The acceptance of taxation as a means of promoting good environmental practices in Malaysia: research summary

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Research Summary:

The Acceptance of Taxation as a Means of Promoting Good Environmental Practices in Malaysia

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Abstract

This research summary presents a proposal to study the acceptance of taxation as a means of promoting good environmental practices among the Malaysian public. The first part outlines the research and presents the objectives, research focus and questions and outline of the chapters of the research. The second half looks at the research methodology of the research by showing the hypotheses, models and phases of the research to be conducted.

The Acceptance of Taxation as a Means of Promoting Good Environmental Practices in Malaysia

Part 1: Objectives and Questions of the Research

1.0 Introduction

The world has been very serious at looking at environmental degradation since the 1980s where it was found that the ozone layer in the sky is thinning. Since then various issues concerning the environment such as global warming, the disappearance of animal and plant species and haze became issues that society looks into to ensure the survival of the planet., various measures and tools were taken both by governments and the public to elevate the problem of environmental degradation. Some were voluntary like not eating shark-fins and some were exercised using the power of the law such as tolls when entering city limits. Taxation is a tool that the government uses both to collect revenue but also to prevent and encourage certain behaviour. As taxation is monetary in nature, it is a good way monetarily to encourage or discourage a country's citizen to behave in a certain way as needed by the government. Throughout the world taxation is used as a means to encourage good environmental practices and to dissuade the citizens of a country from practices that could damage the environment.

This study will look at how the sustainability or environmental taxation in Malaysian Tax Law and how best practices in environmental taxation can be adopted and accepted into the current set of tax laws.

Taxation in Malaysia encompasses both direct taxation, indirect taxation and local government taxation. The main laws governing taxation in Malaysia are the Income Tax Act 1967, various custom laws and the some sections local government laws and also Case Law.

Malaysia law, including tax law, due to the historical connection to their British Colonial History, is based on the British Common Law system as models from the United Kingdom, Australia and India. The Malaysian legal system, due to the colonisation of Malaya, Sabah and Sarawak, by Britain between early 1800s and 1960s, is mainly based on the common law legal system. The Malaysian Tax system a subset of the Malaysian legal system acknowledges cases from British dominions such as the United Kingdom, Australia, Hong Kong and India. The Income Tax Act 1965 is based on British, Australian and Indian models.

However since independence case laws from the Commonwealth may influence the law makers in Malaysia but Malaysian Laws was derived from Parliament and from the decisions of the local courts. Earlier it has been shown that Britain had a comprehensive structure of environmental taxation law as a result of the requirements of the European Union membership. Due to Malaysia's need to move its economy from an agricultural based economy to an manufacturing based economy in the post independence years, taxation laws moved in tandem with that need. Various tax incentives such as Reinvestment Allowances, Accelerated Capital Allowances, Investment Tax Allowances and Pioneer Status concentrated on the manufacturing sector.

Environmentalism in Malaysia came into the picture in the earlier 1970s but mostly in the 1990s due to the pressures of environmentalism due to degradation of the environment especially the ozone layer. As a mode to mode to carry out government policy, taxation laws were amended to suit the policies of the day.

The reason why the study is done is that there is a need for Malaysia to have environmental taxation laws which are able to encourage the populace to protect the environment and practice sustainability. The environmental taxation laws should also be current and include the latest developments internationally especially in the Commonwealth and the United States of America and other United Nation members.

The first part of this study is aimed to identifying the gaps between the current tax laws which comprises the Income Tax Act 1965 and its amendments, Custom Acts and local governments against the laws of selected Commonwealth countries and the United States of America and also a wish list from selected samples of the

populace on matters concerning environmental taxation. The sample of the populace will include business people, manufacturers, politicians and the layman.

Best practices may or may not be accepted by the populace. The second part of the study will look at whether the various gaps identified by the comparison of Malaysian taxation law and the selected Commonwealth counterparts; the United States of America and certain non-Commonwealth countries can be accepted by the Malaysian taxpayer. The American system will also be looked at due to the amount of studies done on this matter and due to the American legal system still in spirit practice the Common Law system even their case laws are not binding or persuasive to the Malaysian Legal System. Even though non-Commonwealth laws such as European Law are not binding or persuasive to the Malaysian Legal system, Malaysia, as a signatory to many environmental treaties, should adopt the best practices from these countries. The acceptance wish list for tax reform by the focus groups mentioned earlier will also be tested here.

Snape and DeSouza (2006) define environmental taxation as "one type of economic instrument for environmental protection". They cited examples of transferable permits, deposit refunds systems and financial aid from the authorities. As stated in the definition, environmental taxation acts as a tool to encourage the act of protecting the environment. As such in the third part of the study we will look at the effectiveness of this tool in aiding the government to combat environmental degradation. We will see the connection of environmental taxation as a variable in improving or destroying the quality of life in Malaysia.

1.2 Objectives

With this premise, this study plans to address the following issues.

1. To review current Malaysian taxation law against their Commonwealth peers to see whether Malaysian tax law are in line with local and international environmental developments
2. To explore the use of taxation as mode to encourage sustainability in Malaysia
3. To come up with suggestions to amend current environmental taxation laws in Malaysia after a review of the tax system
4. To study whether the proposals are acceptable to the Malaysian different categories of taxpayers

1.3 Research focus and questions

This research will focus on the review of the current Malaysian tax laws dealing with the issue of environmental taxation as compared to comparable practices of environmental taxation in select Commonwealth countries and select non-Commonwealth countries. The research will identify the gaps between current Malaysian tax law and the current practices in the countries reviewed.

