



***EFFECTS OF TAX CLIMATE ON INDIVIDUAL TAX COMPLIANCE QUALITY
AND MINIMISATION IN MALAYSIA***

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By

CHONG K-RINE

**Thesis Submitted to the School of Graduate Studies, Universiti
Putra Malaysia, in Fulfilment of the Requirements for the Degree of
Doctor of Philosophy**

January 2019

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in
fulfilment of the requirement for the degree of Doctor of Philosophy

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AND MINIMISATION IN MALAYSIA**

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CHONG K-RINE

January 2019

Chair : Yusniyati binti Yusri, PhD
Faculty : Economics and Management

The tax literature has been developing dynamically by combining the economic and socio-psychological factors in explaining tax compliance behaviour. In that tax legality has not been rigorously studied in the past, plus the perception of the authorities that stringent enforcements will enhance voluntary tax compliance, which contradicts the tax literature, this study extends the slippery slope framework. It does this by exploring different dimensions of both compliance quality and tax minimisation behaviour, which comprises legal mitigation, as well as illegal avoidance and evasion under different tax climates, while controlling gender and perceived tax cheating as covariates via MANCOVA. Additionally, this study aims to evaluate the extent of tax minimisation (by percentage) before and after the disclosure of enforcement strategies by climate treatment via the Wilcoxon Signed Rank Test.

A multi-method design is employed with 102 undergraduate business students under the experimental design; in addition to 101 postgraduate students, 100 employed, and 100 self-employed groups under the survey design. It is confirmed that enforcement strategies are particularly effective under the synergistic climate. The initial tax minimisation by participants via avoidance or evasion was significantly reduced once they were informed of the probability of being detected and penalised, provided that they perceived a synergistic climate with trust and legitimate power.

Overall, a synergistic climate has a significantly large impact on voluntary compliance across the design and subgroups in this study. As opposed to past literature, a synergistic climate increases enforced compliance of the experimental subjects and postgraduate survey subgroup. It seems that university students who lack real experience in fulfilling tax obligations tend to

comply under the prevailing positive climate due to fear of penalisation, in addition to their intrinsic willingness as a contribution to society. The self-employed group in particular, is not very much affected by enforcements, and is not forced to comply in accordance with the tax climate.

In general, the majority of citizens are not aware of the legality of tax minimisation, particularly between the grey area of legal mitigation and illegal avoidance. This might explain the issue of validity and low loadings which lead to the insignificant relationship of mitigation with the independent variable and covariates across all groups. For both illegal minimisations of avoidance and evasion, it is proven that they are positively related to the antagonistic climate across groups. In addition, both covariates of gender and morale are related to several variables in different groups.

The inferences made in this study provide theoretical and policy implications. Notably, stringent enforcements are only effective in enhancing voluntary compliance and reducing illegal tax minimisation when trust is maintained, and power is perceived as legitimate. Tax authorities and the government should put more effort into building trust and acting fairly upon tax administration and the redistribution of tax collection with due care. From the methodological aspect, it will contribute to conducting a controlled experiment on employed and self-employed samples in future research.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**KEPUTUSAN IKLIM CUKAI KE ATAS KUALITI PEMATUHAN CUKAI
INDIVIDU DAN PERLAKUAN MINIMISASI CUKAI DI MALAYSIA**

Oleh

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Kajian pematuhan cukai telah berkembang secara dinamik menggabungkan faktor ekonomi dan sosial-psikologi dalam menjelaskan perlakuan pematuhan cukai. Memandangkan kesahihan cukai belum dipelajari dengan teliti pada masa lalu, ditambah dengan persepsi pihak berkuasa bahawa penguatkuasaan yang ketat akan meningkatkan pematuhan cukai secara sukarela yang ternyata bertentangan dengan kesusasteraan cukai, kajian ini bertujuan untuk memperluaskan rangka kerja 'slippery slope' dengan menerokai dimensi yang berbeza dari kedua-dua kualiti pematuhan dan perlakuan pengurangan cukai yang terdiri daripada angkubah pengurangan cukai secara sah, angkubah pengelakan cukai, serta angkubah pengelakan cukai di bawah iklim cukai yang berbeza, dengan pengawalan angkubah jantina dan angkubah persepsi penipuan cukai sebagai kovariat melalui 'MANCOVA'. Selain itu, kajian ini bertujuan untuk menilai tahap pengurangan cukai (peratusan) sebelum dan selepas pendedahan strategi penguatkuasaan melalui rawatan iklim dan 'Wilcoxon Signed Rank Test'.

Cara penyelidikan 'multi-method' digunakan oleh 102 pelajar siswazah kursus perniagaan di bawah reka bentuk subjek eksperimen, sebagai tambahan, kaji selidik digunakan oleh 101 pelajar pascasiswazah, 100 pekerja dan 100 individu bekerja sendiri. Ia mengesahkan bahawa strategi penguatkuasaan amat berkesan di bawah iklim sinergi. Dengan ini, dibawah pengaruh persepsi iklim sinergi iaitu keyakinan dan kuasa yang sah, pengurangan cukai pada mulanya oleh peserta dikurangkan selepas mereka dimaklumkan tentang kebarangkalian dikesan dan dihukum.

Keseluruhannya, iklim sinergi mempengaruhi angkubah pematuhan sukarela merentasi reka bentuk dan kumpulan dalam kajian ini. Berbanding dengan kesusasteraan lepas, iklim sinergistik meningkatkan angkubah pematuhan dalam kalangan subjek eksperimen dan pasca siswazah. Hal ini berkemungkinan kerana pelajar universiti yang kurang pengalaman dalam memenuhi kewajipan cukai berhasrat untuk mematuhi iklim positif kerana takutkan keberangkalian dihukum selain daripada keinginan intrinsik untuk menyumbang kepada masyarakat. Kebanyakan individu yang bekerja sendiri secara khususnya, tidak terlalu dipengaruhi oleh penguatkuasa, dan tidak dipaksa untuk mematuhi iklim cukai.

