The Perception of Tax Payers on Tax Knowledge and Tax Education with Level of Tax Compliance: A Study the Influences of Religiosity

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ABSTRACT. *The intention of this paper is to study the role of religiosity in the relationship between tax education and tax knowledge towards tax compliance. For this purpose, we surveyed 70 working adults pursuing MBA program in one Malaysian public university. 50 usable responses were received. 3 variables were used in these study: tax awareness (education, knowledge), tax compliance and relegiousity. Pearson correlation and hierarchical regression were adopted to test the hypotheses. 90.0 % of the respondents indicate that there are religious people. From anlysis, we found that the respondents tax compliance were lower compared to their education and knowledge towards tax. The results of the study suggested that religious values play a very important role to make the taxpayers liable for tax compliance.*

Keywords: *Tax knowledge, tax education, tax compliance, religiosity*

JEL code: *H21, Z12*

Introduction

Thus, the paper's aim is the role of religiosity in the relationship between tax education and tax knowledge towards tax compliance. It is relevant to analyze tax morale, as studies in the 90s have shown that the puzzle of tax compliance is "why so many individuals *pay* their taxes" and not "why people *evade* taxes". It has been noted that compliance cannot be explained entirely by the level of enforcement (Graetz and Wilde, 1985). Countries set the levels of audit and penalty so low that most individuals would evade taxes, if they were rational, because it is unlikely that cheaters will be caught and penalized. Nevertheless, a high degree of compliance is observed. Thus, researchers have started to analyze a variety of factors other than detection and punishment.

How can tax morale be defined? In this paper we define tax morale as the intrinsic motivation to pay taxes. It is the willingness to pay taxes by the individuals. Contrary to tax evasion, tax morale does not measure individual's behavior, but individuals' attitude. It can be seen as the moral obligation to pay taxes, the belief in contributing to the society by paying taxes. On the other hand, it also catches the moral regret or guilt over cheating on taxes. If at tax payer's regret or feeling of guilt is strong, she/he will be more willing to pay the taxes. The approximation of tax morale in our empirical analysis is the justifiability of cheating on taxes and the belief to which extent it is

wrong not to report all of the income in order to pay less income tax. Based on this definition it should be noted that such measurements are not free of biases. It could be that a taxpayer who has incurred in tax evasion in the past will tend to excuse this kind of behavior reporting higher tax morale.

According to our knowledge, there are only two papers that examine religiosity's effect on tax cheating (Tittle, 1983; Grasmick et al., 1991). At the time of study, no papers examine religiosity toward tax conduct in Malaysia. Therefore, this study has emerged to fill up such religiosity gap of understanding tax compliance. Religiosity might be an important influencing factor for tax compliance, and is therefore central to this new research focus. There are not many studies that systematically search for factors that religiosity influence tax complies.

This study aims to identified the role of religiosity in the relationship between tax education and tax knowledge towards tax compliance.

Literature Review

In the era of the Self Assessment System (SAS), tax awareness among taxpayers plays an important role on tax compliance. Therefore, the level of tax education and tax knowledge is significant to ensure that the tax administration to be going well. As a result, taxpayers will able to assess their tax liability correctly and to file tax return forms on time. Generally, taxes are the main source of the country's development. Thus, the problem of tax arrears, tax assessment and other related tax administration will give a big problem for the government in general and Inland Revenue Board of Malaysia (IRB) especially, if the matters related to taxation are not handled properly. According to a report by the IRBM, tax arrears keep increased from year to year. Until 31 December 2009, the total value of the tax arrears is RM 7,183,160.52.

Meanwhile, it was reported that since the implementation Self-Assessment Tax System, the Malaysian defaulters has increased by almost 10 times within 2 years time, from 25,160 (2003) to 239,666 (2005) (Krishnamoorthy, 2006a). According to the former CEO of the IRB, Tan Sri Zainol Abidin Abdul Rashid, around one-third of Malaysians eligible to pay tax did not do so, in 2005 and 1.3 million potential taxpayers did not file their tax returns (Krishnamoorthy, 2006b). Related to this, it was estimated that the Malaysian government has lost approximately RM307.7 million due to tax non-compliance. Achieving tax compliance is costly for both tax authorities and tax payers. Taxpayers should keep supporting documents for seven years while the IRB also carry out tax audit and investigation. Thus, tax audit and tax investigation costly to tax authorities. To be tax compliant, taxpayers need to be tax literate. At minimum, individual taxpayers need to possess some basic knowledge of personal taxation, with respect to the taxability of income, deductibility of expenses, entitlements, relief, rebates and exemptions (Choong et. al., 2011).

