

## TAX COMPLIANCE ECONOMY AMONGST TAXPAYERS IN KOTA KINABALU

\*Mohaneswari a/p Renganathan, Junainah Jaidi

Faculty of Business, Economics and Accountancy  
Universiti Malaysia Sabah, 88400 Kota Kinabalu, Sabah, Malaysia

\*Corresponding author's email:  
nenjaidi@ums.edu.my

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### ABSTRACT

*The gig economy is a term used to describe an economic activity in which many short-term jobs are available, rather than permanent jobs, and is considered one of the various business models in the gig economy. This study examines taxpayers' views on their level of taxpayer awareness, trust in government and tax socialization on tax compliance in the gig economy. This paper therefore provides new insights into tax compliance studies by introducing the concept of gig entrepreneurship, which is increasingly becoming a popular segment of the economy, especially among the younger generation. The study was conducted among 10 participants in Kota Kinabalu, Sabah and an in-depth interview was used to collect data for this study. Thematic analysis was used to analyze the data. The findings of this study can be useful for the government to create a clear tax framework in promoting the gig economy in order to expand the tax base for the government.*

### INTRODUCTION

Economic activities in Malaysia are experiencing exponential growth, driven by the penetration of technology into various sectors (Tambunan and Rosdiana, 2020). The Malaysian Communications and Multimedia Commission (2017) reports that from 12% in 2011 to 75.9% in 2017, smart phone usage in Malaysia increased significantly. One of the

many business models in the e-commerce is the gig economy (IRBM, 2022). The gig economy grew rapidly in 2020 alone, gave rise to new digital technologies, and caused traditional brick and mortar enterprises to move their business models online, according to the Malaysia Digital Economy Blueprint 2021. Due to this, gig economy platforms have grown in popularity, with e-hailing and online products delivery—including food delivery—being the two main services offered by these platforms (Furuoka, Uchiyama, Lim, Pazim, Aruchunan, Paid, Nikitina and Omar, 2022).

The gig economy is currently being accepted at a spectacular rate by individuals and companies of all sizes (Abdul Rahim, Yaacob, Mohd Noor, Najid and Zulkifli, 2021). As of April 2021, there were about four million freelancers in Malaysia; this number is expected to increase over the coming years, particularly as many gig workers are members of the younger, more technologically literate age. In addition, a lot of people who have lost their employment due to the epidemic are resorting to online platforms in order to support themselves (Lim, 2021). Thanks to technology advancements, people can work at their own pace and are no longer constrained by physical places, which has led to the growth of the gig economy. As a result, businesses usually hire freelancers and independent contractors rather than full-time workers, and jobs are usually temporary and flexible (Ahmad, 2020).

In response to this, the digital economy is being included in the 12th Malaysia Plan 2021–2025 as a new source of economic growth, increasing Malaysia's GDP as recently established by the Malaysian government (Lim, 2021). By 2025, the government also plans to put in place a suitable tax structure to collect gig economy earnings. This is due to the fact that the Economic Planning Unit's (EPU) 12th Malaysia Plan document projects that by 2025, the digital economy would account for 25.5% of the nation's GDP. The emergence of the gig economy presents

profound challenges in Malaysia, as Wahab and Bakar (2021) expressed that the field of gig economy income tax compliance is still in its infancy stage in Malaysia.

There are certain challenges in relation to taxing the digital economy, by which tax systems are needed to be ready to meet the changes brought by the digital transformation as well as to leverage upon the opportunities (OECD, 2014). Frenken and Schor (2017) implied that many people are "not even aware that taxes should be paid," suggesting that these people run the risk of not complying with the law. It was also stressed that these individuals would view gig economy transactions as "short, single, and private," meaning they are not subject to taxes. In a similar vein, people may assume that income-generating activities conducted online, such earnings from a YouTube channel, are private in nature and do not require disclosure for tax purposes. Furthermore, persons who are unaware of 'who is accountable for paying taxes' may unintentionally wind up breaking the law and this is a challenge to the Inland Revenue Board of Malaysia (IRBM) (Wassermann and Bornman, 2020). Hence, the objectives of this study are formulated as follows:

1. To identify taxpayers' view on tax compliance in the gig economy
2. To identify the measures that government can implement to enhance trust and tax compliance among gig economy workers
3. To identify the practical ways of updating with current tax updates

## LITERATURE REVIEW

### *"Gig economy" in the tax compliance context*

The government has traditionally benefited greatly from the tax collection (Nawawi, Hamid, Yusop, Ghazali, and Rashid, 2020). It is one of the most important sources of income for the government and has a close relationship

with government spending, which supports economic expansion (Kim and Lee, 2020). The term “gig economy” describes people who, as opposed to working for an employer, have temporary jobs or perform independent tasks for which they are paid individually (IRBM, 2022). It is turning into a more and more well-liked economic sector. Workers in the gig economy are defined as “individuals employed or appointed under a Contract for Service merely to work on a specific project or job for the purposes of the principal’s trade or business” by the Malaysia Employment Act of 1955 (Jemon, Saiman, Bebit and Hindia, 2021).

The gig economy ought to be taxed in the same manner as traditional businesses are currently, according to the Organization for Economic Cooperation and Development’s (OECD) 2015 Digital Economy Outlook (Kuek, 2020). A similar remark was made by IRBM, which states that this e-commerce activity falls within Section 4(a) of the Malaysia Income Tax Act, 1967 and is therefore considered a commercial activity (IRBM, 2022). Every prospective taxpayer in the gig economy has an obligation to record any profits or losses from gig business ventures.

#### *The use of “Theory of Planned Behaviour” in the tax compliance context*

Theory of Planned Behaviour (TPB) is a social psychological theory that aims to explain human behaviour by considering the beliefs, attitudes, and intentions that shape an individual’s actions. According to the theory, an individual’s behaviour is determined by three main factors: their attitude toward the behaviour, their subjective norms, and their perceived behavioural control (PBC) (Ajzen, 1991). Attitude refers to an individual’s evaluation of the behaviour, including their beliefs about the positive or negative consequences of the behaviour. Subjective norms refer to an individual’s beliefs about the social pressure to engage or not engage in the behaviour, including the perceived expectations of significant others. Perceived

behavioural control refers to an individual’s perceived ability to perform the behaviour, including their beliefs about the availability of resources and the extent of their control over the situation (Alleyne and Harris, 2017).

#### *Tax Compliance*

Tax compliance relates to obligations of taxpayers that include registration in the tax system, timely lodgement of tax return, payment of taxes on time, and reporting complete and accurate information (Badara, 2012). The notion of tax compliance as a situation where the taxpayer meets all taxation liabilities. Thus, the taxpayer is abiding taxpayers who obey and fulfil and implement tax obligations in accordance with the provisions of tax legislation (Devano and Rahayu, 2006).

#### *Taxpayer Awareness*

Tax awareness was used as attitude component in the TPB framework. It refers to taxpayers’ understanding of tax laws and regulations on the specific tax issues that relate to them with the assumption that higher tax awareness is likely to increase tax compliance (Taing and Chang, 2021). According to Awaluddin and Sulvariany (2017) awareness of taxation is a condition where a person knows, recognizes, respects, obeys the applicable tax provisions seriously, and desires to fulfil his or her tax compliance. Hardiningsih, Januarti, Oktaviani and Srimindarti (2020) asserted that lack of awareness has the potential to reduce tax compliance and when the taxpayers become more aware, they are more likely to follow tax regulations.

#### *Trust in Government*

Trust in Government was used as the subjective norm component in the TPB framework. Subjective norm is commonly referred as “the perceived social pressure to perform or not to perform the behaviour” (Ajzen, 1991, p. 188).

Unconditional trust is rare as it is provided to certain individuals and organizations for a given matter across a time frame (Birkyt, 2014). When it comes to tax compliance, taxpayers are aware of their exchange relationship with the government. Torgler (2003) also stated that if the government takes positive actions, taxpayers would establish good views and dedication towards the tax system and tax payment, resulting in increased compliance behaviour. On the contrary, taxpayers' mistrust of government may give a rationale for avoidance (Jimenez and Iyer, 2016).

