

Tax Compliance Among SMEs: A Study in Selangor Malaysia

Lee Juin Yuet Vanessa¹

Faculty of Business, Accountancy, & Law, SEGi University, Kota Damansara, Petaling Jaya, Selangor, Malaysia
vanessalee1401@gmail.com

Sudhashini Nair²

Faculty of Business, Accountancy, & Law, SEGi University, Kota Damansara, Petaling Jaya, Selangor, Malaysia
sudhashini@segi.edu.my

Correspondence Email: sudhashini@segi.edu.my

Abstract — Larger businesses typically have higher compliance rates due to their capacity to engage with professional tax advisors and avoid penalties for non-compliance. However, small and medium-sized enterprises (SMEs) may struggle with compliance due to limited resources and knowledge. Furthermore, tax compliance among SMEs may be challenging due to factors such as morale, inspection rate, and tax fairness, including equitable distribution of tax burdens and benefits among individuals and businesses. As such, the purpose of this study was to examine if there exist possible relationships between tax morale, tax education, tax inspection, and tax fairness on tax compliance among Malaysian SMEs in the state of Selangor. This study focuses on existing studies on tax compliance among SMEs. The study design uses a deductive approach and a quantitative method. Data was collected from 156 managers from SMEs in Selangor, Malaysia using online questionnaires. The data analysis was conducted using the Statistical Package for Social Sciences (SPSS) software to test the reliability of the data and conduct linearity, correlation, and multiple regression tests. The research findings revealed that tax morale, tax education, and tax fairness had significant relationships with tax compliance among Malaysian SMEs. The scientific novelty of the study was the test results on tax inspection that refuted the results of past studies. The study provides practical implications based on the research findings.

Keywords (in English) — Tax compliance, tax morale, tax education, tax inspection, tax fairness

1. INTRODUCTION

1.1 SMEs in Malaysia

Small and Medium-sized Enterprises (SMEs) are the cardinal economic pillars and the epitome of social resilience in Malaysia. SMEs have been the central agency of Malaysia's economic transition since the 1990s and are important indicators of employment and development (Chin & Lim., 2018). SMEs in Malaysia make up roughly 97% of establishments, which is the primary proportion of businesses, contributing more than one-third of the nation's Gross Domestic Product (GDP) in 2022, which is 38.2%, and 66% of Malaysia's total job creation (Ramdan et al., 2022; Shazrie, 2024). SMEs in Malaysia support 70% of the labor force within the nation, which supplies more than 5.7 million jobs. The service and manufacturing sectors include 89.2% and 5.3% of all SMEs in Malaysia.

SMEs as the primary generators of technology and product innovation have contributed to poverty alleviation and elimination of rural-urban drift by employing low-income labourers, particularly in impoverished districts and rural regions (Marimuthu & Lee, 2022). SMEs also satisfy social goals, which in turn help strengthen the country's capability to face resilient obstacles (Muda, 2022). The Inland Revenue Board of Malaysia (IRBM) defines an SME as a company resident in Malaysia with a paid-up capital of ordinary shares of RM2.5 million or less at the beginning of the basis period of a year of assessment and the annual sales turnover not exceeding RM5 million (PWC, 2023). In contrast, the Central Bank of Malaysia defines SMEs as manufacturing firms with annual sales turnover not exceeding RM 50 million or full-time employees of not more than 200 workers, and services and other firms with annual sales turnover not exceeding RM 20 million and full-time employees of not more than 75 people (Ramdan, 2022; Seow, 2023).

1.2 Tax Compliance in SMEs

Taxes are critical and dependable streams of revenue imposed by fiscal authorities for the federal budget and a key metric for managing inflation, reallocating resources, stimulating investment, and regulating the macroeconomy (Nzioki & Peter, 2014; Obaid et al., 2020; Abjadi et al., 2023). However, tax compliance is still a core challenge in most countries, including Malaysia. Alshirah and Jabbar (2022) state that tax compliance refers to declaring an annual income tax return and claiming the exact deductions, relief, and discounts in accordance with all relevant statutes, regulations, and court orders in force when the return is submitted. The two types of taxes include direct and indirect taxes. The IRBM and Royal Malaysia Customs (RMC) are obliged to collect tax revenue and oversee the tax and customs system on behalf of the authorities (San et al., 2023). Henceforth, the fiscal authorities have enhanced tax compliance by embracing a Self-Assessment System (SAS). Moreover, minimizing reliance on borrowing by collecting the correct amount of tax revenues can boost the country's economy. There are

three types of compliance, which include (a) committed (voluntary) compliance (b) capitulation (enforced) compliance, and (c) creative compliance (Bello & Kasztelnik, 2022).

Tax compliance is the inherent motivation of an individual to satisfy their tax duties according to the existing regulations without undergoing thorough inspection with the execution of both legal and administrative penalties (Mugarura et al., 2021). The main benefit of tax compliance is business formalization. Businesses, particularly SMEs, may either transit to informal industries or cease their operations if there are high tax rates. Firms will reconstruct their business if they realize the benefits of formalization outweigh the costs. Malaysia's authorities have leveraged the potential of SMEs to increase productivity and promote inclusive expansion by launching the SME Masterplan 2012-2020. For instance, SME Masterplan 2012-2020 prioritizes the role of SMEs in national GDP, employment, and exports (Muhika et al., 2017). Furthermore, increased tax compliance among SME taxpayers would assist the economy in reducing the budget deficit without raising taxes. According to Adedeji (2018), corporations that reveal their revenue, expenses, and costs inaccurately are deemed to have violated tax laws.

