

The Effect of Tax Knowledge, Compliance Costs, Complexity and Morale Towards Tax Compliance Among Self-Employed in Malaysia

Hazman Hadi Abdul Ghani
Universiti Teknologi MARA

Nadiah Abd Hamid
Universiti Teknologi MARA

Soliha Sanusi*
Universiti Sains Malaysia
solihasanusi@usm.my

Roszilah Shamsuddin
Universiti Teknologi MARA

** Corresponding Author*

Abstract

Purpose: Self-employed individuals are among the main contributors to direct revenue of Malaysia. Thus, it is vital to assess their level of tax compliance to gauge their awareness in this matter. The objectives of this study are to examine the tax compliance factors among self-employed in Malaysia.

Design/methodology/approach: This research applied a quantitative research design in order to identify relationships between the constructs. Survey method chosen as a collection of primary data, which is accomplished by utilising a self-administered survey.

Findings: Based on the structural measurement analysis, using Smart PLS version 3, tax compliance costs, tax morale, and tax complexity have significant effects on tax compliance among the self-employed. The analysis also shows that tax knowledge has no significant effect on the level of tax compliance among the self-employed.

Research limitations/implications: The study limited to the Malaysian context within the area of self-employed.

Practical implications: The government especially the Ministry of Finance, collaborating with the Inland Revenue Board of Malaysia needs to amend the tax policy and tax education as most of the respondents are uncertain of the tax system implemented in Malaysia.

Originality/value: From the observation, it can be said that the level of tax compliance is still low although SAS has been implemented for quite some time since 2004. There must be loopholes in the tax system in which the government and the relevant stakeholders need to rectify. Thus, it is important to assess the effectiveness of current tax regime from numerous dimensions so that the issues on tax compliance would be tackled and solved.

Keywords: Tax Compliance, Tax Knowledge, Tax Morale, Tax Compliance Costs, Tax Complexity

Introduction

Taxation has been an important subject discussed in every each of country in the world. Tax is described as compulsory charge imposed on revenue and assets to taxpayers with nothing particular in return (Lymer & Hasseldine, 2002). Role of taxation has been significantly undeniable especially in developed countries since it helps the country to finance its expenditure (Palil, Malek, & Jaguli, 2016). Abd Hamid, Harun, Ahmad, Yahya, & Lumpur (2017) shared the same ideas that the main purpose of levying taxes on the people is to produce income for the government. Tax system implemented would be beneficial to the citizens as whole, as it would reduce income inequalities between the rich and the poor through redeployment of income and wealth. It is also hoped that the gap between them would be minimized. Although it is understood that tax is one of the main revenues of countries around the world, in reality, it is undeniable that the mission to minimize tax evasion and maximize tax collection is still very much difficult (Palil, Malek, & Jaguli, 2016). It needs a corporation from all entities in Malaysia including the tax officers, companies, self-employed and people. Based on the data provided by the (Bank, 2018), as at 31 Dec 2017, Malaysia is having a 25.62% of the total population who are working on their own. It means that out of an average of 32 million people in Malaysia (Department of Statistics, 2018), there are 8,205,151 Malaysian citizens who are working as self-employed (Bank, 2018). In term of tax compliance among self-employed, the following is the number of individual files who were being audited and charged with tax and penalty until year assessment 2017.

Table 1: Number of Audited Cases and Tax Imposed

	Year	2013	2014	2015	2016	2017
Self employed	Files	333,436	365,289	276,595	268,909	274,919
	RM (millions) Tax & Penalties	518	620	874	1,045	2,002
Salary group	Files	748,044	784,443	735,337	815,420	784,453
	RM (millions) Tax & Penalties	1,624	1,718	1,447	1,895	2,199

(Source: Mohamed, 2018)

Table 1 showed that there are two groups were being audited which are self-employed and salaried group. Focusing on the self-employed category, we may see that there is a reduction in number of individual files of self-employed being audited from 2013-2017. We may see that the number of files being audited were from 333,436 files in year of assessment 2013 reduced to 274,919 files in 2017. It shows that audit activity conducted to this group had been decreased around sixty thousand files in five years' time. However, in term of tax and penalty charged, the figure seems to keep on increasing. From the year of assessment 2013, the tax and penalties imposed to the self-employed group due from tax audit performed was around RM 500 million. Though, in year of assessment 2017, the tax and penalties derived from the audit activity were tremendously high as four times from what IRB had imposed in 2013. IRB had collected around RM2 billion from conducting audit to this group. It means that from the observation, it can be said that the level of tax compliance is still low although SAS has been implemented for quite some time since 2004. It can be concluded that there must be loopholes in the tax system in which the government and the relevant stakeholders need to rectify. Thus, it is important to assess the effectiveness of current tax regime from numerous dimensions so that the issues on tax compliance would be tackled and solved.

Literature Review and Hypotheses Development

Tax Compliance in Malaysia

Tax is not a subject that recently introduced or existed in our lives. When we look back into the history, tax existed a long time ago and moreover, it was also established during the Khalifa Umar al Khatab century whereby it was charged in many forms like jizya and al Ushr (Peerzade, 2010). Singh (2003) enlightened the history of tax in Malaysia by giving some brief on how actually tax began formally. As narrated by him, tax was introduced by British in 1947 as Income Tax Ordinance 1947 through Heasman's Report. However, the ordinance was replaced by Income Tax Act 1967 which was launched officially in 1st January 1968.

