THE IMPACT OF TAX AWARENESS AND TAX KNOWLEDGE ON TAX NON-COMPLIANCE FROM THE PERSPECTIVE OF POTENTIAL TAXPAYERS

Siti Norashikin Ishak[1*], Azwanis Azemi[2], Mohd Hadli Shah Mohd Yunus[3], Najwa Abdul Talib[4]

[1] Institute of Professional Studies, Universiti Poly-Tech Malaysia, Malaysia
    Email: norashikin_i@uptm.edu.my
[2] Institute of Professional Studies, Universiti Poly-Tech Malaysia, Malaysia
    Email: azwanis@uptm.edu.my
[3] Institute of Professional Studies, Universiti Poly-Tech Malaysia, Malaysia
    Email: mohd_hadli@uptm.edu.my
[4] Institute of Professional Studies, Universiti Poly-Tech Malaysia, Malaysia
    Email: najwa@uptm.edu.my
[*] Corresponding Author

Article Info:

Abstract:

Taxpayer Non-Compliance may cause the failure of not achieving the tax revenue target in Malaysia. One of the groups of taxpayers is the individual taxpayer. Thus, the Malaysian government has worked on some strategies to optimize the tax collection from this group. Regarding this matter, the researcher is interested in studying the impact of tax awareness and tax knowledge on taxpayer non-compliance among potential taxpayers. The theory applied in this research is the Theory of Planned Behaviour (TPB). This study used a survey method among accounting background final year students of the Bachelor of Accountancy and Association of Chartered Certified Accountants (ACCA) program at Universiti Poly-Tech Malaysia Kuala Lumpur (UPTM). The sampling method used was proportional random sampling and the data collected were analyzed using Statistical Package for the Social Sciences (SPSS). The results show that there is a negative relationship between tax awareness and tax knowledge towards tax non-compliance. This means that if these taxpayers possess a high level of tax awareness and knowledge, the possibility of tax non-compliance is lower. Therefore, in this study, the value added to the tax research is that tax education should be implemented for tertiary students, regardless of whether they come from an accounting or non-accounting background. This is because tertiary students who are also future taxpayers will have more awareness of the importance of tax as they have gained tax knowledge from the formal tax education delivered during their study at the tertiary level.

Introduction

A major source of Government revenue is from direct taxes, including income tax. Referring to the Inland Revenue Board of Malaysia (IRBM) 2019 Annual Report, the direct taxes collected in 2019 comprised corporate taxes (48.9%), personal income taxes (28.8%), and petroleum income taxes (14.3%). Other direct taxes (8%) include stamp duties, withholding taxes, and real property gains taxes. According to Kiow, Salleh, and Kassim (2018), as Malaysia experiences rapid economic growth, it is undoubtedly that tax to continuously be the main source of revenue for the Malaysian Government. In 2004, individual taxpayers in Malaysia were introduced to a new tax system known as the Self-Assessment System (SAS) by IRBM with the purpose of modernizing and fastening the tax payment and collection process. Since Malaysia introduced the SAS in 2004, an improvement in taxpayers' compliance rates is expected besides expediting the assessment process, reducing compliance charges, and smoothing the collection of tax revenue for the country. Under SAS, one of the main features is that taxpayers are able to calculate and manage their own tax matters. Therefore, meeting the ideal compliance level by the taxpayers is the main change in implementing SAS (Hassan, 2016). Thus, Kircher, Hoelzl & Wahl (2008) suggested that a high compliance rate may involve a lot of factors. They include penalties and fines, the chance of taxpayers being inspected, the tax rates, tax understandings, attitudes, tax norms, and the tax fairness which is usually perceived by taxpayers. This issue has become more serious as there are many cases of unintentional non-compliance, mainly in the early period phase of the introduction of SAS.

In Malaysia, non-complying with taxation among taxpayers especially non-corporate taxpayers still an issue that is yet to be resolved. According to the IRBM 2019 Annual Report, although there is an increase in the collection of tax, the percentage of tax collection has dropped from 100% in 2018 to 99.07% in 2019. This would be an indicator of the tax non-compliance increment among the taxpayers.

Table 1: Number of Tax Audits Carried Out in Malaysia by IRBM (2017 – 2019)

Year of Assessment	2019	2018	2017
Cases Resolved	1,334,680	1,339,427	1,322,704

Source: Annual Report 2017, 2018, and 2019 Inland Revenue Board Malaysia.

