

A PROPOSED MODEL OF GUILT-MINIMIZATION INFLUENCE TOWARDS INTENTION OF TAX NON-COMPLIANCE AMONG SME OWNERS

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Abstract: *For decades, researchers have been investigating on voluntary tax behaviour issue and involved various taxpayers' categories, but unfortunately, studies towards small and medium enterprise (SME) owners have not been widely discussed despite its importance towards Malaysia and needs more attention from regulatory bodies. Attempts to explain intention of tax non-compliance have incorporated alternative perspectives from non-economic approach. However, one of the psychology elements known as guilt-minimization also found to acknowledge the existence of intrinsic factors which may influence individuals' behaviour (Kirchler et al., 2012). Therefore, this study attempts to propose a conceptual framework of Theory of Neutralization to be used in examining guilt-minimization influence towards intention of tax non-compliance among SME owners.*

Keywords: Tax Non-Compliance, Intention, SME Owners, Guilt-Minimization Influence, Theory of Neutralization

Introduction

Tax non-compliance has been discussed since decade by researchers. According to Hai and See (2011), tax non-compliance problem has become even more serious after the implementation of SAS since it requires voluntarily willingness from taxpayers to report actual income and actual expenses claimed in their tax returns. Surprisingly, a briefing paper conducted by Murphy (2011) on cost of tax evasion worldwide revealed that out of 145 countries taken into survey, Malaysia has been ranked 44th in the world and 11th in Asia. According to Ching (2013), tax non-compliance problems may causes shortfall to countries' tax revenue and could be categorized as a white-collar crime worldwide, including Malaysia.

The issues have been discussed by scholars and involved various taxpayers categories, for example self-employed, salary, wage earners (Loo, McKerchar and Hansford, 2009), government servants (Jaffar, Yusof, Bakar and Tahir, 2014), academician (Saruji and Palil, 2012), sole-proprietors and partnerships (Hai and See, 2011; Shaharuddin, Palil, Ramli and Maelah, 2012), tax agents and professionals (Hamid, 2013; Yong, 2011) as well as owners of small-sized business (Kamleitner, Korunka and Kirchler, 2012). Unfortunately, studies towards small and medium enterprise (SME) owners have not been widely discussed despite its importance towards Malaysia and needs more attention from regulatory bodies (Mashadi, Ramli, Palil and Jaffar, 2016).

SME is important in generating national income and has been known as backbone of Malaysia. In terms of its contribution towards Malaysia economy, it has 36.6 percent contribution in gross domestic product (GDP) in 2016 and expected to grow more than 40 percent in coming years. In addition, its GDP contribution in 2014 of 35.9 percent also has exceeded the standard benchmark for SME nation status development (Pail, 2015). As released by SME Corporation Malaysia at 29 September 2017, based on the census of SMEs registered in Malaysia (reference year 2015), the total numbers of such firms were amounting to 907,065. Such huge figures may show its importance and high contribution towards national income if such firms are compliant. Thus, it is expected to collect more taxes and also to reduce tax non-compliance behaviour. However, referring to available data provided by Inland Revenue Board of Malaysia (IRBM), the audited cases resolved for SME in 2016 is 541,798 cases compared to 529,010 cases for 2015. It indicates that there was an increase of 2.4 percent in the cases audited on 2016 than the year before. Despite small amount, it may be considered as an alarming signal of tax non-compliance behaviour due to its higher contribution towards Malaysia economy.

According to Mohamad, Zakaria and Hamid (2016), because of the SME characteristics and nature of the business, the SME owners tend not to comply with tax. This might arise from higher opportunities to involve in cash business transactions and the possibilities not to declare it. Besides record keeping, tax compliance also involves cash management which it may relates to the tax authority (Yong, 2011). Study by Mohd Ali (2013) revealed that taxpayers with business income also found to have medium to low range of tax compliance due to higher opportunity in avoiding tax and their actions appeared to be mostly overlooked by the tax authority. Study by Mohamad et al. (2016) found that tax evasion to be greatest among micro and medium-sized SMEs located in suburban areas.