Past studies had given increasing attention on the issue related to tax compliance in Malaysia (Saad, 2014). Sanusi, Omar, M.Sanusi, & Noor (2017) identified tax knowledge as factor that would influence tax compliance among citizens. Undeniably, individual taxpayers contribute a portion to the country's tax revenue including self-employed. Self-employed as defined by the (Bank, 2018) as 'those workers who, are working on their own account or with one or a few partners or in cooperative, hold the type of jobs defined as a "self-employment jobs," i.e. jobs where the remuneration is directly dependent upon the profits derived from the goods and services produced which include four sub-categories of employers, own-account workers, members of producers' cooperatives, and contributing family workers'.

One of the missions that IRB want to accomplish is to have high level of tax voluntary compliance (and thus tax collection efficiency) among Malaysian citizens. What it means by voluntary compliance is that the citizens are willing to declare their income correctly, willing to pay the right amount at the right time and observe the tax rules (Isa, 2014). It is because they are aware that the money that they contribute is crucial to the development of the country. Mohani (2001) said that having high number of people to voluntarily disclose their income through tax forms could eventually increase in tax collection. Hence, it would reduce the economic gap between the rich and the poor, and thus, maximize the economic equilibrium by proper tax revenue redistribution (Mohani, 2001).

Kasipillai (2000) highlighted during Official Assessment System (OAS) time in 20th Century, taxpayers might not need to have tax knowledge as the tax payable would be computed by the tax officers based on relevant document provided. However due to time revolution and influence by the developed countries such as United States and British, the system was no longer relevant as it had to be replaced by the Self-Assessment System (SAS) which was initiated in 2001 (Kasipillai, 2000). He added that lack of technical staff and staff's shortage to assess the tax returns led to the shift in tax system. This statement is supported by (I. R. B. (IRB) Malaysia, 2001) as it stated that the implementation of OAS was difficult to manage since IRB was having lack of staffs to handle the taxpayers document. The report added too that the OAS was time-consuming, and expensive as IRB needed to find extra storage to cope with the flooded documents received. Loo, McKerchar, & Hansford, (2009) agreed that the implementation of OAS had brought many issues and problems due to high volume of unattended cases by the tax officers.

Lymer, & Hasseldine (2002) highlighted that many countries have adopted SAS since 1980s such as Sri Lanka, Indonesia, Pakistan and United Kingdom. It means that Malaysia was still far behind as the SAS was introduced in Malaysia in 2001. Shanmugam (2003) and Kasipillai (2000) shared the same idea on the benefits of shifting the tax system to SAS by highlighting the point that IRB could manage the organization efficiently with low cost incurred and spent in collecting tax revenues for the country. They added that with the implementation of SAS, IRB could expand the tax base by conducting more tax audits and investigations.

Since the implementation of SAS, the country's revenue has been constantly increasing except for few years due to the reduction in fuel prices (Annual Report IRB, 2015). Direct tax, for

example, it produces 53 % of gross national income out of all sources from the income that country received in 2017 (Treasury, 2018). The table below clearly listed out the total revenue of the Federal Government from 2014-2017.

Table 2: Federal Government's Total Collection 2014-2017

Year	Direct Tax		Indirect Tax		Non-Tax Revenue		Total Revenue (RM bil)
	(RM bil)	%	(RM bil)	%	(RM bil)	%	
2014	126.74	57.4	37.46	17	56.42	25.6	220.626
2015	111.77	51.0	53.67	24.5	53.46	24.5	219.089
2016	109.60	51.6	59.73	28.1	43.07	20.3	212.421
2017	119.69	53.1	60.49	26.9	45.14	20.0	225.337

(Source: Treasury of Malaysia, 2018)

Based on the figure shown on Table 2, it can be said that the income collected from the direct tax is increasing from year to year. It means that the country is enjoying high tax collection to fund its expenditure. However, in implementing SAS, the big challenge that IRB faces is that some of the citizens still do not comply with the tax laws. As shown in Table 1, focusing on self-employed category, the penalties collected from them is high as it shows that they still have low compliance on the tax rules. Some of the findings during conducting the tax audit by IRB is that they failed to provide supporting documents for the expenses that they claim, furnished incorrect return, failed to declare their income and they did not pay the tax that they were charged to. To recall, SAS was implemented in Malaysia in year of assessment 2004. It means that although it has been established a long time ago, supposedly, Malaysian citizens should be able to be familiar and to comply with the tax system.

In addition, another data from Abd Hamid et al. (2017) highlights the low percentage of people in Malaysia that are paying tax. It shows that Malaysian citizens still have low tax compliance. Out of 14.9 million people who registered their tax file in IRB, only 15.24 percent or equivalent to 2.27 million pay their tax. It means that around 85% of registered taxpayers including the self-employed still do not pay their tax. Sadly, the number of people who fail to comply with the tax rules are still high. What happen is that when the country is not having their people to contribute through tax, the country will not have so much fund to finance its expenditure, to develop the nation, and even will not be able to help those citizens who are in need. The probability of the government would be financed by debts is high. Consequently, if this issue (low tax compliance) persist in future, there is possibility the country will not be able to pay the debt due to insufficient fund. As mentioned by the Finance Minister recently, Malaysia is currently having around RM 1 trillion debt. As compared with the current tax collection as at 31 Dec 2018 which is RM137.7 billion, logically how the government needs to survive.

