Economic Constraint and Self-Tax Relief: Effects on Tax Compliance and Tax Evasion

(Kekangan Ekonomi dan Pelepasan Cukai Individu: Kesan Terhadap Pematuhan Cukai dan Pelarian Cukai)

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ABSTRACT

This paper investigates the impact of self-tax relief on tax compliance and tax evasion among individual taxpayers as well as the influence of economic constraints on these relationships. This study employs a survey methodology that specifically targets individual taxpayers in Malaysia. Leveraging on the theory of planned behaviour, the findings reveal that self-tax relief has a positive effect on tax compliance and a negative effect on tax evasion. The findings also reveal that economic constraint moderates the relationship between self-tax relief with tax compliance and tax evasion. This study makes significant contribution to the literature through addressing the role of economic factors in determining the behaviour of individual taxpayers. Despite ongoing discussions on how economic constraints influence tax compliance and tax evasion, empirical evidence remains limited. More specifically, this study addresses a research gap focusing on the impact of current economic constraints on the relationship between self-tax relief, tax compliance, and evasion. The study provides implications for policymakers on the need to account for economic factors and tax policy. It specifically suggests improvements in the tax structure such as continuous assessment of the value of self-tax relief that could encourage tax compliance and mitigate evasion.

Keywords: Self-tax relief; tax compliance; tax evasion; economic constraint; Malaysia

ABSTRAK

Kertas ini mengkaji kesan pelepasan cukai diri terhadap pematuhan cukai dan pelarian cukai dalam kalangan pembayar cukai individu serta pengaruh kekangan ekonomi terhadap hubungan tersebut. Kajian ini menggunakan kaedah tinjauan yang secara khusus mensasarkan pembayar cukai individu di Malaysia. Dengan menggunakan teori tingkah laku yang dirancang, penemuan kajian ini menunjukkan bahawa pelepasan cukai diri mempunyai kesan positif terhadap pematuhan cukai dan kesan negatif terhadap pelarian cukai. Penemuan kajian ini juga menunjukkan bahawa kekangan ekonomi bertindak sebagai moderator dalam hubungan antara pelepasan cukai diri dengan pematuhan cukai dan pelarian cukai. Kajian ini memberikan sumbangan yang signifikan kepada bidang penyelidikan dengan menekankan serta memenuhi jurang yang wujud tentang kepentingan faktor ekonomi dalam menentukan tingkah laku pembayar cukai individu. Walaupun terdapat perbincangan berterusan mengenai bagaimana kekangan ekonomi mempengaruhi pematuhan cukai dan pelarian cukai, topik ini masih belum dibuktikan. Secara khususnya, kajian ini menangani jurang ketara dalam penyelidikan lepas mengenai pengaruh kekangan ekonomi semasa terhadap hubungan antara pelepasan cukai diri dengan pematuhan cukai dan pelarian cukai. Penemuan ini memberikan implikasi kepada kerajaan sebagai pembuat dasar cukai untuk memberi tumpuan kepada faktor-faktor ekonomi ini serta mencadangkan penambahbaikan yang diperlukan dalam struktur cukai seperti penilaian berterusan terhadap nilai pelepasan cukai diri yang diberikan untuk menggalakkan pematuhan cukai dan mengurangkan pelarian cukai.

Kata kunci: Pelepasan cukai diri; pematuhan cukai; pelarian cukai; kekangan ekonomi; Malaysia

INTRODUCTION

In April 2022, the World Bank provided an overview of Malaysia's current economic conditions. According to the report, Malaysia's economy has experienced significant growth since 2010, despite withstanding the severe Asian financial crisis from 1997 to 1998. It was initially projected that Malaysia would undergo the transition to a high-income economy by 2024 (Zainul 2021). Unfortunately, Malaysia's economy suffered greatly as a result of the COVID-19 outbreak, particularly affecting vulnerable households. This has led to a revision of the national

poverty level, which indicates that 5.6% of Malaysian households now live in extreme poverty (The World Bank 2022). In addition, Bank Negara Malaysia reported that the Malaysian economy has contracted by 4.5% in the third quarter of 2021, with the headline inflation average between 2.2% and 3.2% in 2022, amid higher core inflation (Bank Negara Malaysia 2021).

The term 'cost of living' pertains to the total expenditure by households that contribute to their general standard of living, including financial obligations such as loans for houses and vehicles. This is measured according to the Consumer Price Index (CPI) inflation, which tracks price fluctuations in a predetermined selection of goods and services that represent the typical household spending patterns. The calculation of CPI inflation also incorporates the household's income. According to Bank Negara Malaysia (2021), Malaysian households endure not only the pressure of rising living expenses but also the erosion of their purchasing power when their income fails to keep up with inflation. Governmental action is necessary to address and mitigate the nation's economic predicament. One potential solution is the introduction of tax relief measures, which is the main focus of the current study.

Tax relief is a significant feature of Malaysian tax policy since it enables eligible taxpayers to reduce their taxable income, thereby reducing their overall tax liability. It refers to measures implemented by governments to reduce the tax liabilities of individuals or corporations, often aimed at encouraging specific economic activities or assisting certain groups (OECD 2005; James & Nobes 2020; Evans 2008). In Malaysia, such relief can come in various forms, such as deductions, rebates, or exemptions, and is designed to lower the total payable tax. This provision lessened the burden placed on taxpayers. Individual taxpayers are entitled to claim a variety of tax reliefs when they file their tax returns for the relevant assessment year. Furthermore, they may also benefit from various tax refunds, deductions, and exemptions that further reduce their overall tax liability. However, these claims are subject to specific limitations and must be substantiated by appropriate documentation.

Malaysian resident taxpayers are entitled to several tax benefits, such as relief for individual and dependent relatives, medical expenses, employee provident funds, life insurance, medical insurance, and education tuition fees, among others. For these reliefs, the government has set a predefined value. One example is the "Lifestyle Tax Relief" provided by the Inland Revenue Board of Malaysia (LHDN) for up to a maximum of RM2,500, through tax deductions for specific expenditures, aimed at encouraging healthier and more balanced lifestyles. This relief covers expenditures on books, journals, and magazines for knowledge enrichment, purchases of personal computers, smartphones, or tablets (limited to one unit each), sports equipment (excluding motorized vehicles), internet subscription fees, and gym membership fees.

