

Does Compliance Strategy Increase Compliance? Evidence from Malaysia

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ABSTRACT

Due to the significance of tax revenue as the primary source of a country's income, any leakage due to non-compliance behaviour may impact the country, which will eventually affect citizens. One way to reduce tax non-compliance is through compliance strategies which can be categorised into two; deterrence and accommodative approach. It is advisable that tax authority should not only focus on the deterrent approach (tax audit and penalty), mainly on tax offenders. Instead, tax authority also needs to find ways to preserve good taxpayers' continuous fulfilment of their tax responsibilities, encourage future taxpayers to commit to tax laws, and transform tax offenders to become good taxpayers using the accommodative approach. This study uses the survey method to determine individual taxpayers' perception of tax authority's compliance strategies (threat of punishment, tax education programme, treatment provided by tax authority, special voluntary disclosure programme (SVDP)). This study then investigates the influence of those compliance strategies towards tax compliance behaviour. Our findings indicate that individual taxpayers have a positive perception towards compliance strategies provided by the tax authority in Malaysia (refer to Inland Revenue Board of Malaysia (IRBM)). In addition, the threat of punishment, treatment provided by IRBM and SVDP are significantly proven to have a positive relationship with tax compliance. However, it is suggested that IRBM should improve their tax education programmes as it is found to be insignificant. This study contributes to current tax compliance literature in a relatively important field of compliance strategies by providing comprehensive insights into the influence of both deterrence and accommodative approaches in influencing tax compliance behaviour, as well as focusing more on an accommodative approach that is receiving attention lately. With both approaches in one study, the results of this study provide a clear, complete and comprehensive understanding since most of previous studies conducted separately. Finally, the findings of this study also provide valuable and significant input to the tax authorities and policymakers, especially IRBM in assessing and making a necessary improvement on their compliance strategies with the mission to enhance tax compliance behaviour, especially among individual taxpayers.

Keywords: tax compliance; tax authority; compliance strategy; accommodative approach; deterrence approach

INTRODUCTION

Tax compliance has become a main concern for most countries globally, including developed and developing countries, since taxation has become an important source of every governments' revenue. A country needs to secure adequate funding so that government development and infrastructure projects can be performed accordingly. This is essential to ensure the continuous growth of a country and the wellbeing of its citizens (Hartner et al. 2008). In Malaysia, the collection of tax revenue by IRBM is reported between 50-55% of the country's total revenue and maintained the contribution with a 3-digit zone (more than RM100 billion) consecutively since 2011 (LHDNM 2016). Due to that, any actions that lead to tax non-compliance, such as tax avoidance and tax evasion, can jeopardise the country's revenue and pressure the government to use necessary means in preventing any revenue leakage (Devos 2013).

Tax non-compliance, which is considered a white-collar crime, is a global issue that has become a major challenge for tax authorities in many countries but more critical in developing countries (McKerchar & Evans 2009), including Malaysia. The government needs to incur high tax expenditure, specifically tax compliance costs, to deter tax non-compliance and penalise tax offenders. The issues become more serious after implementing the Self-Assessment System (SAS) since SAS requires taxpayers to voluntarily report their actual income and expenses in their tax returns (Hai & See 2011). Under SAS, the taxpayers must register, calculate, and pay the tax liability by themselves voluntarily. The three main objectives of SAS are to accelerate the collection rate, minimise the cost of collections, and increase voluntary compliance among taxpayers. However, the biggest challenge faced by IRBM after the implementation of SAS was to fulfil the third objective; to increase voluntary compliance among taxpayers (Veerinderjeet & Renuka 2002; Chow 2004; Dom 2013). This is because the success of SAS solely depends on the cooperation of taxpayers, especially individual taxpayers, to fulfil their tax compliance obligation. In Malaysia, Income Tax Act (ITA) 1967 has outlined four key tax compliance obligations: register as a taxpayer, submitting tax returns and paying tax liability by or before the due date, and finally reporting tax liability correctly.

INDICATORS AND TAX COMPLIANCE ISSUE IN MALAYSIA

According to Raihana et al. (2014), the issue of tax compliance becomes one of the main interests and requires special attention by policymakers, tax administrations and societies since non-compliance behaviour may lead to a reduction in tax revenue which indirectly might affect citizens, including those who complies voluntarily. The amount of tax penalties collected per year indirectly indicates the trend of tax non-compliance in Malaysia (Kasipillai 1999; Natrah 2009; Nor Azrina et al. 2014; Muhammad Aqbal et al. 2016; Nuridayu et al. 2017). Table 1 shows the number of cases (tax audit settlement) and the amount of tax penalties collected from 2011 until 2015¹.

TABLE 1. Number of cases (tax audit settlement) and amount of tax penalties collected

Year	Number of cases (tax audit settlement)			Penalties (RM 'billion)	% differences
	Companies	Non-companies (individual)	Total		
2015	138,203	1,576,709	1,714,912	9.843	+119.9
2014	98,615	1,777,317	1,869,932	4.477	-11.2
2013	83,093	1,674,827	1,757,920	5.041	+53.2
2012	79,688	1,855,390	1,935,078	3.290	+22.9
2011	79,642	1,831,271	1,910,912	2.676	-

*Source: IRBM Annual Report, 2011-2015 (official released statistic)

Based on Table 1, the amount of tax penalties collected increased throughout the years, with the highest increment in 2015 (increment of 119.9% from RM4.477 billion in 2014 to RM9.843 billion in 2015). Even though the number of tax audit settlement cases was lesser than in 2014, the amount of tax penalties charged was more than double in 2015, indicating that the tax non-compliance issue become serious and needs more attention from the tax authority.

