

UNIVERSITI TEKNOLOGI MARA

**TAX EVASION
AND FIRMS' CHARACTERISTICS
AMONGST SMES IN MALAYSIA:
THE MODERATING EFFECT OF
TAX AUDIT OFFICERS'
LEVEL OF COMPETENCE**

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ABSTRACT

This study would be able to provide important insights into the IRBM in order to enable this tax authority to improve its various policy-making decisions in relation to tax evasion practices amongst SME company taxpayers in Malaysia. This study examines the relationships between certain influential company attributes: family business ownership, company size, presence of tax professionals, company age and frequency of tax audits; to the amounts of tax evasion detected during tax audits. Investigation is also carried out to determine the moderating effect of tax audit officers' level of competence. This study anticipates that highly competent tax audit officers would be able to mitigate the relationship between the frequency of tax audits and tax evasion practices detected amongst SME company taxpayers in Malaysia. This study is grounded on four theories: economic deterrence theory, agency theory, political cost theory and competency theory. Samples have been selected using actual data within the IRBM's systems from tax audit cases closed in the years 2016 and 2017 for company taxpayers at one of the 'A category' branches of the IRBM. Analysis on the data is conducted using Ordinary Least Square regressions. This study adopts the positivist research paradigm using a hypothetico-deductive methodology to determine variables that are significant in influencing the level of tax evasion practices. The results of this study are as follows: family business ownership companies, company size and frequency of tax audits have statistically significant positive relationship with tax evasion detected during tax audits. The results also show that company age positively affect the increase of tax evasion detected, whilst there is a negative relationship between presence of tax professionals and tax evasion practices detected during tax audits. This study further reveals that level of competence of tax audit officers has a direct statistically significant positive relationship with tax evasion and finally, the moderating effect of competence level of tax audit officers has a positive and statistically significant association between frequency of tax audits conducted and tax evasion. It can be concluded that highly competent tax audit officers possessing all the great qualities such as having professional qualifications, with well-rounded experience and well trained are able to produce better quality of audit work as more tax audits are conducted. Therefore, they are indeed capable of mitigating the relationship between frequency of tax audits conducted and tax evasion detected.

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