Evaluation of corporate income tax compliance costs under the Malaysian self-assessment system

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Abstract

This paper presents the findings of the first study carried out in 2010 on the compliance costs of Malaysian corporate taxpayers under the self-assessment system (SAS) environment. We used a self-administered survey method on 473 large companies and received 98 usable responses, which represented a response rate of 20.7%. The mean compliance costs estimate of a company for the year of assessment 2009 is MYR47,126 (AUD15,340), accounting for approximately 1% of sales turnover. The mean estimate from this study is 31.5% lower when compared to the findings of a similar Malaysian pre-SAS study. The components of compliance costs are segregated into internal and external costs (37% and 63%, respectively), and computational and planning costs (74% and 26%, respectively). The aggregated total compliance costs are almost MYR32 million, representing 0.11% of corporate tax revenue and 0.01% of Malaysian gross domestic product (GDP). The magnitude of the corporate income tax (CIT) compliance costs estimate is low compared to similar estimates in other advanced and emerging economies, partly portraying a lower level of complexity in the Malaysian tax system. The costs of seeking tax incentive and psychological costs comprise approximately 7% and 18%, respectively, of the mean tax compliance costs incurred by large corporations. The normal regressivity of tax compliance costs, in relation to company size, is evident and corroborates the findings of existing studies on the unfair compliance costs burden imposed on smaller corporations. This study provides useful information to tax authorities and others.

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concerned with establishing guidelines and tax policy pertaining to the compliance costs burden of taxpayers.

**Keyword:** Tax Compliance Costs, Corporate Taxpayers, Self–Assessment System
1 Introduction

Reforms and changes to tax laws may affect the level of complexity in the tax system. The complexity of the Malaysian tax system should be considered in the context of the Self-Assessment System (SAS), which was introduced to supersede the Official Assessment System (OAS). The SAS imposes greater accountability on the taxpayer in terms of computing the correct tax payable, and in recordkeeping and filing requirements. Apart from their responsibility for computing income tax liability, taxpayers are also required to maintain records and continually update their tax knowledge. Increased taxpayer obligations, coupled with the greater possibility of an audit, would encourage taxpayers to seek assistance from external tax professionals to handle their tax matters. This action would result in extra compliance costs for taxpayers, as fees paid to hire external tax professionals are a significant compliance costs component. There is a great deal of evidence to indicate that taxpayers in countries with a SAS incur higher compliance costs.

The principal purpose of taxation is to raise sufficient revenue to fund the government’s expenditure. The imposition of any tax, however, results in additional costs to society, apart from the amount of taxes imposed. These additional costs can be divided into three broad categories: administrative, efficiency and compliance costs. Administrative costs refer to the costs incurred by the government in order to administer and collect the taxes. Efficiency costs arise because taxes induce changes in relative prices, distort consumer and producer choices and may cause losses in overall output. Compliance costs are most relevant to taxpayers, as they represent the value of resources expended in complying with their tax obligations, and these costs are the main focus of this study.

Tax compliance costs is defined as: “. . . those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying

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1 The adoption of SAS was implemented in stages for different categories of taxpayers, beginning with corporate taxpayers in the year of assessment 2001. It was later introduced to businesses, partnerships and cooperatives in 2003, and salaried individuals in 2004.
5 Ibid, p. 5.
7 Ibid.
with a given tax structure”8. Tax compliance activities for corporations include completing tax returns, compiling the necessary receipts, maintaining proper records, undertaking tax planning and obtaining sufficient knowledge to enable these obligations to be accurately executed. In situations where companies are selected for audit and investigation by the Malaysian Inland Revenue Board (MIRB), time costs are also incurred in dealing with tax auditors and resolving disputes with tax authorities. Companies that outsource their tax compliance work incur fees and bear time costs in preparing information required by the external tax professionals. Taxpayers may also face some incidental and psychological costs in dealing with the requirements of tax rules and legislation. These costs are displayed in Figure 1.9

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8 Above, n. 4, p. 10.
court litigation costs); and (iv) psychological costs (negative experiences of taxpayers in complying with tax legislation).\(^\text{10}\)

The taxpayer’s compliance burden arising from the introduction of SAS includes obtaining appropriate tax knowledge, engaging external tax professionals and the need for better recordkeeping practices. Further, taxpayers have to be prepared for a tax audit or investigation at some time. This study estimates the tax compliance costs for corporate taxpayers under the SAS compliance obligations. The objective of this study is to assess the magnitude and nature of tax compliance costs incurred by Malaysian corporate taxpayers under the SAS environment. In order to achieve the objective of this study, the following research question was formulated: “What is the magnitude of Corporate Income Tax (CIT) compliance costs in Malaysia, as a share of CIT revenue and gross domestic product (GDP), in relation to international standards?”

This study is the first attempt at quantifying the CIT compliance costs of Malaysian public listed companies (PLCs) after the introduction of SAS. The compliance costs estimates established in this study will serve as a reference point for the assessment of changes in the compliance costs burden in the future. Further, this study fills a gap in the tax compliance costs literature by estimating compliance costs associated with companies seeking tax incentives, and the related psychological costs incurred by corporate taxpayers in complying with tax legislation.

The following section provides an overview of tax compliance costs literature in both advanced and emerging economies. In section 3, we explain the research method employed for the study. In Section 4, we report the findings of our study. The final section provides concluding remarks, indicating the limitations of the study and making recommendation for possible future research direction.

2 Literature Review

2.1 Conceptual and Measurement Issues

The theoretical recognition of tax compliance costs has been identified since the eighteenth century by Adam Smith in his famous work, “The Wealth of Nations”. The book, which was published in 1776, suggested a set of principles known as the maxims or canons of taxation for a good tax system. Smith was of the view that a good tax system is one that satisfies four principles, namely: equity, certainty, convenience and efficiency.

Three of Smith’s principles of a good tax system (certainty, convenience and efficiency) emphasised the impact of tax operating costs on the tax system. Tax operating costs represent the total of tax administrative and compliance costs. The principle of efficiency includes both tax administrative and compliance costs, while principles of certainty and convenience are concerned wholly with compliance costs. These principles necessitate compliance costs to be negligible in order not to violate the principles of a good tax system. Musgrave, Musgrave and Bird extended these principles of a good tax system by emphasising the impact of tax compliance costs on taxpayers caused by the interferences and arbitrariness in the tax system.

The definition and measurement of the compliance costs burden is challenging. The term “tax compliance costs” is, in itself, ambiguous and there is a lack of strong consensus as to the precise meaning of compliance costs. The main issues are a lack of precisely defined boundaries in allocating accounting and tax compliance costs, computational and planning costs, as well as commencement and recurrent costs. In addition, tax compliance is not associated only with costs, as there are potential benefits to be derived as a result of compliance activities. These likely offsetting benefits from tax compliance include: (i) managerial benefits—improved business

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13 Tax administrative costs are the costs incurred by the revenue authorities in the taxation process while compliance costs are incurred by taxpayers in meeting the requirements of the tax system (See Vaillancourt and Clemens, above n. 10, pp. 56-57).
14 Above, n. 4, p. 25.
decision-making brought about by the need to comply with tax legislation; (ii) cash flow benefits—arising from the lapse of time between the derivation of taxable revenue and the point at which the tax liability on that particular revenue needs to be paid; and (iii) tax deductibility benefits—taxpayers are entitled to deductions for some tax compliance activity, such as fees paid to external tax professionals.

The pioneering work of Sandford et al. further classified tax compliance costs into gross and net compliance costs. A net compliance cost is derived after allowing for managerial and cash flow benefits that materialise from compliance obligations. This prominent distinction, made in the Sandford et al. study, has become well established in tax literature and has been applied in many empirical studies.

Tran-Nam et al. nevertheless attested that the Sandford et al. composition does not clearly distinguish between taxpayer compliance costs (TCC) and social compliance costs (SCC). TCC are directly borne by a taxpayer, whereas SCC represents the total resource costs to the economy. TCC are derived after deducting offsetting cash flow and tax deductibility benefits. These offsetting benefits represent a transfer within the economy as the benefits enjoyed by taxpayers can be viewed as costs to the tax authorities, which reduce the compliance costs to taxpayers but not to the economy. Thus, the Evans et al. studies, better known as the ATAX study, extended the tax compliance costs estimation framework by distinguishing between SCC and TCC.

