

**PROFILING ONLINE AND MANUAL TAX FILERS:
RESULTS FROM AN EXPLORATORY STUDY IN
PENANG, MALAYSIA¹**

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ABSTRACT

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The Malaysian Government has been promoting an Internet tax filing called the e-Filing which was introduced in 2006 as part of its E-government initiative. There has been some public outcry when the government announced that beginning 2007 they will not be sending the income tax forms and that all tax payers have to submit their taxes using this new method. After deliberation, the government has announced that both the system is acceptable and will be continued in the coming year. Although the Internet tax filing is a much more convenient and economical way of tax filing, not many tax payers have used them in their tax filing in the year 2006. Thus the purpose of this paper is to profile the users and non-users of the e-Filing method. This exploratory study elicited information using a structured questionnaire from 100 respondents from Penang. The results show not much difference in terms of the demographic profile of the online and manual tax filing except that Chinese respondents formed a bigger proportion of those who filed their taxes online compared to the other races. There were no significant differences in terms of sex, age, marital status, education level, occupation, income and some Internet usage statistics. One of the main issue was the 16-digit PIN number that was needed to be obtained directly from the income tax office was one of the barriers to many respondents. E-filers had less concern in terms of the risk as compared to the manual filers. Some recommendations are forwarded for the policy makers.

Keywords: *Tax filing, e-Filing, profile, perceived risk, exploratory study*

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1. Introduction

The Malaysian government has been strongly promoting the Multimedia Super Corridor (MSC) to accelerate the objectives of Vision 2020 (to transform Malaysia into a knowledge-based society), a path has already been defined through seven innovative Flagship Applications. These applications are engineered to jump start the MSC Malaysia initiative and create a multimedia utopia for innovative producers and users of multimedia technology. Consortia of both local and foreign companies work with various government agencies to enhance the socio-economic development of Malaysia. The Multimedia Super Corridor offers a Malaysian initiative for the Information Age. The Flagship Applications are (MSC Malaysia, 2006):

1. Electronic Government;
2. Multipurpose Card;
3. Smart School;
4. Telehealth;
5. R & D Cluster;
6. E-business; and
7. Technopreneur Development.

As you can see, e-government is one of the flagships that have been promoted by the government to enhance the services provided. Starting in 2006, Malaysian citizens are able to choose from two methods of tax-filing: manual and the Internet based or e-Filing. This is the first year the Inland Revenue Board (IRB) Malaysia introduced the use of online tax return filing. The web page for the e-Filing is presented in Figure 1 (IRB, 2008).

