

ELECTRONIC TAX FILING SYSTEM: TAXPAYERS' PERSPECTIVES

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ABSTRACT

Globally, tax agencies are leveraging on the electronic tax filing (e-filing) system to achieve greater tax administrative and compliance efficiency. However, taxpayers' resistance and under-utilization of e-filing technology remain the greatest concern and still plagued the various tax agencies that had embraced e-filing system. This paper examines the motivation to use e-filing and the impediments from taxpayers' perspective. A questionnaire was used to collect data on 682 individual taxpayers in Malaysia. The survey found e-filing has yet to gain momentum in Malaysia, with just one-third of the respondents had attempted e-filing in 2007. Of these, only 79% successfully e-filed their tax returns. Majority of the e-filers used e-filing for the sake of convenience; speed of filing and in faith to get faster tax refund. For those 21% who had attempted to use e-filing, but failed to e-file successfully, they indicated that the key impediments was the Inland Revenue Board Malaysia (IRBM)'s server was not responding properly or hanged half way through. Some gave up either due to the slowness of the network service or they were unable to sign the tax return form electronically. Overall, just 26.7% of the survey respondents had confidence in the IRBM in managing e-filing successfully; whilst 73.3% of the survey respondents had no confidence in the electronic administrative capability of the IRBM. These findings somewhat support the assertion of Tan, Pan and Lim. (2005) that it is important for the government to embrace e-filing as one of e-government endeavors to restore taxpayers' trust in the e-filing system. This study has implication for the tax administrators to develop a better 'user friendly e-filing system'.

INTRODUCTION AND BACKGROUND OF STUDY

As we move into an electronic business environment, taxes should be easy to administer and easy to comply with. Hence, in order to achieve tax administrative and compliance efficiency, tax administrators need to apply the theory of efficiency in tax administration procedures, one of its arguments is by a greater use of technology [7][13]. Notably, since the late 1980s, tax agencies around the world had developed a number of fiscal incentives and tax policies to harness the power of Information Communication Technology (ICT), as an enabler of development. E-filing system was used as one of the strategies to facilitate tax compliance and to achieve tax administrative and compliance efficiency. In most countries, e-filing is offered as an option to taxpayers and their tax representatives. In the international arena, many countries, for example the United States (US), Canada, Australia, New Zealand, Taiwan, South Africa, Singapore, the United Kingdom (UK) and Japan had progressively embraced e-filing. On the local front, the Inland Revenue Board Malaysia (IRBM) had launched e-filing for individual taxpayers on 10th February 2006.

E-filing has many benefits; nonetheless, the inherent weaknesses and insecurity of the e-filing system have thwarted the benefits [14]. Worldwide, many studies found tax users' resistance to use e-filing system remains a widespread problem [1-4] [8-10] [18-19]. In Singapore, it was suggested that the government needs to restore public trust in e-filing, and to blend socio-political strategies, ICT and taxation together [18]. In the US, the Electronic Tax Administration Advisory Committee (ETAAC) is recommending to mandate certain taxpayers and tax practitioners to e-file personal tax returns [4].

In essence, the move to adopt an e-filing system is neither hassle free nor well accepted by all tax parties. However, taxpayers' acceptance is deemed a necessary condition for the success of the e-filing system. In developed countries like Australia, Canada, the UK, US and New Zealand, many studies have been conducted to examine taxpayers' acceptance of e-filing [3-4][6][9][24]. For example, empirical study found that American taxpayers vary widely in their attitudes, technology readiness, acceptance and utilization of e-filing technologies [25]. Several studies uncovered that taxpayer groups vary in their technology readiness and willingness to automate, especially older taxpayers and pensioners who are much more comfortable handling paper filing and are accustomed to paper products [4-5][19]. This indicates that even taxpayers in developed countries (for example, the American taxpayers) are still ambivalent towards the e-filing technology. Notably, the American taxpayers do accept e-filing conceptually, but still wary of it, particularly when it comes to personal finances, privacy and securities issues pertaining to electronic transactions [4-5] [19].

In Malaysia, in 2006, in the first year of implementation of e-filing system for individuals, in spite of the extension of the tax filing deadline by one month and a promise to get faster tax refund for those who opted e-filing over manual filing [16]; just more than 120,000 out of 4 million individual taxpayers had used e-filing [22]. This represented only 3% of the total individual taxpayers. Discomfort about e-filing technology and perceived insecurity of e-filing [5] [14] as well as lack of Internet familiarity and skills are potential threats to the adoption of e-filing in Malaysia [23].

