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Determinants of Corporate Tax Non-Compliance: Evidence from the Special Voluntary Disclosure Programme (SVDP)

***Redzuan Ahmad [1], Zuraeda Ibrahim[2] & Nor Syafinaz Shaffee [3]**

[1,2]Faculty of Accountancy,
Universiti Teknologi MARA Shah Alam,
40450 Shah Alam, Selangor, Malaysia

[3]Faculty of Accountancy,
Universiti Teknologi MARA Cawangan Selangor,
Puncak Alam Campus,
42300 Puncak Alam Selangor, Malaysia

*Corresponding author's email: zurae229@uitm.edu.my

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ABSTRACT

This paper aims to provide empirical evidence on the determinants of corporate tax non-compliance in Malaysia based on secondary data collected during the Special Voluntary Disclosure Programme (SVDP) in 2018 and 2019. A total of 4,192 cases have been extracted from the integrated Case Management System (CMS) and *Sistem Taksir Sendiri Syarikat* (STSC) systems of the Inland Revenue Board Malaysia (IRBM) and analysed. The tax gap has been used as a proxy for tax non-compliance. The independent variables were corporate characteristics and strategies undertaken by companies for tax non-compliance. The research findings reveal that there is a significant positive relationship between firm size, nationality, real estate, understatement of sales, overstatement of purchases, and other strategies and corporate tax non-compliance. Construction and unallowable expenses have a significant negative relationship with corporate tax non-compliance. This study is the first study that investigates factors that could influence the corporate tax non-compliance based on SVDP data. This dataset is unique as it was extracted during the SVDP programme. The findings support on previous findings and provide further essential information to policymakers and tax authorities in designing tax audit guidelines, planning for tax amnesty initiative in future, providing training for their manpower, and formulating effective enforcement strategies.

Keywords: *Tax non-compliance; Special Voluntary Disclosure Programme, Tax Gap, Corporate characteristics, Tax Evasion Strategies*

1.0 INTRODUCTION

In Malaysia, the collection of direct tax is the responsibility of the Inland Revenue Board Malaysia (IRBM). The effective and efficient operation of the IRBM directly contributes to the tax collection revenue used to fund government spending.

Currently, as part of the operational strategies to minimise tax non-compliance, tax authorities use tax audit and tax amnesty programme. In the context of Malaysia, with regard to tax amnesty programme, the then Minister of Finance announced the implementation during the Budget 2019 speech on 2 November 2018. Called the "Special Voluntary Disclosure Programme" (SVDP), its purpose was to encourage taxpayers to voluntarily disclose their previously undeclared income accurately and to settle tax arrears, if any (Peng, 2019), and at the same time to increase the tax collection in that year for the country's development (IRBM, 2018d).

The IRBM, as a tax authority, provided the guidelines for the SVDP implementation that commenced on 3 of November 2018 and ended on 30 September 2019. This initiative was a success, as it was reported in The Edge financial paper on 18 February 2020 that the IRBM had collected RM 7.88 billion in taxes, extra taxes, and penalties through the SVDP (Hamdan, 2019). Thus, the SVDP played a big role and achieved its objectives in reducing the tax non-compliance rate and, at the same time, contributed to the federal government's revenue collection.

Previous studies by Choong and Wong (2011), and Shaharuddin, Palil, Ramli, and Maelah (2012) examined taxpayer compliance behaviour in SAS and used a survey as their data collection method. Sapiei, Kasipilai, and Eze (2014) determinants of tax compliance behaviour of corporate taxpayers in Malaysia, while Mohd Faizal, Palil and Maelah (2017) examined the perception on justice, trust and tax compliance behaviour in Malaysia among academics in higher learning institutions in Klang Valley. However, there are no studies that investigate factors that could influence the corporate tax non-compliance based on SVDP data. Hence, it is useful to study the determinants of corporate tax non-compliance through real tax cases based on the submission evidence collected from the SVDP participants.

The purpose of this paper is to examine the relationships between corporate characteristics (firm size, industry and nationality) and strategies to evade tax (understatement of sales, overstatement of purchases, unallowable expenses, tax incentives, and others) and tax non-compliance based on the Special Voluntary Disclosure Programme (SVDP) in force during the years 2018 and 2019. The data have been extracted from the IRBM database. The aim is to enhance an understanding of the determinants of corporate tax non-compliance in Malaysia; the essential information revealed by the study could be referred to by policymakers and tax authorities in designing tax audit guidelines, providing training for their manpower, and formulating effective enforcement strategies.

2.0 UNDERPINNING THEORIES AND DEVELOPMENT OF HYPOTHESES

Prior studies on the determinants of tax non-compliance by corporate taxpayers employed several theories to explain the tax non-compliance behaviour (Belz, von Hagen, & Steffens, 2019; Mohd Nor, Ahmad, and Mohd Salleh, 2010; Md Said, 2010; Mohamad and Deris, 2018; Nasution, Putri, Muda, & Ginting, 2018). The political cost theory, introduced by Zimmerman in 1983, is a popular theory that relates the size of the company, type of the industry, and company multi-nationality to tax non-compliance.

On the other hand, the positive accounting theory which was popularised by Watts and Zimmerman in 1978 suggested that there is a relationship between a firm's accounting choice with the factors that influence the management's decision on accounting standards that would affect the firm's position and finance (Nasution et al., 2018). These factors are taxes, regulation, management compensation plans, bookkeeping costs, and political costs (Watts & Zimmerman, 1978). This theory is also applicable and reliable in explaining the choice of accounting methods or strategies used by firms in tax non-compliance studies.

