

Tax Literacy And Tax Awareness Of Salaried Individuals In Sabah And Sarawak

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Abstract

The central issue of this study is to gauge the general level of tax literacy among salaried taxpayers in Sabah and Sarawak. This study is undertaken to shed light on our preparedness to face the challenge posed by the implementation of Self Assessment System (SAS) on salaried taxpayers beginning from the year 2004 where taxpayers are expected to be functionally literate to compute their own tax liabilities accurately. For the purpose of this study, samples were randomly taken from salaried taxpayers working in the main cities in Sabah namely Sandakan, Tawau and Kota Kinabalu and Sarawak which were Kuching, Sibu, Bintulu and Miri. Statistical test using One-Way ANOVA was applied on the mean tax literacy scores by place of work. Relationships between tax literacy scores and place of work were also analyzed by using the Chi-square test of independence. Some of the findings, among others, indicated that salaried taxpayers in Sarawak were found to be more tax literate compared to their counterparts in Sabah. It was also discovered that the sector of employment is not an important factor of tax literacy. Public and corporate sector employees were found to be equally literate as indicated by insignificant difference in the mean scores of these two sectors. Overall, it could be inferred that salaried taxpayers in both states are not prepared for SAS in 2004 as reflected by a low percentage of 'very literate' category.

1.0 Introduction

In 2000, the tax authority of Malaysia made a bold move in the tax assessment system by shifting from the Official Assessment System to the Self Assessment System (SAS). The implementation of SAS is carried out in stages. It was first imposed on companies in 2001 and implemented to partnerships and individuals taxpayers in 2004. It is intended that the new system (SAS) will enhance efficiency by improving compliance, speeding up assessment process and facilitating collection of taxes. It was noted that in countries that have applied SAS, the system has managed to reduce management cost and improving efficiency by cutting down non-value adding or income producing processes (Shanmugam, 2003).

The important element of SAS is that the onus for computing tax liability lies with the taxpayers. A taxpayer is expected to be "functionally literate" to determine his own chargeable income and income tax payable and to furnish correct returns to Inland revenue Board (IRB). Calculating their own tax liability and accepting responsibility for accuracy are daunting tasks for some tax payers.

The Inland Revenue Board conduct Desk audit to verify the accuracy of the taxpayers' computation and the taxpayers need not have any qualms about it if they perceive this as an audit procedure to highlight the learning approach adopted on the taxpayers and not as a step to strike at their social status.

Thus, the central issue of this study is to gauge the general level of tax literacy and tax awareness of the salaried taxpayers who already implemented of SAS. Are the salaried individuals' taxpayers ready for such change? Are the taxpayers aware of their responsibilities under SAS? The success of this new system relies on the attitudes and willingness of taxpayers to upgrade their tax knowledge. Studies by Bardai, 1992 and Razman et al, 2000 showed that the composition of our tax-paying society who could be classified as literate is still unsatisfactory. Study by Nero and Amrizah, 2003 indicated that only 13% of the salaried individuals in Sarawak can be classified as very literate. The same study reflected that the level of awareness of salaried taxpayers on matters relevant to SAS is very low.

The prime objective of the study is to compare the general level of tax literacy among salaried individuals in Sabah and Sarawak. This study is also undertaken to explore the relationship between demographic factors of salaried individuals and tax literacy. Tax awareness on SAS and tax administration system among salaried taxpayers in the two states is also investigated.

It is hoped that this study can serve as an indicator to Inland Revenue Board (IRB) in assessing whether or not salaried taxpayers are ready for self-assessment (SAS). It may also assist IRB on matters such as tax administration and education in order to improve tax literacy among taxpayers which in turn will have bearing on enhancing voluntary compliance.

