



UNIVERSITI PUTRA MALAYSIA

**TAX ILLITERACY
AMONG TAXPAYERS IN MALAYSIA**

SHANMUGHANATHAN A/L VELLANTHURAI

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MALAYSIA**

BY

NAME : SHANMUGHANATHAN A/L VELLANTHURAI

MATRICULATION NUMBER: 51622

.....
Major Supervisor

.....
Date

.....
Second Reader

.....
Date



DEDICATED WITH LOVE

TO

MY MOTHER : MADAM TAILAMI A/P PALANIANDY

For their kind support and encouragement during the entire MBA program, without whose support it would have been impossible to see the completion.



ABSTRACT

The extent of taxpayer knowledge can have a major impact on the degree of compliance with taxation rules and regulation. Most importantly, uncertainty about the requirements of the tax regulation can lead to a high degree of involuntary non-compliant simply “get it wrong” without any intention to evade tax.

The main problem is ambiguity and complexity in tax regulation, which can make it difficult for even the most conscientious of taxpayers to fully satisfy their legal obligations unless they take authority employees, private consultant, academician and etc.

Information on the extent of taxpayers knowledge is potentially useful to the tax authorities in so far as it can assist in the development of effective compliance enhancement policies. For example, if knowledge of a particular area of the tax regulation is low, compliance is also likely to be low on the relevant items. Follow-up research can determine the extent of the problem and appropriate action ranging from clarification or interpretation of the regulation to complete re-writing of the relevant section can be undertaken. In addition if investigations reveal that particular subsets of taxpayers have low levels of knowledge, in general or in relation to particular aspects of the tax regulation, compliance-enforcement campaigns may be targeted more effectively.

Surveys to assess the extent of taxpayers knowledge about tax regulation have been carried out in Klang Valley. This paper reports on the findings of the survey. The survey revealed a generally reasonable level of understanding of many aspects of the tax regulation, though with a wide variation between different groups in the population. The survey procedure and sample covered by the survey are outlined in these papers, together with a summary of the survey results.



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CHAPTER 1 : AN OVERVIEW OF TAX EDUCATION REQUIREMENTS

1.1 INTRODUCTION

Basically, curriculum development is very much based on the 'demand and supply' mechanism, whereby what is needed to be learnt by students represents the 'demand' and the process of meeting such 'demand' represents the supply'. The objective of any curriculum development is therefore to identify what students should learn (i.e. the 'demand' aspect) and to develop a program (i.e. the 'supply' aspect) to satisfy that 'demand'. In this respect any curriculum development should not be based on the 'romantic' approach while the 'idiotic' approach should absolutely be avoided.

1.2 TAXATION IN ACCOUNTING EDUCATION

The traditional setting of tax education is found in most accounting and some law curriculum, Inland Revenue Board's training programs and in-house training programs of some public accounting firms. Most accounting examination currently conducted in Malaysia do include taxation as examination papers. In terms of importance and priority, in most accounting education program taxation has been ranked relatively very high both by practitioners and educators. In Malaysia local university accounting graduates ranked taxation as moderately relevant to very relevant in terms of relevance to their job while in terms of subject-knowledge at the advance level expected of qualifying accountants, taxation was highly ranked, (after financial accounting and audit) by public accountants. In view of the traditional association of taxation with and its relevance to accounting education the discussion in this paper will be draw partly from the experience of accounting education programs.

1.3 TAX ACCOUNTING OBJECTIVES

Taxation is an interdisciplinary subject encompassing accounting, legal studies and economics. However a taxation curriculum should not only cover these basic disciplines, but should also encompass a broad and in-dept study of other related disciplines such as computer science and information technology social sciences and communication skills. The main objective of a tax education program is to produce graduates who are :-

- able to learn to think and be critical;
- able to learn how to learn;
- capable of making useful decisions as professionals;
- able to function professionally in a complex and changing socio-economic and political environment;
- able to cope with future issues and controversies that we may not envisage today;
- able to analyze business transactions and to deal with a vast array of business problems; and
- able to deal with people and understand human behavior.

In short the educational objective of a tax education program is to produce professional tax consultants and not merely 'tax technicians' whose function is merely to file tax returns.

1.4 TAX ACCOUNTING EDUCATION PROGRAM

The educator and the practitioners may have different perception as to the type of tax accounting education programs needed but both share the common objective of producing professionals capable of meeting the demands of the fast growing complexity in industry and commerce and the rapidly changing socio-economic environment. However the educators and practitioners may differ as to the



approaches in achieving this objective. To some practitioners today's education programs and examination patterns tend to place emphasis on training technicians rather than professionals.