2.1 Corporate characteristics and tax non-compliance

The corporate characteristics comprise three (3) factors; firm size, industry type, and company nationality. The hypotheses developed for this study are based on the review of past literature that supports the relationship of all these three factors with tax non-compliance

2.2 Firm size and tax non-compliance

Several measurements are used to categorise firms according to size. Some studies measured size using the log of total assets as a proxy of firm size (Bagdad et al., 2017; Ghani, Ling, & Wah, 2014), while other studies used total sales, receipts, or turnover as their proxies for firm size (Hanlon et al., 2005; Joulfaian, 2000; Noor, Fadzillah, & Mastuki, 2010). Regardless of the measure used, all of these studies found that firm size had an effect on their dependent variables. However, results differed between small- and large-size firms: some found that small firms were less compliant (Ghani et al., 2014; Tedds, 2010) while others found large firms were more likely to be to tax-noncompliant (Hanlon et al., 2005; Mohamad & Deris, 2018). As Yusoff (2013) stated, tax non-compliance exists in firms of all sizes, but the degree of underreporting differs from one size group to another.

In Malaysia, few studies have researched the issue of firm size as a determinant of tax non-compliance. One recent study found a significant relationship between firm size and level of income and tax non-compliance (Mohamad & Deris, 2018). The sample for their study consisted of small and medium enterprise (SME) operators in the distributive trade, service providers, and food and beverages sectors in the Klang Valley, Malaysia. An earlier study by Md Said (2010) also found that firm size made a significant difference to audit adjustments, based on a sample from 555 real cases of tax audits in 2009 carried out by the IRBM. Consistent with the results from previous studies, with different datasets; the relationship between the two variables needs to be empirically examined and the following hypothesis was posited:

H_1: There is a significant positive relationship between firm size and tax non-compliance.

2.3 Industry type and tax non-compliance

Industry type also has a significant impact on tax non-compliance, according to researchers. Md Said (2010) found that more tax misreporting occurred in three prominent industries: commercial, service, and manufacturing industries. Meanwhile, a study by Tedds (2007) found that firms in the services and construction sectors are more likely to comply less than firms in the agriculture and manufacturing sectors. Industries that engage in a lot of cash transactions are more likely to be involved in tax non-compliance. For example, a study by Morse, Karlinsky and Bankman (2009) found that cheating or underreporting of business income was common in business sectors with high cash transactions. This tendency may be due to the low visibility of the cash transactions, where it is difficult for the tax authorities to keep track of the firms' sources of income (Morse, Karlinsky, & Bankman, 2009). A study in Bulgaria reported that a larger proportion of entrepreneurs in agriculture, the health sector, manufacturing industry, transport and communications have high tax compliance, while higher proportions have a low tax compliance in the construction industry, hotels and restaurants sector, retail and trade sectors, and services (Williams, 2020).

In Malaysia, several studies relate types of industries with tax underreporting or non-compliance. Lai et al. (2013) stated that the three highest incidences of tax evasion were from the construction industry (32.8%), followed by the manufacturing industry (18.1%), and the service industry (15.7%). In Md Said's (2010) study, 555 actual field audit cases resolved by IRBM were selected. He classified the industry types into six (6) main sectors: agriculture, commercial, construction, manufacturing, real estate, and services. His findings showed that more tax misreporting occurred in three industries; namely, commercial, service, and manufacturing industries. In a similar analysis, Mohd Nor et al. (2010) classified industry type into seven main sectors. They found that a large proportion (40.1%) of the companies are in the commercial sector, followed by 26.8% in the service sector, 13.6% in the manufacturing sector, 12.6% in the construction sector, and the rest are in the planting and real estate sectors. However, there was one study by Ghani et al. (2014) that found no significant relationship between types of industry and tax non-compliance and their findings were contradicted by those of other studies. Based on the above literature, industry type does

influence the likelihood of a corporate entity engaging in tax non-compliance. Consequently, for this study the following hypothesis was proposed:

H_2: There is a significant relationship between industry types and tax non-compliance

2.4 Multinationality and tax non-compliance

A multinational company can be defined as a company that has facilities and other assets in at least one country other than its home country (J. Chen, 2020). Yusoff (2013) considered multinational firms as large corporations that are global in their operations, strategies, and vision. Generally, a multinational organization has offices and/or warehouses in numerous countries and a centralized head office where corporate management is organized. These companies are also known as international, stateless, or transnational corporate organizations. A study by Belz *et al.*, (2019) hypothesised that multinational operating companies are likely to be able to minimise their expected targeted result (ETR) by taking advantage of their additional profit-shifting incentives, which is consistent with the existing profit-shifting literature. While there are few studies that relate multinationality and tax non-compliance, a study in Malaysia found significant positive relationships between multinationality of a company and four measures of tax noncompliance; namely, Accounting Effective Tax Rate, Long-run Cash Effective Tax Rate, Tax Expense to Operating Cash Flow, and Tax Paid to Operating Cash Flow among large Malaysian companies (Salihu, Annuar, & Sheikh Obid, 2015). This suggests the possibility of multinational companies exploiting their international scales of operations to avoid taxes in both host and parent countries. An opportunity for profit shifting across their various operating outlets has made multinational companies tax avoidant in host countries (Suleiman, 2021). This profit shifting technique is known as Base Erosion and Profit Shifting (BEPS). BEPS undermines the integrity of the tax system. The Organisation for Economic Co-operation and Development (OECD) has developed a BEPS framework to be applied worldwide to counter BEPS activities (OECD, 2013). Yusoff (2013) found a significant relationship between company multinationality and tax non-compliance. However, Mohd Yusof et al. (2014) found no significant correlation between foreign ownership and corporate tax non-compliance. Therefore, based on prior literature, the following hypothesis was proposed:

H_3: There is a significant relationship between company multinationality and tax non-compliance.