Attempts to explain individuals' behaviour have incorporated alternative perspectives from non-economic approach, which include behaviour and psychology factors (Kirchler et al., 2012). However, one of the psychology elements, which explain techniques in minimizing individuals' guilt feelings, also found plays important role in explaining individuals' behaviour. It may acknowledge the existence of intrinsic factors which may influence individuals' behaviour. In this context, these techniques may explain the intention of taxpayers' non-compliance behaviour.

Given this gap of knowledge, together with the importance of SME and inhibiting tax non-compliance, there appears considerable scope for further study. The choice of SME owners as the area of research for this study was influenced by the fact that SME owners are unlikely as those individual taxpayers with non-business income, which are more regulated on monthly tax deductions (MTD). As for SME, since most of their transactions were based on cash, they have huge opportunity to involve in non-compliance due lack of evidence in having proper

documentation (Fatt, 2009; Shaharuddin et al., 2012; Yusof, Ling and Wah, 2014). Thus, by responding to the discussed problems, this study intends to discuss guilt-minimization influence towards intention of tax non-compliance among SME owners.

Literature review

Theory of Neutralization has been developed by Sykes and Matza (1957) originally to explain juvenile crime in the United State of America. It has been expanded to include adult criminal and also used in social psychological studies. Sykes and Matza further explain that individuals who anticipated in deviant behaviour will always finding ways in neutralizing or justifying their feeling of guilt towards that behaviour. Techniques used to precede the behaviour and later will be seen as an acceptable behaviour.

Sykes and Matza introduced five techniques or strategies known as techniques of neutralization, namely: (1) denial of responsibility, (2) denial of injury, (3) denial of victim, (4) condemn the condemner, and (5) appeal to higher loyalty.

Denial of responsibility occur when an individual trying to rid or shift the blame or responsibility to external parties or circumstances which are accidental and beyond their control (Sykes and Matza, 1957; Thurman, John and Riggs, 1984). Laws always be seen as vague, ambiguous and complex, thus they could justified they are lacking of laws knowledge and understanding (Welch, 2005). Blaming higher-level officials also could be a technique in denial of responsibility (Welch, 2005).

Denial of injury occur when an individual put claim that others are not being hurt or injured by their behaviour and the most important is since everyone else also did the same behaviour, thus they are not wrong in doing such behaviour (Sykes and Matza, 1957; Thurman et al., 1984; Welch, 2005). Individuals may justified that they are not hurting others because it is only a technical violation, thus it cannot be considered as criminal (Benson, 1985).

Denial of victim may occur when individual, put a claim that it was self-defence and believes that the victim of deviant behaviour deserved that injury (Sykes and Matza, 1957; Thurman et al., 1984). For instance, in the cases of employee theft, they believed that their action is worthwhile for the way they were being treated by the wrongdoer, which is their employer (Welch, 2005).

Condemn the condemner may occur when an individual blame the law and policy maker for being unjust to them and should not be obey by them (Sykes and Matza, 1957; Thurman et al., 1984). In dealing with tax matters, taxpayers will tend not to comply if they believed that tax spending is inefficiently managed by tax authorities (Thurman et al., 1984).

Appeal to higher loyalty may occur when individuals clarify that they are sacrificing for other people (Sykes and Matza, 1957; Thurman et al., 1984). They claimed that they are doing such behaviour in order to morality importance instead of legality importance since morality tends to be the most important value to them in taking care of their employee as well as society (Welch, 2005).

In connection with tax evasion, theory of neutralization has been applied in Thurman et al. (1984). It found to increase the taxpayers' level of compliance by enhancing the level of feeling

guilty among taxpayers. Once they feel guilty, they may not try to manipulate or omit any amount that they should declare in tax return. Thurman et al. also claimed since taxpayers have to deal with tax matters once a year, thus they may have few opportunities to use neutralization techniques in non-complying with tax. However, the techniques still success if taxpayers viewed tax authorities as being inefficiently or wrong in using tax money. Thomas (2015) believed that psychological discomfort such as guilty may prevent taxpayers from cheating or become dishonest.

