



Faculty of Economics and Business

Determinants of Corporate Taxpayers' Behaviour: The Moderating and Mediating Effect of Financial Constraints and Personal Tax Compliance

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Determinants of Corporate Taxpayers' Behaviour: The Moderating and Mediating Effects of Financial Constraints and Personal Tax Compliance

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DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.



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ABSTRACT

In contemporary Malaysia, the growing tax gap presents a significant challenge to the integrity of the national revenue system. This study explores the complex factors that contribute to corporate taxpayers' compliance behaviour, specifically focusing on Malaysian in-house tax compliance decision-makers. The research aims to address the urgent issue of increasing tax gaps within the Malaysian revenue system caused by non-compliance among taxpayers. Grounded in Kelman's Social Influencing Theory, this investigation explores the complex relationship between personal tax compliance behaviour and its influence on corporate tax compliance decisions. By conducting empirical tests to examine the hypothesis that personal tax compliance behaviour serves as a mediator for corporate tax compliance decisions, this study provides insights into the various factors that shape taxpayers' adherence to regulatory frameworks. Through rigorous data collection from 392 Malaysian in-house tax compliance decision-makers via a comprehensive survey questionnaire supplemented by interviews with 8 tax experts, this research employs sophisticated analytical techniques including Path Analysis using SmartPLS. The findings illuminate the intricate relationship between personal tax compliance behaviour and corporate tax compliance decisions. This research underscores the significance of understanding the underlying psychological and social influences that shape taxpayers' compliance behaviours. By clarifying the role of Kelman's Social Influencing Theory in mediating corporate tax compliance decisions, this study contributes to the advancement of theoretical research on tax compliance and offers practical insights for policymakers and tax authorities. By identifying the crucial factors and mechanisms that influence compliance decisions, this research provides valuable insights aimed at reducing the growing tax gap and strengthening the integrity of the Malaysian tax revenue system.

Keywords: Tax compliance behaviour, Kelman's Social Influencing Theory, Tax Gap, Malaysian Tax Revenue, Path Analysis.

Penentu Tingkah Laku Pembayar Cukai Korporat: Kesan Penyederhanaan dan Pengantaraan Kekangan Kewangan dan Pematuhan Cukai Peribadi

ABSTRAK

Di Malaysia kini, jurang cukai yang semakin meningkat memberikan cabaran besar kepada integriti sistem hasil negara. Tesis ini mengkaji faktor kompleks yang menyumbang kepada tingkah laku pematuhan pembayar cukai korporat secara khusus memberi tumpuan kepada responden yang terlibat dalam membuat keputusan pematuhan cukai dalaman Malaysia. Penyelidikan itu bertujuan untuk menangani isu peningkatan jurang cukai dalam sistem hasil Malaysia yang disebabkan oleh ketidakpatuhan di kalangan pembayar cukai. Berdasarkan Kelman's Social Influencing Theory, tesis ini mengkaji hubungan kompleks antara tingkah laku pematuhan cukai peribadi dan pengaruhnya terhadap keputusan pematuhan cukai korporat. Melalui kaedah ujian empirikal, hipotesis di uji untuk menilai tingkah laku pematuhan cukai peribadi yang berfungsi sebagai pengantara untuk keputusan pematuhan cukai korporat. Kajian ini juga mengkaji pelbagai faktor yang membentuk pematuhan pembayar cukai kepada rangka kerja kawal selia. Melalui pengumpulan data daripada 392 responden melalui soal selidik, tinjauan komprehensif dan temu bual dengan 8 pakar cukai, penyelidikan ini menggunakan teknik Analisis Laluan SmartPLS. Penemuan ini menerangkan komplikasi hubungan antara tingkah laku pematuhan cukai peribadi dan keputusan pematuhan cukai korporat. Penyelidikan ini menggariskan kepentingan memahami pengaruh psikologi dan sosial yang membentuk tingkah laku pematuhan pembayar cukai. Sebagai penjelasan peranan Kelman's Social Influencing Theory dalam pengantaraan keputusan pematuhan cukai korporat, kajian ini menyumbang kepada kemajuan penyelidikan teori tentang pematuhan cukai dan menawarkan pandangan praktikal untuk pembuat dasar dan pihak berkuasa cukai. Dengan mengenal pasti faktor dan

mekanisme penting yang mempengaruhi keputusan pematuhan, penyelidikan ini juga memberikan pandangan berharga yang bertujuan untuk mengurangkan jurang cukai yang semakin meningkat dan mengukuhkan integriti sistem hasil cukai Malaysia.

Kata kunci: *Tingkah laku pematuhan cukai, Teori Pengaruh Sosial Kelman, Jurang Cukai, Hasil Cukai Malaysia, Analisis Laluan*

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LIST OF ABBREVIATIONS

AI	Artificial Intelligence
ATO	Australian Taxation Office
AVE	Average Variance Extracted
BIT	Behavioural Insights Team
CFA	Confirmatory Factor Analysis
CGP	Coach and Grow Programme
CIPFA	Chartered Institute of Public Finance and Accountancy
CMB	Common Method Bias
CSR	Corporate Social Responsibility
CR	Composite Reliability
DOSM	Department of Statistics Malaysia
DV	Dependent Variable
GDP	Gross Domestic Product
GNI	Gross National Income
EFA	Expleatory Factor Analysis
GST	Goods and Services Tax
HTMT	Heterotrait – Monotrait Ratio

ICT	Information Communication Technology
IFA	International Federation of Accounts
IMA	Institute of Malaysian Accountants
IMF	International Monetary Fund
ITA	Income Tax Act
ITRF	Income Tax Return Form
IPSAS	The International Public Sector Accounting Standards Board
IRA	Italian Revenue Agency
IRBM	Inland Revenue Board of Malaysia
IV	Independent Variable
MCO	Movement Control Order
MERS	Middle East Respiratory Syndrome
NEF	National Equity Fund
MIA	Malaysian Institute of Accountants
MNC	Multi-national Companies
MOF	Ministry of Finance
MYR	Malaysian Ringgit
OAS	Official Assessment System
OECD	Organization for Economic Co-operation and Development

PAYE	Pay, As You Earn
PLS	Partial Least Square
PR	Public Ruling
PwC	PricewaterhouseCoopers
RFRA	Religious Freedom Restoration Act
RMC	Royal Malaysian Customs
RQ	Research Question
SAMENTA	Small and Medium Enterprise Association
SARS	Severe Acute Respiratory Syndrome
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SAS	Self-Assessment System
SD	Standard Deviation
SE	Self-employed
SEM	Structural Equation Modeling
SME	Small and Medium Sized Enterprises
SOP	Safety Operational Procedures
SRI	Strategic Reform Initiatives
SST	Sales and Service Tax
SVA	Small Value Assets

SW	Salary and Wage
TBL	Triple Bottom Line
TRC	Tax Reform Committee
US	United States
VIF	Variance Inflation Factor
WHO	World Health Organisation

CHAPTER 1

INTRODUCTION

1.1 Study Background

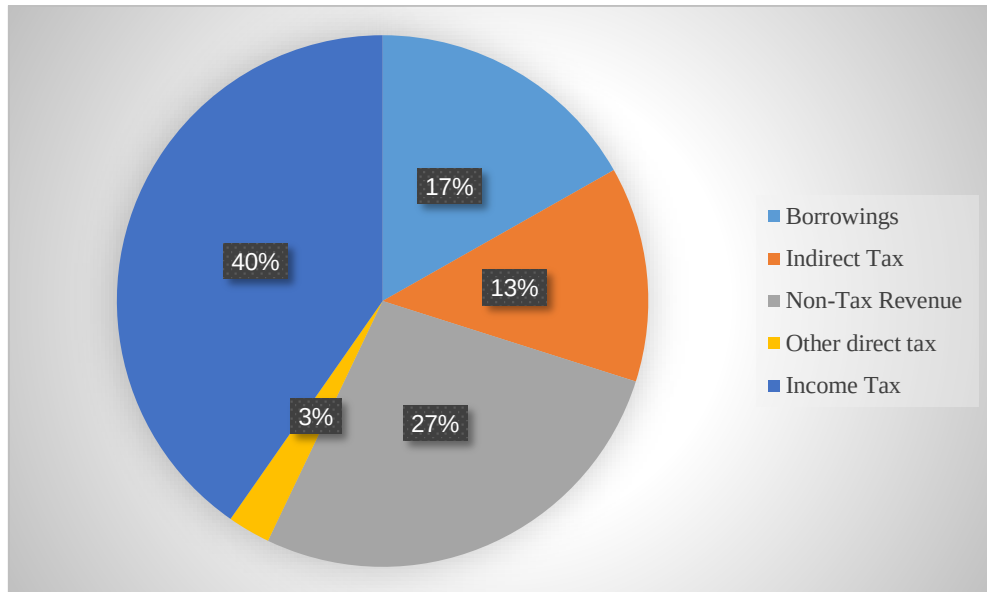
The economic sustainability of Malaysia is mostly derived from the revenue sources of direct tax: Corporate taxes, Individual taxes, Real property taxes, Petroleum taxes, and Stamp duties; all the above taxes account for approximately 65 percent of the national cumulative economy as stated in the annual budget of 2020 (Ministry of Finance Malaysia, 2019). In Malaysia, the non-compliance of taxpayers with any of the above-mentioned taxes is deemed a social destruction, weakening the constant flow of the national revenue from its sources, challenging the stability of the economy of the country, and thereby by encouraging cheating and financial fraud to take place in the country (PricewaterhouseCoopers, 2022).

Tax compliance is an economic responsibility of an individual and an organization, and also a social responsibility to its stakeholders, such as the government (Gulzar et al., 2018). The two pillars of the ‘Corporate Social Responsibility’ (CSR) are the social responsibility and the Economic responsibility, which further underpin the significance of tax compliance (Kitzmueller & Shimshack, 2012). The definition of social pillar is ‘Sustainable Business’ that should have the support of its stakeholders, including the tax authority, while the economic pillar covers tax compliance, proper governance, and risk management. A detailed discussion on the nexus between corporate social responsibility (CSR) and tax compliance is presented in section 2.11.3 of chapter 2.

Taxation is a system established as a mandatory Act of Parliament, in the constitution of a country, for levying taxes on the profits of corporate sectors and on the income of

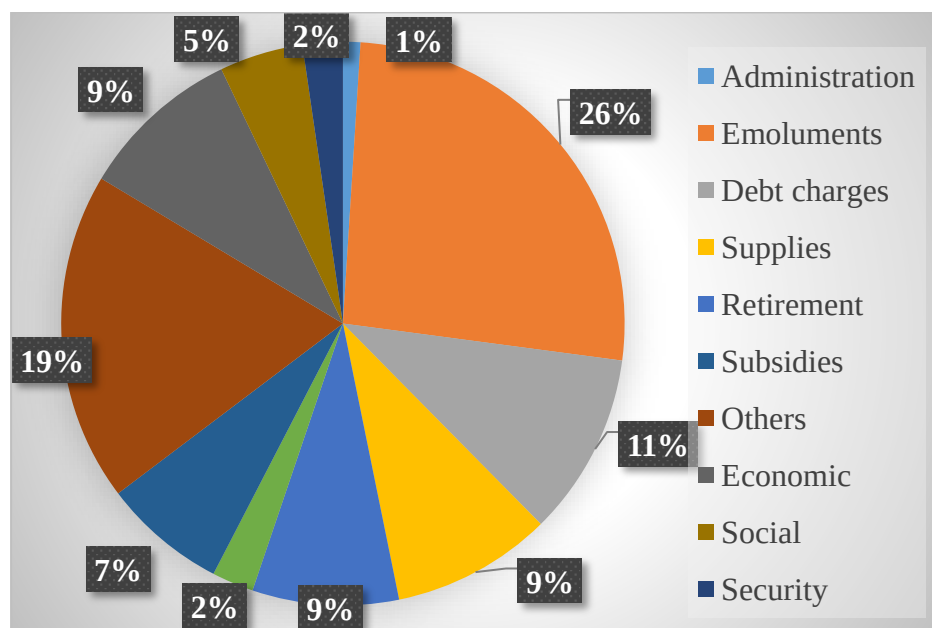
salaries of personnel in the country (Kasipillai, 2002). The taxes, thus raised from the above two sources, are used to provide services and benefits to the people of the country or to use them for fulfilling some other purposes of the government. The practice of taxation originated in the ancient kingdom of Egypt for fulfilling the needs and purposes of the country. The system of taxation, currently practiced by almost all the countries across the globe, was practiced by the United States of America for the maintenance of the ‘American Civil War’, from 1861 to 1865, and afterwards, many more countries followed suit, whereas Malaysia practices the system of taxation for providing services and benefits to the people of the country (Palil, 2010).

This study is concerned with the tax system practiced in Malaysia. To provide economic benefits and social benefits to the people of the country, the Malaysian government plays a significant role in raising income from the said two sources by employing the mandatory income tax Act (Tax Act No. 47 of 1967, and revised Act No. 53 of 1971, Section 103) enacted in its constitution (Mohdali et al, 2017). At times the Malaysian government takes back the accumulated revenue by means of withdrawal from the economy, the treasury, and spends it for the national developments and for the provision of benefits to the people of the country (Refer to Figure 1.1). The government may inject back the remainder of the revenue into the economy; it may use it to provide people of the country with goods and services; or it may use it to achieve its other goals and plans, mentioned in the official books of programs and calendars (Refer to Figure 1.2).



Source: Ministry of Finance Malaysia (2019)

Figure 1.1: Sources of National Revenue



Source: Ministry of Finance Malaysia (2019)

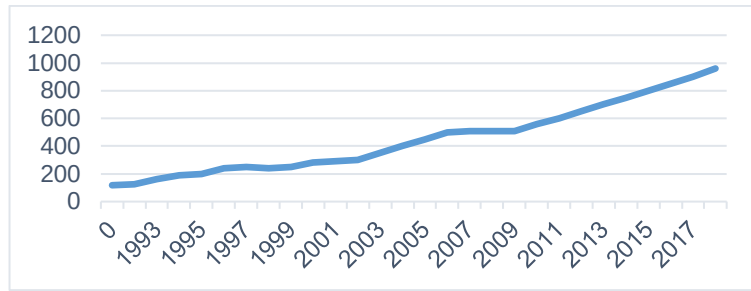
Figure 1.2: Allocation of National Revenue

The provision of social benefits to the people of a country with the revenue withdrawn from the treasury of the country is termed 'Redistribution of Income' (transferring of income back to the people), the fulfilment of which is performed reciprocally by the government and the individual taxpayers of the country (Mohdali et al., 2017).

Malaysia established its 'Self-Assessment System' (E-Filing) for taxation in 2004. The previous 'Self-Assessment System' (Pre-SAS), which is also known as the 'Official Assessment System' (OAS), is different from the 'Post-Self-Assessment System', simply called 'SAS', which is currently used for taxation in the country and executed electronically and solely by the taxpayers themselves, whereas the system, 'Pre-SAS', is executed manually by the taxpayer and the Inland Revenue Board of Malaysia (IRBM) (Chong & Arunachalam, 2018).

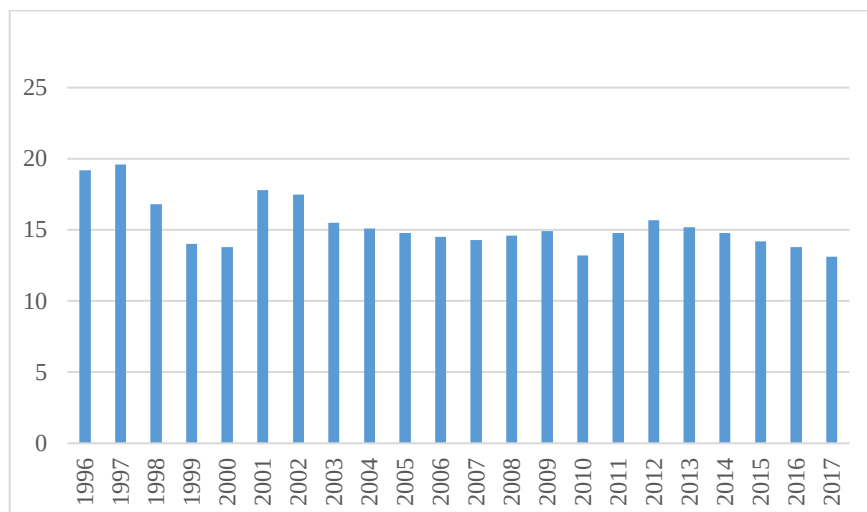
1.2 Problem Statement

Malaysia's total 'Gross National Income' (GNI) has been moving upward (Refer to Figure 1.3) steadily for the past two decades (World Bank, 2020). As claimed by the residents of a country, the 'GNI' is the total domestic and foreign output, consisting of gross domestic product (GDP) and excluding the income of the non-residents of the country (World Bank, 2020). Meanwhile, the tax revenue of Malaysia has been declining dramatically (Refer to Figure 1.4) for the past two decades as well (World Bank, 2018). The rise in the GNI and the decline in the tax revenue highlight that a severe tax gap (difference between the expected tax collection and the actual tax collection) exists in the tax system of Malaysia, indicating a loss in the collected national revenue, and a real cost is created on the society (Devos, 2013).



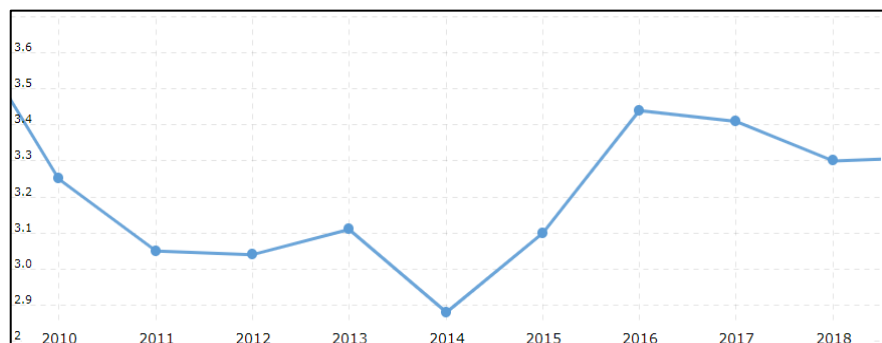
Source: The World Bank (2020)

Figure 1.3: Gross National Income, Malaysia



Source: The World Bank (2018)

Figure 1.4: Malaysia, Tax Revenue Collection from 1996-2017



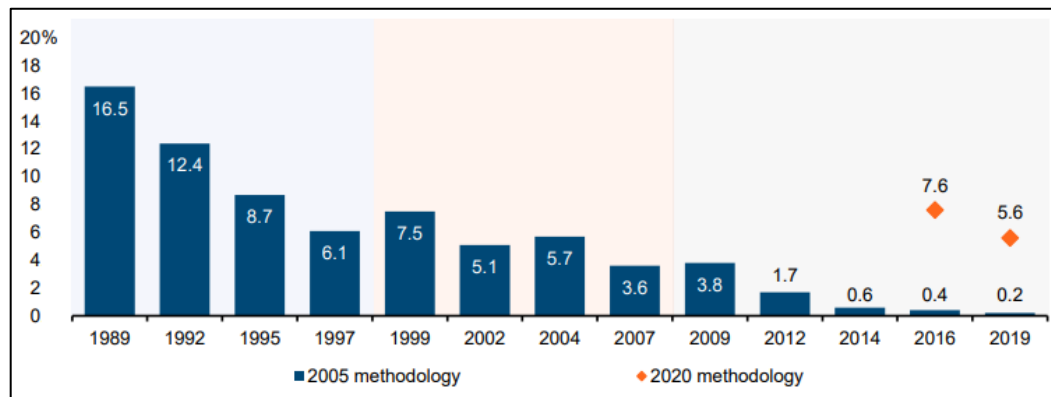
Source: Department of Statistics Malaysia (2022)

Figure 1.5: Unemployment Rate Malaysia

Table 1.1: Household Income Malaysia

	B40		M40		T20	
	2016	2019	2016	2019	2016	2019
Number of household income (In RM Mil)	2.78	2.91	2.78	2.91	1.39	1.46
Increase/Decrease by	+4%		+4%		+5%	

Source: Department of Statistics Malaysia (2022)



Source: Department of Statistics Malaysia (2022)

Figure 1.6: Absolute Poverty Rate Malaysia

To support the problem further, the data related to the labour force explain that the employment rate in Malaysia is at a healthy level and that the country manages to keep the unemployment rate within 3.5 percent (Refer to Figure 1.5). When the two years' values of Malaysian household income are compared with each other at an interval of three years, it shows a significant improvement in the tax system, paralleling with the trend of the GNI of the country (Refer to Table 1.1). Comparing the current poverty rate with that of the previous decades, Malaysia witnesses an improvement in the current absolute poverty rate, realizing that the residents earn their income without any impediments (Refer to Figure 1.6).

Furthermore, the ‘International Monetary Fund’ (International Monetary Fund, 2002) alerts the tax authority of Malaysia that the existing severe tax gaps may lead to the prevalence of a shadow economy in the country.

Exploring the tax compliance behaviour of Malaysian in-house tax decision-makers is paramount due to the pivotal role they play in the tax planning and compliance processes within corporations. While corporate taxes constitute a substantial portion of the nation's revenue, it's imperative to recognize that behind every corporate tax decision lies an individual tasked with navigating complex tax regulations and making compliance. These in-house tax compliance decision-makers hold significant influence over the organization's tax strategies, making them crucial focal points for understanding tax compliance dynamics. Moreover, the behaviour of individual tax decision-makers within corporations can have ripple effects on overall corporate tax compliance. Individuals within organizations may exhibit tendencies towards non-compliance or tax minimization strategies, which could potentially impact corporate tax liabilities and overall tax revenue. By investigating the tax compliance behaviour of in-house decision-makers, this study gains insights into the factors driving tax-related decisions within corporations and their implications for national tax revenue. By delving into their decision-making processes and compliance behaviours, we can identify areas for intervention and enhancement in tax compliance frameworks.

In Malaysia, the tax non-compliance is considered one of the behaviours of an individual of the country, whereby the people of the country intentionally or unintentionally do not comply with the tax system, violating the Income Tax Act. No. 53, Section 103 of the country. According to the Inland Revenue Board of Malaysia, a tax gap of RM 13 billion has been recorded in the year 2018 (Ministry of Finance Malaysia, 2019). At the same time,

the Free Malaysia Today (2022) reports that the ‘IRBM’ has identified nearly 31, 000 noncompliant taxpayers across the country, evading tax. This includes more than 24, 000 individuals who were traced based on the ownership of their assets and their liability of long-term borrowings, nearly RM 500, 000. Apart from the tax gap, the IRBM estimated in year 2018, prior to Covid-19 pandemic, that the tax losses for the year 2022 have been estimated at RM665 million. The IRBM has issued a statement in which it mentioned “*Criminal probes would result in charges being filed in court under the Income Tax Act 1967 for tax evasion*”.

Table 1.2: Malaysian Tax Gap from 2015 to 2021 in RM Billion

Year	Expected Collection	Actual Collection	Tax Gap	Remarks from IRBM
2015	142	121.236	20.764	Despite the economic challenges faced by the country, this situation has affected the tax collection. -Tan Sri Dr. Mohd Irwan Serigar Abdullah, Chairman of Inland Revenue Board of Malaysia.
2016	115	113.945	1.055	These past two years have been especially hard on IRBM and the total revenue collected. – Tan Sri Dr. Mohd Irwan Serigar Abdullah, Chairman of Inland Revenue Board of Malaysia.
2017	126.7	123.312	3.388	To reach the target, we had a tough row to hoe. – Dato Sri Sabin Samitah, Chief Executive Officer of Inland Revenue Board of Malaysia.
2018	140.113	126.763	13.35	Not Available

Table 1.2 continued

2019	134.00	112.80	21.2	Not Available
2020	120.00	97.00	23.0	Not Available
2021	127.00	103.00	24.0	Unexpectedly, COVID-19 pandemic has brought the global economy to its sharpest fall since the Great Depression of the 1930s! – Yee Wing Peng Chief Executive Officer, Deloitte Malaysia.

Source: Inland Revenue Board of Malaysia (2022)

According to the Inland Revenue Board of Malaysia, the tax gap (differences between the expected tax collection and the actual tax collection) was RM 20.7, RM 1.0, RM 3.4, and RM 13.3 for the years 2015, 2016, 2017, and 2018, respectively (Refer to Table 1.2). IRBM press release reveals that 31,598 entities including 23,751 individuals, businesses, and companies who have not declared their income with the tax authority estimated more than RM665 million. Though identifying the high-impact financial crime areas is not easy, the authority uses different approaches to trace the tax evaders. For example, the above mentioned 31, 598 entities were traced when they attempt to secure asset ownership via financing valued more than RM 500,000 (The Edge Markets, 2022). How IRBM traces the tax evaders is presented in section 5.2.2 of Chapter 5.

Strategy 3: Raising Government Revenue

Mr Speaker Sir,

35. To achieve the objective to increase revenue, the Government will first leverage on Government assets and second, review our taxation policies. The measures which Government will undertake are as follows:

Mr. Speaker sir,

50. **THIRD:** The Government will launch a Special Voluntary Disclosure Program to offer an opportunity for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts.

Source: Ministry of Finance Malaysia (2022)

Figure 1.7: Statement from Minister of Finance, Malaysia

The tax authority of Malaysia confronts difficulties in collecting taxes and in executing the process of tax compliance. Launching a special voluntary disclosure program, during the budget speech for the year 2019, the then Minister of Finance, Mr. Lim Guan Eng, expressed that the remaining noncomplying taxpayers who had not yet disclosed their income to the tax authority would be allowed to disclose and report their income to the tax authority at their own free will (Refer to Figure 1.7).

Evidence shows that the business entities evade tax if and when the managers themselves evade their personal taxes (Bernama, 2017). According to the Malaysian government, 98.5% of the businesses in the country are small and medium sized enterprises (SMEs) (SME Corporation Malaysia, 2020). As such, the need to investigate the relationship between the ‘Personal Tax Compliance’ and the ‘Corporate Tax Compliance’ has arisen (Baghdad, 2017). So far, the impacts of the personal taxation on the corporate taxation have not been widely studied; therefore, the association between them remains unclear, and it results in the formation of a solid research gap.

The government of Malaysia has formed a committee, ‘Tax Reform Committee’ (TRC), in September 2018, the main goal of which is to narrow down the existing tax gap. As indicated by Dublin (2012), López-Laborda et al. (2020), and Tax Policy Centre (2016), have categorized the above gap in the tax collection into three kinds:

- Loss of tax revenue due to under reporting of taxes
- Difference between the declared taxes and paid taxes
- Lost tax revenue due to non-submission of tax returns

1.3 Research Objectives

General objective is to:

To examine the determinants of corporate tax compliance behaviour of Malaysian in-house tax compliance decision-makers.

Specific objective is to:

- i. To analyse the relationship between factors such as peers’ tax compliance, probability of audit, service quality of tax authority, and satisfaction on government spending and the personal tax compliance behaviour of Malaysian in-house tax compliance decision-makers.
- ii. To investigate the moderating effect of financial constraints and religiosity between factors and personal tax compliance behaviour of Malaysian in-house tax compliance decision-makers.

- iii. To explore the mediating effect of personal tax compliance behaviour between factors such as peers' tax compliance, probability of audit, service quality of tax authority, and satisfaction on government spending and corporate tax compliance behaviour of Malaysian in-house tax compliance decision-makers.

1.4 Research Questions

- i. What are the determinants for corporate tax compliance behaviour of Malaysian in-house tax compliance decision makers?
- ii. Do factors such as peers' tax compliance, probability of audit, service quality of tax authority, and satisfaction on government spending influence personal tax compliance affect Malaysian in-house tax compliance decision-makers?
- iii. Do financial constraints and religiosity moderate the relationship between factors of tax compliance and personal tax compliance affect Malaysian in-house tax compliance decision-makers??
- iv. Does personal tax compliance mediate the relationship between factors of tax compliance and corporate tax compliance affect Malaysian in-house tax compliance decision-makers?

1.5 Scope of the Research

The purpose of the target population of this study is to examine the factors that exert their influence on the behaviour of an individual to comply with the tax system, which in turn influences the corporate sectors to comply with the tax system. In the existing study of the research, the researcher has finalized the recommended factors as they are found to be

the most relevant factors to the Malaysian context. This study has chosen the individual officers who handle tax affairs in businesses or organizations.

The motivation for this study that is borne from the suggestion, made by Bagdad et al. (2017), recommends the inclusion of self-employed adults, as *“The companies’ non-tax compliance decisions were influenced by their managers who also evade their personal income taxes. Future research should focus on the tax non-compliance behaviour among the self-employed or individual taxpayers as there was evidence to show that the business may have a potential to evade taxes if the managers also evade their personal income taxes”*. As the recommended factors are found to be most relevant to the Malaysian context, the researcher has finalized to adopt the recommended factors in the existing research.

1.6 Significance of the Study

Encouraging voluntary tax compliance is a key objective outlined by the Inland Revenue Board of Malaysia (IRBM) in the establishment of the Self-Assessment System. However, despite the emphasis on compliance, the Malaysian tax system struggles with a persistent tax gap, highlighting the need for comprehensive research. In contrast to existing studies, this research examines the intricacies of the Malaysian tax landscape by focusing on the factors influencing corporate tax compliance behaviour among Malaysian in-house decision-makers.

By examining various factors such as peers' tax compliance, probability of audit, service quality of tax authority, and satisfaction on government spending, this study aims to clarify the complex dynamics that influence the personal tax compliance behaviour of Malaysian in-house tax decision-makers. Additionally, this study aims to investigate how financial constraints and religiosity moderate these factors, providing a deeper understanding of the diverse influences that shape compliance decisions in Malaysia.

Furthermore, this study provides valuable insights into the mechanisms that drive taxpayer behaviour by examining the mediating role of personal tax compliance behaviour in corporate tax compliance decisions. To ensure a thorough analysis, data was collected from tax officers, university lecturers, tax agents, and professionals at the Inland Revenue Board of Malaysia.

The significance of this research goes beyond academic inquiry. It aims to inform policymakers and tax authorities about the complexities of taxpayer behaviour and attitudes towards the tax system. By uncovering the factors that contribute to tax compliance or noncompliance, this study establishes a fundamental framework for the development of specific tax risk management protocols and policy interventions. Ultimately, this research strives to create a stronger and more efficient tax administration system in Malaysia, aligning with broader goals of fiscal integrity and revenue optimization.

1.7 Chapter Summary

Based on the previous studies that are related to the same area of the research, the problem area is designed with real and supporting problems (Decided Cases) in Malaysia; as in the government reports, the introduction chapter explains the background information about the area of the study. The World Bank reports the gross income of Malaysia with database, while the national tax revenue supports the statement of problem. Further, the annual budget of Malaysia released by the Ministry of Finance, Malaysia, and the amount of the tax gap indicated by the 'Inland Revenue Board of Malaysia' are supportive of the strong claim of problem statement. A thorough review of literature has been conducted in order to find the research gap in the field of the study. To conduct the study, research objectives are divided into two parts: 'Specific objectives' and 'General objectives'. The contribution of this research is discussed under the significance of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

In this chapter, the previous studies that are related to the area of this study are used for guidance and for the collection of facts and information regarding the related materials. It is a need to review the collection of research that have already been published in order to discuss the concluded studies. During the review of the research, the researcher uses all the available information relating to corporate and personal taxpayers' behaviour. Next, this chapter reviews the general tax structure of Malaysia, comparing it with the tax structures of the other regional developing countries; studies the structures in detail with the real cases relating to this field; and analyses the factors affecting the taxpayers' behaviour and the relevant theories that are associated with the corporate and the personal taxpayers' behaviour. Besides, a review of empirical literature by hypothesis development is also presented. To begin with, the next section presents the overview of this study setting, which is Malaysia.

2.2 Overview of Study Setting

2.2.1 Overview of Malaysia and Malaysian Economy

According to the International Monetary Fund (2020), the Malaysian economy is the 6th (Sixth) largest dominant economy in Southeast Asia, and the 39th (Thirty-Ninth) largest economy in the world. Malaysia has recently upgraded its economy as newly industrialized market economy, which is a social economic classification employed by political scientists and economists, based on their economic and political analysis. The term, 'Newly

industrialized market economy’, refers to the economy of a developing country, whose economic growth is much higher and faster than the economy of other developing countries. The government of Malaysia has implemented the ‘Goods and Services Tax’ (GST) 2015 at 6%, which has been repealed (zero rated), and replaced with ‘Sales and Service Tax’ (SST).

With a trade to GDP ratio, averaging over 130%, the nation became one of the most open economies in the globe. About 40% of the jobs in Malaysia is related to exports activities, and it is expected to reach its transition from an upper-middle income economy to a higher income economy by the year 2024 (World Bank 2021). The Malaysian Investment Development Authority has identified the 12 main economic industries in Malaysia, including agriculture, infrastructure and communication, electronics and electrical, oil, gas, and energy, tourism, wholesale and retail, and healthcare. Among them five are the most active and GDP contributor sectors in Malaysia (Ong, 2022).

However, the Covid-19 (Coronavirus) pandemic has affected most of the Malaysian economy, especially the income that is generated by the low-income earning group as reported by the national poverty line. The government of Malaysia has been continuously taking appropriate measures to subsidize the low-income earning groups to safeguard them from the economic impact. *“Seizing new growth opportunities and overcoming potentially long-lasting challenges brought on by the COVID-19 crisis will necessitate bold structural reforms in the medium term”* said Datuk Seri Mustapa Mohamed, Minister in the Prime Minister’s Department in charge of the economy.

The equality of income in the country remains high, but a gradual decline of it has been observed by the economists in the recent years. The government of Malaysia has stopped focusing on broad-based subsidies and has started to move towards supporting the low-income groups in the form of cash transfers. World Bank (2020) Human Capital Index

indicates that Malaysia is in the 55th rank out of 157 countries. Malaysia is in a situation, wherein it is more concerned about further advancement of education, health, and nutrition of the people in the country, and the protection social outcomes. The next section presents small-medium enterprises and their role on Malaysian economy.

2.3 Practice of Taxation in Developing Countries

The current condition of taxation in terms of tax rate among Southeast Asian countries differ from country to country. Meanwhile, the total tax revenue made by the Southeast Asian countries also presented to have a comparison idea for readers. The corporate taxation also known as company taxes is fixed in different rate among countries. Brunei's tax rate has been reduced from 30 percent to 20 percent in the last 20 years. Brunei has made high revenue through tax stream that other countries. Indonesian corporate tax is relatively high as People China, the revenue made from corporate tax fluctuate between the range of 15 percent to 10 percent only. The next section presents the type of taxation models adopted in the world (Refer to Appendix B & C).

2.4 Models of Taxation

The tax system falls into three main categories. They are Regressive tax system, Proportional tax system, and Progressive tax system; and among them, the Proportional system and the Progressive system impact on the high-income earners and the low-income earners. Whereas the Regressive system impacts more on the low-income earners than on the high-income earners. The following section explains the impact of each model, in detail. The next section explains regressive tax system.

