



ADVANCED INTERNATIONAL JOURNAL
OF BUSINESS, ENTREPRENEURSHIP
AND SMES
(AIJBES)

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TAX COMPLIANCE AMONG SMES: A STUDY IN KEDAH MALAYSIA

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Article Info:

Article history:

Received date: 30.01.2026

Revised date: 19.02.2026

Accepted date: 16.06.2026

Published date: 25.06.2026

To cite this document:

Yusoff, S. N., Che Mansor, N. F. N., & Azmi, S. Z. (2026). Tax Compliance Among SMEs: A Study in Kedah Malaysia. *Advanced International Journal of Business Entrepreneurship and SMEs*, 8 (28), 485-500.

Abstract:

Small and Medium-sized Enterprises (SMEs) are significantly contributed to Malaysia's economy as one of the revenue sources. As one of the developing countries, SMEs able to gear up the economic growth, create job opportunities, and support government revenue. As SMEs continue to develop, they will assist and facilitate the innovation process and make industries more competitive. Despite the fact that SMEs play such a big role, many of them still face challenges when it comes to act of complying with tax laws. This is due to some business owners have limited knowledge on taxation, worried about tax penalties, and lack of trust towards the authorities. These issues may affect their ability to manage finances accordingly and could discourage their ability to expand their business. Therefore, this study focuses on three main objectives. First, to identify the level of tax compliance among SMEs in Kedah. Second, to examine how factors like tax knowledge, fear of penalties, and trust in authorities affect their compliance behaviour. Third, to explore whether differences in tax filing experience influence how SMEs handle their tax responsibilities. 100 questionnaires were distributed to SME owners in Kedah using convenience sampling, and the data was then analysed using non-parametric methods namely Spearman's Rho and the Kruskal-Wallis test to identify relationships and differences among the respondents. The results show that SMEs in Kedah generally have a moderate level of tax compliance. It was also found that tax knowledge, concerns about

penalties, and trust in authorities play an important role in influencing their behaviour towards tax compliance. The Kruskal–Wallis test shows a statistically significant difference in tax compliance across different levels of tax filing experience. This study aims to provide useful insights for policymakers, particularly in improving tax education, ensuring fair penalties, and building trust on the tax authorities.

DOI: 10.35631/AIJBES.828031 **Keyword:**

Small and Medium-Sized Enterprises (SMEs), Tax Compliance, Tax Knowledge, Tax Penalty, Trust in Authority



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Introduction

Taxation is one of the main sources of government revenue, and plays significant role in maintaining economic stability, thus ensuring that resources are equally distributed across society (Jensen, 2022). Malaysia's taxation system is governed by laws and regulations and serves not only as a source of revenue but also as a means of supporting social and economic development (World Bank Group, 2024). In Malaysia, direct taxes such as income tax and corporate tax are governed by the Malaysia Income Tax Act 1967. It describes how taxes are assessed and collected by the Malaysia tax authorities, purposely to ensure that the government has sufficient revenue to provide better public services such education, healthcare, transportation, and others. The quality of life of citizens can be improved accordingly, leading to better economic development. A comprehensive tax system will accommodate the needs of different levels of taxpayers, such as individuals and businesses. Importantly, it can support and facilitate their tax management efficiency, thereby promoting greater taxpayer compliance within the country.

Subsequently, Malaysian authorities need to develop strategic planning focused on more efficient tax collection methods with effective enforcement to boost up government revenue. Raising awareness of strict enforcement measures among taxpayers is essential to promote voluntary compliance. Several efforts can be implemented such as creating a symmetrical and transparent environment between taxpayers and tax authorities that fosters trust and encourages voluntary compliance. Consistency efforts could strengthen compliance behaviour among taxpayers, and this can be seen through timely tax filing submission, correct amount of tax declaration and reduction of tax evasion matter. Similar to other countries, tax revenue in Malaysia is also a major contributor to public revenue. In Malaysia, tax revenue accounts for approximately 79.5% of total government income and about 12.57% of the nation's GDP (Bernama, 2024). These funds are essential for supporting operating and development

expenditures and controlling the government's budget deficit (Aziz et al., 2022). However, the issues of non-compliance (tax evasion) remain a major concern and significant challenges for tax authorities. Non-compliant behaviour consequently reduces income tax collection and results in an imbalance between tax revenue and expenditure and distort economic growth by reduce the efficiency of resource allocation. (Aziz et al., 2024).

