

INFLUENCE OF RELIGIOSITY AND CUSTOMS LAW TOWARD IMPORT DUTY NONCOMPLIANCE BEHAVIOUR IN MALAYSIA

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ABSTRACT

The issue on tax noncompliance has been critically discussed by the government and academic researchers due to its indirect impact on the country's social and economic development. The present study was undertaken to examine the Malaysian taxpayer's noncompliance behaviour, with the intention of adapting the Theory of Planned Behaviour (TPB) to describe the behaviour and actions taken by the noncompliant taxpayers. A total of 117 taxpayers from noncompliant companies in the year 2015 were sampled and analyzed. The findings revealed strong positive effects of Religiosity and Customs Law on import duty noncompliance behavior when the relationship was supported by the element of intention not to comply. In using a revised TBP framework, the study makes a significant theoretical contribution to the literature on indirect tax. Furthermore, this study has a number of practical implication for the Royal Malaysia Customs Department as the authority agency in terms of combating noncompliance issue.

1. Introduction

Indirect tax noncompliance remains a critical issue faced by the Royal Malaysia Customs Department (RMCD). Based on statistics reported by the RMCD, RM335.95 million of import duties were not collected or failed to be paid by taxpayers as at 31 December 2008. Bills of Demand (BOD) had to be subsequently issued to importer companies or individuals who failed to pay their taxes to remind them of their responsibilities. During the same period, more than 15,000 BODs amounting to RM203.09 million (RMCD Annual Report 2015) were issued to taxpayers who had defaulted payment. Out of this amount, RM137.96 million managed to be collected while the rest were written off as bad debts or brought to court for legal action. The situation continued until 2014 when the RMCD issued the BODs to collect the defaulted payment from the importers. The collected amount under BOD accumulated to RM92,972,389.08. In the following the year, the RMCD increased the issuance of BOD to importers and successfully collected RM117,687,107.61.

Despite various efforts and initiatives implemented by the RMCD such as increasing the number of enforcement officers, increasing fines for offences and bringing the claims to court of law in order to mitigate the problem, the number of BODs issued to Malaysian taxpayers remained high. The present study was undertaken with a focus on the economic factors (Misman Miskam et al, 2013 and Sinnasamy et. al., 2015). The existing policy implementations suggest ineffectiveness in reducing the BODs. It is, therefore, equally important to examine the roles of non-economic factors in understanding the source of noncompliance behaviour on import duty. Non-economic factors, which had been neglected by economists, have been introduced to explain the issue on tax compliance by using economic framework (Misu, 2011). Many non-economic factors such as the willingness to pay for public provision, public education, tax morale etc. have been included (Hyun, 2005). In the extension of tax noncompliance study and related non-economic factors, the present study examined and analyzed customs law, religiosity and intention not to comply. The reason to include study on religiosity was because taxpayers were strongly influenced by their levels of obedience towards a particular religion, faith or belief, which subsequently explained their actions of compliance behavior towards tax (Raihana Mohd Ali & Pope, 2014). Presently, the situation is exacerbated by press statements issued by a particular religion-led organization, which opposes tax ideas (RMCD Annual Report 2015). The present study investigated if religiosity issue was influencing taxpayers' noncompliance behavior on import duties.

The Customs Law, adopted from commonwealth countries, was implemented in Malaysia since 1967. Implemented the law for over 50 years, the agency proactively implements the legislation concerned in accordance with the current economic environment. Despite legal implementation for over 50 years, the BODs or noncompliance with indirect tax in Malaysia is still standing at an alarming rate. In the audit report, taxpayers gave reason not to comply because they were not familiar or understand a customs law (Mirza Mohamed et al, 2016). This justifies a look at the effectiveness issue of the most recent law implementation by the RMCD in reducing noncompliance.

