Does Education Influence Tax Compliance?

Azrinawati Mohd Remali @ Abdul Jalil
Universiti Tenaga Nasional
Email: azrinawati@uniten.edu.my

Abstract

Purpose: This study investigates whether tax education can improve tax compliance among undergraduate students by focusing on demographic factors (gender and CGPA), tax education (by providing understanding of the tax system and an ethical attitude) towards tax compliance decision making.

Design/methodology/approach: The population of the study covers the undergraduate students' taking tax courses (Malaysian Tax 1 and Malaysian Tax II) between academic years 2018/2019 up to 2020/2021 in Universiti Tenaga Nasional (UNITEN) Muadzam Campus, Pahang. The study used online questionnaire and distributed during the pandemic period and a total of 119 respondents are attained.

Findings: The study discovered that CGPA has a significant influence on income tax compliance decisions. In addition, having knowledge regarding tax system (perception of tax system) reveals significant relationship towards sales tax compliance decision making.

Research limitations/implications: The study only focus on the undergraduate students, showing the student's level of tax compliance related on income and sales tax. Future research may include different level of student (for instance diploma and postgraduate level) for comparison.

Practical implications: The findings can be adopted by the tax authorities to promote tax compliance and by the university to improve tax course content in order to improve tax compliance which can be an effective method to promote ethical attitudes among the students.

Originality/value: To increase the tax compliance, it is important to promote tax education in order to gain more understanding on tax system and guiding the respondents' ethical attitudes.

Paper type: Research paper

Keywords: Perception of tax system, Ethical attitudes, Age, Gender, CGPA, Tax compliance

Introduction

The COVID-19 epidemic has had a significant impact on Malaysia's tax collecting ability. As a result of decreased tax collection, the Federal Government's income is expected to drop by 14% to RM227.3 billion in 2020, from RM264.4 billion in 2019 (*https://www.mof.gov.my/arkib/revenue/r_main.html*). In addition, failure to comply with the tax law also contribute towards the declining of the revenue collected by the government. Thus, the purpose of this study is to investigate whether tax education (perception of tax system and ethical attitudes) have significant impacts on student's tax compliance decision. This study believes that a formal tax course taken by the students (indicator to tax education) may influence their tax compliance. According to previous research, tax education can aid in improving tax compliance by helping people comprehend applicable tax law and legislation. Wong & Lo (2015) found that undergraduate students' tax compliance may be considerably improved by completing a general tax course. Similar Hassan et al. (2016), they discovered that a tax education programme established by the tax authority has an impact on tax compliance when taxpayers use the material on tax education properly. A study of students in New Zealand by Holmes et al. (2012) found that tax education provided at tertiary institutions

affected tax compliance. Another study by Roshidi et al. (2007) found that having a good understanding of taxes had a favourable impact on tax compliance. Palil and Mustapha (2011), on the other hand, questioned whether improved tax knowledge impacts the level of tax compliance.

The goals of this study are to (1) determine the level of tax compliance decision making, (2) determine which demographic factors have a significant differences on tax compliance decision making, and (3) investigate whether tax system perception and ethical attitudes have a significant impact on tax compliance decision making.

Literature Review

Tax Education

Tax education have impacts on taxpayer's tax compliance attitude. Education levels have been proven to be positively associated to tax compliance in previous study. Mbilla et al. (2020) revealed that 90.20 % of the respondents recognised and are aware of the importance of tax education in increasing their knowledge base of tax issues. Their research findings indicated that tax education is important in order to reduce the level of non-compliance, increasing tax accountability, improving the knowledge level on tax regulations and awareness for non-compliance.

According to Wong and Lo (2015), different levels of tax education have different effects on taxpayers' compliance decisions, and even a single tax course can have different effects on undergraduate students' tax compliance behaviour because their educational level influences their learning process. Tax education, according to Kurniawan (2020), can improve tax knowledge and influence taxpayer compliance behaviour. Similar to Mathieu et al. (2010) and Muehlbacher et al. (2011), who discovered that voluntary tax compliance is positively related to education and evaluated the influence of education on tax compliance using taxpayers' educational levels. This study believe that tax compliance may require specific tax knowledge. Income tax compliance, for example, may need a detailed understanding of current tax rules as well as the taxability of various types of income. Taxpayers do not comprehend tax matters because tax education does not generally take into account much of the taxpayer's mother language, especially for individuals with only a moderate or no formal education (Mbilla, et al., 2020).

