
The Effect of Tax Complexity on Tax Compliance Behavior Among Self-employed Taxpayers in Malaysia

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Abstrak

Tax complexity is a critical factor influencing tax compliance behavior among self-employed individuals in Malaysia. This study examines how aspects of tax complexity impact tax compliance intention and behaviour among self-employed taxpayers. Through a quantitative approach involving surveys, this research aims to provide empirical evidence on the challenges faced by self-employed taxpayers due to tax complexity. The findings contribute to the literature by highlighting specific areas where simplification of tax rules and improved taxpayer education can potentially enhance compliance rates and overall tax administration effectiveness in Malaysia.

Kata Kunci : *Tax Complexity, Tax Compliance rates, Self-employed taxpayers, Quantitative approach, SmartPLS*

I. INTRODUCTION

Taxation involves governments imposing taxes on corporate profits and individual incomes to finance public services and achieve various governmental objectives [13]. Tax revenue plays a crucial role in bolstering a nation's economy, education, societal welfare, and security. Given the pivotal role of taxes as a primary income source for governments worldwide, both in developed and developing nations, ensuring tax compliance has emerged as a paramount concern. Adequate funding is essential for governments to execute developmental and infrastructural projects effectively, thereby supporting continuous national growth and the welfare of citizens [10]

Despite taxes playing a crucial role in fostering national development, there are individuals who fail to acknowledge its importance. They continue to evade taxes while expecting to enjoy the benefits financed by others who dutifully fulfill their tax obligations. This situation is perceived as unfair by compliant taxpayers. If not addressed seriously, it could lead to significant revenue losses for the country and undermine the fair distribution of fiscal responsibilities [19]. Several researchers in the field of tax compliance highlight that self-employed individuals often face unique challenges in tax compliance [15]. This group is often identified as having a higher propensity to evade income taxes compared to other taxpayer categories. Additionally,

they are acknowledged as the primary contributors to the income tax deficit [19].

Tax compliance among self-employed taxpayers is influenced by numerous factors, among which tax complexity plays a crucial role. Tax complexity refers to the difficulty and intricacy involved in understanding and fulfilling tax obligations, including the complexity of tax laws, regulations, forms, and procedures [5]. For self-employed individuals in Malaysia, navigating these complexities can be particularly challenging due to limited access to professional advice and varying levels of tax literacy [6].

Ghani [8] demonstrated that tax complexity has a substantial impact on the level of tax compliance among self-employed taxpayers. Particularly, Tax regulations play a pivotal role in shaping tax compliance behavior, primarily because these regulations are often challenging for taxpayers to comprehend [7]. It is strengthened by Yayha [21] tax complexity is the root of tax non-compliance behaviour among corporate taxpayers in Malaysia. Young workers in Malaysia are more careful in their tax assessment due to tax complexity which leads to positive behaviour on tax compliance [12].

In Malaysia, the tax law is based on the ITA 1967, Public Rulings and its associated Schedules which are important for tax obligation by taxpayers. A study has been done by Isa [11] and Saad [18] regarding the Readability Assessment of

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Complexity of Malaysian Income Tax Act 1967 whereby using the Flesch Reading Ease Score (FRES) and Flesch-Kincaid Grade Level (FKGL) analysis, they have found that the ITA 1967 and its Schedules are complex to understand. Subsequently, one of the determinants of tax compliance within the tax system or structure is the complexity of the tax system that has been identified for a long-time being [18]. In addition, Isa [11] further highlighted that tax complexity can influence tax compliance.

As of the latest available evidence from [14], studies conducted by the Malaysian Tax Department and economic research agencies such as the Malaysian Institute of Economic Research (MIER) consistently show that self-employed individuals in Malaysia exhibit a higher tendency to evade income taxes. These studies analyze tax compliance data and patterns of tax reporting among different taxpayer groups, highlighting the prevalence of underreporting income and overstating deductions among self-employed taxpayers. Such practices contribute significantly to the income tax gap in Malaysia, emphasizing the ongoing challenge of enforcing tax compliance effectively within this sector [14].

