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## Higher Education Institutions (HEIs) Influence on Individual Income Tax Revenue? Evident Using Secondary Data from Individual Income Tax Collection in Malaysia

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### Abstract

This paper aims to examine the impact of Higher Education Institutions on individual income tax revenue compliance in Malaysia. To expect, higher educators have greater income tax compliance and in turn to increase individual income tax revenue. A quantitative approach utilizing secondary data obtained from Inland Revenue Board of Malaysia (IRBM) and Malaysian Ministry of Higher Education (MOHE), from year 2002 to 2017. EViews software was utilized to answer the objectives. Results discovered that student's enrolment are significantly led to income tax revenue, at significant of 5%. However, both student's intake and student's graduate were shown negative impact on income tax revenue. Therefore, MOHE is encouraged to increase student enrolments, while improving the quality of higher education in Malaysia. In fact, graduates will become more knowledgeable and in turn to commit themselves in individual income tax revenue compliance behavior. Theoretical and managerial implications and limitation of the study are outlined.

**Keywords:** Income Tax Revenue, Education Attainment, Intake, Enrolment, Graduate, Malaysia

### Introduction

Higher Education Institutions (HEIs) in Malaysia refer to higher education provided by government in public universities and higher education provided by private institution. The study focusses on the HEIs for the people with Degree, Master or Doctor of Philosophy. This is because, in generally, higher educated individuals, who tend to have greater knowledge of tax law and regulation than uneducated taxpayers (Torgler and Schneider, 2007). Higher education will increase the income tax compliance, and therefore increase the individual income tax revenue. It is important that increasing the income tax collection to finance the Government expenditure in country, especially healthcare during the pandemic Covid-19 recently.

## Literature Review

In most developed countries, such as Malaysia, welfare is largely provided by the government from taxes income (Bird and Zolt, 2005; Palil et al., 2013). The tax revenue will be the fund in providing all these facilities to social welfare. National welfare is the provision of a minimal level of social support for citizens without current means to support basic needs, the national welfare expands on this concept to include services such medical, financial aid and education attainment.

Malaysian citizens are required to enter primary and secondary school. However, the tertiary education for the student completed their study after Malaysian Education Certificate - Sijil Pelajaran Malaysia (SPM) or Malaysian Higher Education Certificate - Sijil Tinggi Pelajaran Malaysia (STPM).

Tertiary Education refers to higher education provided by government in public universities and higher education provided by private institutions. The study focuses on Tertiary Education for students with Degree, Master or Doctor of Philosophy. Theoretically, higher educated individuals tend to have greater knowledge of tax law and fiscal connections thus are more aware of state-provided benefits and services than lower-educated taxpayers.

Malaysian Personal Income Taxation, subsection 77 (1), Income Tax Act 1967 (ITA1967), every person, other than a company, trust body or co-operative society to which section 77A applies, shall for each year of assessment furnish to the Director General a return in the prescribed form not later than 30 April in the year following that year of assessment: Provided that that person has- (a) chargeable income for that year of assessment; or (b) no chargeable income for that year of assessment, but has chargeable income or has furnished a return or has been required under this Act to furnish a return, for the year of assessment immediately preceding that year of assessment.

However, subsection 113(2) ITA 1967 mentions where a person makes an incorrect return by omitting or understating any income of which he is required by this Act to make a return on behalf of himself or another person, or gives any incorrect information in relation to any matter affecting his own chargeability to tax of any other person, then, if no prosecution under subsection (1) has been instituted in respect of the incorrect return or incorrect information, the Director General may require that person to pay a penalty equal to the amount of tax which has been undercharged in consequence of incorrect information or which would have been undercharged if the return or information had been accepted as correct.

Personal income tax compliance is played an important role in taxation system in every country. Here after is refer to as "tax compliance". Tax compliance, in general, is to ensure an individual compliance and obtain equivalence income distribution. As such, Malaysian government or tax policy makers always to ensure that everyone is compliance with the taxation system.

The Fischer Model in incorporates economic, sociological, and psychological variables into a comprehensive tax compliance model. The Fischer Model focuses on demographic variables, opportunity noncompliance as well as attitudes and perceptions, in addition to tax system structure factors such as the Allingham & Sandmo Model. Education is an important component of the Fischer Compliance Model, with both direct and indirect effect. Individual with higher education was more likely to have higher level of moral development and comply with tax laws (Chan et al., 2000)

## Methods

This study used quantitative analysis to test hypotheses based on secondary data from Inland Revenue Board of Malaysia (IRBM) and Malaysian Ministry of Higher Education. The data are representative of the entire population of individual income tax collected and HEIs, namely student intake, student enrolment and student graduate in Malaysia. The numbers are not only representative of a sample, in fact, it is a lengthy period that is ideal for conducting tax research. The computer statistics packages EViews9 was used to perform an Ordinary Least Squares (OLS) analysis.

