Tax Agents Perceptions of the Corporate Taxpayers’ Compliance Costs under the Self-assessment System

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Abstract:
Reforms and changes in tax laws may affect the level of complexity in the tax system and increase taxpayer compliance costs burden. In Malaysia, the introduction of Self-assessment System (SAS) imposes greater accountability in terms of computational, recordkeeping and filing requirements upon taxpayers. The increase in taxpayer obligations coupled with higher possibility of audit may require taxpayers to seek assistance from tax agents to handle tax matters on their behalf. In spite of the expanding role of tax agents in tax reporting under the SAS, very little research has been directed at examining their views and perceptions. This study, therefore, evaluates the compliance costs of corporate taxpayers from the perspective of tax agents.

Keywords: Tax Compliance Costs, Self-assessment System, Tax Agents, Corporate Taxpayers, Corporate Income Tax

JEL classification: H2, M4
Introduction

The Malaysian Government officially announced the introduction of Self-assessment System (SAS) to replace the Official Assessment System (OAS) on 22 November 1998. The adoption of SAS involves a substantial shift of accountability upon taxpayers in terms of their compliance obligations (Abdul-Jabbar & Pope, 2008). Additional compliance responsibilities for taxpayers include an obligation to report, compute and pay their taxes according to tax laws. In fulfilling these obligations, taxpayers must maintain appropriate records, understand the tax laws and exercise reasonable care in the reporting of matters affecting tax liability (Marshall, Smith & Armstrong, 1997). The impacts on taxpayer’s compliance burden resulting from the introduction of SAS, may lead to an extra burden of engaging tax agents. Kasipillai (2007) anticipated that a large number of taxpayers, especially the business community, would employ tax agents with the introduction of SAS. In Australia, the percentage of taxpayers who sought professional assistance to prepare returns under the SAS rose from approximately 20% in 1980 to 72% in 1992 (Marshall et al., 1997). Many authors, including Ishi (1993, 2001), Kasipillai and Hanefah (2000) and Sandford (1990) argued that SAS will lead on extra burden to taxpayers in terms of hiring tax professionals to prepare and submit tax returns on their behalf.

In addition, as the IRB officials are relinquished from the tasks of assessment and review of tax returns filed under SAS, their emphasis has shifted to enforcement activities, mainly to tax audits and investigations. The conduct of tax audits is expected to be a common and regular feature under SAS, as emphasis would be placed on post-assessment audit and examination (Lim & Chang, 1999; Singh, 2003). Tax audit procedures conducted, however, may increase the compliance burden on taxpayers, in terms of time taken to prepare tax records and meet with tax authorities, as well as the level of anxiety in being audited and investigated by IRB. Andreoni, Erard and Feinstein (1998) further argued that tax audit and investigation can result in considerable compliance costs burden, not only to the non-compliant taxpayers, but also to the honest taxpayers.

This study investigates the tax compliance costs of corporate taxpayers from the perspective of tax agents. Generally, a large proportion of PLCs do not have an in-house tax compliance department but instead outsource all their tax activities (Erard, 1997; Loh, Ariff, Ismail, Shamser & Ali, 1997; Slemrod & Venkatesh, 2002). As this study focuses on PLCs, surveys of tax agents who normally handle tax affairs of these companies were utilised. Additional valuable information obtained through surveys of tax agents provided corroborative evidence to the existing studies utilising corporate taxpayers’ survey (see for example Christensen, 1992).

Literature Review of Tax Compliance Costs

Tax Compliance costs are costs incurred by taxpayers as a result of their obligations to the relevant tax laws in force in a country. Corporation tax compliance costs refer to the value of
resources expended by corporate taxpayers in complying with the tax regulation (Tran-Nam & Glover, 2002). Tax compliance activities for corporations include completing tax returns, compiling the necessary receipts, maintaining proper records and obtaining sufficient knowledge to enable these obligations to be accurately executed. In situations where companies are selected for audit and investigations by the IRB, time costs are also incurred in dealing with tax auditors and resolving disputes with tax authorities. Companies that outsource their tax compliance work incur tax fees and may also bear time costs in preparing information required by the tax agents. Apart from that, taxpayers also incur costs in terms of stationery, postage and other resources required for recordkeeping, reporting and compliance with tax laws and regulations.¹

Sandford, Godwin & Hardwick (1989) segregated tax compliance costs of corporate taxpayers into three components, internal, external and psychological costs. The internal component is costs incurred for employing staff, such as accountants and/or tax managers to handle the company’s tax affairs. The external costs component comprises payments to professionals from outside a company in relation to the corporate income tax (CIT). These internal and external costs include any incidental costs incurred in relation to the tax work. Psychological costs are anxiety and frustration in dealing with the requirements of tax rules and legislations (Sandford et al., 1989). These costs arise because the time spent in adhering to tax laws is normally an unpleasant experience and hence is considered a cost for taxpayers (Vaillancourt & Clemens, 2008).

