

# Determinants of Tax Compliance among Grabcar in Malaysia

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The transportation industry is one of the largest sectors in the global economy, and rapidly changes in tandem with innovation technology. GrabCar is one of the latest technology advancements in the transportation industry. To support the country's growth, it is vital for GrabCar drivers to carry out their responsibilities to pay taxes. However, there is an increasing number of cases of tax non-compliance among these drivers which could affect government revenue. Therefore, the aim of this study to examine factors affecting tax compliance among GrabCar drivers in Malaysia. The quantitative research approach was chosen to obtain relevant data for this study which was conducted among Grab drivers providing services on at least one occasion in Malaysia. The results of this study revealed that tax knowledge and attitude influence tax compliance among drivers. The findings can act as signal to tax authority to conduct tax education program in order to increase awareness among grab drivers in Malaysia.

**Keywords:** *Grab Driver, Tax compliance, Tax knowledge, Attitude.*

## Introduction

Ride-sharing apps such as Grab have become household names, particularly among urbanities. Recently, in addition to e-hailing services, Grab has expanded to delivering food and parcels across the country. Grab is providing a steady income to Malaysians who have become Grab drivers during their free time. This revolution was created by in 2011 by Anthony Tan, the third heir to Tan Chong Motors. As a result of complaints about the known trend of local Malaysian taxis conning passengers for up to triple the price of a ride, Tan established Grab Taxi Holdings Pty. Ltd., (Fornell and Larcker, 1981). With its headquarters in Singapore, Grab operates in 191 different cities in 8 Southeast Asian

countries with 2,252 employees. In July 2017, Malaysia made history when it became the first country in the world to legalise ride-hailing services such as Uber and Grab (Molero and Pujol, 2012). It was a cause for celebration after years of dissatisfaction with services provided by local taxi drivers.

Grab officially announced its acquisition of Uber's Southeast Asia's operations on 26 March 2018 (Fornell and Larcker, 1981). The merger of these two big ride-sharing businesses allowed Grab to monopolize the ride-hailing industry in Malaysia by leveraging food delivery concepts. Grab's Malaysian head, Sean Goh assured the public that this merger would not affect prices or the experience of both riders and drivers" (Malaysian Digest, 2017). With the merger under its belt, Grab can innovate aggressively by introducing GrabFood, GrabPay, GrabRewards and more Grab options to revolutionise the Malaysian market. According to (Saad, 2009), as the company creates new concepts by combining transportation and food delivery, the company is able to create jobs for more than 2.6 million drivers in operating countries and has provided at least 36 million consumers with a whole new level of convenience.

As a result, Grab is definitely helping many to generate extra income by joining their company. As they are earning an income, Grab drivers need to be compliant as taxpayers. Generally, tax compliance has always been a concern for policy makers, tax administrators and society in general. This is due to the fact that tax compliance affects revenue collection and the government's ability to achieve its fiscal and social goals (Smith, 2018). There is always room for improvement in providing the best services that could generate long term outcomes such as higher collection in taxation and reducing the tax gap among taxpayers including Grab drivers.

## **Literature Review**

### ***Tax Compliance***

Tax compliance is defined as the full payment of all due taxes (Bidin et al., 2011). The best way to describe non-tax compliance is the difference between the total amounts of taxes due and the actual amount of taxes paid by taxpayers. The difference could be due to overstating or understating income, expenses and deduction on tax allowables. According to Cummings et al., (2009), reasons for non-compliance include intentional evasion and unintentional non-compliance such as calculation errors and inadequate understanding of tax laws. Taxpayers' mistakes can be unintended; thus, do not necessarily represent attempts to evade (Abd Hamid et al., 2018), (Antonides and Robben, 1995) or could even lead to over reporting of tax .

Tax compliance is an important issue for nations around the world as governments collect tax revenues to meet public needs (Abd Hamid et al., 2018) (Antonides and Robben, 1995).

According to Braithwaite, (2009), issues with tax compliance are nearly as old as taxes themselves. Tax revenue is very important for a country as it helps support budgets and fund public expenditures (Ajzen, 2005). This could be the reason why factors affecting tax compliance are of interest to government policymakers as well as practitioners, academicians, and the public. Governments have to increase their duties as the main players because in the event of any worldwide economic downturn, governments have to struggle to reduce tax evasion and increase tax compliance among citizen (Kirchler et al., 2008).

