



2nd Global Conference on Business and Social Science-2015, GCBSS-2015, 17-18 September  
2015, Bali, Indonesia

## A Proposed Model of Non-compliance Behaviour on Excise Duty: A Moderating Effects of Tax Agents.

Perabavathi Sinnasamy<sup>a\*</sup>, Zainol Bidin<sup>b</sup>, Syed Soffian Syed Ismail<sup>c</sup>

<sup>a,b,c</sup> School of Accountancy, Universiti Utara Malaysia, 06100 Sintok, Kedah, Malaysia,

---

### Abstract

Taxation became a source of revenue in most of the developed and developing countries. However, tax non-compliance remains as a serious issue around the globe. The negative impact of tax non-compliance on economy and evolving nature of indirect tax in Malaysia have induced this study. The smuggling activities involved cigarettes, liquor and imported vehicles have caused a great loss to the tax revenue in Malaysia. Hence, this study attempts to propose conceptual framework by integrating tax agents as moderating effects between tax rate, penalty rate, tax fairness and peer influence with non-compliance on excise duty.

© 2015 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Organizing Committee of the 2nd GCBSS-2015

*Keywords:* Excise duty non-compliance; importers, smuggling activities

---

### 1. Introduction

Taxation is always classified as a fundamental and crucial tool in managing national revenue especially in most of the developed and developing countries (Tabandeh, Jusoh, Nor, & Zaidi, 2013). Hence, tax is the most important means in financing government expenditures. In the economic perspective, tax is considered as an income redistribution mechanism from the rich to the poor apart from generating revenue for the public finance (Saez, 2004). Furthermore, taxes are also introduced to improve the health and safeguard the environment. For example, by introducing certain taxes called sin tax to cigarettes, it is expected that their usage will be reduced to encourage a healthier way of life and protect damage caused by cigarette smoke (Miskam, Noor, Omar, & Aziz, 2013).

---

\* Corresponding author. Tel.: +6012-4901909.  
E-mail address: [mbasrpraba@yahoo.com](mailto:mbasrpraba@yahoo.com)

However, people are reluctant to pay taxes and thus cause problems for tax authority to collect and impose taxes anywhere and timely (Alm, Martinez-Vazquez, & Schneider, 2004). Taxpayers' failure to comply with the tax laws involves committing a non-compliance act (Kirchler, Muehlbacher, Kastlunger, & Wahl, 2007). In line with this, Franzoni (2008) mentioned non-compliance is a tax administrative most common and critical problem.

Tax non-compliance is a severe issue that exists globally including Malaysia (Hai & See, 2011a). Non-compliance signifies failing to meet tax declaration requirements or failure to engage tax responsibilities intentionally or unintentionally (Kinsey, 1988). Despite the escalating tax non-compliance problem in Malaysia, only a few studies have been conducted to examine the determinants of this phenomenon (Abdul-Jabbar, 2009). These studies mainly focused on income and corporate taxes behavior, excluding the studies by Tayib (1998) and Nor Aziah (2004) regarding the local government taxes. However, smuggling offences and customs tariff are not always highlighted by tax authority and researchers (Delipalla, 2009). Giles, Tedds, and Werkneh (2002) defined smuggling activities as all transactions whether legal or illegal, market or non-market done to evade taxes from the tax authority. The indirect taxes evasion often related to smuggling offences especially on customs tariffs. The smuggling offences affects monetary as well as non-monetary revenue such as embargo, product quality and quotas (Ayitey Stephens, Boddewyn, & Ross Sproul, 1991). Furthermore, only a few academic scholars have done research on non-compliance because of the difficulties faced, especially on measurement involving companies, individuals whether they are involved unintentionally or intentionally in tax payments (Hai & See, 2011b). Therefore, this study focuses on the phenomenon and the determinants of excise duty non-compliance among importers as taxpayers.

## 2. Literature Review

### 2.1 Tax Non-compliance

Tax authorities play fundamental roles in ensuring tax compliance among taxpayers by abiding tax rules and regulations. Despite the arrangements, the confrontation in human society still exist which causes the numerous cases of tax non-compliance. James and Alley (2002) described tax non-compliance as a failure of taxpayer to accommodate tax responsibilities whether they performed unintentionally or intentionally. Tax non-compliance treated as a contrary conduct or attitude of tax compliance. Tax non-compliance examples are tax evasion and tax avoidance which carries negative impacts on tax compliance and tax collections. Kasipillai, Aripin, and Amran (2003) anticipated tax evasion as a conduct caused to reduce the taxes owed in reality. Whereas, tax avoidance is described as taxpayers declaring their tax affairs creatively according to the rules and regulations to lower the tax liabilities and this action is legal in tax administrator's point of view.

