



Economic Factors Impact on Individual Taxpayers' Tax Compliance Behaviour in Malaysia

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Abstract

Individual tax payers' tax compliance is influenced by several factors. One of the major factors, the Economic factor, is studied in this paper. Readings with similar topics emphasises that there still exists a gap in the developing countries. Malaysia is a multi-racial country with economic factors to influence on tax compliance. Some of the factors impacting are: probability of being audited, perception on government spending, perception on equity and fairness and penalty rates, which are considered to be playing an important role on individual tax compliance behaviour. The researcher used survey method of research design and targeted the individual tax payers across Malaysia as population. A sample of 419 respondents had been taken for this study, using convenient sampling method. Pearson correlation and multiple regression analysis had been employed to analyse the data. The results of the study disclose that probability of being audited, perception on government spending, penalty rate and an individual's personal financial position are the main important variables that influence individual tax payers' tax compliance behaviour in Malaysia. This paper studied economic factor variables, which finally fills the gap existed in the literature and contributes as a justification for policymakers.

Key words

Tax compliance, tax evasion, individual taxpayers, economic factors, LHDN

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1. Introduction

1.1. Background

By means of 'Taxation', governments finance their expenditures. To do so, they impose charges on the income of citizens and on the profits of corporate entities. It is obligatory that all adult, salaried employees with certain income of payment that they receive for their work, pay tax to the government as per the enactment in the constitution of the government. The system of taxation initially originated in the ancient Egyptian Kingdom. The current structure and the method of taxation has been practiced worldwide by almost all the countries, ever since it was introduced and practiced in the United States of America during World War 1, in the year 1862, for funding the war. Most countries have started to adopt the same policy of taxation for different purposes and needs. In like manner, Malaysia also does the same with its own regulations.

In Malaysia, the government executes taxation for two courses of development: providing "Economic benefits", and "Social benefits". The Government takes charge to provide economic benefits to the nation, by collecting the revenue, by allocating fund for the economy, and disbursing the earned income to the national economy. It may inject back a part of the revenue into the economy; it may launch provisions of

goods and services to the nation; or it may allocate the revenue to accomplish its objectives, as mentioned in the budget or any other government official schedules, circulars, documents, etc.

Malaysia set up its “Self-Assessment System” in the year 2004, and ever since the taxpayers have used it fully. The pre SAS system, *Official Assessment System* (OAS) and the Post SAS system are different as SAS system, entirely used by taxpayers. The “Pre-Assessment System” (OAS) is executed manually”, and whereas self-assessment systems are executed electronically. All the citizens in the country will draw their own tax payables and receivables (income tax return), and decide whether they are qualified and eligible for exemptions and reliefs or not.

1.2. Statement of Problem

Dublin (2007) recommends including the self-employed, adults in the study. There was evidence that shows that business entities get away from paying tax, while the managers of those entities themselves avoid paying their personal taxes. According to the two researchers, Modugu and Anyaduba (2015), Changes of government policies might impact the tax compliance behavior. “*For example, unlike in the United Kingdom, in Malaysia the prices of petrol and some other groceries of basic needs, such as sugar, wheat, flour, rice, cooking oil, etc. are controlled by the government and their prices are steadily on the rise, in accordance with the global economic government and financial situations*”. In the most recent study made by Chukwadi (2017) on “*Taxation*”, he suggests to the future researchers as, “*More research is needed on ‘the relation between the taxpayer and the government’, in whom a lack of evidence limits the analysis of direct policy changes*”. A very thorough reading of the literature with similar topics expresses explicitly that there still exists a gap, relating to the impact of economic factor on the individual taxpayers’ tax compliance behavior.

To support the researched gap that exists, with true examples, top headlines from the Malaysian newspapers are quoted here as evidence. The recent main news reports, delivered to the local media by Inland Revenue Board of Malaysia (LHDN), are as follows:

IRB ‘Cheated of billions’(Nokman 2017), 100% penalty from next year for income tax dodgers (Surendra 2017), Tax dodgers may be put in credit blacklist (Shah 2017), Inland Revenue warns of syndicate out to cheat tax payers (National 2017), Malaysia Tax Payers’ Responsibilities (Grewal 2019).