As presented in Parliament by the Prime Minister, revenue from direct and indirect taxes contributes significantly to national revenue. Personal income tax, such as salaries, business profits, property income, and investments, is part of direct taxation. Indirect taxes include Sales and Service Tax (SST), import and export duties, and excise duties. The reformation of the Inland Revenue Board of Malaysia (IRBM) has given greater administrative independence on tax administration. The effort can be seen through the modernization of Self-Assessment System (SAS), implementation of strategic tax enforcement and improvement of service efficiency. As an independent authority, IRBM is able to manage national revenue efficiently and transparently while promoting higher levels of taxpayer compliance.

Tax Compliance versus Tax Non-Compliance

Tax compliance refers to the responsibility of individuals and businesses to follow tax laws and fulfil their obligations to the government. Having greater numbers of compliance taxpayers able to minimize government enforcement cost. Examples of enforcement costs include audits and investigations; monitoring systems and administrative expenses associated with ensuring taxpayer compliance. The country is currently facing tax evasion issues that have led to a reduction in public revenue and primarily due to a lack of awareness among taxpayers regarding their responsibilities as compliant taxpayers. The measurement of compliant taxpayers includes submitting tax returns on time, reporting accurate information and following relevant tax regulations. To achieve the national objectives of taxation, enhancing taxpayer compliance is a major concern. All stakeholders play a crucial role in promoting voluntary tax compliance through effective enforcement, as well as increased awareness and education initiatives.

Meanwhile, non-tax compliance refers to the failure to comply with all applicable tax regulations such as underreporting income or overreporting deduction. Tax avoidance is not regarded as non-compliant behaviour. The concept of non-compliance behaviour can be clearly understood and measured in accordance with its definition, as the former involves a failure to comply with legal obligations while the latter involves legally minimizing tax liabilities. Common cases of tax avoidance among SME owners in Malaysia include income shifting, where a company moves income to reduce tax, such as giving part of the income to family members or shifting profits between companies (Ngah et al., 2021). In contrast to tax evasion, a company may be involved in keeping two sets of accounts: one set for actual business operations and another set that is deliberately modified and lowered for submission to the Inland Revenue Board of Malaysia (IRBM) (Kim et al., 2024). In Malaysia, IRBM has implemented various approaches to combat tax non-compliance among taxpayers, including both enforcement actions such as tax audits, tax investigations, tax penalties and fines, and legal prosecution. In addition, IRBM's efforts can be seen through clear guidelines and information, tax reliefs and calculators, as well as online payment systems. Taxpayers can use online banking and IRBM service centres to make payments more conveniently.

Although IRBM has carried out extensive tax enforcement, this issue still needs to be given further attention because enforcement measures alone are insufficient if taxpayers do not possess adequate tax knowledge. Symmetrical knowledge could assist taxpayers to be more compliant. IRBM should focus on educating taxpayers by providing clear guidelines and sufficient information, rather than relying solely on strict enforcement. Educational efforts such as tax seminars, online campaigns, and social media awareness initiatives can help improve taxpayers' understanding of tax matters, which in turn encourages greater compliance. Higher number of compliant taxpayers meant lower cost borne by tax authorities as it reduces non-compliant costs. Besides, a collaboration with other agencies also helps to strengthen tax administration. Currently, IRBM collaborates with banks and government agencies such as the Companies Commission of Malaysia (SSM) to obtain SMEs' financial and business information in order to detect unreported income. This collaboration provides greater opportunities for improvement through accurate data sharing and improved monitoring of SME companies. These efforts significantly contribute to create more transparent and effective tax system in Malaysia.