In view of this observation there certainly is a need to re-examine the orientation of today's accounting education programs and examination patterns. In Malaysia since tax education traditionally is incorporated in accounting programs, a re-examination of the accounting education program is a necessity in evaluating tax education. Generally the accounting programs of institutions of higher learning in Malaysia emphasis on general education, "followed by specialization in accounting supported by a fair contextual (business and economics) and related disciplinary studies.

The Institutions of higher learning (with varying degrees) attempts to achieve two at the same time:

- (a) to imbue students with that knowledge (both accounting and elated disciplines, and disciplines intended to broaden students' educational experience (and those qualities that will maximize the likelihood of success as a mature professional; and
- (b) to prepare them to perform duties expected as accountants at entry-level through classroom exercise and through experience in the form of practical attachment.

It is an irony that practitioners in Malaysia emphasis the fact that accounting programs should be geared towards producing 'professionals' and not merely 'technician', whereas the results of the study by Ooi (1988) reveal that MACPA's program seems to have more emphasis on the latter. Therefore the need to seriously review the orientation of Malaysia's accounting education programs is absolutely very urgent, It is never too late, after all it was only very recently that the Chartered Association of Certified Accountants engaged itself 'in a pioneering syllabus review

that will make the education and training of accountants more applicable to the working environment... (and) drawing up assessment which will safely and accurately infer an individual's occupational competence". The fact that such review is necessary merely indicates that there are defects in the education program.

1.5 A FRAMEWORK FOR PROFESSIONAL EDUCATION AND TRAINING

Having briefly surveyed the scenario of the existing educational programs for tax accountants in Malaysia, it is obvious that any tax educational training program must be geared towards producing not merely tax 'technicians'. A tax educational program should work towards producing tax practitioners having the qualities of professionals.

The qualities of professional can basically be identified as belonging to two categories, that is firstly 'Professional Competence' and secondly 'Professional attitude.'

1.5.1. Professional Competence

'Professional Competence' has six important facets, namely conceptual competence, technical competence integrative competence contextual competence, adaptive competence and interpersonal communication, each of which may be the target of specific educational processes.

(a) Conceptual Competence

An individual is conceptually competent if he/ she has acquired the theoretical foundation or generally accepted knowledge upon which professional practice is based. However within a particular profession

there may be a difference of opinion as to what constitutes 'general accepted knowledge'.

(b) Technical Competence

It refers to the ability of an individual to perform fundamental skills required of a professional. Basic technical training alone may be able to produce an individuals who is able to perform some professional skills with a sound conceptual basis for understanding the tasks. However mere technical competence without conceptual competence certainly contradicts the primary objectives of professional education?

(c) Integrative Competence

It is the ability to combine conceptual and technical competence in order to practice the effectively and efficiently. A competent individual must be able to identify the appropriate technical skills to perform the proper functions in a specific environment.

(d) Contextual Competence

It refers to the understanding of the broad social, economics and cultural setting in which a profession is practiced. A competent individual should be able to apply such understanding when integrating his conceptual and technical competence.

(e) **Adaptive Competence**

It refers to the ability of an individual to adjust to new conditions inherent in a rapidly changing technological, economic, business, social and political environment. Adaptive competence should equip an individual with such orientation as to be able to anticipate and prepare for changes that may affect his/ her profession.

(f) **Interpersonal Communication**

It refers to the ability of an individual to communicate effectively and efficiently through whatever medium as and when necessary. A 'professional' should have the ability of a competent speaker, writer, reader and listener.

1.5.2. Professional Attitude

'Professional Attitude' encompasses the following qualities, namely professional identity, professional ethics career marketability, concern for improvement and motivation for continue learning.

(a) **Professional Identity**

It involves the degree to which an individual identifies himself/ herself as a member of a profession, integration the profession's norms, competencies and values into a status role. It also refers to the willingness to test and accept the traditions and obligations of the professional community.

(b) Professional Ethics

This refers to the degree to which an individual adheres to the code of conduct agreed upon by his/ her profession. Since moral judgement plays a major role in his/ her professional life, a professional should ensure that the profession serves rather than uses society to attain the objectives of the profession.

(c) Career Marketability

Career marketability must not be equated with 'employment market forces'. Employment market forces refers to the ability of the employment market to absorb the output of an educational training program. Career marketability refers to the degree an individual is able to meet the professional entry standards as well as to be able to compete in the profession and having the ability to develop any essential knowledge and skill.

(d) A 'professional' must be ware that professional practice is constantly changing that he/ she must be a dynamic rather than static professional. As such he/ she must be concerned wit improvement and supportive of research to adapt practice to new conditions able to interpret the results and implications of such research for practice.