The general objective of this study is to examine the determining economic factor towards individual taxpayers’ tax compliance behavior in Malaysia. The following are the specific research objectives;

- To examine the association between on probability of being audited and individual taxpayer’s tax compliance behavior.
- To examine the association between perception on government spending and individual taxpayer’s tax compliance behavior.
- To examine the association between perception on equity and fairness and individual taxpayer’s tax compliance behavior.
- To examine the association between penalty rate and individual taxpayer’s tax compliance behavior.
- To examine the association between financial position and individual taxpayer’s tax compliance behavior.

2. Literature review

2.1. Individual Taxpayers and Tax System in Malaysia

The term “*Individual*” in taxation denotes a natural person (Inland Revenue Board, 2018). Individual taxpayers pay their contribution to the government in order to attain the economic equilibrium of the nation (Ahmed and Kedir 2015). The Malaysian tax paying system had been started to practice prior to 1910, and during the time of early Malay rulers (Kasipillai and Shanmugam 1995). Since then, the tax paying system has undergone a number of reforms and changes on par with the nation, which has undergone several colonization in the past. The early settlements of Malaya, which comprised Singapore, Malacca and Penang Legislative Council, introduced and later introverted a drafted bill imposing an income tax. As the people of former Malaya were not concerned with the contribution of tax to the government, a different

funding system came to substitute it in order to meet the government's expenditures. It was a failure for the Government to pass the bill again in the year 1922, due to the misconception in the minds of the people that the revenue would be for the maintenance of the war and not for the development of the nation. However, during the period of Japanese ruling (1942-1945), taxation had come under restructuring and been implemented effectively. Later in 1947, during the British ruling, a special officer known as Heasman, was appointed to deal with Malaysian Tax system. Four years after the establishment of Malaysian federation, the existing income tax paying system came into being and was made more comprehensible, after being replaced with a new law "*Income Tax Act 1967 (ITA)*".

Like other commonwealth countries, Malaysia also practices its own income tax collection under '*Official Assessment System*' (OAS), whereby, the assessment of taxpayers as well as the tax payables is carried out by the tax authority of Malaysia (LHDN). The manual preparation of 'OAS', has been transformed into a new system, called "*Self-Assessment System*", by the Prime Minister Hon. Tun Dr. Mahathir Mohamad in the year 2001, and in the year 2004 for corporate sectors and personnel respectively. Many developed and developing nations had started to adopt Self-Assessment System even before Malaysia started to adopt it. For example, the United States of America (1913), Japan (1947), Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Canada (1985), Commonwealth of Australia (1987), Ireland (1988) and the United Kingdom (1997). The SAS system offers two-way role, whereby the taxpayers have the responsibility to perform all the taxation procedures before undergoing assessment by the tax authority. Since the taxpayer is trusted and given the responsibility, the behavior of every individual taxpayer determines the level of tax compliance behavior in the country. The Malaysian Self-Assessment System has its own objectives, which are to collect the exact tax amount under an effective method, to uphold the trust and integrity of Malaysian taxpayers, and to encourage the voluntary compliance behavior. The study, conducted right after the introduction of SAS, and measured the perception of taxpayers towards the Self-Assessment System, shows that the taxpayers find more comforts with the SAS than with the OAS (Kasipillai 2004).

It is sure that the governments of countries, all around the world, place so much of deliberation on collecting taxes. However, the governments are going through hard time in collecting the taxes. Most individual taxpayers hesitate to pay taxes, and so they perform a variety of actions to cut-down their tax obligations (Ahmed and Kedir 2015). One of the main causes is the taxpayers' tax non-compliance behavior. According to McBarnett's tax determinants behavior model, tax compliance (capitulated, committed and avoidance) and non-compliance (tax evasion) are the key components of a taxpayer's behavior (Alabede, Ariffin and Idris 2011).

'*Tax compliance with the tax law*' means true and honest tax reporting with accurate calculation of liability, timely filing of return, and timely payment of amount due (Walsh 2012). '*Non-compliance of tax*' is a social destruction as it reduces the national revenue, misleads the labor market, and declines the strength of the state's stability by encouraging cheat and fraud. It is significant for the tax authorities to comprehend the motivation of the taxpayers in reducing the non-compliance rate. Tax non-compliance is viewed a violation of tax laws, and is classified into three main classes, known as crude form, manipulation, and adulteration (Kasipillai and Shanmugam 1995). Under-reporting the actual income and overstating the expenditures are crude form of non-compliances. Manipulation of figures in the accounts of the corporate sectors occurs, where they maintain duplicate or produce forged papers to reduce the payables. Money, hidden or hoarded outside the country, is one of the examples for alteration, mostly found more among the corporate sectors than among the individuals.