Additionally, Table 1.1: Number of tax audits carried out in Malaysia by IRBM (2017 – 2019) above shows the statistic on tax audit that has been carried out by IRBM to individual taxpayers from 2017 to 2019. Based on the figures, the trend of the number of cases resolved is increasing from the year 2017 to the 2018 year but it was decreasing from the year 2018 to 2019. Hence, this would be another indicator of the tax non-compliance issue among individual taxpayers. Indeed, it will never end in Malaysia if researchers do not continuously study the factors that contribute to tax non-compliance. According to James and Alley (2002), tax non-compliance is described as a failure of taxpayers to accommodate tax responsibilities whether they are performed unintentionally or intentionally.

Thus, tax non-compliance issues should be given continuous treatment in ensuring tax collectability which consequently increases the government revenue and then implements the government programs. It is seen that there is a need to review the factors that contribute to tax non-compliance, especially from other perspectives such as from the perspective of the potential taxpayers.

Previous studies such as Oh Teik and Lim (2011) have come out with factors such as age, income level, gender, and other influencers that may reduce tax compliance levels among taxpayers. Then, Palil and Rusyidi (2013) also mentioned the influence of tax knowledge and religiosity on the tax compliance level among taxpayers. Therefore, considering the previous studies, a review of the factors that contribute to tax non-compliance is needed. In this study, the researcher intends to investigate whether factors such as tax knowledge and tax awareness would impact the level of tax non-compliance from the perspective of undergraduate students of UPTM.

Literature Review

Tax Non-Compliance
As described by James and Alley (2002) in their study, non-compliance with tax is referred to as a taxpayer's failure to fulfill their responsibilities towards paying tax. Tax non-compliance can sometimes be performed unintentionally or intentionally. This is more worrying if the tax non-compliance is performed unintentionally. Tax non-compliance examples such as tax evasion and tax avoidance would cause devastation to tax collections.

Kasipillai, Aripin, & Amran (2003) estimated that evasion of tax is a conduct that may cause the taxpayer's liability reduction, furthermore, it is illegal. While tax avoidance is stating their tax concerns creatively, they all meet the requirements stipulated by the rules and regulations of the tax law with the intention to lower their tax liabilities.

Tax Awareness
Taxpayers' awareness is when taxpayers are mindful of the process of calculating and paying their tax liability on their own, as nowadays, the tax administrator is practicing SAS. Generally, when taxpayers have the awareness to fulfill the obligation of paying tax, it means they have morality towards the society and nation. An individual with a higher morality would feel ready and always voluntarily pay taxes as it is the responsibility of every citizen to pay taxes to ensure the sustainability of government spending (Siahaan, 2010).

Hence, based on the previous studies conducted, the following hypothesis 1 is developed:
H1: **There is a significant relationship between tax awareness and tax non-compliance among potential taxpayers in UPTM.**

Tax Knowledge

In 1982, Lewis (1982) discussed the association between knowledge and tax compliance. He inferences that the better knowledge that the taxpayers have, the more they will be able to understand tax law and as well as aware of any opportunities to avoid tax better.

However, according to Hassan, (2016) there is a boundary of the relationship between the tax knowledge and the tax compliance. The study further explains that at a certain level, the additional knowledge that the taxpayers have would sometimes not encourage them to comply, instead the taxpayers would rather evade the income when doing the tax return.

Hence, based on the previous studies conducted, the following hypothesis 2 is developed:
H2: **There is a significant relationship between tax knowledge and tax non-compliance among potential taxpayers in UPTM.**

Theory of Planned Behaviour (TPB)

The theory of Planned Behaviour (TPB) which was proposed by Ajzen (1991) suggested that an individual's behavior in every situation is not sudden in consequences of instances but is affected by various factors. Further, these factors rather shaping up the individual's behavior. According to him, as behaviors are shaped, then the intentions are generated by the individual's attitude towards behavior, subjective norm, as well as perceived behavior control. Ajzen (1991) explained that TPB is an elaboration of the Theory of Reasoned Action which adds perceived behavior control to the other two elements which are the individual's attitude and the subjective norm. Therefore, in this study, tax non-compliance is individual's the behavior being studied in this research. According to Teik Hai and Meng See (2011), tax non-compliance committed by individual taxpayers is a serious matter, further, it is, an expensive and universal problem. More seriously, unintentional tax non-compliance problem among taxpayers becomes even more momentous as the Self-Assessment System (SAS) is implemented. Thus, as past studies had extensively regarding several factors that encourage non-compliance in tax, review of the behavior of tax non-compliance should be reviewed from other perspectives. As such, in this study, the behavior of tax non-compliance and its factors being studied from the perspective of potential taxpayers have not been studied extensively.

