Examining the Moderating Effect of Tax Knowledge on the Relationship between Individual Factors and Income Tax Compliance Behaviour in Malaysia

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Abstract

The aim of this study is to clarify the role of individual factors on individual taxpayers' tax compliance behaviour and to find out moderating role of tax knowledge between individual factor and tax compliance behaviour where the study was applied to the taxpayers across Malaysia, the research had destitute (419) questionnaires. As a result of analyses of 419 questionnaires collected from top and mid-level taxpayers across Malaysia, it has been observed that individual financial position, referral group, political influence, religiosity and cultural influence have a positive effect on tax compliance behaviour. Besides, tax knowledge has moderate the relationship between individual factor and compliance. The researcher used survey method of research design and targeted individual taxpayers across Malaysia as population. A sample of 419 respondents had been taken for this study, using convenient sampling method. Correlation, multiple regression and hierarchical regression analysis had been employed to analyse the data. This paper studied individual factor variables, which finally fills the gap existed in the literature and contributes as a justification for policymakers.

1. Introduction

It is an obligation that every salaried employee with certain income pays tax to the government since it is a mandatory contribution levied by the government on individual income and business profits. The system, "*Taxation*" was originated from ancient Egypt. The present taxation structure that is adopted by every country was instigated by United States of America in the year of 1862 to fund for World War I. Later different countries started to adopt the same principle for different purposes. Likewise, Malaysia also does it with its own regulations. Two courses: providing "Economic benefits", and "Social benefits", of development are executed by the Malaysian federal government. The economic benefits to the nation are carried out by collecting the revenue, allocating respective fund for the national economy, and distributing the earned revenue to the national economy (Abuamria, 2019). Injects back a part of the revenue into economy, launch provisions of goods and services and allocates the revenue to accomplish the government's objectives may the schedules performed by the government of Malaysia, as mentioned in the budget or any other government official schedules, circulars, documents, etc.

Taxpayers of Malaysia began to accomplish tax compliance procedures by themselves ever since the "Self-Assessment System" implemented in the year of 2004. The pre SAS system, Official Assessment System (OAS) and the Post SAS system are different as SAS system, entirely used by taxpayers. The "Official Assessment System" (OAS) is executed manually and whereas self-assessment systems are executed electronically. Citizens of the country draw their respective taxpayers and receivables, and decide whether they are qualified and eligible for exemptions and reliefs or not.

1.1. Statement of Problem

The all headline above points out an issue "Tax Gap" exists in Malaysia. A difference in the total amount of taxes supposed to be collected by the government and actual amount that has collected causes the Tax Gap which could be forms in three types (Dublin, 2012).

• Loss of tax revenue due to under reporting of taxes;
• Difference between the declared taxes and paid taxes;
• Loss tax revenue due to non-submission of tax returns.

Dublin (2012), recommends including self-employed adults as there was evidence that shows business entities evade tax if the managers also evade their personal taxes. According to two researchers Modugu and Anyaduba (2015) explains, *"Changes of government policies might also impact tax compliance behavior. For example, unlike in the UK, in Malaysia, petrol prices and some basic needs like sugar, wheat flour, rice and cooking oils are controlled by the government and the prices regularly increase according to global economic and government financial situations".* A very recent study by Chukwadi (2017) on taxation suggests to the future researchers *"More research is needed on the relation between the taxpayer and the government in which lack of evidence limits the analysis of direct policy changes"*. Further, Palil (2015) other individual impacting variables such as *political affiliation, cultural influence and religiosity* should be researched by future researchers. A very through reading of the literature with similar topics explicit that there still gap exists related to personal factor's impact towards individual taxpayers' tax compliance behavior.

