

EXAMINING THE DETERMINANTS OF TAX ARREARS: EVIDENCE FROM MALAYSIA

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Abstract: *The objective of this paper primarily aims to determine the factors influencing tax arrears amongst Malaysian tax payers by using demographic variables such as: age, gender, marital status, education, income and occupation as explanatory variables. It is conducted with an aim to complement prior research through exploring possible relationship between tax compliance behaviour and tax arrears. A number of previous literatures are cited in view to confirm the relationship among these variables. Based on the analysis of the available data, this study employs a multiple regression approach for 3,469 observations which are extracted from the national survey commissioned by IRB in 2011. A stepwise backward elimination method is utilized. The results show that gender, marital status, education and occupation are statistically insignificant at 5% level. Meanwhile two explanatory variables, i.e. age and income level are found to be statistically significant and able to explain tax arrears. Conclusion is then deduced that a negative relationship is observed between tax compliance behaviour and tax arrears. To improve future research, the use of secondary data is proposed for more accurate analysis. There is also an opportunity to broaden similar research to other tax related components and sectors which are still remained unexplored such as tax rates, audit probabilities and penalty structures.*

Keywords: Tax arrears, Malaysia, Individual taxpayers

Introduction

On March 1, 1996, the tax collection agency in Malaysia is formally known as the Inland Revenue Board Malaysia (IRB). It is one of the main revenue collecting agencies of the Ministry of Finance which administers direct taxes in Malaysia. IRB was established in accordance with the Inland Revenue Board of Malaysia Act 1995 to give it more autonomy especially in financial and personnel management as well as to improve the quality and effectiveness of tax administration. Other than income taxes, IRB is also responsible for administering, assessing, collecting and the enforcement of real property gain taxes, petroleum taxes and stamp duties. In this study, we are specifically looking into the area of individual or personal income tax.

Since the implementation of Self-Assessment System (SAS) in Malaysia for individual taxpayers in 2004, extensive numbers of studies have been conducted to evaluate and measure the effectiveness of compliance behavior amongst individual taxpayers using survey methods and experimental approaches. Among the most frequently quoted key determinants to examine taxpayers' compliance behavior is by using socio-physiological factors which include demographic variables (age, gender, marital status, education, income level and occupation), tax knowledge, tax complexity, taxpayer attitude and ethics, to name a few.

However, limited access to taxpayers' database due to IRB's stringent confidentiality requirement under Section 138 ITA 1967 that stipulates "certain material to be treated as confidential", has made many academic researchers could only rely on self-reported behavior and convenience sampling which have limited the extent to which findings can be generalized. (Loo, Evans & McKerchar, 2010). The objective of this paper primarily aims to determine the relationship between compliance behavior and tax arrears. It also tries to identify the strongest determinants which influence tax arrears and to ascertain factors which mostly contribute to the tax arrears specifically among individual tax payers.

Therefore, with the availability of aggregated data in this study, we wish to expand the existing knowledge of tax compliance behavior by using demographic variables as factors influencing tax arrears. These factors will be investigated further to observe whether there is relationship between the factors and tax arrears among individual tax payers.

This paper tries to answer questions, which among others are as follows: What is the relationship between tax compliance behaviour and tax arrears? What factors in tax compliance behaviour could influence the amount of tax arrears among the individual tax payers? Is there any relationship between the demographic variables and tax arrears? Can the demographic variables be a good determinant to ensure that individual taxpayers pay their taxes on time?

This paper is presented in five sections. Following the introduction which highlights the background and objective of the paper, section 2 outlines the literature review. This is followed by methodology and analysis in section 3. Multiple regression analysis is applied to arrive at the results and to estimate the relationship between the determinants and tax arrears. The results are presented followed by discussion of these results in section 4. Limitations of this study is then drawn together in the concluding section with recommendation of potential research.

Literature Review

There have been quite a number of studies on the factors influencing individual tax compliance behavior, which are predominantly demographic variables. The most common variables used in tax compliance research include age, gender, education and income level (Devos, 2008). However, whether there is a relationship between tax compliance behavior and tax arrears owed by individual taxpayers is yet to be examined. Thus, this section mainly survey previous studies, which entail findings about relationship that exists between the selected demographic variables towards tax compliance. The earlier findings are compared with the current research to determine the relationship between compliance behaviors to opinion on tax arrears.

