

VOLUME 2 NO. 2
DEC 2005

ISSN 1675-7017

SOCIAL AND MANAGEMENT RESEARCH JOURNAL



INSTITUTE OF RESEARCH, DEVELOPMENT AND COMMERCIALISATION



SOCIAL AND MANAGEMENT RESEARCH JOURNAL

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Social and Management Research Journal is jointly published by Institute of Research, Development and Commercialisation (IRDC) and University Publication Centre (UPENA), Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia.

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A Study on Taxpayers' Awareness and Confidence in Administering Self Assessment

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ABSTRACT

Most taxpayers know the differences between the Official Assessment System (OAS) and the Self Assessment System (SAS) and that for individual taxpayers; the OAS has been replaced by the SAS effective from 2004. Although most taxpayers agreed that both the taxpayers and the tax officers should be knowledgeable in assessing tax liabilities, however they felt that the IRB should be responsible for conducting the assessment as taxpayers are not confident in filling their assessments correctly. They lack confidence in understanding the tax laws and public rulings, and in keeping up to date with the frequent changes to the tax laws. Under the OAS, more taxpayers file their own tax returns as compared to under the SAS. Taxpayers are not confident that the tax authority would advise them regarding unintentionally committed errors, nor would the tax authority treat the community as honest taxpayers. They feel the laws that give IRB six years to review an assessment but only 30 days for the taxpayers to appeal against an assessment as unreasonable.

Keywords: *self assessment, confidence in tax administration*

Introduction

The income taxes of individual taxpayers in Malaysia have been assessed under the Official Assessment System (OAS) prior to the year of assessment in 2004. For these individual taxpayers, OAS was replaced by the Self Assessment System (SAS) effective from the year of assessment 2004.¹ Under the OAS,

individual taxpayers were required to report all their chargeable income and to file claims for relief, rebates and relevant deductions and the onus was on the Inland Revenue Board (IRB) to assess the amount of taxes payable. However, under the SAS, taxpayers are required to assess their own tax liabilities.

Statement of Problem

In the context of Malaysia, six problems associated with the OAS have been identified (Shanmugam, 2003), among which was that the OAS was complicated to administer.² Apparently, against the backdrop of these problems, the “IRB had to attend to a process of re-engineering, leading to the launch of the SAS” (Shanmugam, 2003, p.30). When under the OAS where trained tax officers, engaged full time in their profession, specialising in administering taxes as their vocation had found the tax system to be too complicated to administer, would the generally untrained lay taxpayers, who are not tax professionals be able to manage under the SAS?

Objectives and Scope of Study

Under the self assessment, taxpayers are expected to be able to exercise appropriate tax compliance. However, tax compliance is a function of taxpayers’ cognitive and affective attributes.³ Since one of the objectives of SAS is to enhance the rate of tax compliance (Singh and Bhupalan, 2001), the principal objective of this study is to examine the various factors that probably could lead to enhancing or impeding compliance. In this context, this study sets out to explore whether taxpayers are aware of and understand the operations of OAS and SAS as well as taxpayers’ confidence in administering self assessment and in their dealings with the tax administrators.

The scope of this study would encompass individual taxpayers who are salary and wage earners as well as the self employed and residing in, exercising their employment or engaging in their business operations in the vicinity of Melaka, Negri Sembilan, the districts of Muar and Segamat as well as in the vicinity of the Klang Valley. It is envisaged that a majority of these two categories of taxpayers would be unlikely to have used the services of tax agents.

Review of Literature

Compliance Under OAS

Under the OAS, the rates of compliance were unsatisfactory as it was reported that in the year of assessment 1991, about 25% of the 1.9 million taxpayers had

yet to submit their returns for that year (Siti, 1996). In 1997, out of a total of 2.6 million tax returns issued, the compliance rate of returns submitted was only 69.2% (Kasipillai et al, 1999). In the year 2000, of the 2.9 million tax return forms sent out by the IRB, only about 69.7% were returned (Mottiakavandar et al., 2003). Since the non compliance rates were between 25% and 30% under the OAS, these were considered as unsatisfactory.

IRB's Rationale for SAS

Apparently, due to the unsatisfactory compliance rate under the OAS, the IRB adopted SAS and cited three objectives for the adoption (LHDN, 2004).⁴ Probably the unsatisfactory compliance rates under the OAS could be due to the then existing system that was inefficient, particularly in finalizing assessments, as under the OAS, from 1990 to 1996, it was reported that approximately 20% to 30% of the annual tax returns were not finalized by the end of each of those years (Kasipillai, 1998). In addition, during the years prior to the implementation of the SAS for individual taxpayers, the IRB received 2.5 to 3.0 million returns annually but processed only about 80% of the returns (Shanmugam, 2003).

SAS: Implementation Problems

For the SAS to be successfully implemented various measures have to be undertaken, namely the work processes and procedures have to be instituted; and the need to educate taxpayers as well as IRB officers on the new system which must be consistent with policy objectives. The IRB as a whole must be committed to understand and appreciate the income generating environment encountered by taxpayers as under the SAS taxpayers are disadvantaged, because their exposure to review and possible amendment may be open ended (Shanmugam, 2003).

