

FACTORS AFFECTING GST NON-COMPLIANCE IN
MALAYSIAN SMES

FOON PUI YEE
NG CHEE QING
TEH QIN YUAN
WONG YING SHI
YEE JIA HUI

BACHELOR OF COMMERCE (HONS) ACCOUNTING

UNIVERSITI TUNKU ABDUL RAHMAN

FACULTY OF BUSINESS AND FINANCE
DEPARTMENT OF COMMERCE AND
ACCOUNTANCY

AUGUST 2018

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DECLARATION

We hereby declare that:

- (1) This undergraduate research project is the end result of our own work and that due acknowledgement has been given in the references to ALL sources of information be they printed, electronic, or personal.
- (2) No portion of this research project has been submitted in support of any application for any other degree or qualification of this or any other university, or other institutes of learning.
- (3) Equal contribution has been made by each group member in completing the research project.
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| Name of Student: | Student ID: | Signature: |
|------------------|-------------|------------|
| 1. FOON PUI YEE | 15ABB00373 | _____ |
| 2. NG CHEE QING | 15ABB00315 | _____ |
| 3. TEH QIN YUAN | 15ABB00571 | _____ |
| 4. WONG YING SHI | 15ABB00586 | _____ |
| 5. YEE JIA HUI | 15ABB00472 | _____ |

Date: 13 August 2018

AKNOWLEDGEMENT

First and foremost, we would like to express our greatest gratitude and appreciation to our lovely and beloved supervisor, Mr. Wong Tai Seng for his invaluable guidance, patience, motivation and advice. We would not be able to complete this research project without his help.

In addition, we would like to thank our families and friends who have always provided us with unconditional support throughout the process of conducting this research.

Moreover, we appreciate all the respondents who took part in our dissertation by willing to take some time and effort to answer the survey questions with care.

Last but not least, we would like to express our humble and heartfelt appreciation to our group members who have cooperated and worked hard together to make this project a success.

DEDICATION

This research project is dedicated to our honorable supervisor, Mr Wong Tai Seng, who guided us with his expertise throughout this research and our friends and families for their absolute loves and supports.

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LIST OF ABBREVIATIONS

| | |
|------|------------------------------------|
| CC | Compliance Cost |
| DOSM | Department of Statistics Malaysia |
| DP | Detection Probability |
| DV | Dependent Variable |
| GDP | Gross Domestic Product |
| GST | Goods and Services Tax |
| IV | Independent Variable |
| MLR | Multiple Linear Regression |
| NC | GST Non-compliance |
| OLS | Ordinary Least Square |
| RMCD | Royal Malaysian Customs Department |
| SAS | Statistical Analytical Software |
| SMC | Small and Medium-sized Corporation |
| SME | Small and Medium-sized Enterprise |
| SQ | Service quality of RMCD |
| TC | Tax Complexity |
| TK | Tax Knowledge |
| TP | Tax Penalty |
| TPB | Theory of Planned Behaviour |
| TRA | Theory of Reasoned Action |
| VAT | Value Added Tax |

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PREFACE

GST is an indirect tax regulated by RMCD as a revenue generating tool on behalf of government for nation's development purposes. Nevertheless, GST non-compliance activities keep arising as statistics published by RMCD showing that one-third of the companies submitted inaccurate GST returns and 40% of problematic GST returns was made by Malaysian small businesses. Hence, the determinants of GST non-compliance among Malaysian SMEs ought to be explored.

ABSTRACT

The empirical aspects of GST non-compliance have been studied fairly sparsely, despite the fact that GST accounted for around one-fifth of the country's revenue. Moreover, Malaysian SMEs contributed more than one-third of GDP to the nation. Approximately 94% of the aggregate number of GST registrants in Malaysia is SMEs and non-compliance by SMEs will incur a significant loss to the country's economy. Recently, the culture of GST non-compliance is overspread among Malaysian small business. GST non-compliance will impact the revenue collection of government and deteriorate the national development. Therefore, the understanding of why people want to disobey GST can be useful for tax practitioners in structuring a comprehensive tax system that stimulates GST compliance in the future. Previous empirical studies done mainly on GST compliance area whereas factors that are attributable to GST non-compliance has not been deeply delved into. This study suggests the potential drivers that prompt the GST non-compliance behaviour of Malaysian SMEs taxpayers by adopting Theory of Planned Behaviour and Deterrence Theory. Service quality of RMCD, compliance cost, tax complexity, detection probability, and tax knowledge are assumed to be the predictors adapted from the theories to examine their relationship with GST non-compliance. An aggregate of 400 survey questionnaires were allocated proportionately to GST registered SMEs in KL, Selangor and Johor in which one survey per SME and the findings were analysed by Multiple Linear Regression (MLR) and Pearson's Correlation tests. This study outcomes have unveiled that service quality of RMCD, detection probability and tax knowledge have significant relationships with GST non-compliance. In short, it bridges the gap in tax non-compliance literature, disclosing some potential factors of GST non-compliance in Malaysia.

CHAPTER 1: INTRODUCTION

1.1 Background of Study

Goods and Services Tax (GST) also referred as Value added tax (VAT) was introduced in Malaysia on April 2015 by Malaysian government in order to broaden government revenue base (Ahmad, Ismail & Halim, 2016). Malaysian GST works with the standard rate of 6%, replacing existing 10% and 6% of sales tax and services tax respectively (Hambali & Kamaluddin, 2017).

According to Ministry of Finance Malaysia (2017), the amount of GST collected was RM41,206 million in 2016, comprised of 19.4% from total revenue and was forecasted to increase to RM43,800 million in 2018 that made up of 18.3% from total revenue. GST is implemented to improve living standards of Malaysian as the revenue from GST could be used for development purpose, to lower cost of doing business, to channel fund into nation-building projects, to improve delivery system, and to enhance global competitiveness (Royal Malaysian Customs Department [RMCD], 2013b). GST is an indirect tax where traders or suppliers are acting as tax collectors when consumers purchase taxable goods or services, instead of customers paid GST directly to RMCD (Adam & Yusof, 2018). Business entities that make a taxable supply for business functions and the taxable turnover of that supply exceeds the threshold of RM500,000 ought to register for GST (RMCD, 2013a). GST non-compliance in small and medium-sized enterprises (SMEs) is defined as failure to register, to submit return and payment of the GST or any other offences (Sapie, Abdullah, Azmi & Mustapha, 2017).

Table 1.1 has summarized the definition of Malaysian SMEs by size of operation.

Table 1.1: Definition of Malaysian SMEs by Size of Operation

| Size of Operation | Manufacturing | Services and Other Sectors |
|-------------------|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Medium | Sales turnover from RM15 million to not exceeding RM50 million OR full-time employees from 75 to not exceeding 200 | Sales turnover from RM3 million to not exceeding RM20 million OR full-time employees from 30 to not exceeding 75 |
| Small | Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less than 75 | Sales turnover from RM300,000 to less than RM3 million OR full-time employees from 5 to less than 30 |
| Microenterprises | Sales turnover less than RM300,000 OR full-time employees less than 5 | Sales turnover less than RM300,000 OR full-time employees less than 5 |

Source: SME Corp. Malaysia (2013)

A business entity that fulfils criteria more than one size of operation will be categorized under the smaller size of operation (SME Corp. Malaysia, 2013).

SMEs are the subject in this study because SMEs are essential existence in the labour productivity and economic growth of Malaysia (Umrani, Johl & Ibrahim, 2017). According to Department of Statistics Malaysia [DOSM] (2017), SMEs had contributed to 36.6% or RM405.5 billion of the overall Malaysia gross domestic product (GDP) in year 2016. Moreover, SMEs represented 98.5% or 907,065 of the total establishments in Malaysia economic sectors, particularly manufacturing, services, construction, mining and quarrying, and agriculture in 2016 (SME Corp. Malaysia, 2016). The statistics from RMCD (2016a) showed that 389,198 SMEs out of 412,715 total GST registrants in Malaysia had registered for GST at the end of May 2016. In short, SMEs have significant impact towards Malaysian economy if they not comply

with GST and the factors influencing GST non-compliance should be investigated out in order to solve the problems.

1.2 Problem Statement

RMCD said that the economic fluctuation has less influence to the GST, resulting GST to be able to generate a stable revenue to the country (RMCD, 2013b). Study of Hassan, Nawawi and Salin (2016) stated that tax authorities always pay attention to tax compliance as it is a vital issue in which high compliance will result in more revenue collection and therefore, more reserve to country development and socioeconomy. In the development of Malaysia's economy SMEs is an important player (Madanchian, Hussein, Noordin & Taherdoost, 2016). Thus, the implementation of GST have always been concerned by SMEs as they have to make sure that they have strictly paid and collected GST since GST compliance task is a serious and important issue (Zainol & Tan, 2015). However, GST non-compliance in SMEs occurred. RMCD reported that one-third of the companies have submitted an inaccurate return with neglecting information, understating output tax or overstating input tax during tax audit (Kumar & Thomas, 2017). Besides, RMCD's late study exhibited that non-compliance culture was rampant among Malaysian small businesses as it comprised of 40% of erroneous GST return (Kumar & Thomas, 2017). According to the survey done by Sapiei et al. (2017), it showed that 13% of SMEs was under-reporting the income whereas 11% of SMEs did not register for GST and 21% of SMEs was not concerned with the registering of GST as having assumption that tax officers would not know their businesses has exceeded the minimum annual threshold value. Moreover, according to 2016 SME taxation survey report, there were 210 respondents out of 806 respondents (26.05%) facing delays in claiming the tax input (Malaysia Kini, 2016).

There were several researchers conducting investigations on the problems of tax non-compliance or GST compliance. Nonetheless, the unit of analysis of these studies was small businesses (Bain, Walpole, Handsford & Evans, 2015), construction firms

(King'oina, 2016) and sole-proprietorship (Oh & Lim, 2011a). Besides, a few researchers who have conducted studies pertaining tax compliance and non-compliance stated that deterrence theory (Sinnasamy, 2015; Shaharuddin, 2017) and Theory of Planned Behavior (Benk, Cakmak & Budak, 2011) can be applied to probe into non-compliance problems. Most of the past researchers stated that tax education (Ser, 2013; King'oina, 2016) and penalty rate (Benk et al., 2011; Sinnasamy, 2015) were the most common determinants of tax non-compliance. Furthermore, there were ample studies done in South Africa (Akinboade, 2015), United States, Australia (Bain et al., 2015) and Bangladesh (Faridy, Copp, Freudenberg & Sarker, 2014) stated that compliance cost was associated with non-compliance of tax.

Nevertheless, these previous researches were restricted by geographical locations since they only concentrated on the overseas respondents. Thus, our study is going to focus on SMEs in Malaysia. Also, there are lack of empirical studies specifically in investigating the determinants of GST non-compliance as most of the researches are focusing on tax compliance and non-compliance. Apart from that, there are dearth of researches on investigating GST non-compliance among SMEs in Malaysia. According to Hamid (2016), SME is contributing large portion of income source for Malaysia Government if they comply with tax. Thus, the target respondent of our study is Malaysian SMEs.

1.3 Research Objectives and Research Questions

Table 1.2: General Research Objective and Question

| General Objective | General Question |
|------------------------------------------------------------------------------|---------------------------------------------------------------------|
| To examine the factors that affect the GST non-compliance in Malaysian SMEs. | What factors would affect the GST non-compliance in Malaysian SMEs? |

Source: Developed for the research

Table 1.3: Specific Research Objectives and Questions

| Specific Objectives | Specific Questions |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| To examine whether compliance cost can positively affect the non-compliance of GST. | Will compliance cost positively affect the non-compliance of GST? |
| To examine whether tax knowledge can negatively affect the non-compliance of GST. | Will tax knowledge negatively affect the non-compliance of GST? |
| To examine whether detection probability can negatively affect the non-compliance of GST. | Will detection probability negatively affect the non-compliance of GST? |
| To examine whether tax complexity can positively affect the non-compliance of GST. | Will tax complexity positively affect the non-compliance of GST? |
| To examine whether service quality of RMCD can negatively affect the non-compliance of GST. | Will service quality of RMCD negatively affect the non-compliance of GST? |

Source: Developed for the research

1.4 Significance of Study

Our study's theoretical framework may be insightful to researchers and academicians whose research areas are in taxation specifically indirect tax. This study will investigate and probe into whether tax knowledge, tax complexity, audit probability, compliance cost and service quality of RMCD contribute to GST non-compliance. It provides a further investigation on GST non-compliance which is an essential matter that has been overlooked recently. Since there is a lack of theoretical evidences concerning GST non-compliance, our research will bridge the knowledge gap by adding a vital factor which is service quality of RMCD that has not been studied extensively in Malaysian context. Also, it may provide a new discernment for educators or scholars to understand the intention of Malaysian SMEs not complying with GST. Hence, the future researchers may figure out solutions to counterattack non-compliance behaviour among SME taxpayers in Malaysia.

Besides, this study can also be contributed to Malaysian tax policy makers who are responsible to devise specific measures to eliminate tax non-compliance. The tax administrators may outline and introduce strategic and relevant plans that enhances voluntary tax compliance. For instance, RMCD may imitate Taiwan's lottery receipt to encourage and cultivate GST compliance. The factors or dimensions proposed in this study may help them to understand better the taxpayers' perceptions and intentions towards the GST non-compliance as well as to provide SMEs operators a sound understanding of GST application in Malaysia. As such, tax policy makers may recommend better tax regulations or policies that will not add on extra burden to citizens and at the same time bolster the nation's economic conditions.

1.5 Outline of the Study

Background, problems, and aims of the study are introduced in Chapter 1. The overview of the study is to raise some vital issues that prove the importance of understanding the factors contributing to tax non-compliance in Malaysian SMEs. Followed by this, Chapter 2 reviews the relevant literatures and provides a broad explanation on theoretical foundation which is designed to solve the problems embedded in this study. Previous and current empirical studies associated with this study are highly discussed. Subsequently, Chapter 3 further elaborates the research's design and methodology. The sampling method, statistics collection method, and an outline of survey instrument are going to be developed in this section. Furthermore, Chapter 4 discusses and interprets the findings run by SAS Enterprise Guide 7.1. Demographic and inferential analyses together with the scales of measurement are reviewed in this section. Lastly, the final chapter, Chapter 5 will provide a brief of statistical analysis, implication of study and some suggestions to cope with the limitations of our study.

CHAPTER 2: LITERATURE REVIEW

2.1 Theoretical Foundation

In our study, Theory of Planned Behaviour (TPB) and Deterrence Theory are adopted to examine the GST non-compliance intention of SME taxpayers. Since TPB does not account for other factors and economic aspects (Michelsen & Madlener, 2010), Deterrence Theory which is based on expected utility function or the cost-benefit approach is added in our study (Devos, 2014).