Secara umum, ramai warganegara tidak peka mengenai undang-undang pengurangan cukai, terutamanya pada hal yang samar antara pengurangan cukai yang sah dan penghindaran cukai yang tidak sah. Ini mungkin menjelaskan isu 'validity' dan 'loadings', serta hubungan yang tidak penting antara angkubah pengurangan cukai dengan angkubah lain di semua kumpulan. Hubungan positif antara angkubah mengelakan cukai and penghindaran cukai, yang kedua-duanya adalah tidak sah, dengan iklim antagonistik telah dibuktikan antara kumpulan subjek kaji selidik. Tambahan pula, kedua-dua kovariat jantina dan semangat cukai berkaitan dengan beberapa angkubah dalam kumpulan yang berlainan.

Kesimpulan yang terhasil melalui kajian ini memberikan implikasi ke atas dasar dan teori, terutamanya mengenai penguatkuasaan yang ketat adalah berkesan dalam meningkatkan pematuhan sukarela dan mengurangkan pengurangan cukai secara haram hanya apabila persepsi keyakinan and kuasa dikekalkan. Pihak berkuasa dan kerajaan harus berusaha lebih keras dalam memperoleh kepercayaan rakyat dan bertindak adil ke atas kedua-dua pentadbiran cukai dan pengagihan cukai. Dari segi metodologi, penyelidikan tambahan untuk menjalankan eksperimen terkawal pada sampel pekerja dan perniaga pasti akan menyumbangkan kebaikan untuk penyelidikan masa depan.

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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TABLE OF CONTENTS

	Page
ABSTRACT	i
ABSTRAK	iii
ACKNOWLEDGEMENTS	v
APPROVAL	vi
DECLARATION	viii
LIST OF TABLES	xiv
LIST OF FIGURES	xvi
LIST OF ABBREVIATIONS	xvii
CHAPTER	
1 INTRODUCTION	1
1.1 Background of this Study	1
1.2 Brief Overview of Tax Gap and Tax Minimisation	3
1.3 Problem Statement	6
1.4 Research Objectives	8
1.5 Research Questions	8
1.6 Significance of the Study	9
1.7 Outline of the Study	11
2 OVERVIEW OF TAXATION	12
2.1 Introduction	12
2.2 Tax Revolution: Definition of Tax Evasion, Avoidance, and Mitigation	12
2.3 Tax Revenues and Structure of Malaysia from Asia's perspective	15
2.4 Direct Tax in Malaysia	18
2.4.1 Direct Tax Authority	21
2.4.2 The Income Tax Act 1967 - Reforms and Definition of Tax Non-Compliance	22
2.4.3 Direct Tax Audit	22
2.5 Chapter Summary	26
3 LITERATURE REVIEW	27
3.1 Introduction	27
3.2 Relevant Theoretical Foundation	27
3.2.1 Economic Deterrence Model - Expected Utility Theory	27
3.2.2 Motivational Posturing Theory and Responsive Regulation	29
3.2.3 Slippery Slope Framework	35
3.3 Prior Empirical Studies	40
3.3.1 Tax Enforcement versus Tax	41

	Morale	
	3.3.2 Trust, Power, Compliance Quality and Strategic Tax Behaviour	43
	3.4 Demographic Determinants	47
	3.5 Chapter Summary	48
4	RESEARCH FRAMEWORK AND HYPOTHESES DEVELOPMENT	49
	4.1 Introduction	49
	4.2 Research Framework of This Study	49
	4.3 Preliminary Hypotheses (H1 – H6)	51
	4.4 Primary Hypotheses (H7 – H8)	55
	4.4.1 Disclosure of Enforcement Strategies and Tax Minimisation (by percentage)	56
	4.4.2 Tax Climates, Compliance Quality, and Tax Minimisation Behaviour	57
	4.5 Chapter Summary	60
5	RESEARCH METHODOLOGY	61
	5.1 Introduction	61
	5.2 Research Design - A Multi-Method Approach	61
	5.3 Instrument and Sampling Procedures	64
	5.3.1 Classroom Experiment	64
	5.3.2 Experimental Survey	65
	5.4 Variable and Measurement	68
	5.4.1 Measurement of Tax Climates: Synergistic Climate and Antagonistic Climate	69
	5.4.2 Measurement of Tax Compliance Quality: Voluntary Compliance and Enforced Compliance	70
	5.4.3 Measurement of Tax Minimisation	71
	5.4.4 Measurement of Tax Decision and Disclosure of Enforcement Strategies	72
	5.4.5 Measurement of Perceived Tax Cheating	73
	5.5 Data Analysis Techniques	73
	5.6 Pilot Study	75
	5.7 Chapter Summary	75
6	RESULTS AND DISCUSSION	77
	6.1 Introduction	77
	6.2 Distribution for Classroom Experiment and Experimental Survey	77