At the time of study, except the studies of Fatimah (2007) and Lai (2006b), little is known about complexities facing Malaysian taxpayers in embracing e-filing [5] [15]. As it is important to evaluate the response from the vantage point of those who use e-filing, hence, this papers aims to examine factors that motivated the use of e-filing and the impediments.

RESEARCH METHODOLOGY

We used a survey to collect data. Questionnaires were purposefully designed and personally administered on participants who attended "Budget 2008 Tax Seminars" in the month of September and October 2007, organized by the Malaysian Institute of Accountants in Kuala Lumpur (the capital city of Malaysia, located in the central region), Johore Bahru (a city located in Southern region), Penang and Ipoh (cities located in Northern region) of Malaysia. In total, we collected 682 usable data, and responses from non-taxpayers were discarded and excluded from data analysis.

DATA ANALYSIS

The Respondents' Profiles

Table 1 presents the respondents' profiles. Out of 682 respondents, majority of them were from central region (69.1%), 21.5% from northern and 9.4% from southern parts of Peninsular Malaysia. More than 35% of them were males and 56.2% aged between 31 and 40 years old. In term of ethnicity, Chinese were the most notable participants, making up about 91%. Nearly 67% of the respondents possessed professional qualifications and 23.2% had bachelor degrees. The findings indicate that majority of the survey respondents had tertiary education. About 65% of them were salaried individuals (who filed Form BE), and the rest were individuals with business income (who filed Form B) in 2007.

Table 1 The Respondents' Profiles

	Never attempted e-file Frequency (%)	Attempted and e-filed successfully Frequency (%)	Attempted e-file but unsuccessful Frequency (%)	Total Frequency (%)
Location: Central region	317 (70.3)	114 (62.3)	40 (83.3)	471 (69.1)
Northern region	94 (20.9)	46 (25.1)	7 (14.6)	147 (21.5)
Southern region	40 (8.9)	23 (12.6)	1 (2.1)	64 (9.4)
Gender : Male	155 (34.4)	73 (39.9)	13 (27.1)	241 (35.3)
Female	296 (65.6)	110 (60.1)	35 (72.9)	441 (64.7)
Age : ≤ 30	92 (20.4)	42 (23.0)	8 (16.7)	142 (20.8)
31-40 years old	256 (56.8)	102 (55.7)	25 (52.1)	383 (56.2)
41-50 years old	67 (14.9)	31 (16.9)	9 (18.8)	107 (15.7)
≥ 50 years old	36 (8.0)	8 (4.4)	6 (12.5)	50 (7.3)
Ethics: Chinese	416 (92.2)	164 (89.6)	41 (85.4)	621 (91.1)
Malay	15 (3.3)	10 (5.5)	4 (8.3)	29 (4.3)
Indian	11 (2.4)	6 (3.3)	1 (2.1)	18 (2.6)
Others	9 (2.0)	3 (1.6)	2 (4.2)	14 (2.1)
Academic Qualification				
Professional	314 (69.6)	113 (61.7)	29 (60.4)	456 (66.9)
Bachelor's degree	95 (21.1)	47 (25.7)	16 (33.3)	158 (23.2)
Diploma	24 (5.3)	12 (6.6)	1 (2.1)	37 (5.4)
Master's degree	8 (1.8)	9 (4.9)	1 (2.1)	18 (2.6)
Others	10 (2.2)	2 (1.1)	1 (2.1)	13 (1.9)
Tax return filed in 2007				
Form BE	292 (64.7)	122 (66.7)	30 (62.5)	444 (65.1)
Form B	159 (35.3)	61 (33.3)	18 (37.5)	238 (34.9)
Total	451	183	48	682

Profiles of those who had e-filed successfully

Out of the 682 survey respondents, just 231 (33.7%) had attempted e-filing since it was launched in 2006 (see Table 1, column 3 and 4). Of these, about 79% (183 out of 231) were successful in submitting their tax returns electronically (see Table 1, column 3). About 21% (48 out of 231) claimed that they failed to e-file successfully (see Table 1, column 4). To further probe the issue, we asked e-filers where they did e-filing. Figure 1 shows that 45.9% of e-filers did it from home, 40.4% from their office and 13.1% from the IRBM's office. Just 0.5% of the respondents did e-filing from cyber café. In respect of the time taken to e-file successfully, 36.1% of the e-filers indicated that they took less than 30 minutes, 47.5% took between 30 minutes to 1 hour, 9.3% took between 1 to 2 hours and 7.1% took more than 2 hours (see Figure 2). The findings indicate that the duration to complete e-filing was rather long.

