

Tax Non-Compliance Among Corporate Taxpayers In Malaysia

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The pervasiveness of tax non-compliance remains a serious concern to most tax authorities around the world. The negative impact from tax non-compliance not only diminishes taxpayers' confidence in the tax system; but it can also affect economic and social development. For example, in the United States (US), the collapsed of Enron and the subsequent accounting and tax scandals of WorldCom and Tyco in the early 2000s caused tax authorities to suffer huge tax revenue loss due to unpaid income tax (Bloomberg-News, 2011). A brief report on the cost of tax evasion (a form of intentional tax non-compliance) worldwide by Murphy (2011) revealed that the US was ranked top in terms of tax revenue loss that carried a sum of USD337, 349 million, followed by Brazil (USD280, 111 million) and Italy (USD238, 723 million). As a result, the loss of tax revenue due to tax non-compliance has prompted tax authorities around the world to strengthen their tax audit and tax investigation.

Tax audit¹ is a core activity within the self-assessment system and its main objective is to encourage voluntary compliance with tax laws and regulations and to ensure that a higher tax compliance rate is achieved. Mason and Calvin (1978) argued that the fear of being apprehended in a tax audit and the perceived seriousness of the offence could be an effective deterrent for tax non-compliance. In Malaysia, although the tax authorities have initiated tax audit regularly, yet corporate tax non-compliance still persists. There are three indicators that signal the persistence of tax non-compliance among Malaysian corporate taxpayers. For instance, in 2016, 73,054 corporate tax audited cases were finalized by the IRBM as compared to 49,654 cases in 2015 (IRBM, 2016). In 2013, the former Malaysian Prime Minister, Datuk Seri Najib Razak publicly announced and labelled tax evaders as traitors (Bernama, 2013). Last but not least, according to Murphy (2011), Malaysia is ranked 44th in the world and 11th in the Asia region in terms of tax revenue loss due to intentional tax non-compliance. Murphy's (2011) finding is quite surprising as there are some developing countries in the Asia region such as Vietnam, Bangladesh and Cambodia that are ranked lower than Malaysia. Hence, it is reasonable to argue that corporate tax non-compliance is somewhat prevalent in Malaysia.

¹ There are two types of tax audit, namely (i) field audit, which is normally conducted at business premises; and (ii) desk audit which is carried out at tax authority's office.

In turn, an increase in the number of audited and resolved corporate tax cases gives rise to several concerns. Is the IRBM alarmed with the increase in the number of tax non-compliance cases? Is the increase in the number of tax non-compliance cases related to the low chances of being selected for a tax audit? Is the increase indirectly related with the aggressiveness of tax auditors in giving judgment and deriving a decision in handling the tax audit case? These concerns remain unanswered, and require further investigation.

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