INDIVIDUAL TAXPAYER: PERCEPTION TOWARDS SELF ASSESSMENT SYSTEM

Junainah Jaidi¹, Abdul Wahid Mohd. Kassim ², and Raman Noordin³

SCHOOL OF BUSINESS AND ECONOMICS, UNIVERSITI MALAYSIA SABAH¹,²,³
nenjaidi@ums.edu.my¹, abdulwah@ums.edu.my², raman@ums.edu.my³

ABSTRACT

Undoubtedly, economic analyses are important to understand a tax system, however in a democratic system, the taxpayer’s perception, evaluation and compliance with the tax laws are of equal importance. This study attempt to explore the taxpayers’ acceptability towards self assessment. A survey was undertaken in Kota Kinabalu, Sabah, involved 195 individual salaried taxpayers. Result of the study revealed that the Malaysian taxpayers are welcome the changing of the present system to the self assessment system. They perceived that they are ready for it. Despite of the taxpayers readiness toward self assessment system, most of the taxpayers did not know their responsibility under the new system, moreover they also unable to compute their own tax. However most of them are interested in learning more about the Malaysian Income Tax System if they have the opportunity to do so.

INTRODUCTION

Tax is a compulsory financial obligation of a nation’s population income towards its government. One of the taxation objective in Malaysia is to collect funds for financing the government’s expenditure. Other than that, tax is seen as a tool to boost the economic development of a nation. In other words, funds collected from taxation are being used by the Malaysian government for the nation’s development to provide facilities for its population (Singh 1995).

Tax is the main contributor to the nations income, whereby in year 2000 tax had contributed RM12,318 million (79.5%) towards government income, 45 percent from this was contributed from income taxes. It seems that tax contribution is the main contributor to the nations income which is to support nations economic development (Kasipillai & Shanamugam 1997), various strategies has been outlined to improve the efficiency of tax administration in Malaysia, among others is the corporatization of Inland Revenue on 1st March 1996.

To date, assessment system practiced in Malaysia needs the tax payer to only complete a form and all the assessment duties will be done by Inland Revenue, which in most cases become a burden especially for the assessment department. In 1999, a total of 2,629,933 Income Tax Form was distributed and 1,828,126 of these was returned for assessment. In 1997, 58.9 percent of the Inland Revenue workforce was concentrated to the assessment department, but still could not meet the demand of the workload of the department. Only 1,671,907, of the returned form was successfully assessed by the Inland Revenue (Inland Revenue Annual Report 1999).
The nation economic development has contributed to the increased of tax payer which consist of individual, partnership and companies. Consequence to this, the Inland Revenue is unable to meet the number of workforce needed to perform the already existing tasks (Mohd Shukor 1994). Lack of workforce has led to the mounting and pending job as well as inefficient services (Abdul Rahim 1998).

To rectify the inadequacy, a new system need to be introduced. In his speech presenting the 1999 budget, first financial minister, Datuk Seri Dr. Mahathir Mohammad introduced the self assessment system to replace the formal existing assessment system (Wong 1999).

Although still under infancy stage, the efficiency of the system was proved to be successful in countries such as Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and United Kingdom (1996-1997). From the mentioned countries experience the system is said to be cost effective, and can reduce the burden of the Inland Revenue, permitting the personnel to concentrate more on auditing tasks. The criteria of self assessment such as easy tax legislation and high penalty costs, paving towards meeting even higher taxes. In short, the implementation of self assessment system has contributed toward high yielding (Cheung et al. 1995).

SELF ASSESSMENT SYSTEM

In Malaysia, the introduction of self assessment system is to achieve three main target which are to reduce tax collection cost; to speed tax collection and reduce uncollectable taxes; and to increase the rate of tax payer performing their tax obligation (Abdul Rahim 1998).

Self assessment refers to an assessment procedure based on the assumption that all information reported by the tax payer is correct and need not to be check by Inland Revenue officers. Self assessment system on the other hand refers to a system whereby the tax payer need to be more responsible in ensuring the correct information provided in the Income Tax Form, as the Inland Revenue accept it with full of trust assuming the content is correct and true (Kasipillai et al. 1999). The form received without any question from the Inland Revenue except when there is doubt on the information given.

The concept of this system is simple. In a formal assessment system Inland Revenue is responsible to make the assessment and tax support calculation based on the Income Tax Form. In theory, in the self assessment system, the tax payer themselves will have to do all the calculation of their taxes. Thus, this system is not easy as it seems. This system will impact significantly to the tax payer responsibility as it is being rest fully to the tax payer to meet the law taxation. On part of the Inland revenue, it changes the way implementation of their role and enforcement of taxation law. The responsibility and tasks of an accountant and tax agent will also have a significant impact (Kasipillai et al. 1999; Mustafa 1998).

To understand self assessment, we need to see the underlying factor of the system. Basically, the closure to self assessment system consists of two important pre-condition where the assessment form received by the Chief Director and then this assessment is subject to intensive post assessment activities. These activities include inter alia, post
assessment check, and auditing activity (Wong 1999; Abdul Rahim 1998).

The two pre condition referred to as the primary and secondary function by Barr et al. (1977). According to Barr, primary function is the tax payer's responsibilities. The primary function is the logic base for income tax operation such as calculation of total income, calculation of tax exemption income, calculation of taxable income and calculation of taxes need to be paid.