Research Framework

Figure 1: The Research Framework
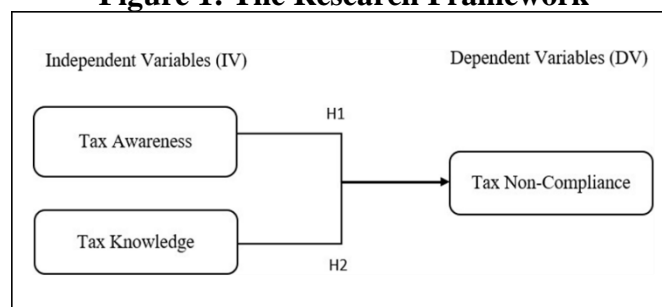
Research Methodology

As mentioned earlier, this study has implemented a quantitative approach. A set of self-administered questionnaires was prepared to gather the data primarily. Generally, in the quantitative method, statistics are used to signify the characteristics of the study's components. Therefore, for this study purpose, numbers will be used as indicators of the level of agreement towards the factors (tax awareness and tax knowledge) of tax non-compliance among future taxpayers in UPTM. As this is a study of correlation, the research conducted is only focusing on the relationship between the variables in this study.

The population is defined as the entire group of people, events, or things of interest that the researcher needs to investigate and make inferences (Sekaran & Bougie, 2016).

Table 2: Population Of the Study

Course	Enrolled
Association of Chartered Certified Accountants (ACCA)	146
Bachelor of Accountancy (Hons)	106
Total	252

Based on Table 2: Population of the study, the number of final-year students enrolled in the ACCA program is 146 while the number of final-year students who have enrolled in the Bachelor of Accountancy program is 106. The target population for this study is 252 students who registered for January to June 2023 session. The reason to only include the final-year students of both programs is that the maturity level among the final-year students is higher as compared to the lower-semester students. Thus, this could impact the result later.

Sekaran & Bougie, (2016) mentioned that sampling is a procedure to select a reasonable quantity of the right elements from the population determined earlier. This should be done so that it is possible to do the generalization of such properties or characteristics to the population elements. Thus, in determining the sample size for this study, the published formula for determining sample size formulated by Krejcie & Morgan (1970) is referred to. Referring to the table, if the population is 250, a sample size of at least 148 is required and therefore it is deemed appropriate.

This study is using a self-administered questionnaire. The questionnaire set has been distributed online to all students who are currently registered for the January until June 2023 session, for ACCA and Bachelor of Accountancy programs in UPTM. The questionnaire was distributed by sharing the link to the Google form of the questionnaire through the WhatsApp application.

Measurement of Variables

The measurement items that were applied in this study will not be adequate as compared to other areas of study. Hence, applying the Hair et.al. (1998) study, says that the measurement items can yield reliable information if it has the same direction, are inter-correlated between the variables, and are measurable.

Tax non-compliance is measured through four different incidences of tax non-compliance. A five-point Likert scale is employed, and respondents need to indicate the degree to which they agree with these four items of future action. Answers ranged from 1 being strongly disagree to 5 being strongly agree. High scores will indicate the high level of tax non-compliance among future taxpayers in UPTM.

Findings And Discussion

Correlation Analysis
To measure the strength and direction of the linear relationship between two variables, correlation analysis is carried out. Since the data do not violate the assumptions, a parametric test is used to compute the bivariate correlation coefficient, specifically using Pearson's correlation coefficient between tax awareness, tax knowledge, and tax non-compliance.

Correlation between Tax Awareness and Tax Non-Compliance
Table 3 shows the correlation between tax awareness (IV1) and tax non-compliance (DV). There is no statistically significant relationship that exists since $p > 0.05$, $p = 0.688$. However, there is a weak negative relationship between tax awareness and tax non-compliance where $r = -0.029$, and $r < 0.3$ which indicates a weak relationship. Nonetheless, based on the correlation analysis, the results indicate that as tax awareness increases, tax non-compliance will decrease.