Drawing from the experiences in the implementation of self assessment by other tax regimes, the change from OAS to SAS had lead to changes in the ways the tax authorities operate and the way taxpayers treat their obligations. Although a self assessment regime may have its benefits, which is debatable (Baldry, 1999a), it appears to benefit the tax authorities rather than the taxpayers (Hansford and McKerchar, 2004). Besides uncertainty, tax illiteracy and burdensome documentation requirements may also deter some taxpayers from taking advantage of the legitimate deductions and credits. Thus self assessment relies on taxpayers having good understanding of the complex tax laws, while the tax authorities may profitably exploit the complexity of the tax law (Hansford and McKerchar, 2004).

It is pertinent to note that the experience in Australia revealed that the self assessment framework does not "... appear to be well understood by sections of the taxpaying community ... (and) ... the operation of self assessment is

often particularly problematic for taxpayers when they become subject to ... post assessment verification. Some taxpayers are unaware of their responsibilities for ensuring that their returns are correct and the consequences of getting it wrong" (Commonwealth of Australia, 2004, p. 72).

Tax Law Complexity, Ambiguity and Uncertainty

Under SAS, the system should presuppose that taxpayers are honest, and that most taxpayers are likely to comply. In fact, a study by Kasipillai et al. (2003) revealed that taxpayers in Malaysia agreed on the need to comply, that penalties should be imposed if returns were not filed within the stipulated period and that a majority would comply with the income tax laws. Unfortunately, the income generating activities that taxpayers encountered are complicated and unstructured and are governed by changing laws, rules, regulations and circumstances that are complex, ambiguous and uncertain. Besides, the scope of income tax is wide, and ambiguous (Inglis, 2002).

Although simplicity, certainty and clarity of the tax statutes and rules as well as consistency of administrative procedures would go a long way in achieving higher voluntary compliance rate, appropriate tax administration's policies and strategies such as those practiced in Japan (Sarker, 2003) could further enhance voluntary compliance. In this context, the Japanese tax authority adopted a three prong strategies (Hansford and McKerchar, 2004).⁵

Compliance can only be effectively realized if taxpayers are aware of and are competent to comprehend the relevant tax laws, and the tax authorities' guidelines, rulings and administrative procedures. As it is, in Malaysia, some taxpayers are found to be generally concerned about the uncertainty of the tax laws and the interpretation of IRB's rulings (Shanmugam, 2003) and are normally at a loss to comply (Nakha, 2003). In the late 1990s, Kasipillai et al (1999) found that although more than half of the individuals surveyed indicated that they were able to compute their own taxes, nearly all of them were in favour of receiving more tax instructions from the IRB as the majority indicated that the income tax laws were ambiguous and subjected to frequent changes.

The laws are too voluminous to be fully understood and often those who claimed to know the tax laws can only guess what they are (Krause, 2000). Given the presence of such complexity, ambiguity and uncertainty, expecting lay taxpayers to comprehend and to comply is like expecting them to manoeuvre through a field of land mines (Loo and Ho, 2004). Reducing the complexity of the tax laws will certainly encourage compliance, as it would make it easier for them to understand and to be complied with (Nakha, 2003). Experience in some self assessment regimes revealed that most taxpayers turned to tax agents (Hansford and McKerchar, 2004) or had to rely on others to determine their tax liabilities (Price, 1992). Some taxpayers did not fully understand the concept of self assessment (Cowdroy, 1998) and found the chores of submitting returns a complicated and time consuming process (Baldry, 1999b).

Enhancing Compliance Rate

To enhance the level of tax compliance, and the complexities of many taxpayers' affairs, the population of taxpayers to be administered with available resources, and the many and varied forms of non-compliance behaviour need to be addressed (Owens, 2005). In addition, the tax authority should acknowledge that "... it is inevitable that tensions will exist in any tax system ... (and) ... in the administrative process of drawing the line on the application of (the tax laws) to real world transactions and arrangements" (Carmody, 2003, p1). Thus a tax authority should make it as simple as possible for taxpayers to meet their tax obligations, not create unnecessary fear in the minds of law-abiding taxpayers, and give taxpayers the confidence in lodging their own returns, to sort out issues, to work out and to address them in a way that gives the community the confidence that they rightly deserve (Carmody, 1995). To enhance voluntary compliance, a tax authority should serve "... the public by administering the tax laws in a way that instils community confidence ... by better engaging the community, ... to promote community confidence in the effective operation of the ... tax system" (D'Ascenzo, 2003, p. 10).

Given the short comings encountered in other more experienced self assessment regimes in relation to the level of knowledge and confidence of taxpayers in administering self assessment, are Malaysian taxpayers prepared to exercise self assessment and are they aware of their obligations and responsibilities and those of the IRB under the newly introduced SAS?

Research Methodology

The principal objective of this research is to explore the understanding and confidence of individual taxpayers in relation to the administration of self assessment. In this context, a questionnaire survey was adopted to obtain data for the purpose of addressing the statement of problems.