2.0 Literature Review

Tax literacy is defined as 'the ability to fill the tax form and calculate their tax liabilities independently' (see Bardai, 1992; Razman and Ariffin, 2000). In Nero and Amrizah (2003), the definition is extended to encompass knowing the meaning of some tax jargons and having basic tax knowledge on tax literacy items used in the tax return form. The latter study assumes that respondents know how to determine tax liability if they know what constitutes taxable income, deductible deductions, claimable reliefs and rebates. The above definition is quite consistent with the one provided by Pryor and Schaffer (1997) where they define general functional literacy as:

"the ability to use skills in reading, interpreting documents, and carrying out quantitative calculations in real-life situations"(p.6)

The abovementioned definition is also highlighted and strengthened by a 1962 UNESCO definition that states:

"A person is said to be functionally literate if he/she can engage in all those activities in which literacy is required for effective functioning of his/her group and community and also for enabling him/her to continue to use reading, writing and calculation for his/her own work and the community's development." (UNESCO, 1962)

Tax is one of the most sensitive issues in a taxpayer's life. To date, researchers have not been able to actually conduct a direct test on compliance among taxpayers based on the data at IRB. Most of the studies done thus far had only addressed this compliance issue from taxpayers' attitude aspect of it. The data to effectively measure tax compliance are hardly available for one particular reason that they are considered as confidential by the authority as well as the taxpayers alike. The findings from the previous studies for example, Sabri (1993), Robert et al (1994) and Kasipillai (1996), found that effect of tax knowledge on attitude towards tax compliance were positively correlated. Fallan and Eriksen (1996) and Mottiakavandar et al (2002) revealed that tax compliance was not directly related to the amount of tax knowledge.

Mottiakavandar et al (2003) asserted that the taxpayer's perception towards fairness of tax system influenced one's tax compliance, and not tax knowledge as claimed by Sabri (1993), Robert et al (1994) and Kasipillai (1996). Kasipillai and Baldry (1995), Barlow (1998) and Mustafa (1998) blamed non-compliance on ambiguity and complexities in tax laws. Mustafa (1998) listed tax law complexity as one of the major factors that influence tax behaviour. Barlow (1998) also contended that the complexities of the tax system have resulted in uncertainties of interpretation in some areas in tax that could delay or prevent commercial transactions. Many of the tax exponents do not agree that tax knowledge would be used to evade tax. According to them tax knowledge is vital so as to tap tax loop holes in order to reduce tax obligations which is legal.

Inland Revenue Board of Malaysia (IRB) has been actively taking steps to narrow down the 'communication gap' between the board and taxpayers. IRB is now following the foot-steps of developed countries in promoting the idea of 'tax education'. The main idea behind this open attitude is to make taxpayers literate and interested in taxation. The positive effect expected to be reaped from employing this strategy is to get taxpayers indirectly assisting the IRB in the assessment and collection task. In other words, it is aimed at improving voluntary tax compliance among tax-paying public. The development of tax literacy program in Malaysia is modeled after literacy programmes in developed countries. Malaysian tax literacy programmes are very much similar to programmes implemented by the Canadian Department of National Revenue (DNR). The policies contained in the IRB's annual reports (Annual Reports for 1991-1996) can be summarized as follows. They are: (i) to provide information to the taxpayers so as to improve compliance; (ii) to treat people fairly and firmly, courteously and considerately; and (iii) to gain public acceptance by providing full understanding of tax collectors' role. The motives behind those policies are: (i) to break the old secretive bureaucratic model of the past and introduce new methods of communication with taxpayers; (ii) to run IRB machinery like an organization and (iii) to convey detailed information to all taxpayers by simplifying the contents of tax laws so that it serves as a useful reference to taxpayers. In Malaysia, Inland Revenue Department (IRD) (i.e. the name of the department before it was corporatised in 1996), began promoting the 'open concept' and moved away from its 'secretive attitude' back in 1974 when the IRD first published its journal. According to reports by Bardai (1992), tax officers were invited as speakers and commentators in tax seminars organized by local universities. IRB also organized Tax Seminar themselves through Inland Revenue Officers Union (IROU). The organization of seminar was later followed by providing useful notes on how to fill tax forms in addition to some basic rules and regulations that the taxpayers need to know. These activities were then intensified by

launching Taxpayers Service Week (TPSW) in 1991 and the recent release of public rulings following the change of our taxation system from Official Assessment System to Self-Assessment System. According to annual reports published by IRB, the Taxpayers Service Week has been claimed to be a very successful endeavour in improving public understanding and awareness of their responsibilities. The hidden motive of this Taxpayers Service Week is to improve voluntary compliance among tax-paying public. Taxpayers Service Week has also been commended as a good avenue for maintaining goodwill and building up rapport with taxpayers.