6.3	Exploratory Data Analysis	79
6.4	Testing Goodness of Data	82
6.4.1	Reliability and Construct Validity	83
6.4.2	Internal Validity- Manipulation Check	88
6.5	Frequency Analysis	92
6.5.1	Frequency Analysis of Demographic Variables- Experiment	92
6.5.2	Frequency Analysis of Demographic Variables- Survey	94
6.5.3	Frequency Analysis of Categorical Variables- Experiment	102
6.5.4	Frequency Analysis for Categorical Variables- Survey	109
6.6	Testing of Hypotheses	118
6.6.1	Preliminary Hypothesis One (RQ1)	120
6.6.2	Preliminary Hypothesis Two (RQ1)	121
6.6.3	Preliminary Hypothesis Three (RQ1)	121
6.6.4	Preliminary Hypothesis Four (RQ2)	123
6.6.5	Preliminary Hypothesis Five (RQ3)	125
6.6.6	Preliminary Hypothesis Six (RQ3)	126
6.6.7	Primary Hypothesis Seven (RQ4)	128
6.6.8	Primary Hypothesis Eight (RQ5)	129
6.7	Discussion on the Preliminary Hypotheses	138
6.7.1	Preliminary Hypotheses One to Three (RQ1)	138
6.7.2	Preliminary Hypotheses Four (RQ2)	141
6.7.3	Preliminary Hypotheses Five and Six (RQ3)	143
6.8	Discussion on the Primary Hypotheses	145
6.8.1	Primary Hypotheses Seven (RQ4)	145
6.8.2	Primary Hypothesis Eight (RQ5)	147
6.8.3	One-Sample Analysis on Pre- and Post-VIVA Experimental Samples	150
6.9	Chapter Summary	152

7	CONCLUSION AND RECOMMENDATIONS FOR FUTURE RESEARCH	153
7.1	Introduction	153
7.2	Recapitulation and Summary of Findings	153
7.3	Implications and Contributions	157
7.4	Limitations and Recommendations for Future Research	161
7.5	Chapter Summary	162
	BIBLIOGRAPHY	163
	APPENDICES	175
	BIODATA OF STUDENT	204
	LIST OF PUBLICATIONS	205



LIST OF TABLES

Table		Page
1.1	Dimensions and definitions of main constructs of this study	3
1.2	Shadow economy to GDP ratio	6
2.1	Characteristics and intent of tax minimisation	14
2.2	Tax structures in Malaysia	16
2.3	Taxes on income and profit as percentage of total tax revenue	17
2.4	Legislations for different tax classifications	18
2.5	Direct tax revenue as percentage to total tax revenue	19
2.6	Classifications of direct tax revenue	20
2.7	Audit performance according to selected industries	25
3.1	Economic and psychological determinants of tax compliance	40
5.1	Main differences between external validity and ecological validity	63
5.2	Appropriate sample size to represent the population of interest	67
5.3	Data analysis techniques used in hypotheses testing	74
6.1	Summary of survey distribution and response rate	78
6.2	Computation of continuous variables	79
6.3	Descriptive statistics of continuous variables by tax climate treatment	80
6.4	Outer loadings- Experiment	84
6.5	Convergent validity and discriminant validity- Experiment	85
6.6	Outer loadings- Survey	86
6.7	Convergent validity and discriminant validity- Survey	87
6.8	Correlation matrix of manipulation check variables	90
6.9	Box's Test and Levene's Test of manipulation check variables	91
6.10	Tests of between-subjects' effects of manipulation check variables	92
6.11	Descriptive statistics of manipulation check variables by tax climate	92
6.12	Demographic profile of experimental subjects	93
6.13	Demographic profile of survey respondents	94
6.14	Cross-tabulation of employment status versus group, education level, and company type for survey respondents	101
6.15	Frequency analysis of categorical variables- Experiment	103

6.16	Cross tabulation of tax decision before and after disclosure of probability of detection- Experiment	107
6.17	Cross tabulation of perceived tax cheating versus gender and ethnicity- Experiment	108
6.18	Frequency analysis of categorical variables- Survey	109
6.19	Cross tabulation of tax decision before and after disclosure of probability of detection- Survey subgroups	113
6.20	Cross tabulation of perceived tax cheating versus gender, ethnicity, age, and marital status- Survey	117
6.21	Independent-Samples t-test on tax climate	123
6.22	Descriptive statistics of dependent variables by tax climate- Experiment and survey	124
6.23	Correlation matrix of dependent variables- Experiment	131
6.24	Correlation matrix of dependent variables- Survey	131
6.25	Box's Test and Levene's Test of dependent variables- Experiment and survey	134
6.26	MANCOVA- Experiment and survey by subgroup	135
6.27	Descriptive statistics of dependent variables by tax climate- Experiment and survey subgroup	136
6.28	Summary of H1 – H3 preliminary hypotheses testing (RQ1)	138
6.29	Summary of H4 preliminary hypotheses testing (RQ2)	141
6.30	Summary of H5 – H6 preliminary hypotheses testing (RQ3)	143
6.31	Summary H7 primary hypothesis testing (RQ4)	146
6.32	MANCOVA- One-Sample analysis on experiment	151
6.33	Descriptive statistics of dependent variables by tax climate- One-Sample analysis on experiment	152

LIST OF FIGURES

Figure		Page
1.1	Tax Gap Map of the United States	4
1.2	Tax Gap (by categories) of the United Kingdom	5
2.1	Legality of Tax Minimisation Behaviour	15
2.2	Total Tax Revenues as Percentage of GDP	16
2.3	Direct Tax Revenue to Total Tax Revenue	19
2.4	Company and Individual Taxes as percentage of Direct Tax Revenue	20
2.5	Cases Resolved on Tax Audit and Taxes and Penalties	24
2.6	Growth on Company and Individual Tax Collections vs. Taxes and Penalties on Tax Audit	24
3.1	Tax Compliance Model	31
3.2	Responsive Regulation Framework	32
3.3	Slippery Slope Framework	35
4.1	Research Framework of this Study	51
5.1	Overview of SMEs in Malaysia by State	68
5.2	Labour Force in Malaysia	68
6.1	Scatterplots Matrix	89
6.2	Bar Chart of Demographic Profile for Experimental Subjects	93
6.3	Bar Chart of Demographic Profile for Survey Respondents	96
6.4	Bar Chart of Frequency Analysis of Categorical Variables- Experiment	104
6.5	Bar Chart of Frequency Analysis of Categorical Variables- Survey	110
6.6	Scatterplots Matrix of Dependent Variables	130

