

**DETERMINANTS OF TAX COMPLIANCE BEHAVIOUR
AMONG E-COMMERCE BUSINESS OWNERS IN
MALAYSIA**

BY

BALQIS ZATI IWANI BINTI MAHMOOD

**A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)**

**Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia**

AUGUST 2022

ABSTRACT

The evolvement of the digital economy has provided everyone with opportunities to engage in e-commerce business activities. Despite the increased use of e-commerce in Malaysia, the Malaysian Inland Revenue Board (IRBM) identified problems of tax evasion and low tax returns, which resulted in losing millions in potential tax revenue. Based on the theoretical foundation of the Theory of Planned Behavior (TPB), this research aims to determine the effect of particular tax compliance variables on tax compliance behaviour among e-commerce business owners in Malaysia. The data collection was done among the e-commerce business owners registered under Malaysia Internet Entrepreneur Association (MIEA) throughout Peninsular Malaysia. Due to the unprecedented outbreak of Covid-19, the data collection was done via the online platform Google Form for four months, from June to September 2021. Two hundred eighty respondents had completed the online questionnaire. The finding suggests that attitudes toward informal sanctions, attitudes toward formal sanctions, and subjective norms may influence the intention of tax compliance among e-commerce business owners. However, perceived behavioural control do not significantly predict tax intention. Results also suggest that intention can significantly predict behaviour, indicating that intention can play a significant role in shaping behaviour. The findings support the TPB's premise that behavioural intention is the immediate antecedent of behaviour.

خلاصة البحث

لقد أتاح تطور الاقتصاد الرقمي للجميع فرصًا للانخراط في أنشطة التجارة الإلكترونية. على الرغم من الاستخدام المتزايد للتجارة الإلكترونية في ماليزيا، حدد مجلس الإيرادات الداخلية مشاكل التهرب الضريبي وانخفاض الإقرارات الضريبية مما أدى بالتالي إلى (IRBM) الماليزي خسارة الملايين من عائدات الضرائب المحتملة. استنادًا إلى الأساس النظري لنظرية السلوك أجريت هذه الدراسة لتحديد تأثير متغيرات الامتثال الضريبي الخاصة على (TPB) المخطط سلوك الامتثال الضريبي بين أصحاب أعمال التجارة الإلكترونية في ماليزيا. تم جمع البيانات بين مالكي أعمال التجارة الإلكترونية المسجلين ضمن رابطة رجال الأعمال عبر الإنترنت، Covid-19 في جميع أنحاء شبه جزيرة ماليزيا. بسبب الانتشار غير المسبوق لـ (MIEA) الماليزية عبر الإنترنت على مدى ثلاثة أشهر، من يونيو إلى Google Form تم جمع البيانات عبر منصة سبتمبر 2021. لقد أكمل عدد من 280 مستجيبًا الاستبيان عبر الإنترنت. تشير النتائج إلى أن المواقف بشأن العقوبات غير الرسمية والمعايير الذاتية قد تؤثر على نية الامتثال الضريبي بين أصحاب أعمال التجارة الإلكترونية. ومع ذلك، فإن المواقف من العقوبات الرسمية والسيطرة السلوكية المتصورة لا تتوقع بشكل كبير نية الامتثال الضريبي. تشير النتائج أيضًا إلى أن النية يمكن أن تتنبأ بشكل كبير بالسلوك الذي يشير إلى أن النية يمكن أن تلعب دورًا مهمًا في بأن النية السلوكية هي السوابق المباشرة للسلوك TPB تشكيل السلوك. تدعم النتائج فرضية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
Khadijah Binti Mohd Isa
Supervisor

.....
Fatimah Binti Mat Yasin
Co-Supervisor

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
Nazli Anum Binti Mohd Ghazali
Examiner

.....
Ros Aniza Binti Mohd Shariff
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as a fulfilment of the requirement for the degree of Master of Science (Accounting).

.....
Zamzulaila Zakaria
Head, Department of Accounting

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science (Accounting).

.....
Gairuzazmi Bin Mat Ghani
Dean, Kulliyah of Economics
and Management Sciences



DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Balqis Zati Iwani Binti Mahmood

Signature

Date



INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**DETERMINANTS OF TAX COMPLIANCE BEHAVIOUR
AMONG E-COMMERCE BUSINESS OWNERS IN MALAYSIA**

I declare that the copyright holders of this dissertation are jointly owned by the student and IIUM.