This review highlights the main issues complicating the attempt to construct an estimation framework to empirically measure tax compliance costs incurred by taxpayers. The challenges in the measurement of the tax compliance costs of corporations include: (i) insufficient characterisation of what constitutes a comprehensive measure of tax compliance costs; and (ii) the difficulty of measuring some of the components of tax compliance costs, especially psychological costs and the offsetting benefits of tax compliance.

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18 Above, n. 4, pp. 13-14.
20 Above, n. 6, p. 232.
22 Ibid.
23 Ibid.
2.2 Empirical Studies in Advanced Economies

In the US, Haig was the first researcher to estimate tax compliance costs. He found that the estimated costs amounted to 2.3% of tax liability, and that compliance costs varied among different types of taxes. The validity of these findings is questionable, however, because the response rate was low and biased towards large manufacturing companies. Furthermore, the study was conducted during the depths of the Great Depression when tax liabilities were abnormally low, which may have distorted the ratio of compliance costs to tax liabilities.

There were a number of other tax compliance costs studies undertaken in the US. These studies employed various methodologies, including face-to-face interviews, mail surveys, student surveys and case studies. Similar studies have been conducted in other countries. These early studies were a good attempt to highlight the additional burden of taxation on businesses, but they suffered from a range of weaknesses including: small sample sizes, low response rates and a focus on the estimation of compliance costs of entire tax systems.

The first modern study on the estimation of tax compliance costs was by Sandford. The study was carried out in the UK but it was based on personal income tax. The study used a survey method to collect responses from professional tax advisors and individuals. Later, Sandford et al. examined CIT compliance costs for 1986-87 in the UK through a survey of 3,000 businesses. They estimated CIT compliance costs to be £300 million, representing 2.2% of CIT revenue collected and 0.24% of GDP. Half of the compliance costs incurred were fees paid to external tax professionals. “Regressivity” of CIT compliance costs was established where tax compliance costs were disproportionately distributed among different size groups of taxpayers, suggesting that relative compliance costs decrease as company size increases (See Ariff, M. and Pope, J. (2002). Taxation and compliance cost in Asia Pacific)
estimates, as a percentage of taxable turnover, ranged from 0.048% for the smallest corporation to 0.01% for the largest corporation. A study by KPMG in 1996 on UK-listed corporations for the period 1991-96, suggested a 33.6% increase in total tax compliance costs. The study concluded that the increase was mainly due to complex, ambiguous and badly drafted legislation.

In Australia, Pope et al. provided compliance costs estimates of Australian PLCs, utilising 1986-87 survey data. They found compliance costs estimates of between AUD646 million and AUD1,341 million, representing 11.4% to 23.7% of CIT revenue. Evans et al. evaluated the compliance costs of all business-related federal taxes for the 1994-95 period. These studies found a considerably lower tax compliance costs estimation for businesses (inclusive of the self-employed) of approximately 9.4% of taxes collected, or 1.02% of GDP. The estimated an average gross tax compliance costs of AUD32,389 for the 2009-10 tax year were generally more costly as compared to the 1994-95 period. In spite of the dissimilarity in compliance costs estimations, mainly due to differences in the populations studied, the regressivity of tax compliance costs was evidenced in all Australian studies.

In the US, a seminal study based on a sample of 1,329 large corporations reported estimated CIT compliance costs totalling USD2.08 billion in aggregate (representing 2.6% of revenue collected), with average compliance costs of USD1.57 million per company. The analysis of large and mid-sized businesses estimated compliance costs in 2001 to be USD254,451 per company, between USD21 billion and USD22.3 billion in aggregate, and between 28% and 29.6% of tax revenue. The study found that companies in the media, communications and technology sectors had the highest average total compliance costs, while those in the retail, food and healthcare sectors had the lowest. As with all other existing literature, the US studies found a regressive relationship between compliance costs and company size.

The Ariff, Loh and Talib study furnished a CIT compliance costs estimation for PLCs in Singapore for the year of assessment 1994. The study found average compliance costs of SGD78,396 per company, which they considered as ‘reasonable’ compared to other countries. A similar Singapore estimate, calculated a year later utilising

32 As cited in Evans, above, n. 12.
33 Above, n. 19.
34 Above, n. 16 and 21.
1995 data, discovered a significant decrease in tax compliance costs (to SGD54,615 per company) due to simplification of the tax system.\(^{39}\) The regressivity of tax compliance costs per SGD1,000 in sales turnover by group ranged from SGD0.083 (largest group) to SGD0.395 (smallest group) due to economies of scale. Comparable findings from a similar CIT compliance costs study in Hong Kong were also reported by Chan et al..\(^{40}\) The study, which was administered for fiscal year 1995, observed the typical regressivity of tax compliance costs. The CIT compliance costs estimation was approximately 0.126% of sales turnover but the study did not find any major industry sector variation in patterns of tax compliance costs.

Findings from compliance costs estimation studies in advanced economies are summarized in Appendix 1. Australian estimates, for example, were much higher in relation to those in a similar study in the UK due to a number of factors, including legal complexity, the self-assessment environment, size, the distribution of taxpayers and the extent of tax planning activity.\(^{41}\) However, international comparisons of tax compliance costs estimation need to be interpreted with caution due to huge dissimilarities in the design and nature of tax systems in different countries.\(^{42}\) Studies on the compliance costs of corporate taxpayers in advanced economies have made many important contributions. Apart from establishing many of the measurements and conceptual issues, two major aspects of compliance costs have emerged from these studies: (i) compliance costs due to changes in the tax system tend to be high and the costs increase with the complexity of the tax system, and (ii) compliance costs are high, either measured in absolute money terms (as a percentage of income tax revenue) or as a percentage of GDP.

### 2.3 Empirical Studies in Emerging Economies

Studies in emerging economies are not well-established due to a lack of experts in the area of tax compliance costs, the absence of taxpayer associations, and constant changes to tax systems. These issues are aggravated by a lack of co-operation from tax authorities.\(^{43}\) In contrast, governments in advanced economies encourage studies on tax compliance costs to the extent that they finance such studies,\(^{44}\) but this is not the case with emerging economies as there is very little pressure on authorities to

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\(^{41}\) Above, n. 6, pp. 246-249.

\(^{42}\) Vaillancourt and Clemens, above, n. 10, p. 56.


\(^{44}\) Some studies were funded indirectly by governments through research bodies, for example Australian Research Council (ARC) and/or industry/professional bodies, for example, Business Council of Australia (BCA).
reveal such costs.\textsuperscript{45} Despite these obstacles, studies have been undertaken on the measurement of compliance costs of corporate taxpayers in emerging economies (Appendix 2). Most of these studies, except for the study by Chattopadhyay and Das Gupta, concluded that compliance costs are relatively low as compared to the countries in advanced economies.\textsuperscript{46}

Tax studies in Malaysia are scarce, especially in the tax compliance costs area. A review of the literature revealed only three published CIT compliance costs studies in Malaysia (Table 1). The first study on tax compliance costs incurred by Malaysian taxpayers was by Loh et al.\textsuperscript{47} They examined the costs incurred by PLCs in complying with income tax obligations. The study estimated the average compliance costs to be MYR68,836 per company, which amounts to MYR0.26 per MYR1,000 sales turnover. The second study, by Hanefah, Ariff and Kasipillai, estimated the income tax compliance costs of small and medium enterprises (SMEs).\textsuperscript{48} The study observed that average SME compliance costs were MYR20,703 amounting to approximately 4\% of the tax liability. The third study, by Abdul-Jabbar, evaluated compliance costs estimations for corporate SMEs under the SAS environment and discovered a much lower average of MYR9,295 per company.\textsuperscript{49} Regressivity of tax compliance costs, which was revealed in the existing studies\textsuperscript{50}, was also evident in all three Malaysian studies.

\begin{table}
\centering
\caption{Average Income Tax Compliance Costs in Malaysia\textsuperscript{51}}
\begin{tabular}{|l|c|c|c|}
\hline
Compliance Costs & PLCs & SMEs & SMEs \\
 & (Loh et al., 1997)\textsuperscript{a} & (Hanefah et al., 2001)\textsuperscript{b} & (Abdul-Jabbar, 2009)\textsuperscript{c} \\
\hline
Internal & MYR19,176 (28\%) & MYR15,493 (75\%) & MYR5,509 (59\%) \\
External & MYR49,660 (72\%) & MYR5,210 (25\%) & MYR3,786 (41\%) \\
Total & MYR68,836 (100\%) & MYR20,703 (100\%) & MYR9,295 (100\%) \\
\hline
\end{tabular}
\end{table}

Source: \textsuperscript{a}Loh et al. (1997) \textsuperscript{b}Hanefah et al. (2001) \textsuperscript{c}Abdul-Jabbar (2009)


\textsuperscript{50} Such results conformed to the findings of nearly all tax compliance costs studies conducted in the past.