In Customs context smuggling activities is one of the important determinant causing non-compliant. Smuggling activities consists of three types which are incorrectly declaring the amount, for instance declaring less quantity and price, incorrectly declaring the descriptions of goods and state at lesser than legally practiced (Cooper & Bhagwati, 1974). The popular smuggling methods and Customs frauds involves fake invoicing, complicated transactions attempts, using two invoices, the false invoices are used for declaration and the genuine invoices are used for record purposes, tariff code miss-classification, over stated and under stated valuation and shipments (Thanasegaran & Shanmugam, 2007). In Malaysia's context indirect taxes are avoided through falsifying the declaration, smuggling or Customs fraud (Miskam et al., 2013).

### 2.2 Excise Duties

Excise duty is one of the components in indirect taxes. The excise duty imposed to import into Malaysia and locally manufactured goods as stated in Section 6 of Excise Act 1976. This duty is used as a mechanism to alter the trend of public consumptions or social engineering (Delipalla, 2009). The commodities bound in Excise duty act includes liquor, tobacco, cigars, cigarettes, four wheel drive, multi-purpose vehicles and playing cards.

### 2.1 Tax rate

According to Fischer's model, tax rate is one of the factor influencing the tax non-compliance behavior. Prior studies investigated tax rate and tax compliance produced mixed results. For instance, if the marginal tax rate is increased the taxpayers' are likely to understate their tax returns (Skinner & Slemrod, 1985). This is what they referred to as higher tax rates caused the higher pressure of taxpayers' which motivates to non-compliance behaviour (Atawodi & Ojeka, 2012). Additionally, Mohd Yusof, Ming Ling, and Bee Wah (2014) reviewed tax non-compliance among small-and-medium sized corporations in Malaysia and identified that significant effect exist between marginal tax rate on corporate tax non-compliance. Under the Economic Deterrence theory, the increases in tax rate will decreases the compliance level (Allingham & Sandmo, 1972). According to Richardson (2006) through cross-national study identified tax rates have significant and negative relationship with tax compliance which implies higher tax rates will lower the taxpayers' compliance level. However, study done by Pommerehne, Hart, and Frey (1994) shows the positive relationship between marginal tax rate and tax evasion, increasing in marginal tax will increase tax evasion. Therefore, the proposed hypothesis for the current study is:

H1a: There is a relationship between tax rate with non-compliance of excise duty by importers.

It is equally important to be aware that the consultations given by the tax agents may also have moderating effect on the impact of the tax rate on non-compliance. According to Doyle, Hughes, and Glaister (2009) tax agents have significant influence in deciding the amount of the tax declared and paid by their clients. Hence, tax agent has strong effect on the tax rate and excise duty non-compliance (Sekaran, 2006). Therefore, the moderating effect hypothesis to tax agents between tax rate and non-compliance of current study is:

H1b: Tax agents will moderate the relationship between the tax rate with non-compliance of excise duty by importers.

## 2.2 Penalty rate

The taxpayers' detained under the audit and investigations process will be penalised by the tax authority. Penalty is correlated with punishment or sanctions. There are mixed findings on the impacts of penalties and tax non-compliance. A majority of the tax compliance prior academic scholars showed a significant association between penalties and tax compliance behavior (Maciejovsky, Schwarzenberger, & Kirchler, 2012). According to Devos (2013) there is a positive association of penalties and tax compliance. A study done by Slemrod (2004) indicates the penalty severity might deter the taxpayers from reporting accurate tax returns based on the tendency of profit is greater than the tendency for losing. This shows the negative relationship between the penalty rate and tax compliance. Therefore, the propose hypothesis is:

H2a: There is a relationship between penalty rate with non-compliance of excise duty by importers.

The tax declaration service provided by tax preparers, shows a conflict with the services that taxpayers' seek. Tax agents represent customers with hostile tax situation. While, taxpayers' hire tax agents to increase accuracy and avoid any penalties enforced by tax authorities (Stephenson, 2007). Therefore, the current study's hypothesis moderating effect in influencing penalty rate is:

H2b: Tax agents will moderate the relationship between the penalty rate with non-compliance of excise duty by importers.