In recent years, there have been amendments and additions to tax reliefs, particularly during the pandemic. For example, tax relief in the country increased from RM8,000 in 2004 to RM9,000 in 2010, in the likely response to economic transformations and fluctuations in market prices. Even though the increase in some tax reliefs, such as those for medical and employee provident funds effective in 2020, to reflect the declining economic stability caused by the pandemic, the principal tax relief for individuals and dependents has remained at RM9,000 since 2010. It has continued to be stable despite impacts on individual income and purchasing power in recent years.

In comparison, Indonesia has carefully examined economic swings and responded with several tax policy adjustments, focusing particularly on the personal tax relief that has seen consistent increases. For example, the principal tax relief in the year 2015 was valued at Rp24,300,000 and this has since increased twofold to Rp54,000,000 (Deloitte, n.d; PwC Indonesia 2016; DJP 2023). In contrast, Malaysia has maintained the individual self-tax relief amount of RM9,000, which was determined in 2010 based on a simulated monthly basic cost of living which remained at RM750[1]. This amount has persisted despite the significant changes and developments in the economic landscape that taxpayers have encountered over the past decade.

In Malaysia, the revenue collected from taxes, including both direct and indirect taxes, accounted for approximately 54.1% of the country's total revenue in the fiscal year 2021 (Ministry of Finance Malaysia 2021), with individual taxes making up the second-largest component of all direct tax income. In 2019, Malaysian tax authorities lost around RM2,000 million in tax revenue, with two million current taxpayers and over 80,000 potential taxpayers who required tax registration (Noor Azmi et al. 2020). Furthermore, it was reported that Malaysia recorded only 1.3 million individual taxpayers out of a total population exceeding 33.5 million (Alan Chung 2023). This situation presents a significant concern to the government, since both tax compliance and tax evasion affect tax collection (Khlif 2016). Tax compliance refers to the extent to which taxpayers abide by tax laws, regulations, and obligations, including the accurate reporting of income, the calculation of tax liabilities, and the timely payment of taxes (James & Alley 2004; Kirchler 2007). Conversely, tax evasion refers to illegal activities undertaken by individuals or corporations to deliberately avoid paying taxes through underreporting income, inflating deductions, or concealing transactions (Slemrod 2007; Allingham & Sandmo 1972).

Enhancing tax compliance is crucial to improving the country's tax system. However, to achieve this proves to be highly challenging for developed or developing countries. This constraint could be due to the existence of hard-to-tax groups, who intentionally evade tax payments or under-declare their income (McGee 2009). Tax evasion has increased over the years as taxpayers exploit every opportunity to reduce their tax liabilities (Saad 2012). For instance, in Malaysia, a significant number of high-income individuals were found to be involved in

tax malfeasance through tax audits conducted by LHDN (Saad et al.2021). This issue is highly relevant to individual taxpayers in relation to tax relief claims when assessing their income tax. Past research has proven that tax relief affects tax collection (Rodhiyah 2018). Therefore, it is equally significant to structure a good tax system that equitably balances the interests of taxpayers and those of the government. More specifically, the individual taxpayers benefit from self-tax relief, while the interest of the government is focused on promoting tax compliance and tax evasion. Therefore, we argue that self-tax relief is relevant to tax compliance and tax evasion. This study thus aims to address the question: how does self-tax relief impact tax compliance and tax evasion?

Past studies have established tax relief as a determinant that affects dependent variables, namely tax compliance and tax evasion (Palil 2021). However, past discussions have mainly examined tax relief in general, without focusing on specific types of such tax. In addition, prior studies have identified various factors that may contribute to tax compliance, including economic, institutional, social, and individual elements. Factors such as unexpected events, like the pandemic and financial constraints of the taxpayers can influence the level of honesty and timeliness in tax reporting, leading to inadequate adherence to tax laws. Subsequently, it triggers tax evasion driven by a "thirst for gain" where individuals prioritise their personal interests over general interests and tend to perceive taxes as an "injury" and not as legitimate contribution to public revenues. In consequence, the taxpayers tend to reduce their tax obligations through exploiting legal mechanisms, such as overclaiming tax reliefs or falsifying tax reliefs, to lower their tax liabilities. It is widely acknowledged that the root cause of tax evasion lies in the financial constraint that taxpayers experience, which prompts them to look for ways to reduce their tax burden, which can manifest as tax evasion (Vasile 2015).

Nevertheless, there is an apparent gap in past research regarding current economic constraints as a factor that influence the relationship between tax relief and tax compliance or tax evasion. An individual is required to prioritize for his basic needs, such as clothing, food and shelter, before addressing their tax obligations (Mohani 2001). Behavioural literature is consistent with this view and further suggests that an individual's financial circumstances, particularly concerning basic necessities and family obligations, greatly influence their decisions on the tax system (Mekonen 2015). The current study is unique in that it assesses the role of economic constraints and investigates the influence of self-tax relief on tax compliance and evasion. More specifically, this study seeks to answer the question: does economic constraint moderate the relationship between self-tax relief and tax compliance and tax evasion?

Employing a survey questionnaire approach, the current study reveals that individuals facing financial constraints are more likely to engage in tax non-compliant behaviours, such as overclaiming tax reliefs, to reduce tax liabilities. The findings also indicate that economic constraints encourage tax evasion, particularly as taxpayers perceive self-tax relief to be insufficient and may resort to illegitimate methods to reduce their tax obligations. The findings are in line with the Theory of Planned Behaviour, which posits that individual tax compliance decisions are influenced by both internal attitudes towards tax and external economic pressures. The theory explains how taxpayers' intention to comply with tax laws is influenced by perceptions of fairness, economic pressure, and perceived control. In practical terms, the findings suggest that the Malaysian government should reassess and update self-tax relief policies, since insufficient relief may lead to increased tax evasion and reduced voluntary compliance. These findings also contribute to the broader tax morale literature, emphasizing that continuous reassessment of tax structures and perceived fairness is necessary for enhancing compliance and reducing evasion.

