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Tax Compliance and Tax Incentive: An Investigation of SMEs During the Covid-19 Period

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Abstract

The aim of this study is to examine the factors that influence tax compliance among SMEs in Malaysia as well as to investigate the effectiveness and the usefulness of the tax incentives offered during the COVID-19 period. This research is a hybrid research which used questionnaire for collecting tax compliance opinions as well as phone interview for collecting tax incentive insights. Nonprobability sampling was adopted and 85 respondents were collected for tax compliance aspect and 5 respondents were recorded for tax incentive aspect. The tax compliance data were coded and analyzed using SPSS and binary logistic regression model were also used. On the other hand, tax incentive data were analyzed using thematic analysis. Findings for tax compliance aspect revealed that all the results for the predictors are not significant for tax compliance. Besides, findings for tax incentive aspect revealed that the financial measures are being utilized by some of the SMEs. Moreover, there are certain assistances that the business owners hope to get from the government. Overall, the respondents are satisfied with the help of government for the financial measures during the COVID-19 period.

Keywords: Tax Compliance, Tax Incentive, Covid-19, Tax Detection and Penalties, Tax Complexity, Value Of Tax, Trust In Government.

Introduction

Taxation is one of the main revenues for government to finance expenditures such as the welfares of society (Bekhet & Othman, 2012; Ng, Lee, & Wong, 2020). According to the latest annual report by IRBM in 2017, the tax collection has increased by 8.22% in 2016. (Musa, Saad, & Ibrahim, 2016). In fact, the government has started searching for more ways to collect tax, such as the latest digital tax that was implemented with effective from 1 January 2020 (Yeo, Lim, & Azhar, 2020). Table 1.1 and 1.2 shows the collection and projected collection of tax revenue of Malaysia government for the year 2014 to year 2020 obtained from the Official Portal of Ministry of Finance Malaysia.

Year	Federal Government Revenue (FRG)	Federal Tax Revenue (FTR)	
	RM (in million)	RM (in million)	% of FRG
2014	220,626	164,205	74.43%
2015	219,089	165,440	75.51%
2016	212,421	169,343	79.72%
2017	220,406	177,658	80.60%
2018	232,882	174,061	74.74%
2019	263,300	180,010	68.37%
2020	244,530	189,951	77.68%
Average			75.86%

Table 1.1 Malaysia Federal Government Revenue and Federal Tax Revenue 2014 – 2020

Year	Direct Tax (DT)		Corporate Tax (CT)		
	RM (in million)	% of FTR	RM (in million)	% of DT	% of FRG
2014	126,743	77.19%	65,240	51.47%	29.57%
2015	111,770	67.56%	63,679	56.97%	29.07%
2016	109,608	64.73%	63,625	58.05%	29.95%
2017	116,024	65.31%	64,465	55.56%	29.25%
2018	130,035	74.71%	66,474	51.15%	28.54%
2019	135,639	75.35%	70,760	52.17%	26.87%
2020	142,676	75.11%	75,510	52.92%	30.88%
Average		71.42%		54.04%	29.16%

Table 1.2 Malaysia Direct Tax and Corporate Tax 2014 - 2020

Tax compliance is regarded as the degree of compliance to the tax regulations of the country (Zachary, Kariuki, & Mwangi, 2017). It can be determined by the willingness of a company to register and pay tax (Abdul & McFie, 2020), the percentage of sales a company would report for tax purposes (Bachas, Jaef, & Jensen, 2019) as well as the accuracy of income reports (Gillitzer & Sinning, 2020).

On the other hand, tax non-compliance generally comprises of two forms, which are intentional and unintentional non-compliance. The unintentional non-compliance normally due to the complex tax system and lack of tax knowledge for the taxpayers to file and prepare the tax information required. On the other hand, intentional non-compliance can be categorised into tax avoidance and tax evasion (Nemore & Morone, 2019; Matos et al., 2020) in which the former is legal and the latter is not. Throughout years and decades, the government has tried a lot of ways to increase the tax compliance among the taxpayers. Nevertheless, one of the useful ways to increase the tax compliance is to provide tax incentive to them. Tax incentives plays an important role to encourage higher tax compliance among the taxpayers, and it may lead to the advantage of attracting FDI (Tung & Cho, 2001; Ullah, 2016). It is considered as financial incentives, such as investment credits and management expense deductions, as opposed to direct regulation (Luger & Bae, 2005; Fortney, Arano, & Jacobson, 2011; Hasnul, 2015).

From time to time, there are many types of tax incentive introduced in different countries. Two of the most popular used in the United States are corporate income tax exemption and personal income tax exemption (Luger & Bae, 2005). In fact, there is one party, namely underground economy, that the government of the country will keep trying to increase their tax compliance through giving tax incentive. The underground economy, as known as shadow economy, hidden economy and so on, has been troubling all countries worldwide for years (Marinov, 2008; Blackburn, Bose, & Capasso, 2012; TheStar, 2020). As this underground economy neither report their income to tax regulators (i.e. IRBM in Malaysia context) nor comply to the tax regulations and hence it will reduce the government revenue significantly (Din, 2017; Mohamad & Ali, 2017).