## 2.3 Tax Fairness

Tax fairness has an important role in determining tax compliance behaviour. Most of the prior studies on tax compliance indicate mixed results pertaining tax non-compliance and tax fairness. The taxpayers attitude and

perceptions on tax system's fairness is identified as a fundamental determinant that have significant impacts on the tax compliance behaviour (Alabede, 2012). If the taxpayers perceived the tax system is unfair to them, it will motivate to non-compliance behaviour (Gilligan & Richardson, 2005). Moreover, Spicer and Lundstedt (1976) stated if taxpayers believed tax system is unfair, they are more prone not to comply to the tax rules and regulations. According to Porcano (1984) the fairness of tax system is determined by the ability to pay and fulfilled the needs of taxpayers. Additionally, Richardson (2006) found significant negative correlation between tax evasion and tax system fairness. However, (Murphy, 2004) identified procedural fairness and tax compliance have direct and positive effect. Similarly, Verboon and van Dijke (2011) indicates procedural fairness and deterrence variables positively related with tax compliance. From the above elaboration, the related hypotheses to be tested in this study is as stated below.

H3a: There is a relationship between tax fairness with non-compliance of excise duty by importers.

Tax agents playing dual roles as an advocates to the taxpayers' deal as an intermediaries in the tax system. Tax agents' position is challenging to maintain the boundaries as an advocates and professionals (Bobek & Hatfield, 2003). If the taxpayers' perceived the tax system is unfair to them will prefer for aggressive tax reporting may lead to non-compliance (Hite & McGill, 1992). Tax agents as a moderating effect might enhance or reduce the relationship between independent variables or dependent variable (Lindley & Walker, 1993). Therefore the below hypothesis is proposed:

H3b: Tax agents will moderate the relationship between the tax fairness with non-compliance of excise duty by importers.

#### 2.4 Peer Influence

Peer influence comprises of 'members of the family', 'current or future employer', 'close friends', and 'spouse / significant others' (Hanno & Violette, 1996). Prior studies on tax compliance showed mixed results in peer influence towards tax compliance. Peer influence is the perception on others action in a particular situation will lead to the determinant of approval or disapproval behaviour of an individual (O'Shaughnessy, 2014). Peer influence and tax compliance shows mixed results based on the previous studies findings. In the prior tax compliance literatures, it has been identified taxpayers are more likely to evade taxes if believed their peers are doing so (Grasmick & Scott, 1982; Spicer & Becker, 1980). This phenomenon is elaborated in Theory of Reasoned Action known as social psychology theory, explained individual's intention formed by attitude and subjective norms (Ajzen & Fishbein, 1980). Attitude perceived as a positive or negative will influence behaviour (Ajzen & Fishbein, 1980). Whereas, subjective norms referring to individuals believes on referent groups that caused to perform a specific behaviour (Bobek, Roberts, & Sweeney, 2007). For instance, if tax evasion is tolerable among the group norms and expectations it will induced the individual to perform the same behaviour (Chan, Troutman, & O'Bryan, 2000). According to Mason and Calvin (1978), the knowledge received from peers on taxes and politics will increases tax evasion. Whereas, Alon and Hageman (2013) found negative relationship between particularized trust. Similarly, Torgler (2012) found significant and negative relationship and indicates dissatisfied individuals are more prone discussed political issues with peers. Therefore, the hypothesis stated will be as below:

H4a: There is a relationship between peer influence with non-compliance of excise duty by importers.

Tan (2011) also mentioned the advice given by tax agents to the clients depend on the clients risk profile shows the impacts of clients in determining ethical decision making by tax agents. Hite and McGill (1992) indicates the tax agents' aggressiveness as a moderator in preparing tax returns influenced by the opinion given by their peers. From the above elaboration, the related hypothesis to be tested in this study is as stated below.

H4b: Tax agents will moderate the relationship between peer influence with non-compliance of excise duty by importers.