The study on SMEs by Abdul-Jabbar\textsuperscript{52} revealed that the average compliance costs for SMEs in the SAS environment were almost 58\% lower than in the pre-SAS study conducted by Hanefah et al.\textsuperscript{53}. This finding is contrary to the presumed expectation where, for instance, Sandford\textsuperscript{54} argued that compliance costs due to changes in the tax system tend to be high. Abdul-Jabbar\textsuperscript{55} also observed a notable increase in the proportion of costs relating to external work. These averaged 25\% annually during the pre-SAS era and increased to almost 41\% in the post-SAS study, suggesting that tax advisors play a significant role in the SAS regime.

3 Research Method

The target population consisted of large corporate taxpayers registered with the MIRB. The population of corporate taxpayers as at 31 December 2009 totalled 451,488 companies (MIRB, Annual Report, 2009), while there were 4,582 large companies in Malaysia.\textsuperscript{56} Due to data availability, the sample of corporate taxpayers for this study was drawn from the “Malaysian Top 500 Largest Listed Corporations 2008-2009” published directory.\textsuperscript{57}

3.1 Data Collection Method

Our study utilised a researcher-administered survey method. This method was chosen because an estimation of tax compliance costs relying on self-reporting using postal surveys would have raised the question of accuracy and would likely have resulted in a low response rate.\textsuperscript{58} Use of the researcher-administered survey method as a measure to obtain more reliable survey responses and a higher response rate can address these shortcomings,\textsuperscript{59} thus improving the validity of the study. When required, the researchers may cautiously provide some clarifications and/or examples with respect to certain difficult, sensitive or important questions.\textsuperscript{60} The survey period

\textsuperscript{52} Above, n. 49, p. 194.
\textsuperscript{53} Above, n. 48.
\textsuperscript{54} Above, n. 29, pp. 149-150.
\textsuperscript{55} Above, n. 49, p. 194.
\textsuperscript{56} These are census of establishments and enterprises by: Department of Statistics Malaysia (2011). \textit{Census of establishment and enterprises}. Kuala Lumpur, Malaysia.
\textsuperscript{57} A sampling frame from the MIRB’s database of registered corporate taxpayers would have provided a better sample but the researcher was not able to obtain the information due to confidentiality reasons.
\textsuperscript{60} Although this method of data collection may be criticised for allowing biases to influence the directions of research findings and conclusions, Yin, R. K. (2003). \textit{Case study research-design and methods} (3rd ed.). Applied Social Research Methods Series 5: Sage Publications, p. 66, suggested
spanned seven months, from May 2010 to November 2010. Prior to the meeting, the questionnaire, along with a covering letter and explanatory statements specifying the purpose of the research and assuring anonymity of the respondent, were e-mailed to respondents.

### 3.2 Survey Instruments

The survey questionnaire comprised three parts. The first and second parts consisted of questions regarding internal, incidental and external costs of complying with corporate income tax laws. The third part consisted of questions regarding the economic characteristics of companies. The questionnaire is attached in Appendix 3. The measurements of tax compliance costs and offsetting benefits (Table 2) were adapted from Evans et al., Pope, and Sandford et al.⁶¹

#### Table 2: Measurements of Tax Compliance Costs and Offsetting Benefits

<table>
<thead>
<tr>
<th>Components</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Costs</td>
<td>Computed by multiplying annual time spent on tax activities by internal staff by their respective hourly wage rates.</td>
</tr>
<tr>
<td></td>
<td>- Four categories of internal staff, namely, chief financial officer, tax manager, accounting staff and other staff provided the estimates of time spent (total hours/month).</td>
</tr>
<tr>
<td></td>
<td>- In valuing the time spent by staff, the published hourly wage rates were used.</td>
</tr>
<tr>
<td>Incidental Costs</td>
<td>Computed by adding costs incurred within companies and by external tax professionals. Respondents were given one catch-all question concerning the amount of incidental costs incurred, followed by an open-ended sub-question for details of such costs.</td>
</tr>
<tr>
<td>External Costs</td>
<td>Charges by external tax professionals solely on tax matters for corporate income tax activities.</td>
</tr>
</tbody>
</table>

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Offsetting Benefits

Only tax deductibility benefits (TDB) are considered in this study, and the compliance activities directly associated with taxable profits were examined to derive the benefits. Managerial benefits are excluded because the benefits derived from tax compliance activities for large companies are less considerable.\(^{62}\) Cash flow benefits were not estimated, as the final tax payment amount was not available.\(^{63}\)

### 3.3 Data Analysis

Survey data were mainly analysed using the Predictive Analytics Software (PASW) for Windows (Release 19).\(^{64}\) An initial analysis was conducted to obtain some descriptive statistics (frequency, mean and standard deviation) to analyse the profile of respondents.

#### 3.3.1 Response Rate and Data Validation

Companies listed on the main board of *Bursa Malaysia*\(^{65}\) were selected from the “Malaysian Top 500 Largest Listed Corporations 2008-2009” published directory. Out of the 473 companies approached, 101 responses were obtained which represented an overall response rate of 21.4%. After removing three incomplete responses, the usable response rate was 20.7%. Based on the rate of response achieved in similar existing studies, and due to the small population size of listed companies, the rate of response achieved in this study was considered acceptable.\(^{66}\) Responses to questions on tax compliance costs that involved estimation were further scrutinised for validity. Normal probability plots and box-plots were used to identify outliers in the data set. The respective respondents with outlier response(s) were contacted for clarification.

#### 3.3.2 Descriptive Statistics of the Sample

Based on data from 98 usable surveys, we summarized the demographic background of respondents (Table 3). The respondents involved in this study were finance and tax managers (53.1%), followed by accountants (33.7%) and Chief Financial Officers.

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\(^{62}\) PLCs have already undertaken record keeping activities predominantly for financial purposes (Above, n. 4, p. 144).

\(^{63}\) In Malaysia, taxes are payable in 12 monthly instalments based on an estimate, with the final instalment to be paid within seven months after the end of the accounting period. No cash flow benefits are presumed for the 11 monthly advanced tax payments as they are related to their relevant profit period. The value of cash flow benefits is therefore solely dependent on the amount of the final tax payment but the information required is too detailed for participants to respond (Above, n. 49, p. 77).

\(^{64}\) PASW is previously known as Statistical Package for Social Science (SPSS).

\(^{65}\) It was formerly known as Kuala Lumpur Stock Exchange (KLSE).

\(^{66}\) The response rates obtained in these types of studies range from 9% to 33% in the advanced economies, while the variation is quite large in the emerging economies: from a low of 1% to a high of 64% (Above, n. 12, pp. 80-91). A later tax compliance costs study by Abdul-Jabbar (Above, n. 49, p. 105) obtained a response rate of 15.7%.
(CFOs) (13.3%). Overall, respondents exhibited reasonable variations in terms of their corporate characteristics such as industry classification, annual sales turnover, length of time in business, estimated tax liability and sources of income tax work.

The services and manufacturing sectors accounted for more than 65% of the sample population, while only one response was from the technology sector. As for size of business, the highest response rate was from companies with an annual sales turnover level of between MYR100 million and MYR500 million (36.7%), followed by those with an annual sales turnover level of less than MYR100 million (31.6%). The remaining respondents were in the top two levels of annual sales turnover, with almost equal representation in each category (15.3% and 16.3%, respectively).

Respondents were requested to indicate the length of time their company had been in operation. The majority of companies (55.1%) had been in operation for at least 15 years. As for tax liability, 9.2% of companies had a nil tax liability for the year of assessment 2009. Nearly one-half of companies (48%) estimated their tax liability to be less than MYR5 million. With respect to sources of income tax work, some companies handled their tax affairs internally while some completely outsourced their tax-related activities, and a large proportion of corporate taxpayers made use of both sources.