The research focuses of this study are as follows:

1. To review Malaysian tax law together with tax laws of certain Commonwealth countries to identify the gaps between current Malaysian environmental taxation practices and the practices of those countries.

2. To review Malaysian tax law together with the requirements of environmental treaties in which the country has signed and identify the gaps between current Malaysian environmental taxation practices and the requirements of those treaties.

3. To review Malaysian taxation law and identify the gaps which the taxpayers in Malaysia wishes to be addressed which is not found in Commonwealth countries or even environmental treaties

4. To identify best environmental practices that need to be included in Malaysian tax laws

5. To analyse how various motivating, organizational and impeding factors influence Malaysian tax laws, thus creating a scenario environmental commitment with the Malaysian taxpayer

6. To evaluate the level of acceptance of environmental law as a means of creating a scenario of environmental commitment in Malaysia

7. To utilize the data to identify strategies to increase the level of environmental commitment in Malaysia using environmental taxation laws

The questions that will be answered are:

1. What are the gaps between the current Malaysian tax laws and current tax laws in select Commonwealth countries or select non-Commonwealth countries?

2. Are changes in Malaysian tax laws able to improve the quality of life in Malaysia?

3. Are environmental commitment initiatives in Malaysia voluntary due to the love of the environment or is it forced upon due to local and foreign pressures?

4. Are the people of Malaysia happy with the current set of Malaysian environmental laws?

5. Are the motives of the current set of Malaysian tax laws easily understood by the Malaysian public?

6. Are the people of Malaysia able to accept the changes to tax laws that are in line with international practices?

1.4 The possible outcome and contribution

This researcher hopes possibly with this research to major outcomes could come out from it. As this research looks at updating current Malaysian tax laws with the best practices from all over the world and also incorporating the wish lists that of taxation practices from various types of taxpayers and also interest groups in Malaysia, from the application side, this research guides the public policy developer in developing the most appropriate environmental tax laws for use in Malaysia.

Apart from the application point of view of this research, this study explores the social science side of taxation through environmental taxation which is a subset of taxation.

From the second research question, this research enhances the understanding on how tax laws through environmental taxation can enhance the quality of life of its citizen. The normal thought about taxation is that the government takes away the income of its citizens through a compulsory payment and this should not improve the quality of life. We theorised that by preventing a certain bad behaviour (i.e. taxing environmentally unfriendly efforts) the result is the establishment of good behaviour (i.e. being more environmentally friendly).

The famous saying "Spare the rod, spoil the child". In this study we will proof whether this is true or not in terms of environmental taxation in Malaysia.

Motives of the public policy implementer and implementee (the taxpayer) when it comes to environmental taxation will be explored. Firstly, when Malaysians get themselves involved in environmental commitment initiatives is it voluntary due to the love of the environment or is it forced upon due to local and foreign pressures. Is it because the government forces them? Or is it simply to export, the exporters reluctantly obliges their principle by having environmentally friendly laws or products? The outcome of this research question is useful to apply to the motivation of Malaysian in social responsibility. Is it something inbound or something forced out or simply Malaysians don't care?

Taxation is one common public policy tool. Behind every policy lies some motive of the implementer i.e. the Government. Are the motives of the current set of Malaysian tax laws easily understood by the Malaysian

public? Are these tax laws understandable or something there is forced upon. From this study, the results can be applied to other studies of Malaysian public policy. Are the motives of a certain policy understandable or simply the public follows the policy blindly as they are being forced upon?

These days' people talk about adopting the best processes in their work and their life. Again when dealing with taxation are the people of Malaysia able to accept the changes to tax laws that are in line with international practices? Again sometimes the best practices could bring hardship to them. More taxes could result in the drop of their after tax income. Are Malaysians able to sacrifice their income for the betterment of their lives? Again the results of this study can be applied to any future public policy study which deals with the application of best practices and the readiness of the public to accept the practices.

1.5 Weaknesses and shortcoming of the research.

Like any piece of research, weaknesses and shortcoming exist in this piece of research. The weaknesses and shortcoming that this researcher expects the following problems:

- The interview and focus group respondents maybe limited to one state

  Due to geographical reasons, the interviews and focus group will be conducted in one state in Malaysia i.e. Penang. The researcher is worried that the responses maybe district related and not representative to the whole of Malaysia. However to do interviews and focus groups in every state in Malaysia is too massive and costly for a project.

- The online survey may not extensively all walks of Malaysian life

  Although the online study, maybe open to all Malaysians, only the internet savvy Malaysians are able to participate in them. It is predicted that there might be difficulty in getting taxpayers in the interiors or places where the internet is not available to respond in this survey.

- Respondents may not have the basic understanding of taxation

  There might be a risk that respondents that are taking part in the focus groups, interviews and questionnaires may not have the basic knowledge of taxation to participate well in the study. As the tax laws are written in difficult Bahasa Malaysia or English, the layman might not understand some of the issues asked in the survey. To the businessman they might not understand some of the tax issues asked as it is a practice that tax issues are dealt by on their behalf by their tax agents,

- Respondents may not be very honest in their answers

  As some of parts of the studies involve public officials and politicians, it is anticipated that the respondents could be careful and only respond as how their directed by their party and official directives. Any candid answers may not come from this study.

1.6 Outline structure of thesis

The researcher proposes the following structure to the thesis

Chapter 1: Introduction

This chapter introduces the reader to the history of environmental taxation in Malaysia and also related countries such as the United Kingdom and Australia. This chapter looks at selected issues in the tax laws and Malaysia as compared to their foreign counterparts.

