SOLE PROPRIETORSHIP AND TAX COMPLIANCEINTENTION IN SELF ASSESSMENT SYSTEM: A THEORY OF PLANNED BEHAVIOR APPROACH

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ABSTRACT

Issues on tax compliance have been extensively studied among researchers since 1960. A review of the tax compliance indicated that there were various factors influencing an individual's compliance behavior. However, the majority of these studies have focused on the compliance behavior of individual income taxpayers in selected countries. Little is said about the compliance level among business taxpayers especially for small business and partnership. It was reported that, certain small business categories such as restaurants or those who run their business at the roadsides or at hawkers' centre were found not to fully comply with tax laws. These issues became even more significant for some business taxpayers with the implementation of Self Assessment System (SAS). Under SAS, they are not only required to adhere to tax obligations of doing business, but taxpayers must also have sufficient tax knowledge in order to assess their tax liability correctly and to file tax return forms on time. The tax compliance behavior has been thoroughly explained by the economic deterrence models which primarily emphasize on enforcement and detection variables. These models however have some limitation to fully explain the reasons why many people may or may not comply with tax laws. Since then, many researchers have shifted to focus more on sociology and psychology variables in an attempt to explain taxpayer behavior. Based on this basic model, the objective of this study is to examine suitability of the Theory of Planned and Behavior (TPB) introduced by Ajzen and Fishbein in explaining compliance behavior of sole proprietor taxpayers. These models generally explain how an individual's attitude towards behavior, subjective norms and perceived behavioral control may influence in making decisions as to whether or not to willingly comply with tax laws. A survey of sole proprietors in Klang Valley would be expected to demonstrate how sole proprietors respond to their tax compliance behavior according to the theory of TPB. The findings of this study is expected to provide insights to Malaysian tax policy makers and the IRBM in understanding the impact of self assessment system on compliance behavior.

Keywords: Tax compliance, Theory of Planned Behavior, sole proprietors.

INTRODUCTION

Taxation is an important part of fiscal policy which can be used effectively by government for meeting its public expenditures. In many countries, taxation has been often used as a tool in promoting growth for the development of its nation. Fund collected from tax source has become a major contributor towards the development of the nation for the benefit of its people. Abbasi (1985) also viewed that state and tax are complementary and one cannot survive without the other.

Two broad taxes are imposed in Malaysia namely direct and indirect taxes. Direct taxes which include income tax from individuals, companies, petroleum, stamp duty, estate duty and real property gains tax are administered by the Director General of Inland Revenue Board. On the other hand, indirect taxes which consists of import duties, excise duties, sales tax and service tax are administered by the Director General of Royal Customs and Excise Department.

In early 1970s the government relied heavily on indirect taxes compared to direct taxes as sources of revenue (Kasipillai, 2002). However, in 1999 direct taxes has become the major contributor to government revenue. Recently, a study undertaken by Loganathan et.al. (2007) has found that the government are strongly depend on direct tax revenue such as income tax from individuals, companies, petroleum and real property gains tax and placed less reliance on indirect taxes.The Inland Revenue Board of Malaysia (IRBM) also reported that in 2009a total of RM88.40 billion was successfully collected from direct taxes, represents 54.53 percent from the total revenue of Federal Government (IRBM Annual Report, 2009).As for year 2010,of 60 percent of the Treasury's income, 51 per cent came from direct taxes while indirect taxes contributed the rest (New Strait Times, 20 July 2011).

According to Loo et.al (2010), the effectiveness of tax system in both developed and developing countries would very much depend on the strength of their revenue agencies in collecting and distributing wealth to the public. In order to improve and modernize the tax system, in 2001 the Malaysian's government has introduced self assessment system (SAS). SAS was first

implemented on corporations in 2001 and it was extended to other categories of taxpayers (i.e. self-employed individuals, partnerships, cooperatives and employees) in 2004. The main objective for the implementation of SAS is to promote voluntary compliance by the taxpayer as the rate of compliance level under the OAS was unsatisfactory (Lai and Chong, 2009; Loo and Ho, 2005). Previously, Malaysia adopted an Official Assessment System (OAS) whereby taxpayers were only required to submit their income tax form with documentary evidence for the tax authorities to correctly assess their tax liability.

