UNIVERSITI TEKNOLOGI MARA

DETERMINANTS OF TAX COMPLIANCE BEHAVIOUR OF MICRO-SMALL AND MEDIUM ENTERPRISES (SMEs) IN KELANTAN

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ABSTRACT

Small and Medium Enterprises (SMEs) play an essential role towards economic growth in Malaysia. SMEs face a greater risk of non-compliance due to factors such as limited financial resources, unstable revenue streams, insufficient tax expertise, and inadequate systems for maintaining records, conducting independent audits, and managing cash. This makes them more susceptible to under-reporting compared to larger businesses. Tax compliance is a significant concern for the government regarding SMEs. This study focused on psychological factors by using the expanded Theory of Planned Behaviour components as the variables, with the additional of patriotism to measure the determinants of tax compliance behaviour of the micro-SMEs in Kelantan. Taxation is not solely a matter of economic or legal rules, it is also influenced by individual and social behavior, attitudes, beliefs, and emotions. By considering psychological factors, researchers aim to understand the underlying motivations and drivers behind taxpayers' decisions to comply or evade their tax obligations. In the context of Malaysia, there is a lack of research focusing on the extended components of the Theory of Planned Behavior (TPB). The respondents comprised of 112 taxpayers who are in micro-SMEs or Sole Proprietor category. A questionnaire of 26 items was distributed through Google form (via WhatsApp application) and hardcopy distribution. The data were analysed using SPSS version 28. The results show that attitude, subjective norms, and patriotism have a significant positive relationship with tax compliance of the SMEs in Kelantan, while no significant relationship was found between perceived behavioural control and tax compliance. The results might be beneficial to Inland Revenue Board Malaysia (IRBM) in which the determinants of tax compliance can be influenced by psychological factors such as TPB elements and ought to explore methods to enhance tax incentives for small and medium-sized enterprises (SMEs) as to boost tax conformity and government revenue generation.

Keywords: Tax compliance, Theory of Planned Behaviour, Small and Medium Enterprises (SME)

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CHAPTER ONE

INTRODUCTION

1.1   Introduction

Tax is a compulsory financial charge imposed by the government on taxpayers to generate revenue for public expenditures. A tax system refers to the taxes currently in place within a country. An effective tax system should aim to balance the interests of both taxpayers and the government and should be guided by specific characteristics. Taxation is a significant contributor to the GDP, and countries should enhance their tax collection methods. Meeting the developmental needs of developing nations poses significant challenges despite the increase in tax revenues.

Tax non-compliance continues to pose a significant challenge and remains a critical issue for numerous nations across the globe, despite its crucial role and significance in fostering economic development (Agbetunde et al., 2022). Many developing countries have reported tax education on numerous tax measures, but tax collections still fall short of expectation (Inasius, 2019). For instance, tax evasion costs governments around the world around US$3.1 trillion annually (Alshirah et al., 2021). While tax evasion is a widespread problem in the poor world, it costs Africa close to US$14 billion per year (Amoh & Ali-Nakyea, 2019). These examples demonstrate that tax compliance is a global concern that warrants serious attention from tax authorities.

As per 2022 Fiscal Outlook and Federal Government Revenue Estimates by Ministry of Finance, tax collection remains the primary source of revenue for the Federal Government, accounting for 73.2% of total revenue (equivalent to 10.7% of GDP). It is projected that tax revenue will increase by 4.8% to RM161.8 billion (compared to RM154.4 billion in 2020. It is noteworthy because the money is used to pay for a wide range of government programmes and to regulate the economy and guarantee the well-being of the people of Malaysia (Mohamad et al., 2016). The funds also go towards improving infrastructure, schools, hospitals, and other public services.

Notably, the issue of tax compliance has been extensively discussed by researchers, who have proposed models to explain tax non-compliance (Alshira'h et

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