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Corporate Tax Audits: Evidence from Malaysia

Khadijah Isa and Jeff Pope¹

Tax audit, a key feature of the self-assessment system (SAS), may have a significant deterrent effect on taxpayers. Previous studies show that the audit experience may influence taxpayers' compliance behaviour. Though the SAS has been implemented on companies in Malaysia since 2001, information on the efficacy of tax audit activities conducted by the Inland Revenue Board (IRB), particularly feedback from audited taxpayers, is very limited. Survey data are collected from corporate taxpayers to examine the extent of their audit experience. Findings from the study are predominantly positive and should be beneficial for policy makers, particularly the tax authority, in their effort to review and improve the current tax system.

Field of Research: taxation, audit, self assessment system, developing countries

1 Introduction

Many countries have adopted a self-assessment system (SAS) including Malaysia. The tax return furnished by the taxpayer is deemed as final and accepted at face value. Tax compliance under the SAS is highly dependent on voluntary compliance, i.e., honesty of the taxpayers in computing their tax payable. Another significant aspect of the SAS is tax audits. Tax audits are an examination of taxpayers' business records and financial affairs to ensure taxpayers have computed their tax payable in accordance with the current tax laws and regulations (Inland Revenue Board, 2009, p.2).

Previous studies show that the tax audit experience may influence taxpayers' compliance behaviour. Though the SAS has been implemented on companies in Malaysia since 2001, information on the efficacy of tax audit activities conducted by the Inland Revenue Board (IRB), particularly feedback from taxpayers, is very limited. The objectives of this study are to examine the extent of corporate taxpayers' perception of their audit experience and to identify whether business characteristics influence their perception.

The paper is structured as follows. The next section reviews the key literature, followed by research methodology in section three. Section four discusses the findings and section five makes some concluding remarks.

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2 Literature Review

Many tax administrations in developed and developing countries such as the US (1940's), Japan (1947), Sri Lanka (1972), Indonesia (1984), Australia (1986-87), New Zealand (1988), and the UK (1996-97) have adopted the SAS. The main objective of the SAS is to improve voluntary compliance (Kasipillai and Hanefah, 2000, p 112). Voluntary compliance refers to compliance to tax requirements without an enforcement mechanism. Tax compliance constitutes; i) submitting a tax return when legally obliged to do so, ii) disclosing all taxable income on the return, iii) making a proper claim for deductions on the tax return, and iv) settling the assessed tax by due dates.

An important aspect of the SAS is the underlying principle that taxpayers are expected to comply with their obligations under the tax law. These obligations entail the calculation of: i) total income, ii) total tax-free income, iii) total taxable income, and iv) tax due (Barr, James and Prest, 1977). For the SAS to succeed, many tax authorities carry out tax education and tax audit programs simultaneously. While tax education programs are vital to improve taxpayers' awareness and understanding of their rights and responsibilities under the SAS as well as improving their confidence in the system (Hanefah, 1998), tax audits are required to encourage voluntary compliance.

Tax audits are implemented by visiting taxpayers' premises or through desk audits at the tax authorities' offices. With audits, the amount of income reported by taxpayers is checked by the tax authority and fines are imposed on taxpayers if they are found to have underpaid their tax (Alm and McKee, 2004). Tax audits perform a number of important roles that, if effectively carried out, can make significant contributions to improve the administration of the tax system. The roles include (Organisation for Economic Cooperation and Development, 2006b, pp 8-9):

- To promote voluntary compliance by taxpayers by reminding them of the risks of non-compliance and by generating confidence in the broader community that serious abuses of tax laws will be detected and appropriately penalised;
- To identify areas of the law that require clarification and areas that cause confusion to large numbers of taxpayers;
- To identify improvements required for record-keeping and, thus, possibly contribute to improved compliance by taxpayers in the future; and
- To represent the "public face" (tax auditors) of a revenue body through their numerous interactions with taxpayers during the audits (Organisation for Economic Cooperation and Development, 2006a, p 5).

