

The Effect of Tax Penalty, Probability of Audit and Fair Treatment on Permanent Voluntary Disclosure: Tax Professionals' Perspective

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ABSTRACT

This paper examines the effects of tax penalty, the probability of audit and fair treatment to participate in permanent voluntary disclosure (VD), from the perspective of tax professionals. A total of 2,540 questionnaires were distributed to tax professionals in Malaysia using a combination of online and drop-off modes. The potential respondents were selected using a simple random sampling technique. The collected dataset comprised 192 useable questionnaires. To unravel the underlying factors influencing permanent VD, the research employed Smart PLS Version 4.0.9.6 for data analysis. The results revealed that tax penalty and the likelihood of probability of audit are significant in influencing corporate taxpayers' motivation to partake in permanent VD. Surprisingly, the element of fair treatment towards taxpayers is not significant. In addition, the findings reveal that tax penalty, the probability of audit, and fairness treatment, explain 0.195 of variance (R^2) in corporate taxpayers' motivation towards partaking in permanent VD. The current findings may facilitate policymakers and the tax revenue authority in devising strategies to enhance the attractiveness of permanent VD. An enhanced permanent VD will benefit the tax revenue authority as it saves time and cost of collecting information on tax audits and investigation cases. Our findings contribute to the paucity of published work pertaining to the use of threat and fairness in galvanising participation in permanent VD.

Keywords: Corporate Taxpayers, Fair Treatment, Penalty, Probability of Audit, Permanent Voluntary Disclosure

1. INTRODUCTION

Tax revenues are essential to boost the economy and to improve the well-being of each and every citizen of a country. Yet, many countries struggle to collect tax due to unscrupulous tax practices (Kassa, 2021). The proportion of the informal economy offers a glimpse of the scale of tax revenue loss for a country. Based on a study of 28 European Union countries, Schneider and Asllani (2022) discovered that on average, the size of the informal economy in 2020 was 17.87% of the Gross Domestic Product (GDP). It recorded an average increase of 1.59 percentage points or 9.8% from 2019, which is, the highest increase in the last 20 years. In Malaysia, the size of the informal economy was approximated at 25.3% of the GDP in 2022 (World Economics, 2022). Hence, urgent attention is required to broaden the tax base. Accordingly, a growing number of countries have implemented the voluntary disclosure programme (VDP) to persuade potential or targeted taxpayers to voluntarily regularise their tax affairs (Benedek et al., 2022). The Inland Revenue Board of Malaysia (IRBM) has implemented a similar programme to broaden the tax base while reducing the erosion of tax revenue. Corporate income tax is the major form of direct tax revenue in Malaysia. It consistently contributes to more than 50% of tax collection (Ministry of Finance, 2020).

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Therefore, the government must ensure a steady inflow of tax revenue from corporate taxpayers to fund the nation's fiscal needs. Despite numerous attempts, non-compliance among corporate taxpayers persists (Ngah et al., 2021). As depicted in Table 1, there were 1,133,317 registered corporate taxpayers in Malaysia in 2020. However, the statistics indicated that less than 30% of these taxpayers submitted their return forms. Inadvertently, this issue undermines the realisation of voluntary compliance under the self-assessment system (SAS).

Table 1 Registered Corporate Taxpayers and Return Form Submission (2016-2020)

Description	Year				
	2016	2017	2018	2019	2020
Number of corporate taxpayers registered with IRBM	747,187	780,990	804,049	838,245	1,133,317
Number of corporate taxpayers who submitted return form (company)	297,615	308,603	313,448	324,467	327,421

Sources: Statistics from Tax Operations Department, IRBM (2022)