Small and Medium-Sized Enterprises (SME)

According to SME Corp (n.d), there are three important perspectives in defining Small and Medium-Sized Enterprises (SMEs), which are related to the Ministry of Human Resource, Central Bank of Malaysia, and IRBM. On December 27, 2017, the Central Bank of Malaysia revised the SME definition, which stated that SMEs in the manufacturing sector must ensure that they have a sales turnover of RM50 million or less, or they must ensure that they have no more than 200 full-time workers. On the other hand, SMEs in the services sector must ensure that they have a sales turnover of RM20 million or less, or they must ensure that they have no more than 75 full-time workers. A summary is as follows:

Table 1: SMEs Definition

Organization	Measures		
Central Bank	Sector	Sales turnover	Employee count
	Manufacturing	<RM50 million	<200
Ministry of Resource	Services and Others	<RM20 million	<75
	Number of Employees		
	Micro	<75	
	Small	76-200	
IRBM	Medium	>200	
	Paid up capital of	<RM 2.5 million	
	Annual sales turnover	<RM5 million	

Source: Salleh, M. A. A. B., Majid, W. Z. N. A., Marzuki, M. M., Zakaria, M., & Ibrahim, Z. The Acceptance of Digital Tax Administration among SMEs in Malaysia: The Application of UTAUT Model (2025)

In Malaysia, SMEs must be registered under the Companies Commission of Malaysia (SSM). However, certain types of companies are excluded from being classified as SMEs, such as Public Listed Companies, Multinational Corporations (MNCs), Government-Linked Companies (GLCs), and State-Owned Enterprises.

Small and Medium-Sized Enterprises (SMEs) Compliance

Small and Medium-sized Enterprises (SMEs) play an important role in Malaysia's economic growth and development. They make up about 98.5% of all businesses and contribute significantly to the country's tax revenue (Hamid et al., 2022). The expansion of SMEs has also had a positive impact on the Malaysian economy. It has played a significant role in facilitating the country's development through various business activities (Sana et al., 2020).

However, many SMEs still face challenges in meeting their tax obligations especially due to limited tax knowledge. A study by the Royal Malaysian Customs Department (RMCD) found that non-compliance is quite common among small businesses, with around 40% of Goods and Services Tax (GST) returns due to incomplete information (Thomas, 2017). Even though SMEs are key drivers of economic growth, unfortunately tax compliance continues to be a major issue. Many business owners face challenges due to insufficient tax knowledge and limited experience with the self-assessment system, and face difficulties in maintaining proper records. The cost of complying with these processes is high and places a greater burden on taxpayers' shoulders (Pope & Jabbar, 2008).

IRBM released statistics on non-compliance involving both individuals and businesses, totalling 31,598 cases in 2022. Consequently, the country faced a tax revenue deficit estimated at RM665 million (PwC, 2023). Similarly, in 2021, the government recorded nearly RM1 billion in lost tax revenue, highlighting the seriousness of the issue and the need to improve tax knowledge among taxpayers (IRBM, 2023). Malaysia is also ranked 44th globally in terms of tax evasion, showing that non-compliance remains a significant concern.

Table 2: Non – Compliance Cases Among SME in Malaysia

Category	Metric	2020	2021	2022
Revenue Loss due to Non-Compliance	Estimated Loss (RM billions)	6.2	6	6.34
Non-Compliances Rate	by Percentage (%) of SME's	23.00%	22.80%	24.10%
Global Ranking	Position in Global Tax Evasion Rankings	45 th	44 th	44 th
Tax Audits Conducted	Number of Audits (thousands)	530	550	570
Penalties Collected	Total Penalties Collected (RM millions)	1,250	1,300	1,350

Source: Md Radzi & Ariffin (2023) & IRBM (2016)

Based on Table 2, the amount of revenue lost due to tax non-compliance increased from RM6 billion in 2021 to RM6.34 billion in 2022 (IRBM, 2023). The rate of non-compliance among SMEs also rose from 22.80% in 2021 to 24.10% in 2022, indicating a growing compliance issue and the need for greater attention from tax authorities. Therefore, it is important to understand the factors that influence tax compliance among SMEs. By addressing these issues, policymakers can develop better strategies to improve compliance, reduce tax evasion, and support Malaysia's ongoing economic growth (San et al., 2023).

SME Compliance Determinant

The Role of Tax Knowledge in Shaping Compliance Behaviour

Tax knowledge refers to how well taxpayers understand tax laws, rules, and procedures (Abu Hassan et al., 2022). It is widely recognised as an important factor that influences how people behave when it comes to paying taxes. For example, studies by Sanusi et al. (2017) show that tax knowledge is a key factor affecting overall tax compliance. Similarly, Manual and Xin (2016) as well as Wasserman and Bornman (2020) highlight that it also shapes individuals' attitudes and perceptions towards their tax responsibilities.