LITERATURE REVIEW

TAX RELIEF

Tax relief generally refers to a government initiative designed to reduce the burden on individuals for distributional reasons, aimed at encouraging the taxpayer towards adopting specific behaviours beneficial to society (Poterba 2011). The determination of tax relief is generally based on prevailing economic conditions and the relevance of expenses incurred by the taxpayers, including individuals and companies, which vary significantly between countries. For instance, Singapore offers several conditional tax reliefs to individual taxpayers, including personal tax relief, parenthood tax relief, and tax savings for married couples, among others (IRAS 2023). In comparison, Indonesia offers more limited tax deductions for individuals in determining their taxable income, such as individual tax relief, spouse relief, and dependent relief. In Malaysia, resident taxpayers benefit from a variety of conditional tax reliefs aimed at reducing their tax burden and enhance social welfare. Although tax relief mechanisms can reduce taxable income, subsequently resulting in a decreased tax liability which may in turn shift a taxpayer into a lower tax bracket (Bradley 2018), these are however inadequately implemented, since they exert stronger impact on the supply-side rather than on consumer spending (Eisner 1969). Consequently, it may lead to heightened resistance towards government expenditure, potentially reducing private investment.

Frequent changes in tax relief policies, greatly increase the complexity of tax computations, as taxpayers may struggle to constantly adapt to evolving regulations. Frequent modifications require continuous adjustments to tax planning strategies, adding to the administrative burden on both individual taxpayers and businesses. This heightened complexity may result in unintentional errors, misinterpretations of tax rules, and delayed tax filings, all contributing to a greater likelihood of non-compliance. Past studies suggest that taxpayers often face difficulty navigating the frequent policy changes, particularly when tax relief provisions are not clearly communicated, often leading to confusion and potential under-reporting (Slemrod 2019). In consequence, this may inadvertently foster non-compliance, particularly among taxpayers with limited resources to manage the added complexities (Richardson & Sawyer 2021).

Tax rebates are expected to elicit significant responses in terms of increased expenditure, resulting to a reduction in government tax revenue. Furthermore, it is suggested that these rebates may be concentrated within a limited timeframe, specifically targeting the final phase of tax reduction. The efficacy of using provisional tax increases as a means of economic stabilisation is deemed inadequate due to potential misalignments in consumer responses. Therefore, implementing temporary tax reliefs is recommended, as these can yield substantial savings during the early phase, with subsequent progressive expenditure over time. In practical application, consumers tend to exhibit short-sightedness when discerning between permanent and temporary tax changes, including tax relief measures. The present analysis draws on the fundamental principles of household consumption, as outlined in the permanent income and life-cycle theories which provide a comprehensive framework for understanding the dynamics of household consumption patterns. Although temporary tax reliefs may reduce the tax burden for taxpayers, they often fail to significantly impact consumption levels.

From a broad perspective, tax policies may appear to create distinctions based on social class, gender, race, or ethnicity. In addition to this, it is important to note that tax provisions are often determined by a taxpayer's income level, which would suggest that tax policies should not target individuals based on socioeconomic differences. Nevertheless, tax policies may have unintended discriminatory effects by favouring certain groups while neglecting others. This can perpetuate existing inequalities and further widen economic disparities among taxpayers (Bradley 2018). For example, individuals with low incomes often face limited opportunities to fully benefit from higher-value tax reliefs. Tax reliefs specifically aimed at low-income earners have shown an upward trend since the 1970s (Howard 1997; IRS 2023). The imposition of limitations on tax reliefs should be carefully linked to the broader economic landscape (Miller & Blair 2009). In the early phase of tax relief implementation, it is essential to assess the comprehensive economic impact to ensure that various sectors align their operations with their production capacities. Through the use of a general equilibrium strategy, the market sector can effectively adjust and accommodate an appropriate level of capacity. This ensures an equilibrium between market demand and supply, which is crucial for maintaining economic stability.

Malaysia provides 21 categories of tax relief for individual taxpayers as of 2023, with a total maximum tax relief amounting to RM49,000 (LHDN 2023). These reliefs cover various areas including lifestyle, education, medical expenses and insurance premiums, among others. In comparison, Indonesia offers various tax deductions, such as personal exemptions and specific deductions for education, dependents, and insurance. The total tax relief is approximately IDR 54 million (around RM15,000) for individuals, with variations depending on personal circumstances (Deloitte 2023). On the other hand, the UK offers a wide range of tax reliefs. The Personal Allowance for 2023 to 2024 tax year is set at £12,570, which amounts to RM71,000. Additional reliefs are available for pensions, charitable donations, and investments (HMRC 2023). In contrast, Malaysia offers a moderate tax relief compared to Indonesia and the UK, with the latter providing more substantial allowances for individual taxpayers.

TAX COMPLIANCE

While an individual's compensations, earnings, and other forms of revenue are often subject to taxation, certain goods are however exempted. This may be attributed to the need for tax authorities to encourage certain reasonable behaviours (Payne 2018). Hence, adherence to tax regulations significantly contributes to the efficacy of tax collection. Various definitions and interpretations of "tax compliance" have been adopted in prior academic investigations. For example, Roth (1989) posited that tax compliance could be measured by the taxpayer's adherence to two key factors: timely submission of all necessary tax returns and correct declaration of tax liabilities in accordance with relevant tax statutes and regulations. A more comprehensive definition of tax compliance refers to taxpayers' propensity to meet their tax obligations (Palil 2011; Hashim et al. 2022). The prevailing perspective on tax compliance highlights the intended consequence of adhering to tax regulations, including achieving economic equilibrium (Andreoni 1998), benefiting from tax savings (Allingham 1972) and avoiding penalties (Spicer 1980). Tax compliance may be characterised by the extent to which taxpayers demonstrate a willingness to adhere to tax regulations, accurately report their income, claim appropriate deductions, relief, and rebates, and meet their tax obligations within the designated timeframe (Palil 2011).