Since the implementation of the SAS, tax audits have become IRBM's main enforcement mechanism to enhance voluntary compliance (Razak & Bidin, 2019). However, the rising number of tax audit cases (IRBM, 2015, 2016, 2017) has a huge impact on backlog cases, volume of work and the amount of enforcement cost to the IRBM. Since the IRBM is appropriated with a finite level of resources, an enhanced permanent VD will help strengthen its tax enforcement strategies, by saving time and costs for collecting information on tax audit cases. However, the uptake of permanent VD leaves much to be desired. If indeed permanent VD is attractive, then, it is hardly necessary to implement temporary initiatives, such as the Special Voluntary Disclosure Programme 1.0 (SVDP 1.0) and the Special Voluntary Disclosure Programme 2.0 (SVDP 2.0), which serve a similar purpose. Hence, there is a need to revisit the permanent VD and examine the factors contributing to corporate taxpayers' participation in it. This paper examines the effects of threat (tax penalty and probability of tax audit) and psychology (fair treatment) factors on corporate taxpayers' motivation to participate in permanent VD. Since permanent VD is an important fraction of the tax compliance strategy and the literature is still limited, tax compliance studies are discussed in this paper.

The economic deterrent model proposed by Allingham and Sandmo (1972) dominated the early tax compliance and evasion studies. Based on Becker's economic analysis, Allingham and Sandmo (1972) theorised that threat is necessary to deter evasive behaviour. Numerous studies have supported threat as a vital measure to deter defiant behaviours (Nguyen et al., 2020; Rahmayanti et al., 2020; Razak & Bidin, 2019). Herein, tax audits (Nguyen et al., 2020; Rahmayanti et al., 2020; Razak & Bidin, 2019) and tax penalties (Rahmayanti et al., 2020; Widuri et al., 2019) are strongly associated with taxpayers' compliance. However, the notion proposed by Allingham and Sandmo (1972) has been subsequently challenged on the grounds that deterrence alone is lopsided (Hasseldine & Bebbington, 1991; Lewis, 1982). Following this, the psychological aspects began gaining attention. In particular, the aspect of fairness has been put into perspective (Bin-Nashwan et al., 2020; Verboon & Goslinga, 2009). A positive or fair treatment by the tax authority can significantly influence taxpayers' compliance (Damayanti et al., 2020; Hassan et al., 2021, 2023), while authoritative treatment will destroy the taxpayer-tax authority relationships, leading to disobedient or non-compliant taxpayers (Farrar et al., 2016). The VDP is an integral part of a broader compliance strategy (OECD, 2015). While tax compliance has been widely researched, its compliance strategy, namely permanent VD, has gained little attention. To date, scholars have examined temporary initiatives, such as the SVDP (Ahmad et al., 2022; Hamid et al., 2022). However, determinants to participate in permanent VD, from the perspectives of economic deterrence and psychology, have rarely been explored. Hence, a study is warranted to fill the gap.

This paper starts with an introduction. Next, a review of the literature is presented. The methodology, findings, and discussions of findings are presented, before concluding the paper.

2. LITERATURE REVIEW

2.1 Permanent Voluntary Disclosure (VD)

Tax reprieve is an important component of the tax compliance strategy (Dare et al., 2018) because it provides non-compliant taxpayers the opportunity to make amendments to their tax status. The two forms of tax reprieves are VDP and tax amnesty (Baer & Borgne, 2008). The IRBM implements both temporary (SVDP) and permanent VD initiatives as a central part of its tax compliance strategy. The permanent VD has no end date, while the SVDP is a temporary programme, with SDVP 2.0 ending in May 2024. Under the permanent VD in the Tax Audit Framework 2022, VD can be made at any time, with a penalty rate ranging from 10% to 15%, no issuance of a confirmation letter, and tax audits and investigations being conducted at any time (IRBM, 2022). Dare et al. (2018) discovered that both temporary and permanent VD have insignificant long-term effects on tax compliance, while Ahmad et al. (2022) identified determinants of tax non-compliance among participants of the SVDP. Nevertheless, the influence of the SVDP on tax awareness is supported by Hamid et al. (2022). A study by Hai (2023) evaluated the legal system and practices of VDP and asserted that an improved VDP not only enhances taxpayers' compliance but modernises the governance of tax. Predominantly, most of the above studies have focused on temporary initiatives (Ahmad et al., 2022; Hamid et al., 2022; Langenmayr, 2017), while studies on permanent initiatives (Dare et al., 2018; Hai, 2023) have rarely explored the factors motivating the uptake of permanent VD. In particular, the influence of deterrent and psychological factors on corporate taxpayers' desire to participate in permanent VD is still not clear. Discussions on these factors are presented next.