2.4.1 Regressive Tax

According to the term, ‘Regressive Tax’, the tax system is maintained in such a manner that the tax rate decreases as the tax amount increases. Also, the term, ‘regressive’, refers to the way how the tax rate shifts from high level to low level. There is an inverse relationship between the tax rate and the taxpayer’s financial ability to pay the tax. Thus, it reduces the tax burden of the people whose financial capacity is high enough to pay high amount of tax. Basically, regressive tax could be found certain applications such as tobacco taxes or on tariffs on lower-priced goods. A project carried out by Makowsky (2019), highlights that low-income generating citizens tend to be charged more under legal procedures, and their up-front payment, and other related legal charges rises due to more procedures applied.

A recent study by Wong et al. (2018) reports that a regressive method of taxation for carbon usage should be imposed by the government of Malaysia to develop the right behavioural response and for more comprehensive policy reform. Though, regressive taxation has many negative deliberations among tax scholars, some argue that adoption of regressive taxes on certain applications may assist the nation to enhance human development (Kato & Tanaka, 2018). The next section presents proportional tax system.

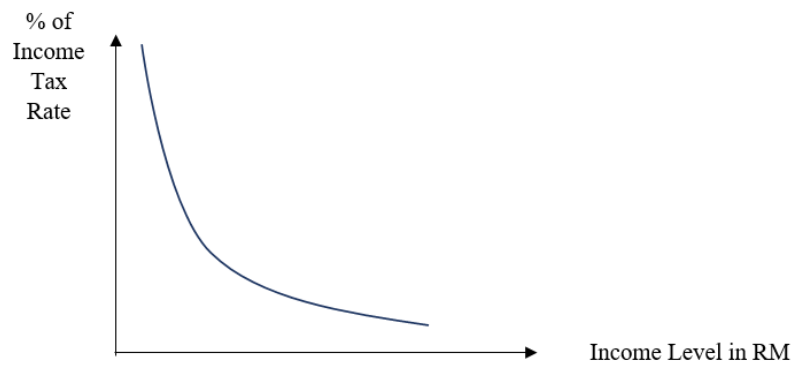


Figure 2.1: Regressive Tax System

2.4.2 Proportional Tax

The ‘Proportional Tax’ is also a tax system, by which equal percentage of taxes are collected from the taxpayers, regardless of their level of income, whether their income is low or high. Further explanation of this tax system is that it applies a standard rate of tax to all the income taxpayers. This tax system is also referred to as the ‘Flat Tax System’. This tax system has both the arguments of ‘Pros’ and ‘Cons’ of its practice, supporting it and against it respectively. Some claim that this tax system stimulates the high-income earners to earn more and more income because they are not charged for the high income that they earn.

Some of the critics of this tax system argue against it, saying that this system imposes a burden on the low-income earners, causing hardships unfairly to the dependents of the low-income earners, while relieving the high-income earners of their obligation to pay the high-income tax due to the authority. Some people also opine that in the ‘Proportional Tax system’, the surplus of the tax collected from the low-income earners is utilized to compensate the deficit incurred as a result of the non-payment of the high-income tax, due to be paid to the authority by the high-income earners. The next section presents a progressive tax system.

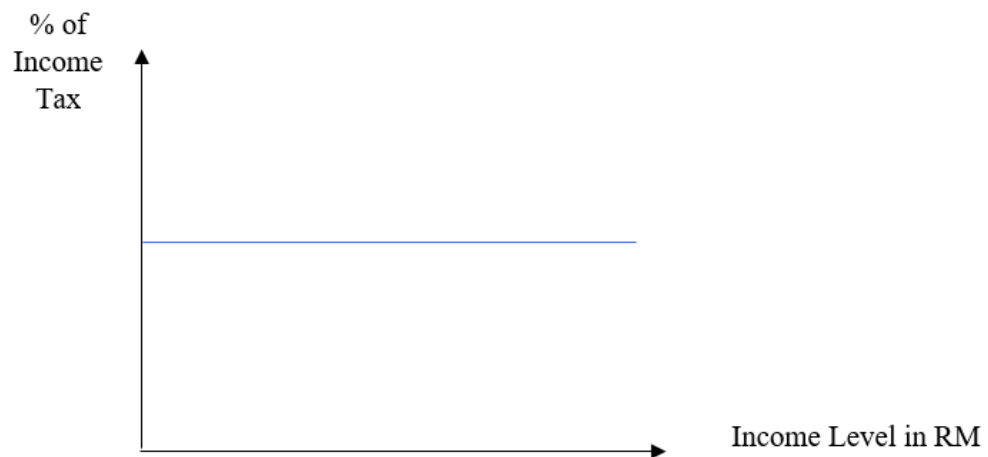


Figure 2.2: Proportional Tax System

2.4.3 Progressive Tax

Depending on the taxpayers' income, this ruling varies. For instance, under this system, the high-income earning taxpayers face higher tax penalty rates. Further, this system also allows the tax authority to focus less on the low-income earners. The term, 'Progressive', refers to the way how the tax rate progresses gradually from low income to high income. The next section presents the overview of Malaysian tax structure.

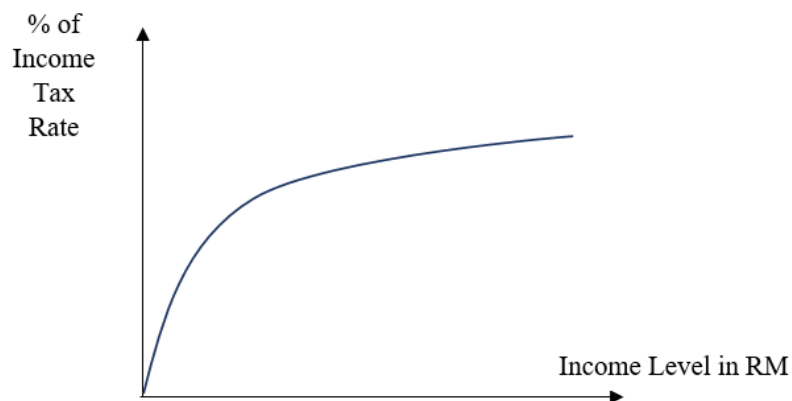


Figure 2.3: Progressive Tax System

2.5 Overview of Malaysian Tax Structure

The Malaysian tax system had been established for practice before 1910, during the early Malay rulers (Kasipillai & Shanmugam, 1997). Since then, the tax system in Malaysia

has been modified many a time, in line with several colonization that the country was subjected to in its history. The early settlements of Malaya, which comprised Singapore, Malacca and Penang, introduced a drafted bill, imposing tax on the people, and withdrawing it later. As the people of early Malaya were not interested in the contribution of tax to the government, the tax system was replaced with a different funding system to cover the government expenditures. When the bill was tried again to be implemented in the year 1992, it became a failure due to the opposition and justification raised by the people of the country that the revenue, collected from the people, would be spent for the maintenance of war, instead of developments in the country. However, during the Japanese ruling (1942-1945), the collection of taxes was restructured and implemented. Later, in 1947, during the British ruling, a special officer, known as Heasman, was appointed to deal with the Malaysian Tax system. Four years after the formation of Malaysia, the existing income tax system has been regulated by the “Income Tax Act 1967 (ITA)”. The next section presents the type of direct and indirect taxes handled by Inland Revenue Board of Malaysia and Royal Malaysian Customs.

2.5.1 Direct Taxes and Indirect Taxes of Malaysia

Inland Revenue Board of Malaysia is an independent government agency working within the direct tax operations in Malaysia. IRBM is responsible for handling all types of direct taxes. Meanwhile, Royal Malaysian Customs are assigned to handle indirect tax operations in Malaysia. Appendix D and E show the type of direct and indirect taxes IRBM and RMC handles. The next section presents the overview of self-assessment system practiced in Malaysia.

2.5.2 Overview of Self-Assessment System in Malaysia

Like other commonwealth countries, Malaysia also collects income taxes, practicing it under the ‘Official Assessment System’ (OAS), whereby the taxpayers and their tax payables are evaluated by the tax authority of Malaysia (IRBM). The manual practice of the ‘OAS’ has been transformed into a new system of practice, called the ‘Self-Assessment System’, by the then Prime Minister Hon. Tun Dr. Mahathir Mohamad in the year 2001, and in the year 2004 for the corporate sector, and for the individual taxpayers respectively.

Many developed and developing countries had adopted the Self-Assessment System even before Malaysia started to adopt it. They are as follows: The United States (1913), Japan (1947), Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Canada (1985), Commonwealth of Australia (1987), Ireland (1988) and the United Kingdom (1997). Under the ‘SAS’, the taxpayers have the responsibility to perform all the taxation procedures before they are evaluated by the tax authority. As the taxpayers are entrusted with the said responsibility, the tax compliance level in the country depends greatly on the behaviour of every individual taxpayer. The Malaysian Self-Assessment System has its objectives to fulfil: to collect the correct tax amount effectively, to uphold the trust and integrity of Malaysian taxpayers, and to encourage voluntary compliance behaviour. A study that was conducted right after the introduction of ‘SAS’ measured the perception of the taxpayers towards the ‘Self-Assessment System’, and showed that the taxpayers are more comfortable with the ‘SAS’ than with the ‘OAS’ (Kasipillai, 2004). The next section presents personal and corporate taxation in Malaysia.

2.5.3 Individual and Corporate Taxation in Malaysia

The term, “Individual”, in taxation refers to a natural person (Inland Revenue Board of Malaysia, 2018). The responsibility of a Malaysian individual taxpayer is to declare his /

her income to the Inland Revenue Board of Malaysia, and as stated in ‘Section 82’ and ‘Section 103’ of Income Tax Act 1967, he / she is responsible for the following: Obtaining the income tax return form and submitting the completed form to the tax authority before 30th of April every year, declaring income and claiming expenses, computing income tax payable, keeping records for audit purposes for seven years, and paying the income tax dues.

Self-employed individuals (SE) and salary and wage earners (SW) pay their contribution to the government to secure the economic equilibrium of the nation (Ahmed & Kedir, 2015). Moreover, the sources of income include the following: Gains and profits from a trade, profession, and business, salaries, remuneration, and gains and profits from employment, dividends, interests or discounts, rents, royalties or premiums, pensions, annuities or other periodic payments and other gains or profits of another income nature; all these sources of income can be taxed as stated in Section 4 of Income Tax Act 1967.

In the year 1974, the basis of taxation was replaced with ‘derived and remittance’, which means that the tax from an individual is charged from the income of the individual that is derived in Malaysia, and from the income that is remitted to Malaysia from outside country. The income remitted to Malaysia from outside the country by a non-resident of the country is not subjected to taxation. This system has been amended and exempted all the income remitted to the country from outside of Malaysia from taxation, and the current scope of the charge is limited only to the ‘Derived Basis’. The Malaysian tax system allows married taxpayers to submit assessments jointly or separately. The income earners who are above the chargeable income of RM 5,001 are subjected to the payment of tax with the interest, increasing from 1% to 30%, based on the income threshold where they fall under. The chargeable income is obtained after deducting the personal reliefs from their total income. The table below clearly explains the chargeable income and the relative tax rate charged by

the Inland Revenue Board of Malaysia (Refer to Table 2.1). The next section presents the challenges and constraints for raising income taxes.

Table 2.1: Malaysian Chargeable Income Tax Rate

Chargeable Income	Calculation (RM)	Rate %	Tax (RM)
0 - 5,000	On the first 5,000	0	0
5,001 - 20,000	On the first 5,000		0
	Next 15,000	1	150
20,001 - 35,000	On the first 20,000		150
	Next 15,000	3	450
35,001 - 50,000	On the first 35,000		600
	Next 15,000	8	1,200
50,001 - 70,000	On the first 50,000		1,800
	Next 20,000	14	2,800
70,001 - 100,000	On the first 70,000		4,600
	Next 30,000	21	6,300
100,001 - 250,000	On the first 100,000		10,900
	Next 150,000	24	36,000
250,001 - 400,000	On the first 250,000		46,900
	Next 150,000	24.5	36,750
400,001 - 600,000	On the first 400,000		83,650
	Next 200,000	25	50,000
600,001 - 1,000,000	On the first 600,000		133,650
	Next 400,000	26	104,000
1,000,001 - 2,000,000	On the first 1,000,000		237,650
	Next 1,000,000	28	280,000
Exceeding 2,000,000	On the first 2,000,000		517,650
	Next ringgit	30	

Source: Inland Revenue Board of Malaysia (2020)

2.5.4 Challenges and constraints for raising personal and corporate tax revenues (Tax Crimes)

The existence of unregistered taxpayers in Malaysia has become an issue for the Inland Revenue Board of Malaysia. Looking at the differences that exist between the potential taxpayers and the actual registered taxpayers living in Malaysia, the tax authority anonymously calculates the number of unregistered taxpayers, remaining in the country (Abdul, 2001). Recently, the government of Malaysia, along with the Inland Revenue Board of Malaysia, has launched a special voluntary disclosure programme to curb the issues in the tax collection that prevail in the country. One of the purposes, among the four purposes of this initiative, is to allow the unregistered taxpayers to register themselves with the tax authority (IRBM, 2019). The economists refer the term, “Unregistered Taxpayers”, under the shadow economy, meaning that the act of the taxpayers remaining unregistered, and not reporting their income earned from the production of legal goods and services is illegal (IMF, 2002). Further, under the term, “shadow economy”, the illegal activities are explained as unreported income of self-employment, wages, salaries, and assets from unreported work related to legal services and goods.

As discussed in the problem statement section, under chapter one, the unsolved issues in the tax gap potentially led to the shadow economy (IMF, 2002). To support the argument, the IMF (2002) further points out that the shadow economy of a country is also measured with the help of audit measurement of undeclared taxable income. Less shadow economy prevails in the countries where more tax is collected, and less tax gap is found, than expected. According to Kaur (2020), of all the total human capital of 15.6 million taxpayers that includes the unregistered and ineligible taxpayers, the eligible Malaysian taxpayers is 3.5 million (22.39%). The next section presents tax planning carried out by taxpayers.

The companies that do not want to comply with the tax system look for other available ways and options to evade tax. To do so, they plan strategies, such as 'Tax planning', or 'Tax evasion'. 'Tax planning' is a legal activity, wherein the corporate sectors engage in order to reduce the amount of their tax payments that is payable to the authority, from the revenue they earn. Most commonly, the tax planning is performed under the names of 'Tax Avoidance', 'Tax Shelter', 'Tax Heavens', 'Tax Aggressiveness', and 'Unethical Transfer Pricing'. 'Transfer Pricing' is one of the most commonly used strategies, shared and performed by related businesses that are usually located away from one another in two or more different countries, by transferring the tangible, or the intangible assets to one another.

The governments of countries, and the 'Organization for Economic Co-operation and Development' (OECD) have ridiculously a hard time to set a benchmark for the 'Transfer pricing', because the businesses are different in size, activities, and transaction, causing technical problems and hardships to the businesses to find justifications for the performances of the 'Transfer pricing' (Mehafdi, 2000). 'Transfer pricing' is sometimes seen unethical when businesses choose unrelated market values for transferring products, or items to one another of the business establishments.

In light of the above facts, transferring of money is done from a high tax levying country, where the income is generated by the businesses, to a low tax levying country for the purpose of reducing tax payment. Therefore, tax planning can take place anywhere, and at any time across the world, depending on the aggressiveness of the purpose of the business (Hanlon & Heitzman, 2010). Though transfer pricing is challenging for IRB to handle since the setting a benchmark price for inter-company transaction differ from sector to sector, authenticating the transaction become a crucial part for IRB. The strategies to control the

issues related transfer pricing are still in development stage, and what kind of next move should be suitable to IRB needs to be answered. However, experts reveal that implementation of artificial intelligence could help track and authenticate credibility of related party transactions. A detail explanation about adoption of artificial intelligence in tax authorities' operations and its significance are presented in section 5.2.1 of Chapter 5.

Referring to the 'Profit Maximizing Theory', the companies that engage in 'Tax Avoidance' convince the shareholders that the reduction of their tax expenses could pave the way for the increase of their wealth (Huseynov & Klamm, 2012). 'Tax sheltering' is another way of activity, by which a business reduces its tax payment or the payable. 'Tax Shelter', which is termed as a vehicle, is used not only by a business but also by an individual to reduce tax liabilities by depositing a certain portion of the income to investments or investment accounts that are eligible for transaction, deduction, and for the credit of money.

Tax haven is basically an offshore country, or a region located within a country that offers the foreigners and the other regional businessmen a relief of little tax payment or no tax liabilities. In Malaysia, a certain degree of tax-free status has been bestowed on Island of Labuan and Langkawi for business activities. The jurisdiction in Island Labuan almost shares the feature of the tax haven. Island Labuan is referred to as an offshore financial centre. In the meantime, Langkawi has been granted the status as a duty-free island by the government of Malaysia. Therefore, the indirect tax activities are amended with the special provisions. The next section presents tax evasion carried out by taxpayers.

Tax evasion is illegal, and an intentional ignorance of tax compliance (Khlif & Achek, 2015); and it is a direct violation of the responsibility of a taxpayer (Gabor, 2012). Overstating expenses, exemptions of rebates and credits are the most common strategies being adopted under tax evasion (Alasfour et al., 2016). Further, it is also represented by

non-declaration of assets, taxable income and profits. In Malaysia, under Section 114 of the Income Tax Act 1967, the act of tax evasion is a punishable offense, with a fine of RM 1,000 to RM 20,000. Additionally, a charge of 300 percent of tax is imposed on the evaded tax amount or an imprisonment for a term of not exceeding 3 years (IRBM, 2021). Interestingly, the charges related to the tax evasion are imposed not only on the tax evaders but also on the people who let or allow the incident to take place. For instance, in Malaysia, anyone who gives a bad and wrong advice to a taxpayer on the tax system and the tax related issues, and encourages the taxpayer to evade tax can be charged with the same lawsuit.

Section 114 (1A) further states that *“Any person who assists in, or advises with respect to, the preparation of any return where the return results in an understatement of the liability for tax of another person shall, unless he satisfies the court that the assistance or advice was given with reasonable care, be guilty of an offence”* (Commissioner of Law Revision, 2006). The next section presents how pandemic obstructs the tax collections.

During the last two centuries, the world has experienced some endemics and pandemics, such as the “Spanish Flu”, “Asian Flu”, “Hong Kong Flu”, “MERS”, “SARS”, “Covid-19”, etc. Among them, the ‘Covid-19’ pandemic, which is caused by the virus, “SARS-CoV-2”, has become most virulent, baffling the ‘WHO’ and the experts and specialists in the medical field in the world. Acikgok and Gunay (2020) describes the current economic condition in the world as a ‘Standstill’. Further, the study reveals that this pandemic has generated an adverse effect on employees, customers, supply chains and financial markets. Most of the countries have taken into charge of controlling the pandemic through a common strategy, known as ‘lock-down, which eventually began to impact negatively on the national economy of the countries (Nishi et al., 2020). Susilawati and Hidayat (2020) found that the most affected area, affected during the time of the pandemic,

is the household sector. As mentioned earlier in this study, financial constraints impact the decision taken by the people on tax compliance. The next section presents the theories associated with this study.

2.6 Theories

2.6.1 Allingham and Sandmo Model

Allingham and Sandmo (1972) have modelled an individual taxpayer's compliance behaviour, and this model also suggests that the taxpayers comply with the tax laws; and it is based on a simple and expected utility function, which is an individual's preference towards goods or services, beyond the monetary value. According to the model, the level of tax evasion can be measured either by the penalty rate, imposed on the taxpayer, or by the increased probability of the taxpayer being caught for tax evading (Yitzhaki, 1974). Further, this theory also explains the relationship between the level of the legal action, taken and the level of tax evasion (Bhavish et al., 2017). This theory would fit into the study since this research studies the perception of penalty rate and the probability of audit. The next section presents Kelman's social influencing theory.

2.6.2 Kelman's Social Influencing Theory

Kelman (1985) proposed that an individuals' attitude, action, beliefs, and subsequent reactions, or behaviour are influenced by the referral of others over three stages: compliance, identification, and internalization. Compliance occurs when an individual starts to accept the external influence. The external social factors (government, peer groups, or relevant authorities), heavily determine an individual's decision-making (Venkatesh & Davis, 2000). Kelman (2006) explained that the different environments, where the individual operates, in

the long run, lead to enforce tax compliance, voluntary tax cooperation, and committed tax cooperation. The next section presents Fiscal Psychology Theory.

2.6.3 Fiscal Psychological Theory

The fiscal psychological theory is a combination of economic and psychological approach (Susilawati & Hidayat, 2020). The perception of government and its movements are defined by the fiscal psychology theory. The theory is highlighting the paramount of the perception on government and its expenditures. A typical taxpayers' tax compliance behaviour assumed to be determined by the action or the perception of government the citizens have. Damayanti et al. (2015) States that tax compliance behaviour of a taxpayer or a group of taxpayers are influenced by their intention to comply with the tax system, while their intention to comply with the tax system is influenced by their perception on the ruling government. Psychological approach on a taxpayers' behaviour found to be the best option since its emphasizes the behavioural changes on an individual (Kang & Kirchler, 2018). If the taxpayer perceives that the facilities provided by the government are much appreciable means the taxpayer tend to comply with the tax system. The positive and favourable policies implemented by the government may lead to a positive perception among the taxpayers. A positive perception of the government may lead to a better tax compliance.

2.6.4 Utility Maximising Theory

The idea behind utility maximisation theory is that people and organisations seek to get the most enjoyment possible out of their financial choices. The degree to which an individual's fulfilment is realised is measured by utility function. The Utility Maximizing Theory assumes that individuals and businesses weigh the costs and benefits of their actions and choose the course of action that maximizes their utility. According to Utility Maximizing

Theory, individuals and businesses will comply with tax laws if they perceive that the benefits of compliance outweigh the costs.

In the context of tax compliance, individuals and businesses are assumed to make decisions based on their perceptions of the costs and benefits associated with complying with tax laws (Khlif & Achek, 2015). The benefits of compliance may include avoiding penalties and legal consequences, maintaining a positive reputation, and contributing to the provision of public goods and services (Alm et al., 2010). On the other hand, the costs of compliance may include the monetary costs of paying taxes, the time and effort required to comply, and the perceived fairness of the tax system (Piolatto & Rablen, 2017). In some cases, individuals and businesses may engage in tax evasion or non-compliance if they perceive that the costs of compliance outweigh the benefits (Dhami & Al-Nowaihi). The next section presents tax compliance with the tax system.

2.7 Research Gap

The term “Tax Professionals” brings forth so much of confused ideology to the scholars, by whom the tax agents are misidentified as tax professionals most of the time, while the in-house tax executives are referred to as the tax professionals by some others. The review of literature clearly shows that none of the available studies relating to the tax professionals have examined the tax professional’s tax compliance behaviour in connection with their decision making on the corporate tax compliance. For example, the study made by Mulligan and Oats (2016) investigated as to how the working culture of the tax professionals is practiced and maintained at their workplaces in Silicon Valley. For this, the study looked into their activities within the organizations they work at and found that they shape the company’s tax law and practice it in their organizations.

Meanwhile, another study made by Devos (2012) identified tax agents as tax professionals and investigated as to how their attitude influences their clients' personal tax compliance. An earlier study made by Bobek and Radtke (2007) has studied merely the tax professional's decision making on their corporate taxes by examining their corporate culture, not looking at their personal tax compliance behaviour. The majority of the other studies point to the tax agents as tax professionals, finding out the links among tax agents, tax professionals, tax authorities, and their clients. Generally, the studies made on taxation by researchers look at the work environment of the in-house tax professionals and the impact made on the said tax professionals by other external factors in respect of corporate tax compliance. However, limited number of studies made so far have looked at the personal tax compliance behaviour of the in-house tax professionals and its impact on the decision-making on their corporate tax compliance.

A significant number of studies in the literature have covered empirical evidence on the tax compliance behaviour of the tax students. It is anticipated that the studies made by a researcher on the behaviour and the lifestyle of the current tax students, who will be the tax agents, or the tax officers, or the tax accountants of tomorrow, could be an important feature of the study to understand the current tax policies and the related matters. Investigating the techniques of various kinds adopted by other researchers, Crumbley and Smith (2000) had made a research study previously to give a meaningful and promising tax education to the taxpayers so as to make them aware of their obligation towards the government by giving support and convenience to the authority in fulfilling its work satisfactorily. This study has drafted the concept that the tax compliance behaviour of the taxpayers in the future could be enhanced when the tax officers or the tax agents have a good command of the tax laws for their convenience.

At the same time, the studies made by Armiyanti and Nurasik (2021), Putri and Setiawan (2018), and Wardani and Aprianingsih (2019) aimed at the tax compliance behaviour of the tax students, investigating the students' perception of the tax system and the challenges noticed and met by the tax students on their tax policies. However, the tax students are a class of people who are still in their learning environment, which differs considerably from working environment, ending up possibly in different work environment, such as in the working environment of tax authority, tax agencies, businesses, etc., and handling tax affairs. Therefore, the perception formed in the minds of the tax law students on their future working condition cannot be a standard to conclude. Moreover, limited number of studies have investigated the tendency of the tax students to engage in tax evasion, nor have they learned how the tax students perceive the concept of tax non-compliance.

The basic idea of this research is to investigate the factors that contribute to the personal tax compliance behaviour of the in-house tax professionals, and to test whether their personal tax compliance behaviour influences their corporate tax compliance. The previous studies merely learned the role of the tax agents or the in-house tax professionals, focusing on Europe and North America. During the course of their research, when Alshira'h (2019), Gershon and Osabuohien (2020), Inasius (2018), Le et al. (2019), and Putra and Firmansyah (2018) engaged in exploring the tax compliance behaviour of the taxpayers who handle tax in their businesses and in the small medium enterprises in Malaysia, they found that along with peers' tax compliance, the audit probability, service quality of the tax authority, satisfaction on government spending, etc. had also been found to be the strongest determinants of the tax compliance behaviour.

Limited number of studies have aimed at investigating the tax compliance behaviour of the in-house tax professionals who work in their businesses located in Asia Pacific. However, a few numbers of studies have looked at the Small Medium Enterprises and the tax compliance behaviour of the in-house tax professionals. All these studies made on the businesses and on the Small Medium Enterprises in Malaysia have collected data from the owners of the businesses and from the respondents of the survey of the questionnaire, which are different from one another in nature, since this study looks at the in-house tax professionals of a considerable knowledge and expertise in taxation.

Located in Southeast Asia, Malaysia is a multi-racial and multi-cultural country, having a score of 26 for its collectivistic culture in the country (Hofstede Insights, 2017). The terms ‘Collectivism’ and ‘Individualism’ have significant differences in their concepts, where Collectivism indicates the degree of interdependency of an individual on the other members of the society. On the other hand, Individualism refers to the behaviour of individuals who look after themselves only rather than considering the wellbeing of those in their neighbourhood. New Straight Times (2018) reports that Malaysia is the best example for a collective society with a high-power distance score. The study of Sumari et al. (2019) highlights that the role of the peers of an individual is important in every aspect of the individual’s life.

The people who live in a collective society tend to exchange ideas and suggestions with their peers for each and every matter of their life, even though they have formed their own clear ideas and perceptions of those matters. Noordin and Jusoff (2010) state that Malaysians working culture is also an example to illustrate what is collectivism. The Malaysian society has been structured in such a way that an overriding importance is given

to an individual's peers than to the others for their advice and suggestions in respect of decision making and solutions to important matters, especially the legal matters, such as tax compliance. As happening in Malaysia, in some other countries, the influence exerted on the taxpayers by the peers of the taxpayers has been recognized as an important determinant to influence the tax compliance behaviour of the individuals of the countries.

Even though the tax compliance behaviour of an individual impacted by the individuals' peers is evident, the studies made so far on this variable in the Malaysian context are very thin. Most of the recent publications have only looked at the ways as to how the influence, exercised by the peers of an individual, makes its impact on the individual's indirect tax compliance behavior. For example, Bidin et al. (2015), Sing and Bidin (2020), and Sinnasamy et al. (2015) looked at the excise duty (Indirect taxes) handled by the 'Royal Malaysian Customs'. No recent studies in Malaysia have published their finding on the influence exercised by the peers of the in-house tax professionals on their tax compliance behaviour. More facts about the exploration and explanation on the peers' influence on the tax compliance behaviour of the said tax professionals are presented in section 2.9.1 of chapter 2.

The recent judgment pronounced by the High Court of Malaya in Kuala Lumpur has been disclosed under the title, "*Bar Malaysia v Ketua Pengarah Hasil Dalam Negeri*" [2018] 9 MLJ 557 highlight the legal professional privilege and clients' accounts (Malaysian Bar, 2022). This case was filed by the Malaysian Bar Association to find a lawsuit against Inland Revenue Board of Malaysia, which anonymously conducted raids in tax firms to retrieve their clients' accounts. And the Bar Association also stated that IRBM has demanded access to the relevant clients' accounts at Tax firms. As such, the Bar Association claimed that such

raid is a violation of Section 142(5) of the Income Tax Act 1967. The Judicial Commissioner of the High Court Hon. Darry Goon JCA decided the case in favour of Malaysian Bar association and ruled out that IRBM still can access the clients account can invoke the proviso to section 126 of the EA. The tax agencies and taxpayers react promptly after the IRBM audit raid, and the subsequent actions have limited the IRBM audits on client's accounts. This strongly indicates the influence of audit on taxpayers' behaviour.

The review of literature also highlights the importance of tax audits on the tax compliance behaviour of the taxpayers, the study of which is widespread in Malaysia. The research studies made globally on taxation refer 'Deterrence Theory' to dissuading the taxpayers from evading tax by instilling in their minds the fear of punishment as the consequence for not complying with the tax system. For example, in their recent studies, Abu Hassan et al. (2021), Kiow et al. (2017), Manual and Xin (2016), Mohdali et al. (2014), and Mohd Yusuf et al. (2014) have learnt about the effects of the Deterrence theory after investigating the tax compliance behaviour of the personal taxpayers and the corporate taxpayers in the SMEs in Malaysia. The study of the manner how the probability of tax audit shapes and determines the tax compliance behaviour of the tax professionals has not yet been made; this paper intends filling the tax gap that exists in the literature. More details of the exploration of the audit probability are presented in section 2.9.2 of chapter 2.

The 'Service Quality' of the tax authority indicates the quality of the services rendered to the taxpayers by the tax authority to help the taxpayers to achieve tax compliance. The previous literature of the determinants of tax compliance suggests that the service quality of the local tax authority is the strongest factor to determine the tax compliance behaviour of a taxpayer (Ikhwan Mansyuri et al., 2022; Masumah, 2022; Nur

Yunianti et al., 2019; Sugiyarti et al., 2021). The capability of the tax authority to provide maximum and satisfactory services to the current as well as the future taxpayers is defined as the service quality of the tax authority.

In Malaysia, the recent outbreak of the Covid-19 pandemic has severely affected the tax authority in fulfilling its duties, reducing the number of visits made physically by the taxpayers, tax agents, and the tax professionals to the office of the tax authority regarding their tax problems, closing temporarily the tax office along with a large number of other government departments in the country, and switching their services performed conventionally to another platform via automation and artificial intelligence (Zhang & Lu, 2021). This new normal transformation of services of the government departments and the authority in the country is expected to be continued even after Covid-19 since this service has created the easiest and the fastest pathway for the functions and the operations of the activities of the departments and the authorities without causing human errors (Amisha et al., 2019; Briganti & Le Moine, 2020).

Though the studies that are related to service quality and tax compliance have been published during and after Covid-19 pandemic, their actual data collection had been carried out prior to the pandemic restrictions. Therefore, this study provides the latest findings of the research, which reveal the perception of service quality of tax authority in the minds of the taxpayers. The current operations regarding taxation are largely carried out via online platform using artificial intelligence (AI). However, it is expected that IRBM should still enhance its adoption of artificial intelligence in certain areas of its operations. A detailed discussion on the area that requires artificial intelligence usage is presented in section 5.2.1 of chapter 5. This factor has increased the significance given to the Service quality of the tax

authority to be considered as another variable for measuring the tax compliance level of the taxpayers. More details of the exploration of the service quality of tax authority are presented in section 2.9.3 of chapter 2.

During the time of natural disasters and pandemics, such as Covid-19, the relationship between the government of a country and its citizens should be strong enough to safeguard the citizens of the country against the consequences of the disasters and the pandemics and to develop the country; in this respect, the Malaysian government remains fully devoted and committed to the fulfilment of its duties towards its citizens, focusing on their wellbeing, and making itself worthy for emulation by other countries (Razak & Abdulla, 2018). The citizens of Malaysia frequently follow the decisions made by the government that impact their wellbeing (Chong & Arunachalam, 2018). The articles and the news relating to politics and other fields, especially on the topics of adjustments and changes made in the current financial jurisdictions, are the most interesting aspects of the readership of the people. Being always outspoken in their comments on the fund spent by the government of Malaysia on projects, developments, etc., the people of Malaysia attentively observe the government in respect of the usefulness and fruitfulness of the expenditures made by the government (Mohd Faizal et al., 2019).

Malaysia has become one of the most competent countries in the world in handling and curbing the spread of the Covid-19 virus pandemic successfully in the country. By providing the best treatment facilities to the health care sectors to handle the Covid-19 pandemic, introducing the ‘Movement Control Order’ (MCO) to restrict people from making unwanted travels outside their dwellings, and funding the affected corporate sectors and the pandemic stricken families to cushion their impact of the financial constraints in the ensuing

months of the pandemic in the country, Malaysia has successfully tackled the effects of the negative externality faced by the citizens and the business corporations of the country (Mannan, 2020). Previous studies have concluded that satisfaction with government spending strongly influences tax compliance level. Considering the fact of government expenditure during the pandemic, testing the tax compliance level with perception on government expenditure has not been learned yet. Therefore, this study learns the perception of taxpayers on government spending pattern after the covid-19 pandemic. More exploration about the satisfaction on the government's spending is presented in section 2.9.4 of chapter 2.

When looking at the literature of tax compliance behaviour, it is clearly highlighted that the literature mostly looks at the economic factors that impact the tax compliance behaviour. Religiosity is one of the non-economic aspects of studies, which is always neglected by researchers when closely analysing the personal tax compliance behaviour of an individual. Generally, religious beliefs strongly moderate the relationship between the factors that motivate tax compliance behaviour and the level of tax compliance, especially in the western part of the world.

A legal case recorded earlier in the United States in 1965 states that an Amish in the country had been exempted from tax by the 'United States Congress' as he believed and claimed that the income that is levied from the taxes of an individual is used for the maintenance of activities against the religious beliefs and practices of the individual. As such, concerning his own religious beliefs and practices, and being adamant about tax payment, he opposed continuously and vehemently to paying tax to the tax authority of his country (Cornel Law School, 1992). However, whether religiosity moderates the Malaysian

personal tax compliance or not is still unknown. Malaysia remains important as far as religiosity in the country is considered as a variable for tax compliance since the religious tolerance in the country is significantly well practiced across the nation (BBC News, 2021).

