

Enhancement of Tax Compliance Among Online Business Owners: Quadrant Analysis

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Abstract

Purpose: Although the Covid-19 pandemic has decreased economy-related activities, e-commerce is on the rise and the digital transformation is consequently accelerated. The growth of online businesses positively impacts a nation's economy and development, thereby contributing to more collection of tax revenue from these businesses. However, the explosion in technology, especially in e-commerce transactions, has led to the scope of charge derives and remittances of the Malaysian income tax system that is unable to maximise tax collection from e-commerce businesses. In fact, e-commerce may cause difficulty to the tax authority in terms of how tax can be imposed on online business owners due to the nature of online businesses that operate without a physical store. Hence, this study employed a quadrant analysis to identify the factors that need urgent attention from the Malaysian tax authority to rectify the issue of low tax compliance among online business owners in Malaysia.

Design/methodology/approach: The three variables affecting the tax compliance of online business owners (tax morale, tax audit, and tax penalty) have been assessed by collecting data from 140 respondents through a set of questionnaires distributed by hand and via an online survey platform. The study used a simple random sampling technique and the sampling frame entails online business owners in Malaysia who are operating on social media. Quadrant analysis was employed to assess the strength and weaknesses of tax compliance attributes.

Findings: The results showed that the taxpayers only declared their income from employment, but they had the intention to hide or not report any side income from their

online businesses. Further investigation revealed that this individual behaviour is due to trust issues with the government in managing the collected taxes. Some taxpayers also thought that they have fulfilled tax obligations by paying zakat and they no longer need to declare their income or pay taxes henceforth. However, the taxpayers are mostly cognizant of their tax responsibilities and the tax penalty to be imposed if they fail to comply with the tax rules.

Research limitations/implications: The findings may help the IRBM identify the areas to be improved in increasing the tax compliance level of Malaysian online business owners.

Keywords: Tax Compliance, Tax Audit, Tax Morale, Online Business Owner

Introduction

The taxation system was first introduced by the ancient Egyptian Empire. Taxation constitutes a process of expenditure financing by governments through imposed charges on business earnings and the income of citizens. Ever since its implementation and practice in 1862 during World War I in the United States of America, the taxation system and forms of taxation have been used by almost all countries around the world. Generally, all adult salaried workers who earn a certain amount of money from their jobs are required to make tax payments as per the government's constitution. Along with several reasons and needs, most countries have begun to follow the same taxation strategy and legislation, including Malaysia. The Malaysian government generally implements taxation for both economic and social benefits. As such, the government is responsible for providing the country with economic benefits through revenue collection and income allocation to the country's economy. This includes assigning funds, rejecting part of the economic income, introducing goods and services for a country, or assigning the income to achieve the main objectives outlined in the budget or other government's official documents, schedules, and circulars.

According to Sritharan and Salawati (2019), the Self-Assessment System (SAS) was executed in Malaysia in 2004, which was subsequent to the Official Assessment System (OAS) and it has since been used by taxpayers. However, the difference between the pre- and post-assessment systems is that the OAS and SAS are respectively executed manually and electronically. Correspondingly, all Malaysian citizens will calculate their tax payables and tax returns as well as determine if they are entitled to tax reliefs and exemptions.

The Department of Statistics Malaysia reported that, as of 2018, there were around 58,824 registered online businesses with the Companies Commission of Malaysia (FMT News, 2018). In general, online business is a type of e-commerce (electronic commerce) conducted over the internet where customers can directly purchase preferred goods or services from sellers by visiting their websites through a web browser. Comprehensively, this is known as digital economy, which the IRBM defines as any transaction activities that take place on a digital platform such as promotion, providing information, advertisement, marketing, and the delivery or supply of goods or services although the payment- and shipping-related processes may be done offline throughout the transaction (IRBM, 2018).

While tax policies developed in traditional commerce is a result of income categorization, the permanent establishment of physical stores, merchandise, and sales points, e-commerce makes it difficult to identify the seller-buyer position during an online transaction as the companies operate without a physical store and such transactions may result in tax revenue losses. In other words, tax administrations may fail to acquire tax-related information due to e-commerce ramifications and this may cause tax loss (Yapar et al., 2015).

Therefore, the principles of fairness and neutrality should apply to both traditional commerce and e-commerce. The tax rules should be clearly accurate with an efficient taxation system to

diminish compliance and administrative costs to businesses, and the taxpayers should be aware of how and when taxes are imposed on them. The same goes for ensuring the effectiveness and fairness of the taxation process and systems, which should adapt to changes in technology and the economy. Taxation place for tax consumption must also be ensured because double taxation and non-taxation problems may otherwise occur (OECD, 2003).

This study primarily aims to examine the economic factors that influence online business owners in Malaysia. In this study, data from the survey of respondents' perceptions of tax compliance were used to determine the IRBM's organizational strengths and weaknesses based on the priority-satisfaction relationship with each of the examined variables.

