

PERCEPTIONS OF A PRE-FILLED TAX RETURN SYSTEM AMONG PERSONAL INCOME TAXPAYERS IN MALAYSIA

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ABSTRACT. Implementation of a pre-filled return system is crucial in an effort to reduce tax compliance costs. The system no longer requires taxpayers to fill in their tax return form. This paper is aimed at examining the level of awareness of Malaysian taxpayers towards the system and the factors that affect the taxpayers' perceptions towards the system. Questionnaire surveys were used to gather information. Overall, it is found that Malaysian taxpayers have low level of awareness on the system. It is found that ability to reduce tax complexity and compliance costs, data security, and privacy are the main factors that affect the respondents' perceptions towards the system. The findings also highlight important characteristics of respondents who welcome or unwelcome the new system. The paper concludes that the perceptions of Malaysian taxpayers towards the system can be improved provided that the government increases their efforts in promoting the system.

Keywords: personal income tax, pre-filled return system, e-filing, Malaysia

INTRODUCTION

In dealing with Personal Income Tax (PIT), some countries require the PIT payers to file annual tax returns, while other countries free the majority of the PIT payers from this requirement through accurate tax withholding (OECD, 2008, p. 5). Similar to the US and Australia, PIT payers in Malaysia are responsible for filing an income tax return annually at the end of each tax year. This requirement imposes a burden on the taxpayer to fill, file and keep relevant records before paying any tax or receiving any refunds. This particular burden is termed as "tax compliance costs".

Many tax compliance cost studies have estimated that compliance costs are regressive in relation to income groups. They indicated that lower income groups suffer the most from compliance costs (as a percentage of total income), as compared with high income groups (Allers, 1994; Pope, Fayle, & Duncanson, 1990; Sandford, 1973; Slemrod & Sorum, 1984; Vaillancourt, 2010). As a result, countries such as Denmark, Sweden and Norway have utilized a system called pre-filled return system (PFRS) to reduce the burden of filing tax returns among PIT payers. This newly-established system is expected to help in the reduction of unnecessary compliance costs. At the current stage, however, understanding concerning this new system is relatively low in Malaysia. Therefore, it would be useful to survey public opinion in general before such a system is implemented, in order to identify areas requiring attention.

The objectives of this study are to examine the level of awareness of personal taxpayers concerning the introduction of a PFRS in Malaysia and the factors that would affect their perceptions towards the new system. It is hoped that the findings from this study may provide

some insights for policy-makers on the level of awareness of PFRS among PIT payers and factors that would help the policy-makers in developing any strategies to increase the acceptance level of a PFRS among PIT payers in Malaysia. This is because the system is a good tool not only to the taxpayers, but also to the revenue body in decreasing the non-compliance and compliance costs.

PRE-FILLED RETURN SYSTEM

A pre-filled return is defined as “an original tax return prepared by the revenue authority for the taxpayer, using information obtained from third-party sources and other sources (for example records of the revenue body)” (Highfield, 2006, p. 332) (original emphasis). The taxpayers are only required to check and verify that the prepared returns are correct. Corrections to the pre-populated returns can be made via internet or phone calls, as the case of Denmark (Danish Ministry of Taxation, 2008). The PFRS utilizes information and communication technology to pre-populate information shown in income tax returns for PIT payers. The main reasons for implementing the system are to relieve PIT payers from the burden of filing the annual income tax form (OECD, 2006, p. 7), as well as an attempt to achieve procedural tax simplicity (Evans & Tran-Nam, 2010, p. 259).

This advanced technology is widely used, especially in Nordic countries that require an annual lodgment of an income tax return by PIT payers. The system was pioneered in Denmark in 1988, and was followed by other Nordic countries such as Sweden in 1995 and Norway in 1998 (OECD, 2008, p. 24). The system then became well accepted in other parts of the world, including: Australia in the 2004/05 tax year (Evans & Tran-Nam, 2010, p. 261); California in 2004 (Bankman, 2005, p. 1432); Singapore in 2005 (Inland Revenue Authority of Singapore, 2005) and Slovenia in 2006 (Klun, 2009, p. 221). In Malaysia, the system is very new. It is believed that the system can significantly reduce taxpayers' compliance costs. At current situation, a partially PFRS is a more viable choice than a fully PFRS in Malaysia (Ibrahim & Pope, 2011, p. 96).