(e) Motivation for Continued Learning

Although this attitude is closely related to 'concern for improvement'. But it focuses more on the individual's commitment to his/ her own development. This attitude is characterized by the willingness to update one's own knowledge and skill.

1.6 A FRAMEWORK FOR TAX ACCOUNTING CURRICULUM

Having identified the framework for a professional educational training program, a framework for tax accounting curriculum need to be identified to fit into the former. A basic general framework of a tax accounting curriculum should make up of the structure, content and scope of tax accounting education.

1.6.1. Structure

Given the interdisciplinary mix and the varied market demand of the services of the tax practitioner, a tax accounting and training program should be so structured to provide for a general education, general professional education and specialized professional tax education. Perhaps a proposed structure should consist of courses in :-

- (a) Tax accounting (i.e. Tax rules, procedures and computations) applicable to individual, corporate, partnership, trusts, and various taxpayers.
- (b) Accounting, such as financial accounting, cost and managerial accounting, auditing as well as financial management.
- (c) Legal studies, such as the system and specific branches of law, e.g. Revenue law, property law and business and commercial law.
- (d) General courses in economics, public finance, quantitative methods, business and management, management information systems and computer studies as well as other liberal studies.

The four areas of studies as categorized above should be developed into a structure within which the final results will give rise to a specialized professional tax education.

1.6.2. Content

The content of a tax education program should cover the relevant aspects of legal studies, accounting, economics and other discipline as outlined above. It is beyond the scope of this paper to deliberate on the content with regards to all these disciplines. Nevertheless in the case of tax per se, (in the Malaysia context), the content of a tax education program should at least encompass the various direct and indirect taxes as covered by the relevant acts such as the following :-

- (a) Income Tax Act;
Petroleum Income Ax Act ;
Real Property Gains Tax ;
Stamp Duty ;
Service Tax Act;
Sales Tax Act ;

- (b) Promotion of Investment Act;
Labuan Offshore Business Activity Act;
Offshore Banking Act;
Offshore Insurance Act ;
Labuan Trust Companies Act;

- (c) Double Tax Treaties.

1.6.3. Scope

In this paper income tax is being adopted for discussion. For a course in income tax it may be proposed that three levels of tax papers, (Introductory, Intermediate and Advanced) be adopted. For each level the educational objectives have to be identified.

1.7 A FRAMEWORK FOR TAX EDUCATIONAL OBJECTIVES

Basically a taxation course at least cover areas such as the understanding of the tax law; the philosophy of tax; the economic aspects of taxation, tax ethics; researching tax problems and the preparation of tax returns. A tax education program should therefore identify the 'hierarchy of skills' a student should acquire at each of the three levels of a tax course, based on taxonomy of educational objectives.

The six basic educational objectives such as follows :-

1.7.1) Knowledge: It represents the lowest level of learning in the cognitive domain. It merely requires the ability to remember and recall previously learnt material.

1.7.2) Comprehension : It represents the ability to understand what is being communicated or the ability to grasp the meaning of material, to translate material from one form to another, and to interpret material.

- 1.7.3) Application :** It represents the ability to select appropriate material learnt and to use them in new and different specify.
- 1.7.4) Analysis :** It prevents the ability to break down subject matter into its component parts, to separate relevant from irrelevant materials, and to analyze the relationships between parts.
- 1.7.5) Synthesis:** It represents the ability to blend together material from different sources to form new patterns or structures.
- 1.7.6) Evaluation:** It involves the ability to make judgement on the value of materials or a given purpose based on defined criteria.

In the case of income tax the education objectives should be such that one should start with the basic fundamentals and later upon completing the advanced level, one should be able to specialize in the substantive areas of income taxation. In an income tax course, the hierarchy of skills to be acquired based on taxonomy of educational objectives is as follows:

a) Knowledge:

Merely requires a student to recall the relevant provisions of the Income Tax Act or relevant rules, regulations, principles or figures when applying them to a particular situation.

b) Comprehension:

Requires a student to understand the relevant provisions, rules, regulations and principles.

c) Application

Requires a student to identify and differentiate between the outcome of applying possible different provisions, rules, regulations or principles in similar or different situations.

d) Analysis:

Requires a student to break down in a logical manner the relevant provisions, rules, regulations or principles and to identify the relationship between each of the 'broken down parts'.

e) Synthesis:

Requires a student to blend the various disciplines of tax, legal studies, accounting, economics etc for a specific situation.

f) Evaluation:

Requires a student to assess, criticize and comment on a particular situation in relation to the existing provisions, rules and political, social and economic environment and to propose possible alternatives.