Tax compliance has been a growing area of research throughout the world since the 1970's and includes contributions from many disciplines including economics, psychology, accounting, political science, public administration, law, criminology and sociology. (Allingham & Sandmo, 1972; Clotfelter, 1983; Jackson & Miliron, 1986; Dubin & Wilde, 1988; Trivedi, Shehata & Mestelmen, 2005; Loo, Evans & McKerchar, 2010). It is, therefore, no doubt that numerous studies on tax payers' behavior have been conducted including Malaysia because it is evident that non-compliant taxpayers would reduce revenues to the country and Malaysian Government expenditures would be dampened for national development and infrastructures. To date, tax compliance research in Malaysia has predominantly focused on compliance behavior of individual income taxpayers, but due to lack of access to IRBM database, studies have limited range of variables that may or may not influence compliance behavior.

Definition of Tax Compliance

Tax compliance has been defined in many ways, encompasses many disciplines including economics and psychology. It has been studied in economics by analyzing the individual decision of a representative person between paying taxes and evading taxes. (Nicoleta, 2011) It should be defined as taxpayers' ability and willingness to comply with tax laws, which are determined, by ethics, legal environment and other situational factors at a particular time and place. (Devos, 2008) Similarly, several tax authorities, also, defined tax compliance as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time. (IRB, 2010; IRS, 2010)

Tax Compliance Determinants - Demographic Factors

There is considerable number of literature on the influence of demographic variables on taxpayer compliance. Demographic variables such as age, gender, marital status, education, income and occupation have an effect upon perceptions that eventually impacts compliance. As mentioned in the Statement of Problem earlier, due to lack of research in the study of determinants for tax arrears among individual tax payers, hence we would be interested to explore further to find out whether these variables could also be subjected to the reason why taxpayers do not pay their taxes on time, thus became arrears. A number of literatures based on tax compliance behavior are referred and discussed to deduce to the relationship with tax arrears later.

Age

A demographic factor such as age has been extensively studied by researchers and the findings from different studies, however still remain inconclusive. For example, research on the relationship between age and compliance for Malaysian tax payers has produced various findings. Abdul (2003) found that those non-compliers are most likely to be between the ages of thirty (30) and fifty (50); Perumal (2008) found older taxpayers to be the most compliant. Older individuals are less likely to evade, partly due to increasing risk aversion. (Lee & Carley, 2009) However, other researchers have noted a negative relationship between age and compliance. (Loo, Evans & McKerchar, 2010) The same goes to studies found by Tittle (1980), Warneryd and Walerud (1982) and Wahlund (1992) that stated older people are less compliant. Nevertheless, these studies are disputed by Clotfelter (1983), Dubin and Wilde (1988) and Beron et al. (1992) who argued age was positively related to compliance. On the other hand, studies by Spicer and Becker (1980) and Porcano (1988) have found no relationship between age and compliance. Another study has also found that people have more respect for government and authority as they get older. (Alm and Torgler, 2006) These inconsistent findings are eventually explained by Torgler (2007) as first, age does not impact compliance in all tax payers; secondly, inconsistent non-compliance definitions used in the research; third, the effect on tax payers compliance is diluted when age is associated with a number of other variables; and fourth, the assessing interaction of age with other variables is problematic. To summarize, previous studies have evidenced that age could have different effects on compliance; a negative effect, positive effect or no relationship at all.

Gender

With respect to gender, previous findings also found mix results. Some studies found that males are more compliant; however, others found the opposite. Jackson and Milliron (1986) and Mohamad et al. (2017) found that males tended to be more non-compliant than females. Males are consistently more likely to evade, purportedly due to self-confident, competitive, and anti-authoritarian attitudes. (Lee & Carley, 2009) Findings by McGee & Tyler (2006) suggested that women are more likely to be opposed to tax evasion than men. Hence, it also means, women are more compliant. However, it has also been found that no significant differences exist between males and females regarding their attitudes towards level of compliance. (Ahmad et al., 2007) Another studies by Torgler, Valinas and Macintyre (2008) stated that gender differences could be attributed to different biological, psychological and experiential realities that lead to different approaches to issues and problems, suggesting that men and women do not necessarily have different motivations. Nevertheless, Richardson and Sawyer (2001) noted that the compliance gap between males and females appears to be narrowing with the emergence of a more explanatory, non-traditional generation of women. In a survey of American tax payer, Hite (1997) focused on interaction between gender and education. Female respondents with college degrees tended to be more tolerant of non-compliance than female without college degrees. To summarize, the impact of gender on tax compliance is inconsistent, although most of the studies conducted are prone to show female scores higher than male scores in tax compliance. (McGee & Tyler, 2006).

