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Tax complexities in the Malaysian corporate tax system: minimise to maximise

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Abstract

Purpose – This paper aims to examine areas of tax difficulties encountered by corporate taxpayers in complying with tax obligations under the self-assessment system.

Design/methodology/approach – A two-phase exploratory mixed methods approach was employed. The first phase involves eight focus group interviews with 60 tax auditors from the Inland Revenue Board of Malaysia (IRBM) and the second phase adopts a mixed-mode survey among selected Malaysian corporate taxpayers. Thematic analysis and descriptive and inferential analysis were used to examine the qualitative and quantitative data in achieving the objective.

Findings – Three dimensions of tax complexity encountered by corporate taxpayers were tax computations, record keeping and tax ambiguity. The first two complexity dimensions were faced largely by smaller companies. On the other hand, the least difficult tax-related areas were dealing with tax agents, submitting tax returns within the given time and dealing with the tax authority.

Practical implications – In a tax policy context, this study enables international tax authorities in general, and Malaysian tax authority in particular, to have greater confidence in developing and administering tax laws and policies to maintain and/or increase the overall level of corporate tax compliance.

Originality/value – Unlike prior studies that mainly used individual taxpayers or students as research participants, this study employed corporate tax auditors from the tax authority and corporate tax officers. Tax auditors and corporate taxpayers provide invaluable insights into the possible determinants of compliance variables. These insights are based on their practical experience in handling corporate tax audits and managing corporate tax matters, respectively.

Keywords Malaysia, Taxation, Corporation, Corporate taxpayers, Tax complexity

Paper type Research paper

Introduction

Tax compliance has always been an area of concern to policy makers, tax administrators and society in general. This is mainly because tax compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals (Tan and Sawyer, 2003, p. 1). Measures to improve compliance include providing excellent taxpayer services that generate better long-term outcomes such as higher tax collection and a reduction in the tax gap. The aim of tax reform in many countries is to achieve higher voluntary compliance and one way to achieve this is by introducing a self-assessment system (SAS).

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The implementation of the SAS in many countries is mainly driven by three objectives, namely improving the level of voluntary compliance, reducing administrative costs and simplifying the assessment system. The crucial objective of the SAS is to improve voluntary compliance, i.e. compliance with tax requirements in the absence of an enforcement mechanism (Kasipillai and Hanefah, 2000, p. 112). For example, both Canada and the USA have emphasized voluntary compliance as the most essential part of their tax system since the implementation of SAS (Che Ayub, 1994).

Self-assessment can be defined as "[...] the administration of the tax regime where the assessment of a taxpayer's tax liability is based largely on information provided voluntarily by the taxpayer" (Marshall *et al.*, 1997, p. 9). Alternatively, the system is viewed as depending on the taxpayer's honesty in filing annual tax returns and declaring income, adjustments, exemptions and deductions, to arrive at the tax liability (Martinez-Vazquez *et al.*, 1992, p. 153). Sarker (2003, p. 8) concludes that the basic feature of the SAS is that the responsibility for assessing tax liability lies with the taxpayer, rather than the tax authority.

The SAS places considerable responsibilities on taxpayers, such as record keeping, in which they are subjected to sanctions if they do not meet the requirements. However, many taxpayers are unaware of their responsibilities, specifically in ensuring accurate returns and the consequences of submitting incorrect returns (Treasury of Australian Government, 2004, p. 72). Therefore, issues concerning taxpayer competency, honesty, capability and readiness are essential (Palil, 2010, p. 6). Taxpayer knowledge is crucial, as an insufficient level of tax knowledge may result in inaccurate tax returns and consequently, unintentional non-compliance (McKerchar, 1995, p. 40).

Therefore, tax simplicity is one of key success factors in improving tax compliance under the SAS environment. The assumption is that taxpayers may comply should they find the system easy and simple to follow. In contrast, if a tax system is complex, it may confuse taxpayers or deter them from complying, intentionally or unintentionally (Loo *et al.*, 2005, p. 710). In identifying measures to simplify the tax system, many researchers analyse areas that taxpayers find too difficult (or complex) to comply with, and suggest mechanisms to overcome such difficulties. Rulings and guidelines to provide greater consistency and more certainty with less ambiguity should also help reduce complexity.

