

External Tax Professionals' Views on Compliance Behaviour of Corporation

Noor Sharoja Sapiei^{1*}, Jeyapalan Kasipillai²

¹Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, 50603, Malaysia

²School of Business, Monash University Sunway Campus, Bandar Sunway, 46150, Malaysia

Abstract Most corporation employed external tax professionals (ETP) to handle tax matters on their behalf. ETP with their superior knowledge and expertise may have the ability to influence their clients' compliance behaviour. Regardless of the expanding role of ETP in tax reporting process, very little research has been directed at examining their perceptions. This study, therefore, investigates the compliance behaviour of corporate taxpayers from the views of ETP. Perceived tax complexity and tax psychological cost had the greatest impact in influencing the non-compliance behaviour of corporate taxpayers, in terms of under-reporting of income, over-claiming of expenses and overall non-compliance. It is believed that the findings of this study have made contribution to the relevant body of knowledge, as well as to the tax policy makers in devising measures to enhance voluntary compliance of corporation, particularly in the emerging economies. Future tax initiatives should incorporate research findings and suggestions made in this study and existing studies as well as experiences from other tax regimes both in the advanced and emerging economies.

Keywords Tax Compliance Behaviour, External Tax Professionals, Corporate Taxpayers

1. Introduction

Generally, a large proportion of companies, especially the Public Listed Companies (PLCs) do not have an in-house tax compliance department but instead outsource all their tax activities[1],[2]. Thus, additional valuable information obtained through surveys of ETP provided corroborative evidence to the studies utilising corporate taxpayers' survey (see for example[3]). There is an important trend in the literature of tax compliance study towards utilising a separate survey on ETP who handle tax affairs of corporate taxpayers (see[2],[4],[5]). This study investigates the taxpayer compliance behaviour of corporate taxpayers from the perspective of ETP.

2. Literature Review

Tax compliance is defined as the accurate reporting of income and claiming of expenses in accordance with the stipulated tax laws[6]. Thus, the failure of corporations to report or pay corporate income tax (CIT) is considered as corporate tax non-compliance[7]. There are two main approaches to tax compliance, namely the economic and behavioural approaches[8].

The economic approach is based on the concept of economic rationality while the behavioural approach applies concepts from disciplines such as psychology and sociology.

The basic theoretical model applied in the economic approach is built upon the work of Becker in 1968 as in[9], who analysed criminal behaviour using an economic framework known as economics-of-crime model. It was first employed in the context of tax compliance study by Allingham and Sadmo in 1972. The model is based on an expected utility theory and a deterrence theory.

The expected utility theory views taxpayers as perfectly amoral utility-maximisers, who choose to evade taxes whenever the expected gain exceeds the cost of evasion[10]. The deterrence theory is concerned with the effects of sanctions and sanction threats[11]. Within this framework, the tax rate, detection probability and penalty structure, determine the monetary costs of compliance, which determine taxpayers' compliance behaviour[12]. This framework is termed as financial self-interest model and it has become a prominent approach in investigating taxpayer compliance behaviour (see[13],[14],[15]).

Behavioural approach, by contrast, assumes that individuals are not simply independent, selfish utility maximisers, but they interact according to differing attitudes, beliefs, norms and roles[16]. The behavioural perspective incorporates sociological and psychological factors, such as age, gender, ethnicity, education, culture, institutional influence, peer influence, ethics and tax morale, as factors that may affect compliance behaviour of taxpayers.

Reference[12] expanded the financial self-interest model

* Corresponding author:

noorsharoja@um.edu.my (Noor Sharoja Sapiei)

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by incorporating the economic, sociological and psychological variables (Figure 1).

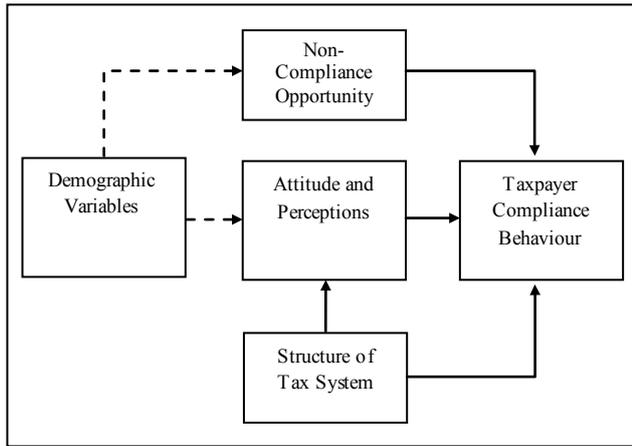


Figure 1. Expanded Model of Taxpayer Compliance[12]

Both economic and behavioural approaches have contributed to the understanding of tax compliance behaviour and could be used to supplement each other. According to [17], a study designed on a blend of both the approaches seems most appropriate as no one approach is likely to be totally effective in explaining compliance behaviour of taxpayers. In addition, understanding taxpayer behaviour is one that continues to be both complex and challenging, that emanates from a variety of disciplines, including economics, psychology and sociology [18].