Table 3: Correlation between Tax Awareness and Tax Non-Compliance

		Tax Awareness	Tax Non-Compliance
Tax Awareness	Pearson Correlation	1	-0.029
	Sig. (2-tailed)		0.688
	N	189	189
Tax Non-Compliance	Pearson Correlation	-0.029	1
	Sig. (2-tailed)	0.688	
	N	189	189

Correlation between Tax Knowledge and Tax Non-Compliance
Table 4 shows the correlation between tax knowledge (IV2) and tax non-compliance (DV). There is no statistically significant relationship that exists since $p > 0.05$, $p = 0.240$. However, there is a weak negative relationship between tax awareness and tax non-compliance where $r = -0.086$, and $r < 0.3$ which indicates a weak relationship. Nonetheless, based on the correlation analysis, the results at least indicate that as tax knowledge increases, tax non-compliance will decrease.

Table 4: Correlation between Tax Knowledge and Tax Non-Compliance

		Tax Knowledge	Tax Non-Compliance
Tax Knowledge	Pearson Correlation	1	-0.086
	Sig. (2-tailed)		0.240
	N	189	189
Tax Non-Compliance	Pearson Correlation	-0.086	1
	Sig. (2-tailed)	0.240	
	N	189	189

Multiple Regression

Pallant (2016) asserts that multiple regression is a crucial statistical technique utilized to ascertain the degree to which independent variables can accurately predict the dependent variable, which represents the outcome of interest. The outcomes of the multiple regression analysis conducted in this study reveal that the R^2 value is 0.355, signifying that 35.5% of the variance in the prevention of academic fraud can be accounted for by the independent variables, namely identity verification, monitoring, toilet visit procedures, punishment, and embarrassment.

Stevens (2012) recommended that samples for social science research be at least 15 respondents per predictor so that a reliable equation could be obtained. Therefore, this study should have a minimum of 30 respondents. According to Tabachnick & Fidell (2013), a formula is used for the calculation where sample size, $N > 50 + 8m$ (where m is the number of independent variables). Hence, based on these recommendations, this study should have more than 45 or 66 respondents respectively. The respondents for this study are 189 and that is sufficient to conduct the multiple regression analysis.

Table 5: Model Summary of Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.086[a]	0.007	-0.003	1.00295

a. Predictors: (Constant), Tax Awareness, Tax Knowledge

Based on Table 4.3, the value of R^2 is 0.007. This shows that tax awareness and tax knowledge can account for a 0.7% variation in tax non-compliance. This indicates that the remaining 99.3% of the variation in tax non-compliance remains unaccounted for which implies that there might be other variables that have an influence over it.

Conclusion and Future Direction

Based on Table 3, tax awareness has a *p*-value of 0.688 which is more than 0.05. This indicates that there is a negative relationship between tax awareness and tax non-compliance. Therefore, the null hypothesis is accepted and the H1 is rejected. The results align with the null hypothesis

that suggests tax awareness has a relatively small impact on tax non-compliance as it shows a *p*-value of 0.933 which is more than 0.05 and a standardized beta value of 0.007.

On the other hand, Table 4.2 shows that tax knowledge has a *p*-value of 0.240 which is also more than 0.05. This also indicates that there is a negative relationship between tax knowledge and tax non-compliance. Therefore, the null hypothesis is accepted and the H2 is rejected. The results align with the null hypothesis that suggests tax awareness has a relatively small impact on tax non-compliance as it shows a *p*-value of 0.269 which is more than 0.05 and a standardized beta value of 0.089.

The correlation is in line with past research in which tax awareness and tax knowledge will negatively influence tax non-compliance (Misra, 2004). However, the findings of this study lead to the conclusion that both tax awareness and tax knowledge have minimal impact on tax non-compliance. This may be due to the potential taxpayers might not want to pay the penalty for any of their tax offenses or they might think as tax residents, the amount of tax rate and other tax benefits such as personal relief are fair enough and not burden them. Therefore, tax awareness is common among potential taxpayers to have, as they are highly aware of their tax obligations towards the country. The same could be said for tax knowledge, as nowadays, basic tax knowledge is easy to obtain since the availability of information regarding tax is always ready to be reached such as the website of IRBM. This may suggest a lower impact of tax knowledge on tax non-compliance.