2.2 Tax Penalty

The tax penalty is necessary to hold tax offenders accountable for their offences. The economic deterrent model by Allingham and Sandmo (1972) postulates that taxpayers are generally risk-averse people, and comply with tax rules should the cost of punishment exceed the benefit of evading tax. Allingham and Sandmo (1972) claimed that threat is a crucial element in deterring non-compliant behaviour. As such, the tax penalty is commonly used by the tax authority to coerce compliance of taxpayers. The effects of tax penalty on tax compliance have been widely examined (Nguyen et al., 2020; Rahmayanti et al., 2020; Widuri et al., 2019). Several studies have revealed that tax penalty is significantly related to taxpayers' compliance (Hsu & Kan, 2020; Rahmayanti et al., 2020; Widuri et al., 2019), while other studies have found no significant relationship (Bangun et al., 2018; Mahdi & Ardiati, 2017). However, this plethora of findings has mainly focused on taxpayers' general compliance and evasion. The effects of tax penalty on specific compliance, namely permanent VD, have been rarely examined. Therefore, this study is carried out to enrich the literature. After considering the above discussion, the following hypothesis is presented:

- H₁: There is a significant relationship between the tax penalty and corporate taxpayers' motivation to participate in permanent VD.

2.3 Probability of Audit

Tax audit is essential to educate taxpayers and discourage tax offences. Tax audit has become the IRBM's main enforcement mechanism to enhance voluntary compliance since the introduction of the SAS (Che Rosli et al., 2018; Razak & Bidin, 2019). According to earlier studies, tax audits are crucial for boosting compliance among taxpayers (Bangun et al., 2018; Olaoye & Ekundayo, 2019).

However, Nguyen et al. (2020) emphasised the probability of tax audit has the most influential effect on taxpayers' compliance compared to the actual tax audit, itself. Khasanah et al. (2019) also supported that taxpayers' decisions to voluntarily comply are significantly affected by the probability of being audited, although Oestreich (2017) found no evidence of such a relationship. Chan and Song (2021) asserted that the fear of possible consequences or anxiety among taxpayers may explain the improved compliance amongst those with high tax audit risk. In other words, taxpayers are less likely to evade tax when the probability of an audit is higher (Alm & Malézieux, 2021). Despite the abundance of tax compliance studies, the majority of these studies have focused on general compliance. The effects of the probability of audit on taxpayers' motivation to participate in permanent VD, have rarely been mentioned. Hence, this study helps fill the knowledge gap. The subsequent hypothesis is presented in view of the above literatures:

H₂: There is a significant relationship between the probability of audit and corporate taxpayers' motivation to participate in permanent VD.

2.4 Fair Treatment

Fairness can be understood as an equitable, appropriate or reasonable quality of treatment (Sikayu et al., 2022). Specifically, procedural fairness emphasises fair mechanism in performing services or executing procedures (Van Dijke & Verboon, 2010). According to Kim and Lee (2020), the level of compliance amongst taxpayers is influenced by procedural unfairness, manifested by operational discrepancies and regulatory vagueness. Similarly, an earlier study by Noked (2018) has maintained that unfair treatment towards taxpayers can potentially discourage VD. Several studies have supported the notion that procedural fairness is positively related to taxpayers' compliance (Hassan et al., 2021; Rachmawan et al., 2020). However, Mangoting et al. (2021) discovered that taxpayers' compliance is unaffected significantly by varying procedural fairness. Despite extensive research on the topic of fairness, little is known about the relationship between procedural fairness and corporate taxpayers' motivation to engage in permanent VD. Therefore, after reviewing the literature, the following hypothesis is developed to close the knowledge gap:

H₃: There is a significant relationship between fair treatment and corporate taxpayers' motivation to participate in permanent VD.