A well-designed tax system is characterised by several key attributes, such as fairness, certainty, convenience, economy, and efficiency. The concept of fairness in an effective tax system ideally incorporates not only the income of taxpayers, but also their wealth and consumption levels. Accordingly, it is mandatory for every taxpayer in Malaysia who earns taxable income to realise their tax obligations to the government according to their true capacity to pay. As a fundamental principle, certainty reflects both taxpayer and government awareness of tax-related issues. Further, an effective tax system should prioritise the convenience of taxpayers while encouraging tax compliance. Such system ought to alleviate the financial burdens on taxpayers while facilitating the efficiency of the tax procedure. Kelman (1958), identified three distinct stages of compliance for the individual: compliance itself, identification and internalisation. This approach in social psychology emphasizes the attitudes, behaviours, and beliefs, that form behavioural responses. The phenomenon of behaviour, in this context, arises when a stimulus, defined as a need to elicit a response, is present. Therefore, individuals are likely to accept and comply with the tax system as a result of external pressures (Sritharan & Salawati 2019).

Policymakers face difficulties in formulating optimal measures to enhance tax compliance, determining the likelihood of tax evasion, and devising effective methods to encourage tax payment. The proverbial concept of "stick and carrot" remain relevant to how taxpayers perceive their tax obligations (Cowell 2004). Supriyono (2021) posits that the financial condition of a person significantly influences his decision regarding tax compliance. Taxpayers with limited financial resources deliberately choose to non-comply with the tax system. This finding aligns with Gottlieb's (2018) research, which revealed that individuals' financial circumstances significantly influence their decision to cooperate with the tax system, even in the absence of additional obstacles to tax payment. When considering the significance of meeting basic living expenses, taxpayers tend to prioritise in covering their living expenses rather than paying taxes (Mohani 2001). Numerous studies have shown a positive correlation between economic constraints and tax compliance. Furthermore, tax relief, sometimes referred to as a tax deduction, effectively serves to reduce tax liability of an individual taxpayer. These deductions may exert substantial impact on the compliance behaviour of individual taxpayers (Langham 2012).

TAX EVASION

Tax evasion commonly refers to the illegal and deliberate actions undertaken by taxpayers to reduce their legally mandated tax liabilities. Sikka (2013) defines tax evasion as a deliberate act of dishonesty that violates the established legal framework, often including the manipulation of tax deductions or the concealment of taxable income to reduce the taxpayer's overall tax obligations. Tax evasion may also be characterised as a strategic utilisation of legal loopholes and tax provision rules to decrease the actual amount of taxes owed by a taxpayer (Payne 2018). Tax evasion occurs when individuals intentionally provide inaccurate information to tax authorities to avoid paying the full amount of taxes due (Alm 2011). This can be achieved by methods such as underreporting earnings and revenue, overstating deductions, exemptions, or credits, or simply by neglecting to submit the required tax returns. Paetzold (2016) provides empirical evidence for the significant spill-over effect resulting from the misrepresentation of taxpayers' claims and the exaggeration of their approved tax allowances. Taxpayers may be classified into several categories depending on their behaviour. Some may appear as rational agents who seek to minimise their tax liability through assessing the advantages of tax evasion as against the financial consequences of penalties. Consequently, individuals understand the coercive power of the government, prompting them to assess the risk of engaging in tax evasion. Conversely, some taxpayers prioritise tax policies that provide them beneficial incentives, often referred to as "carrot" tax policies, in relation to their tax liability. These policies may foster greater taxpayer engagement and potentially cultivate confidence in the government's administration.

There exists substantial empirical support for the correlation between public trust in government and tax obligations, as shown by Levi (2000) and Scholz (1998). Taxpayers may engage in purposeful tax evasion through fabricating deduction claims and overstating tax reliefs to decrease their tax liability and use the benefits provided by the tax system (Palil 2016). Research findings indicate that the availability of tax deductions significantly motivates taxpayers to engage in tax evasion. Furthermore, individuals often face financial constraints due to their obligations, leading them to prioritise their debts over tax liabilities (Sritharan & Salawati 2019). Vogel (1974) highlights that an individual's economic standing impacts his decisions more strongly than other circumstances. Mohani (2001) proposes that individuals facing financial difficulties are inclined to engage in intentional tax evasion compared to those who can meet their tax obligations. The results of these investigations demonstrate a consistent pattern, indicating a strong correlation between financial constraints and tax evasion.

ECONOMIC CONSTRAINTS

Economic constraint, in relation to taxation, refers to the financial limitations faced by individuals that influence their spending, saving, and tax compliance behaviours. These constraints are often shaped by factors such as income level, inflation, employment status, and the cost of living (Mohani 2001). Individuals prioritize essential

needs such as food, shelter, and clothing, before considering tax obligations, especially during periods of economic hardship. High inflation, for instance, can erode purchasing power, leaving less disposable income available to meet tax liabilities (Joulfaian 2000). Additionally, economic constraints can affect perceptions of fairness within the tax system. If taxpayers feel that the tax burden does not account for their financial circumstances, their willingness to comply may decline (Alm & Torgler 2019). For this reason, governments often provide tax reliefs or adjustments to ease the pressure on low-income earners, thereby fostering compliance by mitigating the effects of economic hardship (Molero & Pujol 2019).

THEORETICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT

This study employs the theory of planned behaviour (TPB) as the underpinning conceptual basis, given its feasibility for explaining the relationships between the variables tested. Generally, the attitudes and actions of taxpayers, concerning tax compliance and tax evasion, may be categorized into two distinct perspectives: economic factors (Batrancea 2013) and non-economic factors (Alm et al. 2019; Molero & Pujol 2019). The economic factor perspective posits that the financial circumstances of a person might lead to distress, especially in fulfilling tax obligations. In contrast, Alm (2011) and Alabede (2011) have examined non-economic factors including behavioural, social, political, and psychological dimensions, suggesting that taxpayer behaviour relating to tax compliance and evasion is influenced by a combination of internal and external motivations. Ajzen (1991) introduced TPB, which posits that an individuals' conduct are influenced by their intentions. The theory assumes that tax compliance and evasion are influenced by both external and internal factors, such as financial status, tax allowances, and tax morale.