Tax audits are key characteristics of the voluntary compliance mechanism in the SAS regime because higher audit rates are expected to increase tax compliance (Allingham and Sandmo, 1972). Tax audits have a specific deterrent effect on those audited taxpayers and, more importantly, audits also have a general deterrent effect on taxpayers not actually audited (Hasseldine, 1993).

The specific deterrent effect of tax audits refers to enhancement of voluntary compliance by ensuring audited taxpayers comply with the provision of the current tax laws and regulations. Moreover, tax audits allow tax auditors to educate

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taxpayers on the application of tax laws, to identify improvements required for record-keeping and to identify areas of tax laws that need clarification (Organisation for Economic Cooperation and Development, 2006b, pp.8-9). However, a survey among business taxpayers in Malaysia shows that more than 50 percent of their respondents seem to have a misconception that tax audits are either aimed to detect tax, to recover more tax or to penalize non-compliance (Choong and Lai, 2008, p.5).

The general deterrent effect of tax audits refers to the additional revenue collection generated from taxpayers who are not actually audited. For instance, Dubin, Graetz and Wilde (1990) found that *"... for every dollar of revenue produced because of taxpayer audits, an additional six dollars of revenue was generated from indirect effects or "ripples" on individuals not actually audited.."* In a more recent study, Dubin (2007) reported a larger indirect effect of tax audit.

Tax auditors also play a critical role in the effectiveness of the SAS in many countries. In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex tax laws and carry out extensive examinations of taxpayers' books and records (Organisation for Economic Cooperation and Development, 2006a, p.5). The numerous roles assigned to tax auditors require a recruitment and maintenance of competent tax auditors with technical knowledge, audit skills and tacit knowledge (McManus, 2006, p.228).

Moreover, the attitudes of tax auditors during the conduct of an audit may affect corporate taxpayers' compliance behaviour. The way in which tax auditors interact with taxpayers during an audit may influence their compliance behaviour in the future. For example, if taxpayers are treated with respect during the audit, taxpayers may have a stronger incentive to comply voluntarily (Isa and Pope, 2010, p.149); arbitrary audit procedures leave taxpayers feeling helpless and thus reduce their intrinsic motivation to comply (Frey, 2003, p.392). Similarly, a responsive and fair administration of the tax audit may positively influence compliance behaviour (Braithwaite, 2007, Smith, 1992). In addition, if taxpayers trust the tax auditors, taxpayers voluntarily comply with audit requirements (Pope and Isa, 2010).

3 Methodology

3.1 Research Method

The main objective of this study is to examine the extent of corporate taxpayers' audit experience. A survey instrument is employed to collect the relevant information from corporate taxpayers who have been audited by the IRB. The survey involved a pre-test and a pilot test before distribution to potential respondents (Hair, Money, Samouel and Page, 2007, p.246). A detailed discussion of the questionnaire was also conducted with audit managers from the IRB who contributed some suggestions and comments.

To reach an adequate number of responses for this study, the questionnaires were distributed to the corporate taxpayers using three sampling methods namely, stratified random, snowball and random sampling. First, a total of 2,400 postal surveys was sent to approximately 700 members of the Chartered Taxation Institute of Malaysia (CTIM) who are tax agents, using a stratified random sampling method. Each tax agent received around five to ten surveys, apportioned according to the

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number of tax agents and the number of field audits conducted in each state. The tax agents who received the surveys were requested to distribute the surveys to their corporate clients, preferably those who have been audited by the IRB. Two reminder notices were sent by the CTIM to all members through its “e-Circular to Members”. Unfortunately, there were only 59 usable surveys received from this method. As the response rate was very low (2.5 percent), a snowball sampling method was later employed.