**Table 3: Descriptive Statistics of the Sample**

<table>
<thead>
<tr>
<th>Items</th>
<th>Categories</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents’ Designations</td>
<td>Finance/Tax Manager</td>
<td>52</td>
<td>53.1</td>
</tr>
<tr>
<td></td>
<td>Accountant</td>
<td>33</td>
<td>33.6</td>
</tr>
<tr>
<td></td>
<td>Chief Financial Officers</td>
<td>13</td>
<td>13.3</td>
</tr>
<tr>
<td>Sector</td>
<td>Services</td>
<td>33</td>
<td>33.7</td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>31</td>
<td>31.6</td>
</tr>
<tr>
<td></td>
<td>Property and Construction</td>
<td>21</td>
<td>21.4</td>
</tr>
<tr>
<td></td>
<td>Finance and Banking</td>
<td>6</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>Plantation and Agriculture</td>
<td>6</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>Technology</td>
<td>1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

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67 Annual sales turnover value was normally used as a general proxy for size (Above, n. 40, p. 49) as the use of an alternative measure of size (such as profit/loss and tax payable) would cause problems, since loss-making companies would be excluded (Above, n. 38, p. 79).
### Results

#### Mean Compliance Costs Estimates

Overall, the largest share of average costs was related to external costs (57.1%), followed by internal costs (38.2%), while only a small portion (4.7%) was related to incidental costs incurred in complying with the tax laws. The estimates of tax compliance costs for each company ranged widely, from a low of MYR10,506 to a high of MYR155,790 with a mean of MYR47,126. A reliability check for compliance costs estimation was embedded in the questionnaire to capture an overall tax compliance costs estimate in terms of possible compensation that taxpayers would wish to claim from the MIRB. An average compensation of MYR51,483 per company (minimum MYR9,000 and maximum MYR150,000), demonstrates that the compliance costs estimate for this study is reasonable and reliable.

The estimation of tax compliance costs for each company was the summation of its measurable internal, incidental and external costs components as follows:

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68 AUD1=MYR3.072 (2 January 2010).

69 The following general question, similar to that used in earlier tax compliance costs studies, was used: “If your company could claim from the government for the time and money spent in dealing with corporate income tax for the financial year 2009, how much would you claim as fair compensation?”
4.1.1 Internal Staff Costs

Categories of staff involved in income tax activities, and the average time these staff spent on income tax activities, were identified as follows: accounting staff (486 hours), tax managers (365 hours), CFOs (53 hours) and other staff (10 hours). The standard wage rates for the relevant staff categories were obtained from the Salary and Fringe Benefits Survey 2009 conducted by the Malaysian Employers Federation, and the JobStreet.com Salary Report (2011). The published monthly wage rates were converted into hourly wage rates by dividing the rate by monthly working hours (208 hours). The internal staff costs were computed by multiplying the mean internal time spent on tax activities by the wage rates of the relevant staff categories. Accordingly, the internal staff costs of Malaysian PLCs ranged from MYR888 to MYR155,790, with costs averaging MYR22,088.

4.1.2 Incidental Costs

The mean incidental tax compliance cost was MYR2,701 per company, while costs ranged widely from MYR100 to MYR15,000 per company. Respondents were also requested to briefly describe the nature of the incidental tax compliance costs incurred. The two broad incidental cost categories identified were: (i) ‘printing, stationeries and photocopy charges’ and (ii) ‘travelling, despatch and delivery service costs’.

4.1.3 External Tax Fees

A large proportion of PLCs (94.9%) engaged external tax professionals to handle their corporate income tax affairs. The fees paid by PLCs for external tax work ranged from MYR9,110 to MYR100,000 with an average of MYR31,097 per company. Audit and investigation costs were omitted from the external tax compliance costs estimation as only three companies incurred these costs (which ranged from MYR130,000 to MYR15,000).
MYR350,000). As for these three companies, the compliance costs for audits and investigations were around one third of the external fees incurred.\(^{75}\)

### 4.2 Internal-External and Computational-Planning Costs Ratios

The internal-external compliance costs ratio was 37:63, indicating that tax compliance activities were mainly handled by external tax professionals.\(^{76}\) This suggests a greater reliance on external sources in handling corporate tax matters such as preparing tax return forms and for purposes of tax documentation. As a percentage of annual sales turnover, components of internal and external sources were U-shaped, implying that PLCs at the lowest and highest size levels made greater use of external resources compared to medium-sized companies.

The findings of the internal-external compliance costs ratio by business sector show that companies in the construction sector were highly dependent on external tax professionals to handle their tax matters (83%). Accounting practices in the construction sector vary from those in other sectors, especially in terms of revenue-recognition. In contrast, companies in the finance and banking (49%) sector, along with those in the plantation and agriculture (42%) sector, had a lower reliance on external sources. The ratio increased with the length of time that a business had been operating; the longer a PLC had been in business, the higher its internal-external compliance costs ratio, suggesting a greater reliance on internal sources.

The computational-planning tax compliance costs ratio is 74:26, suggesting that the compliance burden of most corporations is due to routine tax computation work. In relation to annual sales turnover, the larger the company size, the higher the proportion of compliance work allocated for tax planning activities.\(^{77}\) The finding indicates that larger companies engage in greater tax planning in order to minimise the amount of their income tax liability.

There were some variations in the computational-planning costs ratio between business sectors. For example, the services sector had the highest percentage for planning costs (43%), while the technology sector did not incur any tax planning costs. There were also some differences in the computational-planning costs ratio with respect to the length of time a PLC had been in business.\(^{78}\) Companies that had been in operation for more than 30 years had a higher computational costs breakdown, and the ratio was significantly different from companies that had been in business for less than 15 years. This finding is explained in part by the need for staff.

\(^{75}\) It can be concluded that audits and investigations are a major source of compliance costs in cases where companies are selected for audit and investigation.

\(^{76}\) Incidental costs were treated as part of internal costs. Such an approach was adopted by almost all earlier studies (See for example, Abdul Jabbar (Above, n. 49, p. 132)).

\(^{77}\) This finding was confirmed by way of an ANOVA analysis (f=3.221, p=0.044) at the 5% significance level.

\(^{78}\) These differences were supported by an ANOVA test at the 5% significance level (f=3.493, p=0.034).
in ‘younger’ companies to enhance their knowledge of tax planning matters. With respect to tax liability, the findings suggested that the computational-planning costs ratio was higher for companies with a lower estimated tax liability.79

4.3 Aggregate Total Compliance Costs Estimates

In order to gauge the aggregate estimate for both PLCs and large companies, the sample’s mean tax compliance costs were grossed-up to the whole population. The use of the mean estimate by itself is not very meaningful, however, due to the wide variation in compliance costs incurred between different types (in terms of their size and sectors) of taxpayers. According to Sandford, Godwin, Hardwick and Butterworth, the manner in which companies are distributed by different sizes and business activities is important as it provides a more reliable basis for determining the total estimates.80

The established practice81 in compliance costs studies is to multiply the sample mean by disaggregated population data to obtain the aggregate for each compliance cost category and the overall total. This weighting technique is also employed to improve the reliability of tax compliance costs estimates in terms of the representativeness of the sample data.82 Disaggregation is normally undertaken for each category of corporate taxpayers to ensure that the sample compliance costs estimates closely reflect the total estimate of the whole population.

In order to extrapolate the compliance costs estimation from the sample results of this study to the entire (PLC) population, the (corporate taxpayer) population was divided into nine size-sector strata.83 The composition of PLCs by sales turnover and industry-sector category was derived from the Bursa Malaysia website. To facilitate analysis and comparison, certain size and sector categories were merged into a single category due to the low number of responses.84 This was to ensure that an adequate number of observations represented each size-sector stratum as suggested by Sandford et al..85

Table 4 exhibits the estimates of aggregate compliance costs in terms of SCC, TDB and TCC for the nine size-sector strata, as well as in total. The aggregate total SCC of

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79 A statistical t-test confirmed this pattern at the 5% significance level (t=2.218, p=0.029).
82 Above, n. 19, p. 16.
83 The current study utilised annual sales turnover to represent the size of companies and industry sectors to categorise the population of corporate taxpayers.
84 The sample companies were grouped into three size categories in accordance with their annual sales turnover, then further categorised into three groups in accordance with their main business activities.
85 Above, n. 80, pp. 36-37.
Malaysian PLCs amounted to MYR31,852,411 for the year of assessment 2009. The deductibility benefits of tax compliance amounted to MYR7,908,955 or 25% of the aggregate total tax compliance costs. Taking into account these offsetting benefits, the taxpayers’ compliance costs were reduced to MYR23,943,456 in aggregate.

