

Tax Fairness Dimensions In An Asian Context: The Malaysian Perspective

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The purpose of this study is to investigate whether similar tax fairness dimensions that exist in western countries also exist in an Asian country. The 5 tax fairness dimensions are general fairness, tax rate structure, exchange with the government, self interest and special provisions of the wealthy. A survey questionnaire on tax fairness developed by Gerbing (1988) was administered to 390 respondents. The result of the factor analysis identified three slightly different tax fairness dimensions. They are general fairness, tax structure and self interest. Education and cultural differences in Malaysia compared to the western countries could possibly explain the reason that slightly different tax dimensions are found in Malaysia.

Field: Taxation

1. Introduction

Taxpayers' perceptions of tax fairness influence taxpayers' compliance. Therefore, a study on items that influence taxpayers' perceptions on the fairness of a tax system is important. Several studies have been conducted in western countries such as Australia and United States to observe how taxpayers' perceive tax fairness. With the exception of Gilligan & Richardson (2005) and Richardson (2006), no study has been conducted to observe tax fairness in an Asian setting. Thus, the objective of this study is to empirically test whether the tax fairness dimensions as identified by Gerbing (1988) in the US are found in an Asian jurisdiction, particularly Malaysia. In the international context, this article contributes to the existing literature on tax fairness by adding observations made from the Asian perspective. In the local context, this study observes the important tax fairness dimensions to Malaysian. By identifying these dimensions, this information is useful to the Malaysian tax authorities improve the fairness of the tax system and lead to better tax compliance.

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2. Literature Review

There is limited literature that observes how taxpayers evaluate a fair tax system. The literature that do observe tax fairness found it difficult to define. Christensen et al. (1994) indicated that fairness is difficult to define because of four problems:

- (1) it is multidimensional, (2) it can be defined at the individual level or for society at large, (3) fairness is intertwined with complexity and (4) a lack of fairness may be perceived justification or a cause of noncompliance.

Many researchers (e.g. Porcano, 1984; Richardson & Sawyer, 2001; and Jackson & Milliron, 1986) agree that tax fairness is a multidimensional concept. Gerbing (1988) conducted a survey on identifying the dimension of tax fairness and found five fairness dimensions: (i) general fairness/distribution, (ii) exchange with government, (iii) attitude towards taxes of the wealthy, (iv) progressive versus flat tax rate and (v) self interest. Christensen et al., (1994) and Christensen & Weihrich (1996) also found the 5 tax fairness dimensions similar to Gerbing (1988). Using the survey instrument developed by Gerbing (1988), Christensen et al. (1994) administered it to 296 students studying tax introductory course. The results showed that these dimension exist. Christensen et al. (1996) tested it to tax auditors, tax educators and tax practitioners. Similar tax fairness dimensions were also found. Another study that had used the instrument developed by Gerbing was conducted by Richardson (2006) and Giligan & Richardson (2005). These studies were conducted in Hong Kong. Richardson (2006) and Giligan & Richardson (2005) found that despite cultural differences that exist in Hong Kong and other western countries, similar tax fairness dimensions were found in Hong Kong. Additionally, he identified a sixth tax fairness dimension which is middle income earners.

3. Research Methodology

The questionnaire used in this study is modified from Richardson (2006). 17 statements on the tax fairness dimensions were included in the questionnaire. A 5-point Likert scale ranging from 1 – Strongly Disagree to 5 - Strongly Agree was used for 14 of these items. The remaining 3 items were reversed coded and used a 5-point likert scale: 1 denoting “Very Fair” and 5 – “Very UnFair”. Table 1 presents the items in the questionnaire and their relation to the five tax fairness dimensions.

Table 1: Statements Measuring Tax Fairness Dimensions

No	Dimension	Statement
1	General Fairness	Statement no 1-5
2	Self Interest	Statement no 6,7,14
3	Special Provision for wealthy	Statement no 8,9,10
4	Tax rate	Statement no 11,12,13
5	Exchange with Government	Statement no 15,16,17

500 questionnaires were randomly distributed to taxpayers at IRB branches. The data was analyzed using SPSS. Descriptive analysis such as mean and standard deviation was used. Principal components factor analysis was used to determine whether the tax fairness dimensions existed.