On 31st March 2017, Inland Revenue Board of Malaysia (IRBM) officially released a press statement to clarify that the individual income tax imposed on Uber and GrabCar drivers is similar to the tax imposed on an individual owning a business. The net income from Uber or GrabCar activities and other income such as monthly remuneration received from the employer could be taxed. However, GrabCar drivers may claim any expenditure incurred such as fuel, toll, promotion costs, vehicle maintenance and repair as well as fees paid to the operator towards their gross payments. In addition, any person who works part-time such as a tutor, Al-Quran tutor, makeup artist, or online merchant should register to file his or her income tax and declare all annual income received in Form B by 30 June each year.

Several studies attempted to find factors contributing to tax compliance by individual taxpayers. However, these factors vary. Some research related compliance to procedural justice, trust in the government and tax authorities (Kirchler et al., 2008), (Ajzen, 2005), tax knowledge and its complexity [29].

### ***Taxpayer Attitude***

Several studies have shown that tax morale has a significant positive effect on decisions regarding tax compliance (Chin et al., 2003). This is supported by (Castro and Scartascini, 2015) who proved that individuals who complied with tax law perceived a moral obligation to obey. Franzoni, (2000) showed that perception of tax evasion as a non-serious misconduct has led to a situation where taxpayers may not be afraid of tax evasion. He has suggested that the right combination of instruments of deterrence to clamp down on tax evasion depend on the taxpayers' sense of morality. A tighter audit as a monitoring tool is an effective instrument for controlling illegal activities. For honest taxpayers, the increase in monitoring should be offset by tax reductions. In contrast, for tax evaders, the increase in monitoring should be accompanied by greater penalties. Since the power of the tax authority is an effective way to build trust, tighter monitoring is recommended. Tax compliance is based on trust or the power of authorities. When it is based on trust, it becomes voluntary tax compliance, but if tax compliance is based on power, it is called enforced compliance (Franzoni, 2000), (Malaysian Digest, 2017).

There are non-economic influences on tax compliance, one of which is known as an individual's psychological variables such as moral belief and behaviour. There are economists who have tried to monitor the influence of social norms on tax compliant behaviour. Tan and Sawyer, (2003) indicated that biologically inherited and socially acquired norms that shaped moral values should not be ignored and a socio-psychological factor connected to the internal motivation of a person to pay tax is part of tax morale which will affect tax compliance. They also mentioned that public services, confidence in public institutions, a person's subjective and cultural characteristics, the fairness of taxation, a person's own moral principles, perception of others, awareness of how tax revenues have been used, his or her trust in the country as well as administrative and tax policies could be social norms that shape a person's behaviour towards tax compliance. The most important behaviour is the taxpayer's view about the other tax payers' obligations (Braithwaite, 2009). The general opinion of taxpayers about the reluctance of others to fulfil their tax obligations may affect their decision to pay taxes. Cummings et al., (2009) concluded that those taxpayers who paid taxes on time and accurately may feel deceived about non-payment by others, then remitting the tax debt of taxpayers.

### ***Tax Knowledge***

One of the essential factors that could influence tax compliance is the level of one's knowledge of taxation, which is relevant for taxpayers such as small business owners and Grab drivers. Franzoni, (2000) argued that tax knowledge is necessary as it will increase willingness to comply. This statement is supported by (Malaysian Digest, 2017) who observed that tax compliance is significantly related to general level of education. Smith, (2018) affirmed that one of the fundamental ways to increase public awareness is for taxpayers to have knowledge about taxation.

Tax knowledge can be mainly divided into common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax (Grab, 2018). According to Cummings et al., (2009), it is essential for a person to be aware of taxation law. Tax knowledge is important to a voluntary compliance tax system particularly in determining accurate tax liability (Webley, 2004). Most recent studies undertaken in Malaysia (Marti, 2010) also state that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour. This is because non-compliance behaviour among taxpayers either intentionally or unintentionally is due to the absence of tax knowledge. Saad, (2014) suggested that unintentional non-compliance among small business taxpayers is due to their lack of knowledge. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally made mistakes in their tax return forms (Marti, 2010).