Copyright © 2022 Balqis Zati Iwani Binti Mahmood and International Islamic University Malaysia.
All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Balqis Zati Iwani Binti Mahmood

.....
Signature

.....
Date

ACKNOWLEDGEMENTS

My utmost gratitude, praise and commendation to Allah the Almighty, the Most Gracious, and the Most Merciful for His immense mercy, blessings, guidance and sustenance through my life journey. I thank Him for giving me the courage, patience, and perseverance to pass this study challenge.

In the loving remembrance of my beloved late father, Allahyarham Tuan Haji Mahmood bin Haji Ismail, whose guidance, love, and care have sustained me with courage, strength, and perseverance throughout my life, especially in completing this Master Thesis. May Allah grant Abati the best place among the pious in the highest Jannahtul Firdaus. I want to express my utmost gratitude to my beloved mother, my loving husband and my dearest daughters for being with me and providing me with unlimited support and continuously encouraging me up to this point. Their love and sacrifices provided me with the utmost inspiration and went through this journey.

I express my deepest gratitude to my supervisor, Assoc. Prof. Dr Khadijah Mohd Isa for accepting the responsibility to supervise me. She always welcomed me for discussion and shared her intellectual guidance, fueling me with constant motivation and patience, which allowed me to better understand my research work. I am deeply grateful for her continuous support.

I owe my greatest gratitude to the Inland Revenue Board Malaysia (IRBM) for my study scholarship and financial support. Special thanks to Encik Khairudin Shamsudin from the E-Commerce Division, Tax Compliance Department IRBM, for the immense help, support, and guidance during the initial phase of my study. Also, Encik Mohd Azrul Mohd Nor and Encik Muaz Hadi from the Malaysian Internet Entrepreneurs Association (PUIM) took a tremendous amount of time to assist in this study's data collection process.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration.....	vi
Copyright Page.....	vii
Acknowledgements.....	viii
Table of Contents	ix
List of Tables	xi
List of Figures	xii
CHAPTER ONE: INTRODUCTION	1
1.1 Overview.....	1
1.2 Background of the Study	1
1.2.1 E-Commerce Business	4
1.2.2 Taxation the E-Commerce Business	5
1.2.3 Tax Compliance Behaviour	6
1.3 Problem Statement.....	7
1.4 Research Questions.....	8
1.5 Research Objectives.....	8
1.6 Significance of the Study.....	9
1.7 The Organization of the Study.....	9
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 Taxation System in Malaysia	11
2.3 Tax Collection in Malaysia.....	12
2.4 E-commerce Market Segment in Malaysia.....	13
2.5 The Impacts of E-Commerce on Businesses	15
2.6 Empirical Studies on Tax Compliance	16
2.6.1 Theory of Planned Behaviour	17
2.6.1.1 Influence of Intentions.....	18
2.6.1.2 The Influence of Attitude	20
2.6.1.3 The Influence of Subjective Norms.....	21
2.6.1.4 The Influence of Perceived Behavioural Control	22
2.7 Summary.....	23
CHAPTER THREE: RESEARCH METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design	25
3.2.1 Study Area.....	25
3.2.2 Study Population	26
3.2.3 Sampling Technique and Sample Size.....	27
3.3 Data Source.....	28
3.4 Design of Questionnaire	28
3.5 Pilot Study	33
3.6 Actual Survey Administration	34

3.7 Statistical Tests	34
3.7.1 Descriptive Statistics	35
3.7.2 Test of Normality	35
3.7.3 Correlation	35
3.7.4 Regression Analysis	36
3.7.5 Operationalizing Variables	37
3.8 Summary	38
CHAPTER FOUR: RESULT AND ANALYSIS	39
4.1 Introduction.....	39
4.2 Descriptive Analysis	39
4.2.1 Socio-Demographic Profile of Respondents	39
4.2.2 Respondents Business General Information	42
4.2.3 Relationship Between Age and Monthly Income	44
4.2.4 Relationship Between Years of Operation and Monthly Income	45
4.2.5 Descriptive Analysis of Study Variables	46
4.3 Result of Normality Test	48
4.4 Result of Correlations Analysis	48
4.5 Result of Multicollinearity Analysis.....	52
4.6 Result of Regression Analysis and Hypothesis Testing	53
4.6.1 Interpretation of R-squared Variance (R ²)	57
4.7 Summary	58
CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS	59
5.1 Introduction.....	59
5.2 Research Summary	59
5.3 Application and Recommendation of this Study in Practice	61
5.4 Limitations of the Study	63
5.5 Suggestions for the Future Research	63
REFERENCES.....	65