TPB (Ajzen 1991) posits that human intentions are influenced by three fundamental variables: personal factors, social factors, and factors related to control. Normative views include individuals' perceptions of the normative expectations held by others, as well as their willingness to conform to such expectations (referred to as normative beliefs and motivation to comply). This includes awareness and understanding of tax policy, particularly the provision of tax relief. Control beliefs pertain to the existence of elements that support or inhibit certain behaviours (control beliefs), such as tax penalties, tax rates and allowances, while perceptions reflect on how strongly these elements affect behaviour (perceived power). Barriers may occur from internal factors (fear, guilt, or shame) or from the environment (legal consequences). McBarnett's behavioural model posits that tax compliance may be classified into three categories: capitulated compliance, committed compliance, and innovative compliance (Alabede 2011). Conversely, non-compliance is characterised by evasion which is fundamental to an individual taxpayer's behaviour (Alabede 2011).

As aforementioned, TPB highly implies the behaviour of an individual where the decision to comply or evade would be made based on the internal and external factor that fulfils the normative expectation of an individual taxpayer (Benk 2011). In light of this current research, tax relief and economic constraints are the factors required to determine the purpose towards the behaviour. In many cases, individuals adjust their behaviour but often fall short of their goals (Zimmerman 2015). The motivation exists in an individual either consciously or subconsciously for taking any action with a certain targeted goal such as minimizing payable tax. Ajzen (2002) posits that adherence to existing regulations can generate the appropriate behaviour without prejudice against others. In consequence, the degree of tax compliance is influenced by both the economic factor and a fair tax system. This indicates the correspondence between self-tax relief, tax compliance and economic constraints of the taxpayers. Based on TPB, taxpayers will comply or disobey their tax obligations according to the potential benefits in the form of allowances or reliefs that influence their actions. It is therefore reasonable to assume that a good tax system (fair reflection of the value of self-tax relief) encourages tax compliance, while economic constraints discourage it. More specifically, we conjecture the following hypotheses:

H_1 Self-tax relief positively affects tax compliance.
H_{1a} Economic constraint negatively influences the relationship between self-tax relief and tax compliance.

The confidence of taxpayers in a tax system is largely dependent on their perception. A positive perception of the tax system will foster greater confidence of taxpayers in the government, which will eventually result in tax compliance and reduction in tax evasion. The relationship between tax evasion and the taxpayers' perception of a fair tax system has been discussed in earlier research. Both perception and taxpayer attitude are strongly linked to the decisions regarding tax evasion (Spicer 1980). Based on the TPB, it is reasonable to assume that a good tax system, which fairly reflects the value of self-tax relief, discourages tax evasion, while economic constraints may encourage it. We accordingly propose the following hypotheses:

H_2 Self-tax relief negatively affects tax evasion.
H_{2a} Economic constraint positively influences the relationship between self-tax relief and tax evasion.

The TPB is extended in this study by incorporating the moderating factor of economic constraints of an individual, where the influence of intention under the theory could strongly affect the individual's perception, particularly in fulfilling their tax obligations. Within the framework of the present research, the objective is to examine the impact of a specific variable, namely self-tax relief, on the tax compliance and tax evasion behaviours of individuals in Malaysia. Additionally, the study aims to explore the potential moderating influence of economic constraints on these relationships.

METHODOLOGY

SAMPLE, DATA COLLECTION & QUESTIONNAIRE DESIGN

The independent variable of the current study is self-tax relief (STR), while the dependent variables are tax compliance (TAX-C) and tax evasion (TAX-E). The moderating variable is economic constraint (EC). STR is defined as the awareness of respondents on tax relief, specifically self-tax relief. TAX-C refers to the perception of individual taxpayers on tax compliance, while TAX-E is the taxpayer's perception of tax evasion. EC is defined as individual income level as well as the perception on the severity of the cost of living. This research mainly focuses on economic factors, specifically from the perspective of self-tax relief in relation to the current economic constraints faced by individual taxpayers. The economic factors refer to variables such as employment, growth and inflation, savings, and personal consumption. An individual is expected to focus on the expenses incurred to fulfil their basic needs, such as food, clothing and shelter, before considering tax liabilities (Mohani 2001). The study adopted the questionnaire method to measure all variables, prepared using a five-point Likert-style rating scale (Sekaran 2005).[2] The questionnaire was bilingual, namely English and Malay, to accommodate individuals from diverse ethnic backgrounds. Before conducting the official survey, a pilot test was administered on a sample of 30 participants, comprising colleagues who are also taxpayers. The survey was conducted between May to June 2023, coinciding with the period taxpayers submit their yearly personal tax returns, for the assessment year 2022, to the LHDN. The timing was considered opportune, since the data collected would likely be less susceptible to exaggerated and over-critical sentiments towards the tax system.

The questionnaire was adopted from the existing literature on self-tax relief, tax compliance, tax evasion and economic constraints. It was organized into five sections: (i) demographic information; (ii) awareness of tax relief in personal income tax; (iii) perception of tax compliance; (iv) perception of tax evasion; and (v) level of agreement on economic. The list of questions for each section, including the relevant sources, is included in Table I in the appendix. Of the total 340 responses collected, 312 were valid, thus representing a response rate of 81% which is considered to be adequate and reasonable. The shortage in response rate was due to time constraints in data collection and the elimination of irrelevant answers. The final sample is justifiably representative (Krejci & Morgan,1970). Convenience sampling was adopted, involving the collation of data from volunteer respondents via an electronic medium (Google Form). Both salaried (random individual taxpayers from the public or private sectors) and self-employed taxpayers participated via the survey link. The use of Google Survey questionnaires was chosen due to its user-friendliness, low administrative effort, cost efficiency and ability to evoke honest responses within a short timeframe (Evans 2005).

RESEARCH MODELS & DATA ANALYSIS METHOD

This paper examines the relationship between self-tax relief (independent variable) and tax compliance and tax evasion (dependent variables), together with the moderating factor of economic constraint (moderator variable). The significance of examining the correlation between one independent variable and two dependent variables lies in understanding how changes in the independent variable affect both dependent variables, either jointly or independently. This helps to determine whether the self-tax relief has a similar or distinct impact on both tax compliance and tax evasion, thereby indicating how it influences taxpayer behaviour. It also highlights the multidimensional influence of self-tax relief, offering a broader view of its overall effect.

The research framework is presented in Figure 1 below. The current study uses Model 1 and Model 2 to test the hypotheses. Model 1 is designed to test hypotheses H_1 and H_{1a}, to observe the direct effect of self-tax relief on tax compliance as well as the moderating effect of economic constraint in the relationship. Model 2 is formulated to test hypotheses H_2 and H_{2a}, focusing on the relationship between self-tax relief and tax evasion, including the moderating influence of economic constraint. The linear regressions were performed using SPSS version 28.