Arif and Pope (2002) further distinguished the taxation compliance costs into economic and non-economic costs. They classified monetary and time costs which can be estimated as economic costs (Figure 1) and psychological costs which is difficult to quantify as non-economic costs. They also identified miscellaneous costs under internal economic costs, which is basically some other costs incurred in complying with the tax laws (incidental costs).

¹ These costs are normally known as incidental costs and are also referred to as additional costs.
Within these premises, the theoretical components of tax compliance costs consist of the following four main components:

(i) internal costs which are the value of time spent by company staff on tax matters;
(ii) external costs which are the fees paid to tax agents;
(iii) incidental costs which are miscellaneous tax costs which may include travel, stationery, computer, telephone, court litigation costs; and
(iv) psychological costs which are negative experiences of taxpayers in complying with tax legislations.

Source: Arif and Pope (2002)
Theoretical Foundation and Conceptual Issues

The theoretical recognition of tax compliance costs has been long identified since the eighteenth century by Adam Smith in his famous work on 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. The author proposed that a good tax system is one that satisfies four principles:

(i) equity principle where a tax system should be fair among taxpayers and taxes should be levied in accordance with ability to pay;
(ii) certainty principle where a tax system should ensure that taxpayers are clear on their tax compliance obligations, such as the amount of tax that is payable, the method of payment and the deadline for payment;
(iii) convenience principle where the time and mode of payment of a tax should be the most conducive to taxpayers; and
(iv) efficiency principle which is also known as economy or simplicity and it is achieved when the cost of administering the tax system is not being excessive.

Smith’s (1776) principles of a good tax system, especially, certainty, convenience and efficiency, emphasised the impact of tax operating costs on the tax system (Evans, 2003). Tax operating costs incorporates the tax administrative and compliance costs. Tax administrative costs are the costs incurred by the taxation authorities in managing the taxation process such as salary of the tax auditors and equipment used. Compliance costs on the other hand are the costs incurred by taxpayers in complying with the requirements of the tax system (Vaillancourt & Clemens, 2008). According to Tran-Nam (2001), the principles of certainty and convenience are concerned wholly with compliance costs, while principle of efficiency includes both tax administrative and compliance costs. In order not to violate the principles of a good tax system, these principles necessitate operating costs to be negligible.

Compliance costs of taxation have moved from an unknown state to a more familiar position over the last decades. Currently, there is an extensive and varied literature available which deals with compliance costs issues (Evans, 2003). However, the challenges faced in tax compliance costs research, particularly in the definition and measurement of compliance costs burden, remain. There has also been considerable discussion, particularly by Pope (1993, 2003), Sandford (1995), Tran-Nam et al. (2000) and Tran-Nam & Glover (2002), on the compliance costs measurement and conceptual issues. The main issues include the lack of precisely defined boundaries in allocating costs incurred for accounting and tax compliance costs, computational and planning costs, as well as commencement and recurrent costs.

Tax compliance is not only associated with costs as there are potential benefits to be derived as a result of compliance activities (Evans, 2003; Tran-nam et al., 2000). These offsetting benefits from tax compliance include:
(i) managerial benefits as a result of improved business decision-making brought about by the need to comply with tax legislations;
(ii) cash flow benefits which arise due to the lapse of time between the derivation of taxable revenue and the time when tax liability on that particular revenue needs to be paid; and
(iii) tax deductibility benefits where taxpayers are entitled to deductions for some of tax compliance activity, such as fees paid to tax agents.