In Malaysia, the SAS has been implemented for all companies for more than a decade. The system necessitates corporate taxpayers to declare and calculate accurate sources of income, estimate income tax payable, keep records for audit purposes, and comprehend other income tax legislations. Nevertheless, there seems to be a dearth of information pertaining to corporate taxpayers' experiences in dealing with such requirements. This paper examines areas of tax difficulties encountered by Malaysian corporate taxpayers in complying with tax obligations under the SAS.

This paper is divided into five main parts. Following the introduction is a review of key literature and discussion on research methodology employed for the purpose of this study. Findings from focus group interviews and mixed-mode surveys are then presented. The paper concludes with some policy implications, significance, and limitations of the study as well as suggestions for future research.

Literature review

Tax simplicity appears to be a desirable feature of a tax system. A simpler tax system reflects a reduction in complexity and is identified as one of the variables that affect tax compliance (Jackson and Milliron, 1986, pp. 186-188). In many previous studies, wherever a taxpayer indicated that they had experience difficulty in complying, it was interpreted as a situation where complexity had been encountered. For example, an early study has shown that complicated tax returns, feelings of uncertainty and demands for legal completeness are some of the tax complexities experienced by many taxpayers that subsequently deter them from complying (Vogel, 1974, pp. 512-513). It is argued that a simple tax system that consist predictable, clearly communicated and consistent rules that are well integrated with other tax rules may consequently increases compliance (McKerchar, 2002b, p. 24).

Findings from studies on tax complexity facilitate the tax authority to design a system "[. . .] with a trade-off between the basic principles of equity, fairness, efficiency and simplicity that best fitted, given the purpose of taxation" (McKerchar, 2002b, pp. 26-27). A number of studies on tax complexity have been conducted by various researchers such as Long and Swingen (1987), Pope (1990) and James and Wallschutzky (1997). These studies aim to assist the tax authorities in simplifying the tax system by identifying areas where taxpayers experience difficulty with compliance.

Long and Swingen (1987, p. 25) first identified six dimensions of tax complexity:

(1) ambiguity (uncertainties in tax laws that lead to more than one defensible position);
(2) computations (difficult computations that need to be made);
(3) changes (frequent or recent changes in law);
(4) detail (numerous rules and exceptions to rules);
(5) record-keeping (detailed special records must be kept); and
(6) forms (format or instructions for forms are confusing).

Although these six dimensions of complexity are based on the expert judgments of tax professionals and not those of taxpayers, they provide a reliable and valid measurement of complexity that can be utilised in future studies. A subsequent study conducted by Long and Swingen (1988) demonstrates that the particular dimension of complexity has an impact on the tax complexity measurement, and further suggests that greater complexity increases non-compliance. Tax complexity may also be classified into legal simplicity (i.e. readability and comprehensibility of the tax law) and effective simplicity (i.e. ability to determine tax liability correctly) (Evans and Tran-Nam, 2010, p. 249).

It is also found that tax complexity results in unintentional non-compliance. The unintentional compliance arises when a taxpayer had formed the intention to be compliant, but had been noncompliant as a result of the complexity of the income tax system. Using a multi-paradigm research method, McKerchar (2002b) concludes that both unintentional and intentional non-compliance could be minimized by reducing tax complexity. More recently, Richardson (2005) conducted an ordinary least squares (OLS) regression analysis, examining the impact of ten compliance variables, based on data from 45 countries. He found that complexity is the most important determinant of tax evasion across countries, and that tax compliance is low in countries with a complex tax system.

The issue of tax complexity and associated tax compliance costs has been widely debated and researched since the mid-1980s (Sandford *et al.*, 1989; Vaillancourt, 1989; Pope, 1993; Tran-Nam *et al.*, 2000; Evans, 2003). Compliance costs are costs incurred by taxpayers, in addition to their tax liability, in conforming to the tax requirements (Sandford *et al.*, 1989, p. 10). Results of many of these studies suggest that tax complexity increases compliance costs. In addition, compliance costs are confirmed to be regressive in nature. Small firms are considered the hardest hit by tax compliance requirements as large firms enjoy economies of scale. The major policy implication of these studies is that tax authorities should address the issues of complexity in order to alleviate the tax burden (Tan, 1997, p. 339).