A snowball sampling method refers to a series of referrals that are made within a circle of people who may know each other (Biernacki and Waldorf, 1981, p.141). Browne (2005, p.49) further suggests several ways to gain initial contact to individuals such as to use a personal network and ask friends and acquaintances to be involved in the study. Approximately 40 surveys were initially sent through email to the first author’s colleagues who are handling tax matters for their companies. Those who received the surveys completed and/or forwarded the survey to their other contacts who are also handling corporate tax matters. Surprisingly, the study received 70 responses from this method, indicating a 175 percent response rate (70/40).

The final attempt carried out by the first researcher was distributing the questionnaires at the National Tax Conference, held on 6th to 7th July 2010 in Kuala Lumpur. Around 500 questionnaires were randomly distributed to conference delegates who are in charge of tax matters in their companies. To improve the response rate, reminders and announcements were made before/after each session during the conference by the conference organiser. Unfortunately, only 15 questionnaires (three percent) were completed and returned at the end of the conference day. After almost nine months of questionnaires’ distribution, 145 usable responses were collected for this study.

3.2 Method of Analysis

The discussion throughout the paper is based on 27 survey statements measured by using a six-point Likert-type scale. The main reason underpinning the choice of this scale is to avoid a central tendency error, which refers to the tendency of respondents to answer using the middle response that is a “Neutral”. The pattern of choosing a neutrality answer is common when conducting research in Asian countries, including Malaysia (Trompenaars and Charles, 1998, p.81). Respondents are required to express opinions on the extent of their agreement with each statement ranging from “Strongly Disagree (1)” to “Strongly Agree (6)”.

All the 27 survey statements examine three aspects of audit: audit experience (*AUDITEXP*), tax auditors’ professional proficiency (*AUDITPROF*) and perception of audit (*AUDITPERCEPT*). A mean score analysis was mainly used in examining the extent of each aspect. A standard deviation (SD) score was also provided to measure the dispersion of the score from the mean (Field, 2009, p.38). For the purpose of the mean score analysis, respondents who indicated “Strongly Disagree”, “Disagree”, and “Somewhat Disagree” were grouped as a single category as “Disagree”. Similar treatment was applied to the respondents who indicated “Strongly Agree”, “Agree”, and “Somewhat Agree” who were grouped as a single category “Agree”.

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Since the measurement for *AUDITEXP* and *AUDITPROF* involved more than one item for each aspect, reliability and validity tests were performed. The measurement used in this study is considered to be internally valid, highly reliable and consistent as the alpha coefficients were above the acceptable value of 0.7 (Field, 2009, p.675), as shown in Table 1.

Table 1: Reliability Coefficient on Tax Audit

Tax Aspects	Number of Items	Alpha Coefficients
<i>AUDITEXP</i>	17	0.902
<i>AUDITPROF</i>	9	0.960
<i>AUDITPERCEPT</i>	1	-

A univariate analysis was then conducted for each aspect (*AUDITEXP*, *AUDITPROF*, and *AUDITPERCEPT*) to identify any significant difference (at five percent significant level) among different business characteristics namely business length, business industry, business size (by the number of staff), business size (by annual turnover), and company with/without tax agent. The Independent Sample *t*-Test (*t*-test) and Analysis of Variance (ANOVA) were employed for this purpose. The following section presents and discusses the findings from this study.

4 Findings

4.1 Descriptive Analysis

The following sections present the business characteristics of corporate taxpayers in this study followed by descriptive findings of the study on corporate taxpayers' audit experience based on *AUDITEXP*, *AUDITPROF* and *AUDITPERCEPT*.

4.1.1 Business Characteristics

This paper reports part of a larger study on the corporate tax system in Malaysia. The distribution of respondents is almost half for companies that have been audited by the IRB (49 percent) and companies that have no audit experience (51 percent), as shown in

Table 2.