In addition, the tax non-compliance issue in Malaysia, especially for individual taxpayer, can also be seen by referring to the numbers of travel restriction issued by IRBM² for individual taxpayers with outstanding taxes. Table 2 shows the statistics of travel restriction issued by IRBM between the early year (2005) after implementing SAS in Malaysia and 10 years later (2015).

TABLE 2. Travel restriction issuances by IRBM

Years	Number of issuances	Outstanding tax
2015	128,165	RM3.4 billion
2005	10,933	RM291.27 million

*Source: IRBM annual report (2005; 2015)

Based on Table 2, there has been a substantial increment within 10 years since the introduction of SAS. The change in the numbers of restrictions from 5-digit to 6-digit (increased more than 10 times) while the total amount of outstanding tax exceeds the value from millions into billions. This statistic points a warning signal regarding the increasing trend of tax non-compliance in Malaysia since the early implementation of SAS, especially for individual taxpayers (Natrah 2009). This proves the argument by Hai and See (2011). They claim that the issue of tax non-compliance became more serious after the implementation of SAS as it involves voluntary cooperation from taxpayers to report their actual income and expenses, especially for individual taxpayers (Veerinderjeet & Renuka 2002; Chow 2004; Dom 2013). This became one of the challenges especially for IRBM, as individual taxpayers represent the largest fraction of taxpayers in Malaysia which is 82% (8,107,474) from the total of 9,886,724 taxpayers (LHDNM 2017). Moreover, as per record, the number of individual tax audits carried out in 2017 was 1,768,867 (1,322,704 represent salaried earning individual) which increased by 12% compared to 1,576,709 in 2016 (IRBM 2016; 2017).

Overall, the increasing trend of tax penalties collected and the issuance of travel restrictions per year give a signal that tax non-compliance issue still a puzzling or unsolved issue in the income tax environment in Malaysia. This problem indicates that immediate action by IRBM is required to overcome the tax non-compliance issue, resulting in increased tax collection, which is the main source of national income.

One way to reduce tax non-compliance and improve tax compliance is through compliance strategies, categorised into two approaches: deterrence and accommodative (Murphy 2008). The deterrence approach was developed based on the Tax Evasion Model by Allingham and Sandmo (1972). Based on that model, higher penalty and probability of detection will deter individuals from evading their taxes. Another alternative approach is the accommodative approach. This 'soft approach' has been receiving policymakers and researchers attention since this approach could encourage taxpayers'

compliance that lasts longer (Smith & Stalan 1991; Feld et al. 2006; Kornhauser 2007; Rillstone 2015). This approach also referred as positive incentive, reward, carrot, moral suasion and persuasion. Kirchler et al. (2008) mentioned that a friendly service-oriented method is far more effective in influencing behaviour and encouraging voluntary compliance because 'education and support of taxpayers are more promising than control and unreasonable severity in persuading taxpayers to comply'. However, it does not mean that we should forget about the role of deterrence measures since they should become one part of it. For example, Kornhauser (2007) mentioned the importance of balancing between deterrence and accommodative approach. He stated that "sticks, as well as carrots, are needed to ensure compliance". The most practical way is to blend and combine these two approaches by considering the nature of taxpayers and tax administration needs (Kornhauser 2007; Imbeau 2009; Okafor & Farrar 2021). Furthermore, Ayres and Braithwaite (1992) justify that the first choice of strategy should be persuasion since it can nurture voluntary compliance by preserving the perception of fairness.

Realising the importance of combining both approaches, IRBM started to educate taxpayers to improve tax awareness along with the new approach of '*making compliance easy and non-compliance difficult*'. Three focuses under this strategy are to improve taxpayer awareness through various education programmes, making tax compliance easy and enforcing any tax evasion (LHDNM 2016). It is found that besides focusing on tax audit penalty under deterrence approach, more attention is given by IRBM on tax education programme (Marhaini 2012; Dom 2013; LHDNM 2016; Norzilah et al. 2016), which is considered as the accommodative approach. In addition, this study will also examine another two factors, namely treatment provided by tax authority and SVDP, which is also considered an accommodative approach to better understand tax compliance strategies by the IRBM.

Many previous studies in Malaysia focus on the tax audit and penalty (deterrence approach) (Razilina et al. 2012; Mohamad et al. 2013; Mohd Rizal et al. 2013; Raihana et al. 2014; Noor Sharoja et al. 2014). Therefore, this study intends to provide a more comprehensive perspective of compliance strategies by extending the study to include the 'other side' or 'positive side' of compliance strategy that is accommodative approach to improve tax compliance. This effort is extending the study by Nuridayu et al. (2017), which cover only Small and Medium Enterprise (SME) and Yee et al. (2017) which focuses on individual taxpayer but limited to only a few states in Malaysia. In addition, this study will try to answer Marhaini (2012) recommendation, which suggests a study regarding taxpayers' perception of compliance strategies provided by the tax authority.

This study will contribute to the current tax compliance literature, where compliance strategies in this study are studied from both accommodative and deterrence perspectives that could influence tax compliance behaviour. Furthermore, more emphasis is given towards the accommodative approach that is receiving much interest lately but still scarce in Malaysia's tax environment (Razilina et al. 2012; Nuridayu et al. 2017; Yee et al. 2017). With both approaches in one study, the results of this study will give a clear, complete and comprehensive understanding since most previous studies were conducted separately (Loo et al. 2012). Consequently, this study will provide valuable and significant input to the tax authorities and policymakers, especially IRBM, to assess and make a necessary improvement on their current compliance strategies to improve taxpayers' compliance behaviour further.

Overall, this study is done with two main objectives. First, to assess the perception of Malaysian taxpayers towards compliance strategies that being implemented by the tax authority in Malaysia, which are the threat of punishment (tax audit and penalty), tax education, treatment provided by the tax authority and SVDP as proposed by Marhaini (2012). This finding is important since the positive perceptions will lead to tax compliance behaviour while negative perceptions will give an adverse effect (Kamil 2006).