In 2019, IRBM has implemented a special program for voluntary disclosure to give an opportunity to the taxpayers to register themselves and report the correct taxable amount to increase the tax collection. This shows that the problem of tax non-compliance is still being addressed by IRBM until today, hence there is still a need to find out ways to encourage more tax compliance, especially by the underground economy.

The COVID-19 has made a big impact worldwide including Malaysia is that the government implement Movement Control Order that restricts the movement of its citizens. This indeed strikes hard on the economy and business and may affect the tax compliance behaviour of SMEs in Malaysia (Das, 2020; Kumar & Yap, 2020). To help out the SMEs which are being the backbone of Malaysia economy, the government has implemented a fiscal policy, namely PRIHATIN stimulus package, to provide financial supports for them. It includes special relief fund in the form of low-interest loans, guarantee schemes for corporate entities as well as deferment of tax and loan payments (Medina, 2020).

However, according to an online survey done by DOSM on SMEs, although the stimulus package has been received from the government, they are still suffering as they have less or no income during the MCO period. Hence, it is important to be able to know how well does the PRIHATIN stimulus package has helped the SMEs, and what actually do they need in this hard time (Anil, 2020).

Thus, this study is to investigate the tax compliance and tax incentive among SMEs in Malaysia. For the tax compliance study, there is an assumption that the tax compliance, which is the dependent variable, will only be affected by the determinants, which are the independent variables. This study highlights four determinants of tax compliance, which are tax detection and penalties, tax complexity, trust in government, and value of tax.

This study aims to investigate:

- (i) the relationship between the four determinants of tax compliance and tax compliance among SMEs in Malaysia during the COVID-19 period, and
- (ii) the tax incentives needed to survive among SMEs in Malaysia during the COVID-19 period.

This study is important to study as the problem of tax non-compliance are still existing and affecting the overall federal revenue. Although there is similar research done these years, this study focuses on different determinants as well as on tax incentives. In addition, this study is specifically to address the issue during the COVID-19 period. In the end, the results obtained are to provide suggestions for

IRBM to provide more tax incentives that the SMEs need to increase tax compliance and tax collection for the government.

Literature Review and Hypotheses Development

Business Environment in Malaysia (Overview of SMEs)

SMEs are the major business taxpayers in most countries including Malaysia (Mohamad & Deris, 2018). Based on SME Corp. Malaysia data in 2016, 98.5% of business in Malaysia are SMEs, they are 2.3% (n=20,612) medium, 21.2% (192,783) small, and 76.5% (n=693,670) microenterprises categories of SMEs (SME Corp. Malaysia, 2020). The categorisation of SMEs as shown in Table 1.3 are different for manufacturing sector, and services and other sectors. However, for both of them, the company will be categorised based on sales turnover or full-time employees, whichever is lower.

Manufacturing Sector	Size of Enterprise	Services and other sectors
Sales turnover: RM15 mil ≤ RM50 mil OR Employees: From 75 to ≤ 200	Medium	Sales turnover: RM3 mil ≤ RM20 mil OR Employees: From 30 to ≤ 75
Sales turnover: RM300,000 < RM15 mil OR Employees: From 5 to < 75	Small	Sales turnover: RM300,000 < RM3 mil OR Employees: From 5 to < 30
Sales turnover: < RM300,000 OR Employees: < 5	Micro	Sales turnover: < RM300,000 OR Employees: < 5

Table 2.1 Categorization of SMEs in Malaysia

According to Income Tax Act 1967, all SMEs in Malaysia are subjected to income tax. For sole proprietorship or partnerships, the tax rate will follow the individual tax rate whereas for companies, regardless of private or public, the corporate income tax is applicable for both resident and non-resident companies (Zachary, Kariuki, & Mwangi, 2017; SMEinfo, 2018).

Tax Compliance

In regards to the tax compliance behaviour in Malaysia, according to Besley & Persson (2014), the finding shows the result of low-income and high-income countries typically collect annual taxes of averagely 10 to 20 percent and 40 percent of GDP respectively. There are a lot of factors identified for companies to not comply the tax law, according to Bello (2014), the finding shows that there are people see tax avoidance is legal strategy to escape tax, hence it should be permissible and acceptable to the tax authorities. In fact, tax compliance is characterized as a principle-agent problem according to Koessler, Torgler, Feld, & Frey (2019). Hence, the government can play its important role

to provide assistance on education, and provide tax authorities to aid them on filing the tax returns as for the goal to increase the willingness of taxpayers to pay tax (Yusof, Ling, & Wah, 2014).