According to Grab, (2018), in order to increase the chances of success in business, entrepreneurs must have taxation knowledge. Note that although an increase in opportunity will often be accompanied by increased knowledge requirements, this is not necessarily the case. For example, if the proportion of differentially taxable incomes changes, evading opportunities may be affected while knowledge remains constant. Some researchers found that for small business owners, education has a negative effect on compliance (Alm et al., 1994). However, knowledge of tax law and regulations is crucial to creating a positive attitude among Small Medium Enterprise (SME) especially when using the Self-Assessment System (SAS) which may reduce the inclination to evade taxes (Webley, 2004). Tax knowledge can be gained through self-learning, and attending formal and informal training (Halla, 2012). However, acquiring tax knowledge is a time-consuming process.

### **Methodology**

Out of the 200 questionnaires that were distributed, only 55 were used. One of the reasons only a small number of questionnaires was collected was due to time constrain. The second reason was that some drivers refused to answer because they were afraid that they would be charged as tax evaders. The third reason is that some of the questionnaires were void as they were not answered fully. Selected Grab drivers were those who have experience in e-hailing services in Malaysia. Surveys used a combination of purposive sampling and snowball sampling to recruit respondents. Both are forms of non-random sampling, where the sample size was not determined in advance. The survey was designed using Google Form, a web-based survey tool which offers various pre-constructed questions and advanced answer validation (Google Form 2018).

All survey responses were collected anonymously. In addition, a publicly available link to the survey was created on social media such as the WhatsApp Group to help publicise the survey. The survey consisted of 38 questions which were grouped into six separate sections. Each section covered a specific area of interest, ranging from the background of the participant's Grab experience, to demographic details about drivers' tax compliance expectations and their experience with taxation in Malaysia. The survey's core sections dealt with 10 Grab drivers' knowledge and attitude towards tax compliance and the current tax proposal by the government on Grab drivers' income.

### **Results and Discussion**

Descriptive statistics of the main variables are presented in Table 1. The observed mean for Tax Compliance, Behaviour and Knowledge lies a little above the theoretical means. Overall, most respondents have a high level of tax compliance based on the 3.550 median which is a bit higher than the theoretical mean.

**Table 1:** Descriptive Statistics of the Main Variables (n=50)

<i>Variable</i>	<i>Mean</i>	<i>Median</i>	<i>Standard Deviation</i>	<i>Actual Range</i>		<i>Theoretical Range</i>	
				<i>Min</i>	<i>Max</i>	<i>Min</i>	<i>Max</i>
<b><i>TAXCOMP</i></b>	3.400	3.550	1.089	1.00	5.00	1.00	5.00
<b><i>BEHAVIOUR</i></b>	3.117	3.000	1.075	1.00	5.00	1.00	5.00
<b><i>GRABCOST</i></b>	2.336	2.200	0.734	1.20	5.00	1.00	5.00
<b><i>KNOWLEDGE</i></b>	3.446	3.308	1.002	1.00	5.00	1.00	5.00

In the preliminary stage, the measurement model was assessed based on its reliability and validity on the multi-item scales which included individual item reliability, construct reliability and convergent and discriminant validity. For the assessment of factor loadings for each variable, all items were loaded on their respective constructs except for two (2) items. K5 and K6 were excluded from the scale as these factor loadings were both below 0.5. In the second stage of the PLS analysis, results showed satisfactory reliability, convergent validity, and discriminant validity. Based on Table 2, the results indicate satisfactory individual item reliability as all factor loadings are higher than 0.6 which implied that more than 50% of the observed variable is shared with the construct (Chan and Mo, 2000). Additionally, assessment based on composite reliability measured above 0.7 indicating satisfactory construct reliability.

For the assessment of validity, convergent validity appeared acceptable for all constructs. Table 2, with the minimum of average variance extracted (AVE) at 0.692, implies that on average more variance was explained than unexplained for variables associated with a given construct (Cummings et al., 2009). Thus, convergent validity is met. Discriminant validity was determined based on the Fornell-Larcker criterion. The square root of AVE would indicate the correlation of construct with its indicators. Thus, discriminant validity would be satisfactory if the correlation of a construct with its indicators exceed the correlation between the construct and any other concepts (Cummings et al., 2009).