**Empirical Studies in the Advanced Economies**

Tax compliance costs estimates have been reported in detail for most countries in the advanced economies. These literatures covered several types of taxes, such as personal income tax, CIT and goods and services tax (GST), as well as different types of taxpayers, including individuals and corporate taxpayers. This present study focuses on CIT; hence, the remainder of this review on the advanced economies centre upon tax compliance costs estimation of corporate taxpayers, especially large companies (Table 1).

<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 corporation tax in 1986/1987 were 2.2% of tax revenue and half were fees paid to tax agents.</td>
</tr>
<tr>
<td>Pope, Fayle &amp; Chen (1991)</td>
<td>Compliance costs of Australian PLCs in 1986/1987 were 11.4% - 23.7% of tax revenue and 91% of the companies utilised tax agents.</td>
</tr>
<tr>
<td>Ariff, Ismail &amp; Loh (1995)</td>
<td>Compliance costs of Singaporean PLCs in 1994 were SGD78,396 per company and 94% of the companies utilised a combination of internal staff and tax agents.</td>
</tr>
<tr>
<td>Slemrod &amp; Blumenthal (1996)</td>
<td>Compliance cost of US large corporation for 1992 were 3.2% of revenue.</td>
</tr>
<tr>
<td>KPMG (1996)</td>
<td>Compliance costs of UK listed companies in 1995/1996 were £265 million in aggregate.</td>
</tr>
<tr>
<td>Slemrod (1997)</td>
<td>Average compliance costs for US large companies in 1996 was USD1.9 million.</td>
</tr>
<tr>
<td>Ariff, Ismail &amp; Loh (1997)</td>
<td>Compliance costs of Singaporean PLCs in 1995 was SGD54,615 per company and 94% of the companies utilised a combination of internal staff and tax agents.</td>
</tr>
<tr>
<td>Erard (1997)</td>
<td>Compliance costs of top 500 corporations in Canada for 1995 ranged from 4.6% to 4.9% of tax revenue.</td>
</tr>
<tr>
<td>Chan, Cheung, Ariff &amp; Loh (1999)</td>
<td>Compliance costs of Hong Kong PLCs in 1995/1996 were HKD346,483 per company.</td>
</tr>
</tbody>
</table>
These studies have many important contributions. Apart from establishing many of the measurements and conceptual issues in estimating tax compliance costs, two major aspects of compliance costs have emerged from these studies:

(i) the compliance costs of changes in the tax system tend to be high and the costs increase with complexity in the tax system, and

(ii) compliance costs comprise a significant share of tax related costs and is high, either measured in absolute money terms, as a percentage of income tax revenue or as a percentage of GDP.

The findings from these compliance costs studies can be compared among countries. Australian estimates for example, were much higher in relation to a similar study in the UK due to a number of factors, including legal complexity, self-assessment environment, size distribution of taxpayers and the extent of tax planning activity (Tran-Nam, Evans, Walpole & Ritchie, 2000). Chan, Cheung, Ariff & Loh (1999) suggested tax compliance costs of Hong Kong PLCs were relatively high compared to those incurred in Singapore and Australia due to difficulties with territorial source basis, higher level of external compliance costs, as well as low tax administrative costs. Nevertheless, according to Vaillancourt and Clemens (2008), 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.

**Empirical Studies in the Emerging Economies**
This section summarises the limited amount of research on tax compliance costs estimations of corporations in the emerging economies, especially in Malaysia. Studies in these countries are not well established due to lack of experts in the area of tax compliance costs, the absence of taxpayer associations’, constant changes in the tax system, aggravated by a lack of co-operation from tax authorities (Ott & Bajo, 2000; Klun, 2004). Moreover, the governments in the advanced economies encourage studies on tax compliance costs to the extent that they finance such studies, but this is not the case with emerging economies as there is very little pressure on authorities to reveal such costs (Ariff & Pope, 2002). Despite these obstacles, there have been several studies undertaken on compliance costs of taxpayers in the emerging economies (Table 2).

<table>
<thead>
<tr>
<th>Author(s); Year</th>
<th>Findings on Tax Compliance Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loh, Ariff, Ismail, Shamser &amp; Ali (1997)</td>
<td>Compliance costs of Malaysian PLCs in 1995 were MYR68,836 per company and 72% of the costs were paid to tax agents.</td>
</tr>
<tr>
<td>Bertolucci (2002)</td>
<td>Compliance costs of Brazilian PLCs in 1999 were 0.75% of</td>
</tr>
</tbody>
</table>

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Compliance costs of Indian companies in 2000/2001 were around 5.6 to 14.5% of tax revenues.