A review of the extensive literatures on factors affecting individual tax compliance behaviour indicates three main categories, namely, demographic, economic and behavioural determinants. The ‘demographic’ determinants include age, gender, education and occupation; the ‘economic’ determinants include income level, income source, tax rates, sanctions; and the ‘behavioural’ determinants include complexity, fairness, revenue authority contact, peer influence and ethics [19].

Empirical literature on tax compliance has mainly been concerned with individual taxpayers; while the analysis of corporate tax compliance, has on the contrary, been rather neglected. According to [20], despite the evidence that corporations have accounted for an increasingly large portion of total tax evasion, this has not attracted scholarly analysis, as compared to the individual taxpayers. He suggested a possible explanation for such a lack of research, is due to the difficulty in capturing analytically the non-compliance decisions of corporate taxpayers.

All of the studies on tax compliance of corporate taxpayers summarised in Table 1, except for [4], utilised government reported data and were conducted in the US. Reference [20] and [21] utilised the TCMP data, while the work of [15] and [22] was based on the annual report of IRS reported data.

Tax non-compliance of these US studies was either

measured through the undeclared amount of corporate net income [20][21] or the tax deficiencies proposed by the IRS upon audit [15],[22].

The use of government reported data to examine the determinants of evasion, was however subjected to data limitation due to the confidentiality requirements surrounding taxpayers’ returns [23] and the restricted access to compliance micro-data in protecting the confidentiality of IRS audit selection criteria [22].

Despite some shortcomings, findings from these limited prior studies provided some evidence on the determinants of corporate taxpayers’ compliance behaviour. Some of the main determinants are corporate characteristics (such as firm size, industry sector, multi-nationality and being publicly traded); and economic determinants (such as marginal tax rates, audit rate and penalty rate) which influenced non-compliance behaviour.

Table 1. Main Finding of Corporate Tax Compliance Studies

Reference	Tax Compliance Behaviour of Corporations
[20]	Compliance is positively associated with public disclosure and profit performance but negatively associated with marginal tax rate.
[22]	Audit act as a deterrent to corporate non-compliance but increasing penalties and lowering marginal tax rate would not necessarily enhance compliance.
[21]	Marginal tax rates, audit rate, firm size and income level influences non-compliance behaviour.
[15]	Corporate characteristics determine corporate compliance behaviour such as size and industry.
[4]	Perceptions on tax complexity and probability of tax audit significantly influenced compliance behaviour.

Source:[33]

Given the limitation and confidentiality in utilising the government reported data, [4] examined tax compliance behaviour of corporate SMEs in Malaysia using survey method and adopting hypothetical tax scenarios to measure tax compliance behaviour. He concluded that tax complexity and probability of tax audit significantly influenced non-compliance behaviour; while business size, tax level, compliance costs, tax fairness and IRB relationship did not. He also found inconclusive findings on the impact of business length, sector, tax rate and incentives on the compliance behaviour of corporate SMEs.

There are propositions in the literature that compliance behaviour of taxpayers was also influenced by their attitudes and perceptions ([24],[25],[26],[27]). These propositions are grouped into tax attitudinal aspects variables which consist of perceptions on tax law complexity, fairness in the tax rate structure, tax deterrence sanctions, tax law fairness and tax psychological costs.

Based on the research gaps identified from the literature of tax compliance behaviour, the research model of this study was developed (Figure 2).

