

Cognizant of The Importance of Tax Compliance Intention among Individual Taxpayers in Malaysia

Norziaton Ismail Khan¹, Siti Nurhidayah Zainul Abedin² and Zarinah Abd Rasit³

^{1,3}Faculty of Accountancy, Universiti Teknologi MARA, Cawangan Selangor, 42300 Puncak Alam, Selangor, Malaysia, ²Royal Bank of Canada, Block 3544, Persiaran Apec, 63000 Cyberjaya, Malaysia

Email: siti_nur_hidayah.zainul_abedin@rbc.com, zarinah371@uitm.edu.my

Corresponding Author Email: norzi153@uitm.edu.my

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Abstract

Previous studies on tax compliance intention by individual taxpayers have been largely empirical, with no consensus among researchers regarding the factors that influence tax compliance. The present research aims to identify the determinants that significantly affect the intention of tax compliance among individual taxpayers in Malaysia to provide valuable insights for policymakers and stakeholders. It seeks to determine the impact of five key elements: tax audit, penalty rate, tax fairness, government spending, and financial position on individual tax compliance. The theory of planned behaviour is used in tax compliance literature and has been applied to form the framework and to develop the hypotheses. A quantitative study was conducted using individual Malaysian taxpayers, and a questionnaire design was utilised to collect data via Google Forms. Out of the 384 questionnaires distributed, only 242 samples of individual taxpayers answered and were usable for this study. The researchers developed and tested five hypotheses. The results suggest that tax audits, penalty rates, and government spending positively impact an individual's intention to comply with taxes. However, tax fairness and financial position do not affect tax compliance intention. Therefore, three of the five hypotheses were proven correct and supported. The study results are helpful for the Malaysian government and tax authorities in identifying the root cause of non-compliance. Malaysia is facing significant issues related to tax non-compliance, and the tax authority is struggling to investigate the reasons behind non-compliance due to a lack of resources. Identifying the reasons behind tax non-compliance is crucial for policymakers, and this study can help pinpoint the underlying factors contributing to non-compliance.

Keywords: Tax Audit, Penalty Rate, Tax Compliance, Theory of Planned Behaviour

Introduction

Tax compliance issues have existed for over a century (Muturi & Kiarie, 2015). Governments across the globe are concerned about tax compliance, as tax revenue is crucial to addressing public needs and maintaining budgets. This concern has led to interest from the public, practitioners, academics, and government officials in understanding the factors that influence taxpayers' compliance with tax laws (Jimenez & Iyer, 2016). Given the increased responsibilities placed on governments and the global economic downturn, reducing tax evasion and improving taxpayer compliance has become a priority. Earlier research focused on identifying the factors that influence individual taxpayers' compliance, which can vary greatly. Sritharan and Salawati (2019) found that a taxpayer's level of religiosity, perception of procedural fairness, degree of trust in the government and tax authorities, level of tax expertise, and complexity all impact tax compliance. Scholars have also used various theories to understand how individual, agent, and corporate taxpayers comply with tax laws.

The importance of tax compliance intention among individual taxpayers in Malaysia is significant, as social factors play a crucial role in determining tax compliance behaviour. Research indicates that attitudes, subjective norms, fairness, tax knowledge, trust, tax complexity, and moral intensity are among the most important determinants of tax compliance (Al-Zaqeba et al., 2018). Studies have shown that introducing self-assessment positively influences compliance behaviour, especially by acquiring tax knowledge (Hayat et al., 2022). Understanding the compliance behaviour of Malaysian individual taxpayers is essential for effective tax administration and revenue collection. Research emphasises the need to review, consolidate, and integrate findings from previous studies to identify the factors influencing tax compliance (Al-Zaqeba et al., 2018). This systematic literature review underscores the complexity of tax compliance, with factors like attitude, fairness, and trust playing pivotal roles in shaping taxpayers' behaviour towards compliance.

By paying their taxes on time and correctly, taxpayers are said to conform to the tax rules and regulations (Sritharan & Salawati, 2019). Taxpayers may be held accountable for non-compliance if they fail to fulfil their primary duties, such as paying taxes (Al-Zaqeba et al., 2018). The choice of whether to pay a tax debt means tax compliance from an economic perspective (Sritharan & Salawati, 2019). Concerns regarding the amount of tax paid and disagreements between the government and the taxpayer are brought up by the low-income taxpayers' desire (Olowookere & Fasina, 2013). The nation's hope to raise tax revenue is at odds with the taxpayers' willingness to lower their tax burden. Modern tax legislation may not always be enough to address this issue, although it has specific technical restrictions (Nerre, 2008). Organising tax laws and administration is crucial because human factors matter more than their structure. If the elements influencing taxpayer behaviour are correctly understood, formal arrangements can be implemented to increase taxpayers' compliance.

Voluntary tax compliance is paying tax willingly and with a favourable attitude (Hayat Naeem et al., 2022). Many tax authorities and institutions need help with tax compliance; getting people to do so is difficult (James & Alley, 2002). The Malaysian government highlights the importance of tax as it encourages economic and social gains in the country's growing economy. The government is accountable for providing the nation with economic advantages through tax collection, allocating funds for economic development and distributing revenues equally (Sritharan & Salawati, 2019). These show how the tax system benefits the nation. The

government may spend money to accomplish its objectives, as outlined in the budget or other official government schedules, circulars, and papers, as an investment in the economy. The Malaysian tax authorities employ a self-assessment system (SAS) as one form of tax compliance (Al-Zaqeba et al., 2018). Individuals began to be subject to it in 2004; businesses began to do so in 2001. To comply with the Malaysian tax rules, people and businesses with taxable income must correctly disclose information, determine their tax obligations and file their tax returns before the due date.

