



UNIVERSITI PUTRA MALAYSIA

**A PERCEPTION ON POST IMPLEMENTATION OF
SELF ASSESSMENT TAX SYSTEM ON
SELECTED COMPANIES IN EAST COAST MALAYSIA**

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A PERCEPTION ON POST IMPLEMENTATION OF SELF ASSESSMENT TAX
SYSTEM ON SELECTED COMPANIES IN EAST COAST MALAYSIA

By

ZAHARAH SALWATI BT BABA

Thesis Submitted in Fulfillment of the Requirement for the Degree of Master
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DEDICATION

To both of my parents; Haji Baba and Hajjah Rona, my husband; Hasni Omran,
my lovely kids; Mohammad Faraihan, Allahyarham Mohammad Fakhrudeen,
Arishya Nabilah and Aliyah Maisarah ; and
all my brothers and sisters.

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the Degree of Master of Science

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This study examined taxpayer's perception and acceptability towards the self assessment tax system. The self assessment tax system applies to all companies and was implemented in 2001.

This empirical study covered three states - Terengganu, Kelantan and Pahang, involving 210 companies. Questionnaires were used to collect the data used in this study.

Based on the findings of this research, it can be concluded that the implementation of self assessment system for taxpayers has not been successful because of a few limiting factors. One of the limiting factors towards successful implementation of the self assessment system is the lack of taxpayer's

knowledge of the tax system and the use of tax agent service is one of the causes why taxpayers have limited knowledge of the system. Results of the study revealed that most of the taxpayers welcome the change from the official assessment system to self assessment system. They know and understand their responsibility that they must compute their own tax under this system. Taxpayers also know that they must keep proper records of their business in order to enable the tax officer to conduct the audit.

In addition, tax agents must fully understand this new system and they must fulfill their responsibilities in filling and returning the tax form to IRB.

This study proposed a few recommendations to IRB to increase taxpayers' knowledge and understanding of the new system and IRB should take measures to overcome all the problems that arise to ensure the self assessment system is successfully implemented.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Master Sains

**TANGGAPAN SYARIKAT-SYARIKAT TERPILIH DI PANTAI TIMUR
MALAYSIA
TERHADAP PERLAKSANAAN SISTEM PERCUKAIAN TAKSIRAN
SENDIRI**

Oleh

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Kajian ini bertujuan untuk menyelidik tanggapan dan penerimaan pembayar cukai terhadap pelaksanaan sistem percukaian taksiran sendiri. Sistem cukai taksiran sendiri telah dilaksanakan ke atas pembayar cukai syarikat bermula pada tahun 2001.

Kajian ini melibatkan 210 buah syarikat dari tiga buah negeri di pantai timur iaitu Terengganu, Kelantan dan Pahang. Kajian ini telah menggunakan soal selidik untuk tujuan pengumpulan data.

Dapatan kajian menunjukkan beberapa faktor yang membataskan keberkesanan pelaksanaan taksiran sendiri. Tahap pengetahuan mengenai

sistem percukaian merupakan salah satu faktor yang mempengaruhi tanggapan pembayar cukai. Ianya berpunca daripada penggunaan perkhidmatan agen percukaian menyebabkan pembayar cukai tidak begitu terdedah kepada pengetahuan mengenai sistem percukaian.

Kajian ini juga menunjukkan bahawa pembayar cukai mengalu-alukan perlaksanaan sistem percukaian taksiran sendiri. Sistem ini membolehkan mereka mengetahui, memahami tanggungjawab dan membuat pengiraan sendiri serta menyimpan rekod perakaunan untuk tujuan audit cukai oleh LHDN.

Agen percukaian juga berperanan memahami sepenuhnya sistem taksiran sendiri dan menjalankan tanggungjawab untuk melengkapkan serta menghantar borang taksiran ke LHDN dalam masa yang ditetapkan.

