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Fairness, Transparency and Attitude towards Tax Evasion amongst Owners of SMEs

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ABSTRACT

Tax evasion amongst small and medium-sized enterprises (SMEs) is a global concern. While the social-psychological aspect has been explored, its influence on tax evasion in SMEs is still inconclusive. This study examines the effect of fairness and transparency on the attitude towards tax evasion amongst the owners of SMEs. A mixed-mode survey was used in obtaining data from four populous divisions of Sarawak, Malaysia. Random sampling was employed in selecting the potential respondents from the service sector. Data from 91 useable questionnaires were analysed using Smart-PLS 3.0. The results revealed that distributive fairness and distributive fiscal transparency have significant negative effects on SME owners' attitudes towards tax evasion. On the other hand, general fairness and informational transparency were insignificant. These findings may benefit the tax authority and policymakers in formulating appropriate strategies to curb erosion of income tax revenue from tax evasion. The

findings also contribute to the paucity of literature about the significance of the social-psychological aspect in minimizing tax evasion.

Keywords: *Fairness; Transparency; Tax Evasion; Attitude; SMEs*

INTRODUCTION

Tax non-compliance is a global issue because it affects every nation that relies on tax as a source of revenue. Despite numerous attempts to resolve this quandary, it remains an ominous and persistent issue. Tax non-compliance, not only erodes the country's revenue but also disrupts the provision of infrastructure, which harms the social and economic well-being of a country. Therefore, taxpayers' commitment to pay tax is central to ensure a successful and sustainable inflow of government revenues. However, statistics revealed that 83.73% (1,004,636 out of 1,199,852) of registered companies do not pay taxes in Malaysia (National Tax Seminar, 2018). Urgent attention is needed to curb further leakages of tax revenue.

The extent of the loss of tax revenue from a country is commonly associated with the size of its shadow economy (Schneider et al., 2015). Shadow economy can be described as "the economic activities, whether legal or illegal, which are required by law to be fully reported to the tax administration but not reported and therefore go untaxed unlike activities which are so reported" (OECD, 2017, p. 9). Medina and Schneider (2018) revealed the average size of the shadow economy of 158 countries from 1991 to 2015 is 31.9%, with Bolivia topping the list at 62.3% of Gross Domestic Product (GDP) while Switzerland at the bottommost with 7.2% of GDP. In Malaysia, the shadow economy accounts for 21% of the country's RM1.45 trillion GDP (National Tax Conference, 2019). The statistics indicates two critical points. Firstly, the need to act promptly to tap income tax revenue from the unmonitored economy. Secondly, a deeper understanding is warranted to know why taxpayers evade tax and how this issue can be resolved, or at least, improved.

By and large, the tax authorities have relied on deterrent measures such as conducting tax audits and investigations, and implementing harsher penalties for recalcitrant taxpayers to enforce compliance. However, the antagonistic nature of these measures may create hostility amongst

taxpayers, which ultimately disrupts the aspiration for a sustainable taxation system. Therefore, a better understanding of the psychological factors that influence taxpayers' behavior is pivotal because it complements the limitations of deterrent measures.

Psychological factors such as fairness and transparency are not new in the taxation domain. However, literature from the aspect of tax evasion amongst SMEs is still limited. Thus, the present study provides much-needed empirical evidence on fairness, transparency, and attitude towards tax evasion amongst SMEs owners. Furthermore, fairness and transparency may be perceived differently in a less developed state. States which are well-developed in terms of socio-economic and infrastructure may find different elements of fairness and transparency as trivial in influencing SMEs owners' compliance towards tax obligation. The opposite can be deduced for those in less developed states, where most areas are still deprived of development. This paper begins with an introduction, followed by the review of literature and elaboration of the methodology. The presentation of the results and findings ensues, before concluding with the summary, implications, and recommendations.