Table 2: Tax Audit Experience

Tax Audit Experience	No of Companies	Percentage
Yes	71	49.0
No	74	51.0
Total	145	100.0

The business characteristics of the audited companies are shown in

Table 3. More than 60 percent of audited companies have been in business for more than 10 years and, therefore, may have more tax-related experience. In terms of distribution by type of business industry, the highest response was from Trading/Retailing (35 percent), followed by Manufacturing (16 percent) and Services (13 percent) industries. The number of employees and annual sales turnover were

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utilized in determining the size of a company. Large companies with more than 1000 employees and annual turnover of over RM500 million represented about 28 percent of respondents. Responses were also sought on the financial impact of the audit activities. Almost 65 percent of audited companies had to pay additional tax and tax penalty arising from the audit activities. Taxpayers who had to pay additional tax and/or tax penalty also represent non-compliant corporate taxpayers. Finally, more than 90 percent of respondents employed tax agents to assist them with their tax compliance activities. Detailed breakdown of the business characteristics of all audited companies is shown in

Table 3.

Table 3: Business Characteristics of Audited Companies

5	No of Companies	Percentage
Business Length		
Less than 10 years	23	32.4
11 to 20 years	25	35.2
More than 20 years	20	28.2
Not Mentioned	3	4.2
Total	71	100.0
Business Industry		
Manufacturing	11	15.5
Trading/Retailing	25	35.2
Financial/Insurance	4	5.6
Property/Construction	5	7.0
Plantation/Agriculture	5	7.0
Services	9	12.7
Oil & Gas	7	9.9
Others	5	7.0
Total	71	100.0^a
Number of Staff		
50 or less	39	54.9
51 to 1000	13	18.3
1001 or more	19	26.8
Total	71	100.0
Annual Sales Turnover		
Below RM5 million	25	35.7
RM5 million to RM499,999,999	25	35.7
RM500 million or more	20	28.6
Total	70^b	100.0
Additional Tax Liability		
Yes	44	62.9
No	26	37.1
Total	70^b	100.0
Tax Penalty		
Yes	45	63.4
No	26	36.6
Total	71	100.0
Tax Agent		
Yes	65	91.5
No	6	8.5
Total	71	100.0

^a Does not total up to one hundred percent due to rounding. ^b Number of respondents equals 70. One value is missing.

5.1.1 Audit Experience

This section presents the respondents' opinions on the extent of their audit experience. Generally, more than 60 percent of the respondents agreed that their interaction with tax auditors was good (EXP 1) and the time given to provide documents for the audit purpose was appropriate (EXP 2).

However, it is alarming to note that around 30 percent of the respondents did not understand the questions asked by tax auditors during the audit visit (EXP 3). Another 48 percent of respondents were not satisfied with the tax auditors' approach during the audit (EXP 4). A possible reason may be knowledge and language barriers between taxpayers and tax auditors. Tax auditors may have utilized phrases that are too technical for the taxpayers to comprehend. Should the miscommunication continue, it is hard for both taxpayers and tax auditors to collaborate during the audit; the audit process may be longer and entail additional costs.

As expected, the presence of a tax audit creates a tense atmosphere within a company. Although only 60 percent of the respondents agreed that disruption of business activity during the audit visit was minimal (EXP 5), 70 percent of the respondents agreed that there was a pressure felt during the audit (EXP 6). A likely reason for the result is that tax audit activities may only involve one department (such as accounts) but other departments (such as production and sales) run the normal business activities. Nevertheless, the presence of audit activities creates a tense feeling among officers directly involved with the audit.

It is also startling to note that almost 32 percent of respondents agreed that tax auditors raised their voices when requesting documents (EXP7). Further, only 43 and 52 percent of respondents indicated that the audit findings are respectively accurate (EXP 8) and clear (EXP 9). In line with the study conducted by McManus (2006), this study suggests that continuous training to improve tax auditors' communication, technical knowledge, and audit skills is necessary.

