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**TAX COMPLIANCE BEHAVIOUR OF MALAYSIAN SMEs: THE
ROLE OF PSYCHOLOGICAL EMPOWERMENT AND
SERVICE QUALITY AS A MODERATING EFFECT**



**DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
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**TAX COMPLIANCE BEHAVIOUR OF MALAYSIAN SMEs: THE
ROLE OF PSYCHOLOGICAL EMPOWERMENT AND
SERVICE QUALITY AS A MODERATING EFFECT**



**Thesis Submitted to
College of Business,
Universiti Utara Malaysia,
in Fulfilment of the Requirement for the Degree of Doctor of Philosophy**



Kolej Perniagaan
(College of Business)
Universiti Utara Malaysia

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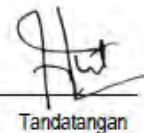
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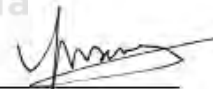
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Abstract

Small and medium-sized enterprises (SMEs) play a significant role in driving Malaysia's economic growth. However, they are often perceived as a high-risk group for low income tax compliance. Despite this concern, limited empirical research has been conducted on the tax compliance behaviour of SMEs in Malaysia. This study aims to investigate the key determinants influencing SME tax compliance in the country. Previous research on this topic has produced mixed and inconsistent findings. Therefore, this study integrates Social Influence Theory, Social Exchange Theory, and Social Cognitive Theory within Fischer's model to provide a comprehensive explanation of SME tax compliance behaviour. This study examines the relationships between psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentives, tax fairness, and tax compliance behaviour among SMEs in Malaysia. It also explores whether service quality moderates the relationships between peer influence, tax knowledge, tax incentives, tax fairness, and tax compliance behaviour. Adopting a quantitative approach, the study utilizes a self-administered questionnaire survey distributed to 491 SMEs listed in the Federation of Malaysian Manufacturers (FMM), yielding 230 usable responses for analysis. The Analysis of Moment Structure (AMOS) was employed to test the proposed hypotheses. The results revealed that psychological empowerment, tax transparency, peer influence, tax incentives, and tax fairness significantly influence tax compliance behaviour among SMEs in Malaysia. Furthermore, service quality was found to moderate the relationships between peer influence, tax incentives, tax fairness, and tax compliance behaviour. These findings provide valuable insights for tax authorities, policymakers, and SMEs in understanding and enhancing tax compliance behaviour within the SME sector.

Keywords: Tax compliance behaviour, SMEs, Psychological empowerment, Service quality.

Abstrak

Perusahaan kecil dan sederhana (PKS) merupakan penyumbang utama kepada pertumbuhan ekonomi Malaysia. Namun, dari segi pematuhan cukai pendapatan, PKS sering dianggap sebagai kumpulan yang berisiko tinggi terhadap isu pematuhan cukai yang rendah. Walaupun begitu, kajian empirikal berkaitan tingkah laku pematuhan cukai dalam kalangan PKS di Malaysia masih terhad. Sehubungan itu, kajian ini bertujuan untuk meneliti faktor-faktor yang mempengaruhi tingkah laku pematuhan cukai dalam kalangan PKS di Malaysia. Kajian-kajian terdahulu menunjukkan dapatan yang bercampur-campur dan tidak konsisten berkaitan faktor penentu pematuhan cukai dalam kalangan PKS. Oleh itu, kajian ini menggabungkan Teori Pengaruh Sosial, Teori Pertukaran Sosial dan Teori Kognitif Sosial di bawah Model Fischer bagi menerangkan tingkah laku pematuhan cukai PKS. Kajian ini meneliti hubungan antara pemeraksanaan psikologi, ketelusan cukai, pengaruh rakan sebaya, pengetahuan cukai, insentif cukai dan keadilan cukai dengan tingkah laku pematuhan cukai PKS di Malaysia. Selain itu, kajian ini turut menyiasat sama ada kualiti perkhidmatan berperanan sebagai moderator dalam hubungan antara pengaruh rakan sebaya, pengetahuan cukai, insentif cukai dan keadilan cukai dengan tingkah laku pematuhan cukai PKS. Dengan menggunakan pendekatan kuantitatif, kajian ini telah menjalankan tinjauan soal selidik ke atas 491 PKS yang tersenarai dalam Persekutuan Pekilang-Pekilang Malaysia (FMM), dan memperoleh 230 respons yang boleh dianalisis. Analisis Struktur Moment (AMOS) digunakan untuk menguji hipotesis kajian. Hasil kajian menunjukkan bahawa pemeraksanaan psikologi, ketelusan cukai, pengaruh rakan sebaya, insentif cukai dan keadilan cukai mempunyai hubungan yang signifikan dengan tingkah laku pematuhan cukai PKS di Malaysia. Selain itu, kualiti perkhidmatan turut mempengaruhi hubungan antara pengaruh rakan sebaya, insentif cukai, dan keadilan cukai dengan tingkah laku pematuhan cukai dalam kalangan PKS di Malaysia. Penemuan kajian ini memberikan pandangan yang berguna kepada pihak berkuasa cukai, penggubal dasar, serta PKS dalam usaha memahami dan memperkukuh tingkah laku pematuhan cukai dalam sektor PKS.

