

**UNIVERSITI TEKNOLOGI MARA**

**FACTORS AFFECTING  
COMPLIANCE WITH  
TOURISM TAX:  
EVIDENCE FROM  
MALAYSIA**

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## ABSTRACT

The issue of tax compliance has been critically discussed by the Malaysian Government and academic researchers due to the fact that the tax compliance directly affects the source of national income. Indirectly, the compliance affects the social and economic development of a country. In Malaysia, the Royal Malaysian Customs Department (RMCD) is responsible for administering and enforcing the law of indirect taxes including tourism tax. Existing actions taken are mostly related to the economic factors such as raising penalties, increasing the number of operations and inspections, adding the number of enforcement officers and claiming tax debts through court action. In order to overcome this problem, this study points out the equal importance of the agency and policy makers to view and resolve this issue through the non-economic perspectives for a number of reasons. First, the actions of a non-economic factors are more closely related to the action in which behaviour of tourism tax operators' can be controlled. Second, preventive and controlling measures of compliance can be enhanced as it saves time, energy and cost for solving the issue when it occurs. In order to understand the Malaysian tourism tax operators' compliance behaviour, the study intends to adapt the Theory of Planned Behaviour (TPB) to describe behaviour and actions taken by the compliant tourism tax operators. In addition, this study proposes tourism tax as it is a new indirect tax and already contributed to Bill of Demand (BOD) issued by the RMCD. This situation signifies a severe matter to the agency and policy makers as it potentially leads to serious leakage in the national revenue. Therefore, studying the tourism tax operators' behaviour in case of tourism tax is strongly relevant based on the belief that if the compliance issue can be gradually identified, it will offer a positive impact on the economic, social and national development. Using a quantitative research approach, survey questionnaires were distributed to 400 tourism tax operators' that registered with RMCD. Partial Least Squares (PLS) software was applied to examine the direct and mediating effect hypotheses. The results revealed that non-economic factors have a relationship with Tourism tax compliance behaviour. Moreover, Behavioural Intention (Intention to Comply) is strongly support as mediator between non-economic factor and compliance behaviour in the indirect tax except Perception of Tax Fairness has no direct relationship with compliance behaviour. The results will be useful to the Royal Malaysian Customs Department in developing proper strategy to combat noncompliance issue especially in providing advisory services and assistance programs that could help the taxpayers in improving their compliance. The study has successfully filled the gap in literature by empirically establishing the relationship between non-economic factors (Perception of Tax Fairness, Publicity and Tax Knowledge) and Tourism Tax Compliance Behaviour. The study has also contributed to the existing body of knowledge in indirect tax systems by integrating the non-economic factor with adopted Theory Planned Behaviour context into current research framework.

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# CHAPTER 1

## INTRODUCTION

### 1.1 An Overview

This chapter is organized into several sections, including the Background of the Study (1.2), Problem Statement (1.3), Research Questions (1.4), Research Objectives (1.5), Significance of the Study (1.6), and Conclusion (1.7). It provides a concise overview of tax compliance behaviour and presents a comprehensive review of Malaysia's tourism tax, highlighting its implementation, challenges, and the factors influencing taxpayer compliance.

### 1.2 Background of the Study

Many studies have examined direct tax compliance; however, indirect taxes, such as tourism taxes, have received comparatively less attention and require further analysis. In many industrialised nations, including France, Australia, and New Zealand, indirect taxes dominate revenue collection, prompting scholars to focus on their impact. Within the European Union (EU), indirect taxes are crucial for compiling national budgets and measuring economic performance in GDP and financial reports. Ernst & Young (2012) found that indirect taxes provide greater efficiency for national revenue collection and act as a "mirror" reflecting a country's overall resource utilisation. Moreover, international investors consider indirect taxation when determining investment objectives, demonstrating its influence on global economic decision-making.

In Malaysia, the Tourism Tax (TTx) Act was enacted in 2017, establishing laws and administrative procedures for imposing a flat rate of RM10 per room per night on tourists staying in registered accommodations. Operators are responsible for collecting the tax at checkout and remitting it to the Royal Malaysian Customs Department (RMCD). At the same time, day-use rooms are exempt if no overnight charge is applied. Compliance requires all operators to register with RMCD, with new operators registering within thirty days of providing accommodations. Despite being a recent introduction, the tourism tax has significant implications for revenue collection and