This study further discovers that 60 percent of respondents accepted a decision made by the tax auditors, even if they disagreed (EXP10). A possible explanation is that respondents find defending their merit case cumbersome and costly (Treasury of Australian Government, 2004, p.74). Moreover, respondents may find that the additional tax and penalty imposed because of the audit is very low and affordable. Many respondents that were audited may simply want to pay the additional tax and penalty imposed, settle the audit and continue with their normal business activities. In terms of the respondents' trust of tax auditors, about 60 percent respondents agreed that tax auditors would not deceive (EXP 11) or reveal their confidential business information to others (EXP 12). In improving taxpayers' trust, the tax authority may want to emphasize the "psychological contract" as suggested by Feld and Frey (2002, p.91) Previous studies show that trust in government is positively correlated with tax compliance (Dijke and Verboon, 2010, Kirchler, Hoelzl and Wahl, 2008, Torgler, 2004).

Generally, about 60 percent of the respondents satisfied with the audit visit (EXP 13) and comfortable with the questions asked (EXP 14). Nevertheless, only half of the

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respondents satisfied with the audit process (EXP 15 and EXP 16) and pleased with the audit experience (EXP 17).

All the statements on audit experience have a mean score between 2.69 and 3.97 (except for EXP 3), which reveals moderate agreement towards the audit experience. The study's main findings are presented in Table 4.

Table 4: Tax Audit Experience

Statements	Mean	SD	Disagree	Agree
My interaction with tax auditors during the audit visit was good (EXP 1). ^a	3.97	1.484	23 (32.9 %)	47 (67.1%)
The time given to provide documents for the audit purpose was appropriate (EXP 2). ^a	3.80	1.500	27 (38.6%)	43 (61.4%)
I understood the questions asked during the audit visit (EXP 3). ^a	4.13	1.318	19 (27.1%)	51 (72.9%)
I was satisfied with the tax auditors' approach during the audit visit (EXP 4). ^{ab}	3.35	1.402	33 (47.8%)	36 (52.2%)
Disruption of business activities during the audit visit was minimal (EXP 5). ^a	3.56	1.247	29 (41.4%)	41 (58.6%)
There was no pressure felt during the audit visit (EXP 6). ^a	2.69	1.336	49 (70.0%)	21 (30.0%)
Tax auditors raised their voices when requesting documents (EXP 7). ^{ab}	2.86	1.527	47 (68.1%)	22 (31.9%)
The audit findings were accurate (EXP 8). ^a	3.06	1.453	40 (57.1%)	30 (42.9%)
The audit findings were clear (EXP 9). ^{ab}	3.32	1.388	33 (47.8%)	36 (52.2%)
I accepted decisions made by the tax auditors even if I disagreed with them (EXP 10). ^a	3.84	1.594	28 (40.0%)	42 (60.0%)
I did not feel betrayed / deceived by the tax auditors (EXP 11). ^a	3.47	1.316	30 (42.9%)	40 (57.1%)
I am confident that the tax auditors will not reveal my confidential business information to others (EXP 12). ^a	3.93	1.516	26 (37.1%)	44 (62.9%)
Overall, the tax audit visit was satisfactory (EXP 13). ^{ab}	3.55	1.356	28 (40.6%)	41 (59.4%)
Overall, I was comfortable with the questions asked (EXP 14). ^a	3.59	1.257	26 (37.1%)	44 (62.9%)
Overall, I was satisfied with the tax audit process (EXP 15). ^a	3.41	1.291	34 (48.6%)	36 (51.4%)
Overall, the amount of time it took for the tax audit process was appropriate (EXP 16). ^a	3.37	1.310	33 (47.1%)	37 (52.9%)
Overall, the tax audit experience was very pleasant (EXP 17). ^a	3.13	1.296	37 (52.9%)	33 (47.1%)
AUDITEXP	3.47	0.840	-	-

^a Number of respondents equals 70. One value is missing as the respondent of the survey was not around during the audit and thus he was unable to provide his opinion on all the statements. ^b Number of respondents equals 69. Two values are missing. The percentage of responses is given in parenthesis.