Marital Status

In terms of marital status, there are not much relevant reviews that could be referred to deduce to a feasible conclusion. However, two previous studies mentioned that single taxpayers were

found to be more intentionally non-compliant than married taxpayers. (Clotfelter, 1983; Loo, McKerchar & Hansford, 2010) In other studies, individual taxpayers, who have spouses, are found to be more compliant than unmarried taxpayers. This situation could partly be explained by the fact that women turn to be more tax compliant than men. (Richardson and Sawyer, 2001) Married women are, therefore, able to influence their male counterparts to be tax compliant as well.

Education

With respect to the education level, Beron et al. (1992) found a positive relationship between education and non-compliance, which was consistent with the findings of Witte and Woodbury (1985), but in conflict with the finding of a negative relationship by Dubin and Wilde (1988). (Loo, Evans & McKerchar, 2010) In addition, Lee & Carley (2009) reviewed education reduces propensity to evade; however, a curvilinear effect has been detected in one study. In another study by McGee & Tyler (2006) indicated that the lower educated group tends to be more tax-compliant than the higher educated group. Chan et al. (2000) on the other hand investigated the direct and indirect effects of two non-compliance opportunities, namely educational and income level. Furthermore, Chan et al. postulated that greater education is directly linked to a likelihood of compliance. They argue that educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer's attitude and therefore greater compliance. Chan et al., also, suggested that those with a higher education level are more likely to have a higher level of moral development and a higher attitudes level toward compliance and thus will tend to comply more.

While the education levels become more important in increasing tax compliance across countries, Mohani (2001) suggested that one of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility. In contrast, the most recent study, by Richardson (2008) also revealed that there is a negative association between education and compliance. To summarize, greater education potentially increases compliance, as educated tax payers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws, although other studies found a negative relationship between education and compliance.

Income

According to Lee & Carley (2009), low income and very high income individuals are more likely to evade, partly due to increased opportunities from either under-the-table income or investment-based income. It is also believed that progressive tax rates might be one of the reasons why high income group has more tendencies to evade or has non-compliance behavior due to higher taxable income, thus making the tax liabilities much higher than those in the lower income group. This is again supported by McGee & Tyler (2006) as they stated that the lower income group tends to be more tax-compliant than the upper income group. In a country where the income redistribution is not satisfactory, higher income groups tend to evade more (Mohani, 2001) because high income earners might feel the tax system is not treating them fairly.

Loo (2006) and Mohamad et al. (2017) in their study in Malaysia found that higher income earners were less compliant. These studies have evidenced that income level has a significant

impact on compliance. However it is also believed that those taxpayers with higher level of education would tend to improve their tax knowledge, which eventually may improve their attitudes towards compliance. As suggested by Wearing and Heady (1997) and Torgler (2007), high income earners are likely to be more compliant rather than lower income earners. In spite of varied negative and positive relationships between income level and tax compliance, there are also studies that found insignificant results between the two. For example, Park and Hyun (2003) in their experiment in South Korea found that income levels had no significant effect on tax compliance. Another previous literature, also, suggested that direct relationship between income level and tax compliance remains unclear. (Jackson and Miliron, 1986) To summarize, while some research found income levels are the most important determinant of compliance, other previous studies however, have shown the impact of income on compliance is still vague and need to be investigated further. A higher level of education, perhaps, would lead to a better income level and would improve one's tax knowledge and consequently change one's attitude towards compliance. (Loo, 2006).

Occupation

A demographic factor such as occupation refers to an individual's employment or earning activity. (Jackson and Miliron, 1986) Sutherland (1949) argued that tax evasion is considered as a white-collar crime, committed by an individual of respectability and high social status in the course of performing his employment. Devos (2008) also found that those in more traditional white collar occupations (i.e. professionals, associate professionals, clerical sales and retail) are most susceptible to penalties and their influence upon compliance behavior. On the other hand, Lee & Carley's (2009) studies have shown higher non-compliance when professional preparer is employed. Occupational categories have ranged from specific occupational strata according to Mason & Calvin (1978) to broad categories (Hassledine, Kaplan & Fuller, 1994).

Another reason for the lack of direction could be the suggestion that the opportunities for noncompliance are associated with the particular occupation rather than the occupation itself. (Robben, 1990; Devos, 2008) In addition, Tax Compliance Management Program (TCMP) data also indicate "among all sole proprietors those who engaged in sales from fixed locations (car dealerships, stores, restaurants, etc) understated taxes by the greatest percentage." (Andreoni et al., 1998; Chau & Leung, 2009).

