

BUDGET TRANSPARENCY AND TAX AWARENESS TOWARDS TAX COMPLIANCE: A CONCEPTUAL APPROACH

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ABSTRACT

Tax compliance has become the main issue for all taxation authorities in both developed and developing countries. Thus, many of experts in academic and non-academic institutions seeking to improve the level of tax compliance among taxpayers which in turn will increase the figures of tax revenue in the national budget. This required developing the level of awareness of tax (tax education & tax knowledge) amongst taxpayers and providing all possible information to taxpayers also dealing in transparency with taxpayers in contents of public budget especially regarding tax revenue and its spending. The main target of this study is to examine the role of budget transparency and tax awareness towards tax compliance among individual taxpayers in Malaysia. The questionnaire instrument will be used under the quantitative approach to gather data from respondents. Correlation and regression analysis will be utilized to test the relationships between independent variables and dependent variable as well, to know to what extent these relations have affected. To fulfill the objectives, it is hoped that this conceptual approach in this paper will provide some information and contributing to the literature through summarizing the prior studies and relations related for practitioners and interested researchers.

Keywords: Budget transparency; Tax awareness; Tax knowledge; Tax education; Tax compliance.

Introduction

Taxation as main revenues for states the struggle about it has been in the heart of state authority. Therefore, taxes related closely in establishing the order and law within a society. Hence, tax represents one of the important aspects of the coercive force of the state (Besley & Persson 2014). Nowadays, seeking to achieve a better compliance is a key target for all revenues authorities (OECD 2004). The most important objective for governments is improving tax compliance with tax laws. Therefore, the need to tax literate and tax knowledge for taxpayers became more urgent to make taxpayers more compliant in future and the success of compliance in Self-Assessment System mainly depend on the full cooperation of taxpayers (Fatt & Khin 2011).

The problem of tax compliance represents the key point for public fiscal authorities which has found as old as the tax itself (Andreoni et al. 1998). Tax non-compliance (e.g tax evasion) has become a global problem faces all communities in the world and threatens most of the governments' budgets through tax evasion by taxpayers (Chau & Leung 2009). In Malaysia, tax revenues represent 51% out of Malaysian government budget, but tax gap in Malaysia is 20% which means RM20 billion based on (2009) revenue collection. As well as, in Malaysia based on individual income tax - IRBM (2009) the population is around 28 million, about 8.5 million have registered as taxpayers in self-assessment system. But actually, only 1.7 million (6%) are the actual taxpayers that pay tax for government treasury (PEMANDU 2011).

If we review statistics of IRBM annual reports from 2005 until last annual report in 2014, we will find the problem of tax compliance or the matter of trying to evade tax by taxpayers is still existing among members of the community and still facing IRBM administration. An example, in 2014 IRBM has prepared about 36 investigation lists and sent to court for the purpose of prosecution where IRBM has collected RM543.96 million from penalties, while IRBM has collected RM511.33 million in 2013, an increase of 6.38% compared with 2013. Regarding ban from leaving the country in 2014 lists of ban included 82,322 effective cases, which means cases of tax evasion in Malaysia continuously in rising compared with previous numbers (IRBM Annual Report 2014).

Openness transparency about policy intentions, formulation closely and implementation is the main element of a good governance (OECD 2002). Thus, the need for budget transparency seems self-evident to all taxpayers (Lipford 2001). Additionally, Benito & Bastida (2009) stated that clarity of budget transparency could increase individuals' attention (e.g. voters) that may have a positive impact on contents of the budget. Budget is a key document of government economic policy, also getting a whole information about the budget is a basic right for taxpayers with all aspects of views that regarding budget's decisions (Fölscher et al. 2000). The feeling of transparency amongst people may create the feel of confidence among taxpayers. Therefore, taxpayers need more information on what happening in government towards tax dollars transparency (Siahaan 2013).

The present study is pushed by a need to know the barriers which prevent compliance and pay tax fully to tax authorities amongst individual taxpayers in Malaysia and to know the factors that may influence individual taxpayers' decisions. The another motivation for this study is based on the figures of IRBM reports there is growth continually in problems of tax compliance among taxpayers in Malaysia, these matters encouraged researcher to undertake this study.