To support the research gap with real examples, top headlines taken from Malaysian Newspapers are evidenced. Recent Major news reports were delivered to the local media by Inland Revenue Board of Malaysia (LHDN) as follows: IRB 'Cheated of billions' (Nokman, 2017), 100% penalty from next year for income tax dodgers (Surendra, 2017), Tax dodgers may be put in credit blacklist (Shah 2017), Inland Revenue warns of syndicate out to cheat tax payers (National 2017), Malaysia Tax Payers' Responsibilities (Grewal 2019),

The general objective of this study is to examine the determining individual factors towards individual taxpayers' tax compliance behavior in Malaysia. The following are the specific research objectives;

• To examine the association between individual factors and individual taxpayer's tax compliance behavior.

• To examine the moderating effect of tax knowledge between individual factors and individual taxpayer's tax compliance behavior.

2. Literature Review

2.1. Individual Taxpayers and Malaysian Tax System

According to Inland Revenue Board of Malaysia, the term "Individual" in taxation denotes to a natural person (Inland Revenue Board 2018). The economic equilibrium of the nation will be attained once the individual taxpayers honestly contribute their tax payment to the government (Ahmed and Kedir, 2015). The tax system in Malaysia had been established for practice prior to 1910, as well as during the time of early Malay rulers (Kasipillai and Shanmugam, 1995). Since then, it has gone through a number of transformations as the nation has undertaken several colonization in the past history. During the Malayan early settlement, comprising Singapore, Malacca and Penang Legislative Council, announced and later introverted a drafted bill imposing an income tax. Since the individuals of early Malaya were not concerned with the contribution of tax to the government, it was switched with a different funding to cover the government expenditures. It was a failure to introduce the bill again in the year 1922, due to the purpose

that the revenue, raised, was not for the development of the nation but for the war. Conversely, Japanese ruling (1942-1945) restructured collection of taxes and implemented for practice. Later in 1947, the British ruling, appointed a special officer known as Heasman, to deal with Malaysian Tax system. Four years after the establishment of Malaysian federation, the existing income tax practice was made more comprehensible by replacing it with a new law "*Income Tax Act 1967(ITA)*".

As other commonwealth countries, Malaysia also practiced its own income tax collection under Official Assessment System (OAS) where taxpayers and their tax payables are evaluated by tax authority of Malaysia (LHDN). The manual preparation of OAS, has transformed into a new system known as "*Self-Assessment System*" (SAS) by the Prime Minister Hon. Tun Dr. Mahathir Mohamad in the year 2001 and in the year 2004 for corporate taxpayers and individuals respectively. Many developed and developing nations had started to adopt Self-Assessment System even before Malaysia started to adopt it. The United States of America (1913), Japan (1947), Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Canada (1985), Commonwealth of Australia (1987), Ireland (1988) and the United Kingdom (1997). The SAS system compromises two-way role, where taxpayers have the obligation to accomplish all the taxation procedures before they are evaluated by the tax authority. Since the obligation or the trust given to the taxpayer, the tax compliance level in the country, someway, determined by the behavior of every individual taxpayer. The Malaysian Self-Assessment System has its own objectives, collection of exact tax amount under an effective method, upholds the trust and integrity of Malaysian taxpayers and encourages voluntary compliance behavior. The reading, conducted right after the introduction of Self-Assessment System, and measured the view of taxpayers towards the Self-Assessment System, demonstrates that the taxpayers find more comforts with the SAS than with OAS (Kasipillai, 2004).

Governments of countries all around the world place so much planning on collecting taxes. Yet, governments are going through hard time in collecting the taxes. Most individual taxpayers hesitate to pay taxes, and so they perform a variety of actions to cut-down their tax responsibilities (Ahmed and Kedir, 2015). One of the main factors is the tax payers' tax non-compliance behavior. McBarnett's tax determinants behavior model elaborates that tax compliance (capitulated, committed and avoidance) and non-compliance (tax evasion) are the key components of a taxpayer's behavior (Alabede *et al.*, 2011).