The impact of tax complexity on compliance behavior has been extensively studied in various contexts, highlighting its potential to affect both unintentional errors and deliberate non-compliance [4]. However, specific research focusing on self-employed taxpayers in Malaysia is limited. This study seeks to fill this gap by investigating how tax complexity influences compliance behavior among self-employed individuals in Malaysia

Given the issues discussed earlier, this data provides compelling evidence of how noncompliance among self employed significantly contributes to the overall tax gap. It highlights the urgent necessity of addressing compliance challenges within this group to ensure effective tax administration.

The main research objective of this study is to determine the factors that influence the tax compliance intention among self-employed workers in Ipoh by using Theory of Planned Behavior proposed by Ajzen [2] with three variables in the field of tax compliance intention. The first objective of this study is to examine the relationship between tax complexity and tax compliance intention of self-

employed. The second objective is to examine the relationship between the Tax complexity and tax compliance behaviour. The third objective is to examine the relationship between tax compliance intention and tax compliance behaviour. The fourth objective is to analyze the mediating role of tax compliance intention between tax complexity and tax compliance behaviour.

In conclusion ,this study seeks to answer several research questions. The first research question is, what is the relationship between tax complexity and tax compliance intention of self-employed. The second research question is, what is the relationship between the Tax complexity and tax compliance behaviour. The third research question is, what is the relationship between tax compliance intention and tax compliance behaviour. The fourth research question is, does the tax compliance intention mediates the role between tax compliance intention between tax complexity and tax compliance behaviour.

II. LITERATURE REVIEW

A. Theory of Planned Behaviour

The Theory of Planned Behavior (TPB), formulated by Ajzen in 1991, is a prominent framework in social psychology widely utilized for integrating various factors influencing tax compliance behavior and other domains. Since its inception, this model has garnered significant attention in behavioral research. It has been effectively applied to elucidate and forecast individual behaviors across a spectrum of contexts such as healthy eating habits, drug use, recycling practices, travel planning, consumer choices and the adoption of technology [1]. According to TPB, an individual's behavior is primarily driven by their intentions regarding whether to perform or refrain from a specific action.

These behavioral intentions, in turn, are shaped by three fundamental determinants: the individual's attitude toward the specific behavior, subjective norms, and perceived behavioral control. Perceived behavioural control determines the ease or difficulty for individuals in carrying out certain behaviour, depending on the availability of resources necessary to execute certain behaviour, as

well as the time and opportunity to implement them [2].

Relating to tax complexity, A complex tax system may restrict taxpayer likelihood to comply with tax obligations by generating higher compliance costs and barriers for the taxpayer, which decrease compliance preference. Saad [17] reviews the tax complexity literature and categorizes the complexity of tax systems into the types “computational, tax forms, compliance cost, rule and procedural”. Therefore, this study intends to examine the complexity of tax and could impact the intentions and behaviour of tax compliance among self-employed taxpayers.

This variable is usually determined by an individual's experience or others' experience. For instance, Trivedi, Shehata and Mestelman [23] proved this theory in explaining the relationship between the intention towards tax compliance in Canada while Bobek and Hatfield [24] demonstrated the same thing in the United States. There are few past studies in Malaysia built upon the framework of TPB which state that attitudes, subjective norms, and perceived behavioural control exert influences on the intention to behave and act, which then drives compliance behavioural [28].

A. B. Tax complexity

In the tax compliance literature, the phrase complexity refers to the taxpayer being burdened with an excessive amount of record keeping, tax form filling, or other compliance work [29]. Tax complexity can be classified into legal simplicity (i.e. readability and comprehensibility of the tax law) and effective simplicity (i.e. ability to determine tax liability correctly) [30]. Tax complexity is identified as an important variable that influences compliance behavior and it may be at the root of non-compliance among corporate taxpayers in Malaysia. The idea is that taxpayers will comply if the system is straightforward to understand and easy to follow. A complicated tax system, on the other hand, may mislead or dissuade people from complying, whether purposefully or inadvertently [11].