LIST OF TABLES

Table 3.1 The Questionnaire Sections Based on Research Questions	29
Table 3.2 Cronbach's Alpha Reliability Test Result	33
Table 3.3 Operationalization Variables	37
Table 4.1 Gender Profile of Respondents	40
Table 4.2 Race Profile of Respondents	40
Table 4.3 Education Profile of Respondents	41
Table 4.4 Age Profile of Respondents	41
Table 4.5 Business Status	42
Table 4.6 Business Years of Operation	43
Table 4.7 Types of Business	43
Table 4.8 Monthly Income Business	44
Table 4.9 Relationship Between Age and Monthly Income	45
Table 4.10 Relationship between Years of Operation and Monthly Income	46
Table 4.11 Description of Variables	47
Table 4.12 Results of Normality Test	48
Table 4.13 Correlations Results	50
Table 4.14 Correlations Results	52
Table 4.15 Multicollinearity Analysis Results	53
Table 4.16 Regression Result for Hypothesis 1	54
Table 4.17 Regression Result for Hypothesis 2 to 5	55

LIST OF FIGURES

Figure 2.1 Direct Tax Collection	13
Figure 2.2 Popular E-Commerce Websites in Malaysia	14
Figure 2.3 Theory of Planned Behaviour	18
Figure 3.1 Study Area Boundary	26



CHAPTER ONE

INTRODUCTION

1.1 OVERVIEW

Before scrutinizing the core issue of this study, this chapter will first illustrate the general overview concerning the evolvement of the digital economy and how it affects e-commerce businesses globally. In furtherance of this, this chapter will elaborate on the current position of e-commerce taxation and the tax compliance behaviour in Malaysia. Subsequently, this chapter will then seek to highlight the relevant problem statements, research questions, research objectives, and the significance of the study. Finally, this chapter will conclude with an explanation of the overall chronology of the organization of this study.

1.2 BACKGROUND OF THE STUDY

The digital economy is the worldwide network of economic activity, financial activities, and working relationships enabled by information and communication technologies. (ICT). In short, it is an economy built on digital technologies (Tapscott, 1995). The existence of the digital economy has transcended the ways businesses are managed, eases communications between business organizations and enables customers dealings without the need for physical presence. Such convenient advancements have persuaded countries and organizations worldwide to adopt the digital economy as the leading platform to operate and promote their core business. As a result, the use of the digital economy in businesses continues to multiply, particularly in developing countries in which the growth is estimated at between 15%-25% each year (World Economic Forum, 2015).

For a developing country like Malaysia, the digital economy promises a good prospect of significant returns. The digital economy's contribution in respect of Malaysia's Gross Domestic Product (GDP) was 18.5% in 2018 and is expected to exceed 21% in 2022 (Bernama, 2019). It is essential since GDP is among the crucial factors investors consider in achieving their investment decisions. Further, GDP is the

key indicator of a country's economic health since it represents the entire worth of all goods and services generated within its borders.

The digital economy developments may boost Malaysia's economy in three ways. Firstly, it allows businesses to serve a new market segment. The digital economy creates a pathway for a certain business entity to approach new potential customers living abroad who cannot be easily contacted via the traditional business approach. For instance, customers from Tawau, Sabah can conveniently purchase the items sold by a business in Skudai, Johor, through online platforms without travelling to the physical shop.

Secondly, the digital economy encourages existing businesses to become more efficient by lowering costs and maximising productivity. Such can be demonstrated by using computers or mobile applications, allowing business owners to digitally take orders and record transactions. Consequently, labour costs can be significantly minimized, and business transactions can be digitally operated 24 hours daily. For example, when a business owner uses Shopee, an online shopping application, as its platform to sell, potential customers have the freedom to purchase the business' products at any point in time a day, from anywhere around the world. The said convenience will inevitably generate more profits for the business owner.

Thirdly, the digital economy can also foster competition and promotes the emergence of new industries and innovative entrepreneurship (World Bank, 2018). More people can start businesses without incurring capital costs by setting up physical premises like shops or stalls. For instance, instead of renting or buying a physical space to set up a bakery, a person can bake chocolate cakes from her kitchen, advertise them through Instagram and sell them online.