'*Tax compliance with the tax law*' means true and honest tax reporting with accurate calculation of liability, timely filing of return, and timely payment of sum due (Walsh 2012). 'Non-compliance of tax' is a social devastation since it decreases the national revenue, misleads the labor market and falloffs the strength of the state stability by encouraging cheat and fraud. It is significant for the tax authorities to comprehend the motivation of taxpayers to reduce the non-compliance rate. Tax non-compliance is considered to be a violation of tax laws, and is classified into three main classes, known as crude form, manipulation, and adulteration (Kasipillai and Shanmugam, 1995). Under reporting, the actual income and overstating the expenditures are crude form of non-compliances. Manipulation of accounts is generally found among the corporate sectors, where they duplicate or produce forged papers to reduce the payables. Money, hidden outside the country, is one of the examples for alteration, and mostly found more among the corporate sectors than among the individuals.

2.2. Tax Knowledge

Tax law knowledge is assumed to a very fundamental requirement when considering attitudes of individual taxpayers (Eriksen and Fallan 1996; Asrinanda, 2018) and tax knowledge form a significant positive relationship with effect on tax fairness (Mukhlis *et al.*, 2015). Though limited researches conducted in this field of study, some concludes that education plays an important role as a variable because application of Self-Assessment System requires the user to acquire tax knowledge (Harijito, 2005; Kasipillai and Shanmugam, 1995). Filing tax returns within the due time frame, honestly reporting their tax matters and correctly computing the tax liabilities essentially require a certain level of tax knowledge for every taxpayer (Loo *et al.,* 2009). Kasipillai (2003) mentions that acquiring tax knowledge may twist the uncertainty of compliance with tax system into having a fair perception of tax system because lack of tax knowledge may or may not lead to unintentional non-compliance with the tax system. If the knowledge alters the myths and misperception, the individual attitudes towards taxation also changes while the tax

regulations are unchanged (Eriksen and Fallen, 1996). Few aspects of individual attitudes towards taxation; tax ethics and the fairness tax system, determine the tax evasion to be performed.

2.3. Financial position

Financial obligation, which leads an individual to face financial constraints, will always choose the personal payables first before the tax payables. Mohani (2001), states that individual taxpayers with financial struggles engage more on evasion intentionally than individual who could afford to settle the tax payables. An earlier study conducted by Vogel (1972), emphasizes that the situation irrupts due to economic status than an individual personnel condition. An economic status of an individual will directly motivate to think weather comply with the tax system or not, no matter how the personal condition is.

2.4. Referral groups

Theories such like "Theory of recent action" and "Theory of planned behaviour" shows the significance influence the referral groups such as family and friends play towards the decision taken to comply with tax system. Though the accurate conclusion has not yet derived, researches assume that changes in the decision happens because of family and friends' interference. Allingham and Sandmo (1972) argue that impact made from family and friends significantly influence the decision making on tax compliance. Hasseldine *et al.* (1994) elaborate that peer referral or referral group play a vital role on tax evasion.

2.5. Political influence, religiosity and culture

According to the literature review, political factors such as stability of the government or political policies and ruling government party found determine the tax compliance in a country (Riah-Belkaoui, 2004). It is assumed in previous studies that political affiliation might influence an individual to be favour or against to the tax system in the country (Palil, 2010). Further said that if an individual has an affiliation or favours the current ruling party, the person might choose to be compliant with the tax system because the person thinks believe that the government is trustworthy. This situation might occur vice versa, if the person does not have good perception towards the government that led not to comply with the tax system. Furthermore, political and tax administration highly correlate with tax evasion. According to Palil (2010) recommended, future studies related to taxpayers' behaviours should consider and explore the factors political affiliation and cultural influence.