Chattopadhyay & Das Gupta (2002)

Compliance costs of Slovenian companies in 2002 were 4.2% of tax revenue.

Klun (2004)

Compliance costs of Croatian companies in 2001/2002 were HRK27,113 per company.

Blazic (2004)

Compliance costs of Malaysian SMEs in 2006 were MYR9,295 per company.

Abdul-Jabbar (2009)

Compliance costs of Ethiopian companies in 2005/2006 were 2% of VAT revenue.

Yesegat (2009)

Tax studies in Malaysia are very limited especially in the tax compliance costs area. A review of literature revealed only three published CIT compliance costs studies (Table 3).

### Table 3 Average Income Tax Compliance Costs in Malaysia

<table>
<thead>
<tr>
<th></th>
<th>PLCs</th>
<th>SMEs</th>
<th>SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Costs</td>
<td>MYR 68,836</td>
<td>MYR 20,703</td>
<td>MYR 9,295</td>
</tr>
</tbody>
</table>

The first study on tax compliance costs incurred by Malaysian taxpayers is by Loh et al. (1997). They investigated the costs of complying with income tax among PLCs and found that the average compliance costs to be MYR68,836 per company. The following study by Hanefah, Ariff and Kasipillai (2001) examined the costs of complying with income tax by small and medium enterprises (SMEs). They observed that the average SME’s compliance costs were MYR20,703 per company, which is approximately 4% of the tax liability. The third study by Abdul-Jabbar (2009) which evaluated compliance costs estimations for corporate SMEs under the SAS environment, discovered a much lower average of MYR9,295 per company. He revealed that the average compliance costs in the SAS environment was almost 58% lower than the earlier study administered by Hanefah et al. (2001).

Major research in the field of compliance costs of corporate taxpayers which provide sources of reference to researchers in developing an estimation framework include Pope, 1993; Sandford et al., 1989; and Tran-Nam et al., 2000. There is also an important trend in the literature of tax compliance costs study towards utilising a separate survey on tax agents who handle tax affairs of corporate taxpayers (see Abdul-Jabbar, 2009; Green, 1994; Sandford et al., 1989; Slemrod & Venkatesh, 2002). Based on these existing literatures, an estimation framework of tax compliance costs was developed for this study. The measurement of compliance costs estimate...
therefore incorporate only the external tax fees incurred under the income tax system of corporations.

**Research Method**

**Research Sampling Design**
The tax agents sample was drawn from the list of tax agents from the IRB’s website. As this study requires responses on tax fees incurred by PLCs, tax agents who are attached to or have been attached to accounting firms with large companies as their tax clients, were deliberately selected. According to Morse and Richards (2002), a sample may be purposively selected based upon its ability to address the questions being asked in a study. Purposive sampling enable researchers to apply their own judgement to identify cases that will best enable them to meet their research objectives (Saunders, Lewis & Thornhill, 2000). By utilising purposive sampling, a total of 200 tax agents from the tax agents list of the IRB’s website were identified for this study.

**Research Instruments**
Questionnaire items related to tax agents’ services which were developed by these authors were adopted for this study (see Abdul-Jabbar, 2009; Green, 1994; Sandford et al., 1989; Slemrod & Venkatesh, 2002). The tax agents’ questionnaire for this study consisted of three parts, referred to as Parts A to C:
- Part A of the questionnaire consisted of seven questions on the demographic information of tax agents.
- Part B of the questionnaire consisted of five questions regarding external costs of complying with the income tax law relating to companies.
- Part C elicited tax agents’ views and suggestions on tax compliance costs of companies and Malaysian income tax system.

**Data Collection**
Data collection for this study comprised of two sequential steps; a pre-testing and final survey implementation. The tax agents as the prospective respondents and academic researchers were chosen to ensure the understandability and applicability of the survey questions. The final drafts of the questionnaires were distributed to 20 tax agents during students’ industrial training visits and three academic staff from Malaysian universities. Overall, positive responses were received especially regarding the understandability of questions, the format of questionnaire and the applicability of the terms used. Nevertheless, there were a few valuable suggestions for ease of response such as highlighting of key terms and rewording of questions. As the aim of conducting pre-test in this study was to examine the suitability and appropriateness of the survey instruments, no further detailed analysis was conducted.
Final data collection for this study utilised a researcher administered questionnaire survey method. This method of data collection was employed as a measure to obtain more reliable survey responses and a higher response rate (Oppenheim, 1992), thus improving the validity of this study. Questionnaires can be personally distributed which provides the opportunity for researchers to emphasise verbally on the importance of the study and the appreciation for the individuals’ collaboration.