The literature part deliberates on the discussion the level of tax awareness influences by tax knowledge and tax education, definition of tax compliance followed by a review of the theoretical framework surrounding tax compliance.

Tax Awareness and Tax Knowledge & Tax Education

According to Professor Dr. Sommerfeld, he concerned that taxation has became an education's orphan (Sommerfeld, 1966). He added that taxation should be taught rather than just practiced and learned. He further suggested higher institution can offer unique perspective on tax subject to all students. In Malaysia, as mentioned by Barjoyai (1992) and Ho (1992) suggested the implementation of tax education into the academic curriculum regardless of the students' academic disciplines. The importance of tax education is a universal knowledge in order to help each citizen with potential liability

of paying tax one day. Thus, all future taxpayers need to be equipped with sufficient tax knowledge at schools or tertiary in order to make them more tax literate. Unfortunately, after 16 years, the calling remains unheeded; tax education has not been formally introduced at tertiary education in all disciplines in Malaysia as well as in other parts of the world (Anies Barieyah et. al., 2009).

Tax education enables to well understand the tax system. Eriksen and Fallan (1996) believed that with reasonable understanding of the tax laws, people are willing to respect the tax system, consequently they are more compliant to pay tax instead of evading it. Furthermore, individuals become educated, which is knowledgeable in the aspect of tax planning, tax law and the likes. At the same time, tax knowledge improved individual's awareness and ethics toward reduce their tendencies of tax non-compliance. It proved the study by Kasipillai et al. (2003) among Malaysian undergraduates; they found that tax education influenced the attitudes and mind sets of Malaysian students (the future taxpayers) towards tax avoidance and tax evasions.

Studied by Amrizah and Nero (2005) about the level of tax knowledge among working salaried adults in particular East Malaysia found that survey respondent had average knowledge of personal taxation. Meanwhile, Loo and Ho (2005) also studied working salaried individual in Malacca found that respondents did not possess sufficient tax knowledge pertaining to personal taxation even though they had tertiary education. Surprisingly, they were not fully aware of personal tax reliefs, rebates, entitlements and exemptions. The impact is that majority of Malaysian salaried might have filed incorrect tax returns.

In order to increase level of tax compliance, Richardson, 2006: Kirchler et. al.,2008, believed that tax knowledge plays the important role. Hence, people should be equipped with the tax education so that everyone has a sufficient knowledge towards competent taxpayers. Park & Hyun (2003), suggested that tax education is one of the effective tools to induce taxpayers to comply more. On the other hand, if the taxpayers well understand basic concept of taxation, they are willing to comply (Marziana et. al., 2010). For example, continous efforts done by the Japanese National Tax Administration (NTA) contributed for the high tax compliance in Japan. The government of Japan introduced the Self Assessment System in 1947 plays an imporant role for taxation learning process. To promote the principles of voluntary compliance, they were created a lot of activities such as public relation, tax education tax consultant, guidance and examinations (Rani, 2005). Tax knowledge also reduce the potential of tax evasion. A study by Richardson (2006) towards 45 countries in the world, he concluded that education in general has negative relationship with tax evasion, where the tendency to evade tax will reduce with the level of education.

In general, studied by Loo and Ho (2005) toward a group of salaried individuals in Melaka, founded that the taxpayers' compentency level is quite low even though most of them have tertiary education. By looking for this situation, it is alarming button because it might impact their readiness to exercise appropriate compliance under the new self-assessment system (Marziana et. al., 2010). Junainah (2002) in her studied towards the implementation of SAS among individual taxpayers in Kota Kinabalu also founded the most of the taxpayers unwilling to participate in SAS because of the burden some of the aspects, sucs as diffuculties of filling up tax return and calculating income tax payable.

Tax Compliance

Tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax rules of their conutry (Marziana et. al., 2010). The goal of an effecient tax administration is to foster voluntary tax compliance using all possible

methods including penalties. Within literature of tax compliance, the perception of the taxpayers about the fairness of the tax system is recognised as an important factor that can have significant influence on tax compliance behavior. The tax system is perceived as unfair by the citizens may likely to be less successful and this will encourage the taxpayers to engage in noncompliant behavior. Perceptions of taxpayers closely related with knowledge and experience, thus awareness on tax matters and tax knowledge did influence the level of tax compliance.