To attain the appropriate level of conformity with the tax rules, the government appears to have other tax policy tools beyond the usual prescription of enforcement measures (Olowookere & Fasina, 2013). In reality, the harsher penalties included in some of these standard instruments may have the desired effect of boosting tax compliance. Thus, the government must employ various strategies to encourage compliance (Jimenez & Iyer, 2016). Unpaid taxes are subject to fines and penalties that must be paid. As a result, it becomes vital to permit tax collectors to conduct an audit, particularly if they have a reason to believe there is some tax non-compliance. For a long time, policies have focused on punishment, including tax audits and penalty rates, which have been used to describe how tax compliance works.

One of Malaysia's significant challenges in tax compliance must be overcome to achieve a high level of voluntary compliance and increase tax collection income (Sritharan & Salawati, 2019). This limitation is usually brought on by several elements, such as the penalty rate, the likelihood of an audit, tax rates, tax knowledge, attitudes, norms and justice (Thomas & Subhashree, 2020). Taxpayers typically understate their income when reporting it independently (Thomas & Subhashree, 2020). Tax-related errors among Malaysians have also been claimed to have climbed tenfold over the previous three years, from 25,160 in 2018 to 239,666 in 2021, ever since the self-assessment system was implemented (IRB, 2019). Common mistakes when filing taxes include not submitting tax returns, misreporting income, and leaving fields incomplete on the form. The government estimated inaccuracies in income reporting, which cost the country up to RM307.7 million in losses in tax revenues in 2019. Inland Revenue Board's (IRB) Annual Report also reported that from 2018 to 2021, it was forecasted that there would be an increase in audit cases because of carelessness or deliberate mistakes in tax filing (IRB, 2019).

Finding the primary factor influencing taxpayers' tax compliance has turned into a research gap for all studies about tax filing. Tax audit, for example, is just one of the few factors that significantly influence tax compliance (Sritharan & Salawati, 2019). The effectiveness of tax authority, perceptions of government spending, sense of justice or equality, modifications to government's policies, reference groups, financial limitations on an individual basis, awareness of offences and penalties, tax literacy, gender, income, age and education. Furthermore, the self-assessment system may depend on factors like tax audits; one of these factors primary functions is to boost voluntary compliance (Ayers et al., 2017). Taxpayers may be inspired to file their tax returns more carefully if audits occur frequently and meticulously. The political climate of a nation and its current government may significantly impact how people behave regarding tax evasion (Al-Zaqeba et al., 2018). More significant penalties and a greater likelihood of an audit increase the dissuasion against possible tax evasion. A taxpayer's capacity to comprehend the rules and legislation governing the tax system is closely related to their level of tax knowledge (Sritharan & Salawati, 2019).

However, studies on this topic are few, and a lack of data makes it challenging to analyse specific policy changes (Thomas & Subhashree, 2020). The taxpayers and government interact often; however, there is still a knowledge vacuum concerning how economics affects taxpayers' tax behaviour. Hence, there is a need to explore tax audits, penalty rates, tax fairness, government spending, and financial position as the five variables influencing the tax compliance intentions of individual taxpayers. The remainder of this paper is structured as follows. The following section briefly explains the theory, literature review and the development of the hypotheses. The third section describes the research design. The study results are reported in the fourth section, and the conclusions and implications are presented in the final section.

Theory, Literature Review and Hypotheses Development

Theory of Planned Behavior (TPB)

The framework of the theory of Planned Behaviour was used to examine tax compliance behaviour, and it was found that the intention to comply will determine tax compliance behaviour. Meanwhile, subjective standards, perceived behavioural control, and tax compliance attitudes will all impact the desire to comply. According to the Theory of Planned Behavior, someone with an opportunity orientation will consider attitudes, subjective norms, and perceived behavioural control while deciding whether or not to comply (Ayers et al., 2017).

Taxpayers' actions, such as their fear of tax audits and tax rates, are more closely related to an individual's actions or attitudes toward paying the tax because of the fear of receiving audit fines and IRB high penalty fines for failing to file tax at the end of the year can encourage tax compliance. Taxpayers' willingness to pay taxes is closely correlated with this emotion and frightening behaviour (Ajzen, 2020). Moreover, this is the rationale behind including planned behaviour in this study's supporting theory.

In addition to tax audits and tax rates, other factors like tax fairness also impact how taxpayers behave when it comes to paying taxes. According to Bosnjak et al (2020), if a taxpayer feels that the tax payable is unfair, it will affect the decision to comply with tax laws for that year and may even look for a tax assistant for assistance. Individual tax filing compliance may suffer as a result. In addition, the notion of planned behaviour is affected by other variables, including government spending and financial position. Because of an issue with their behaviour toward paying taxes, even a taxpayer in a robust financial situation refused to pay taxes. Being in a solid financial position but failing to comply with tax laws demonstrates a lack of accountability for taxpayers (Ayers et al., 2017). People's thoughts about government spending, such as "How is the government spending all the taxes being paid by taxpayers?" and "Is it being used for the good of the nation?" also contribute to this, and when these types of issues occur, people's attitudes regarding tax compliance shift.

It considers tax compliance and the desire to obey (Kan & Fabrigar, 2017). The citizens' faith in the government is one aspect that might operate as an interrupter or moderator (Bosnjak et al., 2020). Taxpayers' confidence in the government has a significant impact on the sustainability of the agreement between the two parties. Taxpayers may be more likely to adhere to tax rules if they can weigh the benefits of paying taxes and receiving government services on an equal footing. To comply, the taxpayer will transform their purpose into actual

behaviour (Kan & Fabrigar, 2017). One factor affecting tax compliance is trusting the taxpayer with how the tax system is implemented. If taxpayers feel the tax system is unjust, they will likely avoid paying taxes. Trust will influence tax compliance concerning the tax rate. Taxpayers' attitudes toward government trust, particularly in light of the tax system, significantly impact voluntary compliance.

