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E-Filing Readability and Taxpayer's Understanding

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ABSTRACT

Readability of the electronic Filing or e-Filing is vital to influencing voluntary compliance among individual taxpayers. Conceptually, the e-Filing should be easily understood and comprehended by various education levels of taxpayers. The quality of language used and comprehensible meaning are important to meet the competency of taxpayers. Unfortunately, the complexity of the e-Filing has a potential for non-compliance behaviour. Taxpayers who are not competent to carry out their tax filing will have frustration and confusion during the filing process. Excessive complexity in the tax law may have negative consequences on taxpayers' voluntary compliance. Therefore, this study aims to measure the e-Filing readability level and match it with individual taxpayers' understanding. It is important to identify the knowledge gap of the taxation system and what exactly taxpayers understand. To measure the e-Filing readability, Flesch Reading Ease Readability (FRES) and Flesch–Kincaid Grade Level Readability (F-KGL) will be used. In order to measure individual taxpayers' understanding, thus the survey of five-point Likert scales has been conducted. To coordinate the readability of the e-Filing document and taxpayers' understanding of the e-Filing based on the survey (mean score), the different scales will be synchronised into three scales; low, medium, and high understanding.
Keywords: e-Filing readability, Voluntary compliance, FRES, F-KGL, Mean score

INTRODUCTION

The e-Filing was introduced by the Inland Revenue Board of Malaysia (IRBM) in 2006, and it is one of the electronic services aim to assist Malaysian taxpayers to file tax return form electronically. The objectives of the e-Filing are to accelerate the rate of tax collection, minimise the cost of collection, and increase voluntary compliance among taxpayers. The concept of tax administration under the e-Filing is based on three thrusts, which are (1) payment, (2) self-assessment, and (3) filing. Payment is defined as monthly salary deductions made for individuals having no business income. Self-assessment is the situation where taxpayers compute their own taxes, and file refers to the Income Tax Return Form (ITRF) that is submitted to the IRBM together with the payment for the balance of the income tax payable to tackle any shortfall in the monthly payment or a claim for repayment if there is an overpayment to IRBM.

The implementation of this system has brought positive and negative implications to individual taxpayers and the tax authorities. One of the challenges of the e-Filing is the level of taxpayers' understanding on the e-Filing; low readability level. The low readability level could be due to multiple categories of income tax forms, and vague terms, such as *statutory income, perquisites,* and *gratuity.* In fact, a low understanding of the e-Filing could open up more chances for unintentional non-compliance due to incompetence of taxpayers to fill in the form appropriately. Unintentional non-compliance occurs when taxpayers failed, or using intermediary persons on behalf of taxpayers to remit the stated amount of tax to the authorities probably due to complexity, or inconsistencies in the tax legislation or administrative procedures (Alabede et al., 2011). After its implementation, the number of non-compliant taxpayers has increased by almost 10 times within two years of the implementation of SAS from 25,160 to 239,666 in 2003 and 2005 respectively (Krishnamoorthy, 2006).

READABILITY OF THE e-FILING

Readability of the e-Filing is pertinent to motivate voluntary compliance by relaxing tax filing complexity. The term of readability can be defined as the simplicity of the text that can be read, comprehended, and is a pre-conditional feature of understandability (Umar & Saad, 2015; Urbanic & Hsu, 2007). Because of that, the quality of language used and comprehensible meaning are important, and competency level should be positioned as a priority (Marshal, Smith & Armstrong, 1997). The complexity of the e-Filing in terms of record keeping and tax law, as well as its ambiguity has a potential for non-compliance behaviour (Mustafa, 1996; Saad, 2014; Saad, 2011; Long & Swingen, 1987).

The readability of the e-Filing significantly can enhance the taxpayers' understanding of their tax payment if the system is comprehensible. Excessive complexity in the tax law may have negative consequences on the taxpayers' voluntary compliance (Umar & Saad, 2015; James, 2007); those with low education attainment have the tendency to unintentional non-compliance, due to the increased sophistication of the tax system. Thus, the simplicity of the language in the tax system is crucially important (Saw & Sawyer, 2010; Urbancic & Hsu, 2007).