Research Instrument

The research instrument consisted of a questionnaire, comprising of five sections. Section A solicited some demographic data of the respondents. Section B attempted to investigate the respondents' understanding of the operations of the OAS and SAS. Section C sought the opinions of the respondents pertaining to SAS where, respondents were requested to express their opinions based on a five-point Likert scale⁶ ranging from strongly agree to strongly disagree pertaining to managing self assessment, namely perceptions on the responsibilities of the IRB and its officers, the responsibilities of taxpayers and the treatment of the tax officers in relation to the self assessed tax returns.

Section D included factors pertaining to the respondents' confidence in handling issues related to the administration of SAS. For each factor, the respondents were requested to express their degree of confidence on a five-point Likert scale⁷ ranging from zero percent confident to 100 percent confident. Section E provided opportunities for the respondents to express their views in relation to any issue pertaining to the assessment of income tax.

Sampling

A pilot test was conducted prior to the administration of the questionnaire. A total of 1,000 questionnaires were administered.⁸ These samples were selected via convenience sampling, and the questionnaires were administered by the researchers with the assistance of research assistants. A total of 177 questionnaires were returned, but only 124 were usable.

Measurement of variables

Descriptive statistics (frequency, cross tabulation, mean and standard deviation) and co relational analysis were used. For variables pertaining to the understanding of OAS and SAS, frequency and cross tabulation were used. Variables listed in Section C and Section D were analysed using mean and standard deviation. In order to identify whether there were any significant relationships between the variables listed in Section C and in Section D, Pearson correlation was employed.

Data Analysis and Discussion

The data on the demographic variables are presented in Appendix A

Knowledge and Understanding of OAS and SAS

Overall about eight out of ten respondents knew that for individual taxpayers, OAS was practiced prior to 2004. However, less than seven out of ten knew that for individual taxpayers, SAS was implemented effective from 2004 (Table 1), while about seven out of ten knew the differences between OAS and SAS (Table 2). These findings might be implications that some taxpayers were not aware of the change from OAS to SAS.

Table 1: Results of Knowing that OAS was Practiced Prior to 2004 According to Tertiary Education

	OAS was practiced prior to 2004			SAS was practiced effective from 2004		
	Yes n(%)	No n(%)		Yes n(%)	No n(%)	
NTE *	36 (29.0)	7(5.6)	43 (34.7)	25 (20.2)	18 (14.5)	43 (34.7)
HTE **	65 (52.5)	16(12.9)	81 (65.3)	55 (44.3)	26 (21.0)	81 (65.3)
	101 (81.5)	23(18.5)	124 (100)	80 (64.5)	44 (35.5)	124 (100)

* NTE: No Tertiary Education.**HTE: Had Tertiary Education

Preparing and Filing of Returns

Under the OAS, 70.2% of the respondents prepared and filed their own tax returns while 10.5% did so together with their spouses; 12.1% had their returns prepared by their respective spouses, while only 7.3% sought the help of others. With the implementation of SAS, only 43.6% prepared and filed their own tax returns, while 25.8% did so together with their spouses and 5.6% left the responsibilities to their spouses while 25.0% sought the assistance of others (Appendix A).

For those who prepared and filed their own tax returns, when compared to such practices under the OAS, under the SAS there was a significant drop of 26.6 percentage point, or a decrease of about 38%. On the other hand, for those who sought the assistance of others under the OAS, under the SAS, there was an increase of 17.7 percentage point, or an increase of 70.9%. More worked together with their spouses in preparing and filing their SAS returns than they did for their OAS returns. It is therefore significant to note that more respondents sought the assistance of others or worked together with their spouses under the SAS as compared to the OAS returns while less managed their own preparations and filings under the SAS. These findings might be reflections of the taxpayers' lack of confidence in the management of their own tax affairs under the SAS and that under the SAS, more taxpayers needed the assistance of others and their spouses when preparing their tax returns.⁹ It is also significant to note that more taxpayers did the preparation of their tax returns together with their spouses under the SAS and under the OAS.

In relation to those who knew the differences between OAS and SAS, under the OAS, more than seven out ten prepared and filed their own tax returns while less than one out of ten sought the help of others. Meanwhile, on the preparation and filing of tax returns, out of those who knew the differences between OAS and SAS, under SAS, only one half prepared and filed their own tax returns but one quarter sought the help of others. For those who knew that

OAS for individual taxpayers was practiced prior to 2004, more than seven out of ten did their own preparation and filing of tax returns (Table 2), while those who knew that SAS for individual taxpayers was implemented effective from 2004, only five out ten prepared and filed their own tax returns (Table 3).

