Using Theory of Reasoned Action to Explain Taxpayer Intention to Comply with Goods and Services Tax

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Abstract

The aim of this study is to investigate the perception of taxpayers towards the implementation of good and services tax (GST) in Malaysia. Theory of reasoned action proposed by Fishbein and Ajzen (1975) was used as the underlying theory for the study. One hundred and three respondents in Kedah and Perlis participated in the study. Multiple regressions were employed to examine the relationship between attitude and subjective norms on behavioural intention to comply with GST. Results showedthat attitude and subjective norms variables were significantly and positively related to behavioural intention. All these independent variables were able to explain 28% of the variance in behavioural intention to comply with GST. Implications and recommendations for policy makers are discussed.

Key Words: Attitude, Subjective norm, Intention; Good and Service Tax

Introduction

Generally, the Malaysian taxation system can be divided into two: direct taxes and indirect taxes. Indirect taxes are administered by the Royal Malaysian Custom Department (RMCD) and it consists of four components. They are customs duties, excise duty, sales tax, and service tax. Direct taxes are under the jurisdiction of the Inland Revenue Board of Malaysia (IRBM). The IRBM is responsible for all policies related to direct taxes such as income tax (individual and business), petroleum income tax, real property gains tax, and stamp duty. From the government perspective, taxation is a vital economic tool because it can be employed to regulate the economy, to revitalize economic growth through the granting of fiscal incentives as a principal aim of implementing tax policies, and to provide funds for development projects (Kasipillai, 2005).The contribution of direct taxes and indirect taxes tothe government revenue in 2009 amounted to RM78.375 billion (49.4%) and RM28.129 billion (17.73%), respectively(Malaysian Federal Government Treasury Annual Economic Report (2008-2009).This shows that taxation contributes more than 60% to the Malaysian government revenue.

Recently, the Malaysian government announced the implementation of Goods and Services Tax (GST) to replace Sales Tax and Service Tax (SST).TheGST proposal was first raised in 1988 but at that time it was considered unnecessary because the sales tax and service tax was effectively working. Therefore the proposal was put on holdtemporarily (Lee, 2011). The GST was also included in the government policy such as in the Malaysian New Economy Model (NEM). In the NEM recommendation, GST would act asan important component inreforming the sources and distribution of revenue in Malaysia because ofitswider tax base (National Economic Advisory Council, 2010).

Furthermore, as the Government is still reeling from a deficit inthe economic crisis in 1997, the GST implementation is seen as a viable step to ensure that the deficit does not reach an uncontrollable level (Ministry of Finance, 2010). The government argued that the sales tax and service tax (SST) needs to be replaced with GST because the former's contribution to the national revenue decreased from RM30.760 billion in 2008 to RM28.129 billion in 2009 (Malaysian Federal Government Treasury Annual Economic Report (2008-2009). Likewise, the service tax also showed a minor decrease from 2008 to 2009. It was theunfavourable performance in growth percentage of sales tax and service tax from 2008 to 2009 that prompted the Malaysian Government to announce the replacement of sales tax and service tax with GST.

In accordance with the GST implementation proposal, taxpayersin Malaysia will have to register with the Royal Malaysian Customs Department (RMCD) once they achieve a certain prescribed annual sales turnover. Theywill also be required to submit periodic GST returns. If the output tax is greater than the input tax, they will have to pay the excess but if the input tax is greater than the output tax, theycan seek a refund from the RMCD instead. When GST is implemented, the issue is whether taxpayers will comply with it. Compliance behaviour amongst taxpayers is one of the main problems facing the RMCD. In fact, prior studies indicated similar problems (Bobek & Hatfield, 2003;Zainol, Zulkafly, & Shalihen, 2011). When taxpayers fail to comply with the law, the government will suffer from the loss of expected revenue. Hence, the issue of compliance behaviourwarrants empirical investigation because of significant policy and practical implications.