3. Methodology of research
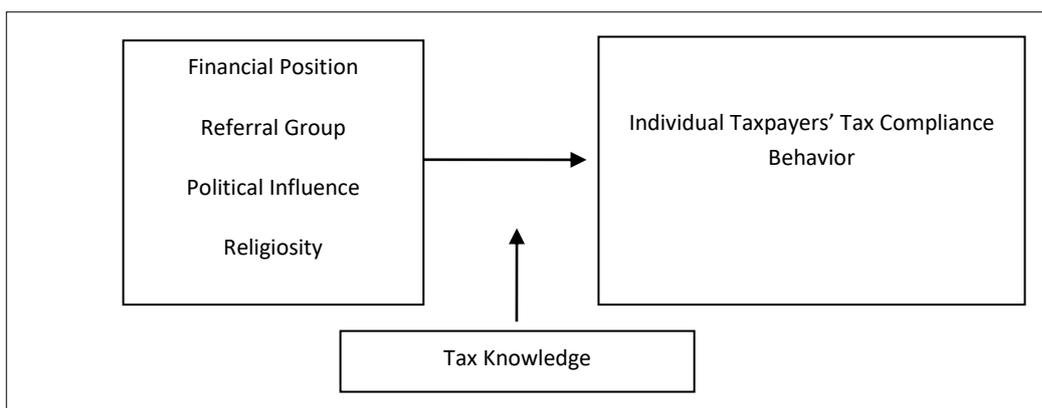
Figure 1. Conceptual Framework

H1: Better financial position positively associated with individual taxpayers' tax compliance behavior.
H2: Better referral group positively associated with individual taxpayers' tax compliance behavior.
H3: Better political influence positively associated with individual taxpayers' tax compliance behavior.
H4: Better religiosity positively associated with individual taxpayers' tax compliance behavior.
H5: Positive culture impact positively associated with individual taxpayers' tax compliance behavior.

H6: Tax knowledge moderates the association between individual factors and income tax compliance behavior.

3.1. Data Measurement

A survey will be distributed targeting individual salaried taxpayers from both public, private sectors and sole proprietors across Malaysia using convenient sampling method. Working adult taxpayers across Malaysia are the population of this study. Department of Statistics Malaysia mentions that around 14 Million people are employed in across Malaysia. According to Krejce and Morgan (1970) as well as Cohen (1969), the sample size is selected based on the table discussed under their studies. A sample size of three hundred and eighty-four (384) is reasonable, If the population is greater than seventy-five thousand.

A survey questionnaire used to collect data from the population. A questionnaire is a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. The questionnaire containing four sections and prepared in English. E-survey is utilized since the accessibility and completion of the survey will be easy for respondents. Mostly, companies in Malaysia with large number of employees comprise employees with mixed ethnicity and different level of salaries, which eliminate the bias, irrupts on selecting the low and higher amount taxpayers.

This survey was carried out during March to May 2019 in Malaysia. A total number of 2,400 E-surveys were sent to several individual taxpayers across Malaysia whose email addresses were pulled out from Staff Directories of respective workplace's official websites. Further, 100 printed questionnaires distributed to self-employers or sole proprietors in few Cities in Kuching and near suburbs.

The opening section of the questionnaire contained demographic information such as age, gender, income level, education background, race of the respondents. Section B, part (1) tested the level of tax knowledge the respondents have and part (2) tested the determinants of tax compliance. Loo and Ho (2005) and Palil (2010) designed to test the level of knowledge by subdividing the variable into chargeable income, exemptions, rebates and tax credit, Knowledge about taxpayers' general responsibilities and rights, dividend and interest income, personal reliefs, childcare reliefs, rebates, gifts and fringe benefits and awareness of offences and penalties. The tax knowledge is divided into different categories: knowledge about taxpayer's rights and responsibilities, Income from employment, income from dividend and interest, personnel relief, child relief, rebates and knowledge about penalties and offences. This set of questions require the respondent to rate their awareness by scaling from 0 to 2 specifies not sure (0 score), unaware (1 score) and aware (2 score) respectively. A score of 2 is allocated for respondent's scale for aware and 1 for unaware. The determinants are divided into five categories: financial position, referral group, political influence, religiosity and cultural influence. This set of questions require the respondent to rate their opinion by scaling from 0 to 2 specifies not sure (0 score), disagree (1 score) and agree (2 score) respectively. A score of 2 is allocated for respondent's scale for agree which is compliant and 1 for disagree which is non-compliant. Section C includes five different scenario typed questions related to compliance behavior with tax system. Gerxhani (2007) and Ching (2013) justify that in order to reduce the dishonesty of respondents answers, an incidental tax related questions should be adopted in the form of scenario. Scenario based questions establishes situations where respondents are asked to make decision for one choice. According to Kirchler (2008), categorizes the tax compliance behavior's predictors are tested.