Untuk meningkatkan pengetahuan dan pemahaman pembayar cukai terhadap sistem taksiran sendiri beberapa cadangan telah dibuat. LHDN juga perlu menangani dan mengatasi semua masalah yang timbul untuk memastikan keberkesanan dan kejayaan perlaksanaan sistem taksiran sendiri pada masa akan datang.

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APPROVAL

I certify that an Examination Committee met on 13 March 2008 to conduct the final examination of Graduate Student on her Master of Science thesis entitled "A Perception on Post Implementation of Self Assessment Tax System on Selected Companies in East Coast Malaysia" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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TABLE OF CONTENTS

	Page
DEDICATION	ii
ABSTRACT	iii
ABSTRAK	v
ACKNOWLEDGEMENTS	vii
APPROVAL	ix
DECLARATION	xii
LIST OF TABLES	xvi
LIST OF FIGURES	xix
LIST OF ABBREVIATIONS	xx
CHAPTER	
1 INTRODUCTION	
1.1 Background of the study	1
1.2 Taxpayer's Perception and Compliance	6
1.3 Audit Procedures under Taxation	8
1.4 Problem Statement	10
1.5 Objectives of Study	12
1.6 Research Questions	13
1.7 Significance of the Study	15
1.8 Structure of the Thesis	16
2 OVERVIEW OF MALAYSIAN TAXATION IN MALAYSIA	
2.1 Introduction	18
2.2 Objectives of the Tax System	19
2.3 Characteristics of Malaysian Income Tax System	19
2.4 Background of Inland Revenue Board	20
2.4.1 Organizational structure and Functions of IRB	21
2.4.2 Computerization in the IRB	22
2.5 Scope of Income Taxation	22
2.5.1 Introduction	22
2.5.2 Resident Status	24
2.5.3 Sources of Income	24
2.5.4 Individual Taxation	25
2.5.5 Business and Company Taxation	25
2.6 Assessment System: Concepts and Definition	26
2.6.1 Official Assessment System (OAS)	26

2.6.2	Income tax Administrative Procedure	27
2.6.3	The Weaknesses in the Official Assessment System	28
2.6.4	Self-Assessment System	30
2.6.5	Definition of Self Assessment System	31
2.6.6	Self Assessment Approach	33
2.7	Self Assessment System for Companies	34
2.7.1	Definition of the Company	34
2.7.2	Assessment of Companies	35
2.7.3	The Procedures of Income Tax	38
	2.7.3.1 Tax estimates	38
	2.7.3.2 Payment of tax	40
2.7.4	Filling Tax Form by Tax Agent	40
2.8	Experience of Some Countries in Implementing SAS	41
2.9	Benefits of Self Assessment System	42
2.10	The Role of the IRB under SAS	43
2.11	The Role of the Tax Professional	46
2.12	The Role of Taxpayers	47
2.13	Tax Audit	48
2.14	Conclusion	51
3	PREPARATION ON SELF-ASSESSMENT SYSTEM, PERCEPTION AND TAX EDUCATION	
3.1	Introduction	53
3.2	Preparedness towards Self Assessment System	53
3.3	Tax Compliance	54
	3.3.1 Non-compliance Tax	59
	3.3.2 Factors Contribute to Non-compliance	60
	3.3.3 Improving Taxpayers Awareness	63
3.4	Model of Tax Compliance	64
3.5	Perception of Taxpayers	66
3.6	Tax Education	68
3.7	Theoretical Framework	70
3.8	Conclusion	75
4	RESEARCH DESIGN AND METHODOLOGY	
4.1	Introduction	76
4.2	Methodological Issues	77
4.3	Research Instruments	78
	4.3.1 Location of study	78
	4.3.2 Data Collection Method	78
4.4	Questionnaire Design	82

