

Tax Evasion Issues: Ethical Rationalization Consideration In Malaysians

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Abstract

Background

Every country of the world face countless tax evasion. Tax evasion is a disease that would potentially disrupt a government and subsequently leads to country bankrupt. This disease requires the joint effort both tax authorities and policymakers to ensure it is under control.

Purpose

The objective of this research paper is to determine the factors that affect ethical rationalization on tax evasion issues within Malaysians. Three variables are being examined, namely perceived fairness towards tax system, trust in government, and religiosity.

Design/methodology/approach

This research adopts the causal experimental research design. Data is collected through self-administered survey questionnaires with 5-point Likert scale. A total of 366 respondents were collected and analyzed

Finding

The findings showed that all variables influence taxpayers' ethical rationalization on tax evasion issues which consequently motivates taxpayers to evade tax. **Practical**

Implications

The results also provided that non-economics elements shall not be underestimated by authorities, as it assists in recognize taxpayer's behaviors. These components are considerably important in supplementary policymakers to control tax evasion issue, in terms of structuring and improving taxation system policies.

Originality/Value

The research was conducted during the Covid-19 pandemic focus in developing nation, in which provides a unique setting to determine resilience learning.

Paper type

Research paper.

Introduction

Tax is defined as a compulsory and enforced financial charge which is imposed on individuals and organizations by government or its authorized bodies for goods, services, or income via direct or indirect approaches, and yet there is no implicit reward gained by the taxpayer (Usman, 2019). Taxation is globally known as the major source of income for governments. Most economies heavily rely on their taxation system to fulfil their financial needs. The government used tax collected to fund its development and continuous supporting-basis projects on economic infrastructures, public and welfare services, and its governmental administrative expenditures (Kira, 2017; Tabandeh et al., 2013). Apart from that, a segment of tax revenue can be used to clear off past debts which occurs when the nation's governmental expenditures exceed its revenue in the past. The total amount of tax collected differs among countries as the economic structure, taxation system, and its efficiency in collecting taxes vary for each country.

In Malaysia, the two responsible administration agencies for tax and the custom regime are Inland Revenue Board of Malaysia (IRB) and Royal Malaysian Customs Department (RMCD). They are the backbone of the taxation and custom framework which play the main roles in tax collection and on behalf of the Malaysian government (Yunus et al., 2017). In year 2018, a total of RM137.034 billion tax, in which an increase of RM13.72 billion (11.13 percentage) higher as compared to the previous year (IRB, 2018).

Prior to year 2001, income tax in Malaysia use the official assessment system (OAS). However, since year 2001, self-assessment system (SAS) being adopted. Under the self-assessment system, income taxpayers are required to register, calculate, submit and pay the amount of tax liabilities by themselves. It denotes the tax filing is highly dependent on the willingness and honesty of taxpayers to declare their actual income and comply with tax codes (Yunus et al., 2017; Yusoff & Mohd, 2017). On another hand, the related authorities are responsible to ensure the efficiency of the taxation system to overcome non-compliance issues. Tax non-compliance has been the most common yet unsolved major issue in the tax framework in most of the developed and emerging countries (Ngah et al., 2020; Yunus et al., 2017; Mohamad et al., 2016). Tax non-compliance can be engaged in both legal and illegal forms to reduce one's tax payable amount which is namely tax avoidance and tax evasion. Though the two terms might seem similar, avoiding tax and evading tax are very distinct in terms of

legality. Tax avoidance is referred to as an act to reduce one's tax liabilities within the legally allowed circumstances, but tax evasion is an extreme and intentional act to minimize tax obligations via illegal approaches (Mohamad et al., 2016).