Table 2: Preparation of Tax Returns under the OAS

		Knew the differences between OAS and SAS			Knew OAS was practiced prior to 2004		
		Yes n(%)	No n(%)		Yes N(%)	No n(%)	
Preparation of tax Returns Under OAS	By Self	63 (50.8)	24 (19.4)	87 (70.2)	74 (59.7)	13 (10.5)	87 (70.2)
	By Spouse	7 (5.6)	8 (6.5)	15 (12.1)	10 (8.1)	5 (4.0)	15 (12.1)
	With Spouse	9 (7.3)	4 (3.2)	13 (10.5)	11 (8.9)	2 (1.6)	13 (10.5)
	With Others	7 (5.6)	2 (1.6)	9 (7.3)	6 (4.8)	3 (2.4)	9 (7.3)
		86 (69.4)	38 (30.6)	124 (100)	101 (81.5)	23 (18.5)	124 (100)

Table 3: Preparation of Tax Returns under the SAS

		Knew the differences between OAS and SAS?			Knew SAS was practiced effective from 2004?		
		Yes n(%)	No n(%)		Yes N(%)	No n(%)	
Preparation of tax Returns under SAS	By Self	43 (34.7)	11 (8.9)	54 (43.6)	41 (33.1)	13 (10.5)	54 (43.6)
	By Spouse	3 (2.4)	4 (3.2)	7 (5.6)	3 (2.4)	4 (3.2)	7 (5.6)
	With Spouse	19 (15.3)	13 (10.5)	32 (25.8)	16 (12.9)	16 (12.9)	32 (25.8)
	With Others	21 (16.9)	10 (8.1)	31 (25.0)	20 (16.1)	11 (8.9)	31 (25.0)
		86 (69.4)	38 (30.6)	124 (100)	80 (64.5)	44 (35.5)	124 (100)

Table 4: Preparation of OAS Returns & SAS Returns

Preparation of tax returns under SAS						
		By Self n (%)	By Spouse n (%)	With Spouse n (%)	With others n (%)	
Preparation	By self	50 (40.3)	1 (0.8)	18 (14.5)	18 (14.5)	87 (70.2)
Of tax	By spouse	3 (2.4)	6 (4.8)	5 (4.0)	1 (0.8)	15 (12.1)
returns	With spouse	1 (0.8)		9 (7.3)	3 (2.4)	13 (10.5)
Under OAS	With others				9 (7.3)	9 (7.3)
		54 (43.5)	7 (5.6)	32 (25.8)	31 (25.0)	124 (100)

Of the 70.2% who prepared and filed their own tax returns under the OAS, only 40.3% continued to do so under the SAS, a drop of 29.9 percentage point, or a decrease of 42.6%. Meanwhile, out of the 25.0% who sought the assistance of others when preparing and filing their tax returns under the SAS, only 7.3% did so under the OAS. Thus under the SAS, there was an increase in the number of taxpayers seeking the assistance of others (Table 4). Generally, it may be construed that under the SAS more sought the help of others or that of their respective spouses when preparing and filing their tax returns.

Knowledge and Responsibilities

Although the SAS regime has already been implemented, more than 80% still felt that that since the IRB is collecting the taxes, it should be responsible to assess the amount due and that the IRB officers should treat assessing taxpayers' tax liabilities as their responsibilities and not their burden. On the other hand, about 60% did not agree that taxpayers should be responsible to assess the taxes due although they were the ones having to pay the taxes (Table 5). A majority of 89.6% felt that the IRB officers should be more knowledgeable in assessing income taxes, while 71.7% did not agree that as lay persons, taxpayers need not necessary be knowledgeable in assessing taxes. The probable implication of these findings is the perceptions that both the taxpayers and IRB's Officers should be knowledgeable on matters pertaining to the assessment of the taxpayers' tax liabilities, but nevertheless, to lay taxpayers, assessment of one's tax liabilities was perceived as a burden and not a responsibility, which is consistent with the findings that the IRB should be responsible for assessing taxpayers' tax liabilities (Table 6).

There were positive significant co-relationships between the perceptions that taxpayers should be responsible for their own assessments and the perceptions that taxpayers need not necessary be knowledgeable on matters pertaining to taxation (significant at 0.05 level); and that self-assessment is a burden to and not a responsibility of taxpayers (significant at 0.01 level) (Appendix B). It may be construed that the respondents who disagreed that taxpayers should be responsible for self assessment also disagreed that taxpayers need not necessary be knowledgeable but still agreed that assessing one's own tax liabilities is a burden. Besides such perceptions, the respondents also agreed that the IRB should be responsible for conducting the assessment rather than the taxpayers.

Reasonable and Fair Treatment

To enhance compliance under the self assessment, taxpayers should be confident that that would not only be unduly penalized for unintentional errors, and also that they should not over comply and that the review process should be fair to all parties. In this context, 79.0% felt that taxpayers should not be treated as cheating for unintentional errors. Besides, 80.7% did not agree that in the event of over payments of taxes due to unintentional errors, no refunds should be allowed (Table 6). These could be the reflections of taxpayers' concern for having to face penalties and to pay additional taxes due to unintentional errors. Such perceptions of unfair and unjustifiable treatments would probably erode the taxpayers' confidence in the tax administration and the tax system.

