



The Ethical Perception of Individual Taxpayers in the Southern Region of Peninsular Malaysia

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Abstract

The past study showed that ethical issue had a significant impact on both ethical judgement and behavioral intention. Individuals with a high perception of the importance of ethical issue were less willing to act in the unethical manner. The objective of this study was to examine the role of gender in the relationship between tax service (TS) provided by government and social norms (SN) of individual taxpayers toward ethical perception (EP). The study received 127 usable responses from individual taxpayers in Johor, Melaka, and Negeri Sembilan. From the analysis, the results showed that there was significant relationship between TS provided by Inland Revenue Board (IRB) and EP of individual taxpayers. The result also indicated that the relationship between TS and EP was moderated by gender, male individual taxpayers. It showed that the online tax filing system, IRB employees services provided, and its physical environment have influenced on the taxpayers' EP, especially the male individual taxpayers. However, the results reported that both SN and female taxpayers have no impact on individual taxpayers' EP. Overall findings are expected to assist IRB in enhancing their policies and practices to increase the tax compliance among citizens.

Keywords: Tax Service; Social Norms; Gender; Ethical Perception

1. Introduction

Direct taxes, such as income tax, were a major source of government revenue. Direct taxes collected in 2012 comprised of corporate taxes (46.5%), personal income taxes (20.9%), and petroleum income taxes (25.6%). Other direct taxes (7%) included were stamp duties, withholding taxes, and real property gains taxes (Kasipillai, 2013). Tax revenue will undoubtedly continue to be the main source of income for the Government of Malaysia as the country experiences rapid economic growth. Self-assessment (SA) was introduced in Malaysia for individual taxpayers in 2004 with the expectation that SA would improve taxpayer compliance rates, speeds up the processing of assessments, reduced compliance costs, and facilitates revenue collection.

Increased tax compliance among individual taxpayers would help to reduce the budget deficit without raising taxes. Underreporting of income and/or overreporting of deductions was not surprising in the light of the Malaysian personal income tax was a progressive system, i.e., up to a maximum of 25%. According to Chandarasorn (2012) and Ho et al. (2012), both underreporting of income items and overreporting of expense items reduce tax liability. The past studies on this area have noted that this area of the study was important due to the existence of tax gap.

2. Literature Review

2.1. Tax service (TS)

TS was the intangible products supply by Inland Revenue Board (IRB). Malaysia has introduced electronic tax filing (e-filing) system in February 2006, which was on a voluntary basis. Since then, individuals and company taxpayers can submit their Income Tax Return Form electronically through the internet and IRB data showed that as at April 2012, nearly 75% of Malaysia taxpayers had filed their taxes online (Sipalan, 2012). Hence, for TS provided by IRB, we should look into two perspectives: (1) Electronic service on e-filing and (2) service delivery by IRB's front-line employees (FLE).

Islam et al. (2012) studied the influence of electronic service quality dimensions on e-filing users' satisfaction in the northern region of Malaysia. The findings of the research indicated that the information quality and service quality affect the users' satisfaction on e-filing system. In South Africa, tax revenue forms the backbone of the country's economy. The e-service provided by the South African Revenue Service was crucial as the service quality directly influences the burden of complying with tax obligations. As the e-service directly affects the tax compliance, there is a need to enhance the e-service system (Stiglingh, 2013). Service delivery occurs during the communications between FLE and customers. Therefore, attitudes and behaviors of the FLE can influence customers' perceptions of service quality (Schneider and Bowen, 1985) and tend to influence customer satisfaction (Munhurrin et al., 2010; Zeithaml and Bitner, 1996).

Originally, the issue of service quality was thought to be associated only to the private sector. With greater attention toward public sector, it was now realized that customer service and quality are key strategic issue that needs attention in such sector (Chen et al., 2015; Wisniewski, 1996). With the new administrative philosophy known as the New Public Management being evolved for the public sector, the issue of service quality was more critical (Proctor, 2007).

