

Perceptions Of Customs Managers And Agents Towards Import Tax Non-Compliance During Goods Clearing In Malawi

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ABSTRACT

Import tax non-compliance is increasing in Malawi. A study was conducted to explore the perceptions of custom managers and agents towards import tax non-compliance with import tax procedures and processes. The design of the study was descriptive and used qualitative data collection and analysis methods. The study was conducted in Malawi's major border posts of Blantyre and Mwanza in the southern region. A total number of 25 participants were purposively sampled and administered an open-ended data collection tool to collect data using in-depth face-to-face interviews. The qualitative data were analyzed using content analysis. Two themes emerged from the study which were, customs agents' limited knowledge, and corruption. The study results further show that training sessions by the Malawi Revenue Authority created the requisite knowledge to the customs agents which improved import tax compliance. However, corruption needs a long-term solution to change the stakeholders' mindset. It is recommended that awareness should be created among the stakeholders to change the attitude and perceptions of the Malawian general public towards import tax non-compliance.

KEYWORDS: Import Tax Non-Compliance, Customs Clearing Agents, Malawi Revenue Authority, Import Tax Awareness Creation, Import Under-Valuation.

1. INTRODUCTION

Tax is the most common source of revenue that countries globally use to finance their national budgets. In Malawi, taxation is classified into two categories; direct and indirect taxes (Kasipillai *et al.*, 2003). The direct taxes comprise personal income tax such as Pay As You Earn (PAYE), in which the amount of tax paid depends upon the income of the people. With PAYE, people earning high income pay more income tax than those earning a low income. Indirect tax includes import duty, which is levied on goods and services sourced from a foreign country and is charged at the port of entry (Tresh, 2015). Governments utilize revenue from taxes to implement various socio-economic development projects. Thus, from economic perspective, tax is considered as an income redistribution mechanism from the rich to the poor (Saez, 2004). Import taxes also help in protecting local industries from foreign competition (Lymer and Oats, 2009).

The Malawi Revenue Authority (MRA) is an agency created by the government to collect taxes from the general public on behalf of the Malawi government. As a member of the World Customs Organization (WCO), the MRA must collect import duties from importers through customs clearance agents (Malawi Revenue Authority, 2010). A customs agent is a person or a company that facilitates goods clearance processes and the collection of customs duties, excise, and value-added tax (VAT) from importers on behalf of the customs officers. The customs clearance work involves the preparation and submission of documents that are required to facilitate export or import into a country, representing a client during customs examination, assessment, payment of duty, and joint delivery of cargo from the customs offices after clearance along with the documents (Malawi Revenue Authority, 2010). Custom clearance agents, therefore, transact business with customs officers on behalf of their clients in the facilitation of legitimate trade and in collecting customs duties, excise, and VAT. Each member of the WCO has its procedures for registering customs clearance agents. In Malawi, before registering or issuing a license, applications from potential customs clearance agents are scrutinized to check the applicants' compliance in the following areas; (i) registration with Registrar of Companies; (ii) History of not being dismissed as an MRA officer for fraud, (iii) Knowledge in Customs Laws, especially the Regulation 128A of the Customs and Excise Act of 2010. The recruitment process of Customs clearance agents

is aimed at ensuring that the agents perform their duties in an efficient manner, free of corruption and fraud and that all the transactions are in full compliance with the import duty and excise taxation law (Malawi Revenue Authority, 2010).

Tax non-compliance is a big problem that exists globally (Hai and See, 2011) and non-compliance signifies a failure to meet tax declaration requirements (Arifin *et al.*, 2018). In Malawi, despite the strict screening when recruiting customs clearing agents, there has been an increased number of irregularities and non-compliance in the import taxation processes handled by the agents. During the period between 2015 and 2018, there has been an increase in the number of licenses being revoked from customs clearance agents in Malawi due to unscrupulous and non-compliance activities conducted by the customs clearing agents when performing their duties. During the same period, there has been a decrease in the number of customs clearance agents that have been licensed. MRA records show that there are many fraud cases committed by customs clearance agents, consequently, there has been an increase in the number of queries in the MRA system. The queries include swindling of MRA money, swapping of cash with bounced cheques, increase in the number of outstanding declarations in the MRA system, and facilitation of transit goods without payment of any duty to MRA.