### Table 4: Total Aggregate Compliance Costs Estimates for the PLC Population

<table>
<thead>
<tr>
<th>Size (Sales turnover)</th>
<th>Size-sector strata</th>
<th>Population Frequency a</th>
<th>Compliance Costs (MYR) (AUD1 = MYR3.072)</th>
<th>Mean</th>
<th>SCC</th>
<th>TDB</th>
<th>TCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (Less than MYR100 million)</td>
<td>Manufacturing</td>
<td>34 (7)</td>
<td>25,635</td>
<td>871,590</td>
<td>216,416</td>
<td>655,174</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>23 (12)</td>
<td>23,941</td>
<td>550,643</td>
<td>136,725</td>
<td>413,918</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>78 (12)</td>
<td>35,511</td>
<td>2,769,858</td>
<td>687,756</td>
<td>2,082,102</td>
<td></td>
</tr>
<tr>
<td>Medium (Between MYR100 million and MYR500 million)</td>
<td>Manufacturing</td>
<td>130 (15)</td>
<td>37,085</td>
<td>4,821,050</td>
<td>1,197,067</td>
<td>3,623983</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>64 (10)</td>
<td>49,680</td>
<td>3,179,520</td>
<td>789,475</td>
<td>2,390,045</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>116 (11)</td>
<td>57,015</td>
<td>6,613,740</td>
<td>1,642,192</td>
<td>4,971,548</td>
<td></td>
</tr>
<tr>
<td>Large (Above MYR500 million)</td>
<td>Manufacturing</td>
<td>75 (9)</td>
<td>62,984</td>
<td>4,723,800</td>
<td>1,172,920</td>
<td>3,550,880</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>57 (11)</td>
<td>68,259</td>
<td>3,890,763</td>
<td>966,076</td>
<td>2,924,687</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>67 (11)</td>
<td>66,141</td>
<td>4,431,447</td>
<td>1,100,328</td>
<td>3,331,119</td>
<td></td>
</tr>
<tr>
<td>Total PLC population</td>
<td></td>
<td>644 (98)</td>
<td>31,852,411 b</td>
<td>7,908,955 c</td>
<td>23,943,456 d</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SCC: Social Compliance Costs  
TDB: Tax Deductibility Benefits  
TCC: Taxpayer Compliance Costs

---

a The population frequency and in total are derived from the “Malaysian Top 500 Largest Listed Corporations 2008-2009” directory. The number of sample respondents is given in parentheses.

b The total aggregate SCC incurred by PLCs in Malaysia for the year of assessment 2009 amounted to MYR31,852,411. A compensation amount of approximately MYR33 million expected by corporate taxpayers presents comparable results. The difference between tax compliance costs incurred and the higher expected compensation amount might represent an element of psychological costs in complying with tax obligations.

c The total aggregate TDB of PLCs in Malaysia for the year of assessment 2009 amounted to MYR7,908,955.

d The total aggregate TCC incurred by PLCs in Malaysia for the year of assessment 2009 amounted to MYR23,943,456 after subtracting the total aggregate of TDB.
The SCC and TDB were estimated using the general formula adapted from Evan’s et al. (1997) study, stated as follows:

**Estimation of Social Compliance Costs**

\[
SCC = \sum_{k=1}^{3} \sum_{i=1}^{3} N_{ki} \bar{X}_{ki}
\]

where:
- \( SCC \) = aggregate total social compliance costs estimate;
- \( k \) = company size based on level of annual sales turnover:
  - \( k = 1 \) (small), 2 (medium), 3 (large);
- \( i \) = sector in which respondents were engaged:
  - \( i = 1 \) (manufacturing), 2 (services), 3 (other sectors);
- \( N_{ki} \) = number of corporate taxpayers for size \( k \) and sector \( i \) in PLCs population;
- \( \bar{X}_{ki} \) = sample mean of corporate income tax compliance costs for size \( k \) and sector \( i \).

**Estimation of Tax Deductibility Benefits**

In the context of PLCs and data availability, TDB was the only relevant offsetting benefits for this study. In this study, the percentage of taxable companies was 91%, the tax rate for year of assessment 2009 was 26% (MIRB Website)\(^{86}\) and the aggregate of companies compliance costs was derived from the SCC estimates (see Table 4).

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where:

- \( TDB \) = value of tax deductibility benefits;
- \( k \) = company size based on level of annual sales turnover: 
  \([k = 1 \text{ (small)}, 2 \text{ (medium)}, 3 \text{ (large)}]\);  
- \( i \) = sector in which respondents were engaged:  
  \([i = 1 \text{ (manufacturing)}, 2 \text{ (services)}, 3 \text{ (other sectors)}]\);  
- \( p \) = percentage of taxable business;  
- \( t \) = average marginal tax rate; and
- \( SCC \) = aggregate of companies compliance costs.

Based on computations in Equation 1, extrapolation from the sample results to the entire population of “large companies”\(^87\) estimated an aggregate TCC of MYR162,315,582 (AUD52,837,103), after subtracting the TDB of MYR53,615,750 (AUD17,453,043) from the SCC of MYR215,931,332 (AUD70,290,147).

**Equation 1**

\[
TCC = SCC - TDB  
= [\text{Mean Compliance Costs} \times \text{Number of Large Companies}] - [0.5(1 + p)t]SCC  
= \text{MYR}47,126 \times 4,582 - [0.5(1+0.91)0.26] \text{MYR}215,931,332  
= \text{MYR}215,931,332 - \text{MYR}53,615,750  
= \text{MYR}162,315,582
\]

Table 5 highlights aggregate compliance costs for PLCs and the population of large companies in relation to corporate tax revenue and GDP.

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\(^87\) The population number of large companies is derived from the Department of Statistics Malaysia (2011).
Table 5: Aggregate Compliance Costs Relative to Tax Revenue and GDP

<table>
<thead>
<tr>
<th>Companies Population</th>
<th>Aggregate Compliance Costs</th>
<th>SCC</th>
<th>TDB</th>
<th>TCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLCs (MYR million)</td>
<td></td>
<td>31.9</td>
<td>7.9</td>
<td>24.0</td>
</tr>
<tr>
<td>Relative to (%):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Tax Revenue a</td>
<td></td>
<td>0.106</td>
<td>0.026</td>
<td>0.080</td>
</tr>
<tr>
<td>GDP b</td>
<td></td>
<td>0.006</td>
<td>0.001</td>
<td>0.005</td>
</tr>
<tr>
<td>Large companies (MYR million)</td>
<td></td>
<td>215.9</td>
<td>53.6</td>
<td>162.3</td>
</tr>
<tr>
<td>Relative to (%):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Tax Revenue a</td>
<td></td>
<td>0.715</td>
<td>0.178</td>
<td>0.537</td>
</tr>
<tr>
<td>GDP b</td>
<td></td>
<td>0.041</td>
<td>0.010</td>
<td>0.031</td>
</tr>
</tbody>
</table>

SCC: Social Compliance Costs TDB: Tax Deductibility Benefits TCC: Taxpayer Compliance Costs

a The 2009 Corporate Tax Revenue amount of MYR30,199 (USD9,830) million is derived from the Economic Report 2011/12 (Treasury Malaysia, 2011, Statistical Table 4.3).  
b The 2009 GDP amount of MYR521,095 (USD169,627) million is derived from the Economic Report 2011/12 (Treasury Malaysia, 2011, Statistical Table 2.2).

With regards to the population of PLCs, the percentages of SCC and TCC in relation to corporate tax revenue were 0.106 and 0.080 respectively; in relation to GDP, the percentages were 0.006 and 0.005 respectively. As for large companies, the percentages of SCC and TCC in relation to corporate tax revenue were 0.715 and 0.537; in relation to GDP, the percentages were 0.041 and 0.031.

### 4.4 Regressivity of Tax Compliance Costs

The tax compliance costs distribution by size, expressed as a percentage of annual sales turnover, is regressive (Table 6). The mean percentage shows that the tax compliance costs of PLCs fell remarkably in relation to the companies’ annual sales turnover. The average compliance costs in the lowest turnover category were almost four times higher when compared to those in the middle category, and as much as 57 times higher than those in the highest turnover category. The overall mean compliance costs of Malaysian PLCs, as a percentage of the average weighted turnover level, were 0.01%.