2. Literature Review and Hypotheses Development

2.1 Tax Noncompliance

Research on indirect tax noncompliance is rather limited, especially in case of developing countries such as Malaysia. Rice (1992) highlighted that the unavailability of records from tax authorities which posed a challenge to understand the situation. Such challenge may arise due to legal restriction enforced on confidential and protected information by the government. In

Malaysia, such information protection is secured under the Official Secret Act (OSA) 1972 which limits the effort to obtain information relating to taxpayers, especially in relation to indirect taxes. The secrecy of tax noncompliance records involve court case and Bill of Demand claims and there are virtually no noncompliant taxpayers who are willing to reveal their true identity. Reviews of studies on import duty noncompliance remain limited. Few research in tax compliance and noncompliance studies include Nur Azarina Mohd Yusof et al (2014), Atawodi and Ojeka (2012 and Tedds (2010). The researchers, however, focused upon noncompliance issue in direct tax rather than indirect tax. Regardless of the above, researchers on tax noncompliance suggested that the variables (e.g. attitude, social norm and perceived behavioural control), as derived from the Theory of Planned Behaviour, are associated with tax noncompliance behaviour among taxpayers (Smart, 2013). Furthermore, in order to understand taxpayers' noncompliance behavior, non-economic factor is the best element to study because it comes from outside of tax system such as social norm, attitude or knowledge. This element could affect the decision of taxpayers in complying with the tax system and law (Kasipillai & Hijattulah Abdul Jabbar, 2005). Studies by Dows & Stetson (2014) and Brizi et. al. (2015) concluded that non-economic factors strongly influenced the taxpayer's behaviour. In Malaysia, few studies concerning the impacts of non-economic factors on noncompliance are also available. The studies rather pay attention to education (Kasipillai et al., 2005), perception of the practice (Nur Fikhriah Takril & Sri Wahyu Sakina Ahmad Sanusi, 2014), the perception of taxpayers on tax knowledge and tax education (Mohd Rizal Palil et al., 2013) and tax fairness (Sinnasamy et al., 2015). In other perspective, non-economic factors, which had been neglected by economists, were introduced to explain the tax compliance using the economic framework (Misu, 2011). The present study expanded the scope of existing empirical researches by investigating the effects of religiosity and customs law upon tax noncompliance behaviour in Malaysia in relation to import duty.

Reviews of empirical studies conducted in Malaysia indicate that there are limited studies examining the effect of non-economic variables on import duty tax noncompliance behaviour. Thus, this research aims to emphasize the effects of non-economic variables on noncompliance behaviour and contributes to this probability connection, specifically, collectively with several new variables (such as religiosity and customs law).

2.2 Theory Planned Behaviour

Based on the theory planned behavior, the behaviour of the individuals surrounded by the community are under the influence of specific factors, created from definite reasons and appeared in a planned way (Mutai, 2011). However, the capability to perform an exacting behaviour depends on the reality that the individual has an intention towards that behaviour. The factors shaping the purpose towards the behavior include attitude towards behaviour, subjective norms and perceived behavioural control (Tamer et. al., 2011). The factors mentioned above are also under the influence of behavioural beliefs, normative beliefs and control beliefs (Ajzen, 1991).

According to Hoffman et al. (2008), social norms are one of the significant predictors of tax noncompliance in TBP. The social norms which are surrounded in the community will share the same beliefs and thoughts about how group members should behave (Jayawardane, 2015). In the same style of speaking and writing, public connection to their orientation group or the community mediates the relationship for strapping social norms to fulfill public network. (Wenzel & Thielmann, 2006). This evidence is explained by the self-categorization theory (Hofmann, 2008) which assumes that people are more influenced by the norms accepted by their group if they understand the group to which highly applicable to the character and if they recognize with their group.

Smart (2013) and Shalihen Mohd Salleh et al. (2015) have also adopted similar theory to explain the noncompliance and compliance behaviour, respectively. However, the former only attempted to explain such noncompliance behaviour in case of direct tax while the latter addressed the compliance behaviour in case of sales tax. While the studies on the noncompliance behaviour in case of import duty remain limited, the above premise is adopted to understand the general noncompliance behaviour among taxpayers in case of import duty as well as to examine the noncompliance behaviour at individual level within similar capacity.