4.5	Sampling Procedure and Place and Time of the Survey	83
4.6	Method of Analysis	85
4.7	Conclusion	87
5	RESEARCH FINDINGS	
5.1	Introduction	88
5.2	Results of the Questionnaire	88
5.2.1	Part I - Companies' Background	89
5.2.2	Part II - Opinion on SAS	92
5.2.3	Part VI - Tax Compliance	100
5.2.4	Part VIII - Taxpayers' Perception and Education	102
5.3	Discussion on Findings	103
5.3.1	Internal Factor	103
5.3.1.1	Readiness/Well informed about the Changes of SAS	103
5.3.1.2	Understand about Self Assessment System	106
5.3.1.3	The Responsibilities under SAS	111
5.3.1.4	The Opinion on Computing Own Tax	112
5.3.2	External Factors	117
5.4	Conclusion	118
6	CONCLUSIONS AND RECOMMENDATIONS	
6.1	Introduction	120
6.2	Conclusions	120
6.3	Limitations	122
6.4	Recommendations	123
6.5	Recommendations for Future Research	127

BIBLIOGRAPHY	129
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APPENDICES

LIST OF TABLES

Table	Page
2.1 Stages of Implementation of Self Assessment System	23
2.2 Tax Charging on Current Year	37
4.1 Usable Response Rate Based on State (Companies)	85
4.2 Reliability of Companies Responses	86
5.1 Breakdown of Respondent According to Business Type	89
5.2 Breakdown of Respondent According to Total Paid-up Capital	90
5.3 Length Time Been in the Business	90
5.4 Breakdown of the Person Incharge	91
5.5 Response about the Opinion on SAS	93
5.6 Well Informed about SAS	93
5.7 The Understanding about SAS	94
5.8 IRB Visited for Tax Audit	94
5.9 Happy to Compute Own Tax Form	95
5.10 Difficulty in Completing Tax Form	96
5.11 Level of Instruction in the Tax Form	97
5.12 Hours Spent in Filing the Tax Form	98
5.13 Tax Experience	99
5.14 Length of Time Needed by Tax Agents	99
5.15 Report all Income	100

5.16	Improve Tax Compliance	101
5.17	Declare all Earnings	101
5.18	Tax Evasions	102
5.19	Well Informed about the Changes Based on Total Paid-up Capital	103
5.20	Well Informed about the Changes Based on Location	105
5.21	Well Informed about the Changes Based Type of the Business	105
5.22	Well Informed about the Changes Based on Time Been in the Business	105
5.23	Summary Results of Internal Factors Towards the Readiness of Self Assessment System	106
5.24	Understand about SAS Based on Total Paid-up Capital	109
5.25	Understand about SAS Based on Location of the Company	109
5.26	Understand about SAS Based on Type of the Business	109
5.27	Understand about SAS Based on Person Incharge	110
5.28	Understand about SAS Based on the Length been in the Business	110
5.29	Summary Results of Internal Factors Towards the Understanding the Self Assessment System	110
5.30	Responsibilities of SAS Based on Total Paid-up Capital	112
5.31	Responsibilities Self Assessment System Based on Location	112
5.32	Responsibilities on SAS Based on Type of Business	112
5.33	Responsibilities of SAS Based on Person Incharge	113
5.34	Responsibilities of SAS Based on Time Been in the Business	113

5.35	Summary Results of Internal Factors Towards the Implementation of SAS	113
5.36	Opinion on Computing Own Tax Based on Total Paid-up Capital	115
5.37	Opinion on Computing Own Tax Based on Location	115
5.38	Opinion on Computing Own Tax Based on Type of Business	116
5.39	Opinion on Computing Own Tax Based on Person Incharge	116
5.40	Opinion on Computing Own Tax Based on Time Been in the Business	116
5.41	Summary Results of Opinion on computing Own Tax under SAS	117
5.42	Summary Results about the Post of Implementation of SAS	118

LIST OF FIGURES

		Page
Figure 3.1	Compliance Behavior Model	66
Figure 3.2	Conceptual Model	74

LIST OF ABBREVIATIONS

CEO	- Chief Executive Officer
CY	- Current Year
IRB	- Inland Revenue Board
IRD	- Department of Inland Revenue
ITA	- Income Tax Act
OAS	- Official Assessment System
PY	- Preceding Year
SAS	- Self Assessment System
USA	- United States of America