Data and Methodology

Demographic variables' dataset including Age, Gender, Marital Status, Education, Income and Occupation were obtained from the previous national survey commissioned by IRB in 2011. The survey was conducted using questionnaire as a medium, which comprise only nominal and ordinal levels of measurement. About 3,469 observations had been collected and analyzed in this research. This dataset served as the explanatory variables. The individual tax arrears dataset were matched with these demographic variables and obtained from IRB's own database. Using ratio as the level of measurement, this variable is used as the dependent variable. In consideration that the cross-sectional data comprises of different levels of measurement with different set of variables for the explanatory variables and the dependent variable in one period of time, multiple regression analysis is the most suitable approach in this study.

Table 1: Correlations Matrix of Variables

		Tax Arrears	Gender	Age	Marital Status	Education	Income level	Occupation
Tax Arrears	Pearson Correlation	1	-.016	.043*	.013	-.012	.042*	.013
	Sig. (2-tailed)		.361	.011	.454	.462	.013	.442
	N	3468	3468	3468	3468	3468	3468	3468
Gender	Pearson Correlation	-.016	1	-.118**	-.194**	-.018	-.153**	-.013
	Sig. (2-tailed)	.361		.000	.000	.291	.000	.457
	N	3468	3468	3468	3468	3468	3468	3468
Age	Pearson Correlation	.043*	-.118**	1	.225**	.061**	.141**	-.050**
	Sig. (2-tailed)	.011	.000		.000	.000	.000	.004
	N	3468	3468	3468	3468	3468	3468	3468
Marital Status	Pearson Correlation	.013	-.194**	.225**	1	.055**	.056**	-.050**
	Sig. (2-tailed)	.454	.000	.000		.001	.001	.003
	N	3468	3468	3468	3468	3468	3468	3468
Education	Pearson Correlation	-.012	-.018	.061**	.055**	1	-.277**	.104**
	Sig. (2-tailed)	.462	.291	.000	.001		.000	.000
	N	3468	3468	3468	3468	3468	3468	3468
Income level	Pearson Correlation	.042*	-.153**	.141**	.056**	-.277**	1	.117**
	Sig. (2-tailed)	.013	.000	.000	.001	.000		.000
	N	3468	3468	3468	3468	3468	3468	3468
Occupation	Pearson Correlation	.013	-.013	-.050**	-.050**	.104**	.117**	1
	Sig. (2-tailed)	.442	.457	.004	.003	.000	.000	
	N	3468	3468	3468	3468	3468	3468	3468

Using SPSS to check whether the explanatory variables are correlated or otherwise, Table 1 displays the correlation matrix of the variables. It is observed that none of the correlation coefficients exceed the absolute value of 0.70 which implies that there is no high multicollinearity problem amongst the explanatory variables. The highest correlation registered among the explanatory variables is (-.277) between education and income level with an unexpected negative sign that is not in line with the previous literature. According to the previous literature, there is a positive correlation between these two variables as the higher the education level, the higher the income level will be. However, the correlation matrix shows a negative relationship, which we attribute to the quality of our dataset, as most of our explanatory variables are of nominal and ordinal level. This level of measurement could affect the quality of our result.

Analysis and Results

To test the significance of the model and to check the ability of the explanatory variables to explain the behavior of the dependent variable (i.e. Tax arrears), a regression analysis is performed with all the six explanatory variables. Table 2 presents the results. As the rule states: *p*-value should be compared with the significance level which we set at $\alpha = 0.10$ and $\alpha = 0.05$. Since the *p*-value is 0.066, we can conclude that the model is overall significant at 10 per cent. In other words, there is a strong likelihood that there is no relationship between tax arrears among individual taxpayers in Malaysia and the set of explanatory variables identified if we set at a lower *p*-value, namely at 5 per cent or 1 per cent. The adjusted coefficient of determination for the multiple regression analysis (Adjusted R Square) = 0.002 which signifies that only 0.2% of the variation of the dependent variable (Tax Arrears) is explained by the regression model (the set of explanatory variables) and the remaining 99.8% variation is unexplained by the

model. It could be due to residual error or other variables not included in the analysis. The Standard Error of Estimate is also very high at 107,499.936. It means that the regression equation will not provide an accurate estimate of the tax arrears among Malaysian taxpayers. Besides, since the residuals are expected to be approximately normally distributed; therefore, about 68% of residuals will be within \pm RM107,499.936.

