

CHAPTER 1

INTRODUCTION & OVERVIEW

1.0 Introduction

This chapter presents the thesis outline. It begins with the study's background, an overview of Malaysian taxation system and problem statement. This chapter also introduces the research questions, objective of the study, and the significance of the study. The scope of the study, conceptual framework, operational definition of the thesis is detailed, and thesis organization. The chapter concludes with a summary.

1.1 Background of Study

Taxation is an important source of revenue for a country. The Government imposed taxes to generate revenues for its public sector operations and finance the public expenditure. In 2018, the Inland Revenue Board (IRB) collected RM 137.034 billion in tax revenue. Direct tax contributed 50-55% to total Malaysian Government revenue (Inland Revenue Board Annual Report, 2018). This record shows that tax revenue is significant for the growth and development of Malaysia, and any tax collection loss is detrimental to the economy.

Tax compliance is a perennial issue for many governments and tax authorities as it affects the various development progress planned by the government.

For example, according to IMF Country Report (2014), Malaysian tax revenue is low relative to higher-middle income and high-income countries. Further, the records of IRBM annual reports showed that the intensive audit investigations were conducted and a significant amount of additional tax and penalties were documented. Following the tax investigation activities of 2016, RM844.68 million of unpaid taxes and penalties were recovered. This clearly signifies that the level of non-compliance is a serious matter.

Tax compliance has been defined similarly by many scholars. One comprehensive definition of tax compliance was provided by Roth & Scholz, (1989) as follows, “Compliance with reporting requirement, means that, the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue code, regulations and court decisions applicable at the time the return is filed.

Roth & Scholz (1989) presumed that, in order to be tax compliant, a taxpayer should declare the right amount of income and claim the right amount of expenses as entitled by the tax law. This definition has been widely accepted and extensively used by subsequent tax compliance researchers (See, for example Alm, Sanchez & De Juan, 1995; Malaysian Inland Revenue Board, 2010; Kirchler, 2007; Singh, 2003). This is consistent with the definition provided by the Australian Tax Office (2014) as “reporting all income and paying all taxes in accordance with the applicable laws, regulations, and court decisions”. They further noted that, non-compliance includes acts such as, non-lodgment, debt non-payment, and a history of audits with risk probabilities identified. On the other hand, the Internal Revenue

Service in United States includes three components of non-compliance which are non-filing (fail to file tax return), under-reporting (understating income, overstating expenses), and underpayment (failure to fully pay the taxes owed). While the Malaysian Inland Revenue Board does not provide a definition of tax compliance, findings from Suhaila Abdul Hamid (2014) concluded that Malaysian's tax agents view on tax compliance as "complying with rules and regulations set by the Income Tax Act", this includes accurate computation and meeting deadlines.

Tax evasion in Malaysia is a serious offence chargeable under Section 114 of the Income Tax Act. It includes offences like (a) omitting any income that should be legally be included as per Income Tax Act 1967, (b) making false statements in a return, (c) giving false answers (orally or in writing) to questions asked or request for information made in pursuance of the Act, (d) preparing or maintaining or the authorization of preparing or maintaining false books of an account or other false records, (e) falsifying or authorizing the use of any fraud, art or contrivance. Therefore, it can be concluded here that, tax compliance is the act of complying with rules and regulations as specified in the Income Tax Act 1967 (with amendment). This includes, filing a tax return, accurately reporting all income and expenses, paying in full the amount of taxes owed and fulfilling all the deadlines provided by the tax authority.

Tax compliance is an issue that has been frequently debated and extensively reviewed from various perspectives. It can be viewed as a problem of public finance, economy, psychology, law enforcement or even ethics. Regardless of the angle of the issue, tax compliance is a serious issue for most governments across the globe. In Malaysia particularly, the issue of tax compliance has become worse since

the implementation of the Self-Assessment System (SAS) in 2001. The statistics provided by the Inland Revenue Board of Malaysia indicate that there has been an increase of audited cases from 2010 to 2013 (Inland Revenue Board of Malaysia, 2011; Inland Revenue Board of Malaysia, 2011, 2013; Inland Revenue Board of Malaysia, 2014). Notwithstanding the IRB intensity in conducting tax investigation, the statistics suggests that the number of non-compliance taxpayers is still presents a problem.