Respondents required to answer "YES/NO" for the scenario based question imagining them on the same position said in the scenario. Further, respondents are required to tick the probability (from low probability to high probability) that the respondent will undertake the same action said in the scenario using 5 points Likert scale. 5 points licker scale is designed to group two favorable and two against respondents to conclude the accurate. The Likert scale is designed to examine how strongly subject agree or disagree with statements on a 5 points scale (Sekaran, 2005).

To measure the questions, 40% is allocated for Yes, No questions where Yes=1 (non-compliance) and No=2 (compliance). The "YES/NO" type question does not require the respondents to spend much time to establish their decision but the probability question do require the respondents to spend few time to derive their decision. As the Probability questions require the respondents to decide their decision, it is allocated with 60% where 1 (low probability non-compliance) =5 score and 5 (high probability non-compliance) =1 score. This percentage allocation for the questions increases the results validity.

If a respondent answer "Yes" and tick "5" as the probability of being carry out the same action said in the scenario, he/ she will be scored $(1*0.4) + (1*0.6) = 1$ that show the respondent is highly non-compliance. If a respondent answer "No" and tick "1" as the probability of being carry out the same action said in the scenario, he/she will be scored $(2*0.4) + (5*0.6) = 3.8$ that show the respondent is highly compliance.

3.2. Data Analysis

3.2.1. Descriptive Statistics

The descriptive analysis symbolizes the characteristics of variables (Piaw, 2013). Ahangar *et al.* (2011); Fagbemi *et al.* (2010); McGee and Gelman (2009) were few researchers earlier applied the similar statistics in their studies.

3.2.2. Validity/Reliability Test

The reliability of measure states the degree to which it is without bias and ensures consistent measurement across time and across the various items in the instrument. The reliability of measure is a signal of the stability and consistency (Sekaran, 2000).

3.2.3. Correlation, regression analysis and hierarchical regression analysis

The data also tested by using the Pearson correlation analysis and multiple regression analysis using SPSS statistic software. Regression analysis to further determine the compliance behavior against individual factor. Further hierarchical regression analysis is adopted to examine the moderating effect of tax knowledge between individual factor and tax compliance behavior.

4. Results and Discussions

Programmed Google E-Surveys were sent to respondents whose e mail address was taken from their particular work place official website under the staff directory. 2,400 E-mails were sent and 100 questionnaires were distributed by hand in Kuching and nearby suburbs in Sarawak, Malaysia. 647 e mails were not delivered due to incomplete e mail address or non-active or the employee resigned or no more work at that office. Out of 1,853 successfully delivered e mails 319 responses along with 100 by-hand responses were received representing 22.6%.