2.2. Probability of being audited

There exists a positive association between tax audit and tax compliance (Modugu and Anyaduba 2014) as well as tax evasion (Shanmugam 2003). Further, the studies clarify that the probability of, being audited generate an illusion to the taxpayers, creating fear of being monitored by an authority. Some other researchers find that higher rates of audits usually increase the compliance or income tax reporting, but it has not been statistically significant (Evans *et al.*, 2005).

2.3. Penalty Rate

Taxpayers mostly comply with the tax system because they have enough knowledge to realize the consequences and penalties, enforced by the authorities, once they violate the law and regulation (Mohani 2001). Therefore, both variables are found to be positive and are correlated with each other, that simply shows that the taxpayers are in fear of being penalized (Ming *et al.*, 2004; Loo *et al.*, 2010).

2.4. Perception on Equity and Fairness

Consistent with equity theory, fairness of tax system became an influential tool to determine the voluntary compliance with tax system. If the perception towards the tax system changes, that changes the compliance behaviour as well (Mohd-Hanefah 1996; Mottiakavandar *et al.*, 2003; Loo, 2006).

2.5. Perception on Government Spending

Very narrowed studies have focused attention on the perception people have towards government spending. It is a fact that people who pay additional tax to the government always have the tendency to monitor the government and its expenditures diligently, as to why the money is spent and what the money is spent for, and how it is depleted, etc. (Mohani, 2001). So far, no empirical evidence has been uncovered to justify the claim on the government's spending and tax compliance behavior.

2.6. Individual's Financial Situation

People regard the financial position of an individual as the determining factor towards Tax Compliance with the Tax System. An individual is expected to focus his/her attention more on the expenses, incurred for the fulfillment of basic needs and necessities, such as foods, clothing, shelter, etc., and then make the choice on the tax liabilities (Mohani 2001). The people, whose financial position is very poor, tend to evade tax more than those whose financial position is better. An earlier study, conducted by Vogel (1974), and Warneryd and Walelrud (1982), claims that an individual's financial position makes no impact on tax compliance, and further, the above study expresses its view that the people, regardless of their financial positions, are alike in complying with tax system. Therefore, the mixed concept from many of the study results creates an uncertain conclusion regarding financial situation towards tax compliance.

3. Methodology of research

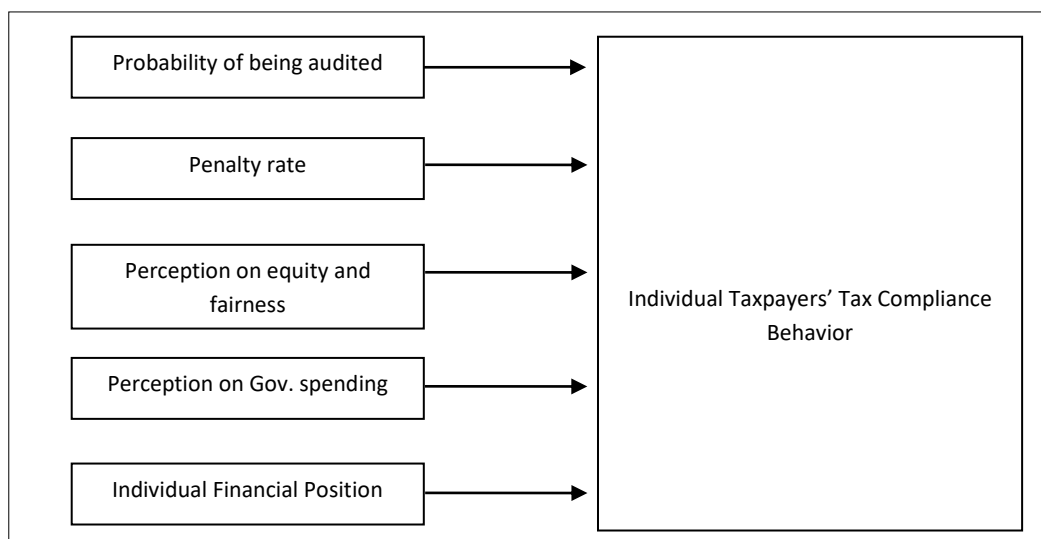


Figure 1. Conceptual Framework

H1: High probability of being audited is positively correlated with individual taxpayers' tax compliance behavior.