2.5 Strategies to evade tax and tax non-compliance

Tax evasion strategies rely on non-disclosure of facts, while tax avoidance involves leveraging and exploiting tax law loopholes in order to minimize tax liabilities (Bagdad et al., 2017). Normally the strategies revolve around sales or income, purchases or expenses, tax relief, allowances as well as tax exemptions. Bagdad et al.'s 2017 study listed the strategies used for tax non-compliance; namely, understatement of sales, overclaim of purchases, overclaim of expenses, ineligible claim of capital allowance, and other strategies (include withholding tax, donation, transfer pricing issues and other adjustments). The study found that all the strategies have a positive significant relationship with tax non-compliance (Bagdad et al., 2017).

In Malaysia, Bagdad et al. (2017) and Yusoff (2013) categorised the strategies to evade tax into five; namely, (1) understatement of sales; (2) overstatement of purchases; (3) unallowable expenses; (4) tax incentives/allowance adjustments; and (5) other strategies. They found that all the strategies have a significant relationship with tax non-compliance. Other studies (e.g.: Lai et al., 2013; Md Said, 2010; Mohd Nor et al., 2010) found that over-claiming or unallowable expenses were the most frequent strategy use by companies to underreport their income and subsequently lower their tax liability. All of these strategies have a significant relationship with tax non-compliance.

For this study, the strategies undertaken by a company for tax non-compliance adopted the five (5) categories identified by Bagdad (2017) and Yusoff (2013); namely, (1) understatement of sales; (2) overstatement of purchases; (3) unallowable expenses; (4) tax incentive adjustments; and (5) other

strategies; and this is based on data extracted from the IRBM's system. Hence, the following hypotheses were developed:

H_4: There is a significant relationship between understatement of sales and tax non-compliance

H_5: There is a significant relationship between overstatement of purchases and tax non-compliance

H_6: There is a significant relationship between unallowable expenses and tax non-compliance

H_7: There is a significant relationship between tax incentive adjustments and tax non-compliance

H_8: There is a significant relationship between other strategies and tax non-compliance

3.0 METHODOLOGY

This study focused on examining whether a causal relationship existed between the independent variables (corporate characteristics, and strategies to evade tax) and the dependent variable (tax non-compliance). To achieve the research objectives, the research employed quantitative techniques. The data collected for this study were collected from the SVDP cases received by IRBM from 3 November 2018 until 30 September 2019; and are extracted from the Case Management System (CMS), in handling audit cases and a system that is essential in keeping the taxpayers' data is the *Sistem Taksir Sendiri Syarikat* (STSC).

The total population count is 6,603 company cases received by the IRBM during the SVDP period (IRBM, 2020) for the two years of assessment. From the total number of cases, 2,411 cases were excluded due to incomplete information, such as state (46), type of industry (580), amount of turnover (1,447), amount of total asset (338). The remaining 4,192 cases were selected for this study. Due to the large data, the sample selected can be said to represent the population.

3.1 Measurement of dependent variable

The dependent variable used in this study to measure tax non-compliance was the tax gap. The tax gap was determined based on the voluntary disclosures submitted by taxpayers during the SVDP period. The difference between the tax reported during the SVDP and the previously reported tax or zero tax due to non-filing was denoted as the tax gap (TAXgap). For statistical purposes, data transformation was carried out for TAXgap. Thus, LogTAXgap served as the dependent variable and also as the proxy for tax non-compliance.

3.2 Measurement of independent variables

The determinants that lead to tax non-compliance examined in this study were corporate characteristics and strategies taken to evade tax. Firm size, industry type, and company nationality were grouped under the corporate characteristics determinant, while understatement of sales, overstatement of purchases, unallowable expenses, tax incentive adjustments, and other strategies were the components of the strategies taken to evade tax. Table 1.1 provides a summary of the operationalisation of the independent variables selected, as well as their source of information or/and reference.

Table 1.1: Summary of the Operationalisation of Independent Variables

Independent Variables	Operationalisation/Definition	Source of Reference
Firm Size	LogTurnover based on reported total sales ranging from RM 238 to RM 9,927,536,981 as the proxy of size	Ghani et al. (2014), Hanlon et al. (2005) and Joulfian (2000)

<table>
<tr>
<td>Industry Types</td>
<td>Firms were grouped into the respective industries based on the type of business code provided in their tax return forms. The identification of these codes can be obtained from the IRBM's website, www.hasil.gov.my. The codes include agriculture, commercial, construction, manufacturing, real estate, services, and many other industries (IRBM, n.d.).
<table>
<tr><td>Agriculture</td><td>Dagri = 1; other industries = 0</td></tr>
<tr><td>Commercial / Trading</td><td>Dcom = 1; other industries = 0</td></tr>
<tr><td>Construction</td><td>Dcons = 1; other industries = 0</td></tr>
<tr><td>Manufacturing</td><td>Dman = 1; other industries = 0</td></tr>
<tr><td>Real Estate</td><td>Dre = 1; other industries = 0</td></tr>
<tr><td>Services</td><td>Dser = 1; other industries = 0</td></tr>
<tr><td>Other Industry</td><td>Doth = 1; other industries = 0</td></tr>
</table>
</td>
<td>Yusoff (2013) and Mohd Nor et al. (2010)</td>
</tr>
<tr>
<td>Company Multi-nationality</td>
<td>Multinational companies as businesses that operate across national boundaries — by exporting and importing raw materials and intermediate or finished products; by using foreign capital, people and processes; and by globally organising, managing, and regulating resources