LITERATURE REVIEW

TAX COMPLIANCE

Practitioners and academic researchers have tried to define tax compliance in various forms. For instance, James & Alley (2002) defined tax compliance as the willingness of persons, corporate and other taxable foundations to comply with tax laws in letter and spirit as well as compliance with tax administration requirements without using force tools. Tax compliance explained and defined by numerous official tax administrations such as Internal Revenue Service (IRS) in U.S.A, Inland Revenue Board of Malaysia (IRBM) as the degree of taxpayers' willingness to comply with tax codes voluntarily and filing all required tax, also declaration the correct income and pay all taxes, penalties and interest timely with claiming the true deductions and exemptions (IRS 2016; IRBM 2013).

Many empirical research studies have done on tax compliance issues which confirmed the existence a group of factors that influence voluntary tax compliance to corporate or individuals (Barbuta-Misu 2011; Batrancea et al. 2013). A study conducted by Niu (2010) results showed a positive relationship between tax audits and voluntary compliance behaviour where audit may generate government revenue. Helhel & Ahmed (2014) argued that imperfect tax auditing has an influence on taxpayer's compliance decision. An empirical study by Devos (2012) has provided evidence on the relationship between tips offered by tax professionals and compliance behavior of individual taxpayers (evaders & non evaders). The study emphasized that there was a significant relationship between the participation of tax professionals through advices and individual tax compliance.

In detailed study, Siahaan (2012) has studied direct impact of tax fairness and communication on individuals' voluntary compliance through trust. The study documented that direct and indirect impact of tax fairness on individuals' compliance is positive and significant, while the direct and indirect impact of communication on individuals' compliance is significant. Likewise, when taxpayers feeling tax system is unfair they try to evade tax. A primary data collected and research conducted by Machogu and Amay (2013) authors noted that the level of education among taxpayers impacts tax compliance decision where 83% of respondents stated that tax education helped them to understand their obligations, rights and procedures of paying tax.

A study was undertaken on individual taxpayers in Malaysia by Mohd Ali (2013). The study tested taxpayers' perceptions toward government and religiosity in promoting voluntary tax compliance. Generally, the findings provided that religiosity has a positive influence on tax compliance, taxpayers' perceptions toward government showed a significant effect on individuals tax compliance decision. Brainyyah & Rusydi (2013) illustrated that tax complexity negatively impacts taxpayers compliance in general. Thus, higher complexity in tax system means higher tax burden (compliance costs). Also, results mentioned that correlation of tax complexity towards tax compliance behaviour was negative and significant, whilst tax fairness was positive and significant influence on tax compliance. Osebe (2013) highlighted that education enables taxpayers to understand tax system and to be knowledgeable of their tax obligations and rights. Likewise, results displayed that education and tax knowledge have a positive impact on tax compliance, instill education and tax knowledge among taxpayers (e.g investors) will develop the level of tax compliance.

BUDGET TRANSPARENCY AND TAX COMPLIANCE

The concept of transparency has appeared a universal concept to responsible authorities and relevant. Therefore, transparency tries to reflect the public acts of government which could be an effective tool in economic terms (Erkkilä 2012).

It can argue that, transparency leads to enhance accountability and public knowledge, through increasing the information flow to citizens and facilitating for more clear choices (Sun & Lynch 2008). Based on Kopits & Craig (1998) fiscal transparency refers to the openness to public and publication of information about how governments work, government's functions, spending public money/taxes and how to manage general resources. As well, accessibility to a comprehensive information about government timely and understandable.

Mwenda & Gachocho (2003) mentioned that national budget is annual report proposal of government spending and revenue collection that reflect the government fiscal objectives and its policy priorities. According to Open Budget Survey (2010; 2012), International Budget Partnership (IBP) and Krafchik (2012), a citizen budget is a document and simplified version that explains and summarizes government budget information which aims to notify all citizens about government's budget contents. Also, should offer in easy form and accessible to all people and should use clear and simple language. As well, enable individuals who are not familiar with public finance to ask questions about public spend & revenue and what have done in their name. For the purpose of this study budget transparency is defined by OECD (2002) "as the full disclosure of all relevant fiscal information in

a timely and systematic manner". And "the ability of all the people in a country to access the information on how much is allocated for different types of spending and what revenues are collected" (IBP, 2008).