The PFRS benefits both taxpayers and the tax administrator. The benefits for the former include: reduction of compliance time and costs, increased certainty and faster refunds for overpaid tax (OECD, 2006, p. 13). Davidson (2009, p. 3) argues that the PFRS reduces the compliance burden which includes, specifically: record-keeping costs, time taken to fill in the tax return and the cost of employing a paid preparer to attend to this. Leigh (2006, p. 7) states that, by eliminating those requirements in Australia, Australians would have an additional public holiday (based on the estimated compliance time made by Evans, Ritchie, Tran-Nam and Walpole (1997, p. 20)). In Slovenia, compliance costs were estimated to be around 73 percent lower under a PFRS (Klun, 2009, p. 230), although this seems rather a large reduction and the findings may be questionable.

Some of the benefits to the revenue body include, namely: faster processing of a taxpayer's return, quicker refunds of overpaid tax to a taxpayer and a reduced administrative burden (especially in tax audit), which will ultimately result in an enhanced image for the revenue body (Highfield, 2006, p. 338). The pre-filling system is also a good tool by which to help reduce non-compliance due to the gathering of information from reliable sources (Kleven, Knudsen, Kreiner, Pedersen, & Saez, 2010). In addition, some countries including Denmark use automatic acceptance of fully pre-populated returns after certain dates (OECD, 2006, p. 11), which subsequently frees a taxpayer from the consequences of non-filing.

Despite all the benefits, the PFRS has been criticized. Slemrod (2006, pp. 10-11) argues that the PFRS is not private, as taxpayers let their employer know their personal matters (for example, marital status and number of dependents). He has also argued that the technological

approach may erode taxpayer understanding of taxation matters (Slemrod, 2004, p. 45). However, these arguments may be perceived differently by taxpayers.

RESEARCH METHODOLOGY

This study was undertaken by way of a survey method, employing a large-scale mail questionnaire survey. The targeted participants for this study were PIT payers. The process of selecting the participants was carried out with the help of the Inland Revenue Board of Malaysia (IRBM) using its database of registered taxpayers, provided that the sample selected was not made known to the researcher. The sampling technique used for this study was cluster sampling, based on the 14 states in Malaysia. About 2,600 PIT payers were randomly selected. The final usable responses were 209 which accounted for about eight percent of total usable responses. Data collection was performed in 2010.

Eight statements were developed to measure the awareness of a PFRS among taxpayers. Respondents were asked to indicate their level of agreement with the statements using five-point Likert scales (1 = strongly disagree to 5 = strongly agree). Each statement was evaluated individually. If the average answer for each item was more than three, it was assumed that the respondents agreed with the statements; and if the average was below three, it indicated that they did not agree with the statements. However, if the average or median was centred on three, it showed that the respondents' level of awareness was still low because they could not provide an opinion about the statements. To reduce the problem of lower responses on extreme opinion (strongly disagree and strongly agree), respondents who rated the statements as "1" and "2" were combined to form the disagreed/strongly disagreed group. This treatment was also applied to those who answered "4" and "5", who were combined to become the agreed/strongly agreed group. The statements are shown in Table 1.

RESULTS AND DISCUSSION

The descriptive results reveal that the majority of respondents fell within the neutral group for four out of eight statements. Their opinions suggest that the majority of respondents were not familiar with the concept of pre-filing, and therefore could not provide an opinion (whether agree or disagree) on the statements. For example, about 36 percent of the respondents liked the overall idea of the pre-filing system, while 24 percent did not like the idea of pre-filing. However, the majority (about 40 percent) stated that they were neutral towards the system, from which it can be deduced that they could not provide an opinion.