Under SAS, the taxpayers are legally responsible to ensure that they submit complete, proper tax returns and voluntarily pay his or her income tax. The responsibility for assessing tax liability has shifted from the shoulder of tax assessor to the taxpayers and they are forced to learn how to better manage their tax affairs in order to avoid being penalized unnecessarily (Sapiei and Abdullah, 2008).

However, taxpayer cannot be expected to complete returns accurately unless they have ample knowledge to understand the system (Kassipillai and Abdul-Jabbar, 2006). Thus, it is important for IRBM to educate, assist and guide the taxpayers to comply with the tax law and procedures. Various education and customer service programs are needed in order to enhance taxpayers' ability to understand SAS and convince the taxpayer in fulfilling their tax obligations. Over the years, many new programs have been designed and introduced by IRBM to educate the taxpayers on their rights and obligation under SAS. These include setting up one stop counter in all branches, providing assistance during taxpayers service week, establishing the problem solving unit, conducting workshops, seminars, and public lectures and also visiting to taxpayers' premises; offering tax assistance to resolve taxpayers' problems (IRBM Annual Report, 2009).

Although a lot have been done by IRBM, the problem of non compliance still exists. The IRBM faces a number of barriers to address the issues on tax compliance. According to Kassipillai (2002) on average about 30 per cent of all taxpayers fail to submit their returns to the IRBM. The author has foreseen the taxpayer's lack of knowledge of tax law coupled with inadequacy of taxation books in layman terms to guide them, as a contributing factor to evasion whether unintentional or intentional.

Concern about the decline in voluntary tax compliance, it has led to numerous studies on the issue of level of compliance. This issue calls for serious attention as the problem of non compliance will cause losses of current income to the government (Clotfelter, 1983). Quoating figures from Athens-based Foundation for Economic and Industrial Research, Datuk Seri Ahmad Husni Mohamad Hanadziah, the current Second Minister of Finance of Malaysia said that in Europe about RM63 billion a year is lost due to tax avoidance (New Straits Times, 2011). The chief executive officer of the IRBM also reported that in 2005 around one third of Malaysians eligible to pay tax but did not pay tax. In addition he also claims that, nearly 1.3 million potential taxpayers did not file their tax returns. It was estimated that the government has lost approximately RM307.7 million due to non compliance (Krishnamoorty, 2006).

Non compliance is not only depressing the country's economic growth but the government could be running into debt problems if taxpayers evade their tax responsibilities. It will undermine the ability of government to raise revenue in an efficient manner and makes a contribution to national economic well-being (Nur-tegin, 2008). Thus, in the long runif the problem of non compliance is not checked it will have a negative impact on national development.

MOTIVATION OF STUDY

To date, there is large and more comprehensive literature on tax compliance. Whether this research focuses on the level of tax compliance, issues as why people pay taxes, why they evade taxes, how tax evasion can be reduced, factors that might influence taxpayer's behavior (see for example James, Murphy and Reinhart, 2005; Henderson and Kaplan, 2005; Torgler and Valev, 2010), the aim of the research is to enhance tax administration and help in managing the tax gap problem (Bardsley, 1994; Dubin 2007). In the Malaysian context, according to Loo et. al. (2010), the issue on tax compliance has attracted much interest among researchers since the mid 1990's. However, most of the studies have focused on individual taxpayers (see for example Palil and Mustapha, 2011; Madi et.al. 2010; Bahari and Ling, 2009; Lo and Ho, 2005; Kasipillai and Abdul-Jabbar, 2006; and Kasipillai et.al., 2003) but little is said about tax compliance on business taxpayers especially for sole proprietorsand partnership. Findings also demonstrated that, tax evasion is apparently the highest among sole proprietors and partnership (Ibrahim, 1988). Recently, it was reported that a local businessman taxpayer was imposed a penalty by the Court under Section 114 of Income Tax Act 1967 for deliberately avoiding and failing to report his income in Form B for a year of assessment 2003 and 2004 amounting to RM 2,567,630 and RM l70,176 respectively (Borneo Post KK,2010).

