

TAX NON-COMPLIANCE OF HIGH INCOME INDIVIDUALS IN MALAYSIA: EVIDENCE FROM RESOLVED AUDITED CASES

ABSTRACT

Globally, high income individuals (HIIs) pose significant challenges to tax administration system. Tax compliance behavior of HIIs has somewhat impacted the integrity of the tax system. Instigated by the growing concern of taxation of HIIs, this paper aims (1) to analyse the profiles of HIIs in Malaysia from resolved audited cases; (2) to investigate tax non-compliance strategies used by HIIs; and (3) to examine individual differences (age, gender, place of residence and level of incomes) of HIIs from resolved audited cases. This study adopted OECD, (2013)'s definition, where HIIs are persons with an aggregate income of more than RM 1 million or have assets worth RM 5 million or both income and assets totaling more than RM 5 million. The subjects of study were individuals with a reported aggregate income of more than RM 1 million. The samples were resolved audited cases of HIIs in the year 2011. In 2011, tax auditors had audited and resolved 122 HIIs cases. With the official permission from the IRBM, data of all the resolved 122 audited cases were obtained and analysed. Of these 122 cases, 62 (50.2%) were compliant HIIs and 60 (49.8%) were non-compliant HIIs. The findings show 77% HIIs were individuals with salary income and 23% were HIIs with other income. Majority of them (82.8%) were males and aged 55 years old and above (51.6%). Most (65.6%) HIIs resided in the central regions (Kuala Lumpur and Selangor) of Malaysia. This study found that in 2011, the IRBM collected about RM 5,405,100 of additional taxes and penalties from HIIs after auditing. Even though, the total number of HIIs is a very small fraction, their tax contribution is large. An analysis of the tax audit adjustments revealed that the six pertinent causes of tax non-compliance among HIIs are (1) understatement of sales (1.59%), (2) overstatement of purchases (1.59%), (3) unallowable expenses (3.17%), (4) other adjustment (3.17%), (5) personal relief adjustment (12.7%) and (6) other income adjustment (77.78%). In turn, this study found that there are strong positive correlations between over claimed of personal reliefs and underreporting of other income with HIIs tax non-compliance. This study also found that age, gender, residence area and level of income have no significant influence on HIIs tax non-compliance. The plausible explanation for individual differences of HIIs did not influence tax non-compliance is HIIs engaged tax consultants and legal professionals to manage their tax affairs. The study contributes to the tax compliance literature by testing the applicability of the tax compliance determinants in the context of the Malaysian tax setting. The understanding of determinants and tax behaviors of HIIs provides some useful insights to the IRBM in developing strategies to enhance tax compliance and taxation of HIIs. Future study can be done to examine tax compliance of HIIs from the perspectives of tax and legal professionals as well as tax auditors.

Keywords – Tax Non-compliance; High Income Individuals; Tax Audited Cases; Tax Compliance Model, Malaysia