Research approach

Research employing mixed methods approach has become increasingly common in recent years and has come to be seen as a distinctive research approach in its own right (Bryman, 2006, p. 97). The mixed method researchers view the world as complex and therefore it cannot be simply understood by using only one approach. The central premise of the mixed method approach is that the use of qualitative and quantitative approaches in combination provides a better understanding of research problems than either approach alone. The use of mixed methods design in taxation research is particularly supported by Torgler (2007, p. 52) and McKerchar (2008, p. 20, 2010). The use of mixed method allows the strengths and weaknesses of the qualitative and the quantitative methods to complement one another and enable the researcher to understand the phenomenon under study better (Creswell and Plano Clark, 2007).

As little information is known on corporate taxpayers' experience in dealing with tax obligations, an exploratory design is deemed appropriate. Although it is possible to use a quantitative approach, exploratory research relies heavily on qualitative techniques (Hair *et al.*, 2007, p. 154). Moreover, in transcending the boundaries of understanding the complexities of social experience, such as tax compliance, Mason (2006) proposes the use of a qualitative approach as a starting point (rather than a definitive framework as used in a quantitative study).

However, the qualitative data is only an initial exploration to identify areas of tax-related difficulties, constructs and taxonomies for quantitative studies. Greene and Caracelli (1997) argue that the mixed method:

> [. . .] seeks to use the results from one method to help develop or inform the other method, where development is broadly construed to include sampling and implementation, as well as measurement decisions.

For example, a survey instrument needs to be developed based on the qualitative data (Bryman, 2006, p. 106). Therefore, a two-phase exploratory mixed method is employed in the current study, in which qualitative approach is conducted first followed by quantitative approach.

The purpose of this two-phase exploratory mixed method study is to explore participants' views of areas of tax difficulties encountered by corporate taxpayers with the intent of using this information to develop a survey instrument with corporate taxpayers. The reasons for collecting qualitative data initially are that information on Malaysian corporate taxpayers' difficulties in meeting tax obligations is limited and there is no suitable existing survey instrument to assess these difficulties. Using data from the qualitative investigation, a survey instrument is designed.

Research participants

First phase – focus group interviews

In the first phase, a qualitative methodology in the form of eight focus group interviews was adopted involving 60 corporate tax auditors from the Inland Revenue Board of Malaysia (IRBM). In discharging their audit activities, tax auditors face a range of challenges and take up the best available opportunities to handle these while, simultaneously, attempting to undertake their jobs effectively. Drawing information from their daily experience conducting tax audits on corporate taxpayers, tax auditors' perceptions on the areas of tax-related difficulties encountered by corporate taxpayers are identified. Summary of focus group participants is shown in Table I.

The distribution of participant ages indicates that 15 percent were below 30 years, 38 percent were between 30 and 40 years and 47 percent were older than 41 years old. However, only 30 percent of the participants had six or more years of audit experience in the IRBM, with the remainder less than six years. Most of the tax auditors with six or less years' experience had a degree in accounting and most were newly employed by the IRBM to meet the need for additional audit resources. The age distribution and length of service with the IRBM of the focus group participants is shown in Table II.

Focus group session	Number of participants	Field audit	Desk audit	Gender
Seremban (in the State of Negeri Sembilan)	5	2	3	2 males, 3 females
Johor Bahru (in the State of Johor)	10	10	0	5 males, 5 females
Penang	8	8	0	6 males, 2 females
Kuantan (in the State of Pahang)	8	4	4	4 males, 4 females
Kuala Lumpur (large corporation)	6	6	0	6 females
Kuala Lumpur (specialised industries)	8	8	0	1 male, 7 females
Kuala Lumpur (SMEs)	7	7	0	2 males, 5 females
Kuala Lumpur (desk audit)	8	0	8	8 females
Total	60	45	15	20 males, 40 females