Findings from prior research on national and international survey also discovered that there are certain business categories that do not fully comply with tax requirements (Mottiavakandar et.al. 2004), for examplethey were not reporting cash-in-hand transactions or declaring lower income than the actual income (Noble 2000). The United States study by Hite et.al. (1992) also discovered that for every five small business taxpayers, one was either under reporting income or over reporting deductions. The possible explanation for such non compliance might due to fact that, sole proprietor taxpayers do not fully integrate tax obligations as part of their business operations because the system, as indicated by Choong et.al (2009), is too complex and its frequently changing make difficult even for tax officers, tax practitioners to keep abreast of the latest development, let alone the ordinary people such as these sole proprietor as taxpayers.

Studies have also shown that, business owners are non compliant in terms of lack in keeping financial records particularly after the introduction of SAS (Choong et.al, 2009; Choong and Lai, 2008; Sigal et.al, 1999). It is always difficult for tax authorities to rely on the accounting books as they doubt on the accuracy of the information provided. Business owners placed least importance on record keepingas they may be preoccupied with more important business matters. Generally, most of the time was

spent on their daily business activities. Therefore they would not have much time to deal with book keeping and tax matters. Some might feel that it is not economicalto employ a full time accounting staff to do record keeping and accounting or even to seek professional help on tax matters (Choong et.al 2009). A study conducted by Lumumba et.al. (2010) on the taxpayers' attitudes and tax compliance behavior in Kenya found that, more than 40 per cent of their sample do not keep their transaction records as requirements for tax compliance up to date. Their failure to keep proper records for tax purposes indicates some sort of non compliance.

Apart from that, the business transactions (business receipts and the payment for supplies) of small business owners are normally in cash basis. Hence, it is reasonable to assume that they more likely to under reporting of income or act in ways to avoid paying taxes (Choong et.al., 2009). According to Gordon (1990), firms can evade taxes by selling their goods for cash basis instead of credit term. The tax authorities also tend to audit self-employed taxpayers whose nature of business is in cash term.

Thus, given the foregoing background, it is reasonable to assume that sole proprietor may not fully comply with business taxation requirements. Therefore, the purpose of this study is to explore of why these people do or do not accurately report and fully pay their taxes. What are the inherent factors that might influence taxpayer compliance behavior? Do their perceptions towards tax systemdriven their tax compliance or non compliance behavior? Or do they feel that paying tax as a burden because they have to pay more as compared to other wealthy taxpayers? Or do small business taxpayers are not really aware or taking seriously to meet their tax obligations because of inadequate knowledge of tax law?Or if they don't possess adequate knowledge on personal tax matters, maybe their compliance behavior is shaped by their inherent skill or their ability in decision making. For example they have to make decisions which income is taxable, how to minimize tax liability and all these situations requires taxpayers to possess certain skill like problem solving ability.Or maybe their compliance behaviors are influenced by the surroundingin making decisions as to whether or not to comply?

The above questions are addressed by undertaking a review of the relevant professional and academic literature on the tax compliance behavior. In order to explain how attitudes affect their behavior towards tax compliance, this study will use a Theory of Planned Behavior (TPB) which was proposed by Ajzen(1991). The TPB is a theory which predicts deliberate behavior because behavior can be deliberative and emerge in a planned way.

RESEARCH OBJECTIVES

Specifically, the objectives of this study are:
a.   to determine the level of tax compliance among sole proprietortaxpayers.
b.   to examine tax compliance determinants that have impact on sole proprietor taxpayers' behavior using TPB approach.
c.   to identify which components of TPB that most influence sole proprietor taxpayers in tax compliance behavior.
d.   to examine how general problem solving ability might influence perceived behavioral control of sole proprietor taxpayers.