Chapter 2: Literature Review

This chapter looks at various works that have written about Environmental Taxation locally and internationally. This exercise will help the researcher in gaining inspiration in developing his model and ensure that no important variable in his current study has been found repeatedly to have had an impact on a certain piece of research is ignored.

Chapter 3: Methodology

This chapter presents the reader with write ups on the objectives, research focus and questions hypotheses, the research process and methodology of this research.

Chapter 4: Findings to Legal Review

This chapter will identify the gaps between current Malaysian tax laws as compared to the practices in related Commonwealth countries and the United States. Gaps against related environmental treaties will be identified. Best practices of environmental taxation will also be discussed here. Research question 1 will be discussed in detail here.

Chapter 5: Findings and Analysis

As this research not only looks at the gaps to current Malaysian environmental taxation laws but also the acceptance of the laws on the public and the understandability and the acceptability of this laws to the public, this research move into the quantitative approach rather than the qualitative approve in the last chapter.

Chapter 6: Recommendations

Based on the findings and analysis of Chapters 5 and 6, by then the researcher will be able to come up set of Malaysian environmental taxation which encompasses foreign best practices, the requirements of international treaties at the same taking to account the needs and wants of the Malaysian public.

Part 2: Research methodology

2.1 Hypotheses

Continuing from the research objectives and research question as presented in Part 1, the research will develop the relevant hypotheses to this research. The hypotheses that will be explored in this study are as follows:

No.	Hypotheses
H1	Pressures from local residents results in change in environmental taxation laws.
H2	Pressures from overseas actors results in change in environmental taxation laws.
H3	The public voluntarily participates in environmental commitment initiatives.
H4	The result to environmental commitment is an improvement to the quality of life.
H5	The public does not need environmental taxation laws to influence ones action to environmental commitment initiatives as no one wants environmental degradation.
H6	The public understand the motives behind environmental taxation laws.

2.2 Conceptual framework

This researcher proposes three models for this research which are as follows:

2.2.1 Environmental Commitment Initiative Model

Environmentalist movement Malaysia should come about from environmental problems both from influences within Malaysia and in international issues. The local environmentalism movement could rise from affected people protesting due to effects pollution from local sources, the demand for vegan products and the protection of animal life due to religious reasons, ethical reason, and demands for a cleaner, less congested, healthier environment. Trans-border pollution such as haze and global warming are factors caused by foreign sources that can result in Malaysians enlisting themselves in the environment movement. Pressures from overseas customers and from foreign counter-parts may be reasons why Malaysians are compelled to ask the government to change their policies on the environment or to react by changing their workflow so that it could be "greener". With this theoretical framework, the researcher wishes to test his theory that pressures from local residents results in change in environmental taxation laws (through hypothesis H1) and pressures from overseas actors results in change in environmental taxation laws (through hypothesis H2).

Knowing environmental degradation exists in the country, Malaysians could take action by initiating measures to remedy the situation or do nothing to remedy the situation. (This will be explored in hypotheses 3 i.e. "The public voluntarily participates in environmental commitment initiatives. The measure taken to remedy the situation whereby there is environmental degradation is called "Environmental Commitment Initiatives". The

"Environmental Commitment Initiatives" model was first seen in Graci's (2000) research on the environmental commitment in the tourist accommodation industry in Sanya, Hainan, China. As this model is quite useful to this research, this researcher had adapted it to be used from the context of environmental taxation. The motive of people taking action to remedy the ill effects of environmental degradation may differ from person to person. Some may act of "Environmental Commitment Initiatives" voluntarily due to their love of the environment and

the surroundings. Act of voluntary initiatives could include a voluntary corporate culture change, for example Tesco coming up with the Greener Living Everyday campaign internationally, voluntary initiatives such as volunteers coming together to clean up Penang beaches on Earth Day 2010, water conservation, voluntary waste management and disposal such as the local neighbourhood *Rukun Tetangga* recycling day. Wanting to participate in eco-tourism is how the individual tourist is involved in wanting a greener or more sustainable holiday. Other ways that an individual can be committed to the environment is to adopt a green lifestyle (i.e. by recycling, using non polluting goods and services and purchasing fair trade products) and vegetarianism. Individuals can get involved in philanthropic work such as donating their money and time to Non Governmental Organizations such as *Sahabat Alam Malaysia, World Wild Life Foundation and Greenpeace*. To the businessman, they could get themselves involved in green supply chain initiatives like the initiative from *Body Shop* whereby the suppliers must come up with sustainable inputs, in customer education incentives such as *Tesco's Green Points* whereby customers are educated to save of plastic bags through a point system and through energy saving initiatives in the form turning off the lights during Earth Hour. For those who readily act in environmental commitment initiatives believe that they are helping to improve their quality of life through a cleaner environment. This is shown in hypothesis 4: "The result to environmental commitment is an improvement to the quality of life."

However, an individual or business could be involved in environmental commitment initiatives not from their free will but from compulsion by a higher authority such as the Government or their employer. These individuals or businesses could be compelled to act "green" through laws. One tool to stop non-environmentally compliant ways of life is through the imposition of environmental taxation. Taxes act as a preventive measure against non-environmentally friendly actions by the individual and the firm in many ways. One example is bringing bags to the hypermarket to carry one's shopping rather than paying for plastic bags. Other forced measures to against non-environmentally friendly actions include water rationing, increased water and electricity tariffs, Weekend driving in Singapore and traffic congestion payments like those imposed in Singapore and London.