Literature Review and Hypotheses Development

Tax Audit

Audits, according to specific research, can reduce tax evasion. These results imply that tax audits can play a crucial role in self-assessment systems and that their purpose is to enhance voluntary compliance (Yunus & Ramli, 2017). Tax audits have been explored in numerous ways in connection to tax compliance. According to Al-Zaqeba et al (2018), studies have suggested that audits benefit tax evasion. According to these findings, tax audits might be crucial in self-assessment systems, and their main objective is to boost voluntary compliance. According to Kiow et al (2017), the frequency and completeness of audits may persuade taxpayers to be more careful when filing their tax returns, disclose all of their income, and make the correct deductions to determine their tax burden. However, taxpayers who have never had their records audited can feel pressured to understate their actual income and make bogus deduction claims. Tax audits have been shown to transform compliance behaviour from bad to positive (Thomas & Subhashree, 2020); the investigations by Kafela (2011) also strengthened these findings.

Witte and Woodbury (1985) discovered that tax audits play a big part in tax compliance in their research of small business owners. They left the opportunity for further investigation by not conducting empirical tests on specific taxpayers. However, Thomas and Subhashree (2020) found a conflicting result. For all the categories they looked at, they claimed that audits had no discernible relationship with evasion. Audits have been proven more successful at persuading taxpayers to overstate their deductions than accurately declaring their income (Thomas & Subhashree, 2020).

Therefore, many taxpayers will try harder to maintain accurate records as audit probes increase. According to the aforementioned, tax audits have proven to be a significant factor in enhancing voluntary compliance by prior research. According to Yunus and Ramli (2017), taxpayers may be persuaded to complete their tax returns more prudently if they know the frequency and depth of audits. Based on the arguments, the following hypothesis is developed.

H1: There is a significant positive relationship between tax audit and tax compliance intention among Malaysian individual taxpayers.

Penalty Rate

Tax compliance is influenced by penalties and the likelihood of an audit (Sritharan & Salawati, 2019). The possibility of tax evasion being discouraged increases with the severity of the penalty and audit probability. Taxpayers' propensity to avoid taxes may be decreased if they are informed of the crimes they are committing and the penalties for doing so.

Thomas and Subhashree's (2020) theoretical economic model unequivocally shows that fines affect tax compliance. The likelihood of tax evasion being discouraged increases with the

severity of the penalty and audit probability. Although fines and audit likelihood are challenging to depict in compliance models since the outcomes are driven endogenously by tax evasions, more complicated models like principal-agent theory and game theory imply otherwise (Sritharan & Salawati, 2019).

To overcome endogeneity, the enforcement environment must be intentionally controlled using laboratory experiment techniques. In their studies, Yunus and Ramli (2017) proved this claim by demonstrating that penalty rates impact tax compliance in line with their theoretical predictions. An experimental strategy does, however, constrict the environment to a limited perspective in contrast to the real world. According to Thomas and Subhashree (2020), an experimental approach should only be used for research that can benefit from a high level of experimental organisation and control.

However, an experimental strategy for a tax compliance study can demonstrate a lesser effect or influence than for direct observation (Sritharan & Salawati, 2019). Yunus and Ramli (2017) also discovered that penalty rates are negatively related to evasion. However, Thomas and Subhashree (2020) reported the exact opposite data, showing that penalty rates positively correlated with evasion, proving that higher rates motivated individuals to cheat. Hence, the following hypothesis is developed.

H2: *There is a significant positive relationship between penalty rate and tax compliance intention among Malaysian individual taxpayers.*

Tax Fairness

One of the central tenets of the design of the taxation system is equity or fairness, which can be seen in three different ways: horizontal equity (people in the same income or wealth brackets should pay the same amount of taxes), vertical equity (taxes paid rise in proportion to the size of the tax base), and exchange equity (Abd Hamid et al., 2019). The likelihood of tax evasion is also impacted by how fair the tax system is practised.

If it is believed that the "rich" pay less in taxes than the "less wealthy," for example, the tax system may be viewed as unjust. Fairness is identified as a characteristic of tax compliance by Abd Hamid et al (2019) using a factor analysis of 56 attitude measures. Thomas and Subhashree (2020) also discovered that the most critical factors affecting taxpayers' judgments of a fair tax system were their needs and financial means.

Generally, tax fairness may be defined as the capacity of a public policy to effectively balance taxation goals with those of the economy and society while ensuring that tax costs are dispersed equitably throughout society (Galle, 2008). The tax system's ability to be fair is one of its most essential qualities. Fair taxation is the imposition of a tax on a taxpayer in a manner commensurate with their ability to pay (Lymer & Oats, 2009). Taxpayers believe the current tax system is unfair, and scholars like Alm et al (1993) contend that doing so is illegal. The equity of the tax system has developed into a critical factor in deciding voluntary tax compliance. Compliance behaviours change as the public's perception of the tax system changes (Mottiakavandar et al., 2003).

Although there is not enough information to draw a firm conclusion about how views of fairness affect tax evasion, this is nevertheless a crucial point that cannot be disregarded (Abd Hamid et al., 2019). Fairness has long been recognised as a necessary component of a successful tax system. The goal of tax changes, for example, is often to make the tax system more equitable. The public's perceptions of tax fairness and attitudes toward tax compliance should thus be improved by the tax policymakers' use of various tactics. Therefore, this study developed the hypothesis.