Model 1: $TC = \beta_0 + \beta_1 STR + \beta_2 STR*EC + EC + \varepsilon$
Model 2: $TE = \beta_0 + \beta_1 STR + \beta_2 STR*EC + EC + \varepsilon$

Where STR is self-tax relief, TC is tax compliance, TE is tax evasion, EC is economic constraint and ε is the error term.
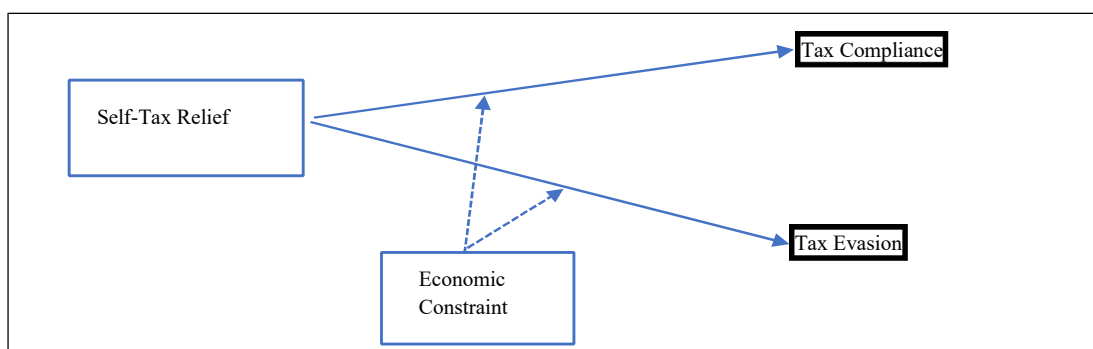
FIGURE 1. Research framework

RESULTS

RELIABILITY & NORMALITY TESTS

The current study accepts Cronbach's Alpha of more than 0.500 following Eriksen (1996) to ensure that the questionnaire instruments are credible and highly reliable. Table 1 below presents the Cronbach's Alpha scores for each variable in the study. The results show that all items exceed 0.500 threshold, confirming that the scale used in this study is highly reliable (Cronbach 1951; Field 2013; Pallant 2013).

TABLE 1. Reliability result

Variables (Initial Items)	Cronbach's Alpha
Self-Tax Relief (4)	0.878
Tax Compliance (5)	0.675
Tax Evasion (6)	0.605
Economic Constraint (3)	0.861

Normality was assessed following Meyers (2006). The results as shown in Table 2 indicate that the skewness and kurtosis values for the variables fell within the acceptable range ±1.

TABLE 2. Normality result

Variables	Skewness		Kurtosis	
	Value	Std. error	Value	Std. error
Self-Tax Relief	-0.617	0.138	-0.248	0.275
Tax Compliance	-0.027	0.138	-0.670	0.275
Tax Evasion	0.001	0.138	-0.053	0.275
Economic Constraint	-0.398	0.138	-0.060	0.275

DESCRIPTIVE RESULT

The descriptive analysis indicates that 136 respondents are male (44%) and 176 are female (56%). The data collection was aimed at five age groups and the majority of respondents (55%) are below 31 years (173 respondents). The smallest group comprised respondents 61 years and above representing a mere 0.6% (2 respondents). The majority of respondents are also from single marital status representing 54% (170 respondents) and the remaining 46% (142 respondents) are married. A total of 150 (48%) respondents hold a bachelor's degree with 76 (24%) having STPM/Diploma qualification. The largest number of respondents (241 or 77%) work in the private sector, while 41 respondents (13%) are self-employed, and 30 (10%) are from the government sector. Approximately 51% (159 respondents) earn a monthly gross income between RM3,001 and RM7,000 while 32% (101 respondents) earn below RM 3,000. The majority of respondents fall within the B40 and M40 income groups (DOSM 2023). In Malaysia, taxable income begins at RM5,001 making it easier to identify income groups eligible for tax payment. The summary of descriptive analysis results is shown in Table 3.

TABLE 3. Descriptive result

Variables	Mean	Sd	Minimum	Maximum
Self-Tax Relief (STR)	3.813	1.001	1	5
Tax Compliance (TC)	2.701	0.867	1	5
Tax Evasion (TE)	3.352	0.723	1.17	5
Economic Constraint (EC)	3.587	0.977	1	5

Tax compliance (TAX-C) and tax evasion (TAX-E) are significantly correlated with self-tax relief (STR) at 1% significance level (p<0.001) while economic constraint (EC) is positively correlated but not significant (r=0.006, p<0.001). Preliminary results indicate that self-tax relief is significantly correlated with tax compliance and tax evasion. The multicollinearity test, conducted using VIF, shows that all tolerance values exceed 0.1 with VIF values below 5, suggesting lack of multicollinearity in the research model. A summary of the correlation results is shown in Table 4 below.

TABLE 4. Correlation result

Variables	Tax Relief	Tax Compliance	Tax Evasion	Economic Constraint
Self-Tax Relief	1			
Tax Compliance	.253**	1		
Tax Evasion	-.150**	-.543**	1	
Economic Constraint	.006	-.338**	.520**	1

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

REGRESSION RESULT

The result indicates that tax compliance (TC) and tax evasion (TE) are directly influenced by self-tax relief (STR) and indirectly influenced by the moderating factor of economic constraint (EC). The results are as follows: H_1 (β= 0.219; p<0.01), H_{1a} (β= -0.181; p<0.01), H_2 (β= -0.108; p<0.01) and H_{2a} (β= 0.178; p<0.01). The findings suggest that an individual taxpayer economic conditions ultimately affect his behaviour and perceptions towards the tax system. Based on the results presented in Table 5, self-tax relief has a positive effect on tax compliance and a negative relationship with tax evasion. Hence, hypotheses H_1 and H_2 are supported, with the findings consistent with those of prior studies (Palil 2011; Febri 2018; Supriyati 2021; Paetzold 2016; Poterba 2011; Khairiyah 2019). The results suggest that the self-tax relief granted to individual taxpayers as a deduction, encourages them to pay and properly declare their taxes, especially when the tax payable is minimal. Based on the theory, the behaviour of the individual taxpayer is influenced by numerous factors, including norms, intention, and peer influence. In the context of the current study, intention plays a vital role in influencing taxpayer behaviour, since financial difficulties may lead them to non-compliance, prompting them to overclaim their self-claimable tax deductions to declare lower tax liabilities (Jo'Anne Langham 2012). Hence, in Malaysia, it is crucial to identify the appropriateness of self-tax relief that is automatically granted to every taxpayer, in order to discourage any intention of overclaiming other granted reliefs.

