# eJournal of Tax Research

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# The Determinants of Malaysian Land Taxpayers' Compliance Attitudes

Nor Aziah Abdul Manaf, John Hasseldine and Ron Hodges\*

## Abstract

This article analyzes the determinants of Malaysian land taxpayers' compliance attitudes. While income taxpayers often have the structural opportunity to underreport income/overstate deductions, it is more difficult to hide land ownership. Despite this, there are high levels of uncollected land tax revenue in Malaysia. We document th

(including demographics, non-compliance opportunity, taxpayer knowledge etc.), provides a baseline of a-priori expectations for the current study.

The nature of land and property taxation is essentially different from income tax. Under a land tax regime, landowners are imposed with land tax, whereas for income tax reporting, taxpayers file a paper/electronic tax return containing their reported income, with tax based on the income declared. Thus, income taxpa

alienated land. One of the main aims of the introduction of the NLC in 1966 was to ensure uniformity of laws and policies in respect of land matters in all states<sup>3</sup>.

In Malaysia, tax on land is solely based on the location, area, and the use of the land, excluding the value of the land, development or improvement of the land. The government of each individual state levies a land tax upon landowners known as "quit rent". The applicable rate of quit rent varies with the category of land use and size. The taxes are levied on the owner and not on the user of the land. The rates of land tax imposed in one state may differ from the rates imposed in other states because each state government has the authority to determine land tax rates.

After land taxes are computed by the land offices of state governments, bills are sent out to landowners at the end of December for the following financial year. Land taxpayers have until June 30th to pay the land taxes without penalty<sup>4</sup>. If the landowner is late for payment, they are charged a penalty of 10% - 20% of the land tax or a certain minimum amount according to the state government involved.

Under the NLC, state governments have the power to issue a reminder to pay, summons for non-payment through the magistrates' court, and distress warrants that allow bailiffs to confiscate the land.6r406 Tm(allow ba15.1e.6r406 Tm(all7,3 0 10..70294 515.900

# TABLE 1 PERCENTAGES OF LAND TAX COLLECTIONS FROM 1996 TO 2001

	1996	1997	1998	1999	2000	2001	All years average
Johor	84.3						

 $COMPLY = \alpha_0 + \beta_1 AGE + \beta_2 GENDER + \beta_3 RACE + \beta_4 EDUC + \beta_5 INCOME\_LEVEL + \beta_6$ 

The majority of previous studies investigating gender effects, show females are more compliant with the tax laws than males. Tittle (1980) suggests that females are identified in accordance with conforming roles; traditionally female children have been brought up with more moral restraints than male children, thus leading to their more conservative life patterns. This in turn promotes tax compliance. Fallan (1995) also finds that there are gender differences on a test of assessing student tax knowledge.

Hite (1997) argues that female subjects with higher education are significantly more tolerant towards evasion behavior than less educated females. Glen (1998) also reports that the interaction between gender and education impacts a taxpayer's attitudes and values. He establishes that female undergraduate students are more likely to exhibit compliant behavior than their male counterparts.

Malaysia is a multiracial, multi-cultural, multi-religious and multi-lingual society. There are three major races among Malaysia's population of 23.27 million (Census, 2000)<sup>8</sup>. It comprises *Bumiputera* (referring to Malays and other indigenous races such as the Iban, Kadazan and Orang Asli), Chinese and Indians. The Malays and other indigenous races make up 65 percent of the population, while Chinese comprise 26 percent and Indians 7 percent. This study will examine whether race is associated with compliance attitudes.

Non-compliance Opportunity. The four variables included under this category are education (V4), income level (V5), source of income (V6) and occupation (V7). Wallschutzky (198ref5.00169 Tc 0 6970.00w169r0.98 284.40094 4lw3m6Tj/3n Tc0.569

(Porcano 1988) to manufacturing/service (Beron *et al.* 1992), with very few studies taking the same approach to classification. Westat (1980a) suggests that white-collar taxpayers are associated with the overstatement of deductions whereas blue-collar workers evade taxes by omitting income. This may also be due to opportunity; the more opportunities one has to evade, the greater the likelihood of evasion. Westat (1980b) however, reports that employment in manufacturing or trade organizations was associated with higher self-reported tax compliance and that the occupational categories of professional/managerial, clerical/sales, and service employees were associated with lower levels of compliance.

Attitudes and Perceptions. Ethics (V8) and perceived fairness (V9) of

perceived fairness in taxation increases and that the attitude towards other people's tax evasion becomes stricter.