Tax offices provide several services to taxpayers, just like any other public sector organizations, the issue of service quality was also critical to tax offices as well. OECD (2007) identified three categories of services commonly provided by revenue offices, i.e., information, interaction, and transaction and described transaction as the core service while information and interaction service provides support to transaction. Ott (1998) also argued that tax administration should offer specialized services to citizens to offer better service to taxpayers. In the US, as the quality service of Internal Revenue Service (US government) was deteriorating, the taxpayers indicated that their satisfaction was low (Job and Honaker, 2003).

2.2. Social norms (SN)

SN was the rules of behavior that were considered acceptable in a group or society. People who did not follow these norms may be shunned or suffered with some kind of consequence. Norms changed according to the environment or situation and may change or be modified over time. In simple words, social norm was an expected form of behavior in a given situation.

Wenzel (2005) indicated that SN influenced the tax ethics. Wenzel (2005) also reported that ethics "motivates" tax compliance. Martinez-Vazquez and Torgler (2009) explored the evolution of tax morale in modern Spain with a return to democracy and incorporation into the European Union. They indicated that SN influenced tax morale. Similarly, Alm et al. (2006) highlighted the relevance of SN in tax compliance in Russia. Their outcomes showed that tax evasion has a negative impact on tax morale. Recent results of a survey of 217 U.S. taxpayers found support for the influence of social factors on tax compliance. The results concluded that SN influences compliance intentions indirectly through internalization as personal norms. Specifically, as the personal norms of tax compliance increased, this leads to a subsequent increased in compliance intentions (Jimenez and Iyer, 2016).

The tax compliance activity was a form of social interaction. The findings by Yong (2014) suggested that attitudes, subjective norms, perceived behavioral control, and moral obligation were significant predictors of students' intentions to engage in unethical behavior. The IRB enhanced tax

compliance through aggressive enforcement, with penalties and increasing the probability of detection to address non-compliance (Singh and Bhupulan, 2001). However, tax compliance was also influenced by sociological factors such as cultural norms and moral as well as psychological factors such as values and equity (OECD, 2004). In contrast, studies by Hallsworth et al. (2014) indicated that descriptive norms did not have the power to increase tax compliance.

2.3. Ethical perception (EP)

Ethics means doing the right thing and seeking to follow moral behavior. The study of ethics examined the conduct of an individual in light of their moral principles, addressing what was considered good and bad, or right and wrong (Alleyne et al., 2010). According to Wittmer (2000), EP was the relative awareness or recognition of the ethical dimensions within an ethical situation. EP plays an important role in the ethical decision-making process because the process begins with an individual's recognition that a decision situation has an ethical content.

Different individuals may view an ethical situation differently due to the importance of the issue. An individual may also view an ethical issue differently over time. An individual's ethical sensitivity, the closeness of the individual to those being affected by the issue, the influence of organizational factors on the individual, and recent experiences with outcomes from similar ethical situations also lead to different views. Therefore, there is a possibility in influencing ethical decision-making through manipulation of environmental, which will increase the importance of acting ethically. Environmental contexts may include rewards and punishments and an organizational culture, which continuously and visibly encourages and supports ethical decision-making (Daryl and Mark, 2007).

In addition, although tax education may be assisting taxpayers to file their tax returns, it should also focus on ethical values to ensure compliance by taxpayers (Kasipillai et al., 2003). Specifically, there was much evidence that ethics differ across individuals and these differences influence their compliance decisions. Several researchers (Alleyne et al., 2010; Landry et al., 2004) have contended that there was strong difference in EP between accounting and non-accounting business majors of Hispanic students. According to various studies, it appears that Malaysian individual taxpayers have high ethics and it has a significant influence on compliance behavior (Loo et al., 2012; Ho et al., 2006). A successful SA system required appropriate compliance among taxpayers. Another research by Loo and Sapari (2012) noted that majority of Malaysian taxpayers were considered ethical taxpayers.