Tax evasion is one of the serious and popular financial fraud issues happening in developing and transitioning economies, and it has become a universal phenomenon. Due to economic globalization and technology advancement, it further escalates and complicates the impact of tax evasion which caused it to be viewed as one of the most widespread and common economic crimes (Nghah et al., 2020; Mohamed, 2012). Even though governments realize and understand the importance of having a holistic and systematic mechanism in managing and facilitating the taxation aspects, major challenges are faced by regulators and lawmakers in building an efficient and effective taxation system to collect their tax revenue. The authority is eager and prompt to find out the root cause and a cure for this complication. Issues surrounding tax-related financial frauds have not been fully rectified with the existence of tax laws, penalties, and sanctions, and this indicates that law enforcement strategies are not the ultimate solutions that lead the authorities to investigate the other underlying perspectives of tax evasion.

Ethical rationalization comes into play when the psychological perspective is discussed. Ethical rationalization can be defined as the self-biased justification that occurs when an individual reaches a decision point where to choose or execute certain actions that relate to ethics. The Fraud Triangle theory suggested by Cressey (1953) pinned that rationalization as one of the components in determining the motives and reasons of an individual to commit fraudulent behaviour. Many subsequent studies had also concluded and affirmed the validity theory. Thus, this research project will be focusing on the factors that influence the ethicality rationalization particularly on tax evasion issues that have not been done in Malaysia context.

The result of tax evasion specifically defined the term tax gap. Tax gap is known as the difference between the expectation of the amount to be paid by taxpayers and the actual amount of being paid by them. It is difficult to analyse the actual situation of tax evasion and tax gap due to lack of official and reliable information on taxpayers' compliances level from tax authorities (Lai et al., 2013; Alm, 2012). In some circumstances, tax evasion and tax gap can be seen to relate to the underground economy and other fraudulent or financial crimes, such as money laundering, in which undeniably impose an adverse impact on the society. This study focuses on the ethicality rationalization on tax evasion issues for several reasons. Most of the past research had been emphasizing on the punishment, administration, enforcement, and education aspects of tax evasion. Though these aspects are certainly important in improving the tax compliance rate, however the psychological factors such as ethicality rationalization, also play a role in taxpayer's behaviours. Psychological elements can influence taxpayer's decision to report their actual income and wealth as tax compliance it significantly related with individual's morality and preparedness in determining and declaring their tax liabilities.

With this, due to lack of attention paid on the psychological elements of tax evasion, this research would enrich this area precisely on perceived fairness towards the current tax system, trust in government, and religiosity elements of ethical rationalization in relation to the oblige of tax evasion activities. The objective of this research is to study the factors effect on ethical rationalization on tax evasion issues within Malaysians. Thus, the research question that guide this research is 'what is factors effect on ethical rationalization on tax evasion issues within Malaysians?'

Literature Review

2.1 Tax Evasion and Tax Avoidance

Tax evasion is a deliberate as illegal act to minimize tax payment by manipulating financial information or hiding taxable income (Alstadsaeter et al., 2022; Kassa, 2021; Palil et al., 2016; Obafemi, 2014; Richardson, 2008). Activities that involve in eliminating individual's tax liability such as, overstating deductions and understate income or sales illegally which results in failing to report the real amount required of tax payments (Alstadsaeter et al., 2022; Kassa, 2021; Alm et al., 2016).

Tax evasion can be differentiated in two ways, which are evasion by commission and evasion by omission (Alstadsaeter et al., 2022; Palil et al., 2016; Boll, 2015). Evasion by commission simply means that taxpayers prescribe measures for tax elimination, such as falsification of documents for claims and deductions, create fake or inexistent monetary transactions to achieve the amount of income under the taxable threshold. Contrarily, evasion by omission is referring to leave off transactions intentionally or unintentionally, such as omitting cash revenue, concealing or under-declaring assets or income, and do not file tax returns (Onu et al., 2019; Palil et al., 2016; Boll, 2015).

On another hand, tax avoidance is defined as one that tries to limit its tax payment amount within the legally allowed boundaries (Alstadsaeter et al., 2022; Obafemi, 2014; Jusoh et al., 2012). In contrast to tax evasion, taxpayers that are involving in tax avoidance tend to show its financial statement or transactions as detailed as possible to make sure they get the amount of tax reduction they wanted (Alstadsaeter et al., 2022; Sandmo, 2005). Another study from Kim (2008) provides that tax evasion is an act that violated the law, and tax avoidance is to be a legal manner in reducing tax obligations.