Literature Review

Tax Compliance

Tax compliance refers to taxpayers' willingness to unveil, record, and pay their tax liability as per the tax regulations in the absence of any tax authority enforcement action (James & Alley, 2002; Abd Hamid et al., 2020). Meanwhile, tax enforcement ensures that taxpayers, including individuals, companies, and professionals, are accountable for meeting and complying with their tax obligations (SARS, 2012). According to Bidin & Shamsudin (2013), tax compliance is defined as all taxes owed in full payment. The authors further stated that non-tax enforcement can be best explained by the difference in the estimated amount of taxes owed with the actual tax amount paid by the taxpayers, which may be attributed to overstatement or understatement of revenue, expenditures, and allowed deductions.

Nevertheless, the level of tax enforcement is influenced by taxpayer-tax authority interactions throughout the compliance process (Kirchler et al., 2010; Pickhardt & Prinz, 2014). Both parties, either corporations or individuals, similarly require tax compliance. However, despite the voluntary adherence to tax laws, some individuals often avoid their tax obligations in practice (Kirchler et al., 2014). Therefore, tax compliance levels can be increased by involving taxpayers in government policies and spending (Alm & Jackson, 1993) as well as increasing penalties and tax audits for those who failed to fulfil their tax obligations (Alm & Torgler, 2011).

Tax Non-Compliance

Tax non-compliance falls into two categories: tax evasion and tax avoidance. Tax evasion refers to the unlawful and desired business of companies and individuals to minimize tax liability by underreporting revenues, income, or wealth, increasing deductions, loans, or dispensations, and filing the tax returns inaccurately (Ritsatos, 2014; Alm et al., 2012), while tax avoidance is the desire to reduce taxes by lawful and legal means (Slemrod, 2007). Generally, tax non-compliance can also take various forms such as overstating deductions, understating revenue, and failing to make timely tax payments within the time frame and file tax returns during or after the time frame (Kasipillai & Jabbar, 2006a). As indicated by Cummings et al. (2009), tax non-compliance includes intentional avoidance and unintentional non-compliance such as assessment mistakes and insufficient knowledge of tax laws. Nonetheless, the errors made by taxpayers may be unintentional and, therefore, do not always constitute efforts to evade (Abd Hamid et al., 2019) or contribute to the over-reporting of tax (Azmi et al., 2020).

Tax Audit

Similar to financial auditing, a tax audit entails the collection of information to determine compliance with relevant laws (Adediran et al., 2013), which is aimed at assessing the dependability and quality of the reported details to opine the truth and fairness of a financial

statement (Oyedokun, 2017). According to Kirchler et al. (2008), a tax audit is a review of the financial documents of taxpayers in assessing whether the documents comply with the state's tax laws, regulations, and requirements, which altogether serves as a key component of the tax system to ensure that taxpayers follow through with their responsibilities. Olaoye and Ogundipe (2018) described tax audit as an independent review of a taxpayer's books of accounts by a revenue authority's specialist personnel to ensure the accuracy of filed tax returns, while Modugu and Anyaduba (2014) characterized tax audit as the process of evaluating a company's profit and returns in accordance with applicable tax laws. Briefly, a tax audit involves assessing the records of taxpayers to assure that the tax due, tax reported, and tax payables are in line with relevant tax regulations.

A tax audit mainly aims to retain public trust in the legitimacy of the self-assessment system (Olaoye & Ogundipe, 2018) and enhance voluntary compliance by recognizing and addressing non-compliant taxpayers (Nwaiwu & Okoro, 2018). According to Palil and Mustapha (2011), audits significantly influence tax evasion and this suggests that tax audits may play a crucial role in the self-assessment schemes for increasing voluntary compliance. While audit rates and audit thoroughness allow taxpayers to be more careful when reporting their income, filling out tax returns, and claiming accurate deductions for tax liability assessments (Palil & Mustapha, 2011), taxpayers who have never experienced the auditing process can also be encouraged to understate their income and demand fraudulent deductions. A tax audit can encompass not only a desk audit but also a field or a back duty audit (Adebisi & Gbegi 2013; Olaoye & Ogundipe 2018; Oyedokun, 2017). Accordingly, a desk audit is carried out inside the office of the tax officials to perform administrative checks on reported returns, which should be in line with the tax laws. When this audit is conducted, the taxpayers are not given advance notice and are only made aware of the audit when they are asked to produce the documents or appear for an interview. The desk audit may also be preceded by a field audit if the tax officials are dissatisfied with the taxpayers' compliance level.

Meanwhile, a field audit takes place when more evidence is required to verify the taxpayers' assertions after the desk audit (Olaoye & Ogundipe, 2018; Oyedokun, 2017). This ensures proper accounting records to determine the right amount of tax payables. The field audit extends from the auditor's office to the taxpayers' premises to verify physical assets and records related to the tax registered; hence, it is a critical auditing procedure (Wuyah et al., 2018; Olaoye & Ekundayo, 2019). When conducting a field audit, special attention is given to items with high tax implications; thus, the audit would provide more evidence for the tax auditors to assess accurate tax liabilities (Adediran et al., 2013).

Finally, a back duty assessment or a back duty audit can be done similarly to the field audit when the taxpayers are accused of tax evasion. The tax officers will check the taxpayers' records for up to six years prior to the audit year with a back duty audit (ICAN, 2014). Generally, back duty audits are commenced when there is a failure to disclose full income or earnings in the tax returns, when a double claim for capital allowance has been made in the current or previous years, when there is a consistent profit reduction in the tax returns, and when the charged or assessed tax is not more than a certain amount (Adediran et al., 2013). If these problems are found, the taxpayers may be subject to a second evaluation, an objection, an appeal, or a referral for a special investigation (ICAN, 2014).