2.4. Gender

The past studies have provided contradictory results as to whether gender causes differences in EP. Some researchers argued that men and women went through different moral development and therefore brought different sets of values to a profession. It is posited that this gender socialization (Betz et al., 1989) caused the ethical behavior of men and women to differ and they developed different work-related interests (Ameen et al., 1996). Men would seek competitive success and were more likely to break rules because they view achievement as competition. Women were more concerned with promoting harmonious relationships and doing tasks well.

Prior findings by overseas researchers have produced varied results in respect of gender as a demographic variable related to compliance. Nevertheless, there did appear to be greater support for the conclusion that females were more compliant than their male counterparts (Jackson and Milliron, 1986). Nonetheless, their attitudes tend to worsen with age to such a degree that elderly females have lower tax morale than elderly males (Cyan et al., 2016). In Malaysia, some researchers have found that gender was significantly related to the attitude of taxpayers toward compliance (Kasipillai et al., 2006; Mottiakavandar et al., 2004). On the other hand, it has also been found that no significant differences exist between males and females regarding their attitudes toward tax evasion and non-compliance (McGee and Ross, 2014; Kasipillai and Abdul-Jabbar, 2006; Perumal, 2008), or on their level of compliance (Al-Mamun et al., 2014; Kasipillai and Abdul-Jabbar, 2006), or their tax knowledge (Palil, 2005).

2.5. Conceptual framework

The conceptual framework for the study is shown in Figure 1.

3. Research Methodology

The study used a questionnaire survey of Malaysian taxpayers. The questionnaire was developed based on the previous literature (Palil, 2010; Ramseook-Munhurrin et al., 2010; McGee, 2006). There were four variables in the study, namely, TS, SN, gender, and EP. The TS consisted of six items. Higher scores indicated high satisfaction toward e-filing system, physical environment, and IRB employees. Meanwhile, SN represented by five items. Higher scores indicated high level of influence toward taxpayers' decisions to declare their taxable income. The EP consisted of five items. Higher scores indicated high ethical value of the taxpayers. All these measurements were evaluated using a 5-item Likert scale (1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; and 5 = strongly agree). In relation to gender, it was measured using dummy data: 0 = male and 1 = female.

In this research, the researcher used proportionate stratified random sampling by distributing 150 questionnaires to individual taxpayers in Johor, Negeri Sembilan, and Melaka, i.e. the southern region of Peninsular Malaysia, but only 127 usable responses were received. The population refers to the entire group of individual taxpayers in Malaysian. The researcher assumed the workforces' gender ratio was similar to entire population. Of 30.4 million population, 15.4 million (50.7%) were males and 15.0 million (49.3%) were females. In this situation, the researcher chooses stratified random sampling over other types of sampling as the researcher would like to highlight a specific subgroup (gender) within the population (Sekaran and Bougie, 2013). With regard to data analysis, this study used the Statistical Package for the Social Science to analyze the data to obtain meaningful information.

4. Data Analysis

The result of correlation is shown in Table 1.

In this research, the TS is positively correlated with EP. However, the SN is not correlated with EP.

A linear regression (Table 2) was conducted to examine the relationship between TS provided by IRB and EP of individual taxpayers. The $P = 0.015$ was < 0.05 , and therefore, the tests were considered as statistically significant at 0.05 level. Furthermore, the relationship between TS and EP was moderated by gender with $p = 0.039$. Given the significant result found and male with mean of 69.52 which was higher than mean of female of 58.56, it can be concluded that TS and EP relationship was stronger for male than for female individual taxpayers. It means that male individual taxpayers' EP was more influenced by TS provided by IRB compared to female.