H3: *There is a significant positive relationship between tax fairness and tax compliance intention among Malaysian individual taxpayers.*

Government Spending

Taxpayers will be interested in how their money is spent by the government, especially those who pay high taxes (Abd Hamid et al., 2019). There is a good chance that voluntary compliance will rise if the government correctly allocates national money, for instance, to essential services like public transit, health and safety, and education (Sritharan & Salawati, 2019). On the other hand, if taxpayers believe that the government is spending excessive money on something they believe to be unimportant or unhelpful, they may feel misled and try to avoid paying their fair share of taxes.

Subhashree (2020) points out that there is relatively little research on the connection between the specifics of actual government spending and tax compliance, notably on tax evasion. They understand that taxpayers will be interested in how their money is used by the government, particularly those who pay high taxes. Even if the data is small, it is logical to anticipate that people will avoid taxes if they believe the government inefficiently uses tax money.

Abd Hamid et al (2019) advise that attitudes should be investigated to determine the extent of myths and misinformation. They said that attitudes about taxes would alter even if the tax code and the taxpayers' fundamental ideologies and beliefs stayed the same and myths and misconceptions were replaced with information. Additionally, they asserted that misunderstanding is a significant factor in how fairness judgements are formed. Sritharan and Salawati (2019) share this opinion, and they both make the case that one's attitude toward tax evasion (tax ethics) and the tax evasion of others is crucial.

There is a good chance that voluntary compliance will rise if the government correctly allocates national resources, for instance, to essential services like public transit, health and safety, and education (Sritharan & Salawati, 2019). Contrarily, if taxpayers believe that the government is overspending on something they deem unimportant or unhelpful, they may feel misled and try to avoid paying their fair share of taxes. The government should responsibly use taxpayer funds to ensure that the taxpayers receive the greatest return on their contributions to the public coffers. Based on the arguments, the following hypothesis is developed.

H4: *There is a significant positive relationship between government spending and tax compliance intention among Malaysian individual taxpayers.*

Financial Position

Personal financial position is thought to affect tax evasion, as the financial position experienced by an individual may encourage him to prioritise what must be paid first, such as basic survival needs like food, clothing, or housing, or where immediate demand on a limited income is enforced, for example, by the perceived threat of action from money lenders rather than tax liabilities (Sritharan & Salawati, 2019). Compared to those not experiencing financial hardship, those facing personal financial issues are more inclined to conceal taxes.

Other research has suggested that the link between people's dedication and performance is moderated by their financial position (requirement) and familial duties (Abd Hamid et al., 2019). The moderating effects of financial need on a person's behaviour have been supported empirically by a few behavioural research (Sritharan & Salawati, 2019). Abd Hamid et al (2019) research, in particular, shows that the association between commitment and performance is vital when financial circumstances regulate individual responsibility and performance. This means that a person's commitment to fulfilling their obligations, such as paying taxes, may be moderated by financial stress.

By engaging in a detailed process known as financial planning, a person may assess their present financial position and establish preparations for their future financial requirements (Thomas & Subhashree, 2020). Ultimately, a sound financial strategy will result in the desired results. The efficacy of a financial plan is significantly influenced by an individual's financial knowledge and literacy. Regardless of status or income, all customers need to be financially literate, which is a broad notion that combines knowledge and behaviour. The following factors positively and directly impact financial literacy: financial education, financial attitude, parental influence, and peer group influence (Kafela, 2010).

In a society with a high percentage of family responsibility and poverty, as is the situation in certain developing nations, the implications of moderating the impact of individual financial circumstances on tax compliance and its drivers may be more apparent (Abd Hamid et al., 2019). As a result, a person's financial position may have a favourable or unfavourable impact on the link between their assessment of the effectiveness of public government and compliance behaviour. Thomas and Subhashree (2020) state that taxpayers may experience stress due to their financial position, particularly if they need to pay taxes. Similarly, Sritharan and Salawati's (2019) study demonstrates that a financial burden is one of the causes of stress for taxpayers. Hence, the following hypothesis is developed.

***H5:** There is a significant positive relationship between financial position and tax compliance intention among Malaysian individual taxpayers.*

Research Method

The Department of Statistics Malaysia reported that over 15.55 million people were working in the country in 2020 (DOSM, 2023), and the tax-chargeable income is for individuals with a salary above RM5,000 a month. Based on Sekaran's (2000) recommendation, if the population is more than 1 million, the sample size of 384 is deemed appropriate. The respondents were chosen from the target demography and reachable criteria using purposive sampling. This study uses a questionnaire survey for data collection. 384 individual taxpayers from the government, private and not-for-profit sectors in Malaysia were selected to

participate in the survey using a purposive sampling approach based on the information gathered from IRB. The participants were given a standardised questionnaire. Out of the 384, only 242 samples of individual taxpayers answered the questionnaire and were usable for this study.

A total of 41 survey questions comprise this study's questionnaire, adopted and replicated by Sritharan and Salawati (2019) to suit the current research. Section A of the questionnaire covers the questions related to the respondent's gender, age, and education level. Next, Section B covers the respondents' tax compliance questions with three answer options. Sections A and B were evaluated based on Likert Scale measurement for each question, i.e., Agree, Not Agree and Not Sure. Finally, Section C requires the respondents to respond to the economic factors leading to the tax-compliant attitude, including the following variables, i.e., tax audit, penalty rate, tax fairness, government spending and financial position. For each independent variable, one scenario and two questions based on the scenario were raised to the respondents. Respondents must respond with a "Yes" or "No" to the scenario-based question while pretending to be in the same situation as the scenario. Respondents must use a five-point Likert Scale to indicate the likelihood ranging from low to high probability that they will carry out the stated action in the scenario.

Results and Discussion

Demographic Analysis

This section examines and discusses the demographic background of the respondents. The researcher selected the respondents according to certain specific criteria mainly because these affect the taxpayer's intention to comply with taxes. The findings of the demographic analysis are as follows.