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5.1.2 Tax Auditors' Professional Proficiency

This section presents corporate taxpayers' opinions on tax auditors' professional proficiency. More than 65 percent of respondents agreed tax auditors have sufficient knowledge about tax law and legislation (PROF 1) and are professional in performing their duties (PROF 5). Though tax auditors scored very highly (76 percent) in their courtesy (PROF 2) and communication skills (PROF 6), more than 30 percent of the respondents indicated that tax auditors are inconsistent in their comments (PROF 3) and do not comply with tax legislation (PROF 7).

Moreover, tax auditors may need to improve further in their audit skills (PROF 4), especially in their ability to relate to business issues (PROF 8) and ability to handle complex issues (PROF 9). Experience in handling many audit cases, knowledge sharing among tax auditors and a continuous learning program may expedite the acquisition of the required skills.

All statements have a mean score of between 3.10 and 3.96, which reveals a moderate evaluation of tax auditors' professional proficiency. Findings are presented in Table 5.

Table 5: Tax Auditors' Professional Proficiency

Statements	Mean	SD	Disagree	Agree
Knowledge about tax law and legislation (PROF 1). ^a	3.70	1.232	23 (32.9%)	47 (67.1%)
Courtesy during discussion (PROF 2). ^a	3.96	1.173	17 (24.3%)	53 (75.7%)
Consistency in comments and issues (PROF 3). ^a	3.71	0.995	23 (32.9%)	47 (67.1%)
Experience and skills in handling the tax audit (PROF 4). ^a	3.56	1.211	29 (41.4%)	41 (58.6%)
Professionalism in performing duties (PROF 5). ^a	3.69	1.257	24 (34.3%)	46 (65.7%)
Communication skills (PROF 6). ^a	3.76	1.268	24 (34.3%)	46 (65.7%)
Compliance with tax legislation (PROF 7). ^a	3.83	1.142	22 (31.4%)	48 (68.6%)
Ability to relate to business issues (PROF 8). ^a	3.10	1.287	42 (60.0%)	28 (40.0%)
Ability to handle complex issues (PROF 9). ^a	3.20	1.461	36 (51.4%)	34 (48.6%)
AUDITPROF	3.61	1.072	-	-

^a Number of respondents equals 70. One value is missing as the respondent of the survey was not around during the audit and thus he was unable to provide his opinion on all the statements. The percentage of responses is given in parenthesis.

5.1.3 Audit Perception

This section presents respondents’ opinions on a statement that tax auditors are more interested to find fault and penalize the company for wrongdoings rather than helping the company to do the right thing. Almost 75 percent of the respondents agreed to this intent. A mean score of 4.47 indicates a strong agreement towards the statement, as shown in Table 6.

Table 6: Audit Perception

	Mean	Standard Deviation	Disagree	Agree
Tax auditors are more interested to find fault and penalize the company for the wrongdoings, than helping the company to do the right things (AUDITPERCEPT). ^a	4.47	1.576	18 (25.7%)	52 (74.3%)

^a Number of respondents equals 70. One value is missing as the respondent of the survey was not around during the audit and thus he was unable to provide his opinion on the statement. The percentage of responses is given in parenthesis.

5.2 Statistical Analysis

The *t*-tests were employed to examine any significant difference between companies that use tax agents and companies that do not use tax agents. A significant difference is found on *AUDITPROF* only. Companies that do not use tax agents score significantly high (M=4.06, SD=0.377) as compared to companies that use tax agents (M=3.57, SD=3.57). A likely explanation for this result is that companies that do not use tax agents normally deal with the tax auditors themselves during the audit. Throughout the process, taxpayers may have developed their trust and confidence in the tax auditors’ proficiency. No significant difference is observed from *AUDITEXP* and *AUDITPERCEPT*. The results are shown in Table 7.