Secondly, this study will examine the relationship between the threat of punishment (tax audit and penalty), tax education, treatment provided by the tax authority and SVDP towards tax compliance. Findings from this study may be useful for the tax authority, especially IRBM in assessing their current approaches and making necessary improvements for the country's benefit. The findings on the impact of compliance strategies towards tax compliance may be significant to the policymakers, especially in determining the appropriate approaches that could enhance tax compliance among taxpayer in Malaysia.

In achieving those objectives, this study focuses on individual taxpayers since they are 'real person' (Income Tax Act 1976) who has the power to make their judgment, including tax matters (Razilina et al. 2012), who also have higher chances to tax perform evasion. In addition, the issue of tax non-compliance among individual that represents the biggest fraction (82%) of taxpayers in Malaysia become a challenge to IRBM, especially after the implementation of SAS (Hai & See 2010) since it needs voluntary cooperation (Veerinderjeet & Renuka 2002; Chow 2004; Dom 2013) following with the trend of the increasing number of travel restrictions issuances (see Table 2) and increment number of tax audit settlements and amount of tax penalty collected as discussed previously.

This paper is organised as follows. The following section discusses the literature review and the hypotheses development. Then, the methodology adopted in this study, the empirical analysis, results, and discussion of the study. The final section provides a conclusion of the overall findings together with the policy implication and present some avenue for future research.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

THREAT OF PUNISHMENT (TAX AUDIT AND PENALTY)

The threat of punishment has been emphasized as one of the effective tools to curb evasion and has become one of the main strategies used by most tax authorities to overcome non-compliance issue (Verboon & van Dijke 2007; Murphy 2008; Devos 2013; Raihana et al. 2014). It consists of tax audit, tax penalty and tax rate. It is not only able to deter would-be non-compliers from breaking the law (general deterrent) but also for specific deterrent to those who had already been detected and caught evading tax (Murphy 2008). This approach assumes that severe punishment and penalties to rule-breaker will discourage them from re-offending in the future. The higher probabilities of being audited and higher imposition of penalties will deter taxpayers from making tax evasion since it was considered immoral (Loo et al. 2009; Mohamad et al. 2013; Yee et al. 2017). Taxpayers are sensitive towards tax audit and punishment. According to Yee et al. (2017), a higher penalty imposed by a tax authority will scare taxpayers as they are aware of the effects and consequences if they failed to fulfil their tax responsibilities. In line with the assumption of tax evasion model by Allingham and Sandmo (1972), previous studies found that deterrence approach using tax audit and penalty had a positive relationship with tax compliance (Devos 2009; Verboon & Van Dijke 2007; Murphy 2008; Loo et al. 2009; Alm et al. 2012; Devos 2013; Mohamad et al. 2013; Mohd Rizal et al. 2013; Noor Sharoja et al. 2014; Yee et al. 2017; Firmansyah & Putu 2018; Alm 2018; Chiarini & Marzano 2019; Lopez-Luzuriaga & Scartascin 2019). Therefore, our first hypothesis is:

H₁ Threat of punishment by IRBM is positively related to tax compliance among individual taxpayer in Malaysia.

TAX EDUCATION PROGRAMME

The primary mission of tax authority is to ensure that eligible taxpayers fulfil their tax responsibilities, especially during the current era of SAS. Tax education has been one of the central focus of IRBM, whereby various programmes and activities were conducted throughout the years (IRBM 2016, Norzilal et al. 2016). According to Responsive Regulatory Theory (Ayres & Braithwaite 1992), compliance can be enhanced through persuasion, education, encouragement and assistance. The first strategy is persuasion, and only if it fails, regulators shall shift up to the next strategy based on the enforcement pyramid accordingly. Therefore, tax authority makes an initiative by providing tax education programmes with a mission to increase tax knowledge among taxpayers for a smoother tax system (Mohani 2001; Hasseldine et al. 2009; Norzilal et al. 2016), to increase public awareness regarding the objective and function of tax collection for the nation (Mohani 2001) and to increase taxpayer's understanding on their tax responsibilities especially during the current era of SAS (Marhaini 2012). In Malaysia, IRBM's tax education covers even basic concepts such as explaining 'why they should pay tax?' using various channels such as tax seminars, collaboration programmes, and talk shows on radio and television (LHDNM 2016).

A study by Norzilal et al. (2016) found that taxpayers in Malaysia had a good perception of tax education programmes provided by IRBM and fully applied the knowledge they gained from the programmes. However, Ho et al. (2006) clarify that tax authority shall not only provide the workshops or seminars that focus on a technical aspect such as filing of tax return but should also put more effort into creating a tax compliance atmosphere and briefing on ethical value more frequently. Studies by Mohd Rizal (2010) and Yee et al. (2017) concluded that tax knowledge is the most important element to influence tax compliance behaviour since it could foster tax morale (Yee et al. 2017). Besides, tax knowledge will also lead to a rational decision such as to comply with the specified time required by the tax law (Marziana et al. 2010; Park & Hyun 2003). Overall, previous studies confirmed that taxpayers with better tax knowledge are more willing to comply with the law since they pose with a good level of understanding as a result of being exposed to their tax responsibilities during tax education programmes (Mohani 2001; Park & Hyun 2003; Kirchler 2008; Loo et al. 2009; Marziana et al. 2010; Mohd Rizal 2010; Marhaini 2012; Norzilal et al. 2016; Nuridayu et al. 2017; Yee et al. 2017; Alm 2018; Kwok & Yip 2018; Kurniawan 2020). Therefore, our second hypothesis is:

H₂ Tax education provided by IRBM is positively related to tax compliance among individual taxpayer in Malaysia.