LITERATURE REVIEW

Tax Non-Compliance and Tax Evasion

Tax compliance is the act of meeting the fundamental tax obligations such as registration in the tax system, timely filing of tax returns, accurate reporting of tax liabilities, and timely payment of tax (Kiow et al., 2017). By contrast, tax non-compliance is the failure to meet whichever key elements in tax obligations. It includes the illegal act of reducing or dodging tax, known as tax evasion. According to Mohamad et al. (2016), tax evasion is a financial crime that utilizes any methods outside the legal boundaries to elude taxes. On the other hand, tax avoidance is a deliberate attempt to reduce tax liabilities via tax planning (Onu et al., 2019). Although tax avoidance is a legal arrangement, it can develop into aggressive tax planning when the practice is excessively performed and in a scheming manner. In such a case, the anti-avoidance provision negates the controversial scheme.

Studies of tax evasion amongst SMEs have garnered extensive discussions over the past decade. Ngah et al. (2021) pointed out that tax evasion is becoming increasingly prevalent despite tenacious efforts in strengthening tax compliance. Its pervasiveness is mainly due to the considerable number of SMEs around the globe. Statistics revealed that SMEs in the non-financial business sector accounted for 99.8% of 27 European Union countries (Annual Report on European SMEs 2020/2021). In Malaysia, SMEs account for 97.2% (1,151,339) of the total business establishments as of December 2020, making it the backbone of its economy (Malaysia Statistical Business Register, Department of Statistics Malaysia). Due to the limited enforcement resources of the tax authority, it comes as no surprise that tax non-conformity amongst SMEs is arduous to detect. Yusof et al. (2014) discovered that smaller SMEs were more susceptible to tax non-compliance than the larger ones, and the service and construction industries were more defiant than other sectors.

The economic and non-economic deterrent approach dominates the tax evasion and compliance studies. The earlier studies have centred around the economic-deterrent variables, following the breakthrough model of Allingham and Sandmo (1972). Allingham and Sandmo (1972) claimed that monitoring and enforcement are necessary to coerce tax compliance. However, findings remained inconsistent (Nguyen et al., 2019; Gemmell & Ratto, 2018; Yusof et al., 2014), suggesting that enforcement efforts alone cannot wholly explain the behavior of taxpayers.

The non-economic deterrent approach provides a holistic understanding of behavior in taxpayers. It encompasses social psychology and fiscal psychology (McKerchar & Evans, 2009). Social psychologists believe that behavior is shaped by beliefs, attitudes, characteristics, and how the system is perceived (McKerchar & Evans, 2009). Herein, several studies have found that taxpayers' inclination to cooperate are influenced by, among others, trust in government (Güzel et al., 2019), good service (McKee et al., 2018), prosocial attitude (Sikayu et al., 2020), social norm (Jiminez & Iyer, 2016), fairness (Faizal et al., 2017) and transparency (Mangoting et al., 2019). Conversely, fiscal psychology focuses on the combination of economic deterrent and social psychology (McKerchar & Evans, 2009; Devos, 2014).

Fairness and Tax Evasion

At its simplest, fairness is the quality of treatment that should be equal, or at best, appropriate or reasonable. However, fairness has various aspects and therefore has diverse meanings. These aspects, namely general fairness, distributive or exchange fairness, administrative or procedural fairness, retributive fairness, vertical fairness, horizontal fairness, personal fairness, have been narrated in several studies (Saad, 2012; Gilligan & Richardson, 2005). Gerbing (1988) was one of the scholars who performed a study on fairness dimensions. The five notable dimensions were general fairness, exchange with government, attitude towards taxes of the wealthy, progressive versus flat tax rate, and self-interest.