Several studies have been conducted in order to understand the underlying factors that contribute to tax compliance. These studies debate the issue of tax compliance from two major perspectives, to wit, economic and socio-psychological (See, for example, Alley & James 2006; Alm, et al., 1995; Andreoni, et al., 1998). The economic perspective, views the issue of tax compliance from the perspective that taxpayers weight the benefits of cheating against the risks of being caught. In this vein, tax rate, penalties, and the likelihood of being audited are considered in their decision making. Meanwhile, the proponents of the socio-psychological perspective maintain that mere financial determinants are insufficient for explaining tax compliance behaviour. Therefore, factors like age, gender, ethnicity, education, culture, institutional influence, peer influence, ethics and tax morale are incorporated into tax compliance research.

Within these vast volumes of tax compliance research, there are few studies that have employed the behavioural approach towards tax compliance (See, for example, Jackson, 1986; Richardson & Sawyer, 2001). A number of behavioural theories have been used to analyze the behavioural aspect of tax compliance, for example the Theory of Planned Behaviour (Ajzen, 1991), Self-Categorization Theory

(Turner et al.,1987), Prospect Theory (Kahneman, 2013) and Equity Theory (Adam, 1965). However, much of the attention on the tax compliance behaviour literature is focused on the Theory of Planned Behaviour. The present study, therefore, aims to shift the focus on utilizing the MARS model of individual behaviour and performance introduced by McShane & Glinow (2005) in predicting the tax compliance behaviour of taxpayers in Malaysia. It is important to note here that, to the present researcher's knowledge, the MARS model has yet to be explored in any of tax research.

McShane & Glinow (2005) proposed the MARS model of individual behaviour and performance as a framework from which to understand the drivers of individual behaviour. In the MARS model, individual behaviour involves four factors including motivation (M), ability (A), role perceptions (R), and situational factors (S). This model has been used to highlight how the four factors directly influence a person's voluntary behaviour and the subsequent outcome (McShane & Glinow, 2005). The issue of an individual's tax compliance behaviour is to be explored as the individual's propensity to act positively or negatively towards their responsibility of paying taxes. Therefore, the utilization of MARS model, a model that has yet to be tested in any of the tax research, is well suited to examine the drivers of taxpayers' voluntary behaviour.

Originally, the MARS model is an organizational behaviour model that is used to predict individual behaviour. Historically, organizational behaviour discipline was rooted in theories and knowledge from psychology, communications, marketing and information systems. In other words, it is a multidisciplinary field. In tax studies, the adaptation of theories from other disciplines is common. The MARS model is unique as it is a developed framework used to predict an individual's behaviour. It

encompasses both the internal and external influences of an individual's behaviour.

Apart from the domains mentioned in the MARS model that aim to be tested in the present research, the study also aims to extend another two variables, which are believed to be a significant predictor of voluntary behaviour among the individual taxpayers. The variables are religiosity and ethical sensitivity. These two factors are included in the present study due to their important influence on tax compliance yet they have not been extensively being studied (See, for example Nor Raihana Mohd Ali, 2013; Recep Tekeli, 2011; Suhaila Abdul Hamid, 2014). This study also only focuses on professional group which includes doctors, engineers, architects, lawyers, accountants and surveyors.

1.2 An overview of Malaysian Taxation System

The history of the Malaysian taxation system is traced back to 1948 during the British colonization era. It began with the Peninsular Malaysia in 1948 followed by Sabah and Sarawak in 1957 and 1961 respectively. It was administered by the Malaysian Inland Revenue Department (MIRD). By 1967, MIRD was corporatized into the Inland Revenue Board (IRB). At that time, the income tax law was consolidated and revised to create a unified income tax law which was enacted and became effective throughout Malaysia under the Income Tax Act 1967.