Dichotomous; Yes= 1/No = 0</td>
<td>Aggarwal et al. (2011); Yusoff (2013).</td>
</tr>
<tr>
<td>Strategies to Evade Tax</td>
<td>The strategies were understatement of sales, overstatement of purchases, unallowable expenses, tax incentive adjustments, and other strategies, based on strategies disclosed in the IRBM database.
<table>
<tr><td>Understatement of sales</td><td>Dsales = 1; others = 0</td></tr>
<tr><td>Overstatement of purchases</td><td>Dpur = 1; others = 0</td></tr>
<tr><td>Unallowable expenses</td><td>Dexp = 1; others = 0</td></tr>
<tr><td>Tax incentive adjustments</td><td>Dinc = 1; others = 0</td></tr>
<tr><td>Other strategies</td><td>Detc = 1; others = 0</td></tr>
</table>
</td>
<td>Yusoff (2013) and Mohd Nor et al. (2010),</td>
</tr>
</table>

4.0 RESULT AND DISCUSSION

The secondary data collected from the IRBM's CMS and STSC systems were analysed using the Statistical Package for the Social Science (SPSS) software version 23.0. The data were analysed by the system using descriptive analysis, coefficient of correlation analysis, and multiple linear regression analysis.

Table 1.2 and Table 1.3 list the State in which the companies operate, year of assessment (YA), type of industry, multinational status, and type of strategy used to conceal income that resulted in tax non-compliance.

From the Table 1.2, it can be seen that out of the 4,192 companies, the majority of the companies are located in Wilayah Persekutuan (1,194, 28.5%) and Selangor (1,127, 26.9%). They make up 55.4% of the total sampled cases. These results show that the companies that operate in these two States are the major contributors to this Special Voluntary Disclosure Programme (SVDP). The Klang Valley is a centre of business activities for these two States as well as for the country as a whole. Since a high number of the companies base their operations in this region, it is not surprising that Wilayah Persekutuan (Kuala Lumpur) and Selangor contribute to the high number of cases. Sabah placed third in the ranking with 386 cases (9.2%), while neighbouring Sarawak had approximately half that number with 195 cases (4.7%). Kelantan with 43 cases (1%) and Perlis with 8 cases (0.2%) make up the bottom two States for location of the companies.

For the year of assessment (YA), the number of cases received by the IRBM during the SVDP period, Table 1.2 shows that 99.0% of the companies (4,152 cases) submitted their disclosures for YA 2017 and only 1.0% (40 cases) submitted them for YA 2018. The smaller number of disclosures for YA 2018 is because the SVDP period that ended on September 2019 coincided with the normal period of submitting returns for YA 2018. In other words, companies that submitted their returns for YA 2018 in the period within the 7 months of the closure of their accounting period were not counted as statistics in this SVDP analysis. For example, a company that had an accounting period closure on 31 December 2018 had until 31 July 2019 to submit its tax returns. Therefore, if the company submitted its tax returns on 31 July 2019, the submission would not be included in these SVDP statistics as it was completed within the normal period for submission of tax returns for that company. This explains the small number of cases for YA 2018 in the SVDP statistics.

In terms of the type of industry, Table 1.3 shows that the highest proportion, 36.6% (1,535 cases), are from the service industry, followed by 28.8% (1,206 cases) from the commercial or trading industry, 17.2% (719 cases) from the construction industry, 7.8% (326 cases) from the manufacturing industry, 4.5% (187 cases) from the real estate industry, 2.8% (117 cases) from other industry, and 2.4% (102 cases) from the agriculture industry. These statistics show that more than one-third of the corporations that participated in the SVDP are from the service industry. The responsible tax authority should do a risk assessment of this industry for future compliance strategy. The number of tax non-compliance dominated by the service industry is worrying. It could mean that many companies in this industry either escaped or were cleared during the audit programmes that were comprehensively conducted by the IRBM before the implementation of the SVDP.

In terms of mutlinationality group of the companies in the sample, Table 1.3 shows that majority of the companies that voluntarily submitted their tax returns under the SVDP is the non-multinational group (4,183 cases), making up 99.8% of the total sampling population of 4,192 cases while only 0.2% (9 cases) is from the multinational category. The small number of multinational companies are sighted because most of them were not involved in the SVDP. These companies generally have their tax consultant and submitted their returns on time. Moreover, the SVDP was offered to encourage taxpayers to voluntarily disclose any unreported income and settle the tax arrears where these normally not applicable to the multinational companies (https://www.bdo.global)

Table 1.3 shows that 46.7% of the total sample (1,957 cases) involved understatement of sales, 1.6% (67 cases) used overstatement of purchases, 8.5% (356 cases) claimed unallowable expenses, 0.9% (39 cases) declared tax incentive adjustments, and 42.3% (1,773 cases) used other strategies. It would seem that understatement of sales is the most common method used by the corporate taxpayers to conceal their income, followed by a mixture of other strategies. The findings also show that the lowest frequency of

strategies used is tax incentive adjustments, with only 0.9%. The percentage for other strategies is quite high, probably due to the voluntary disclosures during the SVDP period not being scrutinised further by the IRBM. The companies might have used multiple strategies but reported them as other strategies in their voluntary disclosure.

