

The Importance of Tax Knowledge to Combat Tax Evasion

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Tax evasion or tax cheating has become common practice in many countries, creating a huge challenge for governments all around the world. This sort of financial crime could have a serious negative impact on government's revenue. As we know, tax collection represents a major contributor to the Malaysian government's revenue, which comprises more than 70% of total revenue. Tax evasion, particularly in underdeveloped nations, may have a more negative social and economic impact (OECD, 2014).

There are many factors that could influence tax evasion among individual taxpayers that can be categorised under demographic factors: age, level of income, source of income, and level of education. Older people have more time to accumulate wealth than younger ones, giving them an opportunity to avoid paying taxes. Younger individuals also try to avoid paying taxes if they believe the tax penalties or punishments will not have a significant impact on them. People are more willing to engage in tax evasion activities when they have a high level of income. They also tend to evade tax when they feel they are not treated fairly in the tax system. Self-employed people are more likely than employees to underreport their business income. They tend to organise their taxable income in order to decrease the amount of tax they must pay (Che Rosli et. al, 2018). A less educated person may not fully comprehend why paying taxes is critical to meeting social needs, leading to noncompliance with tax regulations (Saad, 2014).

The Self-Assessment System, which was introduced in Malaysia, requires individual taxpayers to declare income and claim expenses correctly on their tax return form. They must, at the very least, understand the fundamentals of tax calculation. This is critical when they must respond to the Inland Revenue Board (IRB) during a tax audit or tax investigation. So, as an individual taxpayer with an employment income, we need to submit Form BE to the IRB on or before 30 April every year. If we fail to submit the income tax return form, the Director General of IRB has the power under Section 112(1) to impose a penalty of RM200 to RM20,000 or imprisonment for a term not exceeding 6 months or both. The more serious issue is when the taxpayer wilfully intends to evade tax. Under Section 114(1), a penalty of RM1,000 to RM20,000 will be imposed or imprisonment for a term not exceeding 3 years or both, and 300% of the tax undercharged (Kwai Fatt, 2021; Inland Revenue Board of Malaysia, 2022).

To promote tax knowledge among staff, the Faculty of Accountancy UiTM Cawangan Negeri Sembilan successfully conducted a talk on tax in March 2022 with the cooperation of the IRB Seremban Branch about tax relief and how to reduce the tax payable. Almost 528 staff and students attended the online talk to get the information. It is very important to educate people to have tax knowledge in order to combat tax evasion activities. They should understand the significance of taxation in contributing to the country's development. People with more tax knowledge are best prepared to understand the tax system.

Reference

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