4. Discussions

The usable rate of questionnaires returned was 78%. Table 2 presents the descriptive statistics of the 390 survey respondents in the sample. The male respondents were slightly more than female respondents, the former were 53.3 % of the total respondents. Two age groups were prominent among the respondents; 30-39 (30.8%) and the 40- 59 years (45.6%). 298 respondents were in these age groups. 30.5% of the respondents had only high school education (ie. SPM and STPM). Diploma and degree holders represented 239 taxpayers (61.3%) and a smaller number of 8.2% had postgraduate degrees. Most of the respondents (74%) were salaried, whereby 107 (27.4 %) of the respondents were government employees while 184 (47.2 %) were employed in the private sector. Only 56 (14.4%) of the respondents were self employed or are running their own business.

Table 2: Respondents' Profile

Item	Frequency	%
Gender		
Male	208	53.3
Female	182	46.7
<i>Total</i>	<i>390</i>	<i>100</i>
Age		
Below 20 years	4	1.0
20 – 29 years	71	18.2

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Item	Frequency	%
30 – 39 years	120	30.8
40 – 59 years	178	45.6
Above 60 years	17	4.40
<i>Total</i>	<i>390</i>	<i>100</i>
Education level		
SPM	25	6.4
STPM	94	24.1
Diploma	114	29.2
Bachelors	125	32.1
Master/Doctorate	32	8.2
<i>Total</i>	<i>390</i>	<i>100</i>
Employment status		
Government	107	27.4
Private	184	47.2
Self Employed/Own Business	56	14.4
Others	43	11.0
<i>Total</i>	<i>390</i>	<i>100</i>

Table 3 shows the mean and standard deviation for the tax fairness dimensions. Generally, the mean scores of all items on the tax fairness dimensions scored above 3.00, except for two items. They are self interest item (2.69) and exchange with government item (2.92). By analyzing the overall mean scores, it can be concluded that the respondents perceive that the Malaysian tax system is moderately fair.

Table 3: Mean and Standard Deviation (SD) for Tax Fairness Dimensions

Item/Scales	Mean	S.D
General Fairness		
For the average taxpayer I think that the income tax system is	3.37	0.945
For me personally , I believe that the income tax system is	3.48	0.892
Generally, I believe that the manner in which the income Tax burden is distributed across tax payers is	3.19	0.988
Generally, I feel that the income tax is a fair tax	3.35	1.025
On the whole the burden of income taxes is fairly distributed	3.27	0.972

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Item/Scales	Mean	S.D
Exchange with government		
I get my fair value in terms of benefits received from the government example , education, medical, infrastructure	3.14	1.125
The income taxes that I have to pay are unreasonable high considering the benefits provided by the government	3.14	1.141
The benefits I receive from the government in exchange for my income-tax payments are reasonable	2.92	1.073
Self Interest		
Current tax laws require me to pay more than my fair share of income taxes	3.14	1.027
Compared to other tax payers , I pay less than my fair share of income taxes	2.69	1.058
Compared to the amount paid by more wealthy taxpayer', I pay more than my fair share of income taxes	3.09	1.040
Special		
Special provisions in the income tax law that apply only to a few people are unfair	3.36	0.869
Some perfectly legal tax deductions are not fair because only the wealthy are in a position to use them	3.37	0.927
People whose income is about the same as mine should pay the same amount of income tax regardless of what kind of investments they make, how many dependents they have or what their other financial obligations are	3.46	0.931
Tax Rate		
High-income tax earners have a greater ability to pay income taxes, so it is fair that they should pay a higher rate of tax than low-income tax earners	3.31	0.049
It is fair that high-income tax earners pay proportionately more tax than low-income earners	3.62	0.049
A 'fair' tax rate means it should be the same for everyone	3.66	0.048

Table 4 was drawn to summarize the mean of each of the dimensions of tax fairness. The mean value of each tax fairness dimensions was above the mid point of 12.5 for the general tax fairness dimensions and 7.5 for other dimensions.

Table 4: Mean Score for each the Tax Fairness dimensions

	TGenF	TSelf	Ttrate	TSpec	TExch
Mean	16.67	8.92	10.58	10.19	9.19
Std deviation	3.81	2.20	2.02	2.09	2.09
Skewness	-0.123	0.200	-0.153	-0.330	-0.247
Kurtosis	-.093	.155	0.469	.631	1.185
Min	5	3	3	3	3
Max	25	15	15	15	15

Note: GenF= general fairness, Self =self interest, Spec= special provision for high income earners, Trate = tax rate, Exch = exchange with the government