Many previous studies have found a strong positive relationship between tax knowledge and tax compliance. This means that when taxpayers have a better understanding of the tax system, they are more likely to comply with tax regulations (Chan et al., 2016). Because of this, improving taxpayer education is important, especially in Malaysia, as it can help promote responsible tax behaviour. Insufficient tax knowledge can lead to non-compliance. When taxpayers do not fully understand tax rules, they may find it difficult to calculate their taxes correctly or meet their obligations. This can result in mistakes or unintentional non-compliance (Loo & Ho, 2005).

Trust in Authority

Trust in tax authorities and government institutions is another key factor that affects tax compliance behaviour. It is argued that when taxpayers feel that the tax authorities are efficient and act in a manner that is both transparent and fair, they will be more willing to comply. In such a case, trust is an important determinant in promoting tax compliance behaviour. According to Farrar et al., (2019), and Gangl and Torgler (2020), increased levels of trust towards tax authorities result in lower cases of tax evasion. In addition, when taxpayers view the government as serving the public interests, they will have a feeling of moral obligation in paying their taxes.

Similarly, Widuri and Irawan (2019) conducted a study across different countries and found a strong positive relationship between trust in government institutions and tax compliance. Their findings show that when taxpayers view authorities as credible, transparent, and efficient, they are more willing to comply voluntarily. These factors are essential in encouraging long-term tax compliance and strengthening the relationship between taxpayers and the government.

Tax Penalties

The correlation between tax penalties and tax compliance has been extensively discussed in tax and economic studies. Tax penalties specifically been used to encourage taxpayers to follow the tax rules. In other words, tax penalty act as a deterrent by making non-compliance less attractive and encouraging taxpayers to meet their obligations voluntarily. This idea is based on the Economic Deterrence Model introduced by Allingham and Sandmo (1972), which explains that compliance depends on the likelihood of being caught and the severity of the penalties imposed.

According to this model, taxpayers are viewed as individuals who make tax decisions based on two main factors, namely costs and benefits. They may compare the potential gains from not paying taxes such as through evasion or avoidance with all possible consequences, including tax audits or tax penalties. As a result, when they are aware that tax penalties are higher and enforcement by tax authorities is stricter, they tend to avoid engaging in this non-compliance risk, which could reduce the number of tax evasion cases. This theory is also supported by empirical studies, for example Ali et al. (2020) found that higher tax penalties have a significant positive effect on tax compliance among SMEs in Malaysia. This shows that stricter penalties can encourage improved compliance and reduce the likelihood of tax evasion especially among SME taxpayers.

Theoretical Framework

Two theories have been used in this study namely the Deterrence Theory and the Slippery Slope Framework to justify that tax compliance depends not only on the fear of punishment but also on the trust level towards tax authorities. The application of these theories helps explain how SMEs comply with tax rules and what factors influence it.

Conceptual Framework

Conceptual Framework of Tax Compliance Behaviour Among SMEs

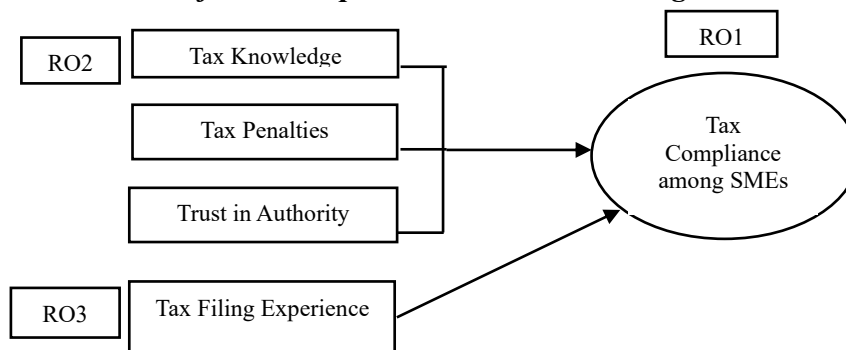


Figure 1: Conceptual Framework of Tax Compliance Behaviour Among SMEs

Research Gap

This study integrates two theories, namely Deterrence Theory and the Slippery Slope Framework. By integrating these theories, the study provides a more comprehensive explanation of SME tax compliance, especially in Kedah. Most existing studies in Kedah primarily focus on individual taxpayers rather than business owners (Nurul Izzah Izzati & Rosli, 2024) and research focusing specifically on SMEs in Kedah remains limited. (Shanmugam et al., 2025). Besides, many studies have examined tax compliance in Malaysia, however most of them have focused on broader national or urban settings (Palil & Mustapha, 2011; Saad, 2014). The previous studies also tend to analyse influencing factors separately. Therefore, it is important to examine this issue in order to gain a better understanding of SME compliance in Kedah.