H2: Better perception towards government spending is positively correlated with individual taxpayers' tax compliance behavior.

H3: Better perception of equity and fairness is positively correlated with individual taxpayers' tax compliance behavior.

H4: Higher penalty rate from tax authority is positively correlated with individual taxpayers' tax compliance behavior.

H5: Better individual financial position positively correlated with individual taxpayers' tax compliance behavior.

3.1. Data Measurement

A survey will be distributed targeting individual salaried taxpayers from public, private sectors and sole proprietors across Malaysia using convenient sampling method. The population of this study is the working adult taxpayers across Malaysia. Department of Statistics Malaysia mentions that around 14 Million people are employed in across Malaysia. According to Krejcie and Morgan (1970) as well as Cohen (1969), the sample size is selected based on the table discussed under their studies. If the population is greater than seventy-five thousand, a sample size of three hundred and eighty-four (384) is reasonable.

A survey questionnaire used to collect data from the population. A questionnaire is a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. Survey questionnaires are user friendly and evoke honest response and simple to administrative (Evans *et al.*, 2005). Since a high response rate is recorded using survey questionnaire in the previous studies carried out by Loo and Ho (2005) and Junainah (2002) with 42.5% and 65% response rate respectively encouraged this studied to apply similar method. According to Elffers *et al.* (1992) self-reporting by respondents regarding their tax compliance position is the most popular method for tax evasion studies. The questionnaire will be prepared in English containing four sections. In order to make ease of the access and completion of surveys, E-survey is used as well. Generally, companies in Malaysia with large number of employees consist employees with mixed ethnicity and different level of salaries, which eliminate the bias, interrupts on selecting the low and higher amount taxpayers.

This survey was carried out during March to May 2019 in Malaysia. A total number of 2,400 E-surveys were sent to several individual taxpayers through Malaysia whose e mail addresses were pulled out from Staff Directories of every work place's official websites. Further, 100 printed questionnaires were distributed to self-employers or sole proprietors in few Cities

The opening section of the questionnaire contained demographic information such as age, gender, income level, education background, race and some other background information about the respondent's tax history and experience. Section B, comprises five different scenario typed questions associated to compliance behavior with tax system. Gerxhani (2007) and Ching (2013) justify that in order to reduce the dishonesty of respondents answers, an indirect tax related questions should be adopted in the form of scenario. Scenario based questions forms conditions where respondents are asked to make decision for one choice. Scenario based questions also based on *Choice of Dilemma Questionnaire* (CDQ) developed by researchers Kogan and Wallach (1964). CDQ are the most suitable method for gaining and produces real respondent's position, specially testing the respondents' risk taking decision. According to Kirchler (2008), tags the tax compliance behavior economic factor predictors into five such as: probability of being audited, perception towards government spending, perception of equity and fairness, penalty rate and individual's financial position.

Respondents required to answer "Yes/No" for the scenario based question pretending them on the same situation said in the scenario. Followed by respondents are required to mark the probability (from low probability to high probability) that the respondent will perform the same action said in the scenario using 5 points Likert scale. The Likert scale is designed to assess how strongly respondents agree or disagree with statements on a 5 points scale (Sekaran 2005).

To measure the questions, 40% is allocated for Yes, No questions where Yes=2 score and No=1 score. The "Yes/No" type question does not require the respondents to spend much time to establish their choice but then the probability question do require the respondents to spend few moments to derive their decision. As the Probability questions require the respondents to select their position, it is allocated with 60% where probability 1=5 score and probability 5=1 score. This percentage allocation for the questions increases the results validity.

A sample calculation for the measurement of the questions is as follows:

If a respondent answer “Yes” and tick “5” as the probability of being carry out the same action said in the scenario, he/she will be scored $(1*0.4) + (1*0.6) = 1$ score that indicate the respondent is highly non-compliance. If a respondent answer “No” and tick “1” as the probability of being carry out the same action said in the scenario, he/she will be scored $(2*0.4) + (5*0.6) = 3.8$ score that indicate the respondent is highly compliance.