There are a number of studies that have been conducted on tax compliance in Malawi (Chiumya, 2006; Kenani, 2014) and most of them have focused on compliance with direct taxes, such as domestic, corporate, withholding, and provisional taxes. Studies on compliance with indirect taxes such as VAT, customs, and excise duties which are easily manipulated by taxpayers in a form of smuggling, are scanty. This study, therefore, was conducted to explore the factors that affect custom clearance agents' compliance with the stipulated customs processes and procedures.

1.1. LITERATURE REVIEW

Tax compliance refers to the taxpayers' willingness to voluntarily obey tax laws in accordance with the ethical and legal requirements (Alm *et al.*, 2011; Tobias, *et al.*, 2017;). The degree of tax compliance is measured by the tax gap, which is the difference between the actual revenue collected and the amount of revenue that would have been collected if there was 100% compliance. Many taxpayers do not comply, and the administration of tax especially in developing countries is usually weak (Kenani, 2014). Consequently, there is extensive evasion, corruption, and coercion leading to tax non-compliance.

Tax non-compliance is defined as failure to comply with tax laws or reporting incorrect income (Mohd *et al.*, 2013). Non-compliance is also perceived as the failure of a taxpayer to report correctly the actual income, claim deductions or rebates and remit the actual amount of tax payable to the tax authority on time (Natrah, 2014). Taxpayers vary in terms of the opportunities available to them in overstating expenses and understating income (Kosoness and Olli, 2015). Greater tax compliance opportunities generally result from self-employment and income sources that are not subject to withholding taxes.

Tax administrators need to persuade taxpayers to comply with the tax requirements (Juel, 2007). The principles that increase the taxpayers' attitude towards paying tax include; equality (OECD, 2014), fairness, and certainty (OECD, 2020). An unfair tax system shifts taxes from dishonest to honest taxpayers and hence demoralizing the compliant taxpayers (OECD, 2020). The key to establishing trust with taxpayers is to frame the collection of taxes to the citizens in a transparent manner and to use a fair approach. Honesty is required so that accurate and adequate records are used when completing tax returns during self-assessment (Mohd *et al.*, 2013). Certainty refers to the creation and maintenance of stable regulatory and policy frameworks for tax administration, taxpayers, and tax compliance (OECD, 2020).

Studies have shown that creating tax awareness increases tax collection from the general public (Kosoness and Olli, 2015). The theory of planned behavior states that willingness to pay taxes increases with taxpayers' awareness (Ajzen, 1991). In addition, Marziana (2010), Machogu and Amayi (2013), also reported that tax knowledge and understanding of an individual have an influence on taxpayers' compliance when carrying out tax obligations. Therefore, civic education to taxpayers aimed at creating and increasing knowledge on risks of non-compliant behavior is essential to increase tax compliance (Tobias *et al.*, 2017).

Import tax is one of the major sources of revenue to the governments globally. At the port of entry into each country, there are customs authorities that collect import tax. Customs agents act as intermediaries in the tax system because taxpayers do not interact directly with customs authorities but through an agent (Alm *et al.*, 2011). Consequently, agents have the role of influencing taxpayers to comply with tax rules and regulations (Llanto *et al.*, 2013). In addition, agents have the responsibility to protect the interest of their clients as well as support the interest of the governments and the country they save (Alm *et al.*, 2011). This study has applied the theory of planned behavior to explore the perceptions of customs managers and agents towards import tax non-compliance during goods clearing in Malawi.

1.2. OBJECTIVES OF THE STUDY

The main objective of the study was to explore the factors that affect the customs clearance agents' compliance with customs processes and procedures when clearing imported goods and services into Malawi.