Theory of Neutralization has been used in social psychological studies, in determining the influence of techniques in minimizing guilt towards intention as well as deviant behaviour. Study by Grasmick and Scott (1982) found that threats of guilt feeling to be negatively significant with tax evasion. Taxpayers whose feels that being dishonest in declaring tax returns are morally wrong, they will feel guilt to behave in that manner, thus, will likely not to evade their tax obligation. However, according to Thurman et al.(1984), by using neutralization techniques suggested by Sykes and Matza (1957), the likelihood of tax evasion is higher if they feel less guilt to anticipate in evading taxes once they believed that their tax money has been spent inefficiently and wasted. This is contradicts with compliant taxpayers whose feels guilty to evade since they believed that their money has been spent efficiently by tax authorities.

Benson (1985) interview on neutralization techniques used by United States of America white-collar taxpayers who found convicted in tax evasion, discovered that those taxpayers believed that being cheating in declaring tax is actually cannot be considered as criminal. They tend to evade because of the complexity of tax system itself. They further claimed that those who got caught are unlucky victim. Benson also revealed that they aware that they are responsible in declaring actual income and may committing to criminal, they tried to neutralize or justify that it was not a criminal action. A statement by income tax violators stated that “even if it’s for ten dollars it’s the same principle” but they denied that they are not cheating. They justified that it is due to a poor record keeping which resulted to only small mistakes. The actions also has no harmed to anybody since they were not taking a gun but just separately allocate the amount of cash sales to be used by needy employees. Benson also found that they denied that they were not cheating government money because the money actually belongs to them. Although they denied that their action to evade is not because of guilt feeling but Benson has discovered that they feel guilt after they have been caught.

Li, Cheng and Dalian (2013) study on internet abuse in the workplace found that only one of the techniques, namely denial of responsibility is not significant in explaining intention towards internet abuse. The rest four techniques, namely denial of injury, denial of victim, condemn the condemner and appeal to higher loyalties found to have positively significant towards internet abuse intention in the workplace. Study by Cheng, Li, Zai and Smyth (2014) among professional staff from companies in the finance and telecommunication sectors also using neutralization techniques in determining the influence of those techniques on intention to use Internet for personal use. Study found that all five techniques have positively significant relationship with intention to use Internet for personal use.

According to Kvalnes (2014), individuals could use neutralizations techniques before the moral behaviour occur or after it has been performed. This has been explained by Harris and Dumas (2009) in investigating the use of neutralization techniques towards online consumer misbehaviour. They found specifically from the interview that the techniques of denial of victims and appeal to higher loyalties were found to be mostly used to justify actions prior to

an event. Meanwhile, the techniques of denial of responsibility and denial of injury were found to be used after the behaviour has been performed. This is contradictory with Hinduja (2007) in investigating online software piracy among students, found that students engaging in using piracy items mostly use denial of injury and appeal to higher loyalties to justify their behaviour after being performed. Besides that, Hinduja also found that neutralization techniques were weakly related to experience with online software piracy.

Siponen and Vance (2010) study towards intention to violate information system security policy found that neutralization techniques have strong support and are able to explain intention beyond that explained by the deterrence factors. However, they have excluded denial of victim based on the argument that the victim is the object of the act and he/she deserves the consequences. It is hard to point out who is the victim in the compliance with security policies situation. Study also found a positively significant relationship between neutralization techniques and intention to violate information system security policy. In addition, study by Silic, Barlow and Back (2017) found that neutralization techniques are more influential than deterrence effects in influencing intentions to violate information security policies.

However, study by Shah and Amjad (2017) on consumer ethical decision making could not find any impact of neutralization techniques towards consumers' behavioural intention. This is contradictory with Gruber and Schlegelmilch (2014) where in their study neutralization techniques used by consumers to reduce their disagreement and will mention the example of others unethical behaviour for their self-defence.