Figure 1 Place where e-filers did e-filing

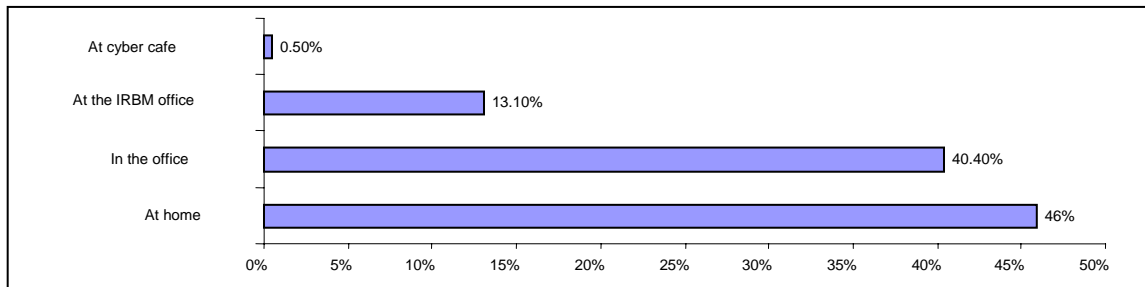
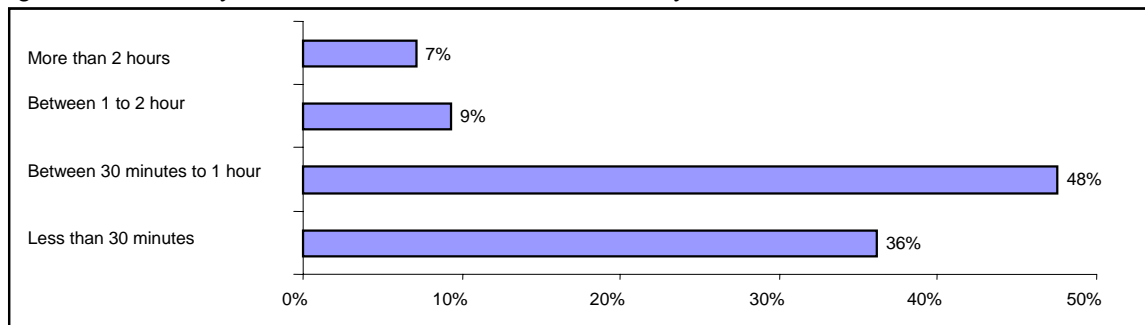
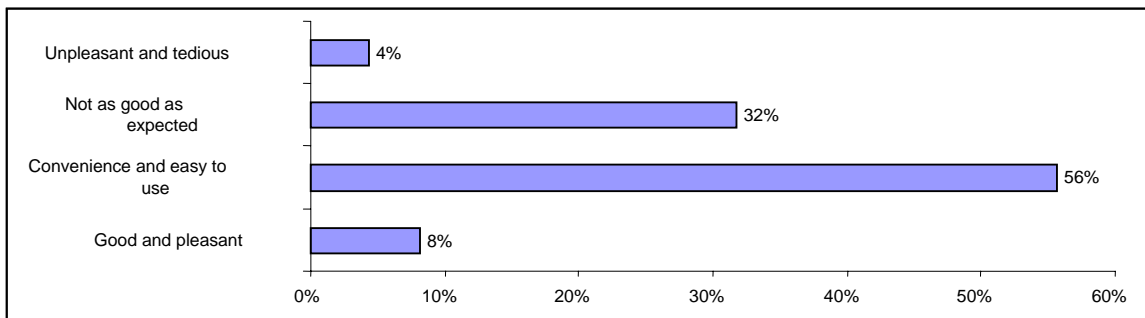


Figure 2 Time taken by e-filers to file tax return forms electronically



When asked about their overall experience of e-filing, Figure 3 shows that 55.7% of e-filers found e-filing was convenient and easy to use. About 8.2% found e-filing was good and pleasant. However, 31.7% of e-filers indicated that e-filing was not as good as they had expected; and 4.4% found e-filing was unpleasant and tedious.