Methodology

This is a quantitative, cross-sectional research design involving SME owners in Kedah. Kedah was selected because it has a large number of SMEs and contributes moderately to Malaysia's gross domestic product (about 3.3%) (DOSM, 2024; SME Bank Malaysia, 2025). Therefore, it provides a relevant, yet underexplored context compared to more developed states such as Selangor and Penang, where SME characteristics and compliance behaviour may differ due to higher income levels and more developed states. A total of 100 questionnaires were distributed among SME owners and received 85 % response rate or 85 returned questionnaires. After data screening, 80 questionnaires were considered valid and will be used for further analysis, resulting in a valid response rate of 80%.

The questionnaire is divided into five sections. Section A provides information on the demographic profile, Section B deals with the dependent variable, which is tax compliance. Section C deals with tax knowledge, Section D deals with trust in authority, and Section E deals with tax penalties. The questions in Sections B, C, D, and E are designed using a 5-point Likert scale, ranging from 1 to 5, where 1 stands for "Strongly Disagree," 2 stands for "Disagree," 3 stands for "Neutral," 4 stands for "Agree," and 5 stands for "Strongly Agree." Table 3 below summarizes the research objectives, questions, and data analysis techniques. There are five research questions and objectives, each of which uses different techniques for data analysis, as explained below:

Table 3: Summary of Research Questions, Research Objectives and Data Analysis

Research Questions (RQ)	Research Objectives (RO)	Data Analysis
1. What is the level of tax compliance behaviour of the micro business owners?	1. To identify the level of tax compliance behaviour of micro business owners.	Descriptive statistic (Mean)
2. What is the relationship between tax knowledge, tax penalties, and trust in authority on tax compliance behaviour of micro business owners?	2. To investigate the influence of tax knowledge, tax penalties, and trust in authority on the tax compliance behaviour of micro business owners.	Correlation (Spearman)
3. Does tax compliance differ among micro business owners with varying tax filing experience?	3. To examine the differences in tax compliance among micro business owners based on their tax filing experience.	Kruskal-Wallis H

Table 4: Reliability Analysis

Variables	Cronbach's Alpha Value	No. of Items	Decision
Tax compliance	0.982	7	Reliable
Tax knowledge	0.973	7	Reliable
Tak penalty	0.968	7	Reliable
Trust in tax authority	0.980	7	Reliable

For the coefficient of reliability, Cronbach's alpha values for tax compliance (0.982), tax knowledge (0.973), trust in authority (0.980), and tax penalty (0.968) were obtained.

Findings and Discussion

Respondents' Profile

Table 5: Respondents' Profile

No	Profile	Frequency	Percentage (%)
1.	Gender:		
	-Male	55	55
	-Female	45	45
2.	Tax Filing Experience		
	-Never	52	52.0
	-Once	13	13.0
	-2 - 5 Times	20	20.0
	-More Than 5 Times	15	15.0
3.	Types Of Business:		
	-Sole Proprietorship	12	12.0
	-Partnership	8	8
	-Cooperation	5	5
	-Limited Liability Partnership (LLP)	6	6
	-Private Limited Company (Sdn Bhd)	2	2
	Enterprise	67	67

Based on table 5, tax filing experiences varied among respondents, with 52% having never filed taxes, while 13% had filed once, 20% had filed between 2 to 5 times, and 15% had filed more than five times. In terms of business types, the majority were enterprises (67%), followed by sole proprietorships (12%), partnerships (8%), cooperatives (5%), limited liability partnerships (6%), and private limited companies (Sdn Bhd) (2%).

Descriptive Analysis

Research Objective 1:

RQ: What is the level of tax compliance among the micro business owners?

RO: To identify the level of tax compliance behaviour of micro business owners.