CONTRIBUTION OF THE STUDY

The study is expected to contribute in several ways. First, from theoretical perspective this study adds to the knowledge of tax compliance behavior in Malaysian context. Second, there is little published scholarly study related to tax compliance that discuss within the framework of the TPB, let alone the study on sole proprietors taxpayers. To date, there have been two major studies that employ this theory to predict tax compliance behavior, but they focused on salaried individual taxpayers (Natrah Saad, 2009 and Bobek et.al. 2007).No study has yet focused solely onsole proprietors. These group have attracted much less attention by the legislator as their contribution to Malaysian income tax revenue is relatively small. Most studies have focused on small and medium enterprises (SMEs)(see for example Mansor et.al, 2004; Sapiei and Abdullah, 2008; Abdul-Jabbar and Pope, 2008; Doussy and Abrie, 2006 and Md-Yassin et.al.2010) that comprises all types of businesses (sole proprietorship, partnership and limited company) with differenttax-reporting requirements.Although the contribution of sole proprietor for tax revenue may be small compared with other taxpayers, but they also the victim of Self Assessment System. They can be selected for tax audit at any time by IRBM and in 2010 it was reported that those tax audits cases resolved mainly arising from non company cases (more than 1.6 million cases) compared to company cases (only 78,000 cases). This might due to the fact that sole proprietors are often mentioned to under report their income or over report business expenses and thus, they are more closely scrutinized by tax authorities than are salaried individual or companies. Hence,it is interesting to exploretheir experience on tax compliance in the era of SAS, particularly in determining the extent to which this group of people fully meet their legal tax obligations.

Third, from a practical perspective this study provide an important insights for the government and Malaysian revenue authorities (i.e. IRBM) to consider a simpler income tax system for the targeting groups so as to enable the taxpayers meeting their tax obligations successfully. It is important for IRB to be aware of and understand taxpayer's compliance behavior and the need to provide tax education services focusing on selected groups of taxpayers. May be tax education should be formally introduced in secondary or even primary levels in Malaysia to equip them with some basic tax knowledge. Currently, in Malaysian education system, taxation is formally exposed to accounting and some business students at tertiary levels.

The remainder of the study proceeds as follows. The next section provides an overview of the Malaysian Self Assessment System. Then followed by discussion on prior literatures that have been done by previous author. It provides a detail discussion on tax compliance, its determinants and the Theory of Planned Behavior that will employ in this study. Next section emphasizes on the methodology of the research which encompasses research design to describe how the research will be conducted.

SELF ASSESSMENT SYSTEM – A New Tax Regime.

The tax system of a country does not only consist of the various taxes but also includes the assessment mechanism practiced by that particular country. Tax assessment system could be classified into two namely Official Assessment System (OAS) and Self Assessment System (SAS). Under OAS, the taxpayers receive their annual tax returns from revenues authorities (IRBM) and were required to submit the returns within 30 days from the date of service. It was the taxpayers' statutory duty to declare all the necessary income and expenses for a year of assessment and submit the completed returns to the IRBM. Based on the information provided by the taxpayers on their taxable income and allowable expenditure, the IRBM will compute the tax liability and inform the taxpayer of such amount payable.

In contrast, under self assessment system, the taxpayers are required by law to determine their taxable income, compute their tax liability and submit their returns based on existing tax laws and policy statements issued by the tax authorities (Kasipillai, 2009).The implementation of SAS has put trust on the taxpayers to fulfill their obligation voluntarily. The important element of SAS is that, the system was transferring the burden of assessment that was previously performed by tax expert, onto the shoulder of the taxpayer (Junaina, 2002). Although it seemed as a simple move, yet it must be aware that the consequences of this situation seem to be non compliance (Sandmo, 2005). Thus, to realize appropriate compliance, tax authorities are expected to provide necessary assistance and adequate resources to the taxpayers as to perform their responsibilities (Loo and Ho, 2005).