Countries with complex tax codes tend to have larger populations, higher GDPs, and higher tax rates, while countries with complex tax frameworks

tend to have lower GDPs, poorer infrastructure, lower levels of development, and lower quality governance [31]. In Malaysia, Mustafa (1996) investigated taxpayers' perceptions of the implemented self-assessment system and found that the tax system in Malaysia had tax complexity, notably regarding record-keeping, too much information in the tax legislation, and ambiguity.

The complexity of tax regulations, the difficulty of keeping correct records, taxpayer carelessness, and the failure in collecting the information required to comply can all lead to unintended non-compliance [34]. This study is supported by Saad [35] and Gambo, Masud, Mustapha and Oginni [32], whereby they found that the tax rule is the major contributor to tax compliance due to the fact that the rule is difficult to understand. The above statement strengthens with some empirical studies that have been carried out within the scope of the TPB and tax compliance behaviour in many countries. Taing and Chang [33] confirmed tax complexity has a statistically significant influence on the tax compliance intention of the Phnom Penh citizens. Ghani [28] found that tax complexity significantly affects tax compliance level among the self-employed taxpayers.

A simple tax system and legal procedure enhance compliance by allowing taxpayers to more easily understand their tax obligations and calculate the amount of tax they need to pay. Richardson [36] investigates tax evasion in 45 countries, accounting for both economic and non-economic factors, finding that complexity was the most significant determinant to influence tax compliance behavior. Many taxpayers believed that the tax system was excessively complicated, difficult to comprehend, and that the terminology employed was unfamiliar to them. This could lead to noncompliant behavior and consequently increase tax evasion. Therefore, the following hypothesis is constructed.

H1: The Tax complexity has a negative influence on tax compliance intention increases in Malaysia among self-employed taxpayers.

H2: The Tax complexity has a negative influence on tax compliance behaviour in Malaysia among self-employed taxpayers.

H3: tax compliance intention positively affects the tax compliance behavior by self-employed taxpayers in Malaysia

H4: Tax compliance intention mediates the relationship between tax complexity and tax compliance behavior.

III. RESEARCH METHODOLOGY

This research investigated the tax compliance behavior of Malaysian citizens in Ipoh. However, we were unable to conduct a complete survey because the total population of the study was hard to define, and many potential subjects refused to participate in the study because tax compliance is a sensitive issue [39]. Thus, snowball sampling was used, whereby the initial subjects were due to their occupation, such as self-employed, a total of 400 questionnaires were distributed to self-employed, employees of a private organization, employee of a public organization, and university student. The survey was carried out between June 2023 and February 2024. A total of 300 responses were obtained and out of this figure, 59 were excluded from the sample due to incomplete data giving the final response rate of 61 per cent. Tax Compliance Intention and Tax Compliance Behaviour were adopted from Roth [40]. The measurement of Tax complexity of Perceived behavioral control component, items adapted from Saad [18] was adapted. Three items for tax compliance, six items for tax knowledge and six items for tax complexity. Responses were measured using a 7-point Likert type scale anchored by “strongly disagree” (1) to “strongly agree” (7). The data was analyzed using SPSS and Smart Partial Least Square version 4. In addition, a total of 36 responses were deleted due to outliers issues. This made the complete responses 241. These responses are sufficient for the use of Smart PLS [37]. Data is normally distributed and has no multicollinearity issues. In addition, non-response bias was examined and it was found that the data has no bias.

IV. FINDINGS

Profile of respondents A total of 241 respondents have participated in this study. Majority of the

respondents (65.5%) are males with bachelor degrees (86.3%) and in the age group between 36 and 49 years old (43.7%). The majority of respondents (77.5%) enjoy monthly income on average between 1200-1600 Ipoh and have working experience of more than 10 years. In assessing the measurement model, Hair et al. 2017 suggested that researchers must examine five criteria that are the factor loading (FL) (>0.70) as well as the reliability (Cronbach's Alpha (CA) and Composite reliability (CR) both >0.70). In addition, the validities such as the convergent validity which is achieved if the average variance extracted (AVE) is greater than 0.50 and the discriminant validity which is achieved if the root square of AVE is greater than the cross loading. In Table 1, it can be seen that all the criteria has been achieved indicating that the measurement of this study is reliable as well as valid.