TREATMENT PROVIDED BY TAX AUTHORITY

According to Feld and Frey (2007), tax compliance is driven by a psychological tax contract between citizen and tax authorities which involves the element of tax morale. The experiences of interaction between taxpayers and tax authority may influence how individuals make their decision, either to comply or not to comply, based on their positive or negative experiences. That study classifies interaction into two categories; respectful treatment, which can increase tax morale, while authoritarian treatment will undermine tax morale. Tax morale is the main element that will influence tax compliance. According to Smith and Stalan (1991), respectful and responsive treatment provided by tax authority towards taxpayers was more effective to ensure long-lasting tax compliance. In addition, Farrar et al. (2017) refer to the quality of interaction as

‘the extent to which taxpayers receive fair interpersonal treatment and adequate information during their interaction with tax officer’. That study found that positive treatment will influence the taxpayer’s compliance intention.

Interaction between taxpayers and tax authority can be in two situations; formal (i.e. during the audit and investigation procedure) and informal (i.e. get personal assistance regarding tax matters). Feld and Frey (2007) and Murphy (2008) studied the best strategy to improve compliance among tax offenders. They found that tax offenders who perceived the tax authority’s treatment are more reintegrative (treated politely, with dignity and respect) is less likely to re-offending in the future. They concluded that treatment from tax representative during audit and investigation, which are fair, respectful, and reintegrative in nature, will positively impact long-term compliance behaviour. Therefore, if taxpayers feel they receive disrespectful treatment or are suspected of tax evasion, the psychological contract between taxpayers and tax authorities deteriorates, making them less likely to incline to a positive compliance attitude (Murphy 2004). Overall, the positive treatment given by tax administrators when interacting with taxpayers in any form of interaction will have a positive effect on tax compliance behaviour among taxpayers in line with the findings of previous studies (Smith & Stalan 1991; Niemiowski & Wearing 2006; Feld & Frey 2007; Verboon & Van Dijke 2007; Hartner et al. 2008; Kirchler 2008; Murphy 2008; Marhaini 2012; Raihana et al. 2014; Farrar et al. 2017; Sellywati et al. 2017; Alm 2018; Enachescu et al. 2019; Ram Al Jaffri et al. 2019; Nivakan 2020). In addition, the positive treatment received by taxpayers is also able to encourage non-compliant taxpayers (tax offenders) to become a good taxpayer in the future (Feld & Frey 2007; Murphy 2008; Razilina et al. 2012). Based on the above discussion, the third hypothesis for this study is:

H₃ The positive treatment provided by IRBM is positively related to tax compliance among individual taxpayer in Malaysia.

SPECIAL VOLUNTARY DISCLOSURE PROGRAMME (SVDP)

Feld and Frey (2002) stated that the relationship between taxpayers and tax authority involves a psychological tax contract, contributing to tax compliance behavior. To ensure that both parties are equally benefited, incentives should be provided along with punishment. A previous study by Smith and Stalans (1991) categorised positive tax incentive into three categories: materialistic incentive, respectful and responsive treatment, and verbal rewards. One of the items under materialistic incentive is ‘reduced penalties’ related to the tax amnesty programme offered by IRBM, namely ‘SVDP’. This special program offers a lower tax penalty rate to encourage taxpayers to make voluntary disclosure³ in reporting their income to increase tax collection for the country. Feld et al. (2006) highlight that tax amnesties serve as a ‘carrot’ for encouraging non-compliant taxpayers to improve their compliance behaviour. It provides the previously non-compliant taxpayer with the opportunity to pay taxes on undisclosed income without fear of severe penalties or prosecution (Richardson & Sawyer 2001). Sometimes a second chance should be given, especially for non-compliance that occurs unintentionally. Previous studies found that encouragement given by tax authorities through tax amnesty programs could influence tax compliance behaviour (Richardson & Sawyer 2001; Feld et al. 2006; Saracoglu & Caskurlu 2011; Ahmad Nurkhin et al. 2018; Nadiah & Mohammad 2018; Damayanti et al. 2020). Lastly, our fourth hypothesis is:

H₄ SVDP by IRBM is positively related to tax compliance among individual taxpayer in Malaysia.

METHODOLOGY

SAMPLE AND DATA COLLECTION

Since this study involves a psychological contract between taxpayer and tax authority, individual taxpayers are deemed suitable for this study. This is because this type of taxpayer is a ‘real person’ (Income Tax Act 1976) who makes their own judgment, including tax matters (Razilina et al. 2012) and have more chances to evade than when they are in a team or group. Furthermore, since this study focuses on an accommodative approach, attention will be given to salaried taxpayers. They can be considered compliant taxpayers (Raihana et al. 2014) since their tax payment is subjected to the Monthly Tax Deduction Scheme (MTDS). According to McKerchar (2002), this group of taxpayers are better suited to an approach other than deterrence, which refers to an accommodative (softer) approach.

After a thorough assessment, academicians at a public university in Malaysia are chosen since they are real individual taxpayers earning medium to a high level of salaried income. The selection among academicians at the public university is in line with their status as civil servants who always need to demonstrate their integrity. Any violation of the rules and regulations will directly affect their status as civil servants, including legal issues relating to taxation. In addition, this group is also highly educated, always being referred for current issues and being trusted and respected by the community. Finally, public universities located in major towns in all states will give a meaningful result for study covering individual taxpayers in Malaysia since people in major towns can represent the overall population for each state (Brymen & Bell 2003; Mohd Rizal 2010).