Tax Morale

Tax morale refers to the intrinsic motivation to fulfil tax payments, which stems from a moral obligation to do so and the confidence to contribute to society by doing so (Cummings et al., 2006; Bosco & Mittone, 1997). According to Filippin et al. (2013), tax morale is an exogenous characteristic of a person who contributes to society without feeling coerced by a

penalty or expecting a monetary reward. In brief, this entails a moral duty towards tax compliance owing to the positive perception of contributing to society. Hence, when the taxpayers feel that tax payment would benefit society, they have a higher tax compliance level and vice versa. Lubian and Zarri (2011) also showed a positive association between tax morale and satisfaction. Evidently, people who pay taxes in favour of contributing to society have the intrinsic motivation to pay taxes, thus resulting in favourable hedonic outcomes that make them feel more content.

Furthermore, tax morale is significantly linked to tax compliance. The difference between tax compliance and tax morale is that tax morale denotes an attitude, while tax compliance denotes an action. As indicated by Mohdali and Pope (2012), tax morale is an element in the fundamental desire to fulfil tax obligations, which is based on moral principles or religious beliefs. Intrinsic motivation improvements are expected to increase tax willingness; however, tax morale is largely influenced by the factors outside of the taxpayers' control such as the government, tax authority, culture, and individual attitude formed by moral and religious values. Nevertheless, it has been argued that good governance and equal treatment by the government would encourage voluntary compliance among citizens (Kirchggassner, 2010); hence, this shows the relationship of tax morale with tax enforcement. It has also been reported that individual attitude towards tax payment may improve if the fellow citizens equally contribute their share; however, intrinsic encouragement that includes tax morale can be jeopardized if the taxpayers have the perception of being treated unfairly and are accused of tax fraud (Lars & Bruno, 2007). Nonetheless, despite the numerous analytical papers using the market survey data to determine the incentives required for paying taxes that usually denotes tax morale (Halla, 2012), there is still scarce empirical evidence on the effect of tax morale on actual tax compliance, especially in the Malaysian setting.

Data and Methodology

Data Collection and Research Instruments

The present study applied a quantitative research design through the collection and analysis of numerical information. The total population of self-employed in Malaysia is 8.2 million, while the total number of registered online businesses with the Companies Commission of Malaysia is 373,213. The study targeted 500 respondents to fill out the questionnaires and the researchers contacted the respondents through the phone numbers and email addresses provided on their social media accounts such as Facebook and Instagram. However, out of 500 respondents, the questionnaires were only completed and returned by 140 respondents. According to Roscoe (1975), a sample of 140 respondents is still deemed sufficient for the correlation analysis. Thus, primary data were collected for this study and the questions were formulated in closed-ended statements to ease the analysis of the factors examined in this study. Besides, the questionnaires were also pre-tested on some taxpayers to ensure that the questionnaire items were reliable. Furthermore, quadrant analysis was employed to test the strengths and weaknesses of the Malaysian tax system that is administered by the tax authority (IRBM). The following sections discuss the analysis and findings of the study.

Analysis and Findings

Descriptive Analysis

This section discusses the respondents' demographic backgrounds. Based on the descriptive analysis results (see Table 1), the majority of the respondents are females (70.7%) and only 29.3% of them are males. The respondents were mostly 26-35 years old (63.6%), while 15.7% of them were 36-45 years old and 25 years old and below, respectively. However, 4.3% of the respondents were 46-55 years old and only 0.7% were 56 years old and above.

Most of the respondents were also married (67.9%), while 31.4% of them were single and 7% were divorced. The respondents mostly have a Bachelor's degree (53.6%), followed by a diploma (26.4%), SPM (8.6%), and a Master's degree (7.9%). Meanwhile, 2.1% of the respondents were qualified with STPM/certificate, whereas only 1.4% of them were professionals. Conclusively, online businesses have drawn in people from different backgrounds and education levels.

Data on the nature of online business showed that the majority of the respondents engaged in the retail sales industry (39.5%), followed by the fashion and beauty industry (23.3%), the food and beverage industry (17.1%), the service industry (16.3%), and other industries (3.9%). As for the year of commencement, most of the respondents commenced online businesses from 2015 onwards (75%), followed by online business commencement within 2011-2015 (20%), within 2005-2010 (2.9%), and prior to 2005 (2.1%).