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89 Ibid.
Table 6: Mean Compliance Costs as a percentage of Sales Turnover

<table>
<thead>
<tr>
<th>Turnover Level (Million)a</th>
<th>Compliance Costs</th>
<th>Percentage of Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than MYR100 (31)</td>
<td>28,802</td>
<td>0.057 b</td>
</tr>
<tr>
<td>MYR100 to MYR500 (36)</td>
<td>46,673</td>
<td>0.016 b</td>
</tr>
<tr>
<td>More than MYR500 (31)</td>
<td>65,978</td>
<td>0.001 c</td>
</tr>
<tr>
<td>Overall (98)</td>
<td>47,126</td>
<td>0.010 d</td>
</tr>
</tbody>
</table>

a Number of respondents is given in parentheses.
b Denominator used is the midpoint of the turnover level.
c Denominator of MYR1,000 million is used for the turnover level of more than MYR500 million.
d The denominator used for the overall turnover category is MYR450 million. This denominator is derived by weighting all the midpoints of the turnover level, rounded to the nearest million.

A similar regressive pattern towards smaller PLCs was also observed in terms of internal, incidental and external costs components. The internal costs of PLCs at the lowest sales turnover level were 2.1 times higher than those of companies at the middle level, and 10.5 times above those of companies at the highest level. The middle level figure was five times more than the highest level. An ANOVA test found a significant mean difference in internal compliance costs (f=3.275, p=0.042) between sales turnover levels. As for the regressivity of incidental compliance costs, costs for PLCs at the lowest sales turnover level were 11.7 times higher than those of companies at the middle level, and seven times more than those of companies at the highest level. Costs for companies at the middle sales turnover level were however 0.6 times lower than for those at the highest level. An ANOVA test found a significant mean difference in incidental compliance costs (f=4.600, p=0.012) between sales turnover levels. A similar regressive trend was also observed for mean external compliance costs. Mean external compliance costs for companies at the lowest sales turnover level were 5.1 times higher than for those at the middle level, and 8.1 times more than for those at the highest level. Costs for companies at the middle sales turnover level were 1.6 times more than for those at the highest level. An ANOVA test found a significant mean difference in external compliance costs (f=15.421, p=0.000) at a 1% significance level, between sales turnover levels.

Overall, the increase in the compliance costs of PLCs was not proportional to the increase in size, either measured by internal, incidental, external and total compliance costs. Smaller PLCs, in terms of annual sales turnover, bore a disproportionate share of the tax compliance costs burden. Therefore, the findings of this study, on the regressive nature of tax compliance costs, were robust and significant when examined through the different sources of compliance costs.
4.5 **Tax Psychological and Incentive Costs**

This study further investigated the nature of CIT compliance costs in terms of the tax psychological costs and tax incentive costs of corporate taxpayers.

Tax psychological costs, such as anxiety and frustration, are normally excluded from tax compliance costs estimation as they are incapable of being reliably measured.\(^\text{90}\) This study is unique as it explored tax psychological costs incurred by corporate taxpayers in complying with tax legislation using the direct method.\(^\text{91}\) Both internal and external psychological costs were investigated as some corporate taxpayers may not have either an internal or external compliance costs component (See Appendix 3, Question 6 and Question 13, respectively for details).\(^\text{92}\) The mean internal psychological costs incurred totalled MYR5,628, with a minimum of MYR500 and a maximum of MYR30,000. Corporate taxpayers also incurred mean external psychological costs of MYR4,484 with a minimum of MYR500 and a maximum of MYR12,500. The overall mean compliance costs in relation to tax psychological costs approximated MYR5,056 which represented around 18% of the tax compliance costs burden.

This study explored the identification and fraction of tax compliance activities, and the respective costs associated with tax incentives provided by the tax system. Tax compliance requirements may be complicated due to various incentive mechanisms built into the tax system. Taxpayers have to be familiar with all rules and regulations when applying for tax incentives. In this regard, corporations more often outsource the work to external tax professionals to benefit from their expertise. In cases where companies can choose between alternative incentives\(^\text{93}\), taxpayers have to spend time comparing information to make optimal use of these tax incentives. Accordingly, this portion of compliance costs provides estimates associated with tax incentives.\(^\text{94}\)

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90 Above, n. 21, p. 3.  
92 These questions may only be capturing partial estimates of tax psychological costs. Nonetheless, few studies on individual taxpayers (Above, n. 91; Above, n. 29; and Slemrod, J., and Sorum, N. (1984). The compliance cost of the U.S. individual tax system. *National Tax Journal*, 37: 461-474.) have attempted to get some insight into these costs by requesting a response on how much taxpayers would be willing to pay to get rid of all the concerns and inconvenience of preparing their income tax returns.  
93 One example is the choice between the mutually exclusive incentives of Approved Services Projects and Investment Allowance: a company can enjoy either one of the incentives, but not both (refer MIRB website).  
94 An insight into the share of tax incentives in tax compliance costs incurred was elicited through questions relating to both the internal and external costs components: “Of the time spent and costs incurred internally [externally] on routine income tax returns work and income tax planning work (if appropriate), state approximately how much (in percentage) was related to the qualification costs for government incentives provided through the tax system.”
The mean compliance costs in relation to tax incentives were MYR3,251 which represented about 7% of the tax compliance costs burden. The mean tax incentives percentages ranged from 2.83% to 6.84%. This fraction of tax compliance activities associated with government incentives is not substantial enough to have any material effect on total compliance costs. The reason for these low percentages is likely that most survey responses received were from mature companies, where tax incentives may no longer be applicable to these businesses.95

5 Conclusion

The CIT compliance costs incurred by Malaysian PLCs in 2009 were approximately MYR47,126 per company. The mean tax compliance costs estimate from this study is 31.5% lower compared to the sum incurred in the pre-SAS era.96 This decrease is likely due to the income tax simplification measures initiated by the MIRB. Some of the major income tax simplification measures that have been introduced since the implementation of the SAS include re-categorisation of capital expenditure for capital allowance purposes and providing full (100%) capital allowances for small value assets. The high initial commencement costs due to changes in the tax system might have evolved into recurrent costs as taxpayers became accustomed to the requirements of the SAS. There is an eight-year gap between the introduction of the SAS for corporations in 2001 and the year of this survey. During this period, corporate taxpayers would have familiarised themselves with the current tax system, resulting in lower tax compliance costs. Of the total compliance costs, 63% were incurred in engaging external tax professionals to deal with company tax affairs. The computational and planning ratios were 74% and 26%, respectively, suggesting that the tax compliance costs burden for Malaysian PLCs was mainly related to routine income tax return work. This finding indicates that larger companies engage in greater tax planning in order to minimise their income tax liability.97

Extrapolation from the sample results to the entire population of PLCs98 found a total aggregate TCC of around MYR24 million, after subtracting the total aggregate deductibility benefits of almost MYR8 million from the total aggregate SCC of approximately MYR32 million. The estimated aggregate tax compliance costs expressed as a percentage of CIT revenue and GDP are approximately 0.1% and 0.01%, respectively. Thus, the tax compliance costs of corporate taxpayers estimated in this study are comparatively lower than those reported in existing Malaysian and

95 In this study, more than 78% of the sample respondents consisted of companies which have been in operation for 15 years or more (see Table 3).
96 Taking into account the effects of inflation, the average tax compliance costs estimate in the current study is almost 51% lower compared to the finding of Loh et al. (Above, n. 47, p. 30).
97 The finding is similar to what has been observed in existing studies where larger companies incur higher costs in terms of tax planning work.
other similar international studies. The low tax compliance costs estimate incurred by corporate taxpayers suggests that the Malaysian tax system is comparatively less complex than those of other advanced and emerging economies. Nonetheless, due to the overall differences in the tax systems between countries, comparisons of those percentages should be interpreted with caution.

The finding of this study on the regressivity of tax compliance costs supported the findings of existing international and Malaysian studies pertaining to the unfair burden imposed on smaller companies (Appendix 1 and Appendix 2, respectively). Larger companies incur greater total compliance costs than their smaller counterparts but, as a percentage of annual sales turnover, these costs were greater for smaller corporations. The relatively higher compliance costs burden incurred by smaller companies would likely impact the equity of the tax system as a whole. The differences in tax compliance costs and their regressivity, in relation to the size of companies, would affect the profitability and competitiveness of smaller companies.