In the study, 242 taxpayers participated, and Table 1 displays the frequency of males and females among them. Out of the total, 122 respondents or 50.4%, were male, while 120 respondents or 49.6%, were female.

Table 1

Respondent's Gender

	Frequency	Per cent
Male	122	50.4
Female	120	49.6
Total	242	100

Table 2 displays the frequency of respondents' ages according to the survey. The data indicates that 89 respondents, or 36.78%, are between 20 and 30 years old, while 108 respondents, or 44.63%, are between 31 and 40 years old. Additionally, 30 respondents, or 12.40%, fall within the 41-50 age range, while 15, or 6.19%, are between 51-60 years old.

Table 2

Respondent's Age

	Frequency	Per cent
20-30	89	36.78
31-40	108	44.63
41-50	30	12.40
51 and above	15	6.19
Total	242	100

According to Table 3, out of the 242 respondents, 36 people or 14.88%, have a Certificate/Diploma, 199 people or 82.23%, have a degree, and seven people or 2.89%, have a master's or PhD degree.

Table 3

Respondent's Education Level

	Frequency	Per cent
Certificate/Diploma	36	14.8
Degree/Professional	199	82.2
Master/PhD	7	3.0
Total	242	100.0

Descriptive Statistics

Table 4 shows the highest mean response for question 4: "I will pay the tax this year since I voted for this government". Notably, the mean response of 4.32 is significantly higher than 3.00. This indicates that the respondents strongly agree that they will pay taxes because they voted for the government. Furthermore, the average standard deviation (SD) of the response is 0.973, which suggests a remarkable level of consensus among the respondents.

Conversely, question 3 has the lowest mean response. "Serious enforcement and penalty by the IRB may result if I do not comply" had a mean response of 3.04, slightly higher than 3.00. This outcome suggests that, on average, the respondents only somewhat agree that enforcement and penalties will be imposed on taxpayers who do not comply.

Table 4

Descriptive Statistic (DV: Tax Compliance)

		Mean	Std. Deviation
1	The government spends a reasonable amount on welfare.	3.32	0.606
2	Because IRB efficiently deals with taxpayer correspondence (e.g., making refunds quickly).	4.24	0.508
3	Serious enforcement and penalties by the IRB may result if I do not comply.	3.04	0.470
4	I will pay the tax this year since I voted for this government.	4.32	0.973
5	I will pay my debts and basic needs first rather than income tax.	3.35	0.572
6	The price of basic needs keeps on increasing	3.23	0.627
7	My friends do not comply, and they have never been penalised.	3.71	0.521
8	I would not feel guilty if I avoided paying taxes since my religious belief opposes tax payment.	4.01	0.522
9	I do not think it is ethically wrong if my culture has a different opinion against tax compliance	3.88	.492
10	The probability of being detected by the tax authority for not declaring the income I received in the year 2022 is low.	3.65	.567
11	I pay about the same taxes as others, making the same income.	3.52	.593

The data in Table 5 provides information about the first independent variable, namely tax audit. T-tests are used to compare the mean scores of two questions, with two types available: the Independent-sample t-test, which compares the mean scores of two different questions, and the Paired-sample t-test, which compares mean scores for the same group of people on two different occasions. Since the scenario involves testing the same group of people on two different occasions, a Paired-sample t-test is used. The question with the highest mean score of 4.66 is "What is the probability of under-reporting and over-claiming child relief in the year assessment 2020?". Additionally, question 1, "Would the probability of being audited affect your decision to underreport and overclaim child relief?" has a mean score of 4.05, higher than 3.00. The average standard deviation of the responses is less than 1.00, at 0.470 and 0.357, indicating that the respondents' perceptions are comparable. Overall, the respondents strongly agree that tax audits play a significant role in driving intention to comply, demonstrating the importance of tax audits in encouraging tax compliance.

Table 5
Descriptive Statistic (IV: Tax Audit)

		Mean	Std. Deviation
1	Would the probability of being audited affect your decision to underreport and overclaim child relief?	4.05	0.357
2	What is the probability of under-reporting and over-claiming child relief in 2021?	4.66	0.788

"In the five years, Miss Kathy has declared her income accurately based on her actual income. However, because she has not been audited by the Inland Revenue Board (IRB) for the past five years, in the 2022 assessment, she underreported part of her casual income and overclaimed child relief in her tax return. By doing so, she saved RM 1,000 in total tax payable."

The statistics for the tax penalty, the second independent variable, are displayed in Table 6. The question "What is the probability of under-reporting commissions for the next year?" has a high mean of 4.20, indicating that they agree that the tax penalty affects taxpayers' ability to comply with the law. This suggests that taxpayers are concerned about the potential burden of higher tax penalties in the future. Additionally, the standard deviation for question 2 is less than 1.00, with a value of 0.758. This implies that the respondents' perceptions are similar to each other. The first question, "Would the penalty last year affect your decision to under-report the commission next year?" had a lower mean of 3.53. Furthermore, the average standard deviation of the responses was significantly lower than 1.00 at 0.359, indicating that the respondents' perceptions needed to be more consistent or dissimilar. Therefore, the respondents believe that the penalty from the previous year would impact their choice to under-report the commission in the following year.

Table 6
Descriptive Statistic (IV: Tax Penalty)

		Mean	Std. Deviation
1	Would the penalty last year affect your decision to under-report the commission next year?	3.53	0.359
2	What is the probability of under-reporting commissions for the next year?	4.20	0.758

"Mr Loga is a marketing officer who earns a basic salary and commissions in addition to his sales performance. Commissions are paid in cash and do not appear on payslips. He never announces his commission income in his tax return every year. His commission was RM5,000 in 2021. In a 2022 study, the IRB investigated and fined him 10% (RM500) for the underreported commission."