Table 1.2: Company Profile

Variable	Description	Frequency (n=4192)	Percentage (%)
State	**W. Persekutuan**	**1194**	**29**
	Selangor	**1127**	**27**
	Sabah	386	9.2
	P. Pinang	362	8.6
	Johor	299	7.1
	Sarawak	195	4.7
	Perak	176	4.2
	Terengganu	116	2.8
	Kedah	89	2.1
	Pahang	76	1.8
	Melaka	70	1.7
	N. Sembilan	51	1.2
	Kelantan	43	1
	Perlis	8	0.2
	Total	**4192**	**100**
Year of Assessment	2017	4152	99.0
	2018	40	1.0
	Total	**4192**	**100**

Table 1.3: Company Profile (Type of Industry, Nationality & Tax Evasion Strategies)

Variable	Description	Frequency (n=4192)	Percentage (%)
Type of Industry	Agriculture	102	2.4
	Commercial/Trading	1206	28.8
	Construction	719	17.2
	Manufacturing	326	7.8
	Real Estate	187	4.5
	Service	1535	36.6
	Others	117	2.8
	Total	**4192**	**100**
Nationality	Multinational	9	0.2
	Non-multinational	4183	99.8
	Total	**4192**	**100**
Strategy	Understatement of Sales	1957	46.7
	Overstatement of Purchases	67	1.6
	Unallowable Expenses	356	8.5
	Tax Incentive	39	0.9
	Other Strategies	1773	42.3
	Total	**4192**	**100**

4.1 Descriptive statistics

Table 1.4 presents the descriptive statistics (mean and standard deviation) for the continuous variables involved in the present study [paid up capital, total assets, turnover, firm size, reported tax (reported previously or zero tax due to non-reporting), tax gap, penalty under Section 113(2) of the ITA, total settlement, actual tax (tax supposedly being charged) and tax gap ratio]. As shown in the table, the mean for the paid-up capital is RM 2,943,768.67, mean total assets is RM 18,891,410.67, and mean turnover is RM 16,165,882.10. This data represents the size of the corporations. The table also shows that the mean for the reported tax is RM 1,795.62, the mean for the tax gap is RM 87,824.30, the mean penalty for tax non-compliance during the SVDP period is RM 13,653.18, and for the total settlement paid that consists of additional tax (tax gap) and penalties, the mean is RM 101,477.47. Meanwhile, the mean for the actual tax is RM 89,619.91. This amount is the purported actual tax that was declared and should be paid without penalty being included. The percentage of the tax gap over the actual tax is called the tax gap ratio. According to the results shown in Table 1.4, the mean tax gap ratio is 0.98 or, in percentage, 98%. This huge tax gap ratio can be explained by inferring that most of the corporate taxpayers that participated and voluntarily disclosed their income during the SVDP period previously did not submit any declaration of income or disclosed only a small quantum of income that resulted in zero tax.

Table 1.4: Descriptive Statistics

Variables	Mean	Std. Deviation
Paid Up Capital (RM)	2,943,768.67	54,289,953.349
Total Assets (RM)	18,891,410.67	195,087,960.573
Turnover (RM)	16,165,882.10	181,477,614.393
Reported tax (RM)	1,795.62	25,486.32349
Tax Gap (RM)	87,824.30	663,611.32776
Penalty Sec 113(2) (RM)	13,653.18	158,140.58669
Total Settlement (RM)	101,477.47	805,079.14824
Actual Tax (RM)	89,619.91	664,321.02553
Tax Gap Ratio	0.98	0.12644

4.2 Diagnostic checking

This study conducted the normality test to assess the distribution of the data, to determine whether it is normally distributed or not upon (Hair, Black, Babin, Anderson, & Tatham, 2006). Another test conducted was the variance inflation factor (VIF) to assess any multicollinearity problems between the independent variables.

For this study, five (5) continuous variables were transformed using the log10 function in SPSS to correct their skewness so that they can easily be used for parametric tests later. The variables are total assets, turnover, reported tax, tax gap, and actual tax. For the purpose of statistical testing, especially multiple regression after transformation, the variables were coded as LogTotal Assets, LogTurnover, LogReported tax, LogTax Gap and LogActual Tax. After the transformation, all of the variables listed were slightly negatively skewed, with the skewness values ranging from -0.009 to -0.038. The readings all lie within the range of -1 to +1, indicating normal distribution, except for LogReported tax. LogReported tax possesses a high positive skewness at 4.580.

The Kolmogorov-Smirnov test was also conducted on the transformed variables. Based on the results, only the LogTax Gap (dependent variable) and the LogActual Tax (independent variable) are considered normal due to their *p*-values being higher than 0.05, which are considered significant for this test.

With regard to the issue of multicollinearity between the independent variables, the tolerance readings for all variables range from 0.111 to 0.988, while the VIF values range from 1.016 to 8.977. Since all variables have a VIF value of below 10, the results indicate that there is no multicollinearity problem between the variables listed in the table.