With the introduction of the Malaysian Income Tax Act (1967), the Official Assessment System (also referred to as the Formal System) was introduced.

This system demanded that taxpayers submit their returns within 30 days from the date of service. Under this system, taxpayers received their annual tax returns from the IRB. It was the taxpayer's responsibility to declare all income and expenses for that particular year of assessment and submit the completed returns to the IRB. This system, however, received criticisms in that it was, among other things, time consuming, cost inefficient, and complex to administer (Inland Revenue Board, 2001).

The introduction of SAS in 2004 was an effort to modernize the tax administration in Malaysia. Under the SAS, an individual who has an income accruing in (or derived from) Malaysia is required to disclose the taxable income honestly, compute the tax payable correctly, file the tax return form, and pay taxes in a timely manner. Under this system, the onus to assess the tax liability is on the taxpayers. It was a major shift from the previous system in that the IRB now functioned as a tax auditor. In the previous system, in that the IRB acted as a tax assessor (Hazianti Abdul Halim, Nor Lela Ahmad & Nooraisah Katmun, 2015). As an effort to further intensify the tax collection, the IRB has instituted the tax audit and investigation in order to ensure compliance. Any incorrect return found after investigation will be subject to penalties ranging from 100% to 300%, and/ or three years imprisonment. With effect year 2015, an individual who earns an annual employment income of RM34, 000 (after EPF deduction) must register a tax file (Inland Revenue Board, 2017).

Since the implementation of self-assessment system, the amount of income tax collection has increased gradually. For the last 10 years, the increment ranged from 1.86% to 23.79% with the highest collection recorded in the year of 2008 as shown in Table 1.1 below. Despite the implementation of SAS and concomitant increases in tax

collected, tax compliance is still an issue in Malaysia. This will be discussed in the next sub-section.

Table 1.1: Individual Income Tax Collection from 2005-2015

Year	Collection (RM) 'billion	Percentage increase/decrease
2018	RM35,990.18	12.82
2017	RM31,901.57	7.76
2016	RM29,603.47	4.69
2015	RM28,276.97	6.09
2014	RM26,654.91	8.32
2013	RM24,607.91	7.17
2012	RM22,961.85	18.46
2011	RM19,383.02	8.89
2010	RM17,800.00	14.32
2009	RM15,570.00	8.5
2008	RM14,350.00	23.79
2007	RM11,592.18	11.36
2006	RM10,409.65	1.86
2005	RM10,220.00	

Source: Inland Revenue Board Annual Report 2005-2015

1.3 Statement of Problem

In general, many governments throughout the world rely on tax revenue for sources of income. Tax revenue is important in funding national development for social well-being. Malaysia, in particular, relies on more than 50% of its total income from taxes on income, profit and capital gains (OECD, 2016).

Undeniably, the tax revenue collection of Malaysia has never been off target. The Inland Revenue Board (IRB), the responsible agency in collecting the main revenue of the Ministry of Finance (MOF), has a positive track record in fulfilling government tax collection. Since 1997, the IRB has successfully contributed

remarkable revenue for the government. In 2016, for example, the IRB has successfully collected the highest ever revenue collection (Inland Revenue Board Annual Report, 2016). Despite the favourable records, the IRB also evidenced some of the following 'disturbing' facts:

- (a) In 2016, 201,598 individuals were banned from leaving the country in accordance with Section 104 of the Income Tax Act 1967 with outstanding tax payments of RM4,438 million
- (b) Following the tax audit activity, the amount of tax and penalties increased significantly for the past three years and amounted up to RM2.1 million
- (c) Based on the 2016 annual report, the tax arrears recorded approximately RM6.8 billion

Indirectly, these statistics indicate non-compliance to the Income Tax Law as stipulated under Part VIII of the Income Tax Act 1967. This increasing trend in non-compliance suggests particular points. It is either that taxpayers' increasingly negative response to tax compliance or increased rigor of IRB investigation (Natrah Saad, 2011). Despite the intensive effort of the IRB to combat non-compliance, the statistics of non-compliance among the taxpayers in Malaysia is undeniable.

