

TAX STRUCTURE AND TOBACCO SMUGGLING

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ABSTRACT

Tobacco smuggling activities had received serious attention not only from the government of Malaysia but also from other countries such as Indonesia and Thailand. In Malaysia, the tobacco industry is the second largest contributor of tax revenue for indirect taxes. Thus, the current study chose to investigate the tax lost due to tobacco smuggling activities in Malaysia. The study examined two factors that could be related to tobacco smuggling that is tobacco taxation rate and enforcement (cases of arrest and non-arrest). The sample data and other relevant information for the study were gathered from various sources such as the Tax Authority Department, Technical Services Division and the Ministry of Health (MOH). The sample comprised of 27863 tobacco smuggling cases taken from the years 2006 to 2011 from all states in Malaysia. The study found that tobacco smuggling activities was extensive in the state of Sabah and Sarawak. The statistical results provided evidence that there was a positive significant relationship between tobacco tax rates and tobacco smuggling. Furthermore, the study also found a significant negative relationship between case arrested and tobacco smuggling which indicated that enforcement would reduce tobacco smuggling cases. The findings of the study may contribute towards the literature of the discussed area and also give important information to the relevant authorities. Finally, the findings also provided some inputs to the government with regards to reviewing the tobacco prices and tax for the purposes of national health as well as to reduce tobacco smuggling activities.

Keywords: *Tobacco smuggling activities; tax rate and enforcement.*