In the context of the moderating effect of economic constraints, the current results are consistent with those of past studies (Mohani 2001; Vogel 1974; Gottlieb 2018; Supriyono 2021), demonstrating support for H_{1a} and H_{2a}. The economic constraints moderate the relationship between self-tax relief and both tax compliance and tax evasion. These studies conclude that the economic constraints of individual taxpayers significantly influence their behaviour whether or not to obey or violate the tax system. It is evident that negative financial capacity of taxpayers encourages them to evade tax in Malaysia (Sritharan & Salawati 2019) whereas a positive financial position promotes tax compliance (Sritharan 2022). This highlights the fact that even under financial constraints, taxpayers are capable of adhering to tax laws and regulations (Mekonen 2015). Vogel (1974) discovered that even taxpayers with no financial constraints are involved in tax evasion, and surprisingly, their evasion levels are likely to be more severe compared to those facing financial distress.

TABLE 5. Regression result

Hypothesis	Relationship	Path Coefficient	t-value	Significance	Result
H_1	STR + TC	0.219	4.612	<0.001**	Supported
H_{1a}	STR*EC + EC - TC	-0.181	-6.432	<0.001**	Supported
H_2	STR - TE	-0.108	-2.667	0.008**	Supported
H_{2a}	STR*EC + EC + TE	0.178	7.749	<0.001**	Supported

**Significant at p<0.01, *significant at p<0.05 (one-tailed)

In the moderation analysis, we further calculated the effect size (f^2) and its contribution to coefficient of determination (R^2) "as a function of the moderator" (Memon et al. 2019; Hair et al. 2012). The results reveal that without moderating interaction, the R^2 values are 0.064 and 0.022 for Model 1 and Model 2 respectively. When moderating interaction is included, the R^2 values rise to 0.13 and 0.27 respectively for Model 1 and Model 2. The effect size (f^2) values are 0.08 for Model 1 and 0.34 for Model 2, indicating that the substantial moderating effect of economic constraints for both models is satisfactorily justified.

We performed an additional analysis to corroborate our results, which are reported in Table VII. For this analysis, we excluded respondents with monthly gross income of less than RM 3,000. Under Malaysian tax law, individuals earning less than RM34,000 per annum after EPF deductions (approximately RM2,833.33 per month) are not required to file a tax return. We excluded these respondents to avoid the risk of including non-taxpayers in the sample and consequently distorting the results. The findings reported in Table VII, confirm the robustness of the main results.

TABLE 6. Additional analysis result

Hypothesis	Relationship	Path Coefficient	T-Value	Significance	Result
H_1	STR + TC	0.217	3.376	<0.001**	Supported
H_{1a}	STR*EC + EC - TC	-0.195	-5.561	<0.001**	Supported
H_2	STR - TE	-0.164	-3.097	0.002**	Supported
H_{2a}	STR*EC + EC + TE	0.197	7.186	<0.001**	Supported

**Significant at $p<0.01$, *significant at $p<0.05$ (one-tailed)

DISCUSSION & CONCLUSION

The current study provides a fundamental insight by emphasizing the direct effect of a more specific tax relief, namely self-tax relief, on the tax morale of individuals, particularly tax compliance and tax evasion. Even though the primary objective of tax policy is to redistribute wealth and provide social security to the taxpayers in a country, the allocation of tax reliefs does not always align with the intended goals of social welfare. For instance, Le Grand (1997, page 166) claims that "*tax relief is both regressive and a blunt instrument: it favours higher rate taxpayers, it does not benefit those who do not pay tax, it encourages lots of tax-avoidance schemes that have little to do with the essential tasks of social security, and its cost is difficult to control.*" This points to inequalities in social security, particularly among the low-income citizens (Prasad 2011). Such disparities could be due to the consequence of underexplored social impacts of tax policies, such as tax reliefs. Social researchers are unanimous on this and are increasingly focused on the tax reliefs implemented to fulfil social policy objectives and reduce economic inequality within a nation (Schumpeter 1991).

The regression analysis of the current study shows a positive relationship between self-tax relief and tax compliance. This indicates that self-tax relief encourages taxpayers to comply with tax regulations and fulfil their tax obligations. The taxpayers' compliance behaviour does not solely rely on the deterrence measures. Instead, an accommodative approach would elicit a good perception of the tax system (Beck 1991; Becker 1987; Palil 2021). This finding clearly underscores the relevance of promoting tax compliance among individual taxpayers. A sustainable and sophisticated self-tax relief system would in the long term encourage greater compliance with tax regulations.

The regression results also show a negative relationship between self-tax relief and tax evasion. This suggests that the self-tax relief could reduce the likelihood of individual taxpayers to evade tax. An optimal self-tax relief system would discourage taxpayers from underreporting income or overclaiming other tax reliefs that are granted to reduce their tax liabilities, particularly in the Malaysian context. This study has highlighted the importance for the government and tax authorities to evaluate the appropriateness of self-tax relief, since it exerts significant impact on tax evasion. Research has indicated that when a particular group of taxpayers perceives their tax liabilities are higher compared to those of other groups, tax evasion becomes more common among them (Spicer 1980; Andreoni 1998; Wenzel 2003). The theory of planned behaviour, which emphasizes that the behaviour of an individual is driven by their intentions, is proven and supported by these findings (Ajzen 2002; Benk 2011). Tax evasion is often committed through misreporting of tax returns, such as underreporting income or deviously overclaiming tax deductions. The intention underlying such actions is solely to reduce tax obligations and avoid remitting tax to the authorities.