Aggressive tax planning describes the strategies being used for tax avoidance (Kassa, 2021; Onu et al., 2019). It is seen as an act of exploitation of loopholes, imperfection, and vagueness within the taxation system to minimize tax obligations, and these strategies are not following the true rationale or the spirit intended by the law and legislator. Examples for aggressive tax planning are utilizing double deductions, tax deferral plans, tax credits company included in tax codes or announced by tax authorities, and reallocate monetary transactions to a lower tax base country or subsidiary (Onu et al., 2019; European Commission, 2019).

2.2 Ethics and Legality

Ethics is a field of philosophy that provides guidance on people's behaviour and its relationship with others (Akaranga & Makau, 2016). It is referred to as a social standard or social norm that sets guidelines that distinct acceptable and unacceptable acts and behaviours (Akaranga & Makau, 2016; Akaranga & Ongong'a, 2013). Although with the establishment of highly enforced legal rules and regulations that rule out between legal and illegal acts, ethical norms cover more than just laws (Akaranga & Makau, 2016). Ethics is the social norm that can shape a person's behaviour in a scenario and position. It leads individuals to follow certain moral choices that are acceptable within their ethical range. The presence of ethics covers the range including social customs, patriotism, conscience, fairness, guilt, just to name a few (Alm & Torgler, 2011). Since different individuals from different education, family, and cultural background possess beliefs and values that are distinct from one another, the range of moral or ethical choices can be interpreted discretely from one another (Akaranga & Makau, 2016). Without individuals realizing, ethics plays a subtle yet enormous role from time to time especially while making major decisions.

On another hand, legality of behaviour is in response to laws, rules, and regulations, and this is where legal and illegal behaviours are being evaluated or testify in accordance with the law. Legality is uniform and consistent in nature as laws are regulated and enforced by the State, and the quality or degree of conformity with the law indicates legality and lawfulness (French, 1893). On the flip side of the coin, ethics is referring to the “rightness” of behaviour, which means it is referring to the goodness and badness of behaviour, and ethics are often unregulated and not legislated by authorities (Medina-Vincent, 2015). Medina-Vincent (2015) stated that legality and ethics are in synchronize to regulate the societies parallelly, the former is regarding to the laws enacted by the State, and the latter is regarding to morality and social norms which depends on what and how the society values. For example, not offering seats to elderlies or disabled persons on public transport is not illegal, but it is considered unethical.

2.3 Implications of Ethics in Tax Compliance

Several past studies had ruled out some implications of ethics in affecting tax compliance within taxpayers. Though some ideas are distinctive, the relationship between ethics and tax compliance is shown to be consistently proved significant by past studies. Historically, individuals have shown concern in tax related matter. According to Bosco and Mittone (1997), taxpayers are concerned about personal and general welfare of the public, and their decision to evade tax depends on their knowledge and perception towards the utilization of taxes collected. However, Erard and Feinstein (1994) presented that the sense of shame and guilty plays a direct role in taxpayers’ decision to evade tax. For example, the taxpayer will feel guilty when he or she underreports to lower tax liabilities, and the taxpayer will seek ways to escape from detection, and the shame comes into play if the taxpayer got caught for evading taxes. However, some past researches argue that shame of prosecution is irrelevant in influencing tax evasion behaviour, but fear of detection and prosecution is (Myles & Naylor, 1996).

Surveys done by researchers in the past from many countries provide evidences that taxpayers’ ethics play a pivotal role in tax compliance decisions (Alstadsaeter et al., 2022; Kassa, 2021). If taxpayers consider tax evasion as an immoral act, then the compliance rate is higher (Alm & Torgler, 2011; Frey & Torgler, 2007). Also, there are some experimental evidences proven the fact that societal norms and ethics in compliance decision are interrelated, and this is also referred as the “group effect” (Kassa, 2021; Alm & Torgler, 2011; Torgler & Schaltegger, 2005; Henderson & Kaplan, 2005). For example, an individual that is surrounded by tax evaders as friends is more expected to evade taxes, and this is to make himself or herself feel more socially connected to society as a whole. If there is a presence of social expression that tolerates tax evasion, ethics to comply would decrease. In summary, the ethical factor in tax compliance imparts that taxpayers’ compliance decisions rely on taxpayers’ views on whether or not compliance is the “right thing to do”.