Prior to the discussion, it is important that the study to launch the description statistics (Table 1). The regression model, residual diagnostics analysis, Breusch-Godfrey Serial Correlation LM Test, Heteroskedasticity Test, and Jarque-Bera Test of Normality were all performed. The researcher used a Multiple Regression Model to ascertain the factors that influence personal income tax compliance. The equation was transformed in this study by computing the natural logarithms of the dependent and independent variables, resulting in the log transformation form. The explained portion is referred to as the value appropriate portion, while the unexplained portion is referred to as the residue.

## Finding and Discussion

The proposed hypotheses were tested and validated using the Ordinary Least Squares (OLS) Method (Table 2). This study examined three direct association hypotheses according to the HEIs, namely student intake, student enrolment and student graduate. The *R*-squared value was 93.92 percent in this study. As illustrated in Figure 1, the probability of F-statistic was 0, which was less than 5% of the significance level.

The coefficient for student enrolment to income tax revenue was 2.168487, indicating a positive association. T-statistic for student enrolment was 4.484843, which exceeds the recommended value of 1.96 and the p-value was 0.0007, at significant confidence level. As expected, the findings of student enrolment element was in line with the Fischer Compliance Model.

Surprisingly, the result revealed that the coefficient for student intake and student graduate to income tax revenue was -0.001748 and -0.249500 respectively, indicating a negative association. T-statistic for student intake and student graduate was -0.005774 and -0.440352 respectively, which below the recommended value of 1.96 and the p-value was 0.9955 and 0.6675, at insignificant confidence level.

**Tables and Figures**

Table 1

*Descriptive Analysis from EViews*

	INTAKE	ENROLMENT	GRADUATE
Mean	368677.6	996044.3	250853.5
Median	377272.5	1053599	242162.5
Maximum	511154	1346858	371935
Minimum	249097	664402	177647
Std. Dev.	76259.54	235380	47625.82
Skewness	0.059597	-0.128159	0.876707
Kurtosis	2.174693	1.663723	3.713491
Jarque-Bera	0.463559	1.234223	2.389018
Probability	0.793121	0.539501	0.302853
Sum	5898842	15936709	4013656
Sum Sq. Dev.	8.72E+10	8.31E+11	3.40E+10
Observations	16	16	16

Table 2

*Results using Least Squares Method from EViews*

Dependent Variable: LNREVENUE

Method: Least Squares

Date: 09/28/21 Time: 22:58

Sample: 2002 2017

Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.175753	2.519170	-1.260635	0.2314
LNINTAKE	-0.249500	0.566592	-0.440352	0.6675
LNENROLMENT	2.168487	0.483515	4.484843	0.0007
LNGRADUATE	-0.001748	0.302714	-0.005774	0.9955
R-squared	0.939265	Mean dependent var		23.49931
Adjusted R-squared	0.924081	S.D. dependent var		0.503193
S.E. of regression	0.138647	Akaike info criterion		-0.901457
Sum squared resid	0.230675	Schwarz criterion		-0.708310
Log likelihood	11.21165	Hannan-Quinn criter.		-0.891566
F-statistic	61.85972	Durbin-Watson stat		1.111463
Prob(F-statistic)	0.000000			

**Implication**

This study proves that HEIs in enrolment results are significant with positive association showing an increase in enrolment will increase personal income tax revenue compliance. However, the result revealed that the student intake and student graduate to income tax revenue was negative association showing an increase of student intake and student graduate will decrease the personal income tax revenue compliance.

Generally, a lot of personal income tax relief which related to the education attainment given by Inland Revenue Board of Malaysia. A deduction up to RM 5,000.00 until RM 7,000.00 (Year Assessment 2002 to 2021) can be claimed on self-education fee. Besides, child relief aged over 18 years and receiving full-time education in a Higher Education Institutions allowed for RM 3,200.00 to RM 8,000.00 (Year Assessment 2002 to 2021). Due to this circumstance, the personal income tax paid and collection are decreasing.

The Ministry of Higher Education, Malaysia is encouraged to increase the number of enrolments in Malaysia, not only from the point of view of student intake, while improving the quality of higher education in Malaysia so that graduates become more professional in the field of study. In any case, graduated students can be successful in their respective careers and allow individual income tax revenue to continue to increase from year to year.

### Conclusion

In conclusion, this study is aimed to investigate the effects on Higher Educations Institutions (HEIs) influences on individual income tax revenue. By using secondary data from individual income tax collection in Malaysia, this study shows that HEIs in enrolment will increase personal income tax revenue compliance. Unfortunately, the student intake and student graduate will decrease personal income tax revenue compliance. This study is a key driver of government in planning the education attainment and income tax perspective from year 2002 to 2017. This study can be helpful for government to better understand the important of HEIs influences on individual income tax revenue collection.

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