In terms of monthly income, the respondents mostly earned RM5,000 or below per month with 79.3%, followed by 12.9% of the respondents earning RM5,000-RM10,000 per month, 0.7% of them earning RM10,001-RM15,000, and 7.1% earning more than RM15,000. Meanwhile, data on business registration showed that the respondents are equal in terms of having registered their businesses with SSM and not registering them (50%). Finally, in terms of registered tax files with the Inland Revenue Board Malaysia, the respondents mostly did not register their tax files (67.1%), while 32.9% of them have registered their tax files.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
				Statistics	Std. Error	
Gender	140	1	2	1.71	.039	.457
Age (Years Old)	140	1	5	2.11	.062	.736
Marital Status	140	1	3	1.69	.040	.478
Highest Education Level	140	1	6	3.61	.097	1.142
Nature of Online Business	140	1	5	2.37	.095	1.121
Online Business Commencement	140	1	4	3.68	.054	.638
Average Monthly Income from Online Business	140	1	4	1.36	.070	.823
Registered Company	140	1	2	1.50	.042	.502
Registered Tax File	140	1	2	1.67	.040	.471
Valid N (listwise)	140					

Quadrant Analysis: Strengths and Weaknesses of Tax Policies

Data from the survey of respondents' perceptions of tax compliance were applied to determine the factors that lead to low tax compliance among e-commerce business owners. In this study, the researchers introduced Quadrant Analysis to rectify the root of problems related to tax compliance among online business owners. The quadrant analysis was particularly employed in the current study because it is more suitable for identifying the

elements that need urgent actions by the IRBM. Correspondingly, priority was measured in this study based on a five-point Likert scale that ranges from 1 (Very Insignificant) to 5 (Very Significant). This analysis includes four dimensions known as quadrants:

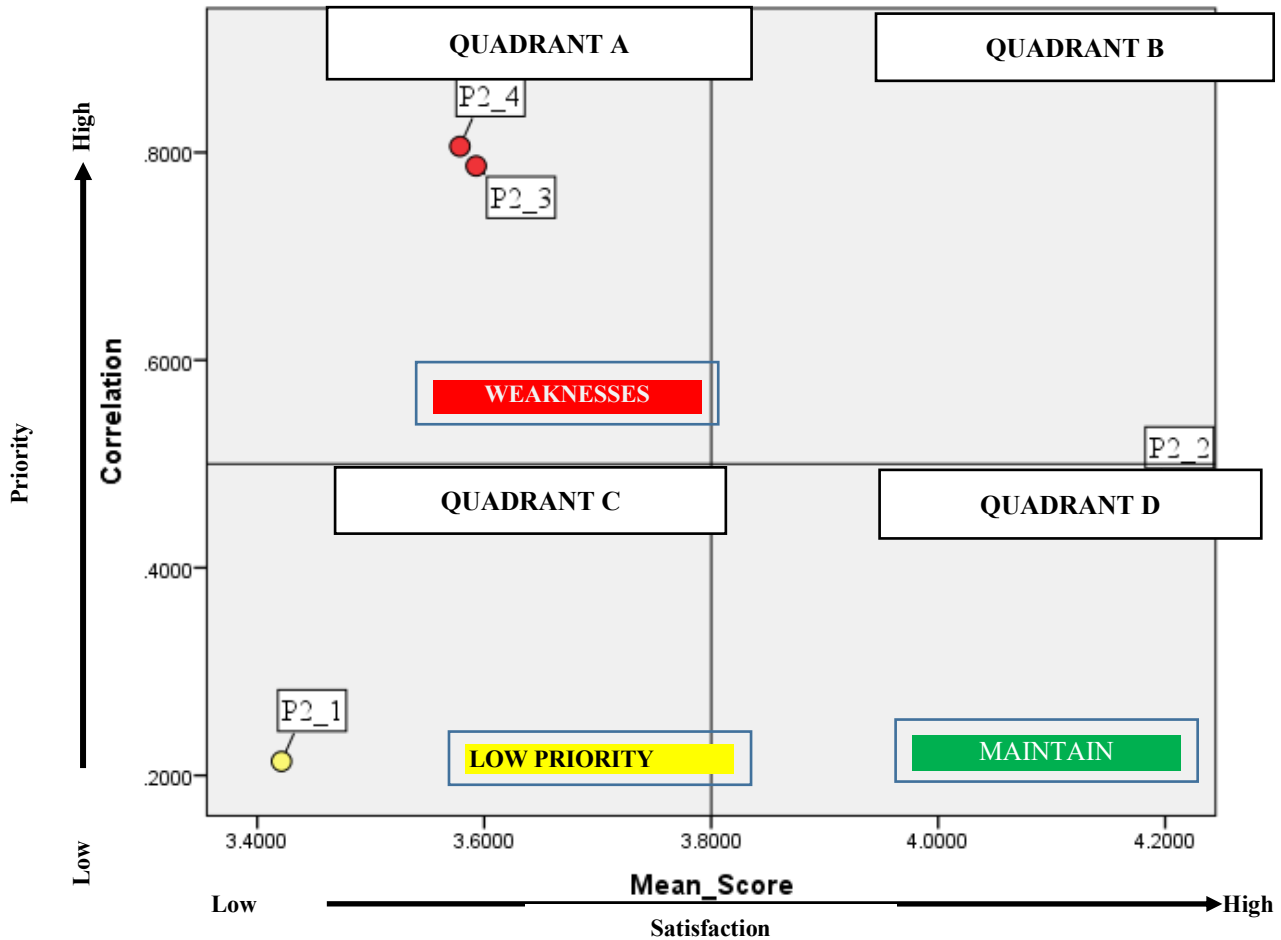
- **Quadrant A** contains elements (services or areas) that are still weak and need urgent attention as the satisfaction level of taxpayers is lower than their expectations.
- **Quadrant B** contains the current strengths of the organization because the taxpayers are not only satisfied with the elements but they also deem the elements important. To maintain the level of taxpayer satisfaction with these elements, the organization must ensure that the relevant procedures are adhered to and enhanced if necessary.
- **Quadrant C** is not considered so important but the taxpayers are satisfied with the current performance. Thus, the organization does not need to improve related matters because such efforts are not a priority and may waste financial sources and energy.
- **Quadrant D** likewise comprises elements that are not considered so important but the taxpayers are unhappy with the current performance. Hence, these elements need to be improved, but they are not as necessary as those in **Quadrant A**. Nonetheless, all of the weaknesses should be noted in the overall service improvement process. The following section discusses the quadrant analysis findings in detail.