3.0 Hypotheses and Research Methodology

The study attempts to highlight that there exists a significant difference in the mean level of tax literacy between the salaried individuals in Sabah and Sarawak. Place of work due to geographical factor like the remoteness of cities from one another and the rate of infra structural development taking place in each city might be one of the factors that determines the tax literacy. The study also attempts to prove that there is a significant difference in the mean level of tax literacy scores between the two groups of employment sectors. This is due to the different salaries scale of these employees. Further, the study examines whether or not demographic factor such as location of workplace contributes to the level of tax literacy and tax awareness. To measure the above objectives, the following hypotheses are formulated.

- H₁: There is a significant difference in the mean score of tax literacy among salaried individuals in Sabah and Sarawak.
- H₂: There is a significant relationship between location or workplace and mean score of tax literacy.
- H₃: There is a significant difference in the mean scores of tax literacy between public and private sector employees.
- H₄: There is a significant difference in the tax awareness (knowledge on SAS) among salaried taxpayers in Sabah and Sarawak.

3.1 Research Design

This project focuses on salaried individuals in both employment sectors i.e. corporate and public sectors in Sabah and Sarawak. Respondents comprised of those working in the cities namely, Kota Kinabalu, Sandakan, Tawau in Sabah and Kuching, Bintulu, Miri, Sibu in Sarawak. Respondents include all levels of occupational category.

The data for the study were collected via questionnaires. The total population of single group employment (SG) of the major cities in Sabah was obtained from the Public Relation Officer of Inland Revenue Board (IRB), Kota Kinabalu (see Table 3.1). On the other hand, data of SG population for the identified divisions in Sarawak was obtained from the various Section Heads of IRB, Kuching (see Table 3.2) For the total population of 77,596 in Sabah and 134,555 in Sarawak, according to Krejcie and Morgan (1970), it is sufficient to have a sample size of 400 and 500 respectively which is about 0.5% of the total population. Hence the sample size for each division as per Table 3.1 was derived based on a pro-rata basis. To ensure that the targeted number was achieved, the number of questionnaires distributed was twice the predetermined sample size. Table 3.1 and 3.2 highlight the population, sample size, number of questionnaires distributed and collected.

Table 3.1 : Distribution and Collection of Questionnaires by Cities

Division	Population	Sample Size	Questionnaires Distributed	Questionnaires Collected	
				No.	%
Kota Kinabalu	51,569*	266	400	243	91.35
Sandakan	12,428*	64	100	102	159.38
Tawau	13,599*	70	100	84	120.00
Total	77,596*	400	600	429	107.25

*Source: Public Relation Officer IRB, Kota Kinabalu

Table 3.2 : Distribution and Collection of Questionnaires by Division

Division	Population	Sample Size	Questionnaires Distributed	Questionnaires Collected	
				No.	%
Kuching	45,000*	170	340	181	106.47
Sibu	40,000*	150	300	134	89.33
Bintulu	16,741*	60	120	59	98.33
Miri	32,815*	120	240	155	129.17
Total	134,555*	500	1000	535	107.00

*Source: Section Heads in IRB

To ensure the validity and reliability of data, a full list of private companies and government offices was obtained from the Registrar of Companies and yellow pages respectively. The respondents were selected randomly from the list mentioned above. The number of questionnaires distributed to the organizations selected was based on the estimated number of employees in the organization. A minimum of five and a maximum of twenty-five sets of questionnaires were distributed to each organization. Due to fact that the population is heterogeneous in terms of occupational category and income, stratified sampling was applied. To ensure that each group is represented and to avoid bias, the questionnaires were distributed fairly and equally among all levels of occupational category.