**Table 2:** Properties of Measurement Model

<b>Construct</b>	<b>Indicators</b>	<b>Factor loadings</b>	<b>Composite reliability</b>	<b>Average variance extracted</b>	<b>Cronbach alpha</b>
<b>Tax Compliance</b>	C1	0.939	0.943	0.769	0.924
	C2	0.920			
	C3	0.839			
	C5	0.833			
	C7	0.847			
<b>Behaviour</b>	B1	0.854	0.930	0.727	0.906
	B2	0.824			
	B3	0.903			
	B4	0.807			
	B5	0.871			
<b>Grabcosts</b>	C1	0.865	0.818	0.692	0.559
	C2	0.798			
<b>Knowledge</b>	K1	0.928	0.972	0.759	0.968
	K2	0.809			
	K3	0.915			
	K4	0.875			
	K7	0.805			
	K8	0.762			
	K9	0.956			
	K10	0.824			
	K11	0.871			
	K12	0.892			
	K13	0.928			

There is a significant relationship between Behaviour and Tax Compliance which indicates a strong relationship between Grab drivers' behaviour and the extent of tax compliance. The questionnaire finding is consistent with results from open ended question findings on government proposals to tax Grab drivers. Most drivers felt disappointed and considered the proposal unfair as their income can only support their daily expenses. They maintain that there are many other tax evaders the government should be pursuing instead for tax compliance.

Tax compliance is also affected by social norms as well as public services, confidence in public institutions, a person's subjective and cultural characteristics, tax fairness, a person's conception about moral principles, the perception of others, awareness of how tax revenues have been used, his/her trust in the country and administrative and tax policy (Tan and

Sawyer, 2003). One of the most important attitudes against tax by tax payers is their view about the obligation of other taxpayers (Braithwaite, 2009).

There is no relationship between grab cost and tax compliance. This is due to the lack of knowledge among Grab drivers on tax allowable. They were not aware that all costs incurred when providing services as Grab drivers can be deducted. Even though they can generate various sources income, they felt that government did not consider their maintenance cost.

The relationship between Knowledge and Tax Compliance is significant which indicates a strong relationship between Grab drivers' knowledge and the extent of tax compliance. Generally, most respondents provided an agreeable response with most answers leaning towards strongly agree. The respondents displayed good tax knowledge on tax regulation in terms of documentation, personal income tax bracket, penalty and charges, and the authority of IRBM. In addition, these findings agree with the most recent studies conducted by [23] which suggests that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour.

### **Conclusions and Limitations**

Based on the above findings, it can be concluded that when it comes to Grab drivers, their behaviour and knowledge on taxation affect tax compliance. The fact that they face other tax related issues such as compliance cost, behaviour and knowledge generally promotes non-compliance and influences most drivers to become tax evaders. Hence, Grab drivers are deprived of the benefits that may arise if the government created enough tax seminars to teach some basic knowledge about tax law that could create an enabling environment for Grab drivers to become taxpayers.

Overall, most Grab drivers have sound awareness about tax responsibility, understanding the national benefit of tax and have general knowledge about tax regulation in terms of documentation, taxable income bracket, tax penalty and IRBM's stand on tax defaulters. However, their attitude towards tax compliance is neutral, where half of the Grab drivers disagree with being taxed. It can be noted that the income bracket of these drivers is around RM3000 to RM3500 (net of deductible expense) which may or may not fall within the taxable income bracket. Therefore, it can be assumed that there is a significant relationship between behaviour and tax knowledge with tax compliance.

Notwithstanding the contribution of this study, there are some limitations which should be noted for future studies. Out of the 200 copies of questionnaires distributed, 120 copies were not returned. Only 80 Grab drivers returned their questionnaires. The reasons behind the numbers of unreturned questionnaires are due to time constraint and the drivers' refusal to cooperate. This is due to fact that they were suspicious, thinking that they were being



investigated for taxation. Of the number of questionnaires returned, 25 copies could not be further processed because the respondents did not fill out the questionnaire completely. Furthermore, this study only considered behaviour and knowledge variables to explain tax compliance. However, tax compliance is a complex behaviour that may be better explained by a combination of institutional and voluntary factors such as bribery, perception of governance quality, fairness of the tax system, together with other structural factors. Hence, future studies should consider a combination of these factors. In addition, this study only focused on Grab drivers in Malaysia. Thus, future research should widen their scope by including more respondents which should also encompass part-timer workers.

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