ABSTRACT

The purpose of this paper is to investigate on the effect of external factors on tax auditors’ conciliatory style. Data for this study were collected by distributing self-administered questionnaire to 1000 tax auditors of Inland Revenue Board of Malaysia (IRBM) in Peninsular Malaysia that were selected using purposive sampling technique. Through Statistical Package for Social Sciences (SPSS) software version 21, several data analysis methods such as exploratory factor analysis, reliability analysis and regression analysis were carried out by using data that have been collected. The present study discovered only two from external factors which are tax complexity and managerial control were found to be significantly related to tax auditors’ conciliatory style. While, the other external factor which is cooperation was found to be not significantly related to tax auditors’ conciliatory style. Finally, the last section of this paper is conclusion where limitation, contribution, practical implication and recommendation for further research also were provided.

Keywords: Cooperation, tax complexity, managerial control, tax auditors’ conciliatory style
I INTRODUCTION

As the largest Malaysian federal government revenue collections agent, Inland Revenue Board of Malaysia (IRBM) has implemented self-assessment system in order to promote voluntary compliance (Kasipillai, 2005; Inland Revenue Board of Malaysia, 2009; Ministry of Finance Malaysia, 2011; Choong & Wong, 2011). Under the self-assessment system, taxpayers are responsible to compute tax liabilities, file tax returns and pay their taxes within a predetermined time period (Choong & Wong, 2011). On the other hand, IRBM has been carrying out a thorough and detailed examination on taxpayers’ business records and financial affairs in order to ensure the accuracy of taxpayers’ tax return (Inland Revenue Board of Malaysia, 2013). Such detailed examination will later be referred to the tax audit.

In conducting tax audit, tax disputes between tax auditors and taxpayers may take place when the latter disagrees with the proposed tax adjustment from IRBM tax auditors. Adjustment will be proposed not only due to a discrepancy found by tax auditors in their computation compared to the tax return filed by taxpayers (Smith & Stalans, 1994), but also it can happen due to other factors such as lack of taxation and accounting knowledge among the taxpayers, incomplete or absence of any records and documentations, complexity of the tax law and carelessness of the tax auditors (Muhammad, 2013). In order to resolve disputes, conciliatory style has been chosen as an appropriate strategy to be adopted by the tax auditors, partly because regulatees generally prefer comply upon persuasion and would like resist any strict approach (Mahmood, 2012).

Hence, the purpose of this study is to investigate the effect of external factors on tax auditors’ conciliatory style. The external factors are cooperation, tax complexity and managerial control. The following subsection briefly discusses all the relevant literatures on external factors and tax auditors’ conciliatory style.

II LITERATURE REVIEW AND HYPOTHESES

A Cooperation

Cooperation refers to taxpayers that provide quick feedback, call the auditors to notify their difficulties in replying to the tax auditor’s queries and try to close the case the soonest possible (Muhammad, 2013). Muhammad (2013) found that cooperation is the most
important characteristic in tax auditor-taxpayer interactions as it can facilitate and expedite in settling the cases as well as plays an important role in influencing tax auditors’ enforcement regulatory strategies.

When regulatees are highly cooperative, the auditors would put in trust to the regulatees. This will lead the inspector to be more lenient towards the regulatees (Nielsen, 2007; Pautz, 2009; Six, 2011). Muhammad (2013) also agreed that tax auditors will act to be more lenient and tolerate with taxpayers who give full cooperation in resolving disputes and also to those who are genuinely involuntarily non-compliant. Moreover, IRBM needs to secure the public’s trust and confidence towards tax administration (Beh, 2005), as it will make the taxpayers to be more cooperate with tax auditors and working together to settle the cases (Muhammad, 2013). Thus, the following hypothesis was formulated:

H1: Cooperation is significantly related to tax auditors’ conciliatory style in resolving disputes.

B Tax Complexity

Mustafa (1996) identified that tax complexity in Malaysia comprises of issues such as recordkeeping, excessively detailed tax law and ambiguity. In another study, Muhammad (2013) claimed that tax auditors often encounter incomplete or absence of records and documentations while carrying out their auditing task. Such poor recordkeeping is caused by taxpayers’ lack of knowledge regarding accounting and less support from accounting functions, in addition to the non-systematic way of recordkeeping among the taxpayers (Ismail, 2002; Choong, Lai & Thye, 2009) and small businesses perceive accounting and recordkeeping as a waste of time (Evans, Carlon & Massey, 2005). Therefore, taxpayers need considerable understanding on the tax rules in order for them to comply with the law. A tax auditor needs to simplify the complex tax law in order to prevent taxpayers from perceiving tax computation as difficult and maintaining the records and documents as tedious (Isa, 2014). Auditor is also responsible to educate the taxpayers on the correct way to execute their tax return (Olowookere & Fasina, 2013). Thus, the following hypothesis was formulated:

H2: Tax complexity is significantly related to tax auditors’ conciliatory style in resolving disputes.
C Managerial Control

Management control can be defined as employees that are encouraged to perform in ways that lead to the achievement of the organisational objectives (Emmanuel, Otley & Merchant, 1990). Such control has facilitated managers in the decision making and supervision processes (Bose, 2012). Hence, audit manager is the one who monitors tax auditors’ work and makes decision on complex issues. Audit manager also helps in resolving audit issues by giving opinions and suggestions to the tax auditors (Muhammad, 2013). Thus, Muhammad mentioned that managers in different IRBM branches will apply different ranges of managerial control. Managers who administer every stage of the tax audit process can be classified as managers that implement high managerial control. On the other hand, managers who implement moderate managerial control often let the tax auditors to select their own cases. By letting the auditors to select their own cases, the auditors are expected to achieve the targets and allowed to decide on the indirect income methods that are deemed as suitable to be used to complete their work. In addition, Muhammad (2013) found that different enforcement strategies applied by tax auditors are also influenced by managerial control. When tax auditors are pressured by the managers to achieve set targets and work through a backlog of cases, they may change their enforcement strategy from legalistic to conciliatory style. Thus, the following hypothesis was formulated:

H3: Managerial control is significantly related to tax auditors’ conciliatory style in resolving disputes.