The questionnaire was designed in two versions i.e. Bahasa Malaysia and English. The questionnaire was divided into various sections. Section A captures taxpayers' understanding of the tax terms used in the tax return form which is relevant to the computation of tax chargeable and tax payable. Section B explores the taxpayers' level of awareness with respect to responsibilities, offences and penalties and Self Assessment System. This section is measured by using three-point likert scale ranging from 'not aware at all' to 'aware'.

Section C gauges the level of taxpayers' functional literacy. This section was specifically designed to capture taxpayers' knowledge and understanding of employment income, deductibility of expenses, entitlement of relief and rebates. The respondents were required to give the correct answers on 40 items. One mark was given to correct answer and zero mark was allocated to wrong answer respectively. The results represented the dependent variable. This marking scheme was consistent with an earlier study conducted by Mottiakavandar et al (2002) where the researchers adopted the marking style of Fallan and Eriksen (1996). In both studies, three marks were given to correct answer, one mark to wrong answer and two marks assigned to 'do not know' answer.

In order to test alternate hypotheses H_1 to H_3 , functional tax literacy score of Section C from the questionnaire was categorized as dependent variable whilst the demographic details formed the independent variables. Correct responses in Section C were converted into literacy scores. The functional tax literacy level was measured by the following scale. The description of tax literacy is adopted from Nero and Amrizah, (2003).

Table 3.3 : Description of tax literacy category

Category	Scores	Description
Illiterate	24 – 49%	Individual with very poor skills, unable to understand the tax jargons/terms. Inability to follow the steps in determining chargeable income and tax payable.
Literate	50 – 74%	Average understanding of basic tax knowledge. However, they require assistance in determining tax liability.
Very literate	75 – 100%	Very much aware of tax issues. Possess high understanding of tax term and should be able to determine tax liability by themselves.

4.0 Data Analysis and Discussion of Results

To measure the internal consistency of the instrument applied, reliability analysis was performed on the major variables in the study. The reliability analysis results is shown in Table 4.1

Table 4.1 : Cronbach Alpha for the variables

Variables	No. of items	Items Deleted	Cronbach Alpha
Tax literacy	40	6	0.809
Tax awareness	12	0	0.872

From the above table, it can be seen that the coefficients for tax literacy items, tax awareness were ranged between 0.8 to 0.9 indicating their validity and reliability (George and Mallery, 2001).

4.1 Tax literacy scores

An independent-sample *t*-test was conducted to compare the tax literacy mean scores of the two groups of salaried taxpayers namely taxpayers of Sabah and Sarawak. The results of the test are shown in Table 4.2.

Table 4.2 : Mean scores of tax literacy by state

Literacy Item	State	N	Mean	Std. Dev.	F-value	Sig.
Literacy score	Sabah	429	59.23	13.63	6.11	0.014*
	Sarawak	539	61.06	12.54		

*Significant at the 0.05 level

The result in Table 4.2 reflects that the mean score of salaried taxpayers in Sarawak was higher than that of mean score of salaried individuals in Sabah. Based on the description of tax categories (Table 3.3) in average the taxpayers in both states are considered as literate.

Based on the above findings (as shown in Table 4.2) it can be inferred that the salaried taxpayers in Sarawak were found to be more literate than their counterparts in Sabah thus accepting the hypothesis H_1 that there is significant difference in the mean score of tax literacy among salaried individuals in Sabah and Sarawak.

Table 4.3 presents the mean scores of salaried taxpayers according to place of work. The analysis was ranked according to the mean scores. The results depict that the tax literacy level of salaried individuals in Bintulu was the highest whereas tax literacy level in Kuching was the lowest. The findings also reveal that the tax literacy mean scores of three cities namely Kuching, Kota Kinabalu and Tawau were below the total mean score that is 60.25. This indicates that the tax literacy status in these three cities are below average.