LIST OF ABBREVIATIONS

ATO	Australian Taxation Office
CTIM	Chartered Tax Institute of Malaysia
DG	Director General
DOSM	Department of Statistics Malaysia
GAAR	General Anti-Avoidance Rules
GDP	Gross Domestic Product
GNP	Gross National Product
GST	Goods and Services Tax
HMRC	Her Majesty's Revenue and Customs
IRBM	Inland Revenue Board of Malaysia
IRS	Internal Revenue Service
MoF	Ministry of Finance
NST	New Straits Times
OECD	Organisation for Economic Co-operation and Development
SAS	Self-Assessment System
SMCs	Small and Medium Corporates
SPSS	IBM Statistical Package for the Social Sciences Statistic software
SST	Sales and Service Tax

CHAPTER 1

INTRODUCTION

1.1 Background of this Study

Tax compliance is the degree to which taxpayers comply with tax law in filing their tax returns accurately and paying their tax liabilities in a timely manner (Kinsey, 1986). According to Braithwaite (2007), tax compliance outcome is an individual's behaviour to either comply or to infringe tax compliance standards. Compliance quality varies, however, and has been classified as voluntary compliance or enforced compliance in the existing literature (Kirchler, 2007). According to Perez (2014), voluntary compliance refers to positive tax compliance behaviour where taxpayers declare their income honestly, file their tax returns on time, and make accurate tax payments willingly. On the other hand, enforced compliance refers to negative tax compliance behaviour where taxpayers are forced to fulfil their tax obligations in order to prevent themselves from deterrent actions imposed by the authorities. Kircher, Hoelzl, and Wahl (2008) claimed that voluntary compliance increases under a prevailing synergistic tax climate, while enforced compliance increases under a prevailing antagonistic tax climate.

While tax climate varies in the form of synergism and antagonism (Bătrâncea, Nichita, & Bătrâncea, 2014), a synergistic climate is characterised by "service and clients" attitude, and is maintained through the relationship of mutual trust between citizens and the authorities, as well as the perceived legitimate power of the authorities by the citizens (Kirchler et al., 2008; Lozza & Castiglioni, 2018). In contrast, an antagonistic climate is characterised by the "cops and robbers" attitude (Kirchler et al., 2008). It exists due to the perceived untrustworthiness of the authorities and the perceived coercive power of authorities by the citizens (Kastlunger, Lozza, Kirchler, & Schabmann, 2013).

Several scholars believe that taxpayers are indeed more honest in paying taxes than expected without resorting to tax evasion or avoidance (Frey & Torgler, 2007; Kirchler et al., 2008). However, this contradicts the prominent economic theory of crime (Becker, 1968) and expected utility maximisation (Allingham & Sandmo, 1972), which propagate that higher penalties, tax rates, and probabilities of detection promote tax compliance. Therefore, the research paradigm of individual tax behaviour has been expanded into socio-psychological factors that are not limited to the perceptions of trust, power, fairness, morale, and conditional cooperation behaviour (Braithwaite, 2011; Daude, Gutierrez, & Melguizo, 2012; Torgler, 2003; Turner, 2005; Lavoie, 2008).

In 2008, Kirchler, Hoelzl, and Wahl organised previous economic and socio-psychological studies using the *slippery slope framework* to further explore the understanding of tax compliance behaviour. They posited that a synergistic tax climate attracts voluntary compliance, whilst an antagonistic tax climate attracts enforced compliance, in which tax minimisation behaviour is at maximum. Under an antagonistic climate, taxpayers are regarded as egoistic and non-cooperative profit maximisers with high strategic tax behaviour (Kirchler et al., 2008). These opportunistic taxpayers minimise their tax liabilities by taking advantage of the possible strategic tax planning within legality, which is known as tax avoidance. Even worse, some aggressive taxpayers deliberately infringe the tax laws, which is known as tax evasion.

Sandmo (2005) argued that evasion refers to violating the law in an explicit way, and avoidance could simply mean exploiting loopholes in the law within legality (Kasipillai, 2012). Ultimately, both avoidance and evasion will lead to a similar negative outcome of a reduction in the national revenue. Until recently, it has been widely argued from the tax authorities' perspective that tax avoidance is deemed to be aggressive and illegal by violating tax rules with artificial transaction (HRMC, 2018; also see Malaysia tax cases in Section 2.2), as opposed to tax mitigation, which is legal with commercial substance (Naban & Kumar, 2016). Individual and corporate taxpayers are allowed to mitigate their taxes with various exemptions or reliefs offered within the tax jurisdiction as intended for several reasons, for instance, to encourage self-protection among citizens (i.e., insurance relief), and to boost the economy by enhancing competitiveness and attractiveness to investors (Yusof, Lai, & Yap, 2014).