*Table 1.*Respondents' profile

Variables	Frequency	Percentage
Gender		
Male	182	43%
Female	237	57%
Race		
Malay	196	47%
Chinese	84	20%
Indian	81	19%
Others	58	14%
Age		
20-30	69	16%
31-40	165	39%
41-50	120	29%
50 and above	65	16%
Marital Status		
Single	142	34%
Married	257	61%
Widow/Widower	20	5%
Religion		
Islam	225	54%
Buddhism	42	10%
Christianity	70	17%
Hinduism	71	17%
Others	11	3%
Education Level		
SPM/STPM	9	2%
Certificate/Dip	22	5%
Degree/Professional	297	71%
Masters/PhD	91	22%
E-filing experience		
Yes	344	82%
No	75	18%
Tax Corse Participation		
Yes	81	19%
No	338	81%
Total	419	100%
Employer		
Government	170	41%
Private/Partner	208	50%
Self Employed	34	8%
Others	7	2%
Designation		
Clerical	20	5%
Officer	265	63%
Manager	106	25%
Director	19	5%
Higher than Director	9	2%
Income		
<1,000	5	1%
1,001-3000	15	4%
3,001-5,000	95	23%
5,001-7,000	132	32%
7,001-9,000	90	21%
9,001-11,000	26	6%
> 11,000	56	13%

Variables	Frequency	Percentage
Audited by LHDN		
Yes	127	30%
No	292	70%
Penalized by LHDN		
Yes	65	16%
No	354	84%

4.1. Reliability Test

Table 2. Cronbach's Alpha Reliability Test among Tax Knowledge Questions

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.656	.657	7

Table 3. Cronbach's Alpha Reliability Test among Determinants Questions

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.691	.645	5

Table 4. Cronbach's Alpha Reliability Test among Tax Compliance Questions

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.780	.956	5

Reliability test is performed to make sure the internal consistency and stability of the testing variables and measure to what extent the variables in the questionnaire are biased (Hong, 2005). Table 2 shows the Cronbach's Alpha score for Section B, part (1) (Tax Knowledge Questions) resulting 0.656, Table 3 shows the score for Section B, part (2) determinants questions resulting 0.691. Further, table 4 shows the tax compliance behaviour scenario based questions resulting 0.780. According to (Eriksen and Fallen, 1996) Cronbach Alpha more than 0.5000 recommends that instruments used in the questionnaire are valid and also high degree of reliability.

Table 5. Correlation between Individual factors and Tax Compliance

Variables	Coefficient Correlation	Sig
Financial Position (FPOS)	0.398**	0.000
Referral Group (RFGRP)	0.372**	0.000
Tax Knowledge (TNK)	-.015	0.763
Political Influence (POLI)	0.276**	0.000
Religiosity (RLG)	0.283**	0.000
Culture (CULT)	0.513**	0.000
Tax Compliance (TCOMP)	1	

Notes: ** Correlation is significant at the 0.01 level (2-tailed).

4.2. Correlation between variables

According to Table 5, all variables such as financial position (FPOS), referral group (RFGRP), political influence (POLI), religiosity (RLG) and cultural influence (CULT) are significantly correlated with tax compliance (TCOMP) at 1% significant level (p<0.001) except tax knowledge (TK). Tax knowledge is negatively correlated and not significant (r= -.015, P>0.001). Therefore, financial position, referral group, political influence, religiosity and cultural influence are significantly correlated with individual tax payer's tax compliance behavior.

4.3. Regression Analysis

Table 6. Association between Personal Factors and Tax Compliance Behaviour

Variables	Beta	Sig	Tolerance	VIF
(Constant)	17.175	.000		
Financial Position	.883	.001	.927	1.079
Referral Group	1.250	.009	.978	1.022
Political Influence	.391	.277	.964	1.038
Religiosity	-.108	.666	.952	1.051
Cultural Influence	.884	.005	.917	1.091

Notes: a. Dependent Variable: Tax Compliance.

Table 7. Hierarchical Regression with Introduction of Tax Knowledge

Variables	Beta	Sig	Tolerance	VIF
(Constant)	17.350	.000		
Individual Factors	.026	.048	.961	1.034
(Constant)	17.224	.000		
Individual Factors	.019	.056	.959	1.038
INDITN	.216	.002	.967	1.032

Notes: a. Dependent Variable: Tax Compliance.

