

# KNOWLEDGE OF BUSINESS INCOME TAXPAYERS ON TAX RELIEF AND BUSINESS DEDUCTION: A STUDY IN KUANTAN, PAHANG

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## Abstract

*The new tax assessment system is known as Self Assessment System (SAS), whereby the individual taxpayers have to compute their chargeable income and tax return on their own before remitting the payment to Inland Revenue Board (IRB). However, it is anticipated that this system could increase the probability of non compliance due to the lack of understanding and knowledge on how to compute the chargeable income. In this paper, we are interested to test basic tax knowledge of the taxpayers as consumers on their rights and responsibilities on tax relief and business deduction. Beside that, this study also examines whether there is a significant difference in terms of taxpayers knowledge in reference to their demographic characters such as age, gender, race and level of education. The research was conducted by distributing questionnaires to business income taxpayers (sole proprietorship) in Kuantan on their basic knowledge on tax computation. The result shows that the level of tax knowledge on personal tax relief and business deduction is still very low among the individual taxpayers. In addition, only the age, race and level of education of the taxpayers have significant difference in terms of knowledge on tax relief and business deduction.*

**Keywords:** *Tax knowledge, tax relief, business deduction.*

## Introduction

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development and most importantly to explain how and where the money collected is spent by the government (Mohani, 2003). The importance of tax literacy should be inculcated among the taxpayers to avoid their negative perceptions towards taxation and to increase the level of compliance. This is consistent with a study by Eriksen and Fallan (1996) who suggested that attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment.

Previous researches have shown that, the effect of education on tax knowledge and awareness is not clear at all. It could be reasonably assumed that educated taxpayers or consumers are more likely to know their rights and responsibilities about tax obligation and avoid making mistakes. In this study, we are interested to assess the relationship between demographic attributes