4.3 *Tax gap evidence*

Table 1.5 provides the values of the mean, minimum, and maximum for the reported tax (amount reported previously or zero tax due to non-reporting) and the actual tax (tax purportedly charged during submission

of tax returns) for comparison purposes. As shown in the table, the reported tax has a minimum value of RM 0.00, meaning that no tax was reported at all. The maximum value is RM 1,260,000.00. Meanwhile, the actual tax has a minimum value of RM 1.44 and a maximum value of RM 26,552,915.98. For comparison purposes, the mean values are used. The value of the mean of the actual tax is RM 89,619.91, while the mean of the reported tax reported previously is RM 1,795.62. In other words, on average, there is a tax gap of RM 87,824.29. This finding suggests evidence of tax non-compliance attributable to the corporate taxpayers in Malaysia. The significance of the mean difference of the reported tax and the actual tax is further scrutinised using the paired sample *t*-test to provide a conclusive result of the tax gap attributable to the corporate taxpayers.

Table 1.5: Values of Mean, Maximum, and Minimum of Reported tax and Actual Tax

	Reported tax (RM)	**Actual Tax (RM)**
Mean	1,795.62	89,619.91
Minimum	0.00	1.44
Maximum	1,260,000.00	26,552,915.98

In this study, the mean of the tax liability before the SVDP is the mean of the reported tax. This mean is then compared with the mean of the tax liability after participating in the SVDP, also known as the mean of the actual tax. Table 1.6 presents the paired sample *t*-test results to assess the significant difference for the reported and actual taxes. Based on the results shown in Table 1.6, there is a significant difference between the means of the reported tax and the actual tax. The mean of the actual tax is determined to be RM 87,824.30 greater than the mean of the reported tax with SD = 663,611,32776, t = -8.569, df = 4191, and p = <0.01, with 95% degree of confidence. When the test is significant, it means that the mean difference between reported tax and actual tax is substantial. The difference is known as additional tax, or tax gap. This means corporate tax non-compliance exists. This finding is consistent with Bagdad et al. (2017) and Yusoff (2013).

Table 1.6: Paired Sample *t*-test

	Mean difference	Std. Deviation	*t*	df	Sig. (2tailed)
Reported tax – Actual Tax	-87,824.29573	663,611.32776	-8.569	4191	0.000

4.4 *Correlation coefficient Analysis*

Table 1.8 (below) illustrates the results of the Pearson correlation matrix between the variables for this study. Based on Table 1.8, the overall correlation coefficients between the variables are less than 0.5, with the exception of the correlation between Detc (other strategies) and Dsales (understatement of sales), where r = 0.801 indicates a high correlation between other strategies to evade tax and understatement of sales. The r value of less than 0.5 for all other correlations indicates that the relationships between the variables are relatively weak or medium. These results also confirm that there is no collinearity problem between the variables and the data is suitable for multiple regression.

Table 1.8: Pearson / Point Biserial Correlation Coefficient Matrix

	LTG	LTA	LT	Dagri	Dcom	Dconsa	Dman	Dre	Dserv	Doth	Dmul	Dsal	Dpur	Dexp	Dinc	Detc
LogTax Gap (LTG)	1															
LogTotal Assets (LTA)	.482**	1														
LogTurnover (LT)	.475**	.645**	1													
Dagriculture	-.018	.053**	.000	1												
Dcommercial	-.015	.026	.170**	-.100**	1											
Dconstruction	.051**	.046**	.058**	-.072**	-.289**	1										
Dmanufacturing	.045**	.117**	.132**	-.046**	-.185**	-.132**	1									
Dreal estate	.005	.090**	-.204**	-.034*	-.137**	-.098**	-.063**	1								
Dservice	-.049**	-.188**	-.188**	-.120**	-.483**	-.346**	-.221**	-.164**	1							
Dothers	.006	.021	-.010	-.027	-.108**	-.077**	-.049**	-.037*	-.129**	1						
Dnationality	.074**	.098**	.096**	-.007	.005	.006	.006	-.010	-.014	.023	1					
Dsales	.072**	-.026	.013	-.024	-.040**	.055**	-.016	-.024	.021	.001	-.043**	1				
Dpurchases	.045**	.013	.015	-.020	.016	.033*	-.009	-.018	-.018	-.010	-.006	-.119**	1			
Dexpenses	-.073**	.045**	.063**	-.009	.069**	-.021	.001	.025	-.066**	.026	.023	-.285**	-.039*	1		
Dincentive	.041**	.043**	.048**	.017	.004	.002	.009	-.009	-.007	-.016	-.004	-.091**	-.012	-.030	1	
Detc	-.051**	-.010	-.062**	.031*	-.003	-.053**	.016	.016	.022	-.010	.033*	-.801**	-.109**	-.261**	-.083**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The regression equation to investigate the causality relationship between the determinants (independent variables) and tax non-compliance (dependent variable) is as follows:

$$TAXgap = \beta_0 + \beta_1 Size + \beta_2 Dagri + \beta_3 Dcons + \beta_4 Dcom + \beta_5 Dmanu + \beta_6 Dre + \beta_7 Dser + \beta_8 Dmulti + \beta_9 Dsal + \beta_{10} Dpur + \beta_{11} Dexp + B_{12} Dinc + \varepsilon$$

Where;