The primary objective of this study is to identify the level of tax compliance behaviour of micro business owners. To determine the level of tax compliance, three categories are applied: low, medium, and high.

Table 6: Level of Awareness

Level	Mean
Low	1.0 - 3.0
Medium	>3.0 – 4.0
High	>4.0 - 5.0

Source: Sekaran and Bougie (2013)

Table 7: Result of Descriptive Statistic Analysis

Statement	Mean	Mean Score Range
I consistently submit my tax returns on time.	3.14	Moderate
I accurately report all of my income on my tax returns.	2.91	Low
I am careful to calculate my tax liabilities correctly.	3.11	Moderate
I adhere to the tax payment schedules provided by the authorities.	3.07	Moderate
I make use of available deductions when filing my tax returns.	2.98	Low
I believe that fair tax policies encourage greater tax compliance.	3.15	Moderate
I find that the ease of the tax filing process increases my likelihood of complying with tax requirements.	3.16	Moderate

Table 7 demonstrates the descriptive analysis for each statement of the dependent variable, Tax Compliance. According to the findings, the highest mean value (3.16) was recorded for the statement, The ease of the tax filing process increases my likelihood of complying with tax requirements. This suggests that simplifying the filing process encourages compliance. The next highest mean value (3.15) relates to the belief that Fair tax policies encourage greater tax compliance. Respondents also indicated moderate agreement with statements such as I consistently submit my tax returns on time (3.14) and I adhere to tax payment schedules provided by authorities (3.07). The lowest mean values were observed for I accurately report all of my income on my tax returns (2.91) and I make use of available deductions when filing my tax returns (2.98).

Spearman Correlation Analysis

Spearman correlation was applied due to violation or normality assumption, and other assumptions being fulfilled.

Research Objective 2:

RQ: What is the relationship between tax knowledge, tax penalties, and trust in authority on tax compliance behaviour of micro business owners?

RO: To investigate the influence of tax knowledge, tax penalties, and trust in authority on the tax compliance behaviour of micro business owners.

Table 8: Spearman Correlation Analysis

		Correlation (Spearman's rho)		
		Tax knowledge	Tax penalty	Trust in authority
Tax compliance	Correlation coefficient	-0.750**	-0.683**	-0.719**
	Sig. (2-tailed)	<.001	<.001	<.001

** . Correlation is significant at the 0.01 level (2-tailed).

Based on table 8, the findings reveals that there is a strong negative correlation between tax knowledge and tax compliance, as demonstrated by the correlation coefficient ($r = -0.750$) and a statistically significant p-value (<0.01). A correlation of -0.750 indicates a very strong inverse relationship between tax knowledge and tax compliance. This suggests that as when individuals become more knowledgeable about taxation, their willingness or ability to comply tends to decrease significantly. The value of 0.750 suggests that tax knowledge is a major factor influencing compliance behaviour. Despite possessing extensive tax knowledge, some taxpayers still opt for non-compliance when they believe the chances of detection and penalties are low (Kirchler, Hoelzl, & Wahl, 2008). The finding reveals tax knowledge alone is insufficient to ensure full compliance, and it must be reinforced by robust enforcement measures.

The correlation analysis between tax penalty and tax compliance shows a high negative correlation with a correlation coefficient ($r = -0.683$) and a statistically significant value (< 0.01). The result consistency with Azrina, Ming Ling, & Bee Wah (2014) that the relationship between the tax penalties rate and tax non-compliance is insignificant. This study has been supported by Sapiei and Kasipillai (2013) and Kamdar (1997) that there is no relationship between the perceived tax deterrence sanctions and the non-compliance of corporate taxpayers. Taxpayers take risks in making decisions on compliance due to the low penalties and fines imposed by IRBM. Taxpayers tend to evade the compliance requirements due to the low penalties and fines imposed by IRBM (Mohdali, Isa & Yusoff, 2014).