This paper seeks to report empirical findings from a study that was carried out to examine the role of attitude and subjective norms in influencing intention to comply with GST. In order to meet this objective, theory of reasoned action (TRA) was invoked. Toward this end, this paper is organized as follows. In the next section, pertinent literatures on TRA and tax compliance are reviewed, leading toward the formulation of research hypotheses. This is then followed by a discussion on the method used. In particular, this section explains who participated in the study, the instruments used, and the collection of data, among others. Next, results are presented. Finally, discussion of the results, their implication to practice and future research, and limitations of the study are elaborated.

Literature Review

Theory of reasoned action

Many researchers have used theory of reasoned action (TRA) in their studies. The theory has been applied to various behavioural situations (Chu& Wu, 2004;Hanno&Violette, 1996;Oliver&Bearden, 1985;Shimp& Kavas, 1984) and has been used to explain human behaviour as a dominant theoretical framework (Fishbein&Ajzen, 1975). Behavioural performance in the theory can be predicted from people's intentions(Fishbein&Ajzen, 1975). TRA focus is on behavioural intention as antecedent to actual behaviour. Intentions are assumed to capture the motivational factors that influence behaviour. Intention indicates how hard individuals are willing to try or how much effort they would exert to perform the behaviour (Ajzen, 1991). In order to understand a particular individual's behaviour (e.g., taxpayer's behaviour), it is important to identify the determinant of behavioural intention (Hanno&Violette, 1996). TRA postulates two independent determinants of intentions i.e. attitude toward behaviour and subjective norms. Ajzen and Fishbein (1980)defined attitude as the degree to which an individual has a good or poor evaluation on a particular behaviour. One of the factors that determine attitudes is behavioural belief, which involves evaluation of the consequences or outcomes of a particular behaviour (Ajzen & Fishbein, 1980). Attitudes are influenced by a belief in an outcome in which its degree is measured in terms of outcome evaluation.Subjective norms refer to social pressures perceived to be exerted on an individual to act or not to act (Ajzen, 1991). The belief that underlies subjective norms is referred to as normative belief. Normative belief is influenced by one's belief toward a referent other or referent group. This means that an individual attempts to carry out an action when he/she believes that other people think it is important for them to carry out the act.

Despite its universality in explaining social behaviour, the theory's application is yet to be tested in the context of indirect tax (e.g., GST). As such, the present study on GST was carried out based on theory of reasoned action whereby intention to comply with GST is the main focus of the study.The theoretical relationships as postulated in the theory are shown in Figure 1.
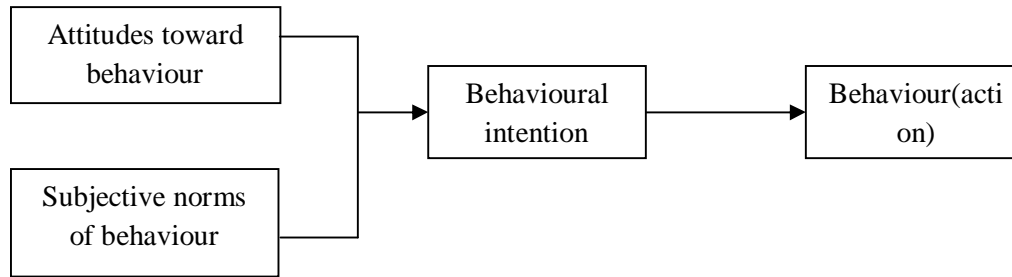
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┌──────────────────┐
│  Attitudes toward │────────┐
│    behaviour      │        │
└──────────────────┘        │      ┌──────────────┐      ┌──────────────┐
                            ├─────▶│ Behavioural  │─────▶│ Behaviour(acti│
┌──────────────────┐        │      │  intention   │      │      on)     │
│ Subjective norms │────────┘      └──────────────┘      └──────────────┘
│   of behaviour   │
└──────────────────┘
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Figure1: Theory of reasoned action (Ajzen & Fishbein, 1980)

Attitudes and behavioural intention

According to theory of reasoned action, attitudes are believed to have a direct effect on behavioural intention. Many researchers found attitudes to be a significant predictor of behavioural intention.Ajzen (1991) stipulated that attitudes towards compliance reflect feelings of favour and disfavour towards compliance behaviour. In the context of taxation, Hanno and Violette (1996) used TRA as a theoretical basis and reported that attitudes had a significant relationship with tax compliance intention. In another study, Loo, McKerchar, and Hansford (2007) also reported that attitudes towards tax system positively influenced compliance behaviour. They hypothesized that a positive attitude towards the tax system would encourage taxpayers to comply. Thus, it was anticipated that taxpayers with favourableperceptions of the tax system were more likely to have positive attitudes towards the tax system and consequently encourage them to comply.