## 2.5 Tax agent

Tax agents playing a vital role in determining the compliance level of importers as a taxpayer'. Their significant role as a tax preparers have tendency in affecting the direction of the relationship between independent variables and dependent variable. Therefore tax agents have strong effect on independent and dependent variables and modify the original relationship between them. Edwards and Lambert (2007) mentioned the moderator is introduced when have the influence in strengthening the relationship between the independent variables and dependent variable and its effect on behaviour. In the previous research done by academic scholars indicates there are mixed results on compliance behaviour of tax agents and taxpayers. The tax professionals' impacts in determining Australian individual taxpayers' studied by Devos (2012), the results revealed there was statistically significant association between the advices furnished by tax professionals and Australian individual taxpayers' compliance behaviour. While, Blaufus, Hechtner, and Möhlmann (2014) investigated the association between the expenses incurred for tax preparation by tax professionals' and tax compliance. The negative relationship between expenses exceeded the estimated tax savings caused for the non-compliance. Whereas in Malaysia the research done by Choong, Tong, and Tan (2008) shows significant relationship between age, gender and education level with the nature of ideal tax practitioners preferred.

## 3. Research conceptual framework

This study is underpinned by the Deterrence theory associated with the Fischer's Model by considering economic, social and psychological factors in determining noncompliance behaviour among importers as taxpayers for cigarettes, liquor and vehicles. Kastlunger, Lozza, Kirchler, and Schabmann (2013) pointed out not only the economic model will influence the compliance behaviour but have to consider social and psychological factors as well. Based on the prior studies results the conceptual framework for the current study as illustrated in figure 1.1.

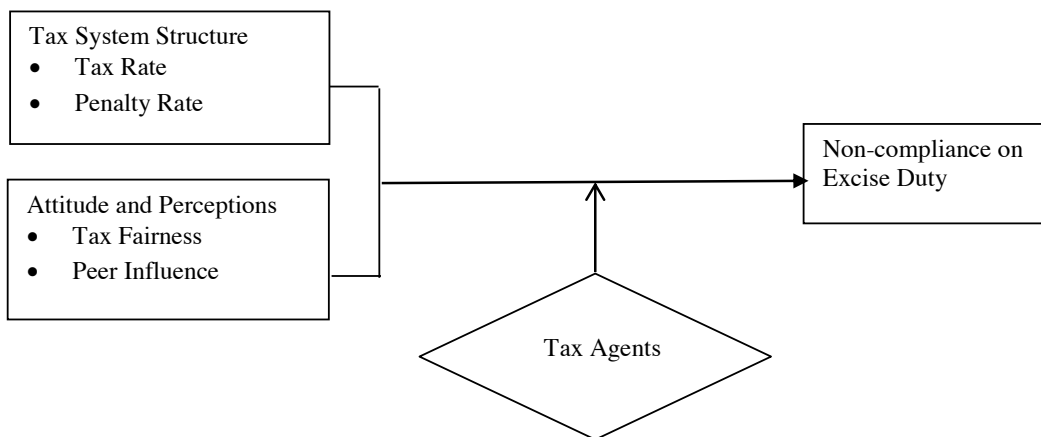


Figure 1.1 Research Proposed Model

#### 4. Conclusion

The current study emphasized on indirect tax non-compliance on excise duties particularly on indirect tax involves cigarettes, liquor and imported vehicles. Furthermore, this study developed a conceptual model by enhancing and integrating Fischer's Model in determining non-compliance on excise duty. The factors that influenced the tax non-compliance on excise duty based on the tax compliance and tax non-compliance literatures. The determinants of excise duty non-compliance in current study comprising tax rate, penalty rate, tax fairness, peer influence and tax agents as a moderating effect.

#### Acknowledgements

The appreciation goes to Public Service Department of Malaysia for providing scholarship to one of the author to undertake this study. Sincere appreciation also tribute to the School of Accountancy, Universiti Utara Malaysia, Malaysia for their undivided support in the study.