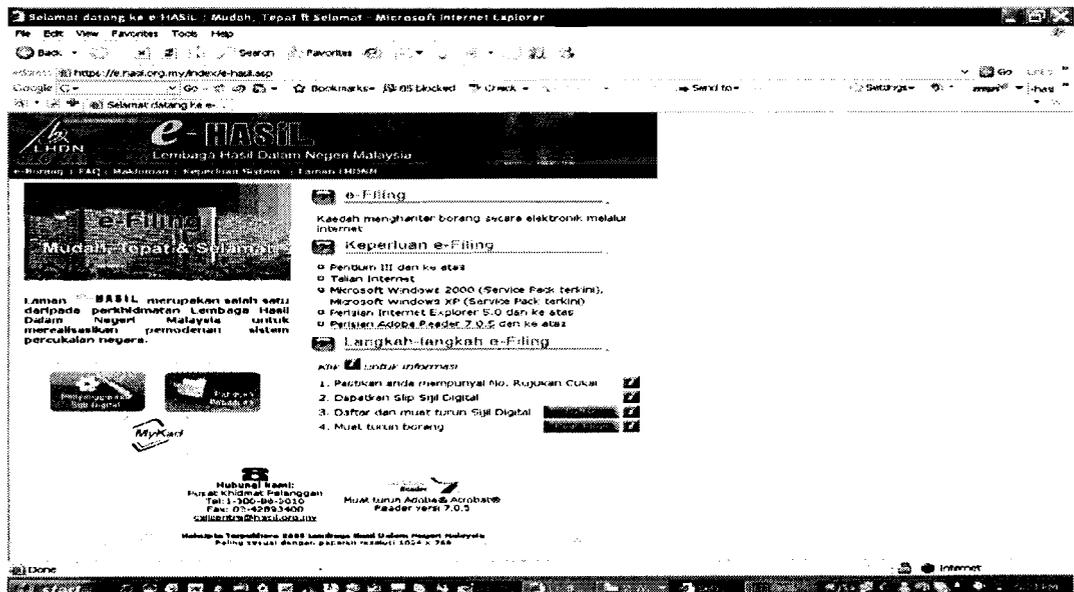


Figure 1: The e-Filing website

2. Why is e-Filing important?

The data from Table 1 indicates that the IRB department has to handle approximately 10 million employed citizens' tax returns yearly. The Star (2006) states that 120,000 tax returns were done thru e-Filing in 2006, representing about 1.2% of the population of the tax payers. The number of tax payers is expected to steadily rise. The predicted number of the population that is expected to be within the age group of 25-55 year of age in 2010 is expected to rise to 12 million based on the data from Figure 2. Unofficial sources have put the cost saving of processing each tax return form at RM10.00. This leads to a potential cost saving of close to RM100 million in 2010.

Table 1: Malaysia employment statistics

<i>Employment</i>	<i>2005 1st quarter</i>	<i>2005 2nd quarter</i>	<i>2005 3rd quarter</i>	<i>2005 4th quarter</i>
Total labor force ('000)	10,307.3	10,541.7	10,498.6	10,398.3
Employed ('000)	9,943.8	10,215.6	10,101.0	9,998.1

Source: Department of Statistics, Malaysia

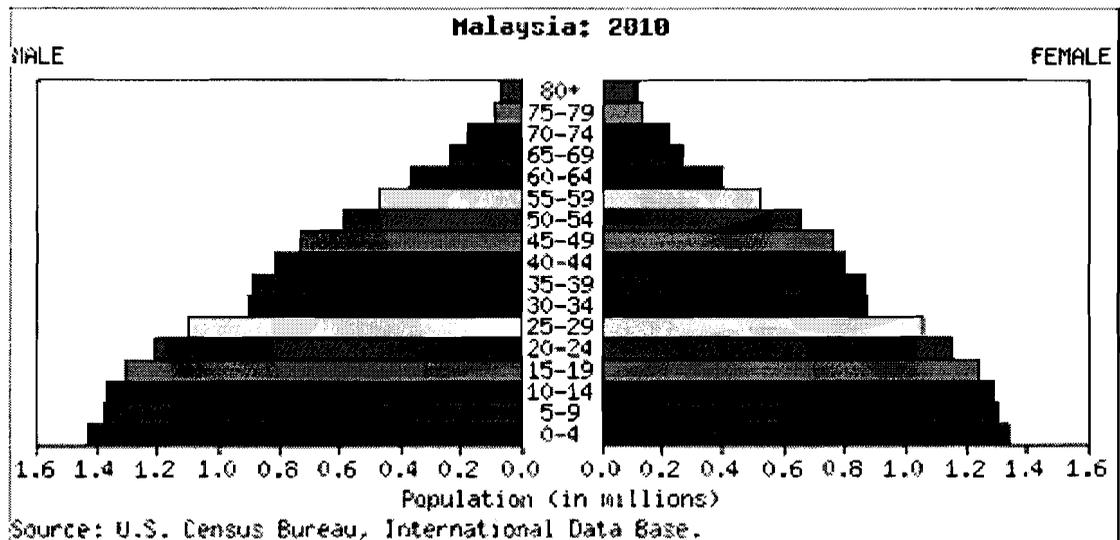


Figure 2: Predicted population in Malaysia 2010

The benefits of cost savings that can be realized from e-Filing in the long run would be beneficial to the government in view of the increased number of youths that will join Malaysian workforce in the next 5 years. This information can be clearly seen from the projected population in 2010 in Table 2. As has been shown earlier only about 1.2% of the tax payers paid using the e-Filing in 2006 as such it would be useful to see who are the people who are paying online and who are not. This will in turn help in designing strategies to educate and encourage those who are still suspicious of this new method.

3. Methodology

The population of this study is individuals who are tax payers' in Malaysia. As it would be impossible to get a list of all tax payers and it would be very difficult and time consuming to conduct the survey nationwide we decided to only sample taxpayers in Penang. As this is an exploratory study, we used a non-probability purposive sampling method. A self-administered structured questionnaire was used to gather the data. A total of 100 responses were used for the purpose of the analysis.