In the context of Germany, Blaufus, Hundsdorfer, Jacob, and Sunwoldt (2016) discovered empirically that the legality of tax minimisation will only be significant in affecting taxpayers' decisions where moral cost is present and deterrent actions are absent. This motivates the author to explore whether perceived tax cheating (i.e., a general tax morale question adopted from Alm & Torgler, 2006) and tax decisions affect compliance behaviour, which includes legal mitigation and illegal avoidance and evasion, as well as whether taxpayers minimise their tax liabilities due to legality and the disclosure of probability of detection and penalties in the context of Malaysia. In addition, this study further extends the application of the *slippery slope framework* (Kirchler et al., 2008) in the context of Malaysia by operationalising the perceptions of high trust in the authorities, high legitimate power and low coercive power of authorities as a "synergistic climate", or, otherwise, as an "antagonistic climate". It mainly aims to explore the impact of different tax climates on tax compliance quality (i.e., enforced compliance and voluntary compliance as mentioned in the beginning of this section) and tax minimisation behaviour (namely, tax mitigation, avoidance, and evasion) whilst controlling for gender and perceived tax cheating as covariates via classroom experiments and the survey design. In that both internal and external validity can be reasonably achieved through a multi-method research design, the causal relationships obtained will lead to concrete theoretical contributions in the tax behavioural research (Zellmer-Bruhn, Caligiuri, & Thomas, 2016).

Briefly, definitions of the main constructs related to this study are summarised and presented in Table 1.1 below.

Table 1.1: Dimensions and definitions of main constructs of this study

Construct	Definition
Tax climate dimensions (Lozza & Castiglioni, 2018):	
(a) Synergistic climate	legitimate power of authorities and trust in the tax system
(b) Antagonistic climate	coercive power of authorities and distrust in the tax system
Tax compliance quality dimensions (Kirchler, 2007; Perez, 2014):	
(a) Voluntary compliance	originated from the 'commitment' posture (Braithwaite, 1995). Regarded as the positive tax compliance behaviour where taxpayers declare their income honestly, file their tax returns on time, and make accurate tax payments willingly
(b) Enforced compliance	originated from the 'resistance' posture (Braithwaite, 1995). Regarded as the negative tax compliance behaviour where taxpayers are forced to fulfil their tax obligations in order to prevent themselves from deterrent actions imposed by the authorities
Tax minimisation dimensions (HRMC, 2018; Naban & Kumar, 2016):	
(a) Tax mitigation	legal transaction with commercial substance
(b) Tax avoidance	artificial transaction that bends the rules and is not within the spirit of law
(c) Tax evasion	deliberately infringe the tax laws
* Arguments are further justified in Section 2.2 in detail, with thorough definitions and characteristics pertinent to tax minimisation adopted from Payne and Raiborn (2015) outlined in Table 2.1	

1.2 Brief Overview of Tax Gap and Tax Minimisation

As non-compliance behaviour continues to be a worldwide problem (Yusof et al., 2014), the concern of authorities about the tax gap often leads to attempts to reduce tax evasion and increase voluntary compliance among taxpayers (Poesoro, 2015; OECD, 2010; Pentland & Carlile, 1996). The tax gap is the actual tax that should be collected against the amount that has been collected (HMRC, 2018). In developed countries like the United States, it has been estimated that the tax revenue losses per year due to tax evasion amount to approximately USD 100 billion (OECD, 2014). Later, at the time of this study in March 2018, the gross tax gap estimate of the U.S. from year 2008 to 2010

was \$458 billion. This is equivalent to 16.3% of tax liability, comprising non-filing (\$32 billion), under-reporting (\$387 billion), and underpayment (\$39 billion). In terms of the type of tax gap, \$458 billion was mainly composed of individual income tax (\$319 billion), followed by employment tax (\$91 billion) and corporate tax (\$44 billion). The tax gap map extracted from the Internal Revenue Service (IRS) Report is depicted in Figure 1.1 below.

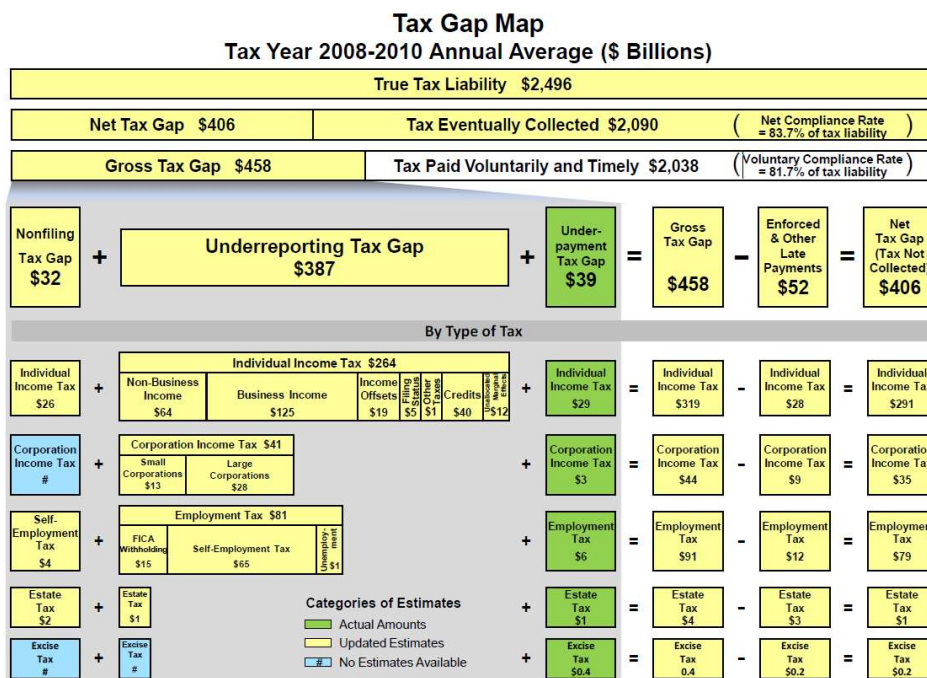


Figure 1.1: Tax Gap Map of the United States
(Source: IRS, 2016)