TAXgap	=	LogTax Gap (Tax Non-compliance)
Size	=	Proxied by LogTurnover (Firm Size)
Dagri	=	Dummy for Agriculture Industry
Dcons	=	Dummy for Construction Industry
Dcom	=	Dummy for Commercial/Trading Industry
Dmanu	=	Dummy for Manufacturing Industry
Dre	=	Dummy for Real Estate Industry
Dser	=	Dummy for Service Industry
Dmulti	=	Dummy for Nationality of Companies
Dsal	=	Dummy for Understatement of Sales
Dpur	=	Dummy for Overstatement of Purchases
Dexp	=	Dummy for Unallowable Expenses
Dinc	=	Dummy for Tax Incentives

β_0 = Intercepts

$\beta_1 - \beta_{12}$ = The Coefficients of Independent Variables

ε = Error

The result of the multiple regression analysis is shown in Table 1.9. The model is statistically significant as the *p*-value is less than 0.01 and the F-value is 122.973. The R-square value is 0.261, while the adjusted R-square is 0.259. These values indicate that 26.1% of the variance in tax non-compliance can be explained by the variance in the independent variables in this study (corporate characteristics and strategies to evade tax). The Durbin Watson (DW) statistic is a test for autocorrelation in the residuals from a statistical regression analysis (Tabachnick & Fidell, 2012). For the present study, this model can be considered a good model since its DW reading is 1.938. Thus, the variance for the corporate tax non-compliance of companies participating in the SVDP could be explained by this model.

Table 1.9: Multiple Regression Results

Variables	Coefficients	*t*-value	*p*-value
(Constant)	.102	.795	.427
Size	.603	36.547	.000
Dagri	-.177	-1.616	.106
Dcons	-.220	-2.798	.005
Dcom	-.046	-.572	.567
Dmanu	-.150	-1.713	.087
Dre	.423	4.400	.000
Dser	-.025	-.319	.749
Dmulti	.615	2.263	.024
Dsal	.088	3.322	.001
Dpur	.316	3.131	.002
Dexp	-.294	-6.224	.000
Dinc	.209	1.592	.111
R-square	.261		
Adjusted R-square	.259		
F-value	122.973		
Sig. Probability (F-statistics)	.000		
Durbin Watson	1.938		

***Legend**:*
Dagri: Dummy for Agriculture Industry; Dcons: Dummy for Construction Industry; Dcom: Dummy for Commercial/Trading Industry; Dmanu: Dummy for Manufacturing Industry; Dre: Dummy for Real Estate Industry; Dser : Dummy for Service Industry; Dmulti: Dummy for Nationality of Companies; Dsal: Dummy for Understatement of Sales; Dpur: Dummy for Overstatement of Purchases; Dexp: Dummy for Unallowable Expenses; Dinc: Dummy for Tax Incentives

From the regression results shown in Table 1.9, it can be seen that, in this study, corporate characteristics (size, type of industry, and nationality) and strategies to evade tax have a causal relationship with tax non-compliance. The direction of the relationship, whether positive or negative, depends on the sub-components involved. An inference can be made that size, type of industry, nationality, and strategies to evade tax (understatement of sales, overstatement of purchases, and unallowable expenses) have a causal effect on tax non-compliance. Thus, these results confirm hypotheses H1 and H2, which state that there are significant relationships between corporate characteristics and strategies to evade tax and corporate tax non-compliance, respectively.

The firm size for this model was proxied by LogTurnover. Another indicator of size, LogTotal Assets was not used because it had only a more moderate positive correlation with $r = 0.645$ when used in the model, compared to that of LogTurnover. In this model, there is evidence that size has a significant positive relationship with tax non-compliance with a correlation coefficient of 0.603, *t*-value of 36.457, and *p*-value less than 0.01. These results signify that the larger the size of the company, the bigger the impact on tax non-compliance. If other determinants are kept constant, a unit change in firm size will increase the average

value of LogTax Gap by 0.6 unit. Thus, these findings confirm hypothesis H1 which states that there is a significant relationship between firm size and tax non-compliance. The sign of the correlation value indicates a positive relationship. This finding is contrary to previous studies that suggested that bigger firms were more compliant toward tax by reporting a higher proportion of sales (Abdu et al., 2020; Bagdad et al., 2017). However, this finding is consistent with prior studies by Yusoff (2013) and Md Said (2010) that used data from real cases audited by the IRBM. Other studies such as Lai et al. (2013) and Ghani et al. (2012) also had a consistent finding stating that the greater the business size, the greater the effect on tax non-compliance.

For the type of industry, there are mixed results. The dummy variables used in the multiple regression analysis are based on the 'other industry' comparison. Only two industries have a statistically significant relationship with tax non-compliance, i.e., construction and real estate. The construction industry has a significant negative relationship with corporate tax non-compliance, with the coefficient value of -0.22, *t*-value of -2.798, and *p*-value equals to 0.05. Therefore, if other variables are kept constant, an increase of one-unit in the construction industry would reduce the corporate tax non-compliance by 0.22 unit. For the real estate industry, it has a significant positive relationship with corporate tax non-compliance, with correlation coefficient of 0.423, *t*-value of -4.400, and *p*-value of less than to 0.01. Therefore, a unit increment in the real estate industry would increase the corporate tax non-compliance by 0.42 unit. The agriculture, commercial/trading, manufacturing, and service industries do not have statistically significant influence on corporate tax non-compliance. Since there are two types of industry that have a significantly causal effect on corporate tax non-compliance, a conclusion can be made that there is a significant relationship between type of industry and corporate tax non-compliance. Thus, the results confirm hypothesis H2, which states that there is a significant relationship between type of industry and tax non-compliance. However, the results also indicate that different types of industries have different causal effects on tax non-compliance. The results also prove that there is a higher incidence of corporate tax non-compliance in a specific industry.