Tax Compliance

Based on the quadrant analysis (see Figure 1), as shown in Quadrant A, the two elements (P2_3, P2_4) related to taxpayers' income disclosure intention require urgent attention by the IRBM. Firstly, the taxpayers had no intention to report any side income derived from their online businesses and they also mentioned understating their online business income if the amount is relatively small or not as significant. Evidently, the intentions of the taxpayers to evade their tax responsibilities by minimizing or eliminating tax liability through a false tax return such as omitting, understating, or overstating income, along with a false statement in a tax return that affects tax liability, and providing false information on any tax-related matters are deemed false practices according to the law (Mohamad & Mohd Ali, 2017). As indicated by Saad (2012), tax non-compliance denotes the individual attitude of unwillingness to act in accordance with tax administration. Saad (2014) additionally reported several factors that contribute to tax non-compliance in relation to tax morale among taxpayers. The first factor includes the reluctance of individuals to share their income with others due to a low sense of responsibility to help the people in need, while the second factor includes the individual confidence to avoid fulfilling tax obligations without the tax authority's awareness. The third factor includes the tax structure that the taxpayers deemed too complex, which eventually leads to their non-compliance, either intentionally or unintentionally. Finally, the last factor includes the taxpayers' perceived fairness of the income tax system with a perception that the taxpayers would receive nothing in exchange, despite their income tax contributions.

A similar situation can be seen in Quadrant C, where the taxpayers were aware of declaring employment income from online businesses and the government must continue promoting programs to increase such awareness. However, the taxpayers did not declare the side income derived from their online businesses and this shows a low sense of responsibility among taxpayers, which the organization should be concerned about (P2_1). However, as mentioned previously, this is not deemed a priority compared to Quadrant A, which requires urgent attention by the organization as it includes no report of side income and tax evasion through the act of underreporting online business income. Likewise, the elements in Quadrant D were not considered so important but the taxpayers were unhappy with the performance. Therefore,

although these weaknesses are not as important as those in Quadrant A, they should be noted and improved in the overall tax policy process. However, in terms of tax compliance, no elements fall in Quadrant B that includes strengths and should be maintained.



Weaknesses: Need urgent attention
P2_3: I think that there is no need to report my side income from online businesses in a tax return.
P2_4: I would understate my online business income in a tax form if the amount is relatively small.
Low priority: Weak but not a priority
P2_1: Everyone should pay taxes if their income reaches the tax limit.

Maintain: Satisfaction beyond priority
P2_2: I fully declare my employment income, but not my side income from online businesses.

Figure 1: Quadrant Analysis of tax compliance

As stated in Quadrant D, the taxpayers are responsible for declaring and reporting their income when it reaches a particular level; however, most of the taxpayers perceived not to report their income after reaching a specific threshold set by the law and this shows their low responsibility as they tried to conceal income in lieu of paying taxes (P2_2). According to Kasipillai and Jabbar (2006b), less responsible taxpayers often fail to submit a tax return