4. Results of the study

Table 2 shows the profile of the respondents partitioned by whether they paid tax online or manually in the year 2006. This will give us a general idea of who is paying using the e-Filing and those who are not.

As can be clearly seen here, the e-Filers are predominantly female, aged 30-55 years old, married, Chinese, with a bachelor's or master's degree, earning more than RM 3000 per month and working in the private sector. They also access the Internet very regularly, which is a few times a week.

One surprising findings was that there were no significant differences in the proportion of manual and e-Filers in terms of computer and network facilities available at home and at work. Thus access is not a problem as this sample clearly shows.

Table 2: Profile of respondents

<i>Demographic elements</i>	<i>Manual</i>		<i>E-filers</i>	
	<i>Frequency</i>	<i>Percentage</i>	<i>Frequency</i>	<i>Percentage</i>
Gender:				
Male	47	54.00	5	38.46
Female	40	46.00	8	61.54
Age:				
18 – 29 years	24	27.59	2	15.38
30 – 55 years	62	71.26	11	84.62
Above 55 years	1	1.15	0	0.00
Marital status:				
Single	26	29.89	2	15.38
Married	61	70.11	11	84.62
Race:				
Malay	18	20.69	2	15.38
Chinese	27	31.03	8	61.54
Indian	42	48.28	2	15.38
Others	0	0.00	1	7.69
Education level:				
Secondary and below	6	6.89	2	15.38
Diploma	16	18.39	0	0.00
Professional	7	8.05	1	7.69
Bachelors	45	51.72	6	46.15
Masters and above	13	14.94	4	30.77
Work sector:				

Government	21	24.70	1	7.69
Private	64	75.30	12	92.31
Monthly income:				
RM 1000 – RM 2000	13	14.94	3	23.08
RM 2001 – RM 3000	24	27.59	0	0.00
RM 3001 – RM 4000	16	18.39	5	38.46
Above RM 4000	34	39.08	5	38.46
Internet use:				
Never	5	5.75	0	0.00
Less than once a month	8	9.19	1	7.69
Once a month	1	1.15	0	0.00
Once a week	5	5.75	0	0.00
Few times a week	68	78.16	12	92.31
Computer and network facilities at home:				
Have no computer	2	2.29	2	15.38
Have computer but no Internet connection	17	19.54	2	15.38
Dial up	33	37.93	3	23.08
Broadband	35	40.23	6	46.15
Computer and network facilities at work:				
Have no computer	1	1.15	0	0.00
Have computer but no Internet connection	10	11.49	1	7.69
Dial up	10	11.49	3	23.08
LAN	33	37.93	3	23.08
Broadband	33	37.93	6	46.15

Table 3 shows the t-test that was conducted to see whether there were significant differences in the perceptions of security and privacy amongst those who filed their taxes using the e-Filing system and those who use the manual system. It can be clearly seen that the manual filers had more concerns about security and privacy as compared to those who filed their taxes online.

Table 3: Security and privacy concern

Security and privacy concern	Manual	E-filers	t-value
It is hard for my private tax information to remain confidential with e-Filing.	3.28	2.77	1.992*
Privacy is not well maintained with e-Filing system.	3.31	2.38	4.286**
Unauthorized parties could monitor my e-Filing activities.	3.45	2.69	3.189**
My private information and tax-filing information could be logged by unauthorized parties and subsequently disclosed without my consent.	3.44	2.62	3.169**