Furthermore, according to Fiscal Outlook and Federal Government Revenue Estimates (2020), Malaysia's total number of taxable populations is only 16.5% of 15 million workforce. Thus, every taxable individual who fails to comply with the tax law will contribute to a serious aftermath on the country's economic viability. For example, it would cause a revenue deficit and a revenue leakage (Ministry

of Finance, 2021). The worst scenario was observed in 2017 wherein the IRB reported that an approximately 80,000 individuals who failed to pay taxes and the unpaid taxes amounted to RM 50 million (Gomes, 2019). Furthermore, IRB recently, reported that government had suffered tax losses amounted to RM665 million due to undeclared income by individuals, businesses and others. This has brought negative impact on nations economic stability (TheStar, 2022).

On top of that, IRB disclosed to The Malaysian Reserve (2017) that, there is RM1.158 billion in taxes and penalties were collected from errant taxpayers. These were collected from 4610 professionals who were being audited which included doctors, lawyers, architects and engineers. From that volume, the doctors were reported as the highest tax dodgers accounting to RM1.11 billion undeclared taxes. The issue of tax evasion among professionals is not a strange issue. In Greece for example, doctors, engineers, accountants and lawyers are considered primary tax evaders (Murphy, 2012). This group has contributed up to 31% of the foregone government revenue. The worst case also observed in Jordan, whereby, doctors, engineers, and lawyers who are considered as high-income individuals are among those reported as tax evaders. It was reported that 84% of this high-income group did not comply with the tax law (Al-Zaqeba, & Al-Rashdan, 2020).

Malaysians are categorized into three different income groups: Top 20% (T20), Middle 40% (M40) and Bottom 40% (B40). These groups of Professionals are considered as Top 20% income groups who earn at least RM13, 148 per month and contribute roughly 34% to tax (Department of Statistics Malaysia, 2016). Therefore, this study is significant so as to understand the predictors to tax compliance among this

professional groups. This group is considered the high net worth individuals that contribute significantly to the government revenue. The investigation towards this group has recently gained traction in many countries (OECD, 2009). Due to the paucity of evidence in Malaysian context, therefore this study is worthwhile. The appropriate mechanism could be used to increase the level of voluntary compliance.

1.4. Research Questions

By referring to the above research objectives, this study aims to answer the following research questions. The first four questions aim to answer the first research objective.

1. Does motivation, ability, role perception, religiosity and ethical sensitivity have significant positive influence in tax compliance behaviour among professionals in Malaysia?
2. Does the situational factor moderate the relationship between motivation and tax compliance behaviour among professionals in Malaysia?
3. Does the situational factor moderate the relationship between ability and tax compliance behaviour among professionals in Malaysia?
4. Does the situational factor moderate the relationship between role perception and tax compliance behaviour among professionals in Malaysia?
5. Does the situational factor moderate the relationship between religiosity and tax compliance behaviour among professionals in Malaysia?

6. Does the situational factor moderate the relationship between ethical sensitivity and tax compliance behaviour among professionals in Malaysia?

1.5. Objectives of the Study

Tax compliance is a widely debated discipline. Numerous studies have contributed to the development of the tax compliance discipline. In an attempt to build upon the body of knowledge in this area, the present study attempts to enrich the existing literature with the recent and comprehensive view of Malaysian individual taxpayers with a specific focus towards professional group.