The next question that will be asked is how environmental taxation fits into this model. Environmental taxation is one tool to help elevate environmental degradation in a country. Environmental taxation in the form of taxes (for example plastic bag taxes) and charges (for example water tariffs) acts as a preventer of bad behaviour i.e. a non "green" behaviour. To the individuals and firms that need to be compelled to good green behaviour, environmental taxation acts to encourage this behaviour.

For those who are voluntarily involved in environmental commitment initiatives, environmental taxation acts as reward for good behaviour. The Green Building index incentive acts to motivate builders to come up with buildings which as environmentally friendly. Again this hypothesis is tested in H4. This part of this research comes from influences from Chen, Bao and Zhu (2006) whereby the trio studied whether the residents of the city of Hangzhou in the People's Republic of China support green-space conservation in the urban areas. This researcher feels that the model proposed by the trio could be relevant to any studies on public policy especially studies on environmental taxation. Based on the study, it could be predicted that those who are voluntarily act to protect the environment believe that they will get something good from this measure i.e. quality of life and rewards from green incentives.

However, there are those who "couldn't care less" about the environment. They do not attempt to change their lifestyle and do not want to. For example even though there is a fine for littering, there are people who still litter as they don't care and don't even care about the fine that comes with it.

Figure 3.1.1 puts the Environmental Commitment Model into a mathematical model. Pressures from people in the country and from outside the country is the independent variable towards the change in environmental laws in Malaysia i.e. the dependent variable. Environmental taxation laws are a subset of the total set of environmental laws therefore these are dependent variables. However the Malaysian public's attitude towards environmentalism would make the model ineffective. Even though there is a need to change the environmental

laws the due perhaps due to the haze from a neighbouring country, if the public places a "couldn't care less attitude", the public's elected official would not even bother on it. Because of this, this researcher places "public attitude" as a "moderator variable" in this model.

