



## Compliance Cost under the Monthly Tax Deduction (MTD) Scheme for SMEs in Malaysia

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**ABSTRACT:** Monthly Tax Deduction (MTD) Scheme was first introduced in Malaysia in 1995. The aim is to ensure an efficient manner of collecting tax from employees through salary deductions by employers. However, since its introduction, little is known about the implementation of MTD. As far as this study is concerned, there is no published study on the compliance cost borne by the employers under the administration of the MTD scheme. The importance of investigating the compliance cost of the MTD in Malaysia is further emphasised when the Budget 2014 proposed to make MTD for salaried employees a final tax. This scheme will be conducted in stages and is voluntary in nature. The administrative burden of the tax authority will be lightened as it is shifted to the employers. It is therefore the objective of this study to find out the compliance cost borne by the employers under the MTD scheme. The focus is on the employers of the Small and Medium Enterprises (SMEs) as this is the group of employers who bears particularly high tax compliance costs as indicated by the literature. The findings from this study have shown that smaller size SMEs incurred a high compliance cost compared to larger size SMEs. This study has provided essential information to policy makers to help lower the burden of employers when MTD becomes the final tax. In addition, the result also points to the associated costs that are currently faced by the employers of SMEs in trying to comply with the MTD scheme.

**Keywords:** compliance costs, employers, monthly tax deduction, small and medium enterprises

### I. INTRODUCTION

The Monthly Tax Deduction (MTD) scheme is also known as the Pay-As-You-Earn (PAYE) system in other parts of the world. It has been practice widely in countries such as the United Kingdom, Canada, Australia, Austria, Germany, the Netherlands, India, New Zealand, Nigeria, and the United States. It is designed to collect the correct amount of tax on employment income on a regular, current year basis so that the vast majority of employees do not need to fill in a tax return.

The wide usage of PAYE around the world reckons it as a good tax collection system. In Australia, PAYE is introduced in 1941. It is the most extensive collection system covering 85 percent of the Australian work force. During 1997-1998, the Australian Taxation Office (ATO) collected revenue totalling \$66 billion through the PAYE system, which represented almost 60 percent of a total of \$110.3 billion in ATO revenue collections for that year (ANAO, 1999). Meanwhile, in the US, it is stated that a withholding tax arrangement such as PAYE is also the most effective means of encouraging compliance where the cost of compliance using PAYE is lower than for other tax collection method. PAYE therefore seems to be very encouraging for tax collection efficiency.

In Malaysia, the PAYE system was first introduced in 1995 through Income Tax (Deduction from Remuneration) Rules 1994. The PAYE system is known as the Monthly Tax Deduction (MTD) Scheme or the Schedular Tax Deduction Scheme (STD). The MTD scheme shifts the responsibility of tax collection from the Inland Revenue Board of Malaysia (IRBM) to the employers who are now charged with the duty to deduct monthly taxes from employees and to remit this to IRBM by the 10<sup>th</sup> of the following month. The system, which involves deduction of tax at source, has been developed both as an anti-avoidance measure and an administrative aid for the IRBM. The aim is to ensure an efficient manner of collecting tax from employees through deductions by employers.

Since its introduction in 1995, it is not known whether the MTD implementation has achieved its intended purpose or not. Then in 2004, IRBM shifts the responsibility of tax collection to employers through the

reinforcement of the MTD scheme. This is due to “preceding year assessment” basis (meaning declaring income earned last year this year and pay tax this year for last year’s income) has posed problems for IRBM’s collection department mainly due to taxpayers who already spent their money earned in preceding year and they failed to set aside money to pay for their tax in current year.

The deduction in the MTD (Amendment 2004) is not the final amount of tax payable but in a way it has helped the taxpayers to reduce the amount of tax payable burden at the end of the year. Refund of any excess tax paid will then be made by the IRBM after the final tax payable and the total deduction by taxpayers has been determined. Then from 2009 onwards, IRBM has introduced a new MTD system. In the new system, tax exemptions and rebates are filed on a monthly basis instead of yearly basis. This is beneficial to employees who normally overpay their income taxes, then later need to file for a refund the following year. The new system attracts the employers’ attention to reduce their employees’ tax burden by installment payment through monthly remuneration deduction. However, this is expected to further increases their compliance cost due to some adjustment problems that employers have to overcome.