In emerging nations like Malaysia, tax compliance helps the governments to finance essential public services and infrastructure as well as serves as an indicator of the social contract between citizens and the economy (Ghani, 2020) to reduce dependency on assistance in developed countries (Hassan & Ramli, 2022). Tax proceeds are vital mechanisms for economic development in many emerging nations, such as Malaysia, as generated taxes boost Malaysia's economy by providing healthcare and social amenities for citizens, encouraging domestic industries and exports (Oladipo et al., 2022; Aladejebi, 2018). Tax compliance boosts a country's independence in handling its state revenue and spending to prevent borrowing loans to meet the deficit income (Hermanto, 2022; Nurwanah et al. (2018). Moreover, it is also vital to foster the development of government finances and infrastructure independent of geographical disparities (Abjadi et al., 2023).

Non-compliance with the tax system is by far the biggest hurdle to the effectiveness and success of tax collection. It may be a deficiency of robustness of the prevailing tax system in Malaysia. Consequently, this leads to imposing tax penalties and tax audit fees on the taxpayers. In addition, non-compliance with the tax system has consequential effects on tax collection and efficiency. In 2019, there were two million registered taxpayers and around 80,000 potential taxpayers. However, the tax authorities in Malaysia lost approximately RM 2,000 million in tax collection that year (Hayat et al., 2022; Noor Azmi et al., 2020).

In June 2022, the Inland Revenue Board of Malaysia (IRBM) detected 31,598 non-compliant taxpayers comprising individuals and businesses who failed to disclose their income, with tax losses estimated at RM665 million (PWC, 2023). This led to the government's tax revenue loss as these taxpayers violated the tax code by not

complying with their tax obligations. To revive the current economic situation, the government has initiated a Tax Compliance Certificate for suppliers or firms that wish to apply for government projects through the 2022 Budget, where taxpayers must prove their tax compliance by reporting and paying all applicable taxes (Mahran & Abdul Rashid, 2023).

Past researchers have studied variables such as tax compliance costs, tax penalties, perception of government spending, and personal financial constraints that would affect tax compliance among SMEs in other countries. However, there is still a lack of tax compliance studies specifically focused on tax morale, tax education, tax inspection, and tax fairness among SMEs in Malaysia (Al-Rahamneh & Bidin, 2022; Peprah et al., 2020; Pastory, 2022; Mannan, 2020). Therefore, this research sought to examine the effect of tax morale, tax education, tax inspection, and tax fairness on Malaysian SMEs in the state of Selangor, aiming to fill the apparent knowledge gap by analyzing the association between the dependent and independent variables. These findings will assist the Malaysian government in formulating relevant tax policies that can enhance taxpayers' readiness (Usman et al., 2023). Thus, the results can serve as a guideline to improve and regulate the levels of tax morale, tax education, tax inspection, and tax fairness among SMEs in Selangor, Malaysia.

Tax compliance has recently gained critical attention from scholars due to the rise in tax non-compliance and its impact on the government's ability to raise funds for development and recurrent expenses purposes of a country. Taxpayer non-compliance is a persistent and is an expanding global matter that is seldom addressed, particularly in developing nations, where tax evasion undermines the foundation of domestic taxation (Hassan et.al., 2022). It could be a serious challenge facing tax administration and would obstruct the Malaysia's government revenue performance, leading to inefficiency in government spending as it diminishes the capability of the government to mobilize domestic revenues and resources that are necessary for government spending. Emerging nations are reliant on external resources, particularly loans to maintain, and finance their expenses or governmental budget (Uvaneswaran, 2023). Countries with the fastest-expanding economies are typically the ones that cannot support their economic activities even after tax system reforms. Taxpayers exploit loopholes to reduce or escape tax compliance and this is a frequent problem encountered in the respective tax systems (Mannan, 2020).

Based on the data compiled by the Malaysian Institute of Economic Research, Malaysia's Gross Domestic Product (GDP) shrunk by approximately 2.9% in 2020 over 2019. It is anticipated that 2.4 million people will lose their jobs,

and 67% of those affected are unskilled laborers. Tax compliance in Malaysia deteriorated during the economic uncertainty caused by the Covid-19 epidemic. Some companies declared impermissible losses, assuming that the tax authorities could not distinguish them from exact losses (Othman et al., 2022). Similarly, Chong and Arunachalam (2018) reported that poor tax morale is the most common factor of tax non-compliance in Malaysia. Therefore, tax morale is essential as it provides the impetus for fostering a sustainable taxpaying culture. Creating a more efficient and responsive tax system will potentially increase tax revenues (Tajuddin et al., 2023). Hence, there may be a need to study tax morale and its effect on tax compliance among SMEs in the Malaysian context.

Failure to abide by the tax laws may be due to the deficiency of tax education in emerging economies like Malaysia (Alshirah et al., 2022). Taxpayers' knowledge about the tax system does have a huge impact on compliance, but the effects are unaddressed. Education, in general, is divided into three categories: formal education, non-formal education, and informal education (Putro et al., 2020). The degree of education received by taxpayers plays an essential role that contributes to the comprehension of existing tax regulations and provisions, particularly regarding registration and filing requirements, the taxability of various incomes, deductibility of expenditures, reliefs, rebates, exemptions, and ethical attitudes toward tax evasion (Musimenta, 2020). However, most SMEs are less informed regarding tax management and services given by IRBM. To date, formal tax education among secondary students in Malaysia has yet to be implemented, and only students in accounting and some business courses have the opportunity to be exposed to taxation at the tertiary education level (Hamid et al., 2022; Mohd Yusof et al., 2022). Apart from indicating insufficient knowledge among taxpayers, it is a chance for the government to take further action before the situation escalates. The most common error made by SMEs is that they are unable to differentiate between deductible expenses and non-deductible expenses accurately caused by the lack of tax education. This could lead to non-compliance with tax laws (Fauziati et al., 2020). In summary, it is crucial to study the effect of tax education on tax compliance among SMEs in Malaysia.