For more information about the budget in corporate and to be the picture more clear about the budget in government and business sector Hofstede (2012) mentioned that the budget in company represents one of the forms or tools of administration control, where the budget systems functions are more important in organizing business operations. Eichorn (2000) explained that corporate budget is not only a process of estimating the coming year's expenses and revenues but it is the ability of company to predict the future operations, future plans needed and the requirements of related resource. Based on the above the differences between budgets in government and business sector not in substance but in the goals.

Recently, the issue of transparency of government activities has received more attention in academic and non-academic circles. Thus, many believe and argue that budget transparency has a great positive impact on fiscal performance (Alt & Lassen 2006). An experimental study by Grimmelikhuijsen & Meijer (2012) examined the influence of government transparency on citizens' trust in government with predisposition and prior knowledge as moderating variables. Findings included that transparency has an influence on trust in case less predisposition and prior knowledge. As well, transparency sought to enhance trustworthiness to higher levels. Kim & Lee (2012) documented that presence of government transparency has a positively associated with individuals' trust in government that provides e-participation programmes.

In detailed study, Alt & Lowry (2010) have provided a significant statistical proof used panel data period 1972-2000 for budget transparency in U.S.A. The model seeks to find out the relationships between budget transparency, retention of incumbent governors and tax growth. Results of study offered that increasing the transparency in budget leads to reduce the negative impact of tax increases on retaining the current rulers in their positions. Increased budget transparency enables citizens (e.g voters) to accept justifications for tax increases. Siahaan (2013) has tested the correlation between tax transparency, trust and voluntary tax compliance. The survey distributed on individual taxpayers who working in service industries. Results illustrated that the influence of tax transparency on tax compliance is insignificant. While the influence of tax transparency on tax compliance through trust is significantly positive.

TAX AWARENESS AND TAX COMPLIANCE

Tax as resource represents one of the major resources of government's revenue for many countries. For instance, Malaysia in the year 2008 taxes represented 66.7 percent of government income (Saira et al. (2010). In Indonesia, tax revenues represent 78% of the total country revenue (Kamil 2015). In presence of tax system to collect tax revenue such as Self Assessment System, tax awareness among taxpayers is an important tool towards tax compliance (Palil et al. 2013). Consequently, introduce Self Assessment System to collect tax simply means that the responsibility to compute income tax and determine tax payable currently lies on taxpayers (Sapiei & Abdullah 2008).

To operate Self Assessment System (SAS) required from taxpayers to have knowledge and understanding of tax affairs and required from them to be responsible for calculating and reporting their tax payable. As well as, required from taxpayers to provide right tax returns and expected of them they are functionally literate in computing their tax liabilities exactly (Hastuti 2014; Kamaluddin & Madi 2005). Fatt & Khin (2011) explained that for more compliance, taxpayers need to have some basics of tax knowledge regarding taxation concepts and some information of tax literate to deal effectively with requirements of using Self Assessment System.

Based on Palil et al. (2013) argument, the concept of tax awareness refers to tax knowledge and tax education amongst taxpayers where tax knowledge improves individual's awareness and level of ethics towards a perfect tax compliance. Furthermore, tax education enables individuals to understand more about tax system. Hastuti (2014) defined tax awareness as "self-awareness of taxpayers individually to take responsible to calculate, pay and report their own tax". Savitri (2015) stated that taxpayers awareness could be explained as a case when taxpayers are knowledgeable of how to calculate tax and how to pay their tax liability. According to previous definitions, this study also defined and introduced tax awareness through tax education and tax knowledge as dimensions for tax awareness, this argument supported by some researchers such as Palil et al. (2013) and Saira et al. (2010).

Tax literature has pointed that not just knowledge but understanding taxpayers for tax system might impact taxpayers' attitudes toward tax compliance. Brainyiah & Rusydi (2013) examined the influence of tax fairness, complexity of tax and tax knowledge towards tax compliance decisions. The findings showed that tax complexity has a negative and significantly impact on tax compliance amongst SMEs taxpayers. While tax knowledge did not show any significant impact on tax compliance. Saad (2014) conducted a study on taxpayers' views, tax complexity and level of tax knowledge toward tax compliance. Results suggested that the knowledge of tax was inadequate with taxpayers. Based on interviews, taxpayers believe that tax knowledge and complexity of tax are contributing factors toward non-compliance among taxpayers.