Factors Affecting Tax Compliance in Malaysia

In order to curb the issue of tax compliance, one way to control it is by looking into tax education system. Tax education is important as it is an essential part for citizens to have tax knowledge as it may help them to understand the tax laws and regulations better (Eriksen, & Fallan, 1996). Osebe (2013) highlighted that education enables taxpayers to understand the tax system and to be knowledgeable of their tax obligations and rights. More studies undertaken in Malaysia (Loo, McKerchar, & Hansford, 2009) and (Damajanti, & Karim, 2017) also suggested tax knowledge to be the most influential factor to determine taxpayers' compliance behaviour under the self-assessment system. Tax knowledge enables people to understand the

tax system better. A research conducted by (Machogu, & Amayi, 2013) have also noted that taxpayers education influence to their decision on tax compliance, 83% of the respondents stated that tax knowledge assisted them to appreciate the tax process. Sanusi (2019) and Riahi-Belkaoui (2004) figured out that less tax knowledge possessed among taxpayers may lead to act of misbehaviour and unintentional tax evasion eventually. However, tax is one of the subjects that can be categorised as complicated and advanced. This is confirmed by Richardson (2011) that the involvement of it as classy and its regular modifications in parts and rules in tax regulation. It was reported that countries with high level of tax compliance such as Canada, the United States, Switzerland, and New Zealand had included tax development programs to prepare students for adult life at the early stage of education (CIAT, 2011).

Another factor that needs to be considered is the tax compliance costs. Taxpayers may incur two main types of tax compliance costs which are gross monetary compliance costs and psychological costs. Gross monetary includes monies and opportunity costs involving to the time and resources expended when complying with tax rules and regulation. Besides, psychological costs include the evaluation of pressure and anxieties due to complying with the tax and it can be measured by using a Likert Scale (Evans et al., 2014). Ahangar, Bandpey, & Rokny, 2011) shared their findings with other researchers on the positive relationship between tax rate and non-tax compliance such as Crane, & Nourzad (1987), Obid (2004) and Ho, Loo, & Kim (2006). They found out that increase in tax rate would lead to increase in number of non-tax compliance and vice versa. In term of cost of hiring tax agent, it is found out too by Trivedi, Shehata, and Mestelmen (2004) that individual taxpayers are reluctant to engage with tax agent rather than self-complete tax returns due to the fact that they feel wasted of spending some money to employ the tax agent services. Some researchers found out that smaller company, even SMEs and self-employed workers paid more tax compliance costs than larger company due to the fact that they had to hire tax preparers, as no exclusive accounting or tax departments presented in the organization (Slemrod, & Venkatesh, 2002). In reality, SME taxpayers might encounter financial difficulty as a consequence of proportionately higher compliance costs (Isa, 2014) and their tax compliance levels may be reduce (Arachi, & Santoro, 2007). Abdul-Jabbar (2009) also had figured out that average of the tax compliance cost has become much lower for SMEs during SAS environment. Given the extensive nature of compliance costs studies is slowly become prominent in developing countries, it is crucial that research into taxpayer's compliance costs in Malaysia be pursued.

Tax morale also related to tax compliance. It is different from tax compliance as morale is an attitude while tax compliance is an action. Tax moral is one part of intrinsic motivation from religious beliefs or moral values to pay taxes (Mohd Ali & Pope, 2012). An improvement of the intrinsic motivation is expected to boost the willingness to pay tax. However, tax morale is mostly influenced by external elements surrounding taxpayers. External elements affected tax morale such as government, tax authority, society as well as an individual's own attitudes shaped by moral and religious belief. Some may suggest that having good governance and treat people fairly by the government would promote voluntary compliance among citizens (Kirchgässner, 2011). He added that there is positive relationship between tax morale and tax compliance. An increasing number of empirical papers try to measure the essential motivation to pay taxes (usually called tax morale) with survey data provided in the market (Halla, 2012). However, little empirical evidence on the impact of tax morale on the actual tax compliance especially for Malaysian environment. Tax morale among people might increase if their fellow citizens contribute their fair share to pay tax. On the other hand, intrinsic motivation such as tax morale may reduce if taxpayers feel that they are being treat in a negative way and being suspected of tax cheating (Lars & Bruno, 2004).

Tax systems involve numerous laws, policies and procedures. In Malaysia, tax system is governed under Tax Act 1967, Real Property Gain Tax Act 1976, General Orders, and ordinance. Due to various laws involved and keep changing over periods, simplicity is much needed especially in Self-Assessment System regime as tax systems always being perceived as complex and burden to taxpayers (Forest, & Sheffrin, 2002). Richardson (2008) also found out that tax complexity is the main factor which significantly affects non-tax compliance among the citizens. There are many countries which have taken initiatives to simplify their tax form return by reducing number of pages such as Denmark, Canada and New Zealand (Mohani, & Sheehan, 2003). Her Majesty Revenue and Custom UK also believed that citizens would understand better and fully comply with tax rules if the complexity in tax return form is being taken away. They have taken initiatives by providing tax guide embedded together with the tax return form. In a nutshell, tax complexity can be concluded as having negative relationship with tax compliance as tax simplicity would significantly affect tax compliance (Abd Hamid, et al, 2018).