Tax inspection refers to a technique of enforcement carried out by the IRBM to guarantee the accuracy of tax filings. The IRBM has recently intensified its focus on tax inspections, conducting both civil and criminal audits on suspected tax evaders. To date, IRBM has ascertained 31,598 enterprises including sole proprietorships, businesses, and corporations who have yet to disclose their income (KPMG, 2022). According to PWC (2023), the most frequent triggers for tax audits include significant fluctuations in income and expenses, spending that is not commensurate with the revenue reported, contradicting information, and failure to file tax returns. Therefore, the IRBM has embarked on collaborations with other administrators and has launched various tax collection

operations (Deloitte, 2023). Most taxpayers strictly conform to the prescribed tax regulations due to fear of the penalties imposed. As enacted under subsection 113(2) of ITA, taxpayers will face severe penalties if they are found to deliberately understate or omit revenue. Taxpayers will be charged at a rate of 45% of the tax undercharged (ANC Group, 2023). It is thus important to comprehend the impact of tax inspection on tax compliance among Malaysian SMEs.

Taxpayers perceive the tax system as inequitable when the amount of taxes they need to pay exceeds what they receive from the government and when they are obliged to file higher taxes compared to other taxpayers (Trifan et al., 2023). A positive perception of equality and trust in Malaysia's tax system could cultivate tax compliance; however, a lack of trust in Malaysia's tax system will erode the taxpayer's confidence and thus violate their tax responsibilities. Therefore, IRBM has been outlining tax policies aligned with government policies to reform and modernize Malaysia's tax system to guarantee tax system fairness and equality as well as strengthen international taxation law. Despite the efforts taken by Malaysia's government, Malaysia and several emerging nations still suffer from government revenue loss due to the high percentage of tax noncompliance (Assfaw & Sebhat, 2019). Malaysian taxpayers have been well informed of their duties in the SAS; hence it is fair enough for tax authorities to impose penalties if they are caught behaving unethically. An equitable tax system would boost taxpayers' confidence, improving their readiness to file voluntary taxes. As such, it is crucial to investigate the effect of tax fairness on tax compliance among Malaysian SMEs. Hence, the research question of this study is: Are there possible relationships between tax morale, tax education, tax inspection, and tax fairness with tax compliance among SMEs in Selangor Malaysia? As such, the objective of this research is to study the likely relationships that may exist between tax morale, tax education, tax inspection, and tax fairness with tax compliance among SMEs in Selangor Malaysia. Selangor, Malaysia was selected because it has the highest GDP of all the Malaysian states. The study will contribute to existing knowledge, especially since limited research is available in this area (Ali et al., 2020).

2.0 LITERATURE REVIEW AND HYPOTHESIS

2.1 Tax Morale

Tax morale, according to Alm and Torgler (2006), is defined as an individual's moral obligation and an inherent intention to pay taxes or the belief that paying taxes would contribute exclusively to public welfare. According to Angeles (2021), tax morale significantly influences taxpayers' compliance behavior and practices in the Philippines. As indicated in the research, the authors found that tax morale is the strongest predictor, directly affecting taxpayers' voluntary compliance to accomplish the country's economic goals. The research by Mitu (2020) addressed that voluntary compliance is the most efficient method to collect tax income since taxpayers disclose and lodge taxes on their efforts. Tax morale demonstrates that it is mandatory for individual taxpayers to compile taxes as it will contribute to the benefit of the society. It is undeniable that tax morale has become the foundation of the tax system, substantially contributing to a nation's revenue in both the long term and the short term (Tajuddin et al., 2021).

Furthermore, as cited by Aziz et al. (2022), tax morale and tax compliance have a significant positive relationship. Taxpayers are likely to exhibit high morale in filing taxes if the tax authority accurately performs its mandate (Chrissanjaya, 2018). On the other hand, intrinsic motivation may be jeopardized if taxpayers acknowledge that they receive unequal treatment or are accused of tax evasion. Tax evasion can undermine company ethics and morality as it prompts people to hunt for legal loopholes, resulting in businesses declaring higher dividends and acting in their interest, which violates the essential principles of integrity. Consequently, this can have adverse economic impacts, including contributing to inflation (Mebratu, 2024). In short, tax morale should complement other factors of tax compliance, not substitute them.

High tax morale boosts investment and consumption and, in turn, stimulates economic growth. The increased tax revenues can then be utilized for public services, development of facilities, and other economic activities that boost the economy (Victory et al., 2023). The low rate of tax morale reflects a knock-on effect on society since it gradually diminishes people's trustworthiness in the tax system. Susuawu (2020) also disclosed that high tax morale improves public services. Taxpayers who have high tax morale will pay their taxes voluntarily if they are assured of economic freedom, a robust equity market, effective competitive rules, a low crime rate, and an efficient tax system in their nation. However, as cited by Jason (2020), low tax morale in organizations may have interfered with unfair tax treatment. If an organization perceives the tax treatment as arbitrary or inconsistent, it will substantially affect the tax

morale. This can be seen in multinational companies dealing with cross-border tax matters. Favoritism in tax treatment can cause resentment and undermine public trust in the tax system, which can deter tax compliance (Jason, 2020). Hence, based on the literature review above, the following hypothesis is proposed:

H1: There is a significant relationship between tax morale and tax compliance among SMEs in Selangor Malaysia.