Malaysia has been witnessing a significant increase in the level of non-compliance among the taxpayers of the country. The moderation effect of religiosity is hardly learned and realized in the country. Whereas in the other studies, religiosity is mainly considered another independent variable. The Review of literature on tax compliance emphasizes that the most powerful and influential determinants that impact personal income tax compliance are the Peer's influence, the Role of the tax authority, Satisfaction with government spending, and the Probability of being audited by the tax authority. However, the studies relating to tax compliance are still lacking conclusive evidence; the reason for such a lack of evidence might be the influence exerted by the taxpayer's individual factors such as their religious beliefs, which twist their decisions towards taxation. This study completes what is needed for the study, finding the overall impact made by the above-mentioned variables on the tax compliance behaviour. More details of the exploration of religiosity are presented under section 2.10.2 of chapter 2.

The studies also lack empirical evidence to present the moderating effect of financial conditions caused by socio-economic variables. Financial constraint is one of the economic factors, which is always neglected by studies when analysing the tax compliance behaviour of taxpayers. Financial constraint occurs in a situation where it gives rise to insufficient cash flow for an individual or to a business when settling an outstanding debt or when engaging in a financial or a non-financial transaction. The degree of the financial constraint faced by an individual or a business depends mostly on the type of accounting basis they practice.

According to the International Federation of Accountants (2022), Malaysia is currently in the phase of transition from the Cash Basis Accounting to the Accrual Basis Accounting. Section 5.2.2 of chapter 5 explores the contemporary practice of accounting basis around the world. This transition of accounting may cause difficulties for the entrepreneurs who still practice mixed accounting basis. More details of the exploration of the financial constraint are presented under section 2.10.1 of chapter 2.

The past studies made on the tax compliance behaviour, and on the selected variables are listed above. Almost all the studies made so far have given importance to the variables listed above, and no study has yet published the findings of the testing made on the association between the ‘Personal Taxation’ and the ‘Corporate Taxation. Furthermore, no study has yet been conducted so far to evaluate the impact made by the ‘Personal Taxation’ on the ‘Corporate Taxation’. This study fulfils what is needed for the completion of the study by finding the overall impact made on the tax compliance behaviour by the above-mentioned variables. More presentation on the contribution made to the literature is presented in section 6.3.1 of chapter 6.

2.8 Tax Compliance

Tax compliance with the tax law means true and honest reporting of tax with correct calculation of liability, timely filing of the tax return, and timely payment of the amount due (Kiow et al., 2017). Most of the individual corporate taxpayers in Malaysia are hesitant to pay their taxes to the tax authority; and to cut down their tax liabilities, they engage in various strategies and actions (Ahmed & Kedir, 2015). Corporate tax compliance is an action that is performed by a corporate taxpayer for fulfilling the taxpayer’s obligations to the corporate,

adhering to the rules and regulations of the corporate. The next section presents the economic and non-economic approaches of tax compliance.

2.8.1 Economic and Non-economic Approaches of Tax Compliance

McKerchar (2010) explains that there are several approaches, such as law, economy, accounting, psychology, and finance that are available for an individual to study the tax compliance behaviour. The studies that conducted researches in similar areas have adopted mostly either economic based theories, or psychology-based theories (Alley & James, 2006; Andreoni et al., 1998). The economic based approaches have measured the concept of tax gap that exists in the country, whereas the psychology-based approaches have measured the concept of compliance behaviour of the taxpayers (Refer to Appendix F) (Alley & James, 2006). Due to the availability of multiple approaches, the studies related to taxation would be conducted on either the monetary values or the human behaviour. The next section presents the factors that impact upon tax compliance.

2.9 Factors Affecting Individual Tax Compliance

Adherence to tax laws entails accurate and transparent tax reporting, including precise liability calculations, timely submission of tax returns, and punctual settlement of dues (Kiow et al., 2017; Walsh, 2012). Conversely, tax non-compliance poses a significant societal threat, diminishing national revenue and stability by fostering dishonesty and fraudulent activities within the tax system. Therefore, it is imperative for tax authorities to comprehend taxpayer motivations to mitigate the incidence of tax non-compliance within the country.

Tax non-compliance manifests in three primary forms: Crude, Manipulation, and Adulteration (Kasipillai & Shanmugam, 1997). Crude non-compliance involves

underreporting income and overstating expenditures. Manipulation entails falsifying accounts, commonly observed in the corporate sector through duplication or forgery of documents to reduce liabilities. Adulteration includes concealing funds offshore, prevalent in corporate settings. However, issues in individual tax compliance predominantly align with crude non-compliance, characterized by underreported income and inflated expenses. As this study centres on individual taxpayers' compliance behaviour, the variables explored primarily pertain to crude non-compliance. Subsequently, the subsequent section delves into peers' tax compliance and its impact on overall tax compliance levels.

2.9.1 Peer Tax Compliance and Personal Tax Compliance

This variable refers to the extent to which an individual's tax compliance behaviour is influenced by the tax compliance behaviour of their peers or social network. It measures the level of conformity to tax regulations based on observations or perceptions of peer behaviour within the same social circle or community. In taxation, the term “Peers” refer to those who are in association with a taxpayer, especially the individual taxpayer’s relatives, friends, co-workers, and colleagues (Lefebvre et al., 2015). The study claims that if an individual believes that the tax compliance is widespread among his peer group, and that the group agrees with the tax system, the individual tends to be compliant with the tax system. The individual Taxpayer’s behaviour is affected by the behaviour of his neighbours, or by the behaviour of those with whom the individual frequently interacts (Alm et al., 2017; Inasius, 2018).

This study has employed an experimental method to test the role of peers on the tax compliance behaviour, and it has found out that there is a positive relationship between the neighbours’ tax compliance behaviour and the individual’s tax compliance behaviour. However, the study further concludes that this information, regarding neighbours’

compliance behaviour, does not always improve an individual's tax compliance behaviour. In addition, Alm et al. (2017) express that the tax compliance behaviour is so wide that it cannot be narrowed down into information about neighbours' behaviour. Another study conducted by Puspitasari and Meiranto (2014) also utilised a laboratory experiment setting, named 'quasi-experimental design', which claims that the peer reporting behaviour may increase the decision to comply with the tax system. If an individual perceives that tax evasion is impossible, as the majority of people living in and around the community, where the individual lives, are highly compliant with tax system, the individual becomes discouraged from evading tax (Wenzel, 2001a, 2001b).

A study made by Ho, Loo and Lim (2013) have found that the taxpayers in China use relationship-based reasoning to make judgement on tax compliance issues. The study further highlights that people are always ready to react to the social norms and behaviour of their neighbours and their peers, conversely, the study made by Alshira'h (2019) claims that the peers' influence does not have any significant effect on tax compliance among the Jordanian taxpayers. Further, the outcome of their claims has been justified as such that the influence exercised by an individual's peers does not always increase the tax compliance behaviour in the individual. A similar outcome has been learned by Bornman (2004). He explains that the taxpayers have been found complying with the tax system while their peers have been found noncomplying with the tax system.

With regard to the decision making on tax compliance, the influence, exerted on an individual by the individual's peers who live closely with the individual in a community, is more than the influence, exerted by the individual's peers who live remotely in the community (Behavioural Insight Team, 2012). Referring to the decision making of an individual on tax compliance, Alshira'h (2019) has discovered that the influence of peers of

an individual on the individual's decision making may be the determinant of tax compliance in different regions, but not in Jordan, where the culture of Jordanians is highly individualism-oriented, being resistant to social interaction among the people of the country, and indicating the reason for the insignificance of their relationship.

Interestingly, another study, made by Obaid et al. (2020) from the same study setting in the Middle East, has found that the influence of peers strongly determines the tax compliance behaviour of an individual in Yemeni. This finding highlights the relationship between the social grouping and an individual in the decision-making. A similar outcome has been briefed by an Indonesian study that explains the referral group has the most significant influence on tax non-compliance behaviour among Small and Medium Enterprises (Inasius, 2018). The purpose of this paper was to investigate the impact that the factors have on Small and Medium Enterprises.

A mixed conclusion made by researchers has failed to provide a clear understanding of the relationship between the 'Peer tax compliance behaviour' and the 'Individual tax compliance behaviour'. Also, the studies focusing on the tax compliance behaviour of an individual, impacted by the referral of his peers in the developing countries, are lacking. Lutfi et al. (2017) suggests that 'Peer tax compliance' is not an easily observable variable, as it is involved with social pressure; an anonymous way of data collection, in this regard, should be employed to get the truth and honest reflection of perception from the individual concerned. The next section presents probability of tax audit and level of tax compliance.

2.9.2 Probability of Tax Audit and Personal Tax Compliance

This variable represents the likelihood or chance of an individual being subjected to a tax audit by the tax authority. It measures the perceived risk of detection and subsequent enforcement actions by tax authorities, which may influence an individual's decision to

comply with tax regulations. According to Allingham and Sandmo (1972), taxpayers comply highly with the tax system if they find that the probability of their being caught, or detected is high. According to the Malaysian ‘Self-Assessment System’ (SAS), tax audit is set as a critical task for the tax authority (IMF, 2002). Some studies found that there is a positive relationship between tax audit and tax compliance (Ayers et al., 2018; Modugu & Anyaduba, 2014). Supplemental analysis carried out by Ayers et al. (2018) shares the fact that the probability of audit alters the expectation of managers on the future tax submissions. Previous studies have mixed results on the association between the probability of audit and the tax compliance level. For example, the study made by DeBacker et al. (2013), using US Revenue authority’s data and the financial statement data, explains that the legal enforcement, like the audit, may increase subsequent corporate misbehaviour.

At the same time, a recent study made by D’Agosto et al. (2017) found that a positive relationship exists between tax audit and tax compliance behaviour in terms of deterrence theory. The study collected data from the tax return registry, and from the audit data base of the ‘Italian Revenue Agency’ from the year 2004 to the year 2009, focussing on the self-employed, and on the sole proprietors of business. The study further found that the rate of Italian tax compliance had been increased relatively by three types of audit. They are as follows: ‘On-site audit’ (soft audit), ‘Desk audit’ (deep audit), and the ‘Mixed audit’ (mixture of ‘On-site’ and ‘Desk audit’). However, this study suggest that those data had been collected for study a decade earlier, and that, at present, a need is remaining to study the data again, with the current time frame, and with a wider geographical setting, or in a different region.

Considering the deterrence theory, the literature provides mixed conclusions on the relationship between these two variables. For example, the other researchers have discovered

that even though high rate of audits normally increases the level of tax compliance among the taxpayers, or the reporting of their income to the tax authority, the results of which are not statistically significant (Evans, Carlon & Massey, 2005). In a study made in Australia, a possible explanation for the above fact has been expressed that the respondents who participated in the study might have had less audit experience, and that 63% of the respondents had not been subjected to any audits carried out by the Australian Taxation Office (ATO). The participants of the study, approximating one third in number, only have undergone audits in the past three years. The insignificant outcome of the study reveals that mere threats of audit may not be enough to encourage an individual to comply with tax system, and change the individual's behaviour. However, once a business has been audited, the importance of tax compliance is felt by the individuals, and a change in the behaviour of the individuals can also be noticed. The next section presents service quality of tax authority and level of tax compliance.

2.9.3 Service Quality of Tax Authority and Personal Tax Compliance

This variable assesses the quality of services provided by the tax authority to taxpayers, including aspects such as responsiveness, accuracy, and accessibility of information and assistance. It measures the level of satisfaction and trust that taxpayers have in the tax authority, which can impact their willingness to comply with tax obligations. The study made by Supriyono et al. (2021) collected data from various business entrepreneurs, and learned that the individuals of businesses in Indonesia are motivated to report their income to the tax authority, being influenced by the authority with its service quality. If the tax policies adopted by the government seems to be unfair to the people, they will form a negative perception on the tax system, and on the role played by the tax authority in collecting tax for the country; the cause for the formation of such perception among the

people is not applying the 'Tax Socialization' theory (arousal of awareness on tax compliance) among the people (Chong & Arunachalam, 2019; Richardson, 2008). The lessening of the complexities in the tax system, and maintaining leniency in the administration of tax collection by the tax authority could make the taxpayers become more tax compliant (Alm & Togler, 2010).

Nevertheless, the adoption of mixed tax system of 'Self-Assessment System' (e-filing) and the 'Official Assessment System' (manual submission) around the world has given no standard finding to discover the relationship between the service quality of tax authority and taxpayer's compliance behaviour (Palil, Hamid & Hanafiah, 2013). Further, the tax compliance carried out by small and medium sized businesses, and the perception that they have towards the tax authority are still remaining unclear to be understood. Also, Supriyono et al. (2021) suggests testing this variable on a large-scale respondent's rate, for example, by survey and direct interview since this outcome has been solely made out from a qualitative approach. In view of the above fact, this study further explores the service quality of Malaysian tax authority, which adopts the 'Self-Assessment System' in taxation.

Kasipillai and Baldry (1998) have found that better interactions between the Inland Revenue Board (IRBM) and the taxpayers cause better tax compliance. It is also suggested that the Malaysian tax compliance level may increase if the tax collection authority upgrades the relevant technology for the sake of the taxpayers (Pope & Jabbar, 2011). Experiments reveal that the people who are treated with good acknowledgment, and fair treatment by the authorities tend to comply more with the tax system (Braithwaite, 2009, Delaney & Harmon, 2009). The Organisation for Economic Co-operation and Development (2010) explains that among the three types of fairness in taxation, two of them, the 'Procedural fairness' (the perception that the tax authority is just and fair in dealing with clients), and the 'Retributive

fairness' (the perception that the tax authority is fair in applying penalties) relate to how the tax authority deals with taxpayers. Murphy (2004) has emphasized that the level of tax non-compliance, among the taxpayers, would rise up if the taxpayers lose their trust in the administration of the authority by chance.

Alm et al. (2010), and Reeson and Dunstall (2009) have discussed and stated that the taxpayers' perception of fairness in taxation, which they feel good and positive to them, and the unwavering trust that they have in the tax authority are the important elements and tools for lessening the level of tax noncompliance. The National Equity Fund (2005) further supports this fact by explaining that the likelihood for the taxpayers to comply with the tax system would be high if the taxpayers are treated respectfully by the authority.

If this study finds a significant relationship between the tax authority and the compliance behaviour, then a modern risk treatment model, called "Right from the Start", adopted by the Swedish Tax Agency can be recommended to the 'Inland Revenue Board of Malaysia' as well. The Swedish Tax Agency (2005) introduced "Right from the Start" as a compliance method based on the principle that the tax authority has a role to play in creating an environment, which encourages compliance. The Swedish Tax Agency (2005) has introduced a model, called "Right from the Start", to be used in taxation to prevent errors that emerge when achieving tax compliance among taxpayers, and to enhance the quality of tax compliance among them, based on the principle that the tax authority has a role to play in creating an environment, whereby the tax compliance can be uplifted to a higher level. Basically, the "Right from the Start" model looks into the issues in taxation that cause tax noncompliance; analyses the root cause of the issues; and nip the issues in the bud before they become problematic to the tax authority.

The tax authorities in most of the countries across the globe, including the ‘Inland Revenue Board of Malaysia’ (IRBM), focus on their scheduled working after problems in taxation have occurred. For example, only after recognizing a gap of a few billing Ringgit tax, the tax authority begins to find a way to narrow down the tax gap. If the “Right from the Start” model is adopted at the right time, any other post measures are not necessary to be taken to rectify the aftereffects of the issues and to recover the losses that are incurred. The next section presents satisfaction on government spending and level of tax compliance.

2.9.4 Satisfaction with Government Spending and Personal Tax Compliance

This variable reflects individuals' satisfaction or dissatisfaction with how government funds are allocated and spent. It measures perceptions of the effectiveness, transparency, and accountability of government expenditure, which may influence behaviours towards tax compliance based on the perceived value and fairness of public services and investments. Researches focusing on the relationship between the government's expenditure and the tax compliance behaviour in the developing countries are very scarce. Due to the unavailability of empirical evidence to explain the relationship between the government's expenditure and the tax compliance, it is assumed that the taxpayers are concerned about the contribution that they make to the government in the form of tax, as to whether the expenditure made by the government is just and reasonable as per its needs and requirements (Palil, Hamid & Hanafiah 2013).

Doerrenberg (2015) explains that the collection of taxes goes to the federal treasury, and that the people, especially those who pay additional taxes to the government, watch the government carefully and diligently for its activity in spending the taxpayers' money from its treasury, as to how the money is spent, what the money is spent for, and how the money is withdrawn from the government budget, etc. (Mohani, 2001). Similar findings have been

studied by Alasfour, Samy and Bampton (2016), where non-compliance with tax system in Jordan is morally acceptable since the people of Jordan have formed a negative impression on the government due to its engagement in corruption, and in the misuse of the taxpayers' money as its expenditure. The purpose of the study, using a questionnaire survey with a multivariate test procedure, is to investigate how the individuals in Jordan determine their tax moral levels and the tax compliance level should be. The findings reveal that worthwhile expenditures made by the government, with the taxpayers' money, negate the impact on non-compliance. It is also assumed that the taxpayers have the tendency to avoid paying tax to the tax authority if they predict that the expenditures made by the government are not fruitful and worthwhile (Braithwaite et al., 2009).

In the developed countries of the Occident where the tax paying method, called "Pay as You Earn", is adopted by the employers of organizations, institutions, and businesses, through which the taxes due to be paid to the government by the individuals are deducted from the salary of the individual by their employers, collected, and are sent to the tax authority, minimizing the impact on the individuals, and avoiding the act of tax evasion by the individuals concerned. The adoption of the 'PAYE' ('Pay, As You Earn') system nullifies the concept of the "Relationship between the 'Perception of government spending' and the 'Tax behavior'", as the taxpayers are deprived of the opportunity to take decision on tax compliance, based on their perception towards the government (Roberts et al., 1994). Very narrowed studies have focused their attention on the perception that the people have towards the government spending. The next section presents the moderating factors of tax compliance. To begin with, the next section explains the financial constraints and tax compliance.

2.10 Moderating Factors

2.10.1 Financial Constraints and Personal Tax Compliance

This variable refers to the financial limitations or constraints experienced by individuals. It measures the extent to which financial difficulties or constraints impact an individual's ability or willingness to fulfil their tax obligations. Engida and Baisa (2014), and Supriyono et al. (2021) stated that the term 'financial condition' refers to an individual's financial capacity, reflecting the cash flow of the individual. A recent study conducted in Indonesia using qualitative descriptive approach explains further that the individual taxpayers with financial struggles involve themselves more in non-compliance intentionally than those who can afford to resolve their tax payables. The study that refers to the financial stability of an individual as a personal factor, and the taxpayers with sound financial capacity would definitely motivate the taxpayers to carry out financial planning in order to allocate the funds for tax compliance. Gottlieb and Hollenbach (2018) stated that fiscal capacity is found to be a moderator between the tax determinants and the tax compliance level. Individuals tend to focus their attention more on covering their expenses in the fulfilment of their basic needs and necessities, such as foods, clothing, and shelter than on taking their decision on the payment of their outstanding tax liabilities (Mohani 2001).

Shanmugam (2003) found that the taxpayers give low importance to their tax payables since the time frame set to catch the tax nonpayers seems to be longer than the probability of catching the tax nonpayers. Slemrod and Yitzhaki (2002) explain that the monetary cost is one of the three components of the social cost of taxation. These costs can be paraphrased by society as the costs incurred in the process of purchasing and transferring of power from the taxpayers to the government. The other elements are the administrative costs, and the costs incurred in the deadweight efficiency loss from taxation. The

administrative cost is mostly suitable for corporate sectors, but the deadweight loss refers to the opportunity cost. If the compliance costs are no longer necessary, they can be used in the fulfilment of their essential needs, prioritizing over the compliance costs. In contrast, an earlier study conducted by Warneryd and Walelrud (1982) claimed that an individual's financial position makes no impact on the tax compliance. The next section presents the moderating effect of religiosity on tax compliance.

2.10.2 Religiosity and Personal Tax Compliance

This variable captures the degree of an individual's religious beliefs, practices, and adherence to religious teachings and values. It assesses the influence of religious convictions on behaviours towards tax compliance, reflecting the role of spirituality and faith-based motivations in shaping tax behaviour. Religiosity is defined by Johnson et al. (2001) as 'the extent of an individual's religion to which the individual remains committed to, upholding and professing the teaching of the particular religion', which is being inexplicably reflected on the individual's behavioural aspects, such as attitude, personality, etc. Religiosity is also referred to as the religious commitment of a person, which is further defined as 'the degree of the person's religious beliefs, and religious practices, to which the person adheres deeply and uses them in daily life (Mohdali et al., 2017). The commitment of religiosity is divided into two types: (1) 'An intrapersonal religious commitment' that originates from the beliefs and attitudes of an individual. (2) 'Interpersonal religious commitment' that derives from the involvement of an individual in activities with a religious community, or an organization.

Earlier studies carried out in developed countries, such as Austria (Torgler, 2005), Australia (Torgler, 2004), Canada (Torgler, 2003), the Netherlands (Ross & McGee, 2011), and some European countries (Torgler, 2006), reveal that people with strong and extreme religious beliefs would have a higher degree of tax compliance behaviour. The study by

Sawyer et al. (2020), and Pope and Raihana (2014) reveal that religiosity is considered as one of the concepts of tax moral, and one of the strongest determinants of tax compliance.

The religious values held by most individuals are generally expected to effectively prevent negative attitudes being formed by them, and they are encouraged to keep positive attitudes in their daily life. Hence religiosity is presumed to positively motivate the taxpayers to voluntarily comply with tax systems. It has been observed that religiosity might provide a possible explanation for the strong positive compliance attitudes found in most taxpayers, as apparent in the prior literature. However, it has been considered that the studies on tax compliance in religiosity are lacking, and that further researches have been suggested to explore the concept that religious norms are also the possible factors to raise tax morale among the taxpayers, for better understanding of the concept in addition to the current tax compliance theory (Riah-Belkaoui, 2004). Based on a recent study by Nor Raihana (2013), religiosity appears to moderate the effect between the determinants of the individual tax compliance and the voluntary tax compliance level.

It is believed that religion paves the way for economic development of a country in varying degrees. The measurements of religiosity, such as the amount of attendance of individuals at religious functions and religious services, the degree of religious beliefs that the individuals have, and the decline of it when the per capita Gross Domestic Product (GDP) increases (Barro & McCleary, 2003). Further, religion also serves to encourage certain behaviours, for example, honesty and work ethics of individuals, which is considered to enhance productivity, indicating that the economic growth responds positively to religious beliefs. A study of a laboratory experiment made by Puspitasari and Meiranto (2014) suggests that the inclusion of religiosity in future studies is to be made compulsory since a

clear conclusion of the study has not yet been made so far. The next section presents the nexus between taxpayers' compliance behaviour and corporate social responsibility (CSR).

2.11 Taxpayers' Compliance Behaviour and Corporate Social Responsibility

The studies made by Handy (2002), and Marrewijk (2003) highlight that the tax compliance behaviour of the managers of businesses is associated with their Corporate Social Responsibility (CSR). The studies investigating the relationship between each other is very narrow. This section discusses the tax compliance behaviour as well as the Corporate Social Responsibility, as to how both are connected to each other. The next section presents tax compliance behaviour of taxpayers.

2.11.1 Tax Compliance Behaviour of Taxpayers

It is certain that the governments of countries around the world keep their focus immensely on collecting taxes. However, they experience difficulties when collecting taxes from the taxpayers. Most of the individual taxpayers are reluctant to pay their taxes to the tax authority, and they resort to perform various actions to cut-down their tax liabilities (Ahmed & Kedir, 2015). According to McBarnett's tax behaviour model, tax compliance (capitulated, committed, and avoidance) and tax non-compliance (tax evasion) are the major components of a taxpayer's behaviour (Alabede et al., 2011).

McBarbarnett's model explains that forced tax compliance creates capitulated compliance that occurs without the taxpayers' willingness, whereas the committed compliance refers to the taxpayers' voluntary tax compliance. At the same time, tax avoidance takes place in such situations where the individuals, while remaining as taxpayers, seek ways to reduce their tax payments owed to the government. On the other hand, tax evasion refers to the intentional non-compliance with the tax system, where the taxpayers

understand and realize the obligation that they have to the government, but escape from their obligations (Slemrod & Yitzhaki, 2002). The term, “Slippery Slope Framework”, suggests that the ‘Voluntary tax compliance’, and the ‘Enforced tax compliance’ can be considered as the basic aspects, base lines, for the tax compliance behaviour (Kogler et al., 2015). However, Silva et al. (2019) argues that both these two terms, ‘Tax evasion’ and ‘Tax avoidance’, are the reflection of the taxpayers’ irresponsibility; the above two terms indicate the taxpayers’ intention of not paying their tax to the authority, and reducing the tax amount due to the authority respectively. In Malaysia, ‘Tax evasion’ is an act of misrepresentation of financial statement, underreporting of income, or overstating of financial statement or expense, which are considered illegal leading to criminal offenses by Law.

Compliance with the tax law means true and honest tax reporting with correct calculation of liability, timely filing of tax return, and timely paying of the tax amount to the government (Kiow et al., 2017; Walsh, 2012). Non-compliance with the tax system is a social destruction as it reduces the national revenue and the national stability by encouraging cheating and fraud to take place in the country. Hence, to reduce the tax non-compliance rate in the country, it is important that the tax authorities should understand the motivation of the taxpayers.

Tax non-compliance is divided into three main classes: crude form, manipulation, and adulteration (Kasipillai & Shanmugam, 1997). Underreporting actual income, and overstating expenditures are the crude form of non-compliance. Manipulation of accounts is mostly found in the corporate sector where documents are duplicated, or forged to reduce the payables. Money hiding outside the country is an example of adulteration, which is also mostly found in the corporate sector. However, most of the individual tax compliance issues fall under the crude form of non-compliance, as under-reporting income, and overstating

expenses. Since this study focuses on individual taxpayers' tax compliance behaviour, the variables studied are mostly related to the crude form of non-compliance. The next section presents corporate social responsibility.

2.11.2 Corporate Social Responsibility

Marrewijk (2003) defines 'Corporate Social Responsibility' (CSR) in terms of 'Triple Bottom Line' (TBL), which explains that a business has the responsibility and commitment towards achieving and maintaining the three aspects of sustainability, known as the 'economic sustainability', 'environmental sustainability', and the 'social sustainability'. Another study by Handy (2002) states that the purpose of running a business organisation is to serve more on the community than on making profits. The next section explains the link between tax compliance and corporate social responsibility.

2.11.3 Link between Tax Compliance and Corporate Social Responsibility

Two parallel practices are found to have existed among the business entities during the past few decades. One of those practices is the globalization. Companies have started to practice outsourcing for their production of things in other companies located in other regions where the cost of producing the same things is found to be cheaper than that in the outsourcing parent company. Such companies carefully identify the countries and the regions where the tax rate, and the exchange rate are low to be outsourced for the production of things; and the income generated to be transferred back to the parent companies, making the company remain motivated for low tax payment in the country of origin (Rego, 2003). The second practice is the 'Corporate Social Responsibility (CSR)', which has become a growing area of focus for the scholars and the watch-dogs in the society (Hoi et al., 2013). These separate areas of study are studied much in many researches separately, but the connection between taxation and the corporate social responsibility (CSR) is very narrow

(Carrol & Joulfaiian, 2005; Sikka, 2010). Hoi et al. (2013) state that these topics are significantly related to one another.

An earlier study by Carrol (1979) argues that the duties of a company towards the society are supposed to comprise economic, legal, ethical, and discretionary responsibilities. Complying with tax system and paying taxes meet the above requirements (Huseynov & Klamm, 2012). Non-compliance of a corporate entity with tax system is an indication of neglect of its discretionary responsibilities. Somehow, as the 'Tax Avoidance' is considered legal, the corporate sectors have their own justification. A recent study by Gulzar et al. (2018) indicates that 'CSR' is negatively related to the corporate 'Tax Avoidance', and that the firms with more responsibilities towards the society are involved more in tax avoidance than the firms with few responsibilities. On the other hand, Sikka and Willmott (2010) argue that if the collected amount of the corporate tax is less, and is inadequate for the provision of schooling, infrastructure, and for the maintenance of wellness programs, the society will be imposed with the burden of shouldering those responsibilities.

In the same study, it is claimed that it is impossible for the business entities to perform both 'CSR', and 'Tax Avoidance' simultaneously as they are incompatible to each other, meaning that it is not a healthy approach for a business entity to avoid providing societal contribution through the government, in the name of taxation, but by engaging only through CSR to support the society. Further, Saveanu and Badulescu (2017) express that if an organisation has a motto of contributing of money to the society from its net revenue, the revelation of the source of its collected revenue, and the right amount of the tax made, to the people and the authority would be an indication of behaviour of cooperation of good citizens of the country. Supporting a similar argument, Lanis and Richardson (2012) provide an empirical study made with over 400 Australian companies, and has found that the businesses

with higher CSR activities are lower in tax non-compliance, or have plans to reduce taxes. The next section presents hypotheses development. To begin with, the first section presents the hypothesis one.

2.12 Hypotheses Development

2.12.1 Factors Affecting Personal Tax Compliance and Corporate Tax Compliance (H1)

According Alm, Bloomquist and McKee (2017), the tax compliance behaviour of an individual is strongly affected by the tax compliance behaviour of their neighbours, or by the people with whom they frequently interact with. There are situations where individuals become more likely to disclose and report their income to the IRBM when they come to know or believe that the other people who are around them in association also do the same action. This scenario may occur vice versa, when the neighbours of an individual dodge taxes, there is a higher possibility for the individual to do the same.

According to an experiment conducted in a study, ‘two-treatment setting’ was set up for the participation of two groups of respondents in the experiment. In one treatment setting, a group of respondents were informed that their neighbours had complied with the tax system; and in the other setting, another group of respondents were informed that their neighbours had been audited, and that they had paid their taxes with penalties. In conclusion, the above experiment shows that the behaviour of an individual is impacted and changed significantly and differently by the behaviour of other people with regard to tax compliance. Obaid et al. (2020) discuss that there are individuals who do not associate with other people to be influenced by them on tax compliance, and for such people, ‘Peer influence’ cannot be a factor to determine their tax compliance behaviour. The next hypothesis discusses the association between peers’ tax compliance and level of tax compliance.

H1a1: There is a positive association between peer tax compliance and personal tax compliance.

The above hypothesis aligns with Kelman's Social Influencing Theory, which suggests that individuals' behaviour is influenced by the behaviour of those around them. The idea that individuals are more likely to comply with tax regulations if they perceive that their peers are also compliant supports this theory.

According to Ayers et al. (2018), in business, the managers' decision to comply with the tax system is determined by the probability of audit. The study by DeBacker et al. (2013) placed a different opinion claiming that legal enforcement increases tax aggressiveness, which is a way for the corporate sectors to act in reducing the tax payment, following an audit, and then to increase it sharply. Businesses comply with the tax system more when they have the probability of their businesses being audited by the tax authority; and soon after the audit, they become noncompliant with the tax system. Such a pattern of behaviour of the businesses is called 'U-Shaped Impact'. In the meantime, D'Agosto et al. (2017) state that there is a positive and a significant relationship between tax audit and tax compliance. Different types of audits are carried out by the tax authority in Italy, relating to the cases of tax non-compliance they handle, which improved the level of tax compliance significantly in the country. However, the adoption of on-site, and desk audit has shown a great effect on the tax compliance. The next hypothesis discusses the association between probability of tax audit and level of tax compliance.

H1a2: There is a positive association between probability of tax audit and personal tax compliance.

The above-mentioned hypothesis relates to the Allingham and Sandmo Model and Utility Maximizing Theory. According to these theories, individuals weigh the costs and benefits of tax compliance. The expectation of being audited increases the perceived cost of non-compliance, thus motivating individuals to comply with tax regulations.

Having a strong influence on the tax compliance behaviour, tax socialization is the service quality of the tax authority (Supriyono et al., 2021). Service quality must be upheld by the tax authority because the taxpayers frequently face difficulties in calculating, paying, and reporting their taxes. The tax authority is obliged to improve its service quality in terms of knowledge, skills, and other facilities so that it can facilitate the taxpayers in fulfilling their tax compliance. Indonesian taxpayers reveal that they fail to comply with the tax system due to the fact that they cannot acquire the required information of the regulation that they are looking for from the tax authority, and also, they do not understand what the tax authority demands and expects from them. Similar argument was presented by Alm et al. (2017) that the 'Service paradigm for tax administration', where the tax officers act as facilitators, and share their services, will increase the level of tax compliance. The next hypothesis discusses the association between service quality of tax authority and level of tax compliance.

H1a3: There is a positive association between service quality of tax authority and personal tax compliance.

The above-mentioned hypothesis also relates to Kelman's Social Influencing Theory, as it suggests that the behaviour of tax authorities, acting as facilitators, can influence individuals' tax compliance behaviour. Additionally, it aligns with the Fiscal Psychological Theory, which emphasizes the importance of individuals' perceptions and experiences with tax authorities in shaping their compliance behaviour.

The collected tax is directed to the treasury of the federal government, and the flow of cash is expected to be transparent to the public (Doerrang, 2015). Further, being taxpayers, the citizens of the country take note of their money that is handled, and spent by the government. If the taxpayers perceive that the expenditures made by the government are not worthwhile and fruitful, the resulting perception makes an impact negatively on their tax compliance behaviour, altering it (Braithwaite et al., 2009). With similar argument, Mohani (2001) rationalizes that the people who pay additional tax to the government monitor the government diligently when it handles the taxpayers' money.

An empirical study by Alasfour, Samy and Bampton (2016) reveals that the people of Jordan have the tendency not to comply with the tax system in the country due to the negative perception that they have formed on the government, which has been hit heavily by corruption. Having estimated the corruption perception index, the Transparency International (2017) has highlighted that Jordan is remaining as the 59th corrupt country out of the 180 countries. Meanwhile, the Transparency International (2021) has ranked Malaysia as the 57th corrupt country out of the 180 countries, letting the variable 'satisfaction on the government spending' to be an important determinant for personal tax compliance. The next hypothesis discusses the association between satisfaction on government spending and level of tax compliance.

H1a4: There is a positive association between satisfaction on government spending and personal tax compliance.

The above-mentioned hypothesis aligns with the Fiscal Psychological Theory, as it suggests that individuals' perceptions of government spending influence their willingness to comply with tax regulations. It also relates to Utility Maximizing Theory, as individuals may

view tax compliance as more beneficial if they perceive that their tax dollars are being used effectively by the government.

H1a: There is a positive association between the factors of personal tax compliance and personal tax compliance. (IV: Factors of personal tax compliance, DV: Personal Tax Compliance)

The next hypothesis H1b is drafted to test the relationship between the level of personal tax compliance and the level of corporate tax compliance. A business entity is referred to as an “Artificial personality”, or a “Separate legal entity” (Pickering, 1968). Certain roles in business are assigned to employees to perform duties on behalf of the entity. The revenue, collected by the ‘Inland Revenue Board of Malaysia’ (IRBM) from the corporate sectors through direct taxation, is the main contribution to the tax cluster.

Although the contribution of revenue becomes higher and higher, the decisions made on tax affairs are decided by a natural person. According to Bagdad et al. (2017), “*The companies’ non-tax compliance decisions were influenced by their managers who also evade their personal income taxes. Future research should focus on the tax non-compliance behavior among the self-employed or individual taxpayers as there was evidence to show that the business may have a potential to evade taxes if the managers also evade their personal income taxes*”. As per the utility maximizing theory, the personal tax compliance behavior significantly impacts on the decision taken on the corporate tax compliance.