Note: *Significant at 5% level, **Significant at 1% level

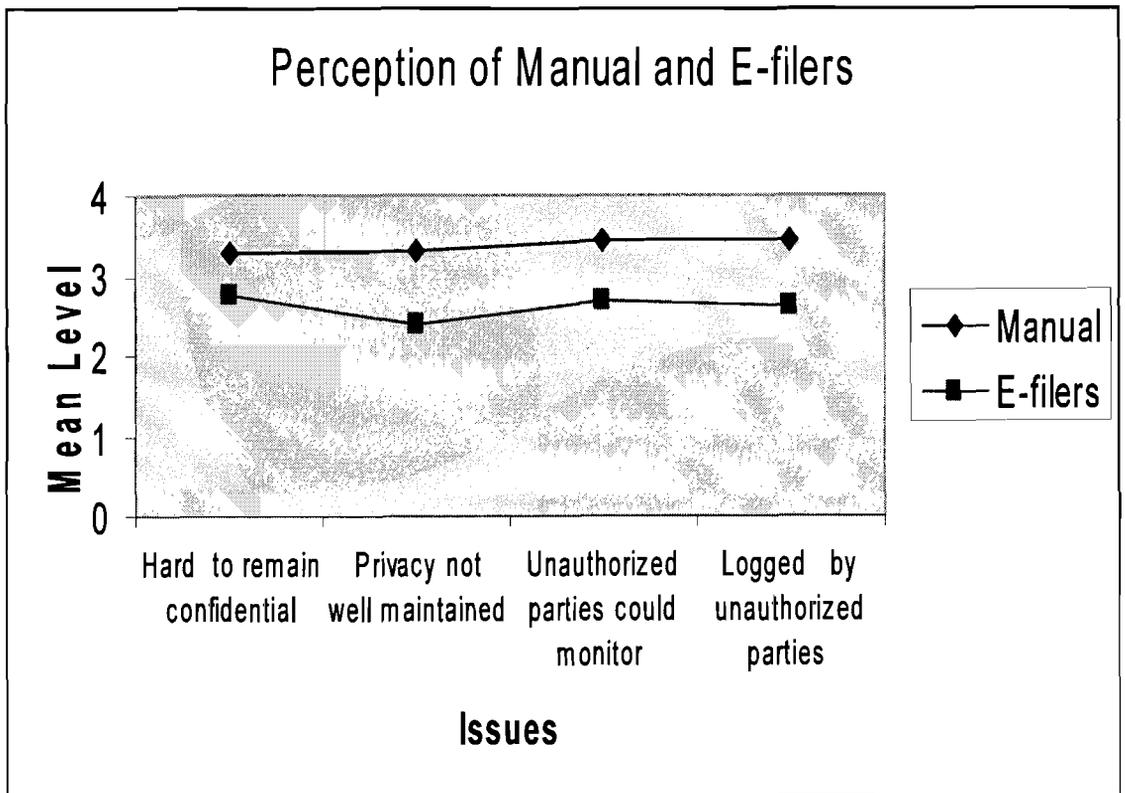


Figure 3: Security and privacy concern among manual and e-filers

The basic barriers that have stopped respondents from using e-Filing in the year 2006 according to this sample were:

1. About 50% of the respondent stated that having to queue at the Inland Revenue Board (IRB) office to get the 16-digit PIN number was the reason they had put off using e-Filing this year. This process is still very much

- manual;
- 2. Not having a step by step explanation on how to use e-Filing was also another reason; and
- 3. As indicated by Table 4 manual filers have indicated they were skeptical of the security and privacy of the data submitted through the website.

5. Discussion

As the profile shows that e-Filers are predominantly female, aged 30-55 years old, married, Chinese, with a bachelor's or master's degree, earning more than RM 3000 per month and working in the private sector. They also access the Internet very regularly, which is a few times a week. The government should strategize their advertisements and campaigns towards the group that is not joining the bandwagon.

The groups that should be targeted are as follows:

- Male;
- Malays and Indians;
- Lower education level;
- Single;
- Government sector; and
- Lower income.

As for the 16-digit PIN number that was needed to be obtained directly from the income tax office being one of the barriers to many respondents, the government has already taken steps to counter this issue. Earlier the tax payer had to pay RM19.90 to get the 16-digit PIN number and they had to go personally to the IRB office. Now the PIN can be obtained by anyone as long as there is an Identification Card number given and above all now it is free.

The government has also started road shows to educate the general public about the ease of use and usefulness of the e-Filing. These road shows are usually organized at popular shopping malls all over the country to gather maximum exposure. They have also started organizing road shows at government departments where they distribute the 16-digit PIN numbers for free.

6. Conclusion

There were only 13% who filed their taxes using the e-Filing system in 2006, but as indicated by the respondents, about 63% indicate that they will file their taxes using the e-Filing system in 2007. This is a very good indication that the tax payers have intention to use this new system and it is now up to the relevant authorities to continue with whatever programs necessary to encourage them to actually file their taxes using the e-Filing system in the coming year.

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