

Factors Influencing Tax Non-Compliance Among Taxpayers: A Review

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ABSTRACT

As time passes, new researches being conducted on tax non-compliance performed by tax researchers are investigating the factors affecting tax non-compliance among taxpayers. Nevertheless, a comprehensive review of the failure to comply with taxes comprising worldwide literatures remain ambiguous. Thus, this paper compiles the previous related literature and seeks to investigate the causes of tax non-compliance as the main objective of preparing this paper. These factors were mainly focusing on the tax knowledge, tax complexity, and compliance costs. The previous literature made by the researchers were collected and compiled. The study looked at works published between 2014 and 2024, where the articles were selected within the last ten years. The articles were extracted using a search engine and only journal articles were considered. From the examination, the study found that there is a negative relationship between tax knowledge and tax non-compliance. On the other hand, the result from this study shows that there is a positive relationship between tax complexity and tax non-compliance. This study also reveals that there is a positive relationship between compliance costs and tax non-compliance. In order to promote trust and a favourable view among taxpayers, the government must be heavily involved to raise the degree of compliance. Thus, the outcomes gain through this literature review are able to provide better view and vital information particularly to upcoming scholars who hope to do more thorough research in this field. This has to do with the problem of taxpayers not adhering to their nations' tax laws and regulations.

Keywords: Taxpayer; Tax Non-compliance; Tax Knowledge; Tax Complexity; Compliance Costs.

INTRODUCTION

One of the most significant issues facing the worldwide business community in this age of worldwideization is taxation. Every taxpayer must obey all tax laws and standards, that vary from country to country. Taxes are mostly put in place to earn income so that the government can carry out its administrative duties (Palil & Mustapha, 2011). As a result, the tax collection system contributes to the creation of financial resources for improving economic circumstances and redistributing wealth from the wealthy to the underprivileged (Abdul Ghani et al., 2020). This demonstrates how the effectiveness of a nation's current tax structure is reflected in its economic expansion and prosperity (Noor Azmi et al., 2020). Nonetheless, there is an increased rate of tax non-compliance worldwide (Tran-Nam & Evans, 2014). The reluctance of individuals to adhere to an effective tax system has encountered challenges due to tax rules and regulations (Brockmann et al., 2016). Because of the decline in national revenue, the government of the nation has experienced financial losses, thus it is necessary to look into what is causing this reduction. One of the main reasons why tax revenue has been declining is due to the failure of the taxpayer to comply with taxes (Sritharan, Salawati, et al., 2022). The Income Tax Act No. 53, Section 103, is violated when the residents of Malaysia wilfully or inadvertently fail to adhere to the tax system. This is known as tax non-compliance. With a recorded tax deficit of RM 13 billion, the Malaysian government and the Inland Revenue Board have both acknowledged that there is an issue of the failure to comply with taxes in the nation (Ministry of Finance Malaysia, 2019). The inability to comply with taxes is a serious problem in Malaysia because between 40% and 60% of all national revenue comes from income taxes (Salawati et al., 2021).

Over the years, ongoing studies being conducted on tax non-compliance performed by tax researchers are investigating the factors affecting the failure of taxpayers to comply with taxes. Nevertheless, a review of the failure of the taxpayer to comply with taxes comprising worldwide literatures remain ambiguous. Hence, this paper compiles the previous related literature and seeks to investigate the causes of tax non-compliance, thus bridging the existing gap. These factors are mainly focusing on the tax knowledge, tax complexity, and compliance costs. The previous literature made by the researchers were collected and compiled.

The capacity to comprehend the principles of a nation's tax laws is typically referred to as tax knowledge. Self-study and formal or informal seminars are two ways to acquire tax knowledge (Hastuti, 2014). Despite the time commitment, the knowledge gained will help taxpayers more effectively adhere to tax regulations (Abd Hamid et al., 2019). Taxpayers who do not know enough about taxes will not be able to pay their taxes, which will result in their inability to comply with tax laws (Loo et al., 2010). Meanwhile, tax complexity will emerge when taxpayers have challenges in adhering to tax regulations, such as sophisticated computations and a sense of ambiguity during tax assessment (Abd Hamid et al., 2019). The problems of the failure to comply with taxes will arise from Malaysian tax rules' complexity and frequent revisions. Thus, implementing tax simplification might increase Malaysian taxpayers' tax compliance (Loo et al., 2010). On the other hand, the expense that taxpayers must bear in order to comply with tax laws and regulations is known as the compliance cost. Direct and indirect costs are the two categories of compliance expenses (Loo et al., 2010). Pope & Abdul-Jabbar (2008) mentioned that direct costs are related to financial costs, whereas indirect costs are costs in terms of time and psychology. Financial costs are the charges incurred by the taxpayer for tax professionals or experts, and also the expenses related to tax reference books and attending tax seminars to have a better knowledge. Time costs are expenses associated with the tasks that require a lot of time, for instance maintaining records, filing taxes, or providing tax data for tax experts to manage on taxpayers' behalf. Costs related to psychology include things like the amount of stress and worry incurred when dealing with tax issues.