3.2. Data Analysis

3.2.1 Descriptive Statistics

The descriptive analysis represents the characteristics of variables (Piaw, 2013). Ahangar *et al.* (2011); Fagbemi *et al.* (2010); McGee and Gelman (2009) were some of the researchers have previously applied the similar statistics in their studies.

3.2.2 Validity/ Reliability Test

The reliability of measure specifies the extent to which it is without bias and ensures consistent measurement across time and across the various items in the instrument. The reliability of measure is an indication of the stability and consistency (Sekaran 2000).

3.2.3 Correlation and Regression Analysis

The data also tested by using the spearman correlation analysis and multiple regression analysis using SPSS statistic software. Regression analysis to further determine the compliance behavior against social factor. The equation is estimated using the multiple regression-based framework.

$$\text{TAXCOM} = \beta + \beta_1 \text{PAUD}_i + \beta_2 \text{GOVS}_i + \beta_3 \text{EQFR}_i + \beta_4 \text{PRAT}_i + \beta_5 \text{FPOS}_i + \varepsilon \quad (1)$$

Whereas:

TaxCom is refer to Tax Compliance Score, β is refer to population coefficient, PAUD, GOVS, EQFR, PRAT and FPOS are referring to probability of being audited, Perception on government spending, perception on equity and fairness, penalty rate and financial position respectively. ε is refer to random error term.

4. Results and discussions

Programmed Google E-Surveys were sent to respondents whose e mail address was taken from their particular work place official website under the staff directory. 2,400 E-mails were sent and 100 questionnaires were distributed by hand in Kuching and nearby suburbs in Malaysia. 647 e mails were not delivered due to incomplete e mail address or non-active or the employee resigned or no more work at that office. Out of 1,853 successfully delivered e mails 319 responses along with 100 by-hand responses were received representing 22.6%.

Among the respondents, 237 are Females and 182 are males representing 57% and 43% respectively. Most of them from Malay community representing 196 (47%) followed by Chinese 84 (20%), Indians 81(19%). 14% representing others who are none of the discussed main three communities in Malaysia.

Four age groups were planned for data collection and which are set up with the age gap of 10 years in between. The majority respondents are between 31 and 40 years old representing 39% (165 respondents). The lowest respondents age group were 51 and above representing 16% (65 respondents). Also, 61% (257 respondents) of the respondents are married followed by 31% (142 respondents) singles and 5% (20 respondents) divorced or separated.

Majority respondents are followers of Islam 54% (225 respondents). In Malaysia, not only Malay community also Few Indian follow Islam who made the majority among others. Cristian and Hindu respondents represent 17% each representing 70 respondents and 71 respondents respectively. 10% (42 respondents) are followers of Buddhism and other religious which are not popularly followed in Malaysia represents 3% (11 respondents).

297 (71%) respondents hold a good academic qualification (Degree/Professional). Second largest group hold Master/PhD, 91 respondents (22%), which is higher than Degree qualification. 22 respondents (5%) reported holding Certificate/Diploma level qualification whereas only 9 respondents (2%) hold SPM/STPM qualification.

Majority respondents earn RM 5,001 and RM 7,000. The combination of respondents between RM 3,001 and RM7,000 make up 76% (317 respondents). At the same time, the combination of respondents' income level more than RM 7,001 represents 20% (82 respondents). The lowest group among other respondents is reported representing less than RM 1,000 were 5% (20 respondents). The tax chargeable income in Malaysia commence from RM 5,001 and above. Therefore, the classification of income group helped to track the number of income makers who are eligible for tax payment.

Majority of the respondents 81% (338 respondents) have never attended any tax courses and 70% of the respondents (292 respondents) have no experience of being audited by LHDN. In the meantime, 19 % of respondents (81 respondents) stated that they have attended tax courses. Moreover, 30% of the respondents (127 respondents) stated that they have experience being audited by LHDN.