Data Analysis

Response Rate and Sample Demographic
Forty-nine (49) respondents out of 200 tax agents approached, completed the researcher administered survey, furnishing a response rate of 24.5%. All completed questionnaires were examined for accuracy of data and missing values prior to data entry. Follow-up calls and e-mails were made to address missing items and to clarify matters of possible incorrect responses. Table 4 provides the demographic profile of tax agents involved in this study.

There were almost an equal percentage of respondents practicing in the big-four accounting firms (49%) and non-big four accounting or tax firms (51%). A large majority of respondents’ position in these firms were partners (63.3%), followed by managers (20.4%) and senior/junior staff (16.3%). Nearly all of the respondents were members of at least one of the accounting or tax professional bodies, either locally or internationally. More than 67% of the tax agents surveyed were members of the Malaysian Institute of Accountants (MIA), and almost 45% were registered with the Chartered Tax Institute of Malaysia (CTIM). Other professional bodies included the Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants in England and Wales (ICAEW) and CPA Australia (42.9%).

In terms of tax experience, 51% have more than 20 years of professional experience, 34.7% have experience of between five to 10 years and only 14.3% have less than 10 years of professional exposure. Thus, it can be concluded that the survey data was obtained from the tax agents with appropriate position, knowledge and experience in handling tax matters of their respective corporate tax clients.

Table 4 Demographic Profile of Tax agents

<table>
<thead>
<tr>
<th>Demographic Profile</th>
<th>Number of Respondents</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Big-four Accounting Firm</td>
<td>24</td>
<td>49.0</td>
<td>49.0</td>
</tr>
<tr>
<td>▪ Non big-four firm/Tax Firm</td>
<td>25</td>
<td>51.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Position:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Partner</td>
<td>31</td>
<td>63.3</td>
<td>63.3</td>
</tr>
<tr>
<td>▪ Manager</td>
<td>10</td>
<td>20.4</td>
<td>83.7</td>
</tr>
<tr>
<td>▪ Senior/Junior</td>
<td>8</td>
<td>16.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>
In order to comprehend the background information of respondents’ corporate tax clients of this study, descriptive analyses was conducted based on the 49 usable survey data (Table 5). Analysis of the professionals’ corporate tax clients indicated that on average 21% of their clients were large companies and the remaining were SMEs (79%). The minimum percentage of large companies’ clientele was 5% and a maximum of 70% with a standard deviation of 18.

Focusing on large companies, tax professionals were requested to provide information on their clients’ business sector and sales turnover. Table 5 also exhibits the mean percentage of large tax clients’ business sector with the minimum and maximum percentage. The highest mean percentage of large tax clients’ business sector was services (35.2%), followed by manufacturing (26.7%), property and construction (20.9%) and others (17.2%). Other business sectors included trading, plantation, agriculture, finance and banking. With regards to size of large corporate tax clients, the mean percentage was 46.3 % for annual sales turnover level of less than MYR100 million, 35.1 % for annual sales turnover of between MYR100 million and MYR500 million, followed by 18.6 % for annual sales turnover of more than MYR500 million.

Tax agents were also requested to state the lowest and highest range of fees charged in handling their large clients’ tax matters. The lowest tax fee ranged from MYR9,000 to MYR90,000 with a mean of MYR22,959 per company. The highest tax fee ranged from MYR13,500 to MYR120,000 with a mean of MYR33,347. The overall tax fees charged on large corporate tax clients ranged from MYR11,250 to MYR105,000 with a mean of MYR28,153.