2.2 Tax Education

Tax education is defined as the process and techniques applied to disseminate tax information to alter people's knowledge, abilities, and attitudes as well as those of businesses, government and non-government officials, and institutions to foster comprehension, readiness, attention, and participation in paying taxes that have been grounded in the existing tax legislation (Alamien et al., 2023). Hamid et al. (2022) ascertained that there is an association between tax education and tax compliance. As educated individuals, taxpayers should understand the importance of tax revenue for economic growth. Higher compliance ensures greater income accumulation, enabling more funds to be allocated for the nation's future development and the promotion of social welfare.

Furthermore, taxpayers must equip themselves with some elementary knowledge about personal taxation, income taxability, expenditures deductibility, relief, rebates, and many more. Conversely, business owners must understand that revenue from both business and non-business sources is taxable and be familiar with the rules governing the deductibility of expenses. To date, the IRBM has been promoting various innovations in Malaysia's tax administration system, including the use of information technology to enhance the quality of its services in line with the nation's growth. One of the strategies used by IRBM to increase voluntary tax compliance is through tax education programs. (Hamid et al., 2022).

The Federal Inland Revenue Services (FIRS) in Nigeria initiated the Integrated Tax Administration System (ITAS) to monitor the amount of tax collected from taxpayers. Individual taxpayers must be sufficiently knowledgeable to operate this tax system. Supadmi (2009) emphasized that the community's active commitment is essential for the effective implementation of the ITAS in fulfilling its tax obligations. High levels of knowledge and compliance among taxpayers are critical factors for the successful execution of the ITAS (Nwamgbebu et al., 2019).

Due to the current weakening economic conditions, the role of taxes has gradually become increasingly strategic. The responsibility of increasing tax revenue rests not only on the Director General of Taxes and tax administrations but also on all citizens. It is imperative to enhance the taxpayer's compliance through education to accomplish the government's predetermined targets (Kurnia & Fajarwati, 2022). Taxpayer education is perceived as the connector

that links the aspiration of tax authorities and citizens and can also integrate the tax culture of a country simultaneously (Othman et al., 2020b).

Additionally, SMEs may not be tax-compliant as compared to large firms; they are not well-versed in the knowledge of taxes and the multiple procedures to follow (Aladejebi, 2018). The knowledge of their authorities, obligations, and tax filing procedures and the impact of tax evasion should be transmitted to taxpayers through formal tax education. As such, based on this literature review, we propose the following hypothesis.

H2: There is a significant relationship between tax education and tax compliance among SMEs in Selangor Malaysia.

2.3 Tax Inspection

Olaoye and Ekundayo (2019) defined tax inspection as an assessment involving the scrutinizing of a person's or an organization's tax report by appropriate tax authorities to discover if they abide by the prevailing state and federal tax laws. Research has affirmed that suspicion of fraudulence, evasion, and associated offenses often lead to tax audits. Tax audits have a strong positive relationship with taxpayers' compliance behavior in Ethiopia (Miraz et al., 2023). The role of tax inspection has proved effective in enhancing tax compliance among individual taxpayers. The likelihood of being detected encourages taxpayers to exercise greater caution while filing and making their claims. Conversely, people who have not undergone tax audits may feel tempted to understate their revenue and lodge inaccurate tax deductions (Muthinji, 2022; Paleka et al., 2022).

A large-scale field experiment in Kenya was conducted to investigate the assumptions of an augmented tax compliance model. The results indicated that tax inspections and audit-letter threats substantially and intimately affected voluntary-reported income. Voluntary tax compliance was intimately associated with audit probability (Paleka & Vitezi', 2023). Furthermore, the implementation of tax inspection changed the manager's expectations of future tax filings (Sritharan et al., 2023).

The Organization for Economic Cooperation and Development (OECD) proposed the means of tax inspection to attain a higher compliance rate (Haerani et al., 2023) and pre-empt future tax evasion. This indicates that the compliance levels and decisions of individual taxpayers may be influenced by the likelihood of being audited, as observed in the Jimma zone, Ethiopia. The higher the probability of being audited, the higher the propensity of taxpayers' compliance or vice versa (Tilahun, 2019). People tend to adhere to tax laws due to the severity of the

penalties imposed on them. There is an indirect association between penalty and tax inspection. Moreover, tax inspection acts as a deterrent against illicit behavior among individual taxpayers, including SMEs in Egypt (Tawfik & Elmaasrawy, 2024). Taxpayers are thereby encouraged to uphold ethical standards and fulfill their tax obligations.

Contrary to this, some of the researchers discovered that the probability of being detected has a negative correlation to compliance behavior (Dularif et al., 2019). The legal enforcement may increase subsequent corporate misconduct by applying data from the US Revenue Authority's financial statements (Sritharan et al., 2023). A higher chance of tax inspection would theoretically demotivate the taxpayers' compliance behavior in Mekelle City, Ethiopia's southern districts. When non-voluntary compliance is achieved, revenue authorities must identify and mitigate the uncertainty of non-compliance by cultivating protocols concentrated on such vulnerability. In short, the extent of tax compliance is anticipated to increase with the amalgamation of taxpayers' awareness and enforcement actions (Tilahun, 2019). Aitaa & Adepehin (2023) stated that there is a linkage between tax inspection and tax compliance since tax inspection is fundamental in generating national income. Hence, based on the literature review above, the following hypothesis is proposed:

H3: There is a significant relationship between tax inspection and tax compliance among SMEs in Selangor Malaysia.