On top of that, the existence of the digital economy has proven to be extremely useful during and after the recent outburst of the Coronavirus disease (COVID-19). The Covid-19 pandemic has forced the government to utilize its financial resources on stimulus packages to restart Malaysia's gasping economic condition. Fortunately, the evolving new norm on digitalisation and e-commerce is not only seen as the answer to Malaysia's economic survival but also as a new source of revenue. In particular, to fill up the country's revenue, the government has improved the imposition of the Digital Service Tax. The existing Digital Service Tax is collected and levied from any digital

services provided by any foreign-registered entities to any consumer in Malaysia from the beginning of January 1, 2020. As a consequence of Malaysia's rapidly growing e-commerce trend, the Digital Service Tax 2018 may be amended to include domestic service providers and business owners.

In order to build a solid base to support the wide-range usage of the digital economy, a robust digital master plan is necessary. Realizing the importance of a comprehensive digital master plan, the Malaysian government has officially launched Malaysia Digital Economic Blueprint (MyDIGITAL) Initiative on 19 February 2021 to transform Malaysia into a digitally-driven, high-income nation and regional leader in the digital economy (Economic Planning Unit [EPU], 2021). This initiative is crucial to enhance Malaysia's economy further, promote digitalization, and overpass the digital division. Furthermore, this initiative also aims to allow citizens, especially in rural areas, to enjoy equal digital facilities as those in urban areas.

However, it is important to note that the said digital master plan is pointless without a solid digital infrastructure. Thankfully, before introducing the MyDIGITAL initiative, the Malaysian government had implemented The National Fiberisation and Connectivity Plan (NFCP) in 2019 with a cost estimation of RM21.6 billion. The NFCP is developed to support the digital economy agenda to enable Malaysians to harness the latest technologies and innovations (Malaysian Communications and Multimedia Commission [MCMC], 2019). The NFCP is a five-year plan to drive digital infrastructure development, narrow the digital gap between rural and urban areas, and potentially boost the national economy.

In furtherance of the above, the Malaysian government has entrusted six (6) ministries and twelve (12) agencies, such as the Malaysia Digital Economy Corporation (MDEC), Cradle and the Malaysian Global Innovation and Creativity Center (MaGIC), to execute the MyDIGITAL initiatives. Further, according to the Bank Negara Malaysia, Malaysia is ranked tenth globally due to strong performance in core and digital administrative systems in both the people and the government sub-indexes. Moreover, the initiatives have also successfully induced one-fifth of Malaysia's population to engage in early-stage entrepreneurship activities, mainly motivated by opportunity rather than necessity (World Bank, 2018). Such an outcome established that

the Malaysian government had taken the right step in providing the best ecosystem for the digital economy to flourish in the future.

1.2.1 E-Commerce Business

Recently, e-commerce is becoming the most trending and significant platform for operating businesses. E-commerce adopts ICT to operate their entire business process chain to fulfil their business objectives (Hashim & Abdullah, 2014). E-commerce plays a vital role in the economy and is highly potential to ensure future economic growth. It is recorded that the worldwide contribution value of e-commerce exceeded more than USD 13 trillion in 2013, in which the significant numbers of shares belonging to the United States of America, United Kingdom, Japan, Germany and China (Goyal et al., 2019).

Later on, in 2016, Malaysia was recorded as the first country to establish a Digital Free Trade Zone (DFTZ). DFTZ is a trade zone dedicated to promoting e-commerce growth by providing an advanced platform for enterprises to make business transactions. The DFTZ is placed under the Malaysia Digital Economic Corporation's (MDEC) responsibility whilst the government acts as the policymaker, service provider and convener. The DFTZ collaborates with Alibaba, Maybank and other logistics, finance and technology companies who have committed significant investments in the DFTZ (World Bank, 2018).

The growth of e-commerce businesses is essentially supported by strong internet accessibility. The growing percentage of internet users worldwide has created massive internet-based business opportunities (Lim et al., 2016). The same goes in Malaysia, where a widely accessible internet will allow anyone and everyone to start an online business. A study has supported this statement stipulating that the rise in online market demand is partially due to Malaysia's 67% internet penetration rate (MCMC, 2018) and increased household access to the internet to 90.1% (Department of Statistics Malaysia [DOSM], 2019).