Briefly, Saad (2012) and Gilligan and Richardson (2005) provided the following descriptions about fairness dimensions: (i) General fairness deals with the assessment of the overall fairness of the income tax system; (ii) Distributive fairness (exchange with the government) indicates fair trade of tax contribution and benefits between taxpayers and government; (iii) Administrative or procedural fairness denotes fair judgment about the tax authority's execution of procedures; (iv) Retributive fairness represents fairness in the imposition of punishment; (v) Vertical fairness conveys that different tax rates should be imposed on taxpayers of different economic levels; (vi) Horizontal fairness implies that taxpayers with the same economic level should pay relatively the same amount of tax; and (vii) Personal fairness is an assessment of whether the income tax system is, in any case, to the advantage of the taxpayer. Ideally, an improved perception of fairness would contribute to better compliance amongst taxpayers.

The Equity Theory (Bobek, 1997) postulates that individuals are more likely to be persuaded to obey the rules if they are treated fairly under a system. The theory presumes that individuals view fairness based on equitable benefit, concerning their contribution. Several studies have examined the influence of fairness on tax compliance or non-compliance. Specifically, tax fairness was examined from a broad sense (Alkhatib et al., 2019; Alshira'h & Abdul-Jabbar, 2019; Onu et al., 2019), while others have explored distributive fairness (Nashwan et al., 2020; Tan & Braithwaite, 2018; Verboon & Goslinga, 2009), general fairness (Nashwan et al., 2020; Inasius, 2019), and procedural and retributive fairness (Faizal & Palil, 2015). However, findings have been inconclusive. Nevertheless, several

studies suggested that fairness served as a significant mediator for tax compliance (Güzela et al., 2019; Che Azmi et al., 2016).

Researches about fairness amongst SMEs have been explored in several countries. Table 1 displays the main findings of these studies. Studies revealed that fairness is positively associated with tax compliance (Alshira'h & Abdul-Jabbar, 2019; Inasius, 2019) but negatively related with tax evasion (Alkhatib et al., 2019) and that an unfair tax system is associated with tax avoidance (Onu et al., 2019). In particular, distributive fairness influence compliance attitude (Verboon & Goslinga, 2009) and resonate with taxpayers' commitment and capitulation attitude (Tan & Braithwaite, 2018).

Table 1
Fairness and SMEs' Tax Compliance/ Tax Evasion

Researcher(s) & Year	Country (Sample)	Findings
Tan & Braithwaite (2018)	New Zealand (Small business)	Distributive justice is associated with commitment and capitulation posture.
Verboon & Goslinga (2009)	Netherland (Small business)	Distributive fairness affects tax compliance
Alkhatib et al. (2019)	Palestine (SMEs)	Negative relationship with tax evasion
Alshira'h & Abdul-Jabbar (2019)	Jordan (SMEs)	Positively related with tax compliance
Inasius (2019)	Indonesia (Small business)	Positively effect on tax compliance
Onu et al. (2019)	UK (Small business)	Unfair tax system is associated with tax avoidance

Although studies on fairness perception are not new in Malaysia, the samples have mainly focused on salaried individuals and their effect on tax compliance (Sritharan & Salawati, 2019; Faizal et al., 2017). Fairness perception amongst owners of SMEs and its association with tax evasion is still not well researched, particularly in East Malaysia. The eastern and western parts of Malaysia are geographically separated. The former is less developed despite being a significant contributor to the Malaysian economy and having been part of Malaysia for almost 60 years. As such, taxpayers'

perception and its effect on tax evasion may differ from other studies of well-developed states or countries. Therefore, this study helps fill the gap. Based on the above arguments, we hypothesize that:

H1: General fairness is negatively associated with attitude towards tax evasion.

H2: Distributive fairness is negatively associated with attitude towards tax evasion.

Transparency and Tax Evasion

Transparency is the opposite of secrecy (Rawlins, 2008). It is an act of making information available to external stakeholders (Potts et al., 2010). In particular, fiscal transparency refers to the openness and disclosure of information about the government structure and functions, fiscal policy intentions, public sector accounts, and projections (Kopits & Craig, 1998). Capasso et al. (2020) assert that fiscal transparency deals with extensive information disclosure in obtaining, allocating, and managing financial resources by the government. In short, if the release of essential information (whether good or bad) to the interested party occurs in a clear, accurate, and sensible manner, then the authority is regarded as transparent.