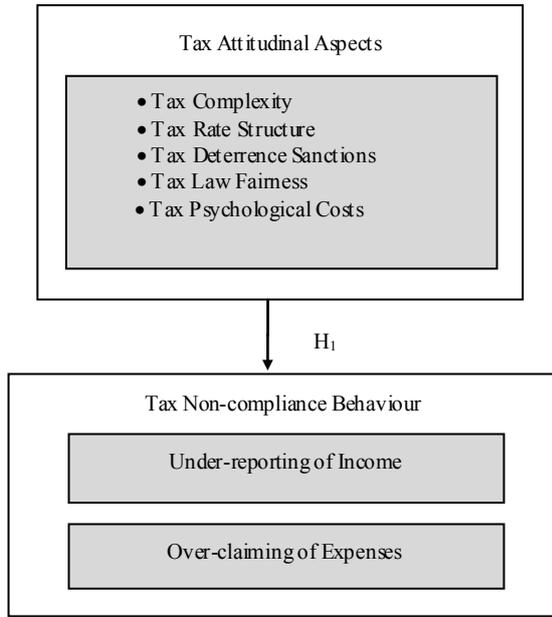


Figure 2. Research Model of this Study

Table 2. Variables and Sources of Reference

Variables	Description	Sources
Tax Attitudinal Aspects	<ul style="list-style-type: none"> • Tax Complexity - perception on the presence of complexity in the tax system. • Tax Rate Structure - perception on the fairness in the corporate tax structure. • Tax Deterrence Sanctions - perception on the chances of a company being audited; discrepancy being identified during compulsory tax audit and severity of penalty. • Tax Law Fairness - perceptions on fairness of the corporate tax system. • Tax Psychological Costs - perceptions on the level of stress and anxiety caused by the income tax system. 	<ul style="list-style-type: none"> •[4] •[27] •[30]
Tax Compliance Behaviours	Measured by responses gathered from hypothetical tax scenarios about under-reporting of income and over-claiming of expenses.	•[31]

3. Research Method

3.1. Research Sampling Design

The ETP sample was drawn from the list of tax agents from the IRB's website. As this study requires responses on tax fees incurred by PLCs, externals tax professionals who are attached to or have been attached to accounting firms with large companies as their tax clients, were deliberately selected.

According to [28], a sample may be purposively selected based upon its ability to address the questions being asked in a study. Purposive sampling enables researchers to apply their own judgement to identify cases that will best enable them to meet their research objectives [29]. By utilising purposive sampling, a total of 200 ETP from the tax agents list of the IRB's website were identified for this study.

3.3. Research Instruments

Questionnaire items related to ETP' services which were developed by these authors were adopted for this study (see [2],[4],[5]). The ETP' questionnaire for this study consisted of two parts, referred to as Parts A and B. Part A of the questionnaire consisted of seven questions on the demographic information of ETP. Part B elicited information on perceptions towards a number of tax attitudinal aspects and compliance behaviour of corporate taxpayers, from the perspective of ETP.

3.2. Measurement of Variables

The measurement of variables utilised in this study was based on the established sources (Table 2). Respondents were requested to indicate their agreement or disagreement with each statement using a six-point Likert scale.

3.4. Data Collection

Data collection for this study comprised of two sequential steps; a pre-testing and final survey implementation. The ETP as the prospective respondents and academic researchers were chosen to ensure the understandability and applicability of the survey questions. The final drafts of the questionnaires were distributed to 20 ETP training during students' industrial training visits and five academic staff from Malaysian public universities.

Overall, positive responses were received especially regarding the understandability of questions, the format of questionnaire and the applicability of the terms used. Nevertheless, there were a few valuable suggestions for ease of response such as highlighting of key terms and rewording of questions. As the aim of conducting pre-test in this study was to examine the suitability and appropriateness of the survey instruments, no further detailed analysis was conducted.

Final data collection for this study utilised a self-administered questionnaire survey method. This method of data collection was employed as a measure to obtain more reliable survey responses and a higher response rate [32], thus improving the validity of this study. Questionnaires can be personally distributed which provides the opportunity for researchers to emphasise verbally on the importance of the study and the appreciation for the individuals' collaboration. When required, the researchers may cautiously provide some clarifications and/or examples with respect to certain difficult, sensitive or important questions.

4. Data Analysis

Survey data were mainly analysed using the Predictive Analytics Software (PASW) for Windows (Release 19).

4.1. Response Rate and Sample Demographic

The ETP sample was gathered from the list of tax agents available at the IRB’s website. Forty-nine (49) respondents out of 200 ETP approached, completed the self-administered survey, furnishing a response rate of 24.5 percent. All completed questionnaires were examined for accuracy of data and missing values prior to data entry. Follow-up calls and e-mails were made to address missing items and to clarify matters of possible incorrect responses. Table 3 provides the demographic profile of external tax professional involved in this study.