4.1. Reliability Test

Table 1. Cronbach's Alpha Reliability Test

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.938	.892	5

Reliability test is conducted to make sure the internal consistency and stability of the testing variables and measure to what extent the variables in the questionnaire are biased (Hong 2005). Table 1 shows the Cronbach's Alpha score which is 0.938. According to (Eriksen and Fallen 1996) Cronbach Alpha more than 0.5000 recommends that instruments used in the questionnaire are valid and also high degree of reliability.

Table 2. Correlation between Economic Factors and Tax Compliance Behaviour

Variables	Coefficient Correlation
Probability of being Audited (PAUD)	0.648**
Perception on Gov. Spending (GOVS)	0.667**
Perception on Equity and Fairness (EQFR)	0.002
Penalty Rate (PRAT)	0.304**
Financial Position (FPOS)	0.401**
Tax Compliance (TCOMP)	1

Notes: ** Correlation is significant at the 0.01 level (2-tailed).

4.2. Correlation between Variables

According to Table 2, all variables such as probability of being audited (PAUD), perception on government spending (GOVS), penalty rate (PRAT), and individual financial position (FPOS) are significantly correlated with tax compliance (TCOMP) at 1% significant level ($p < 0.001$) except perception on equity and fairness (EQFR). Perception of equity and fairness is positively correlated but not significant ($r = 0.002$, $P < 0.001$). Therefore, probability of being audited, perception on government spending, penalty rate and financial constraint are significantly correlated with individual tax payer's tax compliance behavior.

4.3. Multiple Regression Analysis

Table 3. Correlation between Economic Factors and Tax Compliance Behaviour

Variables	Beta	Tolerance	VIF
(Constant)	0.44		
Probability of being Audited	.988	.949	1.053
Perception on Gov. Spending	1.006	.974	1.027
Perception on Equity & Fairness	.970	.991	1.009
Penalty Rate	.993	.995	1.005
Financial Position	1.009	.963	1.039

Notes: a. Dependent Variable: Tax Compliance.

According to the regression output Table 3, all the variables examined in the study are relevant since the tolerance value is more than 0.1 and the VIF (Variance Inflation Factor) factors are all below the benchmark 10. These benchmarks under statistics clarifies that there is no multi-collinearity among variables examined. Moreover, the P value of 0.0000 reveals that the model is statistically significant.

High probability of being audited has a positive ($\beta=0.988$) and significant relationship with tax compliance behavior. Thus, H1 (High probability of being audited has a positively correlated with tax compliance behavior) is accepted. According to Allingham and Sandmo (1972), taxpayers highly comply with tax system if they find the probability of being caught or detect is high. Hence, it was hypothesized that higher probability of being audited by tax authority (LHDN) is positively correlated with tax compliance behavior. The hypothesis is accepted since this research output support the relationship. The similar outcome also found in a study conducted by Slemrod *et al.* (2001), concludes that probability of being audited is an important determining factor influencing the tax compliance behavior.

Moreover, perception on government spending result also has a positive ($\beta=1.006$) and significant relationship with tax compliance behavior. Hence, H2 (Better perception on government spending is positively correlated with tax compliance behavior) is accepted. Higher income taxpayers have a careful observation towards the government spending to determine how the government utilizing their contributions. Negative perception of government spending leads to tax non-compliance and vice versa. Due to the limited empirical evidence found in the previous studies, researchers assume that taxpayers will have a tendency to avoid tax if they predict or find the government spending does not fruitful. This study accepts the hypothesis and concludes that better perception taxpayers' have towards government spending will encourage them to comply more with tax system.

Further, perception of equity and fairness ($\beta=0.970$) and significant relationship with tax compliance behavior. According to the correlation output Table 2, perception on equity and fairness is still positive but shows a weak correlation with tax compliance behavior. Therefore, H3 (Better perception of equity and fairness is positively correlated with tax compliance behavior) is partially accepted. If the taxpayer feels discrimination or other form of victimization, the possibility to evade the tax is higher (Richardson 2006). Thus it was hypothesized that equity and fairness will encourage tax compliance with tax system. This research shows a positive relationship but not significantly correlated with tax compliance behavior. The previous studies also found mix conclusion regarding the relationship between taxpayers' perception of equity and fairness and their compliance behavior. For instance, Jackson and Milliron (1986) and Spicer (1976) present different arguments by mentioning the relationship as positive and negative respectively.