Chan, Troutman and O'Bryan (2000) carried out a survey to compare compliance behavior between Hong Kong and US taxpayers. They found that the US respondents' decision to comply with tax laws were primarily driven by age and education, which in turn positively influenced moral development and attitude. In contrast, Hong Kong respondents have shown negative link between education, moral development, attitude and compliance.

On the other hand, taxpayers are less compliant when they perceive the tax system to be unfair (Spicer and Becker, 1980 and Mustafa, 1997). As such, it provides a great challenge to the IRB to identify and plan an effective form of taxation system so that taxpayers understand it properly. Various aspects should be examined and analyzed to ensure that the tax system is fair. Studied by Jackson and Milliron (1986) relates to compliance with behavior, gender, occupation and risk attitude. They found that attitudes more important than opportunities in determining taxpayers behavior. Older to be less willing to take risks. Meanwhile, female more conforming, conservative and bound by moral constraints.

Relationship between Tax Compliance and Religiosity

The relationship between tax evasion and ethics can be analyzed from many different perspectives. There are some religious terms while the others more secular. One approach is examine the relationship between individual to state, second approach is more closed to individual to God and last one examine individual to taxpaying community (Mc Gee and Smith; 2007). Religions in many countries, whether with secular or religious constitutions, have a certain degree of influence on the cultural characteristics of people and institutions.

For instance, Reckers et. al. (1994) investigated the influence of ethics on tax compliance decisions. They used ethics, tax rates and withholding as an independent variable. The results suggested that moral issues are highly significant in tax compliance decisions. Furthermore, Islamic work ethics is one of the ways to conclude it. Saiyyidah (2010) defined Islamic work ethics as the idea that by working hard you fulfill your duty to God, and watching how you spend your salary as a way to seek salvation from your Lord. It means the work as productive use of time, doing something that will benefit the world or the hereafter'. Religion is seen as an important tool to develop the attitude, behavior and character of the people. Therefore, a strong belief form the ethics in daily life journey as well as work ethics.

Religiosity is one of the important aspect of tax morale, because it could be heartfelt motivation for tax payment, voluntary recognised the income, aware with tax system and the likes. Religiosity has been gauge variuos way such as religious education, being an active member of a religious organization (Sennur Sezgin et. al., 2011). Meanwhile, trustworthiness might be explained what is tax morale all about.

Moral judgements form the basis of the ethical aspects of non-compliance. Moral appeal might be feasible and could be effective on attitudes towards compliance. Furthermore, when tax is considered a burden or where tax fraud is very common, these might be perceived as acceptable justifications for non-compliance.

(Keenan & Dean, 1980) carried out a study on the possible justification for non-compliance suggested that tax evasion is justified for ordinary people. They believed and perceived that the rich and famous cheat the government, or that the income tax system is unfair to them personally. Others feel that it is morally right, though legally wrong not to pay taxes if taxpayers' money have been immorally or illegally wasted. Tax evasion behaviour may also depend on taxpayers' perceptions of the behaviour of others. This imply that moral commitments to tax compliance would depend on the moral behaviour, ethical values and attitudes of other taxpayers as well as those non-taxpayers who may have enjoyed benefits paid out of taxpayers' money and also on the ethical and moral behaviour of those who administer taxpayers' money.

Methodology and Research Design

Framework

The main objective of this research is to study the influence of factor religiosity towards tax compliances among working adults as taxpayer that pursuing MBA programme at UKM-GSB. We would like to measure and assess the level of tax knowlegde on their capability and respond to the changes in tax rules and tax laws in dealing with tax matters. Therefore, it helps us to understand the morale and ethics especially the factor of religiosity among taxpayers toward level of compliance. The framework as summarize as below;
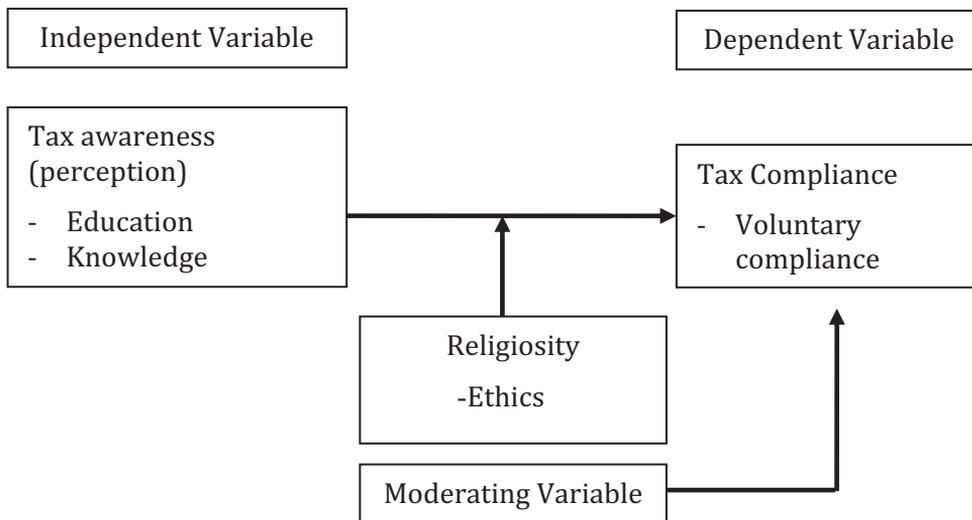
Data Collection Method