H1b: There is a positive association between personal tax compliance and corporate tax compliance. (IV: Personal tax compliance, DV: Corporate Tax Compliance)

The above-mentioned hypothesis can be linked to the Utility Maximizing Theory, which posits that individuals' decisions regarding tax compliance are influenced by their

personal incentives and preferences. If individuals are compliant with their personal taxes, they may also be inclined to ensure compliance within their businesses to avoid legal consequences. Testing the above H1 hypothesis will answer the research question one; RQ1: Does the factors that impact upon personal and corporate tax compliance?

2.12.2 Moderating Effects (H2)

The decision-making process regarding tax compliance is intricately influenced by an individual's financial capacity. Empirical studies such as those by Engida & Baisa (2014) and Supriyono et al. (2021) have shed light on how individuals facing financial constraints may intentionally opt not to comply with tax regulations. This reluctance often stems from a lack of immediate financial resources at the time of tax payment. Recent research by Gottlieb and Hollenbach (2018) further emphasizes the moderating role of financial capacity in shaping an individual's tax compliance behaviour.

Even in cases where taxpayers do not face immediate financial hardships, their financial situation at the time of tax payment significantly impacts their decision-making process. When individuals assess the urgency and importance of fulfilling their needs, they often prioritize personal expenses over tax obligations, especially if they perceive the cost of tax compliance as burdensome (Mohani, 2001).

H2a: Financial constraints moderates the relationship between the factors of personal tax compliance and personal tax compliance. (IV: Factors of personal tax compliance, DV: Personal Tax Compliance)

This hypothesis is in line with the Utility Maximizing Theory, which posits that individuals weigh the costs and benefits of compliance. Financial constraints act as a barrier, influencing individuals' perceptions of the cost-benefit analysis associated with tax

compliance. Additionally, it resonates with Kelman's Social Influencing Theory, as financial constraints may render individuals more susceptible to external influences, such as peer behaviour, in their decision-making process regarding tax compliance.

Religiosity, as defined by Johnson et al. (2001), encompasses an individual's deep-seated commitment to their religious beliefs and the extent to which they adhere to the values espoused by their faith (Mohdali et al., 2017). Research by Togler (2006) suggests that in certain regions, particularly those with strong religious traditions, fervent religious convictions often correlate with higher levels of tax compliance. This correlation implies that individuals who actively practice their religion may experience a heightened sense of guilt associated with non-compliance, driven by their moral and ethical obligations.

Moreover, the practice of religion is believed to mitigate negative inclinations and foster a sense of moral responsibility. By encouraging adherence to religious teachings, individuals may find themselves guided away from unethical behavior, including tax evasion. Nor Raihana (2013) posits that religiosity serves as a moderator in the relationship between various determinants and tax compliance. In times of wavering commitment to tax obligations, individuals' religious beliefs are thought to play a pivotal role in motivating compliance by invoking their conscience and reinforcing a sense of duty grounded in ethics, sincerity, and honesty.

In essence, religiosity acts as a multifaceted influencer of tax compliance, intertwining moral imperatives with societal norms and personal convictions. By elucidating the intricate dynamics between religiosity and tax compliance, this research contributes to a deeper understanding of the complexities underlying individuals' compliance behaviour.

H2b: Religiosity moderates the relationship between the factors of personal tax compliance and personal tax compliance. (IV: Factors of personal tax compliance, DV: Personal Tax Compliance)

The above-mentioned hypothesis is related to Kelman's Social Influencing Theory, as it suggests that religiosity can influence individuals' attitudes and behaviors towards tax compliance. Additionally, it aligns with the Fiscal Psychological Theory, as religious beliefs may shape individuals' perceptions of tax obligations and ethical considerations. Testing hypothesis H2 will answer the research question two; RQ 2: Do financial constraints and religiosity moderates the relationship between factors of personal tax compliance and personal tax compliance?

2.12.3 Mediating Effects (H3)

It was hypothesized above that "There is a positive association between the factors of personal tax compliance and the personal tax compliance" as "H1a". Arguments also presented supporting the positive association under section 2.11.1. Meanwhile, it is also hypothesized above that "There is a positive association between personal tax compliance and corporate tax compliance" as "H1b". Further, the link between personal tax compliance level and corporate compliance level also underlined by Bagdad et al. (2017). As per the utility maximizing theory the personal tax compliance behaviour significantly impacts on the decision taken on the corporate tax compliance (Refer to section 2.6.4). These established hypotheses (H1a, and H1b) express the support for level of personal tax compliance to be a mediator between factors of tax compliance and level of corporate tax compliance.

Therefore, H3: Personal tax compliance mediates the relationship between the factors of personal tax compliance and corporate tax compliance. (IV: Factors of personal tax compliance, DV: Corporate Tax Compliance)

The above-mentioned hypothesis is consistent with the Utility Maximizing Theory, as it suggests that individuals' personal tax compliance behaviour mediates their decisions regarding corporate tax compliance. It also aligns with the Allingham and Sandmo Model, which emphasizes the rational decision-making process individuals undertake when considering tax compliance. Testing hypothesis H3 will answer the research question three; RQ 3: Does personal tax compliance mediates the relationship between factors of personal tax compliance and corporate tax compliance?

2.13 Chapter Summary

This chapter discusses the overviews of taxation practiced in Malaysia and in other countries. Some real tax cases of Malaysia and other countries are presented to support the purpose of this study. Then, variable discussions are carried out with reference to the previous studies. At the end of this chapter, hypotheses, (H1, H2, and H3) are developed, and justifications for the draft are presented. The next chapter, chapter three (3), explains the methodology and the related information, which are chosen for the purpose of carrying out this study.

CHAPTER 3

METHODOLOGY

3.1 Introduction

The previous chapter of this study presented findings that had been made in the earlier studies relating to tax compliance, the discussion of which with empirical evidence is also found to have been made in the studies. This chapter presents the methodologies, which the researcher has adopted to collect and analyse the preliminary and supplementary data. This chapter begins illustrating the conceptual framework followed by the research design. Some websites displaying information, such as names, contact details, nature of businesses, etc. of the state and the private business entities based in Malaysia are of immense help to the researcher in the distribution of questionnaire, via email, to the individuals who deal with tax affairs in businesses in Malaysia.

This chapter begins explaining the adoption of quantitative method designed (Survey questionnaire) as the primary data collection and interview as supplementary data collection to the survey questionnaire. This study chooses purposive sampling method, which is considered to be the appropriate sampling method to get the respondents' feel of the phenomenon of the interview, or the variable interest of the said responding individuals (Sekaran, 2005). The sample size is 392 (Sekaran, 2005). The 'SmartPLS' is used to analyse the data and to test all the hypotheses.

3.2 Conceptual Framework

The purpose presenting the below presented conceptual frame is to illustrate the direct, moderating and mediating effects within the variables associated with this study.

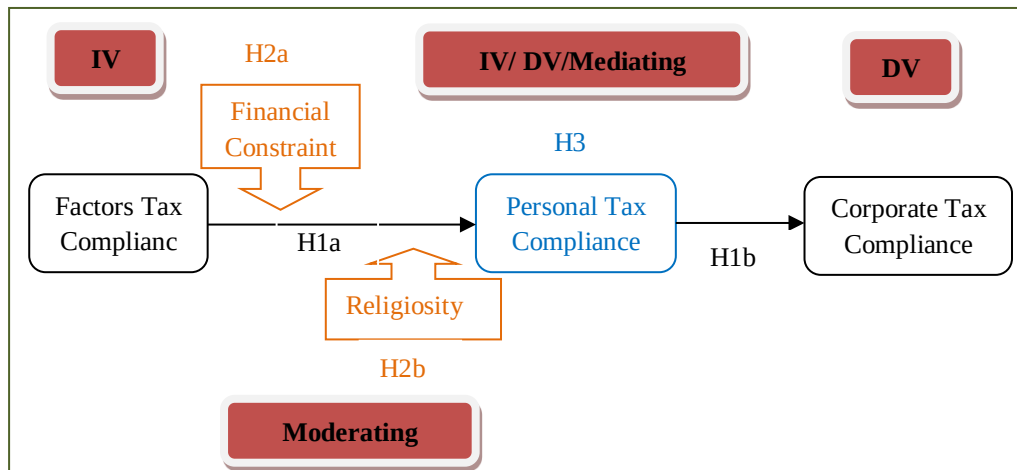


Figure 3.1: Conceptual Framework

3.3 Research Design

This section begins with the presentation of a background of research design. Sequential explanatory design is an approach that begins with the quantitative approach followed by qualitative approach (Mele & Belardinelli, 2018). Further discussion on the adoption of sequential explanatory design is presented in the following section. To begin with, the next section presents the sequential explanatory research design.

3.3.1 Sequential explanatory design

Tax compliance is a behaviour of the taxpayer, which is subject to change depending on the perception of the tax system in the mind of the taxpayer (Alm et al., 2017). A survey method of data collection is the best tool chosen to collect the taxpayers' perception of the selected variables (Sekaran, 2005). Apart from this fact, the officers who deal with the individual taxpayers and the corporate taxpayers, such as tax agents, officers of the 'Inland Revenue Board of Malaysia' (IRBM), and other related officers, must have come across more than one taxpayer during their service, and their opinion towards the perception of the taxpayers strengthens the accuracy of the analysis. To be clearer, this study intends to

produce empirical evidence with quantitative approach, being mainstream, while the qualitative approach is supplementary.

This kind of sequential explanatory design method is necessary to be adopted for interdisciplinary studies such as taxation, which, being a weak part of the survey outcome, may be strengthened by the opinions shared by officers who deal with taxpayers. Further, the quality of this research becomes improved under the mixed method approach (Mele & Belardinelli, 2018). Also, this method allows the researcher to start analyzing the outcome separately and to merge both findings for discussion to debate on the common and the different outcomes from both methods. The Quantitative data brought from the survey provide the opportunity to the researcher to test the relationship between the dependent variables and the independent variables (McKerchar, 2010) since the main objective of this study is to investigate the relationship between variables.

Meanwhile, the interviews held with the officers who deal with taxpayers supplement additional information for the outcome from the survey method. The overall reliability and validity of the research work increase when this kind of mixed- approaches from different phases are adopted. The figure given below shows the readers a visual image of the mixed method adoption under the research design section. The next section presents the discussion made on the survey

3.4 Survey

Conducting survey has been a tradition to collect data for studies in taxation (Richardson & Sawyer, 2001). Saunders et al. (2003) explain that the questionnaire, which is designed for the survey, is categorized into two types: self-administered questionnaire, and interviewer-administered questionnaire. The Survey method also has the ‘Pros’ and

‘Cons’ of reliability and accuracy, which Pedersen and Saez (2011) say that the survey approaches may be subjected to unreliable data. Therefore, it is essential that the respondents should act honestly and responsibly for the completion of this survey. Making the respondents feel at home and at ease and providing them with anonymous questionnaire could be the best approach to elicit honest responses from the respondents.

This survey questionnaire falls under the Self-administered questionnaire through the online platform such as Google E-forms. Further, this questionnaire also collects the respondent’s profile in terms of the individual demographic information as well as their represented business profiles. Under this quantitative method, the following sub-headings provide detailed explanations regarding the data collections. The next section explains the study population.

3.4.1 Study Population

The target population of this study is the in-house tax compliance decision makers of the Malaysian businesses. Information regarding the number of businesses in Malaysia is available and retrievable from the Department of Statistics Malaysia. However, the information and data about the number of in-house tax compliance decision makers working in Malaysia are not available. The Malaysian Institute of Accountants provides the statistical information of the members of the certified accounting professionals who deal with accounting, auditing, and taxation as their duties across the nation. The ‘In-house Tax compliance decision makers’ and the ‘Certified Professional Accountants’ are different from each other as the In-house Tax compliance decision makers handle tax affairs of particular businesses and organizations to which they are attached, whereas the certified professional

accountants perform their accounting services as their main profession for more than one Malaysian business.

Suruhanjaya Syarikat Malaysia (2022) reveals that there are 7,511,278 registered businesses in Malaysia that provide their goods and services to the people of the country. Further, Department of Statistics, Malaysia (2022) reports that 97 percentage of the businesses in Malaysia are classified as Small-Medium Enterprises. Assuming that a registered business entity in Malaysia selects one individual worker from among the employees of the business and employs the individual worker to handle the tax affairs of the business, it can be presumed that there are more than 7 million in-house tax compliance decision makers working across the nation. The next section presents the sample selection for the survey.

3.4.2 Sample Selection for Survey

The sample to be chosen for this study is the individuals who handle their tax affairs as well as the others' tax affairs in their businesses. In other words, this survey should be completed by an individual who has gained knowledge and experience in handling tax affairs in a business. For the research methodology employed in this study, a deliberate choice was made to utilize a non-probability sampling technique in reaching out to respondents. Specifically, the target demographic consisted of corporate tax compliance decision makers, and email served as the primary mode of communication. The decision to opt for non-probability sampling was driven by the necessity to focus on a specific population of interest – namely, corporate professionals directly involved in tax compliance decision making. This approach ensured that respondents possessed the requisite knowledge and expertise to provide meaningful insights into the research questions at hand.

Reaching out to respondents via email was deemed a practical and efficient means of communication. By obtaining email addresses from company websites, the study targeted decision makers within finance departments directly involved in tax compliance matters. This approach not only facilitated direct access to the desired demographic but also minimized disruptions to their busy schedules. Furthermore, to ensure geographic diversity and representation within the sample, the questionnaires were divided to target 50 surveys for each state in Malaysia. This strategic approach aimed to capture variations in corporate tax compliance behaviour across different regions of the country, thereby enhancing the generalizability of the findings.

3.4.3 Sample Size for the Survey

In order to bear generalization about the population of the study, the researcher chooses the samples from the said population to represent them (Sekaran, 2005). As discussed in the earlier section 3.4.1, most of the business establishments, nearly 7 million (97.5%), in Malaysia are Small and Medium Size Enterprises. Cohen (1969), as well as Krejce and Morgan (1970), proposed a suitable sample number at 95% confidence level based on the population. If the population is greater than seventy-five thousand, a sample size of three hundred eighty-four (384) is considered reasonable. The table presented in Appendix shows G the population and the sample size, which has been computed from the following formula. The next section presents the pilot testing of survey questionnaires.

$$s = \frac{X^2 NP(1 - P)}{d^2(N - 1)} + X^2 P(1 - P) \quad \text{Equation 3.1}$$

Pilot testing is an essential task for the researchers before launching the activity for actual data collection. The main purpose of conducting the piloting procedure of testing is

to rectify the weakness found in the questionnaire in order to make it more perfect (Mele & Belardinelli, 2018). While performing this task, the respondents have no need to face any difficulties in understanding the questions from the questionnaire. Furthermore, this activity increases and strengthens the reliability and the validity of the questionnaire (Sekaran, 2005). The researcher of this study has invited fifteen academicians (Lecturers) from the ‘Faculty of Economics and Business’ of the ‘University Malaysia Sarawak’ to undertake this task (Refer to Appendix H). This questionnaire has undergone minor amendments, and a slight modification based on the recommendations and feedback given by the invited lecturers. The next section presents the data collection procedure.

3.4.4 Data Collection Procedure

A survey questionnaire has been used to collect data from the population. A questionnaire is a pre-formulated written set of questions wherein the respondents record their answers to the questions, usually within closely defined alternatives. Questionnaires are an efficient data collection mechanism by which the researcher knows exactly what is required to measure the variables of interest of the respondents, and how to measure it (Shrestha, 2021). The questionnaire has been prepared in English, containing three sections. The ‘E-survey’ is used for the ease of access to data and their completion. The next section discusses the questionnaire design.

3.4.5 Questionnaire Design

The questionnaire will be enclosed with a cover letter at the beginning of the page, explaining to the respondents about the researcher, the purpose of the research, and the survey for the collection of data from them, and ensuring them anonymity of the respondents and their responses. Though ‘Bahasa Malaysia’ is the national language of Malaysia, English

Language is widely spoken among those who are in businesses in Malaysia (Foo & Richards, 2004). The survey questionnaire contains two major parts: The first part consists of the questionnaire about the personal tax compliance and the corporate tax compliance, as well as its stand on them, and the rest of the questionnaire is related to the factors, which impact the dependent variables. The second part consists of the questionnaire relating to the respondents' information about themselves, as well as the information about the businesses they work in (Refer to Appendix I). The next part presents the construct development and the measurement for variables, followed by introduction to 'Structural Equation Modelling'.

3.4.6 Construct Development and Measurement

Tax compliance is measured by two dimensions, namely the 'Voluntary Compliance', and the 'Enforced compliance'. Likewise, the tax non-compliance has two measurements: 'Tax Avoidance' and 'Tax Evasion' (Kirchler & Wahl, 2010; Onu, Oats & Kirchler, 2016), all of which have been modified to suite the context of the study. The items under each dimension are anchored on a seven-point Likert scale, ranging from completely disagree = 1 to completely agree = 7. Originally, Likert (1932) argues that a 7 - point scale find optimal reliability, which ensures the discrimination between the rated items of constructs.

Table 3.1: Constructs of Corporate Tax Compliance

Constructs
I file all corporate tax return on time (CORP1)
I file all my SST on time (CORP2)
I deduct PAYE and remit the amounts on time (CORP3)

Table 3.1 continued

I deduct withholding tax on professional fees and remit to LHDN on time (CORP4)
I pay my taxes within the required time frame (CORP5)
Mr. A, a self-employed businessman, considers not disclosing a cash sale of MYR 100,000 as his business income in his 2020 tax return. Legally, the cash receipt of MYR 100,000 should be included into the tax return as a business income. However, he is almost certain that the tax authority will not audit the business and that it will not know the amount if it is not disclosed (CORP6)
Considering all known and likely business circumstances, to what extent do you agree with Mr A's possible action of not reporting that cash sale of MYR 100,000 as his business income?

Table 3.2: Instrument Measurement for Corporate Tax Compliance

Completely Disagree	Mostly Disagree	Somewhat Disagree	Neither agree nor disagree	Somewhat Agree	Mostly Agree	Completely Agree
1	2	3	4	5	6	7

Table 3.3: Constructs of Personal Tax Compliance

Constructs
I would feel guilty if I under-reported my actual income in my annual tax return (PERS1)
To feel guilty for under-reporting income tax is good (PERS2)

Table 3.3 continued

Under-reporting my income tax makes me better off (PERS3)
There are a number of government services, infrastructures and facilities for which I am thankful (PERS4)
Under-reporting income is acceptable if any portion of the money collected is wasted by government (PERS5)
Paying as little tax as possible is important (PERS6)
Government has spent the money collected from tax efficiently (PERS7)
Under-reporting my income will not hurt the society as a whole (PERS8)
I feel that I have made a positive contribution to my country by fully reporting all of my income (PERS9)
Mr B, a self-employed businessman, had incurred MYR 10,000 to repair his personal van. In preparing his 2020 tax return, he is thinking about claiming the cost of repair as if the van was used in his business. Legally, such claim is not allowable, but he is almost certain that he would not be audited and that the tax authority would not be able to detect the deduction (PERS10) Considering all known and likely business circumstances, to what extent do you agree with Mr B's possible action of claiming MYR 10,000 as his business claim?

Table 3.4: Instrument Measurement for Personal Tax Compliance

Completely Disagree	Mostly Disagree	Somewhat Disagree	Neither agree nor disagree	Somewhat Agree	Mostly Agree	Completely Agree
1	2	3	4	5	6	7

Table 3.5: Constructs of Peer's Tax Compliance

Constructs
Most taxpayers expect me to report all my income on the annual tax return (PEER1)
Generally, I would do what most taxpayers expect me to do (PEER2)
Most people who are important to me (e.g. family, friends, and business partners) expect me to report all my income on the annual tax return (PEER3)
Generally, I would do what people who are important to me would expect me to do (PEER4)
Most taxpayers under-report their actual income on their annual tax returns (PEER5)
Generally, I would do what most other taxpayers do (PEER6)
The people who are important to me (e.g. family, friends, and business partners) under-report their actual income on their annual tax return (PEER7)
Generally, I would do what people who are important to me do (PEER8)

Table 3.6: Instrument Measurement for Peers' Tax Compliance

Completely Disagree	Mostly Disagree	Somewhat Disagree	Neither agree nor disagree	Somewhat Agree	Mostly Agree	Completely Agree
1	2	3	4	5	6	7

Table 3.7: Constructs of Probability of Audit

Constructs
If there was a discrepancy in the annual tax return, how likely is that it would be audited? (PROB1)
If my company were to be chosen for a compulsory audit, how likely would a discrepancy be identified? (PROB2)
The penalties are severe if my discrepancy were discovered in audit (PROB3)
The chances of being audited are so low that it is worthwhile trying to economize a little on corporate income taxes for various reasons (PROB4)

Table 3.8: Instrument Measurement for Probability of Tax Audit

Never True	Rarely True	Sometimes but Infrequently True	Neutral	Sometimes True	Usually True	Always True
1	2	3	4	5	6	7

Table 3.9: Constructs of Service Quality of Tax Authority

Constructs
The revenue authority has extensive means to force corporations to be honest about income tax (SERV1)
Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third-party reports in a systematic way (SERV2)
If we evaded taxes and got caught, the penalties would be very high for my company (SERV3)
Inland revenue board treats me fairly in my dealings with them (SERV4)
Inland revenue board treats us respectfully in our dealings with them (SERV5)
We trust IRMB and government when dealing with them on corporate tax matters (SERV6)

Table 3.20: Instrument Measurement for Service Quality of Tax Authority

Very Untrue of What I Believe	Untrue of What I Believe	Somewhat Untrue of What I Believe	Neutral	Somewhat True of What I Believe	True of What I Believe	Very True of What I Believe
1	2	3	4	5	6	7

Table 3.11: Constructs of Satisfaction with Government Spending

Constructs
I believe the government utilizes a realistic amount of tax revenue to achieve social goals (GOV1)

Table 3.11 continued

I think the government spends too much tax revenue on unnecessary welfare assistance (GOV2)
We receive fair value of services from the government in return for our corporate tax paid (GOV3)
We pay high corporate taxes when compared to the services we get from the government (GOV4)

Table 3.32: Instrument Measurement for Government Spending

Totally Un- acceptable	Un- acceptable	Slightly Un- acceptable	Neutral	Slightly Acceptable	Acceptable	Totally Acceptable
1	2	3	4	5	6	7

Table 3.13: Construct for Financial Constraints

Constructs
How satisfied are you with the financial situation of your household? (FINC)

Table 3.14: Instrument Measurement for Financial Constraints

Completely Dissatisfied	Mostly Dissatisfied	Somewhat Dissatisfied	Neither agree nor Dissatis fied	Somewhat Satisfied	Mostly Satisfied	Completely Satisfied
1	2	3	4	5	6	7

Table 3.15: Construct for Religiosity

Constructs
Apart from special occasions such as wedding and etc, about how often do you attend religious services? (RLGS)

Table 3.16: Instrument Measurement for Financial Constraints

Never, or Practically Never	Less Often	Once a Year	Only on Special Holidays	Once a Month	Once a Week	More than Once a Week
1	2	3	4	5	6	7

3.4.7 Common Method Bias Control Measures

Jordan and Troth (2019) explain that the ‘Common Method Bias’ (CMB) is a serious bias that occurs when the construct items are measured in the ‘Consistent Measurement System’. At a higher level, this study has the chances of being biased for the application of the ‘Common Method’ for the constructs. This study has taken measures to control the

‘Common Method Bias’ before it impacts the findings. The measurement term used to indicate the values has not been consistently used. For example, while some items indicated 1 (one) as ‘complete disagreement’ (1= completely disagreed), the other items indicated 1 (one) as ‘complete dissatisfaction’ (1= completely dissatisfied). While the constructs are measured in the Direct Approach, some other items are organised in the Reversal Measurement. Further, the measures applied to control the common method bias are presented in section 4.3.2 of chapter 4.

3.4.8 Data Analysis

This section explains Structural Equation Modelling (SEM), history, and its evolution toward the current application. Structural equation modeling is the term currently used in sociology, psychology, and other social sciences evolved from the earlier methods in genetic path modeling of Sewall Wright (Hair et al., 2014). Sewall Wright's work in population genetics led directly to structural equation modelling (SEM), which used explicit causal implications to regression equations depending on direct and indirect effects of observable variables (Cepeda-Carrión et al., 2022). Lee M. Wolfle produced an extensive bibliographical history of Sewall Wright's path coefficient approach, sometimes known as path modelling today. Wright adds two significant features to the usual practice of using regression to predict an outcome: (1) combining information from many regression equations, and (2) a causal approach to regression modelling rather than only predictive regression modelling (Rhemtulla, 2021).

SEM was introduced to the social sciences by Otis Dudley Duncan in 1975, and various mathematically similar modelling techniques evolved in psychology, sociology, and economics. Although there is significant overlap with econometric approaches involving

simultaneous equations and exogenous variables, the convergence of two of these developmental streams formed the current core of SEM (Marsh et al., 2019). Pearl (2010) has expanded SEM from linear to nonparametric models and proposed causal and counterfactual equation interpretations. Nonparametric SEMs allow for the estimate of total, direct, and indirect effects without making any assumptions about the form of the equations or the error term distributions (Hult et al., 2021).

Because of their accessibility, SEM path analysis methods are popular in the social sciences; software enables researchers to obtain results without the hassle of understanding experimental design and control, effect and sample sizes, and numerous other factors that are part of good research design (Deng., 2018).

Scientists across many fields of study are found using structural equation modeling, which is described as a label for many diverse sets of methods (Ringle & Sarstedt, 2015). SEM entails building a model to depict how different features of an observable or theoretical phenomenon are regarded to be causally structurally connected to one another. The model's structural element indicates theoretical relationships between variables that reflect the phenomena under investigation (Rhemtulla, 2021). Although arrows reflect causal links between variables in the assumed causal structure, these causal connections can also be expressed as equations.

SEM equations are mathematical and statistical attributes inferred by the model and its structural aspects, which are subsequently evaluated using statistical algorithms conducted on experimental or observational data (Marsh et al., 2019). The SEM software package includes confirmatory factor analysis, confirmatory composite analysis, path analysis, multi-group modelling, longitudinal modelling, partial least squares path

modelling, latent growth modelling, and hierarchical or multilevel modelling as a result of variations in the styles of latent causal connections, observed variables measuring the latent variables, and statistical estimation strategies. It generally employs path models and measurement models, as well as statistical models and software programs, to study the structural links between latent variables underlying observable variables (Deng, 2018).

SEM researchers use software tools to assess the strength and sign of a coefficient for each modelled arrow, as well as to give diagnostic insights indicating which indicators or model components may cause inconsistency between the model and the data. The fact that all of these measurements and tests occur concurrently in one statistical estimating technique, where the errors across the model are determined using all of the model's information, which is a significant benefit of SEM (Hair et al., 2014). This means that the inaccuracies are more accurate than if a researcher calculated each component of the model independently. The next section presents the justification for Structural Equation Modelling.

Structural Equation Models are often used to assess unobservable 'latent' constructs. The use of SEM is commonly justified in the social sciences because of its ability to impute relationships between unobserved constructs (latent variables) and observable variables (Sarstedt et al., 2022). In the SEM diagrams, the latent variables and the observed variables are commonly shown as ovals and rectangles, respectively. The SEM, therefore, allows the researcher to predict which observed variables are the good indicators of the latent variables. Various methods in structural equation modelling have been used in sciences, businesses, and in other fields. While the researchers agree that large sample sizes are required to provide sufficient statistical power and precise estimates using SEM, there is no general

consensus on the appropriate method for determining adequate sample size. The next section presents the model evaluation.

The set of models are then interpreted so that claims about the constructs can be made, based on the best fitting model. In the confirmatory technique, each individual construct is validated at the measurement model level. In the structural model, the constructs are evaluated for their relationship between them. In the Measurement Model, the validity and the reliability of measures in each construct are ensured before proceeding to the Structural Model. The measurement model can be either reflective constructs or formative constructs (Hair et al., 2014). In some studies, formative measures are named as “cause indicators” that influence or form a latent variable (Hult et al., 2021).

There are a few differences that could be observed for each type of construct model. Figure 3.3 below presents the sample reflective model, whereas Figure 3.4 exhibits the sample of formative construct. The direction for the reflective constructs’ latent variable as the causes of measures, while for the formative constructs each indicator is considered as the causes of constructs. In addition, interchangeability of indicators also differs to each type of construct measurements. For example, dropping one indicator at reflective constructs will not affect the latent variable, whereas dropping one indicator at formative constructs affects the latent variable (Hair et al., 2014). Because the indicators of latent variables are independent and therefore, the indicators are not expected to be correlated highly among them as they cordially create or reflect the latent variable (Deng et al., 2018).

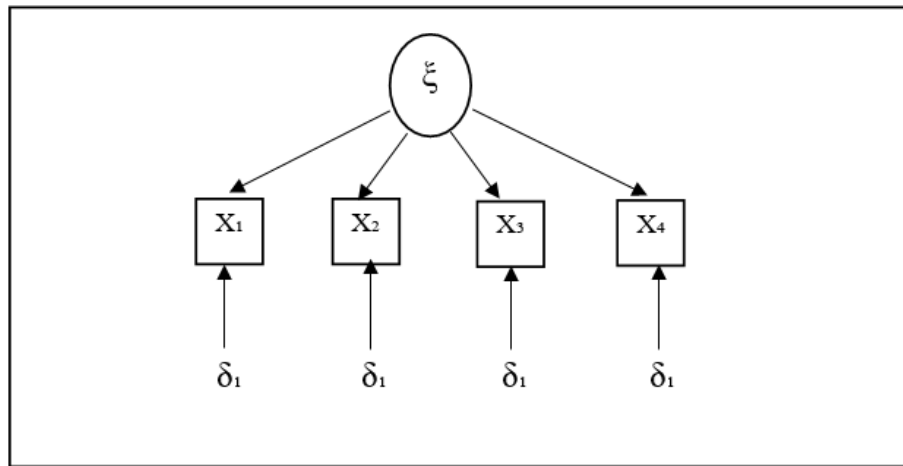


Figure 3.2: Reflective Construct Model

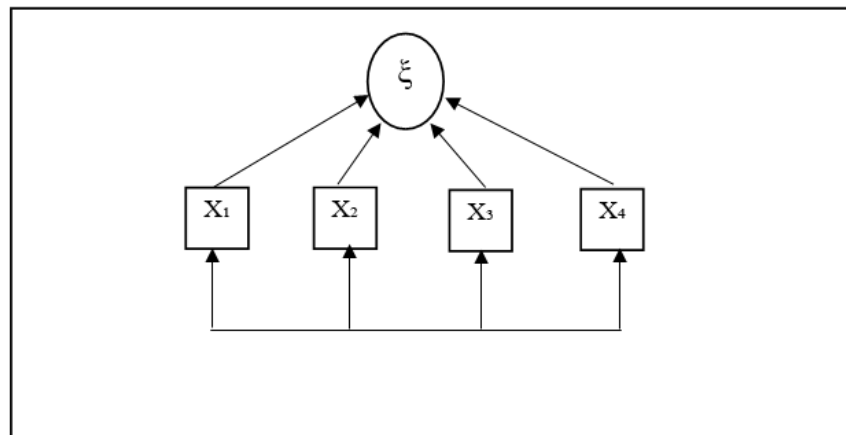


Figure 3.3: Formative Construct Model

The internal consistency for reflective constructs should correlate positively, while for formative constructs, the indicators should not expect to be correlated positively. Highly positive correlation among formative constructs may subject to multi-collinearity. Hair et al. (2010) explains that an absolute threshold or a benchmark for factor loading, which is the correlation coefficient between observed variables and latent common factors in PLS Model, is not established. As per the previous studies, a cut-off loading of 0.5 is sufficient (Gotz et al., 2010). Composite reliability is new for the measurement of scale reliability that is more

like Cronbach Alpha. According to Gotz et al (2010), the value that is larger than 0.6 is acceptable.

Further, the multicollinearity test, Variance inflation factor (VIF), and the tolerance value explain the level of multicollinearity among the variables. It's been suggested that the value of the VIF should be less than 10, and its value more than that amount indicates the existence of multicollinearity among variables (Henseller et al. 2009). Also, the tolerance value is expected to be greater than 0.1. The evaluation of structural model in PLS is performed on 'R square' once the measurement model is evaluated. The R square is evaluated by the model's summary of PLS that indicates the coefficient of the determinants. The higher the 'R square', the greater the model's explanation. The next section discusses the interview procedures.

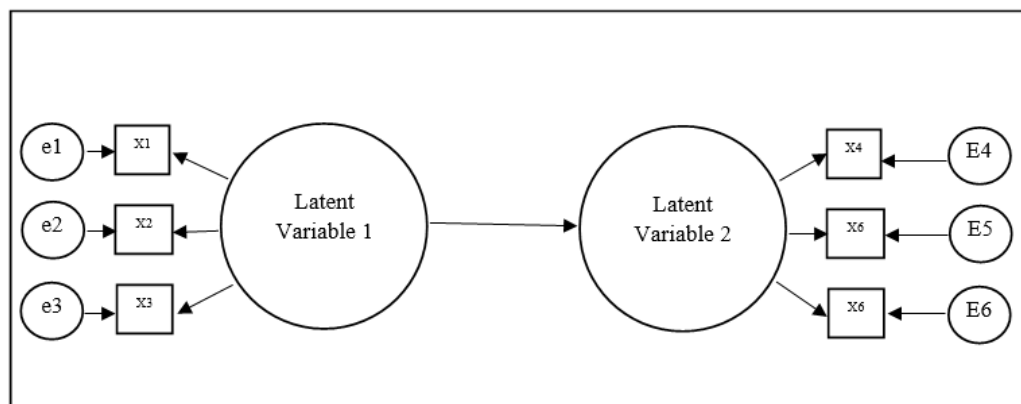


Figure 3.4: Structural Model

3.5 Interview

The interview falls under qualitative approach, which helps to collect the experience of the respondents. Interviewing respondents to gain information on a topic of interest is a common approach of data collection in business research (Sekaran, 2005). In unstructured, the interviewer does not arrive at the interview with a predetermined list of questions to ask

the respondent. Carrying out the interview session, with the respondents, helps the researcher to collect information that is in their minds, and to get an opportunity to get more clarified responses (Mele & Belardinelli, 2018). An unstructured interview might be used to bring some preliminary findings to the table so that the researcher can evaluate which elements require more in-depth investigation. The interview sessions in this study are conducted for the purpose of supplying additional information recommendations.

An unstructured interview might be used to bring some preliminary findings to the table so that the researcher can evaluate which elements require more in-depth investigation. As mentioned in section 3.5, conducting interview sessions to support the survey responses is described as sequential explanatory design study. Sequential explanatory design generally indicates the commencement of data measurement with quantitative approach and then followed with qualitative approach (Liem, 2018). As respondents deliver their opinions, the researcher takes notes, and the same questions will be asked of everyone in the same way.

A researcher may sometimes take a lead from a respondent's response and ask more pertinent questions in order to find new factors for deeper comprehension. Visual graphics such as bar charts and others are sometimes utilized in interviewing. The interviewees are given the relevant evidence, after which they deliver their replies to the questions presented or comment on the findings. When the researcher has completed a sufficient number of structured interviews and gathered sufficient information to interpret and summarize the significant results, the interviews come to end.