This result implies that the current explanatory variables cannot estimate the variability in the dependent variable (Tax Arrears). Other explanatory variables should be included to predict Tax arrears amount of taxpayers in Malaysia. On the other hand, the significance of the explanatory variables is determined by observing the absolute value of their corresponding t -statistic. As a general rule, if the absolute value of t -statistic is greater than 2 (i.e. $|t\text{-statistic}| > 2$), we conclude that the variable is significant and it could be included in the model; otherwise it is not significant and can be eliminated. Based on this rule of thumb, the t -statistic of the explanatory variables are significant at $\alpha = 0.05$ and $\alpha = 0.10$ for Age and Income level, respectively.

Table 2: Regression results of ANOVA

Model		Coefficients				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-20324.165	16059.188		-1.266	.206
	Gender	-1277.051	4030.487	-.006	-.317	.751
	Age	4672.251	2147.222	.039	2.176	.030
	Marital Status	658.698	5440.913	.002	.121	.904
	Education	-701.265	1731.424	-.007	-.405	.685
	Income level	2916.509	1645.231	.033	1.773	.076
	Occupation	1764.552	2558.101	.012	.690	.490
Adjusted R-square: .002						
Std. Error of the Estimate: 107499.93591						
F-stats: 1.971 (sig 0.066)						

In our quest to develop the optimum model, stepwise backward elimination method is utilized. Table 3 shows the results. It begins with the entire set of six explanatory variables and eliminates one explanatory variable at each iteration. The least significant explanatory variable based on the absolute value of t -statistic is removed from the model at each step. We can conclude that the best model is Model 5 as the Adjusted R-square has slightly improved from .002 to .003 with only two explanatory variables in the model, namely Age and Income level. From Table 3, it is also observed that the significance of the model has improved from 0.066 to .004 and the F-statistics has improved from 1.971 to 5.580 in Model 5.

Table 3: Results of stepwise backward elimination method

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
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	Marital Status	658.698	5440.913	.002	.121	.904
	Education	-701.265	1731.424	-.007	-.405	.685
	Income level	2916.509	1645.231	.033	1.773	.076
	Occupation	1764.552	2558.101	.012	.690	.490
Adjusted R-square: .002 Std. Error of the Estimate: 107499.93591 F-stats: 1.971 (sig 0.066)						
2	(Constant)	-19160.533	12863.328		-1.490	.136
	Gender	-1359.470	3972.009	-.006	-.342	.732
	Age	4723.259	2105.180	.039	2.244	.025
	Education	-690.698	1728.976	-.007	-.399	.690
	Income level	2920.941	1644.589	.033	1.776	.076
	Occupation	1748.460	2554.282	.012	.685	.494
Adjusted R-square: .002 Std. Error of the Estimate: 107484.63668 F-stats: 2.363 (sig 0.038)						
3	(Constant)	-21489.968	10913.904		-1.969	.049
	Age	4789.275	2096.058	.040	2.285	.022
	Education	-658.627	1726.215	-.007	-.382	.703
	Income level	3003.993	1626.382	.034	1.847	.065
	Occupation	1742.367	2553.894	.012	.682	.495
Adjusted R-square: .002 Std. Error of the Estimate: 107470.93475 F-stats: 2.925 (sig .020)						
4	(Constant)	-23090.270	10074.537		-2.292	.022
	Age	4696.120	2081.533	.039	2.256	.024
	Income level	3194.298	1547.821	.036	2.064	.039
	Occupation	1595.394	2524.365	.011	.632	.527
Adjusted R-square: .002 Std. Error of the Estimate: 107457.67963 F-stats: 3.852 (sig .009)						
5	(Constant)	-19098.521	7848.106		-2.434	.015
	Age	4607.867	2076.664	.038	2.219	.027
	Income level	3316.935	1535.476	.037	2.160	.031
Adjusted R-square: .003 Std. Error of the Estimate: 107448.36657 F-stats: 5.580 (sig .004)						

A summary of excluded variables with their corresponding statistics such as coefficients, t-stats, significance level, partial correlation and collinearity tolerance level are displayed in Table 4.