1.2.1. SPECIFICALLY, THE STUDY OBJECTIVES WERE TO:

- i. explore how tax knowledge of Customs Agents affect tax compliance decisions
- ii. explore the effect of import tax procedures on tax compliance decisions of customs clearance agents.

2. METHOD(S)**2.1. STUDY DESIGN**

The study employed a descriptive design that utilized qualitative data collection and analysis methods to explore the perception of customs managers and customs clearance agents towards tax compliance.

2.2. SETTING, SAMPLE SIZE, AND SAMPLING METHOD

The study was conducted at the MRA regional offices in the city of Blantyre and the MRA offices at the Mwanza border post in Malawi. Mwanza is a border-post where goods and services from ports in Mozambique and South Africa are cleared.

A sample of 25 participants was purposively drawn from a target population of 323, comprising 8 MRA officers and managers, 4 customs agent registration bodies, and 13 customs agents. Purposive sampling was chosen because the study targeted participants that had rich information and experience pertaining to tax compliance. Polit and Beck (2010) pointed out that purposive sampling is a method in qualitative research whereby the participants are intentionally selected to be included in a study on the basis of the rich information they possess on the study topic. In this case, only participants with 3 years' experience or more on import tax issues were intentionally targeted (Table 1).

Table 1: Composition of the study participants.

Participant category	Total number available (N)	Number purposively sampled (n)
Malawi Revenue Authority Officers and Managers	210	8
Customs agents registration bodies	8	4
Customs agents	105	13
Total	323	25

2.3. DATA COLLECTION PROCESS

Data were collected through the administration of an open-ended interview guide that had probes. An in-depth face-to-face interview was conducted with the consenting and eligible participants. The participants included MRA officers and managers, custom agent registration bodies, and customs agents (Polit and Beck, 2010). The interviews were recorded using an audio digital recorder which assisted to capture the perception of participants towards import tax-compliance in their own words to increase confirmability of the data. The use of the recorder also assisted to maintain eye contact with the interviewee. Observations made were included in the field notes which were used to enrich the results of the study and hence to maintain the rigor of the results. Data saturation was attained after interviewing 25 participants.

2.4. DATA ANALYSIS

The qualitative data were analyzed using thematic analysis according to Braun and Clarke (2006). The data collection and analysis were done concurrently and the shortfalls in the data from the previous day were corrected on the next day. The audio recorded data from the participants were transcribed word for word. The data were coded, and words with similar meanings were organized into categories from which themes and sub-themes emerged. The themes and sub-themes are reported as the results of the study. An audit trail was maintained separately which an independent auditor can follow to draw conclusions about the trustworthiness of the results (Holloway and Galvin, 2016). To increase the trustworthiness of this study, four criteria for enhancing rigor in qualitative research (credibility, dependability, conformability, and transferability) were used (Polit and Beck, 2010).

2.5. ETHICAL CONSIDERATION

The study followed the ethical principles of research by obtaining informed consent from the participants. The objectives of the study were explained to the participants. The participants were further informed that participation in the study was voluntary and that there were no personal benefits to the participants. Participants were free to opt-out of the study at any point in time if they wanted to do so. The study ensured the confidentiality of the participants by maintaining anonymity which was done by avoiding the

collection of information that would identify the participants with the data. The qualitative study posed no risks of harm to the participants, hence participants' safety was ensured.

3. THE FINDINGS

3.1. DEMOGRAPHIC CHARACTERISTICS OF THE PARTICIPANTS

Age distribution and education qualifications of the participants are shown in Table 2. The youngest participant was aged 20 years, while the oldest was 52 years old. Most of the participants were aged between 41 and 50 years (Table 2). In addition, most of the participants had completed secondary school education and had obtained Malawi School Certificate of Education. Very few participants had postgraduate qualifications (Table 2).

Table 2: Age and educational qualification of participants.