To sum up, since tax plays a vital role in managing the country, the government needs to rectify the tax compliance issue by looking into how people can improve their tax knowledge, revising tax rates and penalties and other tax related costs, simplifying tax procedures, forms and rules and practicing good governance and treating their citizens fairly, so that the government would enhance citizens' tax compliance. However, that objective is difficult to accomplish if factors highlighted were not given full attention (Kirchler, Hoelzl, & Wahl, 2008).

Therefore, based on the above discussion, the author provide the below framework for the study.

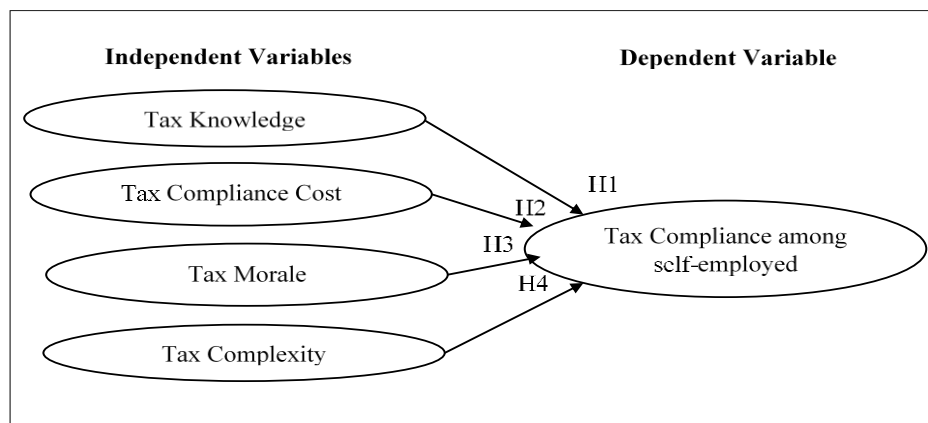


Figure 1: Research Framework

Four hypotheses developed for the study related to the earlier discussion and the above framework. Hypotheses list as below:

H1: Tax knowledge has a positive relationship on tax compliance among self-employed in Malaysia

H2: Tax compliance cost has a negative relationship on tax compliance among self-employed in Malaysia

H3: Tax morale has a positive relationship on tax compliance among self-employed in Malaysia

H4: Tax complexity has a negative relationship on tax compliance among self-employed in Malaysia

Method

This research applied a quantitative research design in order to identify relationships between the constructs. Survey method chosen as a collection of primary data, which is accomplished by utilising a self-administered printed survey. It circulated over dual channels which are via online and physical survey to the self-employed.

Total population of self employed in Malaysia is 8.2 million people. However, total sample of 384 respondents is sufficient to run the relationship analysis (Krejcie & Morgan, 1970). Sample were selected based on their registration with IRBM and they must be self-employed. A minimum wage of RM34,000 yearly after employee's provident fund deduction are compulsory to register with IRBM.

Overall, all questions were asked in form of closed-ended statements so that analysing factors would be easier, besides allowing respondents to answer the questions in hassle-free. All questions adopted from previous studies such as Alm, and Torgler (2006), Kasipillai, and Jabbar (2003), Ho (2006) as well as Gërkhani (2007). The respondents were allowed to choose only one answer for each question. Subsequently, the data has been analysed using IBM SPSS version 23.0 for descriptive analysis and Smart PLS version 3 for inferential analysis. Smart PLS version 3 as second generation of software to analysis the hypotheses is selected as it caters all individual items chosen for each variable.

The questionnaire had been pre-test with some taxpayers to ensure the face reliability of the items. Preliminary assessment including testing the convergent validity by using measurement analysis had been run first to overcome all the biasedness in the study. It continue with structural analysis to test the relationship between variables.

Findings and Discussion

Descriptive Analysis

This section described respondents' demographic factors. The respondents comprised of 82 (54.4%) males and 68 (45.6 %) females. There were five age groups involved in this study with a 10-year range in each group except for 'below 25, 47-55 and above 56 years old category. The biggest group of the respondents, (90 people or 60%) are aged between 25-35 years old which were young and still in earlier stage of their businesses.

Most of the respondents are married and only few are single. Most of the respondents are Malays with 115 (76.7%), followed by Indian with 20 (13.3%), and Chinese with 15 (10%). Many of the respondents have good academic qualifications: a total of 55 respondents or 36.7% had a degree while 23 (15.3%) respondents have higher than degree level qualifications. More than half of the respondents received more than RM5,000 in a month while quarter respondents have a 30-day salary of more than RM3,000 - RM5,000. The balance of 11.3% of the respondents earned below than RM3,000 per month. Majority of the respondents are Muslim (78%), followed by the rest with less than 15% for each race. Most respondents with 58.7% or 88 people are running services business in nature. It is followed by trading business with 27.3% or 41, manufacturing with 3.3% or 5 and others with 10.7% or 16 respondents.