Table 7 highlights the descriptive statistics for the second independent variable, tax fairness. This variable is based on the responses to two questions from the researcher: "Would your decision to under-report your income be affected by your perception of equity and fairness?"

and "What is the likelihood that you would under-report your income?" The mean responses for these questions are 2.98 and 2.69, respectively. Both means are less than 3.00, indicating that neither question has the highest mean. On average, more respondents disagree that tax fairness significantly influences tax compliance. This suggests that the government's tax rate is equitable for everyone, regardless of ethnicity, religion, or other factors. The average standard deviation of the responses is between 0.981 and 0.884, meaning the respondents' perceptions are comparable. Overall, the respondents strongly disagree that tax fairness is the driving force of tax compliance.

Table 7

Descriptive Statistic (IV: Tax Fairness)

		Mean	Std. Deviation
1	Would your perception of equity and fairness affect your decision to under-report your income?	2.88	0.981
2	What is the probability that you would be under-reporting your income?	2.69	0.884

"Mrs Raihana is a schoolteacher who has been paying taxes for over a decade. Her colleague, Ms Sha, teaches in the morning but has worked at a home-based tuition centre without a valid license for almost five years and has never paid taxes on his amount because the IRB did not recognise the facility's existence. In the opinion of Mrs Raihana, Ms Sha is wealthy because of the extra tax-exempt income from the centre. Because of this situation, Mrs Raihana is considering under-declaring her earnings this year."

The statistics for the third independent variable, government spending, are shown in Table 8. The question with the highest average score of 4.46 is, "Would your perception of government spending urge you to become a dishonest taxpayer?". In other words, does the perception of government spending encourage the respondents to be unethical taxpayers? Most of the respondents agreed with the statement. Since Malaysia is diverse, tax fairness is also examined from the perspectives of ethnicity, religion, and race. This is because taxpayers want to know how the government uses their taxes. The standard deviation for questions 2 and 3 is 0.893 and 0.353, respectively, which is lower but still close to 1.00. This indicates that although respondents have different views, these views are often compared to one another.

Table 8

Shows the Descriptive Statistic (IV: Government Spending)

		Mean	Std. Deviation
1	Would your perception of government spending urge you to become a dishonest taxpayer?	4.46	0.893
2	What is the probability of maintaining your honesty?	4.23	0.353

"Mr Lee is working as a manager and has until now been a trustworthy taxpayer. He pays taxes every year. Recently, he has seen that the government spends much money on upgrading the accommodation and offices of high-ranking civil servants, buying the Prime Minister a private jet, and increasing grants for members of Parliament. Meanwhile, the

government proposes charging lower medical bills and increasing school fees.”

The statistics for the independent variable - the financial position of taxpayers as determined by the questionnaire. The mean responses for the two questions asked by the researcher are 3.02 and 3.40, which are slightly above 3.00. This shows that even high-income taxpayers still struggle to comply with tax laws due to their financial responsibilities. Additionally, the average standard deviation of the responses ranges from 0.194 to 1.235, indicating inconsistencies and differences in the respondents' perceptions.

Table 9

Descriptive Statistic (IV: Financial Position)

		Mean	Std. Deviation
1	Would the financial position affect your decision to complete a tax return inaccurately deliberately?	3.02	0.194
2	What is the probability of completing a tax return inaccurately?	3.40	1.235

“Ms Shery has an excellent salary and lives in a nice house in the town centre. The company she works for recently has been in trouble and has cut 10% of her pay. This made Ms Shery's financial situation very vulnerable. She has easily paid between RM10,000 and RM15,000 a year in income tax for five years. However, in 2022, due to a financial crisis, she had incorrectly filled out a tax return by reporting her income and applying for a child deduction to come up with RM5,000 in income tax liability. By doing this, she can compensate for the salary reduction she suffered for the whole year by tax reduction.”

Reliability and Validity Test

The reliability test evaluates the precision and consistency of items in the questionnaires and whether they can yield dependable outcomes. Meanwhile, the degree to which a test successfully captures the intended outcome is known as validity (Abd Hamid et al., 2019). For the most part, when the coefficient alpha worth equivalent to 1, is considered “complete consistency”; when the coefficient alpha worth falls in the middle of 0.80 to 0.95 is considered “generally excellent reliability”; when the coefficient alpha worth falls in the middle of 0.70 to 0.79 is considered “great reliability”; when the coefficient alpha worth falls in the middle of 0.60 to 0.69 is considered “reasonable reliability”; when the coefficient alpha worth falls under 0.59 is considered “poor reliability” (Abd Hamid et al., 2019). In this study, both Kaiser-Meyer-Olkin (KMO) and the Bartlett test of sphericity were used to assess the validity; a KMO value of 0.7 is deemed an acceptable cut-off for component analysis. According to the findings in Table 10, KMO had a range of 0.75 to 0.91, exceeding the threshold and being allowed to do factor analysis.

Table 10

Cronbach's Alpha and Bartlett Test of Sphericity Test Results

Variables	Cronbach's Alpha	KMO	Bartlett Test of Sphericity		
			x2	Diff	Sig.
Tax audit	0.754	0.80	1584.06	6	0.00
Penalty Rate	0.746				
Tax Fairness	0.931	0.80	240.33	13	-0.00
Government Spending	0.765	0.77	707.96	17	0.00
Financial Position	0.770				
Tax Compliance	0.972	0.80	1601.54	8	0.00
Overall Value	0.850				

Based on the analysis, the questionnaire used in the study has a high level of reliability, with Cronbach's alpha measurements ranging from 0.70 to 0.90. This is considered "outstanding and very good" by Connelly (2011). Additionally, the overall reliability of the questionnaire is deemed "generally excellent". The researcher achieved an after-effect of over 0.70 for all necessary and unnecessary variables, indicating that the questionnaire is solid and consistent.