Next, having one of the lowest tax gaps in the world (HMRC, 2016), the latest tax gap estimates in the United Kingdom for year 2016 to 2017 was £33.4 billion, which is equivalent to 5.7% of tax liability (HMRC, 2018). Based on the tax gap categorised by behaviour, of the £33.4 billion tax gap, £3.2 billion was due to the failure to take reasonable care (£5.9 billion), followed by criminal attacks (£5.4 billion), legal interpretation and evasion (£5.3 billion each), non-payment (£3.4 billion), shadow economy and errors (£3.2 billion each), and avoidance (£1.7 billion). In particular, the shadow economy arises due to the misbehaviour of individuals who conceal business activities from the government, which includes illegal activities and unreported income, such as drug dealer broker or that of a plumber who does not declare his cash income (Poesoro, 2015; Picur & Belkaoui, 2006). The tax gap categorised by customer group, types, and behaviour extracted from the Her Majesty's Revenue and Customs (HMRC) Report is depicted in Figure 1.2 below; while the description of the behaviours contributing to the tax gap estimates of the UK (HMRC, 2018) is included in Appendix A.

Value of the tax gap: 2016-17



Figure 1.2: Tax Gap (by categories) of the United Kingdom
(Source: HMRC, 2018)

In Asia, on average, the shadow economy as a percentage of the gross national product (GNP) was 26% of which Malaysia achieved above average at 31% (Martinez-Vazquez, 2011). In the Europe and Central Asia region, the shadow economy to GDP ratio of Malaysia was 31%, as outlined in Table 1.2 (Khawaja & Iyer, 2014). As commented by OECD (2015), Malaysia has a narrow tax base with low tax burden, as evidenced by the 13.77% total tax revenue to GDP ratio in 2016 (the latest data available at the time of this study from The World Bank, 2018), and the tax gap is estimated at 20% to 30% (“Penalties for Undeclared Taxes,” 2016). Although tax gap estimates and methodologies are not officially available, according to the news, the IRBM CEO, Datuk Sabin Samitah, confirmed a shortage of RM 47 billion in direct tax collection from errant taxpayers in year 2015 and 2016, thereby maintaining a consistent tax gap of 20% (Nokman, 2017). In addition, out of the total population of 32 million people and a labour force of 14.7 million people, only 9.9 million were tax registrants, and only 2.27 million was paid in taxes (DOSM, 2018^a; “Individual Tax Base Small,” 2017). At the company level, only 168,244 paid taxes out of 1.2 million registered companies (“Individual Tax Base Small,” 2017). As also surmised by Yusof et al. (2014), both facts suggest high possibilities of tax evasion and tax avoidance, in addition to low tax burden and a narrow tax base.

Table 1.2: Shadow economy to GDP ratio

Countries other than European countries and Latin American countries	Shadow economy as % of GDP	Actual tax/GDP ratio	Tax revenue/GDP with shadow economy
Indonesia	18.85	17.27	16.26
Malaysia	30.76	21.31	19.34
Thailand	50.25	19.86	17.03
Tunisia	37.04	27.27	24.30
South Africa	27.18	28.76	26.39

Extracted from The World Bank (Khwaja & Iyer, 2014)

Despite past literature suggesting that stringent enforcement strategies would lead to an antagonistic climate with tax minimisation behaviour, specifically in the strategic form of tax avoidance and tax evasion (Braithwaite, 2007; Kirchler et al., 2008), the Inland Revenue Board of Malaysia (IRBM), also known as Lembaga Hasil Dalam Negeri, LHDN), holds and regards it as an appropriate compliance process to achieve voluntary compliance (IRBM, 2017; Loo, Evans, & Mckerchar, 2010). While some scholars have focused on evasion (Devos, 2008; Kastlunger et al., 2013; Pellizzari & Rizzi, 2014) and others on both evasion and avoidance (Kirchler & Wahl, 2010; Blaufus et al., 2016), very few studies have included and explored different dimensions of both compliance quality and tax minimisation behaviour, which comprises tax evasion, avoidance, and mitigation. These issues and research gap will be further discussed in the next section.

1.3 Problem Statement

One of the main challenges faced by the tax authorities is to achieve the desired tax compliance outcome, which is commonly known as voluntary compliance. Tax collection relies heavily on voluntary compliance, particularly with the implementation of the self-assessment system (SAS) in Malaysia. As the IRBM focuses on stringent enforcement strategies in achieving voluntary compliance (LHDN Report, 2017), the tax system seems to be efficient in that there was a relatively consistent number of cases being resolved with an accelerated amount of taxes and penalties collected through the tax audit (detailed data are presented in Section 2.4.3). Also, past academic studies in Malaysia concluded that individual taxpayers exhibited high voluntary compliance, especially after the implementation of SAS (Loo et al., 2010). Nevertheless, with the surging trend in respect of taxes and penalties on tax audit over years, it is questionable if voluntary compliance among taxpayers has been enhanced. It is argued that the number of tax audit cases and penalties should decrease substantially when the majority of the taxpayers pay tax voluntarily due to the intrinsic value of being part of the country.

