The Moderating Effect of Honesty on Tax Noncompliance Behaviour

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Abstract

Tax noncompliance issues remain debated and the puzzle unsolved. The percentage of noncompliance is still increasing since Malaysia implemented Self-Assessment System (SAS) in 2004 towards individual taxpayers. Previous studies focused more on economic factors of noncompliance, therefore, this report intends to appear at the noneconomic factors. Theory of Virtue Ethics (TVE) used to explain the extended Theory of Planned Behaviour (TPB) in examining the moderating effect of honesty in tax noncompliance behaviour.

1. Introduction

The issuance of tax (non) compliance remains controversial and it is becoming more complex since SAS requires voluntarily willingness from the taxpayers to submit tax returns. The pioneer Deterrence Theory has been applied to look into the issue with an assumption that individuals need to be enforced and punished because they always cheat and being dishonest in making out their tax returns. Nevertheless, it has been criticised due to lack of human behaviour determinants since it heavily relied on enforcement and punishment [1]. Lately, there is a huge attention paid to non-economic factors but one relevant area had not been widely discussed which is taxpayers’ honesty. Despite it has lagged behind, it is useful in guiding taxpayers on how to act rightly and justly. Besides instilling confidence of society towards fairness and integrity of the tax system, the objective of implementing SAS also to increase the degree of compliance [2]. Thus, it is very important to look at each perspective, including noneconomic factors because honesty in paying taxes cannot be explained by relying on punishment approach.

As for Malaysia, the pattern of individual tax collection is growing from 2013 to 2014, with RM24,607.91 million to RM26,654.91 million, but its contribution to direct taxes still in a small increasing percentage, from 19% to 19.9%, which may bring to an issue reflect noncompliance behaviour among individual taxpayers [3, 4]. Statistic shows in Table 1 could be relied in explaining tax noncompliance among individual taxpayers.