Inclusion of tax experts in the interview process is integral to this study's methodology for several reasons. Tax experts possess invaluable first-hand experience and insights into the complexities of tax affairs within business settings. Their expertise offers a

nuanced perspective that complements and enriches the quantitative data gathered through survey questionnaires. Moreover, engaging tax officers in discussions allows for a deeper exploration and interpretation of the survey findings. Certain aspects of the data may necessitate clarification or contextualization, which can best be achieved through direct dialogue with individuals intimately familiar with tax regulations and enforcement procedures.

It is important to note that discussing taxation matters with tax officers is inherently sensitive due to the confidential nature of taxpayer information. Consequently, to ensure the participation of tax officers in the interview process, strict confidentiality measures will be implemented to safeguard their identities and maintain the confidentiality of the information discussed. By conducting semi-structured interviews with tax officers, this study aims to extract valuable insights into their experiences and perspectives on tax compliance and enforcement. These insights will not only enhance the interpretation of survey findings but also contribute to a more comprehensive understanding of the dynamics surrounding tax compliance behaviour. The next section presents the justification for using semi-structured interview.

3.5.1 Justification for Using Semi-Structured Interview

A structured interview has a limited agenda, following only the dictates and the guidance of conducting an interview, whereas an unstructured interview encourages the researcher to continue the session in the direction whereon the respondent focuses. However, a semi-structured interview is one of the common approaches adopted in many behavioral studies. The findings from the survey questionnaire reveal the relationship existing among the variables. At the same time, the semi-structured interviews could help the researcher to

explain the findings, answering the information questions, such as ‘Why’, ‘How’, etc. (Saunders et al., 2003). The next section presents the development of the interview guidance.

3.5.2 Development of Interview Guide

The purpose of conducting an interview session with tax experts is to strengthen the findings brought from the preliminary level. As mentioned in the above section 3.5.1, during the interview session conducted with the sample of tax experts who possess real experience in handling tax matters of taxpayers along with theoretical knowledge of Malaysian taxation, the specific information collected from them is of immense support to the researcher and is deemed a pillar to this study. As usual, the purpose of conducting this interview session is made known to the interviewees, and the findings from the survey questionnaire are also presented to them for their further understanding. The basic interview guide is drafted based on the findings from the survey questionnaire. To begin with, the researcher requests the tax experts to comment on the respondents’ profile of the in-house tax professionals who participate in the survey questionnaire. The tax experts are highlighted to compare the respondents’ demography with that of the actual Malaysian in-house tax compliance decision makers in order to ensure the authenticity of the response of the representativeness.

Next, the researcher uses the central tendency ranking for each variable, among the indicators, to receive comments from the tax experts. The experts comment on their agreement with the findings with real examples, or referring to any cases, or presenting their disagreement with the findings with their justification. Tax officers from IRBM and the tax agents from tax firms are expected to support the findings with their real experience while the tax scholars are expected to support it theoretically. Finally, the researcher uses the central tendency ranking among independent variables that are expected to determine the tax

compliance. Similar discussions presented by the interviewees regarding the central tendency ranking are recorded from the preliminary data collection. The next section presents the sample selection of the interview.

3.5.3 Sample Selection of Interview

The qualitative sampling and the quantitative sampling are not the same, and the investigations into both are obtaining rich data, as well as the understanding of the social phenomena. This study selects the purposive sampling for the interview session since the researcher of this study purposely chooses the respondents. As mentioned earlier, the purpose of conducting the interview session with the tax officers who have gained experience in dealing with the taxpayers is to collect in-depth understanding of the survey findings. Therefore, the participants of the interview session are the officers who have gained experience in working and dealing with the taxpayers in Malaysia. The next section presents the sample size for the interview.

3.5.4 Sample Size of Interview

The ‘Quantitative method’ focuses on numbers, whereas the ‘Qualitative method’ focuses on the richness of information in order to establish a meaningful understanding. Bryman and Bell (2011) point out that the qualitative representation is less important than the quantitative representation. Patton (1990) justifies that there are no specific criteria to determine the sample size for the qualitative inquiry. Guest et al. (2006) estimate that a minimum sample of 12 participants could be sufficient to serve the purpose. The studies in literature adopt 10 interviews as suggested by Creswell (1998). Therefore, this study contains a minimum of 10-15 samples for the interview sessions. The next section presents the data collection procedure of interview.

3.5.5 Data Collection Procedure

After the collection of the survey data from the taxpayers, who are the officers dealing with tax affairs in business organizations in Malaysia, the data are moved forward into the analysing process. The next phase of the analysed data is discussion, where an in-depth discussion on the findings is carried out. This study tests the direct, moderating, and the mediating effects of the variables on the individual tax compliance, as well as on the corporate tax compliance. The chances are very high to highlight the justification from the prior literature for similar findings. Since the studies made on topics such as taxation are not wide, looking for the accurate justification for the findings seems to be a barrier for the presentation of in-depth discussion.

As mentioned in the earlier sections, this interview session has become a supplement for the survey data collection, and it is conducted with the tax officers, such as the officers of the 'IRBM', the tax agents, and the tax consultants, who have gained experience in dealing with the taxpayers of Malaysia. An invitation to the participants, the tax officers, to participate in the interview has been sent to them through official e-mail together with a cover letter. Due to the prevailing pandemic, 'COVID-19', and the ensuing restriction imposed in Malaysia, "Movement Control Order" (MCO), meeting tax-agents in-person in the country is not possible, which prompts the researcher to find out the availability of the officers and their convenient time for meeting them, the place for meeting them, etc. for carrying out the interview. The next section presents the data analysis of the interview.

3.5.6 Data Analysis

The first step taken in data analysing is the reduction of data, which refers to the process of selecting, coding, and categorizing the recorded qualitative data. Normally this is

done for a large amount of qualitative data. The next step is the displaying of the data, which refers to the presentation of data. Researchers usually utilize quotes, matrix, graphs, or charts to present data meaningfully and explicitly, ensuring plausibility, reliability, and validity of the data presented. In this study, the researcher decided to choose quotes to analyse the findings. The last step is reaching a conclusion. The first two steps help the researcher to conclude prior to arriving at a full and meaningful conclusion. The next section presents the reliability and validity of interview findings.

3.5.7 Reliability and Validity of the Interview Findings

The reliability and the validity, under the qualitative study, differ from the Quantitative Study. The research transcripts the recorded interview, checks the transcript again and again, and compares the transcript with the recording to ensure its reliability. Whereas the validity in the qualitative studies explains how accurate and reliable the collected data is (Creswell & Miller, 2000). To ensure the validity of the qualitative study, the most utilized method used is member checking (Cresswell, 2009). This process could be performed by requesting the interviewees to confirm their responses given at the interview. The participants' agreement ensures the validity of the data. The next section presents the summary of the chapter.

3.6 Chapter Summary

The body of this section begins with the presentation of conceptual framework followed by the research design, which explains the justification for the use of mixed-method approach. Firstly, it begins with the explanation of the quantitative approach, the survey questionnaire, and the sample selection, that come under the quantitative approach. The sequential procedures, under the survey strategy, are followed by carrying out pilot testing.

Next, for the accurate analysis, the quantitative data are discussed herein, and the justification for the usage of ‘Structural Equation Model’ (SEM) is also presented. As per the researcher’s agenda, the interview sessions are carried out once the survey questionnaire data is fully collected and processed. The purpose of conducting this interview session is to supplement the data collected from the survey questionnaire. Therefore, a detailed discussion on the qualitative approach adopted for the interview, is presented after the explanation of the quantitative approach. The selection of the sample size is also discussed since the samplings for the quantitative and the qualitative approach are not similar. The data collected from the interview is checked for reliability and validity.

CHAPTER 4

QUANTITATIVE AND QUALITATIVE DATA ANALYSIS

4.1 Introduction

This chapter aims at the analysis of the quantitative and qualitative data reaped from the survey and interview before proceeding to model evaluation. This section mainly segregated into four sections. Section 4.2 presents the survey response analysis by highlighting the response rate, demographic background of the respondents, response representativeness, and nonresponse bias. Meanwhile section 4.3 discusses the quantitative data analysis, which are data screening process, common method bias analysis, social desirability bias analysis, and descriptive analysis along with normality test.

Section 4.4 presents the findings from the interviews, which is the supplement data to the quantitative data already collected through survey questionnaire. First, the findings are presented with the help of a tabulation that consists of information related to participant number, interview time length in minutes, the organization the officer attached with, and finally the level of designation of the officer. The entire discussion with the above-mentioned officers were regarding the findings made from the survey questionnaire. Interviewees commented on the findings and also shared some of their own experience related to the findings in order to contribute more to the particular finding. Finally, section 4.5 presents the results from the model evaluation. First this chapter will focus on evaluation of the measurement model at the first order construct model by examining the fitness between indicators and latent variables. Next, this chapter focus the evaluation of structural model at the second order construct model by examining the fitness between each latent variable.

4.2 Survey Response Analysis

Response rate is considered as a key indicator to determine the generalization of the findings (Connelly et al., 2019). Higher response rate is always an expected aim for researchers to generalize the findings to the overall population. To introduce the response rate, this section begins with survey distribution. Two thousand and five hundred google e-form invitations were distributed to businesses across Malaysia during the period from 20th October 2021 till 20th January 2022. Generally, the survey response rate is calculated by dividing the number of surveys attempted with the total number of survey invitations sent. This study manages to obtain responses from 392 participants representing 15.68 percent. statisticians share different opinions in relation to the percentage of the response rate, and the response rate below 20 percent is considered as lower rate (Sekaran, 2005).

There are several limitations for this lower rate of responses, in which prevailing Covid-19 situation might have caused some sort of difficulties in attending the questionnaire. Moreover, Since the collection of primary data for this study conducted during Movement Control Order (MCO) period, which was noted as a new normal situation, there were higher chances for the data collected from survey respondents get affected by history effect. Sekaran (2015) explains that certain events that has a connection between the study's independent and dependent variable occur at the same time while the researcher distribute the survey or collect the data from the respondents. For example, Movement Control Order period was one of the hardest times for Malaysian since the time period did not permit them to do activities as usual. Moreover, online, and printed media continuously talked about financial constraints due to pandemic and economic stimulate packages launched by government to support the wellbeing. A sudden engagement in the topics related finance and taxes with the

general public may influence their general opinion on the independent and dependent variable that the study undertakes.

Besides, this study used convenient sampling technique and then snowball sampling technique, in which the invited in-house tax professional is requested to invite their professional counter-parts to attend the questionnaire as well. However, it cannot be ensured whether the in-house tax professional, who was invited initially literally invited their counter-parts or refused to do that. When looking at the overall process designed to collect the data, the researcher does not know exactly how many invitations were made other than the two-thousand and five hundred invitations made by the researcher. Taking this fact into consideration, the 15.68% of the response rate is the maximum could be assumed, and the minimum rate is unknown since the number of invitations made by in-house tax professionals on behalf of the researcher is unidentified.

On the other hand, there are also several other reason that causes lower response rate. Tax research studies are sensitive in nature, and that may be a reason for lower response rate. In-house tax professionals may not wish to attempt a questionnaire that raise their perception in a sensitive area such like taxation. Though, it is an anonymously collecting data, tax professionals may not wish to attempt using their office computers or using their mobile devices. Further, some official email used by tax professionals may filter potential email conversations to be transferred into their inbox, whereas survey questionnaires that contain many recipients with survey invitation as a subject may pre-set to transfer into spam or other unimportant e mail folders. The email that not found in the inbox but in other email folders eventually ignored or unattempt or deleted.

Apart from that several other tax studies experienced the similar lower response rate issues in their studies as well (Baeli, 2021; Kurniawan, 2020; Okoye, 2019; Sentanu & Budiarta, 2019;). However, Hair et al (2017) has introduced a “The ten-times rule recommendation” for PLS analysis. Taking into consideration of the number of formative and reflective latent variables, this study’s response rate is sufficient to run the data analysis using PLS. The next section presents the demographic background of the respondents based on business type they work for, business size, and location. Then the section also presents the profile information about the in-house tax professionals on their designation, gender, age, education level, religious beliefs, and ethnicity.

4.2.1 Demographic Background

To begin with this section discusses the demographic information about the respondents of this survey questionnaire. The demographic information of the business and the respondents (tax affairs persons) are discussed with the help of tables, which illustrates the frequency and the percentage of the respondents in terms of demographic information. While discussing the patterns, response preventiveness also discussed. It refers to how the respondents demographic pattern matches the actual population of this study. The actual population of this study is the tax affairs officers of Malaysian businesses. Tax affairs officers in Malaysia can be the owner of the business or an appointed qualified officer depends on the size and the nature of the business. There is no specific statistical report discloses specifically the population of tax affairs officers in Malaysia. However, Small and Medium Enterprise Corporation Malaysia as well as Department of statistics Malaysia have the detail information about the business types, size, gender of the owner etc. The information above can be compared to match the respondent’s demographic information, since most of the Small Medium Business’ tax affairs person are owners themselves.

Table 4.1: Business Type

Business Type	Frequency	Percent
Retail	73	18.62
Food and Beverage	179	45.66
Digital Technology	35	8.93
Construction	11	2.81
Business Services	15	3.83
Manufacturing	47	11.99
Trade	4	1.02
Automotive	12	3.06
Financial Services	8	2.04
Education	8	2.04
Total	392	100.00

Table 4.1: Business Size

Business Size	Frequency	Percent
Micro	12	3.06
Small	194	49.49
Medium	163	41.58
Large (MNC)	23	5.87
Total	392	100.00

Table 4.3: Gender of the Respondent

Gender	Frequency	Percent
Male	285	72.70
Female	107	27.30
Total	392	100.00

Table 4.4: Business Location

Business Location	Frequency	Percent
Negeri Sembilan	56	14.29
Johor	35	8.93
Penang	67	17.09
Selangor	92	23.47
Kuala Lumpur	72	18.37
Malacca	12	3.06
Perak	30	7.65
Sarawak	28	7.14
Total	392	100.00

Table 4.5: Respondents' Position

Position	Frequency	Percent
Accountant	100	25.51
Manager	55	14.03
Managing director	31	7.91
Other	206	52.55
Total	392	100.00

Table 4.6: Age of the Respondents

Age	Frequency	Percent
31-40	244	62.24
41-50	55	14.03
19-30	66	16.84
51-60	23	5.87
Above 60	4	1.02
Total	392	100.00

Table 4.7: Education Qualification of the Respondents

Qualification	Frequency	Percent
Diploma	95	24.23
Bachelor's Degree	179	45.66
Professional Qualification	87	22.19
Other	31	7.91
Total	392	100.00

Table 4.8: Religious Belief of the Respondents

Religion	Frequency	Percent
Islam	146	37.24
Buddhism	124	31.63
Christianity	75	19.13
Hinduism	47	11.99
Total	392	100.00

Table 4.9: Ethnicity of the Respondents

Ethnicity	Frequency	Percent
Malay	130	33.16
Chinese	187	47.70
Indian	63	16.07
Other Bumiputras	12	3.06
Total	392	100.00

There is no specific statistical report to disclose specifically the population of tax affairs officers in Malaysia. 72.2 % of the respondents are males, and 27.3% are females. Most of the respondents, the tax affairs officers of businesses, are Chinese representing 47%, followed by Malays, Indians, and other Bumiputras representing 33.16%, 16.07%, and 3.06%, respectively, also between the ages of 31- 40, representing 62.24%. Among them, 45.66% work in the food and beverage industry; and they are followed by the retail, and manufacturing industry 18.62% and 11.99 %, respectively. The next section examines the validity and reliability of the constructs

4.2.2 Response Representativeness

Comparing the actual population of the study with the survey responses may help the researcher to confirm the response representativeness. The target population of this study is in-house tax professionals of Malaysian businesses. However, there are no standard statistics available to reveals the demographic diversity of in-house tax professionals in Malaysia. However, the members of Malaysian Institute of Accountants could be used to compare the population with the actual response rate. The annual report of Malaysian Institution of Accountants no more reveals the statistics of their members. However, the website still presents a demographic information in another section under membership. This comparison could be applied because of the working nature, but this does not completely represent the in-house tax professionals of Malaysian businesses. The members of Malaysian Institutes of Accountants are the certified professional accountants who solely provide accounting services to more than one business organization. However, the population of this study is related to in-house tax professionals who provide services to the business organization, where they employed.

Table 4.10: Respondents Comparison

Malaysian Institute of Accountants Members			Survey Response		
	Members	Percentage		Respondents	Percentage
Gender			Gender		
Male	17,367	46	Male	285	72.2
Female	20,659	54	Female	107	27.3
Age			Age		
19-30	2,609	6.83	19-30	66	16.84
31-40	11,506	30.26	31-40	244	62.24
41-50	13,283	34.93	41-50	55	14.03
51-60	7,578	19.93	51-60	23	5.87
Above 60	3,050	8.02	Above 60	4	1.02
Ethnicity			Ethnicity		
Malay	Not Available	Not Available	Malay	130	33.16
Chinese	Not Available	Not Available	Chinese	187	47.70
Indian	Not Available	Not Available	Indian	63	16.07
Other Bumiputras	Not Available	Not Available	Other Bumiputras	12	3.06
State			State		
Negeri Sembilan	885	2.33	Negeri Sembilan	56	14.29
Johor	2,612	6.87	Johor	35	8.93

Table 4.10 continued

Penang	2,473	6.50	Penang	67	17.09
Selangor	15,159	39.86	Selangor	92	23.47
Kuala Lumpur	7,703	20.26	Kuala Lumpur	72	18.37
Malacca	808	2.12	Malacca	12	3.06
Perak	1,377	3.62	Perak	30	7.65
Sarawak	2,285	6.01	Sarawak	28	7.14
Kedah	768	2.02	Kedah	0	0
Kelantan	297	0.78	Kelantan	0	0
Perlis	71	0.19	Perlis	0	0
Pahang	574	1.51	Pahang	0	0
Sabah	1,377	3.62	Sabah	0	0
Terengganu	358	0.94	Terengganu	0	0
Labuan	96	0.25	Labuan	0	0
Putrajaya	416	1.09	Putrajaya	0	0
Overseas	767	2.02	Overseas	0	0

With the above said limitation, the comparison between survey respondents and members of Malaysian Institute of Accountants does not correlate with each other and present a bigger marginal difference. In terms of gender, members of Malaysian Institute of Accountants are equally representing the professions, but the responses from the survey indicates that at least 70 percent of the in-house tax professionals are males. Also, members of MIA, who between the age groups of 31-40, and 41-40 are equally representing the

professions, but the survey response indicates that only the professionals in the age group 31-40 are higher than other age groups. Interestingly, the comparison presents the similar representation based on location, where Johor, Kuala Lumpur, Malacca, Perak, and Sarawak show lower marginal difference. However, this survey response does not cover certain states of Malaysia because no responses were received from the in-house tax professionals of the states. Besides, no reports reveal the diversity of accountants based on ethnicity to make comparison with the survey responses. This survey response illustrates that the majority of the participants were Chinese, compared to other ethnic group in-house tax professionals. It is somehow matching with the opinion given by the tax agent under supplementary data, which is clearly presented in section 5.2.1.

4.3 Quantitative Data Analysis

This section explains how the preliminary analysis was conducted. For that, data screening, common method bias, social desirability bias analysis, descriptive analysis, and t-test analysis were carried out. To begin with, this section presents the data screen process.

4.3.1 Data Screening Process

In order to conduct a statistical test, the initial step known as data screening process, including of identification of missing values, identifying the outliers and normality test, should be tested (Hair & Ringle, 2022). When uploading or inserting the raw data to the statistical application, experiencing missing values is a common issue (Legate et al., 2021). The SmartPLS application revealed that there are no missing values. Whether the data is normally distributed or not is ensured by conducting a normality test, looking at the kurtosis and skewness under the descriptive output of the data (Cepeda-Carrión et al., 2022). SmartPLS application provide a clear and detail presentation of descriptive output that also

consists of normality assumptions (Hair & Sarstedt, 2021). According to the output, majority of the data fall under the normality assumption range such as kurtosis and skewness (Hair, 2020).

4.3.2 Common Method Bias Analysis

The reason why a ‘Common Method Bias’ appears in researches is illustrated in many a study made, especially on ‘Social Science’. This “Common Method Bias” usually occurs in researches where the independent and the dependent variables are gathered from the same respondents for measurement (Berbekova & Assaf, 2021). Since this study collects data from tax affairs officers, using survey questionnaire, chances are there at high level to expose the ‘Common Method Bias’ in the study. The researcher follows the steps suggested by Huang and Yen. (2022), and MacKenzie and Podsakoff (2012) by ensuring anonymity and keeping in mind that the responses delivered are based solely on their own perception, including a reversal measurement for certain constructs; by designing simplified questions so as to make them understood by the respondents from various backgrounds, and by including a scenario-based question to measure the dependent variables.

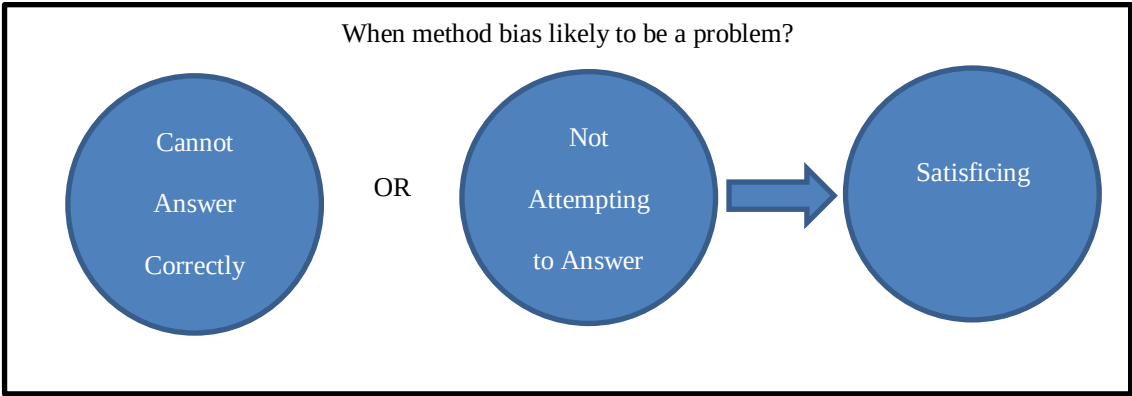


Figure 4.1: Common Method Bias Satisficing

Table 4.11: Multi-collinearity test

Items	VIF	Items	VIF
CORP1	1.568	PEER1	1.176
CORP2	1.269	PEER2	1.097
CORP3	1.906	PEER3	1.030
CORP4	2.094	PEER4	1.094
CORP5	1.891	PEER5	2.163
CORP6	1.511	PEER6	1.124
PERT1	1.904	PEER7	1.087
PERT10	1.470	PEER8	1.283
PERT2	1.680	FINC	1
PERT3	2.281	RELG	1
PERT4	1.688	PROB1	2.089
PERT5	1.939	PROB2	1.088
PERT6	1.722	PROB3	1.007
PERT7	1.901	PROB4	2.005
PERT8	1.153	SERV1	1.865
PERT9	1.880	SERV2	1.988
SATS1	1.011	SERV3	1.548
SATS2	1.012	SERV4	1.246
SATS3	1.013	SERV5	1.951
SATS4	1.014	SERV6	1.049

In the meantime, Kock (2015) made a study on the Common Method Bias in ‘PLS-SEM’, highlighting that a full collinearity test is much sufficient to identify the issues relating to the bias, and nevertheless, the data meet the requirement of the discriminant validity test in the ‘PLS-SEM’. According to the table below, the VIF values indicate the collinearity level between items that show below all the benchmark value of 3.3. If the value is above 3.3, it highly indicates a contamination of Common Method Bias. Therefore, if all

the VIF in the inner models show a full collinearity test, equal to or below 3.3, it is an indication that it is free from the Common Method Bias. Confirmatory factor analysis is a superior method to Exploratory Factor Analysis (EFA) (Khreisat & Mugableh, 2020). Although there are various methods to test the reliability of the construct this study used Cronbach's alpha (α) coefficients by composite reliability (CR) when evaluating the measurement model for Confirmatory factor analysis (CFA)

4.3.3 Social Desirability Bias Analysis

Latkin et al. (2017) describes that the Social Desirability Bias occurs in a situation where the respondents under-report their undesirability and overstate their desirability. This study uses the Survey and the Face-to-Face interview to collect data in respect of the social network factors, revealing that the social desirability bias is highly influenced in the social science studies that look into an individual's behavior. Mentioned in this study is a clear set of protocols, such as the easily understandable wording and prefacing of questions, which in no way makes themselves judged.

This study also collects data from officers of tax affairs, and the survey questionnaire is designed in such a way that it can be used to collect data from the officers in order to assess their tax compliance behavior. Therefore, this study also has a higher level of tendency for the respondents to be contaminated by the Social Desirability Bias since the respondents may wish to show themselves good in terms of tax compliance. A reversal measurement for random constructs is practiced, where the higher level of the scale may indicate a lower-level of agreements, and vice versa. This type measurement may assist the researcher to predict whether the respondents randomly report high level of scale to present themselves representing a good citizen.

Table 4.12: Measure of Social Desirability Bias (Paired t-test)

Scenario	N	Average of Difference	Std. Dev. of Differences	t-value	p-value
Corporate Tax	392	-0.2934	0.9397	-6.1811	0.000
Personal Tax	392	-0.1556	0.9291	-3.3161	0.000

Results of the paired-t test for the corporate tax compliance indicated that there is a significant small difference between Before ($M = 3.4$, $SD = 1.2$) and After ($M = 3.1$, $SD = 1.5$), $t(391) = 6.2$, $p < .001$. Results of the paired-t test for the personal tax compliance indicated that there is a significant very small difference between Before ($M = 3.4$, $SD = 1.2$) and After ($M = 3.3$, $SD = 1.5$), $t(391) = 3.3$, $p < .001$. The outcome from the paired t-test indicates that the respondents act in fair manner and perceived ethical when responding to the survey questionnaire.

4.3.4 Descriptive Analysis

Descriptive analysis is generally used to describe and interpret the basic elements of the collected data. The following table, which is under the descriptive analysis, shares the information about the average, minimum, and the maximum values of the respondents' responses to each of the constructs, standard deviation, and the normality predictors, such as excess skewness and kurtosis. Whether all the responses are fully used for the analysing purposes or any of the data is left over or missed is highlighted by this analysis.

The researcher has fully coded the responses considering the direct measurement and reversal measurements for certain constructs. The normality predictors (Excess Kurtosis and Skewness) highlights that the values are within the benchmark and the data is normally

distributed (Refer to Appendix J). SmartPLS is an advanced version of statics analysis package that automatically normalizes the data coded into the spreadsheet. The table clearly shows that no data is missed out for analysis and all the 392 responses are transferred into spreadsheet for analysis purposes. Few constructs of variables, such as peers' tax compliance, probability of audit, and service quality of tax authority, have been marked as highly preferable items, and no respondents have marked their least preferences to those items.

In the meantime, other items have been indicated as a mix of responses between 1 and 7. The mean for the corporate tax compliance is recorded in the range between 3.061 and 3.523. Meanwhile, for the personal tax compliance, the mean is record between the range of 5.487 and 6.273. At the same time, the mean for the independent variables, peers tax compliance, probability of audit, service quality of tax authority, and satisfaction on government spending, is recorded between the range of 5.487 and 6.273, between the range of 4.691 and 6.398, between the range of 3.191 and 5.574, and between the range of 5.543 and 5.781, respectively. The average response for moderating variables of financial constraint and religiosity is 2.801 and 4.245, respectively.

4.4 Interview Findings

As explained in the previous chapter 3, the researcher has approached the officers who attached with tax authority, tax agents, and tax scholars to gather supplementary data to the primary findings. Initially the researcher aimed to collect at least 10 to 15 responses from the above-mentioned groups. However, the researcher unable to meet significant number of officers at Inland Revenue Board due to their busy schedules. Therefore, the number of participants from Inland Revenue Board was only limited to 2, while the

participants from other groups were managed to collect more than 2. The interviews were conducted between March 2022 and July 2022. A total of 9 officers from different groups involved, among 2 were males and 7 were females. Most of the interviewees were work for tax accounting firm (4 officers) and the rest were from tax authority and tax scholars (2 and 3 respectively). Though, the target interviews from three different designation equally, but most of the officer's designation was middle level. These interview sessions range between 3 minutes and 25 minutes, in which Participant 1 from tax authority has not shared information and not commented on the preliminary findings (Refer to Appendix K). Since the time was too small and the information gathered from participant 1 is not enough, this interviewee could be eliminated from further supplementary analysis. This study moves further with the rest 8 participants' contribution in order to analyses the preliminary findings.

Only one officer, who participated in the interview, has more than 10 years' experience related to tax matters, while 5 officers have between five to ten years work experience. The other 3 officers have the work experience related tax matters were less than 5 years. Also 2 tax agents were from sole practitioners and 2 of them were from small tax consulting firm. The 3 tax scholars were the educators who have been mainly teaching taxation and occasionally teaching tax related subjects. The mixed work background participants are expected to contribute their sharing to supplement the findings made from the questionnaire.

4.5 Model Evaluation

4.5.1 Measurement Model

The implicit or explicit type of model that connect the latent variable with its indicators are referred to measurement model (Rhemtulla, 2021). Figure 3.5 presented in

section 3.4.8 of chapter 3 visualise the connection between latent variable and indicators of latent variables. Confirmatory factor analysis (CFA) is also named as measurement model in studies that uses structural equation modelling (Marsh et al., 2019). The aim of this section is to ensure that each item empirically measured a distinct dimension. In measurement model, the researcher conduct assessment to determine whether the measures literally represent the constructs by performing reliability and validity. The measurement model used in this study consist a mixture of reflective and formative constructs.

In this study, there are two reflective constructs; peers' tax compliance, probability of audit, and the rest are the formative constructs; personal tax compliance, corporate tax compliance, satisfaction on government spending, service quality of tax authority. As suggested by Manley et al. (2022) and Sarstedt et al. (2022) confirmatory factor analysis (CFA) should be done prior to assessing the reliability and validity of the constructs. Therefore, assessment of loading for both type of constructs measurements is carried out. For instance, outer loading is presented below at Table 4.13 for the reflective constructs and outer loading is presented for the formative constructs. Indicator's reliability and composite reliability are presented to discuss the reliability of the constructs. Next this section covers the validity of the constructs, in which convergent validity, discriminant validity, and Heterotrait – Monotrait Ratio (HTMT) are presented. To begin with, this section presents the reliability of the reflective constructs.

4.5.2 Reliability of Constructs

As mentioned in the previous section 4.5.1, the reliability could be tested in two stages of the model, first at the individual stage and then at the construct stage. At the first stage, the outer loading is retrieved to assess the measure. Next, overall consistency of the

construct named as composite reliability (CR) is assessed (Manley et al., 2022 & Sarstedt et al., 2022).

Table 4.13: Outer Loading

Indicators	Satisfaction with Government Spending	Service Quality of Tax Authority
SATS1	0.745	
SATS2	0.871	
SATS3	0.702	
SATS4	0.762	
SERV1		0.661
SERV2		0.731
SERV3		0.712
SERV4		0.705
SERV5		0.664
SERV6		0.656

Table 4.14: Outer Weight

Code	Corporate Tax	Individual Tax Compliance	Peer's Tax Compliance	Probability of Audit
CORP1	0.740			
CORP2	0.821			
CORP3	0.795			
CORP4	0.824			
CORP5	0.795			
CORP6	0.830			
PEER1			0.616	
PEER2			0.512	

Table 4.14 continued

PEER3			0.645	
PEER4			0.629	
PEER5			0.618	
PEER6			0.525	
PEER7			0.621	
PEER8			0.617	
PERT1		0.628		
PERT10		0.627		
PERT2		0.623		
PERT3		0.528		
PERT4		0.638		
PERT5		0.615		
PERT6		0.515		
PERT7		0.615		
PERT8		0.619		
PERT9		0.512		
PROB1				0.793
PROB2				0.849
PROB3				0.867
PROB4				0.848

The measurement model in this study consists of both reflective and formative constructs. The reliability of reflecting constructs is tested through outer loading, meanwhile the reliability of the formative constructs is tested through outer weight. Table 4.13 presents the outer loading for the reflective constructs; satisfaction on government spending, and service quality of tax authority. Meanwhile Table 4.14 presents the outer weight for the formative constructs; corporate tax compliance, personal tax compliance, peers' tax compliance, and probability of tax audit. This initial step is mandatory in structural equation

modelling to determine whether the measures are significant for this study. The outer loading is used to describe the fitness within measurement model and the composite reliability (CR) will be used to describe the fitness at structural level. As mentioned in the previous section 3.4.8 of chapter 3, an absolute threshold or a benchmark for factor loading, which is the correlation coefficient between observed variables and latent common factors, in PLS model is not established. However, as per previous studies by (Gotz et al., 2010), and Hair et al. (2010) a cut-off loading of 0.6 is sufficient.

As mentioned above, PLS algorithm reveals the values of outer loading and outer weight for reflective and formative constructs. In this study two variables are designed as reflective constructs; satisfaction on government spending, and service quality of tax authority and the rest are formative constructs. It is learned throughout the literature that there is no standard benchmark to evaluate the loading for reflective and formative constructs under measurement mode. However, Hair et al. (2019) mentions that a value of 0.6 would be appropriate to assess the fitness in measurement model.

According to the tables above, the values are above the bench mark value of 0.6, except for peer's tax compliance and personal tax compliance. Formative constructs are exceptional when evaluating their fitness, and though the outer loading of some items below 0.6, the researcher is not allowed to drop from further analysis (Sailer & Fischer, 2021). The second step in the measurement model is to assess the internal consistency reliability, most often using composite reliability (CR) (Hair et al., 2019). Table below explains the composite reliability (CR), which shows the indication of the indicators on the latent variables, ranging between 0.710 and 0.922, and highlights the value above the benchmark level of 0.7.

Table 4.15: Composite Reliability

Items	Cronbach's Alpha	rho_A	Composite Reliability
Corporate Tax Compliance	0.719	0.72	0.710
Financial Constraint	1	1	1
Satisfaction with Government spending	0.814	0.829	0.854
Individual Tax compliance	0.849	0.85	0.816
Peer's tax compliance	0.846	0.843	0.817
Probability of Audit	0.918	0.919	0.922
Religiosity	1	1	1
Service quality of Tax Authority	0.825	0.898	0.843

As mentioned in the previous section 3.4.8 of chapter 3, after assessing the reliability of the indicators of each latent variable, the following step in structural equation modelling is to assess the overall internal consistency of each construct through computing composite reliability. Bacon et al. (1995), and Hair et al. (2012) reveal that a benchmark value of 0.7 is reasonable to conclude the internal consistency of the constructs. However, some studies do present different presentations with regard to the threshold of internal consistency by highlighting 0.5 or 0.6 as the reasonable value. The above table shows the internal consistency evaluation through composite reliability, and it clearly presents that the internal consistency of constructs is above the benchmark value of 0.7. Since the internal consistency evaluation satisfies the criteria, the researcher moves to the assessment of validity of each construct.