Murphy (2003)reported that the perceptions of unfair tax burdens can affect taxpayers' view about paying tax and consequently their compliance behaviour. Breckler and Wiggins (1989) argued that affectiveattitude deals with emotions such as feeling happy, sad, or guilty when performing certain behaviour while instrumental attitude refers to a more cognitive consideration towhich performing a behaviour would be advantageous. In the context of GST compliance, Remetse and Yong (2009) found that many taxpayers of small businesses dislikedpaying GST due to the tedious working papers that need to be prepared, leading to noncompliance. Based on the above discussion, it is reasonable that the following hypothesis is tested.

H1: Attitudes towards GST are positively related tobehavioural intention to comply with GST.

Subjective norms and behavioural intention

According to theory of reasoned action, subjective norms also influence behavioural intention directly. Subjective norms reflect motivation to conform to significant referents either to comply or not to comply with tax obligations. In previous studies, many have found a significant effect of subjective norms on behavioural intention (Chu& Wu, 2004; Hanno&Violette, 1996; Oliver&Bearden, 1985; Shimp& Kavas, 1984). In the context of taxation, Hanno and Violette (1996) found a significant and positive effect of subjective norms on behavioural intention. Similarly, Bobek (1997) found that subjective norm significantly affected compliance behaviour in a business simulation scenario. A comparative study in Australia, Singapore and the US by Bobek and Hatfield (2003) also found subjective norm to be an influential factor in explaining tax compliance behaviour.

In the context of GST compliance behaviour, a study on GST compliance is yet to be done by using subjective norms as an important variable. Based on the literature, this study expects that subjective norms will positively influence taxpayers to comply. Thus, it is reasonable that the following hypothesis is tested.

H2: Subjective norms are positively related to behavioural intention to comply GST

The conceptual framework for the present study adapted from the TRA is shown in Figure 2.
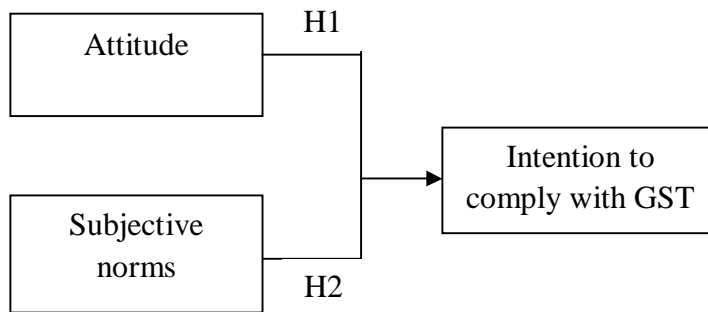

Figure 2: Theoretical framework of the study

Methodology

Sample

This study used a sample of sales taxpayers in two states of Kedah and Perlis, located in the northern region of Malaysia. Whilst practically convenient for the researcher, it was also believed that a study in these states was appropriate to represent taxpayers in other states in Malaysia. This is because the GST implementation by the RMCD throughout the country is standardized. Nonetheless, the study acknowledges the limitations arising from selecting these two states in generalizing the findings. To reduce such limitation, the determination of sample size was done in such a manner that it was between 15 and 20 times larger than the number of variables in this study, as recommended by some scholars (Hair, Anderson, Tatham, & Black, 1998). Taxpayers selected to participate in the present study included sole proprietors, partnerships, and corporate organizations. They are manufacturers registered with the RMCD.To represent the company/manufacturer, the head of management such as the chief executive officer or senior manager was approached to answer questions on GST compliance. Previous works also considered the head of management people to represent the company they were studying (Howes, McEwen, Griffiths, & Harris, 1996;Natrah, 2009).