Rawlins (2006; 2008) distinguished the dimensions of transparency: (1) participatory transparency - relates to the involvement of users in the process of selecting information to be made available to interested users; (2) substantial information transparency - concerns with disclosing accurate, reliable and valuable information to the users; and (3) accountability transparency - refers to disclosing neutral and impartial information, allowing the interested users to evaluate performance and reach their conclusion. Similarly, Williams (2014) maintained that transparency consists of information and accountability components. In the taxation domain, Campuzno (2015) examined the aspects of transparency under procedural, distributive, retributive, and informational transparency also found under fairness dimensions.

Transparency enhances tax morality, which subsequently encourages tax compliance. Indeed, the studies of Zvereva et al. (2021) and Capasso et al. (2020) observed a positive relationship between tax morality and budget transparency. The findings suggested that the openness about the process in the utilization of budgetary funds improves tax morale, which is

a crucial element in curbing tax evasion. Capasso et al. (2020) revealed that greater transparency minimizes aversion, suggesting that the availability of information is vital in confronting dissatisfaction with government policies. Similarly, Siahaan (2013) found that a transparent tax system improved taxpayers' disposition to trust and that trust mediates the relationship between transparency and tax compliance.

Table 2
Transparency and SMEs' Tax Compliance / Tax Evasion

Author(s) & Year	Country (Sample)	Findings
Altaf et al. (2019)	Pakistan, Bangladesh, Sri Lanka and India (Dataset)	Inverse relationship with tax evasion
Mangoting et al. (2019)	Indonesia (Business Taxpayers)	Significant relationship with compliance
Abdul-Razak & Adafula (2013)	Ghana (SMEs)	Insignificant direct relationship with tax compliance

The main findings of transparency, tax compliance, and tax evasion of SMEs in several countries are presented in Table 2. Transparency was found to have no significant direct effect on tax compliance (Razak & Adafula, 2013) although a weak but significant relationship was discovered by Mangoting et al. (2019). On the other hand, Altaf et al. (2019) found tax evasion to be negatively associated with transparency in policy-making. In Malaysia, the relationship between transparency and attitude towards tax evasion amongst SMEs is still not well understood. Hence, based on the above literature, we hypothesize that:

H3: Distributive transparency is negatively associated with attitude towards tax evasion.

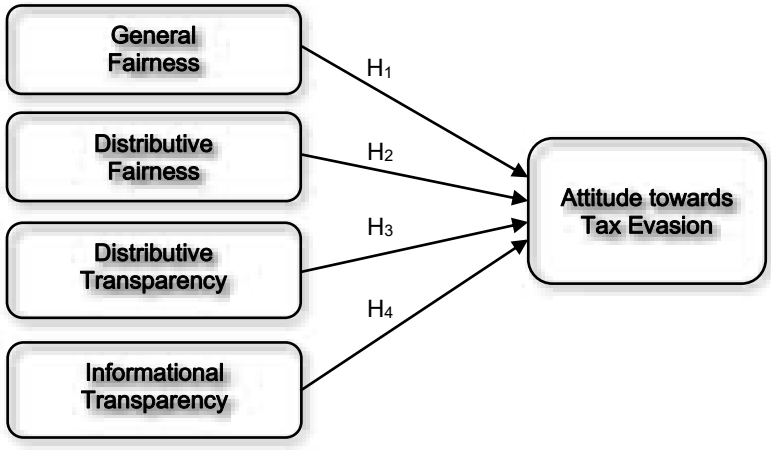
H4: Informational transparency is negatively associated with attitude towards tax evasion.

