

Information Dissemination and Fairness Perceptions: The Case of Inland Revenue Board Malaysia

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ABSTRACT

This paper highlights how information dissemination or information sharing between the authority (in this case, is the Inland Revenue Board Malaysia - IRBM) and the community at large would to certain extent influence their perceptions on the fairness of the income tax system. Specifically, this paper investigates perceptions of individual taxpayers on the fairness of the income tax system in Malaysia and how such perceptions were formed, by applying a mixed method (through survey and interview). The survey involved 852 respondents while the interview sessions were conducted on 30 participants. The descriptive analysis and thematic analysis were carried out on survey data and interview data, respectively. Survey results indicate that taxpayers generally perceive the income tax system as fair. The interviews, on the other hand, showed that taxpayers were not happy with government spending of tax revenue. Such view was actually resulted from the lack of information disclosed by the IRBM on how they have used the taxpayers' money. Taxpayers believed if such dissemination of information has taken place, their views on IRBM's credibility may have been improved.

Keywords: fairness perceptions, information dissemination, Inland Revenue Board Malaysia.

I INTRODUCTION

The income tax system in Malaysia commenced in 1948 while it was under British colonization. It was introduced to legitimize the collection of taxes from individuals and corporations. Since its inception, Malaysia had adopted an official assessment system (OAS), which requires taxpayers to furnish relevant information pertaining their incomes and expenses to the Inland Revenue Board Malaysia (IRBM). Under this system, the duty to compute the tax payable was with the IRBM, as taxpayers were assumed to have limited knowledge of taxation. However, with effect from 2001, a self-assessment (SAS) system was introduced. Under the new system, the responsibilities to compute tax payable shifted from the IRBM to taxpayers. Unlike an OAS, a SAS requires taxpayers to be well-versed with the existing tax laws and provisions, since they are answerable to tax authority in the case of tax audit.

Over the years of tax administration, the IRBM has seen a gradual improvement in tax collection. Possible reasons could be the national economic growth, the increase in number of taxpayers and the enforcement of stringent tax audit. Notwithstanding the significant and growing collection of income tax, non-compliance problem remains as unresolved issue for IRBM. For instance, in 2006, it was reported that about 30 percent of individual taxpayers did not comply with their tax obligations (Inland Revenue Board of Malaysia, 2006). The reason(s) for such non-compliance has (have) yet to be explored, but may be associated with the tax fairness perceptions as indicated by numerous studies overseas (e.g. Bordignon, 1993; Etzioni, 1986; Gilligan & Richardson, 2005; and Turman, 1995). Having said that, this study attempts to reveal the fairness perceptions of individual taxpayers and learn in-depth the reasons behind such perceptions. The remainder of this paper is organized as follows: the following section sets out a review of literature on fairness perceptions and information dissemination. This is followed by a brief discussion on research method to be adopted in this study. Section IV highlights the findings of the study. The paper ends with concluding remarks and limitation of the study.

II LITERATURE REVIEW

Policymakers claim that tax fairness is an important goal for the state in order to encourage tax compliance. For example, the tax authority in the United States (Inland Revenue Service) has put a great emphasis on fairness perceptions in an effort to improve tax compliance (Bobek, 1997). Thus, it is not uncommon for a tax system that violates the basic principles of fairness and efficiency to anticipate non-compliance among taxpayers (Head, 1992). The question is how do we define fairness? Researchers to date have agreed that fairness perceptions are multi-dimensional. Among the dimensions that are of interest in this study are general fairness, exchange fairness, horizontal fairness, vertical fairness, retributive fairness, personal fairness and administrative fairness. General fairness relates to an overall fairness evaluation of the income tax system. Exchange fairness is concerned with reciprocal exchange between taxpayers and the government, while horizontal fairness deals with equal tax treatment among taxpayers in similar economic positions. Vertical fairness will be assessed based on the 'ability to pay' principle and preference for tax rate structure, either a flat rate or progressive rates. Retributive fairness is concerned with the fairness of punishments imposed while personal fairness relates to individuals' judgments about whether the income tax system is favorable to them. Finally, administrative fairness relates to the content of the tax law and procedures employed by the tax authority. Undeniably,