The e-commerce market segment has also contributed significantly to Malaysia's economy. According to the E-Commerce Consumers Survey 2018, Malaysia's e-commerce market has demonstrated a positive trend, with gross value-

added contributing 6.3% to gross domestic product (GDP) in 2017 (MCMC, 2018). The main contributors to Malaysia's e-commerce revenue and expenditure are the manufacturing sector (DOSM, 2019). Also, Frost and Sullivan predict that Malaysia's retail e-commerce sales will surpass RM22.6 billion by 2020. Thus, it is evident from these studies that the e-commerce segment in Malaysia will continue to grow positively in the future.

1.2.2 Taxation the E-Commerce Business

The evolvement of the digital economy has created new opportunities for people to engage in trade. However, the current tax system could not keep up with such a change of pace (Chittenden & Foster, 2008). Therefore, the regulatory bodies of a country must be critical and strategic in planning and managing the growing community of e-commerce businesses, primarily via regulations and proper supervision of taxation. Nevertheless, it must be borne in mind that the tax policies must be based on clear principles of fairness to ensure that everyone obtains a fair share of taxation (Hurwich, 2001). Every party must be subjected to the same tax regulation and be treated fairly by the tax authority.

It is widely known that the Inland Revenue Board of Malaysia (IRBM) has a special division responsible for the e-commerce segment, namely the E-Commerce Division of the Tax Compliance Department. The functions of this division are to perform e-commerce business profiling, provide e-commerce guidelines and auditing manuals, train audit officers in the e-commerce industry and provide a help desk for the e-commerce segment. Based on the IRBM profiling method, there are four e-commerce categories in Malaysia, namely:

- i. Business to Business (B2B) such as mdex.my, Alibaba.com, and easia2u.com;
- ii. Business to Customers (B2C) such as airasia.com, myeg.com, and malaysiab2c.my;
- iii. Customer to Customer (C2C) such as mudah.my, facebook.com;
- iv. Mobile Commerce, for instance, the Google catalogue.

In addition, the IRBM has also prepared a three (3) phases Information Collection Platform for e-commerce business owners. Phase one involves collecting

information from websites and social media such as Facebook, Instagram and Twitter. Phase two involves identifying and analysing the content of e-commerce activities for the selected websites or social sites. Finally, phase three of the Information Collection Platform manages the database management in Microsoft Access.

Due to the rapid growth of the e-commerce landscape in Malaysia, the IRBM issued the first Guidelines on Taxation of Electronic Commerce on 1 January 2013. On 13 May 2019, the IRBM subsequently released a new Guidelines on Taxation of Electronic Commerce Transactions which supersede the old guideline. The latter guideline seeks to clarify the ways e-commerce sales are taxed. The guideline specified an "e-commerce" transaction and listed Malaysia's most current and popular e-commerce business models. However, the guideline does not supersede the Income Tax Act 1967. The IRBM adopts neutrality, wherein both the e-commerce and the conventional transactions are subject to the same tax treatment. Through IRBM, this practice shows that the government has ensured that all citizens and companies are treated equally and that no one is above the law.

1.2.3 Tax Compliance Behaviour

Intention represents the scale of mindful action that a person portrays through his or her behaviours, also known as one of the components of motivational mechanisms of behaviour (Ajzen, 1991). This definition is derived from the Theory of Planned Behaviour (TPB), which constitutes this study's theoretical foundation. TPB is a form of social psychology that is commonly used in predicting individuals' behaviour developed by Ajzen (1991), which emphasizes that a desire or intention will affect the actual actions of individuals. Attitude, subjective norms, and perceived behavioural control influence people's intentions to engage in a particular behaviour. (Ajzen, 1991).

A person's attitudes can affect the person's intention by increasing the person's desire to participate in a particular activity. In other words, people are more likely to partake in actions that are considered to have positive consequences and are less likely to indulge in practices associated with negative results. However, a certain subjective norm may motivate a person to perform or not to perform a particular act or behaviour. The TPB assumes that subjective expectations consisting of normative values and the desire to obey would affect the intentions of individuals to participate in targeted

behaviours (Ajzen, 2010). Nonetheless, perceived behavioural control notes that a person's actions can be anticipated through evaluation of the perceived ease (or difficulty) in executing (or avoiding) the desired behaviour (Ajzen, 1991).