4.5.3 Validity of Constructs

As mentioned in the previous section 3.4.8 of chapter 3, structural equation modelling applies confirmatory factor analysis technique to ensure the strength assessing them through convergent validity and discriminant validity. The next section presents convergent validity by assessing the average variance extracted (AVE).

Table 4.13: Convergent Validity

Items	Average Variance Extracted (AVE)
Corporate Tax Compliance	0.653
Satisfaction with Government spending	0.596
Individual Tax compliance	0.680
Peer's tax compliance	0.719
Probability of Audit	0.747
Service quality of Tax Authority	0.711

The convergent validity of the constructs is the third step in assessing the convergent validity (Hair et al., 2019). This fact explains as to what extent the constructs converge in order to explain the variance of the items. The convergent validity is generally assessed through the average variance extracted (AVE), and the AVE is reported to be between the range of 0.596 and 0.747, exceeding the recommended benchmark level of 0.5 (Refer to Table 4.16). Similar to the internal consistency, the convergent validity assessment also explains a mixed presentation of the threshold value (Hair et al., 2014; Lin, 2008; Shrestha,

2021). However, this study moves forward, considering a standard benchmark value of 0.5 as threshold to assess the convergent validity through average variance extracted (AVE).

Table 4.17: Heterotrait – Monotrait Ratio (HTMT)

Items	Individual Tax Compliance	Satisfaction with Government Spending
Satisfaction with government spending	0.772	
Service quality of authority	0.347	0.843

Finally, the researcher is required to assess the discriminant validity. Fornell-Larcker Criterion is one of the popular techniques to assess the discriminant validity of a model (Sami & Mohmad Sidek, 2017). However, study by Henseler et al. (2015) highlight that the approach of Fornell-Larcker Criterion does not accurately detect the validity. As a result, the above-mentioned authors propose a new approach to enhance has detection of discriminant validity through the Heterotrait-Monotrait ratio of correlations (HTMT). It is the extent to which a construct is empirically distinct from other constructs in the structural model (Hair et al., 2019). Discriminant validity is examined by looking at the correlation between constructs and the square root of the variance extracted for a construct. The top values presented in Table 4.17 show the square root of the construct's average variance extracted and the rest of the values show the correlation between the construct and are less than the square root of the average variance extracted. In summary, the measurement model confirms the goodness of the measurement. Generally, formative constructs are exempted from discriminant validity.

4.5.4 Structural Model

As mentioned in the previous section 3.4.8 of chapter 3, the structural model should be assessed after the assessment on measurement model is completed. Generally, the structural model assessment is conveyed by presenting the R square value, the effect size (F-Size), and finally the path analysis.

Table 4.18: R-Square

Items	R-Square	R-Square Adjusted
Corporate Tax Compliance	0.960	0.959
Financial Constraint	0.035	0.025
Personal Tax Compliance	0.839	0.831
Religiosity	0.004	-0.006

The most important analysis is structural model is the R-square value (SmartPLS, 2023). Because R-square values expected to indicate the degree of coefficient determination of the model. As discussed in their previous sections, R-square value also does not have a standard benchmark to evaluate its representation. However, the researcher generally accepts that higher the R-square value, higher the variables explained in the study (Cepeda-Carrión et al., 2022). In this study, the variables that impact the personal tax compliance behaviour of Malaysian in-house tax professionals is determined as 0.831. Therefore, the designed model could explain 83.1% of the variance in personal tax compliance of in-house tax professionals.

Table 4.19: Effect Size Independent Variables on Dependent Variables

Variables	Corporate Tax Compliance	Financial Constraint	Personal Tax Compliance	Religiosity
Factors		0.037	0.330	0.004
Financial Constraint			0.772	
Moderating Effect 1			0.004	
Moderating Effect 2			0.006	
Personal Tax Compliance	0.732			
Religiosity			0.054	

In addition to the above presented R-square, the effect-size (F-Square) of the independent variable made on dependent variable is also paramount in discussing the overall findings (Rhemtulla, 2021). The table below presents the effect-size of the variables made on respective dependent variables indicates that the overall factors; peers' tax compliance, probability of audit, service quality of tax authority, and satisfaction on government spending has a large effect (f-square=0.330) on personal tax compliance behaviour of Malaysian in-house tax professionals. Meanwhile, personal tax compliance behaviour of Malaysian in-house tax professional also has a large effect (f-size=0.732) on their corporate tax compliance behaviour. The table further presents that financial constraint and religiosity also highlight a small effect on Malaysian in-house tax professionals.

Table 4.20: Path Coefficient 1

Path	Hypothesis	Path Coefficient	Standard Deviation	t-value	p-value	Results
Direct Effect						
PEER→PTAX	H1a1	0.975	0.579	1.685	0.041**	Supported
PROB→PTAX	H1a2	0.683	0.210	3.251	0.000**	Supported
SERV→PTAX	H1a3	0.584	0.293	1.990	0.023**	Supported
SATS→PTAX	H1a4	0.114	0.067	1.691	0.043**	Supported

Table 4.21: Path Coefficient 2

Path	Hypothesis	Path Coefficient	Standard Deviation	t-value	p-value	Results
Direct Effect						
Factors → PTC	H1a	0.589	0.277	2.128	0.024**	Supported
PTC → CTC	H1b	0.455	0.210	2.166	0.018**	Supported
Factors → FNC → PTC	H2a	0.171	0.098	1.745	0.038**	Supported
Factors →RLG → PTC	H2b	0.006	0.031	0.193	0.731	Not Supported
Indirect Effect						
Factors → PTC → CTC	H3	0.073	0.041	1.780	0.031**	Supported

Similar to regression analysis, path coefficient in PLS presents the relationship between independent and dependent variables by showing the overall strength through bootstrapping. Studies by Hult et al. (2021), Marsh et al. (2019), and Sarstedt (2022) mentions that path coefficient should be at least 0.100 interpret the relationship

meaningfully. Peers' tax compliance shows a higher level of strength ($\beta=0.975$, $p<0.05$), followed by probability of audit ($\beta=0.683$, $p<0.05$). Meanwhile, service quality of tax authority ($\beta=0.584$, $p<0.05$), and satisfaction on government spending ($\beta=0.114$, $p<0.05$) also show a positive and significant relationship with Malaysian in-house tax professional's tax compliance behaviour. The bootstrapping conducted on Model B reveals that the overall factors impact on in-house tax professionals' tax compliance is positive and significant ($\beta=0.589$, $p<0.05$). The coefficient also reveals that the relationship between in-house tax professionals' personal tax compliance and their corporate tax compliance is also positive and significant ($\beta=0.455$, $p<0.05$).

Further bootstrapping made on moderating effects on in-house tax professionals tax compliance reveals that financial constraint significantly moderate the relationship between the factors of tax compliance and their personal tax compliance ($\beta=0.171$, $p<0.05$). However, the moderating effect of religiosity is found to be insignificant ($\beta=0.06$, $p>0.05$). The overall model reveals that the Malaysian in-house tax professionals' personal tax compliance significantly mediates the relationship between factors of personal tax compliance and their corporate tax compliance ($\beta=0.073$, $p<0.05$).

4.6 Chapter Summary

This chapter presented the quantitative data findings and analysis. In this chapter, survey response was the first section to discuss the response rate, demographic background of the participated respondents, and the non-response bias. Next, the chapter moved discussing preliminary analysis using data screening process, common method bias, and social desirability bias. It is highlighted above that the response rate in this study is relatively low, and this does not impact the data analysis when using structural equation modelling

through SmartPLS. Besides, it is also a limitation identified that the sample does not fully represent the population of this study. However, this limitation does not totally render outcome of the study to reflect the tax compliance behaviour of Malaysian corporate taxpayers as well as personal tax payers.

Besides, the responses received from respondents were not consistent, and the researcher noticed that the rate of responses received everyday fluctuated. This inconsistent rate of response receiving did not support the researcher to segregate early received responses and lately received responses to perform a non-responsive bias test. It common in the social science studies that testing a significant difference between early and late response to predict the non-response bias. Further, this study also concluded its analysis with common method bias analysis and social desirability bias analysis.

Also, in this chapter, the supplementary data collection through interview was presented. A total of nine (9) participants, and 1 among them had no adequate findings to process further. Therefore, the researcher planned to dropped the 1 participant's contribution and moved the findings with the available eight (8).

Besides, this chapter also presents the assessment of measurement model that was carried out for the model A, which presents the validity and reliability of the measures. Thereafter, the assessment for the structural model for the Model B was carried out to present the R-square, F-square, and path coefficient values (Refer to Appendix L & M). The entire data analysis was performed through SmartPls statistical software. The entire data analysis procedures of structural equation modelling through SmartPLS were carried as per the direction provided by the professional experts in structural equation modelling such as Professor Dr Hair and the literatures offered by SmartPLS website.

The value of R-square on personal income tax compliance is 83.9 percent and on the corporate tax compliance is 96 percent. That further suggests that the model can be explained by 83 percent and 96 percent of the variance studied in this model. The entire findings from the Malaysian in-house tax professionals are deemed to fill the scarcity exist in taxation literature. The path coefficient analysis conducted on model A and Model B reveals that all hypotheses were supported except the moderating effect of religiosity between Malaysian in-house tax professionals' personal tax compliance factors; peers' tax compliance, probability of tax audit, service quality of tax authority, and satisfaction on government spending, and their personal tax compliance level ($p > 0.05$).

CHAPTER 5

DISCUSSIONS

5.1 Introduction

This chapter has three phases to present a detail discussion on the preliminary findings first, and discussion on the supplement findings, and finally an overall discussion covering both preliminary and supplement findings. The final section discusses the hypothesis testing outcome referring to the path coefficient analysis as presented in section 5.3.

5.2 Discussions on the Survey and Interview Findings

This section as mentioned above discusses the preliminary findings from survey questionnaire and the supplementary findings from the interviews. To make it clear, the indicators of each variable are assigned based on the average score they earned from the survey questionnaire and the comments on such arrangements were made by the interviews presented in section 5.2.1 The next section presents the central tendency ranking of indicators of each variable followed by the comments presented by the interviews. It is also notable that not all the indicators of variables were commented by the selected tax experts. The tax experts who contributed to the interview findings were from various background as presented in Appendix K.

5.2.1 Central Tendency Ranking among Indicators

A common explanation related to corporate tax compliance and personal tax compliance are referred as tax compliance or a good citizen, who adhere the tax laws and regulations by the Inland Revenue Board of Malaysia (IRBM) and Royal Malaysian Customs (RMC), and consideration given to the public rulings published by the government of Malaysia (PricewaterhouseCoopers, 2022). Corporate tax compliance and personal tax compliance is all about relevant parties complying with the local tax system enacted in the jurisdictions. Youde and Lim (2019) define tax compliance as taxpayers' decision to comply with tax laws regulations by making timely tax payment. Discussion related to corporate and personal tax compliance were presented in section 2.10.1 of chapter 2. Appendix present the list of measures of corporate tax compliance and personal tax compliance. Also, the table shows the average ranking for each indicator reported by survey respondents, and the comments delivered by the tax experts on the subject related to corporate tax compliance and personal tax compliance.

Table 5.1: Central Tendency Ranking for Corporate Tax Compliance

Indicators	Mean	Ranking
I file all corporate tax return on time	3.212	4
I file all my SST on time.	3.263	3
I deduct PAYE and remit the amounts on time.	3.490	2
I deduct withholding tax on professional fees and remit to LHDN on time.	3.061	6
I pay my taxes within the required time frame.	3.523	1
Scenario	3.148	5

Table 5.2: Central Tendency Ranking for Personal Tax Compliance

Indicators	Mean	Ranking
I would feel guilty if I under-reported my actual income in my annual tax return.	3.222	7
To feel guilty for under-reporting income tax is good.	3.281	4
Under-reporting my income tax makes me better off	3.268	5
There are a number of government services, infrastructures and facilities for which I am thankful.	3.291	3
Under-reporting income is acceptable if any portion of the money collected is wasted by government.	3.316	2
Paying as little tax as possible is important.	3.22	8
Government has spent the money collected from tax efficiently.	3.191	9
Under-reporting my income will not hurt the society as a whole.	3.367	1
I feel that I have made a positive contribution to my country by fully reporting all of my income.	3.145	10
Scenario	3.265	6

There are 6 indicators attempt to measure corporate tax compliance, while 10 indicators measure personal tax compliance. From the central tendency ranking, it is understandable that respondents assume a better tax compliance is about reporting their financial income to tax authority on time. To support the argument, CTAX, CTAX 3, and CTAX 1 earned average of 3.523 out of 7, 3.490 out of 7, and 3.212 out of 7 respectively.

Meanwhile, the scenario question on corporate tax compliance, which drawn to establish a non-compliance behaviour was least ranked by the respondents. Looking at personal tax compliance, some explanation also referred under-reporting incomes and over-stating expenses to support the tax compliance definition.

The comments from tax experts reveals their opinion on the definition of tax compliance. However, most of the tax experts criticized the constructs of the measures, which limitedly cover the measures for tax compliance. They also state that it should have been elaborated in another way that cover tax law adherence. However, in the fourth IMF-Japan high-level tax conference for Asian countries Inland Revenue Board of Malaysia presented its' objective to define a better tax compliance. That was known as; register as a taxpayer with IRBM to meet certain criteria, submit tax return by or before the due date, pay tax liability by or before the due date, and report tax liability correctly by declaring the income, expenditure, and tax relief without error (Hilary Dom, 2013).

Meanwhile, IRBM also define tax non-compliance as; Failure to register with tax authority by any potential taxpayer, non-submission of tax return after the due date, Non-payment/partial payment of tax liability after the due date, and Incorrect declaration/assessment of tax liability in the submitted tax return. Having restate the definition of tax compliance mentioned by IRBM confirms that the researcher of this study has wisely measured the tax compliance. The definition mentioned by IRBM has no way correlates with the tax expert's suggestion, which intends to involve the adherence of tax law to measure tax compliance. Referring to Table 3.1 and Table 3.2 clearly shows that the measurement covers all the key points mentioned by IRBM.

Table 5.3: Central Tendency Ranking for Peer's Tax Compliance

Indicators	Mean	Ranking
Most taxpayers expect me to report all my income on the annual tax return.	5.487	8
Generally, I would do what most taxpayers expect me to do.	5.617	6
Most people who are important to me (e.g. family, friends, and business partners) expect me to report all my income on the annual tax return.	5.543	7
Generally, I would do what people who are important to me would expect me to do.	5.663	5
Most taxpayers under-report their actual income on their annual tax returns.	5.781	3
Generally, I would do what most other taxpayers do.	6.273	1
The people who are important to me (e.g. family, friends, and business partners) under-report their actual income on their annual tax return.	6.151	2
Generally, I would do what people who are important to me do.	5.727	4

Peers' tax compliance in taxation literatures define as taxpayers' associates that can be an individual regardless who could be a relative or non-relative (Alshira'h, 2019). Detail discussion on peers' tax compliance was presented in section 2.9.1 of chapter 2. The table below shows the measures of peers' tax compliance and those are presented with its average.

The expert's opinion, coupled with the findings derived from the survey data, provides robust evidence supporting the notion that peer tax compliance significantly influences an individual's personal tax compliance behaviour. This alignment between expert opinion and empirical findings underscores the importance of social influences in shaping tax compliance behaviour, as highlighted by Kelman's Social Influencing Theory. According to this theory, individuals are profoundly influenced by their social environment, including the behaviours and norms of their peers. When individuals perceive that their peers are complying with tax regulations, they are more likely to adopt similar behaviours themselves. Conversely, exposure to non-compliant behaviours among peers may erode an individual's willingness to comply with tax obligations. Thus, compliance behaviour is not merely an individual decision but is shaped by the acceptance of external influences within one's social sphere. This insight underscores the need for policymakers and tax authorities to consider social dynamics when designing interventions aimed at promoting tax compliance.

Table 5.4: Central Tendency Ranking for Probability of Audit

Indicators	Mean	Ranking
If there was a discrepancy in the annual tax return, it would be audited.	4.906	3
If my company were to be chosen for a compulsory audit, a discrepancy be identified.	6.398	1
The penalties are severe if my discrepancy were discovered in audit.	4.691	4
The chances of being audited are so low that it is worthwhile trying to economize a little on corporate income taxes for various reasons.	5.398	2

Probability of getting tax audited by the relevant authorities are defined as probability of audit (Ayers et al., 2018). Discussion on probability of audit by the tax authority and tax compliance was presented in section 2.9.2 of chapter 2. The table below shows the measures of probability of audit and the average for each indicator followed by the comments from interviews on the subject related to probability of audit.

Doing off desk audit incur additional cost to IRBM. For example, they also subject to face opportunity cost due to setting up a different plan outside from their actual indoor duties. They had to sacrifices some jobs or duties they do normally at their office just conduct an off-desktop audit. However, the number of off desktops is high but number of successful cases are relatively low.

Referring to the chronological events of a taxpayer in his critical moments highlights that IRBM has a clear version of arrangement to handle taxpayers in regards noncompliance. IRBM notifies the taxpayer about the proposed tax field audit that intends to be conducted on taxpayer or in taxpayers' premises. The message is normally conveyed through email communication or via a telephone call from a local IRBM office. It is mentioned that IRBM will take approximately 2 weeks (14 business days) to perform this field audit on the taxpayer or in taxpayers' premises. Upon completion of the tax audit or failing to cooperate with the tax audit field, IRBM will release a tax computation between 3 weeks to 6 months' time frame. This time frame and the events are considered as critical events for Malaysian taxpayers.

Based on the findings from the supplementary results, taxpayers with critical events take initiative to face the IRBM arrangements and reach out the local or nearest tax agents for their assistance. Participant number 6 confirms the scenario based on the real experience

that most taxpayers fear for the tax audit by IRBM and the number of contacts reached to tax agencies after such incidents occurred to taxpayers or business taxpayers. The questionnaire findings of this study further support this scenario and highlights that probability of tax audit by Inland Revenue Board of Malaysia significantly increase the tax compliance among Malaysian taxpayers.

The findings from this study reveal a significant linkage between the probability of tax audit, as defined by the likelihood of being audited by tax authorities, and tax compliance behaviour among Malaysian taxpayers. This connection aligns with the principles outlined in the Allingham and Sandmo Model, which posits that individuals engage in a cost-benefit analysis when deciding whether to comply with tax regulations. The data indicates that taxpayers perceive the probability of audit as a key determinant of their compliance behavior, with a higher likelihood of audit leading to increased compliance efforts. This observation is consistent with the Utility Maximizing Theory, which suggests that individuals seek to maximize their overall utility or satisfaction when making decisions. In the context of tax compliance, taxpayers weigh the potential costs of non-compliance, such as penalties and legal repercussions, against the benefits of compliance, such as avoiding audits and maintaining a positive relationship with tax authorities. The findings further illustrate how taxpayers strategically respond to critical events, such as receiving notification of a tax audit from the Inland Revenue Board of Malaysia, by seeking assistance from tax agents to navigate the audit process effectively. Thus, the study underscores the role of perceived audit probability as a key factor influencing taxpayer behaviour, in line with the rational decision-making framework proposed by the Allingham and Sandmo Model and the Utility Maximizing Theory.

Most of the time, Inland Revenue Board of Malaysia locate the errors by looking at the supporting documents for the expenses claimed. Claiming and justifying expenses are the best option to reduce the tax, though there are several reliefs available. In this situation, IRBM demands for supporting documents or clarification to determine whether the expenses are deductible or non-deductible. Public ruling number 3/2015 highlights the steps IRBM take on furnishing information within stipulated period. Deciding whether the mentioned expenses are deductible or non-deductible is the ultimate conclusion for the above-mentioned public ruling. A notice will be released to the tax payer under Section 81 of Income Tax Act to produce evidence to support the claim they made. If the information is furnished, the IRBM will allow the expenses for deduction, meanwhile if the information does not furnish the demand made by the authority or failure to submit documents will lead to non-deduction of the claimed expenses. The authority controls the entire scenario with a fixed time frame and demands the taxpayers to furnish the claim by highlighting the rights they have in the constitution. This association is further supported by Allingham and Sandmo model, in which the theory emphasizes that higher the fear an individual face on a legal action, the higher the compliance they engage with.

The central tendency results of the variable probability of audit presented above also support the findings. According to the results above it is clear that the indicator *“If my company were to be chosen for a compulsory audit, a discrepancy be identified”* earned the higher average among others (6.398 out of 7). The respondents accept that if the business is chosen for a tax audit, the prime concern as a tax affairs officer in this matter is thinking about the discrepancy, which has the possibility to be identified by the authority. Meanwhile, another indicator *“If there was a discrepancy in the annual tax return, it would be audited”* with an average of 4.906 (out of 7) is the general perception of taxpayers in relation to the

probability of audit. However, other indicator “*The penalties are severe if my discrepancy were discovered in audit*” with an average of 4.691 (out of 7) reads the taxpayers perception, if they were caught by the tax authority in a tax audit.

The entire perception towards future potential tax audit by the local tax authority seems less focused, because another indicator “*The chances of being audited are so low that it is worthwhile trying to economize a little on corporate income taxes for various reasons*” also earned an average of 5.398 (out of 7). Looking at utility maximizing theory, an individual think about the utility benefit first and prioritize the advantage to the cost incurred on performing an action. However, in terms of tax compliance, the action taken by the taxpayers related noncompliance eventually ending up causing a cost to the taxpayer and the business. This fact will be taken note and transferred to recommendations at the end of the chapter in this study and suggestions of suitable measures for Inland Revenue Board of Malaysia to overcome the issue will be made.

Maximum penalty to be imposed on a taxpayer is 100% under Section 113(2) penalty, where the taxpayer has “omitted or understated any income” liable to be taxed. 100% 113(2) penalties with effective from 1st January 2018 issued by the Inland Revenue Board specifies the following conditions; repeated offences of undeclared or incorrectly declared income received by way of a return form, refusal to give full cooperation during an audit or investigation process, failure to give information or documents requested to assist in an audit or investigation process, carrying out an organized tax evasion scheme, and failure to comply with the tax law even though the taxpayer has been audited or investigated before. IRBM also emphasizes that the proposal to increase the rate of penalty to 100% of the tax payable on the undeclared or under-declared income beginning 1 January 2018 is a step

elevating the level of voluntary compliance among taxpayers by dealing with taxpayers who are hardcore tax law defaulters.

As mentioned in section 1.2 of Chapter 1, IRBM press release reveals that 31,598 entities including 23,751 individuals, businesses, and companies who have not declared their income with the tax authority estimated more than RM665 million. Though identifying the high-impact financial crime areas is not easy, the authority uses different approaches to trace the tax evaders. For example, the above mentioned 31, 598 entities were traced when they attempt to secure asset ownership via financing valued more than RM 500,000 (The Edge Markets, 2022). As commented by the tax scholar above, IRBM already maintains a collaboration with financial institutions to identify the applicants who attempt to secure loans and securities while not reporting their income with authorities. Placing a latest tax assessment become mandatory for applicants who wish to secure a long-term financial liability with local financial institutions.

To ensure balanced and reasonable income earning, IRB used various approaches to track and trace the reported income. Capital Statement is one of the approaches used by IRB to assess the net assets via form C.P.103, and to find out the personal & private expenses via form C.P. 102. Generally, a capital statement encompasses both above mentioned elements to assess their net assets in their possession as well as their personal income and expenses to evaluate the business income reported to IRB. A sample form of C.P. 103, which intend to assess the net assets of a taxpayer, and a sample form of C.P. 102, which assess a taxpayer's personal & private expenses. IRB accepts the income reported to them once the assessment is in a reasonable and satisfactory level. Whereby, if the income and expenses reported in the business financial reports and the capital statement is unusually matches or contradict,

additional information will be requested from the taxpayer to furnish the request. A sample letter sent by IRB to their selected. Failure to furnish the documents may subject to go through the public ruling of 2015 (PR3/2015).

As mentioned by the tax scholar, monitoring the expenditures, losses, and group reliefs can be extracted not only from the business financial statements, but also from the capital statement of personal expenditures as mentioned in the above paragraph. Meanwhile, capital allowance is related to fixed assets that utilized for production purposes in business. According studies, recording of fixed assets purchases, and transfer or exchange of fixed assets is taken as an approach to over-state the expenses or under-report the income. Purchases of fixed asset for investment purposes are non-deductible expenses, and the depreciation incurred on the fixed assets also non-deductible expenses.

To overcome this issue, government of Malaysia offer certain percentage of capital allowance in the form of initial allowance and annual allowance until it fully absorbed. The categories of capital allowance are classified into many, most commonly known as furniture and fixtures, office and shop equipment's, Machineries, Vehicles, and ICT items. Computation of capital allowance is the most commonly manipulated area by businesses to over-state the expenses. Apart from the mentioned classification, government of Malaysia also offer 100% claim for small value assets (SVA), which values less than RM2,300.

In order to control the emerging manipulation in disclosure of capital allowance, IRB carefully accept the claim with the relevant attachment such as transaction detail including the description of the item, the quantity of the item, supplier name with Identity Card (If supplier is an individual), the official invoice or receipt from the supplier, transaction type whether by e-transaction or cheque or cash. As mentioned earlier by tax agent, the

implementation of Artificial Intelligence (AI) to record, store, and authenticate the documents are not in force in developing countries, where by digitalization with the help of AI may assist the IRB to trace, and track faster.

Volkenburgh (2021) explains that audit and chances of getting audited increases the level of tax compliance among taxpayers, and maintaining the tax compliance by controlling the tax fraud could be easily performed with the help of Artificial Intelligence. Machine learning application is expected to accelerate the process of analysing tax related documents, such as capital statement, financial statements, equity reports, and capital allowance schedules. Moreover, incorporating of artificial intelligence will authenticate the credibility of the documents including invoices that are made locally or from abroad.

To support this practice, Indian tax authority has successfully incorporated artificial intelligence to authenticate the invoices used by the business to claim expenses. AI authenticated its credibility, and thereby more than 1,620 cases were located for using fake invoices to claim expenses (PwC, 2022). It is further mentioned that European countries' tax authorities started to use artificial intelligence to enhance their audit process, and developing countries are still behind on adoption of AI in their operations.

As mentioned in section 1.2 of Chapter 1, the tax gap is calculated from the estimated tax collection for the following year. Implementation of artificial intelligence may help to find out the number of taxpayers, and the working adults in the country to accurately estimate a forecasting tax collection for the next year. Assessment of accurate estimated tax collection does not fabricate the tax gap and it ensures the tax authority to target an amount of tax collection to reduce the tax gap easily. A manual, or partial computerized application to assess estimated tax collection for the following year may subject to human errors.

As mentioned by tax expert, conducting audits targeting transfer pricing also allows the tax authority to prevent unusual related party transactions to over-state the expenses to claim deductions. A detail introduction explanation related transfer pricing was presented in section 2.5.4 of chapter 2 under challenges and constraints for raising personal and corporate tax revenues. Among the other challenges, transfer pricing is one of the emerging practiced performed by related parties sharing and exchanging transactions.

As mentioned in the above paragraph, implementation of artificial intelligence to connect international tax organizations allows IRB to cross check the transactions between related parties located in two different destinations in a country or in different countries. What kind of next move should be suitable for IRB to control transfer pricing issues was raised in section 2.5.4 of chapter 2, and the implementation of artificial intelligence would be a possible next move. Next, service quality of tax authority is discussed.

Tax authority of Malaysia work consistently to maintain the service quality offered to their clients and their future potential clients. During covid-19 pandemic period, Inland Revenue Board of Malaysia's functions had been severely affected. In such period, in accordance with the Movement Control Order (MCO) implemented by the government of Malaysia, the physical visit to the local branch was temporarily suspended and the authority had dealt the operations via online. A special arrangements and resource allocations were made in accordance with the new normal procedures brought to government departments to serve the people. However, the restrictions on physical visits restored in later date, and the authority set full precaution measures to stop spread the corona virus by following the Safety Operational Procedures (SOP).

Table 5.5: Central Tendency Ranking for Service Quality of Tax Authority

Indicators	Mean	Ranking
The revenue authority has extensive means to force corporations to be honest about income tax.	3.268	4
Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third-party reports in a systematic way.	3.291	3
If we evaded taxes and got caught, the penalties would be very high for my company.	3.316	2
Inland revenue board treats me fairly in my dealings with them.	3.222	4
Inland revenue board treats us respectfully in our dealings with them.	3.191	6
We trust IRMB and government when dealing with them on corporate tax matters.	5.574	1

Referring to figure below, extracted from IRBM official website is the online customer service feedback form that intend to collect customer comments and suggestions on their recent visits to the local tax department. According to the respondent number 2 from tax authority further confirms that there is a significant influence could be noticeable on taxpayer's tax compliance pattern whenever they tax authority assist in better way by providing the best service. To support the statement, an indicator that measure service quality of tax authority "*We trust IRMB and government when dealing with them on corporate tax matters*" earned an average of 5.574 out of 7.

Inland Revenue Board of Malaysia segregate the type of services they offer to their clients. Each task is labelled with unique indicated forms and clients are encouraged to use the particular forms to seek assistance. The relationship between the tax authority and the clients are two-way communication and a certain time frame will be given to the clients to get ready with documentations or others to respond back. The entire communication held between them is in good manner and assistance are provided whenever necessary. To support this statement, questionnaire findings from an indicator “*Inland revenue board treats me fairly in my dealings with them*” earned an average of 3.222 out of 7 highlights that taxpayers do agree with this statement in certain point.

Further, if the clients require extension of time for preparing such documents, they are still required to respond to the authority within the time frame. Authority does not always function in one-way communication, and there are plentiful opportunities for clients to engage back with the tax authority whenever necessary. To support this statement, another indicator “*Inland revenue board treats us respectfully in our dealings with them*” reported with an average of 3.191 out of 7 highlights that there is always a space available for taxpayers to express their view point to resolve the issues. The figure below is an example of how tax authority engages with the clients on such matter. This finding correlates with Kelman’s Social Influencing theory, in which the theory highlights that the favourable social environment that tends to motivate compliance influence compliance behaviour.

Same as other civil proceedings, tax clients also given opportunity to appeal for any decisions made by tax authority. A form JA will be delivered to the clients after 5 days it is dated. Upon receipt of the form, the clients are required to submit their assessment or documents within 30 days. Refer to the figure below, Section 103, Section 106, and Section

104 of the income tax act clearly articulate the right actions the tax authority could take upon not receiving a response or assessment from clients. Failure to submit documents may subject to 10 percent penalty and additional 5 percent penalty may imposed if the client not respond or submit the assessment. The tax authority (plaintiff) may go for a civil proceeding against the taxpayer under section 106 of ITA, or impose travel restrictions on Directors and co-Directors of the business or an individual taxpayer. In this such scenario, the defendant (taxpayer) can submit Form Q to seek appeal for the decision made by tax authorities.

To support this statement, another indicator *“The revenue authority has extensive means to force corporations to be honest about income tax”* reported with an average of 3.268 out of 7 indicates that not all taxpayers aware the available enforcement by the tax authority. This clear pathway procedures make ease of the tax authorities’ operations as well as help the tax payer in long term. However, the flowchart and operational directions are not known to most of the Malaysian taxpayers.

The tax investigation framework is an explanation for taxpayers about the IRBM’s tax investigation procedures. The existing tax frame work was replaced and the latest framework was come to practice from the year 2013. The framework clearly articulates the purpose and what is about to serve the people better. The tax investigation frame of Malaysia highlights the constitutional rights an officer of IRBM has towards a taxpayer. For example, refer to the figure above, the tax investigation frame covers not only the income tax act of 1967, but also Penal code Act 574, Criminal procedure code Act 593, Evidence Act 1950, Whistle blower protection Act 2010, Anti-money laundering, Anti-terrorism financing and proceeds of unlawful activities Act 2001.

According to Inland Revenue Board of Malaysia, the agency acts promptly for the sake of the nation by adopting various strategies under tax investigation framework such as risk analysis, information from informer, review of income tax return form (ITRF), intelligence information, and information from other law enforcement agencies. The entire procedures to ensure the tax compliance by each taxpayer are supported with legal rights and ensured that the purpose of tax agency operation achieve the strategic objectives.

The findings of this study underscore the significant influence of the service quality provided by the Inland Revenue Board of Malaysia (IRBM) on taxpayers' compliance behaviour, aligning with principles outlined in Kelman's Social Influencing Theory. The data reveals that taxpayers exhibit a greater propensity for tax compliance when the tax authority demonstrates a commitment to service excellence and responsiveness to taxpayer needs, particularly evident during the COVID-19 pandemic period. The IRBM's proactive measures, such as the implementation of online services and customer feedback mechanisms, contribute to fostering a favourable social environment that motivates compliance among taxpayers. Moreover, the study highlights the importance of two-way communication and client engagement in fostering trust and cooperation between taxpayers and the tax authority. The findings further suggest that taxpayers are more likely to comply with tax obligations when they perceive the tax authority as fair, respectful, and responsive to their needs. These observations align closely with Kelman's Social Influencing Theory, which posits that individuals' compliance behaviour is strongly influenced by their perceptions of the social environment and the actions of authority figures. By prioritizing service quality and fostering positive interactions with taxpayers, the IRBM effectively cultivates a supportive compliance culture that encourages voluntary tax compliance and contributes to achieving the strategic objectives of the tax agency.

Table 5.6: Central Tendency Ranking for Satisfaction with Government Spending

Indicators	Mean	Ranking
I believe the government utilizes a realistic amount of tax revenue to achieve social goals.	5.617	3
I think the government spends too much tax revenue on unnecessary welfare assistance.	5.781	2
We receive fair value of services from the government in return for our corporate tax paid.	6.151	1
We pay high corporate taxes when compared to the services we get from the government.	5.543	4

There are four indicators designed to measure the satisfaction on government spending. The indicators of the latent variable (satisfaction with government spending) were measured with reflective constructs and the highest average was earned by the third indicator that express as “*We receive fair value of services from the government in return for our corporate tax paid*” with 6.151 out of 7. This survey was distributed after the Covid-19 pandemic, and the perception respondents give may adhere how the Malaysian government has taken care than corporate sectors during the Movement Control Order period. The then prime minister of Malaysia, Hon Tan Sri Dato' Muhyiddin bin Mohd. Yassin was praised for his elegant service. At the same time, another indicator “*I believe the government utilizes a realistic amount of tax revenue to achieve social goals*” highlight that considerable number of corporate tax affairs officers do agree, 5.617 out of 7, with benefit government grants on corporate sectors.

In responding accurately to the then prevailed economic situation due to Covid-19, the then prime minister had introduced various economic stimulus packages worth 250 billion Malaysian Ringgit for the citizens and residence corporations in order to cushion the devastated economic impact. Reuters (2020) reported that Malaysian then prime minister was rated highly on the way he and his cabinet handled the coronavirus and received 69 percent approval rating in a survey ran by Malaysian popular research centre known as Merdeka Centre. Also, another survey highlighted 93 percent of satisfaction on the government for the way they handled Covid-19 pandemic. The following table below explains the government initiatives to mitigate the economic impact and the allocation of fund for each measure.

