tax authority. However, only a small number of respondents can clarify tax claims and tax rates.

In terms of perceptions of tax fairness, the finding showed a positive sign, with most of the respondents having favorable perceptions of the tax system. They are satisfied with the range of tax rates and the allocation of the money to different levels of income earners. Nevertheless, overspending on welfare assistance raised some disagreement among the respondents. Policymakers, educators, and tax authorities may draw upon these findings to tailor their strategies, promoting tax literacy and fostering a sense of fairness that resonates with the evolving dynamics of the economic digital era. Future research may focus on the other components of the tax system from the perspective of different educational backgrounds. There is also a need to study the differences in the level of tax knowledge and fairness perceptions among non-accounting students who receive income or not.

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