This research has been carried out through questionnaires. According to Sekaran (2003), a questionnaires survey is a formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The first section is to test the perception on tax education, next section is to measure the level of knowledge on tax knowledge and tax complience, and lastly to measure level of relegiosity of taxpayers'. The questions are measured using a 7 point Likert scale ranging from 1 = strongly disagree to 7 = strongly agree, plus 8 for most relevent and 9 for most not relevent. This questionnaire was adapted from the study conducted by Niemirowski et al (2003), who have produced a paper that evaluate the tax related

behaviour, belief, attitude and values of taxpayers compliance in Australia and to measure reliousity questionare was adapted from study conducted by Benno Torgler (2003).

Research Discussion and Findings

Introduction

This section explains the findings of the study obtained from the data gathered. Data was analysed using the appropriate methods to answer the research questions and to test the hypotheses developed. The discussion begin with the background of the respondents, descriptive analysis and hypotheses testing.

Background of the Respondents

1) *Demographic Background*

70 respondents were selected to answer the questionnaire. 50 usable responses were received. Table 1 summarised the background of the respondents

Table 1 Demographic Background

	Frequency (n)	Percentage (%)
Gender		
Male	25	50.0
Female	25	50.0
Age		
20-25	7	14.0
26-30	13	26.0
31-35	21	42.0
36-40	9	18.0
Marital Status		
Single	15	30.0
Married	35	70.0
Ethnic		
Malay	37	74.0
Chinese	7	14.0
Indian	6	12.0
Religion		
Muslim	34	68.0
Buddha	9	18.0
Hindu	6	12.0
Others	1	2.0
Education		
Degree/Professional	49	98.0
Masters Degree	1	2.0
Income		
RM1000- RM2000	4	8.0
RM2001- RM4000	15	30.0
RM4001- RM6000	22	44.0
RM6001- RM8000	8	16.0
RM8001- RM 0000	1	2.0

according to their demographic background. 50 percent of the respondents are male and female. Most of them were aged from 31 to 35 years old. 70 percent of them were married compared to only 30 percent were single. More than half of the respondents (74%) are Malay and are Muslim respondents (68%). Almost all of the respondnent at were least has completed their first degree or profesionals qualification (98.0%). Majority of the respondents earns RM4,001 to RM6,000 of income a month.

2) Tax Return Practices

Respondents were also being asked about the familiarity of e-Filling. Table 2 indicates that majority of the respondents (76.0%) have use e-filling to file their tax return. Only 24.0 percent of the respondents have never use e-filling. In 2009, 91.8 percent of the respondents were prepared their own tax return compared to only 87.8 percent in 2010 and 65.3 percent in 2011.

Table 2 Tax Return Practices

	Frequency (n)	Percentage (%)	
Use of E-Filling			
Yes	38	76.0	
No	12	24.0	
	Me (%)	Tax agent (%)	Never (%)
Who prepare tax return			
2009	91.8	-	8.2
2010	87.8	-	12.2
2011	65.3	-	34.7

3) Religiosity

Table 3 describes background of the respondents according to their religiosity. 24.0 percent of the respondents attend the religious activities more than once a week. 22.0 percent each were either only on a special holy day or less often.