Table 5: Self Assessment: Knowledge & Responsibility

		SA n (%)	A n (%)	N n (%)	D n (%)	SD n (%)	Mean	Std Dev
Since the IRB is collecting the income taxes, it should be responsible to conduct the assessments.	C1	53 (42.7)	51 (41.1)	8 (6.5)	10 (8.1)	2 (1.6)	1.85	0.971
Since a taxpayer has to pay the income taxes, he/she should be responsible to conduct his/her own assessment.	C2		7 (5.6)	25 (20.2)	17 (13.7)	54 (43.5)	21 (16.9)	3.46 1.157
Since it is their profession, IRB officers should be more knowledgeable in assessing income taxes.	C3	72 (58.1)	39 (31.5)	4 (3.2)	4 (3.2)	5 (4.0)	1.64	0.990

As lay taxpayers, they need not necessarily be knowledgeable in assessing income taxes.	C4	4 (3.2)	19 (15.3)	12 9.7	68 54.8	21 16.9	3.67	1.034
As IRB officers, having to assess income taxes is a responsibility, not a burden.	C5	76 (61.3)	33 (26.6)	6 (4.8)	5 (4.0)	4 (3.2)	1.61	0.985
As lay taxpayers, having to assess income taxes is a burden, not a responsibility.	C6	17 (13.7)	35 (28.2)	15 (12.1)	47 (37.9)	10 (8.1)	2.98	1.243

SA = Strongly Agree; A = Agree; N = Neither Agree nor Disagree; D = Disagree and SD Strongly Disagree

Table 6: Self Assessment: Reasonable & Fair Treatment

		SA n (%)	A n (%)	N n (%)	D n (%)	SD n (%)	Mean	Std Dev
If an individual makes an unintentional error resulting in under payment of taxes, he/she should not be considered as cheating.	C7	48 (38.7)	50 (40.3)	9 (7.3)	11 (8.9)	6 (4.8)	2.01	1.123
If an individual makes an unintentional error resulting in over payment of taxes, the IRB need not have to refund the excess tax paid.	C8	11 (8.9)	10 (8.1)	3 (2.4)	41 (33.1)	59 (47.6)	4.02	1.278
A taxpayer who disagreed with an assessment had the right to appeal within 30 days of submitting the return. The 30 day period allowed is not reasonable.	C9	15 (12.1)	63 (50.8)	10 (8.1)	26 (21.0)	10 (8.1)	2.62	1.180
The IRB has the right to review a tax return within 6 years of the submission of the return. The 6 year period allowed to the IRB is not reasonable	C10		8 (6.5)	33 (26.6)	21 (16.9)	35 (28.2)	27 (21.8)	3.32 1.259

SA = Strongly Agree; A = Agree; N = Neither Agree nor Disagree; D = Disagree and S D Strongly Disagree

Table 7: Confidence in Getting All Aspects of Assessment Correct

	No (%)
Definitely Yes	2 (1.6)
Probably Yes	3 (2.4)
Not Sure	34 (27.4)
Probably Not	51 (41.1)
Definitely Not	34 (27.4)
Total	124 (100)

In the event that a taxpayer disagrees with an assessment, he / she may appeal against the assessment within thirty days after the service of the notice of assessment.¹⁰ On the other hand, the IRB is given six years from the year of assessment is lodged to review the assessment. In this respect 62.9% of the respondents were of the agreement that the thirty days period allowed to taxpayers to appeal against an assessment was not reasonable (Table 6) while one half (50.0%) did not agree that the six years allowed to the IRB to review the taxpayers' returns as not reasonable. Such perceptions of "unreasonableness" could be confidence eroding factors that could subsequently give rise to perceived unfairness of the tax system and administration, and as a consequence could have negative impact on the compliance rate.

Confidence in Administering Self Assessment

In relation to the degree of confidence in correctly computing one's tax liability, less than two tenth of the respondents were 100% confident; one quarter were 75% confident and one third were 50% confident. About one quarter were 100% confident of filing their returns before the due date while about one third were 75% confident of doing so. Given the scenario that less than two tenth of the respondents were 100% confident of correctly computing their own tax liabilities and only one quarter were 100% confident of filing their returns before the due date (Table 8), these could be the contributing factors to the annual "last minute" filings by Malaysian taxpayers, factors that probably had been wrongly attributed to the unwillingness of taxpayers to avoid "last minute" filings.

The respondents were only about 50% confident of being able to understand the income tax laws, the IRB's Guidelines and to keep up to date with the frequent amendments to the income tax laws. On an average, only about two tenth and one tenth respectively were 75% and 100% confident in respect of understanding the tax laws, IRB's Guidelines and in keeping up to date with the frequent amendments. On an average, they were only about 50% confident of correctly computing their tax liabilities and that the IRB would accept their computation as correct.

At the 0.01 significant level, there were positive significant co-relationships between respondents' confidence in the correct computation of their tax liabilities and their confidence in having their tax returns being accepted as correct by the IRB. Similarly, also at the 0.01 significant level, there were positive significant co-relationships between respondents' confidence in understanding the tax laws, IRB's guidelines and in keeping up with the frequent amendments. As there are relatively strong positive co-relationships among these variables, these could be indications that taxpayers generally lacked confidence in understanding not only the tax laws and guidelines, but also lacked confidence in computing their tax liabilities (Appendix B).