Source: Author

Table I.
Key profiles of focus group participants

Focus group participants	Number of participants	Percentage
Age		
Below 30 years old	9	15.0
30-40 years old	23	38.0
More than 40 years old	28	47.0
Total	60	100.0
Length of service with the IRBM		
Less than six years	41	70.0
Six years or more	19	30.0
Total	60	100.0

Source: Author

Table II.
Distribution of focus group participants

Second phase – mixed-mode surveys

The objectives of this quantitative study are to provide additional support to findings from qualitative investigations and to examine corporate taxpayers' opinions on areas of tax difficulties encountered by them. This quantitative study allowed the researcher to understand distinct corporate taxpayers' difficulties based on different business characteristics.

Acknowledging low response rates from surveys as identified in earlier studies (Salant and Dillman, 1994; De Vaus, 2002; Royse, 2011), a mixed-mode design was employed. The mixed-mode design refers to using several methods in collecting survey data. There are many forms of mixed-mode design such as design that focus on data collection and its objectives (Dillman, 2007) and timing of interaction with respondents (De Leeuw *et al.*, 2008). The essence of the mixed-mode survey is that reliance on only one survey mode does not provide assurance in reaching or eliciting responses from most of the sampled respondents. The use of a mixed-mode survey facilitated the researcher in improving the overall response rate and extending the coverage of respondents that was not included in other methods. Each mode was used in a way and to the extent that it was most cost-effective. In this study, three modes of sampling method were used namely random stratified, snow balling and convenience sampling.

Overall, 2,876 surveys were distributed by the researcher using three sampling methods: stratified random, snowball and random sampling. After a considerable effort in questionnaire distribution, 145 usable responses were finally collected for this study, giving an overall response rate of 5.04 percent. The response rate for this study was considered low as compared to other survey studies conducted in Malaysia (Che Ayub, 1994; Sia, 2008; Abdul-Jabbar, 2009).

As the study is probably among the first of its kind in Malaysia and possibly worldwide, the low response rate did not preclude the researcher carrying out the analysis. In the current study, with 145 usable responses, the researcher was able to conduct several descriptive and inferential analyses to achieve the research objectives. Fowler (1993, pp. 30-33) demonstrates that a random sample of 150 respondents would describe a population of 15,000 or 15 million with virtually the same degree of accuracy. A summary of the sampling and distribution methods is shown in Table III.

The survey respondents comprising of 43 percent of companies that have been in business for ten years or below, 25 percent between 11 and 20 years and the remaining 32 percent have been in business for more than 20 years. This indicates that most companies may have tax-related experience. In terms of distribution by industry, the highest response is from trading/retailing (30 percent), followed by services (22 percent), manufacturing (11 percent) and property/construction (9 percent).

The number of employees and annual sales turnover are utilized in determining the size of a company. Small companies with less than 51 employees represent 52 percent of respondents. However, the percentage of small companies with an annual turnover of RM5 million and below is smaller (38 percent). Large companies with more than 1,000 employees and annual turnover of over RM500 million represent more than 25 percent of respondents. Almost 80 percent of companies use tax agents and the distribution of respondents is almost equivalent for companies that have audit experience (49 percent) and companies that do not have audit experience (51 percent). The business characteristics of all respondents are presented in Table IV.

Sampling method	Sampling distribution
Stratified random	2,336 postal surveys to tax agents Tax agents were requested to distribute the surveys to their corporate clients (preferably with audit experience) Usable responses: 59 Response rate = 2.5 percent (59/2,336)
Snowball	40 surveys were emailed via personal networking Recipients to complete/forward to their other contacts Usable responses: 71 Response rate = 77.5 percent (71/40)
Random	500 surveys were hand delivered to the National Tax Conference delegates Usable responses: 15 Response rate = 3.0 percent (15/500)
Overall	Total surveys distributed to potential respondents = 2,876 Total usable responses = 145 Overall response rate = 5.0 percent (145/2,876)

Source: Author

Table III. Sampling and distribution method

Findings from focus group

Tax complexity is identified as an important variable that influences compliance behaviour and it may be at the root of non-compliance among corporate taxpayers in Malaysia (Abdul-Jabbar, 2009). Although, Long and Swingen (1987, p. 25) identified six dimensions of tax complexity[1], this study discovered only three dimensions of tax complexity mainly encountered by many Malaysian corporate taxpayers: tax computations, record keeping and tax ambiguity.