As revealed by Sakurai and Braithwaite (2003), 36 per cent of Australian taxpayers were not competent to carry out their tax filing and about 70 per cent of them had hired tax agents to handle their tax matters. In the United Kingdom, taxpayers' performance on the e-Filing is below than the expected level, and it's targeted to increase the percentage of individuals who are filing their tax returns on time to at least 93 per cent by 2007-2008. This shows that the performance of taxpayers did not achieve a satisfactory level. As a result, the complexity of e-Filing has led to frustration and confusion and reducing tax compliance (Loo, 2006; Hanefah, 1996). However, in some studies, it shows a negative relationship between complexity and taxpayers' performance (O'Donnell, Koch & Boone, 2005; Tan & Kao, 1999).

METHODOLOGY

An instrument of a questionnaire was employed to collect responses from individual taxpayers in the public, private, and self-employment sectors. A Questionnaire helps to translate researcher's information needs into various responses. The strengths of using questionnaire are standardised

questions for all respondents, low pressure, and ability to avoid interviewer bias (Kabilan, 2017). The primary data was collected from 30 sets of questionnaires among individual taxpayers by using cluster and convenience sampling, and with an income of RM2, 851 (minimum monthly remuneration; after Employees Provident Fund deduction). Minimum age of the respondent is 20 years old and it is considered reasonable (Palil et al, 2010). Self-administered questionnaire technique is employed where the questionnaires have been filled in by the respondents' themselves.

For the first part of the analysis, to measure individual taxpayers' understanding, a five-point Likert scale was used to examine how strongly respondents agree or disagree with the instrument provided. A five-point scale is just as good as any, and that an increase from five to seven or nine points on a rating scale does not improve the reliability of the ratings (Elmore & Beggs, 1975). In order to measure taxpayers' understanding (mean score) on the e-Filing, four constructs and twelve items were used for the measurement as indicated below:

Instructions
1. *Words and sentences used in e-Filing are easy to understand*
2. *e-Filing asks for too much information*

Filing
1. *I know how income is calculated under e-Filing*
2. *I am aware that business income should be declared in Form B*
3. *I am aware that the declaration of my employment income should be in Form BE*
4. *I am aware that e-Filing does not allow me to submit income tax form for any year of assessment more than once*

Timing
1. *The due date for submission of Form B is 30th June every year*
2. *The due date for submission of Form BE is 30th June every year*
3. *ITRF should be submitted before 30th April every year*
4. *The joint assessment should be submitted before June 30 every year*

Detection
1. *e-Filing is effective in detecting incorrect tax returns*
2. *e-Filing provides opportunities to understate tax returns*

Flesch Reading Ease Readability (FRES) and Flesch–Kincaid Grade Level Readability (F-KGL)
Next part of the analysis is to measure the readability level of the e-Filing, Flesch Reading Ease Readability (FRES), and Flesch–Kincaid Grade Level Readability (F-KGL) were applied. The application of FRES and F-KGL are well-established by previous studies to measure the readability of written documents in taxation technical writing (Saad et al, 2014; Saw & Sawyer, 2010; Smith & Richardson, 1999). The scores are calculated using the following formula:

$$FRES = 206.835 - (1.015 \times ASL) - (84.6 \times ASW)$$

Where:
ASL = total words / sentences = average sentence length
ASW= total syllables/ words = average number of syllables per word

The calculation was derived using a computer programme and carried out using Microsoft Word 2013. It was obtained from online e-Filing and manual form (the words and sentences used for online and manual form are the same) and then converted into a Microsoft Word document for analysis. The score from FRES (TABLE 1) and F-KGL (TABLE 2) were matched against the mean score from the survey (questionnaire) as emphasised in TABLE 3.