According to Malaysia’s geographical location, the sample was divided into five clusters: Northern, Central, Southern, West and East Malaysia (Sabah and Sarawak). After conducting a pre-test followed by a pilot survey on a group of 32 academicians to improve validity and reliability and further refine the questionnaire, a total of 2,413 survey forms were sent out. The surveys were sent online to the official e-mail address of respective academicians. This method is the most suitable method for data collection, which was conducted from the 1st of March 2020 until the 15th of May 2020, which happens to be in the period of Movement Control Order (MCO) imposed by the government in response to the Covid-19 pandemic in the country. A total of 496 surveys were received back, which has satisfied the target sample size of 400, giving a response rate of 20.6%. This response rate is acceptable since it is comparable to a range of taxation studies in Malaysia using a similar method of either mail or online postal questionnaires. This is due to the nature of taxation studies, which is considered confidential and sensitive to most respondents.

QUESTIONNAIRE DESIGN

Data were collected using a survey questionnaire. The questionnaire was developed based on previous studies, Malaysia Circular and Income Tax Act 1976. The questionnaire is divided into five main sections which are developed as per stated sources, namely Section A: Respondent’s Profile; Section B: Tax Compliance (Gangl et al. 2013; Niemirowski & Wearing 2006); Section C: Threat of Punishment (Tax Audit and Penalty) (Verboon & van Dijke 2007); Section D: Tax Education (Marhaini 2012); Section E: Treatment provided by Tax Authority (Niemirowski & Wearing 2006) and Section F: SVDP (Bornman & Stack 2015; self-developed item based on Malaysia’s Circular). All items are measured using the 5 Likert-scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

RESEARCH MODEL

This study examined the relationship between four types of compliance strategies provided by tax authority (IRBM) (independent variable) towards tax compliance behaviour (dependent variable) among individual taxpayers in Malaysia. The research model for this study as per Figure 1 below:

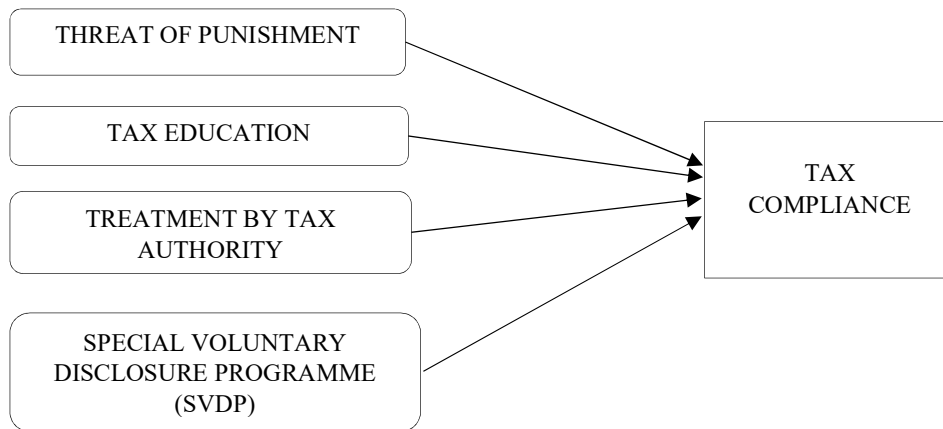


FIGURE 1. Research model

Empirically, the relationship is tested based on the following equation:

$$TC = \alpha_0 + \alpha_1 \text{PUNISH} + \alpha_2 \text{EDU} + \alpha_3 \text{TREAT} + \alpha_4 \text{SVDP} + \varepsilon$$

where:

- TC = Tax compliance
- PUNISH = Threat of punishment (tax audit and penalty)
- EDU = Tax education programme
- TREAT = Treatment provided by tax authority
- SVDP = Special voluntary disclosure programme
- ε = error

TECHNIQUE FOR DATA ANALYSIS

Data were analysed using IBM SPSS version 26 to achieve the two research objectives. Descriptive analysis was used to assess the perception of Malaysian taxpayers towards four compliance strategies implemented by tax authority (Objective 1). Furthermore, multiple regressions analysis was used to test the hypotheses developed to achieve Objective 2. As illustrated in Figure 1, this study examines the relationship between four independent variables (threat of punishment, tax education, treatment by tax authority and SVDP) towards one dependent variable (tax compliance). This statistical technique is fit to answer the second objective since it allows one to assess the relationship between one dependent variable (DV) and several independent variables (IVs) (Tabachnick & Fidell, 2013). However, several assumptions need to be fulfilled before using the multiple regression analysis. Overall, the data has passed all the requirements, as per discussion in the next section.

RESULT

RESPONDENTS' PROFILE

A complete demographic profile of respondents was presented in Table 3. Out of 496 questionnaires received, 10 were unusable, leaving 486 responses useable and fit for further analysis.

TABLE 3. Respondent's profile (n=486)

Categories	Frequency	Percentage (%)
Gender:		
Male	174	35.8
Female	312	64.2
Total	486	100.0
Age:		
< 30	7	1.4
30-40	197	40.5
41-50	179	36.8
>50	103	21.2
Total	486	100.0
Education level:		
Master	145	29.8
PhD	327	67.3
Post-Doctoral	9	1.9
Others (i.e. Professional Qualification)	5	1.0
Total	486	100.0
Number of years of working experience:		
1-10	132	27.2
11-20	214	44.1
21-30	113	23.3
>30	27	5.5
Total	486	100.0
Monthly salary:		
RM3,000 – RM5,000	19	3.9
RM5,001 – RM7,500	105	21.6
RM7,501 – RM10,000	243	50.0
RM10,001 – RM12,500	84	17.3
RM12,501 – RM15,000	19	3.9
>RM15,000	16	3.3
Total	486	100
Number of years of tax payment:		
1-5	73	15.0
6-10	142	29.2
11-15	77	15.9
16-20	92	18.8