Age group (years)	Number of participants
20-30	5
31-40	2
41-50	11
>50	7
Qualification level of the participants	
Diploma	7
Malawi School Certificate of Education	13
First degree	7
Masters' degree	2
Other Professional qualification	3

3.2. QUALITATIVE RESULTS

The narratives of the participants emerged into two main themes, which are; limited knowledge of the customs agents and corruption. The limited knowledge theme is divided into two sub-themes, which are; limited customs practical experience of the agents and complexity of customs rules and regulations. Two subthemes also emerged from the corruption main theme, which are corrupt practices of the customs agents and corrupt practices of the importers.

3.2.1. LIMITED KNOWLEDGE OF CUSTOMS AGENTS

Limited knowledge was found to be one of the main factors adversely affecting the tax compliance of agents. Most of the agents started their work without any specific training on customs clearance, they only applied knowledge gained from school, hence most of them lacked the practical knowledge of customs clearance. Due to the limited knowledge, the agents exhibited incompetence in their work, especially in the areas of valuation, classification, and the use of rules of origin. Agent 3 Blantyre, narrated as follows; "I joined the clearing industry in 2010 straight from school. I used to apply what I learned at college but I was then getting a lot of queries from MRA due to incomplete and incorrect forms I used to submit."

The results show that the corrective measures that were implemented by MRA helped to solve the problem. The MRA continuously conducts training workshops for the agents. The training programs have helped most of the agents to transact business properly with MRA. It was reported that after being trained, most agents were able to submit complete and correct documents to MRA. In addition, as a result of the training, there was good interaction between the agents and MRA officers. This fact was narrated by one of the customs agents as follows: "Things changed the moment I attended one of the Customs Training at International Travel Association (ITA) for 2 weeks. I was fully informed of the procedures and processes of MRA. Now I am one of the best customs agents in Blantyre and whenever I am invited for training with MRA, I don't miss it. The training has helped me to identify problems and correct them before lodging declarations to MRA." Agent 1, Blantyre.

Complexity was another factor that made agents not transact business with MRA as expected because agents failed to understand some of the terminologies and technical aspects of customs. Consequently, there has been an increase in non-compliance with import tax regulations. For example, most agents were not conversant with accepted customs valuation methods. Agent 4, Mwanza reported as follows; "When I just joined the clearing sector, I faced a lot of challenges because the rules and regulations were complicated and needed thorough understanding." Results show that this problem was also resolved through training of the agents as narrated by one of the agents in Mwanza. "When I attended a number of training sessions by

the MRA, I started to understand how MRA system works on the ground, and things have now become simpler. Agent 4, Mwanza”.

3.2.2. CORRUPTION

The narratives of the customs officers and managers indicate that there was a high level of corruption in the goods clearing industry by both the agents and the importers. The MRA officials explained that the corrupt practices were mainly undertaken during the valuation of goods, in which the agents deliberately under-valued their clients' goods and services. However, the customs agents explained that the importers were responsible for their acts of corruption. They only acted to please their clients for fear of loss of business.

The narratives of the customs officers show that most of customs non-compliance was due to acts of corruption by the agents. MRA officer 5 for Mwanza narrated that “MRA does not deal directly with importers because the law allows registered, licensed and trained customs agents to undertake that task. When the importer furnished the agent with necessary information and documents, the agent manipulated the figures in the documents to defraud the MRA.”

Tax non-compliance resulted in the loss of revenue for the government as tax is the main source of revenue. The officers placed the responsibility of the loss on the agents. “The most challenging area in goods clearing is the pricing of goods to be cleared. Most of the time, it becomes ridiculous the way agents declare the values of goods and services on form 12. The difference is just too much. You will find that the agent declared an item say one laptop at MK55,000 (US\$ 71) but at the market, the minimum price of a laptop is MK300,000 (US\$387).” MRA Officer 1, Mwanza.

The results further show that the main driver for manipulation of figures by the agents is greed to earn more than what they can normally earn from a given transaction. The MRA officers and managers' narration suggested that tax non-compliance had become rooted in Malawi. This act was connected to a bad attitude towards tax in addition to the quest to earn more money to maximize profits. Unlike limited knowledge which is being resolved through continuous training, the MRA officers indicated that corruption was difficult to uproot in the short run. The officers suggested that the only solution was a change of mindset. “Even if the Customs Department works hard to change procedures, processes or increase penalties for non-compliance, it is not easy to change this attitude. Malawians need to change their mindset towards taxation.” Customs Officer 2, Mwanza.