TABLE 1: FRES Scores Description

FRES	General Reading Ease Scale
0-29	Very confusing
30-49	Difficult
50-59	Fairly difficult
60-69	Standard
70-79	Fairly easy
80-89	Easy
90-100	Very easy

Source: Flesch (1948)

For F-KGL, it translates the 0-100 raw FRES into a school grade level that indicates the number of years of education commonly required to understand the e-Filing documents. The formula involved is as follows:

$$F\text{-}KGL = (0.39 \times ASL) + (11.8 \times ASW) - 15.59.$$

TABLE 2: F-KGL Description

FRES	F-KGL Readability Score	Corresponding Education Level*
BELOW 30	17 and above	Postgraduate
30-50	13.1-16.9	Undergraduate
50.1-60	12.1-13	Matriculation/STPM/Diploma
60.1-70	9.1-12	SPM
70.1-80	7.1-9	PMR
80.1-90	6.1-7	Primary School Leaver
90.1-100	1-6	Primary School

Source: Flesch (1948)
*Referring to a corresponding education system in Malaysia (Saad et al, 2014)

In order to coordinate the readability of the e-Filing document and the taxpayers' understanding on the e-Filing based on the survey (mean score), these different scales were synchronised into THREE (3) scales (SEVEN (7) and FIVE (5) scales from FRES and survey, respectively). Overall, these scales were divided into three categories, as follows:

TABLE 3: The FRES Readability of e-Filing and Mean Value from Survey

FRES Score	Mean Value (Survey on the e-Filing Understanding)	Description
0-59	1.00 to 2.25	Difficult *Low Understanding*
60-69	2.26 to 3.75	Moderate *Medium Understanding*
70-100	3.76 to 5.00	Easy *High Understanding*

RESULTS, DISCUSSION AND RECOMMENDATION

The FRES Score for the e-Filing document indicates fairly difficult (50.9). The score is same for every individual taxpayer because they used the same form (electronic or manual filing). This score falls behind the acceptable readability score of between 60 and 70. Thus it indicates as low readability of the e-Filing document. The result from the survey (mean scores) indicates that the understanding level for the e-Filing among individual taxpayers is 33.33 % for low understanding, 36.67 % for

medium understanding, and only 30% for high understanding. The findings confirmed that the instructions and words used in the e-Filing were difficult (low understanding) and moderate (medium understanding) to be understood by respondents with different educational backgrounds, for example, the terms of *'statutory income'* can be unambiguously understood by taxpayers.

Besides, individual taxpayers from self-employment demonstrated low understanding and having a less readability level compared to public and private respondents, and this could be due to knowledge gap. The complexity of the e-Filing was shared not only by self-employed respondents, but more importantly, by the salaried from both private and public sectors. To achieve non-compliant behaviour, the IRBM needs to move some miles ahead to cater this issue seriously. To address the issues related to the e-Filing readability and individual taxpayers' understanding, it is recommended that the e-Filing instructions (words used) may need to be reworded to meet various taxpayers' educational background. These findings may provide new knowledge to the literature, since there is no study conducted on the e-Filing readability level and taxpayers' understanding from Malaysia perspective. The existing studies on the e-Filing readability in Malaysia have been focusing on readability of Income Tax Act 1967 (ITA 1967) by Saad, Mat Udin, and Derashid (2014).

CONCLUSION AND LIMITATION

This paper examines the complexity of the e-Filing among individual taxpayers through the readability standpoint. The e-Filing was analysed using two established measures: FRES and F-KGL. These scores, then, were matched with the mean score from the survey. The aim is to see the gap of understanding among individual taxpayers during the e-Filing process. The result shows that the level of readability of e-Filing among individual taxpayers is at the average level, and can only be well understood by taxpayers at matriculation/STPM/Diploma, undergraduate and postgraduate level. This is unsuccessful since the statistics by UNESCO 2013 showed that only 28.2 percent of the Malaysian population having tertiary education. Meanwhile, for the e-Filing instructions, it shows the difficulty level of understanding of the words used. In fact, the difficulty to understand the e-Filing words could lead to unintentional non-compliance among those with lower education level and low readability level.

This analysis was conducted on the English version of the e-Filing documents and not for the Malay version. No analysis was undertaken on the Malay version since the formula was developed based on the English.

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