2.4 Fraud Triangle Theory – Rationalization

Donald Cressy (1953) introduced The Fraud Triangle Theory (FTT), in which existed more than 60 years, is a geometric representation of the model of fraud theory (Sujeewa et al., 2018; Azam, 2018; Kramer, 2015). This theory focus clarifies the motives of why individuals commit into fraud. Upon interviewed 200 convicts, Cressy identified three common elements that committed fraudulent activities, namely pressure, rationalization, and opportunity (Azam, 2018; Kramer, 2015; Puspasari, 2015; Cressey, 1971).

Rationalization is defined as an idea that trigger behaviours based on the emotional, traditional, religious, and cultural perspective that facilitate actions based on reasoning, predictability, and calculability (Sujeewa et al., 2018; Puspasari, 2015; Weber, 1978). In other

meaning, rationalization is a sense of self-biased reasoning or justification based on various factors that include logical thinking, beliefs, values, and background of individuals (Sujeewa et al., 2018; D'Cruz, 2015). From the psychological perspective, rationalization is referred to as a denial defence mechanism which allows individual to manage emotional conflicts and stressors by self-assuring with reasonings to conceal his or her true motives. This denial defence mechanism that aims to protect individuals from feeling guilty and anxiety in order to adapt his or her feeling to the threatening circumstances (Knoll et al., 2016).

From the perspective of criminology, individuals who have convicted illegal acts often find excuses to justify or neutralize their doings, in which it is denotes rationalization concept. Lederman (2019) has identified eight elements of rationalizations were identified, namely legality, denial of responsibility, denial of injury, denial of victim, social weighting, appeal to higher loyalties, metaphor of ledger, and refocusing of attention. These eight types of rationalizations can apply in criminal's situation with numerous combinations, in which denotes as self-concealing system. In addition, six out of eight elements are found to be frequently used by fraudsters (Zakaria et al., 2013).

2.5 Perceived Fairness towards Ethical Rationalization on Tax Evasion

Fairness is the most pivotal characteristics in a taxation system. According to Cowell (1990), unlike other fraudulent activities, tax evasion is closely bounded with the government's fiscal control and economic policies. This had been proven by numerous studies done by local and international researchers. In general, fairness in taxation system comes in many forms, such as vertical fairness, horizontal fairness, exchange fairness, distributive fairness, retributive fairness, administrative fairness, and personal fairness (Kassa, 2021; Azmi et al., 2016; Faizal & Palil, 2015; Mukasa, 2011). General fairness is focused on the purpose of this study which simplifies taxpayers' overall judgments on the fairness of the current tax system (Saad 2010).

The Equity Theory (ET) pioneered by Tversky and Kahneman (1984) described that individuals in common would expect a comparable or equal value in exchange (King & Sheffrin, 2002). Walster et al. (1978) had also predicted that when individuals find themselves to be involved in an unjust relationship, they will seek opportunities to restore equity by amending their part of input or output, or by rationalizing the unjust situation as a reality. To apply the ET into the taxation structure, taxpayers would be reluctant in tax compliance when they feel that they are victims of the unjust or abused taxation structure (Mukasa, 2011). This brings to the issue of taxpayers' perception towards the fairness of the tax system as it leads to the consequences concerning taxpayers' tax compliance decisions.

Most of the results had asserted that society's or community's perception on the fairness of tax system is very important in fostering desirable tax compliance behaviours (Kassa, 2021; Verboon & Goslinga, 2009; Murphy, 2008; Hartner et al., 2008; Verboon & Dijke, 2007). However, in the Malaysian context, there are inconsistencies in the local findings. Studies were done by Faizal and Palil (2015), and Azmi et al. (2016) had provided that taxpayers' perceived fairness towards tax system has an impact in tax compliance. Nevertheless, Natrah (2009) and Natrah (2012) provided that no evidence supports the perception of fairness on tax system affect taxpayers' tax compliance.