First, it is noted that many corporate taxpayers experience difficulty preparing tax computations. In many instances, corporate taxpayers are capable of preparing their financial reports based on the accounting standard, but not able to prepare tax computations based on the tax laws. For example, the financial reports of insurance providers are highly regulated by the Central Bank of Malaysia (Bank Negara Malaysia) and comply with the internal and external auditor requirements. However, when tax computations prepared by these insurance providers are audited by tax auditors, many are found to be non-compliant with the tax laws. A likely reason for non-compliance is that taxpayers finding tax computation difficult to prepare as it requires considerable understanding of the tax rules and exceptions to the rules. The difficulty in understanding tax rules may also discourage them from acquiring the relevant tax knowledge and result in a continuous non-compliance reporting cycle.

Second, many corporate taxpayers have difficulty in maintaining records and documents. Although supporting documents are not required when submitting income tax return forms, taxpayers are required to keep in safe custody sufficient records and documentation for seven years. However, many taxpayers are not able to produce supporting documents during an audit for several reasons such as business practice and missing documents. As a large proportion of small and medium sized taxpayers (such as contractors, developers, sundry shops and restaurants) in Malaysia are cash traders, cash receipts or invoices are not issued on most business transactions. There are also a few cases

	No. of companies	Percentage
Business length		
10 years or less	59	40.7
11-20 years	35	24.1
More than 20 years	45	31.1
Not mentioned	6	4.1
Business industry		
Manufacturing	16	11.0
Trading/retailing	43	29.7
Financial/insurance	8	5.5
Property/construction	13	9.0
Plantation/agriculture	9	6.2
Services	32	22.1
Oil and gas	12	8.3
Others	11	7.6
Not mentioned	1	0.6
Number of staff		
50 or less	75	51.7
51-1,000	33	22.8
1,001 or more	37	25.5
Annual sales turnover		
Below RM5 million	55	38.0
RM5 million to RM499,999,999	50	34.5
RM500 million or more	39	26.9
Not mentioned	1	0.6
Use of tax agent		
Yes	114	78.6
No	31	21.4
Audit experience		
Yes	74	51.0
No	71	49.0
Use of tax agent		
Yes	114	78.6
No	31	21.4

Note: The number of respondents equals 145

Table IV. Business characteristics of responding companies

of missing documents and reasons given for this by taxpayers include: documents destroyed in fire, lost in flood, eaten by termites and lost/misplaced during office relocation.

In addition, many corporate taxpayers do not maintain proper accounting records that are needed for audit examination. In other instances, although accounting records are properly kept, preparation of the accounts is not standardised across different types of industries. Each company has its own unique way of recording its business transactions and there are several computerised accounting systems employed by corporate taxpayers. Tax auditors have to spend time learning and comprehending the accounting treatments for every transaction before audits can be performed.

Third, ambiguity of tax laws results in different interpretations of the tax laws. The issue of ambiguity is commonly raised by corporate taxpayers in the financial/insurance and contractor/developer industries. In attempting to reduce tax ambiguity, the IRBM issued special provisions and general guidelines in May and July 2009 for the two groups, respectively, (IRBM, 2009). Although these guidelines contain helpful guiding principles with clear and detailed explanations, there are no specific regulations applicable to the respective groups of taxpayers. Consequently, this invites different interpretations of the terms and this can lead to unintentional and/or intentional non-compliance.