The compliance behaviour as an individual develops a pattern (Otioku,1988). For instance, an individual's tax return from the previous year could be used as a baseline for this year's return, ensuring consistency in his or her tax filing behaviour. Past studies have applied these models in predicting people's intentions to involve in a tax behaviour, such as in Taing & Chang (2020), Owusu et al. (2019), and Alleyne & Harris (2017). Therefore, it shall be noted that this study will employ intention as a proxy to measure actual tax compliance behaviour based on four independent variables (IV) from the proposed framework, namely, attitude toward informal sanction, attitude toward formal sanction, subjective norms and perceived behavioural control.

1.3 PROBLEM STATEMENT

In conjunction with the digital economy's rapid growth, e-commerce-based companies have become more prominent than traditional approach-based companies. Based on the Ottawa Taxation Framework, the taxation principles should be extended and implemented in e-commerce taxation, wherein those who engage in comparable dealings should also receive the same tax treatment (Organisation for Economic Co-operation and Development [OECD], 2001). It is certainly unfair if traditional businesses are being taxed whilst e-commerce firms are allowed to escape taxation.

In Malaysia, several problems arise regarding tax compliance among e-commerce entrepreneurs. For example, Roshida (2019) reported that tax evasion among online retailing businesses had become a growing issue at the IRBM. According to the Deputy Minister of Domestic Trade and Consumer Affairs, as of October 2021, 373,213 businesses are registered with the Companies Commission of Malaysia (CCM) under the online business category (Utusan Malaysia, 2020). However, the Analytical and Statistical Division, Department of Tax Operations, has reported that only 56,273, equivalent to 15% of those businesses, have registered their tax files with the IRBM (IRBM, 2020). These numbers demonstrate very poor tax compliance by the e-commerce business segment. The IRBM has suffered losses of millions of Ringgit from

the non-collectable tax revenue despite the increasing e-commerce businesses in Malaysia.

The earlier studies on individual tax compliance have generally focused on people who work as employees, with little attention paid to the self-employed (Alleyne & Harris, 2017; Owusu et al., 2019). Even though self-employed people continue to be accountable for most reported non-compliance cases and have been labelled as the hardest to tax (Mbilla et al., 2018), research interest in this group has been relatively low. From the abovesaid gap of the earlier studies, this study will focus on measuring tax compliance behaviour among self-employed e-commerce business owners in Malaysia, adopting the Theory of Planned Behaviour (TPB) as the theoretical foundation.

1.4 RESEARCH QUESTIONS

This study is conducted to answer the following research questions:

- a) Can intention influence tax compliance behaviour?
- b) Do attitudes on informal sanctions influence tax compliance intention?
- c) Do attitudes on formal sanctions influence tax compliance intention?
- d) Do subjective norms influence tax compliance intention?
- e) Do perceive behavioural control influence the tax compliance intention?

1.5 RESEARCH OBJECTIVES

This study aims to determine the effect of certain tax compliance variables on tax compliance behaviour among e-commerce business owners in Malaysia. Specifically, this study is conducted to achieve the following objectives:

- a) To examine the influence of intention on tax compliance behaviour;
- b) To examine the influence of informal sanctions on tax compliance intention;
- c) To examine the influence of formal sanctions on tax compliance intention;
- d) To examine the influence of subjective norms on tax compliance intention;

- e) To examine the influence of perceived behavioural control on tax compliance intention.

1.6 SIGNIFICANCE OF THE STUDY

The first significance of this study is that it will theoretically contribute to applying the TPB to the e-commerce business segment in Malaysia via a quantitative approach. Furthermore, an empirical result from the statistical analysis of this study can be used to compare other number-based results in the taxation field.

In regards to practical contributions, the findings of this study will reveal the significant factors which influence taxpayers' behaviour towards tax compliance. The policymaker may formulate better regulations and taxation systems concerning the e-commerce segment, which may help to improve the overall tax compliance. Furthermore, the study will also spark new insights into the government maximizing tax revenue collection. Since taxation constitutes one of the country's main sources of revenue, extra attention from the government is required to ensure the economic stability of Malaysia. Thus, the government must ensure the tax revenue collection is enough to adequately fund the country's infrastructure and sustain its economic growth.

Ideally, it is hopeful that the outcome, inputs, and understanding gained from this study will more or less assist the policymaker in formulating better regulations and taxation systems to sufficiently support and govern the e-commerce business segment. The future requires a taxation system that is flexible and dynamic and can catch up with the rapid technological developments, as failure to keep up may risk the government and the country to potential loss of tax revenue.