Tax Detection and Penalties

Tax detection and penalties play an important role to instil fear of getting caught and fine by tax authorities (Musau, 2015). The most common type of tax penalty is fines (Swistak, 2016). When a taxpayer has the awareness on probability of being penalised, the person would prefer to comply to tax regulation (López-Luzuriaga & Scartascini, 2019). Tax penalties primarily serve two roles including deterrence and signalling mechanism (Leech, 2018). On the other hand, according to Bărbuță-Mișu (2011), the findings show that when audit, young and inexperienced taxpayers, they will learn to be compliant when their first tax file is checked by authorities. On top of that, if for the first few times that they are detected for non-compliance, it will increase the future audit probability (Vanhoeyveld, Martens, & Peeters, 2020). Thus, these findings suggest that higher level of tax detection and penalties will lead to higher tax compliance.

Hypothesis 1: H_1 : Tax detection and penalties has positive relationship on tax compliance.

Tax Complexity

Tax complexity is referred as the excessive workload of taxpayer in complying to the tax regulation including record keeping and tax form completion (Abdul & McFie, 2020). It consists of necessary complexity which is the minimum requirement to get policy intention and unnecessary complexity which is the excess complexity such as duplicate and complicated processes (Tran-Nam, Evans, Krever, & Lignier, 2016). According to Kirchler, Hoelzl, & Wahl (2008), the finding shows that when the tax system is becoming more complex, more supports from the government and tax authorities are needed. With this, the taxpayers will then feel the treatment is fair and hence lead to compliance behaviour (Borrego, Lopes, & Ferreira, 2016). Hence, the findings imply simplification of the tax laws can increase taxpayers' literacy and therefore lead to increased tax compliance.

Hypothesis 2: H_2 : Tax complexity has negative relationship on tax compliance.

Value of Tax

Value of tax is the perception of taxpayers on government spending (Saad, 2014). It is the impact of satisfaction with the government's provision of goods and services, such as water and security, on tax compliance (Musau, 2015). According to Musau (2015), there is a theory named fiscal exchange theory that suggests the government expenditure in a more efficient and accessible manner can actually motivate the tax compliance by taxpayers. In fact, taxpayers will have the expectation that when they comply to tax laws and pay tax, they can receive better indirect benefits through the better public provision by government (Rodriguez-Justicia, & Theilen, 2018). For example, according to Ponzano & Ottone (2019), in Italy, the tax compliance is increase efficiently when the taxpayers see that the tax revenue is not wasted in insignificant usage.

Hypothesis 3: H_3 : Value of tax has positive relationship on tax compliance

Trust in Government

Trust in Government is related to political and legitimacy and it can be defined as the degree of trust between the taxpayers and the tax officials and authorities under the government (Musau, 2015). According to Lisi (2015), increasing the power of tax authority is a good way to increase the trust in government among taxpayers. It can be built up for example by have high level of tax audits (Kirchler, Hoelzl, & Wahl, 2008). On the other hand, political stability is also important in determining tax compliance behaviour. This can allow the government to increase their reputation and credibility as to gain trust from the taxpayers (Palil, 2010). The trustworthiness of a government can be accessed through the existence of government corruption and transparency of the government budget (Torgler, 2011). The more corruption occurs in one country, the more incentives created for the taxpayers to evade tax (Alasfour, Samy, & Bampton, 2016).

Hypothesis 4: H₄: Trust in government has positive relationship on tax compliance.

Tax Incentive

Tax incentives can be either financial or non-financial aids and they can give positive and negative impacts (Bastani, Giebe, & Miao, 2020). In terms of tax payment as a tax incentive, according to Sheedy, Zhang, & Tam, (2019), the finding shows that fixed tax payment gives slightly more incentive for taxpayers to pay tax compared to variable payment which is based on expected profits. There are many examples that proved to be a type of non-financial incentives, such as lower tax complexity (Tran-Nam & Evans, 2014; Tran-Nam, Evans, Krever, & Lignier, 2016), lower statutory tax rate (Bachas, Jaef, & Jensen, 2019), and lower tax compliance costs (Harju, Matikka, & Rauhanen, 2019).

In terms of the tax incentive provided by government during the COVID-19 period, the government of Malaysia has provided financial assistance since February 2020 in few stages. It includes 2020 Economic Stimulus Package, PRIHATIN Rakyat Economic Stimulus Package, Additional PRIHATIN Rakyat Economic Stimulus Package, PENJANA Short-Term Economic Recovery Plan, and KITA PRIHATIN. In helping the SMEs, it provides benefits such as deferment of monthly income tax instalments payments, wage subsidy programme, and special PRIHATIN grant. There are also tax incentives for certain sectors such as extension of period for income tax relief of RM1,000 for tourism expenses in helping tourism sector.