The findings of analyses done on the data of 189 respondents lead to some conclusions. Firstly, the study concludes that there is a negative relationship between tax awareness and tax non-compliance. Tax awareness shows that as a citizen, it is part of his or her obligations to comply with tax laws that is to declare tax honestly, to compute tax liability correctly, to do the tax returns, and to pay the tax payable within the stipulated time. The results show a negative relationship between tax awareness and tax non-compliance. This reflects that the potential taxpayers' awareness is increased, then the tendency to do non-compliance is decreased, and vice versa.

On the other hand, this study also concludes that there is a negative relationship between tax knowledge and tax non-compliance. Tax knowledge not only creates tax awareness but also provides a comprehension of how to comply with tax law and avoid tax non-compliance regardless intentionally or unintentionally. However, the result of the analyses of this study is indicating that there is a minimal impact of tax knowledge on tax non-compliance. This is due to the easy access of the tax e-filing system which guides the taxpayer on how to do their own tax assessment besides there is more other factors that can reduce the tax non-compliance. Previous pieces of literature also suggest that there is a certain level of knowledge that might prevent tax non-compliance however, sometimes tax knowledge could also lead the taxpayers to do the tax evasion which is a form of tax non-compliance (Hassan, 2016).

Both factors correlate with tax non-compliance and are in line with past literature in which tax awareness and tax knowledge negatively influence tax non-compliance. However, both factors affect tax non-compliance at minimal value negatively.

This study also has its own limitations. Firstly, the data collected is focused on final-year students of accounting background programs namely, ACCA and Bachelor of Accountancy who enrolled for the January until June 2023 session. Hence, the results are derived only from

the viewpoint of accounting background students and this does not consider the overall picture of UPTM's future potential taxpayers.

Besides that, the survey questions used are adapted from various literature which considers the general measurement of the variables for the real taxpayers who already experience paying tax. This may limit certain aspects of the study as these potential taxpayers may have limited tax awareness and tax knowledge as they are still studying full time and most of them are not earning income and paying tax.

Future researchers are encouraged to extend this study by employing more factors that might contribute to tax non-compliance. Furthermore, researchers also can study how to embed the spirit of tax compliance among these potential taxpayers so that in the future, tax collection can be improved and increased as well in ensuring the government can spend for the nation's development and administration.

Additionally, future research could expand the target population by collecting data from various programs, accounting as well as non-accounting backgrounds in order to add more literature regarding the importance of tax knowledge and introduction of tax education at the tertiary level for all courses in the future instead of only for accounting courses that are practiced currently in the Malaysian education system.

Acknowledgment

References

Ajzen, I. (1991). The theory of planned behavior, organizational behavior and human decision processes, vol. 50. *Cited in Hansen*, 93-114.

Ajzen, I. (2012). Values, attitudes, and behavior. In *Methods, theories, and empirical applications in the social sciences* (pp. 33-38). Wiesbaden: VS Verlag für Sozialwissenschaften.

Byrne, B. M. (2010). Structural equation modeling with AMOS: basic concepts, applications, and programming (multivariate applications series). *New York: Taylor & Francis Group*, *396*(1), 7384.

Cvrlje, D. (2015). Tax literacy as an instrument of combating and overcoming tax system complexity, low tax morale and tax non-compliance. *The Macrotheme Review*, *4*(3), 156-167.

Field, A. (2013). *Discovering statistics using IBM SPSS statistics*. sage.

Halim, H. A., Ahmad, N. L., Katmun, N., & Jaafar, H. (2015). Understanding and attitudes towards self-assessment taxation system: The case of Malaysian non-accounting undergraduates students. *Global Review of Accounting and Finance*, *6*(2), 110-122.

Hassan, N., Nawawi, A., & Puteh Salin, A. S. A. (2016). Improving tax compliance via tax education-Malaysian experience. *Management & Accounting Review (MAR)*, *15*(2), 1-20.

Hastuti, R. (2014). Tax Awareness And Tax Education: A Perception Of Potential Taxpayers. *International Journal of Business, Economics and Law*, *5*(1), 83–91. Ilhamsyah, R., Endang, M. G. W., & Dewantara, R. Y. (2016).