The findings of this study offer insights into the satisfaction with government spending among corporate taxpayers in Malaysia, aligning with principles outlined in the Fiscal Psychological Theory. The data reveals that perceptions of government spending positively influence corporate tax compliance behaviour, particularly evident during the COVID-19 pandemic period. The indicators designed to measure satisfaction with government spending reflect the perceived value and effectiveness of government expenditures, with respondents expressing high levels of satisfaction with the government's allocation of resources. Specifically, respondents praised the government's initiatives, such as economic stimulus packages and support for businesses, in response to the economic challenges posed by the pandemic. The positive perception of government actions, including the handling of the COVID-19 crisis by then Prime Minister Hon Tan Sri Dato' Muhyiddin bin Mohd. Yassin, underscores the role of fiscal policies in shaping taxpayer attitudes and compliance behaviour. The favourable evaluation of government interventions and economic policies highlights the psychological impact of perceived government

responsiveness and effectiveness on taxpayer willingness to comply with tax obligations. These observations resonate with the Fiscal Psychological Theory, which posits that individuals' attitudes and behaviours towards taxation are influenced by their perceptions of fairness, trust, and the effectiveness of government spending.

5.2.2 Central Tendency Ranking among Independent Variables

Table 5.7: Central Tendency Ranking among Independent Variables

Factors	Mean	Ranking
Peers' Tax Compliance	5.788	2
Probability of Audit	5.873	1
Service Quality of Tax Authority	5.348	3
Satisfaction on Government Spending	2.595	4

The descriptive statics results of overall variables in terms of average values highlights that the respondents highly indicate the most three variables as a determinant that influence their tax compliance such as audit probability, their peers' tax compliance, and service quality of tax authority earning 5.873 out of 7, 5.788 out of 7, and 5.348 out of 7 respectively. Meanwhile, the overall average for satisfaction on government spending shows below the 3.5 (2.595 out of 7). However, path coefficient analysis assists to predict whether the factors (all the above variables) significantly influence the tax compliance behaviour of officers of tax affairs in Malaysian businesses. The next section discusses about the financial constrain, which is taken as a moderator in this study. The following section also explain why financial constraint is an issue in terms of tax compliance among Malaysian tax payers. When looking at the financial constraints, the cashflow issue of businesses and an individual need to be discussed.

As mentioned in section 1.3 of chapter 1, and 2.9.1 of chapter 2, financial constraint is a situation in which an individual or a business does not pose sufficient cash to settle an outstanding debt or complete a financial/non-financial transaction. The financial constraint of an individual or a business is mostly influenced by the type of accounting basis they adopt. For example, some countries still adopt cash basis accounting. The differences between cash basis and accrual basis are defined based on the revenue recognition time frame. In cash basis, the revenue and expenses are recognized when the business receive the cash and paid the cash respectively, but not upon the delivery of good and services or upon receipt of goods and services (Sanjay, 2022).

However, in accrual basis it is vice versa. The reporting of financial performance in cash basis is performed by tracking the cash flows, whereas in accrual basis, it performed by tracking receivables, payables, and inventory movements. The tax liability is only on cash receipt for cash basis, whereas the tax liability is arisen even before the cash reaches the account. According to the figure above, roughly 55 countries started to adopt accrual basis accounting, where as another 55 countries still adopting cash basis accounting (ACCA Global, 2022). In the meantime, 27 countries, including Malaysia, currently in the phase of transition from cash basis to accrual basis.

The Malaysian Federal Government has incorporated IPSAS (The International Public Sector Accounting Standards Board) on a cash basis. Its financial statements for the fiscal year ended December 31, 2005 were produced in accordance with cash basis IPSAS and were audited by the Supreme Audit Institution of Malaysia, who issued an unqualified audit opinion (United Nations Development Programme, 2022). Government-owned businesses, on the other hand, are not combined.

The New Economic Model for Malaysia, which was announced in two parts in 2010, described a number of Strategic Reform Initiatives (SRIs) in support of the Economic Transformation Program, as well as several policy initiatives that served as the foundation for these SRIs. One of these policy actions was the adoption of accrual accounting by the public sector. This transition may cause difficulties to the entrepreneurs who still adopting accrual basis, because their revenue is earned earlier before the actual cash is deposited into their account. Having multiple clients, and suppliers, who currently adopting different type of accounting trouble the Malaysian entrepreneurs to deal with it finally causing a financial constraint.

This mixture of accounting basis adopting and its consequences will be transferred into the last chapter of this study as a suggestion to the government authorities discussing the benefits in fully implementing accrual basis accounting across Malaysia. International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy emphasize that *“Accrual-based accounting is essential in helping governments mitigate corruption, improve trust and transparency, and deliver desired outcomes that communities deserve and need in the post-pandemic world”*. Also, the tax liability recognition should be also brought under accrual basis fully and the taxpayers should be notified fully about the tax payment they could do to tax authorities in accrual basis.

A joint report by International Federation of Accounts (IFA), and Chartered Institute of Public Finance and Accountancy (CIPFA) that roughly 65 percent of government authorities globally will report on an accrual basis by the year 2023, Refer to the Figure below (IFAC, 2021). According to Inland Revenue Board of Malaysia, a tax payment is allowed for instalment settlement upon requesting the collection unit of IRBM to enable the

taxpayer an instalment method. This is an appeal procedure made by a taxpayer and should be made before April 30th of the year. Upon approval, the taxpayer is allowed to make settlement of tax liability from the second month onwards (IRBM, 2022).

The findings regarding financial constraints and accounting basis choices provide valuable insights into the behaviour of individuals and businesses, particularly in the context of tax compliance, aligning with principles outlined in the Utility Maximizing Theory. Financial constraint, characterized by insufficient cash to settle obligations, influences decision-making processes regarding tax compliance, as individuals and businesses seek to optimize utility within their financial constraints. The transition from cash basis to accrual basis accounting, as observed in Malaysia and globally, introduces complexities for entrepreneurs, impacting revenue recognition timing and tax liability management. This transition underscores the utility-maximizing behaviour of taxpayers, as they navigate accounting frameworks to optimize financial outcomes. The proposed shift towards accrual accounting, advocated by international accounting bodies, aims to enhance transparency, accountability, and governance, aligning with the Utility Maximizing Theory's premise that individuals seek to maximize utility through rational decision-making.

Moreover, the provision of tax payment instalment options by tax authorities reflects efforts to accommodate taxpayers' financial constraints, enabling them to manage tax liabilities more effectively. By integrating these findings into policy discussions advocating for accrual accounting adoption and tax liability recognition reforms, policymakers can enhance the utility-maximizing behaviour of taxpayers, promoting greater compliance and transparency in the tax system. This alignment with the Utility Maximizing Theory emphasizes the importance of accounting practices and tax policies in shaping individuals'

and businesses' financial decisions and compliance behaviours, ultimately contributing to economic efficiency and societal welfare. The next paragraph discusses religiosity, which is taken as another moderator in this study.

Numerous studies in the literature sensed that religiosity might be a moderator that twist the relationship between factors and tax compliance behaviour. Religiosity means the degree of strongest believe and practice in their respective religions. Generally, religious believes strongly moderate the relationship between the factors that motivate tax compliance and the level of tax compliance, especially in western part of the world. It was very earliest case recorded in 1965 in United States, mentions that the United States Congress allowed a group of Christian Anabaptist church fellowship (Amish) to be exempt from the taxes after a continuous obstruction held by the Amish, who believed that the taxes are used to so activities that violate their religious believes (Cornel Law School, 1992). This evidence from United States emphasize that the taxpayers were willing to pay taxes, but their strong religious believe did not favour to be a compliant towards tax system. However, in year 2014, the Supreme Court of Indiana, United States refused to allow another case from Rodney Tyms, and ruled out that religious freedom will not be a valid defence to perform tax evasion (The Washington Post, 2016). Though certain taxpayers are protected by Religious Freedom Restoration Act (RFRA), the court has highlighted that it using religious freedom may cause destruction to the economic stability of the nation and pointed out that collection of taxes is transferred to federal treasury (CNN News, 2017).

However, this evidence may not be a serious in other part of the world, especially in Malaysia. The preliminary findings in this study did not support the claim made. Further, the interviewees in the supplementary findings also have not shared some insights related to

the moderating effect of religiosity between the factors and the tax compliance. A study by Abu Bakar (2013) highlights that the existence and maintenance of religious tolerance among Malaysians are one of the factors to run the economic sustainability. According to Department of Statistics Malaysia (2010) 61.3 percent of the Malaysian population follow Islam. Meanwhile, Buddhist, Christian, Hindus, and others are 19.8 percent, 9.2 percent, 6.3 percent, and 1.7 percent respectively. Being opposite to the western part of the world, Malaysians religious institutions are preaching the adherents national harmony, tolerance and moderation to support the national economic and social growth. It's clearly emphasized in the article that religious practices in Malaysia will not be a moderator towards tax compliance, but may be a mediator encouraging the taxpayers to comply.

Being Malaysia as a Muslim nation, which might be differ from other part of the world Muslim nation. To support this statement, a study conducted by Benk et al. (2015) finalized that *"Muslims who live in Western Europe, North America or Australia might have views that are significantly different from Muslims who live in the Middle East and South East Asia"*. This study collected data from 57 countries from west part of the world, which predominantly following Christianity and presents that findings that religious believe alter the tax compliance pattern.

Additionally, this study also highlights that insignificant impact made by religiosity may indicate that it plays a very minor role among the particular community. Taking this statement into Malaysian context, the religiosity and its impact may not be playing a major role in its citizens' compliance behaviour. This suggestion is parallel with study made by Mohdali et al. (2017), further explains that though religiosity seems an important factor in Malaysia and Turkey on motivating voluntary tax compliance, but certain circumstances

appear irrelevant to Malaysian context. Muslim countries (more than 50 percent of the population is Muslim) are showing pretty much fair treatment on tax compliance. A study by Nurunnabi (2018) made among 38 Muslim countries found a negative relationship between Shariah regulations and tax noncompliance. However, the pathway analysis of this study does not show a significant impact by religiosity on tax compliance among tax affairs officers.

The findings regarding the moderating role of religiosity in tax compliance behavior offer insights into the interplay between social influences and individual decision-making processes, aligning with Kelman's Social Influencing Theory. While numerous studies suggest that religiosity moderates the relationship between motivational factors and tax compliance, particularly in Western contexts, the evidence from Malaysia presents a nuanced perspective. Despite Malaysia's diverse religious landscape, with Islam being the predominant faith, preliminary findings and supplementary interviews in this study do not strongly support the notion of religiosity as a significant moderator of tax compliance behaviour. Furthermore, studies conducted in Muslim-majority countries indicate varying degrees of impact by religiosity on tax compliance, suggesting that contextual factors play a crucial role in determining the extent of religiosity's influence. Therefore, while Kelman's Social Influencing Theory highlights the importance of social factors in shaping behaviour, the Malaysian context suggests that the role of religiosity as a moderator may be less pronounced.

5.3 Hypothesis Testing

5.3.1 Research Question One

Interpretation of hypothesis test, path coefficient, clearly articulates that there is a positive association between peer tax compliance and personal tax compliance. This outcome correlates with the previous studies made by Alm et al. (2017), and Obaid et al. (2020) by confirming that the impact is actually on the personal tax compliance decision-making by peers. Participant number 6 from the tax agency and participant number 9 from the institution acknowledge the findings and highlight that the decision-making of an individual is impacted by those who are around the individual and are in association with the individual, leading the individual to apply the same decision to the decision making of the individual on tax compliance.

The analysis further reveals that there is a positive association between the probability of tax audit and personal tax compliance. This outcome parallels with the finding of Ayers et al. (2018) and D'Agosto et al. (2017), and participant numbers from tax agencies justify that taxpayers begin to organise their tax process once they realise the probability of getting audited by the authority. Further assessment showcases that there is a positive association existing between the service quality of the tax authority and personal tax compliance. Previous studies have no mixed conclusion on this finding, especially that of Alm et al. (2017); and Supriyono et al. (2021) state the same conclusion, justifying that the 'Service paradigm for tax administration', where the tax officers act as facilitators and share their services, would increase the level of tax compliance.

Meanwhile, there is a positive association between satisfaction with government spending and personal tax compliance. The studies made by Alasfour et al. (2016),

Braithwaite et al. (2009), and Mohani (2001) had similar findings and they shared with the researchers their insights that the citizens of the country take note of their money being handled and spent by the government. Therefore, hypothesis H1a: There is a positive association between the factors of personal tax compliance and the level of personal tax compliance is supported, where ($\beta=0.117$, $p<0.05$).

Further, the direct effect shows that there is a positive and significant association exists between personal tax compliance of tax affairs officers and their corporate tax compliance. Therefore, H1b: There is a positive association between personal tax compliance and corporate tax compliance is supported, where ($\beta=0.455$, $p<0.05$). Certain roles in business are assigned to employees to perform duties on behalf of the entity. Although the contribution of revenue becomes higher and higher, the decisions made on tax affairs are decided by a natural person.

According to Bagdad et al. (2017), “The companies’ non-tax compliance decisions were influenced by their managers who also evade their personal income taxes. Future research should focus on the tax non-compliance behaviour among the self-employed or individual taxpayers as there was evidence to show that the business may have a potential to evade taxes if the managers also evade their personal income taxes”. As per Kelmen’s social influencing theory, the personal tax compliance behaviour significantly impacts on the decision taken on the corporate tax compliance.

5.3.2 Research Question Two

Interestingly, path analysis results show that the moderation test does signify $p<0.05$. Therefore, H2a: Financial constraint moderates the relationship between the factors of compliance, and personal tax compliance is supported. Studies conducted by Engida & Baisa

(2014), and Supriyono et al. (202) explain similarly that the decision on tax compliance, taken by an individual, is altered by the negative financial capacity. Participant number 4 from the tax agency explains further that those taxpayers are practicing accrual-based tax payment. Their financial condition during that particular period might twist their tax compliance, though they wish to comply with the tax system. It means they do not possess enough money in hand at the time of the tax payment. Moreover, Gottlieb and Hollenbach (2018) have found that the financial capacity of an individual act as a moderator between an individual and the tax compliance behaviour of the individual. However, Participant number 2 from the tax authority and participant number from the tax agency highlights that taxpayer are mostly unaware of the tax authority's functions. Taxpayers could negotiate with local tax authorities on their issues and the tax framework allows the taxpayers to comply with the tax system in their comfortable zone.

However, path analysis results show that the moderation test does not significant $p > 0.05$. Therefore, H2b: Religiosity moderates the relationship between the factors of compliance and the personal tax compliance is not supported. The study by Khalil and Sidani (2020) also reveals that religiosity is not a major variable to influence or moderate the tax compliance behaviour, especially looking at tax evasion. The study made in Lebanon, a Muslim nation, reveals a similar outcome of the study made in Malaysia. One more similar outcome was learned by Atmoko (2021), and Budiarto et al. (2018) elaborating that religiosity has no direct influence upon tax compliance decision making.

5.3.3 Research Question Three

Interestingly, bootstrap test results reveal that the personal tax compliance of tax affairs officers has a significant indirect effect on their corporate tax compliance. Therefore,

H3: level of personal tax compliance of tax affairs officers mediates the relationship between the factors and their corporate tax compliance is supported, where ($\beta=0.073$, $p<0.05$). This is the first study that produces fresh empirical evidence testing the effect of personal tax compliance of tax affairs officers on their corporate tax compliance decision-making. The factors that determine their personal taxes influence their corporate tax compliance as well, where their personal tax compliance decision-making functions as a mediator between the factors and their corporate tax compliance.

However, some interview findings from tax experts highlight that some variables may twist the strength of the relationship between factors and their personal tax compliance. For example, participant number 4 from the tax agency emphasis that financial constraints may twist the decision-making of tax compliance of taxpayers. Therefore, the future researcher may undertake a fresh study testing financial constraints as a moderator with a similar methodology, a sequential explanatory study, to investigate the moderating effect on tax affairs officers' personal tax compliance level.

Further, participant number 3, participant number 5, and participant number 6 emphasize that measurement of corporate and personal tax compliance should not be limited to under-reporting income or overstating expenses. The measurement of both tax compliance and also should test the initiatives to adhere to the existing tax laws in the country. Therefore, future researchers may design a new measurement to measure the personal and corporate tax compliance covering tax laws.

5.4 Chapter Summary

This chapter focused presenting the discussion from the preliminary and supplementary findings. This study has chosen to discuss the preliminary and supplementary

finding with the help of central tendency ranking order among indicator variables. Next, this study presents the discussion on hypothesis testing and answered the research questions. At the end, three research questions were fully answered, and the drawn hypothesis are successfully tested.

CHAPTER 6

CONCLUSION

6.1 Introduction

This chapter presents the summary of the overall study findings supported with preliminary findings and supplementary findings. Moreover, this chapter presents the contribution of this study, limitation, and the future research avenues. The next section presents the contribution made from this study.

6.2 Summary of the Findings

This study manages to obtain responses from 392 participants representing 15.68 percent. In this study, the variables that impact the personal tax compliance behaviour of Malaysian in-house tax professionals is determined as 0.831. Therefore, the designed model could explain 83.1% of the variance in personal tax compliance of in-house tax professionals. Peers' tax compliance shows a higher level of strength, followed by probability of audit. The finding agrees with Kelman's Social Influencing Theory, which states that an individual surrounding factor significantly influence the compliance behaviour.

Tax experts reveals that the implementation of Artificial Intelligence (AI) to record, store, and authenticate the documents are not in force in developing countries, where by digitalization with the help of AI may assist the IRB to trace, and track faster. Implementation of artificial intelligence may help to find out the number of taxpayers, and the working adults in the country to accurately estimate a forecasting tax collection for the next year. This findings from both questionnaire and interview correlate with Allingham and

Sandmo Model, which highlight that the tax non-compliance behaviour of taxpayers could be eliminated when they have the fear of being caught under tax audit.

Meanwhile, service quality of tax authority and satisfaction on government spending also show a positive and significant relationship with Malaysian in-house tax professional's tax compliance behaviour. Experts' comments on service quality reveals that there is a significant influence could be noticeable on taxpayer's tax compliance pattern whenever they tax authority assist in better way by providing the best service. This finding correlate with Kelman's Social Influencing theory, in which the theory highlights that the favourable social environment that tend motivate compliance influence compliance behaviour. The findings from both survey and interview related satisfaction with government spending correlate with fiscal psychological theory, which highlights that compliance behaviour of a taxpayer or a group of taxpayers are influenced by their intention to comply with the tax system, while their intention to comply with the tax system is influenced by their perception on the ruling government.

Further bootstrapping made on moderating effects on in-house tax professionals tax compliance reveals that financial constraint significantly moderate the relationship between the factors of tax compliance and their personal tax compliance. Financial constraint is a situation in which an individual or a business does not pose sufficient cash to settle an outstanding debt or complete a financial/non-financial transaction. This study learned that financial constraints of an individual reduce the strength of the relationship between the factors of tax compliance, and their tax compliance behaviour. Since Malaysia is in its transition period from cash base accounting into accrual base accounting, businesses and personals who experience financial constraint do not comply with the tax system. These

findings agree with utility maximising theory, which highlight that people tend to put more value to the profit they earn rather than to the cost they incur.

Religiosity means the degree of strongest believe and practice in their respective religions. However, this evidence may not be a serious in other part of the world, especially in Malaysia. The survey findings did not support the claim made. Further, the interviewees in the supplementary findings also have not shared some insights related to the moderating effect of religiosity between the factors and the tax compliance. It's clearly emphasized in the article that religious practices in Malaysia will not be a moderator towards tax compliance, but may be a mediator encouraging the taxpayers to comply. The overall model reveals that the Malaysian in-house tax professionals' personal tax compliance significantly mediates the relationship between factors of personal tax compliance and their corporate tax compliance.

6.3 Contribution of the Study

6.3.1 Theoretical Contribution

As mentioned in section 1.3 of chapter 1, limited number of studies have yet been published about testing of all the variables together on the association between the personal taxation and the corporate taxation. Review of literatures in chapter 2 clearly shows that studies related to tax professionals are available but none of them have examined their tax compliance behaviour to find the connection with their corporate tax decision-makings. Majority of the other studies are pointing tax agents as tax professionals and find the links between them and their clients or between them and tax authorities. Generally, studies looked at work environment and other external factors' impact on the in-house tax professionals' corporate tax compliance. However, no studies so far looked at the in-house

tax professionals' personal tax compliance behaviour and its impact on their corporate tax compliance decision-making. This study completes the need for the study and finds the overall impact that the above-mentioned variables have on the tax compliance behaviour.

The fundamental idea of this research is to investigate the personal tax compliance factors of in-house tax professionals, and to test whether their personal tax compliance behaviour influence their corporate tax compliance. The previous studies merely learned the role of tax agents or in-house tax professionals centred in Europe and North America. No studies aimed to investigate the tax compliance behaviour of in-house tax professionals who work for businesses located in Asia Pacific. All these above referred studies focused on businesses, and Small medium enterprises, and collected data from the owners of the business. The respondents are different in nature, since this study looking at in-house tax professionals who have the potential knowledge of taxation.

New Straight Times (2018) reports that Malaysia is the best example for a collective society with a high-power distance score. Sumari et al. (2019) highlights that the role of peers of an individual is important in every aspect of their life. People, who live in a collective society tend to deliver, exchange, and demand ideas and suggestions from their peers for every and each event in their life, though they have a clear idea on it. The way Malaysian society has structured has given an importance to consider peers' tax compliance in an individual's tax compliance decision making. The influence made by the peer of an individual has been recognized as an important determinant that influence the tax compliance behaviour in some countries such like Malaysia. Though peers' tax compliance influence personal tax compliance, studies with this variable in Malaysian context are very thin. Most of the recent publications looked at how peers' influence their indirect tax

compliance. No recent studies in Malaysia contributed to the finding related to in-house tax professionals by testing how peer's influence determine their tax compliance behaviour. This study has learned extensive evidence related to peers' tax compliance and its impact on personal tax compliance behaviour of Malaysian in-house tax professionals.

Review of literature in chapter two also highlights the importance of tax audit on tax compliance. Malaysian studies refer to Deterrence theory, which emphasize the consequences of getting caught under an audit and threat of punishment increases the compliance level among people. Recent studies learned using deterrence theory and investigated the tax compliance behaviour among SMEs and personal taxpayers. However, the way how audit probability shapes the tax professionals' tax compliance behaviour is not yet studied, and this study filled the gap exist in literature.

Previous literature of determinants of tax compliance suggests that service quality of the local tax authority is a strongest factor that determine someone's tax compliance behaviour. Since the recent Covid-19 pandemic severely affected number of the physical visits to the tax authority, large number of government services including tax services fully displaced into another platform via automation and artificial intelligence. This new normal transformation among government operations is expected to be continued after Covid-19 since it has created an easiest pathway for handling operational activities without causing human errors. Though studies related service quality and tax compliance published during and after Covid-19 pandemic, their actual data collection was carried out prior to the pandemic restrictions. This study collected latest perception on service quality of tax authority.

The relationship between government operations and citizens are strong in countries such like Malaysia. Citizens of Malaysia frequently follow government decisions that impact the nation and the citizens wellbeing. Malaysian closely observe the government fund expenditures and never fail to deliver their opinions on the projects whether they fruitful to the nation or not. Malaysia was one of the best countries that handled the Covid-19 pandemic and the financial crisis on the pandemic timeframe by providing so much of financial stimulate packages to the citizens and corporations. The effort made by the government Malaysia somehow cushioned the negative externality faced by the citizens and the business corporations of Malaysia. This study learns the post covid-19 perception towards government spending and justifying its importance when considering tax compliance.

Literature related to tax compliance clearly highlight that the studies mostly looked at the economic factors impact towards tax compliance behaviour. Religiosity, is one of the non-economic factors always neglected by researcher when closely analysing the personal tax compliance behaviour. Generally, religious believes strongly moderate the relationship between the factors that motivate tax compliance and the level of tax compliance, especially in western part of the world. But, does religiosity moderate Malaysian personal tax compliance is still unknown. Other studies mainly considered religiosity as another independent variable. Having significant number of non-compliance level in Malaysia, it is hardly learned the moderation effect of religiosity. However, studies related to tax compliance lacked conclusive evidence that might be due to the influence exerted by the taxpayer's individual factors, like their religious beliefs that twists their decision-making towards taxation. This study completes the need, and found that religiosity does not moderate Malaysian tax compliance behaviour. It is because the religious tolerance in the country is significantly well practiced across the nation.

Studies lacked with empirical evidence to present the moderating effect of financial conditions that cause by socio-economic variables. Also, financial constraint is one of the economic factors always neglected by studies while analysing the compliance behaviour. According to International Federation of Accountants (2022), Malaysia is currently in the phase of transition from cash basis to accrual basis. This transition may cause difficulties to the entrepreneurs who still adopt mixed accounting basis. No studies produce evidence considering financial constraint as moderating variable to measure tax compliance. This study chosen financial constraint as a moderator and learned that it significantly moderates the tax compliance behaviour among Malaysian in-house tax professionals.

Corporate social responsibility and taxation are always looked as individual and unique areas, and a link between them has been a hidden fact in literature. Tax compliance is not only an economic responsibility of an organization, but also a social responsibility to its stakeholders, such as the government. The two pillars of the Corporate Social Responsibility (CSR), namely the ‘social responsibility’, and the ‘economic responsibility’, further underpin the significance of tax compliance. The definition of social pillar is a sustainable business that should have the support of its stakeholders, including the tax authority, whereas the economic pillar covers tax compliance, proper governance, and risk management. The link between CSR and taxation is slightly introduced in section 1.1 of chapter 1, and a detail discussion on the nexus between CSR and taxation was presented in section 2.10.3 of chapter 2. This study uncovers the nexus between CSR and taxation produces initial discussion on the said link.

Interestingly, this study also provides a wider comparative assessment on tax condition in other South East Asian countries. It was easy for academicians and researchers

to locate the actual position of Malaysian taxes through a comparison in terms of statutory income tax collection, and total tax revenue collection, A detail discussion on the comparison of tax condition among South East countries was presented in section 2.3 of chapter 2.

This is the first study that uncovers the nexus between personal tax compliance and corporate tax compliance. As mentioned in problem statement in section 1.2 of chapter 1, the literature assumed a nexus between personal tax compliance and corporate tax compliance among in-house tax professionals. It was anticipated that personal tax compliance/non-compliance behaviour of an in-house tax professional, who work for a corporation, tend to choose the same behavioural decision on the corporate taxes as well. This study investigated the factors that impact upon in-house tax professionals tax compliance behaviour of Malaysian businesses. At the end of findings and analysis, this study achieves the research objective one, which intend to find the factors that impact upon personal tax compliance behaviour of in-house tax professionals of Malaysian businesses.

This study also found the empirical evidence to achieve the research objective three, which intend to investigate the nexus between personal tax compliance of in-house tax professionals and their corporate tax compliance behaviour. As drafted, the research objective is successfully achieved and justifies that Malaysian in-house tax professionals' personal tax compliance decision making influence their corporate tax compliance decision making.

This study only looked at tax compliance behaviour of in-house tax professionals of Malaysia businesses. Investigation on tax compliance may also answer tax non-compliance behavior of in-house tax professionals. As mentioned in limitation below, tax compliance is a sensitive issue to be researched. A positive approach to investigate the factors that

influence the tax compliance may help the researcher to find out the factors that influence tax non-compliance behaviour as well. However, tax non-compliance is a wider area, and it still help the academicians to investigate the unethical transfer pricing, Tax Shelter, tax heavens, tax aggressiveness, tax avoidance, and tax evasion attitudes among in-house tax professionals of Malaysian businesses.

McBarnett's Branches of Tax compliance model in section 2.10.1 of chapter 2 explains the compliance and non-compliance strategies chosen by tax payers. Swedish Tax Agency's recommended that psychological approach to measure tax compliance is the best approach than economic approach, which only could measure nominal value. This study articulates the two approaches to measure tax compliance, thought economic approach, and psychological approach. However, this study also highlights the importance of choosing psychological approach to measure tax compliance behaviour to economic approach.

6.3.2 Practical Contribution

As mentioned in section 5.2.1 of Chapter 3, the tax scholar, who participated in the interview session suggested the incorporation of artificial intelligence in audit process as probability of audit is strongly influence the tax compliance among in-house tax professionals of Malaysian business. Incorporation of artificial intelligence with machine learning application could be used to cross-check, authenticate, store, and highlight manipulation in submitted documents. Further imposition of artificial intelligence may help the tax authority to give importance to highly impacted cases from previous records. Artificial intelligence helps the tax authority to read list of employee's records provided by business operators, with the registered taxpayers to locate unregistered taxpayers. Moreover, incorporation of artificial intelligence enhances the estimated tax collection prediction for

following year. As commented by both tax scholar and tax agent, incorporation of artificial intelligence not only traces the local business transactions, but also traces international transaction once a collaboration is formed with international tax organizations.

As mentioned in the above section, this is the first study that found the nexus between personal tax compliance of in-house tax professionals of Malaysian businesses and their corporate tax compliance decision making. This finding could be used as audit strategy to locate tax fraud among personal taxation and corporate taxation. If a corporation found non-compliance with the tax system, may indicate that the corporate tax compliance decision maker, an in-house tax professional, may possess the same non-complaining behaviour on his/her personal tax compliance. By choosing this strategy, tax authority may locate two tax fraudulent activities (personal and corporate) at the same time. This strategy could be applied vice versa, where if an individual who found engaging in tax non-compliance and in a position to apply decision making in a corporation may indicate that this personal apply the same principle on corporate decision making as well.

This study clearly presents the emerging economic condition of Malaysia with the help of statistical evidence referring ACCA Global, Australian Taxation Office (ATO), World Bank, Organization for Economic Co-operation and Development (OECD), Italian Revenue Agency (IRA), Inland Revenue Board of Malaysia (IRBM), Royal Malaysian Customs (RMC), International Monetary Fund (IMF), Department of Statistics Malaysia (DOSM), International Federation of Accountants (IFA), Institute of Malaysian Accountants (IMA), Ministry of Finance (MOF), Tax Foundation, SME Corporation Malaysia, U.S. Department of State, and Government of Malaysia.

The study outlines how the national revenue is made and where the national revenue goes. Further, this study evidence the percentage allocation made on operational expenditure and the percentage allocation on development expenditure clearly. A slight introduction on Malaysian economy was presented in section 1.1 of chapter 1, and a detail discussion on Malaysian economy was presented in 2.2.1 of chapter 2. Though, this study reveals the history of taxation in the ancient world, more focus given to Malaysian taxation. A discussion on ancient Malaysian taxation practice, and the current practice were discussed with citing the Malaysian income tax act and other relevant jurisdictions enacted in the constitution. The primary evidence presented in this study outline the contemporary economic condition of Malaysia and other developing countries that immense help the researchers to use the data in their studies that involve Malaysian economy.

This study explains the over Malaysian tax practices as per the income tax act 1956. This study clearly defines the task handled by Inland revenue board of Malaysia (Handling the direct taxes), and also the task handled by Royal Malaysian Customs (Indirect taxes) (Refer to section 2.5.1 of chapter 2). This is one of the studies made among in-house tax professional of Malaysian businesses after the Covid-19 pandemic. Covid-19 was a challenging incident for Malaysian that challenged the Malaysian political and economic stability. The pandemic also brought a new normal to the Malaysian society, and all perceptions residents had prior to covid-19 had at least changed by some point.

This study collected the perception on the factors that expected to influence their personal tax compliance behaviour is the latest response that reflect their feeling after the pandemic. Studies looked at tax compliance after the pandemic is still less, and not exist supply adequate knowledge to future researchers. This study joins the existing tax studies

that contain findings of aftermath covid-19 pandemic. The next section presents the contribution this study makes to the tax professions.

The recent judgment of the High Court of Malaya at Kuala Lumpur is disclosed under the title as *Bar Malaysia v Ketua Pengarah Hasil Dalam Negeri [2018] 9 MLJ 557* highlight the legal professional privilege and clients' accounts (Malaysian Bar, 2022). This case was filed by the Malaysian Bar Association to find a law suit against Inland Revenue Board of Malaysia, which anonymously conducted raids in tax firms to retrieve their clients' accounts. The tax agencies and taxpayers react promptly after the IRBM audit raid, and the subsequent actions has limited the IRBM audits on client's accounts. This strongly indicates the influence of audit on taxpayers' behaviour.

Tax audit deter tax law violation and prevent any assistance provided to individuals or corporations to engage in tax non-compliance. This study has investigated the influence of tax audit on tax compliance behaviour of in-house tax professionals. The empirical findings further support the relationship between tax audit and tax compliance. Moreover, the supplementary findings from tax experts are immense contribution to justify the influence made by tax audit. This study has presented the latest tax audit procedures and informing the tax professionals to consider tax audit as an important factor.

Current operations are largely carried out via online platform using artificial intelligence (AI). However, it is expected that IRB should still enhance its adoption of artificial intelligence in certain areas of its operations. A detail discussion on the area that require artificial intelligence usage is presented in section 5.2.1 of chapter 5.

This study provides preliminary data collection from in-house tax professionals, and then followed by a supplementary data collection from tax experts. The findings from

preliminary data inform upcoming future in-house tax professionals, who aiming to become a tax professional in a corporate sector to understand what is the contemporary factors that influence a general in-house tax professional's tax compliance behaviour in Malaysia. In the meantime, other tax experts in Malaysia could learn what selected tax experts' comments on the preliminary findings. In-house tax professionals who could be a better peer to their mates in the same pool since peer tax compliance strongly influence tax compliance of an individual. Apart from that in-house tax professionals, tax experts, and tax authority get to know the strongest determinants to tax compliance. Interestingly, this study directs the tax authority to form another strategy to locate non-complaining corporations where the tax professional non-comply with his/her personal tax compliance, and vice versa.

Moreover, this study informs the existing in-house tax professionals, and future in-house tax professionals the importance of playing their duty perfect. This study conveys the consequences of non-complaining with the tax system, and it also highlight the major role played by in-house tax professional on contributing to the national revenue via corporate taxation. This study pinpoints the connection between an individual's personal behaviour and its impact on the corporation where the individual work for. Not only, tax compliance, it also led the tax professionals to take a look at their personal behaviours and its influence in their workplace. The connection this study found between personal tax compliance behaviour and corporate tax compliance behaviour among in-house tax professionals clearly indicate the psychological impact made from them to the working environment. This study may function as a report to shape the behaviour, especially tax compliance, of individuals who have a strong influence in their corporate decision making.

This study highlights the connection between corporate social responsibility and tax compliance. As mentioned in 2.10.3, Marrewijk (2003) defines 'Corporate Social Responsibility' (CSR) in terms of 'Triple Bottom Line' (TBL), which explains that a business has the responsibility and commitment towards achieving and maintaining the three aspects of sustainability, known as the 'economic sustainability', 'environmental sustainability', and the 'social sustainability'. the duties of a company towards the society are supposed to comprise economic, legal, ethical, and discretionary responsibilities. Complying with tax system and paying taxes meet the above requirements. Non-compliance of a corporate entity with tax system is an indication of neglect of its discretionary responsibilities. A recent study by Gulzar et al. (2018) indicates that 'CSR' is negatively related to the corporate 'Tax Avoidance', and that the firms with more responsibilities towards the society are involved more in tax avoidance than the firms with few responsibilities. Overall, this study conveys the message to in-house tax professionals that being compliant with tax system is a part of corporate social responsibility since the paid taxes are used to facilitate social wellbeing in the name of redistribution of wealth.