Data were collected through structured questionnaires that were distributed to a sample of 150 participants with the assistance of the Collection Department of Royal Malaysian Custom Department in Kedah and Perlis. Participants were selected via simple random sampling using a list obtained from the RMCD in the respective state. Participation was voluntary. Of the 150 questionnaires distributed, 103 usable responses were received, giving a response rate of 68.67%.

Measures

The questionnaire contained items that measured threevariables namely attitude, subjective norms, and intention. The measures of the variables employed in this study were adopted from Natrah (2009) because she studied tax compliance behaviour as well. Four items measured each variable, giving a total of 12 statements. On a five-point Likert scale that ranged from'1' "strongly disagree" to '5' "strongly agree", participants were asked to indicate the degree of their agreement or disagreement on each statement related to all the variables involved. In addition to the questions on the main variables, participants were also asked to provide some background information of the company, such as, type of ownership and average gross income, which were categorically measured.

Results

Respondents' profile

Table 1 shows the background information of the participants. Slightly more than half (55.3%) were from a limited company, 26 (25.2%) were sole proprietors, and 20 (19.4%) were partnership companies. Majority of the participants reported to have a turnover of over RM100,000 annually.

Table 1: Background of Participants

Variables	Frequency	Percentage %
Type of ownership		
Sole proprietor	26	25.2
Partnership	20	19.4
Company	57	55.3
Annual average gross income		
Less than RM100,000	12	11.7
RM100,001 – RM500,000	25	24.3
RM500,001–RM1,000,000	44	42.7
More than RM1,000,001	22	21.4

Descriptive analysis was conducted to show the basic features of the data. Mean was used to find out the average score of the data and standard deviation indicated the dispersion score of all four variables i.e. intention, attitude, and subjective norms. Table 2 shows the results of the descriptive analysis, which indicatedthatthe overall mean score ranged between 3.92 and 4.64.

Table 2: Descriptive Statistics of Variables under Study

Variables	Mean	SD
Intention		
1. If Malaysia implements GST, I would report my sales income fully to comply GST.	4.641	0.558
2. If Malaysia implements GST, I would not attempt to cheat by omitting to report my income from sales.	4.583	0.707
3. If Malaysia implements GST, I would not declare my business income from sales arises from trading goods with friends and neighbouring business.	4.592	0.601
4. If Malaysia implements GST, I would not attempt to cheat by omitting to report my income from sales.	4.534	0.698
Attitudes		
1. If Malaysia implements GST, I would be upset if did not report my sales income fully to comply GST.	4.291	0.966
2. If Malaysia implements GST, I would feel guilty if I did not declare my sales income.	3.971	0.995
3. If Malaysia implements GST, I would feel pleased if I did not declare my business income from sales.	3.922	1.016
4. If Malaysia implements GST, I would not feel guilty if I did not declare my sales income.	4.262	0.918
Subjective norms		
1. My business partners would think that I should not declare my sales income.	4.612	0.564
2. My business partners would think that I should declare my sales income.	4.485	0.592
3. My business partners would approve of my decision to understate my sales income.	4.087	0.864
4. My business partners would not support of my decision to understate my sales income.	4.369	0.754

Reliability test

A reliability test was also performed to ensure the consistency of the items used in measuring the variables. Cronbach's alpha statistics showed the internal reliability of all instruments used in this study. Cronbach's alpha values above 0.700 are considered acceptable(Nunnally,1978). Results showed that the Cronbach's alpha coefficient for the construct of intention was 0.722, attitude 0.885, and subjective norms 0.777. All values were above 0.700, suggesting that the items used in measuring the variables were acceptable.

Factor analysis

Factor analysis is a statistical method applied to identify the variability among the identified variables and to reduce a large number of related variables to a more manageable number(Wong&Hiew, 2005). The analysis was carried out to extract all constructs through principal analysis with varimax rotation. Examination of data matrix identification was performed to test the correlation of the data used in the study by using Kaiser-Meyer-Olkin (KMO) and Bartlett Test of Sphericity. Examination of data matrix identification indicated that the application of factor analysis on these constructs was appropriate since the KMO value of variable intention to comply GST was 0.572 and attitude 0.823. According to Hair et al. (1998), the value of KMO above 0.50 is acceptable. The examination of Bartlett Test of Sphericity for all constructs showed significant results ($p < 0.05$).