A linear regression (Table 3) was conducted to examine whether there was statistically significant relationship between SN and EP of individual taxpayers. The $p = 0.317$ was higher than 0.05, and

Figure 1: Research framework for determinants of ethical perception

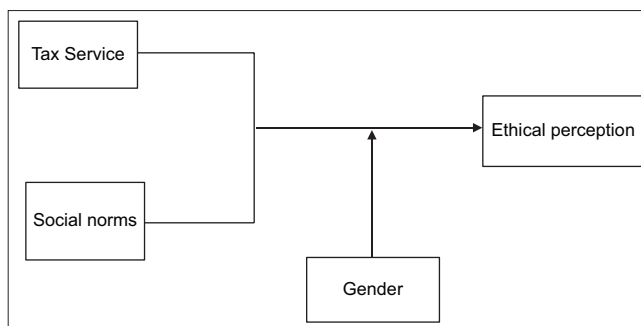


Table 1: Correlation

	EP	TS	SN
EP			
Pearson correlation	1	0.251**	0.135
Significant (two-tailed)		0.004	0.130
N	127	127	127
TS			
Pearson correlation	0.251**	1	0.042
Significant (two-tailed)	0.004		0.640
N	127	127	127
SN			
Pearson correlation	0.135	0.042	1
Significant (two-tailed)	0.130	0.640	
N	127	127	127

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

Table 2: Linear regression

Model	Sum of squares	ANOVA ^a			
		df	Mean square	F	Significant
1					
Regression	5.116	1	5.116	8.423	0.004 ^b
Residual	75.932	125	0.607		
Total	81.049	126			
2					
Regression	5.307	2	2.654	4.344	0.015 ^c
Residual	75.742	124	0.611		
Total	81.049	126			
3					
Regression	5.309	3	1.770	2.874	0.039 ^d
Residual	75.739	123	0.616		
Total	81.049	126			

^aDependent variable: EP, ^bPredictors: (Constant), TS, ^cPredictors: (Constant), TS, gender, ^dPredictors: (Constant), TS, gender, TSxgender

therefore, the tests were considered not significant at 0.05 level. Furthermore, the relationship between SN and EP was not moderated by gender with $p = 0.511$. It can be concluded that both SN and gender of individual taxpayers have no impact on their EP.

5. Conclusion and Discussion

The results showed that there was statistically significant relationship between TS provided by IRB and EP of individual taxpayers. Besides, the relationship between TS and EP was moderated by gender, male individual taxpayers as the mean for male was higher compared to female. The EP of male taxpayers was more influenced by TS provided by IRB compared to female. It means that online tax filing system, IRB employees services provided, and its physical environment have influenced the taxpayers' EP, especially on male individual taxpayers.

Men tend to have an independent self-construal. Meanwhile, women have more interdependent self-construal. Women also having more interconnected and affiliate social groups compared

Table 3: Linear regression

Model	ANOVA ^a				
	Sum of squares	df	Mean square	F	Sig.
1					
Regression	1.478	1	1.478	2.321	0.130 ^b
Residual	79.571	125	0.637		
Total	81.049	126			
2					
Regression	1.488	2	0.744	1.160	0.317 ^c
Residual	79.561	124	0.642		
Total	81.049	126			
3					
Regression	1.501	3	0.500	0.774	0.511 ^d
Residual	79.548	123	0.647		
Total	81.049	126			

^aDependent variable: EP, ^bPredictors: (Constant), SN, ^cPredictors: (Constant), SN, gender, ^dPredictors: (Constant), SN, gender, SNxGender

to men (Weisberg *et al.*, 2011). Women are generally more sensitive than men, and men are slightly more emotionally stable than women (Del Giudice *et al.*, 2012). Women tend to be more volatile, irritable, and easily angered as compared to men (Weisberg *et al.*, 2011). By examining personality between male and female, the study demonstrated that gender differences in personality traits have influenced the taxpayers' EP based on their satisfaction with IRB TS. The results also showed that there was no significant relationship between SN and EP of individual taxpayers. Social influenced by friends, colleagues, superiors, family members, and relatives have no impact on individual taxpayers' EP. The relationship between SN and EP was not moderated by gender as well. It can be concluded that both SN and gender of individual taxpayers have no impact on individual taxpayers' EP. Overall findings are expected to assist IRB in enhancing their policies and practices to improve the tax compliance among citizens.

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