The main objective of this research is to understand individual tax compliance behaviour by examining the selected factors within the framework of the MARS model of individual behaviour and performance as suggested by McShane & Glinow (2005). This model proposed variables such as motivation, ability, role perception, and situational constitute individual behaviour. Apart from testing the original MARS model variable against tax compliance behaviour, this study aims to extend the model with another two factors, to wit, religiosity and ethical sensitivity. By understanding individual taxpayer behaviour, suitable measures could be engendered to increase taxpayer compliance. Therefore, specifically, the research objectives are as follows:

1. To examine the influence of motivation, ability, role perception, religiosity and ethical sensitivity on the tax compliance behaviour among professionals in Malaysia.
2. To investigate the moderating effect of situational factor in the relationship between motivation and tax compliance behaviour To investigate the moderating effect of situational factor in the relationship between ability and tax compliance behaviour. To investigate the moderating effect of situational factor in the relationship between role perception and tax compliance behaviour
3. To investigate the moderating effect of situational factor in the relationship between religiosity and tax compliance behaviour
4. To investigate the moderating effect of situational factor in the relationship between ethical sensitivity and tax compliance behaviour

1.6. The Significance of the Study

The significance or rationale of study attempts to explain, why the research brings value. The present study has relevance in terms of theory, methodology and practicality.

In the context of Malaysia, it was previously acknowledged that a number of studies have highlighted the issue of tax compliance. This study, however, is different in the sense that, there has been no previous research, that has adopted the MARS model in order to understand taxpayer behaviour to comply with the tax law.

Previous studies on tax compliance behaviour have applied the TPB, for instance, as a way to understand the taxpayer compliance behaviour. This study shifts focus by applying an organizational behaviour model, originally used to understand employee job performance, to tax compliance behaviour. As taxpayers are expected to perform their duty to pay taxes, this to-be-tested model is relevant. The importance of motivation has been acknowledged in previous research (See, for example, Alm, 2013; Bornman & Stack, 2015; Dwenger et al., 2014; Farrar & Hausserman, 2016; Feld & Frey, 2009; Halla, 2010; Wenzel, 2004). However, studies using intrinsic and extrinsic motivation, are hitherto, scarce (See, for example, Dwenger et al., 2014; Farrar & Hausserman, 2016). In Malaysia, the role of intrinsic and extrinsic motive has yet to be explored. The present study, therefore, aims to contribute to the body of knowledge, particularly on tax compliance behaviour with the specific focus of understanding the role of intrinsic and extrinsic motives in influencing the taxpayer compliance with the tax law. Furthermore, as proxy to intrinsic motivation, the variable of trust has not been widely examined in tax compliance research in Malaysia. This study, therefore, is relevant in determining whether trust in the tax authorities influences the taxpayers' motivation to comply with the tax law.

Tax compliance research is a well-studied discipline. A vast number of variables have been tested to examine tax compliance behaviour, for instance, age (See, for example, Amankwaah Eric et.al., 2019; Abdullah Al-Mamun, Harry Entebang, Shazali Abu Mansor & Qaiser Rafique Yasser, 2014; Andreoni et al., 1998; Christian & Gupta, 1993; Clotfelter, 1983; Jeyapalan Kasipillai & Hijattulah Abdul Jabbar, 2003.; Ritsema, Thomas & Ferrier, 2003; Siti Alida John Abdullah & Halimah Ahmad, 2002); gender (See, for example, Hasseldine & Hite, 2003; Jeyapalan Kasipillai,

Norhani Aripin & Noor Afza Amran, 2003; Jeyapalan Kasipillai, & Hijattulah Abdul Jabbar, 2003; Mottiakavandar R., Haron, & Jeyapalan Kassipilai, 2004); ethnicity (See, for example, Chan, C.W., Troutman, & O'Bryan, 2000; Chen, L.E., 2006), culture (See, for example, Burton, Karlinksy, & Blanthorne, 2005; Torgler 2003b, Suhaila Abdul Hamid, 2014), institutional influence (See, for example, Chen L.E., & Afidah Sapari, 2012), peer influence (See, for example, Elen Puspitasari & Wahyu Meiranto, 2014), ethics (See, for example, Alm & Torgler, 2006; Henderson & Kaplan, 2005; Ho and Wong, 2008; Norasmila Awang, & Azlan Amran, 2014) and tax morale (See, for example, Cummings et.al, 2006; Halla, 2010). However, to date, the influence of role perception on tax compliance behaviour has not been widely investigated. This study is among the first few studies that attempted to link, role perception to tax compliance. Due to limited amount research investigating the effect of role perception on tax compliance behaviour, the role perception variable was measured using the concept of civic duties. To the best of present researcher's knowledge, the aforementioned aspect of civic duties has not been widely tested in Malaysian context.