The Malaysian Prime Minister in his Budget 2014 speech proposed for the country to make MTD for salaried employees a final tax. This means that taxpayers who are under employment may not need to file their personal tax returns from the Year of Assessment (YA) 2014 onwards, rendering the amount of monthly tax deduction as the final tax. This scheme will be conducted in stages and is voluntary in nature. The proposed move to make MTD a final tax will lead to better allocation of resources within IRBM as currently up to 70 percent of the staff are involved in dealing with individual taxpayers who only contribute 30 percent of tax revenue (Lee, 2013). By making the MTD the final tax for salaried employees, the administrative burden of IRBM staff will be lightened. This will allow them to focus on the ‘bigger fish’, namely corporations and businesses.

Despite the newly proposed MTD scheme as a final tax where more burden will be shifted to the employers, to date, there has been no published empirical study on the compliance costs borne by the employers who are charged with the duty to deduct monthly taxes from the employees using the MTD scheme in Malaysia. Compliance costs are incurred not only by taxpayers but also by those who are required to collect the tax from them on behalf of the IRBM (Kasipillai, 2007). Therefore, the objective of this study is to find out the costs of MTD compliance among employers in Malaysia.

The focus on compliance costs specifically for complying with MTD system in Malaysia is a departure from prior studies, which have examined the overall tax compliance (for corporate income tax, see for example Loh, Ismail, Shamsher and Ali, 1997; Hanefah, Ariff, and Kasipillai, 2001; and for Bumiputera SMEs, see for example Abdul Mansor and MohdHanefah, 2008). Smith (1776) has stated the importance of compliance costs by suggesting that minimizing compliance cost is essential to ensure a high compliance level of paying taxes among the taxpayers. Many others shared his thought and this principle still hold good until today. Indeed, concern about the compliance costs of taxpayers is an area of growing interaction between academics, policy makers and the public.

This study particularly focuses on the employers from the Small and Medium Enterprises (SMEs) in Malaysia. In the UK, Collard and Godwin (1999) have performed a research on the compliance costs borne by the employers in collecting income tax under PAYE and National Insurance (NI) contributions. Their findings have indicated that the compliance costs are very unequally spread across employers, with the small new employers bearing particularly high compliance costs. The high compliance costs for very small employers, relative to the amount of tax collected has raised the question of whether PAYE is the best method of tax collection for them. Economic effects of high compliance costs include deadweight resource costs, increased non-compliance, distorted production decisions and reduced investment, higher deficits, reduced tax equity, lower economic growth, adverse price movements and reduced international competitiveness (Chattopadhyay and Das-Gupta, 2002). In some developed countries (e.g. the UK and Australia), compliance cost assessments are now mandatory when introducing new tax proposals or regime. The study of tax compliance costs can be useful for tax design and policy by shedding light on these issues.

## **LITERATURE REVIEW**

The importance of compliance costs are certainly known to classical economist. Smith (1776) had long cited the importance of minimizing compliance cost to ensure a high compliance level among the taxpayers. Three out of four of Smith’s cannons of taxation relate directly or indirectly to tax compliance costs. They are ‘certainty’, ‘convenience’, and the ‘economy’, the other one being ‘equity’ (Smith, 1776, pp. 361-362). Compliance costs are incurred not only by taxpayers but also agents who collect taxes on behalf, and third parties who are required to provide information to the tax administration (Kasipillai, 2007).

Conventionally, Sandford, Godwin and Hardwick(1989) have defined tax compliance costs as the costs incurred by taxpayers and third parties in meeting the requirements laid upon them in complying with a given structure and level of tax. Later, Sandford (1995) and also Collard, Green, Godwin and Maskell (1998)

extended and refined the definition as the costs incurred by taxpayers in meeting the requirements laid upon them by the tax law and the revenue authorities over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax; costs which would disappear if the tax is abolished.