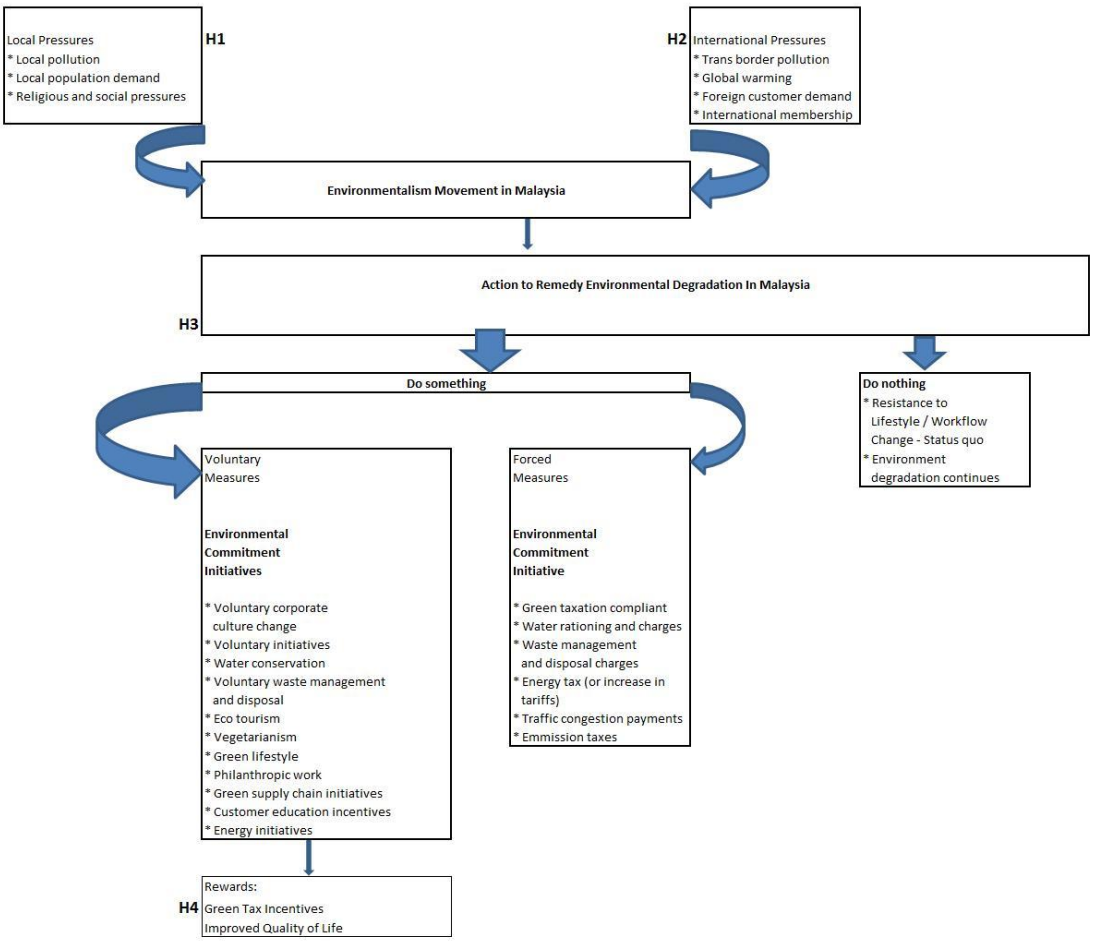


Figure 1 Environmental Commitment Initiative Model

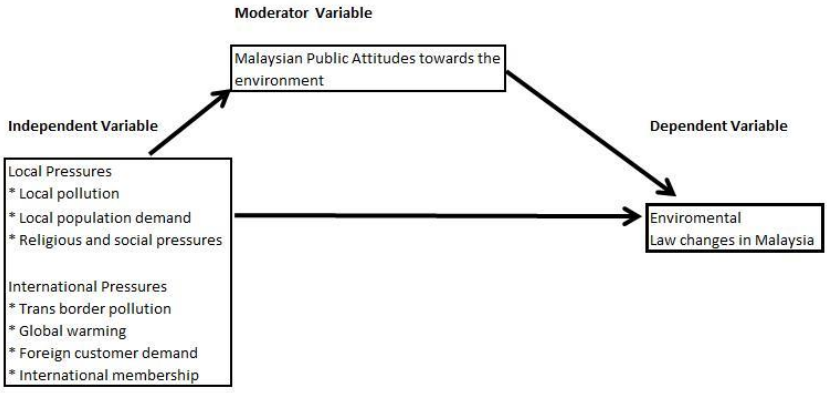


Figure 1.1 Environmental Commitment Initiative Model Variables

If we rewrite figure 1.1 into a multiple regression form, the equation will be as follows:

$y=ax_1+ b x_2+c x_3+ dx_4+ex_5+fx_6+g$
x_7+c when
y = changes in environmental law in Malaysia $x_{1=}$ Pollution in Malaysia
$x_{2=}$ Local population demand
$x_{3=}$ Religious and social pressures
$x_{4=}$ Trans border pollution
$x_{5=}$ Global warming
$x_{6=}$ Foreign customer demand
$x_{7=}$ International membership
c = constant

2.2.2 Environmental Taxation Acceptance Model

The next model which will be used in this research is environmental taxation acceptance model. This model is based on the works of Chen, Bao and Zhu (2006) and Thalmann (2003). Thalmann (2003) studied the acceptance of the proposal of fossil energy taxation on the citizens of Switzerland.

Both sets of researchers questioned the level of education and the acceptance of a charge for green space protection and the other on fossil energy tax. If we read between the lines of both sets of research, the understanding of the motive of any environmental protection measure is a key variable in the acceptance of the protection measure.

As the human spirit is good, one would want to protect the environment as they want to retain their quality of life. The fifth hypothesis states that the public does not need environmental taxation laws to influence ones action to environmental commitment initiatives as no one wants environmental degradation. No human being would want their surroundings to be so bad that it is unliveable. Environmental taxation laws which are tools in encouraging environmental protection are not needed as humans subsequently will want a good environment to exist in. With education and mind-set change, environmental taxation laws simply become a redundant to in encouraging environmental protection.

The sixth hypothesis proposes that the public understand the motives behind environmental taxation laws. Chen, Bao and Zhu (2006) and Thalmann (2003) both agree that education and understanding is a key element to the success of environmental taxation laws. We would like to theorise that if the public understands that environmental taxation laws are for the good of human life (through the improvement of the quality of life) then the public is more likely to voluntarily comply with laws. The existence of people, who comply reluctantly or are simply defiant of complying with these laws, are probably because they don't understand that these laws are enacted for their good. For example, the public pay high prices for cigarettes and liquor because the laws acts to discourage the usage of such unhealthy products.

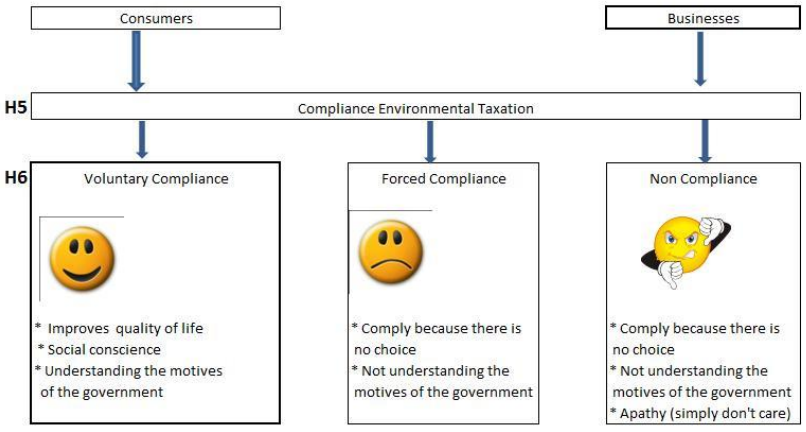


Figure 2 Environmental taxation acceptance model

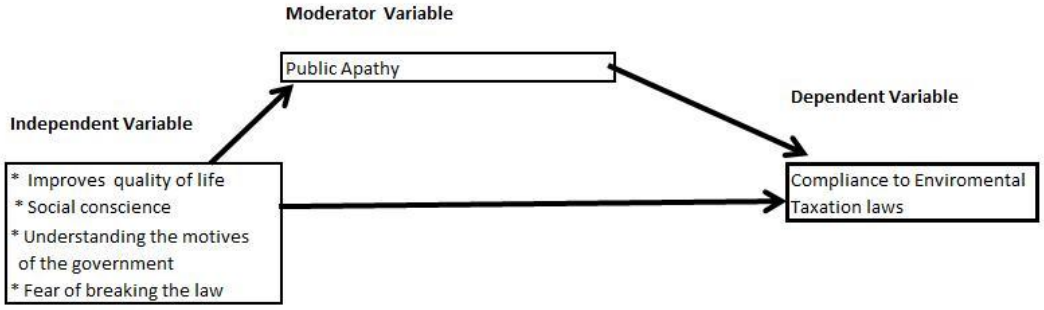


Figure 2.1 Environnemental Taxation Acceptance Model Variables

With this premise, the researcher hooks up the variables in a mathematical model. The independent variables consist of the voluntary and forced compliance issues mentioned in figure 3.2. The improvement of the quality of life, social conscience and motive understanding are the positive independent variable while fear is a negative independent variable. Compliance to Environmental laws is the dependent variable. Again if there is public apathy, the environmental taxation laws will not be complied with. Public apathy is therefore a moderator variable.