The secondary function of Inland Revenue officers is more towards verifying and checking the Income Tax Form. This is also known as tax auditing. However, this function is not the main operation within Inland Revenue but it is essential to support the primary function. Secondary function is also totally performed by the Inland Revenue.

This system was first introduced in Malaysia during the 1999 national budget presentation. It will be implemented step by step; year 2001 was for companies, 2003 is for partnership, sole proprietor and corporation, and year 2004 will be for individual income tax payer. Introduction of the self assessment system is seen as a new era for the Malaysian taxation system. Unsurprisingly, there also exist some difficulties in its implementation, for instance from the aspect of acceptance, perception, view and negative attitude among tax payer which are reluctant to change to a new system.

Since the perception of tax payer is vital within the development of a particular policies, hence to ensure the smooth implementation of the policy (Mustafa 1999) it is important to obtain a positive reaction from the tax payer. Perhaps the problem that needs to be resolved is can these tax payer accept the changes? What is the reaction of tax payer towards self assessment system?

**PERCEPTION AND TAX COMPLIANCE**

Myth or reality, encouraging voluntary tax compliance among tax payer is a challenging task, but it is certainly the main agenda for many tax administrators throughout the world. Acknowledging this fact, numerous studies had been done to study the factors that could led to the noncompliance and tax avoidance. Past studies have identified a few factors leading to this issue (McKerchar 1995; Smith & Kinsey 1987). One of the factor identified by these studies is perception.

Self assessment system is very much depended for tax payer to voluntarily meet their tax obligation. In this case, a positive perception is essential. When developing strategy and tax planning, tax administrator cannot neglect the perception and reaction of the tax payer. This is because their perception about a particular taxing strategy will affect their tax behavior to meet the strategy designed. The same statement was also outlined by Mustafa (1999). According to Mustafa (1999), tax payer perception towards the existing assessment system (formal assessment system) and self assessment system are important element for policy maker. A newly introduced system can only works smoothly when the tax payer have positive perception towards the system.

To date, economics expert has conducted various studies pertaining to all sort of economics aspects of taxation. This cover the level of taxation acceptable by the public, effects of tax on price stability, economy development and job opportunity, and the distribution of tax
burden on different classes of tax payer. Looking from a slightly different perspective this study tend to research on the matter of tax payer attitude towards taxation. The success of self assessment system is very much influenced by tax payer attitude and their confidence on the system itself (Wong 1999; Kasipillai 1998). Hence, the confidence of tax payer on a particular system relate significantly with the tax payer attitude towards it. That is why the main objective of this study is to learn the perception of tax payer towards self assessment system in Malaysia.

RESEARCH METHODOLOGY

A Survey technique was used on individual serving with both public or private sector in Kota Kinabalu, Sabah. Kota Kinabalu was selected because there is yet to be conducted any study on self assessment system. A total of 300 questionnaires were distributed to employees of six selected organization Three organization representing the public sector are Sabah Urban Development Corporation, Universiti Malaysia Sabah and the Department of Prime Minister. Whilst organization selected to represent the private sector are Telekom, Petronas, and Malaysian Banking Berhad. These organization was selected as they were able to represent variety of ethnic group, wide distribution of income, age and educational background. To obtain the sample, simple random sampling was employed. Simple random sampling was used because of the difficulty to obtain the lists of tax payer from the Inland Revenue. Data collected was analyze using SPSS. For the purpose of the study, descriptive statistic such as mean, mode and median was employed, whereas chi square, t-test and ANOVA was used for inferential statistic.

RESPONDENT PERCEPTION TOWARDS SELF ASSESSMENT SYSTEM.

The favorable acceptance of the self assessment system is really surprising as the relatively low percentage (63.6%) to those who are aware of such system. Furthermore, only a small percentage (36.9%) of these respondent know the future implementation of this system. This system demand tax payer to calculate their own taxes which one thing most of the respondent is not capable or no knowledge of doing so.

Most of the respondent perceives the self assessment system as a fair one compared to the formal assessment system despite realizing the Inland Revenue will benefit more under this system. The shift in responsibility in a way shows the government’s confidence and trust on its people. Many respondent agree with this statement and believed it is not deceitful act by the government.

Based on the tests conducted in seeking the relationship between tax payers’ perception towards self assessment system, it indicates that there exists a significant relationship between respondent perception with the educational level, educational background and their type of employment.

RESEARCH IMPLICATION

This study learnt the attitude, perception and tax payer reaction towards tax assessment system in Malaysia focusing on the self assessment system implementation. The result of this study can assist policy maker and tax administrators understanding the behavior of
tax payer should the system is implemented.

There are several factors that need attention if the self assessment system were to operate smoothly. From the respondent's viewpoints the most important factors that will ensure the success of this system are computerized system, public confidence and understandable tax law. All these will have to be supported by low enforcement and auditing. This statement however contrasting with the self assessment criteria whereby law enforcement and auditing is the pre condition on its success (Barr et al. 1977). Realizing that public awareness is one of the main success factor of this system it then should be emphasized.

The result also revealed the lack of awareness level among tax payer in Malaysia on both formal and self assessment system. This is because within the self assessment tax payer themselves will be managing their own tax matters, hence high level of awareness on the system is necessary.

Since the self assessment system will be practiced on individual tax payer starting in the year 2004. The Inland Revenue should undertake serious action to educate tax payer on it. Tax education program should be emphasized to enhance tax payer level of awareness. Formal tax educational program should not be limited to tertiary educational level, rather introduction must be as early as in secondary level. Alternatively, non formal tax education program will also helps.

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