Fairness and its effect on tax non-compliance amongst SMEs have been explored, internationally (Onu et al., 2019; Tan & Braithwaite, 2018). Nonetheless, the sample from East Malaysian SMEs is rarely explored. Similarly, the association between transparency and tax non-compliance of SMEs has been examined, globally (Mangoting et al., 2019; Razak & Adafula, 2013). However, little is known about the influence of

transparency on the attitude towards tax evasion amongst owners of SMEs, in East Malaysia. Therefore, this paper attempts to examine the influence of fairness and transparency on the attitude towards tax evasion among business owners. This study is important for two reasons. Firstly, SMEs contribute the highest composition of business enterprises in Malaysia. Therefore, psychological factors are crucial in augmenting the deterrent approach, in curtailing tax evasion. Secondly, there is a limited study that aptly captures the perceptions of unfairness and ambiguity from a less developed state. Hence, these findings will contribute to the limited literature.

The conceptual framework is presented in Figure 1. The Equity Theory (Bobek, 1997) is used to support the relationship between fairness and tax evasion. The theory postulates that, if individuals are treated fairly under a system, they are more likely to obey the rules. If individuals perceived that treatment is unjust, they are more likely to defy. Siahaan (2013) asserted that transparency in the system improves taxpayers' compliance. In other words, a lack of openness will have an undesirable effect on taxpayers' compliance. As such, it is predicted that informational transparency and distributive transparency are negatively associated with tax evasion.

Figure 1
Conceptual Framework



METHODS

Instrument

Tax is a delicate matter for most taxpayers. Therefore, questionnaires were used to collect data because they provide genuine anonymity to the respondents' identities. In a survey study, it is common for tax researchers to examine the attitude or perceptions towards tax evasion or non-compliance based on the respondents' agreement towards a set of questions. Therefore, a five-point Likert scale which indicated the levels of respondents' agreement or disagreement on the statements, were used on all items.

Fairness items were adapted from Gilligan and Richardson (2005): (i) General fairness, that is, the overall fairness of the tax system, is measured by four items, while (ii) Distributive fairness, which refers to the equitable benefit received in comparison with tax paid, is assessed by four items. Transparency items were adapted from statements of Craig and Kopits (1998): (i) Distributive transparency, which can be regarded as the openness in the processes of distributing and utilizing tax revenue, is assessed using four items, whereas (ii) Informational transparency, which can be understood as the provision of a reliable and useful information about the government's decision and results, is measured using three items. Tax evasion is measured using nine items which were adapted from Gilligan and Richardson (2005). The above items were paraphrased accordingly to suit the Malaysian context.

Sample of Study and Data Collection Method

The sample for this study consisted of the business owners, who were the sole owners, partners, or directors from the service sector of SMEs in Sarawak, Malaysia. The service sector was chosen because it dominates the composition of SMEs in Sarawak and Malaysia. The Economic Census 2016 revealed that 89.2% (809,126 out of the total 907,065) of SMEs in Malaysia were dominated by the service sector. There were 61,036 SMEs in Sarawak. Therefore, 382 samples were taken as the recommended sample size for the study, as suggested by Krejcie and Morgan (1970, 608). Multistage sampling was utilized to collect data. Kuching, Miri, Bintulu, and Sibu were chosen as the research location. A total number of 663

questionnaires were distributed using mail, online and, drop-off modes. The responses were on a voluntary basis. Returned questionnaires were 136, giving rise to a 20.5% response rate. However, only 91 responses were represented by the business owners. Due to failure in obtaining the desired number of responses, a comparison between the early and late responses was necessary. Thirty responses were selected from each group. The non-response bias was not a major concern because the significant mean difference between the two groups was not evident (p-value greater than 0.05).

Data Analysis Method

To test the hypothesis, data were analyzed using Smart PLS Version 3.0. The PLS Algorithm was used to examine the factor loading and path coefficient. On the other hand, Bootstrapping method with 500 resamples was performed to determine the significance levels for loading, weights, and coefficient.

