

EMPOWERING FUTURE TAXPAYERS: THE ROLE OF TAX LITERACY IN STUDENTS' FINANCIAL PREPAREDNESS

Nurul Labanihuda Abdull Rahman^{1*}

Hazalina Mat Soha²

Nas'Asshraf Naina Mohamad³

Shamsul Anaz Kassim⁴

Noor Hafizha Muhamad Yusuf⁵

¹ Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Perlis, Kampus Arau, 02600 Arau, Perlis, Malaysia (E-mail: labanihuda@uitm.edu.my)

² Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Kelantan, Kampus Machang, 18500, Machang, Kelantan, Malaysia (E-mail: hazalina@uitm.edu.my)

³ Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Perlis, Kampus Arau, 02600 Arau, Perlis, Malaysia (E-mail: nasasshraf@uitm.edu.my)

⁴ Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Perlis, Kampus Arau, 02600 Arau, Perlis, Malaysia (E-mail: shamsulanaz@uitm.edu.my)

⁵ Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Perlis, Kampus Arau, 02600 Arau, Perlis, Malaysia (E-mail: hafizha853@uitm.edu.my)

*Corresponding author: labanihuda@uitm.edu.my

Article history

Received date : 5-9-2026

Revised date : 6-9-2026

Accepted date : 23-10-2026

Published date : 28-10-2026

To cite this document:

Abdull Rahman, N. L., Mat Soha, H., Naina Mohamad, N., Kassim, S. A., & Muhamad Yusuf, N. H. (2026). Empowering future taxpayers: The role of tax literacy in students' financial preparedness. *Journal of Islamic, Social, Economics and Development (JISED)*, 11 (87), 563-569.

Abstract: *Tax literacy is a crucial aspect of students' financial readiness, particularly as they prepare to enter the workforce. However, the level of tax education, tax knowledge and awareness among students requires attention to ensure they understand their future obligations as taxpayers. This study discusses the roles of tax education, tax knowledge, tax awareness, and tax literacy in enhancing students' financial readiness. Based on Financial Literacy Theory, the study highlights tax knowledge as an essential foundation for understanding taxation, while tax awareness encourages individuals to appreciate and fulfil their tax responsibilities. Tax literacy enables students to apply tax related knowledge to real life financial situations, including income management and financial planning. The study also emphasizes the importance of tax education in higher education institutions as a means of early exposure to cultivate knowledgeable, aware, and responsible taxpayers. Overall, strengthening tax literacy can support better financial decision making and enhance students' financial readiness as future taxpayers.*

Keywords: *Tax Education, Tax Knowledge, Tax Awareness, Tax Literacy, Financial Literacy Theory*

Introduction

Taxation is a vital source of government revenue for funding public services and national development. Besides, understanding of taxation is also crucial for financial management, particularly when individuals begin their careers. Bank Negara Malaysia (BNM) emphasizes the importance of financial literacy in helping individuals make better financial decisions and build long-term financial resilience. In the Malaysian context, tax obligations depend on factors such as the type and amount of income, as well as residency status. According to the Inland Revenue Board of Malaysia (HASiL), individuals who meet the prescribed income thresholds are liable for tax must register and comply with taxation requirements. Therefore, basic knowledge of taxation is essential to help individuals understand their responsibilities as taxpayers.

Based on the 2024 Financial Capability and Inclusion Demand-Side Survey (FCI), Bank Negara Malaysia reported that the financial knowledge score of Malaysians rose from 60.2 in 2021 to 62.9 in 2024. However, this increase in knowledge has not fully translated into stronger financial behavior. Only 58% of Malaysians reportedly make an effort to save for the future, compared to 67% in 2021 (Bank Negara Malaysia, 2025). This situation highlights a "knowledge-action gap," where higher financial knowledge does not necessarily lead to better financial practices. BNM further emphasizes that knowledge must be translated into action, confidence, and financial resilience to enable individuals to achieve greater financial well-being.

Students in higher education institutions represent a group requiring particular attention, as they are navigating the transition into the workforce and managing their finances independently. Osman et al., (2024) emphasize that financial literacy is crucial for university students preparing to enter the workforce, as they must make various financial decisions and manage financial responsibilities with greater autonomy. Similarly, Ahmad et al., (2024) found a strong link between financial literacy and the spending habits among students, indicating that a command of financial knowledge enables students to make better spending decisions. Furthermore, Vilson et al., (2025) demonstrated that financial knowledge, awareness, and skills influence university students' financial planning behaviors, including aspects such as saving, budgeting, and debt management. Therefore, exposure to financial literacy at the higher education level is essential to help students build the capacity to manage income, expenses, savings, credit, and financial planning before entering the workforce.

In addition, changes in the taxation system and increasing financial responsibilities have made tax literacy increasingly important for higher education students preparing to enter the workforce. Exposure to income tax and e-Filing does not necessarily enable students to apply tax knowledge in real-world financial situations. Recent studies indicate that tax literacy, tax knowledge, and tax awareness are crucial elements in fostering tax awareness among higher education students in Malaysia (Veeraselvam et al., 2025; Abu Hassan et al., 2025). Systematic tax education is also essential to enhance the knowledge and preparedness of prospective taxpayers (Mohd Yusof & Lee, 2026).