In fact, contrary to the views of voluntary compliance achievement via stringent enforcement strategies from both the academic and tax authority perspectives, the preliminary observations based on tax audit data suggest that the likelihood of antagonistic climate persists with growing strategic tax behaviour and declining voluntary compliance. In other words, the more forceful the taxpayers perceive the implementation of enforcements in general, the more negative their reactions to challenge or cheat the tax system in return, by way of illegal tax compliance, such as tax evasion, or aggressive tax avoidance. In this regard, it warrants for more attentions and observations on tax decisions pertinent to tax minimisation under different prevailing tax climates, followed by the empirical findings of the relationships between tax climate, compliance quality and tax minimisation behaviour.

Bringing the contemporary issues back to the literature, inconsistent findings via pure economic deterrence factors have been vastly proven, such as the probability of detection and penalties (Fischer, Wartick, & Mark, 1992). In the context of Malaysia, it seems that the probability of detection and penalty increase compliance among taxpayers as well as tax agents (Hamid, 2014; Sia, 2008). However, Yusof et al. (2014) found from the actual tax data that penalties significantly reduce the compliance behaviour of Small and Medium Corporates (SMCs). Furthermore, it is rather ambiguous in the literature as to whether strategic tax behaviour or tax minimisation behaviour refers to tax avoidance, tax evasion or even tax mitigation. To date, there are very few empirical studies confirming the significance of tax legitimacy on tax minimisation behaviour, which comprises legal tax mitigation and illegal avoidance and evasion (Blaufus, Hundsdorfer, Jacob, & Sunwoldt, 2016).

Next, since the integration of economics and socio-psychological factors by the *slippery slope framework* would lead to critical clarification in achieving compliance and reducing illegal minimisation; socio-psychological factors, such as the relationships between trust, power, and compliance quality, which have been more commonly studied across developed countries, such as the United States and many European countries, might not be generalised to developing countries like Malaysia due to cultural differences (Faizal et al., 2017; Richardson, 2008). Specifically, concerning the *slippery slope framework*, studies in the West found that high power low trust leads to enforced compliance for both student and self-employed experimental subjects, while voluntary compliance is maximised via the perceptions of high trust plus high power by student subjects, which differs from the perceived low power high trust by self-employed subjects (Wahl, Kastlunger, & Kirchler, 2010; Kogler et al., 2013). In 2013, Kastlunger et al. explored further, and, based on a survey questionnaire disseminated to Italian self-employed entrepreneurs, confirmed that both trust and legitimate power increase voluntary compliance and decrease evasion; whilst coercive power increases enforced compliance and evasion. Conversely, in Malaysia, Chong et al. (2016) concluded that both trust and power increase compliance quality in general. Furthermore, Faizal et al. (2017) supported a positive relationship between trust and voluntary compliance, yet unexpectedly found that neither legitimate nor coercive power significantly affect the compliance quality. Further exploration and improvement

for more conclusive remarks are encouraged, such as a multi methodology of experiment and survey to enhance the validity of the framework, and the manipulation of the tax climate for its impact on compliance quality.

1.4 Research Objectives

Corresponding to the intrusive regulatory strategies exercised by the authorities and subjective perceptions of the citizens' tax behavioural intentions as mentioned in the previous section, this study aims to rectify some of the issues to achieve a deeper insight into these perceptions, whilst further tightening the gap between presumed versus the actual traits of citizens concerning tax compliance behaviour. In that this study mainly adapts the *slippery slope framework* (Kirchler, 2007; Kirchler et al., 2008), tax climate is manipulated either as synergistic or antagonistic; while tax compliance quality is composed of voluntary compliance and enforced compliance; and tax minimisation behaviour includes tax mitigation, tax avoidance, and tax evasion.

Since human behaviour pertinent to tax is rather complex and difficult to infer based on demographic factors, moreover, validity of the instrument is critical to derive valid empirical evidences; this study takes an initiative to assess whether several demographic and factors related to the design methods are different from each other in terms of their effects on compliance quality and minimisation behaviour (i.e., preliminary objective one). Several initial assessments (i.e., preliminary objective two and three) are also performed before fulfilling the fourth and fifth primary objectives, specifically as follows:

- RO 1: To determine the effect of gender, marital status, design methods and design subgroups respectively on the dependent variables, namely, compliance quality and minimisation behaviour.
- RO 2: To examine the effect of tax climate on the dependent variables.
- RO 3: To identify the relationships between perceived tax cheating, tax decision, and the dependent variables.
- RO 4: To investigate the effect of the disclosures of enforcement strategies and tax legality on tax minimisation (by percentage).
- RO 5: To explore the impact of tax climates on the dependent variables, by controlling gender and perceived tax cheating as control variables.

1.5 Research Questions

The research questions are structured according to the research objectives, based on the experimental and survey designs; as follows:

- RQ 1: Do gender, marital status, design methods, and design subgroups differ from each other respectively in terms of compliance quality and minimisation behaviour?
- RQ 2: Does tax climate have an effect on compliance quality and minimisation behaviour?
- RQ 3: Are perceived tax cheating and tax decision related respectively to

- compliance quality and minimisation behaviour?
- RQ 4: Is there a change in tax minimisation (by percentage) from pre-disclosure to post-disclosure of the enforcement strategies?
- RQ 5: Does tax climate have an impact on compliance quality and minimisation behaviour, setting gender and perceived tax cheating as covariates?

The corresponding hypotheses development will be thoroughly discussed in Chapter four.