>20	102	21.0
Total	486	100.0

Overall, the respondents comprise 312 (64.2%) females and 174 (35.8%) males. Almost all respondents (98.6%) aged more than 30 years old, with the highest group consisted of 197 (40.5%) respondents aged between 30 and 40. A total of 327 (67.3%) respondents were PhD holders, followed by master's degree holders (145 / (29.8%)), 9 (1.9%) with Post-Doctoral and 5 (1.0%) with other qualification. Cumulatively, respondents with work experience of more than 10 years make up the largest portion with 354 (72.9%) with the largest group from the respondents with work experience between 11 and 20 years (214 / (44.1%)). In addition, 243 (50%) of respondents earn a monthly salary between RM7,5001 and RM10,000. In general, respondents from this study comprised of the middle- and higher-income earners and they are also considered as a matured taxpayer since 201 (55.7%) of them paid tax for more than ten years while another 142 (29.2%) of respondents paid tax between 6 and 10 years. Therefore, the respondents for this study suit to respond regarding the compliance strategies provided by the tax authority based on their experience in the current tax system in Malaysia.

DESCRIPTIVE ANALYSIS

Table 4 presents the finding for part 1 of this study which is to assess the perception of individual taxpayers towards compliance strategies that being implemented by the tax authority in Malaysia (IRBM), namely threat of punishment (tax audit and penalty) (PUNISH), tax education (EDU), treatment provided by tax authority (TREAT) and SVDP.

TABLE 4. Descriptive statistic

	Mean	SD	Minimum	Maximum
Tax compliance	4.54	0.530	2.83	5.00
PUNISH	3.88	0.567	1.57	5.00
EDU	3.90	0.699	1.50	5.00
TREAT	3.95	0.688	1.13	5.00
SVDP	3.65	0.585	1.67	5.00

Based on the result, on average, tax compliance is high (4.54), demonstrating a high tax compliance attitude among the respondents. The result is consistent with the focus of this study that is on salaried taxpayers who serve as academicians where tax deductions are mandatory under MTDS. They are highly educated and constantly referred for current issues and being trusted and respected by the community. Therefore, it is expected that they will fulfil their tax responsibility and become a compliant taxpayer, which in line with the above score.

Overall, the taxpayers have a good perception of the four types of compliance strategies implemented by the tax authority in Malaysia, where the average score for all is above 3.5. The highest average score is on the treatment provided by the tax authority reaching nearly 4.0 (3.95). This indicates that most of the respondents agreed that IRBM had provided positive treatment towards the taxpayers. This is followed by a tax education programme by IRBM (3.90) and the threat of punishment (tax audit and penalty) (3.88). Finally, the tax amnesty programme offered by IRBM, namely SVDP with the aim to improve tax compliance among taxpayers, has recorded a relatively low average value of 3.65 compared to the other three strategies but still above 3.5. This may be because the respondents of this study who are bound to MTDS (considered as compliant taxpayers) will assume that tax amnesty programs such as SVDP are unfair for those who are constantly paid tax every month without fail. However, this section is limited only to descriptive analysis. The relationship of each compliance strategy towards tax compliance can only be ascertained in analysing of the findings in the next section.

NORMALITY TEST

The normality test is an essential step in almost every multivariate analysis. Data is normally distributed when the value of skewness is between the range of +1 and -1 while kurtosis is between +3 and -3 (Hair et al. 2013). Table 5 presents the result for the normality test.

TABLE 5. Normality test

	Skewness		Kurtosis	
	Value	Std. error	Value	Std. error
TC	-0.905	0.114	-0.303	0.227
PUNISH	0.103	0.114	-0.460	0.227
EDU	-0.214	0.114	-0.334	0.227
TREAT	-0.177	0.114	-0.535	0.227
SVDP	0.190	0.114	-0.048	0.227

Based on the result, the data is normally distributed since the value of skewness and kurtosis for all variables is within the range as suggested by Hair et al. (2013).

INTERNAL RELIABILITY TEST

The reliability test was performed to determine the inter-item consistency of the measures, whereby the consistency specifies how well the item measurement ‘hangs together’ as a set (Sekaran 2006). Based on the results, TREAT attained the highest Cronbach’s alpha of 0.936, whereas SVDP obtained the lowest Cronbach’s alpha of 0.676. Other factors obtain Cronbach’s alpha as listed, EDU (0.826), PUNISH (0.730) and TC (0.703). Overall, all reliability measures have exceeded the minimum value of 0.6 (Zainudin 2019), reflecting that measuring items under that component provide a reliable measure of internal consistency.

CORRELATION ANALYSIS

Table 6 displays the Pearson correlation matrix for dependent and independent variable. The result shows that all independent variables positively and significantly correlated. In addition, all independent variables are found to be significantly correlated with tax compliance (TC). The strongest correlation is between TREAT and EDU (.516). This followed by the correlation between SVDP and TREAT (.407). In general, the correlation coefficient for all variables did not exceed the rule for multicollinearity detection of 0.9 (Tabachnich & Fidell 2013). Therefore, multicollinearity unlikely to be a problem in this study.

TABLE 6. Pearson correlation matrix

	TC	PUNISH	EDU	TREAT	SVDP
TC	1.000				
PUNISH	.202**	1.000			
EDU	.119**	.270**	1.000		
TREAT	.220**	.270**	.516**	1.000	
SVDP	.287**	.180**	.221**	0.407**	1.000

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

MULTIPLE REGRESSION ANALYSIS

The second objective of this study is to examine the relationship between the threat of punishment (tax audit and penalty), tax education, treatment provided by the tax authority and SVDP towards tax compliance. Table 7 provides evidence on the association between tax compliance and four compliance strategies using multiple regression analysis.