The Fiscal-Psychology Theory (Hasseldine & Bebbington, 1991; Schmolders, 1959), which blends the economic deterrent and psychological factors, is gaining acceptance in the tax domain (Susilawati & Hidayat, 2020). The conceptual framework in Figure 1 applies the fiscal psychology approach, which is complemented by the economic deterrent model (Allingham & Sandmo, 1972) and the Procedural Justice Theory (Fuller, 1961). It is predicted that tax penalty, the probability of audit and fair treatment, influence corporate taxpayers' motivation to participate in permanent VD. Allingham and Sandmo (1972) postulated that threat coerces taxpayers into complying. In the context of this research, the element of penalty and the risk of being audited, motivates the corporate taxpayers to partake in the VDP. On the other hand, the Procedural Justice Theory (Fuller, 1961) predicts that the acceptance or non-acceptance of a decision made by the authority is motivated by the procedures used. Hence, from the perspective of this research, if the corporate taxpayers perceive that they will be unduly targeted post-voluntary disclosure (post-VD), then cooperation is unlikely, i.e., by not partaking in permanent VD.

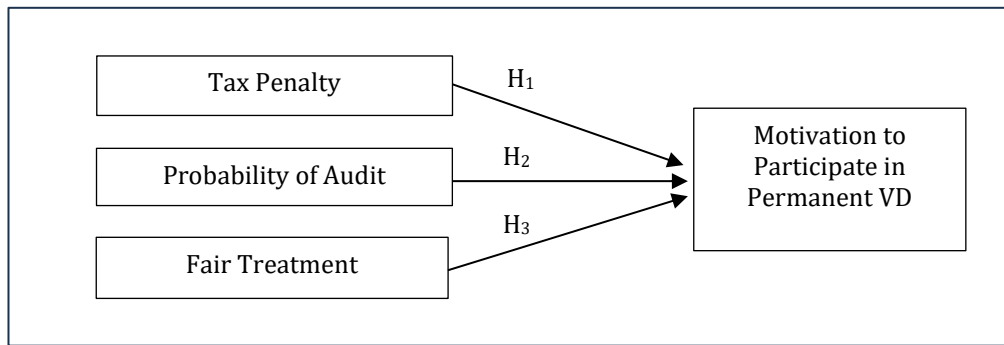


Figure 1. Conceptual Framework

3. RESEARCH METHODOLOGY

3.1 Instrumentation

Assurance for the anonymity of respondents is important in a sensitive topic, such as taxation. As such, a questionnaire instrument was employed for data collection. The tax professionals' general perceptions on statements about the tax penalty, the probability of audit, fairness, and corporate taxpayers' motivation to participate in permanent VD, were sought. The level of agreement or disagreement of respondents was captured using a five-point Likert scale. Tax penalty was measured using six items. The tax penalty statements were developed by the researchers regarding subsection 113(2), Income Tax Act 1967 from the Tax Audit Framework (IRBM, 2022), while the probability of audit was measured by four items, modified from Chandarasorn (2012), Kim and Lee (2020), and Sinapayan (2018). Fairness items were developed by the researchers based on Operational Guidelines 1/2019 (IRBM, 2019), and measured by four items. The motivation to participate in permanent VD was also measured by four items, developed by the researchers. Where necessary, items under the independent variables were paraphrased to fit the context in Malaysia.

3.2 Data Collection Method

The samples consisted of tax professionals from Malaysia. There were 2,836 tax professionals in Malaysia as of August 2021. It is not known how many tax professionals were directly or indirectly involved in assisting corporate taxpayers in VD. Therefore, online and drop-off modes were used to disseminate 2,540 questionnaires. The sample selection was done using simple random sampling, and responses were on a voluntary basis. About 192 tax professionals responded, constituting 7.56% of the respondents. However, only 173 returned questionnaires were appropriate for analysis. A desired number of responses was not obtained. Therefore, the early and late responses were compared to determine the presence of non-response bias. Fifty responses were selected from each group. The result indicated an insignificant *p-value* ($p > 0.05$). This suggested that non-response bias was not a problem in the set of data.