Table 4.3 : Mean score by place of work

Place of work	N	Mean literacy score	Std. Dev.	Ranking
Kota Kinabalu	241	57.82	13.65	6 th
Sandakan	102	62.35	11.91	3 rd
Tawau	83	59.51	14.98	5 th
Kuching	186	57.52	12.66	7 th
Sibu	136	61.38	13.41	4 th
Bintulu	63	63.92	9.67	1 st
Miri	154	63.85	11.68	2 nd
Total	965	60.25	13.06	

A One-way ANOVA test was conducted at a significant level of 0.05 on the literacy category to analyze further the above mean scores. Findings from the test (as per Table 4.4) indicates that there was a strong significant difference in the mean score of tax literacy category by the place of work. In other words there was a strong relationship between tax literacy and place of work. The mean score of tax literacy by place of work differed significantly between the cities. A multiple comparison analysis using Post Hoc Tests (Least Significant Difference (LSD)) further revealed the situation.

Table 4.4 : One-way ANOVA test of literacy level by place of work

Variable	F-value	Sig. value
Literacy level	6.380	0.000*

*Significant at the 0.01 level

Based on the evidence given, it can be inferred that the tax literacy of salaried taxpayers varies by place of work. There was a significant relationship between place of work and tax literacy thus accepting H_2 that there is a significant relationship between location or workplace and mean score of tax literacy.

Produced below are the results of a cross tabulation between tax literacy category and place of work (see Table 4.5). The comparison within divisions reveals that those literate in Kuching was 63%, Sibu, 67.2%, Bintulu, 78% and Miri, 72.9%.

Table 4.5 : Literacy Category by Place of work within Divisions

Literacy Category	Kuching		Sibu		Bintulu		Miri		Total	
	N	%	N	%	N	%	N	%	N	%
Illiterate	51	28.2	21	15.7	5	8.5	17	11.0	94	17.8
Literate	114	63.0	90	67.2	46	78.0	113	72.9	363	68.6
Very Literate	16	8.8	23	17.2	8	13.6	25	16.1	72	13.6
Total	181	100	134	100	59	100	155	4.7	529	100

It can be seen that in Table 4.6 that a quarter of salaried taxpayers in Kota Kinabalu and Tawau were classified as illiterate as their literacy scores were 49% and below. More than two-third of salaried taxpayers in Sandakan were literate. A Pearson Chi-square test revealed that there was a strong association between place of work and literacy category. It was observed that the χ^2 value was 33.77 with a Asymp. Sig. of 0.001.

Table 4.6 : Literacy Category by Place of work within Divisions

Literacy Category	Kota Kinabalu		Sandakan		Tawau		Total	
	N	%	N	%	N	%	N	%
Illiterate	60	24.9	15	14.7	21	25.3	96	22.6
Literate	151	62.7	72	70.6	49	59.0	272	63.8
Very Literate	30	12.4	15	14.7	13	15.7	58	13.6
Total	241	100	102	100	83	100	426	100

This finding also implies that different place of work may require different strategies in disseminating tax information. Some taxpayers in other divisions might just need to read tax-related materials to be literate whilst other people might need to have a combination of related printed tax materials and brief seminar on personal tax computation. More effort must, of course, be channeled to those found to be less tax literate so that they can become more literate. A more focused effort will enhance taxpayers' understanding of tax issues which will indirectly shape their perception towards tax matters.

A Pearson Chi-square test result indicated that there was insignificant relationship between tax literacy and employment sectors. The finding in Table 4.7 is consistent with the findings of Nero and Amrizah (2003), whereby tax literacy not was found to be dependent on employment sector.

Table 4.7: Chi-square test of literacy category by employment sector

Variable	χ^2 -Value	Asymp. Sig (2-sided)
Literacy category	4.796	0.091*

* Insignificant at the 0.05 level

Table 4.8 presents the mean scores of literacy for both employment sectors. It was also found that there was no significant difference between the mean scores of salaried individuals working in the government and corporate sectors. The mean of literacy scores for both employment sectors was around 60% which indicated that in general the salaried tax payers of both sectors were tax literate. Based on this analysis, it can be concluded that there was no statistical evidence to infer that tax literacy was dependent on employment sectors.