An empirical study carried out by Palil et al. (2013) about the impact of tax awareness (education, knowledge) on tax compliance with religiosity as a moderator variable. The findings have provided that factor of religiosity plays a significant role to motivate taxpayers to comply with tax regulations. In contrast, tax compliance was lower with education and knowledge. Alstadsæter & Jacob (2013) have examined the role of tax awareness and tax incentives on tax evasion. The paper shows that tax awareness and the intricacy in compliance have impacts on tax non-compliance. Where, tax awareness leads to decrease misreporting, while intricacy in compliance increases the probability of misreporting.

Savitri (2015) mentioned that a better knowing of taxation will drive to better tax compliance. Further, to maximize tax collection required raising tax awareness for taxpayers to pay their tax payable. The results suggest that tax awareness works to promote tax compliance. Sumartaya & Hafidiah (2014) tested the correlation between taxpayers' awareness and tax morale towards tax evasion. Results showed that tax awareness and tax morale have a significant influence on the level of tax non-compliance (e.g tax evasion). Kamil (2015) has provided evidence about awareness of taxpayers, knowledge, services of tax authorities and tax penalties on tax compliance. The results of study presented that tax awareness, knowledge of tax and services of tax authorities showed a significant and positive impact on tax compliance.

THEORY AND FRAMEWORK – THEORY OF PLANNED BEHAVIOR

In last decades, theories of social psychology have represented a suitable framework for many researchers to explain and understand social behaviors. In taxation domain especially in tax compliance, several of researchers applied TPB to interpret the correlations between variables in a conceptual framework such as Abdul-Razak & Adafula (2013); Shaharuddin et al.(2012); Kamil (2015).

According to Ajzen (1991), theory of planned behavior assumes that intention is a basic factor to affect individual's behavior, which in turn intention affected by three main concepts that are as follow: First one is the attitudes towards behavior which indicate to the perspective of individual positively or negatively of performance toward particular behavior (behavior is favorable or unfavorable). The second one is the subjective norms which refer to the perspectives of individuals towards particular behavior to behave or not which affected by the social environment of human such as friends, parents, teachers, spouse. The third one is perceived behavioral control, which refers to individual's perspective of ease or difficulty of implement behaviour that depend on past experience of the individual. As well, perceived behavioral control could affect behavior directly or indirectly by behavioral intention.

Ajzen (1985); Ajzen & Timko (1986) argued that perceived behavioral control represents personal beliefs/control beliefs that have power or strength to constitute intention and behavior, which reflect the internal factors (e.g., knowledge, information, skills, ability, willpower, background, etc.), as well external factors (e.g., availability of time or money, social support, cooperation by others). Based on the model of TPB theory, it hypothesized that information and knowledge have a role in shaping the attitudes and personal beliefs of individuals towards actual behavior.

HYPOTHESES DEVELOPMENT

BUDGET TRANSPARENCY AND TAX COMPLIANCE

Eggert & Helm (2003) illustrated that transparency of the relationship between business corporate and customers became more significant in business field, as one of the major sources to satisfy clients, where customers feel satisfied when they treated transparently. Drabek & Payne (2002) argued that transparency has influences toward polarization of foreign direct investment, where transparency is attractive and has an effect on foreign investors.

Many researchers and practitioners considered that fiscal transparency has positive role and impacts on fiscal performance. For instance, Alt & Lassen (2006) indicated that raising budget transparency is an important factor to upgrade fiscal performance. In addition, a higher degree of budget transparency leads to achieve a better control of government spending. Nowadays, transparency presented as a solution for some problems. Kim & Lee (2012) suggest that presence of government transparency creates a positively associated between citizens and government. Alt & Lowry (2010) claimed that increasing transparency in budget leads to minimize the negative influence of tax increases on retaining the current rulers in their positions. Curtin & Meijer (2006) argued that transparency tries to promote the general acceptance of the performance of public institutions among citizens. Based on the arguments, can discern that presence a reasonable level of transparency in government budget may lead to a better tax compliance by taxpayers first hypothesis can be as follow:

Hypothesis 1): There is a positive relationship between budget transparency and tax compliance.