Confidence in Treatments by the Tax Authority

There is a need on the part of the tax authority to understand, to acknowledge and to positively address the factors that had contributed to any unsatisfactory compliance rate. Among these factors are taxpayers' degree of confidence in managing their self assessment tax returns and their degree of confidence in the tax authority in dealing with the taxpayers' returns and other matters pertaining to assessments, payment of taxes and penalties. Generally the respondents were only about 50% confident that their tax computations would be accepted as correct and that the IRB officers would treat them as honest taxpayers.

Since self assessment should be exercised on the premise that taxpayers are honest, therefore tax officers should advise instead of penalizing taxpayers for commission of errors. In this context, any lack of confidence on the part of taxpayers pertaining to treatments by tax officers would not likely contribute towards the enhancement of voluntary compliance. It is significant to note that the respondents were less than 50% confident that should there be any unintentional error committed and resulted in the overpayment of the tax, the IRB officers would advise taxpayers to correct the errors. They were just about 50% confident that if errors were unintentionally committed, resulting in the underpayment of tax, taxpayers would not be penalized. With regards to the other treatments, the respondents were more than 50% but less than 75% confident that the IRB officers would advise them if their tax computations were wrong and that they would be treated as honest taxpayers.

Overall, the respondents lacked confidence in their capability to keep up to date with the frequent amendments to the income tax law and also lacked confidence that the IRB officers would advise taxpayers to correct computations that resulted in overpayment of taxes.

The respondents were about 53% to 55% confident that they were able to understand the income tax laws, that the IRB officers would take the self-assessed tax computation as correct and that they would not be penalized if underpayment of taxes were caused by errors that were unintentionally committed. They were about 60% confident that they were capable of correctly

computing their tax liabilities, able to understand the IRB's guidelines and rulings, that the IRB's officers would treat them as honest taxpayers and would advise taxpayers if their tax computations were wrong. The highest average degree of confidence was 65% which was in relation to the ability to complete and to submit tax returns before the due date.

Table 8: Self Assessment: Confidence in Ability to Understand and to Comply

		1	2	3	4	5		
How confident are you that:		n (%)	n (%)	n (%)	n (%)	n (%)	Mean	Std Dev
You are able to correctly compute the amount of tax that you have to pay?	D1	7 (5.6)	17 (13.7)	47 (37.9)	32 (25.8)	21 (16.9)	3.35	1.090
You are able to complete your tax return form and submit it before the due date?	D2	4 (3.2)	18 (14.5)	30 (24.2)	42 (33.9)	30 (24.2)	3.61	1.102
You are able to understand the income tax laws?	D3	7 (5.6)	25 (20.2)	46 (37.1)	29 (23.4)	17 (13.7)	3.19	1.087
You are able to understand the IRB's Guidelines and Rulings?	D4	3 (2.4)	22 (17.7)	49 (39.5)	33 (26.6)	17 (13.7)	3.31	0.999
You are capable of keeping up to date with the frequent amendments to the income tax laws?	D5	11 (8.9)	25 (20.2)	52 (41.9)	26 (21.0)	10 (8.1)	2.99	1.048

1= Zero percent confident; 2= About 25% confident; 3= About 50% confident; 4= About 75% confident and 5= 100% confident.

Table 9: Self Assessment: Confidence in the Treatment by the IRB

		1	2	3	4	5		
How confident are you that:		n (%)	n (%)	n (%)	n (%)	n (%)	Mean	Std Dev
The IRB Officers would take your tax computation to be correct?	D6	12 (9.7)	22 (17.7)	47 (37.9)	25 (20.2)	18 (14.5)	3.12	1.156
The IRB Officers would advise you if your tax computation is wrong?	D7	11 (8.9)	20 (16.1)	28 (22.6)	40 (32.3)	25 (20.2)	3.39	1.228

If you had unintentionally committed errors that resulted in over payment of tax, the IRB's Officers would advise to correct the errors?	D8	13 (10.5)	22 (17.7)	65 (52.4)	12 (9.7)	12 (9.7)	2.90	1.036
If you had unintentionally committed errors in your tax computations and resulted in under payment of tax, you will not be penalized?	D9	8 (6.5)	26 (21.0)	47 (37.9)	22 (17.7)	21 (16.9)	3.18	1.141
The IRB's Officers would treat you as an honest taxpayer?	D10	12 (9.7)	13 (10.5)	40 (32.3)	34 (27.4)	26 (20.2)	3.38	1.200

1= Zero percent confident; 2= About 25% confident; 3= About 50% confident; 4= About 75% confident and 5= 100% confident.

At the 0.01 level of significant, there were positive significant co-relationships between the confidence of being treated as honest taxpayers and of being advised of wrong computations as well as not being penalized for underpayment of tax due to unintentional errors. In view of these positive significant co-relationships and the low degree of confidence of being treated as honest taxpayers, of being advised and of not being penalized, these are general reflections of the relatively lack of confidence that taxpayers have in the treatment given by the tax officers (Appendix B).