Table 4.8: Mean score by employment sector

Employment sector	Literacy score (%)	Std. Dev.
Government (N = 451)	60.92	12.38
Corporate (N = 479)	60.16	13.27
Total (N = 930)	60.53	12.85

From the tests results above it can therefore be concluded that salaried taxpayers in the government sector are as tax literate as their counterparts in the corporate sector and vice versa. It is not necessary for the taxing authority to apply different approaches to address the issue of tax illiteracy or tax literacy for these two groups of taxpayers. The results reject the hypothesis that there is a significant difference in the mean scores of tax literacy between private and public sector employees.

4.2 Tax awareness issues

The study further discusses the level of tax awareness on basic rules and regulation of tax administration system in Malaysia namely on responsibilities of a taxpayer, offences and penalties, general issues on Self Assessment System and residence status.

Table 4.9 : Tax Awareness (frequencies)

Issues	Tax awareness item	Level of awareness			
		N	Not aware (%)	Slightly aware (%)	Aware (%)
Responsibility	Completing return form	960	4.6	25.2	70.2
	Providing information	961	4.5	24.7	70.9
	Informing new address	958	7.1	18.8	74.1
Offences & Penalties	Penalty for failing to fill return form	956	8.6	22.0	69.5
	Penalty for not reporting all income	961	9.1	25.3	65.7
	Penalty for incorrect information	960	7.9	23.2	68.9
SAS	Proposal	961	22.7	37.0	40.3
	SAS for salaried individuals in 2004	956	37.3	39.7	22.9
	Responsibility under SAS	958	31.8	37.0	31.2
Residence Status	Tax based on residence status	959	35.8	38.1	26.2
	Lower rate for residents	960	40.1	37.1	22.8
	More benefits for residents	961	40.6	35.6	23.8

From the above data, it can be seen that only a small percentage of taxpayers (less than 8%) were not aware of tax responsibilities to complete return form, provide information and informing IRB if there is a change of address. Similarly, a large number of taxpayers knew of the offences and implications of the penalties if they fail to fill in return form, not reporting all income and penalties for incorrect information. IRB has successfully highlighted the offences and penal code and ruling as only less than 10% of the taxpayers in Sabah and Sarawak were not aware of this matter. Contradictory to awareness of responsibilities, offences and penalties, about 37% of the taxpayers were not at all aware that the Self Assessment System on salaried individuals has begun in 2004. About 40% of taxpayers in East Malaysia were aware of proposal

made by government to implement SAS. More effort must be made forward by IRB to introduce SAS and highlight the responsibilities under SAS as only 31.2% of taxpayers were aware of this matter.

We believe that most of the respondents were residents in Malaysia for tax purposes; however, it was sad to note that around 40% of the taxpayers did not realize that for residents' individuals the tax rate charge is lower and more benefits are available. This was an indication that a number of the individuals taxpayers were not aware of the significance of the tax benefits; hence not applying tax planning in determining their chargeable income.

An Independent-sample t test was conducted to compare the mean score of taxpayers in Sabah and Sarawak on awareness of SAS. The results showed that there was a significant difference in the mean score of the taxpayers' awareness of SAS in Sabah and Sarawak. Taxpayers in Sarawak were more aware that the government was implementing SAS to replace the official assessment system. The results are reported in Table 4.10 below.

Table 4.10 : Independent t-test : Self Assessment System

Variable	Group	N	Mean	Std. Dev.	Sig. (2-tailed)
Self Assessment System	Sabah	423	2.12	0.794	0.041*
	Sarawak	538	2.22	0.756	

*Significant at 0.05 (equal variances assumed)

Based on the findings above it can be inferred that the salaried individuals in Sarawak were more aware of the implementation of SAS by the government compared to salaried individuals in Sabah. Therefore, H4 which states that there is a significant difference in the tax awareness (knowledge on SAS) among salaried taxpayers in Sabah and Sarawak is accepted.

Independent Samples t-tests were applied to gauge whether there was significant mean difference on the level of awareness of the individual taxpayers in the different states. The results indicated that there were strong significant differences in the mean scores of five variables as revealed by Table 4.11. In all the cases the mean scores of taxpayers in Sarawak were higher than the mean scores of taxpayers in Sabah. It can be concluded from these findings that the taxpayers in Sarawak were more aware of certain tax matters and regulations as compared to taxpayers in Sabah.