Research Methodology

Research Design

This study adopted quantitative research design for the topic on tax compliance whereas for tax incentive aspect, this study adopted qualitative research design as to receive widely possible answers from the respondents in regards to their opinions on the COVID-19 financial measures given by the government.

Data Collection

This research uses hybrid method where a survey method in the form of questionnaire as well as phone interview are used for different aspects. In the tax compliance area, survey method is used in which online questionnaire is distributed through e-mails collected from SME Corp. Malaysia. The researchers in this study will only get involved in the situation where the respondents asked for

explanation through phone interview to avoid bias in this study. In the tax incentive area, phone interview method is used in order to know better and more accurate in terms of the opinions of SMEs and to avoid any misconception and misunderstanding of questions and answers from them. With this method, transcripts of each interview are prepared and all interviews are done in a well and efficient manner.

Respondents' Selection Method

For the questionnaire, this study uses the sampling design of nonprobability sampling due to the reason that the researchers cannot guarantee the sample will represent the whole SMEs population. Since the population of SMEs in Malaysia is too large, this study is aimed to collect as many responses as possible to increase the reliability and representation of the whole SMEs population. The target respondent in this study would be representatives from the top management, particularly owners, of the SMEs, that registered with IRBM, and deal with the tax procedures. There are 228,292 licensed SMEs according to SME Corp. Malaysia on 7th September 2020. Whereas for the phone interview, the respondents are chosen from those who have responded to the e-mail, as well as having the appropriate understanding on the financial measures for COVID-19 and tax, especially on tax incentive aspect.

Research Instruments

Particularly for the questionnaire used for tax compliance aspect, the questionnaire consists of three parts. Part A is on the tax compliance, part B is on the four factors separated in 4 sub-sections, and part C is on the demographic characteristics of the respondents. For the questions in tax compliance, most questions use binary form like questions that required answers only for yes or no. some questions will be coded in order to make them synchronized when doing data analysis. Whereas for the questions on the four factors, it used Likert scale to determine agreement on the statements given. There are different forms of Likert scale used for different type of questions depending on the situations as followed to the study done by Musau (2015) as shown in Table 3.1 for reference.

Type	Details
4 points Likert scale	1 = Very easy, 2 = Easy, 3 = Difficult, 4 = Very difficult
	1 = Very bad, 2 = Bad, 3 = Good, 4 = Very good
5 points Likert scale	1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree
	1 = Very bad, 2 = Bad, 3 = Neutral, 4 = Well, 5 = Very well
	1 = Very dissatisfied, 2 = Dissatisfied, 3 = Neutral, 4 = Satisfied, 5 = Very satisfied
	1 = No trust at all, 2 = Least trust, 3 = Some trust, 4 = Most trust, 5 = Trust a lot
	1 = None of them, 2 = Few of them, 3 = Some of them, 4 = Most of them, 5 = All of them

Table 3.1 Type of Likert Scale Used

The rating scale of the questionnaire are mainly ordinal and nominal scale. There is only one question, which asks the respondent to estimate the amount that he or she pays to fill the tax returns forms and calculate the amount of tax due, uses ratio scale in the form of money value in RM. The used types of scale are used with the reason for more accurate, valid and reliable analysis while interpreting the data. All the questions are adopted from previous study done by Musau (2015).

Variable	Measurement	Expected Outcome
Dependent Variable		
Tax Compliance	Registration for relevant taxes such as PAYE, income tax, SST and filing tax returns	
Independent Variables		
Tax Detection and Penalties	Detection or fear of getting caught, and fines for penalties	+
Tax Complexity	Tax information and complex filing procedures such as simplified forms of tax payment, easy to reach customer centres and complex tax procedures	-
Value of Tax	Satisfaction with government's provision such as basic health services and infrastructure	+
Trust in Government	Trust in political legitimacy such as trust in tax officials, corruption of tax officials and perception about the country's level of democracy	+

Table 3.2 Summary of The Measurement of Various Variables

Whereas for the phone interview on tax incentive aspect, the open-ended semi-structured questions are used for the interview to obtain more focused and flexible qualitative data. The interview questions target to identify what are the opinions of the respondents on the COVID-19 financial measures given by the government, particularly on the usefulness of the measures, as well as what additional measures or the real assistances that they need for their SME business. Each interview session lasts for about 20 minutes, involving note-taking for transcript purpose. The respondents were briefed about the study and their formal consent were obtained before the interview starts (Chew, Kamarulzaman, & Lee, 2018).

Data Analysis

In this study, all the data collected from the questionnaire responses will be analysed using SPSS, involving reliability test, descriptive and inferential analyses. Descriptive analysis such as frequency, mode and percentage are mainly used to interpret the demographic characteristics of respondents whereas inferential analysis such as regression and correlation are used to interpret the rest of the data. Whereas for phone interview data collected for tax incentives aspect, all respondents' information is kept anonymous and confidential, with only their responses recorded in the form of transcript. Then, the data are analysed using thematic analysis with two main themes on usefulness of COVID-19 financial measures and additional supports required by the respondents (Chew, Kamarulzaman, & Lee, 2018).

