

Tax Awareness and Tax Knowledge of Students at Secondary School Level in Malaysia

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Abstract

This paper aimed to identify students' awareness and knowledge on the issue of tax. For this purpose, 106 secondary school students participated in this study. The data were analyzed by using descriptive statistics and processed by using SPSS software. The findings documented majority of the respondents aware the responsibility of income earners to pay taxes and the role of the government in collecting tax. Most of the respondents agreed taxation should be taught as a subject at secondary school. They perceived taxation as a general knowledge in which everyone should know and learn from the beginning. Among the suggested strategy to increase tax awareness and knowledge is through awareness campaign, awareness of online tax payment, implementation of severe tax laws, development of tax application, ease of tax payment, and incentive for responsible taxpayers.

Keywords:

Tax awareness, knowledge, students and self-assessment system

INTRODUCTION

The self-assessment system (SAS) has been introduced in Malaysia effective from the year 2001 for corporate taxpayers. Subsequently, the system is enforced on individual taxpayers from the year 2004 onwards. The purpose of the SAS implementation is to increase voluntary tax compliance among taxpayers. Through SAS, taxpayers are required to calculate, determine the actual tax amount and make payment promptly based on the amount calculated. This system requires taxpayers to understand the tax laws fully, and they need to be tax literate. Thus, they must have at least a basic knowledge of tax calculation such as the deductibility of expenses, reliefs, rebates, and exemptions for individual and company taxpayers. Therefore, it is important to enhance tax knowledge among taxpayers and commence tax education at school. According to Choong and Wong (2011), tax education in Malaysia only involves accounting and business students at the tertiary level. Most of the young generations who will be the future taxpayers are not exposed formally to the taxation at the school level. Doubts have been raised on the level of tax awareness and tax knowledge among secondary students in Malaysia. Several studies have been conducted to study tax awareness in Malaysia. However, until today, as far as we know, there is no study conducted to examine the level of tax awareness and tax knowledge at the secondary school level. Therefore, this research has been conducted to explore and examine the tax awareness and tax knowledge among secondary school students, particularly during the self-assessment system tax regime. In addition, this research also

investigates and suggests ways to educate and increase tax awareness among students, who will be the future taxpayers.

LITERATURE REVIEW

Tax awareness

Tax awareness is defined as ‘having knowledge and understanding of the tax laws and system’ (Ahmad & Ali, 2013). Inland Revenue Board of Malaysia (IRBM) has undertaken various activities related to tax education to raise awareness among taxpayers about tax laws, such as briefings, workshops and seminars. These programs were carried out free of charge at all IRBM branches and taxpayers’ premises. Kamaludin and Madi (2005) conducted a research on tax awareness of salaried taxpayers in two states of Malaysia (Sabah and Sarawak), and found that most respondents in both states were aware of basic rules and regulations in the tax system. Meanwhile, a study of tax awareness amongst Malaysian working youth demonstrated that the respondents only had moderate tax awareness (Ahmad & Ali, 2013). Interestingly, most studies found that young taxpayers are less willing to comply with the tax system (e.g. Wenzel, 2002; Verboon & van Dijke, 2007; Devos, 2008).

In Malaysia, the IRBM has conducted several activities to create tax awareness among young people, particularly students in primary and secondary schools. Among the activities are visits to IRBM headquarters and branches. Students are given an introductory briefing about IRBM, a tax awareness talk, a career talk, and a visit to the service counter during the visits. IRBM also becomes an official partner in KidZania Kuala Lumpur by placing the branch known as KTO, which officially opened to visitors on 14 September 2013. KidZania is an edutainment theme park that provides opportunities for children to play a role in the world of work in more than 60 industries and services. This partnership allows children to play the role of the IRBM Assessment officer known as ‘Junior Tax Officer’ (JTO) to carry out tasks in the KTO. This program’s main goal is to let children understand the importance of the country’s development and where tax money is spent. The program raises awareness among the younger generation to become more responsible citizens (Inland Revenue Board Malaysia, 2014). These programs and activities show the seriousness of IRBM to expose and educate the school children on the tax system in Malaysia as a part of the awareness campaign.

Tax knowledge

Tax knowledge is a necessary element, especially when implementing SAS (Palil & Mustapha 2011). SAS requires taxpayers to understand the tax system to calculate and determine the taxable income or tax liability. Empirical studies conducted by Kirchler, Niemirowski, and Wearing (2006) identified the association between tax knowledge and high levels of compliance. In contrast, low tax knowledge would cause the taxpayers intentionally or unintentionally not to comply with the tax system. Loo, McKerchar, and Hansford (2009) found similar findings when discovering a positive relationship between knowledge and tax compliance. Taxpayers would comply and report their taxable income when they have the knowledge to fill in tax forms. Palil and Mustapha (2011) had a similar finding on a study of tax knowledge in Malaysia.