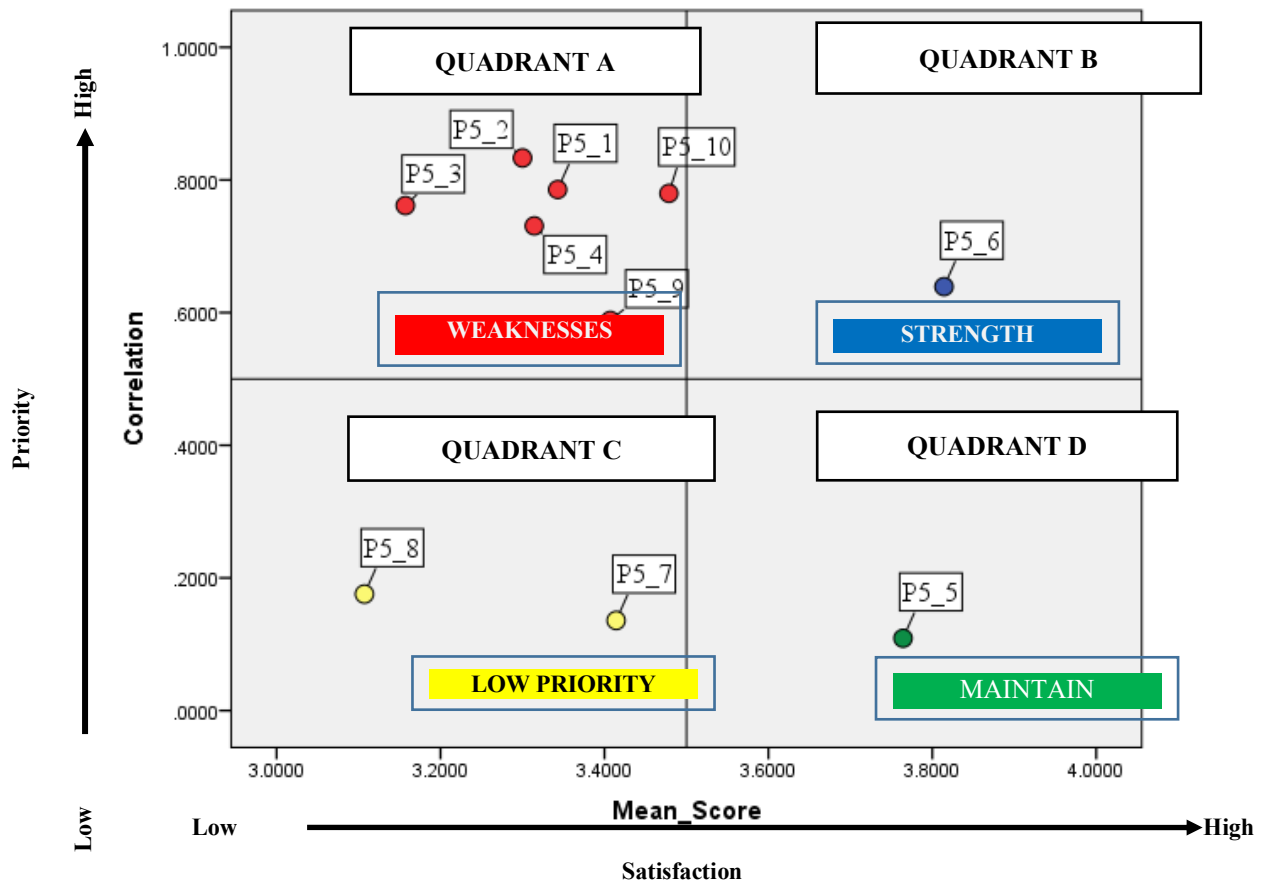
within the time frame or opted for non-submission, in addition to understating their income, not paying the assessed taxes in time, and overstating deductions. These characteristics reflect the act of running away or avoiding tax illegally. Even though solving this issue is not the organization's top priority, the issue must still be treated seriously in the long run.

Tax Morale

Based on the analysis of the strengths and weaknesses of tax morale (see Figure 2), the six elements related to taxpayers' trust in the government in managing the taxpayers' money for national development require urgent attention by the organization so as to improve the tax policy for online businesses (P5_1, P5_2, P5_3, P5_4, P5_9, P5_10). Evidently, the taxpayers doubted the government's effort in ensuring that their money would be managed effectively. According to Elmi et al. (2015), individuals are driven to fulfil their tax obligations if they have faith in the government and the parliament. However, the taxpayers perceived that the Malaysian tax system is unfair and unequal. Based on the data, the taxpayers believed that the tax they paid was excessive compared to the amount of money that the government spent on. This indicates a trust issue among taxpayers with the government (Daude, 2010). Therefore, the government should gain people's trust through increased satisfaction with the democratic system and contentment with the quality of public services, in addition to the fight against corruption with good governance and transparency. As such, the people's money can be managed transparently and responsibly, thus increasing their perception of good governance of the government (Cummings et al., 2009).

In the next quadrant, the taxpayers were aware of the misconduct to not declare their income for tax payment and this shows their responsibility as Malaysian citizens (P5_6). Besides, according to Daude (2010), tax morale has a significant relationship with people's trust in the government. People have confidence in a government that commits to fighting against corruption as well as practising good governance and transparency. As a result, this would increase their perception of the government and enhance their sense of responsibility to report and declare income. Other than strengths, another element to be maintained from the taxpayers' views is that paying zakat is also deemed fulfilling the tax obligations (P5_5). According to Wahid et al. (2009), zakat funds are contributed to eight asnaf categories: the poor and needy, amil, muallaf, servant, debtor, fisabilillah, and Musafir (traveler), who are all entitled to zakat funds in accordance with the Quran and Sunnah. Although paying zakat is one of the compulsory pillars in Islam, people still need to understand that it is also their responsibility to pay taxes. The zakat funds are used for limited purposes; however, tax funds are unlimited and mostly used for the development of the nation. Therefore, people should realize that paying taxes is just as important as paying zakat.

Another element that is not considered too important but the taxpayers are unhappy with is the perception that tax is a burden for most people (P5_7, P5_8). Although the elements are not as important as those in Quadrant A, these weaknesses must be improved and notified by the IRBM. Nonetheless, it is difficult to blame non-compliant taxpayers because they might feel heavy about paying taxes and, as such, are likely to underreport their income, overstate deductions, and hide their side income (Kasipillai & Jabbar, 2006b). Moreover, this issue is derived from the tax policy in Malaysia, a high-tax country (IDEAS, 2017). Based on the database from the International Monetary Funds (IMF) World Economic Outlook (WEO), taxes account for approximately 22% of the economic production in Malaysia, while government expenditure accounts for more than 27% of the Gross Domestic Product (GDP). This shows that the government tends to overspend and requires high sources of income, especially from tax collection. As such, the government must optimize its spending and create a tax policy that can help elevate the people's burden when it comes to paying taxes.