2.4 Tax Fairness

According to Pri (2021), tax fairness can be defined as the efficiency of public policy design in ensuring the fair distribution of tax costs across society while striving for a balance between taxation goals and economic and societal objectives. Tax fairness significantly influences individual taxpayers' behavior toward tax compliance. Treating equal individuals equivalently under similar circumstances is the most comprehensible requirement for fairness. As cited by Rizky et al. (2020), tax authorities must guarantee that the individual taxpayer is treated equitably to hasten taxpayer compliance. Transparency and flexibility in the mechanism will instill confidence in the tax authorities, which indirectly encourages taxpayers to collaborate with the tax system (Hermanto, 2022). Consequently, it will lead to a reduction in tax evasion and avoidance. However, recent articles indicate that tax authorities face formidable hurdles in achieving this goal due to the inequity in the tax system. Unscrupulous activities may occur due to the inequitable nature of the tax collection processes (N. Sathasivam & Teck-Heang, 2024). Likewise, one strategy to reduce the percentage of tax evasion and establish an efficient tax system is by improving the transparency of the tax system, such as raising significant revenue without excessive government loans and continuously supporting economic activities. Furthermore, reforming the tax system is a critical step in combating tax avoidance. This involves changes at both structural and individual levels, where perception influences compliance. Structural changes are necessary in the tax system to offset the issue of non-compliance (Chindengwike, 2024).

Tax system fairness possesses a significant positive association with tax compliance behavior (Mebratu, 2024). The degree of fairness varies across nations. When it comes to developing overall fairness, Chinese and Koreans place a higher value on perceptions of fairness than Japanese and Americans. As evidenced in the research by Ya'u and Saad (2019), the impact of distributive fairness is substantially more powerful for the Chinese than for the Japanese and Americans. This difference arises from the Chinese placing greater emphasis on behaviors related to procedural fairness. From the perspective of Nigeria, distributive fairness is more appropriate since it deals with how scarce resources are allocated, which encourages equity across taxpayers, and considers the costs and benefits for individual taxpayers concerning what they receive in exchange for their tax payments (Ya'u & Saad, 2018).

The connection between distributive and retributive fairness was large but insignificant (Ya'u & Saad, 2018). The tax system's transparency is perceived by the tax administrations as one of the most basic factors in generating adequate revenues in any prescribed tax laws. Research conducted in Ethiopia found a significant relationship between tax compliance and fairness perceptions in formal industries. Conversely, Assfaw and Sebat (2019) revealed that the transparency of the tax system and individual taxpayers' compliance intention proved to be statistically insignificant compared to other variables (Appah & Duoduo, 2023).

The percentage of taxes paid increases based on the income received. Previous research demonstrated that assessments of fairness perceptions originate from genuine or fictitious contrasts between oneself and others. From another perspective, the willingness of corporate taxpayers to file taxes is substantially influenced by their perception of fairness. This factor is crucial because it affects the community's inclination to trust tax administrations, which demotivates retaliatory behavior and promotes a collaborative attitude (Alshira'h & Abdul- Jabbar, 2019). Conversely, some academicians have suggested that the transparency of the tax system has a negative correlation with tax evasion. The fairness of tax jurisdictions has been found to influence tax compliance behavior even during challenging economic periods (Tilahun, 2019). Hence, based on the literature review above, the following hypothesis is proposed:

H4: There is a significant relationship between tax fairness and tax compliance among SMEs in Selangor Malaysia.

Figure 1 shows the conceptual framework based on the literature review.

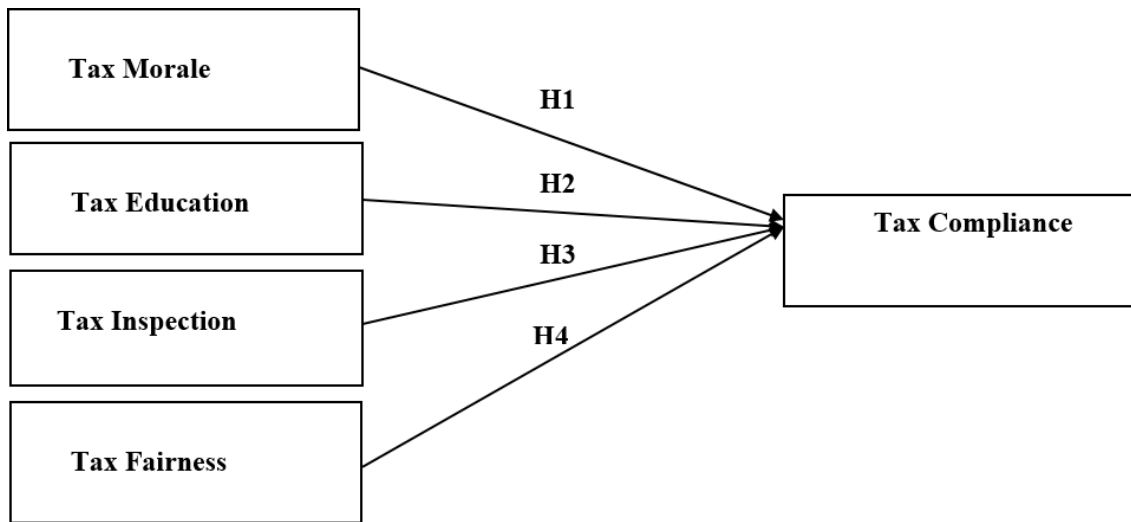


Figure 1: The Conceptual Framework

3.0 METHODOLOGY

3.1 Population and Sample

This research employed a deductive approach using a quantitative method. Data was collected from 156 managers working in SMEs in Selangor Malaysia. The state of Selangor was chosen as it has the highest number of SMEs in Malaysia, accounting for 19.8 percent (Human Resource Development Fund (HRDF), 2019). Questionnaires were distributed online. The sample was collected using the non-probability sampling method and a purposive sampling technique.