Hence, this study believes that tax education will influence taxpayer compliance by providing understanding of the tax system and an ethical attitude toward tax evasion. Tan et al. (2021) indicated that ethical perception influenced by their education knowledge has a positive significance impact on tax compliance behaviour. In contrast, Wong and Lo (2015) found that attending a tax course influenced undergraduate students' tax compliance decisions in terms of perceptions of the tax system and ethical attitudes.

Tax Compliance

Tax compliance refers to a taxpayer's desire to pay their tax obligations on time (Kirchler, 2007). Kiow et al. (2017) and Walsh (2012) defined tax compliance as precise and truthful tax reporting, which includes correct obligation computation, prompt payment of the required amount, and timely filing of tax return. Similarly, Ming Ling et al. (2005) proposed that taxpayer responsiveness to tax compliance is defined as the readiness to register for taxes and the prompt submission of accurate information about the firm to tax officials. The contents of a tax course and the educational levels of a programme, according to Wong and Lo (2015), are significant factors that impact the efficacy of influencing students' tax compliance behaviour through education. They found a negative and insignificant relationship between tax knowledge and tax compliance, in contrast to Salawati et al. (2021).

Demographic Factors (Gender and CGPA)

Gender's impact on tax compliance has been studied before, with conflicting findings. According to Slemrod (2007) and Torgler & Valev (2010), males are less compliant than women. Similarly to Hassldine and Hite (2003) discovered that females cooperate better than males and have a negative attitude toward tax evasion. However, there is no substantial differences between gender and tax compliance, according to Alsheikh et al. (2016) and Hai See (2011).

Education (as measured by CGPA) is a major element since it helps an individual comprehend his or her tax obligations. With the highest degree of knowledge, taxpayers might have had a direct impact on whether or not they complied with the tax system. However, mix finding regarding education level and toward tax compliance. Salawati et al. (2021) and Ross and McGee (2011) claimed that a higher level of education has an influence on tax compliance among taxpayers since education helps the compliance with tax systems. Furthermore, Ross and McGee (2011) stated that when a person gets a higher-level education, he or she may be able to take advantage of the tax system. Higher education, when used inappropriately, allows a person to find excuses to avoid paying taxes (Ritsema et al., 2003). According to Soliha & Nadiah (2020), there is no significant differences between education level and tax compliance behavior.

Figure 1 summarises tax education (understanding of the tax system and ethical attitudes toward tax compliance) and tax compliance decision-making.

Tax Education:
Perception on Tax System

Ethical attitudes

Tax Compliance Decision Making

Figure 1: Theoretical Framework

Hypotheses Development

To demonstrate the differences and relationships between independent and dependent variables, four (4) hypotheses have been established.

H1:   Gender and tax compliance decision-making differ significantly.
H2:   CGPA and tax compliance decision-making differ significantly.
H3:   There is a significant relationship between perception on the tax system and tax compliance decision-making.
H4:   Ethical attitudes and tax compliance decision-making have a significant relationship

Methods

Population and Sample

The purpose of this study is to see if tax education has a substantial impact on undergraduate students' assessments of their tax compliance decisions. Thus, the population were the undergraduate students' who were enrolled in taxation course (indicator for having tax education). The respondents will refer to the undergraduate students' who already completed tax courses (Malaysian Tax 1 and Malaysian Tax II) between academic years 2018/2019 up to 2020/2021 in Universiti Tenaga Nasional (UNITEN) Muadzam Campus, Pahang.

Measurement of Variables

Tax compliance is the study's dependent variable. In this study, the proxies for tax compliance were tax compliance decision making by referring to two circumstances involving income tax (direct taxes) and sales tax (indirect taxes). The most major direct tax is income tax, which is paid directly to the institution that levied it. Meanwhile, indirect taxes like sales taxes, which are imposed on the vendor but paid by the customer. This taxes must be added to the value of goods and services. Both of these taxes are important revenue sources for governments.