2.1.1 Theory of Planned Behaviour (TPB)

TPB is derived from Theory of Reasoned Action (TRA) and founded by Ajzen (1991). Azjen (1991) suggested that there are certain factors arise from specific reasons and appeared in a systematic way influence the behaviour of an individual inside the community. Benk et al. (2011) stated the fact that when an individual has a purpose towards a behaviour, the individual is able to perform the particular behaviour. Intention is the basis of this theory (Benk et al., 2011). Intention is defined by Ajzen as the determinant affecting amount exerted by individual to carry out a specific behaviour. There are three constructs determining the purpose towards the behaviour, which are attitude towards the behaviour, subjective norms and perceived behavioural control (Ajzen, 1991). Attitude includes the positive or negative evaluations of the act of a behaviour made by the individual. Subjective norm refers to the perceived social pressure to engage or not to engage in a behaviour whereas perceived behavioural control is the individuals' perceptions of their abilities to perform a specific behaviour (Yusri & Yee, 2015).

Table 2.1: TPB Used in Other Areas

| Author | Areas |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Langham, Paulsen and Härtel (2012) | To investigate whether TPB can reliably predict the intention of SME taxpayers in complying with income tax. |
| Thoradeniya, Lee, Tan and Ferreira (2015) | To examine TPB and other psychological factors of the managers in listed and non-listed companies on sustainability reporting. |
| Yusof and Lai (2014) | To predict corporate tax fraud by corporate managers through an integrative model of TRA, TPB and “Fraud Diamond Theory”. |
| Gao, Wang, Li and Li (2017) | To explore the determinants of individual’s energy saving behaviour in workplaces using an extended theory of planned behaviour. |

Source: Developed for the research

The relationships between service quality of RMCD and compliance cost with the concepts in TPB is provided in Table 2.2.

Table 2.2: Relationships between Constructs and TPB

| Constructs | Explanations |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Service quality of RMCD | Muhammad and Saad (2016) explained that the service quality is a primary factor for compliance. Rusdi, Suhadak, Darminto, Siti and Bambang (2014) added that tax service quality directly affect taxpayers’ |

| | |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>satisfaction and behaviour. They further suggested that tax service quality will straightly influence the satisfaction level of taxpayers, and subsequently the taxpayers' intention and behaviour. Christensen (as cited in Al-Ttaffi & Abdul-Jabbar, 2016) highlighted that higher non-compliance is caused by negative perception (attitude) of taxpayers towards quality of tariff service rendered and vice versa. It is aligned with the TPB theory in which attitude affects the intention of an individual to generate a specific behaviour. When taxpayer has a positive attitude of the service provided by tax authorities, the intention of not to comply with GST is low.</p> |
| Compliance cost | <p>Attitude towards the tax costs is a factor to measure the non-compliance intention of taxpayers by adopting TPB (as cited in Hai & See, 2011). When the taxpayers have a negative attitude towards GST compliance cost, it is expected to be less compliant than taxpayers with positive attitude. It means that the compliance cost may be viewed as a burden to taxpayers. The advantage of paying a low amount of expenses will favour taxpayer's attitude. Consequently, the resentment of high compliance cost may lead to increased non-compliance (Mogeni, 2014). When SME taxpayers perceive compliance cost unfavourably, there may be high GST non-compliance intention.</p> |

Source: Developed for the research

Therefore, service quality of RMCD and compliance cost are adopted as independent variables to examine the non-compliance intention among SMEs.

2.1.2 Deterrence Theory

Economic model of crime was introduced by Gary Becker in 1968 and used in the *Crime and Punishment: An Economic Approach*. Allingham and Sandmo (1972) had developed a theory called Deterrence Theory which they adopted and modified from the Beaker's model (as cited in Selmrod, 2007). People are not being encouraged by the moral ethics, but they are afraid of the punishment and get themselves away from committing crimes (Al-Ttaffi & Abdul-Jabbar, 2015; Anderson, Harris, & Miller, 1983). Besides, studies by Ritchey et al. (2011) and Beccaria (as cited in D'Arcy & Herath, 2011) stated that this theory assumes the people decided to involve in committing crime when they realised the benefits gained from perpetrating a crime was greater than the cost. Deterrence theory assumes some factors that will influence the behaviours of people such as tax rate, penalties for fraud and detection probability (Bello & Danjuma, 2014; Alkhatib & Abdul-Jabbar, 2017). Every taxpayers are subject to the same GST rate which is 6%, hence tax rate will not affect the non-compliance behaviour. Detection probability refers as tax officer tends to detect out the taxpayer who has non-compliance intention whereas penalty is the severe punishment to decrease the non-compliance intention (Lawan & Salisu, 2017).

Table 2.3: Deterrence Theory Applied in Different Areas

| Author | Areas |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Olaoye, Ayeni-Agbaje and Alaran-Ajewole (2017) | To determine the degree of tax compliance in block making industries resulted from tax information, tax administration and tax knowledge and apply the deterrence theory by highlighting on incentives. |

| | |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Yusof, Lai and Yap (2014) | To determine the factors that influence small-and-medium-sized corporations (SMCs) in Malaysia not to comply with corporate tax. |
| Cheng, Li, Li, Holm and Zhai (2013) | To figure out the factors that restrict employees from deviation and violation of the organizational IS Security Policy through the deterrence theory and social control. |
| Herath and Rao (2009) | To recognize the effect of various factors affecting employee to comply with organisation's information security policies by adopting deterrence theory, protection-motivation theory, and organisational behaviour. |

Source: Developed for the research

The relationships between tax knowledge, tax complexity and detection probability with the concepts in Deterrence Theory is described in Table 2.4 as below:

Table 2.4: Relationships between Constructs and Deterrence Theory

| Constructs | Explanations |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tax knowledge | Taxpayers who possess GST knowledge are able to understand the GST concepts, benefits, penalty, system, payment procedures and it will affect the taxpayers' decision on compliance of GST. When the taxpayers do not possess sufficient knowledge in the penalty of GST, they would not to comply with GST. |

| | |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tax complexity | GST complexity (GST computation, law and procedure) is likely to bring a higher probability of non-compliance behaviour among the taxpayers. Since SMEs are the agent of collecting GST on behalf of RMCD, they need to have a clear mind set on the procedures of submitting return and payment as they will incur penalties if they failed to do (Sapiei et al., 2017). When SMEs figure out that the benefits of non-compliance with GST outweighs the fine or penalty when being caught due to the misunderstood of laws, omissions and unintentional error, it could potentially lead to non-compliance with GST (Oh & Lim, 2011b). |
| Detection probability | Probability of detection may influence the SMEs which have the intention of not complying with GST. The penalty and probability of being caught in GST evasion by tax audit will influence the taxpayer behaviour. When there is low probability of detection being carried out, there may have high non-compliance with GST. |

Source: Developed for the research

Deterrence theory is applied in our study and GST knowledge, GST complexity and detection probability are adopted as independent variables in our study. These factors will determine whether SMEs non-comply with GST or not.

2.2 Review of Prior Empirical Studies

2.2.1 Dependent variable

2.2.1.1 GST non-compliance

GST is described as a multiple level tax which levied on various business deals that occur in Malaysia (RMCD, 2014). Non-compliance of tax, in accordance to Sinnasamy, Bidin and Ismail (2015), refers to taxpayers fail to fulfil their obligations to pay tax with intention or no intention as it deemed to be unethical behaviour or attitude of tax compliance such as tax avoidance and tax evasion which brings a contrary consequences on tax compliance and collections. In the view of taxpayers, GST compliance is a perception of GST to be lawful, impartial and it ethically refers to “do the right thing”(Ling, Osman, Muhammad, Yeng & Jin, 2016). Based on Oh and Lim (2011a), any misreporting of tax liability in accordance with tax rules, non-payment or delay payment, under-recording of income and expenses overstated are also classified as non-compliance of tax.

2.2.2 Independent variables

2.2.2.1 Service Quality of RMCD

Service quality of RMCD can be described as an interaction between the tax authorities and taxpayers (Al-Ttaffi & Abdul-Jabbar, 2015) which is the way they offer help to taxpayers, manage or fulfil all their requests (Savitri & Musfialdy, 2016).

Based on the research of Mohamed (2016), a mailed survey using cluster sampling was carried out to examine the perception of taxpayers regarding service quality of Customs officers by sending out 650 questionnaire to different types of business companies in different geographical locations in Malaysia (north, central and south zone) while 279 (42% response rate calculated by using SPSS software version 2.0) questionnaires were received and only 245 among 279 could be used for research purpose. The normality test showed that service quality of tax custom is positively correlated with the intention of tax compliance.

A survey with five-point Likert scale was carried out by stratified sampling among SMEs owner-managers in 7 cities in Yemen to identify the perception of Yemeni towards service quality and its impact on tax non-compliance. 500 questionnaires were delivered and 330 were received (66% response rate). The result showed 2.09 (out of 5) average value of perceived tax service quality which represented that taxpayers considered service quality of tax officers was low (Al-Ttaffi and Abdul-Jabbar, 2016). After carrying out simple regression, the results revealed that service quality of tax officers is negatively correlated to tax evasion behaviour of taxpayers

According to Fadzilah, Mustafa and Putri (2017), a survey was conducted using quantitative approach to examine the connection between quality of tax services and tax compliance among 60 SMEs in Banyumas Regency. This research used t-test to analyse the significant influence between the quality of tax services and intention of SMEs to comply with tax. The outcome showed that service quality of tax officers is positively correlated with compliance of tax among SMEs in Banyumas Regency.

The previous studies stated that compliance of tax is positively influenced by service quality of RMCD (Mohamed, 2016; Fadzilah, Mustafa & Putri, 2017). Similarly, Al-Traffi and Abdul-Jabbar also pointed out that tax service quality is negatively associated with non-compliance of tax. In a nutshell, all these past

studies were concentrated on the compliance and non-compliance of tax in general but our study is going to focus on non-compliance of GST.

2.2.2.2 Tax Complexity

Tax complexity is defined as tax system complexity, compliance complexity, rule complexity, and procedural complexity (Saad, 2014).

Sapiei, Kasipillai and Eze (2014) investigated the factors affecting taxpayers' compliance behaviour in Malaysia. Survey questionnaires were distributed in Malaysia corporate taxpayers from "Malaysian Top 500 Largest Listed Corporations 2008-2009" published directory, excluding East Malaysia. There were 473 companies selected to carry out the survey and only 98 surveys were usable. A multiple regression analysis method was utilized to run the data analysis. Thereupon, there is a significant positive relationship between perceived tax complexity and non-compliance of corporate taxpayers.

A research conducted by Saad (2012) studied on the factors of individual taxpayers' perception that affect tax non-compliance behavior. The researcher executed telephone interviews on 2,267 potential participants from "New Zealand's 2008 Electoral Roll" and only 30 respondents responded to the interviews. Thematic analysis was run and the results showed that the complexity of tax system will give positive impact on their behavior towards tax non-compliance.

Belay and Viswanasham (2016) investigated the relationship between tax system complexity and tax compliance in Ethiopia. A sample size of 24 income taxpayers in Ethiopia was selected for semi-structured interviews. The variables were analysed by using thematic analysis. The result indicated that tax complexity will positively affect non-compliance behavior of income taxpayers as tax system in Ethiopia is naturally complex, numerous paperworks have to be completed to comply with taxpayers' obligations.

According to the studies done by past researchers, there is a positive relationship or impact between tax complexity and tax non-compliance (Sapiei et al., 2014; Saad, 2012; Belay & Viswanasham, 2016). The greater the perception of the tax complexity, the greater the non-compliance amongst GST registered SMEs in Malaysia, thus there is a positive relationship between tax complexity and GST non-compliance.

2.2.2.3 Detection Probability

Detection probability is defined as probability that organizations are elected for audit surmised that the perceived possibility and amount of misstatements (Chan, Lo & Mo, 2015).

Naibei (2012) investigated the relationship between tax authorities' inspection frequencies and VAT compliance among private firms in Kenya. The researcher conducted a survey consisted of 233 out of 590 private business firms in Kenya that are registered under the city council. Descriptive and correlation analyses were run and the results showed that there is a significant positive relationship between frequencies of inspection and VAT compliance. The research indicated that taxpayers have great intention to evade tax if they have opportunity to do so.

Palil, Hamid and Hanafiah (2013) investigated the factors affecting taxpayers' compliance behaviour in Malaysia. The researchers have distributed 5,500 surveys and only 1,073 were usable. The variables were tested using Ordinary Least Squares (OLS) regressions. The results indicated that audit probability is positively correlated with tax compliance. The researchers find out that high probability of being audited will encourage tax compliance among taxpayers.

Kennedy and Anyaduba (2014) studied on the relationship between audit probability and tax compliance in Nigerian companies. Survey questionnaires were administered to the staff of the State Board of Internal Revenue of five

geo-political zones in Nigeria. The researchers have distributed 500 survey questionnaires and 413 questionnaires were collected back and analyzed using ordered logistic regression analysis. Thereupon, there exists a positive relationship between probability of being audited and tax compliance.

With regard to detection probability, some past studies (Naibei, 2012; Palil et al., 2013; Kennedy & Anyaduba, 2014) stated that high detection probability will have higher tax compliance. Since the dependent variable of our study is GST non-compliance, thus we perceive that there is a negative relationship between detection probability and GST non-compliance.

2.2.2.4 Tax Knowledge

Tax knowledge is defined as the extent of taxpayers' understanding about tax law, tax system, tax procedure, other tax information, and the consequences of tax avoidance or tax evasion (Damajanti & Karim, 2017).

According to Sinnasamy and Bidin (2017), the researchers investigated the factors that affect Malaysian taxpayers' non-compliance of excise duty. Disproportionate stratified simple random sampling technique was used to distribute questionnaires to the managers who are directly involved in custom declarations processes. 500 questionnaires (out of 600) were collected for partial least square analysis. Therefore, it shows that tax knowledge is an important determinant and has a positive impact on excise duty non-compliance. It is due to taxpayers who are knowledgeable about tax can find out the loopholes in tax system which prompted them non-comply with excise duty.

Inasius (2015) examined the factors affecting tax compliance behaviour among SMEs retailers in Indonesia. Survey questionnaire was used to collect data among individual retailers while multiple regressions analysis models was selected to analyze data. 319 out of 1,000 questionnaires were collected and the result showed that there is a significant positive relationship between tax

knowledge and tax compliance. In Indonesia, taxpayers have better tax knowledge to promote their behaviors towards taxation obligations.