3.2 Questionnaire Design

The questionnaire required respondents to provide their demographic profile such as gender, age, race, industry, managerial level, monthly salary, and highest education level. The second section required respondents to answer questions that were related to the variables in this study. A five-item scale was used to measure tax compliance, adapted from Al Qasimi et al. (2023), Mahran and Abdul Rashid (2023), Mbilla et al. (2018), Muhwa and Achoki (2023), and Twum et al. (2020). A five-item scale for tax morale was adapted from Mahran and Abdul Rashid (2023), Mat Jusoh et al. (2021), Sulistyono and Mappanyukki (2023), and Tongler et al. (2008). A five-item scale for tax education was adapted from Twum et al. (2020). A four-item scale was adapted for tax inspection from Alshira'h and Abdul-Jabbar (2019), Mahran and Abdul Rashid (2023), and Olaeyea and Busari (2021). A five-item scale for tax fairness was adapted from Azemi et al. (2020), Güzel et al. (2019), and Khasawneh et al. (2008). Each of the variables in this study was measured using a 5-point Likert scale ranging from (1) “strongly disagree” to (5) “strongly agree.” The attached Appendix provides the items used to measure the variables included in this study.

3.3 Data Analysis

Data analysis was conducted using the Statistical Package for Social Sciences (SPSS) software. The result of the overall reliability test for the study was 0.827, which is above the acceptable threshold of 0.70. The reliability test for each variable also exceeded 0.70 (0.728 for tax compliance, 0.796 for tax morale, 0.785 for tax education, 0.788 for tax inspection, and 0.796 for tax fairness). In addition, the normality test was performed using the Z-score calculation, which yielded a Z-score value of -0.711, falling within the acceptable range of $-3.29 < Z < 3.29$. The curve graph derived from the histogram of this study, based on the collected data, indicated normal distribution. Furthermore, a linearity test was conducted to assess the linearity of the relationships between the independent variables and the dependent variable using a scatter plot graph. The randomized pattern of the scatter plot confirmed that the linearity assumption was met.

3.4 Demographics of Respondents

The respondents comprised 56% males and 44% females. 39% of the respondents were in the age group of 46 to 55 years, while 25% were in the age group of 36 to 45 years. Chinese respondents constituted the largest portion, accounting for 93.6% of the respondents, followed by Malays at 4.5%, and Indians at 1.9%. 48.1% of the respondents were from the services industry, specifically the medical and logistics sectors, while 23.1% were from the construction industry. 62.2% of the respondents were from middle-level management, and 37.8% were from top-level

management. In terms of income, 40.4% of respondents reported a monthly income of above RM10,000, and 44.2% held a Bachelor's degree as their highest qualification. Table 1 presents the demographic profile of the respondents.

Table 1: Demographic profile of respondents

Demographic Features		Frequency	Percentage
Gender	Female	69	44
	Male	87	56
Age	25-35 years old	29	18.6
	36-45 years old	39	25.0
	46-55 years old	61	39.1
	56-65 years old	27	17.3
Race	Chinese	146	93.6
	Malay	7	4.5
	Indian	3	1.9
Industry	Automotive	3	1.9
	Construction	36	23.1
	Manufacturing	21	13.5
	Food and Beverages	7	4.5
	Retail	14	9.0
	Services	75	48.1
Managerial Level	Middle	97	62.2
	Top	59	37.8
Monthly salary	Less than RM 5,000	34	21.8
	RM 5,001 to RM 6,000	22	14.1
	RM 6,001 to RM 7,000	7	4.5
	RM 7,001 to RM8,000	7	4.5
	RM8,001 to RM9,000	8	5.1
	RM9,001 to RM10,000	15	9.6
Highest Education Qualification	Above RM10,000	63	40.4
	Diploma/A levels/STPM	51	32.7
	Bachelor's Degree	69	44.2
	Master's Degree	9	5.8
	Doctoral Degree	3	1.9
	Professional Studies	9	5.8
	Others	15	9.6

3.0 RESULTS AND DISCUSSION

4.1 Pearson Correlation

The Pearson correlation coefficient was calculated to determine if there was a correlation between each of the independent variables—tax morale, tax education, tax inspection, and tax fairness—and the dependent variable, tax compliance. The results indicate the following correlation coefficients: tax morale (0.388), tax education (0.354), tax inspection (0.248), and tax fairness (0.428). These findings suggest a moderate to low correlation between tax morale,

tax education, tax inspection, and tax fairness and the dependent variable, tax compliance. Please refer to Table 2 for the detailed results of the Pearson correlation test.

Table 2. Results of the Pearson Correlation Test

		Tax Compliance	Tax Morale	Tax Education	Tax Inspection	Tax Fairness
Accounting Fraud	Pearson Correlation	1	.388**	.354**	.248**	.428**
	Sig. (2 tailed)		<0.01	<0.01	<0.01	<0.01
	N	156	156	156	156	156

** Correlation is significant at the 0.01 level (2-tailed)

4.2 Multiple Regression Analysis

Multiple regression analysis was conducted to examine the regression coefficients for each independent variable and the dependent variable. The Durbin-Watson statistic in this research is 1.779, which falls within the acceptable range of 1 to 3. The result of the Durbin-Watson test indicates that there is no autocorrelation among residuals, confirming homoscedasticity. This suggests that the data collected in this study exhibit no inter-item correlation. Furthermore, the result of R Square is 0.292 or 29.2%, indicating that 29.2% of the total variance in the dependent variable is explained by the independent variables. Table 3 presents the model summary.