The proxies for independent variable refer to tax education, are perception of tax system and ethical attitudes (Wong & Lo, 2015). This study believes students' perceptions of the tax system and ethical attitudes toward tax compliance can be influenced by tax education (refer to enrolment in a taxation course).

Data Collection

The questionnaire used in this study was derived from Wong and Lo (2015) and revised to fit the study's goals. Because of the effect of the COVID-19 epidemic, which precluded the conventional face-to-face technique of reaching respondents, the researchers used an online survey to collect data for the study. The questionnaire is comprised of four sections summarises in Table 1. The first part of the questionnaire includes two demographic characteristics, the second part includes two tax compliance decision-making scenarios, and the third part includes five perception statements regarding the Malaysian tax system. The questionnaire's final component, Part four, comprises 16 statements concerning ethical views toward tax compliance decision-making. On a seven-point scale (strongly agree [1]–strongly disagree [7]), the items in part three and four are rated.

Table 1: Questionnaire's Detail

	Scale
Part 1: Demographic	
Gender	1 if male
	2 if female
CGPA	1 if below 2.49
	2 if 2.50 – 2.99
	3 if 3.00 – 3.49
	4 if 3.50 – 4.00
Part 2: Tax compliance Decision Making	
Compliance 1 Situation related to income tax.	1 if will report/request
Compliance 2 Situation related to sales tax.	income/sales tax; 0 otherwise
Part 3: Perception of tax system	
P1 The Malaysian tax system is simple.	
P2 The tax rate of Malaysian is fair.	7-point scale
P3 The tax rate of Malaysian is low.	(strongly agree
P4 The risk of being caught by the Malaysian tax authority for tax evasion is high.	[1]–strongly disagree [7]
P5 Penalty for tax evasion is high in Malaysia.	
Part 4: Ethical attitudes towards tax compliance decision making	
It is ethically acceptable to evade tax…………..	

E1	………..if the tax rate is high.	
E2	………..if the tax system is complex.	
E3	………..if the tax system is unfair.	
E4	………..if the risk of being caught is low.	
E5	………..if the penalty for tax evasion is low.	
E6	……… if everyone does it.	
E7	………..if a large portion of the money collected is spent on projects that do not benefit me.	
E8	………..if a large portion of the money collected is spent on projects that I disagree with.	7-point scale (strongly agree
E9	………..if the tax rate is low.	[1]–strongly
E10	………..if the tax system is simple.	disagree [7]
E11	………..if the tax system is fair.	
E12	………..if the risk of being caught is high.	
E13	………..if the penalty of tax evasion is high.	
E14	………..if no one does it.	
E15	………..if a large portion of the money collected is spent on projects that benefit me.	
E16	………..if a large portion of the money collected is spent on projects that I agree with.	

Findings

Data Analysis
A total of 119 answered questionnaires were compiled, represented by UNITEN undergraduate students' who were completed the tax courses between academic years 2018/2019 up to 2020/2021. In this study, the SPSS Analysis 27 version was adopted for the statistical analysis.

Normality Test
The normality test is used to determine whether or not the data is normally distributed. Using the Kolmogorov Smirnov test (sample greater than one hundred), all of the questions in the surveys had a significant level of 0.000, indicating that the distribution in question is not a normal distribution (Kumar et al., 2013).

Reliability Test
The internal consistency dependability of the measures employed in the study is examined using a reliability test. The reliability test results for tax system perception and ethical attitude were 0.733 and 0.986, respectively, indicating that the questions are reliable (above 0.60) for further research.

Descriptive Analysis
Table 2 shows that of the taxpayers who took part in the research, 27.7% were men and 72.3% were women. The majority of responders had a CGPA of 3.50 to 4.00. (57.1 %).
The degree of tax compliance for income tax reporting and sales tax request is shown in Table 3. The result shows that 86.6% of the respondents agree to report the income to the tax authority and 65.5% will request for the sales tax receipt. This result demonstrates that by taking some tax courses, the respondents applies their educational tax knowledge which have impact on their tax compliance decision making. The findings supported by Wong & Lo (2015).