2.3 Religiosity

Strong religious feeling or belief or religiosity, is one of the significant aspects of tax behaviour which can be a genuine motivation for tax payment, voluntarily recognised the income, alert by the tax procedures and the likes. Religiosity has been gauged in various ways, such as religious education, being a dynamic associate of a religious organization (Sennur Sezgin et. al., 2011). In the meantime, trustworthiness is clarified by taxpayer behaviour. Religiosity is seen as an internal factor. This is because religiosity is a belief and trusted by its followers. In religiosity, it is more to spiritual, whereas the follower will not be punished if they do not obey, but will affect psychology and morally (Brian et. al, 1999). The more people having religiosity behaviour, the stronger they are in their religion. Religion guides to identify what is a good or what is evil in religiosity (Rosmarin et al, 2016). Religious people are expected to have high moral values. A social system may use the internal elements such as moral beliefs to decide whether or not to comply. Zandi and Rabbi (2015) published that, normally, many taxpayers use their inner values in the decision making process. This means that, in a tax compliance study, the role of religiosity is an inner factor and influential in the decision not to comply paying tax.

Previous researchers suggested that important cross culture and religious variations exist between countries that can influence tax noncompliance in different ways (Mohd Rizal Palil, 2013). Nonetheless, the studies were focused on dominant religions in Europe with Christianity as the main religion and not according to multi-cultural beliefs and religions like those found in Malaysia. Some notable religions widely devoted in Malaysia include Islam, Buddhism, Hinduism and Christianity.

Religiosity has not been widely recognized as tax compliance or noncompliance research as one potential element that explains the puzzle of tax morale, until several researchers such as Raihana Mohd Ali & Pope (2014) and Torgler (2003) emphasized its significance. It could be basically viewed as a faith in God or other spiritual beliefs in shaping the extent to which group completely meet their legal tax requirements. This may be related to the argument made by Raihana Mohd Ali & Pope (2014) where religious belief can produce moral control to differentiate and choose between good and bad behaviour in any religion. This perception is important as the tax study explores the function of moral values held by taxpayers towards tax noncompliance.

H1: There is a significant relationship between religiosity and import duty noncompliance behavior.

H3a: There is a relationship between religiosity and intention not to comply.

2.4 Customs Law

One of the factors that may influence compliance was a law implemented under Customs Act 1967. In this Act, penalties and fines are charged to taxpayers who fail to fulfill the law requirement. Actually, the law was the instrument to control and sets out the jurisdiction of legal activity. It has seen as something that is comprehensive and conclusive (Kamil Mad Idris and Zainol Bidin, 2007). Penalties and fines imposed were proposed to protect public interest from being overwhelmed by noncompliant taxpayers. It also aims to educate taxpayers to be more compliant than the laws carried out (Devos, 2009).

Basically, the government depends on the penalties provided such as criminal and civil action as an effort to prevent from tax avoidance (Kasipallai et al, 2003). Studies by Hanno & Violette (1996) have shown that the high penalty rate improved taxpayer compliance. However, the probability of noncompliant taxpayers to be detected and punished for avoidance was difficult. As a result, it was only a small impact on the behaviour of compliance because noncompliant taxpayers feel nothing despite the legal actions (Sellywati Mohd Faizal & Mohd Rizal Palil, 2015). This could probably be due to the low penalty rate imposed on each offence committed by the taxpayers. In order to overcome this problem, the RMCD has increased the revised audit programme and penalty rates. Despite the continuous initiatives by RMCD, avoidance of tax still occurs. This problem is attributable to the auditor's failure in detecting the wrongdoing as implicated by the taxpayers (Sinnasamy et al, 2015).