FINDINGS

Respondents Profile

The major part of responses was contributed by the distributive trade business (31.8%), followed closely by the food and beverages business (30.8%), and the professional business (23.1%). The service profile is consistent with the economic census 2016, whereby distributive trade and food and beverages businesses dominate the service sector of SMEs. Next, 46.2% of the respondents reported an annual sale between RM300,000 and RM2,999,999, followed by 38.4% of respondents with annual sales below RM3,000,000. The remaining 15.4% respondents reported sales between RM3,000,000 and RM20,000,000. Based on these figures, the samples have appropriately captured responses from the three categories of SMEs. The male composition is higher than female, whereby 53.8% of the respondents are male while 46.2% are female. Table 3 presents the respondents' demographic details.

Table 3
Respondents Demographic Details

Demographic Item	Frequency	Percentage
Types of Services		
Distributive Trade	29	31.8%
Food & Beverages	28	30.8%
Professional	21	23.1%
Education	9	9.9%
Transport & storage	4	4.4%
Annual Sales		
Below RM300,000	35	38.4%
RM300,000 – RM2,999,999	42	46.2%
RM3,000,000 – RM20,000,000	14	15.4%
Designation in Business		
Owner/Partner/Director	91	100%
Gender		
Male	49	53.8%
Female	42	46.2%
Total Respondents	91	100%

Measurement Model Analysis

The reflective measurement model was tested by performing the convergent and discriminant analysis, before hypothesis testing. The convergent validity is ascertained by examining the values of loadings, Cronbach's Alpha (CA), Composite Reliability (CR), and Average Variance Extracted (AVE). Upon inspection, the following observations were found on each construct: (i) the values for items loaded exceeded 0.700, (ii) the CR values ranged from 0.952 to 0.984, (iii) the CA values ranged from 0.936 to 0.976, and (iv) the AVE scores were in the range of 0.661 to 0.940. These values were appropriate because the recommended values have been met, namely, 0.70 in evaluating CR and CA, and 0.50 in assessing AVE (Hair et al., 2017). The summary results of convergent validity are presented in Table 4.

Table 4
Convergent Validity for Reflective Measurement Model

Construct	Items	Loadings	CA	CR	AVE
Distributive Fairness (DFAIR)	DF1	0.965	0.972	0.980	0.924
	DF2	0.969			
	DF3	0.976			
	DF4	0.934			
Distributive Transparency (DTRANS)	DT1	0.929	0.936	0.954	0.839
	DT2	0.932			
	DT3	0.933			
	DT4	0.868			
General Fairness (GFAIR)	GF1	0.955	0.979	0.984	0.940
	GF2	0.973			
	GF3	0.971			
	GF4	0.979			
Informational Transparency (INTRANS)	IT1	0.913	0.924	0.952	0.868
	IT2	0.935			
	IT3	0.946			
Tax Evasion	TE1	0.787	0.935	0.946	0.661
	TE2	0.738			
	TE4	0.875			
	TE5	0.788			
	TE8	0.806			
	TE9	0.833			
	TE11	0.734			
	TE13	0.882			
	TE15	0.859			

Secondly, discriminant validity was assessed using the Heterotrait-Monotrait (HTMT) ratio of correlations, which measures the distinctiveness between constructs (Henseler et al., 2015). Henseler et al. (2015) recommended a threshold of 0.90 (Gold et al., 2001) for conceptually similar constructs, but noted that a more conservative threshold of 0.85 (Kline, 2011) should be observed for constructs that are conceptually different. The summary of discriminant validity is presented in Table 5. Discriminant validity has been established, evidenced by values falling below 0.85.