The narrations by the MRA officials and customs agents show that the importers were also indulging in corrupt practices and the main driving force for their non-compliance was also a quest for high profits. “The problem is that importers focus on profit only and there is lack of awareness on the rules and procedures of customs when it comes to payment of import duties”, MRA Officer 6, Mwanza.

On the other hand, the customs agents' narrations show that tax non-compliance was the most difficult part of the work of agents because many importers did not want to comply. The agents narrated that the cause of tax non-compliance was initiated by importers because they looked down upon the agents as being unprofessional. However, the agents' view was that they should always satisfy their clients by following what their customers asked them to do. Therefore, it emerged that importers had a strong influence on agents' decisions on the import declaration. “In the course of satisfying our clients' needs, we commit offenses against MRA. We do this because we want to please our customers.” (Agent 7, Mwanza).

The results show that sometimes they faced situations where importers or exporters did not agree with the value of the tax calculated on their goods and that they asked them to help in lowering the values with the aim of paying less tax. “In so doing, we find ourselves caught in MRA's net and we get recorded in a black book of MRA” (Agent 3, Blantyre Port). It was also observed that the agents were aware that non-compliance was unlawful as well as unethical but continued doing it because they wanted to please their clients. This fact was expressed by agent 1 at the Mwanza border who gave an example of how the agent deliberately undervalued the prices of goods and services to please their clients. “It's not our intention to undervalue the goods or declare fewer goods but our customers ask us to help them reduce tax so that they pay less money. We don't want to be labeled non-compliant with MRA. At the same time, we don't want to lose business”.

The narrations of the agents show that to stay in business, agents needed to comply with their customers' demands, i.e., the importers, and this behavior forced them to be non-compliant to the MRA. The agents accepted to reduce the amount of duty to be paid to MRA because if they did not, importers would leave them and look for another agent even though they had already lodged a declaration for the importer. This fact pushed them into problems with MRA. Consequently, agents may have a lot of outstanding declarations in the systems leading to them being blocked or suspended by the MRA. One way that MRA was defrauded was when importers presented goods and services in consolidated form and the goods and services were cleared differently based on the importer's need. The prices of the goods and services were manipulated in such a way that some were not declared, others were undervalued while others were partially declared. “The agents always choose tariff classification which attracts lower rates of duty as well as treating the non-preferential goods as preferential.” Agent 7, Blantyre Port.

The study came across the presence of middlemen between the customs agents and importer, a situation that fuels further corrupt practices. These middlemen are unscrupulous agents called in the vernacular “dobadobas”. These middlemen

are not registered and hence have no declarant numbers. Consequently, the Dobadobas use other peoples' declarants or companies to clear goods for importers. Thus, the middlemen promote further corruption in the imported good clearing sector. The customs agents complained that the dobadobas tarnish their image with MRA because they kept on committing offenses as they served importers. However, since they were not registered, when they committed offenses, the rightful owners of the declarant were being penalized, and sometimes the license was revoked. "Dobadobas demands a lot of money from importers for helping them reduce the amount of tax paid to MRA. When MRA discover the fake transactions, they penalize the declarant and sometimes the agent's license is revoked by MRA." (Agents 6, Mwanza).

The agents also explained that sometimes the dobabobas would go as far as accessing their passwords for transacting business, which was very risky because the agent bore the consequences in that situation when something went wrong. This fact was narrated by Agent 3 Mwanza, as follows; "It is risky behavior for a registered agent to lend their declarant numbers or passwords to dobadobas. If MRA comes across it, the company is blocked and denied access to the MRA system."