Table 4.11 : Independent t-test on tax awareness

Variables	State	N	Mean	Std. Dev.	Sig. (2 tailed)
Informing new address	Sabah	424	2.61	0.646	0.009*
	Sarawak	534	2.72	0.563	
Penalty for not reporting all income	Sabah	424	2.50	0.660	0.004*
	Sarawak	537	2.62	0.644	
Penalty for incorrect information	Sabah	423	2.54	0.658	0.004*
	Sarawak	537	2.66	0.602	
Tax rate based on residence status	Sabah	423	1.85	0.783	0.042*
	Sarawak	536	1.95	0.778	

*Significant at 0.05 (equal variances assumed)

A one-way ANOVA Post Hoc Test (LSD) results revealed that there were significant differences in the mean scores of literacy tests of the taxpayers who were aware of the tax issues than the mean score of those who were slightly aware or not at all aware of the tax issues. These interesting findings (see Table 4.12 and 4.13) reflect that if a person is aware of the tax issues such as responsibilities and penalties, her or his knowledge on taxation matter is higher than those who are slightly aware or not at all aware.

Table 4.12:

Comparisons of the literacy mean score and level of awareness on SAS issues

Issues	Level of awareness		Mean Difference	Sig.
Implementation of SAS	Aware	Not at all aware	11.331*	0.000
		Slightly aware	6.851*	0.000
SAS for salaried individuals in 2004	Aware	Not at all aware	8.2261*	0.000
		Slightly aware	4.255*	0.000
Responsibility under SAS	Aware	Not at all aware	9.473*	0.000
		Slightly aware	4.914*	0.000

*The mean difference is significant at the 0.01 level

The above results explain that the taxpayers who are aware of the implementation of SAS by the government and the responsibilities thereof tend to achieve higher score in tax literacy than those with slight or complete lack of awareness.

Table 4.13 :
Comparisons of the literacy mean score and level of awareness on tax issues

Issues	Level of awareness		Mean Difference	Sig.
	Aware	Not at all aware Slightly aware		
Responsibility of completing return form	Aware	Not at all aware	12.885*	0.000
		Slightly aware	5.988*	0.000
Responsibility of providing information	Aware	Not at all aware	10.706*	0.000
		Slightly aware	5.796*	0.000
Responsibility of informing new address	Aware	Not at all aware	4.425*	0.000
		Slightly aware	5.364*	0.000
Penalty for failing to fill return form	Aware	Not at all aware	10.811*	0.000
		Slightly aware	7.799*	0.000
Penalty for not reporting all income	Aware	Not at all aware	9.657*	0.000
		Slightly aware	7.375*	0.000
Penalty for incorrect information	Aware	Not at all aware	8.967*	0.000
		Slightly aware	5.696*	0.000

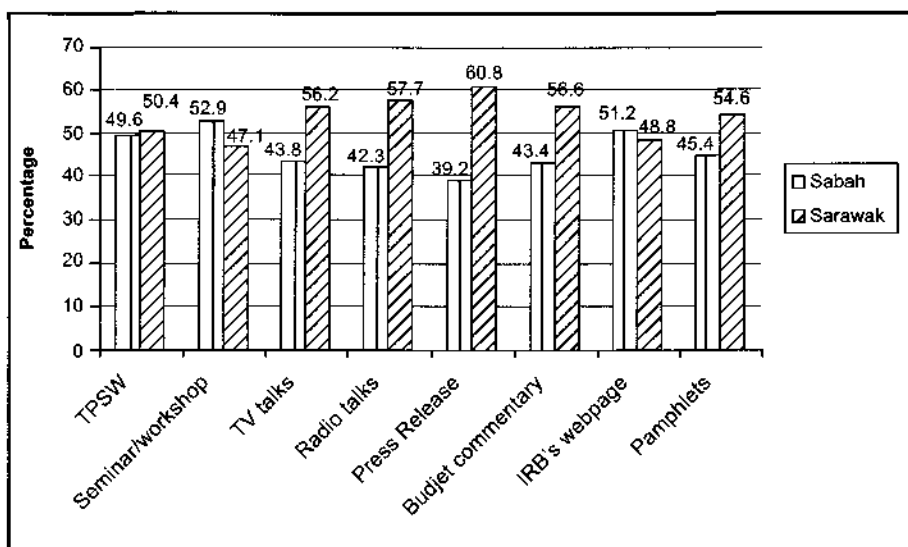
*The mean difference is significant at the 0.01 level