Conclusion

Administering Self Assessment

For self assessment to be successfully implemented, taxpayers should have the capabilities and confidence to comply. It is significant to note that under the SAS, in preparing and filing tax returns, more respondents sought the assistance of others or of their spouses. These could be reflections of their lack of confidence in managing their own tax affairs under the SAS. Most taxpayers also felt that the tax authority should be responsible to conduct the assessment although they were also of the view that both the taxpayers and tax officers should be knowledgeable on matters pertaining to the assessment of taxpayers' tax liabilities. However, as lay taxpayers, having to assess one's own tax liabilities was perceived to be a burden and not a responsibility, which is consistent with the findings that the IRB should be responsible for conducting the assessments.

Most respondents felt that being allowed only thirty days from the date of filing a self assessed return to appeal against an assessment is unreasonable and unfair as compared to the IRB that is allowed a timeframe of six years to review taxpayers' assessments. Such feelings of "unreasonableness" and "unfairness" of the tax system that favours the tax authority could erode taxpayers' confidence in the tax administration and could have negative impact of the rate of voluntary compliance.

Confidence in Administering Self Assessment

The respondents expressed their lack of confidence in relation to their ability to comprehend the legal, administrative and quantitative aspects of taxation. They lacked confidence in that their tax computations would be accepted as correct by the IRB, in that the IRB officers would treat them as honest taxpayers, and in that if errors were unintentionally committed, resulting in underpayment of tax, taxpayers would not be penalized. In addition, the respondents also lacked confidence in that the IRB officers would advise taxpayers to correct the errors in the event of errors resulting in over payment of tax. These are general reflections of the relatively lack of confidence on the part of taxpayers in relation to the treatment by the IRB. Such lack of confidence would not likely contribute towards enhancing voluntary compliance.

Implications

In a self assessment regime, not only should taxpayers be capable of filing correct returns, the tax authority should administer self assessed returns fairly, that lay taxpayers should not be penalized for unintentional errors, but rather taxpayers should be advised to correct the errors regardless of whether the errors resulted in under or over payment of taxes. In the event of over payment of taxes due to errors on the part of taxpayers, the taxes over paid should be refunded. Tax officers should treat the community as honest taxpayers. In this context, taxpayers' confidence could be eroded if tax administrators work on the premise that taxpayers are not honest. Such negative mentality on the part of the tax administrators, whether rightly or wrongly perceived by taxpayers is unlikely to contribute towards higher voluntary compliance rate.

Recommendations

To enhance voluntary compliance, the tax authority needs to educate taxpayers and to develop good public relationships with the taxpaying community to gain their trust, confidence and support. The tax authority and the taxpaying

community should not view each other with mutual enmity. Any lack of cooperation and any existence and promotion of adversarial attitudes and antagonism are unlikely to contribute to the modernization of the tax administration, nor to the enhancement of voluntary compliance (Lopez, 1999). The tax authority should create an environment that encourages compliance by establishing good public relations and providing guidance and consultancy to the general taxpaying public. Besides, tax officers should exhibit a disciplined, cheerful and efficient attitude which the taxpaying community would find it easier to approach. The taxpaying community should also be encouraged and assisted to comply, as practiced in other more experienced and successful self assessment regimes (Sarker, 2003; Hansford and McKerchar, 2004).

In addition, the tax authority must be committed to understand and appreciate that lay taxpayers are not trained in tax laws and in tax accounting. Not all individual taxpayers experience similar environment in terms of derivation of taxable income, as different taxpayers have different preferences and skills that affect their knowledge and ability to comply with the tax laws as well as organizational habits and tax preparation knowledge and experience. The tax authority must therefore be approachable and must welcome queries constructively, be responsive to issues and concerns raised by taxpayers (Singh and Bhupalan, 2001), understand that each taxpayer's needs, income generating activities and business transactions are different and that a taxpayer's treatment of any activity and transaction could be different depending on the unique nature of the respective activity and transaction.

Given the complexity, ambiguity, uncertainty and frequent changes to the tax laws as well as to the changing roles of tax officers and taxpayers under the self assessment regime, there is a need to educate the taxpayers and tax officers of their responsibilities under the self assessment, to draw up administrative procedures that are consistent with policy objectives and to engage in more consultation, not only with tax practitioners, but also with the taxpaying community.

Since uninformed taxpayers may either under or over pay taxes, the tax authority has a role to inform and educate the public, providing assistance, especially to first time taxpayers and undertake to improve taxpayers' services (Barton, 2001).

Endnotes

- ¹ Prior to the year of assessment 2001, income taxes in Malaysia for all categories of taxpayers were assessed under the Official Assessment System (OAS). Effective from the year of assessment 2001, the OAS was replaced in stages with the Self Assessment System (SAS).