Researchers and academicians with an interest in taxes may find the study's theoretical approach insightful. This research will look into whether the failure to comply with taxes is influenced by tax knowledge, tax complexity, and compliance costs. This study will look more closely at those crucial issues. For academicians like educators or scholars, it could offer a fresh viewpoint on why taxpayers choose to violate their tax obligations. Additionally, the tax administrators will benefit from this study as it will improve tax adherence according to the voluntary acts of taxpayers without coercing them. The study's explanation of the variables that result in the inability to comply with taxes will also provide them a clearer understanding of the problem and help them become more vigilant about it.

RESEARCH METHODS

This study reviewed and analysed papers about tax non-compliance using a comprehensive literature review. It examines the literature to determine the causes of tax non-compliance by individual taxpayers. According to Sritharan et al. (2022), the flow of using a systematic literature review is as follows: generating the research question, discovering and assessing pertinent studies, locating studies, evaluating and synthesizing the results, reporting and utilizing the findings. Thus, the study posed three research questions which the systematic literature review aimed to provide answers to, namely:

- 1) How does a taxpayer's tax knowledge affect their tax non-compliance?
- 2) How does a taxpayer's tax complexity affect their tax non-compliance?
- 3) How does a taxpayer's compliance costs affect their tax non-compliance?

This paper is a quantitative in nature. This might be as a result of the fact that this article focuses on individual taxpayers and that questionnaires are the most straightforward method of gathering data from these respondents. The articles were extracted using a search engine and only journal articles were considered. The articles reviewed were published between the year 2014 and 2024, where the articles were selected within the last ten years. To identify the related articles to the topic of this paper, key terms related to this study were used.

RESULTS AND DISCUSSION

This paper reviewed articles published in academic journals that compile the previous related literature and seeks to investigate the causes of tax non-compliance. These factors were mainly focusing on the tax knowledge, tax complexity, and compliance costs. The previous literature made by the researchers were collected and compiled. The articles reviewed were published between the year 2014 and 2024, where the articles were selected within the last ten years. The reviewed articles were located in accordance to the country which the study was performed, and the findings were being analysed and synthesized.

Table 1 List of articles – Tax knowledge

Country	Author(s) (year)	Sample
Africa	Naape (2023)	Data were gathered from the self-structured questionnaires where the respondents were from the personal income taxpayers in South Africa.
Africa	Nzioki & Peter (2014)	A sample was taken from a total of 271 real estate investors out of 841 target population.
Indonesia	Andreas & Savitri (2015)	A total of 100 taxpayers who enrolled in the Pekanbaru-Senapelan tax office were selected for the survey.
Indonesia	Damajanti & Karim (2017)	Up to 200 copies of the completed questionnaires were delivered; with a total of 196 copies were processed.
Indonesia	Hantono (2021)	A total of 100 respondents were responded through the questionnaires distributed.
Indonesia	Herda et al. (2022)	Information was obtained from a sample of 98 employees who worked at PT. Parkland World Indonesia.
Malaysia	Sanusi et al. (2017)	404 replies were obtained out of the 1200 questionnaires that were delivered. However, a sample of 379 surveys were taken from the respondents of the business operators registered with Royal Malaysian Customs Department (RMCD) under GST system.
Malaysia	Mohd Remali et al. (2020)	A total of 290 responses were gathered from the taxpayers who work in Selangor and Putrajaya, Malaysia.
Malaysia	Yahya et al. (2021)	For the final data, 198 out of 300 questionnaires were used, and the respondents were small company owners that solely operate their businesses.
Malaysia	Mat Jusoh et al. (2021)	A total of 152 samples were received from the responders who worked for the government and commercial sectors across Malaysia.
Malaysia	Kamarudin et al. (2024)	Data were gathered from a total of 384 samples from the youth workers in Malaysia.
New Zealand	Saad (2014)	Data were collected via telephone interview and a sample from 30 participants with different background were collected.