1.8 FRAMEWORK FOR ALLOCATION OF SKILL

The overall objective of a taxation program is to enable a student to develop each of these six skills. At different level, different weight should be placed for the development of each of these skills. Without going into the technical details, in a taxation program with Introductory, Intermediate and Advanced papers a proposed weight may be as shown below. At each of the three levels, emphasis is given to. However, at the Introductory level more weight is give to 'knowledge, comprehensive and application " skills, while less weight is given to 'analysis, synthesis and evaluation' skills. At the Advance level the weight emphasis will be the reverse.

Table 1
Allocation of Skills Content

Skill/ Level	Introductory %	Intermediate %	Advanced %
Knowledge	35	10	5
Comprehensive	30	15	5
Application	20	25	5
Analysis	5	25	20
Synthesis	5	15	30
Evaluation	5	10	35
	----- 100	----- 100	----- 100

Source: Hortvitz & Jensen, (1979) p. 803

1.8.1. Testing and Evaluation

Testing and evaluation part of the requirement of education. In respect of tax accounting programs in Malaysia, several institutions of higher learning and 'professional bodies' do conduct their respective examinations. These 'examinations' are in the form of a three hours ritual of answering set of questions, followed later by the release of 'results'. Somehow 'results' have always been given more emphasis than the setting of questions, grading and interpretation of marks. The traditional terminal examination of three hours papers have been widely used by 'professional bodies' as a technique to evaluate and rank students. Such traditional examinations seldom achieve their objective

'Results' obtained by a student in an 'examination' is a function of the quality of the examination and questions, the ability of the student answering those questions and the evaluation of the examination. 'The quality of an examination will depend on such consideration as the language used, the knowledge and skills required, the amount of time available and, to some extent, its examination context and therefore the relevance of a question to the content and objectives of the course'.

The objective of testing and evaluating students, performance in any examination should be consistent with the allocation of skill of content. "The design of examinations, setting of questions, and the marking and interpretation of marks require professional meaning of marks distinguishes between the quality of the question and the quality of the students responding to the question".

The standard of an examination therefore depends on the quality of the questions, the preparation of which requires professional skills. An examination having a low passing rate does not necessary imply that the

examination is of high standard as often claimed by some quarters. On the other hand an examination with a low failure rate does not necessary imply that the particular education program is of a high quality.

The measurement of a student's performance is often distorted if “ the design of the examination paper is faulty, for example, with reference to the ‘quality’ of question and/ or tome allowed for the paper, or if the marketing is inconsistent or inaccurate”.

The design of an examination is also considered ‘faulty’ if an examination body announced that in a particular examination session, only certain topics would be tested, while other topics will not be tested. To quote an example, for the Advance Taxation (Malaysia) paper of the ACCA or MACPA examination candidates “will be tested on the following five specialized industries only- Trust, Leasing, Insurance, Banking, Sea and Air Transport. Other areas such as clubs, associations, trade association, will NOT be examinable.

The “quality” of examination must be developed and maintained. However educators and practitioners often have different perceptions as to what constitutes “quality examination”. In many ways.....”courses have been altering to focus more on what practitioners do an less on the academic discipline which are related to any given profession. Courses are tending slowing to become primarily concerned with what students can do rather than what they know”

The quality and standard of an examination paper require decisions to be made by the examiner about the number of questions, the availability of options or choices, the difficulty of the questions and the allocations of time. These are essentially professional decision, but not always made in a professional way.

1.8.2 Framework for Testing & Evaluating

The testing and evaluating process in a tax education program should be based on the structure, content, scope and educational objectives of the program. The types and degrees of difficulty of a tax examination paper should closely reflect the weight distribution for each level of a tax program. The “content mix” of such an examination should be representative of the “interdisciplinary mix”.

1.9 SUMMARY

The main objective of any tax educational program is to produce graduates with “professional qualities.” Although both educators and practitioners share this common objective, they very often differ on the ways and means of achieving this objective. The most common basic difference is in respect of curriculum structure, instructional techniques, weight of “disciplinary mix” and content mix and the mode of testing an evaluation.

In a tax (as well as accounting) examination generally the “professional bodies” and practitioners prefer fewer general functional courses as compared to educators in institutions of higher learning. In terms of instructional techniques, practitioners prefer material such as “questions and answers” type practice sets more than educators do. With regards to testing and evaluation generally not practitioners prefer the “structured” or “questions and answers” approach.

Probably due to the different “professional cultures”, practitioners appears to have fundamental differences with educators. However “each should recognize that although they are different culturally, they can still find ways to work together for mutual benefits.