The current study broadens the investigation through examining the function of economic constraints on the relationship between tax compliance and tax evasion. The financial difficulties faced by individuals may create distress, especially when their tax liabilities start to increase. Under such conditions, the individuals may perceive tax payments as a burden, leading them to non-compliance through over-reporting of tax reliefs in order to reduce their tax obligations (Torgler 2007), which would encourage them to increasing tax evasion. The findings demonstrate a significant impact of economic constraints on the relationship between self-tax relief and tax compliance. This suggests that individual taxpayers facing adverse economic constraints would prefer to be non-compliant, often overclaiming tax reliefs to reduce their tax liabilities. These findings align with those in past studies, which suggest that individuals facing adverse economic constraints will prefer paying off debts over fulfilling their tax obligations (Palil 2011; Alabede 2011; Mekonen 2015). However, the result of this study also shows that economic constraints positively influence tax evasion in relation to self-tax relief. Adverse economic constraint drives taxpayers to evade taxes, due to their perception that self-tax reliefs are insufficient and their intent to reduce tax obligations, but often acting without good faith. The economic constraints faced by individual

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taxpayers therefore plays a vital role in influencing their behaviour, particularly in relation to tax compliance and evasion, at least within Malaysia's economic context.

The findings of this study also support the TPB which highlights that the individual and mixed influences from external factors enhances the decision-making of an individual taxpayer. TPB is applied to understand taxpayers' compliance and decision-making processes. In developing a questionnaire based on TPB, questions were designed to measure taxpayers' intentions to comply with tax laws, as well as their attitude towards tax evasion. In addition, the questionnaire includes questions that assess individuals' perceptions of economic pressures and the adequacy of self-tax reliefs, and how these influence their compliance behaviour. The use of TPB in the questionnaire thus allows for a comprehensive assessment of the psychological and external factors influencing taxpayers' decisions, thus aligning with the theoretical framework that highlights the combination of internal attitudes, social norms, and perceived control in predicting behaviour. It is therefore reasonable to conclude that economic factors should not be isolated in the discussion of tax compliance and in the design of tax systems, since these factors play a significant role in shaping taxpayer behaviour (Sritharan & Salawati 2019). The government needs to create an effective and informative tax system that enhances the level of tax compliance and reduce tax evasion among taxpayers (Hasseldine 1999). Hence, the Malaysian government must reassess the adequacy of self-tax reliefs, which have remained stagnant over more than a decade. The finding lends credence to the belief that continuous assessment of tax relief is highly essential in shaping tax morale of an individual. Only a tax system perceived to be fair that will encourage voluntary compliance and eventually reduce the instances of tax evasion.

The current study however has some limitations. Firstly, the study scope is limited to the variables tested due to time constraints. Future research should consider including other relevant variables to broaden the analysis. Secondly, the financial constraints were measured using a single-item construct, with participants rated for their level of satisfaction with their household income. Sprinkle & Boylan (2001) suggested that the reactions of respondents endowed with income are inconsistent with their responses when they are required to earn it. It is therefore recommended that future studies extend the scope of research through adopting experimental designs to observe the taxpayers' morale and also focus on other specific tax reliefs.

NOTES

1. Note that the simulation on the living cost including accommodation, food and transportation for an individual amounts to RM750.00 per month is claimed from the statement of Dr Wee Ka Siong, the Member of Parliament Ayer Hitam, Malaysia, who has debated in the Parliament on 28th February 2023 upon the Supply Bill of Budget 2023. He has also mentioned that the personal relief is unrealistic at this point of time and proposed to be revised to RM12,000.00 which is equivalent to a simulation of a living cost of RM1,000.00 per month for an individual in Malaysia.

2. The ranges of scales are as follows; scale 1- strongly disagree, scale 2 – disagree, scale 3 – neutral, scale 4 – agree and scale 5, strongly agree.

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APPENDIX

TABLE I. Questionnaires and resources

SYMBOL	SCALES & DIMENSIONS	RESOURCE
DEMOGRAPHIC	*Respondent Profile (RP)*	
RP1	Gender	
RP2	Age	
RP3	Marital status	
RP4	Number of children	
RP5	Education Level	
RP6	Occupation	
RP7	Monthly Gross Income (RM)	
RP8	How long have you been taxpayers?	
RP9	Do you use e-Filing?	
RP10	How do you get information on tax relief? (Your answer can be more than one)	
RP11	Have you ever been audited by LHDN (IRBM)?	
RP12	Have you ever been penalized by the LHDN (IRBM)?	
INDEPENDENT VARIABLE	*Self-Tax Relief (STR)*	
STR1	Are you aware what is tax relief?	
STR2	Are you aware of the types of tax reliefs for income tax?	
STR3	Do you realize individual and dependent relative relief amounted to RM9,000?	Zura (2020); Loo & Ho (2005)
STR4	Do you realize tax relief is deducted from total income to determine chargeable income?	
DEPENDENT VARIABLE	*Tax Compliance (TC)*	
TC1	I would pay taxes if my income is higher.	
TC2	I fully declare my principal income but not including my part-time income.	
TC3	If the job is paid in cash basis, then it is alright not to report it in tax return.	Zakarie (2017); Ser (2013)
TC4	I would understate my income if the amount is relatively small.	
TC5	I wouldn't pay taxes because the tax authorities are very weak.	
DEPENDENT VARIABLE	*Tax Evasion (TE)*	
TE1	I will pay my debts and basic needs first rather than income tax.	
TE2	The price of basic needs keeps on increasing.	
TE3	The potential consequences (i.e. fines & penalties) of getting caught are not serious enough to stop people evading paying their taxes.	Palil (2010); Mekonen (2015); Alabede (2012)
TE4	Taxes are so heavy that evasion is an economic necessity to survive.	
TE5	Claiming a non-existent deduction on my tax return is not a serious offense.	
TE6	Some tax deductions are not fair because only the wealthy enjoys them.	
MODERATING VARIABLE	*Economic Constraint (EC)*	
EC1	Malaysia economic constraints and administrative procedures cause obstacles for taxpayers to cooperate with tax administration and tax filing.	Yu (2007); Alkhatib (2019)
EC2	Malaysia economic constraints imposed an extra burden on individual tax matters.	
EC3	Impact of Malaysia economic constraints on taxpayer causes irregular payments connected with tax assessment.	