TAX KNOWLEDGE AND TAX COMPLIANCE

Taxpayers are major contributors to national budget also they are the key helpers to revenue authorities in enforcement the tax system requirements (Mat Udin 2015). Without sufficient knowledge of taxation is hard for taxpayers to deal correctly with tax system. Consequently, upgrading tax knowledge for taxpayers is an essential part in success the tax system (Brainyyah & Rusydi 2013). Knowledge about taxation is an important point in taxpayers' attitudes towards tax issues (Eriksen & Fallan 1996). Applying and creating tax knowledge is a significant subject which result to a better understanding of tax environment and could make taxpayers more able and positive with tax compliance (Hasseldine et al. 2011).

Kamil (2015) reported that tax knowledge and public awareness may impact taxpayer's willingness to be more compliant to pay their tax due. According to Mahmood (2012), tax knowledge could be one of influence factors that might affect the behavior of taxpayers towards tax compliance. Furthermore, instilling the concepts of tax knowledge to taxpayers can promote compliance operation. Based on past discussion about tax knowledge, it is proposed the second hypothesis as next:

Hypothesis 2): There is a positive relationship between tax knowledge and tax compliance.

TAX EDUCATION AND TAX COMPLIANCE

Breaking the barriers between tax authorities and citizens, produce awareness and fighting tax literacy are the main goals of tax education (Lai et al. 2013). Tax education became one of the important subjects that should be available for all citizens because tax payments are ones inevitable (Md Azali 2006). In the same way, Ching (2013) stated that education can impact an

individuals' decision toward compliance. In other words, when individuals have a good level of education are realizable and they try to be more compliant with their obligations.

Mahat & Ling (2011) highlighted that it is difficult for taxpayers to comply completely with self-assessment system without tax education system effectively. A group of interviews conducted by Mahmood in 2012 with twenty senior officials of IRBM in Malaysia. All interviewees agreed that the best efficient way to enhance tax compliance is to install education for taxpayers. Individuals/citizens can acquire some basic knowledge about taxation, that in turn could impact their behavior and attitudes towards compliance (Ugwu 2014). Based on previous offer about tax education, it can suggest the third hypothesis as follow:

Hypothesis 3): There is a positive relationship between tax education and tax compliance.

Based on the discussion above about the relationship between dimensions of tax awareness (tax knowledge & tax education) and tax compliance which proposed two hypotheses as mentioned before. This study also seeks to examine the influence of tax awareness as one component (construct) with tax compliance. Therefore, this research tries to introduce the following hypothesis:

Hypothesis 4): There is a positive relationship between tax awareness and tax compliance.

METHODOLOGY

The current study adopts cross-sectional design or social survey as one kind of quantitative approach. The population will be Universiti Kebangsaan Malaysia (UKM), a panel of UKM clinics and lawyers' firms in Bangi, where academicians as salaried, doctors and lawyers as self-employed have selected as respondents. The questionnaire instrument will be used in this study to gather data. Likewise, questionnaire and measurements will be developed and designed based on literature review IBP (2011); Tallaha et al. (2014); Mahat & Ling (2011); Lai et al. (2013); Ching (2013); Palil (2010) and Mohd Ali (2013) where five-point Likert scale will be used in all measurements. The Statistical Package for the Social Science (SPSS) windows Version 22 is being used to analyze gathered data from respondents via questionnaire.

CONCLUSION

The main target of this study is to examine the role of budget transparency and tax awareness through tax knowledge and tax education towards tax compliance among individual taxpayers in Malaysia. Thus, this study will contribute to enhancing literature in this field and tries to provide an overview in respect to these issues. This paper is a conceptual approach currently for an empirical study will conduct in next stage of research process. Therefore, it can say that the expected results of this study which will be obtained in future hopefully to be a model or a guide for public policy makers to improve the level of transparency in government and budget in particular which in turn will motivate the level of tax compliance among taxpayers. As well, the expected findings of this study could be a model or a guide to many developing countries to develop the level of tax compliance amongst taxpayers.

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