Yemen	Al-Ttaffi et al. (2020)	A total of 287 out of 350 questionnaires were used as a sample who were gained from the individual taxpayers who live in Hadhramout Governorate.
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Table 2 List of articles – Tax complexity

Country	Author(s) (year)	Sample
Africa	Gambo et al. (2014)	Data were gathered from a total of 44 countries from Africa were chosen to serve as the study's sample.
Indonesia	Totanan et al. (2024)	A sample were chosen from 148 individual taxpayers who are the owners of micro, small, and medium-sized businesses (MSMEs).
Malaysia	Isa (2014)	Data were collected from 145 respondents from business taxpayers as well as tax auditors in Malaysia.
Malaysia	Abdul Ghani et al. (2020)	A survey was conducted and 150 samples were collected from the self-employed in Malaysia.
Malaysia	Mohd Remali et al. (2020)	A total of 290 responses were gathered from the taxpayers who work in Selangor and Putrajaya, Malaysia.
Malaysia	Yahya et al. (2021)	For the final data, 198 out of 300 questionnaires were used, and the respondents were small company owners that solely operate their businesses.
Malaysia	Mat Jusoh et al. (2021)	A total of 152 samples were received from the respondents who were from the private and government sector employees throughout Malaysia.
Malaysia	Kamarudin et al. (2024)	Data were gathered from a total of 384 samples from the youth workers in Malaysia.
New Zealand	Saad (2014)	Data were collected via telephone interview and a sample from 30 participants with different background were collected.
Portugal	Borrego et al. (2017)	Data were collected and a total of 1,567 questionnaires responded by the Portuguese tax professionals were selected as the sample.

Table 3 List of articles – Compliance costs

Country	Author(s) (year)	Sample
Africa	Nzioki & Peter (2014)	A sample was taken from a total of 271 real estate investors out of 841 target population.
Africa	Mahangila (2017)	75 small and medium business owners made up the sample size based in Dar es Salaam, Tanzania.
Africa	Musimenta (2020)	A sample was taken from a total of 242 withholding agents from Uganda.

Africa	Mebratu (2024)	A sample was taken from a total of 1,550 large Ethiopian taxpayers.
Malaysia	Manual & Xin (2016)	150 individuals were chosen at random from among West Malaysia's self-employed taxpayers.
Malaysia	Abdul Ghani et al. (2020)	A survey was conducted and 150 samples were collected from the self-employed in Malaysia.

Table 1, Table 2 and Table 3 show several papers selected to analyze the impact of tax complexity, tax knowledge, and compliance costs on the failure of taxpayers to comply with taxes. Additionally, the aforementioned papers are categorized based on the nation where the samples were collected.

Table 1 shows that many articles focusing on tax knowledge towards tax non-compliance were released from a variety of nations, including Africa, Indonesia, New Zealand, Yemen and Malaysia. According to African studies, Naape (2023) and Nzioki & Peter (2014) found a positive and significant associated between tax knowledge and tax compliance. Meanwhile, for Indonesian based studies, Damajanti & Karim (2017) and Hantono (2021) revealed that tax knowledge has a significant impact towards tax non-compliance, Andreas & Savitri (2015) found that tax knowledge affects the tax non-compliance, and Herda et al. (2022) showed that tax knowledge has a partial and significant effect towards tax non-compliance. According to Malaysian based studies, the result revealed that there is a positive relationship between tax knowledge and tax compliance (Sanusi et al., 2017; Ramli et al., 2020; Yahya et al., 2021; Kamarudin et al., 2024). Mat Jusoh et al. (2021) also found that tax compliance behavior among Malaysia's salaried population is significantly influenced by tax knowledge. Meanwhile in New Zealand, the study performed by Saad (2014) revealed that the absence of tax knowledge might result in taxpayers engaging in the behaviours to not comply with taxes, whether on purpose or accidentally. This implies that low understanding of taxes of the taxpayers would give high tendency for them to get caught in the inability to comply with taxes. A study made in Yemen also found that tax knowledge has a significant impact on tax compliance behaviour (Al-Ttaffi et al., 2020). Thus, the outcome of tax knowledge from the perspective of tax non-compliance gave a negative significant effect towards tax non-compliance. As mentioned by Naape (2023), the result implies that those who understand the tax system better are more inclined to follow tax rules and regulations. In light of the results found by Nzioki & Peter (2014), it is critical that the tax system increase awareness of the significance of filing taxes. If taxpayers were well-versed in the tax filing process, tax calculation method, and tax payment mechanism, they would be better compliant in performing their tax responsibilities (Damajanti & Karim, 2017). In addition, socialization taxation is necessary to help people better comprehend the tax laws and increase their compliance in paying taxes (Andreas & Savitri, 2015). Thus, it was determined that tax knowledge is vital for ensuring and enhancing the degree of tax adherence, in which the results above shown that there is a negative relationship between tax knowledge and tax non-compliance. This result corresponds with literature on the subject, which stated that the information gained will help the taxpayers better adhere with tax regulations (Abd Hamid et al., 2019).