Literature Review

Financial Literacy Theory

Financial Literacy Theory posits that financial literacy extends beyond mere knowledge of financial concepts which encompasses the awareness, knowledge, skills, attitudes, and

behaviors that enable individuals to make effective financial decisions. This theory is particularly relevant to higher education students, as financial literacy proficiency assists them in managing income, expenses, and savings prior to entering the workforce. A study by Negi and Jaiswal (2024) further demonstrates a link between financial literacy and an individual's financial behaviors decisions. Consequently, this theory serves as a basis for establishing tax literacy as a crucial component of financial literacy, given that tax related knowledge and skills help students understand income and tax obligations while facilitating better financial planning for the future.

Tax Education

Moreover, previous study demonstrated that the use of technology in tax education can enhance students' tax awareness and knowledge (Abu Hassan et al., 2025). Meanwhile, a similar study by Mohamad et al., (2026) indicated that formal tax education, informal tax education and trust in the government are positively associated with tax awareness among prospective taxpayers. In parallel, Munjeyi and Schutte (2025) also demonstrated that positive tax compliance behaviour is associated with tax literacy (Tumimomor et al., 2026; Aswat, 2025; Supriyanti et al., 2025). Tax payer with well-equipped knowledge who understand the tax obligation and regulation adhere to compliance with rules voluntary which highlighting the needs of educational program (Pritama & Anggraini, 2026; Tedjakusuma et al., 2026). Thus, exposure to tax education and information during their time at higher education institutions is essential for fostering students' awareness of tax obligations and helping them prepare for the workforce.

Tax Knowledge

Tax knowledge refers to an individual's level of understanding regarding the concepts, regulations, responsibilities and processes of taxation relevant to their financial lives. For higher education students, tax knowledge serves as vital early preparation before they enter the workforce and become taxpayers. Veeraselvam et al. (2025) found that tax knowledge is a key element linked to tax awareness among higher education students in Malaysia. These findings suggest that students with greater tax knowledge are more aware of their tax obligations and their importance.

Furthermore, past study demonstrated that the use of technology in teaching and learning processes can help enhance tax knowledge and awareness among prospective taxpayers (Abu Hassan et al., 2025). Effective tax knowledge extends beyond understanding the obligation to pay taxes and includes knowledge of taxable income, tax reliefs, rebates, record-keeping, and digital tax services. Therefore, exposure to tax knowledge during higher education can assist students in better preparing for their financial responsibilities upon entering the workforce.

Tax Awareness

Tax awareness refers to an individual's level of understanding and realization regarding tax obligations, as well as the importance of taxation to both the individual and the nation. Among higher education students, tax awareness is crucial as they represent the future workforce and future taxpayers. Veeraselvam et al. (2025) found that tax literacy, tax knowledge, and tax socialization are aspects linked to the development of tax awareness among higher education students in Malaysia.

Tax literacy

Tax literacy refers to an individual's ability to understand, apply tax-related knowledge in real-world financial situations. Furthermore, tax literacy encompasses an understanding of taxpayer

responsibilities, taxable income, available reliefs, tax calculations and compliance requirements. In the context of higher education, tax literacy is crucial because students are prospective employees and taxpayers who need to possess foundational knowledge before entering the workforce. Previous study, Veeraselvam et al., (2025) demonstrate that tax literacy, tax knowledge, and tax socialization are key aspects in fostering tax awareness among higher education students in Malaysia.

Similarly, Said (2025) emphasizes that tax literacy is a vital component of financial capability for young people particularly those likely to engage in self-employment and the gig economy yet tax education remains under represented in non-accounting programs. Study by Jailuddin et al., (2025) further highlights the role of tax education and literacy in supporting voluntary tax compliance in Malaysia. Therefore, strengthening tax literacy within higher education can help students not only understand the taxation system but also build the readiness to manage tax obligations upon entering the workforce.

Financial Preparedness

Financial preparedness reflects an individual's capacity to manage present financial obligations while planning for future financial requirements (Vučetić et al., 2022). For higher education students, financial preparedness is particularly important as they transition into employment and financial independence, requiring them to manage income, expenses, and tax obligations effectively (OECD, 2024). Tomas et al., (2026) found that individuals with higher financial literacy tend to be better prepared for retirement, while Magfirah et al., (2026) highlighted the importance of tax literacy in enhancing taxpayers' readiness to implement Coretax. The findings suggest that literacy is important for preparing individuals to manage their financial responsibilities and future obligations effectively.