#### References

- Abdul-Jabbar, H. (2009). Income tax non-compliance of small and medium enterprises in Malaysia: Determinants and tax compliance costs.
- Ajzen, I., & Fishbein, M. (1980). Understanding attitudes and predicting social behaviour.
- Alabede, J. O. (2012). An Investigation of Factors Influencing Taxpayers' Compliance Behaviour: Evidence from Nigeria. Universiti Utara Malaysia.
- Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of public economics*, 1(3), 323-338.
- Alm, J., Martinez-Vazquez, J., & Schneider, F. (2004). 'Sizing' the Problem of the Hard-to-Tax. *Contributions to Economic Analysis*, 268, 11-75.
- Alon, A., & Hageman, A. M. (2013). The Impact of Corruption on Firm Tax Compliance in Transition Economies: Whom Do You Trust? *Journal of Business Ethics*, 116(3), 479-494.
- Atawodi, O. W., & Ojeka, S. A. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management*, 7(12), p87-98.
- Ayitey Stephens, R., Boddewyn, J. J., & Ross Sproul, S. (1991). International smuggling: Environmental factors and corporate implications. *International Journal of Commerce and Management*, 1(1/2), 4-25.
- Azrina Mohd Yusof, N., Ming Ling, L., & Bee Wah, Y. (2014). Tax non-compliance among SMCs in Malaysia: tax audit evidence. *Journal of Applied Accounting Research*, 15(2), 215-234.
- Blaufus, K., Hechtner, F., & Möhlmann, A. (2014). The effect of tax preparation expenses for employees: evidence from Germany.
- Bobek, D. D., & Hatfield, R. C. (2003). An investigation of the theory of planned behavior and the role of moral obligation in tax compliance. *Behavioral Research in Accounting*, 15(1), 13-38.
- Bobek, D. D., Roberts, R. W., & Sweeney, J. T. (2007). The social norms of tax compliance: Evidence from Australia, Singapore, and the United States. *Journal of Business Ethics*, 74(1), 49-64.
- Chan, C. W., Troutman, C. S., & O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from the United States and Hong Kong. *Journal of International Accounting, Auditing and Taxation*, 9(2), 83-103.
- Choong, C.-K., Tong, C.-Q., & Tan, K.-E. (2008). A Study of Individual Taxpayer's Perception of Tax Practitioners in Malaysia. Paper presented at the Conference NA.
- Cooper, R. N., & Bhagwati, J. N. (1974). Tariffs and smuggling in Indonesia. Illegal Transactions in International Trade: Theory and Measurement. Amsterdam.
- Delipalla, S. (2009). Commodity tax structure and informal activity. *Bulletin of Economic Research*, 61(3), 283-294.
- Devos, K. (2012). The impact of tax professionals upon the compliance behavior of Australian individual taxpayers. *Revenue Law Journal*, 22(1), 2.
- Devos, K. (2013). Do penalties and enforcement measures make taxpayers more compliant? the view of australian tax evaders. *Far East Journal of Psychology and Business*, 12(1), 1-9.
- Doyle, E. M., Hughes, J. F., & Glaister, K. W. (2009). Linking ethics and risk management in taxation: Evidence from an exploratory study in Ireland and the UK. *Journal of Business Ethics*, 86(2), 177-198.
- Edwards, J. R., & Lambert, L. S. (2007). Methods for integrating moderation and mediation: a general analytical framework using moderated path analysis. *Psychological methods*, 12(1), 1.
- Excise Act (1976). Laws of Malaysia. Kuala Lumpur: MPH Publications.
- Franzoni, L. A. (2008). Tax compliance. *Encyclopedia of Law and Economics*, Boudewijn Bouckaert and Gerrit De Geest, eds., Edward Elgar.
- Giles, D. E., Tedds, L. M., & Werkneh, G. (2002). The Canadian underground and measured economies: Granger causality results. *Applied Economics*, 34(18), 2347-2352.
- Gilligan, G., & Richardson, G. (2005). Perceptions of tax fairness and tax compliance in Australia and Hong Kong-a preliminary study. *Journal of financial crime*, 12(4), 331-343.