to date, a number of studies on fairness perceptions have been conducted, but they merely focused on limited dimensions of fairness. For instance, Kirchler et al. (2006) had focused on vertical fairness while Gerbing (1988) identified four dimensions of fairness, which include general fairness, exchange fairness, tax on the wealthy, and tax structure. Another study on the US income tax system was conducted by Bobek (1997) which was concerned with distributive fairness, procedural fairness and policy fairness. In Malaysian environment, Azmi and Perumal (2008) who replicated the work of Gerbing (1988) suggested that Malaysian taxpayers perceive the fairness of the income tax system in terms of general fairness, tax structure and self interest.

To extend the studies on fairness perceptions, Roberts (1994) investigated the impact of information dissemination on taxpayers' fairness perceptions when changes in tax laws were introduced. Using an experimental approach, the researcher demonstrated how public service announcements will improve fairness perceptions on the income tax system. In addition, the study suggested that the cognitive public service announcement is significantly more effective than the affective approach in influencing fairness perceptions.

III RESEARCH METHOD

Acknowledging that a combination of both quantitative and qualitative methods is a more pragmatic approach to gain a better understanding of the phenomenon under study (McKerchar, 2008), the researcher has adopted a mixed-method to enable one approach (interview) to inform another approach (survey) in the interpretation of the overall results. To be consistent with this strategy, a similar sampling frame was used to draw the potential respondents for both approaches. The survey questionnaires were self-developed and pilot-tested before being distributed to 2,267 salaried individuals engaging in both government and private agencies in Peninsular Malaysia. In the questionnaires, the samples were asked on their perceptions regarding the fairness (using 20 items, of which fourteen were self-developed) of the income tax system, in addition to other areas not covered in this study. A descriptive analysis was then analyzed using SPSS software. For the interview approach, participants were invited from similar sample group. The reason is to understand in-depth on how they formulate such fairness perceptions on the current income tax system. The data obtained was analyzed using thematic analysis as suggested by Braun and Clarke (2006).

IV RESULTS OF THE STUDY

Out of 2,267 distributed questionnaires, 852 responded, giving a response rate of 37.5 percent. Overall, descriptive analysis as in Table 1 suggests that taxpayers had positive perceptions on every dimension of fairness, especially on the aspect of vertical fairness, personal fairness, administrative fairness and retributive fairness. In other words, they believed that the current tax system had treated individuals with different economic positions in a fair manner. In addition, respondents were of the opinion that the

current income tax system is favorable to them. The results also suggest that taxpayers were generally satisfied with the tax law, tax procedures as well as the penalty regime adopted by the IRBM.

Table 1. Descriptive Statistics on Fairness Perceptions

| Measures | Min | Max | Mean | Std. Dev. |
|-------------------------|-----|-----|------|-----------|
| General fairness | 1 | 7 | 4.23 | 0.968 |
| Exchange fairness | 1 | 7 | 4.42 | 0.849 |
| Horizontal fairness | 1 | 7 | 4.03 | 1.450 |
| Vertical fairness | 1 | 7 | 5.16 | 0.965 |
| Retributive fairness | 1 | 7 | 4.60 | 0.920 |
| Personal fairness | 1 | 7 | 4.93 | 0.866 |
| Administrative fairness | 1 | 7 | 4.62 | 1.053 |

Similar results were obtained at the initial stage of the interviews when thirty participants were asked about their general perceptions of the income tax system. They believed that the income tax system had been reasonably fair to them in meeting a broader objective at the national level; that is, to generate revenue for the government and redistribute wealth amongst society. Interestingly, when being probed about their understanding of the income tax system, they started to open up by discussing several issues under the current income tax system, which are of concerned to them.

Using thematic analysis approach, the researcher classified the participants' comments into two main themes. First, is their dissatisfaction with an inefficient use of tax revenues by the government. The participants claimed that taxpayers' money was wasted as a result of the government's incompetency. Despite having promising national plans and a yearly budget in place, the outcomes from such plans were not readily visible to the public. This issue of inefficient spending was of more concern when the basic infrastructure, such as schools, was not well taken care of. A selection of comments follows:

"...sometimes, we are quite frustrated because when we look at the government expenditures, it is not what we expect, too much is being wasted."(male, lecturer at public university).