Table 2 shows that many articles focusing on tax complexity towards tax non-compliance were released from a variety of nations, including Africa, Indonesia, Malaysia, New Zealand and Portugal. According to African studies, Gambo et al. (2014) found that tax complexity has a significant negative effect towards tax compliance in Africa. Meanwhile, for Indonesian based studies, Totanan et al. (2024) revealed that there is a relationship between the complexity of tax regulations and principles of justice towards the compliance of taxpayer. The findings indicate that taxpayer compliance will rise as tax regulations become less complicated. According to Malaysian based studies, the result found that tax complexity has significant influence towards tax compliance (Kamarudin et al., 2024; Mat Jusoh et al., 2021). The study conducted by Isa (2014) found that a complex tax structure might mislead or discourage individuals from adhering, whether intentionally or unintentionally. Additionally, the study discovered that the behavior of not complying with taxes is influenced by tax complexity (Yahya et al., 2021). Abdul Ghani et al. (2020) and Mohd Remali et al. (2020) revealed that tax complexity has a negative relationship towards the tax compliance. Thus, in the perspective of tax non-compliance, the result of tax complexity gave positive relationship towards tax non-compliance. Meanwhile in New Zealand, the study performed by Saad (2014) shown that the likelihood of taxpayer compliance increased

when they thought there was simplicity in the tax law. A study made in Portugal also found that there was a relationship between tax complexity and the tax non-compliant behaviour (Borrego et al., 2017). Thus, should a taxpayer consider that fulfilling tax obligations is a challenging and intricate process, there is a considerable chance that he will not follow tax rules and regulations. To guarantee that taxpayers abide by the law to a satisfactory degree, a self-assessment method that works well should be straightforward and not complicated (Gambo et al., 2014). As mentioned by Totanan et al. (2024), the government should work to make tax laws more understandable and straightforward in order to boost taxpayer compliance. Thus, with increasingly complex tax components, it is logical to predict that increased rates of the failure to comply with taxes will follow. The results above shown that there is a positive relationship between tax complexity and tax non-compliance. These results correspond to the generalization made by Loo et al. (2010) who argued that the concerns about the inability to comply with taxes will arise due to the intricacy and regular updates of tax laws in Malaysia.

Table 3 shows that many articles focusing on compliance costs towards tax non-compliance were published from these two countries, which are Africa and Malaysia. According to African studies, Mahangila (2017) found that there is a positive relationship between tax compliance costs and the behaviour of not complying with taxes. The study conducted by Nzioki & Peter (2014), Musimenta (2020), and Mebratu (2024) revealed that compliance costs have a negative and significant relationship towards tax compliance. Thus, in the perspective of tax non-compliance, the result of tax complexity gave positive relationship towards tax non-compliance. According to Malaysian based studies, Manual & Xin (2016) found that the expenses associated with tax compliance might raise the degree of the failure to comply with taxes. Abdul Ghani et al. (2020) revealed that there is a negative relationship between tax compliance cost on tax compliance. Thus, in the perspective of tax non-compliance, the result of tax complexity gave positive relationship towards tax non-compliance. The results suggest that the possibility of the inability to comply with taxes may rise as a result of high compliance costs among taxpayers. As mentioned by Mahangila (2017), it should be emphasized that small adjustments in tax compliance costs did not seem to significantly affect tax compliance, thus the costs must be large enough to detect an effect. The results above shown that there is a positive relationship between compliance costs and tax non-compliance. These results follow research conducted by Abd Hamid et al. (2019), whereby the behaviour of not complying with taxes may occur due to significant amount of financial cost, time cost, and psychological cost.

CONCLUSION

In a nutshell, the analysis of earlier research was able to demonstrate empirically the substantial impact of the independent variables of tax complexity, tax knowledge, and compliance costs on the dependent variable of tax non-compliance. It was concluded that there is a negative relationship between tax knowledge and tax non-compliance. High level of the failure to comply with taxes would be occurred if the tax knowledge is low. It was also concluded that there is a positive relationship between tax complexity and tax non-compliance. If the complexity of tax increases, it leads to increasing level of the inability of taxpayers to comply with taxes. Not to mention, there is also a positive relationship between compliance costs and tax non-compliance. When the level of the failure to comply with taxes is high, the compliance costs which comprise of financial cost, time cost, and psychological cost is also high. Therefore, in order to promote trust and a favorable view among taxpayers, the government must be heavily involved to raise the degree of compliance.

This study however, identified some limitations as this study focuses only on tax knowledge, tax complexity and compliance costs. Other issues that may impact taxpayers' inability to comply with taxes include tax morale, tax ethics, and tax justice. Due to time constraint, this study is restricted to the factors that were examined in the research only. Another limitation is that, this study also includes prior studies from countries other than Malaysia such as Indonesia, Africa, New Zealand, Yemen, and Portugal. Thus, regarding further research, it may be beneficial to perform a review that relates to study based in Malaysia so that the perspective of the research can be focused and narrowed down. Furthermore, it might be significant if researchers can focus on other than the abovementioned variables, so that the review of tax non-compliance comprising worldwide literatures can be conducted thoroughly.

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