The findings of this study also revealed that psychological costs represent approximately 18% of total compliance costs, while tax incentive costs accounted for less than 7%. Corporate taxpayers mainly engaged external tax professionals to deal with their tax affairs. Merely 5% of respondents handled their tax affairs completely internally. Hence, the stress and anxiety in dealing with tax issues might not be an issue for employees of PLCs. Tax incentives are predominantly offered to newly established companies and therefore were not applicable to most respondents in this study. It was also observed that the larger the company size, the lower the percentage of compliance costs incurred on tax psychological and tax incentives compliance costs.

5.1 Contributions to Research and Practice

A major contribution of this study is the approach taken in the data collection process. In contrast to the use of postal surveys by most studies to determine compliance costs, this study used researcher-administered questionnaires. This latter approach tends to provide better quality survey data, which depends considerably on the accuracy of respondents’ recollections of time spent on tax related matters. It also encourages a greater response rate. However, the availability of time and financial resources limit the number of companies surveyed.

99 Percentages reported in the existing studies were between 0.3% to 23.7% of tax revenue and 0.08% to 1.2% of GDP. Specifically, CIT compliance costs as a percentage of tax revenue were 0.3% – 0.4% in Singapore, 2.2% in the UK, 3.2% in the US, 4.2% in Slovenia, 5.6% – 14.5% in India, 11.8% in Croatia and 11.4 – 23.7% in Australia. The limited international comparisons of CIT compliance costs as a percentage of GDP reported figures of 0.08% in the UK, 1.0% in Slovenia, 1.2% in Croatia and 0.25% – 0.53% in Australia. Prior studies on Malaysian PLCs estimated tax compliance costs as a percentage of tax revenue to be 0.36% for the 1995 tax year (Above, n. 47, p. 39).

100 Refer to Footnote 92 with regards to the limitations of the findings as it was only based on partial estimates.
Compliance costs estimation has been reported in detail for most advanced countries. Ariff and Pope argued, however, that the literature available from empirical studies conducted in those countries might not provide answers to some of the compliance costs issues in other economies. They asserted that different forces were evident in emerging economies. These forces include a large hidden economy, corruption, inefficiency in tax collection and high compliance costs. This study meets the call made by Evans in seeking more evidence from countries in emerging economies on the compliance costs burden of corporate taxpayers. This study sets an important benchmark against which the compliance costs of corporations in emerging economies may be measured in future studies.

The results of this study may be used to enlighten the Malaysian tax authorities on the tax compliance costs incurred by corporate income tax payers. Based on research findings, researchers may be able to convince policy makers to acknowledge the compliance costs issue when making tax policy decisions. The findings arising from this study provide estimates about a typical company’s tax compliance costs, and are useful for tax policy formulation. The findings from this study could be used as a base to measure large or significant changes in compliance costs over time which may result from changes in taxation policy.

5.2 Limitations of Study and Future Research Directions

This study obtained a usable response rate of 20.7% (98 responses), which is considered small but adequate for multiple regression analyses. Prior studies in the area of tax compliance costs also appear to have reported low response rates. In order for the findings of this study to have been more representative, a larger sample size would have been desirable. As a result of the relatively small sample size and the exclusion of unlisted companies, the generalizability of the findings is limited. As the questionnaires were self-administered, the limited availability of time and financial resources might have restricted the number of companies surveyed. The accessibility, validity and diversity of the business sectors were, however, positive factors that helped to balance any sample size limitation. Further, the main tax compliance costs component is the internal time spent in complying with tax law by different categories of staff. The respondents would need to recall the monthly average time spent by staff in all of the relevant staff categories. There is a possibility that respondents were not able to accurately recall the time spent to compute costs. Thus, it should be acknowledged that tax compliance costs estimates are merely a measure of the magnitude and not of the actual amount incurred.

The scope of this research can be extended to cover different types of taxpayers that have not been examined, including individuals, self-employed persons and partnerships.

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101 Above, n. 31.
102 Above, n. 12.
103 As a broad comparison, response rates were between 16% and 21% in corporate tax compliance costs studies, and between 14% and 26% in a number of Asian tax studies (Above, n. 49, p. 105).
Another possible extension is to investigate whether the tax compliance costs of large corporate taxpayers differ from audited taxpayers, from foreign owned companies, as well as between listed and private companies. Studies regarding corporate taxpayers' compliance costs are complicated and challenging, thus the cooperation and support of revenue authorities for access to tax audit data would improve the accuracy of the findings.

Future studies should explore the feasibility of replicating or extending this study to other tax jurisdictions. Comparative studies with other emerging and advanced economies, especially with neighbouring countries like Thailand and Philippines, could make further contributions to corporate tax knowledge, and tax administration and practice. It is enlightening to note that a survey of compliance costs for corporations in Indonesia for the year 2010 was recently reported by Susila and Pope.104

5.3 Concluding Remarks

Dealing with taxation matters, particularly in emerging economies, remains a challenge due to limited awareness, administrative flaws and a lack of government commitment. This study systematically identified and analysed areas that deserve due attention, focusing on the compliance costs of larger corporate taxpayers. The findings of this study may assist tax policy makers in devising specific measures to minimise the compliance costs burden on taxpayers, and enhance their voluntary compliance.

### Appendix 1: Corporate Tax Compliance Costs Studies in Advanced Economies

<table>
<thead>
<tr>
<th>Author(s)/(Year)</th>
<th>Findings on Tax Compliance Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sandford, Godwin &amp; Hardwick (1989)</td>
<td>▪ Compliance costs of UK companies in 1986-87 were £300 million in aggregate, or 2.2% of tax revenue. One-half of these costs were fees paid to external tax professionals.</td>
</tr>
<tr>
<td>Pope, Fayle &amp; Chen (1991)</td>
<td>▪ Compliance costs of Australian PLCs in 1986-87 were between AUD646m and AUD1,341 million, or 11.4% to 23.7% of tax revenue. Some 91% of PLCs used external advisers and 84% used a combination of internal and external sources.</td>
</tr>
<tr>
<td>Pope Fayle &amp; Chen (1994)</td>
<td>▪ Compliance costs of Australian companies in 1990-91 amounted to AUD3,245.9 million, or 22.9% of tax revenue.</td>
</tr>
<tr>
<td>Ariff, Loh &amp; Talib (1995)</td>
<td>▪ Compliance costs of Singaporean PLCs in 1994 were SGD78,396 per company. Some 6% of companies used internal staff exclusively while 94% used a combination of internal and external sources.</td>
</tr>
<tr>
<td>Slemrod &amp; Blumenthal (1996)</td>
<td>▪ Compliance costs of US large corporations in 1992 were USD1.57 million per company, USD2.08 billion in aggregate, or 3.2% of revenue yield. The Tax Reform Act 1986 increased compliance costs.</td>
</tr>
<tr>
<td>KPMG (1996 as cited in Evans 2003a)</td>
<td>▪ Compliance costs of UK-listed companies in 1995-96 were £265m in aggregate, an increase of 33.6% compared to 1991-92 due to complex, uncertain and badly drafted legislation.</td>
</tr>
<tr>
<td>Slemrod (1997)</td>
<td>▪ The average compliance costs for US large companies increased to USD1.9 million in this study, representing an 8.1% increase in real terms compared to the 1996 study.</td>
</tr>
<tr>
<td>Ariff, Ismail &amp; Loh (1997)</td>
<td>▪ Compliance costs of Singaporean PLCs in 1995 decreased to SGD54,615 per company. Some 6% of PLCs used internal staff exclusively, while 94% used a combination of internal and external sources.</td>
</tr>
<tr>
<td>Erard (1997)</td>
<td>▪ Compliance costs of the Top 500 corporations in Canada totalled CAD250 million for 1995, and ranged from 4.6% to 4.9% of revenue yield.</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chan, Cheung, Ariff &amp; Loh (1999)</td>
<td>Compliance costs of Hong Kong PLCs in 1995-96 averaged HKD346,483 per company.</td>
</tr>
<tr>
<td>Slemrod &amp; Venkatesh (2002)</td>
<td>Tax compliance costs of US large and mid-sized businesses in 2000 were USD254,451 per company, between USD21 billion and USD22.3 billion in aggregate or between 28% and 29.6% of tax revenue. A breakdown of costs includes internal (58.7%), external (24.8%) and incidental costs (16.5%).</td>
</tr>
</tbody>
</table>