Table 3: Summary of Demographic Analysis

Particular		Frequency	%
		y	%
Gender	Male	82	54.0
	Female	68	45.3
Age	<=25	10	6.7
	26 - 35	90	60.0
	36 - 46	29	19.3
	47 - 55	15	10.0
	Above 55	6	4.0
Marital status	Single	25	16.8
	Married	125	83.2
Highest education level	Up to SPM	10	6.7
	STPM/Certificate	16	10.7
	Diploma	46	30.7
	Undergraduate/Bachelor's degree	55	36.7
	Professional	11	7.3
	Postgraduate/Master's degree	10	6.7
	Doctorate (PhD)	2	1.3
Nature of business	Manufacturing	5	3.3
	Trading	41	27.3
	Services	88	58.7
	Others	16	10.7
Number of dependents	Not applicable	30	20.0
	1	34	22.7
	2	39	26.0
	3	25	16.7
	4 and above	22	14.7
Average Monthly Income	<= RM1,500	3	2.0
	RM1,501 - RM3,000	14	9.3
	RM3,001 - RM5,000	57	38.0
	Above RM5,000	76	50.7
Religion	Islam	117	78.0
	Buddha	12	8.0
	Kristian	7	4.7
	Hindu	14	9.3
Race	Melayu	115	76.7
	Cina	15	10.0
	India	20	13.3

Inferential Analysis

The analysis followed by inferential analysis by using Smart PLS version 3.0. The analysis start with measurement model which consist of convergent validity and discriminant validity. It is followed by structural model to test the hypotheses developed earlier. Table 4 indicates the reliability and validity assessment of the data. The composite reliability (CR) values of more than 0.70 represent that these variables hold adequate level of internal consistency (Gefen, Straub, & Boudreau, 2000). Average variance extracted (AVE) also achieve the minimum threshold of 0.5 and it demonstrate good convergent validity (Bagozzi, & Yi, 1988). It describes that the item explain more than 50% of the construct variances (Hair, et al, 2014). Thus, all items maintain for further analysis.

Table 4: Internal Consistency and Convergent Validity

Construct	Item	Loading	AVE	CR
Tax compliance	TC1	0.843	0.726	0.914
	TC2	0.872		
	TC4	0.841		
	TC7	0.853		
Compliance cost	TCC4	0.701	0.643	0.899
	RC TCC5	0.742		
	TCC6	0.812		
	TCC7	0.86		
	TCC8	0.88		
Tax complexity	TCX1	0.837	0.688	0.939
	TCX2	0.868		
	TCX3	0.804		
	TCX4	0.849		
	TCX5	0.827		
	TCX6	0.831		
	TCX8	0.785		
	Tax Knowledge	TK1		
TK2		0.886		
RC TK4		0.716		
TK6		0.843		
TK7		0.892		
Tax Morale	TM2	0.932	0.858	0.968
	TM3	0.913		
	TM4	0.953		
	TM5	0.91		
	TM6	0.921		

Discriminant validity was assessed by using Fornell Lacker criterion. Table 5 indicated the discriminant validity for all the variables. Essentially, discriminant validity shows that two constructs should be truly distinct from one another (Henseler et al., 2014). Individual construct

should load more strongly on their own construct than other constructs in the model. It can be evaluated by assessing the AVE's square root figures alongside the sloping verifying the condition of being bigger than the association among variables (Fornell & Larcker, 1981).

Table 5: Discriminant Validity (Fornell Lacker Criterion)

	Compliance cost	Tax complexity	Tax compliance	Tax knowledge	Tax morale
Compliance cost	0.802				
Tax complexity	0.707	0.829			
Tax compliance	0.739	0.689	0.852		
Tax knowledge	0.642	0.801	0.584	0.848	
Tax morale	0.679	0.623	0.827	0.561	0.926

The lateral collinearity issue is crucial to be addressed during the initial stage of structural model assessment. It was evaluated by examining the variance inflation factor (VIF) value. Specifically, a VIF value of five (5) or higher indicates a potential of collinearity problem. Table 6 shows no potential of multicollinearity in the model as the VIF value is less than 5 i.e., compliance cost (2.505), tax complexity (3.496), tax knowledge (2.890) and tax morale (2.017).

Table 6: Collinearity Assessment (VIF value)

Tax Compliance	
Tax knowledge	2.890
Compliance cost	2.505
Tax morale	2.017
Tax complexity	3.496

Structural model evaluation was proceeded to assess the hypotheses developed. Firstly, we assess the model's explanatory power by examining the level of coefficient of determination (R^2). This test aims to observe the combined effects of exogenous constructs towards the target endogenous construct. A high level of R^2 indicate of good level of predictive accuracy (Hair et al., 2014). The R^2 for the dependent factor in this study is 0.513, which suggested that all variables in the analysis had explained 51.3 percent of the variance in tax compliance. It described the model's explanatory power as favourably moderate.

Table 7: Determination of co-efficient (R^2), effect size (f^2) and predictive relevance (Q^2)

	R^2	Q^2	F^2
Tax compliance	0.757	0.513	
Tax complexity			0.054
Compliance cost			0.098
Tax knowledge			0.005
Tax morale			0.640

We proceed to test our model's path coefficients to determine its significance based on the guideline of p-value at 5 percent for the final analysis. The path coefficient will be significant if the t-statistic is larger than 1.96. The bootstrapping procedure generated to accept or reject all four hypotheses developed. The results from Table 8 indicate that compliance cost ($\beta = 0.245$, $t = 2.653$), tax complexity ($\beta = 0.215$, $t = 2.087$) and tax morale ($\beta = 0.560$, $t = 6.604$) were significantly influence the tax compliance, thus these hypotheses were supported.