The area of most concern among respondents regarding the pre-filing system related to the security of their tax data (statements 1 and 3). The majority of respondents (43 percent) disagreed that the tax authority should have access to their information from a third party (statement 1). Many of them (46 percent) also agreed that the pre-filing system would involve tax data security problems. Despite the respondents' concern about security, the majority of them were of the opinion that pre-filing would help solve the tax complexity problem (statement 5) and reduce the compliance costs of filing income tax returns (statement 6). This finding sheds some light on their approval of the pre-filing system. The details of the findings are presented in Table 1.

Table 1. Descriptive Results for Perceptions on Pre-Filing (N=209)

No.	Statements	Disagree/ Strongly Disagree (%)	Neutral (%)	Agree/ Strongly Agree (%)	Mean	Std. Dev.
1.	The IRBM should have access to incomes and expenses information from a third party.	42.6	25.4	32.0	2.72	1.186
2.	The IRBM should pre-fill my income tax return.	26.8	37.8	35.4	3.03	1.042
3.	Pre-filing would involve tax data security problems.	8.7	35.4	45.9	3.33	1.001
4.	Pre-filing will make taxation a lower priority to taxpayer.	33.9	37.8	28.3	2.97	1.021
5.	Pre-filing will help solve the problem of tax complexity.	20.6	34.0	45.5	3.26	1.000
6.	Pre-filing will reduce the burden and costs of filing an income tax return.	21.5	32.1	46.4	3.22	1.025
7.	I understand well the concept of tax pre-filing.	23.9	45.0	31.1	3.04	0.970
8.	Overall, I like the idea of pre-filing of income tax return.	24.4	39.7	35.9	3.11	1.082

Analysis of important demographic characteristics of the respondents using the *t*-test and one-way ANOVA indicated a few significant results. In terms of filing methods, the perceptions of data security under the pre-filing system (statement 3) were significantly different between the e-filer and manual filer groups. Those who used the e-filing method were more likely to perceive that pre-filing would involve more tax data security (mean = 3.42) than the manual filer group (mean = 3.13). This is quite interesting because the e-filers had already accepted the e-filing system. The high level of concern about security data among the e-filers was probably due to the fact that they were more technologically “savvy” than the manual filers. The different perceptions regarding data security led to the finding that the manual filers’ perceptions (mean = 3.31) towards the overall idea of pre-filing were more positive than the e-filers (mean = 3.01).

Different perceptions regarding the pre-filing system are also found between those who used a tax professional and those who did not use a tax professional, especially regarding whether the pre-filing system could solve the complexity problem (statement 5) and reduce the compliance costs (statement 6). The respondents who did not engage a tax professional agreed that pre-filing would help solve the complexity problem (mean = 3.33) and reduce the compliance costs (mean = 3.29). However, those who engaged a tax professional perceived that pre-filing would neither solve the complexity problem (mean 2.87) nor reduce their compliance costs (mean = 2.87). The findings suggest that those who used a tax professional did not believe that a pre-filing system would be good for them in any event.

Classification of perceptions according to ethnicity provided more significant findings. The Chinese respondents, in particular, had different views towards pre-filing than Malays and other ethnic groups. The Chinese respondents did not agree that the IRBM should access their tax information from third parties (statement 1) (mean = 2.38), compared to the Malays (mean = 3.03). The Chinese respondents (mean = 3.04) also had more negative perceptions towards the ability of pre-filing to solve tax complexity (statement 5) compared to Malays (mean = 3.39) and others (mean = 3.67). Moreover, the Chinese respondents did not believe that pre-filing would necessarily reduce compliance costs (statement 6) and therefore they did not like the idea of the pre-filing system (statement 8) (mean = 2.76). The Chinese (mean = 2.84) regarded themselves as having a relatively low understanding of the pre-filing system

(statement 7) in comparison with other ethnic groups. The findings on ethnicity suggest that the Chinese group was the most resistant towards PFRS in Malaysia.