3.3 Data Analysis Method

Multivariate skewness and kurtosis for normality testing were performed. According to Hair et al. (2010) and Byrne (2010), the range of skewness and kurtosis for normal data should be between -2 and +2, and -7 and +7, respectively. Based on the results, the value of skewness ranged between -0.854 and +0.398, while kurtosis ranged between -0.641 and +2.133, indicating the data is approximately normal. The Smart PLS Version 4.0.9.6 was used to test the hypotheses. Specifically, the PLS Algorithm was used to examine factor loadings and path coefficients. In

order to decide the significance levels for loadings, weights and coefficient, 5,000 resamples using the bootstrapping method was conducted.

4. RESEARCH FINDINGS

4.1 Respondents' Profile

The male composition is higher (62%) than female (38%). The majority (59%) of the respondents have postgraduate and professional qualifications, while 39% have a degree or diploma. Approximately 36% of the tax professionals have been in the tax profession for a duration between 21 and 30 years, while 26% of the respondents have between 11 and 20 years of experience. About 16% of the respondents have been in the tax profession for more than 30 years. Seventy percent of the respondents are from West Malaysia, while 30% are from East Malaysia. The respondents comprise directors or partners from accounting firms (36%), tax managers (21%), tax consultants (21%), and others (22%). The demographic profile of the tax professionals is presented in Table 2, which indicates an appropriate composition in terms of gender, duration of service, location and position of tax professionals in Malaysia.

Table 2 Demographic Profile of Tax Professionals

No.	Demographic Profile	Frequency	Percentage (%)
1	Gender		
	Male	107	62%
	Female	65	38%
2	Education Level		
	STPM/Certificate or equivalent	3	2%
	Undergraduates	67	39%
	Postgraduates	77	45%
	Professionals (Eg. ACCA, CIMA)	25	14%
3	Duration of Service		
	1 – 10 years	38	22%
	11 – 20 years	46	26%
	21 – 30 years	61	36%
	More than 30 years	27	16%
4	Location		
	West Malaysia	121	70%
	East Malaysia	51	30%
5.	Position in the Firm		
	Director/Partner	61	36%
	Tax Consultant	36	21%
	Tax Manager	36	21%
	Others	39	22%

4.2 Measurement Model Analysis

Convergent and discriminant analyses were performed prior to hypothesis testing. In determining convergent validity, Hair et al. (2017) suggested a value of 0.70 in assessing Cronbach's Alpha (CA) and Composite Reliability (CR), and 0.50 in evaluating Average Variance Extracted (AVE). The following results were obtained upon inspection: (i) the items loaded have values exceeding 0.70; (ii) CA values range from 0.694 to 0.941; (iii) CR values range from 0.811 to 0.957; and (iv) AVE scores are in the range of 0.518 to 0.846. These values are deemed appropriate by Hair et al. (2017). The summary of the results is presented in Table 3.

Table 3 Convergent Validity for Reflective Measurement Model

Construct	Items	Loadings	CA	CR	AVE
Tax Penalty (TP)	TP1	0.88	0.941	0.953	0.772
	TP2	0.88			
	TP3	0.93			
	TP4	0.92			
	TP5	0.85			
	TP6	0.81			
Probability of Audit (PA)	PA1	0.74	0.694	0.811	0.518
	PA3	0.74			
	PA4	0.67			
	PA5	0.73			
Fair Treatment (FA)	FA1	0.94	0.939	0.957	0.846
	FA2	0.90			
	FA3	0.91			
	FA4	0.92			
Permanent VD (INT)	INT1	0.90	0.935	0.953	0.837
	INT2	0.91			
	INT3	0.94			
	INT4	0.91			

Discriminant validity was assessed using the Heterotrait-Monotrait (HTMT) ratio of correlations, i.e., by measuring the distinctiveness between constructs (Henseler et al., 2015). A threshold of 0.90 is recommended for conceptually similar products (Gold et al., 2001; Henseler et al., 2015). However, Kline (2011) recommended a 0.85 threshold for constructs which are conceptually different. Discriminant validity is established, indicated by values below 0.85 from the result. Table 4 presents the summary of discriminant validity.