If we rewrite figure 2.1 into a multiple regression form, the equation will be as follows:

$y=ax_1+ b\ x_2+c\ x_3+$
dx_4+ex_5+c when
y = Compliance to Malaysian Environmental Taxation laws $x_{1=}$ Improvement in the quality of life in Malaysia
$x_{2=}$ Social conscience
$x_{3=}$ The comprehensive of the motives of the Malaysian government

$x_{4=}$ Fear of breaking the law
c = constant

2.3 Research approach and process

In this section the researcher outlines in detail the methodological approach utilized in this research.

This research is exploratory, descriptive, action-oriented and prescriptive in nature. It is exploratory as it explores how influences of foreign best practices, treaties and local needs influence environmental taxation laws in Malaysia. It is descriptive as it describes the development of environmental taxation laws in Malaysia and elsewhere before looking at the differences between the practices of the different countries. It is action- oriented, as it engages stakeholders through interviews, focus groups and surveys to get their feedback and input about current environmental law practices. It is prescriptive as a set of recommended tax practices will be prescribed at the end for the use of public policy decision makers.

2.3.1 Justification for the mixed-method approach

This research is divided into 10 major phases. This researcher utilizes the multi-method approach as this gives a more comprehensive look at the topic. Graci (2008) mentioned that a multi-method approach comprises a combination of qualitative and quantitative research methods, such as questionnaires, interviews, stakeholder consultation groups and casual observation. The qualitative approach will used in Phase 4 of this study whereby

focus groups and interviews will used to explore what taxpayers and interest groups want from environmental taxation laws. Although the gaps between Malaysian environmental taxation laws will be identified during Phase 3, the qualitative approach brings realism to the study as the gaps that really need to be addressed by selected Malaysian taxpayers can be identified.

However, the qualitative approach due to the need to interact with the respondents may result in the study being focused on a small number of respondents. By using questionnaires and the quantitative approach, the research can be taken to a bigger sample of respondents. By sending the questionnaires via snail mail and the internet a bigger sample of respondents can be tapped. Results from the questionnaires can be tested its significance using statistical methods. By combining both the significance of approaches to research, the study can be more detailed as compared to when just one mode is being used.

2.3.2 Phases in research

The phases in research are explained below while Figure 3.4 summarises the phases in a graphical form.

Phase 1: Literature Review

In the first phase, the researcher looks in-depth various literatures dealing with environmental taxation and sustainability to look at how environmental taxation is practiced in various countries. Special attention is given to literature describing the process in the Commonwealth and the United States as our laws are based on the common law system. However, best practices from non-Commonwealth countries are also taken to account as good practices can be learned from them. To enrich the literature review, the researcher will also look at literature highlighting problem and issues concerning the introduction of the laws. Literature concerning sustainability in general will also be looked at to give a more rounded view of environmentalism. Literature comprises academic journals, dissertations, government reports, textbooks and also media such as films like *An Inconvenient Truth* and the *11th Hour* that deals with environmentalism.

Phase 2: Legislature Review

In this part of the study, the researcher will look through taxation laws in Malaysia such as the Income Tax 1965, the various custom laws and local government laws and match them with the good practice from similar laws from other countries (with a special bias to the Commonwealth and the United States due to similarities due to the Common Law system). Gaps between the current practices of Malaysian environmental taxation with the current practice in the Commonwealth are identified. The Commonwealth is used as a benchmark as Malaysia and many members of the Commonwealth due to history practice the Common Law system. The American system will also be looked at due to the amount of studies done on this matter and due to the American legal system still in spirit practice the Common Law system even their case laws are not binding or persuasive to the Malaysian Legal System. In this phase research focus 1, 2, 3 and research question 1 will be explored. However, since the study is in its infancy, research focus 1, 2, 3 and research question 1 might be modified later.

Phase 3: Preliminary Stage

Based on the literature review and the review of the legal gaps between the various countries and Malaysia, the researcher comes up with a preliminary model of what he wants to study. The preliminary model is shown under the section conceptual framework. The preliminary models are graphically illustrated in Figures 2.1 to 2.3. A set of preliminary hypotheses are shown in Table 2.1.

Phase 4: Focus groups and small size interviews

The study later moves into exploratory and action oriented research where a sample of taxpayers will be interviewed on their opinion on the current environmental taxation and gather from them their wish list on what needs to be removed or added to current tax laws. Important variables will be identified. Next the variables i.e. the wish list will be matched with the gaps identified during the literature review. In this phase research focus 4 to 7 and research question 2 to 6 will be explored. Again since the research focus and question are maybe modified at this stage.

The focus group/small sized interview samples will be selected from different areas of Malaysia society to reflect the different types of taxpayers in Malaysia. Malaysian tax law which covers three types' i.e. direct, indirect taxation and local government law affect differently the different types of taxpayers. The focus groups/interviews maybe taped for future use unless the respondents decline.