Several researchers in the field of taxation found an inherent relationship between law and taxpayers' behaviour. Allingham & Sandmo (1972) had proven the economic criminal approach to expect the taxpayer behaviour. If the tax evaders were detected and high penalty rate were imposed, then tax compliance would increase. It is supported by Murphy (2004) who found the penalty charged upon those who avoid tax potentially become the best step to prevent tax avoidance in the future. Deterrence theory also describes that individuals will try to avoid doing the wrong acts if the punishment imposed is appropriate, valid, serious and quickly implemented (Sutinen & Kuperan, 1999). Although, RMCD imposed high fines and heavy punishment upon tax avoidance, but cases involving noncompliance still persist. It is therefore equally vital to investigate the effectiveness of the legal provisions in enlightening and educating the taxpayers to encourage more Malaysian taxpayers towards compliance.

H2 : There is a significant relationship between customs law and import duty noncompliance behavior.

H4a : There is a relationship between customs law and intention not to comply.

2.5 Intention Not To Comply

The intention of noncompliance is defined as the extent factor of taxpayer for not paying import duties. The definition of not paying taxes means the failure of the individual to make neither a necessary payment nor pay less amount or failed to legally prescribed or any definition under the Customs Act, 1957. Every taxpayer has the awareness and knowledge that the import duties are payable to the RMCD. In order to see the relationship between behavioural intention and behaviour as suggested by Ajzen (1991), the intention is measured by characteristics of behaviour, which is associated with an action, target, context and time. In this study, the behaviour of noncompliance in case of import duties is equivalent to the characteristics of any action. The target refers to the individual who is responsible for ensuring the matters related to import duties. Making the declarations correctly to the RMCD is a context while payment of import duties as of the date issued refers to time. In this study, Intention Not to Comply is an operationalization of the action to be taken by the taxpayers. This includes a quantity of measurable parameters in order to avoid paying taxes, not increased the import duty, knowledge of the regulations and pay less than the accurate amount to RMCD. The intention was an antecedent to actual behaviour (Ajzen, 1991). The TPB posits that intention is the most influential predictor of behaviour. A negative intention to comply with the tax laws, tax noncompliance will influence behaviour.

Baron & Kenny (1986) explained that the intention is a straightforward model of a mediator concept in social psychology. Fishbein & Ajzen (1980) assumed that the relationship of together attitudes and normative factors on behaviour are mediated by intentions and their formulation corresponds to correct statement of a strong shaped mediating position. However, given the elegance of their general model, it is not considered regarding the nature of the Intention and Behavioural relationship. For example, Fishbein & Ajzen's conduct of this relationship failed to differentiate between variables that are likely to moderate and those possible to mediate this relationship. Such diverse variables as gender, time delay, perceived likelihood of co-workers, workers complying, skill, and resources are all treated as mediating factors (Fishbein & Ajzen, 1980; Boron and Kenny, 1986). From the current standpoint, such approach overlooks the possibility that a few of these factors are best conceptualized and treated statistically as moderators whereas others are best assumptions as mediators.

Given these differences, a dissimilar of method analysis can be employed. In particular, Fishbein and Ajzen (1980) examined the significance of giving factors, by focusing on the relationship of multiple correlation to reducing or adding a variable. So that,

this study proposed to treat a covariate which is intention not to comply as a mediator. Thus, this study adapts from what had been measured by Fishbein and Ajzen (1980) and Kenny and Boron (1986). Salihen Mohd Salleh et al (2015) had also used this method in the study of indirect taxation in Malaysia.

- H3b: Intention not to comply mediates the relationship between religiosity and import duty noncompliance behavior
- H4b: Intention not to comply mediates the relationship between customs law and import duty noncompliance behaviour.
- H5: There is a relationship between intention not to comply and import duty noncompliance behavior.

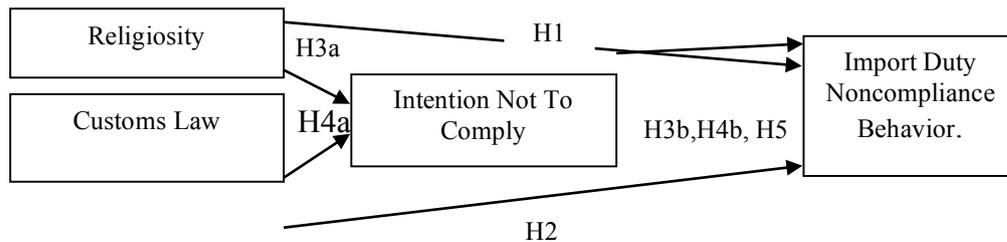


Figure 1: Schematic Diagram of the Research Framework.