According to the regression output Table 6 and 7, all the variables examined in the study are relevant since the tolerance value is more than 0.1 and the VIF (Variance Inflation Factor) factors are all below the benchmark 10. These benchmarks under statistics clarifies that there is no multi-collinearity among variables examined. Moreover, the P value of 0.0000 reveals that the model is statistically significant.

An individual's financial position shows positive significant relationship with tax compliance behavior (β=.883). Thus, H1 (Better individual's financial position has a positively associated with tax compliance behavior) is accepted. Financial obligation, which leads an individual to face financial problems, will always choose the personal payables first before the tax payables. Mohani (2001), states that individual taxpayers with financial struggles involve more on evasion intentionally than individual who could afford to resolve the tax payables. Hence, it was hypothesized that better financial position has positive correlation with tax compliance behavior and this study accepts the hypothesis. An earlier study conducted by Vogel (1972), emphasizes that the situation irrupts due to economic status than an individual personnel condition. An economic status of an individual will directly motivate to think weather comply with the tax system or not, no matter how the personal condition is. With the introduction of Self-Assessment System, some taxpayers assume that still they need to access with an advisor regarding the user friendliness of the system as well as for the computation of their compliance (Sapiei and Abdullah, 2008).

Moreover, referral group results also have a positive (β=1.250) and significant relationship with tax compliance behavior. Hence, H2 (Better referral group is positively correlated with tax compliance behavior) is accepted. Similar studies conducted by (Wenzel, 2005; Alshira'h, 2019) also supports the similar outcome and claims that if a tax payer believe tax compliance is widespread and agreed by his peer group, they are also more likely to be compliant. To support with an empirical evidence, (Ho, Loo & Lim, 2013) found that Chinese taxpayers in China use relationship based reasoning to judge tax compliance issues. If most of group members comply with the tax system, it is more likely that an individual in the group will have a greater level of tax compliance.

Further, political influence has a positive (β=.391) but not significant relationship with tax compliance behavior (sig=.277, p>0.01). Therefore, H3 (Better political influence is positively correlated with tax compliance behavior) is accepted. (Hasseldine and Hite, 2003) used a randomized telephone survey and found that political party affiliation has strongly impacted on taxpayer's tax compliance behavior in United States. Later studies demanded that studies about political affiliation in developing countries are required to be researched since the factor is predicted as important variable (Palil and Mustapha, 2011). Hence, this study reveals that higher political affiliation does not have a negative relationship with individual tax payers' tax compliance behavior.

Religiosity also shows a negative (β=-.108) but not significant relationship with tax compliance behavior (sig=.666, p>0.01). Therefore, H4 (religiosity is negatively correlated with taxpayers' tax compliance behavior) is accepted. Earlier studies reveal that people with strong religious believes can determine taxpayers' tax compliance behavior. This claim also supported by other earlier studies carried out in countries such as Austria (Torgler, 2005); Australia (Torgler, 2004); Canada (Torgler, 2003); the Netherlands (Ross and McGee, 2011); and some European countries (Torgler, 2006, 2007). Therefore, it was hypothesized in this study that religiosity negatively correlated with taxpayer's tax compliance behavior. This study also found that religiosity has negative relationship with individual tax payers' tax compliance behavior. Further it reveals that better adoption of religious believes encourages individual taxpayers' tax compliance behavior (Grasmick *et al.,* 1991; Petee *et al.,* 1994; Welch, Title and Petee, 1991). This results also similar with another studies by (Welch *et al.*, 2005) claims that religiosity has no significant impact on tax compliance behavior.

Cultural influence shows a positive (β=.884) and significant relationship with tax compliance behavior. Therefore, H5 (Better cultural influence is positively correlated with taxpayers' tax compliance behavior) is accepted. Earlier studies recommended that the future researchers to explore how culture impacts tax compliance behavior in developing countries (Luttmer and Singhal, 2014). This study resulted that better cultural influence encourage individual taxpayers' tax compliance behavior. Similar to the study results, earlier researcher conducted in developed countries claimed that culture and culture related differences may have a significant relationship on determining the individual taxpayers' tax compliance behavior (Chan *et al.*, 2000; Coleman and Freeman, 1997; Riahi, 2004). Torgler (2007) found that culture could influence tax compliance behavior in the countries such as Switzerland, Belgium and Spain. Additionally, the similar fact also supported by other researchers who confirmed that a positive relationship exists between culture and taxpayers' tax compliance behavior (Bobek *et al.*, 1994).