Table 3. Demographic Profile of ETP

	No.	%
Practice:		
• Big-four Accounting Firm	24	49.0
• Non big-four firm/Tax Firm	25	51.0
Position:		
• Partner	31	63.3
• Manager	10	20.4
• Senior/Junior	8	16.3
Membership: ^a		
• MIA	33	67.4
• CTIM	22	44.9
• Others	21	42.9
Tax Experience:		
• Less than 10 years	7	14.3
• 10 to 20 years	17	34.7
• More than 20 years	25	51.0

^a Add up to more than 100% as some ETP have more than one membership

4.2. Descriptive Analysis of the Tax Clients

In order to comprehend the background information of respondents’ corporate tax clients of this study, descriptive analyses was conducted (Table 4). On average 21 percent of ETP’s corporate tax clients were large companies and the remaining were SMEs (79 percent). The minimum percentage of large companies’ clientele was five percent and a maximum of 70 percent.

Focusing on large companies, tax professionals were requested to provide information on their clients’ business sector and sales turnover. The highest mean percentage of large tax clients’ business sector was services (35.2 percent), followed by manufacturing (26.7 percent), property and construction (20.9 percent) and others (17.2 percent). Other business sectors included trading, plantation, agriculture, finance and banking.

With regards to size of large corporate tax clients, the mean percentage was 46.3 percent for annual sales turnover level of less than MYR100 million, 35.1 percent for annual sales turnover of between MYR100 million and MYR500 million, followed by 18.6 percent for annual sales turnover of more than MYR500 million.

There were almost an equal percentage of respondents practicing in the big-four accounting firms (49 percent) and non-big four accounting or tax firms (51 percent). A large

majority of respondents’ position in these firms were partners (63.3 percent), followed by managers (20.4 percent) and senior/junior staff (16.3 percent).

Nearly all of the respondents were members of at least one of the accounting or tax professional bodies, either locally or internationally. More than 67 percent of the ETP surveyed were members of the Malaysian Institute of Accountants (MIA), and almost 45 percent were registered with the Chartered Tax Institute of Malaysia (CTIM). Other professional bodies included the Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants in England and Wales (ICAEW) and CPA Australia (42.9 percent).

In terms of tax experience, 51 percent have more than 20 years of professional experience, 34.7 percent have experience of between five to 10 years and only 14.3 percent have less than 10 years of professional exposure. Thus, it can be concluded that the survey data was obtained from the ETP with appropriate position, knowledge and experience in handling tax matters of their respective corporate tax clients.

Table 4. Descriptive Analysis of Companies Tax Clients

	Mean	Min.	Max.
Types of Companies (%):			
• Large Companies	21	5	70
• SMEs	79	30	95
Business Sector (%):			
• Manufacturing	26.7	0	90
• Services	35.2	0	100
• Property & Construction	20.9	0	63
• Others	17.2	0	35
Sales Turnover (Million):			
• Less than MYR100	46.3	10	100
• MYR100 to MYR500	35.1	0	80
• More than MYR500	18.6	0	60

4.3. Taxpayers Attitudes and Behaviour

ETP were requested to indicate their perceptions towards tax attitudinal aspects and behaviour of their corporate tax clients. Table 5 presents the mean scores of each tax attitudinal aspect gathered from the perspective of ETP. Tax psychological costs perceptions obtained the highest mean score of 4.81. This demonstrated that corporate taxpayers were facing anxiety and stress in dealing with tax requirements as perceived by the ETP. Tax deterrence sanctions perceptions’ mean scores of 3.68 indicated that ETP’ perception towards the audit likelihood, deterrence likelihood and penalty severity, was marginally high. This is followed by a mean score of 3.60 for tax fairness perceptions suggesting that the corporate tax system was regarded as being relatively fair. Finally, the mean scores of 3.39 and 3.17 for tax rate structure and tax complexity, respectively, showed that tax professionals’ perception toward these tax aspects were only marginally high and moving towards indifferent perceptions.

Table 5. ETP Views on Tax Attitudes and Non-Compliance Behaviour

	Mean	Median	Std. Deviation
Attitudinal Aspect			
Complexity	3.17	3.00	0.88
Rate Structure	3.39	3.33	1.01
Deterrence Sanctions	3.68	4.00	0.64
Law Fairness	3.60	4.00	0.82
Psychological Costs	4.81	5.00	1.20
Non-compliance Behaviour			
URI	2.14	1.00	1.53
OCE	2.51	2.00	1.65
ONC	2.33	2.00	1.45

Table 5 also provides the ETP view towards non-compliance behaviour of their tax clients, in relation to under-reporting of income (URI), over-claiming of expenses (OCE) and overall non-compliance (ONC). The lower level of scores indicated that ETP consider their clients as compliant taxpayers and vice-versa. Mean scores of between 2.14 to 2.51 for all types of non-compliance behaviour suggested that tax professionals acknowledge their tax clients as compliant taxpayers.