2.6 Trust in government Towards Ethical Rationalization on Tax Evasion

The trust towards government is multilateral in terms of political views, administrative system, and effectiveness and efficiency of services delivered. Trust in government is multi-layered due to the complexity and interconnection of factors involved in forming trustworthiness

towards the government. Even though there is strong evidence for the relationship between governmental trust and taxpayers' tax compliances, the analysis slightly varies.

Previous studies had found that the higher the trust of taxpayers towards country's legal system and parliamentary structure, the higher the tax morale (Koumpias et al., 2020; Cummings et al., 2009; Torgler & Schneider, 2007). Saruji and colleagues (2019) highlighted that trust in government determines taxpayers' attitudes towards tax compliance. This viewpoint is supported by Alm and Torgler (2011) that the success of government policies and regulations can influence taxpayers' decisions on tax compliance in the ethical dimension. This proved that government policies are indisputably an important tool to manipulate and curb the ethical perspective of tax compliance issues.

Survey evidences have proven that the tax morale within taxpayers would be low if taxpayers dislike the government expenditure patterns, if taxpayers do not trust the country's democratic or political framework, if taxpayers feel that their voices are not being heard and acted for (Torgler & Schneider, 2007; Alm & Torgler, 2006). That is to say, if taxpayers do not trust or lose confidence in the political, legislative, and administrative structure of the government, then they are more likely or tempted to involve in tax evasion activities (Hammar et al., 2005). A local study further reviewed that transparency, competency, and fairness of the whole of the public sector system would instil a sense of trustworthiness towards the government which would ultimately motivate taxpayers in complying with tax law (Saruji et al., 2019).

2.7 Religiosity towards Ethical Rationalization on Tax Evasion

Although religious values are seen as one of the essential components that motivate individuals in ethical decision making, religiosity is one of the non-economic factors that has been understudied for most of the researches (Mohdali & Pope, 2014). Some studies had emphasized the importance of religiosity or spiritual belief element in explaining the paradox of tax compliance issues (Jun & Yoon, 2018).

Torgler (2003) as one of the pioneering studies in investigating the role of religiosity in tax morale. He had investigated the factors of tax morale in various countries and found a strong relationship between religion and tax morale. Those countries involved Canada (Torgler, 2006), European countries (Torgler & Schneider, 2007, and United States and Turkey (Torgler et al., 2008). Stack and Kposowa (2006) also concluded that individuals with a low religious affiliation tend to be view tax fraud as an acceptable act. Findings by Richardson (2008) also confirmed the inverse relationship between taxpayers' religiosity level and degree of tolerance towards tax evasion. Previous study had investigated the effect of religiosity of taxpayers in voluntary tax compliance matters and found there is a significant positive, but minimal impact on tax compliance based on the degree of taxpayers' religious commitment (Benk et al., 2015; Mohdali & Pope, 2014).

However, there are some exceptions to the general findings of positive causal relationship between religion and tax morale in some studies. Welch and colleagues (2005) had concluded that perception of tax evasion within a community was found to be the same regardless of the respondent's degree of religiosity. This exception is supported by the argument which explains that tax evasion is perceived based on the approach and effectiveness of the government's legal structure. Furthermore, it is claimed that individuals' integrity levels play a more dominant part in tax compliance attitudes as compared to religiosity (McKerchar et al., 2012). In addition, a study of student religiosity in Indonesia had not impact on tax evasion reduction (Illahi & Sumarni, 2021).

2.8 Hypothesis Development

Based on the prior literature, alternative hypothesis is formed as below:-

H₁: There is a relationship between perceived fairness towards tax system and ethical rationalization on tax evasion issues within Malaysians.

H₂: There is a relationship between trust in government and ethical rationalization on tax evasion issues within Malaysians.