Finally, tax knowledge shows a negative (β=-.015) and not significant relationship under the correlation analysis with tax compliance behavior. Most of the research studies suggested that high tax knowledge would increase the voluntary tax compliance (Kirchler *et al.*, 2008; Loo, 2006; Lymer and Oats, 2009; Marziana *et al.*, 2010). In contrast, Kasipillai *et al.* (2013) found that tax knowledge has negative relationship with tax compliance behavior. They raise a claim by saying the fact that higher level of tax knowledge may encourage the tax payers to identify the loopholes in the tax system and regulations that results tax evasion or tax avoidance or tax noncompliance. Further, it was also examined that tax knowledge should be functioning as a moderator which may twist the association between individual variables with individual's income tax compliance behavior. Thus, it is hypothesized that tax knowledge moderates the association between individual factors and income tax compliance behavior.

According to Table 7 Hierarchical Regression with Introduction of Tax Knowledge, proves that tax knowledge has significant moderating role on the relationship between individual factors and individual's income tax compliance behavior. Further, the individual factors found insignificant once the tax knowledge was added (sig=.056, p<0.01). The unstandardized beta also reduced from 17.350 to 17.224. The beta for tax knowledge is .216 with the significant value of 0.002 (p<0.01). Tax knowledge has an impact on tax compliance behavior than individual factors since the beta for the tax knowledge (β=.216) is greater than the beta of individual factors (β=.026). Therefore, H7 (Tax knowledge moderates the relationship between individual factors and tax compliance behavior) is accepted.

5. Conclusions

Based on the Pearson correlation output, it is clear that individual's financial position, referral group, political influence, cultural influence and religiosity are significantly associated with individual taxpayers' tax compliance behavior. However, tax knowledge is not significantly associated with individual taxpayers' tax compliance behavior and also results negative relationship with the tax compliance behavior. Further, multiple regression analysis shows that individual factor positively associated with compliance behavior. Hierarchical regression analysis results that the addition of tax knowledge moderates the relationship between individual factor and individual's income tax compliance behavior.

The finding of this study contributes tax compliance literature and also fills the existing gap by explains the association between individual factor and individual taxpayers tax compliance behaviour in

Malaysia. Based on the findings, individual factor is also one of the most important factors to be considered to measure the individual taxpayers' tax compliance behaviour with tax system. Hence, an improvement in individual taxpayers' personal determinants (as discussed above) will ultimately inspire them to comply with the tax system. Earlier studies emphasised the future researchers to carry out study on the variables which have tested in this paper. However, this paper recommends future researchers to focus more on further measurement tool to be applied on measuring religiosity, cultural influence and political influence. The recent news articles show that Malaysia still experience tax non-compliance and under reporting. Limited available resources will not allow Inland Revenue Board to detect the real reasons behind non-compliance. Issues related tax evasion or tax non-compliance behaviour is the fundamental search for policy makers. Thus, this paper achieves the need that existed earlier by finding the root cause why non-compliance is still prevails. Therefore, this study recognizes the most important factor, individual, determinants that encourage and discourage taxpayers' decisions towards tax compliance in Malaysia. Further, this finding support the "Theory of recent action" and "Theory of planned behaviour" which highlights that peer referral and personal influence from external factors will enhance the individual decision making. The collected findings will assist the government, specially the tax authority, during policy planning. At the end, this study has made a significant contribution to the field of taxation and specially tax compliance focusing individuals.

Acknowledgements

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