As the researcher resides in Penang, it is logistically sound that the initial focus groups and interviews are conducted in Penang. Secondly, Penang is chosen is because of the number of environmental initiatives the State has introduced between 2008 and 2010 which is the highest of any state in Malaysia. In the state of Penang between 2008 and 2010, the state introduced a tax of plastic bag usage, a ban of the usage of polystyrene boxes (also known as "coffin boxes") with effect from January 2011 and the introduction of paper carton boxes at food courts. Universiti Sains Malaysia in 2008 has also totally banned polystyrene boxes in all its campuses, making it the first university in the country to ban the boxes.

The different types of taxpayers are as follows:

- The business community
- The layman

Apart from the taxpayer group, interests groups will also be invited to participate in separate focus groups or interview sessions include members of environmental non-governmental organizations, politician or members of the government.

The business community are people who either are self-employed either as a sole proprietor or a partner in partnership, or those who head companies. They will be interested in how taxation including environmental taxation laws encourage or discourage the way they do business. In the current Income Tax Act 1965 – which is the main law for direct taxation, they are probably filing the B (individuals with businesses) or P (partnership) forms or being a signatory in the C (Companies) files. They will probably be interested in issues such as how losses are dealt in laws, how incentives are awarded or how penalties are carried out. In environmental taxation laws the business community will be interested if they incurred any gains from a green project how this will be taxed or if any losses from a green project can be carried forward or sometimes backwards. They will be interested in green investment incentives to encourage their businesses to change to green forms of production. One example is the Green Building Allowance which was introduced in the year of assessment 2010 to encourage the building of green buildings.

In the form indirect taxation, the business community will be subjected to Custom Duties, Sales Tax, Service Taxes, Excise Duties and the new Goods and Service Tax (GST). Any increase, decrease or exemptions in any of the aforesaid indirect taxes will affect how many inputs they can buy or how much they can produce. Any elements of green taxation that affects the indirect tax rates will affect how much inputs or how much they will produce. At this juncture, the researcher wishes to point out that for the business community, any element green taxation from foreign countries which they buy inputs or sell to will affect their production decision. For the business community, green taxation laws locally and from their supply chain partner countries will affect them.

Local government tax laws among things cover land tax laws such as assessment and quick rent, disposal rules and traffic zoning laws. One example of Green Taxation in Malaysia is the introduction of plastic bag taxation in Penang and Selangor. Local government tax laws will affect the way businesses produce and deliver their goods and services in that vicinity.

The business community will be sourced from the members of the Federation of Malaysian Manufacturers (Northern Malaya). Between three to five members will be invited to participate in a focus group discussion. If there are not free to attend, then the researcher will interview them at a convenient place at their offices. To have a fair spread of industries, the group members will consist of members from the electronics industry, paper industry and consumer items such as textile and food.

The **laymen** are blue and white collar workers in a business or anyone do not get themselves involved in business. These people include workers, retirees, housewives, full-time students, children and the unemployed. They are not directly affected by direct taxation but may feel the effect of green taxation indirectly. For example, if there is tax on a restricted item, the people working in those industries might face redundancy with their jobs. The laymen are directly affected by indirect taxation and local government laws. The laymen are affected by local government laws as consumers of products and services in that vicinity.

The laymen group will consist of various walks of life including graduate students (which represent the student group and also working adults), housewives and the elderly. This focus group will consist of 10 members.

Interest groups are basically groups that represent special focuses in society. We will choose members from interest groups that have done work for environmental causes. For this group five members comprising members from Sahabat Alam Malaysia (Friends of the Earth Malaysia) and the Consumer Association of Penang will be invited to the focus group.

The government group will include interviews with politicians and their research officers. We will choose two politicians to be involved in the interviews. To make sure that the politicians do not take this research to become a political battleground, personal interviews will be used rather than a focus group.

Phase 5: Modified model

To analyse the focus groups and interviews, transcripts of the focus group discussions and interviews will be analysed. Key points will be identified.

Taking into account the feedback from the focus group and interview, a modified model will be introduced based on the key points identified during the discussion analysis.

Focus group and interview transcripts are data which is qualitative in nature. Qualitative data requires the ability to question, translate, coordinate and determine the viability of the meaning of re-occurring issues and phenomena. Therefore the qualitative data will be analyzed for the emergence of key themes using a coding method. Coding is the process by which categories of responses are established for open-ended questions. Responses from respondents are reduced and sorted into specific response categories by reading the interview and focus group transcripts and grouping common themes and repetitive words.

After that the researcher will compare the themes that emerge from the coding with the original hypotheses, research focus and research question to see whether they still hold any truth. The

hypotheses might be changed if needed. By now a finalised set of the research focus, the research question and the hypotheses will be finalised at this stage.

Phase 6: In-depth Questionnaires via the Internet and Snail mail

Next the modified model and their related hypotheses will be ready to be tested on a larger population. A set of questionnaires which incorporates related research questions will be produced and formularised. The questionnaires will be in-depth will be sent to the respondents via the Internet and some through snail mail. Questions asked at the respondents will be based on the Likert Scale as the questions will be about the level of acceptance of certain suggested amendments to the tax law and the level of acceptance of the law introduced in one Malaysian state or another.

Unlike the focus groups and interviews mentioned in Phase 4, the respondents in this survey will be Malaysia wide. The researcher plans invite the public via Survey Monkey for fill up the survey. Lucky respondents will receive lucky prizes which is an incentive for Malaysia's to respond. The researcher predicts that the laymen will more likely answer the online survey. To ask the business community, the interest groups and the public policy practioners to respond, the researcher will send via snail mail and email to the potential respondents. The list of respondents will come from the Federation of Malaysian Manufacturers list, Non-Governmental Organisation lists from the Registrar of Societies, and various state government web pages for the contact person to the various local governments.