Tax compliance costs include the costs incurred by individuals of acquiring sufficient knowledge to meet their legal obligations, the costs of compiling the necessary receipts and other records and of completing tax returns; payments to professional taxation advisers and return preparers; and incidental costs for postage, telephone and travel to communicate with advisers or the tax authorities (Turner, Smith and Gurd, 1998). Meanwhile, compliance with tax rules can entail significant time and costs for many businesses too.

For businesses, Kasipillai (2007) and Cullen and Dunne (2007) added that compliance costs can also arise from variety of activities associated with tax planning (making decisions to get the best deal, for example deciding where to build a factory); compliance (cost of record-keeping, form preparation and filing, collecting, paying and accounting for tax on products or profits of the enterprise, and on the wages and salaries of employees together with the costs of acquiring the knowledge to enable this work to be done) and litigation (resolving disputes with the IRBM in court).

Due to the importance of the compliance costs by the taxpayers to be considered by the tax authority, researchers around the world have conducted various studies on the topic using different tax instruments. Some compliance costs studies have taken place in the last 20 years or so (for example Sandford et al., 1989; Allers, 1994; Diaz and Delgado, 1995; Collard et al., 1998; Hasseldine and Hansford, 2002). In the UK for example, modern research on the measurement of compliance costs dated from Sandford's pioneering study in 1973, which contains research across a range of taxes and countries. Meanwhile, before 1990 there were no published compliance cost studies in Australasia or Southeast Asia. Since then, there are quite a number of published studies in Australia (for example Pope, Fayle and Duncanson, 1990; Pope, Fayle and Chen, 1991; Pope, Fayle and Chen 1993a, 1993b, 1994; Wallschutzky and Gibson, 1993; Evans, Ritchie, Tran-Nam and Walpole, 1998; Rametse and Pope, 2002; Tran-Nam and Glover, 2002), New Zealand (Sandford and Hasseldine, 1992; Prebble, 1995), Singapore (Ariff, Loh and Talib, 1995; Ariff, Ismail and Loh, 1997), Malaysia (Loh et al., 1997; Hanefah et al., 2001), Hong Kong (Chan, Cheung, Ariff and Loh, 1999) and the US examining the compliance costs of public corporations and companies. Pope et al. (1991) investigated the compliance costs of public companies in Australia and they estimated the overall mean compliance costs per public company to be A\$62,604 (RM143,989). Ariff et al. (1995) undertook a similar study in Singapore and their mean compliance cost estimate was over S\$78,396 (RM172,471) for a company. A second Singapore study (Ariff et al., 1997) estimated the average compliance costs to be S\$54,615 (RM120,153) following a number of tax reporting reforms.

In Malaysia, the first tax compliance study was conducted by Loh et al. (1997) on public listed companies with regards to corporate income taxation. It was found that these companies incurred tax compliance costs of RM68,836 per firm in processing the tax in that year of closer to about RM5 million per firm. In another study by Hanefah et al. (2001) on the compliance costs of small and medium enterprises (SMEs) in Malaysia found that SMEs shoulder four times proportionally more compliance costs compared with larger companies that are listed on Bursa Malaysia. Later studies on tax compliance cost in Malaysia include compliance cost of personal income tax (Sapiei and Abdullah, 2008), compliance cost of bumiputera small and medium enterprises (Abdul Mansor and Mohd Hanefah, 2008), compliance cost of small and medium enterprises (Pope and Abdul Jabbar, 2008) and compliance cost of corporate income tax (Sapiei and Kasipillai, 2013).

None of these studies however, focused on compliance costs borne by employers complying with the MTD scheme. High compliance costs borne by companies are suggested as non-contributing factor to an efficient taxation system. Thus, a low compliance cost will reflect that the MTD scheme is a good tax collection system. Even though there is no such study on the compliance costs of the MTD scheme in Malaysia, studies on the PAYE system have been conducted elsewhere. In the UK, for example, the Centre for Fiscal Studies at the University of Bath has performed a research on the compliance costs borne by the employers in collecting income tax under PAYE and NI contributions (Collard and Godwin, 1999). The period studied from 1995-96 was immediately preceding the introduction of self-assessment (SAS) in the UK. It was found that, for the period under study, total costs are estimated to have been about £1.3 billion. The costs are very unequally spread across employers, with the small new employers bearing particularly high compliance costs. It is expected that under SAS, the impact of compliance costs falls on individual taxpayers as well as small businesses. Collard and Godwin (1999) have shown that the average compliance costs of small new employers complying with the PAYE system, as a percentage of the business revenue, takes a larger toll than on large employers.