Findings and Analysis

Tax Compliance

Reliability Analysis

Reliability Analysis is a fundamental element to evaluate a measurement instrument. In SPSS, Cronbach's alpha is used to measure the reliability of the collected variables data. Generally, the minimum acceptable value of alpha is 0.7 (IBM Knowledge Center, 2014b). Hence, if the Cronbach's alpha in SPSS is 0.7 or higher, it indicates that the data of the research is acceptable and reliable to be studied (Tavakol & Dennick, 2011).

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.712	0.701	38

Table 4.1 Reliability Statistics

According to Table 4.1, the Cronbach's alpha for the variables data collected for this research obtained using SPSS is 0.712, which is higher than 0.7. Hence, it indicates that the data is acceptable and reliable to carry out further researches (Cronbach, 1951).

Descriptive Analysis

Demographics

A total number of 91 respondents were collected. Nevertheless, 6 responses include the issue of duplication, not registered with IRBM as well as with full neutral responses are removed as these responses would affect the validity and analysis of the research. Henceforth, the usable responses left in this research is 85 respondents.

Gender		
	Frequency	Percentage (%)
Male	63	74.1
Female	22	25.9

Table 4.2 Gender of Respondents

As shown in Table 4.2, majority of the respondents in the research is male (74.1%) whereas female respondents cover only 25.9%. This may indicate that in Malaysia, majority of the business owners are still dominated by male.

Years Business in Operation		
	Frequency	Percentage (%)
Less than 2	5	5.9
2 to 4	14	16.5
5 to 7	10	11.8
8 to 10	15	17.6
Over 10	41	48.2

Table 4.3 Years Business in Operation of Companies

Majority of the respondents have been operating their business over 10 years, these respondents are believed to be very familiar of their business operation as well as taxation system.

Sales Turnover (in 2019)		
	Frequency	Percentage (%)
Less than RM300,000	23	27.1
RM300,000 to RM2,999,999	35	41.2
RM3,000,000 to RM14,999,999	15	17.6
RM15,000,000 to RM19,999,999	3	3.5
RM20,000,000 to RM50,000,000	5	5.9
Over RM50,000,000	4	4.7

Table 4.4 Sales Turnover (in 2019) of Companies

Average Number of Full Time Employee (in 2019)		
	Frequency	Percentage (%)
Less than 5	27	31.8
5 to 29	38	44.7
30 to 74	12	14.1
75 to 200	6	7.1
Over 200	2	2.4

Table 4.5 Average Number of Full Time Employee (in 2019) of Companies

To provide a clear guideline and ensure the comparability of the data, the respondents are required to indicate both the sales turnover and average number of full time employees in 2019 to avoid confusion. The sizes of the companies are further categorized into micro, small and medium using the data in Table 4.4 and Table 4.5, which is lower, based on the criteria defined by SME Corp. Malaysia.

Size		
	Frequency	Percentage (%)
Micro	33	38.8
Small	41	48.2
Medium	11	12.9

Table 4.6 Size of Companies

Most of the respondents are from small sized companies (48.2%), followed by micro-sized companies (38.8%) and medium-sized companies (13.1%). This would indicate that most of the SME in Malaysia are still having a long way to expand their businesses even they have been operating for so many years.

Magnitude of Tax Compliance

In order to measure tax compliance, this research used an indirectly phrased question to capture the tax compliance response in order to avoid direct implication of wrong doing by the respondent. This is to avoid the same mistake of work on corruption following the works of Reinikka and Svensson (2006). Thus, the respondents were asked if they thought it is wrong and punishable not to pay taxes.

Tax Compliant		
	Frequency	Percentage (%)
Tax Compliant	82	96.5
Tax Non-Compliant	3	3.5

Table 4.7 Tax Compliant

The results show that almost of the respondents (96.5%) do actually said that it is wrong and punishable not to pay taxes, with only 3.5% said no. This would indicate that most of the business owners of SME are tax compliant and it is a good sign to be noticed.

Registration with Relevant Taxes				
Item	Yes		No	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Registered for PAYE	30	35.3	55	64.7
Registered for income tax	76	89.4	9	10.6
Registered for SST	50	58.8	35	41.2
Do you have POS system	14	16.5	71	83.5
Registered for withholding tax	16	18.8	69	81.2
Registered for e-Filing	72	84.7	13	15.3
File your returns	77	90.6	8	9.4

Table 4.8 Registration with Relevant Taxes

Overall, most of the respondents file their returns (90.6%), registered for income tax (89.4%), and registered for e-Filing (84.7%), with only 9.4%, 10.6% and 15.3% do not do so respectively. This would be a good indicator of why majority of the respondents do actually tax compliant. Nevertheless, there are also a lot of respondents who do not have POS system (83.5%), and do not register for withholding tax (81.2%). This may be the reason why business owners do not comply with tax. In addition, the number of respondents who register of SST (58.8%), and register for PAYE (35.3%) are to be observed as well in order to minimize the distortion in economic.