Table 7: Univariate Analysis using *t*-tests

DV	Business Characteristics		n	Mean	Mean diff.	t-statistic	p-value
<i>AUDITEXP</i>	Tax	No	6	3.76	0.32	0.876	0.384
	Agent	Yes	64	3.44			
<i>AUDITPROF</i>	Tax	No	6	4.06	0.49	2.349	0.032*
	Agent	Yes	64	3.57			
<i>AUDITPERCEPT</i>	Tax	No	6	4.83	0.39	0.585	0.560
	Agent	Yes	64	4.44			

Legend: * significant at the 0.05 confidence level. Mean diff = Mean difference.

The univariate analysis using One-way ANOVA tests was conducted to examine if other business characteristics (business length, business industry, and business size) influence taxpayers’ perception of their audit experience. This study shows that business industry and business size report significant differences on *AUDITEXP* and *AUDITPERCEPT*.

The *AUDITEXP* analysed by respondents’ business characteristics reveals that there is no significant difference among all business characteristics except for business

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industry. Findings from the study indicate that respondents from the Financial/Insurance industry scored significantly higher on audit experience compared to other industries, i.e., Trading/Retailing, Plantation/Agriculture, Services and Oil & Gas.

The Financial/Insurance industry is one of the most highly regulated industries in Malaysia. All books of accounts, record keeping and documentation must be kept in accordance with several regulatory standards. Taxpayers may only have to deal with technical matters rather than non-compliance issues during the audit. Therefore, respondents from the Financial/Insurance industry may find the tax audit experience more tolerable compared to other industries.

The *AUDITPERCEPT* analysed by respondents' business characteristics reveals respondents from large companies (number of staff more than 1000) scored significantly low compared to the other smaller groups of companies. There are two likely explanations for the above finding. First, respondents from larger companies may have more knowledge of the roles of tax audit under the SAS (Isa and Pope, 2010) and thus disagreed with the above statement. Secondly, tax auditors may have a cynical view during the audit that smaller taxpayers are dishonest in their compliance reporting, resulting in respondents from small companies agreeing to the statement. The results are shown in Table A 1.

6 Conclusions

The purpose of this study is to examine corporate taxpayers' perception of their tax audit experience. Three aspects of audits experience are analysed namely, audit experience (*AUDEXP*), tax auditors' professional proficiency (*AUDITPROF*) and audit perception (*AUDITPERCEPT*). Generally, findings from the study demonstrate that taxpayers' audit experience is reasonably satisfactory, while the level of tax auditors' professional proficiency is identified as moderate and that corporate taxpayers are found to have a strong negative perception towards auditing.

Findings from the study suggest that continuous tax education on the function of tax audits under the SAS is vital to ensure taxpayers' positive perception of the system. In addition, continuous training and development for tax auditors are necessary to improve their technical and business knowledge, communication and audit skills. It is also crucial for tax auditors to discard any preconceived ideas on taxpayers' dishonesty in reporting their tax and that a sense of trustworthiness and absence of prejudice towards taxpayers is required. Finally, business characteristics such as business size, business industry and use of tax agents are found to bring some impacts on taxpayers' perception of their audit experience.

This paper has reported findings based on a small sample of 71 respondents; hence, it is somewhat premature to make any strong conclusions. It is expected that a study using a larger sample of data in the future will provide more comprehensive findings. Nevertheless, this study provides some feedback from taxpayers on their tax audit experience conducted by the IRB. These are predominantly positive and should be beneficial to the tax authority, particularly the IRB, in their effort to review and improve the current tax system.