Based on the study by Collard and Godwin (1999), this study also focuses on the compliance cost borne by the small and medium enterprises under the MTD scheme. SMEs can be defined according to their level of

turnover, number of employees or total assets. The typical characteristics of SMEs include a lower level of tax expertise, greater owner-involvement in a day-to-day management, a smaller human capital base, a higher level of debt funding and greater exposure to personal liability (Cullen and Dunne, 2007). In Malaysia, SME definition according to SME Corp. Malaysia Secretariat to the National SME Development Council (2013) is simplified as follows:

- **Manufacturing:** sales turnover not exceeding RM50 million **or** full-time employees not exceeding 200 workers
- **Services and other sectors:** sales turnover not exceeding RM20 million **or** full-time employees not exceeding 75 workers.

Malaysian SMEs accounted for 94 percent of companies in the manufacturing-related business sector, therefore should not be underestimated. They contribute 27 percent of total manufacturing output, own 28 percent of fixed assets and employ 39 percent of the country's workforce (Kasipillai, 2007). In addition, the value-added products from SMEs are expected to be worth RM120 billion or 50 percent of total production in the manufacturing sector by the year 2020. Kasipillai (2007) also pointed that compliance costs will affect the economy negatively because compliance costs may increase overheads and the cost of doing business. There are also opportunity costs that are more difficult to quantify. For example, an hour spent complying with tax rules could have been spent tending to the business, thus, adding value to the economy.

Rising complexity in the tax system also leads to burdensome administrative costs. The benefits of lowering the tax complexity burden would dramatically benefit small businesses since they currently bear a disproportionate amount of the burden (Collard and Godwin, 1999). Reducing the complexity of the tax rules means that taxpayers are less likely to require expert assistance and are less likely to make errors. It is also suggested by Cullen and Dunne (2007) that reducing tangible costs such as hours spent and expenditure on accounting fees can reduce the stress associated with completing tax requirements. Higher relative costs can be a barrier to economic growth for the SMEs that constitutes the majority of Malaysian businesses. The government wants to ensure that, by making it easier for business to comply with their tax obligations, valuable economic resources are freed up and re-directed towards more productive activities. This should also improve voluntary compliance in the SMEs business sector.

### **III. METHODOLOGY**

#### **3.1 Research Design**

The compliance costs of employers complying with the MTD system were examined using primary data. A set of questionnaires were distributed to the employers who comply with MTD system. The approach to measure compliance costs is adopted from Collard and Godwin (1999). This method is to build up a picture of compliance costs for each payroll starting from the time spent on compliance activities. Thus, the number of hours spent each month and at the end of the tax year in dealing with the MTD was requested for the relevant payroll scheme.

#### **3.2 Research Sample**

The respondents in this study are the employers of SMEs in Perlis, Kedah and Penang. Malaysian SMEs can be grouped into three categories i.e. micro, small or medium. These grouping are decided based on either the number of people a business employs or on the total sales or revenue generated by a business in a year. The total number of SMEs from all sectors of industry in the northern region of Malaysia is 1575 companies, which includes 46 companies in Perlis, 513 companies in Kedah and 1016 companies in Penang (SME Directory, 2007). This study chooses the SMEs to further explain the compliance costs that are found to be very unequally spread across employers, with small new employers bearing particularly high costs found by Collard and Godwin (1999). 400 SMEs were chosen randomly from the total population based on the different business sectors and ownership of SMEs.