Inferential Analysis

Correlation Analysis

	Tax Compliance (Pearson Correlation)
Tax Detection and Penalties	0.383**
Tax Complexity	0.195
Value of Tax	0.196
Trust in Government	-0.148
*. Correlation is significant at the 0.05 level (2-tailed).	
**. Correlation is significant at the 0.01 level (2-tailed).	

Table 4.13 Pearson Correlation between Variables

Correlation analysis is done to present the relationship between the various independent variables and the dependent variable. Pearson Correlation is a test that looks at only one variable to one variable. Only one factor, namely tax detection and penalties was found to be significant at 0.01 level in 2-tailed test.

Regression Analysis

This research focus on binary logistic regression model which uses tax compliance as dependent variable, with value 0 as tax non-compliant and value 1 as tax compliant, and the other independent variables.

Model Summary			
-2 Log likelihood	Cox & Snell R-Squared	Nagelkerke R-Squared	Calculated R-Squared
13.472 ^a	0.137	0.519	0.338
a. Estimation terminated at iteration number 8 because parameter estimates changed by less than 0.001.			

Table 4.14 Model Summary

Table 4.14 shows the R-Squared values for the model. The R-Squared value that is more akin to the research and often used is the calculated R-Squared which is the OLS also known as non-pseudo R-Squared (UCLA, 2011; Smith & McKenna, 2013). It is calculated by squaring the correlation value between the dependent variable of tax compliant and the model predicted probabilities (Lomax & Hahs-Vaughn, 2012; Tabachnick & Fidell, 2013). The R-Squared value of 0.338 indicates the degree of total variation in the dependent variable can be explained by the independent variable (Kraha et al., 2012). In this regression model, the factors influencing tax non-compliance are able to predict the tax non-compliance by 33.8%, the balance of 66.2% are other factors.

Hosmer and Lemeshow Test		
Chi-square	df	Sig.
2.473	7	0.929

Table 4.15 Hosmer and Lemeshow Test

Hosmer and Lemeshow Test is a type of test to evaluate global fit. A non-significant test result would indicate a good model fit (Kramer & Zimmerman, 2007). Hence, according to Table 4.15, the non-significant result of 0.929 indicates that this is a good model fit.

Classification Table					
			Predicted (Tax Compliant)		Percentage Correct
			Yes	No	
Observed (Tax Compliant)	Yes	81	1	98.8	
	No	2	1	33.3	
Overall Percentage					96.5

Table 4.16 Classification Table

Table 4.16 provides the frequencies and percentages to show the accuracy of the model to correctly predicts the dependent variable (IBM Knowledge Center, 2014a). Out of 82 respondents who are observed as tax compliant, 81 of them are classified correctly, whereas out of 3 respondents who are observed as tax non-compliant, only 1 of them is classified correctly. In short, the overall classification accuracy based on the model is 96.5%.

Coefficients					
	B	S.E.	df	Sig.	Exp (B)
(Constant)	-5.866	9.035	1	0.516	0.003
Tax Detection and Penalties	0.415	0.311	1	0.182	1.514
Tax Complexity	0.122	0.298	1	0.682	1.130
Value of Tax	0.307	0.290	1	0.291	1.359
Trust in Government	-0.172	0.259	1	0.508	0.842

Table 4.17 Coefficients Table

In the estimate column (B), the values refer to the predicted change in log odds of dependent variable for every one unit increase on the predictor. These values are used to derive the equation of the model (Kumari and Yadav, 2018). The equation would be as such:

$$Y = -5.866 + 0.415X_1 + 0.122X_2 + 0.307X_3 - 0.172X_4$$

Where Y is the dependent variable of tax compliance, X_1 is tax detection and penalties, X_2 is tax complexity, X_3 is value of tax, X_4 is trust in government. Besides, the coefficients table in this model would be used to test the hypothesis. If of the variables is less than the significance level of 0.05, then the variable is said to be statistically significant (Liu, Kuang, Gong, & Hou, 2003).

Hypothesis 1:

H₀: Tax detection and penalties has no relationship on tax compliance.

H₁: Tax detection and penalties has positive relationship on tax compliance.

Hypothesis 2:

H₀: Tax complexity has no relationship on tax compliance.

H₂: Tax complexity has negative relationship on tax compliance.

Hypothesis 3:

H₀: Trust in government has no relationship on tax compliance.

H₃: Trust in government has positive relationship on tax compliance.

Hypothesis 4:

H₀: Value of tax has no relationship on tax compliance.

H₄: Value of tax has positive relationship on tax compliance.