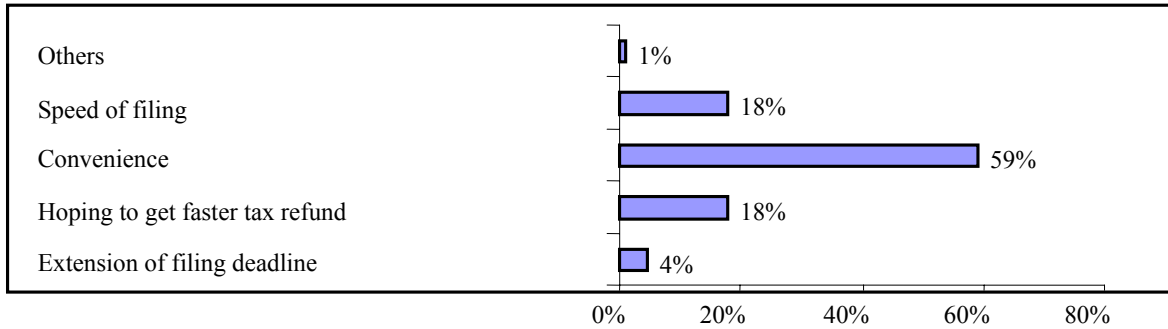
Figure 3 E-filers overall experience of e-filing



With regards to reason for opting to use e-filing, the survey found 59.0% of the e-filers indicated that they chose e-filing over manual filing for the sake of convenience (See Figure 4). About 18.0% used e-filing for the speed

of filing, whilst 17.5% e-filers were hoping to get faster tax refund. Notably, 4.4% opted to use e-filing in 2006, because extension of filing deadline was given in year 2006 for those who used e-filing. Merely 1.1% tried e-filing to gain experience. Overall, the reasons for using e-filing are somewhat consistent with study of Fatimah (2007) when she surveyed the e-filing experience among members of Malaysian Institute of Taxation. Fatimah (2007) also found convenience, speed of tax filing and faster tax refund appeared to be the three most important considerations for Malaysian tax professionals to use e-filing.

Figure 4 Reasons for using e-filing

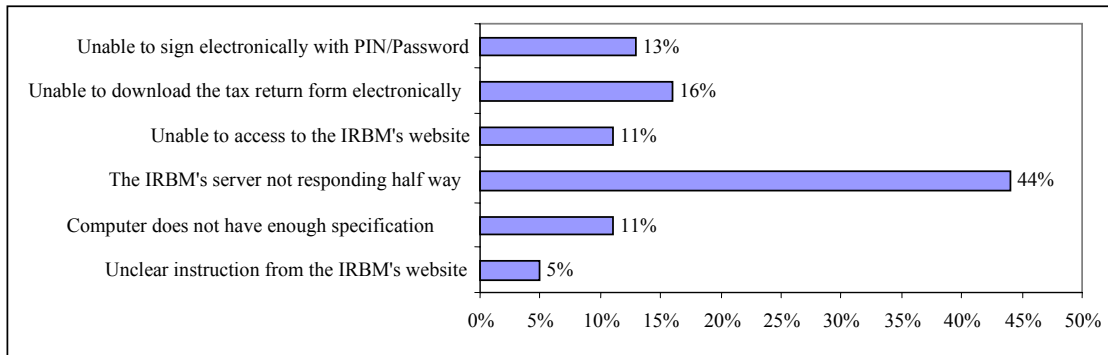


Profiles of those who had attempted to e-file but failed to submit tax returns electronically

Out of the 231 respondents who had attempted e-filing, 21% (48 out of 231) of them failed to e-file successfully (see Table 1, column 4). Of these, 45.9% of them spent between 30 minutes to one hour trying e-filing. About 18.9% of them spent between 1 to 2 hours and 29.7% spent more than 2 hours before giving up. About 57.1% of them had attempted to e-file from home, whilst 42.9% from their offices. Notably, none of the failed attempts was made in the IRBM offices. The findings somewhat indicate that in order to e-file successfully, individuals need to go the IRBM offices, which is impractical and outweigh the benefits of e-filing.