For nationality of firms, the multiple regression results show that there is a significant positive relationship between nationality and corporate tax non-compliance. The value of the correlation coefficient is 0.615, *t*-value is 2.263, and *p*-value is 0.024 at 5% confidence interval. Since in this study, the non-multinational group (4,183 cases) making up 99.8% of the total sampling population; hence, if other predictor variables remain constant, a unit increment in this group would contribute to 0.62 unit increase in corporate tax non-compliance. Thus, these values confirm hypothesis H3, which states that there is a significant relationship between company nationality and tax non-compliance. This result is consistents with the studies of Farnsworth and Fooks (2015), Ghani et al. (2012), Hanlon et al. (2005), Otusanya (2011), Salihu et al. (2015), Yusoff (2013), and Zimmerman (1983), which concluded that there is a significant relationship between company nationality and tax non-compliance.

Five (5) types of strategies to evade tax were used for this study. For the multiple regression test, the 'other strategies' category was chosen as the base of comparison. Understatement of sales (r = 0.088, t-value = 3.322, p-value = 0.001) and overstatement of purchase (r = 0.316, t-value = 3.131, p-value = 0.002) are shown to have a significant positive relationship with corporate tax non-compliance. Unallowable expenses has a significant negative relationship with corporate tax non-compliance (r = -0.294, t-value = -6.224, p-value < 0.01). The tax incentive adjustments strategy is found to not significantly affect corporate tax non-compliance in this multiple regression model. Since the 'other strategies' was used as the basis of comparison for the strategies to evade tax, its correlation coefficient with tax non-compliance (r = -0.051) is significant at the 0.01 level. Hence, it can be concluded that 'other strategies' category is also significant. The effect of it being either positive or negative depends on the variable that it is compared with it. Overall, these findings confirm hypotheses H2, H4, H5, H6, and H8. These findings are consistent with those of previous studies such as Bagdad et al. (2017), Lai et. (2013), Md Said (2010), Mohd Nor et al., (2010), and Yusoff (2013).

The overall conclusion is that the causal relationship of corporate characteristics and strategies to evade tax with corporate tax non-compliance is statistically significant (as presented in Table 1.10). These results confirmed the hypotheses discussed and developed earlier. Thus, these determinants of corporate tax non-compliance are worthy to be examined further in future research.

Table 1.10: Summary of the Hypotheses Testing Results

No	Hypotheses	Results
H1	There is significant relationship between firm size and tax non-compliance	Accepted
H2	There is significant relationship between industry types and tax non-compliance	Mixed
H3	There is significant relationship between company nationality and tax non-compliance	Accepted
H4	There is significant relationship between understatement of sales and tax noncompliance	Accepted
H5	There is significant relationship between overstatement of purchases and tax non-compliance	Accepted
H6	There is significant relationship between unallowable expenses and tax non-compliance	Accepted
H7	There is significant relationship between tax incentive adjustment and tax non-compliance	Rejected
H8	There is significant relationship between other strategies and tax non-compliance	Accepted

5.0 CONCLUSION AND DISCUSSION

As a conclusion, the determinants of corporate tax non-compliance discussed above can be segmented according to their significant results to reveal the attributes of a company that is more likely to engage in tax non-compliance activities. The profile of this company is useful for risk assessment by tax authorities to plan mitigation actions to curb tax non-compliance activities. Table 1.11 lists the corporate tax non-compliance profile.

Table 1.11: Profile of Tax-Non-compliance Companies

Determinants	Profile
Firm size	Large firm (high turnover)
Industry types	1. Real Estate 2. Construction
Nationality	Non-Multinational company
Strategies to evade tax	1. Overstatement of purchases 2. Understatement of sales 3. Unallowable expenses 4. Other strategy

This study used real cases of corporate voluntary disclosures during the SVDP period, and from the database extracted, it has been revealed that there are more than 6,000 corporate taxpayers had reported zero tax or did not submit their tax returns previously, resulting in zero tax being charged. 55.4% of these taxpayers are located in Wilayah Persekutuan and Selangor; where the main headquarters of IRBM located. The policymakers and tax authorities should find ways to understand the cause of tax non-compliance by corporate taxpayers. 46.7% of the total sample (1,957 cases) involved understatement of sales; hence an enhanced information reporting system by third parties is crucially needed to assist this agenda.

Next, the findings of this study also act as an indicator for the tax authorities on the types of industry that are associated with tax non-compliance activities. The enforcement activities, such as tax audits and tax investigations, should be directed and focused more to companies in industries identified in this study to ensure that tax non-compliance is not repeated in the future.

With regard to types of companies, the IRBM enforcement team can focus on the non-multinational companies. These taxpayers could be among those involved in the shadow economy or cash basis business activities. Additionally, for more friendly engagement, IRBM could collaborate with business owners and put more effort to educate those non-multinational taxpayers, i.e., to organise tax education programmes. IRBM should also train their staff on the necessary skills and experience in dealing with non-multinational companies due to the size and complexity of the business operations. Competent tax auditors and tax investigation officers should be able to understand and examine their irregularities in many tax jurisdictions.

This study is also significant in providing the tax authorities with data to better understand the strategies used in avoiding tax obligations. With big data information systems being developed, it would be feasible to verify the reporting figures. The use of the latest digital technology applications would make enforcement activities easier and more accurate.

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