As for situational factor, there are researchers that have attempted to include this variable (See, for example, Song & Yarbrough, 1978; Viswanath Umashanker Trivedi, Mohamed Shihata, & Bernadette, 2003). However, in the Malaysian context, study on the role of situational factor against tax compliance behaviour has not been widely tested. Even though the variables of motivation and situational factors have been examined in the context of tax compliance research, these variables were examined individually. There has been no attempt to study all of these variables in a single framework or to engender a solid construct in coming to understand compliance behaviour. This study looks at tax compliance from the unique perspective of the

MARS model.

As for religiosity variable, past studies analyzing the role of religiosity in influencing tax compliance have measured religion in terms of the degree of religious affiliation and regressed it with tax compliance behavior (See, for example, Mohd Rizal Palil et al., 2013; Nor Raihana Mohd Ali & Pope, 2014; Torgler, 2005). The present study, however, is different in that, it develops items which directly measure religion towards tax compliance behavior.

Finally, regarding ethical sensitivity variable, thus far, only one study by Suhaila Abdul Hamid, (2014) was done in the Malaysia context. This study, however, focuses on tax agents as its subjects. The present study, by contrast, centers on the professionals as its scope of study.

In addition, this study is also unique, in that it focuses on the professionals only. While majority of the tax compliance studies centered on salaried individuals or tax professionals, the present study examines professionals. These are high salaried individuals who make a larger contribution to income tax and thus their perception could be different than other salaried individuals.

Apart of its academic contribution, the findings from this study are beneficial to tax authorities in that it engenders a better understanding of taxpayer behaviour. The findings of this study could help tax authorities take relevant action to increase tax compliance and improve the revenue of the government. Since tax revenue is an important source of income for the Malaysian government, understanding the

drivers behind voluntary tax compliance is crucial to help increase the tax compliance rate.

1.7. Scope of the Study

This study investigates the tax compliance behaviour among group professional groups in Malaysia. The target respondents of this study are individuals. The study investigates income tax, therefore other types of taxes such as sales tax and corporate tax are not included. The professional groups include doctors, lawyers, engineers, architects, accountants, and surveyors, following the definition of professionals by the Inland Revenue Board (2019).

Tax evasion among the professional group is a significant issue that affects tax compliance and revenue collection in Malaysia. Professionals such as doctors, lawyers, accountants, and engineers are among the highest income earners in the country. However, studies have shown that they are also among the highest tax evaders (Chong, 2018; Tan & Wong, 2021). Furthermore, according to a report disclosed by the IRB, an amount of RM1.158 billion in taxes and penalties were collected from errant taxpayers. These were collected from 4610 professionals who were being audited which included doctors, lawyers, architects and engineers. From that volume, the doctors were reported as the highest tax dodgers accounting to RM1.11 billion undeclared taxes. These professionals amounted to up 300,000. The variables used in the study are derived from MARS Model of Individual Behaviour and Performance to wit, motivation, ability, role perception, and situational factors. In addition, the present

study extended the model by including another two variables namely religiosity and ethical sensitivity.

1.8. Conceptual Framework

The primary objective of the research is to analyze factors that influence tax compliance behaviour. To achieve the aim of the study, a conceptual framework is developed so that the relationship between the selected factors with tax compliance behaviour could be empirically examined.