THEORETICAL FRAMEWORK

Tax Compliance
Tax compliance can be defined as reporting all income and paying all taxes in accordance with the applicable laws, regulations and court decisions (Alm, 1991). On the other hand, Brown and Mazur (2003), described the meaning of tax compliance by considering three distinct types of compliance namely payment compliance, filing compliance and reporting compliance. It refers to complying with administrative rules of lodging and paying and also complying with technical requirements of the tax laws in calculating tax liability. Motiakavandar et.al. (2004) further added that, a taxpayer is said to have complied with tax laws if the individual submit his or her completed return within the statutory specified deadline, calculate their tax liabilities independently and settles the tax liability without any enforcement.There are several interpretations of tax compliance available, but the definition provided by Roth, Scholz and Witte (1989), is commonly cited " taxpayers' action of filing tax returns at the proper time and reporting tax liability accurately in accordance with the Internal Revenue Code, regulations and applicable court decisions".

Non compliance on the other hand, refers to the failure to meet tax obligations whether intentional or intentional by conceal the true amount of their assessable income (Kinsey, 1985). In short, according to Kasipillai and Abdul-Jabbar (2006),non compliance may consist of (a) annual tax returns are not submitted within the stipulated period, (b) understated of income/overstated of deductions and (c) failure to pay taxes by the due date.

From the above definition, it implies that the taxpayers are expected to exercise care to lodge appropriate tax returns in accordance with the requirements of the tax law. This to avoid unintentional evasion and also to prevent deliberate evasion of tax. The taxpayers are now more concerned on the accuracy of the tax liability as to avoid any penalty imposed by revenue authorities. However, taxpayers can seek professional assistance to prepare their annual tax return if they do not have the knowledge to compute their own tax payable.

Determinants of Tax Compliance
There is a vast body of literature on tax compliance have been investigated to identify and explainthe factors that might influence tax compliance behavior. Most studies have taken economic deterrence modelsthat was pioneered by Allingham and Sandmo (1972) attempted to explain why people pay taxes and why they evade taxes.The theory assumes that taxpayers are amoral rational economic evaders who assess the likely costs and benefits of evasion behavior (Klepper and Nagin, 1989). This theory models generally predict that an increase in penalty rate and an increase in the probability of detection will result in greater taxpayer compliance. As for tax rate, people tend to evade tax if there is an increasing in tax rates.

However, Clotfelter (1983) claimed that by reducing the tax rate, does not necessarily lead to an increase in tax compliance because it depends ontaxpayer's attitude towards risk. This was supported by Graetz and Wild (1985) when they found that lowering tax rates has no effect on compliance either theoretically or from empirical evidence. Instead further legislative actions are needed in order to improve tax compliance. In short, economic theories could not completely explain the tax compliance behavior because people may still comply even where the risk of audit is low or the tax rate is high. There may be other factors that not captured approximately by the theory in explaining tax compliance behavior. Instead of relying on economic analysis, it is better to explore other approaches or option in better explaining tax compliance (James, Murphy and Reinhart, 2005). Doussy and Abrie (2006) also highlighted that when one tries to predict tax compliance behavior, a taxpayer's inherent character, beliefs and norms should be taken into account. Social psychological variables like social norms, fairness, equity, moral and ethical concerns are important in understanding taxpayers' attitudes towards tax system (Lumumba et.al. 2010). As a result, many researchers begun to focus on behavioral approach to provide a better solution to the puzzle of tax compliance.Therefore this study attempted to explore how taxpayers' attitudes influence tax compliance behavior, within the framework of the Theory of Planned Behavior (Ajzen, 1991).

Theory of Planned Behavior

Theory of Planned Behavior is a well established theory in explaining an individual's behavior. This theory is an extension of the Theory of Reasoned Action (Ajzen and Fishben, 1975) which based on the assumption that human beings are usually quite rational and make systematic use of information available to them. People will consider the implications of their actions before they decide to engage or not to engage in a given behavior (Ajzen and Fishbein, 1975).

However, as time went on Ajzen and other researchers began to realized that this theory was not adequate and had several limitations (Godin and Kok, 1996). Therefore, they added one additional variable of the original theory which perceived behavioral control. Perceived behavior control refers to how much control an individual believes he or she has to carry out a specific behavior.