Raihana Mohd Ali & Pope (2014), Welch et al. (1991) and McKerchar et al. (2012) confirmed positive relationship between religiosity and tax compliance or negative relationship between religiosity and tax evasion. In another study, Richardson (2006) confirmed negative relationship between individuals with high levels of religiosity and tax evasion. Welch et al. (1991) published that tax evasion was negatively related to an individual’s religiosity among the Catholic parishioners. Salihen Mohd Salleh et al (2013) and Mirza Mohamed (2016) found that tax law has significant relationship with tax behavior. Generally, the internal factor for behavioural control component temperament is significantly related with religiosity while the external factor is based on the law or enforcement (Salihen Mohd Salleh et al, 2013). All variables were examined with the aim of looking at the roles of noncompliance behaviour on import duties. In religiosity, the question was more focus on the frequency of activity that respondents involved in religious programs, while in customs law, the question was focused on understanding of law and regulation.

3. Results and Discussion

The method of study is focus on quantitative. Data from the present study were gathered from questionnaires using Likert scale to determine the agreement on statements given (based on 7 points Likert scale: 1 = Extremely Disagree, 2 = Quite Disagree, 3 = Slightly Disagree, 4 = Unsure, 5 = Slightly Agree, 6 = Quite Agree and 7 = Extremely Agree). Questions were adapted from previous studies conducted by Smart (2013) for religiosity and noncompliance behaviour, and Salihen Mohd Salleh et. al. (2014) for customs law and intention not to comply. The questions were edited according to its suitability under Malaysian conditions. A total of 150 questionnaires were distributed to respondents being representatives of the companies summoned by RMCD with 117 questionnaires returned (78.00 percent). Table 1 gives a descriptive analysis of the respondents involved:

Table 1: Summary of respondents’ background

Age	Quantity	%	Education	Quantity	%
20-30 year	37	31.6	Primary School	5	4.3
31-40 year	39	33.3	Secondary School	17	14.5
41-50 year	30	25.6	Diploma/A-Level	43	36.8
51-60 year	11	9.4	Degree	49	41.9
> 61 year	0	0	Master / PhD	3	2.6
Total	117	100%	Total	117	100%

Race	Quantity	%	Religion	Quantity	%
Malay	67	57.3	Muslim	68	58.1
Chinese	31	26.5	Buddhist	25	21.4
Indian	16	13.7	Hinduism	11	9.4

Bumiputra	3	2.6	Christian	8	6.8
Others	0	0	Others	5	4.3
Total	117	100%	Total	117	100%

Figure 2 and Tables 2 show results of the analysis. This analysis is using WarpPLS 6.0. It can be seen that customs law not did not significantly influence import duty noncompliance behavior in Malaysia ($p=0.08$). This variable however, is significantly influencing import duty noncompliance behavior when the intention was not to comply as a mediator variable ($p<0.01$). While religiosity had no significant effect on import duty noncompliance behavior ($p=0.08$), this variable was significant to influence toward import duty noncompliance behavior when it was supported by intention not to comply as a mediator ($p<0.01$). Intention not to comply was mediator with contributed $R^2 = 0.37$. This is good value and acceptable in behavior study (Hair, 2014). The coefficient of determination (R^2) for import duty noncompliance variable is 0.7. The low value of R^2 in this variable indicates that most of the independent variables chosen are not able to illustrate the magnitude and possibilities of tax noncompliance (Nur Azrina Mohd Yusoff et. al., 2014). At the result, Nur Azrina Mohd Yusoff et. al. (2014) agreed that only 7% of the variance in the tax noncompliance rate can be explained by the chosen independent variables. Whilst, the remaining variance are unexplained. The low R^2 found in this study is comparable with Juahir et al. (2010), which was about 10%. It was argued that with limited access to tax collection data and this is a cross sectional study, the low R^2 is acceptable.