As the results show, the p-value for all predictors are more than the significance level of 0.05. Henceforth, it indicates that all four determinants are statistically not significant to tax compliance. Thus, it fails to reject all four null hypotheses (H₀). All in all, all the independent variables are statistically not significant to the tax compliance. It could indicate that all these predictors are not the factors influencing tax compliance, thus requiring further studies on other determinants. Nevertheless, it may be due to the sample for this research is not large enough and the determinants are not the factors for the companies to be tax compliant in this COVID-19 period.

Tax Incentive

During the phone interview process, 5 respondents were successfully contacted and willing to accept the interview. A few questions were asked to obtain some insights from them in terms of the usefulness of COVID-19 financial measures as well as additional supports that they are required for the current situation. As their information will be kept as anonymous, *R1, R2, R3, R4, and R5* will be used as their respondents ID.

Usefulness of COVID-19 Financial Measures

Acknowledgement of Economic Stimulus Package 2020

All of the respondents were actually noticed and known about the economic stimulus package 2020 provided by the government since February 2020. It is a success for the government to spread the news of their financial measures as to allow the business owners to have a chance to get the assistances.

- R1: Yes.
- R2: Yes.
- R3: Yes, I know.
- R4: Yes.
- R5: Yes, I know about that.

Utilization of Benefits

Out of the 5 respondents, only 2 of them actually apply and utilise the benefits provided. Commonly, both of them only apply for the Wage Subsidy Programme.

- R1: Yes. So far only the wages subsidy one.
- R2: Yes, just the WSP (Wage Subsidy Program).

For the other 3 respondents that do not apply for the benefits, generally, it is because they can still run their business operation well and thought that they do not need the financial assistances.

- R3: *But I think it is not so useful for me, so I do not apply to it actually. Because I still can run my business through online. So, it doesn't affect much for me.*
- R5: *No, I didn't apply to it. Because like during the MCO, my factories still able to run like usual to produce the hand sanitizers and disinfectants.*

On top of that, one of them do not apply for the benefits because he or she thinks that it would take a long process to apply, which would be troublesome.

- R4: *But I did not apply anything from them. It's because it requires a long process, a lot of conditions, I personally don't like to be troublesome. Besides, I'm also busy with the arrangement of my business, so I do not apply for it. Even before this, I've listened to my friends that they apply but cannot get it. So, I just don't want to waste time applying for it. Actually, it is like the SOCSO, I know that if you cannot success or didn't receive anything at first, you can make a call to the authorities to enquire, but just the line is just too hard to call. So, it's just myself that I just want to keep myself simple and easy, so I do not apply for anything.*

Helpfulness of Benefits

For the 2 respondents who have applied for the benefits, both of them agree that they have actually help out their business to survive in the pandemic.

- R1: Yes.
- R2: Yes, very.

Rating on Usefulness of Economic Stimulus Package 2020

Generally, most of the respondents that rate above 5, averagely rate at about 7 out of 10 as they think that those financial measures have indeed helped a lot to the business owners as well as the employees in terms of protecting their benefits and preventing them from getting laid off.

R2: To be honest, it helps a lot, because you see the employees are a lot, it is better than none, especially for those bigger companies. So, I would rate it for 7 out of 10.

R3: 7, because it indeed helps some of the businessmen to solve their cash flow problem and protect the benefits of staff that cannot work.

R4: It is good actually because it can help the companies to survive like support their expenses. So, I would rate it for 8.

R5: I would rate 7 out of 10. I think that these benefits can help those employers and employees to solve their financial problem, to some extent. Like allows the companies to continue running, as well as preventing the employees to get laid off.

Nevertheless, there is one respondent who rate 2 out of 10 as he or she just simply thinks that not every measure is useful for his or her company. Hence, he or she could not actually utilise very well on all of the benefits

R1: 2. Because just not everything of the measures is useful for my company.

Additional Supports Required

One of the respondents wish to have additional tax deduction, and would be better if the government would allow fully exempted tax for the year.

R1: Maybe like an additional tax deduction by ratio. Like depends on the past year sales performance, after calculating the tax for current year, deduct again if current year sales are less than past year. Like if last year sales are 100% and this year sales are only 20% of it, perhaps give an additional deduction of 80% on the tax. In this way, it would definitely help a lot of companies that are small and poor, as to avoid bankruptcy and prevent increased unemployment. Better if can allow fully exempt tax for current year.

Another respondent wishes to have more grants other than the provided grants such as computer grant, and software grant. Besides, he or she wishes that it would be better if the government could have more projects to boost up the whole economy and make the recovery faster.

R2: ...If talks about additional, perhaps is the need to boost up the whole economy. Like the government need to have more projects, to boost up whole economy, to recover faster, and to help out the money collection part. Perhaps the one that I think useful is providing more grant although like now we have got the computer grant, software grant...

Another respondent on the other hand wishes that for the previous policy, it would be great to make a compulsory for all the banks to not compound interests for the loans as to reduce the burden of community.