Analysis of perceptions towards the pre-filing system according to education attainment indicates that those who had low educational attainment (mean = 3.02) had a correspondingly low perception that pre-filing would involve tax data security compared with graduates (mean = 3.76). Therefore, they (mean = 3.37) liked the pre-filing system more than the graduates (mean = 2.88). This suggests that pre-filing was well accepted by those with low educational attainment. This can probably be attributed to the fact that they did not have sufficiently good levels of knowledge and skills to be able to do their own tax.

In terms of annual income groups, it was found that more of those with low annual incomes (mean = 3.46) perceived that the pre-filing could help solve the complexity problem as compared with those in the highest annual income group (mean = 2.67). The findings suggest that the pre-filing system was welcomed by, specifically: those with low incomes and low educational attainment who did not engage any tax professional and who used the manual filing system. The government should focus to increase promotion of PFRS on e-filers, those who engage a tax professional, Chinese, those who has low educational attainment and high income. Details on the means for determining perceptions towards pre-filing by selected demographic variables are presented in Table 2.

Table 2. Means for Perception on Pre-Filing by Selected Demographic Variables

Item	N	Statement ^a							
		1	2	3	4	5	6	7	8
Filing Method:									
E-filing	145	2.73	2.97	3.42*	3.01	3.22	3.23	3.06	3.01*
Manual filing	64	2.69	3.16	3.13*	2.86	3.34	3.20	2.98	3.31*
Use of Tax Professional:									
Yes	31	2.61	2.81	3.26	2.84	2.87*	2.87*	2.77	2.90
No	178	2.74	3.07	3.34	2.99	3.33*	3.29*	3.08	3.14
Ethnicity:									
Malay	107	3.03*	3.08	3.28	2.93	3.39*	3.39*	3.21	3.28*
Chinese	79	2.38*	2.85	3.48	3.09	3.04*	3.00*	2.84	2.76*
India	11	2.45	3.36	3.00	2.82	3.09	3.00	2.91	3.18
Others	12	2.42	3.42	3.08	2.67	3.67*	3.42	3.00	3.75*
Education:									
Up to STPM	83	2.99	3.20	3.02*	2.92	3.42	3.30	3.11	3.37*
Diploma	31	2.68	2.81	3.29	3.10	3.29	3.23	2.81	3.06
Graduate	68	2.51	2.99	3.76*	3.04	3.01	3.16	3.06	2.88*
Postgraduate	27	2.44	2.85	3.22	2.78	3.33	3.15	3.04	2.89
Annual Income:									
Less than RM36,000	63	2.70	3.10	3.30	3.02	3.46*	3.25	3.13	3.17
RM36,000 to RM69,999	92	2.86	3.10	3.27	3.00	3.28	3.28	3.05	3.13
RM70,000 to RM149,999	42	2.40	2.88	3.45	2.81	3.07	3.17	2.95	2.98
RM150,000 and above	12	2.83	2.67	3.50	3.00	2.67*	2.83	2.75	3.00

Note:^aPlease see Table 1 for full statements. *The mean difference is significant at the 0.05 level.

CONCLUDING REMARKS

This study has contributed on the level of awareness of PFRS among PIT payers and factors that need attention from the government. Overall, it is found that, at the current stage, the level of awareness of the PFRS among PIT payers in Malaysia is low. Four factors were identified as being important in affecting taxpayers' perceptions towards the PFRS. They are, namely: data security, privacy of information, ability to reduce tax complexity and ability to

reduce compliance costs. The findings also revealed that demographic factors, such as methods of filing, use of tax professional, ethnicity, educational level and annual income, affect the perceptions towards a PFRS. It is concluded that the perceptions of PIT payers in Malaysia towards a PFRS can be improved. It is suggested that the government provides more information on pre-filing system to taxpayers. The factors identified in this study that affect the taxpayers' perception and certain demographic characteristics can be used as a guide in developing any strategy to increase the taxpayers' knowledge and to ensure high acceptance of the PFRS among PIT payers. As the factors studied in this study have been limited, it is suggested that future research expand the factors that influence the acceptance of the PFRS among taxpayers. Testing of available theories related to technology acceptance is also possible so as to increase the reliability of results.

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