1.7 THE ORGANIZATION OF THE STUDY

Generally, this study is organized into five main chapters. As illustrated above, the first chapter contains the general introduction of this study which includes the problem statement, research questions, objectives and the significance of this study. The second chapter will encompass reviews of the relevant literature focusing on the taxation system in Malaysia, the e-commerce market segment in Malaysia, e-commerce tax compliance studies, and finally, determinants of tax compliance among e-commerce

business owners. Further, the third chapter will outlay the research methodology of this study and describe the data collection process and analysis. Chapter four will seek to elaborate on the results of the analysis and findings of this study, respectively. Last but not least, chapter five will compile and summarise the study's key findings, briefly analyse the implications and limitations of this study in research and practice and propose recommendations for future study.



CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter will provide a comprehensive overview and analysis of several sub-topics: the taxation system in Malaysia, the tax collection system in Malaysia, the e-commerce market segment in Malaysia, the impacts of e-commerce on businesses, and the empirical studies on e-commerce taxation. After that, this chapter will then analyse and discuss the determinants of tax compliance among e-commerce business owners based on the theoretical framework of the TPB.

2.2 TAXATION SYSTEM IN MALAYSIA

The history of Malaysia's tax system started way back before independence. During the British colonial period, particularly in 1948, Malaysia's income tax system was established to justify and govern the collection of taxes from individuals and businesses (Saad et al., 2014). The Income Tax Ordinance 1947 (ITO 1947) was Malaysia's first-ever income tax legislation. The ITO 1947 was curated based on the Model Colonial Territories Income Tax Ordinance 1922 (Kasipillai, 2005). Later on, the ITO 1947 was substituted with the Income Tax Act 1967 (ITA 1967), which came into effect on 1 January 1968.

The ITA 1967 combines three tax laws, namely the ITO 1947, the Sabah Income Tax Ordinance 1956 and the Sarawak Inland Revenue Ordinance 1960. The ITA 1967 is still the principal legislation in Malaysia that governs direct taxes, mainly corporate and individual income taxes (Palil, 2010). The IRBM is the tax authority administering, assessing, collecting and enforcing direct taxes in Malaysia. On top of direct taxes, Malaysia also imposes indirect taxes, including Goods and Services Tax, Import Duties, Export Duties, Service Tax, Excise Tax, and Sales Tax. The indirect taxes are regulated and are under the responsibility of the Royal Malaysian Customs Department.

In furtherance of establishing the Malaysian income tax on 1 January 1968, the Malaysian government then adopted the Official Assessment System. This system is

also referred to as the Formal System, whereby taxpayers must submit their returns within a specific time frame. However, based on the 2001 IRBM's Annual Report, the Formal System is highly inefficient because it is time-consuming, expensive and complicated. Such inefficiency has also contributed to low tax returns (Palil, 2010).

Thus, to stimulate voluntary tax implementation, IRBM introduced the Self-Assessment Tax Scheme (SAS) for corporations in 2001 and 2004 for individuals. SAS aims to collect taxes at the lowest possible cost, enhance compliance and implement effective punishment (Kasipillai, 2000; IRBM Annual Report, 2001). The SAS requires the taxpayer to ensure accurate information is provided in the Income Tax Form. The IRBM will then accept the completed form with assumptions that the contents are accurate (Kasipillai et al., 1999). The form will be queried only when there is doubt about the information submitted within a stipulated period. Failing to adhere to accurate information could lead to sanctions. In other words, if taxpayers fail to file a valid tax return within the deadline, penalties will be imposed.

2.3 TAX COLLECTION IN MALAYSIA

According to the Ministry of Finance Malaysia, tax collection from 2015 up to 2019 had shown a steady increase. Figure 2.1 demonstrates a total tax collection of RM111.77 billion in 2015 and RM119.699 billion in 2017. The tax collection figure had further increased to RM127.713 billion in 2018 and RM135.639 billion in 2019. In 2020, the IRBM set a tax collection target of RM154 billion, but the Ministry of Finance revised the target to RM121.7 billion due to the COVID-19 pandemic. The revised target collection was carefully outlined since tax revenue plays a crucial role in promoting and maintaining the overall economic performance (Loganathan et al., 2017). The total tax collected in 2020 achieved RM123.09 billion (Berita Harian, 2021).