Table 5
Discriminant Validity using HTMT Ratio

	1	2	3	4	5
DFAIR (1)					
DTRANS (2)	0.645				
GFAIR (3)	0.778	0.662			
INTRANS (4)	0.573	0.759	0.706		
TAX EVASION (5)	0.584	0.576	0.541	0.492	

Structural Model Analysis

In assessing the structural model, Hair et al. (2017) recommended the use of in-sample predictive power (R2), beta (b), and the corresponding t-values using bootstrapping procedures. However, since the p-value merely informs the existence of an effect and not the effect size, Hair et al. (2017) suggested revealing the effect size (f2) as well. Values higher than 0.02, 0.15, and 0.35 indicate small, medium, and large effect sizes, respectively (Cohen, 1988). Table 6 presents the results of the hypothesis testing.

Table 6
Results of Hypothesis Testing

H	R/ship	β	SE	t-value	p-value	Decision
H1	GFAIR -> EVADE	-0.101	0.161	0.628	p>0.05	Not supported
H2	DFAIR -> EVADE	-0.301	0.117	2.562	p<0.01	Supported
H3	DTRAN -> EVADE	-0.271	0.136	1.990	p<0.01	Supported
H4	ITRAN -> EVADE	-0.039	0.143	0.271	p>0.05	Not Supported

The study revealed that 39.0% of variance (R2) for attitude towards tax evasion in this sample, is explained by the fairness and transparency constructs. In particular, the results indicated that distributive fairness DFAIR ($b = -0.301$, $t = 2.562$, $p < 0.01$, $f2 = 0.058$) and distributive fiscal transparency DTRANS ($b = -0.271$, $t = 1.990$, $p < 0.05$, $f2 = 0.051$), are significantly and negatively associated with taxpayers' attitude towards tax evasion, although the effect is small. Therefore, H2 and H3 are supported.

Conversely, there are insufficient statistical evidences to indicate that general fairness ($b = -0.101$, $t = 0.628$, $p > 0.05$, $f2 = 0.005$) and informational transparency ($b = -0.039$, $t = 0.271$, $p > 0.05$, $f2 = 0.001$) were significantly related with attitude towards tax evasion. As such, H1 and H4 are not supported. However, negative relationships are evident in both tests.

DISCUSSION

The findings of this study suggest that general fairness is negatively associated with taxpayers' attitudes towards tax evasion. However, there is insufficient statistical evidence to suggest that the relationship is significant. This finding is consistent with the findings of Nashwan et al (2020) but contradicts the findings of Ignasius (2019). On the other hand, distributive fairness (exchange with the government) is significant but negatively associated with attitude towards tax evasion. The result implies that when the distribution of benefits is perceived as being fair, taxpayers perceive tax evasion as unacceptable, and vice-versa. In other words, the respondents' inclination towards tax evasion corresponds with the unfair allocation of benefits from the government. The finding corroborates with the finding of Tan and Braithwaite (2018), in that, higher resistance attitude is linked with a lower perception of justice.

The findings further revealed that distributive and informational transparency are negatively related to taxpayers' attitudes towards evasion. Nevertheless, only distributive transparency was found to be statistically significant. The finding suggests that lack of openness from the government about the allocation of benefits and revenue spending processes could have contributed to the negative effect, which then, leads to taxpayers' perception that tax evasion is tolerable. The inverse relationship between transparency and tax evasion is also evident in the study of Altaf et al. (2019). In addition, they found that the human development index is negatively linked with tax evasion, suggesting that taxpayers are less inclined to evade taxes in countries where tax revenue is judiciously spent for education, health, and food.

Secrecy undermines the taxpayers' loyalty. The perceived lack of distributive fiscal transparency and its effect on taxpayers' attitude towards evasion, warrants the need to have good fiscal governance. Fiscal

governance should be strengthened to ensure sound and sustainable public finance. This can be achieved through the enforcement of rules and procedures on formulating, approving, implementing, and assessing budget policy. In addition, the involvement of non-partisan bodies which are independent of the institution should be manifested publicly. These independent bodies are expected to monitor the compliance of fiscal rules, budget endorsement and also serve as advisors to the government on fiscal policy matters. Succinctly, the initiatives to inculcate transparency and fairness would promote public confidence towards the government and helps shape taxpayers' positive attitude towards tax. The suggestions on how the findings of this study can be used to influence SMEs compliance in tax law are discussed in the recommendation's section.