Table 4 Discriminant Validity using HTMT Ratio

Construct	1	2	3	4
TP (1)				
PA (2)	0.351			
FA (3)	0.266	0.488		
INT (4)	0.403	0.378	0.201	

4.3 Structural Model Analysis

In analysing the structural model, Hair et al. (2017) suggested the use of in-sample predictive power (R^2), beta (β), and the corresponding t-values using the bootstrapping procedure. In addition, Hair et al. (2017) suggested finding the effect size (f^2) and not purely disclosing the p -value, which only shows the existence of an effect. Cohen (1988) offered three categories representing effect size, namely values greater than 0.02 (small effect size), greater than 0.15 (medium effect size) and greater than 0.35 (large effect size). The results of the hypothesis testing are shown in Table 5.

Table 5 Results of Hypotheses Testing

H	Relationship	β	SD	t-	p-	Decision
H ₁	TP $\rightarrow$ INT (Positive)	0.319	0.074	4.287	0.000	Supported
H ₂	PA $\rightarrow$ INT (Positive)	0.216	0.077	2.798	0.005	Supported
H ₃	FA $\rightarrow$ INT (Positive)	0.023	0.066	0.345	0.730	Not Supported

The findings suggest that tax penalty, the probability of audit, and fairness treatment, explain 0.195 of variance (R^2) in corporate taxpayers' motivation towards partaking in permanent VD. Specifically, tax penalty ($\beta = 0.319$, $t = 4.287$, $p < 0.000$, $f^2 = 0.113$) and probability of audit ($\beta = 0.216$, $t = 2.798$, $p < 0.005$, $f^2 = 0.047$) are significantly associated with the corporate taxpayers' motivation to participate in permanent VD. Hence, H_1 and H_2 are supported. However, based on the interpretation by Cohen (1988), the effect size is considered small. On the other hand, there is a lack of statistical evidence to suggest that fairness treatment ($\beta = 0.023$, $t = 0.345$, $p < 0.730$, $f^2 = 0.001$) is significantly associated with corporate taxpayers' motivation towards partaking in permanent VD. As such, H_3 is not supported. Our findings suggest that the economic elements, i.e., the threat of enforcement in terms of tax penalty and probability of audit, significantly motivate corporate taxpayers' intention to participate in permanent VD. However, the psychological element, namely, corporate taxpayers' perceptions of fair treatment, is not a significant factor at the time of this study.

4.4 Discussions

The corporate taxpayers' motivation to participate in permanent VD is influenced by tax penalty. Several findings in the tax compliance field have offered a similar result (Hsu & Kan, 2020; Rahmayanti et al., 2020; Oladele et al., 2019). However, it contradicts the findings of Bangun et al. (2018) and Lavic (2023). The current finding implies tax penalty is not only important in motivating compliance but also in deterring non-compliance through VD. This is consistent with the economic deterrent model pioneered by Allingham and Sandmo (1972), which underpins the tax authority's ability to discourage tax non-compliance through tax penalty. As such, corporate taxpayers are attracted by the low penalty rate for participation in permanent VD, and perhaps also, coerced by severe tax penalty for offences. This also suggests that tax penalty is vital in compelling participation in VD, either by significantly lowering the penalty rate to attract participation, or imposing a hefty rate for tax offences among non-participants.