Correlation Analysis

According to Table 11, there is a positive relationship between tax audits and tax compliance among taxpayers in Malaysia. The correlation coefficient has a positive value, indicating that tax audit has a 0.388 correlation with tax compliance. This means that when taxpayers are more concerned about tax audits, their intention for tax compliance increases. The value of r^2 is $(0.388)^2 = 0.1505$, which confirms this relationship. Audits' frequency and transparency may encourage taxpayers to be more careful when filing their forms, disclosing their incomes, and claiming deductions to determine their taxes. The relationship between tax audit and tax compliance is significant, as the p-value is less than the alpha value of 0.05.

Based on the results, there is a relationship between penalty rates and tax compliance. This is evidenced by a positive correlation coefficient of 0.420. Specifically, the penalty rate for filing income tax is particularly noteworthy, as it significantly correlates with a taxpayer's intention to comply with tax regulations. The value of r^2 , which is $(0.420)^2$, equals 0.1764. This suggests that taxpayers are motivated to comply with tax laws for fear of being penalised. Overall, the connection between penalty rates and tax compliance in peninsular Malaysia is significant, as evidenced by a p-value less than the alpha value of 0.05.

The correlation between government spending and tax compliance is positively incentivised, with a significant correlation coefficient of 0.341. This means taxpayers are interested in knowing how their money is spent by the government, especially those who pay high taxes. The connection between government spending and tax compliance is enormously significant, with a p-value of 0.000, less than the alpha value of 0.05.

Table 11

Pearson's Correlation Analysis

Variables	Tax compliance	Tax Audit	Tax Penalty	Tax Fairness	Government Spending	Financial Position
Tax compliance	1					
Tax Audit	0.388**	1				
Tax Penalty	0.420**	0.047**	1			
Tax Fairness	-0.131	0.241**	-0.081	1		
Government Spending	0.341**	-0.139	0.221**	-0.139	1	
Financial Position	-0.870	0.021**	-0.542	-0.123	0.086**	1

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

On the contrary, there is no clear link between tax fairness and tax compliance, as indicated by the negative correlation coefficient of -0.131. The value of r^2 , which is $(0.131)^2$, is -0.0171. If tax fairness does not affect taxpayers' intentions to comply with tax regulations, there is no significant connection between tax fairness and tax compliance. This is supported by the p-value being higher than the alpha value of 0.05. Additionally, there is a negative relationship between financial position and tax compliance due to the negative value of the correlation coefficient. The financial position of taxpayers has a -0.870 correlation with tax compliance intention. However, this does not affect taxpayers' willingness to pay taxes as they are generally willing to spend beyond their financial position. Therefore, the relationship between financial position and tax compliance is considered insignificant, with a p-value higher than the alpha value of 0.05.

Multiple Regression Analysis

After analysing the data in Table 12, there are no issues with tolerance or variance inflation factor (VIF) regarding collinearity statistics for each independent variable. According to established research by Pallant (2016), a VIF value below 10 indicates no concerns with multicollinearity. In this study, all individual VIFs for the independent variables are well below 10, which confirms no multicollinearity issues.

According to Brooks (2014), an independent variable with a significance level of less than 5% (the p-value) significantly impacts the dependent variable's predicted value. Any variable with a significance level greater than 5% does not significantly contribute to the predicted value of the dependent variables. Table 12 indicates that tax audits, as the first factor, have a p-value of 0.001 with a significant level of $p < 0.05$. This suggests a strong positive relationship between tax audits and tax compliance intention. The standardised coefficient for tax audits is 0.784, meaning taxpayers' tax compliance intention increases by 78.4% for every tax audit. Additionally, the t-value of 2.232 confirms a strong relationship between tax audits and tax

compliance intention, supporting research hypothesis H1. Based on this finding, hypothesis H1 is accepted.

This study is supported by research findings from Sritharan and Salawati (2019), who state that conducting audits can reduce tax evasion. Their research suggests that tax audits play a crucial role in self-assessment systems by increasing voluntary compliance. Taxpayers tend to be more careful while filling out their paperwork, reporting all of their income, and claiming the appropriate deductions due to the frequency and thoroughness of audits (Ajzen, 2020). Tax authorities should increase the number of audit samples to promote tax compliance and close the tax gap. This can help achieve their objectives, as long as it is done in a way that does not discourage people from paying their taxes.

Table 12

Multiple Regression Analysis

Coefficients					
Model	Standardised Coefficients	t-value	Sig.	Collinearity Statistics	
				Tolerance	VIF
Variables (Constant)	Beta				
Tax Audit	0.784	2.232	0.001*	0.013	1.252
Penalty Rate	0.474	2.107	0.004*	0.120	1.116
Tax Fairness	0.087	1.160	0.120	0.215	0.0741
Government Spending	0.645	2.974	0.000*	0.294	1.114
Financial Position	0.396	1.941	0.090	0.202	0.903

Note: *p<0.05

According to Sritharan and Salawati (2019), there is a positive correlation between tax penalty rates and tax compliance intention. As the fear of penalties increases among taxpayers, their intention to comply with tax regulations increases. Additionally, the p-value for the tax penalty rate is 0.004, indicating a significant relationship with tax compliance at $p < 0.05$. The standardised coefficient of 0.474 suggests that a 47.40% increase in tax compliance intention can be expected for every increase in the tax penalty rate among taxpayers. The t-value of 2.107 indicates a strong relationship between tax penalty rates and tax compliance intention. These findings support the research hypothesis H2, and therefore, the hypothesis (H2) is accepted. This study has confirmed that people struggling financially tend to prioritise paying their immediate necessities and bills before paying taxes. This is because defaulting on these payments could result in more significant consequences than the penalty they would face from tax authorities. The findings of this study align with research by Abd Hamid et al. (2019), which suggests a strong correlation between tax penalty rates and tax compliance. It is observed that when taxpayers become more fearful of the penalty rates associated with taxes, their intention to comply with tax regulations also increases.