Eriksen and Fallan (1996), in the study of knowledge and attitude of the taxpayer, found that taxpayers perceived any tax evasion behaviour as a serious matter if they have high tax

knowledge. Similarly, Torgler, Demir, Macintyre, and Schaffner (2008) observed a strong positive effect of taxpayer's knowledge about the tax law on their awareness towards tax compliance. New Zealand taxpayers argued that they do not have adequate knowledge and perceived that the tax system is complicated (Saad, 2014). These factors encouraged them to be non-compliant with the tax system. Therefore, early exposure to tax knowledge is needed to minimize this problem. For that reason, the National Tax Authority of Japan was successful in promoting compliance through tax education at the school level (New Straits Times, 2007). They believed promoting tax knowledge in the early ages will enhance the willingness to pay tax in the future.

Hence, this study is conducted to answer the following research questions:

1. What is the level of tax awareness and tax knowledge of students at secondary school?
2. Is there a need for tax awareness and tax knowledge to be introduced at the secondary school level?
3. What are the potential ways to increase tax awareness and tax knowledge among students at secondary schools?

METHODOLOGY

The survey questions were adapted from Lee (2009) and modified to meet the objective of this research. The survey used the Malay language to ensure the respondents' understanding of the taxation terminology. There were three (3) parts of the questions; Part A focused on the demographic or background of respondents, while Part B measured the tax awareness of respondents, and Part C involved questions on tax knowledge and tax education. The respondents were secondary school students who have just finished their high school education. Data were analyzed using descriptive analysis.

FINDINGS AND DISCUSSION

All 106 surveys were returned and useable for analysis. The age range was between 17 years old to 19 years old. Their educational levels were SPM and STPM (secondary school examination).

From the descriptive analysis, the findings on tax awareness and tax knowledge showed that 88% of respondents realized that all income earners should pay taxes. This finding contradicted a study conducted by Ahmad and Ali (2013), who found moderate tax awareness amongst Malaysian working youth. The difference between the awareness levels of school children and working youth could be due to IRBM intervention, including the fun tax education at Kidzania. However, the findings supported Rahayu, Setiawan and Troena (2017), who verified the impact of tax knowledge on tax compliance. Meanwhile, 78% of the respondents agreed that the government should collect taxes to raise revenue and income to build country and facilities and finance expenditures and debts. Given that most of Malaysia population came from middle-income households, it is not surprising that the respondents agreed on paying tax

to finance infrastructural development. Individuals who were net beneficiaries of welfare had higher tax morale than net contributors (Rodriguez-Justicia & Theilen, 2018).

For the second objective, which focused on having tax education at school, 83% of respondents agreed taxation should be taught as a subject in secondary school. They perceived taxation as a general knowledge in which everyone should know and learn in schools. Besides, teaching taxation at a secondary school is considered an early exposure to students to increase awareness before joining the employment sector. Earlier, Gergerlioğlu and McGee (2017) reported that university students in Turkey believed that tax education should begin in primary school. Taxpayers comply if they are 'able and willing to' positively 'perceive tax system fairness' and 'morally' believe that it is right to comply (Kwok & Yip, 2018). Thus, tax education should be introduced early to cultivate understanding and positive attitude towards tax.

In addition, the respondents suggested several methods to increase tax awareness and education, including tax awareness campaigns, online tax payment education, tax payment enforcement, mobile tax payment application, and streamlining the tax payment process. Therefore, the tax authority in Malaysia, i.e. IRBM, can consider this finding on how to increase awareness among students in secondary schools.

CONCLUSION

This paper aimed to identify students' awareness and knowledge of tax. Based on the findings, the respondents had high tax awareness and tax knowledge and believed that taxation should be introduced at the secondary school level. The factor contributing to this finding is the level of student education that develops their basic knowledge and understanding. The secondary school students have been exposed to tax issues and the significance of tax revenue to the country. The knowledge influences respondent's awareness and perception and also knowledge about this matter.

This study signalled the demand for tax knowledge at the early stage of education level to the MOE. MOE and the relevant departments may consider and evaluate the current curriculum to include taxation as a subject or topic. It is also an early step to inculcate the giving culture, hence understanding the importance of tax to potential taxpayers who will become actual taxpayers.

However, the sample of this study was collected from only one school, which is relatively small to represent the whole population. Consequently, the findings of the study are limited to the selected school only. Future researchers are recommended to use a larger research sample to overcome the limitation displayed in this study to enable theoretical generalization.

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