Table 3 Religiosity Background

	Frequency (n)	Percentage (%)
Attending Religous Activities		
>1 a week	12	24.0
Only on a special holy day	11	22.0
Never	3	6.0
Once a week	5	10.0
Once a year	3	6.0
Once a month	5	10.0
Less often	11	22.0
Brought Religiously at home		
Yes	49	98.0
No	1	2.0
Self-description		
Not a religious person	5	10.0
A religious person	45	90.0

Other respondents indicate that they only attend the activities once a week (10.0%), once a year (6.0%), once a month (10.0%) and never attended (6.0%). Almost all of the respondents (98.0%) were brought religiously at home, and 90.0 percent of them indicate that there are religious people.

Descriptive Analysis

Respondents were asked to indicate their perceptions towards five points Likert-scale statements, ranged between 1 (strongly disagree) to 5 (strongly agree). Mean score of their perceptions towards variables tested in this study is described in Table 4. Overall mean score were divided into three categories as follows:

1.00 to 2.25	*=*	*Low*
2.26 to 3.75	*=*	*Moderate*
3.76 to 5.00	*=*	*High*

It is found in Table 4 that the level of perceptions towards tax education are at the high level (mean=4.03, sd=0.61). Respondents also perceived the high level of perceptions towards their tax knowledge (mean=3.92, sd=0.52). However, it was also found that their tax compliance were lower compared to their education and knowledge towards tax. They scored the moderate mean in their tax compliance (mean=3.53, sd=0.24).

Table 4 Descriptive Analysis of the Variables

Variable	Mean	Std. Deviation	Level
Tax Education	4.03	0.61	*High*
Tax Knowledge	3.92	0.52	*High*
Tax Compliance	3.53	0.24	*Moderate*

Hypotheses Testing

Four hypthoses were developed in the discussion of this study. The hypothese attempt to examine the relationship among variables and to study the role of religiosity in the relationship between tax educationa and tax knowledge towards tax compliance. Pearson correlation and hierchical regression were adopted to test the hypotheses.

H1: There is a relationship between awareness on tax education and tax compliance

Table 5 shows the pearson correlation analysis to examine the relationship between awareness on tax education and tax compliance. It was found in Table 5 the 'r' value was 0.254 and the significant was greater than 0.05. Hence, it can be concluded that there are no significant relationship between awareness on tax education and tax compliance (r=0.254, p>0.05). This study will reject H1.

Table 5 Relationship between Awareness on Tax Education and Tax Compliance

	Tax compliance (r)	Sig.
Tax education	0.254	0.075

H2: There is a relationship between awareness on tax knowledge and tax compliance

Table 6 summarised the pearson correlation results of the realtionship between awareness on tax knowledge and tax compliance. It is found in Table 6 that there is a significant relationship between awareness on tax knowledge and tax compliance (r=0.291, p<0.01). The result was the evidence to accept H2 that there is a significant relationship between tak knowledge and tax compliance.

Table 6 Relationship between Awareness on Tax Knowledge and Tax Compliance

	Tax compliance (r)	Sig.
Tax knowledge	0.291	0.041

H3: There is a relationship between religiosity and tax compliance

Results of correlation analysis to examine the relationship between religiosity and tax compliance are shown in Table 7. It is found that there is no significant correlation between religiosity and tax compliance (r=-0.071, p>0.05). Hence, H3 is rejected.

Table 7 Relationship between Religiosity and Tax Compliance

	Tax compliance (r)	Sig.
Religiosity	-0.071	0.625

H4: Religiosity is a significant moderater in the relationship between awareness on tax education and tax knowledge towards tax compliance.

Hierarchical regression was carried out to examine the role of religiosity as the moderating variable in the relationship between tax education and tax knowledge towards tax compliance. The results of three regression model are shown in Table 8. Model 1 shows the model to examine the influence of tax education and tax knowledge on tax compliance. It was found that both variables are significantly explained tax compliance for 16.6 percent (R2=0.166, F=4.669, p<0.05). Tax Education and tax knowledge were also managed to predict tax compliance in the model as follows: tax education (B=0.113, t=2.139, p<0.05) and tax knowledge (B=0.149, t=2.387, p<0.05).

Next, in the Model 2, religiosity was inserted in the equation. The insertion of religiosity in Model 2 failed to increase the influence of all independence variable on tax compliance (R2 change=0.000, F Change=0.006, p>0.05). Religiosity was also failed to predict tax compliance in the equation (B=0.004, t=0.078, f>0.05).