Oladipupo and Obazee (2016) examined tax knowledge and tax penalty affecting tax compliance behaviour among SMEs in Nigeria. A survey among SMEs operator in Nigeria was conducted using randomly sampling. 400 questionnaires were delivered out while only 277 questionnaires were received and later run by OLS multiple regression analysis. As a result, there is a significant positive relationship between tax knowledge and tax compliance of SMEs operators. In Nigeria, taxpayers believe that tax knowledge can be more effective in promoting compliance behavior, not through punishment.

According to previous studies, there is a positive relationship between tax knowledge and tax compliance (Inasius, 2015; Oladipupo & Obazee, 2016). On the contrary, a past study (Sinnasamy & Bidin, 2017) showed that high tax knowledge will promote taxpayers non-comply with excise duty. Nevertheless, our study perceives that there is a negative relationship between tax knowledge and GST non-compliance.

2.2.2.5 Compliance Cost

Compliance cost is defined as the compulsory costs incurred by the taxpayers in fulfilling their tax obligations including various compliance costs (Eragbhe & Modugu, 2014).

Xin, Khai, Fong and Chen (2015) investigated the relationship between compliance cost, tax knowledge, tax agent and tax compliance behaviour. Survey questionnaires were distributed to 50 Malaysian individual taxpayers through e-mail and forms. Data collected was analyzed using bivariate correlation test. The result showed that compliance cost is significant negatively associated with taxpayers' compliance behavior.

Faridy et al. (2014) examined the relationship between the complexity in VAT law, compliance cost and VAT non-compliance for SMEs in Bangladesh. The study adopted quantitative (survey questionnaire) and qualitative methods (group discussion). The researchers invited 3 kinds of participants (i.e. 1: The SMEs taxpayers who comply with VAT; 2: SMEs taxpayers who non-comply with VAT; 3: National Board of Revenue's VAT officials) to participate the study. 500 survey questionnaires were distributed to SMEs VAT payers (200 non-compliant taxpayers; 300 compliant taxpayers) by purposive sampling from NBR's taxpayers list while only 240 questionnaires were received (152 from compliant taxpayers; 88 from non-compliant taxpayers). Based on group discussion result, 15 (out of 45) VAT compliant taxpayers claimed that there is a positive relationship between compliance cost and VAT non-compliance. Based on survey result, VAT compliant payers (72%) and VAT non-compliant payers (36%) agreed that reasonable compliance costs would enhance taxpayers' voluntary compliance behaviours.

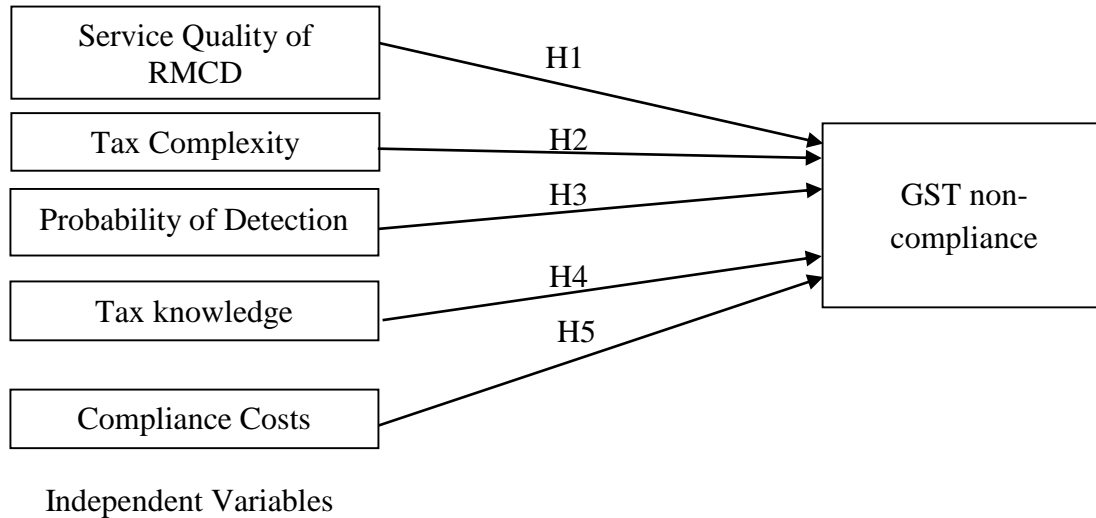
Nzioki and Peter (2014) investigated the relationship between compliance cost and tax compliance among real estate sector in Kenya. They adopted mixed method (survey questionnaire and interview). The researchers were using simple random sampling technique to distribute the questionnaires to real estate investors in Nakuru Town. A total of 271 collected questionnaires was analyzed by multiple linear regression models showing there is a significant negative correlation between tax compliance costs and tax compliance behavior.

There are some empirical evidences that the higher compliance cost can lead to taxpayers' reluctance to pay taxes (Xin et al., 2015; Faridy et al., 2014; Nzioki & Peter, 2014). Therefore, we perceive that compliance cost has a positive effect on GST non-compliance.

2.3 Conceptual Model for the Study

Based on the preceding literatures, our proposed conceptual framework is shown below.

Figure 2.1: Proposed Conceptual Framework



Source: Developed for the research

2.4 Hypotheses Development

In short, we proposed that GST non-compliance is influenced by tax knowledge, tax complexity, probability of detection, service quality and compliance costs. According to past researches, our hypotheses are formed as below.

H1: There is a negative relationship between service quality of RMCD and non-compliance of GST.

H2: There is a positive relationship between tax complexity and non-compliance of GST.

H3: There is a negative relationship between probability of detection and non-compliance of GST.

H4: There is a negative relationship between tax knowledge and non-compliance of GST.

H5: There is a positive relationship between compliance costs and non-compliance of GST.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

This research aims to examine the effect of determinants on GST non-compliance among SMEs in Malaysia. Survey methodology has been used in this study because it helps to test specific research questions in specific field (Curtis, 2008). It can be faster, relatively inexpensive and more reliable than other data collection methods (Mathiyazhagan & Nandan, 2010). Whereas, secondary data is not suitable for this study because the data is outdated, the accuracy is unknown and not related to the specific needs of the current study (Boslaugh, 2007).

A cross-sectional study is to determine the prevalence in a given population for a specific point in time while everyone's measurement is made and multiple outcomes are obtained at one point of time (Mann, 2003). Thus, it is suitable in our study to estimate the prevalence of GST non-compliance in a given population at a particular of time. The target population is Malaysian SMEs that are registered under GST cutting across all sizes and sectors. Moreover, this study distributed self-administered survey questionnaire to target respondents in three states of Malaysia.

3.2 Population, Sample and Sampling Procedures

3.2.1 Target Population

The Malaysian SMEs are the subject of our research and our target population is Malaysian SMEs that are registered under GST cutting across all sizes and sectors. According to RMCD (2016a), the total amount of GST registered SMEs

was recorded 389,198 in May 2016. Table 3.1 shows the number of GST registered SMEs by the sizes of operation.

Table 3.1: Number of GST Registered SMEs as at May 2016

| Sizes of operation | Number of Registrants | |
|---------------------------|------------------------------|-----------------------------------|
| | Manufacturing sectors | Services and other sectors |
| Medium | 3,212 | 59,248 |
| Small | 40,570 | 247,838 |
| Microenterprises | 4,999 | 33,331 |
| Total GST registered SMEs | 389,198 | |

Source: RMCD (2016a)

SMEs are classified to medium, small, and microenterprises; and the sectors are categorized namely manufacturing, services, construction, agriculture and mining, and quarrying (SME Corp. Malaysia, 2016).

3.2.2 Sampling Element

Our study aims to investigate factors affecting GST non-compliance in Malaysian SMEs. The individual chosen to answer our questionnaire is assumed to have specific knowledge of GST non-compliance. Thus, our target respondents are GST registered person – SMEs as SME is obliged to collect GST from customers on its taxable supply of goods and services (RMCD, 2016b). In this research, GST registered person is GST taxpayers of SMEs.

3.2.3 Sampling Frame and Sample Location

Sampling frame refers to any device or material adopted to allow wholly access of the components of targeted population (S ändal, Swensson & Wretman,

2003). In our research, there is no complete list of GST registered SMEs available. Besides, there is no information of GST registered person can be found such as their contact information and address. Therefore, no sampling frame is obtained in this research.

In this study, the sample location is narrowed down based on the top 3 states with highest number of Malaysian GST registered business entities that are Wilayah Persekutuan Kuala Lumpur, Selangor, and Johor. Table 3.2 shows the number and percentage of GST registrants by Malaysia states.

Table 3.2: Number and Percentage of GST Registrants by States

| State | Total GST Registrants | Percentage (%) |
|----------------------------------|------------------------------|-----------------------|
| Wilayah Persekutuan Kuala Lumpur | 84,199 | 20.4 |
| Selangor | 77,061 | 18.7 |
| Johor | 53,312 | 12.9 |
| Pulau Pinang | 29,427 | 7.1 |
| Perak | 28,345 | 6.9 |
| Sarawak | 27,366 | 6.6 |
| Sabah | 22,379 | 5.4 |
| KLIA | 21,171 | 5.2 |
| Pahang | 14,466 | 3.5 |
| Kedah | 14,065 | 3.4 |
| Negeri Sembilan | 12,726 | 3.1 |
| Melaka | 11,139 | 2.7 |
| Kelantan | 7,600 | 1.8 |
| Terengganu | 6,962 | 1.7 |
| Perlis | 1,664 | 0.4 |
| Labuan | 883 | 0.2 |
| Total | 412,715 | 100.0 |

Source: RMCD (2016a)

These three states are selected as they have comprised approximately 214,572 from total Malaysian GST registered business entities (i.e. 52% of 412,715) which represent majority portions of Malaysian GST registrants.

3.2.4 Sampling Technique

Since there is no sampling frame and directory adopted in our research, the main sampling technique utilized is non-probability sampling. Quota sampling is partly used for data collection as it is claimed to be capable to generate results equivalent to probability sampling (as cited in Yang & Banamah, 2014). Quota sampling procedure is used when the target respondents fulfilled the key characteristics of the target population, thus the sample can be obtained quickly and cheaply (Fife-Schaw, 2000). In this research, quota sampling will be employed to distribute the survey questionnaires against GST registered SMEs in the particular three states.

Besides, judgemental sampling approach is also partly used for collecting the data. Judgemental sampling is used to choose the respondents based on researcher's experience and judgement that the target respondents are representative to serve for research purpose (Fogelman & Comber, 2002). In this study, the survey will be distributed based on our personal judgements to GST taxpayers of SMEs who are knowledgeable in GST non-compliance such as employees who are preparing tax returns or tax documents in the company. Therefore, it is essential to use both quota and judgemental sampling approaches.

3.2.5 Sampling Size

There are several rules in determining the sampling size. Krejcie and Morgan (1970) suggested that the sample size must be a minimum of 382 if the population exceeded 75,000. Besides, Hill and Alexander (2017) suggested that respondents in between 200 to 500 are sufficient to a research. Therefore, the sample size used in this research is 400 units.

3.3 Data Collection Method

3.3.1 Research Method

The survey was conducted in May 2018. The data was collected through a distribution of 400 self-administered survey questionnaires to the SMEs registrant in Kuala Lumpur, Selangor, and Johor. This is due to these three states own the overall coverage of SMEs registrants in Malaysia. The survey distribution is apportioned according to the number of registrants in each state where 157 sets in KL; 144 sets in Selangor; 99 sets in Johor. One survey is entitled only for one GST registered SME. The answered questionnaire were collected by ourselves.

3.3.2 Pre Test

Pre test was conducted to ensure the meaning attributed to each survey question is accurate and precise (Bowden, Fox-Rushby, Nyandieka & Wanjau, 2002). In this research, survey questionnaires were reviewed firstly by three experts who are UTAR lecturers specialized in taxation before carrying out pilot test.

3.3.3 Pilot Testing

Pilot test refers to a small version of study or the trial process carried out specifically to test beforehand the survey instruments and it can be adopted in quantitative and qualitative research as there are numerous researchers have emphasized that pilot testing is critical as it aids to discover possible deficiencies in the survey questionnaires and determine whether the ideas are suitable (Dikko, 2016). After checking process is completed, amendments will

be made in order to make sure that those questions can be comprehended by future target respondents (Abdul-Jabbar, 2009). In this study, 20 sets of questionnaire will be allotted to GST registered SMEs to find out how they interpret and understand the questions rendered because the sample size of 10 to 30 is most suitable for pilot test due to its simplicity, convenience and easiness as suggested by Johanson and Brooks (2009).

3.4 Variables and Measurement

The definition of variables, items, sources of variables, measure of variables and scales of measurement were shown as below.