Table 8: Path Coefficient Assessment

	Direct effect (β)	Standard error	T- statistic	Decision
Tax knowledge -> Tax compliance	-0.059	0.079	0.752	Not supported
Compliance cost -> Tax compliance	0.245	0.092	2.653	Supported
Tax morale -> Tax compliance	0.560	0.085	6.604	Supported
Tax complexity -> Tax compliance	0.215	0.103	2.087	Supported

It is found out that this study is parallel with (Azmi, et al., 2016) whereby tax compliance cost does affect tax compliance level. It is also similar with the study by (Cummings et al., 2009) whereby tax morale does positively influence the level of tax compliance. Based on this analysis too, it is found out that tax knowledge has no significant effect on the level of tax compliance among self-employed in Malaysia. It was contradicted with previous study such as Sanusi et al., (2017) and Abd Hamid et al., (2017). However, it is supported by the study by (Lin, M.T., & Carrol, 2000), (Lin, M.T., & Carrol, 2000), who demanded that tax knowledge has no direct substantial influence on taxpayers' compliance behaviour. One possible explanation for such inconsistent results is the difference in tax jurisdictions. Finally, this study is also analogous to the finding by Silvani, and Baer, (1997) whereby tax complexity influences the level of tax compliance.

Conclusion

The objective of this study is to examine the relationship among the determinants of tax compliance namely tax knowledge, tax compliance costs, tax morale, and tax complexity, with tax compliance among self-employed in Malaysia. To examine the relationships built with those determinants and tax compliance, structural measurement analysis carried out to determine which factors are really affecting tax compliance among self-employed in Malaysia. Results from the analysis exposed that tax compliance costs and tax complexity variables have a negative relationship with the tax compliance. Furthermore, tax morale have a positive relationship with the tax compliance level. It means that an increase in tax morale will lead to an increase in the level of tax compliance among self-employed. Based on Table 8, only tax compliance costs, tax morale, and tax complexity significantly affect the level of tax compliance among self-employed in Malaysia. Therefore, only hypothesis H2, H3, and H4 are supported by this study i.e. tax compliance costs, tax morale, and tax complexity significantly affect tax compliance among self-employed.

The results from this research may possibly add value to the tax knowledge and awareness of the tax compliance since the study focused on the factors which could lead to an increase in the level of tax compliance. The current study disclosed that most of the respondents are not

sure with tax compliance. It means that they have less awareness or less knowledge of tax. The problem here is that the tax knowledge does not reach to the mind of people, in this case self-employed.

By this finding too, it can be concluded that they possess little knowledge and awareness of tax responsibility itself. In other words, they do not know how to become good taxpayer due to less tax knowledge they possessed. Some respondents during the survey distribution suggested that there should be formal tax education to increase their level of tax awareness since they know tax gives a lot of benefits to the country and nation. Tax knowledge is very vital in that sense that it gives ideas to the people on the tax system itself, i.e on how to submit the tax return and the current tax policy implemented. Without this tax knowledge, whatever they are doing is all based on perception. For example, a perception of not being audited or caught if evade tax and the perception of the government is not spending tax wisely.

When the Deputy Minister of Finance of Malaysia once initiated the idea of introducing tax education in school level in his speech, (Aroff, 2018) it was perceived to be a good idea since it will inculcate the spirit of nationalism among its countrymen in a long run. It also to achieve Sustainable Development Goal number eight; to improve the economic growth in the future. It will instil a sense of belongingness among citizens to love and to contribute to the country for the betterment of the future. The Malaysian government needs to follow what has been practiced by developed countries such as Japan and the United States. These countries have put tax education as one of the national priorities as they wanted their citizens to have a high level of tax awareness since at a very young age.

Having tax voluntary scheme as tabled in 2019 Malaysian budget recently, it is a good idea and a good move in the sense that it will promote voluntary compliance among citizens. This scheme is introduced so that people who are not yet registering tax file, not yet declaring previous incomes and not yet paying the tax can do all those mentioned by engaging with IRB without being charged high penalty as compared to previous tax policy. This scheme later, if successful, will indirectly increase the sense of tax awareness among citizens by having tax information provided by IRB during the negotiations period.

Since after the recent election, the new ruling government has stepped into the country administration. It is hoped that this new ruling government will promote good corporate governance by having high accountability and distribute the money fairly with public as their main priority. Hence, it will maintain high trust in people. When citizens have faith in what the government is doing, therefore, it will increase a high perception among the people in which portrayed high tax morale towards tax compliance. It is no doubt that voluntarily tax compliance will be upheld by citizens when they have high trust in government like what they have done to the 'Tabung Harapan'. It is when they voluntarily spend their money just to ensure the sustainability of the country.