The research findings further reveal that corporate taxpayers' motivation to participate in permanent VD is significantly influenced by the likelihood of tax audit. Based on the tax practitioners' observation, corporate taxpayers generally perceive the probability of being audited as highly likely due to enhanced audit enforcement and tax officers' tendency to select the same issues as parameters for audit. The high perceived likelihood of tax audits is significantly associated with a high motivation amongst corporate taxpayers to participate in permanent VD. The finding is consistent with other discoveries (Ayers et al., 2019; D'Agosto et al., 2018), but contradicts the findings of Ahmed and Kedir (2015). Allingham and Sandmo, (1972) maintained that taxpayers' compliance behaviour is shaped by the likelihood of discovering tax offences during an audit. Therefore, a higher level of tax audit by the tax authority can effectively improve taxpayers' compliance behaviour (Dularif et al., 2019). Ideally, when taxpayers perceive that the possibility of an audit is likely, they will be more inclined to participate in VD. The notion is supported by Gojali and Tarmidi (2023), whereby, taxpayers' participation in the VDP is significantly influenced by tax audit.

Based on the tax practitioners' observation, corporate taxpayers generally view the tax authority's fair treatment as an important element towards VD; however, it is not significant enough to motivate their participation in permanent VD. Mangoting et al. (2021) postulated a similar finding, whereby taxpayers' compliance is unaffected significantly by varying procedural fairness. However, Rachmawan et al. (2020), and Fajriana et al. (2023) contradicted the researcher's current finding. The Procedural Justice Theory (Fuller, 1961) suggests that the acceptance or non-acceptance of a decision made by the tax authority is motivated by the procedures used. In other words, taxpayers tend to accept a decision by obeying rules if the system treats them fairly, and resist if they perceive the treatment as undeserved or unfair.

5. CONCLUSIONS, RECOMMENDATIONS AND IMPLICATIONS

Research on temporary initiatives of the tax authority, such as the SVDP, is gaining attention. However, permanent initiatives, such as permanent VD, from the perspectives of economic deterrents and psychological factors, have rarely been explored. This paper investigates whether or not tax penalty, the likelihood of tax audit and fair treatment, have an effect on corporate taxpayers' motivation to participate in permanent VD. The findings reveal that tax penalty and the likelihood of tax audit significantly affect corporate taxpayers' motivation to participate in permanent VD, while fair treatment is found to be statistically insignificant. Hence, it can be concluded that corporate taxpayers are generally drawn by the attractive tax penalty rate, and deterred by the likelihood of tax audit, and subsequent hefty tax penalty rate for omission to declare all income. The findings relating to the effect of tax penalty and the probability of audit are consistent with the theory proposed by Allingham and Sandmo (1972), while the effect of fair treatment does not support the notion under the Procedural Justice Theory (Fuller, 1961).

Several recommendations are put forward. Firstly, it is recommended that a more desirable concession rate is offered to attract participation in permanent VD, such as waiving off the penalty rate, or making it lower than the current 10% concession rate. Secondly, the tax penalty rate for the second and third offences can be streamlined or simplified into a single but substantial rate. A substantial penalty rate for tax offences must be in place to deter habitual evaders. Nevertheless, the tax authority must be cautious in using the punitive approach. Instead, an accommodative approach should be integrated, so that taxpayers are well informed about the benefits and procedures under permanent VD. Thirdly, focused training must be conducted on a continuous basis to enhance the competencies of tax audit officers. A competent officer will take a shorter time to solve tax audit cases, thus improving the quality and volume of settled cases. This will lead to higher probability of audit. Lastly, while the findings suggest that fair treatment is statistically insignificant at the time when this research was conducted, corporate taxpayers generally view fair treatment in post-VD as an important factor. Hence, the tax authority must be seen and perceived as acting in the best interests of the corporate taxpayers. As such, the tax authority must detach itself from the generalised perceptions that the taxpayers will be unduly scrutinised and punished, post-VD, by the tax authority.

This paper offers several research implications. Firstly, the findings offer valuable information to policymakers in developing appropriate tax policies to mitigate further revenue leakage. Secondly, the tax authority can benefit from these findings because the elements can be used to enhance the attractiveness of the existing or permanent VD. Besides, the results can serve as valuable reference material for future research in Malaysia and other nations that have yet to implement the programme. In terms of future research, researchers can explore determinants of corporate taxpayers' participation in permanent VD by sectors. In addition, future research could explore other psychological determinants, such as trust, coping mechanisms and awareness, which are not covered in this paper.

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