TABLE 7. Multiple regression analysis results

	Coefficient	t	Sig.	Result	Tolerance	VIF
Constant	2.553	9.804	0.000			
PUNISH	0.113	3.180	0.002**	Supported	0.885	1.130
EDU	-0.036	-0.964	0.336	Not supported	0.698	1.433
TREAT	0.104	2.555	0.011*	Supported	0.621	1.610
SVDP	0.199	4.776	0.000**	Supported	0.819	1.220

** Significant at $p < 0.01$, *Significant at $p < 0.05$

Model fit:

R: 0.427

R²: 0.183

F-value: 9.567

prob: 0.000

Durbin-Watson: 1.879

Based on Table 7, no autocorrelation and multicollinearity issues within the variables in this study since for autocorrelation, the value of Durbin-Watson (1.879) is within the range of $1.5 < d < 2.5$, and for multicollinearity, the VIF value of all variables exceed 1.0, and the tolerance value also exceeds 0.1. Result indicates that tax compliance is influenced by three variables namely PUNISH ($\beta = 0.113$; $p < 0.01$), TREAT ($\beta = 0.104$; $p < 0.05$) and SVDP ($\beta = 0.199$; $p < 0.05$). The result implies that the threat of punishment imposed by the tax authority, a positive treatment provided by the tax authority’s staff, and a positive perception of SVDP can cultivate positive compliant behaviour among individual taxpayers in Malaysia. However, the result shows that the current tax education programme provided by the tax authority is still unable to influence tax compliance behaviour among taxpayers. This indirectly indicates that IRBM should take proactive action to accomplish the mission of the tax education program, which is to increase tax awareness and tax knowledge among citizens, especially eligible taxpayers.

DISCUSSION

Based on the result presented in Table 7, the threat of punishment, a positive treatment provided by the tax authority and SVDP, significantly influences tax compliance behaviour among individual taxpayers in Malaysia. Firstly, the result implies that the high probability of being audited and tax penalty imposed by tax authority forced taxpayers to be more compliant. This proved that the current threat of punishment imposed by IRBM could influence tax compliance behaviour among taxpayers. It will indirectly create awareness among taxpayers to perform their tax obligations to avoid any impact and consequences of tax evasion practice. Subsequently, hypotheses H1 is accepted and confirmed the result of past studies (Devos 2009; Verboon & Van Dijke 2007; Murphy 2008; Loo et al. 2009; Alm et al. 2012; Devos 2013; Mohamad et al. 2013; Mohd Rizal et al. 2013; Noor Sharoja et al. 2014; Yee et al. 2017; Firmansyah & Putu 2018; Alm 2018; Chiarini & Marzano 2019; Lopez-Luzuriaga & Scartascin 2019). Therefore, it is advisable that tax authority should increase the threat of punishment through audits and tax penalties as a preventive mechanism since it can increase tax compliance.

Secondly, the positive treatment provided by the tax authority (IRBM) is found to be a significant determinant that will influence compliant behaviour among individual taxpayers in Malaysia. The result reveals that treatment provided by IRBM currently is good as it indicates a positive perception. The positive treatment will influence taxpayers' compliance intention, to comply or not comply, based on their good or bad experiences. According to Ayres and Braithwaite (1992), the relationship between tax authority and taxpayers involves a psychological contract whereby the respected treatment will strengthen the relationship and thus will encourage tax compliance. On the other hand, authoritarian-shaped treatment will destroy the relationships, leading to tax non-compliance (Feld & Frey 2002; Feld & Frey 2007; Farrar et al. 2017). Overall, the result confirms that IRBM achieved its mission to provide taxpayers with better service in line with their effort in various programmes such as 'HASiL 4U 2016', 'HASiL Your Feel-Good Partner', and their current motto of 'The Best Service for You'. Therefore, hypotheses H3 is accepted, and the result confirmed that the past positive interactions between taxpayer and tax authority would positively affect tax compliance. A similar finding is reported by previous studies in Malaysia (Razilina et al. 2012; Sellywati et al. 2017; Ram Al Jaffri et al. 2019; Nivakan 2020) and other countries (Smith & Stalan 1991; Niemiowski & Wearing 2006; Feld & Frey 2007; Verboon & Van Dijke 2007; Hartner et al. 2008; Kirchler 2008; Murphy 2008; Marhaini 2012; Raihana et al. 2014; Farrar et al. 2017; Alm 2018; Enachescu et al. 2019). Therefore, tax authority should enhance their frontline officers capabilities to improve their customer service performance continuously. This is because the quality of treatment received by taxpayers will not only maintain existing taxpayers to continuously perform their tax obligation but also will encourage non-compliant taxpayers (tax offenders) to become a good taxpayer (Feld & Frey 2007; Murphy 2008; Razilina et al. 2012).

Thirdly, SVDP provided by IRBM found to influence tax compliance behaviour positively. Therefore, H4 is supported, and the result indicates that taxpayers have a positive perception of the tax amnesty programme. The result proved that the initiative taken by IRBM to increase tax payment in Malaysia received positive feedback from taxpayers. This can be explained by Feld et al. (2006), who suggest that tax authority should offer tax amnesty as an encouragement ('*carrot*') to non-compliant taxpayers to change them into compliant taxpayers. Sometimes a second chance should be given as non-compliance sometimes occurs unintentionally. The finding is consistent with previous studies, which found that tax authority's encouragement through tax amnesty programs could influence tax compliance behaviour (Richardson & Sawyer 2001; Feld et al. 2006; Saracoglu & Caskurlu 2011; Ahmad Nurkhin et al. 2018; Nadiah & Mohammad 2018; Damayanti et al. 2020). For the record, SVDP successfully collected additional tax and penalties amounted to RM7.877 billion, with a total of 286,428 taxpayers voluntarily disclosed. It can be considered a successful programme compared to similar programmes offered in 2015 and 2016 (IRBM 2015, 2016). However, this strategy is not an effective method of increasing tax compliance over a long period. Honest and compliant taxpayers will perceive tax amnesty programs as unfair, which provide negative signals that an evasion is an act that can be easily forgiven (Richardson & Sawyer 2001; Feld et al. 2006; Torgler 2007; Saracoglu & Caskurlu 2011). Therefore, careful assessment needs to be done before continually implementing the tax amnesty programme.