Phase 7: Data Analysis and Discussion of Research Findings

From the data available from Phase 6, we can gauge the sentiments using descriptive statistics such as bar charts, pie charts etc. Quantitative data from the online and slow-mail questionnaires will be analyzed using the XLStat software. Frequency of responses from the questionnaire will be determined and data will be analyzed further using the cross-tabulation of variables. The researcher plans to use statistical analysis such as chi square analysis and multiple regressions. In determining the significance of the difference between the frequencies of occurrence in two or more categories with two or more groups (perhaps observations from layman and the businessman), the chi square analysis will be used. Chi square analysis to test goodness of fit compares the number of observations with those that might be expected on the bases of the distribution of cases and helps in identifying whether or not differences can be attributed to chance. If the differences are not caused by chance, chi square helps confirm the findings. If the observed and expected distributions are not significantly different, then it can be assumed that the respondents of the online and slow-mail survey are representative of all the taxpayers in Malaysia. Multiple regression, a method that investigates the effects of multiple variables, will be used to test variables in this research. The purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable.

Phase 8: Conclusion

In the last stage of this research, the research questions will be answered. The researcher will come up with a final set of proposed changes to the current Malaysian environmental taxation laws will by then take to account best international practices together with needs of the Malaysian taxpayer. This research hopefully can guide public policy decision maker to come up with more effective environmental taxation laws.

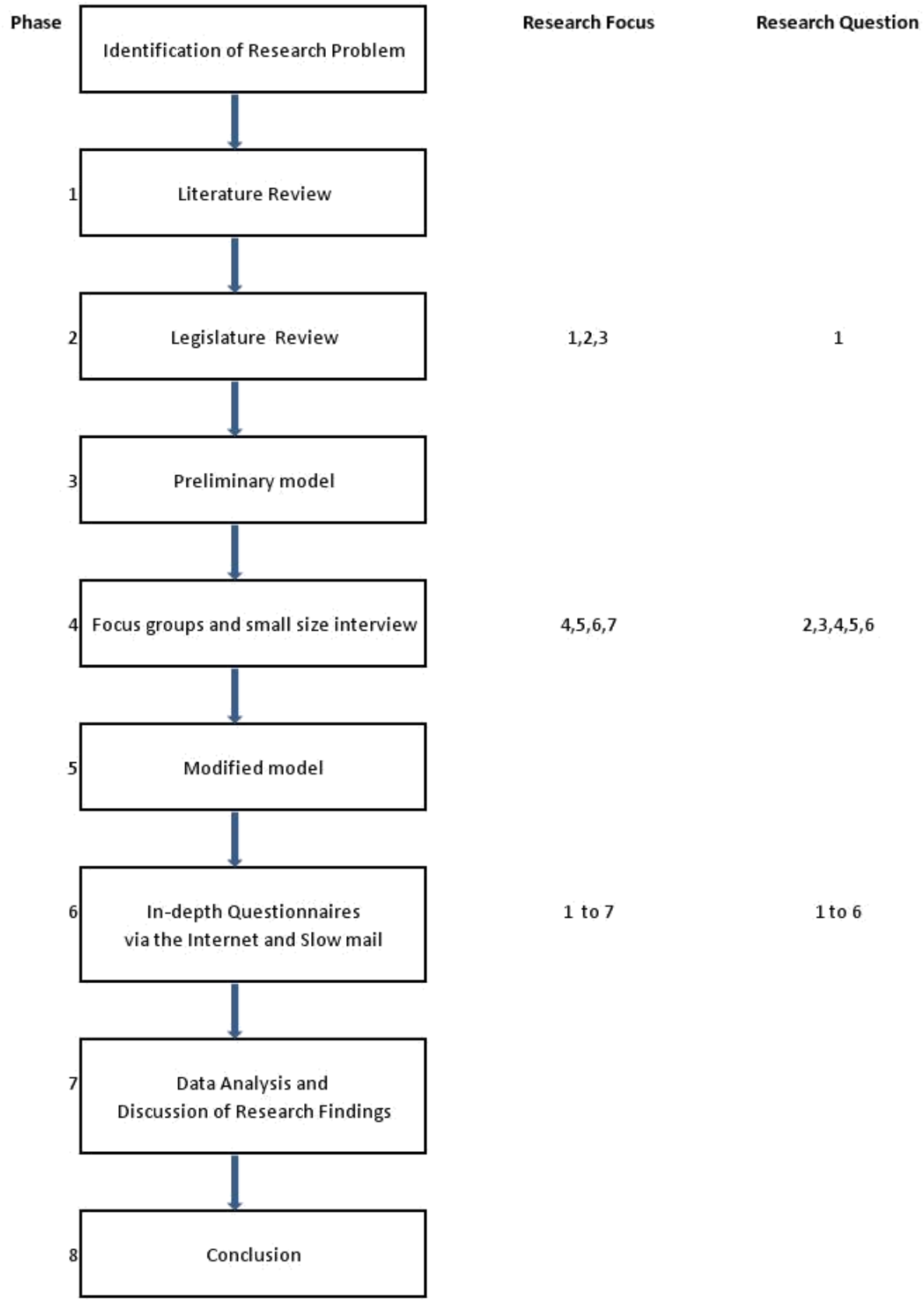


Figure 3.4 Research methodology

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