This theory have been used successfully in many behavioral researches such as the acceptance of telemedicine technology by physicians (Chau and Hu, 2001), the adoption of virtual banking (Lio et.al, 1999), adolescent smoking (Guo et.al., 2007), to determining obesity factors in overweight Chinese Americans (Liou, 2007) and many others. In a taxation context, Bobek et.al. (2007) employed TPB to consider variables that influence tax compliance with the inclusion of moral obligation as a moderating variable into their study.

Ajzen's (1991) theory of planned behavior posits that behavior intentions are shaped by three factors namely (a) attitudes toward behavior, social norms and perceived behavior control. Figure 1 displays the relationship between these three elements of the TPB.

Figure 1 : The Theory of Planned Behavioral. Ajzen (1991) *Organizational Behavior and Human Decision Processes.*
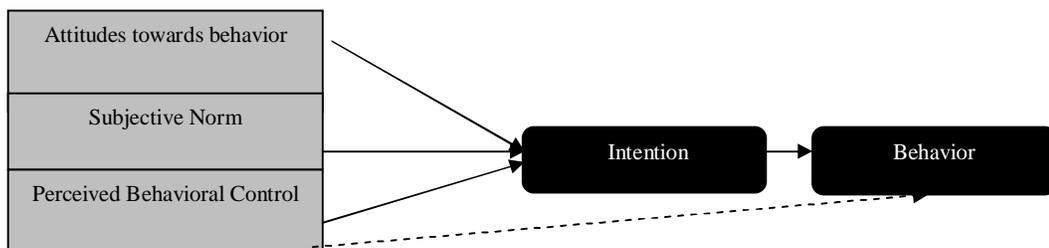
As can be seen from Figure 1, intention is the basis of this theory. It is an indication of an individual's readiness to perform a given behavior. It is influenced by three components; (a) person's attitude toward performing the behavior, (b) subjective norm and (c) perceived behavioral control. For this study, intention relates to the probability of sole proprietor taxpayers whether or not to comply with tax law.

Attitudes towards performing the behavior.

Attitude toward performing the behavior refer to general feeling of favorableness or unfavorableness toward performing that behavior. It involves an individual's evaluation or personal views as to whether the behavior is good or bad. Attitude may also be defined as positive or negative views towards the behavior. The more positive the perceived consequences of a behavior, the more likely he or she will intend to perform that behavior (Ajzen and Fishbein, 1975).

In relation to taxation, an individual taxpayer will intend to comply with tax requirements when he or she evaluates it positively otherwise he or she will act in ways to avoid paying taxes. This attitude may be influenced by various factors which includes fairness perception towards tax system. It is commonly believed that, people would be willing to pay or even more as long as they can live in a community that provides good public services. Taxpayers may perceive the tax system to be fair if they receive public services in return for the taxes they pay (Forest and Sheffrin, 2002). This is an indication of positive view on tax compliance. On the other hand, if they feel that they being treated poorly by the tax system, they tend to be less compliant. This perception will eventually shape their attitude towards tax compliance decisions. Roth, Scholz and Witte (1989) also found that concerns about fairness on tax system have links with attitudes and tax compliance behavior.

Based on the above discussion there is a prior expectation that sole proprietor taxpayers with positive view on the fairness of the tax system are more likely to have positive attitudes towards tax compliance. Therefore, it is hypothesized that:

H1 : Positive attitude towards paying tax is positively influence tax compliance behavior of sole proprietor Malaysian taxpayers.

Subjective Norm

Ajzen (1991) describes subjective norms as an individual's perception of whether people important to the individual think he or she should perform that particular behavior. These important people may include friends or a peer group,

family, spouse, close friends and etc. The theory predicts that the more an individual perceives that people around them think he or she should engage in the behavior, the more likely the person intends to do so (Randall and Gibson, 1991).