On the other hand, H2 regarding tax education programmes provided by the tax authority is not supported. The result is found to be inconsistent with previous studies under similar element (Mohani 2001; Park & Hyun 2003; Kirchler 2008; Loo et al. 2009; Marziana et al. 2010; Mohd Rizal 2010; Marhaini 2012; Norzilah et al. 2016; Nuridayu et al. 2017; Yee et al. 2017; Alm 2018; Kwok & Yip 2018; Kurniawan 2020). The result implies that IRBM needs to improve their tax education programme as the current programme found to be insufficient to influence tax compliance. Therefore, this study confirms that IRBM should provide more educational programmes to educate taxpayers with knowledge other than technical aspects proposed by Marhaini (2012) and provide more awareness programmes as proposed by Norzilah et al. (2016). In addition, a study by Ho et al. (2006) mentioned that tax authority should not only provide workshops or seminars that barely explain the technical aspect but should put more effort into creating a tax compliance atmosphere and briefing on ethical value more frequently.

Based on the detailed analysis as presented in Table 8, this study found the urgency of two requirements from taxpayers as per the analysis below:

TABLE 8. Additional analysis on tax education programme

	Item	Mean
1	IRBM should make use of current technology in educating taxpayers. (e.g.: social media, smart phone Apps, website live tele-chat)	4.47
2	Education on taxes should be made at all levels of learning institutions starting from school and university to raise tax awareness.	4.42

This finding is in line with Ibrahim and Pope (2011), who suggests using technology in educating taxpayers to improve tax compliance level in Malaysia. They also suggest that tax education should be embedded in all educational institutions from school to university as the younger generation is the future taxpayers.

CONCLUSION, LIMITATION AND FUTURE RESEARCH

In conclusion, findings from this study are useful for the tax authority, especially IRBM, in assessing their current approaches and significant to the policymaker to make a necessary improvement to encourage tax compliance in Malaysia. This study is done with two objectives. Firstly, to assess the perception of Malaysian taxpayers towards compliance strategies implemented by the tax authority in Malaysia, which are the threat of punishment (tax audit and penalty), tax education, treatment provided by the tax authority and SVDP. The study found that individual taxpayers have a good perception of the four types of compliance strategies implemented by the tax authority in Malaysia, with the positive treatment provided by the tax authority as the highest ranking. Secondly, this study provides empirical evidence on the influence of compliance strategies towards tax compliance behaviour among individual taxpayers in Malaysia. Three factors, namely, the threat of punishment, treatment provided by the tax authority, and SVDP found to influence tax compliance behaviour among individual taxpayers in Malaysia. However, IRBM's tax education program needs to be improved as it is found to be insignificant. Therefore, IRBM is suggested to enhance their tax education programme using similar suggestions by Ho et al. (2006), Marhaini (2012) and Norzilah et al. (2016) together with the use of the latest technology to facilitate taxpayers' knowledge, resulting in improvement of tax compliance level (Ibrahim & Pope 2011).

Even though tax audit and penalty remain an important compliance strategy in Malaysia under the SAS, we can expect further improvement with greater emphasis on the 'soft approach' (accommodative approach) in promoting tax compliance behaviour among taxpayers since the balance between both approaches may yield a better result (Braithwaite 2001; Kornhauser 2007; Imbeau 2009; Okafor & Farrar 2021).

Overall, the study contributes to the current tax compliance literature in a relative importance field of compliance strategies by providing insight into the influence of both accommodative and deterrence approaches on tax compliance behaviour. This study also provides in-depth insights on the accommodative approach that is attracting interest lately. With both approaches in one study, the results of this study will give a clear, complete and comprehensive understanding since most of previous studies studied the approaches separately. Consequently, this study provides valuable and significant input to the tax authorities and policymakers, especially IRBM, to assess and make a necessary improvement on their compliance strategies to enhance tax compliance behaviour among taxpayers. Based on the result, three current strategies (threat of punishment, treatment by the tax authority, SVDP) used by IRBM significantly influence tax compliance behaviour. In contrast, the tax education programme needs to be improved and upgraded accordingly. The findings of the present study may be useful for tax authorities in other countries that have similar taxpayer backgrounds, culture, economic, environments and policies in developing their respective compliance strategy.

However, the present study has several limitations, which interpretation of the result should be made cautiously. Firstly, this study only covered one part of individual taxpayers that is salaried taxpayers, leaving out self-employed taxpayers. The justification for focusing on salaried taxpayers is explained in the methodology part, where the focus made is deemed necessary to ensure the reliability and validity of the findings. Secondly, using a self-report survey to acquire feedback on a confidential and sensitive issue such as tax compliance may open for bias answers by respondents. There is a possibility that respondents will provide feedback that differs from their actual behaviour. However, while acknowledging this constraint, the research method is still considered the most suitable way to predict taxpayers' compliance behaviour. Direct questions (face to face), especially in confidential and sensitive issue, can be potentially embarrassing for respondents.

Finally, it is suggested for future research to extend the sample to include all category of taxpayers, especially self-employed taxpayers who always become the main audience of the tax authority's education programmes. In addition, the study also can be extended using different methods such as interview or focus group.

NOTES

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