Result of the factor analysis is shown in Table 3, which indicates only one dimension of attitude and subjective normsyielded eigenvalues greater than 1. The intention construct had one dimension of eigenvalues greater than 1. The total variance explained by the dimension for each construct was deemed satisfactory. The factor scores were used later as inputs in multiple regression analysis.

Table 3: Factor Analysis of Intention, Attitude, and Subjective Norm

Items	Component	Total variance explained
Intention		83%
1. If Malaysia implements GST, I would report my sales income fully to comply GST.	0.677	
2. If Malaysia implements GST, I would not attempt to cheat by omitting to report my income from sales.	0.946	
3. If Malaysia implements GST, I would not declare my business income from sales arises from trading goods with friends and neighbouring business.	0.643	
4. If Malaysia implements GST, I would not attempt to cheat by omitting to report my income from sales.	0.947	
Attitudes		75%
1. If Malaysia implements GST, I would be upset if did not report my sales income fully to comply GST.	0.811	
2. If Malaysia implements GST, I would feel guilty if I did not declare my sales income.	0.683	
3. If Malaysia implements GST, I would feel pleased if I did not declare my business income from sales.	0.726	
4. If Malaysia implements GST, I would not feel guilty if I did not declare my sales income.	0.761	
Subjective norms		64%
1. My business partners would think that I should not declare my sales income.	0.745	
2. My business partners would think that I should declare my sales income.	0.844	
3. My business partners would approve of my decision to understate my sales income.	0.388	
4. My business partners would not support of my decision to understate my sales income.	0.600	

Correlation analysis

Pearson correlation was used to examine the association betweenthe variables. According to Wong andHiew (2005), if a correlation coefficient ranges from 0.10 to 0.29, the correlation is considered weak, but if the value ranges from 0.30 to 0.49, it is considered moderate, and if the value ranges from 0.50 to 1.0, the correlation is considered strong. Based on Table 4, attitude was found to show a weak correlation with intention, while subjective norms showed a moderate correlation. The use of correlation matrix was also to detect multicollinearity. As shown in Table 4, the correlation matrix showed that no variable exceeded the cut-off point 0f 0.90, hence the problem of multicollinearitywas deemed not to exist (Hair et al., 1998).

Table 4: Correlation matrix

Variables	1	2	3
1. Attitude	-		
2. Subjective norm	0.227*	-	
3. Intention	0.281*	0.515**	-

Note:
**Correlation is significant at the 0.05 level
*Correlation is significant at the 0.01 level

Regression analysis

Following factor analysis, multiple regression analysis was run to test the stated hypotheses. Regression analysis technique can be used to analyse the direct relationship between a set of independent variables and a single dependent variable (Hair et al., 1998). Result of multiple regression analysis is shown in Table 5, which indicates that the adjusted R^2 was 0.280 and the F value of F-statistics was 20.792for the variables attitude and subjective normstowards intention to comply with GST. This means that 28% of the variance in GST compliance intention was significantly explained by the independent variables. With regards to predictor variables, subjective norms ($t = 5.515$, $p < .01$) and attitude($t = 2.004$, $p < .05$) were found to be able to predict significantly compliance intention. Therefore, H1and H2were supported in this study.

The highest beta value wasshown by subjective norms at 0.292. This indicates that subjective norms were the most important factor that influenced intention to comply with GST in the states of Kedah and Perlis. Attitudewas the second most important factor at 0.134.

Table 5: Regression of Attitude and, Subjective Norms against GST Compliance Intention

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	7.514	0.978		7.686	0.000
Attitude	0.069	0.034	0.173	2.004	0.048*
Subjective norms	0.292	0.053	0.476	5.515	0.000**

Note: *p < 0.05, ** p < 0.01
Adjusted R^2 = 0.280, F-Statistics = 20.792, Significant at 0.000.