TABLE 1: FACTOR LOADING, CRONBACH'S ALPHA, COMPOSITE RELIABILITY, AND AVE

Variable	Cronbach's Alpha (CA) >0.70	Composite Reliability (CR) >0.70	AVE >0.50
Tax Complexity	0.959	0.946	0.717
Tax Compliance Intention	0.855	0.859	0.802
Tax Compliance Behaviour	0.887	0.897	0.795

V. STRUCTURAL MODEL AND HYPOTHESES TESTING

Once the reliability and validity of the measurement model were confirmed, the structural model was assessed for its predictive capabilities and relationships between variables (Hair et al., 2013). R² values were assessed to determine the explanatory power of the model. The R² values for

Tax Compliance Intention and Tax Compliance Behaviour were 0.576, and 0.603, respectively, indicating substantial predictive capability (Falk & Miller, 1992). Effect sizes were also evaluated using Cohen's f^2 , with values indicating small, medium, or large effects. The Tax Complexity showed medium-to-large on Tax Compliance Intention and Tax Compliance Behaviour ($f^2=0.09$ and $f^2=0.06$, respectively) (Cohen, 1992). Predictive accuracy was assessed through Q2 values, with values above 0 indicating relevance. The Q2 values for Tax Compliance Intention and Tax Compliance Behaviour were 0.456 and 0.525, respectively, confirming predictive relevance.

TABLE 2: RESULTS OF DIRECT HYPOTHESES

Path	β	t-value	Sig.	Results
TC - TCI	0.328	5.343	0.000	Supported
TC -TCB	-0.014	0.346	0.729	Not Supported
TCI - TCB	0.341	4.033	0.000	Supported

VI. Path Analyses: Direct Effects

Table 2 summarizes the findings for the hypotheses H1–H2 on the direct effects of tax complexity on tax compliance behavior. Results indicated tax complexity ($\beta = 0.328$, $t = 5.343$, $p < 0.05$) and tax compliance intention ($\beta = 0.341$, $t = 4.033$, $p < 0.05$) significantly impacting tax compliance behavioral (H1 and H2). However, the impact of tax complexity on tax compliance behavior was not statistically significant ($\beta = -0.014$, $t = 0.346$, $p > 0.05$).

Table 5. Direct and indirect effects of self-employed tax compliance intention on self-employed tax compliance behaviour

Path		T- State	Sig.	VAF %	Type of Mediation
TC-TCB					
Total effect	0.305	3.482	0.000	-	-
Direct Effect	0.230	5.343	0.004	-	-
Indirect Effect	0.328	2.670	0.000	22.62	Partial mediation

VII. Mediation Analysis

Table 5 shows the results of the mediation analysis. Regarding the mediating role of Tax Compliance Intention, Tax Complexity on Tax Compliance Behavioural (H4: $\beta = 0.305$, $t = 3.482$, $p < 0.05$) was not significant. The direct impact of Tax Compliance Intention was significantly impacted by Tax Compliance Behavioural (H4: $\beta = 0.230$, $t = 5.343$, $p < 0.05$). While, indirect effects of Tax Compliance Intention was significantly effect between Tax Complexity and Tax Compliance Behavioural (H4: $\beta = 0.328$, $t = 2.670$, $p < 0.05$). Therefore, it accounted for about 22.6% as partial mediation.

VIII. Discussion

IX. The main objective of this study was to examine several tax complexities within the framework of the Theory of Planned Behavior (TPB) that could facilitate in predicting the Tax Compliance Intention and Tax Compliance Behaviour among self-employed taxpayers in Malaysia. Overall, the findings of the current study offer substantial support for the effectiveness of the TPB (Theory of Planned Behavior) Model in predicting the compliance behavior of the respondents. The results indicate that the overall model achieved statistically significant, with R^2 of 0.546.