The table above indicates that government spending has a considerable positive effect on taxpayers' compliance intention with a p-value of 0.000 at a significance level of $p < 0.05$. The standardised coefficient value of 0.645 suggests that taxpayers become 65.50% more concerned about tax compliance for each increment in government spending. The t-value of

2.974 indicates that government spending is linked to tax compliance intention. This supports the research hypothesis that there is a significant positive relationship between government spending and tax compliance intention among Malaysian individual taxpayers; hence, H4 is accepted.

According to research by Sale et al (2021), the government significantly influences tax evasion. Tax authorities are essential in reducing the tax gap and encouraging compliance. The government's involvement in developing, administering, and collecting taxes is crucial (Sritharan & Salawati, 2019). If a particular group perceives their tax burden as more significant than others, they may resort to tax evasion. Tax compliance is viewed as a significant issue regarding fairness in the country. If taxpayers do not believe the tax system is just, they are likelier to evade taxes (Al-Zaqeba et al., 2018). Government spending is one of the primary explanatory factors for tax compliance behaviour (Wicaksono & Lestari, 2017). This could be because most taxpayers believe that the imposition rate of income tax is reasonable and not excessive.

On the contrary, the analysis shows a p-value of 0.120, which indicates an insignificant relationship between tax fairness and tax compliance intention. The standardised coefficient is 0.087, indicating that tax fairness leads to an 8.7% unit increase in taxpayers' intention to comply with every tax fairness. This shows a very weak identification in which the increased or decreased tax fairness does not affect tax compliance intention much. Next, the t-value of 1.160 is less than 2, indicating a weak relationship between the variables. This finding does not support the research hypothesis H3; hence, the H3 is rejected.

Additionally, an insignificant relationship exists between taxpayers' financial position and tax compliance intention at a p-value of 0.090. The standardised coefficient value of 0.087 suggests that taxpayers' perception of tax fairness is linked to an 8.7% increase in tax compliance. However, this correlation is not significant enough to impact tax compliance. Similarly, the standardised coefficient value of 0.396 indicates that a 39.60% increase in taxpayers' worry about their financial position is associated with their tax compliance intention, but this does not significantly affect it. These findings do not support hypothesis H5; therefore, it is rejected H5.

Conclusion

The primary goal of this study is to evaluate the five critical criteria and their association with tax compliance among taxpayers in Malaysia due to the vast number of possible concerns with tax compliance. The Theory of Planned Behaviour (TPB) was used to relate the five crucial factors that impact tax compliance, i.e., tax audit, tax penalty, tax fairness, government spending and financial position. These provide the theoretical underpinnings for this study. An attempt was made to explain the consequences of compliance criteria, including tax audit, tax rate, tax fairness, government spending, and financial position, by utilising data from a survey done in Malaysia using a Google Forms questionnaire. The results show that tax audits, tax penalty rates and government spending impact tax compliance. This indicates that changes in tax penalty rates, whether lower or higher, essentially impact the taxpayers' desire to file their taxes on time each year. The low compliance and non-compliance rates impacted the authority's practice of conducting tax audits regularly and enforcing fines (Wicaksono & Lestari, 2017). However, past studies indicate that taxpayers' compliance behaviour is not

impacted by tax fairness and financial position, in addition to how frequently taxes are audited and how much the government spends on them. Tax audits, penalty rates, and government spending positively affected tax compliance intention. In contrast, tax fairness and financial position are insignificant to tax compliance intention.

The results of this study shed light on the relationship between the economic situation and tax compliance behaviour among individual taxpayers in Malaysia, filling a knowledge gap. This information benefits the government, including tax authorities and taxpayers who make strategic decisions around tax collection. The findings can help inform effective plans and strategies to increase tax revenues. According to Naeem et al (2022), tax non-compliance and poor reporting persist in Malaysia. Due to lacking funding, the IRB cannot carry out enforcement duties to identify the root causes of non-compliance. Addressing issues with tax non-compliance is crucial for policymakers. This study helps identify the primary drivers of non-compliance, including economic factors and other elements that affect whether taxpayers adhere to Malaysia's tax regulations.

Additionally, the results of the studies are a valuable addition to the existing knowledge on tax compliance. They will be handy for tax authorities and taxpayers in Peninsular Malaysia as they close the knowledge gap and shed light on the relationship between factors influencing tax compliance and tax compliance behaviour for individual taxpayers. Moreover, the study's findings will have significant implications for the government. The information provided will assist decision-makers in understanding the significant factors that influence tax compliance. It will also enable them to develop appropriate plans to reduce potentially harmful elements and increase tax revenue collections.

The results of this study provide valuable data that can be used as evidence in policy discussions among Malaysian decision-makers regarding the development of optimal audit systems and other tax laws. Moreover, a well-planned experiment helps isolate the fundamental effects of income detection rates on compliance. It provides accurate information to tax policymakers, helping them make informed decisions on the issue of tax compliance among Malaysian taxpayers. In summary, this study is significant in tax, particularly in individual tax compliance.

This study has certain limitations due to time constraints and insufficient funding. Since this study focuses solely on taxpayers in Malaysia, the sample size is relatively small and cannot be generalised to the entire population. Moreover, only five significant independent variables and two control variables impact tax compliance in this study. Other independent factors may also considerably influence tax compliance among Malaysian taxpayers. In summary, tax compliance intention among individual taxpayers in Malaysia is a multifaceted issue influenced by various social factors and theoretical frameworks. Understanding these factors is crucial for policymakers and tax authorities to design effective strategies that promote voluntary compliance and enhance tax revenue collection.

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