CONCLUSION

Tax evasion in SMEs has gained considerable attention mainly because SMEs contribute the largest segment in the economy. Hitherto, various psychological factors related to tax evasion have been examined but failed to provide conclusive results. This paper examines the effect of fairness and transparency on the attitude of SMEs owners towards tax evasion. The results indicated that distributive fairness has a significant influence on taxpayers' attitudes towards evasion while general fairness is statistically insignificant. In addition, the statistical evidence also suggested that distributive fiscal transparency has a significant effect on tax evasion attitude, while information transparency has no effect. From these findings, it can be concluded that taxpayers' disposition towards tax evasion is influenced by their perceptions of unjust distribution of wealth and the lack of openness in the process of allocating and utilizing tax revenue.

As in any research, this study is not without limitations. The sample of this study is confined to 91 business owners from the service sector of Sarawak, Malaysia. Due to the limited sample size and its location, it is not possible to generalize the findings to the whole population of SMEs in Malaysia. Hence, future studies can be carried out in each state of Malaysia, so that, the findings can be generalized. By doing so, comparison in terms of fairness and transparency perceptions between developed and less developed states are possible. Secondly, the sample may cover other sectors of SMEs to determine which sectors are most vulnerable to tax evasion.

Thirdly, a longitudinal study can be carried out to determine whether the findings have shifted over an extended period. Last but not least, future research should examine the indirect effect of fairness and transparency towards tax evasion, by exploring the mediating or moderating role of tax morale, trust, and ethics.

IMPLICATIONS AND RECOMMENDATIONS

This study offers several research implications. Firstly, it put forward the importance of psychological elements in shaping the attitude of business owners. The findings may benefit the policymakers in devising interventions by embedding the elements of fairness and transparency in the policy framework. Secondly, the findings can potentially help the IRBM in developing persuasive strategies towards improving tax compliance amongst SMEs. Thirdly, the study can be of valuable reference to the body of knowledge in taxation. Furthermore, there is a paucity of research about fairness and transparency from the tax evasion aspect. Lastly, the findings offer a glimpse of the SMEs society's discontentment over the wealth distribution policy. Such resentment can disrupt the tax revenue collection because SMEs are the backbone of the nation's economy. Therefore, it highlights the urgency in gaining the business owners' trust.

Several recommendations are put forward for the study. A fair and equitable distribution of wealth in the annual budget announcement may help improve distributive fairness perception. Such effort assists in nurturing acquiescent taxpayers. Also, it is fundamental for the government to release valid, accurate, and timely information about the country's revenue, its allocation, and spending. By doing so, taxpayers are more informed about tax revenue matters. As a result, taxpayers are more likely to be persuaded in their compliance obligations. Apart from that, the budget distribution and its contractual conduct should be more transparent. For example, the government needs to publicly disclose the names of contracting parties and the beneficiaries involved in each budget allocation process. The transparent practice would lead to a perception of fair and open competition among the aspiring contracting parties. It is also suggested that the revenues generated annually by each state be made public. Thereafter, the government should pledge to make a reasonable and equitable distribution back to the respective states, based on a practically accepted

mechanism that justify the distribution to each state. Lastly, more taxpayer community engagements should be conducted by the government. Such programs should emphasize the importance of tax for the development of the nation. At the same time, the taxpayers can be further advised about the disadvantages of tax evasion, such as severe penalties and the unnecessary distress due to unsettled tax audit matters.

CONTRIBUTIONS OF AUTHORS

The authors confirm the equal contribution in each part of this work. All authors reviewed and approved the final version of this work.

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CONFLICT OF INTERESTS

All authors declare that they have no conflicts of interest.

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