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Generally, all incomes of individuals in Malaysia are liable to tax. Taxation is one of the payments that must be paid by all Malaysians to the government based on their taxable income. Organizations in Malaysia depending on their size, legal form and whether it is profit oriented or not, requires that their financial statements be audited to make sure all reported income statement is true. Section 3 of the Income Tax Act 1967 (Act 53) states that tax is charged on all income of any person for each year of assessment accrued in or derived from Malaysia or received in Malaysia from outside Malaysia. Companies need an audited report on financial information from the auditor in order to fill the tax form. The monitoring role of the auditor is performed on behalf of shareholders who have entrusted their assets to the care of company management and company directors. In more recent developments in the application of agency theory to auditing, Gwilliam (1987) reported that the role of the auditor is linked to the stewardship function of management and it has been extended to linking management effort and performance.

Taxation is one of the economic tools that is very important to the government to regulate the economy in Malaysia. One of the objectives is to collect all

incomes to provide funds for the numerous development projects such as schools, hospitals, highways and etc. Barjoyai (1987) pointed that tax is a compulsory payment imposed by the government on wealth from income and other sources to finance the benefits that the taxpayers received.

There are federal tax revenue and non-tax revenue. Federal tax revenue consists of taxes and non-tax revenue consists of income from government commercial undertakings, fines, service fees, road tax, licenses and other contributions from foreign governments and international agencies. In other words, the government uses both revenues from taxation to develop the country for the benefit of Malaysian residents (Singh, 1995).

Malaysian taxation is divided into two, direct and indirect taxation. Direct taxation comprises corporate tax, personal income tax, petroleum income tax, real property gains tax and other direct taxes. Indirect taxation comprises export duties, import duties and surtax, excise tax, sales tax and other indirect taxes. In the early years of development, Malaya only depended on indirect taxes as its main source of revenue. Malaya, like most developing countries relied heavily on indirect taxes during the early stages of its development (Musgrave, 1987). Taxation is the largest contributor to total revenue in Malaysia. In 2005, RM 75,335 million (71.2%) came from tax revenue and in year



2006 it is expected to increase to RM 80,425 million¹. Tax revenue is the largest contributor to government revenue based on the economic growth (Kasipillai & Shanmugam, 1997).

A few strategies have been used to improve tax administration in Malaysia by upgrading the efficiency of the Inland Revenue Board (IRB). The Department of Inland Revenue (IRD) has become a statutory board on March 1, 1996 and now it is formally known as The Inland Revenue Board of Malaysia (IRB). The IRB was established by the Inland Revenue Board Act 1995 to upgrade the organization's role in the formulation of new policies for both private and public sectors in addition to its current role of tax collection and compliance enforcement. Another strategy is to change the current taxation system to a more efficient system.

In the 1999 Budget, the Finance Minister has announced that major changes will be made in the tax system. The former system known as Official Assessment System (OAS) will be replaced by the new system called the Self Assessment System (SAS). The Government has been implementing a SAS in stages: companies - 2001, business, partnerships and cooperatives and salaried individuals - 2004.

¹ Economies Report 2005/2006



At the same time assessment made on a preceding year basis will be replaced with a current year assessment with effect from year of assessment 2000². SAS is more efficient compared to OAS (Wong, 1999).

Several countries have used the SAS in their tax administration such as USA (1940), Japan (1947), Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and United Kingdom (1996-1997). All these countries have used SAS and also set their standard for SAS. According to Pollock (1991), SAS is the most radical way to save tax department labor and cut down on tax evasion. This system is easy to understand compared to the old system which is more costly and need more staff to do the audit work. It also increases total revenue (Cheung et al, 1995 and Ishi, 1993).

Before the announcement by the Finance Minister, tax assessment has been the subject of the considerable discussion and debate by accountants, economists, professors and lawyers. Arguably this is because of the considerable amount of time and money that has to be spent in complying with the requirements of income tax law, from the basic keeping of proper accounts to the time spent in negotiating the tax assessment with tax officials.

² This will be discussed in detail in Chapter 2