Table 2: Summary Statistics (Desctiptive)

n=119		Frequency	Percent (%)
Demographic Factors			
Gender	Male	33	27.7
	Female	**86**	**72.3**
CGPA	Below 2.49	6	5.0
	2.50 - 2.99	13	10.9
	3.00 - 3.59	32	26.9
	3.50 - 4.00	**68**	**57.1**

Table 3: Level of Tax Compliance Decision Making (Desctiptive)

Tax Compliance Decision Making (n=119)		Frequency	Percent (%)
Compliance 1: related to income tax	Will Report	**103**	**86.6**
	Not Report	16	13.4
Compliance 2: related to sales tax	Will Request	**78**	**65.5**
	Not Request	41	34.5

Difference between Demographic Factors (Gender and CGPA) and Tax Compliance

Table 4 shows the differences in test outcomes for demographic factors and tax compliance decision-making among respondents. The result shows that gender have no significant differences on respondents' tax compliance decisions making with $p > 0.01$ (Compliance 1 and Compliance 2). The findings are similar to those of Alsheikh et al. (2016) and Hai See (2011), who found no statistically significant differences between gender and tax compliance decisions making. However, it reveals that the CGPA levels of respondents' do have a differences on sales tax compliance with $p < 0.05$. This result is supported by Salawati et al. (2021) and Ross and McGee (2011). They discovered that taxpayers with a greater level of education have a higher average level of tax compliance.

Table 4: Summary Statistics - Test of Differences (n=119)

		Tax Compliance Decision	
		Compliance I	Compliance II
Demographic factor			
Gender			
	Mann-Whitney U test	-1.532	-1.017
	Asymp.Sig. (2 tailed)	.126	.309
CGPA			
	Kruskal-Wallis test	3.731	**10.148**
	Asymp.Sig. (2 tailed)	.292	**0.17**

Relationship between Perception about Tax System and Ethical Attitudes towards Tax Compliance Decision Making

Table 5 depicts the correlation between perception about tax system and ethical attitude towards tax compliance decision making. The result displays that P1 [*The Malaysian tax system is simple*] and P2 [*The tax rate of Malaysian is fair*] have a significant relationship towards income tax compliance decision making with 23.3% and 23.8% respectively, P-value <0.05. The findings also show that perceptions of the tax system (ALL) have a substantial impact on income tax compliance decisions making. Wong and Lo (2015), on the other hand, showed that perceptions of the tax system are strongly related with sales tax compliance.

The result finds that E3 [………... *if the tax system is unfair*] is significantly and negatively associated with income tax compliance with 18.6%, P-value <0.05. However, there is no significant relationship between ethical attitudes toward (ALL) towards tax compliance decision making (both situations). This result is supported by with Wong & Lo (2015) but contradict with Tan et al. (2021).

Table 5: Summary Statistics - Correlation Test (n=119)

	Tax Compliance Decision	
	Compliance I	Compliance II
Perception of tax system	*Spearman's Rho*	
P1	.072	-.105
P2	**.233***	-.054
P3	**.238****	.121
P4	.124	-.062
P5	.068	.153
ALL	**.211***	0.022
Ethical attitudes towards tax compliance	*Spearman's Rho*	
E1	-.093	-.109
E2	-.118	-.117
E3	**-.186***	-.165
E4	-.035	.017
E5	-.004	.015
E6	-.031	-.004
E7	-.120	-.018
E8	-.144	-.030
E9	.003	.089
E10	.009	.052
E11	-.031	.040
E12	.037	.094
E13	-.068	.061
E14	-.007	.034
E15	.018	.051
E16	.060	.091
ALL	-0.042	0.016

Discussion and Conclusion

The influence of tax education (refer to perception of the tax system and ethical attitudes) on tax compliance decision making was investigated in this study, as well as the level of tax compliance decision making of undergraduate students.

According to the degree of tax compliance, the majority of respondents (86.6 %) agree to report income to the tax authorities, and the majority of respondents (65.5 %) will obtain a sales tax receipt. Furthermore, this study showed a substantial distinction between CCPA and income tax compliance decision-making. In addition, having knowledge regarding tax system (perception of tax system) reveals significant relationship towards sales tax compliance decision making. As conclusion, this study believes that tax education can assist undergraduate

students improve tax compliance by improving their perspectives of the tax system and ethical attitudes.