Weaknesses: Need urgent attention

P5_1: I think that the tax system in Malaysia is fair and equal to all.

P5_2: I think that the tax administration system in Malaysia is getting more efficient and effective.

P5_3: I have high confidence in the government's tax administration.

P5_4: I think that the amount of tax I have paid is not that much compared to what the government has spent for the public.

Strength: Must be maintained

P5_6: It is wrong if a taxpayer does not report all of his or her income in order to pay less tax.

Maintain: Satisfaction beyond priority

P5_5: I think that I have fulfilled my tax responsibility by paying zakat.

Low priority: Weak but not a priority

<p>P5_9: The IRBM gives equal consideration to the views of all taxpayers.</p>	<p>P5_7: Taxes are so heavy that tax non-compliance is an economic essential for many to survive.</p>
<p>P5_10: The trust we have in the IRBM is very high.</p>	<p>P5_8: Since many people are not compliant in paying taxes, one can hardly be blamed for doing it.</p>

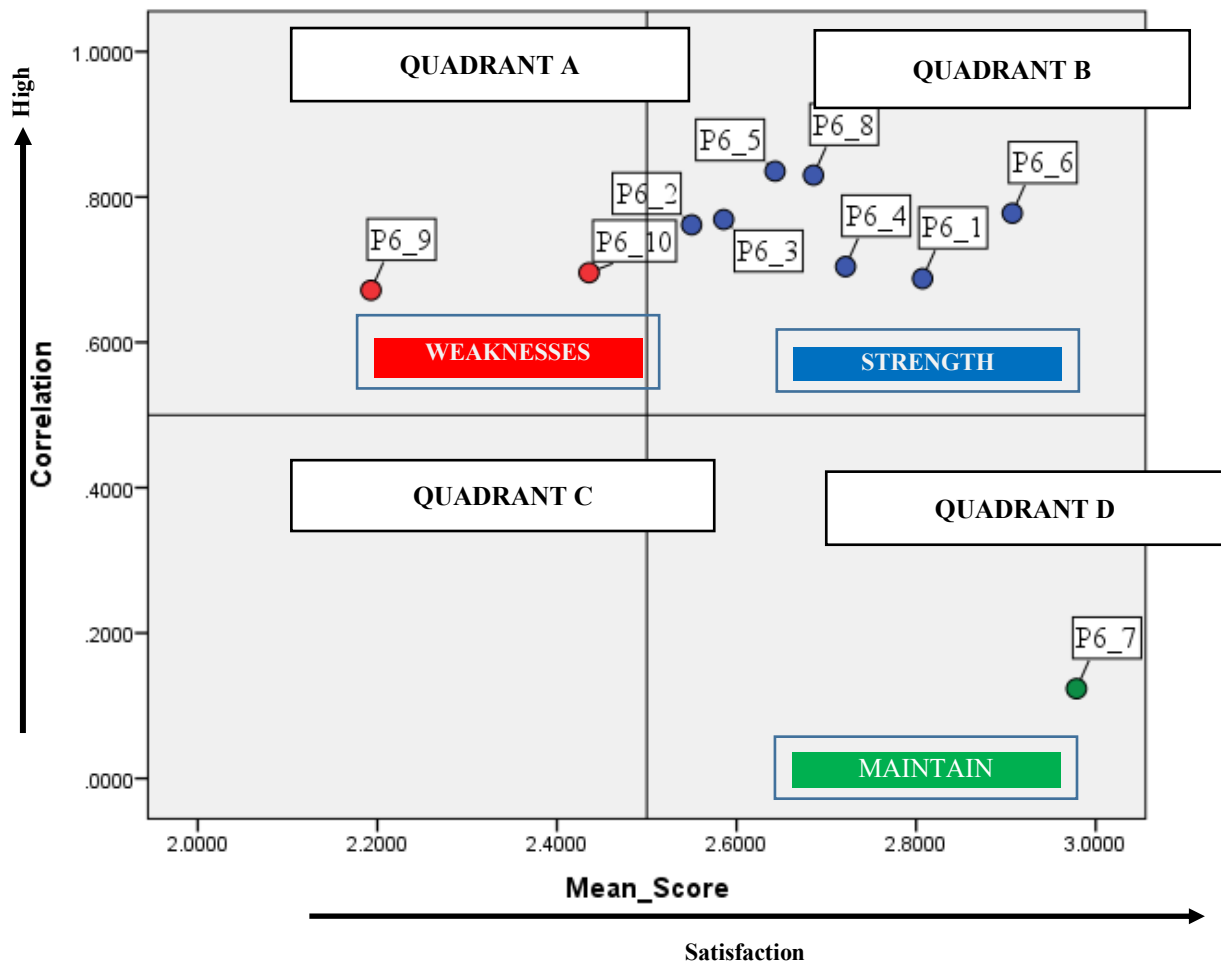
Figure 2: Quadrant Analysis of tax morale

Tax Audit and Government Penalty

Based on the analysis of the strengths and weaknesses of tax audit and government penalty (see Figure 3), the two elements related to the taxpayers' willingness to hide their income and be fined rather than paying taxes were classified as weak and need urgent attention by the IRBM (P6_9, P6_10). As a result of this irresponsible attitude, people tend to evade tax by underreporting their income, overstating deductions, or understating profit. The results also showed that some people have never heard about tax audit activities from the IRBM officers, which might explain why people tend to refrain from paying taxes due to the lack of awareness.