4.4. Correlation Analysis

The relationship between tax compliance costs, attitudinal aspects and the likely non-compliance behaviour were further analysed by way of correlation analysis (Table 6).

Table 6. Correlation Analysis

Variables	URI	OCE	ONC
Tax Compliance Costs	+ 0.094	+ 0.090	+ 0.100
Tax Complexity	+ 0.531***	+ 0.453***	+ 0.537***
Tax Rate Structure	+ 0.352**	+ 0.183	+ 0.289**
Tax Deterrence Sanctions	- 0.060	+ 0.041	- 0.008
Tax Law Fairness	+ 0.419***	+ 0.468***	+ 0.487***
Tax Psychological Costs	+ 0.317**	+ 0.288**	+ 0.330**

(+) or (-) signs denote a direct or indirect relationship, respectively.
 *** Significant at the 0.01 level ** Significant at the 0.05 level (2-tailed).

Complexity of the tax system was positively correlated with all types of non-compliance, increased with an increase in tax complexity. The values of correlation coefficients were medium to large and significant relationships were consistently found. Similarly, in relation to tax law fairness, a positive association was observed between the perception on fairness in the tax system and all types of non-compliance. A better perceived fairness in the tax system would result in a lower likelihood of reduction in taxpayer non-compliance. The strengths of correlations were moderate and significant relationships were consistently found in all the three correlation analyses.

Likewise, the analysis undertaken discovered positive correlations between tax psychological costs and all types of non-compliance. The increases in psychological costs were correlated with increases in the possibility of non-compliance. There were also significant relationships but the correlation coefficients of between 0.288 and 0.330 suggested weak correlations. Perceptions on tax rate

structure and tax deterrence sanctions, exhibited very weak correlations with non-compliance behaviour coupled with insignificant findings. Tax compliance costs were positively correlated with all types of non-compliance, increased with an increase in tax compliance costs. Positive associations indicated that an increase in compliance costs would possibly lead to greater non-compliance behaviours among taxpayers, although the associations between these variables were very weak (0.090 - 0.100) with insignificant findings.

4.5. Multiple Regression Analysis

All the three regression analyses undertaken for URI, OCE and ONC were statistically significant at the one percent level (Table 7)¹.

Table 7. Results of Multiple Regressions

Results	URI	OCE	ONC
R ²	0.499	0.404	0.520
Adjusted R ²	0.424	0.315	0.448
Std. Error	1.166	1.380	1.086
F-value	6.633	4.519	7.225
P-value	0.000***	0.001***	0.000***
Complexity	0.832 (3.749)***	0.709 (2.699)**	0.770 (3.727)***
Rate	0.257 (1.364)	-0.053 (-0.237)	0.102 (0.581)
Sanctions	-0.261 (-1.055)	-0.031 (-0.105)	-0.115 (-0.500)
Fairness	0.311 (1.350)	0.615 (2.251)**	0.463 (2.154)*
Psychology	0.413 (2.420)**	0.459 (2.270)*	0.436 (2.741)**

Number of respondents equal 49, t value is given in parenthesis.
 Significant at the 0.01 level***, 0.05 level** and 0.10 level* (2-tailed).

Pertaining to URI, the predictor variables accounted for almost 50 percent of the variability in the non-compliance behaviour of corporate taxpayers (F=6.633, p<0.00). Regarding OCE, the predictor variables explained around 40 percent of non-compliance behaviour (F=4.519, p<0.01). Similarly, with regards to ONC, the independent variables explained almost 52 percent of the variability in the non-compliance behaviour of corporate taxpayers (F=7.225, p<0.00). Perceptions on tax complexity and tax psychological costs were statistically significant for all types of non-compliance behaviour. Fairness in the CIT law was a significant determinant to OCE and ONC behaviour. The detailed result of multiple regressions for corporate taxpayers' compliance behaviour analysis from the perspective of ETP is presented.