Table 3.3: Dependent and Independent Variables

| Variable | Definition/ Sources | Items | Measurement | Scale of measurement |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Demographic Profile | - | 1. Gender 2. Age 3. State 4. Sector 5. Education | Interval Interval Interval Interval Interval | - |
| GST non- compliance 5 Items | GST non- compliance refers to taxpayers fail to register for GST (Faridy et al., 2014). | 1. GST is just an expense of the business that we try to minimize (Faridy et al., 2014). | Interval | 5-point Likert scale 1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly agree |
| | | 2. I would not report my sales income fully to underreport GST (Sinniah, 2015). | | |

| | | | | |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------|
| | | <p>3. I attempt to cheat by omitting to report sales income to avoid GST (Sinniah, 2015).</p> <p>4. Paying the correct amount of GST is not my civic duty (Sinniah, 2015).</p> <p>5. Paying the correct amount of GST has no significant contribution to the development of Malaysia (Sinniah, 2015).</p> | | |
| <p>Service Quality of RMCD</p> <p>5 items</p> | <p>Service quality is defined as the awareness and assessment of the comparison between taxpayers' expectations on the services and the actual services received (Mohamed, 2016).</p> | <p>1. RMCD officers are always unavailable to assist taxpayers (Mohamed, 2016).</p> <p>2. RMCD officers are untrustworthy (Mohamed, 2016).</p> | Interval | <p>5-point Likert scale</p> <p>1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly agree</p> |

| | | | | |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------|
| | | <p>3. RMCD officers are discourteous when assisting taxpayers (Mohamed, 2016).</p> <p>4. RMCD officers are unable to provide accurate and precise information when managing taxpayers' problem (Mohamed, 2016).</p> <p>5. RMCD officers are weak and poor in communicating with taxpayers (Mohamed, 2016).</p> | | |
| <p>Tax Complexity</p> <p>5 items</p> | <p>Tax complexity refers to the perception of taxpayers viewed GST system as being hard or difficult to understand (Woodward & Tan, 2015).</p> | <p>1. GST rules in Malaysia are relatively complex (Woodward & Tan, 2015).</p> <p>2. I doubt my ability to complete GST return properly (Woodward &</p> | Interval | <p>5-point Likert scale</p> <p>1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly agree</p> |

| | | | | |
|--|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
| | | <p>Tan, 2015).</p> <p>3. Most business owners have bad understanding of the GST rules (Woodward & Tan, 2015).</p> <p>4. Most business owners fail to complete their GST returns correctly (Woodward & Tan, 2015).</p> <p>5. Most business owners would need to get help from tax consultant to ensure that they have worked out the right GST returns (Woodward & Tan, 2015).</p> | | |
|--|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|

| | | | | |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------|
| Detection Probability 5 items | Detection probability refers to the probability of investigation conducted for certain taxpayers who are likely to involve in tax evasion (Ser, 2013). | <p>1. The probability of being audited is so low, so it is worthwhile to understate a little amount of GST collected (Ser, 2013).</p> <p>2. I think the tax authority is incapable of finding out even I failed to pay GST (Ser, 2013).</p> <p>3. I think the likelihood of fraud being detected is still low even I am being audited (Ser, 2013).</p> | Interval | <p>5-point Likert scale</p> <p>1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly agree</p> |
| | Probability of detection means the chances for being detected if fail to withhold and comply tax (Devas, 2014). | 4. The likelihood of being caught for GST non-compliance is small (Devas, 2014). | | |

| | | | | |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------|
| | Detection probability refers to the probability of being detected by tax officers for under-reporting of tax (Verboon, 2007). | 5. SMEs who do not pay GST facing a low probability of being detected (Verboon, 2007). | | |
| Tax Knowledge 5 items | Tax knowledge refers to how well taxpayers understand the tax system and education on their social responsibility to pay tax (Redae & Sekhon, 2016). | <ol style="list-style-type: none"> 1. It is difficult to understand the GST system in Malaysia (Redae & Sekhon, 2016). 2. I cannot understand most of the laws and regulations relating to GST (Redae & Sekhon, 2016). 3. I have problem with completing and filing the GST return form(s) (Redae & Sekhon, 2016). | Interval | <p>5-point Likert scale</p> <p>1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly agree</p> |

| | | | | |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------|
| | Tax knowledge refers to how well taxpayers understand the tax system and their obligation to comply with tax (Mogeni, 2014). | <p>4. I do not know the requirement of keeping GST records/ documents for a period of seven years after submission of the GST Return (Mogeni, 2014).</p> <p>5. I do not realize that I should pay GST due within the stipulated period (Mogeni, 2014).</p> | | |
| <p>Compliance Cost</p> <p>5 items</p> | Compliance costs refer to the extra expenses that paid by the taxpayers in order to fulfill the tax requirements that levied by tax authorities other than the actual amount of tax paid (Gachiku, 2015). | <p>1. There are high labor fees (i.e. Consultancy fee) to comply with GST (Gachiku, 2015).</p> <p>2. There are substantial administration costs to comply with GST (Gachiku, 2015).</p> | Interval | <p>5-point Likert scale</p> <p>1=Strongly disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly agree</p> |

| | | | | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
| | Compliance costs includes direct costs, indirect costs and physiological costs incurred to comply with tax legislation and regulation (Faridy et al., 2014). | <p>3. Compliance with GST law is excessively burdensome and costly for taxpayers (Faridy et al., 2014).</p> <p>4. The GST compliance costs of our business are significant (Faridy et al., 2014).</p> <p>5. The burden of compliance costs discourages the owners to fulfill GST obligations (Faridy et al., 2014).</p> | | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|

Source: Developed for the research

The dependent variable of our research is GST non-compliance while independent variables are service quality of RMCD, tax complexity, compliance costs, tax knowledge and detection probability. 5-point Likert scale will be adopted to measure the items of constructs which range from “strongly disagree” to “strongly agree”. 5-point Likert scale is adopted by most researchers as it is faster and easier to understand (Mohamed, 2016).

3.5 Data Analysis Technique

3.5.1 Descriptive analysis

Zikmund, Babin, Carr and Griffin (as cited in Rehka, 2016) indicated that descriptive analysis is an investigating technique used to convert complex information and large amount of data into easy-to-understand summary of data.

3.5.1.1 Demographic Profile

The demographics of the target respondents (gender, age, state, sector and education) will be described in terms of frequency and percentage using tables and pie charts.

3.5.1.2 Central Tendencies of Construct Measurement

Mean and standard deviation will be calculated and presented in each construct in the questionnaire.

3.5.2 Scale Measurement

3.5.2.1 Reliability test

In order to enhance the accuracy of the assessment and evaluation, reliability test is adopted (Tavakol & Dennick, 2011). According to the study of Tavakol, Mohagheghi and Dennick (2008), reliability and ability of an instrument are interrelated to measure consistency. In this research, reliability test is adopted and Cronbach's alpha is used as a measurement of reliability. The Cronbach's Rule of Thumb is shown at the Table 3.4 below.

Table 3.4: Cronbach's Rule of Thumb

| Cronbach's alpha | Reliability Level |
|------------------------------|----------------------------|
| $\alpha \leq 0.70$ | Low reliability |
| $0.71 \leq \alpha \leq 0.80$ | Standard-level reliability |
| $0.81 \leq \alpha \leq 0.90$ | High reliability |
| $0.91 \leq \alpha \leq 0.95$ | Very high reliability |

Source: Kujipers, Van Der Ark & Croon (2013).

3.5.2.2 Normality Test

Normality test is adopted to test whether the data fits the standard normal distribution (Soberón & Stute, 2017). In this research, the normality test is tested by using the value of skewness and kurtosis. According to the research of Kline (as cited in Beadnell et al., 2008), the recommended rule of thumb for the value of kurtosis and skewness are within ± 10 and ± 3 respectively.

3.5.3 Inferential Analysis

3.5.3.1 Pearson's Correlation Coefficient Analysis

Pearson's correlation coefficient (r) is the measurement and description of the degree and strength of linear associations between variables (Ling, Osman, Arman Hadi, Muhammad Safizal & Rana, 2016). It displays the bivariate correlations between GST non-compliance among SMEs and each independent variable namely compliance cost, tax knowledge, detection probability, tax complexity and service quality of RMCD. The coefficients (r) range from -1.00 to +1.00 where the positive numbers indicating a positive relationship and vice versa (Ling et al., 2016). The nearer the Pearson's r value to 1, the deeper the correlation between both constructs. According to Wong and Hiew (2007), the correlation is weak if the coefficient value ranging from 0.10 to 0.29, moderate

if the value ranges from 0.30 to 0.49, and strong when the value ranges from 0.50 to 1.0. The problem of multicollinearity is deemed to exist when the variable exceeds the 0.90 cut-off point (Hair, Anderson, Tatham & Black, 1998). Multicollinearity is caused by the occurrence of singularity where the independent variable is found to be a combination of other variables as well (Sanusi, Noor, Omar, Sanusi & Alias, 2017). If the variables are highly related (i.e. correlation > 0.90), one of the variables should be omitted as they will result in erroneous statistics.

3.5.3.2 Multiple Linear Regression analysis

Regression analysis technique has been employed to analyse the linear and direct relationship between a number of predictor variables and the one and only dependent variable (Bidin, Mohd Shamsudin & Othman, 2014). MLR tests whether the independent variables are significantly associated with intention of GST non-compliance amongst taxpayers of SMEs registrant. There are 6 assumptions testing for MLR in our study:

H₀: There is no significant relationship between IVs and GST non-compliance.

H₁: There is a significant relationship between service quality of RMCD and GST non-compliance.

H₂: There is a significant relationship between tax complexity and GST non-compliance.

H₃: There is a significant relationship between detection probability and GST non-compliance.

H₄: There is a significant relationship between tax knowledge and GST non-compliance.

H₅: There is a significant relationship between compliance cost and GST non-compliance.

The equation of MLR for the research is formulated as below:

$$Y = a - b_1 (X_1) + b_2 (X_2) - b_3 (X_3) - b_4 (X_4) + b_5 (X_5) + e$$

Where

Y = DV = GST non-compliance

X₁ = IV 1 = Service quality of RMCD

X₂ = IV 2 = Tax complexity

X₃ = IV 3 = Detection probability

X₄ = IV 4 = Tax knowledge

X₅ = IV 5 = Compliance cost

CHAPTER 4: DATA ANALYSIS

4. 1 Pilot Test Analysis

Before final distribution of survey questionnaires, 20 sets of survey was allotted to each of the 20 GST registered SMEs. Pilot test was held amongst the owners of SMEs in KL, Selangor and Johor randomly. As the sample size is too small, only reliability and normality test are held for pilot test. There are some minor amendments made for the survey questionnaires.

4.1.1 Reliability Test

Bland and Altman (1997) suggested that α of 0.7 – 0.8 are considered as satisfactory for basic research whereas a much higher α of 0.9 is necessary for clinical application. The acceptable values of alpha, ranging from 0.70 to 0.95 is employed by various reports to ensure the internal consistency of a scale (Tavakol & Dennick, 2011). Table 4.1 describes the Cronbach's alpha value which is chosen to determine the constructs' reliability.

Table 4.1: Reliability Test (Pilot Test)

| Constructs | Number of Items | Cronbach's alpha value |
|-------------------------------------------|-----------------|------------------------|
| IV ₁ : Service quality of RMCD | 5 | 0.8257 |
| IV ₂ : Tax complexity | 5 | 0.8920 |
| IV ₃ : Detection probability | 5 | 0.8049 |
| IV ₄ : Tax knowledge | 5 | 0.8030 |
| IV ₅ : Compliance cost | 5 | 0.8562 |
| DV: GST non-compliance | 5 | 0.7905 |

Source: Developed for the research

From Table 4.1, it depicts that all of the constructs' Cronbach's alpha values range from 0.70-0.90 which are considered as acceptable and recommended. Hence, the reliability of pilot test is achieved statistically.

4.1.2 Normality Test

Kline (as cited in Aminu & Shariff, 2014) stated that the absolute value of Skewness and Kurtosis should not be more than 3 and 10 respectively as the benchmark for normal distribution of data. Table 4.2 depicts the values of Skewness and Kurtosis which is adopted to test the constructs' normality.

Table 4.2: Normality Test (Pilot Test)

| Constructs | Items | Skewness | Kurtosis |
|-------------------------------------------|-------|----------|----------|
| IV ₁ : Service quality of RMCD | SQ1 | -1.3396 | 5.0170 |
| | SQ2 | 0.2941 | 0.4574 |
| | SQ3 | -1.1045 | 2.6123 |
| | SQ4 | -0.7365 | 0.5737 |
| | SQ5 | 0.0376 | -0.3954 |
| IV ₂ : Tax complexity | TC1 | 0.5572 | -0.4548 |
| | TC2 | 0.7610 | -0.1587 |
| | TC3 | 0.5384 | -0.2769 |
| | TC4 | -0.0327 | -0.0728 |
| | TC5 | -0.0550 | -0.6327 |
| IV ₃ : Detection probability | DP1 | -0.5492 | -0.5481 |
| | DP2 | -0.1505 | 0.0818 |
| | DP3 | -0.5829 | -0.4593 |
| | DP4 | -0.0800 | -0.2498 |
| | DP5 | 0.1981 | 0.1509 |
| | TK1 | 0.2041 | -1.6174 |

| | | | |
|-----------------------------------|-----|---------|---------|
| IV ₄ : Tax knowledge | TK2 | -0.0356 | -0.5887 |
| | TK3 | -0.1127 | -0.4058 |
| | TK4 | -0.6991 | 0.8072 |
| | TK5 | -0.5531 | -0.8336 |
| IV ₅ : Compliance cost | CC1 | -0.6812 | 0.1701 |
| | CC2 | -0.3155 | -1.6675 |
| | CC3 | -0.2282 | -1.0612 |
| | CC4 | -0.4120 | -1.4343 |
| | CC5 | 0.0588 | -0.8591 |
| DV: GST non-compliance | NC1 | -0.6975 | -0.7616 |
| | NC2 | -0.3390 | 0.3695 |
| | NC3 | -0.3207 | -0.5766 |
| | NC4 | -0.0674 | -0.9637 |
| | NC5 | -0.0238 | -0.9332 |

Source: Developed for the research

From Table 4.2, it presents the values of Skewness for all items in the constructs range between -1.3396 to 0.7610 which fall within acceptable ± 3 and the values of Kurtosis range from -1.6675 to 5.0170 that also fall within the required ± 10 . Hence, it concluded that the data distribution is normal.

The results of pilot test satisfy both reliability and normality tests. It indicates that the data is reliable, valid and normally distributed which can subsequently been distributed for data collection.

4.2 Descriptive Analysis

4.2.1 Respondents Demographic Profile

Section A of the questionnaire consists of 5 questions (i.e. gender, age, state, sector and education) which include the demographic information of the target respondents.

4.2.1.1 Gender

Figure 4.1: Percentage of Respondents based on gender

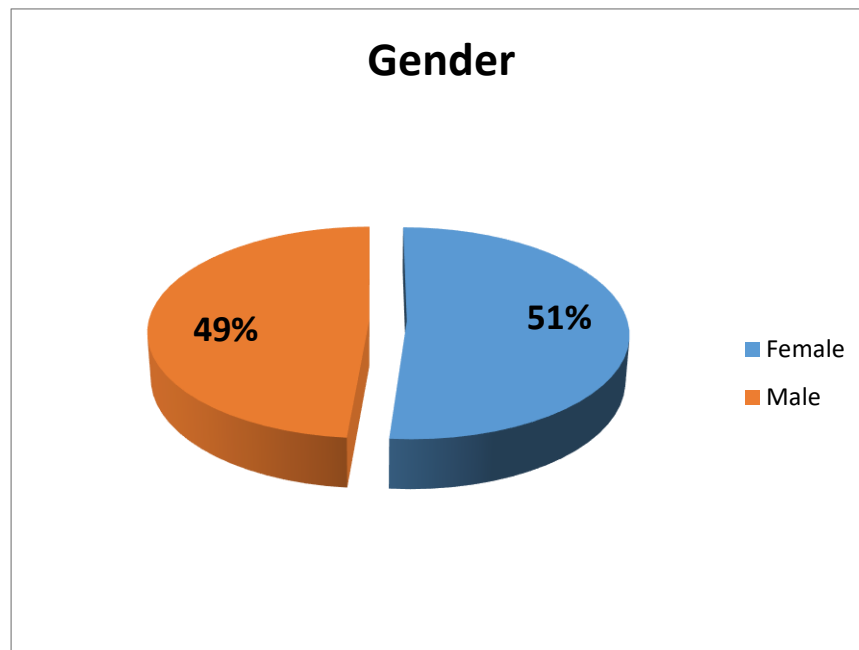


Table 4.3: Gender of Respondents

| Gender | Frequency | Percentage (%) |
|--------|-----------|----------------|
| Female | 127 | 51.42 |
| Male | 120 | 48.58 |
| Total | 247 | 100 |

Source: Developed for the research

Figure 4.1 and Table 4.3 illustrate that 127 respondents (51.42%) are females and the rest of 120 respondents (48.58%) are males.