The MARS model of individual behaviour proposes four factors that influence individual behaviour and performance which are motivation, ability, role perception, and situational factors. In Chapter 2, the review suggests that the MARS model of individual behaviour and performance has been tested across disciplines. For example, it has been tested in integrative agriculture (Zhou J.H. et al., 2013b), information system (Tsay H. H., 2015), business and management (Abi Dzarr Alghifari Wijanarko & Welly, 2015; Raden Akbar Anzalna & Welly, 2013; Inggrita Gusti Sari Nasution et al., 2014; Rajah, N., & Aris A.), food control (Zhou J.H. et al., 2013), banking (Al Khoury, G., Thrassou, A., & Kaufmann, H. R (2017); Schlebusch, C.F., 2018) finance (Wei & Azizan, 2015) and academic (Muhammad Akif Zakwan Amir, Abdul Hakim Mat Luwi and Farah Adilla Ab Rahman (2022)). The position of the MARS model of individual behaviour and performance is considered quite new, and the first study that tested the MARS model was in 2013. In recent years, there has been an increasing interest to examine the MARS model in many areas. This research is also

interested to test the various factors of the MARS model in explaining the tax compliance behaviour of the professional groups in Malaysia. Further, the study aims to extend the model of MARS with religiosity and ethical sensitivity variables.

As depicted in Figure 1.1, the conceptual framework proposes that the individual behaviour to comply with the tax laws is influenced by the motivation of the individual taxpayer, their ability, their role perception, and finally the situational factors.