4. DISCUSSION

4.1. LIMITED KNOWLEDGE OF CUSTOMS AGENTS

The demographic characteristics show that most of the agents had only a Malawi School Certificate of Education. These results may explain the observed limited knowledge of the agents in customs clearance of goods and services. The MRA faced compliance challenges as most of the agents were unable to understand Customs laws, regulations, processes, and procedures. These results are in agreement with dan Nurlis (2010) who reported that knowledge and understanding of a taxpayer on taxation affect taxpayer's compliance.

Some scholars such as Alabede *et al.* (2011) reported that consciousness is a will accompanied by action from reflection to reality. Consequently, taxpayers' awareness is paramount in tax compliance so that the taxation regulations are known, acknowledged, respected, and obeyed as also reported by several authors (Marziana *et al.*, 2010; Nugroho and Zulaikha, 2012; Machogu and Amayi, 2013).

The limited knowledge of customs was also contributed to the complexity of the rules and regulations to the Customs Department. These results are in agreement with those of a study by Franzoni (1994) who reported that high tax rates and complex tax legislation, induced fraud. It was observed that taxpayers resent tax authorities when the authorities impose too high levies and too complex tax system. Thus, complicated rules and regulations encourage tax avoidance behavior, however, in this study, when the MRA trained the customs agents, knowledge was created and non-compliance was reduced. These results show the importance of tax education in tax compliance as also reported by Larasati (2013).

4.2. CORRUPTION

The results show that corrupt practices by both the customs agents and importers played a major role in tax non-compliance. Both the agents and importers were non-compliant because they reported incorrect value of the concerned goods and services. Similar results were reported by Mohd *et al.* (2013). The results in this study show that there was failure of a taxpayer to report correctly the actual income, claim deductions or rebates and remit the actual amount of tax payable to the tax authority on time. Similar results are reported by Kirchler (2007). Furthermore, these results agree with the generally perceived norms that most individuals do not like to pay taxes and people may seize any opportunity to reduce their tax liabilities (Allingham and Sandmo, 1972). In this study, the non-compliance took the form of tax avoidance, which is the legal reduction in tax liabilities by practices that take full advantage of the tax code such as income splitting and postponement of taxes (Allingham and Sandmo, 1972). In addition, in this study, there was also tax evasion which consisted of illegal and intentional actions taken by individuals (registered and unregistered agents and importers) to reduce the legally due tax obligations (Javorcik and Narciso, 2008). Thus, as also reported by Javorcik and Narciso (2008), in this study tax was evaded by underreporting value for duty purposes (taxable income on import duties); using the wrong origin of goods to enjoy preferential rates on the unqualifying goods, and using wrong tariff codes.

Several theories have been proposed to promote import tax compliance, however, the most effective way is to change the perception and mindset of agents and importers. Allingham and Sandmo (1972) proposed a seminal economic deterrence model based on the expected utility function of the taxpayer who evades. The more risk-averse the taxpayer is, the less likely the person is to evade taxes. Although the theory was criticized for emphasizing the coercive side of compliance, at the expense of consensual compliance, other researchers such as McKerchar and Evans (2009) have provided some evidence to support the relevance of deterrence strategies in addressing non-compliance.

Results in this study suggest that the MRA used this theory as the narratives of the participants referred to the fear of penalties and sanctions if they were found non-compliant. However, in view of the fact that the corrupt practices were prevalent despite the implementation of the penalties and sanctions, the results seem to suggest that the theory of planned behavior would

be more appropriate. The theory states that tax compliance decisions could be affected by tax knowledge and education, attitude, and perception, compliance cost, and fines and penalties (Ajzen, 1991). Therefore, it is recommended that apart from emphasizing education, penalties, sanctions, and fines as reported in this study, there is also a need to look at the attitude and perceptions of the Malawian general public towards tax compliance.

4.3. STUDY LIMITATION

This is a qualitative study that investigated the perceptions of customs managers and customs agents on import tax non-compliance. The participants' sample is small as is the case with qualitative studies, however, the sample was enough to reach data saturation. In-depth interviews with the participants may have influenced some responses but the participants were granted freedom to speak their minds.

CONFLICT OF INTEREST

None.

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