H₃: There is a relationship between religiosity and ethical rationalization on tax evasion issues within Malaysians.

Conceptual framework

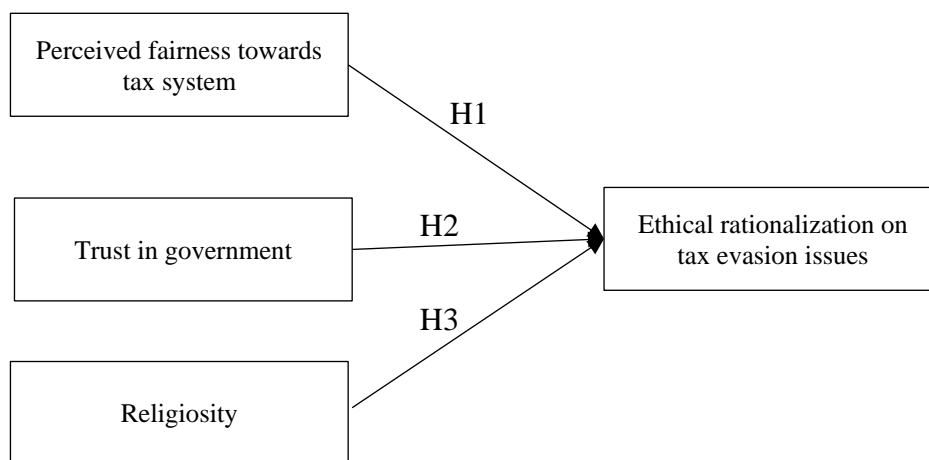


Figure 1: *Conceptual Framework*

Methodology

3.1 Research Design

This research adopts the causal research design specifically tests the relationship between the independent variables and dependent variables for the chosen target population. The quantitative research method is utilized in this research. Data is collected via self-administered survey questionnaires with standardized objective measurements. The collected data are analysed using statistical computation techniques to discover insights on the study subject.

Descriptive research emphasizes describing characteristics of the target population or phenomenon during the time of study being conducted. Correlation research determines the relationship between the variables to identify patterns in the collected data. Causal experimental research, to examine the cause-and-effect sensitivity between variables by manipulating the variables. Experimental research is where controlling the independent variables to determine its effect on the dependent variable. Each stage varies in terms of the extent of control on variables adjusted by the researcher and the level of data visualization, and this would provide multiple perspectives and insights on the research subject (Apuke, 2017).

The questionnaire items were adopted from past studies. Respondents are required to answer all the questions consisted in the questionnaire through self-administrated. Before respondents start to fill up the survey form, respondents were briefed on the definition of tax

evasion, in which difference with tax avoidance terminology to establish clear understanding and prevent confusion. There are no right or wrong answers to the questions, and respondents are free to choose answers which are most closely related to respondent's opinion. The items included in the variables are adapted from several past researches where past researchers had examined the validity, accuracy, and reliability of the items. Nevertheless, few modifications are made for the items to better reflect the Malaysian context.

In order to ensure each item in the survey is consistently measured, all items are measured using a 5-point Likert scale. Respondents were asked to reflect the extent to which they agreed with or matched the best by ranking each statement from a scale of 1 to 5 to all the statements in the questionnaire. The scale of 1 represents strongly disagree, the scale for 3 represents neutral or indifferent, and the scale of 5 represents strongly agree.

In addition, respondents were requested to provide demographic information which includes gender, age, ethnicity, religion, education level, employment status, annual income, and income tax filing experience.

3.2 Sampling Techniques

Responses collected are localized in the area of Klang Valley. The reason Klang Valley is chosen due to it able to provide wide exposure to respondents from various age group, employment status, education levels, and years of income tax filing experiences. Thus, this in which respondents are aware of or have a certain level of knowledge on the Malaysian taxation system.