Table 4: Summary statistics of excluded variables

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
2 ^a	Marital Status	.002 ^b	.121	.904	.002	.917
3 ^a	Marital Status	.003 ^c	.177	.859	.003	.944
	Gender	-.006 ^c	-.342	.732	-.006	.964
4 ^a	Marital Status	.003 ^d	.154	.877	.003	.947
	Gender	-.006 ^d	-.321	.748	-.005	.967
	Education	-.007 ^d	-.382	.703	-.006	.892
5 ^a	Marital Status	.002 ^e	.126	.899	.002	.949
	Gender	-.006 ^e	-.322	.748	-.005	.967
	Education	-.005 ^e	-.282	.778	-.005	.913
	Occupation	.011 ^e	.632	.527	.011	.982

a. Dependent Variable: Tax Arrears

b. Predictors in the Model: (Constant), Occupation, Gender, Education, Age, Income level

c. Predictors in the Model: (Constant), Occupation, Education, Age, Income level

d. Predictors in the Model: (Constant), Occupation, Age, Income level

e. Predictors in the Model: (Constant), Age, Income level

Results from the multiple regression to test the relationship between various factors and the tax arrears among individual taxpayers in Malaysia were discussed earlier. Gender, marital status, education, and occupation are found to be statistically insignificant at 5% level. The only two explanatory variables that are proven to be statistically significant are age and income level. Both age and individual income levels have a positive impact on tax arrears among individual taxpayers in Malaysia.

In terms of tax arrears and age, previous studies have evidenced that in the context of Malaysia, older people above 50 years are reviled to be less compliant, and hence have higher tax arrears. This claim is supported by the findings of our study as the variable age has a positive influence on Tax arrears. This positive correlation could be explained as that the older the individual gets, the higher the salary he/she earns. This is due to the fact that older employees usually hold higher positions as well as have long work experience in the industry. As the salary increases, the tax rate will increase proportionately. Consequently, these senior employees end up not declaring their real salary amount as taxable income and find ways to evade the tax.

Income level is found to be significant variable, which is also positively related to Tax arrears. This can be explained in relation to the tax system. It is believed that progressive tax rates could be one of the reasons why high income group has more tendencies to evade or disobey due to higher taxable income, thus making the tax liabilities much higher than those in the lower income group. Loo (2006) in her study of Malaysia's taxpayers found that higher income earners were less compliant, and hence have high tax arrears.

The insignificant relationship between gender and tax arrears is supported in this study. The literature revealed that gender has no significant impact on compliance across 45 countries and the relationship between tax compliance and gender is ambiguous most of the time. The finding of our study, also supports that there is no significant relationship between gender and tax arrears. Although the analysis proved that omitting this variable improves the model, we can say that the initial regression analysis showed that there is a negative relationship between gender and tax arrears. The tax arrears of males is RM 1,277.051 less than the tax arrears of the

females.

According to the literature review, individual tax payers who have spouses are found to be more compliant than unmarried tax payers. However, this claim of the existence of such positive relationship between marital status and tax arrears is not supported in this study. Marital status variable turned out to be insignificant; hence being omitted from the model.

Based on the literature review, greater education potentially increases compliance, as educated tax payers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Therefore, the tax arrears is low. Even though this negative correlation between education level and tax arrears is proven to be true in our model; however, the hypothesis could not be supported as the finding showed that there is no significant relationship between education and tax arrears. Hence, education variable was excluded from the model.

A demographic factor such as occupation, which refers to an individual's employment or earning activity (Jackson and Miliron, 1986), is found to be insignificant also in this study. Hence, this variable is also being eliminated from our model.

Conclusion and Recommendations

This exploratory study has proven that there is a negative relationship between tax compliance behavior and tax arrears. Thus, when there is a lack of tax compliance, Tax Arrears of individuals will increase and vice versa. The analysis of the results also has shown that age and income are found to be significant determinants in influencing tax arrears amongst Malaysian taxpayers. Relating to previous literature, it has been concluded that age and income have negative relationship on compliance behavior. Therefore the positive relationship between age and income and tax arrears is verified.

The shortfall of our research is mainly due to the primary dataset that use nominal and ordinal level of measurement, which affect the quality of the results to a certain extent. Moreover, the existing survey was attributed to different objectives. Hence, the analysis must be interpreted with caution and further research must take into consideration of dataset which are ratio and interval level of measurement.

Using secondary data should be advocated in order to gain more feasible results especially when applying multiple regression analysis. We also consider extending explanatory variables to other areas such as tax rates, audit probabilities and penalty structures that would be useful to explore. Alternatively, expanding target groups to small medium enterprises (SME) and corporate sectors would be invaluable as there is a crucial need for more research in this area.

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