4.2.1.2 Age

Figure 4.2: Percentage of Respondents based on age

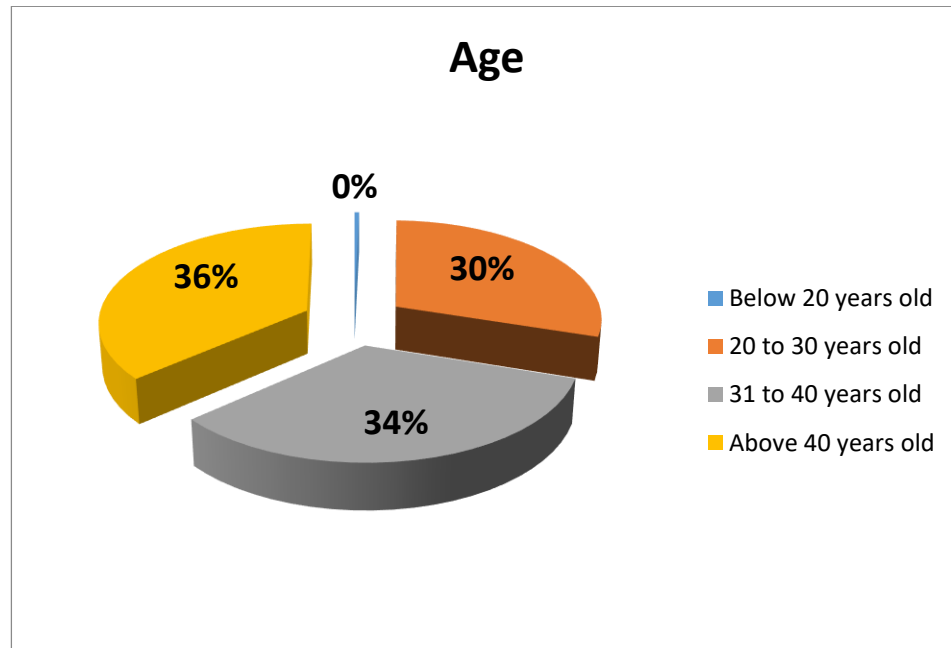


Table 4.4: Age of Respondents

| Age | Frequency | Percentage (%) |
|--------------------|-----------|----------------|
| Below 20 years old | 1 | 0.40 |
| 20 to 30 years old | 73 | 29.55 |
| 31 to 40 years old | 83 | 33.60 |
| Above 40 years old | 90 | 36.44 |
| Total | 247 | 100 |

Source: Developed for the research

Figure 4.2 and Table 4.4 illustrate that only 0.40% of the respondents belongs to the age group of less than 20 years old, and 29.55% of the respondents belongs to the age group of 20 to 30 years old. 83 respondents (33.60%) are

belonged to the age group of 31 to 40 years old. Besides, 36.44% of the respondents falls within the age group of above 40 years old.

4.2.1.3 State

Figure 4.3: Percentage of Respondents based on state

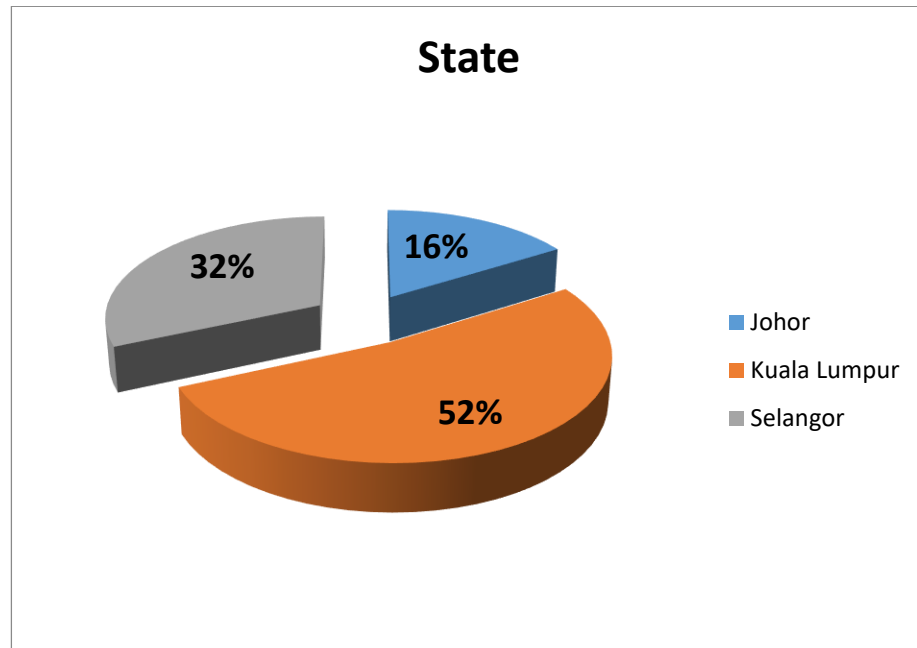


Table 4.5: State of Respondents

| State | Frequency | Percentage (%) |
|--------------|-----------|----------------|
| Johor | 40 | 16.19 |
| Kuala Lumpur | 129 | 52.23 |
| Selangor | 78 | 31.58 |
| Total | 247 | 100 |

Source: Developed for the research

Based on the above table and figure, 16.19% (40 respondents) of the respondents are from Johor, followed by 52.23% (129 respondents) from Kuala Lumpur and the rest of 31.58% (78 respondents) respondents are from Selangor.

4.2.1.4 Sectors

Figure 4.4: Percentage of Respondents based on sector

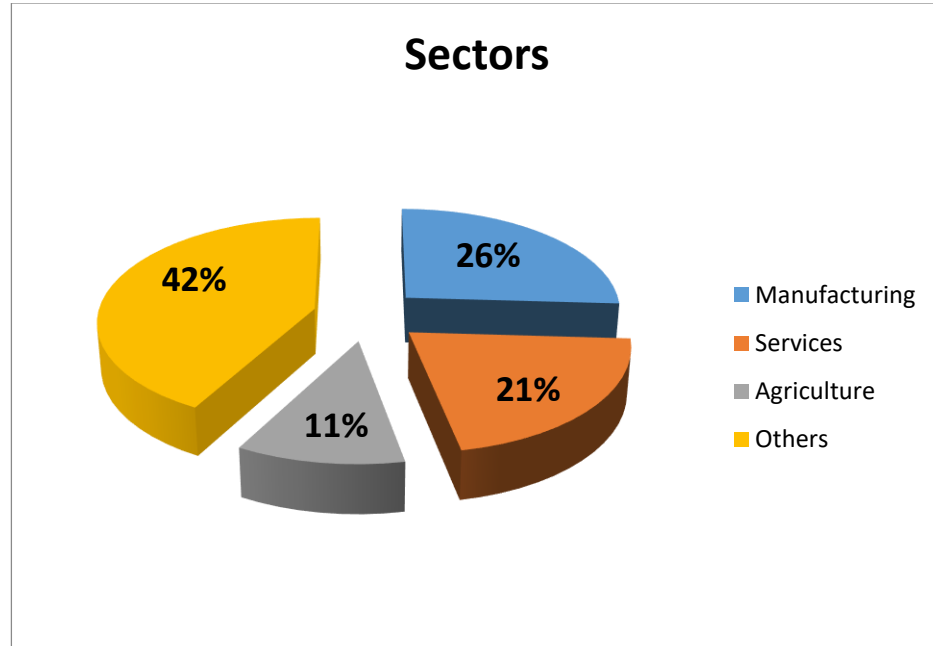


Table 4.6: Sector of Respondents

| Sector | Frequency | Percentage |
|---------------|-----------|------------|
| Manufacturing | 64 | 25.91 |
| Services | 52 | 21.05 |
| Agriculture | 27 | 10.93 |
| Others | 104 | 42.11 |
| Total | 247 | 100 |

Source: Developed for the research

The above table and figure illustrate 4 different sectors which are manufacturing, services, agriculture and others in which our respondents engage in. 64 (25.91%) respondents work in manufacturing industries, 52 (21.05%) respondents dedicate to services sectors, and only 27 (10.93%) respondents engage in agriculture industries. A large portion of (42.11%) respondents contribute in other sectors such as construction sector.

4.2.1.5 Highest Education

Figure 4.5: Percentage of Respondents based on highest education

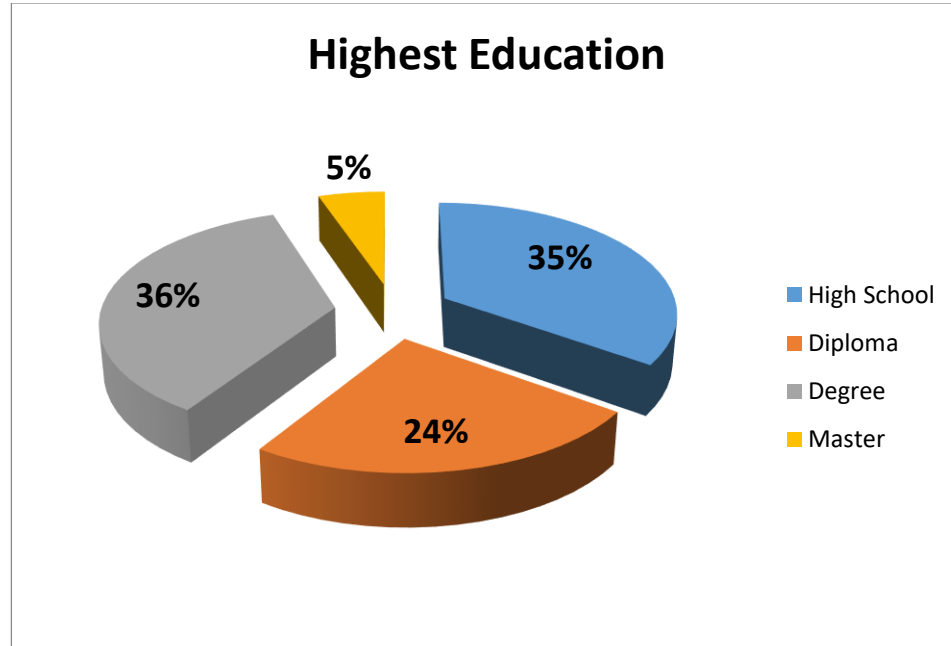


Table 4.7: Highest Education of Respondents

| Highest education | Frequency | Percentage (%) |
|-------------------|-----------|----------------|
| High School | 86 | 34.82 |
| Diploma | 60 | 24.29 |
| Degree | 88 | 35.63 |
| Master | 13 | 5.26 |
| Total | 247 | 100 |

Source: Developed for the research

The figure and table above demonstrate the highest education received by the respondents. There are 86 (34.82%) respondents study only till high school level, 60 (24.29%) respondents own a diploma education, 88 (35.63%) of the respondents possess a degree certificate and just 13 (5.26%) respondents obtain a master's.

4.2.2 Central Tendencies of Construct Measurement

The descriptive analyses of the variables are discussed in this section. In this research, the constructed items are measured by 5-point Likert scale which the respondents have answered the questionnaires based on [(1) = strongly disagree; (2) = disagree; (3) = neutral; (4) = agree and (5) = strongly agree] response framework. As our survey questionnaires consist of both positive and negative items, the negative items are reversed score by [(5) = strongly disagree; (4) = disagree; (3) = neutral; (2) = agree and (1) = strongly agree] response framework. The mean and standard deviation for negative items are computed based on the recoded results; while the positive items are measured using the initial results. The negative items are the statements from service quality of RMCD (SQ), detection probability (DP) and tax knowledge (TK); whereas positive items are statements from tax complexity (TC), compliance cost (CC), and the dependent variable GST non-compliance (NC).

4.2.2.1 Independent variable: Service Quality of RMCD (SQ)

Table 4.8: Mean and standard deviation for service quality of RMCD (SQ)

| Items | Description | Mean | Standard deviation |
|-------|-----------------------------------------------------------|--------|--------------------|
| SQ1 | RMCD officers are always unavailable to assist taxpayers. | 2.7895 | 0.9130 |
| SQ2 | RMCD officers are untrustworthy. | 2.9717 | 0.8478 |
| SQ3 | RMCD officers are discourteous when assisting taxpayers. | 2.7773 | 0.8666 |
| SQ4 | RMCD officers are unable to provide accurate and precise | 2.4575 | 0.8393 |

| | | | |
|-----|------------------------------------------------------------------|--------|--------|
| | information when managing taxpayers' problem. | | |
| SQ5 | RMCD officers are weak and poor in communicating with taxpayers. | 2.4939 | 0.8689 |

Source: Developed for the research

Service quality of RMCD was evaluated using mean and standard deviation scores (Table 4.8). SQ2 has scored the highest mean (2.9717), whilst SQ4 has scored the lowest mean (2.4575). This showed that most of target respondents moderately agree with “RMCD officers are unable to provide accurate and precise information when managing taxpayers’ problem” but slightly agree with “RMCD officers are untrustworthy”. On the other hand, SQ1 has scored the highest standard deviation of 0.9130, whilst SQ4 has scored lowest of 0.8393.

4.2.2.2 Independent variable: Tax Complexity (TC)

Table 4.9: Mean and standard deviation for tax complexity (TC)

| Items | Description | Mean | Standard deviation |
|-------|--------------------------------------------------------------------|--------|--------------------|
| TC1 | GST rules in Malaysia are relatively complex. | 3.6194 | 0.9332 |
| TC2 | I doubt my ability to complete GST return properly. | 3.4494 | 0.9566 |
| TC3 | Most business owners have bad understanding of the GST rules. | 3.4980 | 0.9580 |
| TC4 | Most business owners fail to complete their GST returns correctly. | 3.5668 | 0.9341 |

| | | | |
|-----|----------------------------------------------------------------------------------------------------------------------------|--------|--------|
| TC5 | Most business owners would need to get help from tax consultant to ensure that they have worked out the right GST returns. | 4.1336 | 0.8662 |
|-----|----------------------------------------------------------------------------------------------------------------------------|--------|--------|

Source: Developed for the research

The mean and standard deviation of tax complexity are shown in Table 4.9. TC5 has yielded the highest mean (4.1336), followed by TC1 (3.6194), TC4 (3.5668), TC3 (3.4980), and lastly TC2 (3.4494). This showed that most of target respondents have strong agreement with statement that most business owners would need to get assistance from tax consultant to complete their GST returns, and moderate agreement with other statements (TC1, TC4, TC3, and TC2). Besides, TC3 has recorded the highest standard deviation (0.9580), while TC5 has recorded the lowest standard deviation (0.8662).