#### **3.3 Method of Data Collection and Analysis**

A field survey method was employed to obtain the primary data. It was considered the most suitable method in collecting the data for this type of study (Kerlinger, 1973). It is basically the process of questioning those who are believed to possess the required information (Cox, 1979). A set of questionnaires developed by Collard and Godwin (1999) were adopted but amended where necessary to make it relevant to the Malaysian environment. Officers from the Malaysian Taxation Academy of the IRBM (Akademi Percukaian Malaysia) were consulted for the accuracy of the details in the questionnaire. A total of 400 sets of questionnaires were posted to the randomly-selected SMEs. However, the response was not very good. A second round of data collection was done based on earlier phone calls to identify MTD-compliance businesses among the randomly-

selected SMEs. Based on the several phone calls a new list of only MTD-compliance SMEs was prepared for a self-administered survey. Table 1 summarises the number of SMEs contacted via mail, phone calls and personal visits and the outcome concerning the MTD system compliance.

The data from the survey of this study was entered into SPSS for analysis of frequencies and average to examine the data collected from the respondents. In accordance with the undertaking to preserve participants' anonymity, no identifying information has been disclosed in reporting research findings. In addition to anonymity, participants' privacy has been maintained by ensuring the data collected has remained confidential. This data was stored under lock and key in the researchers' office at Universiti Utara Malaysia.

**Table 1: Number of SMEs Contacted**

Types of Responses	Number of SMEs									
	PERLIS			KEDAH			PENANG			
	n = 22			n = 173			n = 205			
	Total	Business Sector	No	Total	Business Sector	No.	Total	Business Sector	No	
MTD-compliance	4	Manufacturing	1	17	Manufacturing	11	11	Manufacturing	11	
		Construction	2		Construction	5				
		Services	1		Services	1				
Staff not eligible to be taxable	7	Manufacturing	1	42	Manufacturing	23	19	Manufacturing	15	
		Construction	2		Construction	5				
		Others	1		Others	1		Others	2	
			1		Services	13		Services	2	
No MTD because staff pay Zakat	3	Manufacturing	1	20	Manufacturing	10	3	Manufacturing	1	
		Construction	1		Construction	2		Construction	2	
		Others	1		Service	5				
					Primary agriculture	2				
					Others	1				
Do not want to respond at all where tax is concerned	1	Others	1	12	Manufacturing	11	60	Manufacturing	58	
					Services	1		Services	2	
					Construction	1				
Do not know how to pay through MTD	3	Manufacturing	2	1	Manufacturing	1				
		Construction	1							
New SME	2	Manufacturing	1							
		Services	1							
Company pay CP500				1	Services	1				
No MTD because staff want to pay lump sum	1	Services	1	3	Manufacturing	2	2	Services	2	
					Services	1				
Do not know about MTD				9	Manufacturing	6	2			
					Services	3		Services	2	
Cannot be contacted, no answer or phone terminated				64	Manufacturing	31	78	Services	12	
					Construction	8		Primary Agriculture	3	
					Primary Agriculture	18		Manufacturing	45	
					Services	7		Construction	2	
								Others	16	
Person-in-charge not available							6	Manufacturing	1	
									Construction	3
Tax agent liaison	1	Manufacturing	1				24	Manufacturing	24	
Stop operating				4	Manufacturing	1				
					Service	3				

#### IV. FINDINGS AND DISCUSSION

Table 2 shows MTD-compliance SMEs that responded to the survey conducted. From the survey conducted through mail and phone calls upon randomly-selected SMEs, i.e. 22 SMEs from Perlis, 173 SMEs from Kedah and 205 SMEs from Penang, only 32 SMEs, i.e. 4 from Perlis, 17 from Kedah and 11 from Penang

are MTD-compliance SMEs. This small number of MTD-compliance SMEs are due to most SMEs are either could not be contacted (phone terminated, line busy, no answer, and wrong number) or they refused to respond to tax-related survey for confidential reasons. Out of 32 responses obtainable from the SMEs, only 30 SMEs fully responded to the survey, while another 2 SMEs are non-responses as their questionnaires are incomplete. The nature of business sectors of the 30 MTD-compliance SMEs are from the manufacturing, construction and services business sectors. Most are Chinese-owned SMEs, followed by Malay and Indian SMEs. All of the respondents are from the category of ‘small’ and ‘medium’ SMEs, while none of the ‘micro’ SMEs responded to the survey.