R5: In term of the previous policy during the MCO, there is no compulsory for the banks to not compound interest for the loans. I hope that the government can actually make it a compulsory and all banks will not compound interests for the loans, to just reduce some burden of the community.

Nevertheless, some of them actually think that the current measures are great and the government has provided benefits that are good enough to help the SME business owners.

R2: For additional assistance, it is very good already actually the government is doing, but we just no apply for some, because we don't need it ... In term of financing, they still provide the loan grant like extension for the loan repayment. It already covers most of the nations. It is very good already actually. Just that the conditions are quite a lot, the benefits are provided but hard to get them.

R3: No, I think the economic stimulus are quite complete and good already. It has solved the economic problem of both the employers and employees.

R4: I have no comment for this. As everything just needs some process and conditions, they are all good, it's just my personal preference.

Conclusion

Summary of Key Findings

Tax Compliance

Independent Variables	Relationship with Tax Compliance		Rejection of H ₀
	Test of Significance	Positive/ Negative	
Tax Detection and Penalties	Not Significant	Positive	Fail to reject H ₀
Tax Complexity	Not Significant	Positive	Fail to reject H ₀
Value of Tax	Not Significant	Positive	Fail to reject H ₀
Trust in Government	Not Significant	Negative	Fail to reject H ₀

Table 5.1 Summary of Key Findings (Tax Compliance)

The research questions of this study focus on the relationships between the determinants of tax compliance. The four determinants in this study are tax detection and penalties, tax complexity, value of tax, and trust in government. Table 5.1 shows the summary of the results obtained from the binary logistic regression model. It is surprisingly that all of the four factors are resulted as not significant to the tax compliance as hence all of them are failed to reject the null hypothesis (H₀). Thus, the four predictors are not the factors influencing the tax compliance among SMEs in Malaysia.

Tax Incentive

Aspects	Frequency of Respondents	Percentage of Respondents (%)
Acknowledgement	5/5	100.0
Utilization	2/5	40.0
Helpfulness	2/2	100.0
Rating (Average)	6.2/10	62.0
Additional Supports	2.5/5	50.0

Table 5.2 Summary of Key Findings (Tax Incentive)

According to Table 5.2, all of the respondents do actually know about the economic stimulus package 2020 provided by the government since February 2020. However, only 2 of them (40%) actually utilize them, and both of them do agree with the financial measures are helpful for their companies. Averagely, the 5 respondents rate for 62% in terms of the usefulness of the financial measures provided by the government. Nevertheless, 50% of them actually think that there are certain additional supports they wish to obtain from the government to help their company to better survive in the pandemic.

Contribution

This research is meant to make a contribution to the tax authorities and government in terms of better developing strategies to curb the problem of tax non-compliance among the SMEs in Malaysia. As this study is done to obtain the relevant information during the COVID-19 period, it is aimed to identify more possibilities on how the SMEs would react to tax compliance and tax incentive during the pandemic. In the end, the results do show that the four determinants do not affect the tax compliance among SMEs in Malaysia and bring about the need to explore more predictors that could affect the tax compliance. Nevertheless, this study successfully gathers and outlines the appeals and requirements of the business owners in regard to the tax incentive aspect.

Implication of the Study

This study is useful for the tax authorities to access and develop strategies to enhance the tax compliance among SMEs in Malaysia. It could indicate that the government and tax authorities have to be do more on these aspects as to further boost the community confidence in terms of the taxation system and provision of services by government. Apart from that, it does indicate a need to study on other factors which could affect the tax compliance among SMEs in Malaysia. Besides, the government could have a reference on the appeals and requirements of the business owners in terms of the reason why they do not apply for the financial measures provided as well as the additional supports that they wish to get from the government. By meeting the demand and satisfaction of the business owners, it could help to boost the perceptions and trust of them in government as well as proving a genuinely high value of tax among them.

Limitations of the Study

Undeniably, there are some limitations in this study to be addressed. Firstly, the sample size of this study is relatively small due to time constraint as well as the low cooperation level among the SMEs.

Moreover, there are some concerns in terms of the honesty of respondents in answering the questionnaire and phone interview. Although they are kept anonymously, it is still a sensitive issue that they think could affect them in a way if they answer honestly and truthfully. Nonetheless, the measurement of tax compliance in this research only depends on one indirectly phrased question as to generate the binary logistic regression model.

Recommendations for Future Studies

This research proposes some directions for future studies. Firstly, the researchers could study on other factors since the four determinants in this study were not significant to tax compliance. As the questionnaire have shown, most of the respondents agreed to costs influence tax compliance. Hence, future studies may consider to use costs as the determinant of tax compliance. Furthermore, future researchers could get a larger sample size, especially for the tax incentive aspect. Getting more respondents for the phone interview allow the researchers to get clearer explanation on the research matters.

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