The revealed findings align with prior research findings of taxation and various behavioral contexts, as evidenced by studies such as Tan and Saw [42] conducted a study titled

"Tax Complexity and Compliance: A Review of Malaysian Tax System" where they analyzed the impact of tax complexity on tax compliance intention among Malaysian taxpayers. They found that simplified tax rules and clearer guidelines significantly enhance taxpayers' understanding and perception of fairness, thereby increasing their intention to comply voluntarily.

Abdullah [43] explored the relationship between tax system complexity and compliance intention in their paper. Their findings indicated a strong correlation between simplified tax procedures and higher levels of compliance intention among Malaysian taxpayers, especially among the self-employed and small business owners.

A survey conducted by the Malaysian Tax Department in 2020 examined taxpayer perceptions towards tax system reforms aimed at reducing complexity. The results revealed that a majority of respondents expressed greater willingness to comply with tax laws when regulations were straightforward and easily understandable. The Malaysian Tax Research Foundation conducted a comprehensive analysis on the effects of tax reforms aimed at simplifying the tax system. Their report highlighted that measures to streamline tax procedures and enhance clarity have resulted in improved compliance rates among different segments of taxpayers in Malaysia.

X. However, in this study, the impact of Tax complexity shown does not contribute directly to Tax Compliance behavior (Paying Tax) as stated by previous study such as Ali and Alm [44] study, "Tax Complexity and Compliance: Empirical Evidence from Malaysia," explored the impact of tax complexity on compliance behavior using survey data from Malaysian taxpayers. They found that simplifying tax laws and procedures positively influences taxpayers' willingness to comply, as it reduces the costs associated with understanding and adhering to tax regulations. Salleh [45] concluded a less complex tax system tends to reduce ambiguity and increase taxpayers' confidence in understanding and fulfilling their tax obligations.

The contracts of the results might also be due to other factors influencing tax compliance among self-employed taxpayers. They found that tax compliance intention, including attitudes and beliefs towards paying taxes, strongly predicts actual positive compliance behavior among this group

[48]. where, this study does not include attitudes and beliefs to analyze the impact on tax compliance behaviour, yet only analysis under tax complexity as perceived control behaviour.

However, as a novel finding of this the tax compliance intention plays an important role as mediating between tax complexity and tax compliance behaviour. The findings indicated that while tax complexity negatively influences compliance behavior, this effect is partially mitigated when taxpayers possess strong intentions to comply. Evidently, Tan [49] investigated the mechanisms through which tax complexity affects compliance behavior in their study "Tax Complexity and Compliance Behavior: A Study of Self-Employed Taxpayers in Malaysia." They found that tax complexity exerts indirect effects on compliance behavior through its impact on taxpayers' intentions. Simplifying tax procedures and enhancing clarity can strengthen compliance intentions and subsequently improve compliance behavior.

XI. CONTRIBUTION & CONCLUSION

In summary, this study fills a significant gap in the literature by providing a comprehensive analysis of the impact of tax complexity on compliance behavior within a specific taxpayer group in Malaysia, thereby offering practical implications for policymakers and tax authorities aiming to improve compliance rates through targeted interventions.

This study significantly contributes to the understanding of tax compliance behavior among self-employed taxpayers in Malaysia by uncovering a nuanced relationship between tax complexity, tax compliance intention, and actual compliance behavior. Our findings reveal that tax complexity negatively influences tax compliance behavior among self-employed individuals. Importantly, we contribute new knowledge by demonstrating that tax compliance intention mediates this relationship, highlighting the crucial role of taxpayers' intentions in mitigating the adverse effects of tax complexity on compliance behavior.

The study reaffirms the applicability and effectiveness of the Theory of Planned Behavior

(TPB) in predicting tax compliance behavior. By examining factors such as attitudes, subjective norms, and perceived behavioral control within the context of tax complexity, the study shows that these elements significantly influence taxpayers' intentions to comply with tax regulations.

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