Discussion

This study focused on sales tax taxpayers' perception towards GST, which will be implemented in Malaysia. Inparticular, it sought to examine manufacturers' intention to comply with GST in Kedah and Perlis. Generally, the study provided empirical evidence for the applicability of theory of reasoned action (TRA) that comprises attitude and subjective norms in explaining GST compliance behaviour. The model showed that subjective norms and attitude had significant influence on GST compliance intention in Kedah and Perlis. But the TRA model explainedonly 28% of sales taxpayers' intention to comply with GST in Kedah and Perlis, suggesting the existence of other determinants of intention to comply.

In this study, subjective norms emerged as the most significant factor that influenced GST compliance intention behaviour among manufacturers in Kedah and Perlis. This means that referent group or social pressures play a significant role in influencing manufacturers to comply with GST.

This finding providedsupport for Hypothesis 2 and is consistent with previous research (Natrah, 2009;Zainol, Zulkafly, & Shalihen, 2011) that found that subjective norms were a significant factor for tax compliance behaviour among Malaysian taxpayers.

The second most significant factor found to influence GST compliance intention behaviourwas attitude. Hypothesis 1 on the influence of attitude on intention to comply GST was supported. The findingshowed that attitude was significant in determining taxpayers' intention to comply with GST in Kedah and Perlis. This finding is similar to that revealed by previous researchers who conducted empirical studies on taxation and zakat (Bobek, 1997;Hanno&Violette, 1996; Zainol, Kami, & Faridahwati, 2009). This study showed the importance of attitudes toward intention to comply GST, which has to be considered by those in RMCD. Concerted efforts have to be taken to ensure that potential taxpayers develop favourable attitudes toward GST so that they pay the tax when it is due. Information dissemination about GST should be continuously carried out through various media channels.

The findings of this study have important implications for future GST collection centres and authorities such as the Royal Malaysian Custom Department (RMCD). The RMCD has to devote their attention to the significant factors that influence manufacturers to comply with GST before it is implemented. It is recommended that the RMCD targets the referent groups such as peers or business partners of the manufacturers to develop awareness and enhance understanding of GST. A good example for Malaysia is to follow Singapore, which has been successful in its GST implementation since 1994. Some of the critical factors for successful GST implementation in Singapore are strong commitment from the government, well-designed implementation timetable and well drafted laws, close cooperation between the different authorities involved, a comprehensive public education campaign, strict enforcement, and an effective GST audit programme (Lee, 2011).

Whilst the study has provided insight into the factors that contribute to compliance intention with GST implementation, it has some limitations that may render the findings invalid. For one, since data for this study were limited to Kedah and Perlis, the result may not necessarily generalizable to other parts of the country. Hence, more extensive studies are needed. Nonetheless, despite this limitation, this study has offered initial understanding of compliance with GST compliance intention. Secondly, the study has mainly focused on behavioural intention and not actual behaviour. Issues can be raised as to whether intention to comply with GST will manifest in actual compliance with GST. Even though intention is claimed to be the best predictor of behaviour (Ajzen, 1991), such assertion needs further validation. Future studies should therefore look into this issue.

Conclusion

The purpose of this study was to examine the perception of sales taxpayers toward GST implementation in northern Malaysia, in particular, Kedah and Perlis. GST is a multi-stage consumption tax based on consumption rather than earnings and can be charged on virtually all supplies of goods and services. Malaysia has not implemented GST yet owing to effective Sale and Service Tax (SST). However, it will soon have GST in place because countries like New Zealand, Canada, Singapore, and Australia that implememted tax reform by introducing GST (also known as value added tax) at a single positive rate with a comprehensive base to promote the neutrality of the tax systems, have showed good result.

By using TRA, the present study was carried out to examine factors that influence GST compliance intention behaviour among manufacturers in Kedah and Perlis. The factors examined were attitude and subjective norms. Results revealed that subjective norms and attitude influenced the manufacturers' intention to comply with GST. Subjective norms were found to be the strongest factor that influenced intention to comply with GST. The findings provide useful information to the Royal Malaysian Custom Department (RMCD) and other Malaysian authorities in making decisions for their future strategic planning and actions on GST.

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