4.2.2.3 Independent variable: Detection Probability (DP)

Table 4.10: Mean and standard deviation for detection probability (DP)

| Items | Description | Mean | Standard deviation |
|-------|-----------------------------------------------------------------------------------------------------------------|--------|--------------------|
| DP1 | The probability of being audited is so low, so it is worthwhile to understate a little amount of GST collected. | 2.9838 | 1.1440 |
| DP2 | I think the tax authority is incapable of finding out even I failed to pay GST. | 3.6073 | 1.0299 |

| | | | |
|-----|--------------------------------------------------------------------------------------|--------|--------|
| DP3 | I think the likelihood of fraud being detected is still low even I am being audited. | 3.7085 | 0.9939 |
| DP4 | The likelihood of being caught for GST non-compliance is small. | 3.1660 | 0.9963 |
| DP5 | SMEs who do not pay GST facing a low probability of being detected. | 3.2348 | 0.9926 |

Source: Developed for the research

Amongst the statements illustrated in Table 4.10, DP1 has the lowest mean (2.9838) that indicated the target respondents slightly agree with the statement “The probability of being audited is so low, so it is worthwhile to understate a little amount of GST collected”; whereas DP3 scored the highest mean (3.7085) which indicated that the respondents moderately disagree with the statement “I think the likelihood of fraud being detected is still low even I am being audited.”. The standard deviation for DP1 scored the highest (1.1440), while DP5 scored the lowest (0.9926) amongst the statements.

4.2.2.4 Independent variable: Tax Knowledge (TK)

Table 4.11: Mean and standard deviation for tax knowledge (TK)

| Items | Description | Mean | Standard deviation |
|-------|---------------------------------------------------------------------------------------------------------------------------------|--------|--------------------|
| TK1 | It is difficult to understand the GST system in Malaysia. | 2.5668 | 0.8803 |
| TK2 | I cannot understand most of the laws and regulations relating to GST. | 2.5789 | 0.9111 |
| TK3 | I have problem with completing and filing the GST return form(s). | 2.5344 | 0.9315 |
| TK4 | I do not know the requirement of keeping GST records/ documents for a period of seven years after submission of the GST Return. | 2.7368 | 0.9281 |
| TK5 | I do not realize that I should pay GST due within the stipulated period. | 3.0121 | 0.9856 |

Source: Developed for the research

Table 4.11 stated that TK3 has scored the lowest mean (2.5344) which determined that the respondents moderately agree with they are having problem in completing and filing the GST return forms. In contrast, the highest mean amongst the items was TK5 (3.0121), which indicated that the respondents only slightly disagreed with they do not realize that they should pay GST due within

stipulated period. Apart from mean, the highest standard deviation for this variable is TK5 (0.9856), whilst the lowest is TK1 (0.8803).

4.2.2.5 Independent variable: Compliance Cost (CC)

Table 4.12: Mean and standard deviation for compliance cost (CC)

| Items | Description | Mean | Standard deviation |
|-------|-----------------------------------------------------------------------------------|--------|--------------------|
| CC1 | There are high labor fees (i.e. Consultancy fee) to comply with GST. | 3.9028 | 0.8305 |
| CC2 | There are substantial administration costs to comply with GST. | 3.7490 | 0.8936 |
| CC3 | Compliance with GST law is excessively burdensome and costly for taxpayers. | 3.8300 | 0.9432 |
| CC4 | The GST compliance costs of our business are significant. | 3.8178 | 0.8714 |
| CC5 | The burden of compliance costs discourages the owners to fulfill GST obligations. | 3.5142 | 1.0275 |

Source: Developed for the research

The mean and standard deviation for compliance cost variable are captured in Table 4.12. CC1 showed the highest mean (3.9028), followed by CC3 (3.8300), CC4 (3.8178), CC2 (3.7490), and lastly CC5 (3.5142). This indicated that majority of target respondents have strong agreement with statement on “There are high labor fees to comply with GST”, and moderate agreement with other statements (CC3, CC4, CC2, and CC5). Furthermore, CC5 has recorded the

highest standard deviation (1.0275); whereas CC1 has recorded the lowest standard deviation (0.8305).

4.2.2.6 Dependent variable: GST non-compliance (NC)

Table 4.13: Mean and standard deviation for GST non-compliance (NC)

| Items | Description | Mean | Standard deviation |
|-------|--------------------------------------------------------------------------------------------------|--------|--------------------|
| NC1 | GST is just an expense of the business that we try to minimize. | 3.6923 | 0.9555 |
| NC2 | I would not report my sales income fully to underreport GST. | 2.4332 | 0.9384 |
| NC3 | I attempt to cheat by omitting to report sales income to avoid GST. | 2.3077 | 0.9384 |
| NC4 | Paying the correct amount of GST is not my civic duty. | 2.9271 | 1.0255 |
| NC5 | Paying the correct amount of GST has no significant contribution to the development of Malaysia. | 3.2308 | 1.1259 |

Source: Developed for the research

The views of respondents on GST non-compliance are provided in Table 4.13. The highest mean score of NC1 (3.6923) indicates the moderate agreement of respondents with the statement “GST is just an expense of the business that we try to minimize”; in contrast, the lowest mean score of NC3 (2.3077) indicates the moderate disagreement with the statement “I attempt to cheat by omitting to report sales income to avoid GST”. Moreover, NC5 has scored the highest standard deviation (1.1259) while NC2 and NC3 have the lowest standard deviation (0.9384).

4.3 Scale Measurement

4.3.1 Reliability Test

Table 4.14: Reliability Test

| Independent Variables | Number of Item | Cronbach's alpha |
|------------------------------|----------------|------------------|
| Service Quality Of RMCD (SQ) | 5 | 0.8376 |
| Tax Complexity (TC) | 5 | 0.7842 |
| Detection Probability (DP) | 5 | 0.8568 |
| Tax Knowledge (TK) | 5 | 0.8371 |
| Compliance Cost (CC) | 5 | 0.8544 |
| Dependent Variable | | |
| GST non-compliance (NC) | 5 | 0.7252 |

Source: Developed for the research

Table 4.14 shows the reliability data in which the values of Cronbach's alpha range from 0.7252 to 0.8568. According to the study of Kujipers et al. (2013), TC and NC have standard-level reliability while SQ, DP, TK and CC have high reliability. In short, all of the variables have met the rule of Thumb for Cronbach's alpha test and the questionnaires adopted in this study are reliable.

4.3.2 Normality Test

Table 4.15: Normality Test

| Independent Variables | Items | Skewness | Kurtosis |
|---------------------------|-------|----------|----------|
| Service Quality of RMCD | SQ1 | 0.2036 | -0.5140 |
| | SQ2 | -0.3092 | -0.2069 |
| | SQ3 | -0.1187 | -0.6100 |
| | SQ4 | 0.3015 | -0.1082 |
| | SQ5 | 0.3936 | -0.2975 |
| Tax Complexity | TC1 | -0.2915 | -0.7593 |
| | TC2 | -0.1915 | -0.6211 |
| | TC3 | -0.3858 | -0.2237 |
| | TC4 | -0.3015 | -0.3960 |
| | TC5 | -0.9431 | 0.7588 |
| Detection Probability | DP1 | 0.1961 | -0.9596 |
| | DP2 | -0.4602 | -0.4484 |
| | DP3 | -0.4899 | -0.2647 |
| | DP4 | 0.08398 | -0.8346 |
| | DP5 | -0.1087 | -0.6881 |
| Tax Knowledge | TK1 | 0.6058 | -0.2324 |
| | TK2 | 0.4789 | -0.4022 |
| | TK3 | 0.5683 | 0.1192 |
| | TK4 | 0.1168 | -0.7702 |
| | TK5 | -0.1529 | -0.7568 |
| Compliance Cost | CC1 | -0.8036 | 0.6295 |
| | CC2 | -0.7246 | 0.3213 |
| | CC3 | -0.7088 | 0.2107 |
| | CC4 | -0.5290 | -0.0948 |
| | CC5 | -0.1178 | -0.9443 |
| Dependent Variable | | | |
| GST non-compliance | NC1 | -0.4766 | -0.1925 |
| | NC2 | 0.3737 | -0.0092 |
| | NC3 | 0.5696 | 0.1078 |
| | NC4 | -0.0583 | -0.7946 |
| | NC5 | -0.2065 | -0.8206 |

Source: Developed for the research

The table above shown the normality test which is tested using the values of Skewness and Kurtosis. The table above revealed that the Skewness values range from -0.9431 to 0.6058. The item with the highest Skewness value is TK1

while the lowest is TC5. Besides, the Kurtosis values range from 0.7588 to -0.9596 and the item with the highest Kurtosis value is TC5 while the lowest is DP1. According to the study of Kline, the rule of thumb for the value of Skewness and Kurtosis are within ± 3 and ± 10 respectively, hence, the normality test shown in the Table 4.15 has fitted the standard of normal distribution.

4.4 Inferential Analysis

4.4.1 Pearson Correlation Analysis

Table 4.16: Pearson Correlation Test

| Variables | NC |
|-----------|---------|
| SQ | -0.4368 |
| | <.0001 |
| TC | 0.3272 |
| | <.0001 |
| DP | -0.4893 |
| | <.0001 |
| TK | -0.4005 |
| | <.0001 |
| CC | 0.1591 |
| | 0.0123 |

Source: Formulated for the research

Pearson Correlation Analysis is being adopted to indicate the magnitude of connection between five predictor variables and one dependent variable (as shown in Table 4.16). Since the p-values are not more than 0.05, it is obvious that all the predictor variables have a significant connection with GST non-compliance. The survey outcome shows that TC and CC were positively and significantly related to NC as their r-value are positive. However, SQ, DP and TK were negatively and significantly related to NC as their r-value are negative. Furthermore, CC (r-value < 0.3) has a weak relationship with NC whereas SQ, TC, DP and TK have moderate significant correlation with NC as their r-value are more than 0.3 but less than 0.5.

Table 4.17: Pearson Correlation Test between independent variables

| Variables | SQ | TC | DP | TK | CC |
|-----------|---------|---------|---------|---------|--------|
| SQ | 1.0000 | | | | |
| TC | -0.4985 | 1.0000 | | | |
| DP | 0.3640 | -0.1012 | 1.0000 | | |
| TK | 0.3781 | -0.5205 | 0.3436 | 1.0000 | |
| CC | -0.1999 | 0.4583 | -0.0181 | -0.3905 | 1.0000 |

Source: Developed for the research

In accordance to Table 4.17, multicollinearity problem does not exist as the relationship among five independent variables is not more than 90%.

4.4.2 Multiple Linear Regressions (MLR)

Table 4.18: Model summary

| | | | |
|----------------------|---------|-------------------|--------|
| Root MSE | 0.5593 | R-Square | 0.3557 |
| Dependent Mean | 2.9182 | Adjusted R-Square | 0.3424 |
| Coefficient Variance | 19.1667 | | |

Source: Developed for the research

According to Table 4.18, the R-square value is 0.3557 which depicts that 35.57% variation in GST non-compliance can be accounted for by the variation in service quality of RMCD, tax complexity, detection probability, tax knowledge and compliance cost. In other words, approximately 64.43% of the changes is explained by other predictors (IVs) that are not tested in this study.

Table 4.19: Analysis of Variance (ANOVA)

| Analysis of Variance | | | | | |
|----------------------|-----|----------------|-------------|---------|---------|
| Source | DF | Sum of Squares | Mean square | F Value | Pr> F |
| Model | 5 | 41.6324 | 8.3265 | 26.62 | <0.0001 |
| Error | 241 | 75.3956 | 0.3128 | | |
| Corrected Total | 246 | 117.0280 | | | |

Source: Developed for the research

From Table 4.19, the F-value is 26.62 with p-value < 0.0001 (which is less than 0.05) which depicts that GST non-compliance can be modelled by at least one IV amongst all. Thus, a model fit is achieved.

Table 4.20: Parameter Estimates of Constructs

| Parameter Estimates | | | | | | | | |
|---------------------|----|--------------------|----------------|---------|---------|-----------------------|-----------|--------------------|
| Variable | DF | Parameter Estimate | Standard Error | t Value | Pr > t | Standardized Estimate | Tolerance | Variance Inflation |
| Intercept | 1 | 4.3531 | 0.4350 | 10.01 | <0.0001 | 0 | . | 0 |
| SQ average | 1 | -0.1966 | 0.0655 | -3.00 | 0.0030 | -0.1925 | 0.6501 | 1.5382 |

| | | | | | | | | |
|---------------|---|---------|--------|-------|-------------|---------|--------|--------|
| TC average | 1 | 0.1214 | 0.0714 | 1.70 | 0.09 03 | 0.1199 | 0.5374 | 1.8609 |
| DP average | 1 | -0.3004 | 0.0493 | -6.09 | <0.0 001 | -0.3588 | 0.7705 | 1.2979 |
| TK average | 1 | -0.1340 | 0.0633 | -2.12 | 0.03 52 | -0.1403 | 0.6096 | 1.6405 |
| CC average | 1 | 0.0041 | 0.0566 | 0.07 | 0.94 22 | 0.0043 | 0.7482 | 1.3365 |

Source: Formulated for the study

From Table 4.20, it displays the relationship between five IVs and a single DV. Hair Jr et al. and Pallant (as cited in Aminu & Shariff, 2014) suggested a threshold of tolerance and Variance Inflation factor (VIF) of greater than 0.1 and less than 10 respectively in order to avoid multicollinearity. Since all the IVs have tolerance values more than 0.1 and VIF lesser than 10, there is no multicollinearity problem.

Besides, the p-value for SQ, DP and TK are less than 0.05, indicating that those IVs have significant relationship with GST non-compliance. Whereas, p-value for TC and CC are more than 0.05, which may not significantly related with GST non-compliance.

The MLR equation derived from Table 6.0 is as below:

$$\text{GSTNC} = 4.3531 - 0.1966(\text{SQ}) + 0.1214(\text{TC}) - 0.3004(\text{DP}) - 0.1340(\text{TK}) + 0.0041(\text{CC})$$

SQ and GST non-compliance are negatively correlated. For every increase in SQ, GST non-compliance will decrease by 0.1966, provided that other variables remain unchanged.

TC and GST non-compliance are positively correlated. However, the p-value of TC is 0.0903 (>0.05), implying that there is insignificant association between TC and GST non-compliance.