Alm (2012) claimed that literature on model of guilt in tax compliance area is scarce. Cheng et al. (2014) also suggested incorporating neutralization techniques in understanding more on behaviour. Although neutralization techniques are generally overlooked or failed to highlight their importance, Welch (2005) suggested further research on those techniques in preventing deviant behaviours. Despite it has lagged behind, it is useful in guiding tax authorities in enhancing tax compliance level. It remains unexplained and little of the previous studies do take a consideration on guilt-minimization into the discussion of tax non-compliance behaviour. Findings of previous studies may not give a comprehensive explanation since it may be different if guilt-minimization will be included in investigating intention of tax non-compliance among SME owners.

Due to the universality of the techniques, it is suggested by researchers from other non-taxation studies to look upon the techniques to be adapted with other deviant behaviour. Although the suggestion was back in 1957 by Sykes and Matza and 1984 by Thurman et al., but no such studies have been done especially in taxation area. The use of Theory of Neutralization in investigating tax non-compliance is still considered as limited. It is possibly beneficial to determine if these techniques are related to non-compliance intention among SME owners. Therefore, this study proposed to investigate taxpayers' minimizing guilt towards intention of tax non-compliance among SME owners. It will be discussed regarding on techniques introduced by Sykes and Matza (1957) used in influencing intention of tax non-compliance among SME owners.

Research conceptual framework

Figure 1 illustrates the research conceptual framework to be used in this study.

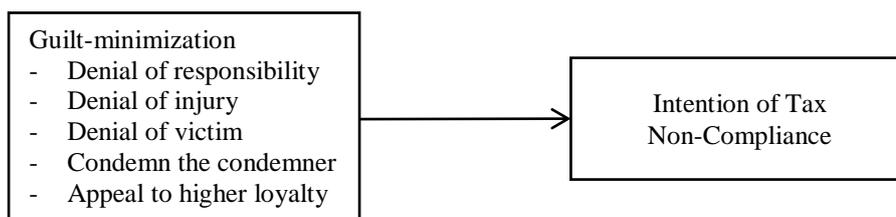


Figure 1: Research Conceptual Framework

Research methodology

This section will discuss population and sample of the study as well as procedure of collecting data.

Population and Sample

According to data provided by SME Corp, total SMEs registered in Malaysia under National SME Development Council (NSDC) amounting to 907,065 firms. Out of that, an amount of 410,639 firms located in Eastern Malaysia as well as companies and others have been excluded, thus the amount reduced to 496,426 firms. Based on the Krejcie and Morgan (1970) rule of thumb, the appropriate sample size of 384 shall be drawn and is considered enough to represent the population. However, based on prior study on SMEs in Malaysia by Ramli, Palil, Hassan and Mustapha (2015), Abdul-Jabbar (2009) and Mansor and Hanefah (2008), the response rate ranged from almost 15 to 47 percent, thus a larger size needs to be considered to avoid non-response respondents. Based on that, this study will be increase at assumption of 30 percent as suggested by Israel (1992), therefore 500 samples will be considered.

Data Collection Procedure

This study prefers to use primary data which could be gathered through distributing questionnaire. It will adapted and modified instrument used by Thurman et al. (1984), Hinduja (2007) and Siponen and Vance (2010) to measure guilt-minimization techniques. A five item Likert scale will be used and 5 score will be given for “strongly agree” and 1 for “strongly disagree”. The questionnaire will be randomly personal distributed and collected from the respondents from four regions, namely (1) Northern Region, (2) East Coast Region, (3) Central Region and (4) Southern Region. According to Alabede (2012) and Hair et al. (2010), personal distribution method will guarantee a high response rate, respondents’ anonymity as well as respondents’ deadline.

Conclusion

Based on the empirical evidence and theoretical perspective, this study has taken a challenge in explaining Theory of Neutralization to investigate the influence of guilt-minimization in determining intention of tax non-compliance among SME owners. Besides contribution on new empirical evidence and tax literature knowledge, it also hopes to propose new ideas to understand the behaviour of SME owners in voluntarily comply with tax. Furthermore, it also expected to help in understanding taxpayers’ reasons or excuses relating to non-compliance

intention. Although techniques originally being used in criminal cases, it is expected to assist these respective stakeholders in raising taxpayers' awareness of potential loss to the nation due to commit in tax non-compliance.

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