"...personally, [I believe] certainly there is a lot of money being wasted. In terms of management, I would say they are incapable, how they manage the money, how they allocate the money. Probably in terms of overall budget, it seems very good, such as more funds on education, some [money] for defense and some for SME (small and medium enterprises), but implementation wise, when the money is being distributed, at the end of the day, we don't see the output." (male, senior executive in the Accountant General Department).

“...of course the system and all is there, to spend the money [which] the income taxpayer is paying, but the way they spent the money is a bit unfair, improperly managed, that’s all, but the system is there. I know they’re going to use the money for whatever development and all, but the way they managed the money is questionable.” (male, bank officer).

The second issue raised by participants was a lack of disclosure of government expenditure. In this regard, participants wanted more transparent statistics on the government’s fund allocation. They argued that the lack of information had created negative perceptions among taxpayers on the government spending of tax revenues even though the government might have spent the money wisely. For instance, one participant (who had an intellectually disabled child) claimed that the government had provided facilities and assistance to disabled people but such assistance was not widely publicized. As such, there was a widespread misconception that the government did not care for this group of people. Thus, full disclosure of the government spending of tax revenue was seen as one way of improving fairness perceptions among the taxpayers. This argument is consistent with Roberts (1994) who claimed that publicity on the changes in tax law will improve fairness perceptions. Among the comments forwarded by participants:

“...till now, we don’t exactly know the tax revenue that we pay is being used for what [purpose], we don’t know. [We have] no information about that, yet we can see there are poor people and so on. What is the role of tax? Is it being channeled to these needy people or just for development? Where is it being used? Where is it being invested? We don’t know, [there is a] lack of information about that...I’m not happy with that.” (male, officer in the Employee Provident Fund).

“I think many people do not know that the government has [provided] facilities to those who cannot work (e.g. the disabled). Actually [the government] provides the assistance, the government is very concerned, [but] this needs to be publicized.” (male, laboratory manager of a private hospital).

“I don’t know how much money they spend for this [benefits for the low-income people], we don’t know, there’s no information...disclosure is very important, how much is the allocation; then we will be satisfied.” (male, lecturer at public university).

“...I mean, now every taxpayer, including me should at least know what [it is] being spent on, how much is being used by the government. Until now, we only know the expenditure in general, for infrastructure, for education, for whatever, it is not enough, I mean not clear enough.” (male, officer of the Royal Customs).

Observing these two interrelated issues being raised by interview participants suggest to us the importance of information dissemination from tax authority (or government) to the public. Without such information sharing, taxpayers will continue to have negative perceptions on the IRBM (and Malaysian government

as a whole). This would consequently result in non-compliance behavior among the taxpayers.

V CONCLUSION

This study highlights two important points. First, taxpayers generally perceive the current income tax system as fair. In fact, they viewed the system was properly put in place. The second point is the importance of full disclosure of information from tax authority to public. Generally taxpayers felt that their negative perceptions (indicated in the interviews) were due to inadequate information being disclosed to them. They had no ideas of how much and where the tax revenues were allocated. Even though some of participants had good faith in government spending, there was no enough evidence to support such belief. Being aware of these issues should prompt IRBM in encouraging the government to improve the efficiency of government expenditure and the level of transparency. Perhaps, public advertisement on how the tax money was spent could be a helpful mechanism. Other useful medium could be the IRBM website and annual report. As far as researcher’s concern, no detailed information on government spending was reported in these two publicly available medium. Most of the information highlighted to date generally relates to compliance rates and tax collections rather than the government expenditure. This is important to enhance positive fairness perceptions and consequently compliance behavior. Notwithstanding the significant contributions of this study, a researcher should also be aware of its limitations. The first is the inherent weaknesses with the survey approach itself, such as non-response bias, respondents’ representativeness and the respondents’ differing interpretation of the questions. Another limitation is that this study only uses individual taxpayers. Thus, caution should be taken when generalizing to other group of taxpayers. Despite the limitations of this study, the findings are believed to shed some lights on the fairness perceptions in Malaysia.

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