Upcoming and future in-house tax professional may able to learn the current practical process of taxation in Malaysia. Especially, how IRB's tax audit and tax investigations are carried out, and the relevant jurisdictions applied to tax audit and tax investigations. Though, direct comments on the findings from tax officers at IRB is not sufficiently recorded, the comments recorded from tax agents and tax scholars supplied adequate information to supplement the findings collected from preliminary findings.

Accounting undergraduate students, who are aiming to become tax professionals in future may learn the difference between financial reports and tax computation schedule.

They could understand that preparation of financial reports is for the purpose to make a financial decision making, but it cannot be fully used for tax preparation. Tax computation is a separate task that require the tax professional to understand the allowable, and non-allowable deductions, and also the latest amendments on Malaysian taxation. In the same study, the future tax professional could understand the perception of existing in-house tax professionals, and the comments from the tax experts. The overall findings from both data collections shapes the overall discussion. This study plays as a latest study that could guide the future tax professionals, and people who wish to choose tax profession as their career.

6.4 Limitations

As mentioned in section 4.2. of chapter 4, the response rate in this study is less than 20%, which is 15%. There were many justifications for this lower response rate. This study collected data during the Malaysian Movement Control Order (MCO) time period. This situation has caused many hassles to the business organization to perform their activities as usual. Their duties were shifted to their home, and the working patterns suddenly required them to adopt a new normal. This new normal may not be a favourable situation for many in-house tax professionals to accept the survey invitations, and may not allow them to spend couple of time completing the survey questionnaire.

As mentioned in 4.2. of chapter 4, the response representative does not fully reflect the actual population of this study. The comparison between the survey response and the Malaysian Institute of Accountants were carried out due to the unavailable statistics about the number of in-house tax professionals in Malaysia. Since the working nature for both (in-house tax professionals and members of Malaysian Institute of Accountants) groups find similar, they comparison may help to predict the diversity. However, the comparison

between actual respondents and members of Malaysian Institute of Accountants does not correlate and present a bigger marginal difference. Moreover, this survey outcome does not fully represent the overall Malaysian in-house tax professionals, because few states such as Kedah, Kelantan, Perlis, Pahang, Sabah, Terengganu, Labuan, and Putrajaya have received no responses to represent them.

As mentioned in the section 4.2, there were higher chances for the data collected from survey respondents get affected by “history effect”, since the collection of primary data for this study conducted during Movement Control Order (MCO) period, which was noted as a new normal situation. Sekaran (2015) explains that certain events that has a connection between the study’s independent and dependent variable occur at the same time while the researcher distribute the survey or collect the data from the respondents. For example, Movement Control Order period was one of the hardest times for Malaysian since the time period did not permit them to do activities as usual. Moreover, online, and printed media continuously talked about financial constraints due to pandemic and economic stimulate packages launched by government to support the wellbeing. A sudden engagement in the topics related finance and taxes with the general public may influence their general opinion on the independent and dependent variable that the study undertakes.

The most common approaches in the researches to deal with the nonresponse bias is to test the difference between early response and late response. Researchers use t-test to assess the significant difference between two groups to ensure the nonresponse bias existence. However, this study could not predict the response flow as the rate of responses fluctuated throughout the data collection period.

As presented in section 4.4 of chapter 4, the interview findings were initially expected to collect at least from 10 tax experts. Since the data collection, both preliminary and supplementary, were carried out during covid-19 period, getting in touch with tax experts were harder to be carried out. The researcher initially intends to have same number of tax experts from tax authority, tax agency, and tax scholars from institutions. However, due to the prevailed situation, reaching out tax experts could not be successful and limited number of tax experts agreed to take part. Though, the supplementary data from tax agents and tax scholars for adequately received, getting in touch with tax officers at IRB was not successful. The supplementary findings of this study moved to next level with having only one tax officer's comments along with other comments from tax scholars and tax agents.

From the supplementary findings presented in section 5.2.1 of Chapter 5 highlights that some of the variable's measurement are not fully define the concept of corporate or personal tax compliance. The tax expert, who participated in the interview session pointed out that most of the questions related to corporate and personal tax compliance were about complying on time, under-reporting income, and over-stating expenses. However, adherence of tax laws, and disclose of true income were not included. Participant number 3 and Participant number 6 clearly pointed out the missing elements in questions that supposed to be included to measure the corporate or personal tax compliance. The covered questions to measure the corporate or personal tax compliance may be a part of compliance, but it cannot be fully about complying on time, overstating expenses, and under reporting income. Therefore, the indicators used to measure corporate or personal tax compliance are limitedly used.

6.5 Future Research

As discussed in the limitation, some of the questions to measure the latent variables were limited but not fully covered the defined concept. This may key point for future researchers to design questions to measure corporate or personal tax compliance covering areas such as submission on time, under-reporting income, over-stating expenses, disclose of true income, and also tax laws. However, as mentioned in 5.2.1 in Chapter 5, the definition drafted by IRBM to define tax compliance does not cover the adherence of tax law by taxpayers, and only focus reporting right income, with correct expenditure on time. Future researchers, who wish to create a new measurement to measure tax compliance may reconsider the key definition used by IRBM to define tax compliance in Malaysia.

Automation and artificial intelligence (AI) are a new area currently being investigated in various field of studies. Since the recent Covid-19 pandemic severely affected number of the physical visits to the tax authority, large number of government services including tax services fully displaced into another platform via automation and artificial intelligence. The adoption of Automation and artificial intelligence (AI) on the operation of taxes are not widely studies. This study found that future operation of tax authority may demand implementation of Automation and artificial intelligence (AI) on tax audit, tax investigation, transfer pricing, etc. The adoption of Automation and artificial intelligence (AI) into tax services was discussed in section 1.3 of chapter 1, section 2.5.4 of chapter 2, section 5.2.1 of chapter 5, and section 6.3.1. Meanwhile, adoption of Automation and artificial intelligence (AI) in government departments also anticipated as a threat to the replacement of human labor. Existing literatures largely looked at economic factors impact on tax compliance behaviour, and investigating the non-economic factors' impact on tax compliance are still scarce to predict the cause and effect. Automation and artificial

intelligence (AI) and tax operation are not in-depth studied and the impact made by adoption of Automation and artificial intelligence (AI) on the operation of taxes should be learned in future.

6.6 Chapter Summary

This chapter summarises the conclusion of this study. No studies so far looked at the in-house tax professionals' personal tax compliance behaviour and its impact on their corporate tax compliance decision-making. This study completes the need for the study and finds the overall impact that the above-mentioned variables have on the tax compliance behaviour. The fundamental idea of this research is to investigate the personal tax compliance factors of in-house tax professionals, and to test whether their personal tax compliance behaviour influence their corporate tax compliance. This study has presented the contribution this study made to tax authority, literature, and tax professions. Also, this study has highlighted the limitations, and future research avenues.

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APPENDICES

Appendix A: Classification of Malaysian Businesses

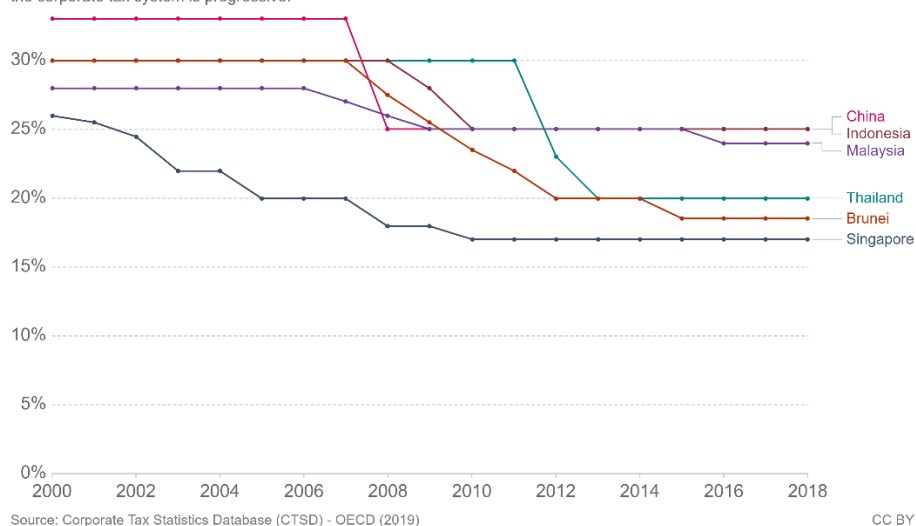
Nature of Business	Micro		Small		Medium	
	Sales	Employees	Sales	Employees	Sales	Employees
Manufacturing	< RM300,000	<5	RM300,000 to <RM15 million	5 to <75	RM15 mil to ≤ RM50 mil	75 to ≤ 200
Services & Others			RM300,000 to <RM3 million	5 to <30	RM3 mil to ≤ RM 20 mil	30 to ≤ 75

Appendix B: Statutory Corporate Income Tax Rate of Southeast Countries

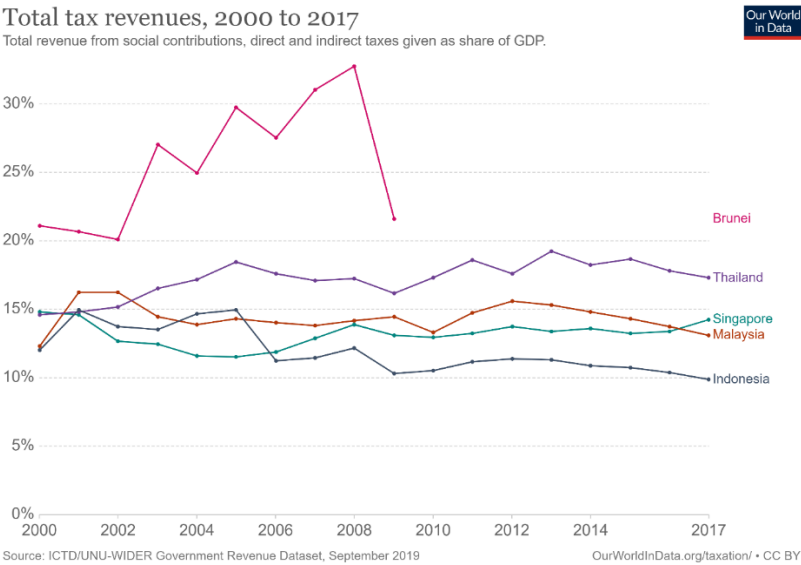
Statutory corporate income tax rate, 2000 to 2018

Estimates correspond to the combined rates for central and sub-central government levels (i.e. central government corporate tax rate, less deductions for sub-national taxes, plus sub-central corporate tax rate). Figures correspond to the standard rate that is not targeted at particular industries or income types. The top marginal rate is reported if the corporate tax system is progressive.

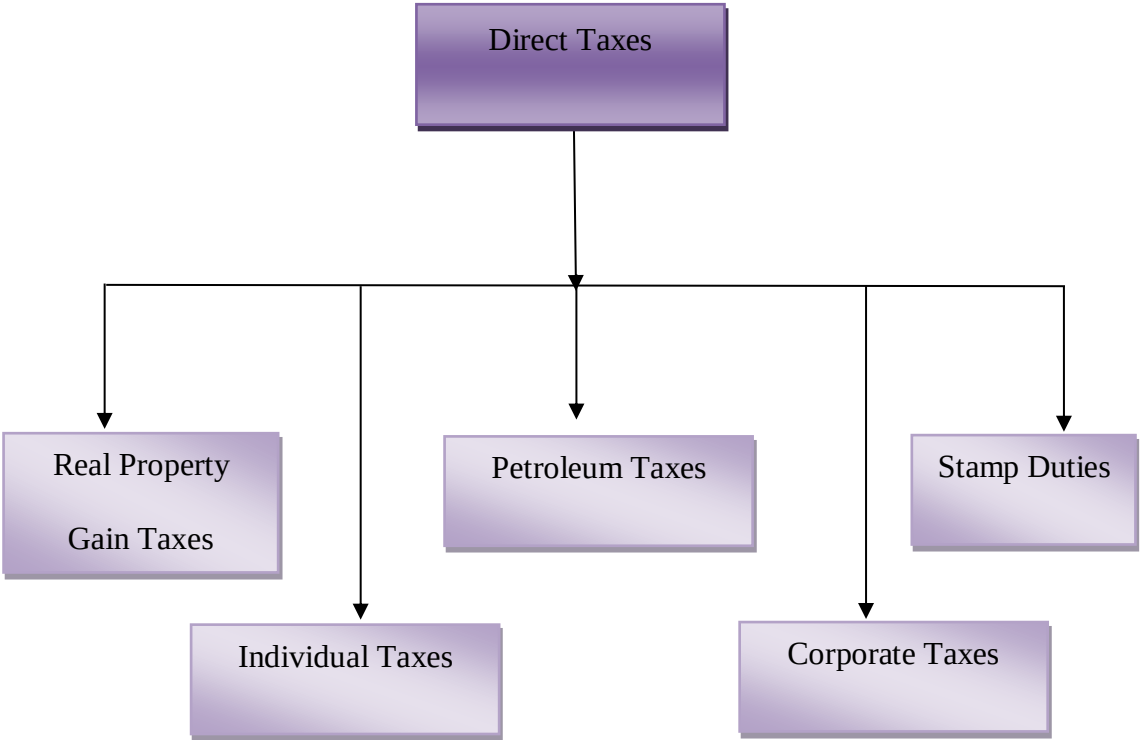
Our World in Data



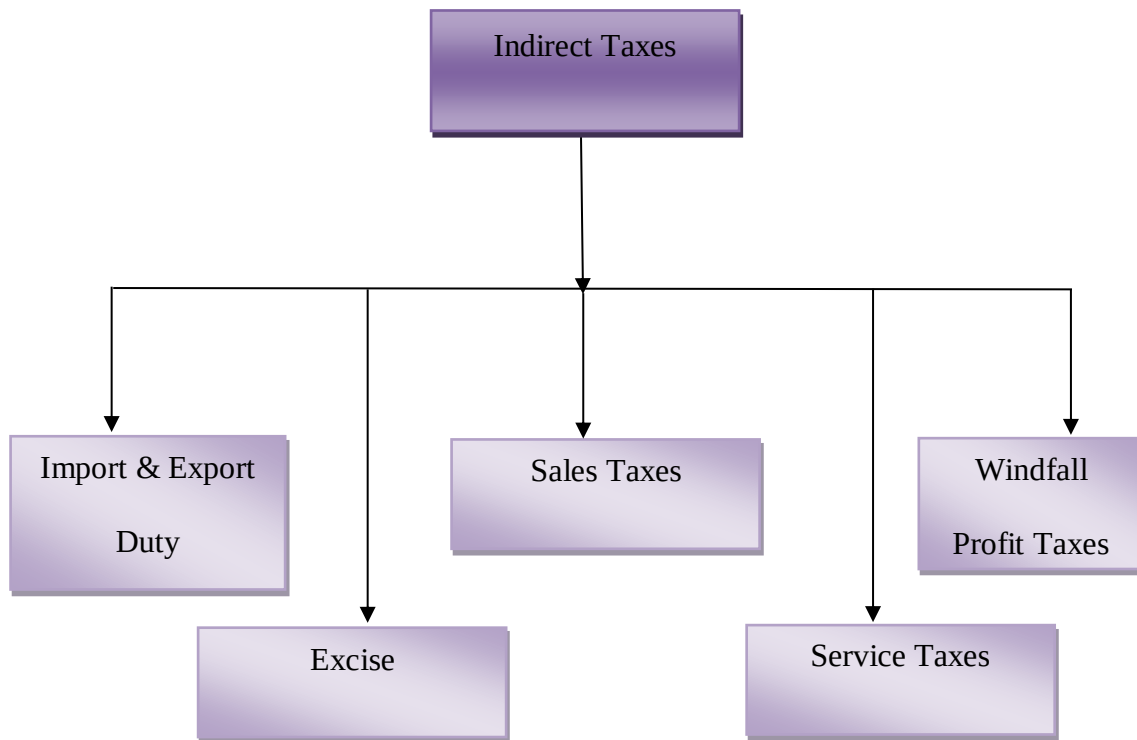
Appendix C: Total Tax Revenue of Southeast Countries



Appendix D: Types of direct taxes handled by IRBM



Appendix E: Types of indirect taxes handled by RMC



Appendix F: Tax Compliance Approaches

Tax Compliance	Economic Based Approach	Psychology Based Approach
Concept of:	Tax Gap 100% compliance less actual revenue.	Voluntary willingness to act in accordance with the spirit as well as the letter of the law.
Definition	Narrower	Wider
Exemplified by:	1. Expected benefits of evasion. 2. Risk of detection & application of penalties	Individuals are not simply independent, selfish utility maximisers.
Taxpayers seen as:	Selfish calculator of pecuniary gains and losses	Good citizens

Appendix G: Sample Size from a Given Population

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Appendix H: Invitation to Pilot study

Invitation to Faculty Academicians to Participate in the Pilot Survey
1 message

sri Nivakan <srinivakan@gmail.com>
To: Rossazana Bt Ab Rahim <arrossazana@unimas.my>, Sharon Cheuk Choy Sheung <ccsssharon@unimas.my>, liydamien@unimas.my, Dayang Affizzah binti Awang Marikan <amdaaffizah@unimas.my>, maasri@unimas.my, masyubaili@unimas.my, akbakri@unimas.my, Esmie Obrin Nichol <nesmie@unimas.my>, sjoanne@unimas.my, Josephine Yau Tan Hwang <ythjosephine@unimas.my>, Michael anak Tinggi <tmichael@unimas.my>, Mohamad bin Jais <jmohamad@unimas.my>, mmmwaliuddin@unimas.my, zmadullah@unimas.my, manazaria@unimas.my
Cc: Salawati binti Sahari <ssalawati@unimas.my>, Shaharudin Bin Jakpar <jshaharudin@unimas.my>

Tue, Oct 12, 2021 at 1:28 PM

Dear Lecturers/ Senior Lecturers/ Associate Professors/ Professors,

I am Nivakan Sritharan, Ph.D candidate at Faculty of Economics and Business, Universiti Malaysia Sarawak, wishing to invite the faculty academicians to participate in the pilot survey.

The description of my research study is as follows:

- Title: An investigation of the factors that impact upon corporate and individual taxpayers' compliance behaviour in Malaysia
- Population: Tax affairs officers of Malaysian businesses.
- The purpose of this study: Is to investigate whether factors of personal tax compliance influence the level of corporate tax compliance among tax affairs officers of Malaysian businesses.

Participation in this survey will be completely voluntary and all the responses elicited are anonymous. This survey questionnaire has nine (9) sections. This will take roughly 10 minutes to complete. Conceptual framework of the study is presented below for further understanding and you are kindly requested to share your suggestion to modify the survey questionnaire in a better way before the actual survey.

Please click the link below to commence the survey. Your participation and suggestions are greatly appreciated.
Link: <https://forms.gle/FpL3KoMo2Wvxhp9g9>

```
graph LR; A["Factors of Tax Compliance  
• Past Tax Compliance  
• Probability of Tax Audit  
• Service Quality of Tax Authority  
• Satisfaction on Government"] --> B["Financial Constraints"]; A --> C["Religiosity"]; B --> D["Level of Personal Tax Compliance"]; C --> D; D --> E["Level of Corporate Tax Compliance"];
```

Thank you
Best regards,

Nivakan Sritharan
B.Bus, M.Sc. & Ph.D. (Reading)
Tel : +601126808925
Email : srinivakan@gmail.com

Appendix I: Survey Respondents profile questions

Background of Respondents

1. The main business activity of your company is: (Please tick (✓) one box)

Manufacturing		Food and Beverage		Financial Services	
Construction		Education		Automotive	
Retail		Digital Technology		Business Services	
Others (Please Specify)					

2. Business Size

Micro		Medium	
Small		Large (MNC)	

3. Your business's location

Johor		Penang		Terengganu	
Kedah		Perak		Kuala Lumpur	
Kelantan		Perlis		Labuan	
Malacca		Sabah		Putrajaya	
Negeri Sembilan		Sarawak		Others, please specify	
Pahang		Selangor			

4. What is your current position in this company?

Chief executive officer	
Managing director	
Manager	
Accountant	
Other (Please specify)	

5. Gender

Male	
Female	

6. Your age

19-30	
31-40	
41-50	
51-60	
Above 60	

7. Your qualification

Diploma	
Bachelor's Degree	
Master's Degree	
Professional Qualification (ACCA, CPA etc)	
Ph.D.	
Other (Please Specify)	

8. Religion

Islam	
Buddhism	
Christianity	
Hinduism	
Others	

9. Ethnicity

Malay	
Chinese	
Indian	
Other Bumiputras	

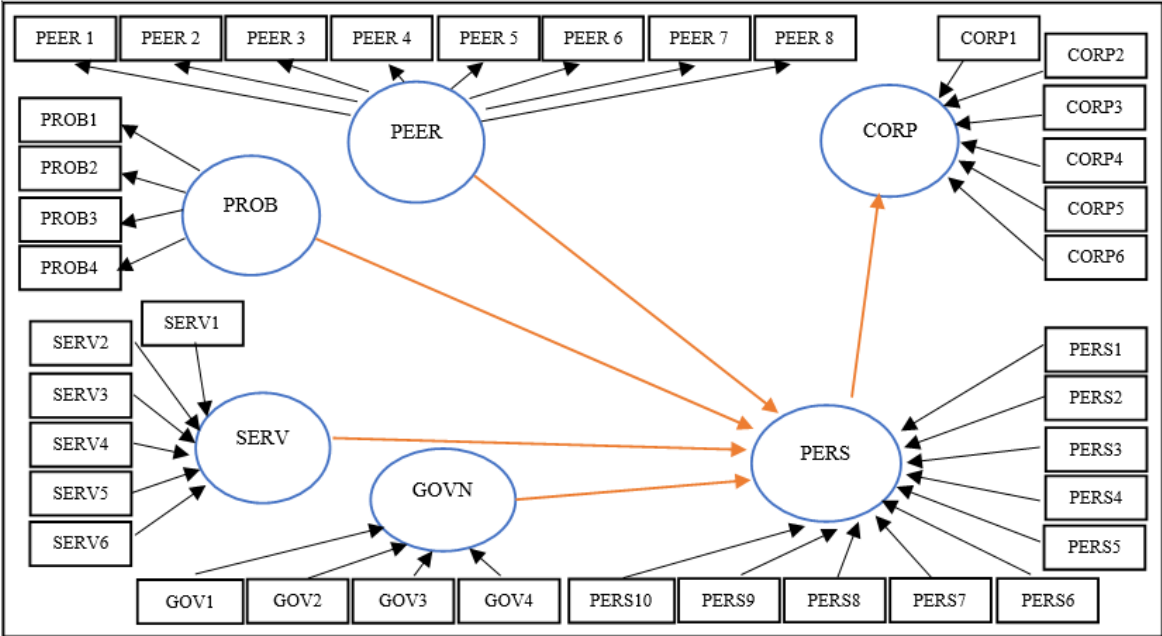
Appendix J: Normality Test

Code	Missing	Mean	Min	Max	SD	Kurtosis	Skewness
CORP1	0	3.212	2	7	1.358	0.313	1.144
CORP2	0	3.263	1	7	1.544	0.253	1.104
CORP3	0	3.490	1	7	1.532	0.127	0.919
CORP4	0	3.061	1	7	1.429	0.599	1.124
CORP5	0	3.523	1	7	1.357	0.163	0.726
CORP6	0	3.148	1	7	1.52	0.036	0.974
PERT1	0	3.222	1	7	1.443	0.060	0.851
PERT2	0	3.281	1	7	1.52	-0.007	0.862
PERT3	0	3.268	1	7	1.664	0.114	1.051
PERT4	0	3.291	1	7	1.574	-0.078	0.852
PERT5	0	3.316	1	7	1.373	-0.289	0.735
PERT6	0	3.222	1	7	1.455	0.032	0.887
PERT7	0	3.191	1	7	1.654	0.070	1.020
PERT8	0	3.367	1	7	1.536	-0.103	0.877
PERT9	0	3.145	1	7	1.551	0.064	0.984
PERT10	0	3.268	1	7	1.516	0.005	0.916
PEER1	0	5.487	3	7	1.143	-0.985	-0.046
PEER2	0	5.617	4	7	0.879	-0.671	-0.146
PEER3	0	5.543	3	7	0.888	-0.402	0.329
PEER4	0	5.663	4	7	0.897	-0.88	0.035
PEER5	0	5.781	4	7	0.965	-1.14	-0.096
PEER6	0	6.273	5	7	0.717	-0.967	-0.459
PEER7	0	6.151	4	7	0.766	-0.322	-0.537
PEER8	0	5.727	3	7	0.931	-0.457	-0.269
PROB1	0	4.906	3	6	0.717	-0.287	-0.192
PROB2	0	6.398	5	7	0.618	-0.627	-0.516
PROB3	0	4.691	3	6	0.82	-0.239	-0.433
PROB4	0	5.398	4	7	0.782	-0.387	0.101
SERV1	0	3.268	1	7	1.664	0.114	1.051
SERV2	0	3.291	1	7	1.574	-0.078	0.852
SERV3	0	3.316	1	7	1.373	-0.289	0.735
SERV4	0	3.222	1	7	1.455	0.032	0.887
SERV5	0	3.191	1	7	1.654	0.07	1.02
SERV6	0	5.574	3	7	0.920	-0.603	0.314
SATS1	0	5.617	4	7	0.879	-0.671	-0.146
SATS2	0	5.781	4	7	0.965	-1.14	-0.096
SATS3	0	6.151	4	7	0.766	-0.322	-0.537
SATS4	0	5.543	3	7	0.888	-0.402	0.329
FINC	0	2.801	1	7	1.570	0.722	1.332
RELG	0	4.245	1	7	1.613	-0.927	0.187

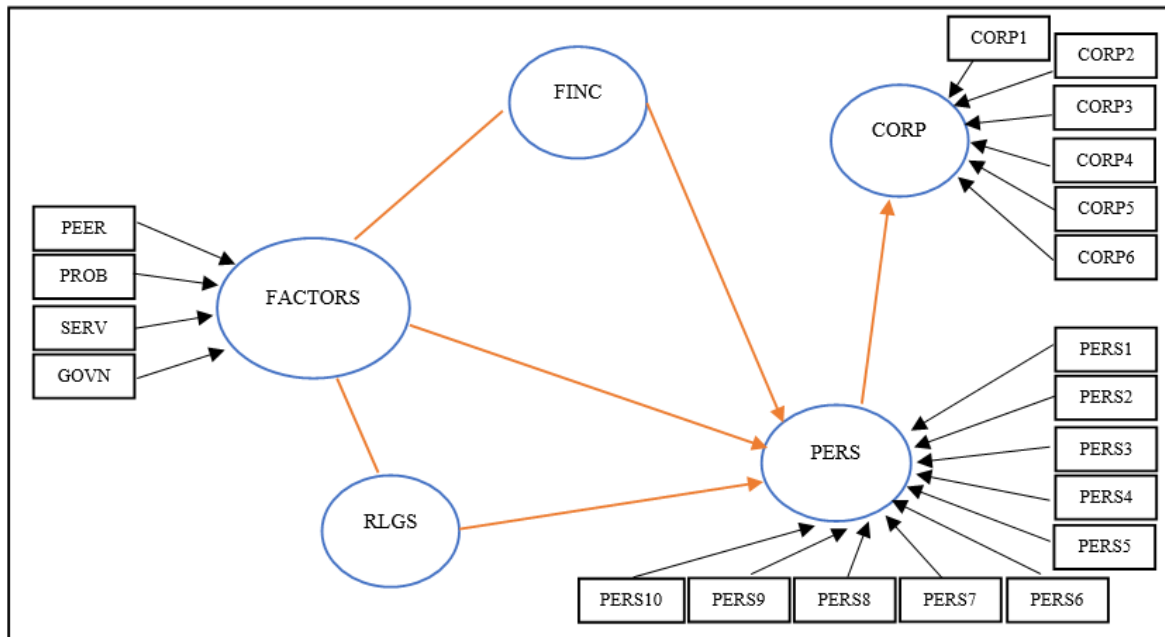
Appendix K: Interview Session Summary

	Time (Minutes)	Tax Authority (TAT)			Tax Agent (TAG)			Tax Scholar (TSC)		
Designation Level		Top	Middle	Lower	Top	Middle	Lower	Top	Middle	Lower
Participant 1	3.00		√							
Participant2	12.00			√						
Participant 3	15.00				√					
Participant 4	21.00					√				
Participant 5	16.00					√				
Participant 6	25.00						√			
Participant 7	18.00								√	
Participant 8	25.00								√	
Participant 9	15.50								√	

Appendix L: Model A



Appendix M: Model B



Appendix N: Interview Findings

“Overall, as far as I know, tax compliance means how a person or a company follow the rules and regulation established by the government. But when I look at each question under corporate and personal tax compliance, I don’t see questions related to following the tax laws of the country. I only see questions talking about filing the tax and deduct the taxes on time, and then some questions about under-reporting income. But yes, filing on time and avoid under-reporting can be a part of following tax laws” - Participant No.3, TAG.

“Most of the people think that tax compliance means paying the taxes on time. You just shown me that most of the corporate taxpayers responded as I pay my taxes within the required time frame. But paying taxes on time is enough to be a good citizen? No right. We should ask whether are we reporting our right income to the government and filing the taxes on time. I think that is important. When looking at their reposes to the personal tax compliance, the first five highly mentioned answers are related to under-reporting their income” - Participant No.6, TAG.

“Looking at the personal tax compliance indicators, I see the higher average on statement which is as Under-reporting my income will not hurt the society as a whole. Meanwhile, least ranking given to statement which talks as I feel that I have made a positive contribution to my country by fully reporting all of my income. I think tax payers still in a position to think how they could under-report their income than at least pays their taxes” - Participant No.5, TAG.

“Yes, mostly the clients of mine are referred by an existing client. Generally, what our Malaysian taxpayers do is just following what their peers do. I think its because of our culture. We tend to have a close relationship with our peers in discussing personal and professional matters including tax planning” - Participant No.6, TAG.

“It doesn't matter who are important to a taxpayer. A taxpayer normally spent much time discuss things which are new to him or her with peers. Maybe we could say their friends. Here in Malaysia, finding a job, choosing an e wallet, shopping, and other personal things are the topic friends closely discuss. Tax compliance also a part of it. I would say, taxpayer start discussing this during their tax payment due date. A serious conversation will be touching how to under-report their income or over-stating their expenses among peers, so that they could enjoy limited tax payments. Meaning to say, negative influence impact individual tax compliance intention” - Participant No.9, TSC.

“In an average conversation between peers through a social media or in an actual meeting, at least 20 percent of their conversation covers political, government, and other common things. Most of their conversation are related to their workplace, studies, or entrainment. Talking about tax compliance commonly come out on their discussion during the time of tax compliance. When they have a positive or encouraging peer who genuinely

participate in government duties, then his or her behavior influence the other peer. I would say the tax payer will be motivated to comply with the tax system because his or her peer also comply with the tax system right” - Participant No.7, TSC.

“I think it normally deal by my boss. I don’t directly receive any calls from LHDN regarding any of our clients. But I know that our boss handles the communication on behalf of clients. When I work for clients, I do understand that they fear of audit by LHDN. This is why they wanted to keep all accounts and fillings comply with the system. So that no penalty will impose by LHDN if they were chosen for an audit” - Participant No.6, TAG.

“Among all of the factors tax audit is the important and focused area because that not only deter the crime but also prevent the others from doing the same financial crime. I have a long experience in this field, however the future audit should be enhanced. IRB may focus on redesigning the business process. What does that mean is making some amendments on the audit strategies. For example, the current approach of audit is comprehensive, where IRB may commence “focus audit” to reduce the time consumption. Instead focusing a wider area, IRB may focus on high-impact areas, such as petroleum, transfer pricing, and highly earning individuals with significant number of records related to under-reporting. AI is taking part of many government operations. What I mean is IRB may reengineer audit process by changing the manual audit process to fully electronic audit process, which allow better observation. Because AI allows to have a big data warehouse to store. These will ensure the voluntary tax compliance among Malaysian taxpayers” - Participant No. 4, TAG.

“When it comes to audit, we still need to think ahead for future. Because the future IRB audit process require a global collaboration with international organizations like OECD, IMF, and others. This allows to learn new crime cases in the other part of the world

and local authorities may still design better protocols keeping the recent updates in mind. Collaboration with other government bodies and international organization may help to prevent crimes on transfer pricing, related party transactions, expenditures, losses, group reliefs, and also capital allowance on fixed assets. For example, having collaboration with vehicle insurance companies, and property registration, etc. This kind of audit modification strategies help the government to control anti-money laundering, shadow economy, and tax evasion” - Participant No. 8, TSC.

“Not just for corporate taxes, also for other taxes, the taxpayers trust our organization. Hasil always serves for the best interest of the country. Means, it’s here to help people on paying their taxes. Of course, we do have our enforcement. LHDN does not fail to collect customer satisfaction. You can check out website. The e survey feedback form allows the people to express their satisfaction on the overall performance by a LHDN branch office. Our management frequently review the feedback and take necessary action to enhance the service quality. We serve the people both ways face-to-face and through online. As you said our assistance provided to them increases their intention to comply with the tax system. People may get scared with taxes. But they get motivated by the help we do to them to comply with the tax system. We explain them the consequences of being not to pay taxes and the benefit of making payment make them understand their obligation. I believe our role strongly influence people’s decision to pay their taxes in an honest manner” - Participant 2: TAT.

“Inland Revenue Board has its own system to run its operations. You can see how it functions here. It means, for each and every case it has its separate regulations to handle the operations. It easy to read how long Hasil take to work on each issue. For example, if

there is an appeal against assessment and application for relief, form JA will issue and this form will be served to taxpayer roughly within a week. Failing to comply may subject to the violation of S.103 of income tax act, in which 10 percent penalty will be imposed before 30 days. These are the critical moments for a taxpayer. Taxpayers can appeal for tax assessment with Form Q actually. Failing all these may result to the violation of income tax regulation and the LHDN may proceed with civil proceedings at the court under S. 106 and may impose travel restriction to the taxpayer under S. 104 of income tax act” - Participant No.2, TAT.

“The role of government through tax authority is strongly impact the tax collection. In Malaysia there is a tax investigation framework between the tax authority and taxpayers to adhere. The tax investigation frame aimed to inform each taxpayer about the LHDN’s tax investigation procedures. The role performed by LHDN is very essential on collecting taxes especially dealing with companies with under-reporting their income” - Participant No.4, TAG.

“Generally, people think service quality means working or responding on time. However, service quality means providing a better and quality service in reasonable time frame. Though the country has a better tax authority with its efficient functions, time to time enhancement may require in certain areas. We do have electronic means of tax filing. However, registration as a taxpayer need the person to visit local office. Malaysia still has significant number of unregistered tax payers. Easiest way of tax filing, automated estimate assessment for new taxpayers may be added to the webpage’. As I mentioned earlier, certain sections may require further enhancement. So mentoring program for existing staff may

beneficial. Higher the number of financial crimes demand the higher the number of human resources to work to control” - Participant 8, TSC.