- ² The six problems were (1) costly and complicated to administer, as it placed a heavy burden on the IRB; (2) long delays in processing and issuing returns; (3) high dependency on taxpayers on the correctness and completeness of information submitted; (4) time restriction as assessments were statute barred; (5) weak enforcement due to lack of qualified staff and (6) back log problems and staff shortages.
- ³ Cognitive attributes are associated with the knowledge and understanding of specific subject matter, the ability to apply and execute them while affective attributes are behavioural in nature such as attitudes, intentions and perceptions (Ho et al., 2006).
- ⁴ The objectives are namely (1) to modernize and to coordinate tax administration; (2) to create a system that is more efficient and for more timely collection of tax and (3) to enhance the rate of tax compliance.
- ⁵ The three prong strategies are: (1) an acknowledgement that there should be an environment that encourages taxpayers' compliance, which includes specific communication issues such as public relations, general guidance and consultancy, (2) the need to develop self-disciplined and efficient office staff with good human relation on the basis that with a disciplined, cheerful and efficient attitude, taxpayers will find it easier to approach the tax authority, (3) it is far better that taxpayer be encouraged and assisted to comply voluntarily with the requirements of the tax system than to be forced to do so only under the threat of punishment.
- ⁶ Where 1 = strongly agree; 2 = agree; 3 = neutral; 4 = disagree and 5 = strongly disagree.
- ⁷ Where 1 = totally not confident or zero percent confident; 2 = about 25% confident; 3 = about 50% confident; 4 = about 75% confident and 5 = 100% confident.
- ⁸ Refer to para 1.2 Objective and Scope of Study.
- ⁹ Although more respondents sought the assistance of "others" in the preparations of their tax returns under the SAS, most revealed that "others" referred to either friends or colleagues. None of the respondents indicated that they sought the services of tax agents.
- ¹⁰ Section 99(1), Income Tax Act 1967

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Appendix - A

Demographic Data

Gender		Occupation		Marital Status	
	n(%)		n (%)		n (%)
Male	76 (61.3)	Wage Earners	110 (88.7)	Not Married	16 (12.9)
Female	48 (38.7)	Self Employed	14 (11.3)	Married	105 (84.7)
Total	124 (100)	Total	124 (100%)	Others	3 (2.4)
				Total	124 (100)

Age Group		Qualification (Highest)	
	n(%)		n (%)
21 – 30 yrs	20 (16.1)	SPM/STPM	43 (34.7)
31 – 40 yrs	30 (24.2)	Diploma	27 (21.7)
41 – 50 yrs	53 (42.7)	Degree	42 (33.9)
51 years & above	21 (16.9)	Others	12 (9.7)
Total	124 (100)	Total	124 (100)

Knew OAS was practiced prior to 2004		Knew SAS was practiced effective from 2004		Knew the differences between OAS and SAS	
	n(%)		n (%)		n (%)
Yes	101 (81.5)	Yes	80 (64.5)	Yes	86 (69.4)
No	23 (18.5)	No	44 (35.5%)	No	38 (30.6)
Total	124 (100)	Total	124 (100%)	Total	124 (100)

Under OAS & SAS Who Prepared Tax Returns?

Who Prepared Tax Returns?	Under OAS	Under SAS
	n(%)	n(%)
By Oneself Alone	87 (70.2)	54 (43.6)
By Spouse Alone	15 (12.1)	7 (5.6)
By Oneself Together With Spouse	13 (10.5)	32 (25.8)
By Oneself With Help Of Others (other than spouse)	9 (7.3)	31 (25.0)
Total	124 (100)	124 (100)

Appendix B

Correlation Matrix for Objectives, Knowledge and Responsibilities

	C1	C2	C3	C4	C5	C6	C7	C8	C9
C10	.107 .236	– .083 .361	.114 .207	.089 .327	.029 .746	.029 .746	– .105 .244	.152 .093	– .021 .817
C9	– .044 .628	– .047 .606	– .056 .536	– .130 .149	– .057 .527	– .209* .020	.002 .980	.114 .208	
C8	– .351** .000	– .019 .838	– .468** .000	.197* .028	– .509** .000	– .107 .236	– .096 .286		
C7	.150 .096	.010 .915	.149 .099	.002 .980	.238** .008	.134 .137			
C6	.463** .000	.390** .000	.266** .003	.357** .000	.294** .001				
C5	.625** .000	.122 .178	.713** .000	– .191* .034					
C4	.014 .878	.230* .010	– .102 .258						
C3	.643** .000	.111 .219							
C2	.266** .003								

** significant at 0.01 level; * significant at 0.05 level
(see Table 5 & Table 6 for reference)

Correlation Matrix for Confidence in IRB and Ability to comply

	D1	D2	D3	D4	D5	D6	D7	D8	D9
D10	.328** .000	.284** .001	.249** .005	.239** .008	.474** .000	.592** .000	.247** .006	.167 .065	.283** .001
D9		.316** .000	.346** .000	.300** .001	.286** .001	.375** .000	.337** .000	.386** .000	.193* .032
D8			.217* .016	.251** .005	.139 .123	.131 .146	.104 .251	.354** .000	.195* .030
D7				.251** .005	.364** .000	.224* .013	.258** .004	.312** .000	.293** .001
D6					.591** .000	.553** .000	.498** .000	.522** .000	.583** .000
D5						.565** .000	.624** .000	.608** .000	.632** .000
D4							.691** .000	.606** .000	.872 ** .000
D3								.732** .000	.592** .000
D2									.627** .000

** significant at 0.01 level; * significant at 0.05 level
(see Table 8 & Table 9 for reference)