In relation to taxation, a comparative study conducted by Bobek et.al.(2007) also provides an empirical evidence that social norms help to explain tax compliance intentions. As such, a positive relationship can be expected between these two variables whereby people will perform a behavior if he or she believes that their significant others wanted them to perform the behavior (either to comply or not to comply with tax obligations). The second hypothesis is therefore stated as follows:

H2 : Subjective norm positively influence tax compliance behavior of sole proprietorMalaysian taxpayers.

Perceived Behavioral Control.
Perceived behavioral control specifies the difficulty level of the performance displayed by an individual. This element can sometimes affect the behavior directly (arrow indicated by dotted line in Figure 1). It refers to the perception of the ease or difficulty of that individual can successfully execute the behavior required. This behavior is influenced by other factors which may facilitate or impede performance of behavior (Bobek et.al.,2007). An individual may have total control of certain behavior when there are no constraints to perform such behavior. In contrast there may be a total lack of control if a given behavior requires resources or certain skills which may be lacking. If they believe that they have that kind of resources or opportunity the greater should be their perceived control over the behavior. Hence, it is clear that, there must be other important construct or facilitating factors that can influence such behavior. In other words, they will only be motivated to perform the behavior if they are confident in their ability to perform it successfully (Kraft et.al.,2005).

In a taxation context, if taxpayers believe that they possess some skills, ability or knowledgeto successfully complete the tax returns, submits his or her returns within the time period, accurately reports all relevant information without any enforcement, the person seems to have a high perceived behavioral control and is more likely to comply with their tax obligations. On the other hand, the person also seems to have a high perceived behavioral control over non-compliance if they think that with the skills and resources that they possess, they have no difficulty for not to declare certain amount in their tax return.

Problem Solving Ability.
Scholars such as Verinderjeet and Renuka (2002) opined that the implementation of the SAS in Malaysia poses challenges on individual taxpayers, particularly for sole proprietor taxpayers. They are not only required to abide with the tax law when running a business (for example must kept business records for 7 years for tax audit purposes; business transactions should be recorded within 60 days from the date the transaction took place), but they are also required to have a precise understanding in tax matters because, they are now carrying out duties that were previously performed by tax expert (Choong et.al., 2009).

Under SAS, business owners need to analyze what details should be included or which income that really needed to be reported in their tax return. As for expenses, they need to decide which expenses are incurred for private purposes and which expenses are meant for the capital expenditure. In addition, they must also aware the availability of capital allowances in relation to assets used in the business. Thus, it seems that this new task requires taxpayers to possess certain skills such as general problem-solving skills for effectively manage their tax matters.According to Libby (1995), general problem solving ability refers to the capacity of an individual to complete information-encoding, retrieval and analysis tasks that contribute to problem solving.

Based on the above argument, it is appropriate to investigate the impact of general problem solving ability (resources) on perceived behavioral control. There is a lack of study that discusses a general problem solving skill in a taxation context. Therefore the hypothesis is stated as follows:

H3 : Perceived behavioral control positively influence tax compliance behavior of sole proprietor Malaysian taxpayers.

H4 : General problem solving ability is positively influence perceived behavioral control of sole proprietorMalaysian taxpayers.