Table 5 Descriptive Analysis of Companies Tax Clients

<table>
<thead>
<tr>
<th>Types of Companies (%)</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Companies</td>
<td>21</td>
<td>5</td>
<td>70</td>
<td>18.0</td>
</tr>
<tr>
<td>SMEs</td>
<td>79</td>
<td>30</td>
<td>95</td>
<td>18.3</td>
</tr>
<tr>
<td>Business Sector (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>26.7</td>
<td>0</td>
<td>90</td>
<td>22.3</td>
</tr>
<tr>
<td>Services</td>
<td>35.2</td>
<td>0</td>
<td>100</td>
<td>25.6</td>
</tr>
</tbody>
</table>
The tax agents were then requested to state the estimated percentage for tax computational, planning and any other nature of work. The percentages of these computational, planning and other costs were 73%, 26% and 1%, respectively. The ‘other’ component was related to company restructuring exercise, and these costs were normally included as planning costs as it was closely related to tax planning scheme. Thus, from the tax professionals’ points of view, the computational and planning ratio was 73:27 and can therefore be concluded that most of the tax compliance activities of Malaysian PLCs is related to computational work.

**Tax Difficulties Faced by Corporate Clients**

Tax agents were requested to identify the areas where their large tax clients encountered difficulties in complying with tax requirements (Table 6). The most highly ranked tax difficulty of corporate taxpayers was in relation to understanding of income tax legislation (87.2%), followed by estimating income tax payable (78.7%) and dealing with the tax authorities (78.7%). Other areas of difficulties included implementing the income tax changes (72.3%) and maintaining records for income tax purposes (59.6%).

**Table 6 Corporate Clients Tax-related Difficulties**

<table>
<thead>
<tr>
<th>Difficulties</th>
<th>Number of responses</th>
<th>Overall Percent</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding income tax legislation</td>
<td>41</td>
<td>23.2</td>
<td>87.2</td>
</tr>
<tr>
<td>Estimating income tax payable</td>
<td>37</td>
<td>20.9</td>
<td>78.7</td>
</tr>
<tr>
<td>Dealing with the tax authority</td>
<td>37</td>
<td>20.9</td>
<td>78.7</td>
</tr>
</tbody>
</table>
Implementing the income tax changes 34 19.2 72.3
Maintaining records for income tax purpose 28 15.8 59.6
Total 177 100 -

Reasons for Engaging Tax agents
The views of tax agents were also sought concerning the reasons why their tax clients were utilising external tax services (Table 7).

Table 7 Corporate Clients Main Reasons for Engaging Tax agents

<table>
<thead>
<tr>
<th>Main Reasons</th>
<th>Number of responses</th>
<th>Overall Percent</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>The depth of technical knowledge</td>
<td>40</td>
<td>24.0</td>
<td>83.3</td>
</tr>
<tr>
<td>Income tax law is too complicated</td>
<td>40</td>
<td>24.0</td>
<td>83.3</td>
</tr>
<tr>
<td>Income tax planning</td>
<td>34</td>
<td>20.4</td>
<td>70.8</td>
</tr>
<tr>
<td>More cost effective to use tax professionals</td>
<td>29</td>
<td>17.4</td>
<td>60.4</td>
</tr>
<tr>
<td>Reduce the chance of being audited by IRB</td>
<td>15</td>
<td>12.6</td>
<td>31.3</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>1.8</td>
<td>18.8</td>
</tr>
<tr>
<td>Total</td>
<td>167</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

‘The depth of technical knowledge’ and ‘Income tax law is too complicated’ were the most stated reasons with 83.3% of cases. Tax professionals also considered income tax planning (70.8%), costs effectiveness (60.4%) and reducing the chances of being audited by IRB (31.3%), as among the reasons for engaging their services. Other reasons that were brought up by the tax agents included the need for independent expert opinion on certain specific areas and to secure representation before tax authorities (18.8%).

Suggestion to Reduce Tax Compliance Costs
Apart from the findings analysed so far, tax agents were given the chance to recommend measures in reducing compliance costs burden of their tax clients. Performing content analysis to a large diversity of suggestions, the responses are summarised in Table 8.