Acknowledgment

We would like to express our appreciation to Faculty of Accountancy, Universiti Teknologi MARA (UiTM), and Ministry of Education, Malaysia for facilitating and funding this research project. The research was supported under the Lestari Research Grant no. 600-IRMI 600-IRMI/MyRA 5/3/LESTARI (033/2017)

References

- Abd Hamid, N., Halizam, A.F.H., Md Noor, R. & Md Azali, N. (2018). Determinants of Reinvestment Allowance (RA) Tax Incentives utilization in embracing Industry 4.0. *Polish Journal of Management Studies*, 18(2), 94–104.
- Abd Hamid, N. A., Harun, N. M., Ahmad, B., Yahya, M., & Lumpur, K. (2017). The impact

- of GST on the spending pattern of students from the Faculty of Accountancy, UiTM Puncak Alam, Selangor. *Advances in Business Research International Journal*, April, 14–31.
- Abdul-Jabbar, H. (2009). *Income tax non-compliance of small and medium enterprises in Malaysia: determinants and tax compliance costs*. Curtin University of Technology.
- Ahangar, R. G., Bandpey, H. K., & Rokny, H. A. (2011). An investigation into the affairs organization. *American Journal of Scientific Research*, 20, 99–113.
- Alm, J., and Torgler, B. (2006). Culture differences and tax morale in the United States and in Europe. *Journal of Economic Psychology*, 27(2), 224–243.
- Arachi, G., & Santoro, A. (2007). Tax enforcement for SMEs: Lessons from the Italian experience? *EJournal of Tax Research*, 5(2), 225–243.
- Aroff, N. (2018). School students should be taught the importance of paying taxes. *Astro Awani*. Retriev, p. <http://www.astroawani.com/berita-malaysia/pelajar->
- Azmi, A., Sapiei, N. S., Mustapha, M. Z., & Abdullah, M. (2016). SMEs' tax compliance costs and IT adoption: the case of a value-added tax. *International Journal of Accounting Information Systems*, 23, 1–13.
- Bagozzi, R. P., & Yi, Y. (1988). On the evaluation of structural equation models. *Journal of the Academy of Marketing Science*, 16(1), 74–94.
- Bank, W. (2018). Self-Employed, Total (% of Total Employment). Retrieved from <https://data.worldbank.org/indicator/SL.EMP.SELF.ZS>
- CIAT. (2011). Tax Thematic Series.
- Crane, S. E., & Nourzad, F. (1987). On the treatment of income tax rates in empirical analysis of tax evasion. *Kyklos*, 40(3), 338–348.
- Cummings, R. G., Martinez-Vazquez, J., McKee, M., & Torgler, B. (2009). Tax morale affects tax compliance: Evidence from surveys and an artefactual field experiment. *Journal of Economic Behavior & Organization*, 70(3), 447–457.
- Damajanti, A., & Karim, A. (2017). Effect of tax knowledge on individual taxpayers compliance. *Economics and Business Solutions Journal*, 1(1), 1–16.
- Department of Statistics, M. (2018). No Title.
- Eriksen, K., & Fallan, L. (1996). Tax knowledge and attitudes towards taxation: A report on a quasi-experiment. *Journal of Economic Psychology*, 17, 387–402.
- Evans, C., Hansford, A., Hasseldine, J., Lignier, P., Smulders, S., & Vaillancourt, F. (2014). Small business and tax compliance costs: A cross-country study of managerial benefits and tax concessions. *EJournal of Tax Research*, 12(2), 453.
- Forest, A., and Sheffrin, S. M. (2002). Complexity and compliance: an empirical investigation. *National Tax Journal*, 55(1), 75–88.
- Fornell, C., & Larcker, D. F. (1981). Evaluating Structural Equation Models with Unobservable Variables and Measurement Error. *Journal of Marketing Research*, 18(1), 39–50.
- Gefen, D., Straub, D., & Boudreau, M.-C. (2000). Structural Equation Modeling Techniques and Regression: Guidelines For Research Practice. *Communications of AIS*, 4(August), Article 7.
- Gërxfhani, K. (2007). Explaining gender differences in tax evasion: The case of Tirana, Albania. *Feminist Economics*, 13(2), 119–155.
- Hair, J. F., Sarstedt, M., Hopkins, L., & G. Kuppelwieser, V. (2014). Partial least squares structural equation modeling (PLS-SEM). An emerging tool in business research. *European Business Review*, 26(2), 106–121.
- Halla, M. (2012). Tax Morale and Compliance Behavior: First Evidence on a Causal Link. *The B.E. Journal of Economic Analysis & Policy*, 12(1), 1–25.
- Henseler, J., Dijkstra, T. K., Sarstedt, M., Ringle, C. M., Diamantopoulos, A., Straub, D. W.,