Table 3. Model Summary

Model	R	R Square	Model Summary		
			Adjusted R Square	Std. Error of Estimation	Durbin Watson
1	.541 ^a	.292	.273	.37841	1.779

a.Predictors: (Constant), Tax Morale, Tax Education, Tax Inspection, Tax Fairness

b.Dependent variable: Tax Compliance

ANOVA analysis includes the sum of squares, degrees of freedom (df), mean square, F-value, and significance value. The ANOVA model emphasizes the significance value, which is used to determine if the model is suitable and fit for further analysis. The ANOVA table highlights the significance value (Sig.). A Sig. value ≤ 0.05 indicates that the model is appropriate for further analysis. The result of the F-test revealed a significant relationship between the independent variables (tax morale, tax education, tax inspection, and tax fairness) and the dependent variable (tax compliance), representing the overall model with the equation ($F = 15.479$). Table 4 presents the analysis of variance (ANOVA) results in this study.

Table 4. Analysis of variance (ANOVA) in this study

Model		ANOVA ^a				Significance
		Sum of Squares	DF	Mean Square	F	
1	Regression	8.866	4	2.216	15.479	<.000 ^b
	Residual	21.479	151	.143		
	Total	30.345	155			

a. Dependent variable: Tax Compliance

b Predictors: (Constant), Tax Morale, Tax Education, Tax Inspection, Tax Fairness

When the significance value of a variable is less than 0.05, the relationships between the variables are considered significant. Referring to Table 5, three independent variables have a p-value less than 0.05: tax morale, tax education, and tax fairness. Conversely, tax inspection produced a p-value greater than 0.05.

Tax morale has a significance value of 0.002, which is lower than 0.05; therefore, the hypothesis is accepted. Similarly, tax education has a significance value of 0.003, which is also lower than 0.05, resulting in the hypothesis being accepted. However, tax inspection has a significance value of 0.627, which is higher than 0.05, leading to the rejection of the hypothesis. Finally, tax fairness has a significance value of 0.001, which is lower than 0.05; hence, the hypothesis is accepted. Furthermore, the highest B value in this study is attributed to tax fairness, at 0.284. This indicates that tax fairness is the most crucial independent variable influencing tax compliance in this study. Lastly, the analysis of collinearity statistics was conducted. When the tolerance value is less than or equal to 10, the determination of multicollinearity issues can proceed. Additionally, a Variance Inflation Factor (VIF) value of 1 indicates no correlation, values between 1 and 5 indicate moderate correlation, and values greater than 5 suggest high correlation. In this study, the VIF values for all independent variables indicated moderate correlation. Therefore, the results show that no multicollinearity problem exists. Table 5 presents the coefficients' results, while Table 6 summarizes the hypotheses results.

Table 5. Results of the coefficients

Model	Coefficients					Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig	Tolerance	VIF
	B	Std. Error	Beta				
(Constant)	1.318	.293		4.494	.000		
Tax Morale	.151	.058	.200	2.598	.002	.798	1.252

Tax Education	.218	.073	.259	2.981	.003	.623	1.605
Tax Inspection	.036	.073	.042	.486	.627	.618	1.618
Tax Fairness	.284	.073	.295	3.901	.001	.828	1.208

a. Dependent variable: Tax compliance

Table 6. Summary of the hypotheses result

		Significance	Results	Gradient (Beta, β)
H1	There is a significant relationship between tax morale and tax compliance among SMEs in Selangor Malaysia.	.002	Accepted	.151
H2	There is a significant relationship between tax education and tax compliance among SMEs in Selangor Malaysia.	.003	Accepted	.218
H3	There is a significant relationship between tax inspection and tax compliance among SMEs in Selangor Malaysia.	.627	Rejected	.036
H4	There is a significant relationship between tax fairness and tax compliance among SMEs in Selangor	.001	Accepted	.284

4.0 CONCLUSION AND IMPLICATIONS

As shown in Tables 5 and 6, the results of this study indicate that tax morale has a significant relationship with tax compliance, aligning with findings from previous studies (Meda & Rahmiati, 2020; Mitu, 2020; Jason, 2020; Tajuddin et al., 2021). Similarly, tax education demonstrates a significant association with tax compliance, consistent with prior research (Aladejebi, 2018; Hamid, 2018; Muhumed & Wafula, 2023). Finally, tax fairness also shows a significant relationship with tax compliance, echoing the results of past studies (Appam & Duo, 2023; Rizky et al., 2020; Ya'u & Saad, 2018).

The findings of this study have theoretical implications that enhance existing empirical research. They provide valuable insights for future investigations into the impact of both pressure and opportunity on accounting fraud within Malaysian SMEs, an area where research is currently scarce. For practical implications, policies can be implemented to prevent tax evasion and encourage tax compliance. Improving tax morale in SMEs is essential for fostering a culture of compliance and ensuring that businesses contribute fairly to public revenues. Here are several strategies supported by research that can help improve tax morale, tax education, and tax fairness in SMEs. Firstly, simplifying the tax filing process and reducing administrative burdens according to Lim (2018) could make compliance easier and less daunting. Furthermore, user-friendly platforms for tax submission and information access would increase tax compliance. Additionally, tax education could be enhanced by implementing a comprehensive tax education and training designed for SMEs as suggested by Tan and Toh (2017). According to Abu Hassan et al. (2022) using current technology, tax education can be fostered by embedding tax syllabi in schools and universities. Finally, tax fairness can be promoted among SMEs in Malaysia by enhancing transparency and communication. Furthermore, increased transparency and regular updates on tax policies can significantly help SMEs navigate the tax landscape more effectively and improve tax confidence and tax fairness. Furthermore, SMEs need to be aware of the various tax incentives available to SMEs, such as tax deductions for business expenses, capital allowances for equipment and machinery, and investment tax allowances. In addition, the Budget 2024 introduced additional incentives for SMEs involved in high-tech and green industries, aimed at fostering innovation and sustainability (MOF, 2023).