- Grasmick, H. G., & Scott, W. J. (1982). Tax evasion and mechanisms of social control: A comparison with grand and petty theft. *Journal of Economic Psychology*, 2(3), 213-230.
- Hai, O. T., & See, L. M. (2011a). Behavioral intention of tax non-compliance among sole-proprietors in Malaysia. *International Journal of Business and Social Science*, 2(6), 142-152.
- Hai, O. T., & See, L. M. (2011b). Intention of Tax Non-Compliance-Examine the Gaps. *International Journal of Business and Social Science*, 2(7), 79-83.
- Hanno, D. M., & Violette, G. R. (1996). An analysis of moral and social influences on taxpayer behavior. *Behavioral Research in Accounting*, 8, 57-75.
- Hite, P. A., & McGill, G. A. (1992). An examination of taxpayer preference for aggressive tax advice. *National Tax Journal*, 389-403.
- James, S., & Alley, C. (2002). Tax compliance, self-assessment and tax administration.
- Kasipillai, J., Aripin, N., & Amran, N. A. (2003). The influence of education on tax avoidance and tax evasion. *eJournal of Tax Research*, 1(2), 134-146.
- Kastlunger, B., Lozza, E., Kirchler, E., & Schabmann, A. (2013). Powerful authorities and trusting citizens: The Slippery Slope Framework and tax compliance in Italy. *Journal of Economic Psychology*, 34, 36-45.
- Kinsey, K. A. (1988). Theories and models of tax cheating: American Bar Foundation.
- Kirchler, E., Muehlbacher, S., Kastlunger, B., & Wahl, I. (2007). Why pay taxes? A review of tax compliance decisions. *International Studies Program Working Paper*, 7, 30.
- Lindley, P., & Walker, S. N. (1993). Theoretical and methodological differentiation of moderation and mediation. *Nursing Research*, 42(5), 276-279.
- Maciejovsky, B., Schwarzenberger, H., & Kirchler, E. (2012). Rationality versus emotions: The case of tax ethics and compliance. *Journal of Business Ethics*, 109(3), 339-350.
- Mason, R., & Calvin, L. D. (1978). Study of Admitted Income Tax Evasion, *A. Law & Soc'y Rev.*, 13, 73.
- Miskam, M., Noor, R. M., Omar, N., & Aziz, R. A. (2013). Determinants of Tax Evasion on Imported Vehicles. *Procedia Economics and Finance*, 7, 205-212.
- Murphy, K. (2004). Aggressive tax planning: Differentiating those playing the game from those who don't. *Journal of Economic Psychology*, 25(3), 307-329.
- Nor Aziah, A. (2004). Land Tax Administration and Compliance Attitudes in Malaysia. Thesis Submitted for the Degree of Doctor of Philosophy to the University of Nottingham.
- O'Shaughnessy, D. B. (2014). Tax compliance determinants: A proposed model for cross-country analysis.
- Pommerehne, W. W., Hart, A., & Frey, B. S. (1994). Tax morale, tax evasion and the choice of policy instruments in different political systems. *Public Finance= Finances publiques*, 49(Supplement), 52-69.
- Porcano, T. M. (1984). Distributive justice and tax policy. *Accounting Review*, 619-636.
- Richardson, G. (2006). Determinants of tax evasion: A cross-country investigation. *Journal of International Accounting, Auditing and Taxation*, 15(2), 150-169.
- Saez, E. (2004). Direct or indirect tax instruments for redistribution: short-run versus long-run. *Journal of public economics*, 88(3), 503-518.
- Sekaran, U. (2006). *Research methods for business: A skill building approach*: John Wiley & Sons.
- Skinner, J., & Slemrod, J. (1985). An economic perspective on tax evasion. *National Tax Journal*, 345-353.
- Slemrod, J. (2004). The economics of corporate tax selfishness: National Bureau of Economic Research.
- Spicer, M. W., & Becker, L. A. (1980). Fiscal inequity and tax evasion: An experimental approach. *National Tax Journal*, 171-175.
- Spicer, M. W., & Lundstedt, S. B. (1976). Understanding tax evasion. *Public Finance= Finances publiques*, 31(2), 295-305.
- Stephenson, T. (2007). Do clients share preparers' self-assessment of the extent to which they advocate for their clients? *Accounting Horizons*, 21(4), 411-422.
- Tabandeh, R., Jusoh, M., Nor, N. G. M., & Zaidi, M. A. S. (2013). Causes of Tax Evasion and Their Relative Contribution in Malaysia: An Artificial Neural Network Method Analysis. *Jurnal Ekonomi Malaysia*, 47(1), 99-108.
- Tan, L. M. (2011). Giving advice under ambiguity in a tax setting. *Austl. Tax F.*, 26, 73.
- Tayib, M. B. (1998). The determinants of assessment tax collection: the Malaysian local authority experience. University of Glamorgan.
- Thanasegaran, H., & Shanmugam, B. (2007). International trade-based money laundering: the Malaysian perspective. *Journal of Money Laundering Control*, 10(4), 429-437.
- Torgler, B. (2012). Tax morale, eastern Europe and European enlargement. *Communist and Post-Communist Studies*, 45(1), 11-25.
- Verboon, P., & van Dijke, M. (2011). When do severe sanctions enhance compliance? The role of procedural fairness. *Journal of Economic Psychology*, 32(1), 120-130.