The correlation analysis for trust in authority identifies a statistically significant negative relationship between trust in authorities and tax compliance, indicated by a correlation coefficient ($r = -0.719$), $p < 0.01$). This finding suggests that as micro business owners develop greater trust in government authorities and their tax compliance tends to decline rather than improve. Previous studies have revealed that people follow tax rules based on two major factors, namely psychological and institutional factors. Psychological factors refer to how people think and feel about taxation, such as fear of penalties or trust in the government. Institutional factors refer to the system and rules, such as tax laws, enforcement, and penalties. Generally, trust in government is frequently assumed to influence compliance behaviour, however different finding has revealed that the trust does not significantly affect taxpayers' compliance intentions (Taing and Chang, 2021). Although enforced compliance may improve taxpayer compliance, it can also lead to other issues, especially tax evasion (Kastlunger et al., 2013). Very strict penalties may reduce taxpayers' motivation to comply voluntarily.

Kruskal-Wallis H Analysis

Research Objective 3:

RQ: Does tax compliance differ among micro business owners with varying tax filing experience?

RO: To examine the differences in tax compliance among micro business owners based on their tax filing experience.

Table 9: Kruskal Wallis Analysis

	Tax Filing Experience	N	Mean Rank
Tax Compliance	Never	52	28.23
	Once	13	67.85
	2 - 5 Times	20	77.08
	More Than 5 Times	15	77.23
	Total	100	

Tax Compliance	
Kruskal-Wallis H	66.919
df	3
Asymp. Sig.	<.001

a. Kruskal Wallis Test

b. Grouping Variable: Tax Filing Experience

The Kruskal–Wallis test shows a statistically significant difference in tax compliance across different levels of tax filing experience ($\chi^2 = 66.92$, $p < .001$). It indicates that taxpayers with different levels of tax filing experience differently in terms of tax compliance. Therefore, there is sufficient evidence to reject the null hypothesis.

Conclusion and Recommendation

Based on the above findings, a key result confirms that the three factors have significantly influenced tax compliance among SME owners in Kedah. It suggests that factors such as tax penalties, level of tax knowledge and trust in authorities play an important role in determining how SME owners fulfil their tax obligations either by enforcement or voluntarily. Empirical evidence suggests that while tax enforcement can enhance taxpayer compliance, it may contribute to unintended consequences which is tax evasion. Tax authorities can mitigate this issue by assisting taxpayers in understanding proper tax compliance requirements. Existing taxpayers may become non-compliant unintentionally, not due to deliberate misconduct, but rather due to insufficient tax knowledge. Trust in the government and tax authorities is essential, as it shapes taxpayers' perceptions towards these institutions. A high level of trust can encourage voluntary tax compliance, whereas a lack of trust may hinder such behaviour. Accordingly, tax authorities must judiciously address this issue to foster a mutually supportive relationship between them. Therefore, trust-building initiatives should be designed carefully in a way to supports taxpayers, rather than weakens the trust of taxpayers.

In terms of tax knowledge, IRBM is encouraged to take a more proactive role in educating SME owners. This can be done by organising taxation workshops which can guide SMEs step by step on how to file their income tax accurately, such as tax calculation, especially for first time taxpayers. For instance, conducting hands on sessions which allow participants practice filling actual tax forms or using e-filing systems. It also can be done by providing simple online tutorials and running awareness campaigns through social media. This effort offers more opportunity for taxpayers to access latest information and help to them to be more well-informed taxpayers. Other initiatives include simplifying tax procedures to make them more taxpayer friendly. For example, this involves making the tax filing system simpler, faster, and more efficient for taxpayers. Tax authorities can also develop more user-friendly digital platforms, such as dashboards that clearly display tax obligations, deadlines, and payment status. It also will help to improve the overall experience especially first-time taxpayers.

Acknowledgements: We gratefully acknowledge the commitment and cooperation of all respondents who dedicated their time to completing the research questionnaire.

Funding Statement: No Funding.

Conflict of Interest Statement: No conflict of interest.

Ethics Statement: This study was conducted in accordance with ethical research standards. All procedures involving human participants were reviewed and approved by the [UiTM Cawangan Kedah], approval number [ERC/06/2024(ST/MR/2)]. Informed consent was obtained from all participants prior to data collection. Participation was voluntary, and respondents were assured of confidentiality and anonymity. The data collected were used solely for academic purposes.

Author Contribution Statement: First Author: Conceptualization, methodology, formal analysis, writing, review and editing.
Second Author: Data curation (managing, organizing, and entering the data into SPSS) and writing.
Third Author: Data curation (managing, organizing, and entering the data into SPSS) and writing.
All authors read and approved the final version of the manuscript prior to submission.

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