The next quadrant shows the seven elements for enhancing tax audit awareness to boost the responsibility of taxpayers (P6_1, P6_2, P6_3, P6_4, P6_5, P6_6, P6_8). Evidently, most of the taxpayers realized the impact of being audited because a big fine would be imposed on them if the tax auditors find any potential tax evasion. According to Efone et al. (2019), tax investigation has a significant relationship with tax evasion; thus, both tax investigation and tax audit may curb tax evasion. Besides, tax audits and penalties may also positively influence tax compliance. Hence, it can be deduced that tax audits and government penalties can prevent tax evasion and further enhance tax awareness among taxpayers.

Lastly, one element that is considered not so important but meets the taxpayers' satisfaction is the current policies (P6_7). In this regard, the taxpayers are aware of the fine or punishment (imprisonment) to be imposed in consequence of tax evasion. Hence, despite the little significance of this element, it must still be maintained in the long run to enhance tax awareness among taxpayers because its absence may consequently impact tax collection and reduce the government's source of income. Nonetheless, priority should be given to the elements in Quadrant A as they involve the intention of taxpayers to commit tax evasion.



Weaknesses: Need urgent attention

P6_9: I would rather pay fines for non-compliance than pay taxes.

P6_10: So far, I have never heard of someone being fined for not paying taxes.

Maintain: Satisfaction beyond priority

P6_7: I know the fines and imprisonment terms for tax non-compliance.

Strength: Must be maintained

P6_1: There is a low probability of being audited, thus it is worthwhile to slightly understate my taxable income.

P6_2: I think that even if I fail to declare some income, the tax authority would not be able to find out.

P6_3: I think that the penalty for not paying taxes is just not that much.

P6_4: I think that it is worth not paying taxes since the benefits derived from non-compliance are greater than the fines imposed.

P6_5: I think that the likelihood of being detected is still low even if I am being audited.

P6_6: I think that the penalties imposed presently are not enough to deter potential evaders.

P6_8: So far, I have never heard of someone being imprisoned for not paying taxes.

Figure 3: Quadrant Analysis of tax audit and government penalty

Discussion and Conclusion

This study aims to investigate the behaviour of Malaysian online business owners towards tax compliance, tax morale, and tax audit using quadrant analysis in order to determine the IRBM's organizational strengths and weaknesses in evaluating taxpayer satisfaction by identifying the elements that require urgent attention from the IRBM. Based on the findings, the taxpayers had no intention to report any side income derived from their online businesses and were likely to understate their online business income if the amount is relatively small or not significant. Besides, the taxpayers also had trust issues with the government in managing their tax money; they were also willing to hide their income and simply be fined rather than paying taxes. Overall, these elements need urgent attention from the IRBM, especially regarding the trust issue, which is an endless matter and must be immediately curbed by the government. The reason is that this issue may erase the government's coffer in the long run and lead to major economic issues such as tax evasion, money laundry, and many more. Additionally, the taxpayers' willingness to hide their online business income will also impact the government revenue. For example, in 2019, the sales projected from internet retailing were RM7.67 billion, which was a huge contribution to the economy. Hence, the government must spread more tax awareness to online business owners to increase their willingness to report their online business income. Besides, to further enhance tax declaration among taxpayers, the government must also conduct a drastic awareness campaign and introduce more effective taxpayer-friendly tax policies, especially to online business owners.

Other findings also revealed a high awareness level among online business owners to fully declare their employment income; however, they perceived not declaring their side income from online businesses. Interestingly, the taxpayers even thought about fulfilling tax obligations by means of paying zakat such that they no longer need to declare their income for tax purposes henceforth. This shows the taxpayers' misunderstanding of taxation, influenced by their ignorance or lack of tax education. Besides, the perception of not declaring side income from online businesses indicates low responsibility, which the government must overcome by increasing tax compliance among taxpayers as well as enhancing tax education and tax policies that must be clear and taxpayer-friendly.

Additionally, the findings revealed that most of the taxpayers were aware of the misconduct to not report or declare their income, including the fine or imprisonment to be imposed on them for evading tax. These elements of behaviour are contributed by the effectiveness of tax investigation, which should give a credit to the taxpayers for their tax responsibilities and awareness. According to Efone et al. (2019), tax investigation has a significant relationship with tax evasion; hence, tax investigation and tax audit may both curb tax evasion. Tax audits and penalties may also significantly enhance tax compliance among taxpayers. Overall, the findings of this study can ultimately help the IRBM identify the areas to be improved in increasing the tax compliance level of Malaysian online business owners.

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