1.6 Significance of the Study

There are many shortcomings in the classic economic models (i.e., A-S Model by Allingham and Sandmo, 1972; Theory of Crime by Becker, 1968) in explaining tax compliance behaviour, as it has been proven that higher tax audit and more severe penalties may not increase tax compliance (Alm, 1991; Kirchler et al., 2008). As a result, considerable tax behaviour literature has evolved taking into account the socio-psychological factors. Having said that, in Malaysia, stringent enforcement strategies have been empirically found to increase tax compliance among tax agents and individual taxpayers, yet decrease tax compliance among SMCs (Sia, 2008; Hamid, 2014; Yusof et al., 2014). This research is significant by investigating the effect of the disclosure of enforcement strategies on tax minimisation under different tax climates via a multi-method approach. From the practical aspect, the empirical findings of this study would improve the understanding of the effect of the enforcement strategies on tax minimisation behaviour in the local context. Consequently, these findings may serve as a reference for the tax authority in devising strategies to reduce non-compliance behaviour.

Fundamentally, this study examines the previously unexplored relationships and processes by justifying ground predictions with existing models, which provides a high level of contribution to the body of knowledge. In Malaysia, many tax compliance studies were conducted with independent variables, such as penalties, probability of detection, marginal tax rate, education, moral, tax knowledge, perceived fairness, tax competencies, gender, and ethnicity (Yusof et al., 2014; Loo et al., 2010; Palil, 2010; Kamaluddin & Madi, 2005; Kasipillai, 2006); but very few addressed how tax climates lead to different compliance quality and different levels of tax minimisation behaviour. Commented by Lisi (2012), there are very little empirical guidance in respect of the *slippery slope framework*. Although Chong et al. (2016), and Faizal et al. (2017) adapted the *slippery slope framework* (Kirchler, 2007; Kirchler et al., 2008) in the context of Malaysia, at the time of this study, manipulation and experimental design to secure better internal validity of the framework have not been carried out in Malaysia due to its complexity.

In this study, tax climate is operationalised by 'trust in government', 'legitimate power', and 'coercive power' (Kastlunger et al., 2013; Gangl, Hofmann, &

Kirchler, 2015). It has been classified into two dimensions, namely, antagonistic climate and synergistic climate (Kirchler et al., 2010; Bătrâncea et al., 2014). Tax climate is manipulated into two treatment groups to investigate the causal relationships with both compliance quality and tax minimisation behaviour via a classroom experiment. External validity is further confirmed by conducting a survey. From the methodological aspect, as experimental research supports the causal relationships proposed in the theory, strong theoretical contributions can be made provided that the internal validity and external validity are reasonably achieved.

Since this study adapts the *slippery slope framework*, specifically, it is acknowledged that two dimensions of compliance quality will be attracted under different tax climates, either positively or negatively (Lisa, 2012). It is critical to further investigate whether a synergistic tax climate leads to positive compliant behaviour, namely, voluntary compliance, while reducing tax minimisation, particularly tax evasion and avoidance. In addition, it is crucial to examine whether antagonistic tax climate leads to negative compliant behaviour, namely, enforced compliance, while increasing tax minimisation, particularly tax evasion and avoidance. As mentioned in Section 1.3, studies conducted in various developed countries that focused on compliance quality might not have consistent results in developing countries like Malaysia due to cultural differences (Faizal et al., 2017; Richardson, 2008). More importantly, this study contributes due to the importance yet lack of research investigating the effect of tax minimisation dimensions, which comprise legal mitigation, illegal avoidance, and illegal evasion in the past.

To elaborate further, as trust has been proven to increase tax morale (Frey & Torgler, 2006), and tax morale increases tax compliance for both evaders and non-evaders (Devos, 2008), it would lead to a clearer inference concerning the impact of the tax climate on tax compliance and tax minimisation by holding perceived tax cheating (i.e., tax morale construct developed by Alm & Torgler, 2006) constant as a control variable.

All the above clarifications are believed to be significant and specific in leading towards more reliable results. In addition to contributing to the body of knowledge, they are more pragmatic, explainable and applicable in a practical setting. At the end of this study, the inferences made will lead readers to an understanding concerning the cause and effect of tax climates, compliance quality, and tax minimisation behaviour in the context of Malaysia. Moreover, this study will also be significant to policymakers by justifying the current policy implications and tax climate; and outlining possible guidelines for policy interventions and implementations, which, hopefully, will lead to a better quality of compliance behaviour.

1.7 Outline of the Study

The remainder of the research is structured as follows:

Chapter two provides an overview of taxation, which begins with a brief history of tax and tax revolution; followed by Malaysia's tax revenues and structure; then it provides an overview of direct tax in Malaysia, including the tax authority, tax law, and tax audit with regard to cases resolved, and taxes and penalties on tax audit.

Chapter three reviews the literature pertinent to the theoretical foundations, mainly on the expected utility theory, motivational posturing theory, and the *slippery slope framework*, followed by a review of prior empirical studies. Subsequently, research model and hypotheses are developed in Chapter four in accordance with the research objectives.

Chapter five specifically discusses the research methodology by outlining the research design, sampling procedure and instruments. This is followed by a detailed breakdown of the measurement of scales, data analysis techniques applied in accordance with the hypotheses, and a brief discussion of the pilot test in terms of the clarity and reliability of the instrument.

Chapter six reports the distributions of this study before data cleaning is conducted via exploratory data analysis. Subsequently, the reliability and validity are tested and thoroughly analysed to ensure that the decisions for removing and retaining the data are carried out appropriately. Upon finalisation of the samples and items of the variables, frequency analysis is performed followed by various univariate and multivariate analyses to make inferences for the hypotheses formulated in Chapter four.

Chapter seven summarises the research in general with concluding remarks in terms of the results and findings. The contributions and implications are humbly presented from the theoretical and practical perspectives. Finally, based on the experience after the tremendous effort in carrying out the research work, this chapter concludes with a deliberation on the limitations, future directions, and recommendations on individual tax behavioural research.

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