DP and GST non-compliance are negatively correlated. When DP surges by 1 unit, GST non-compliance will decline by 0.3004 with no change in other IVs.

TK and GST non-compliance are negatively correlated. When TK rises by 1 unit, GST non-compliance will drop by 0.1340, provided that remaining four IVs remain unchanged.

CC and GST non-compliance are positively correlated. However, the p-value of CC is 0.9422, which is larger than the 0.05 significance level. It implies that the hypothesis is rejected and hence CC is not significantly related to GST non-compliance.

CHAPTER 5: DISCUSSION, CONCLUSION AND IMPLICATIONS

5.1 Summary of Statistical Analyses

5.1.1 Descriptive Analysis

5.1.1.1 Respondent Demographic Profile

Based on the results of chapter 4, 51.42% of the respondents are female and 48.58% of the respondents are male. Most targeted respondents (36.44%) fall within the age group of over 40 years old and majority of them is working in other sectors (42.11%). Besides, the data exhibits that 88 out of 247 respondents (35.63%) own a degree certificate while 129 out of 247 respondents (52.23%) are from Kuala Lumpur.

5.1.1.2 Central Tendencies Measurement of Constructs

By referring to Table 4.8 in chapter 4, the second item of service quality of RMCD has the highest mean score of 2.9717. Whereas, the fifth item for tax complexity, the third item for detection probability, the fifth item of tax knowledge and the first item for compliance cost scored the highest mean values among the items under each construct. For dependent variable (GST non-compliance), the first item has the highest mean score value of 3.6923.

5.1.2 Scale Measurement

5.1.2.1 Reliability Test: Cronbach's Alpha

As noted in Table 4.14, the Cronbach's alpha coefficient for all the variables ranges from 0.7252 to 0.8568, which exceed 0.7, the required minimum level of reliability. Thus, all the items are reliable and can be applied in the questionnaire.

5.1.2.2 Normality Test: Skewness & Kurtosis

Table 4.15 in previous chapter illustrates that the critical values of Skewness range from -0.9431 to 0.6058 while the critical values of kurtosis range between -0.9596 and 0.7588. Therefore, the result has shown that all the values of Skewness and Kurtosis conform to the normality assumptions.

5.1.3 Inferential Analysis

5.1.3.1 Pearson Correlation Analysis

5.1.3.1.1 Correlation among the Independent Variables

Table 4.17 shows that Pearson correlation coefficients of all the independent variables are not more than 0.90 which means correlation between all independent variables are not high. Therefore, multicollinearity problem does not exist.

5.1.3.1.2 Correlation between the Independent Variables and Dependent Variable

Based on the Table 4.16, service quality of RMCD, detection probability and tax knowledge have negative and significant relationship with GST non-compliance. On the contrary, tax complexity and compliance costs have positive and significant relationship with the dependent variable.

5.1.3.2 Multiple Linear Regression Analysis

The null hypotheses for three independent variables (service quality of RMCD, detection probability and tax knowledge) are rejected because their p-value is less than 0.05. On the contrary, the p-values for the other two independent variables (tax complexity and compliance cost) are above the significance level, $\alpha = 0.05$. Hence, the null hypotheses for these two variables are accepted. Therefore, service quality of RMCD, detection probability and tax knowledge are significantly related to GST non-compliance. However, the rest independent variables (tax complexity and compliance cost) are not significantly related to GST non-compliance.

5.2 Discussion of Major Findings

5.2.1 Service quality of RMCD

H1: There is a negative relationship between service quality of RMCD and non-compliance of GST.

The hypothesized inverse relationship between service quality of RMCD and non-compliance of GST among Malaysia SMEs was accepted in this research. The outcome is consistent with the previous researches of Mohamed (2016), Al-Ttaffi and Abdul-Jabbar (2016) and Fadzilah, Mustafa and Putri (2017) which stated that service quality is significantly connected to non-compliance of tax.

The reason that service quality of RMCD has an impact on non-compliance behavior is because SME taxpayers' satisfaction will increase when they discovered that the service quality provided by tax officers enable them to fulfill their obligations to comply with tax efficiently (Tan, Salleh & Kassim, 2016). According to our survey done amongst SMEs in Kuala Lumpur, Johor and Selangor, most of the SMEs taxpayers claimed that the service quality of RMCD is quite bad as they are unable to communicate well with taxpayers who have encountered problems.

As mentioned by Al-Ttaffi and Abdul-Jabbar (2016), taxpayers will perceive the service quality of tax officers as bad if they are unpleasant with the service rendered as service quality is having an influential role in the degree of satisfaction of taxpayers, and subsequently brings impact on their intention to comply with tax. Moreover, our respondents agreed that the service quality of RMCD largely depends on the duration of time to wait for service, to respond

to the written request of taxpayers and the accuracy of the information provided (Crandall, 2010).

Thus, this signified that satisfaction of taxpayers can be raised through enhancing service quality to taxpayers. In addition, better service quality of tax authorities may reduce burden of taxpayers which will in turn strengthen their willingness to comply with taxes (Fadzilah, Mustafa & Putri, 2017).

5.2.2 Tax Complexity

H2: There is a positive relationship between tax complexity and non-compliance of GST.

The outcome drawn from MLR revealed that there is an insignificant connection between tax complexity and non-compliance of GST. Thus, H2 is rejected in this study. The outcome is inconsistent with the former empirical researches of Sapiei, Kasipillai and Eze (2014), Saad (2012) and Belay and Viswanasham (2016) which stated tax complexity is related to non-compliance of tax.

There are several researchers have failed to prove the relationship between tax complexity and tax evasion (Freudenberg & Sarker, 2014) as tax lawyers and tax accountants claimed that tax laws and regulations are not considered complex to them since they are able to understand all the tax rules and regulations (Belay & Viswanasham, 2016). In our research, tax accountant is also one of our target respondents who claimed that the complexity of GST depends on the time taken to prepare GST returns which includes tax planning and time taken to obtain advices from tax consultants (Gambo, Mas'ud, Nasidi & Oyewole, 2014). In addition, many of them stated that they will not take much time on doing that kind of things. Based on our results, tax complexity is

surprisingly less influential for non-compliance of GST. Implicitly, tax complexity is commonly accepted by taxpayers as it cannot assure better tax system and rigidity.

5.2.3 Probability of Detection

H3: There is a negative relationship between probability of detection and non-compliance of GST.

Based on the context of this research, there is a negative correlation between detection probability and non-compliance of GST. Therefore, the result of H3 is accepted. This result was demonstrated by several previous empirical studies, especially on VAT (Naibei, 2012), corporate tax (Palil, Hamid & Hanafiah, 2013) and income tax (Kennedy & Anyaduba, 2014) aspects.

According to Kiri (2016), taxpayers are risk-adverse individuals, they will only comply with tax when there is a high chance of being detected. This is because they will be sanctioned once they are detected and caught for involving in non-compliance activities (Ser, 2013).

The results are in line with the previous study (Lawan, 2017) which stated that detection probability is positively related to tax compliance behavior. This showed that the taxpayers tend to agree that it is normal for them to try to avoid paying taxes so the only reason for them not to do that is when there is a high tendency of tax authorities to find out their tax evasion behavior. This is demonstrated in our research, as majority of the SME taxpayers may try to evade GST if there is a low probability of being detected by tax authorities. Apart from that, they also agree that those SME taxpayers who have been detected for non-compliance behavior before are deemed to have undergone direct deterrent effect as compared to taxpayers that are not being detected.

Hence, it is obvious that detection probability directly influence tax non-compliance as the discouragement for tax non-compliance increases with the potential detection probability (Berhane, 2011).

5.2.4 Tax Knowledge

H4: There is a negative relationship between tax knowledge and non-compliance of GST.

The result of MLR has validated that tax knowledge is negatively related to non-compliance of GST. Thus, H4 is accepted in this study. The result is correspondent with the studies of Sinnasamy and Bidin (2017), Inasius (2015), and Oladipupo and Obazee (2016) which proved there is a significant correlation between tax knowledge and tax evasion behavior.

Ayuba, Saad and Ariffin (2016) found out that Malaysia taxpayers' compliance behavior is influenced by the knowledge and comprehension of tax. It is congruent with our research where SMEs claimed that the more tax knowledge they possess, they will have greater ability to understand most of the rules and regulations of tax, thus the greater the intention to comply with tax (Singh, 2012).

In this research, tax knowledge has the same influence with previous research (Sinniah, 2015) which mentioned that taxpayers who are highly educated are less likely to be disobedient as they are able to cope with the rebelliousness opportunities. This outcome is supported in our research and the correlation stated that most of the knowledgeable respondents (i.e. degree and master graduated taxpayers) agreed that they will be mindful of moral development that leads to ethical behavior which is complying with tax (Ayuba, Saad & Ariffin, 2016)

Nevertheless, there were a few researchers claimed that tax knowledge is insignificantly correlated with compliance behavior as some taxpayers tend to manipulate tax knowledge as a tool to earn money by performing non-compliance behavior. Thus, there were mix findings discovered in explaining tax knowledge and non-compliance of tax (Sinnasamy & Bidin, 2017).

5.2.5 Compliance Cost

H5: There is a positive relationship between compliance cost and non-compliance of GST.

The result of our study has shown that compliance cost is insignificantly related to non-compliance of GST. Thus, the hypothesis above is rejected. This result opposes the past studies of Xin et al. (2015), Faridy et al. (2014), and Nzioki and Peter (2014) in which they recognized that compliance cost has significant impact on GST non-compliance.

This may due to the lower recurrent cost of complying with GST. Although the implementation of GST system may initiate a one-off substantial commencement cost at the beginning, SMEs will begin to adapt and become familiar with GST requirements which will finally evolve into lower and affordable recurrent costs (Sapiei et al., 2017). In our study, SMEs commented that the compliance cost of fulfilling GST obligations becomes lower gradually. Consequently, the non-compliance of GST is being reduced as the cost reductions may prove that the GST registered SMEs are accustomed and equipped with the well-established GST system in which the external (advisory fees), internal (staff costs) and software costs would be recovered by their sales turnover (Sapiei et al., 2017).

Besides, the past studies conducted by Abdul-Jabbar (2009) and Sapiei et al. (2014) were unable to prove any significant correlation between compliance cost and tax non-compliance behavior. Our respondents agreed that compliance costs may not necessary be a burden to them as tax compliance benefits in the form of cash flow benefits and managerial benefits will be included to come out with a net tax compliance costs. The cash flow and managerial benefits in complying with GST should be acknowledged (Faridy, 2015). Tax compliance benefits will make SMEs more compliant with GST. Thus, compliance cost incurred is insignificantly related to GST non-compliance.

5.3 Implications of the Study

5.3.1 Theoretical Implications

This study has identified some factors that have significantly influenced the intention of GST non-compliance. Service quality of RMCD, probability of detection and tax knowledge have been empirically proven that they are significant predictors of GST non-compliance. This study has adopted TPB and Deterrence Theory in investigating the intention of GST non-compliance among GST registrant of SMEs. It provides a constructive and different insight in studying constructs comprised in TPB and Deterrence Theory which may lead to GST non-compliance.

This study contributes to the scarce GST non-compliance research in Malaysian SMEs context. Similar past studies have been conducted intensively on factors affecting GST compliance but rarely on GST non-compliance. The findings is beneficial and comprehensive to future researchers who wish to investigate this issue in depth.

5.3.2 Practical Implications

Based on the findings, probability of detection has the strongest negative relationship with GST non-compliance. It is ascertained that GST taxpayers are fearful of the consequences of GST non-compliance. Therefore, RMCD and relevant authorities should regularly review the documentation and filing of GST by SMEs so that the intention of GST non-compliance would be significantly deducted.

Besides, service quality of RMCD has significant influence towards GST non-compliance. This provides that good and sound service quality of RMCD and relevant authorities can enhance GST compliance. The management of RMCD should devise a plan that gives more consideration to clients' requirements and satisfaction level. An excellent tax service quality will surely boost the consumers' satisfaction which result in higher level of GST compliance.

Tax knowledge plays a vital role in influencing GST non-compliance also. When SME registrants possess the required and fundamental knowledge in the field of GST, they tend to comply with the relevant regulation and rules. It makes GST look simple and understandable to comply with. Hence, SME registrants should send their staff for training to ease the process of complying with GST.

5.4 Limitations of the Study

Firstly, the cross-sectional model is adopted in this research. By using the cross-sectional model, the data is collected in the particular population and the measurement of the data collected is conducted in a specific and single point of time, thus, the changes of perceptions and opinions over the time in the target respondents cannot be measured.

Secondly, five independent variables are adopted to determine the relationship with the intention of GST non-compliance and the result from MLR analysis showing that the value of R-square is only 35.57%. This result shows that 35.57% variation in GST non-compliance can be explained by these variables. This is portraying that it is not powerful enough for all of the five independent variables to explain the GST non-compliance.

Lastly, closed questions structure has been used as survey instrument in this research. Closed questions structure could be argumentative as there might be some of the respondents respond based on bias due to the likelihood of none of the provided answers are fitting with targeted respondents' thoughts and opinions. Even though closed questions structure is easier to conduct and evaluate, targeted respondent may feel inhibited in their answers as they may not have the opportunity to speak out and think of their own responses.

5.5 Recommendations of the Study

While recognizing the limitation of our research, the future researchers are recommended to adopt longitudinal-sectional study. Throughout longitudinal studies, the researchers are able to evaluate the variables over time. Besides, broader range of information can be produced as it provides both qualitative and quantitative data.

Apart from that, despite the fact that the variables have resulted in adequate reliability, some of the variables are less reliable (i.e. TC and NC) as compared with other variables (i.e. SQ, DP, TK and CC) and overall R-square only reached 35.57% in our study. Since our results show a weak reliability, this may hinder the expected effects on our dependent variable. Therefore, future researchers may develop more reliable variables for examining GST non-compliance.

Lastly, future researchers are encouraged to adopt open-ended questions structure in order to obtain the respondents' opinions without suggesting a present list of answers.

Open-ended questions are able to support rich qualitative data and also provide the researchers with opportunity to gain deep thought of the respondents.

5.6 Conclusion

This study explores the factors contributing to GST non-compliance. The findings has verified that service quality of RMCD, probability of detection and tax knowledge are significantly correlated with intention of GST non-compliance. However, tax complexity and compliance cost might not be remarkable to have an impact on GST non-compliance.