Findings from surveys

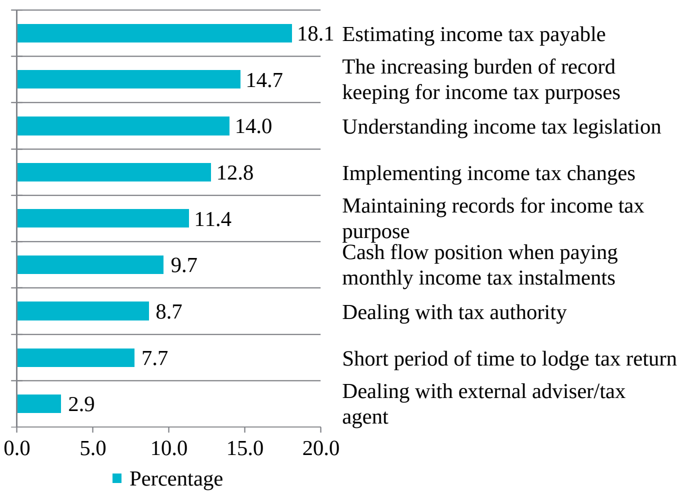
In the second phase, the authors examined tax-related difficulties, encountered by corporate taxpayers, in meeting their tax obligations under the SAS. There were nine statements relating to tax-related difficulties probably encountered by many corporate taxpayers in complying with corporate income tax obligations. Respondents were asked to identify the statement relevant to them, and were given the option of selecting more than one answer. The following section discusses the results of the survey.

Tax-related difficulties

Survey respondents indicated that the most highly ranked tax-related difficult areas were "Estimating income tax payable" (18 percent), "The increasing burden of record keeping for income tax purposes" (15 percent) and "Understanding income tax legislation" (14 percent). The least ranked difficult areas were "Dealing with external adviser/tax agent" (3 percent), "Short period of time to lodge tax returns" (8 percent) and "Dealing with tax authority" (9 percent). Results are shown in Figure 1.

Tax-related difficulties by business characteristics

The above findings might have been more meaningful if the specific group of taxpayers that were having such difficulties could have been identified. This identification might assist the tax authority to simplify the relevant tax obligations for those specific groups. For this purpose, the highest tax-related difficulties were coded as (1), (2) and (3), with (1) being the highest and (3) being the third ranked tax-related difficulty and difficulties were also measured in line with business characteristics, namely length of time in business, business industry and business size (annual turnover).



Source: Author

Figure 1.
Tax-related difficulties

It was found that companies with difficulties in estimating income tax payable were mainly new companies (whose length of time in business was less than 11 years), small companies (whose turnover was below RM5 million) and companies in the trading/retailing industry.

The second and third ranked tax-related difficulties were also largely experienced by new companies (whose length of time in business was less than 11 years) and companies in the trading/retailing industry. Unexpectedly, medium-sized companies (whose turnover was between RM5 million and RM499,999,999) were found to have more difficulty with "The increasing burden of record keeping for income tax purposes" and "Understanding income tax legislation" compared with smaller and larger companies. Results of this analysis are shown in Table V.

Overall results

Tax complexity was identified by tax auditors as one of the major compliance variables among corporate taxpayers. From the focus group interviews, three dimensions of tax complexity primarily encountered by corporate taxpayers were tax computations, record keeping and tax ambiguity. The first two complexity dimensions were faced largely by smaller companies.

Business characteristics	Estimating income tax payable ($n = 75$) (1)	The increasing burden of record keeping for income tax purpose ($n = 61$) (2)	Understanding income tax legislation ($n = 58$) (3)
Length of time in business (years in operation)			
10 years or less	49.3% (36)	46.6% (27)	50.0% (29)
11-20 years	24.7% (18)	27.6% (16)	22.4% (13)
More than 20 years	26.0% (19)	25.9% (15)	27.6% (16)
Not mentioned	2.7% (2)	–	–
Total	100.0% (75)	100.0% (61)	100.0% (58)
Business industry			
Manufacturing	13.3% (10)	9.8% (6)	12.1% (7)
Trading/retailing	36.0% (27)	34.4% (21)	36.2% (21)
Financial/insurance	5.3% (4)	1.6% (1)	3.4% (2)
Property/construction	9.3% (7)	11.5% (7)	6.9% (4)
Plantation/agriculture	1.4% (1)	9.8% (6)	6.9% (4)
Services	22.7% (17)	23.0% (14)	25.9% (15)
Oil and gas	9.3% (7)	6.6% (4)	5.2% (3)
Others	2.7% (2)	3.3% (2)	3.4% (2)
Total	100.0% (75)	100.0% (61)	100.0% (58)
Annual turnover			
Below RM5 million	46.7% (35)	34.4% (21)	32.8% (19)
RM5 million to RM499,999,999	36.0% (27)	41.0% (25)	44.8% (26)
RM500 million or more	17.3% (13)	23.0% (14)	20.7% (12)
Not mentioned	–	1.6% (1)	1.7% (1)
Total	100.0% (75)	100.0% (61)	100.0% (58)