**Table 2:** Responses from MTD-compliance SMEs

PERLIS			KEDAH			PENANG		
n = 22			n = 173			n = 205		
Total	Business Sector	No.	Total	Business Sector	No.	Total	Business Sector	No.
4	Manufacturing	1	17	Manufacturing	11	11	Manufacturing	11
	Construction	2		Construction	5			
	Services	1		Services	1			
Total number of responses from SMEs = 32 companies However, only 30 responses are complete and usable for the analysis of this study								

The list of proxies to compliance cost based on the literature are (i) learning about tax rules; (ii) keeping records and other documentation; (iii) recording and updates new and existing employees; (iv) preparing and completing tax returns; (v) discussion with advisers/preparers and payment to them; (vi) answer tax authority queries; (vii) paying taxes; (viii) invest in technology; (ix) incidental costs for postage, telephone and travel etc.;and (x) others. This study has requested the gross total monetary spent as well as gross percentage of hours spent on these predetermined elements of compliance costs from the SMEs surveyed. Finding from this study has shown that the compliance costs per employee are higher for small employers than medium employers as in Table 3.

**Table 3:** Average Compliance Cost per Employee for SMEs (based on size)

Types of SMEs	Cost per Employee	Number of SMEs
Small	RM442	6
Medium	RM114	24

Table 4 shows that inexperienced employers with less than two years of experience completing MTD returns for IRBM have high compliance costs. Though only 6 inexperienced employers are able to be included in this study, the information provided is sufficient to reflect the compliance cost incurred by them.

**Table 4:** Average Compliance Cost per Employee for SMEs (based on experience)

SMEs	Experience	Cost per Employee	Number of SMEs
Inexperienced employers	Less than 2 years	RM499	6
Experienced employers	More than 2 years	RM106	24

Thus, as evidenced by Collard and Godwin (1999), it can be concluded that small, inexperienced employer’s needs attention to their problems of high compliance cost. In addition, Collard and Godwin (1999) also found that tax collection via employers with less than 50 employees is substantially less efficient than tax collection via larger employers.

A measurement of compliance costs is the numbers of hours spent by managers or administrative staff each typical month and at the end of year of assessment in dealing with MTD (Kasipillai, 2007; Cullen and Dunne, 2007). Respondents estimated their working time based on their own valuations. Table 5 summarizes

the information about the estimated gross percentage of time spent on activities provided by them specifically associated with MTD activities. The percentage of costs spent on the MTD activities (administration and audits) have consumed the most time. Results show that almost 90 percent of the costs are attributable to routine MTD administration and MTD audits.

**Table 5: Labour Cost**

<b>MTD Activities</b>	<b>Estimated Gross Percentage of Time Spent (%)</b>
Routine MTD administration	72.50
Work on benefits-in-kind	5.40
Year-end costs	2.60
MTD audits	17.00
Others	2.50
Total	100

Meanwhile, Table 6 summarises the associated costs with MTD showing that the bulk of the costs goes to other current cost instead of computer software as found by Collard and Godwin (1999) in the UK Fiscal Studies. These contradictory findings are due to most Malaysian SMEs recently invested in additional equipment like computer and computer-related hardware that suggest the high percentage of associated costs than the software component. It is found that 70 percent (21 SMEs) use computer software for the purpose of MTD, whilst 30 percent (9 SMEs) use manual recording for MTD.

**Table 6: Percentage Components of Associated Costs**

<b>Cost Associated with MTD</b>	<b>Total Percentage of Associated Costs (%)</b>
Computer software	4.1
Tax adviser's fee (e.g. accountant)	nil
Other current costs (e.g. telephone, postage, stationery)	42.9
Additional equipment, computer hardware etc.	35.3
Additional office space, air-conditioning, lighting etc.	17.7
Total	100

Collard and Godwin (1999) suggested that compliance costs are related to size, composition, and rate of change of the payroll. Thus, the size and composition of payroll will determine the technology the SMEs choose for payroll purposes. Table 7 shows the size of SMEs by record type. The manual system is used to administer the MTD for some smaller SMEs as it is the cheapest option for them. It is showing that the least-cost payroll technologies are still the main choice among small employers. SMEs that responded that they use both methods (manual and computer) have two payroll schemes dividing the payroll activities between full-time and part-time employees due to their size. The size of SMEs exceeding 500 employees is also due to the significant portion of part-time employees, thus, the employers used manual method to record MTD activities for them.