Furthermore, Ng (2024) from KPMG Malaysia stated that SMEs must attend regular training sessions, workshops, and seminars organized by tax authorities such as Lembaga Hasil Dalam Negeri (LHDN), the Royal Malaysian Customs Department (RMCD), and other government bodies, as well professional bodies such as ACCA that offer frequent update alerts. SMEs will obtain valuable opportunities to ask questions and clarify complex issues, such as varying definitions of 'SME' that could affect your eligibility for specific incentives given by the Malaysian Government. Additionally, this study is advantageous to SMEs in Malaysia. It allows organizations to gain better insights into the importance of tax compliance and the determinants of tax compliance among SMEs. The findings of this research can be used by businesses to base their decisions and take precautions to minimize the negative impacts of tax non-compliance. By understanding the concept of tax compliance and the factors that influence it, organizations can propose strategies to support taxpayers' efforts to file taxes. Doing so can assist SMEs in meeting their tax obligations, thereby increasing the government's funds to finance public expenditures. Moreover, this study serves as a reference for Malaysia's tax administrators in formulating future tax system policies. To enhance taxpayers' confidence in the fairness of the tax system, tax administrators should ensure transparency and trustworthiness by allocating proportionate tax charges to every individual (Mebratu, 2024).

The scientific novelty of this study lies in the finding that tax inspection does not influence tax compliance in Malaysian SMEs. Taxpayers may perceive that tax inspection in Malaysia is minimal or that the chances of being audited are low. This could be due to tax authorities frequently facing constraints in resources and administrative capacities, which can impact the frequency and depth of tax inspections conducted on SMEs. These limitations may undermine the effectiveness of inspections and their impact on overall compliance rates (Slemrod & Weber, 2023).

5.0 LIMITATIONS AND FUTURE RESEARCH

There are a few limitations in this study which may be used to conduct future studies. Firstly, this study has inherent limitations because it utilizes primary data gathered via questionnaires. Due to their inability to clarify one another's claims, there is a probability that researchers and respondents would have contradicted opinions. Research becomes more presentable when it is merged with interviews and allows more exploration of the respondents' perceptions. Furthermore, this research has a limited number of respondents participating in this questionnaire. This research only involved 156 respondents. Future studies should consider other states in Malaysia such as Kuala Lumpur, Penang, Johor, and Sabah, which have high GDP as well.

Researchers could utilize interview sessions or focus groups to gather data from target respondents. Different methods may yield different outcomes. For example, researchers might pose open-ended questions during an interview session that would not typically be asked in a questionnaire survey conducted via an online platform. This approach allows academicians to gain more accurate insights by understanding their target respondents' thoughts more comprehensively. Finally, other factors could influence tax compliance, such as the financial cost of compliance, which includes the expense of hiring professionals (Carroll & Williams, 2024), and the availability of support and advisory services to enhance SMEs' understanding and adherence to tax regulations (Jones & Smith, 2024). Government support is crucial for SMEs to navigate the complexities of tax compliance effectively. This can be achieved by fostering collaborative relationships and providing support for financial management capabilities, which in turn will improve tax morale, tax education and knowledge, and SMEs' perception of tax fairness.

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Appendix

Variables	Items
Tax Morale	<ol style="list-style-type: none"> 1. Making unauthorized claims would make my organization liable. 2. SMEs will not avoid paying taxes even if they can 3. The government can enforce a reasonable tax income to help SMEs accomplish social goals. 4. Paying taxes to the government is an absolute responsibility that needs to be satisfied. 5. Paying taxes is voluntary and without government interference
Tax Education	<ol style="list-style-type: none"> 1. Tax education has made SMEs conscious of tax obligations. 2. Tax education has made SMEs aware of the sanctions for non-compliance 3. SMEs know how to keep records/documents about income and expenses for seven years after the filing of the tax return. 4. SMEs know which income should be included or excluded in identifying the taxable income. 5. The realization of procrastinating tax payments is significant to the country
Tax Inspection	<ol style="list-style-type: none"> 1. The probability of tax inspection motivates my organization to adhere to the tax regulations. 2. Tax inspection has allowed my organization to take the initiative in minimizing tax-related blunders for my business. 3. The probability of being audited by the Inland Revenue is high when the tax return is inaccurate. 4. Routine inspection needs to be done in the context of supervision of corporate taxpayers.

- Tax Fairness
1. Malaysia's tax system is transparent to SMEs
 2. The tax system is the fairest technique used by the authorities to accumulate income
 3. The distribution of tax burden among SMEs in Malaysia is fair.
 4. It is reasonable for a business entity with a higher income to pay a higher rate of taxes.
 5. SMEs pay taxes consistently with their income.
- Tax Compliance
1. The level of compliance has been impacted by the degree of awareness in filing taxes.
 2. Tax compliance enhances SMEs' business reputation.
 3. My organization still files a tax return even if my turnover is less in that year's assessment.
 4. My organization pays taxes without considering how to reduce them.
 5. My organization submits the most accurate tax return form to IRBM even without a tax audit.
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