Incentives. This study includes positive inducements (V12) as an independent variable. The effectiveness of positive reinforcements for encouraging compliant behavior has been recognized in a number of fields (Richardson and Sawyer 2001), including tax. Yet, while researchers have acknowledged the need for a tax system to provide taxpayers with both incentives to comply with tax laws, and sanctions or penalties where non-compliant behaviors are discovered (Slemrod 1992; and Smith 1992) they have not been subject to empirical testing due to the lack of incentives in actual tax environments around the globe.

<u>Land type/location</u>. Type of land (V13) is a new variable in this study. In Malaysia, landowners pay different rates of tax according to different types and locations of land. Agricultural land has the lowest rate of tax in all states in Malaysia, yet it is uncertain whether agricultural landowners are likely to be most/least compliant. Land taxpayer's location (V14) is also a new additional variable in this study. Since rates and valuations are different between states, it would be useful to policymakers to see if there is any significant relationship between location and compliance attitudes.

### **RESULTS**

Of the 750 questionnaires mailed, 179 usable responses were received - a response rate of  $24\%^9$ . In order to test for non-response bias, we recorded the date of response and tested late responses versus early

TABLE 2 DESCRIPTIVE ANALYSIS OF SAMPLE

		(N=179)		Compliance Attitude Score		
Variables		Frequency	%	Model 1	Model 2	Model 3
1. Age	Up to 40	43	24	65.8***	61.5*	64.8**
	41-60	107	60	76.4	69.2	76.8
	Above 60	29	16	82.1	72.2	72.7
2. Gender	Male	120	67	71.7	68.6	75.0
	Female	59	33	76.3	67.5	72.8
3. Race	Chinese	44	25	76.5	74.3*	78.6
	Indian	39	22	71.1	64.2	70.2
	Malay	96	53	75.5	66.4	72.1
4. Education	Low education	58	32	79.8***	70.8	73.5*
	Medium education	68	38	78.4	68.9	77.7
	High education	53	30	64.7	63.3	67.3
5. Income Level	Up to RM24,000	126	70	76.6*	69.9*	73.4
	Above RM24,000	53	30	70.5	63.0	72.4
6. Source of Income	Private sector	51	28			

To test our multivariate model, the assumptions of multiple regression analysis were tested and the data comply with the requirements of regression analysis (Hair *et al.*, 1998) with the results showing that the assumptions of linearity and homoscedasticity are met. A statistical graphical plot also suggests that heteroscedasticity is not a problem in this study. In identifying multicollinearity, Variance Inflation Factor's (VIF) were used to indicate whether an independent variable had a strong linear relationship with the other independent variable(s).

Table 3 reports the multiple regression results for the three dependent variables. Model 4 combines all three questions into an overall average. The maximum likelihood estimates for each independent variable are included. All models are highly significant (p < 0.001) and the adjusted  $R^2s$ ' range from 29% for Model 3 to over 37% for Model 2.

For Model 1 ("how many pay no land tax") the dependent variable is reverse scored so that higher scores indicate more compliant attitudes. The results in Table 3 show 8 significant independent variables (p < .05). Two negative estimates indicate that land taxpayers with medium level of education (V4) and who believe evasion is morally unethical (V8) are more likely to exhibit compliant attitudes. Age (V1), source of income (V6) and understanding tax laws (V11) are significant indicating land taxpayers who are older, work in the public sector, are sole proprietors, and have a better knowledge of land tax laws are more likely to exhibit compliant attitudes. In addition, Race (V3), occupation (V7) and incentives (V12) are also significant indicating land taxpayers who are Indians, who have low or high levels of education, non-professional/executive occupations, and who believe that strong incentives are necessary to elicit tax compliance, are less likely to exhibit compliant attitudes.

While the first dependent variable asked out of every 100 people how many paid no land tax at all, the dependent variable used in Model 2 was based on respondents' estimate of the proportion out of every 100 landowners believed to be compliant on their land tax payment. The regression results for Model 2 show nine significant independent variables. Age, occupation and ethics give the same result as Model 1.

In comparison with Model 1, differences exist for race, education, income level, source of income, perceived fairness, sanction, understanding tax laws, incentive and location. Thus, land taxpayers who are Malays or Indians, with high income levels are less likely to exhibit compliant attitudes and land taxpayers who perceive the land tax system as fair are more likely to have compliant attitudes with the land tax laws. Rather unexpectedly, the result shows that level of education has no significant relationship with compliance attitudes. Although counter-intuitive, land taxpayers who believe that the chances of sanctions applying are low are also more likely to exhibit compliant attitudes. The result also shows that Johor, Negeri Sembilan and Kelantan land taxpayers (V14) are more likely to exhibit compliant attitudes.

# TABLE 3 RESULTS OF MULTIPLE REGRESSIONS (N=159)

Dependent Variables

Model(1

Independent Variables

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