The research findings are discussed in relation to five hypotheses developed for this study. Within the three regression analyses performed, the findings indicated that tax complexity, tax law fairness and tax psychological costs had a significant relationship with the likely tax non-compliance behaviour in at least one type of non-compliance. Tax complexity and tax psychological cost was found to have a significant relationship with tax

¹ Assessment on appropriateness of regression models found that all four assumptions underlying regression analysis, namely normality, linearity, homoscedasticity and multicollinearity assumptions were not violated

non-compliance behaviour for all types of non-compliance. The possibility of URI, OCE and the ONC increased with higher perceptions of tax complexity and psychological costs in the tax system. Thus, Hypothesis 1a and 1e are well supported.

Hypothesis 1d predicted that there is a relationship between perception of fairness in the tax system and tax non-compliance behaviour. In this study, perception of fairness had a significant relationship with over-claiming of expenses and overall non-compliance, thus Hypothesis 1d is supported. Hypothesis 1b on perceived fairness in the tax rate structure and Hypothesis 1c on tax deterrence sanctions are however not supported.

Table 8 presents a summary of the evaluation of research hypotheses formulated to identify the determinants of tax compliance behaviour for this study.

Table 8. Summary of Hypotheses Evaluation

Hypotheses	Statement	Outcome	Regression
H _{1a} :	There is a relationship between perceived tax complexity and non-compliance of corporate taxpayers.	Supported	URI OCE ONC
H _{1b} :	There is a relationship between perceived fairness in the tax rate structure and non-compliance of corporate taxpayers.	Not Supported	-
H _{1c} :	There is a relationship between perceived tax deterrence sanctions and non-compliance of corporate taxpayers.	Not Supported	-
H _{1d} :	There is a relationship between perceived fairness of the tax system and non-compliance of corporate taxpayers.	Supported	OCE ONC
H _{1e} :	There is a relationship between perceived level of psychological costs and non-compliance of corporate taxpayers.	Supported	URI OCE ONC

5. Conclusions

5.1. Contributions of this Study

The findings of this study may advance the existing knowledge in terms of research and practical contributions. First, this study contributes to the tax literature by providing evidence utilising ETP’s survey data. The empirical enquiries on ETP provide distinct advancement to the tax compliance behaviour area of research. Second, in terms of methodology employed, a major contribution of this study hinges on the approaches in the data collection process. As opposed to most studies in this area, which commonly engage postal surveys for data collection, this study used self-administered questionnaires. Third, with respect to the research findings, this study makes several contributions to the body of knowledge especially when one takes into consideration the very limited tax studies in the emerging economies.

Practically, the findings arising from this study provide

valuable information on external CIT compliance behaviour, which are very beneficial for policy makers in the area of taxation, as well as to the taxation profession and the management of companies. This study contributes to the aim of providing information in order that policy decisions may be based on reliable data through robust research findings. Accordingly, the issue on compliance behaviour of corporate taxpayers will be fully acknowledged and eventually be considered as essential features for future tax policy decision-making.

5.2. Research Limitations

As a piece of research, this study is not without its limitations and many of them represent opportunities for future research.

First, with regards to sample size, this study obtained a usable response rate of 24.5 percent (49 responses) via ETP’s surveys. Comparatively, prior studies in the area of tax compliance behaviour also appear to have reported low response rates. Nevertheless, in order for the findings of this study to be more representative, a larger sample size would have been desirable.

Second, corporation tax attitudes and their compliance behaviour in this study were measured from the ETP perspectives; which might not necessarily represent the attitudes and behaviour of the PLCs being studied. Nevertheless, corporate tax computations and returns are mostly conducted and lodged by ETP on behalf of their corporate tax clients. As such, it should be acknowledged that the findings from a survey of ETP provided corroborative evidence for the corporate taxpayers’ survey findings.

5.3. Future Research Directions

Given the findings, contributions and limitations of this study, there are several avenues for future research directions. This study on tax compliance behaviour is based on self-administered questionnaire survey responses of ETP.

Future research should consider conducting in-depth interviews and/or experiments as research utilising these approaches can be a good complement to large-scale surveys as they are useful in providing a deeper understanding and explanation on the relationship between variables.

Likewise, future studies may consider the use of experimental method where non-compliance behaviour of taxpayers is measured through a controlled experiment[34].

Researchers may also consider employing IRB tax audit research data similar to studies of US corporations (see[20],[21]). These studies measured “actual” non-compliance by employing the IRS reported data, especially the TCMP. The use of government data, however, requires full cooperation from the IRB as the information is not publicly available due to data confidentiality.

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