**Table 7: Least-cost Payroll Technologies by Size of SMEs and by Record Type**

<b>Size of SMEs (Number of Employees)</b>	<b>Manual</b>	<b>Computer</b>	<b>Both Method</b>
1-10	3	3	
11-50	6		
51-100	3		
101-150		3	
151-500		9	
501-1000			3
Total	12	15	3

There are four main methods of MTD submission to IRBM i.e., (i) using the standard documents supplied by IRBM; (2) substitute documents approved by IRBM; (3) electronic submission provided by IRBM; and (4) other electronic methods approved by IRBM. The result of this study shows that all SMEs use the standard documents supplied by IRBM to submit their MTD deductions.

## V. CONCLUSION AND LIMITATION OF STUDY

Generally, based on the findings from this study, the size of SMEs which are based on the number of employees has been found to be the main factor affecting compliance costs. Indeed, the payroll activities are changing due to its size. It is worthy to re-examine the high compliance costs for small employers in particular, relative to the amount of tax collected on behalf of IRBM. This high compliance costs has raised the question of whether MTD is the best method of tax collection for them while they are still 'crawling' to establish and expand their businesses. The MTD system is relevant to be imposed on them for greater tax collection effectiveness and efficiency but not at the expense of the smaller SMEs in particular.

Even though there are only six companies surveyed for inexperienced employers, it has provided sufficient information that they are suffering from higher compliance costs compared to experienced employers. The evidence from this category (inexperienced and experienced employers) suggests that particular attention should be given to the inexperienced employers. Furthermore, one of the major factors affecting compliance cost is the costs of routine MTD administration, which contributes 73 percent of the total labour costs. Thus, the costs spent on compliance activities are mainly dealing with administrative or clerical works.

The technology chosen for MTD purposes depend on the size of SMEs. Manual systems seemed to be the cheapest option for SMEs with lower than 100 employees, but SMEs with 101 to 500 employees prefer computer medium, whereas SMEs with more than 500 employees would go for more than one method, manual and technology-based.

Overall, the result from this study shows that small employers suffered high compliance costs in collecting taxes on behalf of the IRBM under the existing MTD scheme. When the MTD is converted into a final tax, the government will effectively passed the entire burden of calculating and collecting employment taxes to the employers. On the surface, this may seem nothing new for the employer, with the present MTD system in place. But what will prove to be administratively burdensome and may require more manpower, is that besides accounting for the usual tax reliefs (personal relief, relief for spouse with no income, child relief, contribution to Employees Provident Fund (EPF) and zakat payment) in the calculation of the MTD now, the employer would now have to take into account the various other personal reliefs in the MTD calculation. This will increase the workload of the human resource personnel who has to do the task of accounting for all of the above (Oon, 2014). In addition, the MTD table may prescribe too little or too much deductions to tax resident single persons earning only a single source of employment income (Yong, 2005). Thus, this study has shown that Malaysian government should consider the compliance costs that will be borne by the SMEs when MTD is imposed as a final tax on the taxpayers. More alternatives should be given to help lower their burden in helping the government to achieve the purpose of MTD, i.e. to collect tax in an efficient and effective manner.

Despite the lessons that can be learned from the experienced of the SMEs in dealing with the MTD scheme prior to its introduction as a final tax, the limitations of this study must be acknowledged. Among the limitations are the small number of SMEs which participated in this study, the scope of this study which only involved the SMEs in the northern region of Malaysia and the restriction of data which can be obtained by using a survey method. Future study should include more SMEs throughout Malaysia and acquire data through various data collection methods including interviews with the relevant respondents.

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