Practical and Social Implications

The findings reported will enhance the understanding on tax compliance decisions which might be affected by tax courses. This information are useful for the policymakers (tax authority) to prevent the non-compliance, refer to tax avoidance and evasion. As a result, taxes are a major income source for the government. Tax evasion is a worldwide issue that has cost governments a lot of money (Zakaria et al., 2013).

This research is also beneficial to educators who are working to change the educational system. Tax compliance may be improved by adopting a more ethical mind-set, which can assist to reduce tax avoidance and evasion. On the level of tax knowledge, Palil et al. (2013) found that taxpayers are eager to comply provided they grasp the core notion of taxes. It is proposed that the government give tax education at early stages, such as in schools. Tax education, according to Kasipillai et al. (2003), can aid and impact attitudes toward tax compliance behaviour.

Limitations and Suggestions for Future Research

The study only focus on the undergraduate students, showing that the student's level of tax compliance related on income and sales tax. Future study might compare perceptions of the tax system and ethical attitudes toward tax compliance among students at different levels (diploma and postgraduate). Furthermore, the results for undergraduate students' degree of compliance are restricted since this study only used a situation based on income tax rules and a situation based on sales tax as indicators for tax compliance. A future study might look into the link between tax course content and tax compliance in greater depth.

References

Alsheikh, E. Y., AlAdham, M. A. A., Qasem, M. F., & Yousef, A. A. (2016). Factors Affecting Corporate Tax Evasion: Evidence from Jordan. *International Journal for Innovation Education and Research*, *4*(6), 1–8. https://doi.org/10.31686/ijier.vol4.iss6.550

Fiscal Outlook and Federal Government Revenue (2020). https://www.mof.gov.my/arkib/revenue/r_main.html.

Kasipillai, J., Aripin, N., & Amran, N. (2003). The Influence of Education on Tax Avoidance and Tax Evasion. *eJournal of Tax Research.*

Kiow, T. S., Salleh, M. F. M., & Kassim, A. A. (2017). The Determinants of Individual Taxpayers" Tax Compliance Behaviour in Peninsular Malaysia. *International Business and Accounting Research Journal*. 1(1). https://doi.org/10.15294/ibarj.v1i1.4

Kirchler, E. (2007). The Economic Psychology of Tax Behaviour. Cambridge: Cambridge University Press.

Kumar, M., Abdul Talib, S., & Ramayah, T. (2013). *Business Research Methods*. Oxford.

Kurniawan, D (2020). The Influence Of Tax Education During Higher Education On Tax Knowledge And Its Effect On Personal Tax Compliance. *Journal of Indonesian Economy and Business*. 35(1). https://doi.org/10.22146/jieb.54292

Hai, O.T., & See, L.M. (2011). Intention of Tax Non-Compliance-Examine the Gaps. *https://www.semanticscholar.org*. Corpus ID: 21045453

Hassan, N, Nawawi, Saiful, A. & Salin, A.S.A. (2016). Improving tax compliance via tax education - Malaysian Experience. *Malaysian Accounting Review*. 15(2). http://arionline.uitm.edu.my/ojs/index.php/MAR/article/view/599

Hasseldine, J., & Hite, A. P. (2003). Framing, gender and tax compliance. *Journal of Economic Psychology*, 24(4). https://doi.org/10.1016/S0167-4870(02)00209-X

Holmes, K., Marriot, L., & Randal, J. (2012). Ethics and experiments in accounting: A contribution to the debate on measuring ethical behaviour. *Pacific Accounting Review*. 24(1). http://dx.doi.org/10.1108/01140581211221560

Palil, M., Md Akir, M., & Wan Ahmad, W. (2013). The Perception of Tax Payers on Tax Knowledge and Tax Education with Level of Tax Compliance: A Study the Influences of Religiosity. *ASEAN Journal of Economics, Management and Accounting 1*. Corpus ID: 154978107