This research applies quantitative research method. This research will be using convenient sampling as the data collection methods. Convenient sampling is done by selecting respondents that are readily available and easily accessible. It is also an inexpensive and rather easy option as compared to other sampling methods (Taherdoost, 2016). This is to ensure the reliability of the test in terms of representing the population, and it is also to compare and find out differences among various groupings. A total of 366 responses were collected. The data collection took place during the month of February until May 2022, in which the due date for taxation self-assessment filing submission in Malaysian context. All responses are gathered via Google Forms, in which all responses collected are useable without any missing values with the assist of Google Forms operational settings.

The self-administrated survey questionnaires are distributed to Malaysians from different socio-cultural aspects of the population which covers below 20 years old student to working adults and retirees. This to consider each group of respondents would have different perspectives on tax evasion in terms of societal experiences, in which will affect the overall rationalization basis on tax evasion issues.

Initially, descriptive analysis is used to understand the demographic profile of respondents to describe the essential background or features of the data. The mean and standard deviation of each item for all variables are calculated to seek insights on the current existing phenomenon for each variable. Normality test and reliability test are essential as it ensures the accuracy, validity, level of representative, and usefulness of the collected data. Besides, inferential test which includes correlation analysis and multiple regression analysis is carried out to inspect, transform, and illustrate data into meaningful information for insights discovery.

Data Analysis

4.1 Descriptive analysis

Appendix 1 shows the descriptive analysis of the collected samples. There is 216 (59.0%) male, and majority of the samples are aged between 20 to 39 (63.2%). The Chinese respondents are Chinese (44.8%) dominant the samples. Most of respondent obtained diploma and above education level (67.5%). Majority of the respondents are employed (51.4%), and the annual income between RM40, 001 to RM80, 000 (51.1%) is the biggest earning category. Majority of the respondents experienced have at least one-time (81.4%) tax filing experience.

4.2 Reliability Test

Cronbach's alpha reliability is one of the most widely used measurement by researchers to present that the established or adopted scale of the projects are suitable for or parallel with the purpose of the study (Taber, 2017). All variables had scored more than 0.8. This result had proven that the internal consistency of the items included in each variable is highly consistent, and this denoted that the questionnaire structure for this research is reliable.

Table 1 Table of Cronbach's Alpha reliability for all variables (N=366)

Variables	Items	Cronbach's Alpha
Fairness	12	0.971
Trust	10	0.949
Religiosity	10	0.957
Rationalization	13	0.974

4.3 Multiple Regression Analysis

Multiple regression is an inferential statistical procedure for predicting the value of dependent variable on the basis of two or more independent variables by formulating a linear equation. The model summary table describes the degree of relationship between the multiple regression model and the dependent variable. The adjusted R square value is at 0.327 which implies a high correlation between the dependent variable and independent variables.

Table 2 Model summary and ANOVA table (N=366)

	Value
Adjusted R Square	0.327
Std. Error of the Estimate	15.998
F value in ANOVA test	205.183*

Remark: * significant at <.001

The Coefficients table presents important information for the estimation of dependent variable from independent variables. The values of B under the Unstandardized Coefficients column represent the beta coefficient. The beta coefficient reflects the degree of change independent variable for a single unit of change in a predictor variable or independent variable. Negative beta coefficient means that, for every increase of a unit in the independent variable, the dependent variable will increase by a unit. From the result, it showed that for every increase of 0.208 unit in perceived fairness towards tax system, for every increase of 0.174 unit in trust in government, and for every increase in 0.655 unit in religiosity, would increase a unit of ethical rationalization on tax evasion. Multiple regression equation is formulated as shown below:-

Table 3 Coefficient table (N=366) Ethical rationalization = 0.214 + 0.208 (Fairness) + 0.174 (Trust) + 0.655 (Religiosity)

Variables	Unstandardized Beta	Standard Error	t-value
Intercept	0.214	0.144	1.481
Fairness	0.208	0.094	2.203*
Trust	0.174	0.086	2.026*
Religiosity	0.655	0.086	7.629**