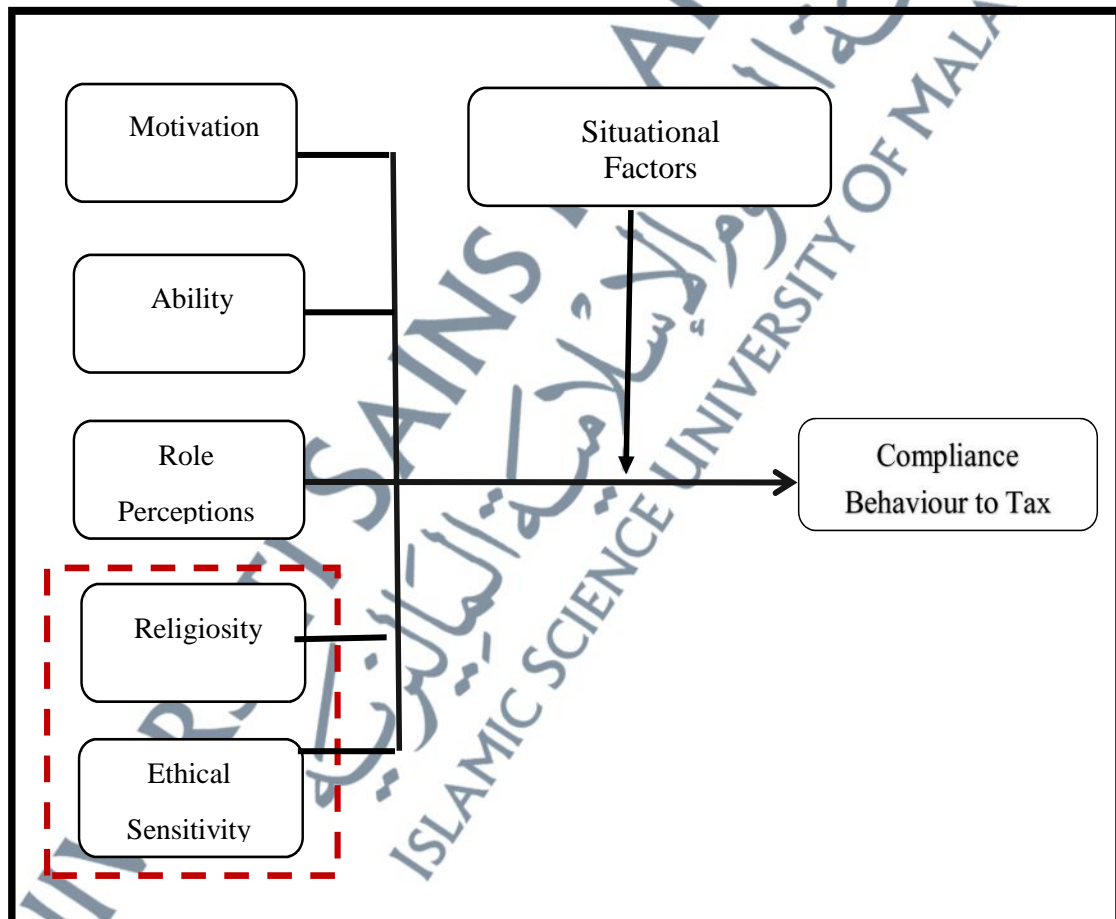


Figure 1.1: Conceptual Framework

1.9. Operational Definition

This section provides conceptual and operational definitions of the terms that are used in this study. Further information about the definition will be given in Chapter 2.

Individual Behaviour

Behaviour refers to what people feel, thinks and do (Mc Shane & Glinow, 2005).

Performance

In this study, performance refers to the act of doing something (Cambridge University Press 2022) or the act or process of performing a task (Oxford University Press, 2022)

Motivation

Motivation refers to a force within someone that pushes him or her direction, intensity, and persistence of voluntary behaviour (Campbell & Pritchard, 1976). In this study, motivation refers to the forces that pushes the individual tax payers to comply with the tax law.

Ability

Ability refers to both the natural aptitudes and learned capabilities required to successfully complete a task (McShane & Glinow, 2005). In this study, ability refers to competencies to comply with tax law or specifically as tax literacy

Role Perception

The extent to which people understand the job duties (roles) assigned to or expected to or expected of them (McShane & Glinow, 2005). In this study, it refers to the extent an individual taxpayer understand their civic duty as taxpayers.

Situational Factor

Situational factors include conditions beyond the employee's immediate control that constrain or facilitate behavior and performance (Kane, 1993). In this study, it refers to factors beyond the taxpayers' immediate control that constrain their behaviour to comply with the tax law.

Religiosity

Religiosity refers to the degree to which a person adheres to his or her religious values, beliefs and uses them in daily living (Worthington et al., 2001) In this study, religiosity is defined as the action and behaviour of taxpayers based on religious background. Religiosity is a term used to define people's values, beliefs and their level of engagement with their particular religion.

Ethical Sensitivity

Ethics refers to as the moral principles or values that an individual has which influence him or her in making the right or wrong decision in a given situation (Crane & Matten, 2007). In this study, it refers to the moral principles or values that guided the taxpayers in making decision to comply with the tax law.

Tax Compliance Behaviour

Tax compliance behaviour refers to an individual's act of filing tax returns, declaring all income accurately for tax purposes and paying tax liabilities on the due dates as stipulated by the authority or applicable tax laws (Mohd Rizal Palil & Ahmad Fariq Mustapha, 2011). In this study, it refers to the actual compliance with tax where individual taxpayers filing tax returns, declare all income accurately and paying tax liabilities on the due dates as stipulated by Inland Revenue Board.

Professionals

Professional means a person who belongs to a profession and is a member of a professional body or registered with a body which governs the profession (IRB, 2019). IRBM also further defined "profession" as includes the profession as lawyers, accountants, architects, doctors, pharmacists, engineers, surveyors or any other profession where the status of the profession is recognized by written law or statute in Malaysia.

1.10. Thesis Organization

The thesis is organized in chapters as follows. Chapter One presented the background information for the study. To provide better understanding of the study, this chapter also explained briefly the taxation system in Malaysia. In addition, the chapter also presented the statement of problem, research questions objectives of the study, the significance of the study, scope of study, conceptual framework, operational definition and thesis organization. This chapter ends with a conclusion of the chapter.

1.11. Conclusion

This chapter provided a thesis overview, by introducing background information of the research area. The discussion commenced with some background information about tax compliance studies, including the variables used in the present study. A brief overview of Malaysian Tax system was also presented. In addition, the problem statement, research objectives, research questions, summary of the research methods, and the significance of the research were provided.