D Tax Auditors’ Conciliatory Style

In this study, conciliatory style has been chosen as an appropriate strategy to resolve dispute. Generally, tax auditors that use this strategy are regarded as more friendly, lenient, responsive and flexible (Kagan & Scholz, 1984; Murphy, 2008). Through this strategy, various methods can be applied by the tax auditors including education, advice, persuasion, negotiation and bargaining (Hawkins, 1984; Hutter, 1989; Winter & May, 2001; Malcolm, Tilden, Coope & Xie, 2009; Muhammad, 2013). Moreover, this strategy can bring positive impact towards tax auditors and taxpayers as mutual trust can be built (May & Winter, 2011), good relationship can be promoted and long term compliance can be sustained.
III RESEARCH METHODOLOGY

In this study, self-administered questionnaire was used to collect data and purposive sampling is used as a sampling technique. A total of 1000 copies of questionnaires were mailed to IRBM’s tax auditors in Peninsular Malaysia. Out of these, only 636 completed questionnaires were utilised in this study. The data were then analysed using the Statistical Package for Social Sciences (SPSS) software version 21 for exploratory factor analysis, reliability analysis and regression analysis.

IV DATA ANALYSIS AND RESULT

An exploratory factor analysis was conducted and the results from Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy shows a value of 0.752, which exceeds the minimum value for a good factor analysis (The good factor analysis was recommended to be 0.6 by Tabachnick and Fidell [2007]). A reliability analysis was also conducted and assessed based on Cronbach’s alpha coefficient result. It was found that the Cronbach’s alpha coefficient of the items varies from 0.744 to 0.852 which is above the recommended minimum value of 0.7 by Hair, Celsi, Money, Samouel and Page (2011). Hence, the items measuring each variable are regarded as reliable.

Finally, a regression analysis was conducted to test the formulated hypotheses. Findings of the regression analysis are shown in Table 1 to Table 3. In Table 1, R-square value of 0.199 indicates that 19.9% of the variance in tax auditors’ conciliatory style (dependent variable) is explained by all the three independent variables (cooperation, tax complexity, and managerial control). On the other hand, Table 2 shows that the F value of 52.391 and a statistically significant p-value at 0.000 (a value less than 0.001). Additionally, regression results for each coefficient of the independent variables are presented in Table 3. The results show only one variable, namely cooperation, shows an insignificant result (p-value more than 0.05). Hence, H1 is rejected. The remaining two variables, namely tax complexity and managerial control, are significantly related to tax auditors’ conciliatory style at p-value less than 0.001. Hence, H2 and H3 are supported.
Table 1: Model Summary of Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.446&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.199</td>
<td>.195</td>
<td>.43900</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MGC, CPN, TCX
b. Dependent Variable: TACS

Table 2: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>30.291</td>
<td>3</td>
<td>10.097</td>
<td>52.391</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>1 Residual</td>
<td>121.802</td>
<td>632</td>
<td>.193</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>152.093</td>
<td>635</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: TACS
b. Predictors: (Constant), MGC, CPN, TCX

Table 3: Regression Coefficient for Each of the Independent Variables

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.300</td>
<td>.163</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>CPN</td>
<td>.032</td>
<td>.023</td>
<td>.049</td>
<td>1.367</td>
</tr>
<tr>
<td></td>
<td>TCX</td>
<td>.193</td>
<td>.034</td>
<td>.212</td>
<td>5.729</td>
</tr>
<tr>
<td></td>
<td>MGC</td>
<td>.283</td>
<td>.032</td>
<td>.331</td>
<td>8.963</td>
</tr>
</tbody>
</table>

a. Dependent Variable: TACS
V CONCLUSION

The study provided an empirical evidence of the effect of external factors towards tax auditors’ conciliatory style. Based on the results from the regression analysis, it is shown that both tax complexity and managerial control are significantly related to tax auditors’ conciliatory style, except for cooperation that is not significantly related to tax auditors’ conciliatory style. With this, the study reveals that only hypothesis H1 is not supported and this finding is in contrary to what has been found by Muhammad (2013) who claimed that cooperation plays a vital role in influencing tax auditors’ enforcement regulatory strategies.

As this study only focuses on the sample from Peninsular Malaysia, thus the finding cannot be generalised and it becomes a limitation of this study. So, it is recommended that sample from East Malaysia to be included in the future studies. More research need to be conducted as minimal study has been focusing on the tax audit and tax auditors’ behaviour. For this reason, the study has contributed in providing empirical evidence of external factors on tax auditors’ conciliatory style. Overall, this study can assist IRBM to have better understanding on tax auditors’ behaviour and improving dispute resolution process.

REFERENCES