When asked on the reasons for unsuccessful attempts. The survey revealed that the key reasons for unsuccessful attempt was the Inland Revenue’s server was not responding or the server hanged half way through (44%), unable to download the tax return form electronically (16%), unable to access to IRBM’s website (11%), unable to sign electronically with the Personal Identification Number or password provided by the IRBM (11%), computer does not have enough specification (11%) and unclear instruction from the IRBM’s website (5%).

Figure 5 Reasons for unsuccessful attempt of e-filing



OTHER FINDINGS

In turn, we requested the survey respondents’ opinions on (i) intention to use e-filing in 2008, (ii) what type of incentives that would motivate them to use e-filing, (iii) whether e-filing should be made mandatory and (iv) whether they have confidence in the IRBM in managing the e-filing system successfully. Notably, 92.3% of e-filers indicated that they would use e-filing again in 2008 (see Table 2). About 9.7% indicated otherwise. It is encouraging to note that 60.4% of those who had attempted e-filing in 2007 but failed to e-file successful also indicated that they had the intention to use e-filing in 2008. Overall, about half (50.4%) of the 682 survey respondents had the intention to use e-filing in the coming year.

Merely 30.8% (210 out of 682) of the survey respondents had the opinion that e-filing should be made mandatory, and the reminders (69.2%) thought otherwise. Notably, just 26.7% had confidence in the IRBM in managing e-filing successfully; whilst 73.3% of the survey respondents had no confidence in the electronic administrative capability of the IRBM. This finding supports the assertion of Tan et al. (2005) that the government needs to restore public trust in e-filing as one of the e-government initiatives. In respect of the type of incentives that will motivate the take up of the e-filing system, majority of the respondents (42.4%) indicated that 'speedy tax refund' to be the most desirable incentive. This finding is somewhat consistent with Lai et al. (2005) when they surveyed Malaysian tax practitioners' responses towards e-filing. In addition, this study found 35% of the respondents' quest for 'special cash rebate' for those who use e-filing, and 21.7% suggested 'extension of tax filing deadline' for those who used e-file would motivate the take up of e-filing. Less than 1% suggested lucky draw prizes for those who e-filed. It is worth noting here that the Inland Revenue Authority of Singapore (IRAS) used lucky draw prizes as an incentive to encourage individuals to take up e-filing in the early years of implementation [10]. The list of e-filing lucky draw winners who won cash prizes in the 'E-filing Lucky draw' were publicized on the IRAS websites to motivate taxpayers to take up e-filing [11].

Table 2 Other findings

	Never attempted e-file Frequency (%) (N = 451)	E-filed successfully Frequency (%) (N = 183)	Attempted e-file but unsuccessful Frequency (%) (N = 48)	Total Frequency (%) (N = 682)
Intent to use e-filing in 2008:				
Yes	146 (32.4)	169 (92.3)	29 (60.4)	344 (50.4)
No	305 (67.6)	14 (9.7)	19 (39.6)	338 (49.6)
E-filing should be mandatory				
Yes	143 (31.7)	53 (29.0)	14 (29.2)	210 (30.8)
No	308 (68.3)	130 (71.0)	34 (70.8)	472 (69.2)
Incentive that motivate the use of e-filing				
Extension of filing deadline for e-filers	104 (23.1)	37 (20.2)	7 (14.6)	148 (21.7)
Faster tax refund if use e-filing	185 (41.2)	80 (43.7)	23 (47.9)	289 (42.4)
Special cash rebate for e-filers	156 (34.6)	65 (35.5)	18 (37.5)	239 (35.0)
Lucky draw prize for e-filers	5 (1.1)	1 (0.6)	Nil	6 (0.9)
Confidence in the IRBM in managing e-filing				
Yes	72 (16.0)	97 (53.0)	13 (27.1)	182 (26.7)
No	379 (84.0)	86 (47.0)	35 (72.9)	500 (73.3)
Total	451	183	48	682

CONCLUSION

The survey found e-filing has not gained momentum in Malaysia. As individual taxpayers are the most important end-users, sufficient understanding of taxpayers' acceptance and usage of e-filing system should be made to reduce the risk of user rejection; and preventive and predictive measures ought to be taken on a timely basis to ensure future acceptance. This study has substantiated to tax administrators the need to build 'a better and user friendly' e-filing system. In considering that e-filing is the way forward for global tax authorities, future studies can be done to examine taxpayers' (individual and corporate) usage and acceptance of e-filing across Asia-pacific region and around the world.

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