Mbilla, E. S. A., Abiire, M. A., Atindaana, P. A., & Ayimpoya, R. A. (2020). Tax Education and Tax Compliance in Ghana. *Research Journali's Journal of Accounting*, 8(1). http://dx.doi.org/10.6007/IJARAFMS/v10-i4/8012

Mathieu, L., C. W. Price, & F. Antwi. (2010). The distribution of UK personal income tax compliance costs. *Applied Economics*. 42 (3). https://doi.org/10.1080/00036840701604370

Ming Ling, L., Normala, S.O., & Meera, A.K. (2005). Towards electronic tax filing: Technology readiness and responses of Malaysian tax practitioners. *Tax Nasional*, First Quarter, 16-23.

Muehlbacher, S., E. Kirchler, & H. Schwarzenberger. (2011).Voluntary versus enforced tax compliance: Empirical evidence for the "slippery slope" framework. *European Journal of Law and Economics* 32(1). https://doi.org/10.1177%2F0963721413516975

Richardson, G. (2016). Determinants of Tax Evasion: A cross-country investigation. *Journal of International Accounting and Auditing*, 150-169. http://dx.doi.org/10.1016/j.intaccaudtax.2006.08.005

Ritsema, C., W. Thomas, D., & D. Ferrier, G. (2003). Economic and Behavioral Determinants of Tax Compliance: Evidence From The 1997 Arkansas Tax Penalty Amnesty Program. *IRS Research Conference*, 27.

Roshidi, M. A., Mustafa, H. & Asri, M. (2007). The Effects Of Knowledge On Tax Compliance Behaviours Among Malaysian Taxpayers. *International Conference on Business and Information* .4 (I.1).

Ross, M. A., & McGee, R. W. (2011). Attitudes toward Tax Evasion: A Demographic Study of Malaysia. Asian Journal of Law and Economics, 2(3). https://doi.org/10.2202/2154-4611.1028

Palil, M. R., & Mustapha, A. F. (2011). Factors affecting tax compliance behaviour in self-assessment system. *African Journal of Business Management*. 5(33). https://doi.org/10.5897/AJBM11.1742

Salawati, S., Sritharan,N., Sheung, S.C.C & Mohamed, A. S. (2021). Does Tax Knowledge Motivate Tax Compliance in Malaysia? Research in World Economy.ISSN 1923-3981(Print) ISSN 1923-399X (Online).

Soliha, S., & Nadiah, A. H. (2020). The Effect of Tax Knowledge, Compliance Cost, Complexity and Morale towards Tax Compliance among Self-Employed in Malaysia. Global Business and Management Research, 12(1), 1-16.

Slemrod, J. (2007). Cheating Ourselves: The Economics of Tax Evasion. *Journal of Economic Perspectives*, 21(1). http://dx.doi.org/10.1257/jep.21.1.25

Tan, S. K., Lau, C., Kassim, A. A. M., & Salleh, M. F. M. (2021). The Moderating Effect of Individual Taxpayers' Education Level on Ethical Perception and Tax Compliance Behaviour in Peninsular Malaysia. *International Journal of Academic Research in Accounting Finance and Management Sciences*. 11(1). http://dx.doi.org/10.6007/IJARAFMS/v11-i1/8857

Torgler, B., & Valev, N. (2010). Gender and public attitudes toward corruption and tax evasion. *Contemporary Economic Policy*. 28(4). https://doi.org/10.1111/j.1465-7287.2009.00188.x.

Walsh, K. (2012). Understanding Taxpayer Behaviour – New Opportunities for Tax Administration. *The Economic and Social Review*. 43(3). https://ideas.repec.org/a/eso/journl/v43y2012i3p451-475.html

Wong, R. M. K., & Lo, A. W. Y. (2015). Can education improve tax compliance? Evidence from different forms of tax education. *HKIBS Working Paper Series. Retrieved from Lingnan University website: http://commons.ln.edu.hk/hkibswp/93. https://www.semanticscholar.org*. Corpus ID: 54896628

Zakaria, M., Ahmad, J. H., & Wan Mohamad Noor, W. (2013). Tax Evasion: A Financial Crime Rationalised?. *Scientific Research Journal (SCIRJ)*.I(II)