Table 8 Suggestion to Reduce Tax Compliance Costs of Corporate Clients

<table>
<thead>
<tr>
<th>Suggestions</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplification of tax legislation and reporting requirements</td>
<td>20</td>
<td>20.6</td>
</tr>
<tr>
<td>Technical training and internal staff development</td>
<td>17</td>
<td>17.5</td>
</tr>
</tbody>
</table>
In an effort to mitigate the burden of compliance costs, main suggestions pertained to the simplification of tax legislation and reporting requirements (20.6%). Secondly, the respondents suggested that companies should invest more on technical training for their internal staff development (17.5%). Thirdly, points were made concerning the need for a convergence of tax regulations with the accounting standards and practices (14.4%). Fourthly, respondents asserted that rules in relation to tax incentives should be straightforward through the abolishment of certain incentives or reduction of the restrictions for qualifying for the incentives (14.4%). Fifthly, there were also considerable anxieties about the IRB’s audits and investigations process (11.3%). Other issues receiving numerous suggestions included continuity in tax rules, greater use of e-filling and staggered filing timeline for a group of companies.

Conclusions

Dealing with taxation matters, particularly in the emerging economies, remains a challenge due to issues such as limited awareness and lack of government commitment. This study has analysed the areas that deserve due attention focusing in this case, the compliance of corporate taxpayers from the perception of tax agents. Future tax initiatives should incorporate research findings and suggestions made in this study and existing studies as well as experiences from other tax regimes both in the advanced and emerging economies.

Contributions of this Study

The findings of this study may advance the existing knowledge in terms of research and practical contributions. First, this study contributes to the tax literature by providing evidence utilising tax agents’ survey data. The empirical enquiries on tax agents provide distinct advancement to the compliance costs area of research. Second, with respect to the research findings, this study makes several contributions to the body of knowledge especially when one takes into consideration the very limited tax studies in the emerging economies. The main research contributions are:

(i) this is the first study which attempt to quantify the external CIT compliance costs of Malaysian PLCs under SAS;
(ii) this study is likely to act as a point of reference for future tax compliance costs studies of corporate taxpayers utilising tax agents survey; and
(iii) the findings in this study also identifies the difficulties faced by corporate taxpayers and the measure to reduce tax compliance costs for corporations.

Practically, the findings arising from this study provide valuable information on external CIT compliance costs, which are very beneficial for policy makers in the area of taxation, as well as to the taxation profession and the management of companies. This study contributes to the aim of providing information in order that policy decisions may be based on reliable data through robust research findings. Accordingly, the issue of compliance burden of corporate taxpayers will be fully acknowledged and eventually be considered as essential features for future tax policy decision-making. Specifically the measures include enhancing education and training programmes for taxpayers, improve clarity of the tax legislation and transparencies on the implementations of tax laws, convergence of tax law with accounting standards and practices to reduce discrepancy and tax adjustments, which in turn would reduce significantly the compliance burden of taxpayers and improve on their compliance behaviour.

**Research Limitations**

As a piece of research, this study is not without its limitations and many of them represent opportunities for future research. First with regards to sample size, this study obtained a usable response rate of 24.5 % (49 responses) via tax agents’ surveys. Comparatively, prior studies in the area of tax compliance costs appear to have reported low response rates. Nevertheless, in order for the findings of this study to be more representative, a larger sample size would have been desirable. As researcher administered data collection method was employed, the availability of time and financial resources limit the number of tax agents surveyed. However, the validity of the findings was a positive factor helping to balance any sample size limitation. Secondly, in this study, tax compliance costs were measured from the tax agents’ perspectives; thus only the external portion of tax compliance costs was measured in this study. Nevertheless, corporate tax computations and returns are mostly conducted and lodged by tax agents on behalf of their corporate tax clients. As such, it should be acknowledged that the findings from a survey of tax agents provided corroborative evidence on external compliance costs estimates of corporate taxpayers’ survey findings.

**Future Research Directions**

Given the findings, contributions and limitations of this study, there are several avenues for future research directions. This study on estimation of external tax compliance costs is based on researcher administered questionnaire survey responses of tax agents. Future research should consider conducting interviews or experiments as research utilising these approaches can be a good complement to large-scale surveys as they are useful in providing a deeper understanding and explanation on the research question. It would also be valuable to gain the views of other

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2 Broadly as comparisons, response rates of about 16 to 21 percent in corporate tax compliance costs studies and around 14 to 26 percent in a number of Asian tax studies (Abdul-Jabbar, 2009).
stakeholders, especially the tax authorities, on the various aspects of tax compliance costs addressed in this study. Future studies may also consider the use of top-down approach of estimating tax compliance costs is conducted by deducing from the estimation of earlier studies. Interested reader may refer to Vaillancourt and Clemens (2008) for further details.

References