PROPOSED MODEL
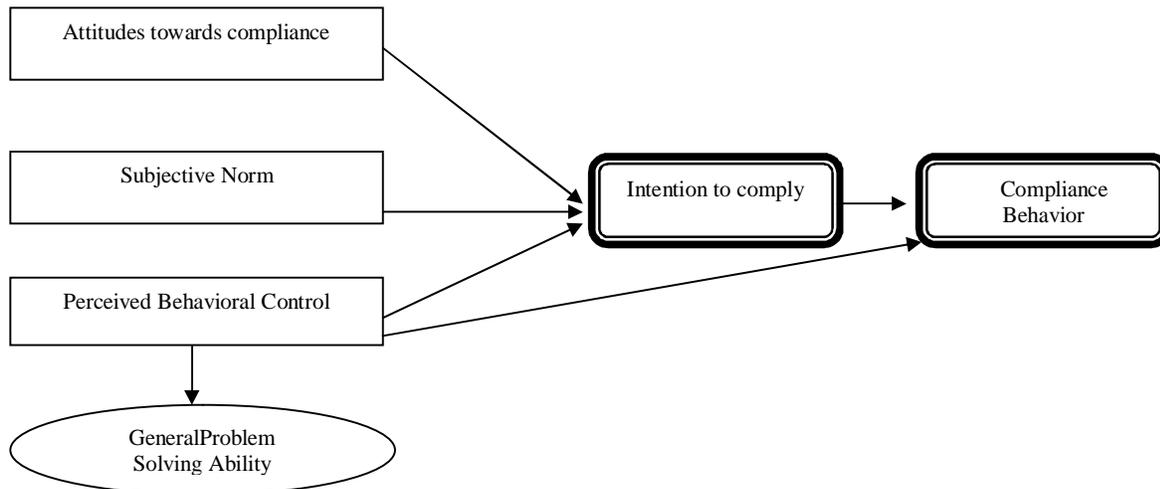
RESEARCH METHOLOGY

This section presents the research methodology used in conducting the study. Section 7.1 outlines the structure of the survey questions. Section 7.2 discuss the population of interest and sample of the study.

Research Question
The data collection for this study will be a survey questionnaires consisting of four sections namely Section A, Section B, Section C, Section D and Section E. The questionnaire was adapted from Mottiakavandar et.al. (2004), Natrah Saad (2009) and Libby (1995)with some modifications.

Research on tax matters is usually considered personal and confidential. Direct questions about complying or not complying in tax law may be inappropriate survey techniques. Therefore, the question will be based on case scenarios that would reflect indirectly on how taxpayers would behave in a particular tax situation.

Section A is designed to measure intention to comply as a proxy for tax compliance behavior. Questions will be based on scenarios and respondents need to response for each scenario on how they would behave in a given situation. Questions is based on 5-point Likert scale that range from1 (Definitely No) to 5 (Definitely Yes). The higher the level of agreement with the question, the more positive is the intention of the respondents towards tax compliance.

Section B is formulated to measure attitude of the individual in tax compliance behavior. These variables are based on a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). Based on this scale, the higher the degree of disagreement with the questions posed, the high will be the compliant attitude and consequently the greater the tendency to fully comply with tax laws.

Section C is designed in relation to subjective norms towards tax compliance behavior. Four questions will be asked to the respondents for instance whether they agreed that "Most people who are important to me would probably think I should declare this extra amount in my tax return". Again, all items are based on 5-point Likert scale.

Section D consists of questions pertaining to perceived behavioral control variables, all measures by 5-point scales and to test respondents' ability on problem solving 9 multiple choice questions will be asked.

Section E contained questions on the respondents' demographic background. Respondents will be asked to select their age group range, monthly income range and Length in the business between one category and the other. As for gender, education level, types of business organizations, race and marital status, the respondents were asked to select from the respective categories.

Population of Interest and target sample
As discussed previously, sole proprietors are often mentioned to under reporting their income due its inherent nature of the business. Since the business transactions are normally in cash basis, they have greater opportunities to evade paying taxes. Gordon (1990) also opined that firms can evade paying taxes by selling their products for cash basis instead of credit term. They can simply keep records of their income to avoid from being audited by tax officers, thus resulting in under payment of taxes. The tax authorities also tend to audit sole proprietors as compared to other groups

of taxpayer, but it does not necessarily mean that, this group has committed an offence. The main objective of tax audit is to ensure that the taxpayers reported the correct amount of income and paid the right amount of tax.

Therefore the current study will focus on sole proprietors to have a detailedunderstanding of their tax behavior and compliance. As at 31 December 2010 (the latest annual report of SSM that made available for the public), there were 4,362,124 businesses registered under the Registration of Businesses Act1956 (ROBA 1956). Of this figure, more than 50 per cent of total business in Malaysia are located in Klang Valley (this data is based on Economic Census Report 2011 that was recently released by Department of Statistics Malaysia). Thus, the current study is confined to sole proprietors that operating the business in the Klang Valley areas which include Kuala Lumpur and Selangor. It is hoped that the geographical area is fairly reflective of the population.

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