Notes: Total responses exceeded 145 as each respondent was allowed to select more than one aspect; the number of responses is given in parentheses

Table V.
Tax-related difficulties by business characteristics

First, preparation of tax computations was found to be difficult for many corporate taxpayers, probably due to preparation requiring substantial tax knowledge. Second, corporate taxpayers often had difficulty in keeping their business records and documents and often did not maintain the proper accounting records that were needed for audit examination. Even when accounting records are properly kept, preparation of accounts is not standardised across different types of industries. Most companies have their own way of recording their business transactions and there are various computerised accounting systems employed by corporate taxpayers. Finally, the ambiguity of tax laws was a common issue raised by many corporate taxpayers, especially those in the financial/insurance and property/construction industries. The issue of ambiguity consequently results in different interpretations of the tax laws.

From the survey questionnaires, three of the most difficult tax-related areas were found to be estimating income tax payable, the increasing burden of record keeping for income tax purposes and understanding income tax legislation. On the other hand, the least difficult tax-related areas were dealing with tax agents, submitting tax returns within the given time and dealing with the tax authority.

For tax complexity dimensions, findings from both focus groups and surveys were similar. Although the survey indicated that the most tax-related difficult area is estimation of income tax payable, this responsibility mainly comprises tax computations and tax procedures. Keeping records for tax purposes was identified as the second most complex issue, followed by an understanding of tax laws (largely associated with the issue of ambiguity).

The findings of the current study conform with three complexity dimensions first identified by Long and Swingen (1987). The findings are also consistent with those of Pope and Abdul-Jabbar (2008) who found that many small corporate taxpayers do not concern themselves with book keeping and tax documentation requirements. These findings also support previous compliance studies that link complexity with tax compliance (Slemrod, 1989; Richardson, 2006).

In terms of tax-related difficult areas identified by corporate taxpayers, the findings of this study are identical to findings made by Abdul-Jabbar (2009, p. 118), except that the earlier study found that "Understanding income tax legislation" was the second tax-related most difficult area followed by "the increasing burden of record keeping for income tax purposes". A likely reason for this is that the difference in time between Abdul-Jabbar's study and the current study is approximately three years. Possibly, within this period, respondents in the current study may have acquired a better understanding of income tax legislation compared to respondents in the earlier study. However, both studies demonstrate that estimating income tax payable is the predominant tax-related difficult area confronted by most corporate taxpayers. Some suggestions to reduce this difficulty are presented in the following section.

Policy implications

In attempting to improve voluntary tax compliance, reducing the tax complexity faced by many corporate taxpayers is paramount. Reducing the taxpayer burden may encourage compliance and may reduce compliance costs (Blackwell, 2000; Butterfield, 2002). Thus, it is recommended that the IRBM give priority to simplifying the preparation of tax computations, standardise procedures for record keeping and formulate clearer tax laws to reduce tax ambiguity.

In reducing the burden on corporate taxpayers of estimating income tax payable, the IRBM could possibly introduce simplified rules as adopted by the Australian Taxation Office (Australia Taxation Office, 2011). First, the IRBM may consider giving corporate taxpayers options in determining the estimated amount of their instalment payments. The estimated amount is determined either:

- by the IRBM based on the taxpayer's previous tax returns; or
- by the taxpayer based on the IRBM's notified rate.

The first option does not require corporate taxpayers to determine how much to pay. It is simple and suitable for small corporate taxpayers with an annual income of less than RM5 million.