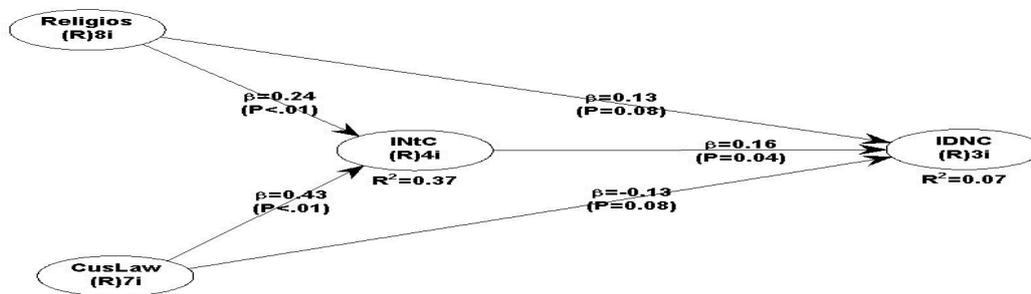


Figure 2: Results of Analysis

Table 2: Hypotheses Results

Hypotheses	P Value	Value	Results
H1	0.08	0.13	Rejected
H2	0.08	0.13	Rejected
H3a	<0.01	0.24	Accepted
H3b	0.04	0.16	Accepted
H4a	<0.01	0.43	Accepted
H4b	0.04	0.16	Accepted
H5	0.04	0.16	Accepted

Result of the analysis shows that respondents believe that customs law and religiosity could influence tax noncompliance when it is supported by intention not to comply. Without intention not to comply, taxpayers become more compliance. This shows that some non-economics factor is also influencing the taxpayers to become noncompliance toward import duty in Malaysia. On the other hand, intention not to comply are also positively correlated with noncompliance behavior with the p value is 0.04. From the results, it shows that religiosity and customs law are influenced by intention not to comply. These variables have gained the highest effect on noncompliance behavior when the element of intention not to comply was highest. However, the impact of religiosity and customs law become negative toward noncompliance behavior when it was not supported by intention.

4. Discussions and Conclusions

Religiosity and customs law could increase in import duty noncompliance behavior when they are supported by intention not to comply. The present study analyzed the relationships of both economic and non-economic factors on import duty noncompliance behavior in Malaysia. This study has been suggested by Kasipalai et. al. (2003). Non-economic factor is a good reason to focus by tax authority because it would reduce noncompliance case without having to spend a huge amount to combat it. Therefore, tax authority should educate taxpayers to be more responsible. From the findings, it could be summarized that respondents belief in the element of religiosity and customs law which influence the noncompliance decision. It will effect on behavior. In Customs

Law, the element of intention not to comply was very important issue to prove to the persecution because the court believe that it will drive a company to become noncompliance. Without the element of intention not to comply, prosecution cannot proceed the case in court. Example the case of Malaysia Government vs Sunthanaraju (2015), the prosecution succeeded in proving the elements of the intent in an established offence. In addition, as a member of the world customs organization, this study could help among the other members to develop a policy of import duty based on the knowledge of customs law. This is because all members will use the same rules on managing import and export in their tax policy.

While, religiosity is related to internal spiritual, the spiritual needs believe and intention. Taxpayers usually will follow whatever statement comes from a religious person. When the religious person gives a negative statement about tax, the follower will follow. In this case, tax authority should be aware of the current situation to avoid negative statement which will influence taxpayers not to comply. Further studies in multi-religious countries such a Malaysia might expose the different belief among taxpayers. This is a better practical implication to the country with multi-religious population such ASEAN to understand the difference between taxpayers belief, and further understanding of the factors influencing taxpayers in different contexts.

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