Methodology

This study employs the qualitative research method which includes conducting interviews with students enrolled in the course ISB550 (Tax and Zakat Planning). Participants were purposively selected based on the ten highest final examination scores. A literature review examined the relationship between tax literacy and students' future financial preparedness. Themes were identified from the literature searched and derived from the interview data. This study aimed to deepen the understanding of tax literacy among students and their views on the impact of tax literacy on their future financial responsibilities. The interview data were analyzed thematically using the software ATLAS.ti to arrange and code the participants' answers, to identify the patterns, and to establish the connection between the themes. The literature review and interview findings were combined to synthesise the relevant literature. The themes were used to develop a conceptual framework linking tax education, tax knowledge, tax awareness, tax literacy and students' financial preparedness. Based on financial literacy theory, the framework links the themes to students' financial decision-making and future financial preparedness.

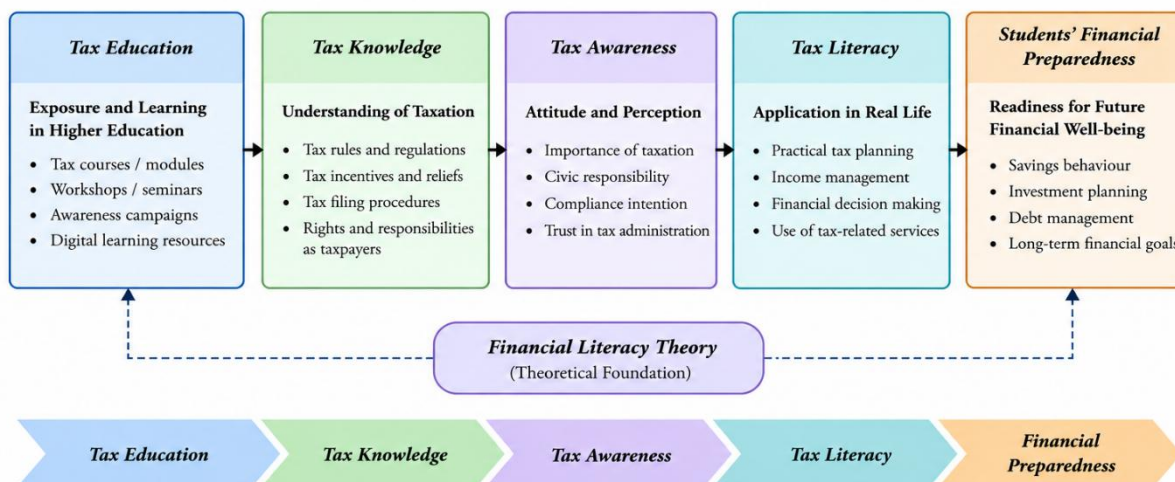


Figure 1: The Role of Tax Literacy in Students' Financial Preparedness

The proposed conceptual framework outlines the hierarchical relationships among tax education, tax knowledge, tax awareness, tax literacy and future financial preparedness among higher education students. Besides, tax education serves as the foundation for developing tax knowledge, while the knowledge acquired enhances tax awareness regarding taxation responsibilities and obligations. Furthermore, tax literacy acts as a connecting element, enabling students not only to comprehend tax information but also to interpret and apply that knowledge in real-world financial situations. This capability is expected to contribute to future financial preparedness, particularly by assisting students in making financial decisions and preparing for taxation responsibilities upon entering the workforce.

Additionally, this study highlights that tax education serves as the foundation for developing tax knowledge and tax awareness among students. The systematic tax education enables students to grasp taxation concepts and the knowledge acquired subsequently fosters awareness regarding their obligations as future taxpayers. Within this framework, tax literacy is a crucial element and students must not only possess knowledge and awareness of taxes but also the ability to understand and apply tax-related information in real world situations. Thus, tax literacy acts as a bridge between knowledge and practical application.

Furthermore, tax literacy is expected to enhance students' financial preparedness by supporting effective income management, financial planning and understanding of tax obligations when entering the workforce. Overall, this framework emphasizes that tax education at the tertiary level does more than just enhance tax knowledge; it also contributes to students' financial readiness for life after graduation.

Conclusion

In conclusion, tax literacy is a crucial aspect of preparing higher education students for future financial responsibilities. Besides, the proposed framework illustrates a sequential relationship between tax education, tax knowledge, tax awareness, tax literacy and future financial preparedness. Moreover, the exposure to tax education can help enhance students' knowledge and awareness, thereby fostering the ability to understand and apply tax-related information in real-world situations. Therefore, tax education in higher education institutions warrants attention as part of efforts to improve the financial preparedness of prospective graduates.

However, this study has several limitations. The framework focuses on five key themes and may not encompass other themes. Besides, the study context focuses primarily on higher education students and studies may vary depending on the field of study, institution and student background. Hence, future researchers are encouraged to empirically test this framework using a quantitative approach or mixed-methods design to determine the relationships towards future financial preparedness. Furthermore, this study could also consider tax literacy as a mediator to examine how tax education, knowledge, and awareness translate into financial preparedness. Finally, future research could involve students from diverse universities, fields of study and socioeconomic backgrounds to gain a more comprehensive understanding.

Acknowledgments

The authors would like to express their sincere gratitude to everyone who contributed their support, valuable insights and assistance throughout the preparation and completion of this study.

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