High penalty rate also shows a positive ($\beta=0.993$) and significant relationship with tax compliance behavior. Therefore, H4 (High penalty rate is positively correlated with taxpayers' tax compliance behavior) is accepted. Taxpayers mostly comply with the tax system because they have the knowledge enough to realize the consequences and penalties imposed by the authorities once they violate the law and regulation (Mohani, 2001). Therefore, both variables are found positive correlated which simply shows that taxpayers are fear of being penalized (Ming *et al.*, 2004; Loo *et al.*, 2009). According to Specific deterrence theory, it emphasizes on incentives or it points out the profit maximization with minimum cost (Brooks, 2001). A rational taxpayer calculates the costs and benefits on evading taxes (Walsh, 2012; Olaoye, 2017). If the benefits outnumber the costs (probability to be penalized for non-compliance) then the taxpayers tend to

evade the tax. Hence, deterrence based theory proposes that penalties for non-compliance must be increased since tax penalty and tax compliance forms a positive relationship and vice versa (Olaoye, 2017; Chukwadi, 2018). In this model, taxpayers were put in a risk facing position due to the likelihoods of being audited by the tax authority and they were assuming as utility maximizes. According to the model, the level of tax evasion can be assessed by either the penalty rate or the probability of being caught evading increased (Yitzhaki, 1974). Further, this theory developed a relationship between the level of legal action taken place and the level of tax evasion occurs (Bhavish *et al.*, 2017). This model suggests the taxpayers to comply with the tax laws and it is based on a simple expected utility function.

Finally, individual's financial position shows a positive ($\beta=1.009$) and significant relationship with tax compliance behavior. As per the results, H5 (Better financial position is positively correlated with individual taxpayers' tax compliance behavior) is accepted. Financial obligation, which leads an individual to face financial problems, will always choose the personal payables first before the tax payables. Mohani (2001), states that individual taxpayers with financial struggles involve more on evasion intentionally than individual who could afford to resolve the tax payables. Hence, it was hypothesized that better financial position has positive correlation with tax compliance behavior and this study accepts the hypothesis. An earlier study conducted by Vogel (1972), emphasizes that the situation irrupts due to economic status than an individual personnel condition. An economic status of an individual will directly motivate to think whether comply with the tax system or not, no matter how the personal condition is. With the introduction of Self-Assessment System, some taxpayers assume that still they need to access with an advisor regarding the user friendliness of the system as well as for the computation of their compliance (Sapiei and Abdullah, 2008).

5. Conclusions

Based on the Pearson correlation output, it is clear that probability of being audited, perception on government spending, penalty rate and financial position were significantly correlated with individual taxpayers' tax compliance behavior. However, perception on equity and fairness is not significantly correlated with individual taxpayers' tax compliance behavior under the Pearson correlation output but still results positive relationship with the tax compliance behavior. Further, the above-mentioned variables also tested through multiple regression analysis output. This study evidence that the examined variables under the economic factor play an important role on influencing the individual taxpayers' tax compliance behavior in Malaysia.

The finding of this study contributes tax compliance literature by fulfilling the existing gap and clarifies the association between economic factors and individual taxpayers tax compliance behavior in Malaysia. On the basis of findings, economic factor is the most important factor to be considered in terms of tax compliance with tax system. Thus, an improvement in individual taxpayers' economic determinants will eventually encourage them to comply with the tax system. This study collected data nationwide and also tested the variables which were recommended by earlier studies. The recent news articles evidence that Malaysia still experience tax non-compliance and under reporting. Due to the limited resources it is impossible to carry out enforcement activity for Inland Revenue Board to detect the real reasons behind non-compliance. Issues related tax evasion or tax non-compliance behavior is the foundation for policy makers. Therefore, this paper fulfills the need that existed earlier to find the root cause why non-compliance is still prevails. Hence, this study identifies the most important factor, economic factor, determinants that encourage and discourage taxpayers decisions towards tax compliance with the tax system in Malaysia. This research emphasizes the strict application of higher penalty rate that leads the tax payers to comply with tax system. Further, this finding support the deterrence based theory and Allingham and Sandmo model which highlights that probability of being audited and penalty rate will enhance the tax compliance pattern. The collected findings will assist the government, specially the tax authority, during policy designing. At the end, this study has made a significant contribution to the field of taxation and specially tax compliance focusing individuals.

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