Factor analysis was conducted to validate whether respondents identify tax fairness under similar dimensions in Gerbing (1988). The results showed Malaysian have grouped the tax fairness dimensions into three. Inspection of the correlation matrix coefficients was greater than 0.30, thus factor analysis was considered appropriate. The Bartlett's test of sphericity is significant with chi square =1879.60, Kaiser-Meyer-Olkin (KMO) was 0.762, which is above the recommended value of 0.6. Thus, factor analysis was appropriate for the data. Table 5 reports the factor analysis output. Factor one, two and three with eigenvalue ≥ 1 explains 21.783%, 13.796% and 10.431% of the variance, respectively. In total the three factors explain 46.01% of the variance. General fairness, distribution of tax burden and exchange with government consist of statements or responses that refer to the general fairness of the tax system. Factor two also has two dimensions, which are special privileges for the wealthy and tax rate. Factor three, which is the self interest dimension has three statements. The factor analysis results revealed that the five tax fairness dimensions that are important in the other jurisdictions such as US, Australia and Hong Kong are slightly different in Malaysia.

Table 5: Items of Tax Fairness Factor Loadings, KMO Bartlett's Test

Items: Tax Fairness	Factor Loading		
	F1	F2	F3
For the average taxpayer I think that the income tax system is	.746		
For me personally, I believe that the income tax system is	.779		
Generally, I believe that the manner in which the income tax burden is distributed across taxpayers' is	.763		
Generally I feel that the income tax is a fair tax	.778		
On the whole the burden if income taxes is fairly distributed	.712		
The benefits that I receive form the government in exchange for my income tax payments are reasonable	.570		
I get my fair value in terms of benefits received from the government example, education, medical, infrastructure	.482		
Some perfectly legal tax deductions are not fair because only the wealthy are in a position to use them		.709	
People whose income is about mine should pay the same amount of income tax regardless of what kind of investment they make, how many dependents they or what their other financial obligations are		.699	
High-income tax earners have a greater ability to pay income taxes, so it is fair that they should pay a higher rate of tax than low-income tax earners		.565	
Special provisions in the income tax law that apply only to a few people are unfair		.535	
A fair tax rate means it should be the same for everyone		.479	
It is fair that high-income tax earners pay proportionately more tax than low-income earners		.464	
Compared to other tax payers , I pay less than my fair share of income taxes			.721
Current tax laws requires me to pay more than my fair share of income taxes			.594
Compared to the amount paid by more wealthy taxpayer', I pay more than my fair share of income taxes			.502
Eigenvalue		3.75	2.468
1.604			
% of variance		21.78	13.79
10.43			
Cumulative %		21.78	35.57
46.01			
KMO measure of sampling adequacy =0.762			
Bartlett's Test of Sphericity (Chi-square= 1879.60, p<0.000)			

Notes: Factor 1= GenFairness; Factor 2 = Tstructure; Factor 3= Self Interest

Only factor loadings greater than .40 are displayed

Based on the factor analysis results, the study identifies the tax fairness dimension 1 (GenFairness) as general fairness, tax burden and exchange, dimension 2 (Tstructure) to represent tax structure and dimension 3 (SelfInt) remains as Self Interest. The Cronbach's coefficient alpha was tested for the tax fairness items, the Cronbach's alpha coefficient was within the acceptable level of reliability of 0.70 as proposed by Nunnally (1967, 1978) for exploratory studies. The tax fairness showed alpha value of 0.72. Therefore it indicates that the dimensions used are reliable. These values were consistent with prior research (e.g., Richardson, 2006; Roberts 1994).

5. Conclusions

Taxpayers' perception on the tax system is important because fairness of the tax system will instill compliant behavior among taxpayers. Understanding taxpayers' motivation and developing tax policies and strategies that can influence compliance will bring more revenue and less administrative cost to the tax authority. Thus, the present study found that similar to the US and Australia, Malaysians perceive that the dimensions identified by Gerbing (1988) as important. However, these dimensions are grouped together to form only 3 dimensions. Malaysians do not classify these dimensions similar to Gerbing's (1988). Malaysians do not perceive exchange with the government as a separate dimension from the general fairness of the tax system. Malaysians also do not perceive that tax rate and special privileges for the wealthy as separate items. One possible explanation is due to cultural differences between Malaysia and other countries. Another possible explanation is that some concepts about tax fairness could be complex for the average taxpayer to understand (Sheffrin, 1993). The findings in this study need to be interpreted within its limitations. First, the study uses a convenient sample of only registered taxpayers (i.e. taxpayers from four IRB Federal Territory Offices). Second, the sample only covered Kuala Lumpur (i.e. the capital city of Malaysia).

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