- ... Calantone, R. J. (2014). Common beliefs and reality about Partial Least Squares: Comments on Rönkkö & Evermann (2013). *Organizational Research Method*, 17(2), 1–28.
- Ho J. K., Loo E. C., & L. K. P. (2006). Perspective of non-taxpayers' perceptions on issues of ethics and equity in tax compliance. *Malaysian Accounting Review*, 5(2), 47–59.
- Isa, K. (2014). The Role of Tax Agents in Sustaining the Malaysian Tax System. *Procedia - Social and Behavioral Sciences*, 164(January 2016), 366–371.
- Kasipillai, J., and Jabbar, H. A. (2003). Tax compliance attitude and behaviour: Gender and ethnicity differences of Malaysian taxpayers. *Malaysian Accountant*, February, 2–7.
- Kasipillai, J. (2000). *A Practical Guide to Malaysian Taxation-Current Year Assessment*.
- Kirchgässner, G. (2011). 10 Tax morale, tax evasion and the shadow economy. In *Handbook on the Shadow Economy* (p. 347).
- Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced versus voluntary tax compliance: The “slippery slope” framework. *Journal of Economic Psychology*, 29(2), 210–225.
- Krejcie, R. V., & Morgan, D. W. (1970). Determining Sample Size for Research Activities. *Educational and Psychological Measurement*, 30, 607–610.
- Lars, P., & Bruno, S. (2004). *Illegal, immoral, fattening or what?: How deterrence and responsive regulation shape tax morale*.
- Lin, M.T., & Carrol, C. F. (2000). The impact of tax knowledge on the perceptions of tax fairness and attitudes towards compliance. *Asian Review of Accounting*, 8(1), 44–58.
- Loo, E. C., McKerchar, M., & Hansford, A. (2009). Understanding the compliance behavior of Malaysian individual taxpayers using a mixed method approach. *Journal of the Australasian Tax Teachers Association*, 4(1), 181 – 202.
- Lymer, A., & Hasseldine, J. (2002). Introduction to taxation in an international context. *The International Taxation System*, 1–17.
- Machogu, C. G., & Amayi, J. B. (2013). The effect of taxpayer education on voluntary tax compliance, among SMEs in Mwanza city-Tanzania. *International Journal of Marketing, Financial Services & Management Research*, 2(8), 12–23.
- Malaysia, I. R. B. (IRB). (2001). *Annual report*.
- Malaysia, I. R. B. (IRB). (2015). *Annual report*.
- Malaysia, T. (2018). Federal Government Revenue RM million. Retrieved from http://www.treasury.gov.my/pdf/economy/er/1718/st4_2.pdf
- Mohani, A & Sheehan, P. (2003). Estimating the extent of income tax non-compliance in Malaysia and Australia using the gap approach (part I). *Tax Nasional*, 4(1), 22–34.
- Mohani, A. (2001). *Personal income tax non-compliance in Malaysia*. Victoria University of Technology.
- Mohd Ali, R., & Pope, J. (2012). The effects of religiosity and external environment on voluntary tax compliance. *New Zealand Journal of Taxation Law And Policy*, 18, 119–139.
- Obid, S. N. S. (2004). The influence of penalties on taxpayers' compliance: A comparison of the theoretical models. *Journal of Economics, Management and Accounting*, 12(1).
- Osebe, R. P. (2013). *An analysis of factors affecting tax compliance in the real estate sector in Kenya: a case study of real estate owners in Nakuru town*. MBA thesis, School of Business, Kabarak University.
- Palil, M. R., Malek, M. M., & Jaguli, A. R. (2016). Issues , Challenges and Problems with Tax Evasion : The Institutional Factors Approach. *Gadjah Mada International Journal of Business*, 18(2), 187–206.
- Palil, M. R., Malek, M. M., & Jaguli, A. R. (2016). Issues , Challenges and Problems with Tax Evasion : The Institutional Factors Approach. *Gadjah Mada International Journal of*

- Business*, 18(2), 187–206.
- Peerzade, S. A. (2010). Jizyah: A Misunderstood Levy. *Journal of King Abdulaziz University: Islamic Economics*, 362(3060), 1–24.
- Riahi-Belkaoui, A. (2004). Relationship between tax compliance internationally and selected determinants of tax morale. *Journal of International Accounting, Auditing and Taxation*, 13, 135–143.
- Richardson, G. (2008). The relationship between culture and tax evasion across countries: Additional evidence and extensions. *Journal of International Accounting, Audit and Taxation*, 17(2), 67–78.
- Richardson, J. T. (2011). Eta squared and partial eta squared as measures of effect size in educational research. *Educational Research Review*, 6(2), 135–147.
- Saad, N. (2014). Tax knowledge, tax complexity and tax compliance: Taxpayers' view. *Procedia-Social and Behavioral Sciences*, 109, 1069–1075.
- Sanusi, S., Omar, N., M.Sanus, Z. & Noor, R. (2017). Moderating effect of audit probability on the relationship between tax knowledge and Goods and Services Tax (GST) compliance in Malaysia. *Social Sciences & Humanities*, 25, 231–240.
- Sanusi, S. (2019). *Factors affecting Goods and Services Tax Compliance among Small Medium Enterprise in Malaysia*.
- Shanmugam, S. (2003). Managing self-assessment - an appraisal. *Tax Nasional*, 1st Quarte, 30–32.
- Silvani, C., and Baer, K. (1997). *Designing a tax administration reform strategy: Experiences and guidelines*. International Monetary Funds, Washington DC.
- Singh, V. (2003). *Malaysian Tax Administration*. 6th ed. (Longman). Kuala Lumpur.
- Slemrod, J., & Venkatesh, V. (2002). *The income tax compliance cost of large and mid-size businesses* (No. 914).
- Trivedi, V.U., Shehata, M., and Mestelmen, S. (2004). Impact on personal and situation factors on taxpayer compliance: An experimental analysis. *Journal of Business Ethics*, 47(3), 175–197.