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Appendix

Table A 1: Univariate Analysis using One-Way ANOVA

Panel A: Descriptive statistics							
Variables	Business Characteristics		n	Mean	SD	Min	Max
<i>AUDITEXP</i>	Business Length	<10 yrs	23	3.31	1.010	2	5
		11-20 yrs	24	3.47	0.852	2	4
		>20 yrs	20	3.59	0.587	3	5
	Business Industry	Manufacturing	11	3.72	0.973	2	5
		Trad/Retailing	25	3.35	0.904	2	5
		Fin/Ins	4	4.29	0.048	4	4
		Prop/Cons	5	2.76	1.075	2	4
		Plantation/Agriculture	5	3.48	0.304	3	4
		Services	9	3.15	0.684	2	4
		Oil & Gas	6	3.75	0.155	3	4
	Others	5	3.81	0.799	3	5	
	Business Size (Staff)	50 or less	39	3.33	0.990	2	5
		51 – 1000	13	3.71	0.725	3	5
		1001 or more	18	3.60	0.443	3	4
	Business Size (Turnover)	RM5mil or less	25	3.35	0.947	2	5
RM5 to 499.9mil		25	3.36	0.903	2	5	
RM500mil and over		19	3.75	0.534	3	5	
<i>AUDITPROF</i>	Business Length	<10 yrs	23	3.52	1.360	1	6
		11-20 yrs	24	3.61	1.027	1	5
		>20 yrs	20	3.66	0.826	2	5
	Business Industry	Manuf.	11	3.99	1.235	2	5
		Trad/Retailing	25	3.49	1.258	1	6
		Fin/Ins	4	4.39	0.556	4	5
		Prop/Cons	5	2.73	1.307	1	4
		Plantation/Agriculture	5	3.27	0.548	2	4
		Services	9	3.37	0.835	2	4
		Oil & Gas	6	4.04	0.091	4	4
	Others	5	3.89	0.416	4	5	
	Business Size (Staff)	50 or less	39	3.37	1.274	1	6
		51 – 1000	13	3.91	0.700	2	5
		1001 or more	18	3.91	0.631	2	5
	Business Size (Turnover)	RM5mil or less	25	3.47	1.199	2	6
RM5 to 499.9mil		25	3.55	1.215	1	5	
RM500mil and over		19	3.88	0.639	2	5	
<i>AUDIT PERCEPT</i>	Business Length	<10 yrs	23	4.30	1.795	1	6
		11-20 yrs	24	4.71	1.367	2	6
		>20 yrs	20	4.20	1.609	1	6
	Business Industry	Manuf.	11	4.18	1.250	2	6
		Trad/Retailing	25	4.60	1.528	1	6
		Fin/Ins	4	4.00	1.414	2	5
		Prop/Cons	5	5.40	0.894	4	6
		Plantation/Agriculture	5	5.00	2.236	1	6
		Services	9	5.11	1.364	3	6
		Oil & Gas	6	3.33	1.751	1	6
	Others	5	3.60	2.074	1	6	
	Business Size (Staff)	50 or less	39	4.85	1.329	1	6
		51 to 1000	13	4.85	1.214	3	6
		1001 or more	18	3.39	1.852	1	6
	Business Size (Turnover)	RM5mil or less	25	4.96	1.274	2	6
RM5 to 499.9mil		25	4.44	1.635	1	6	
RM500mil and over		19	3.95	1.747	1	6	

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Panel B: Robust Tests of Equality of Means [#]					
Variables	Business Characteristics		F value	p-value	
AUDITEXP	Business Industry		18.060 [#]	0.000 [*]	
AUDITPERCEPT	Business Size (Staff)		28.185 [#]	0.018 [*]	
Panel C: Games-Howell Post-Hoc test					
Variables	Business Characteristics			Mean diff.	p-value
AUDITEXP	Business Industry	Fin/Insurance	Manuf.	0.579	0.541 [*]
			Trad/Retailing	0.941	0.001 [*]
			Fin/Insurance	1.529	0.219
			Prop/Cons	0.812	0.029 [*]
			Services	1.149	0.013 [*]
			Oil & Gas	0.539	0.002 [*]
			Others	0.482	0.846
AUDITPERCEPT	Business Size (Staff)	50 or less	51 – 1000	0.000	1.000
			1001 or more	1.457	0.016 [*]

*Legend: * significant at the 0.05 confidence level. Mean diff = Mean difference. [#] Welch values are used instead of ANOVA as the homogeneity of variances are not assumed.*