Ilhamsyah, R., Endang, M. G. W., & Dewantara, R. Y. (2016). Pengaruh Pemahaman dan Pengetahuan Wajib Pajak Tentang Peraturan Perpajakan, Kesadaran Wajib Pajak,

Kualitas Pelayanan, dan Sanksi Perpajakan Terhadap Kepatuhan Wajib Pajak Kendaraan Bermotor (Studi Samsat Kota Malang). *Jurnal Perpajakan (JEJAK)*, *8*(1), 1–9. https://doi.org/10.1017/CBO9781107415324.004

James, S., & Alley, C. (2002). Tax compliance, self-assessment and tax administration *[MPRA Paper]*. Retrieved 1 July 2013.

Kasipillai, J., Aripin, N., & Amran, N. A. (2003). The influence of education on tax avoidance and tax evasion. *eJTR*, 1, 134.

Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced versus voluntary tax compliance: The "slippery slope" framework. *Journal of Economic Psychology*, 29(2), 210-225.

Krejcie, R. V, & Morgan, D. (1970). Determining Sample Size for Research Activities. *Educational and Psychological Measurement*, *30*, 607–610. https://doi.org/https://doi.org/10.1177/001316447003000308

Lee, J.-S., & Carley, K. M. (2009). Predicting Intentional Tax Error Using Open Source Literature and Data. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2729255

Lewis, A. (1982). The social psychology of taxation. *British Journal of Social Psychology*, *21*(2), 151–158. https://doi.org/10.1111/j.2044- 8309.1982.tb00523.x

Misra, R. (2004). *The impact of taxpayer education on tax compliance in South Africa* (Doctoral dissertation).

Ojo, S. (1998). *Elements of Tax Management and Practice in Nigeria*. Sagribra Tax Publications.

Oladipupo, A. O., & Obazee, U. (2016). Tax Knowledge, Penalties and Tax Compliance in Small and Medium Scale Enterprises in Nigeria. *IBusiness*, *08*(01), 1–9. https://doi.org/10.4236/ib.2016.81001

Palil, M. R., & Rusyidi, M. A. (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*(1), 118–129.

Pallant, J. (2016). *SPSS Survival Manual: A Step by Step Guide to Data Analysis Using IBM SPSS* (6th ed.). Open University Press.

Savitri, E. (2015). The effect of tax socialization, tax knowledge, expediency of tax ID number, and service quality on taxpayers' compliance with taxpayers' awareness as mediating variables. *Procedia-social and behavioral sciences*, *211*, 163-169.

Sekaran, U., & Bougie, R. (2016). *Research Methods for Business: A Skill-building Approach* (7th ed.). Wiley (US).

Siahaan, M. P. (2010). Elementary tax law. *Graha Science: Yogyakarta*.

Sinnasamy, P., Bidin, Z., & Syed Ismail, S. S. (2015). A Proposed Model of Non- compliance Behaviour on Excise Duty : A Moderating Effects of Tax Agents . *Procedia - Social and Behavioral Sciences*, *211*(September), 299–305. https://doi.org/10.1016/j.sbspro.2015.11.038

Stevens, J. (2012). *Applied multivariate statistics for the social sciences*. Routledge, Cop.

Suryarini, Trisni dan Tarsis Tarmudji. (2009). Pengetahuan Perpajakan. Semarang: Universitas Negeri Semarang Press.

Swee Kiow, T., Mohd Salleh, M. F., & Md Kassim, A. A. (2017). The Determinants of Individual Taxpayers' Tax Compliance Behaviour in Peninsular Malaysia. *International Business and Accounting Research Journal*, *1*(1), 26–43. https://doi.org/10.15294/ibarj.v1i1.4

Tabachnick, B. G., & Fidell, L. S. (2013). Using Multivariate Statistics. In *Contemporary Psychology: A Journal of Reviews* (6th ed., Vol. 28). https://doi.org/10.1037/022267

Tek Hai, O., & See, L. M. (2011). Intention of tax non-compliance-examine the gaps. *International Journal of Business and Social Science*, *2*(7), 79-83.

Wallschutzky, I., & Singh, V. (1995). Opportunities for tax avoidance and tax evasion in the Malaysian income tax system. *Int'l Tax J.*, 21, 42.