In last model, that is Model 3, interaction of tax education (education X religiosity) and tax knowledge (knowledge X religiosity) with religiosity were inserted. The insertion of these interaction have increase the influence of the variables on tax compliance from 16.6 percent in Model 1 and Model 2 to 42.6 percent (R^2=0.426, F=6.521, p<0.01). Interaction of tax education and religiosity (B=-0.315, t=-2.782, p<0.01) and tax education and religiosity (B=-0.246, t=-3.890, p<0.01) were also significantly predicted tax knowledge. The insertion of these interaction was also significantly increase the R^2 for 26.0 percent (R^2 change=0.260, F change=9.951, p<0.05). It can concluded that religiosity has has significantly moderate the relationship between tax education and tax knowledge on tax tax compliance. Hence, H4 is accepted.

Finding Summary and Limitations of the Study

This section has succefully answer the research questions and acheived the research objectives. This section was also tested the hypothese developed. Two of the four hypothese was accepted. It was found in this discussion that there is a significant relaitonship between tax knowledge and tax compliance. Religiosity was also found to be a moderator in the relationship between tak education and tax knowledge on tax compliance.

This study has several limitations. Firstly, this is exploratory in nature and a rather simplistic approach was taken in data collection. The primarily limitation to this study is due to the small sample size covering adult working students (taxpayers) who are pursuing study the master degree at UKM-GSB. Meanwhile, the group of race and religion among the students not appropriate to make a generalization on the findings to

the morale and ethics perspective. Hence, the opinions of the respondents might change over the time. Therefore, care must be exercised in interpreting and generalizing the results.

Table 8 Moderating Effect of Religiosity in the Relationship between Tax Education and Tax Knowledge on Tax Compliance

		B	**t**	**Sig.**
Model 1				
Tax Education		.113	2.139	.038
Tax Knowledge		.149	2.387	.021
	R²	*0.166*		
	F	*4.669*		
	Sig.	*0.014*		
Model 2				
Tax Education		.112	2.055	.046
Tax Knowledge		.151	2.150	.037
Religiosity		.004	.078	.938
	R²	*0.166*		
	F	*3.049*		
	Sig.	*0.038*		
	R² change	*0.000*		
	F change	*0.006*		
	Sig. F Change	*0.938*		
Model 3				
Tax Education		.469	3.161	.003
Tax Knowledge		.506	3.730	.001
Religiosity		2.194	3.998	.000
Education X Religiosity		-.315	-2.782	.008
Knowledge X Religiosity		-.246	-3.890	.000
	R²	*0.426*		
	F	*6.521*		
	Sig.	*0.000*		
	R² change	*0.260*		
	F change	*9.951*		
	Sig. F Change	*0.000*		

Conclusion

The results of the study suggested that religious values play a very important role to make the taxpayer liable for tax compliance. Moral and ethical values distinguish each offense towards not tax compliant as a sin and should be avoided. In view of the fact that taxation plays a significant role in a country's growth and economic development. Not only that, ethics is a strong tools and opportunities for the realization towards tax compliance.

It is suggested that the introduction of a formal tax education in the early stages, such as schools. This is because the tax education to students can help and influence the attitude of tax compliance behavior. (Barjoyai, 1992; Eriksen and Fallen 1996; Kasipillai et al., 2003). therefore, not surprising that the Japanese government has introduced tax education to students in school because they are taxpayers in the future (Sarker, 2003).

Continuity of that it is also suggested that higher education should offer the prelimenary taxation course as a core subject to all their students. Currently, the taxation course is offered as a compulsory subject to all accounting-based undergraduates. Quite disappointing because there is no tax courses offered to students who pursue a master degree in the entire university in Malaysia. It will be useful if the

taxation courses offered because undergraduate students (future taxpayer) who are subsequently employed and earn taxable income, they will more likely to be compliant with tax laws. Likewise, postgraduate students (employed and earned income) who have been experienced with income tax require a base tax knowledge towards a better understanding towards Malaysia taxation. If the employees had adequate tax knowledge, then there would be minimal unintentional non-compliance. Formal tax education is one of the possible solutions to equip future taxpayers with basic tax knowledge for greater tax compliance.

It is imperative for accounting academics and the relevant policy makers to take an active part consider developing a tax education framework for every student, any discipline at any level of education in the curriculum. Furthermore, the Ministry of Higher Education should plays a role to consider developing a tax education framework. IRB also can promotes and circulates such as seminar, workshop and the likes to public in order to enhance tax knowledge among tax payers. The government via IRB may consider to simplifying the system of taxation and incentives to attract more voluntary compliance.

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