On the other hand, the second option benefits corporate taxpayers, as the instalment payments are based on income earned; they help the cash flow management of the company as tax instalment payments are more closely aligned with fluctuations in business income. With both options, corporate taxpayers can vary the instalment payments if the amount or rate notified by the IRBM will result in them paying more (or less) than the expected tax liability. The above two options provide corporate taxpayers with better flexibility in complying with their tax obligations.

Second, the IRBM could consider reducing the frequency of instalment payments. Currently, Malaysian corporate taxpayers pay in 12 monthly instalments and these are payable by the 10th of each month. Any late payments result in a penalty of 10 percent of the instalment amount. In Australia, for example, most companies pay only four (quarterly) instalment payments. Each payment is due on the 28th day after each quarter or in the month(s) specified by the tax authority. A reduction in the frequency of the instalment payments and an extended grace period for the payment (i.e. on the 28th day instead of the 10th day) are more efficient methods and allow taxpayers greater flexibility in managing their cash flow, in comparison to the current monthly arrangements.

In reducing the difficulties of record keeping, an earlier study suggested that the IRBM introduce a standard type of accounting software to be adopted by small corporate taxpayers (Wallschutzky and Singh, 1995, p. 48). This suggestion remains a viable option and if adopted, would make the task of the tax auditors much easier and more efficient as they would be familiar with the system used by taxpayers.

Finally, addressing the issue of ambiguity in tax rules would probably result in a more fair and more correct level of overall compliance and result in lower overall compliance costs (McKerchar, 2002a, p. 21). Making the public rulings and guidelines available would assist in providing greater consistency from and more certainty for taxpayers (Loo *et al.*, 2005, p. 710). Nonetheless, appropriate measures should be taken to ensure that these public rulings and guidelines do not lead corporate taxpayers into a more difficult position than they are already in.

Conclusion

The main objective of the study was to examine areas of tax-related difficulties encountered by Malaysian corporate taxpayer under the SAS. A two-phased mixed methods design was employed. In the first phase, eight focus group interviews with 60 tax auditors from the IRBM were conducted followed by survey questionnaires from a sample of Malaysian corporate taxpayers.

This study found that the issue of tax complexity, particularly tax computation, recordkeeping and tax ambiguity, is still relevant in Malaysia. These complexity issues are mainly experienced by companies with specific business characteristics, namely business size and industry. In reducing any difficulties that corporate taxpayers may have in complying with tax laws, specific measures by the IRBM are probably necessary. For example, the requirements for and procedures in estimating corporate income tax may require substantial review by the relevant authority. Other suggestions that could be taken up include showing greater flexibility in determining the estimated amount of tax payable and reducing the frequency of instalment payments. In addition, it is recommended that standard accounting software be adopted by small companies to assist in maintaining records and help tax auditors facilitate the overall audit process. In short, the IRBM could consider simplifying the preparation of tax computations, standardising the procedures for recordkeeping and formulating clearer tax laws to reduce tax ambiguity in attempting to improve voluntary compliance.

This study has several limitations. Being qualitative in nature, findings from the focus group interviews cannot be generalised to the whole population. This is mainly due to the small number of participants and the likelihood that they are not representative of the wider tax auditor population. In minimising this limitation, the researcher attempted to have the composition of the focus groups as representative as possible. Further, a quantitative study was also conducted to provide additional empirical evidence to support the qualitative findings. Other limitations associated with survey questionnaires namely respondent representativeness, non-response bias and respondents' different interpretations of the questions are inevitable to some degree.

All previous studies using IRBM data were conducted by the staff of the IRBM (Che Ayub, 1994; Abdul, 2001; Sia, 2008). Cooperation of the IRBM in this study indicates that the IRBM has started, to some extent, to allow other researchers besides their staff to use IRBM data. This positive development is a possible motivation for researchers to embark on further research with the IRBM. Continuous support of external tax compliance researchers to undertake or persist with rigorous study is necessary if the IRBM wishes to benefit from research findings in its pursuit of improving taxpayer compliance.

Note

1. The six dimensions of tax complexity are ambiguity, computations, changes, detail, record keeping and forms.

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