### *Tax Socialization*

Socialization taxation is an attempt by the Director General of Taxation to provide information, understanding, and guidance to the public, especially taxpayers about taxation and laws (Savitri and Musfialdy, 2016). Wardani and Wati (2022) stated that one of the factors that need to be considered in increasing tax compliance is by disseminating tax regulations through counselling, moral appeal, billboards, and opening tax regulation sites that can be accessed at any time by taxpayers. Gunadi (2010) also asserted that tax socialization is required to expand the number of taxpayers and can lead to increased taxpayer compliance, resulting in increased tax income.

## **METHODOLOGY**

The research is grounded in established theory and adheres to the positivism and empiricism paradigm. It employs primary data to quantitatively investigate four research hypotheses, utilizing a survey method for data collection. To ensure content validity, the questionnaire underwent a pretest with the assistance of language and accounting experts. A pilot test was also conducted to confirm the reliability of the questionnaire instrument. Data were gathered through face-to-face surveys and purposive sampling methods, targeting fifth form secondary

school students. A total of 110 responses were collected. The study focuses on the intention to pursue a career as a professional accountant as the dependent variable, with attitude, influence of parents, influence of family and friends, and perceived behavioral control as independent variables. The analysis commences with descriptive analysis to characterize the respondents, followed by model assessment, correlation ratio measurement, and hypothesis testing results.

## **FINDINGS AND DISCUSSIONS**

Based on the interview conducted, the findings are compressed in order to find summary key words and phrases, without losing its meaning and retaining the interviewees' responses intact as presented in the following Table 1:

**Table 1** shows the summary of taxpayers' view on the tax compliance in gig economy

Respondent No	Perception	Variable
RES 1	'Most people that I know are not aware of this.'	Taxpayer Awareness
RES 3	"During this pandemic, so many people are involved in the gig economy to earn extra bucks...unless it's mandatory I don't think anyone will declare because it's their hard earned money"	
RES 9	"interesting...what's the threshold to be reported? Because if the amount is small, people usually will ignore"	
RES 4	"Clearer tax rules would help gig workers like me pay our taxes correctly"	Trust in Government
RES 7	"Transparency in how tax money is used builds trust"	
RES 5	"Tax compliance incentives, like service discounts, could motivate us"	

Respondent No	Perception	Variable
RES 2	"I don't think anyone knows how to even declare this... I remember there this one time I tried looking it up, but I can't find it"	Tax Socialization
RES 6	"We've not been taught on this... we don't even know where to start"	
RES 8	"This is new development... most exposure is needed to comply it correctly"	
RES 10	"I think probably most people would have tried to avoid tax if they know they can get away with it since there's no guidelines"	

According to the findings of the research, participants are often unclear of their tax status and plainly demonstrate a lack of grasp of compliance requirements. According to Razmerita, Kirchner, and Nielsen (2016), various factors impact a person's tax information, including education, media, and information exposure. Frequent changes in tax legislation make it much more difficult for taxpayers to keep up (Loo, 2010). The purpose of socialisation activities is to promote awareness of the importance of taxes as well as to attract new taxpayers. Witono (2016) noted that one of the things that should be addressed in enhancing tax compliance is

communicating tax rules through counselling, moral appeal, billboard media, billboards, and creating tax regulation sites.

## CONCLUSIONS

The first objective of this study was to identify the taxpayers' view on tax compliance in the gig economy. The findings suggested that there is lack of tax awareness that taxes should be paid. This study reveals that there is a perception that transactions from gig economy activities are private and not subject to tax, failing to understand the importance of paying tax. Tax awareness is needed by the individual taxpayers to effectively comply with their tax obligations in the gig economy. They also need to be aware of this obligations in order to make informed decisions (Wassermann and Bornman, 2020). The second objective is to identify the measures that government can implement to enhance trust and tax compliance among gig economy workers. Taxpayers indicated that they are more motivated to comply with the tax if tax administration procedures and incentives are clearly conveyed to them. Transparency is also said to be vital to ensure the efficacy of local gig taxpayers.

The third objective of this study is to identify the practical ways of updating with current tax updates. The findings showed that due to insufficient update on current tax information, taxpayers are uncertain on how the transactions need to be reported. To sum up, tax authorities will need to devise appropriate strategies to disseminate current tax information to the taxpayers to foster tax compliance, promote positive taxpayer's attitude towards taxation and consequently increase tax yield through voluntary compliance (Savitri, 2015).



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