Remark: * significant at <.05, **significant at <0.001

4.4 Summary of Findings

Table 4 Summary of findings for hypothesis testing

Hypothesis	Results
H ₁ : There is a relationship between perceived fairness towards tax system and ethical rationalization on tax evasion issues within Malaysians.	Supported
H ₂ : There is a relationship between trust in government and ethical rationalization on tax evasion issues within Malaysians.	Supported
H ₃ : There is a relationship between religiosity and ethical rationalization on tax evasion issues within Malaysians.	Supported

From the research, the hypothesis testing result provided that perceived fairness towards tax system within taxpayers has a statistically significant effect on ethical rationalization on tax evasion issues with the p-value of <.001. Hence, H₁ is supported. This finding is consistent with Faizal and Palil (2015), and Azmi and colleagues (2016) had provided that taxpayers' perceived fairness towards tax system has an impact in tax compliance.

From the research, the hypothesis testing result provided that trust in government has a statistically significant effect on ethical rationalization on tax evasion issues with the p-value of <.001. Hence, H₂ is supported. This finding is consistent with Koumpias and colleagues (2020); Saruji and colleagues (2019); Alm and Torgler (2011); Cummings and colleagues. (2009); Torgler & Schneider (2007).

From the research, the hypothesis testing result provided that religiosity has a statistically significant effect on ethical rationalization on tax evasion issues with the p-value of 0.005). Hence, H₃ is supported. This finding is consistent with Benk and colleagues (2015); Mohdali & Pope (2014) and Richardson (2008).

Limitations and Recommendations

There are a few limitations to this study. First, they are numbers of factors that can pose an impact in ethical rationalization on tax evasion issues within taxpayers, but only three variables are chosen for this research. The variables utilized in this study might not be the final resort that accurately explains taxpayers' ethical rationalization behavior. Second, since this is a quantitative research, the insights or real thoughts of taxpayers cannot be fully expressed and covered via answering a questionnaire. Thus, findings of this study might not represent the actual factors that contribute to the ethical rationalization of tax evasion issues.

Some recommendations for future studies are provided. First, to consider adopting other factors such as social status, and perceived government performance to broaden research construct. Second, to explore using qualitative research by focusing on respondents' experiences and

Conclusion

With the widespread of tax fraud epidemic which pose detrimental effect on the society and government, necessary measures shall be taken for rectification and prevention. Conducting research in this field is essential to gain insights which act as a base of idea in developing multi-layered tax-related policies in terms of enforcement and legislation. Indeed, moral sentiments and social norms, which are classified under the scope of ethics have a strong relation in taxpayers' compliance decisions. Then, prominence of taxpayers' ethics and motivation are important in preventing tax fraud issues. In light of this study, more emphasis can be placed on psychological factors in future studies to understand taxpayers' behaviours.

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Appendix 1 *Descriptive analysis of respondents' demographic information (n=366)*

Gender	Frequency	Percentage
Male	216	59.0
Female	150	41.0

Ethnicity	Frequency	Percentage
Malay	130	35.5
Chinese	164	44.8
Indian	50	13.7
Others	22	6.0

Age group	Frequency	Percentage
Below 20	24	6.5
20-29	95	26.0
30-39	136	37.2
40-49	61	16.7
50-59	34	9.3
60 and above	16	4.4
Religion	Frequency	Percentage
Islamism	127	34.7
Buddhism	131	35.8
Christianity	85	23.2
Hinduism	21	5.7
Others	2	0.5

Education level	Frequency	Percentage
SPM/O-level/ equivalent	47	12.8
STPM/UEC/ equivalent	72	19.7
Diploma/Degree/ equivalent	212	57.9
Master/PhD/ equivalent	35	9.6
Employment status	Frequency	Percentage
Employee	188	51.4
Employer	74	20.2
Freelancer	55	15.0
Job seeker	47	12.8
Others	2	0.5

Annual income	Frequency	Percentage
Below RM40,000	65	17.8
RM40,001 – RM60,000	187	51.5
RM60,001 – RM80,000	68	18.6
RM80,001 – RM100,000	46	12.6

Experience in income tax filing	Frequency	Percentage
Never	68	18.6
1 – 2 times	78	21.3
3 – 5 times	109	29.8
More than 5 times	111	30.3