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Appendix A: Summary of Past Empirical Studies

IV₁: Service Quality of RMCD

| Study | Country | Sampling | Data | Major Findings |
|-------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Mohamed (2016) | Malaysia | <ul style="list-style-type: none"> - Stratified qualitative method - Cross-sectional data collection - Test of Normality | 650 survey questionnaires were distributed to individual entrusted by company from different geographical locations. | There was a positive relationship between perception of tax service quality and tax compliance intentions of taxpayers. |
| Al-Ttaffi and Abdul-Jabbar (2016) | Yemen | <ul style="list-style-type: none"> - Stratified sampling - T-test | A drop-off survey was carried out by disseminating 500 questionnaires to SME owner-managers among 7 major cities in Yemen. | Service quality of tax officers was inversely related to non-compliance behavior in Yemen. |
| Fadzilah, Mustafa, and Putri (2017) | Banyumas Regency, Indonesia | <ul style="list-style-type: none"> - Purposive sampling - T-test | The data was collected by distributing surveys to 60 SMEs in Banyumas. | There was a positive relationship between quality of services provided by tax officers and tax compliance among SMEs taxpayers. |

IV₂: Tax Complexity

| Study | Country | Sampling | Data | Major Findings |
|-----------------------------------|-------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Sapiei, Kasipillai and Eze (2014) | Malaysia | -Probability sampling | 473 survey questionnaires were distributed to corporate taxpayers in Malaysia from “Malaysian Top 500 Largest Listed Corporations 2008-2009” published directory | There was a positive relationship between perceived tax complexity and non-compliance of corporate taxpayers. |
| Saad (2012) | New Zealand | -Probability sampling | 2,267 telephone interviews were conducted on potential participants who were selected from “New Zealand’s 2008 Electoral Roll” | Complexity of tax system will give impact on their behavior towards tax non-compliance. |
| Belay and Viswanasham (2016) | Ethiopia | -Purposive sampling -Cross-sectional research | 24 income taxpayers in Ethiopia were selected for semi-structured interviews. | Tax complexity will affect non-compliance behavior of income taxpayers. |

IV₃: Detection Probability

| Study | Country | Sampling | Data | Major Findings |
|-----------------------------------------------|----------|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Naibei (2012) | Kenya | -Probability sampling (Simple random sample) | 590 survey questionnaires were distributed to private business firms that were registered by the city council in Kenya as at 31st December, 2008. | There was a significant positive relationship between frequencies of inspection and VAT compliance. |
| Palil, Hamid, and Hanafiah (2013) | Malaysia | -Probability sampling (Random sampling) | 5,500 surveys were mailed to Malaysian individual taxpayers from local telephone directory | Probability of being audited was positively correlated with tax compliance. |
| Kennedy and Anyaduba (2014) | Nigeria | -Probability sampling | 500 survey questionnaires were administered on the staff of the State Board of Internal Revenue of five geo-political zones in Nigeria. | There existed a positive relationship between probability of being audited and tax compliance. |

IV₄: Tax Knowledge

| Study | Country | Sampling | Data | Major Findings |
|-----------------------------|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Sinnasamy and Bidin (2017) | Malaysia | <ul style="list-style-type: none"> -Disproportionate stratified simple random sampling -Quantitative method -Cross-sectional data collection -Partial Least Squares analysis technique | 600 survey questionnaires were distributed to the managers who directly involved in Custom declarations processes and only 500 usable data were collected. | There was a significant positive relationship between tax knowledge and excise duty non-compliance. |
| Inasius (2015) | Indonesia | <ul style="list-style-type: none"> -Stratified random sampling -Multiple regressions models | 1000 survey questionnaire directly distributed to SMEs retailers in Central, West, North, East, and South of Jakarta. | Tax knowledge was significant and positively related to tax compliance behavior in Indonesia. |
| Oladipupo and Obazee (2016) | Nigeria | <ul style="list-style-type: none"> -Quantitative method -Cluster random sampling -Ordinary Least Square multiple regression analysis | 400 surveys questionnaire were distributed to SMEs operators in Benin City in Edo state, Nigeria. | There was a significant positive correlation between tax knowledge of SMEs operators and tax compliance. |

IV₅: Compliance Cost

| Study | Country | Sampling | Data | Major Findings |
|---------------------------------------------|------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Xin, Khai, Fong and Chen (2015) | Malaysia | -Quantitative method -Purposive sampling -Bivariate correlation test | The survey questionnaire was distributed to 50 participants who are Malaysia citizens through e-mail and forms. | There was a relationship between compliance cost and individual tax compliance. |
| Faridy, Copp, Freudenberg and Sarker (2014) | Bangladesh | -Quantitative method -Qualitative method -Purposive sampling | Target respondent: 1. SMEs taxpayers who comply with VAT 2. SMEs taxpayers who non-comply with VAT 3. National Board of Revenue's VAT officials Group discussion: - Conducted in Dhaka. - Total 45 participants (15 compliant taxpayers, 15 non-compliant taxpayers, and 15 tax officials). Survey questionnaire: | 72% of VAT compliant payers and 36% of non-compliant payers agreed that reasonable compliance cost would induce taxpayers' voluntary compliance behaviors. |

| | | | | |
|-------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| | | | <p>-Distributed 500 survey questionnaires to SMEs VAT payers (200 non-compliant taxpayers and 300 compliant taxpayers).</p> <p>-Mail survey.</p> <p>-In the business regions of city corporation area, district town and Upazilla area.</p> | |
| Nzioki and Peter (2014) | Kenya | <p>-Quantitative method</p> <p>-Qualitative method</p> <p>-Multiple linear regression models</p> <p>-Simple random sampling</p> | <p>271 survey questionnaires were distributed to real estate investors who live in Nakuru Town.</p> | <p>Compliance cost had a significant negative impact on tax compliance behavior.</p> |

Appendix B: Permission Letter to Conduct



UNIVERSITI TUNKU ABDUL RAHMAN

Wholly Owned by UTAR Education Foundation (Company No. 578227-M)

2nd April 2018

To Whom It May Concern,

Dear Sir/Madam,

Permission to Conduct Survey

This is to confirm that the following students are currently pursuing their *Bachelor of Commerce (Hons) Accounting* program at the Faculty of Business and Finance, Universiti Tunku Abdul Rahman (UTAR) Perak Campus.

I would be most grateful if you could assist them by allowing them to conduct their research at your institution. All information collected will be kept confidential and used only for academic purposes.

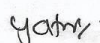
The students are as follows:


| <u>Name of Student</u> | <u>Student ID</u> |
|------------------------|-------------------|
| Yee Jia Hui | 15ABB00472 |
| Foon Pui Yee | 15ABB00373 |
| Ng Chee Qing | 15ABB00315 |
| Teh Qin Yuan | 15ABB00571 |
| Wong Ying Shi | 15ABB00586 |

If you need further verification, please do not hesitate to contact me.

Thank you.

Yours sincerely,


.....
Dr Zam Zuriyati Binti Mohamad
Head of Department,
Faculty of Business and Finance
Email: zuriyati@utar.edu.my


.....
Mr Wong Tai Seng
Supervisor,
Faculty of Business and Finance
Email: wongts@utar.edu.my

Kamper Campus : Jalan Universiti, Bandar Barat, 31900 Kamper, Perak Darul Ridzuan, Malaysia
Tel: (605) 468 8888 Fax: (605) 466 1313
Sungai Long Campus : Jalan Sungai Long, Bandar Sungai Long, Cheras, 43000 Kajang, Selangor Darul Ehsan, Malaysia
Tel: (603) 9086 0288 Fax: (603) 9019 8868
Postal Address: PO Box 11348, 50744 Kuala Lumpur, Malaysia
Website: www.utar.edu.my

Appendix C: Questionnaire



Universiti Tunku Abdul Rahman

Determinants of GST non-compliance among SMEs in Malaysia

Survey Questionnaire

Dear Respondent,

Warmest greeting from Universiti Tunku Abdul Rahman (UTAR)

We are final year undergraduate students of Bachelor of Commerce (Hons) Accounting, Universiti Tunku Abdul Rahman (UTAR). The purpose of this survey is to conduct a research to investigate the determinants of GST non-compliance among SMEs in Malaysia. Please answer all questions to the best of your knowledge. There are no wrong responses to any of these statements. All responses are collected for academic research purpose and will be kept strictly confidential

Thank you for your participation.

Instructions:

- 1) There are THREE (3) sections in this questionnaire. Please answer ALL questions in ALL sections.
 - 2) Completion of this form will take you less than 5 minutes.
 - 3) The contents of this questionnaire will be kept strictly confidential.
-

Voluntary Nature of the Study

Participation in this research is entirely voluntary. Even if you decide to participate now, you may change your mind and stop at any time. There is no foreseeable risk of harm or discomfort in answering this questionnaire. This is an anonymous questionnaire; as such, it is not able to trace response back to any individual participant.

All information collected is treated as strictly confidential and will be used for the purpose of this study only.

I have been informed about the purpose of the study and I give my consent to participate in this survey.

YES ()

NO ()

Note: If yes, you may proceed to next page or if no, you may return the questionnaire to researchers and thanks for your time and cooperation.

Section A: Demographic Profile

In this section, we would like you to fill in some of your personal details. Please tick your answer and your answers will be kept strictly confidential.

QA 1: Gender: ☐₁ Female ☐₂ Male

QA 2: Age:

- ☐₁ Below 20 years old
- ☐₂ 20 to 30 years old
- ☐₃ 31 to 40 years old
- ☐₄ Above 40 years

QA 3: State:

- ☐₁ Johor
- ☐₂ Kuala Lumpur
- ☐₃ Selangor

QA 4: Sector:

- ☐₁ Manufacturing
- ☐₂ Services
- ☐₃ Agriculture
- ☐₄ Others

QA 5: Highest education completed:

- ☐₁ High School
- ☐₂ Diploma
- ☐₃ Degree
- ☐₄ Master

Section B: Determinants of GST non-compliance

This section is seeking your opinion regarding the determinants of GST non-compliance. Respondents are asked to indicate the extent to which they agreed or disagreed with each statement using 5 Likert scale [(1) = strongly disagree; (2) = disagree; (3) = neutral; (4) = agree and (5) = strongly agree] response framework. Please circle one number per line to indicate the extent to which you agree or disagree with the following statements.

| No | Questions | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---------------|----------------------------------------------------------------------------------------------------------------------------|-------------------|----------|---------|-------|----------------|
| SQRMCD | Service Quality of RMCD | | | | | |
| SQRMCD1 | RMCD officers are always unavailable to assist taxpayers. | 1 | 2 | 3 | 4 | 5 |
| SQRMCD2 | RMCD officers are untrustworthy. | 1 | 2 | 3 | 4 | 5 |
| SQRMCD3 | RMCD officers are discourteous when assisting taxpayers. | 1 | 2 | 3 | 4 | 5 |
| SQRMCD4 | RMCD officers are unable to provide accurate and precise information when managing taxpayers' problem. | 1 | 2 | 3 | 4 | 5 |
| SQRMCD5 | RMCD officers are weak and poor in communicating with taxpayers. | 1 | 2 | 3 | 4 | 5 |
| TC | Tax Complexity | | | | | |
| TC1 | GST rules in Malaysia are relatively complex. | 1 | 2 | 3 | 4 | 5 |
| TC2 | I doubt my ability to complete GST return properly. | 1 | 2 | 3 | 4 | 5 |
| TC3 | Most business owners have bad understanding of the GST rule. | 1 | 2 | 3 | 4 | 5 |
| TC4 | Most business owners fail to complete their GST returns correctly. | 1 | 2 | 3 | 4 | 5 |
| TC5 | Most business owners would need to get help from tax consultant to ensure that they have worked out the right GST returns. | 1 | 2 | 3 | 4 | 5 |

| No | Questions | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|---------|-------|----------------|
| DP | Detection Probability | | | | | |
| DP1 | The probability of being audited is so low, so it is worthwhile to understate a little amount of GST collected. | 1 | 2 | 3 | 4 | 5 |
| DP2 | I think the tax authority is incapable of finding out even I failed to pay GST. | 1 | 2 | 3 | 4 | 5 |
| DP3 | I think the likelihood of fraud being detected is still low even I am being audited. | 1 | 2 | 3 | 4 | 5 |
| DP4 | The likelihood of being caught for GST non-compliance is small. | 1 | 2 | 3 | 4 | 5 |
| DP5 | SMEs who do not pay GST facing a low probability of being detected. | 1 | 2 | 3 | 4 | 5 |
| TK | Tax Knowledge | | | | | |
| TK1 | It is difficult to understand the GST system in Malaysia. | 1 | 2 | 3 | 4 | 5 |
| TK2 | I cannot understand most of the laws and regulations relating to GST. | 1 | 2 | 3 | 4 | 5 |
| TK3 | I have problem with completing and filing the GST return form(s). | 1 | 2 | 3 | 4 | 5 |
| TK4 | I do not know the requirement of keeping GST records/ documents pertaining for a period of seven years after submission of the GST Return. | 1 | 2 | 3 | 4 | 5 |
| TK5 | I do not realize that I should pay GST due within the stipulated period. | 1 | 2 | 3 | 4 | 5 |
| CC | Compliance Costs | | | | | |
| CC1 | There are high labor fees (i.e. Consultancy fee) to comply with GST. | 1 | 2 | 3 | 4 | 5 |
| CC2 | There are substantial administration costs to comply with GST. | 1 | 2 | 3 | 4 | 5 |
| CC3 | Compliance with GST law is excessively burdensome and costly for taxpayers. | 1 | 2 | 3 | 4 | 5 |
| CC4 | The GST compliance costs of our business are significant. | 1 | 2 | 3 | 4 | 5 |
| CC5 | The burden of compliance costs discourages the owners to fulfill GST obligations. | 1 | 2 | 3 | 4 | 5 |

Section C: GST non-compliance

This section is seeking your opinion regarding GST non-compliance. Respondents are asked to indicate the extent to which they agreed or disagreed with each statement using 5 Likert scale [(1) = strongly disagree; (2) = disagree; (3) = neutral; (4) = agree and (5) = strongly agree] response framework. Please circle one number per line to indicate the extent to which you agree or disagree with the following statements.

| No | Questions | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--------------|--------------------------------------------------------------------------------------------------|-------------------|----------|---------|-------|----------------|
| GSTNC | GST non-compliance | | | | | |
| GSTNC1 | GST is just an expense of the business that we try to minimize. | 1 | 2 | 3 | 4 | 5 |
| GSTNC2 | I would not report my sales income fully to underreport GST. | 1 | 2 | 3 | 4 | 5 |
| GSTNC3 | I attempt to cheat by omitting to report sales income to avoid GST. | 1 | 2 | 3 | 4 | 5 |
| GSTNC4 | Paying the correct amount of GST is not my civic duty. | 1 | 2 | 3 | 4 | 5 |
| GSTNC5 | Paying the correct amount of GST has no significant contribution to the development of Malaysia. | 1 | 2 | 3 | 4 | 5 |

Thank you for your participation