Source: Sapiei and Kasipillai (2010)\(^{106}\)

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### Appendix 2: Corporate Tax Compliance Costs Studies in Emerging Economies

<table>
<thead>
<tr>
<th>Author(s); Year;</th>
<th>Findings on Tax Compliance Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loh, Ariff, Ismail, Shamsher &amp; Ali (1997)</td>
<td>Compliance costs of Malaysian PLCs in 1995 were MYR68,836 per company. About 72% of the costs were paid to external tax advisers.</td>
</tr>
<tr>
<td>Bertolucci (2002)</td>
<td>Compliance costs of Brazilian PLCs in 1999 were BRL7.2 billion in aggregate, representing 0.75% of GDP. Nearly 80% of the costs were incurred internally.</td>
</tr>
<tr>
<td>Chattopadhyay &amp; Das Gupta (2002)</td>
<td>Compliance costs of Indian companies in 2000-01 were around 5.6% to 14.5% of tax revenue.</td>
</tr>
<tr>
<td>Klun (2004)</td>
<td>Compliance costs of Slovenian companies in 2002 were SIT1.5 million per company, representing 4.2% of tax revenue, and 1% of GDP.</td>
</tr>
<tr>
<td>Blazic (2004)</td>
<td>Compliance costs of Croatian companies in 2001-02 were HRK27,113 per company, and HRK2,038.6 million in aggregate, representing around 1.2% of GDP.</td>
</tr>
<tr>
<td>Abdul-Jabbar (2009)</td>
<td>Compliance costs of Malaysian SMEs in 2006 were MYR9,295 per company. About 41% of the costs were paid to external tax advisers.</td>
</tr>
<tr>
<td>Yesegat (2009)</td>
<td>Compliance costs of Ethiopian companies in 2005-06 were ETB108 million in aggregate, representing 2% of VAT revenue and 0.13% of GDP.</td>
</tr>
</tbody>
</table>

Source: Sapiei and Kasipillai (2010)

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108 Ibid.
Appendix 3: Questionnaire

Compliance Costs of Taxation Taxpayer Survey

Confidentiality
The views expressed in the completed questionnaire will be treated in the strictest confidence. Any information identifying the respondents will not be disclosed.
SECTION A: INTERNAL TAX COMPLIANCE COSTS

Kindly fill in an approximate estimated time, monetary amount and/or breakdown of the following internal costs of complying with corporate income tax:

1. How much time within the company was spent entirely on additional or exclusive work for company income tax purposes for 2009?

<table>
<thead>
<tr>
<th>No. of Staff</th>
<th>Total hours / month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Director / CFO / CFC</td>
<td></td>
</tr>
<tr>
<td>Accountant / Tax Manager</td>
<td></td>
</tr>
<tr>
<td>General / Non-Financial Manager</td>
<td></td>
</tr>
<tr>
<td>Accounting Staff</td>
<td></td>
</tr>
<tr>
<td>Other (please state)</td>
<td></td>
</tr>
</tbody>
</table>

2. Does your company incur any other additional non-staff costs in meeting the income tax requirements for the year of assessment 2009? (For example: Stationery, postage and travelling)

☐ No, continue to question 3  ☐ Yes, please respond to the following question:

Briefly describe the nature of the costs:

__________________________________________________________________________________________

Please estimate the additional costs involved in 2009:  MYR

3. Of all the time spent and costs incurred internally in complying with corporate income tax laws for 2009, state approximately how much (in percentage) was related to the following work:

Routine Income Tax Return work (annual return) %

Income Tax Planning work (longer term) %

Other (please state) ____________________________ %

Total 100%
4. Of the time spent and costs incurred internally on routine income tax returns work and income tax planning work (if appropriate) in Question 3, state approximately how much (in percentage) was related to the qualification costs for government incentives provided through the tax system:

<table>
<thead>
<tr>
<th>Routine Income Tax Return work (annual return)</th>
<th></th>
<th></th>
</tr>
</thead>
</table>

| Income Tax Planning work (longer term) |  |  |

5. In which of the following areas is your company facing difficulties?
(Please tick: if more than one, please rank in order of importance using 1 as most important).

- Estimating income tax payable
- Understanding income tax legislation
- Implementing the income tax changes
- Maintaining records for income tax purposes
- Cash flow position when paying monthly tax instalments
- Short period of time to lodge the tax return
- Dealing with the tax authority
- Dealing with the external advisor (such as tax agents)

Other (please state) _____________________________

6. If your company could have avoided all the paper work and inconvenience in the past twelve months by paying someone else to attend to your company's tax affairs, how much more would your company have been prepared to pay?

MYR
SECTION B: EXTERNAL TAX COMPLIANCE COSTS

Kindly please tick one box or provide an appropriate response to the following questions related to the external costs of complying with corporate income tax:

7. Does your company (or group) employ external tax professionals to handle income tax matters in 2009?
   - Yes, please continue to Question 8
   - No, please go to Question 14 (Section C)

8. The source of external advice were:
   (Please tick: if more than one, please rank in order of importance using 1 as most important).

<table>
<thead>
<tr>
<th>Source</th>
<th>Tick</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Accountants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lawyers/Legal Advisor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountants/Tax agents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Consultants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inland Revenue Board (IRB)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please state)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Please provide or estimate the external tax fees incurred by your company for the corporate income tax activities in the financial year 2009:

          MYR

10. Of all the costs incurred externally in complying with corporate income tax laws for 2009, state approximately how much (in percentage) was related to the following work:

<table>
<thead>
<tr>
<th>Work</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Routine Income Tax Return work (annual return)</td>
<td></td>
</tr>
<tr>
<td>Income Tax Planning work (longer term)</td>
<td></td>
</tr>
<tr>
<td>Other (please state)</td>
<td></td>
</tr>
</tbody>
</table>

Total 100%
11. Of all the time spent externally on routine income tax returns work and income tax planning work (if appropriate) in Question 10, state approximately how much (in percentage) was related to the qualification costs for government incentives provided through the tax system:

| Routine Income Tax Return work (annual return) | % |
| Income Tax Planning work (longer term) | % |

12. What is the main reason for using external assistance?
(Please tick: if more than one, please rank in order of importance using 1 as most important).

<table>
<thead>
<tr>
<th>Reason</th>
<th>Tick</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax law is too complicated</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>It is more cost effective to use external tax professionals</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>For income tax planning</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>To reduce the chance of being audited by IRB</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>The depth of technical knowledge is not available internally</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Independent expert opinion is required</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>To improve understanding of financial and tax-related matters</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Other (please state) _____________________________</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

13. In addition to any amount your company may have paid for tax advice, how much more would your company have been prepared to pay to relieve your company of all the inconvenience of having to attend to your company’s tax affairs, including any time you may have had to spend with your adviser.

MYR
SECTION C: GENERAL INFORMATION AND SUGGESTIONS

Kindly tick the most appropriate responses or fill in the appropriate details in the space provided.

14. What is your company main business activity?
   - [ ] Manufacturing
   - [ ] Services
   - [ ] Property and Construction
   - [ ] Plantation and Agriculture
   - [ ] Finance and Banking
   - [ ] Others (please state) ______________

15. What was the turnover of the company in 2009:
   - [ ] Less than RM100 million
   - [ ] RM100,000,000 – RM500,000,000
   - [ ] RM500,000,001 – RM1,000,000,000
   - [ ] More than RM1,000 million

16. How much company income tax in total, in relation to the 2009 year of income did the company remit to the Malaysian Inland Revenue Board?
   - [ ] Nil (no tax liability)
   - [ ] Less than RM5 million
   - [ ] Between RM5 million and 10 million
   - [ ] More than RM10 million

17. The period your company has been in business is: _______________ years

18. Since company is paying income tax in advance monthly instalments, would your company expect a tax refund for the year of assessment 2009?
   - [ ] No
   - [ ] Yes, please estimate the amount of tax refund: MYR_____________

19. Compared with other companies in your industry, the estimated level of income tax compliance burden of your company is:

<table>
<thead>
<tr>
<th>Very High</th>
<th>6</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Very Low</th>
</tr>
</thead>
</table>

20. If your company could claim from the government for the time and money spent in dealing with corporate income tax for the financial year 2009, how much would you claim as fair compensation?
   MYR _______________
21. Please state if you have any suggestions for reducing the tax compliance costs of companies.

(Please attach note if insufficient space)

Thank you for taking time to participate in this survey.