4.3 Utilization of tax vehicles

The study also revealed that the most popular methods used by taxpayers in updating themselves with tax information was reading pamphlets and other printed tax materials. About 68% of the respondents utilized this avenue. The next popular tax vehicle was commentary on our national budgets, followed by tv talks which accounted for 56.3% and 50.3% utilization rate respectively. The tax vehicles which were not widely used were: taxpayers' service week (49%), press release (49%), tax seminar / workshop (30.3%) radio talks (35.2%) and the least popular was IRB's webpage (28.8%).

Tax utilization by state revealed that salaried taxpayers in Sarawak outperformed their counterparts in Sabah in majority of the avenues. This observation is presented in Chart 4.1.

Chart 4.1 : Utilization of tax vehicles by state



5.0 Conclusion and recommendations

Based on the literacy scores, it can be concluded that majority of the salaried taxpayers in East Malaysia is classified as just literate. This means that the salaried income earners have an average understanding of basic tax knowledge. It can be inferred that their computation of tax liability might not be accurate. They may require assistance in determining the correct amount of tax to be paid. The salaried taxpayers in Sarawak were found to be more literate than their counterparts in Sabah. The mean literacy score of taxpayers in Sarawak were significantly higher than taxpayers in Sabah.

The literacy level of taxpayers is also indicated by the level of awareness of tax issues. It was reflected in this study that if the taxpayers were aware on the current tax issues e.g. implementation of SAS, the literacy scores were higher than those who are not at all aware or slightly aware. It can be concluded here that those who are aware of taxation issues and agreed to self-reporting are ready to take up the SAS.

The Sarawak's taxpayers were more aware of tax matters and regulations as compared to the Sabah's taxpayers. The taxpayers in Sarawak were more aware that the government was implementing SAS to replace the official assessment system. This could be one of the reasons why taxpayers in Sarawak were more literate. Furthermore in the same study, it was found that the usage of tax vehicles such as tv talks, radio talks, press release, national

budget commentary and pamphlets has been higher in Sarawak. This is also another contributing factor to higher tax literacy in Sarawak.

Overall, the majority of respondents in both of the states have been more aware on basic rules and regulations of tax administration namely responsibilities of taxpayers and offences and penalties. We are of the opinion that IRB has successfully educated the taxpayers on these matters. However, it is important to highlight that more aggressive effort must be carried out by IRB to disseminate the information on SAS as the study reveals that the awareness of this matter has been definitely low.

To address the issue of tax literacy and awareness among salaried individuals it is recommended that tax talks and workshops are to be conducted at the workplace. To ensure that most of the taxpayers will attend the talk or workshop, attendance must be made compulsory by their employers despite their busy work schedule. This is important to ensure that the tax information is disseminated to all levels of occupational categories.

Tax subject is to be introduced at upper secondary school level. The objectives are to highlight the purposes of collecting taxes, the contribution of tax revenues to the country, responsibilities of taxpayers and tax administration of SAS. Basic education on taxation is important to inculcate tax responsibilities among the people. This also may help to enhance voluntary tax compliance. Pamphlets and tax updates are to be distributed not only at workplace but also to their residential addresses to increase public awareness. In addition to the above, IRB is to provide a toll free telephone line to ensure that any query or doubt of taxpayers and employers is to be addressed efficiently and effectively.

It would provide useful insights if another study could be conducted to probe the true level of functional tax literacy of salaried taxpayers by requesting the willing taxpayers as subjects in filling the tax form with authentic data and thereby computing their own tax liability. Results from pre and post personal tax computation workshops might be interesting to know. This experimental approach might shed some insights on how to improve functional tax literacy among salaried taxpayers.

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