Kata kunci: Tingkah laku pematuhan cukai, PKS, Pemeraksanaan psikologi, Kualiti perkhidmatan.

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LIST OF ABBREVIATIONS

AMOS	Analysis of Moment Structure
AVE	Average Variance Extracted
D2	Mahalanobis Distance
F2	Effect size
GDP	Gross Domestic Product
GOF	Goodness of Fit
IRBM	Inland Revenue Board of Malaysia
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation serves as a fundamental source of revenue for governments worldwide, playing a pivotal role in the overall economic health of a nation. Tax collection is essential for financing government operations and supporting public services in numerous countries, including Malaysia. Effective tax systems are crucial for maintaining fiscal balance and enabling governments to meet their obligations towards citizens (Sing & Bidin, 2020). Tax revenues form the backbone of public budgets, allowing for allocating resources to vital sectors such as education, healthcare, and infrastructure. This reliance on taxation illustrates its dual role as both a fiscal mechanism and a tool for societal development, reinforcing the government's capacity to invest in programs that directly impact the quality of life for its citizens (Al-hafidz & Waridin, 2023; Hakim et al., 2022; Omodero & Dandago, 2019).

For developing countries, such as Malaysia, the challenge of improving economic conditions and reducing poverty is intrinsically linked to the effectiveness of tax collection mechanisms. Ajzen (2005) emphasizes that without a robust tax base, governments struggle to fund essential services that pave the way for sustainable development. Developing nations must invest significantly in public infrastructure and social services to achieve growth and enhance living standards. Consequently, these nations must elevate their "tax effort," defined as the ratio of tax revenue to their Gross Domestic Product (GDP) (Bird et al., 2008). By increasing this ratio, governments can ensure a steady influx of resources critical for fostering an environment conducive to

economic growth and social progress.

In Malaysia, taxation remains the predominant revenue source for the federal government. On average, approximately 74.72% of government income derives from tax collection, as highlighted in Table 1.1. This substantial portion indicates a heavy dependence on taxation to fund various governmental functions. Furthermore, Malaysia's tax system is characterized by a significant reliance on direct taxes, particularly income tax.

Table 1.1
Federal Government Revenue and Federal Tax Revenue of Malaysia between 2014 and 2024

Year	Federal Government Revenue (FGR)	Federal Tax Revenue (FTR)	
	RM (in Million)	RM (in Million)	% of FGR
2014	220,626	164,205	74.43%
2015	219,089	165,440	75.51%
2016	212,421	169,343	79.72%
2017	220,406	177,658	80.60%
2018	232,882	174,061	74.74%
2019	263,300	180,010	68.37%
2020	225,076	154,398	68.60%
2021	233,752	173,704	74.31%
2022	294,357	208,765	70.92%
2023*	303,200	229,020	75.53%
2024**	307,600	243,620	79.20%
		Average	74.72%

*Revised Estimate

*Budget Estimate

Source: Compiled by this Study from Fiscal Outlook and Federal Government Revenue Estimates 2014 – 2024

As shown in Figure 1.1, tax collection has been a primary source of revenue for the federal government and, as such, tax collection has direct and indirect contributions. Direct taxes being greater than indirect taxes form more than 50% of revenue collected over the years 2021 through 2025 (Deloitte, 2024). Such statistics underscore the

importance of a well-structured tax system, not only as a means for revenue generation but also as a mechanism for promoting equitable economic growth and ensuring the effective delivery of public services to enhance the welfare of Malaysian citizens.

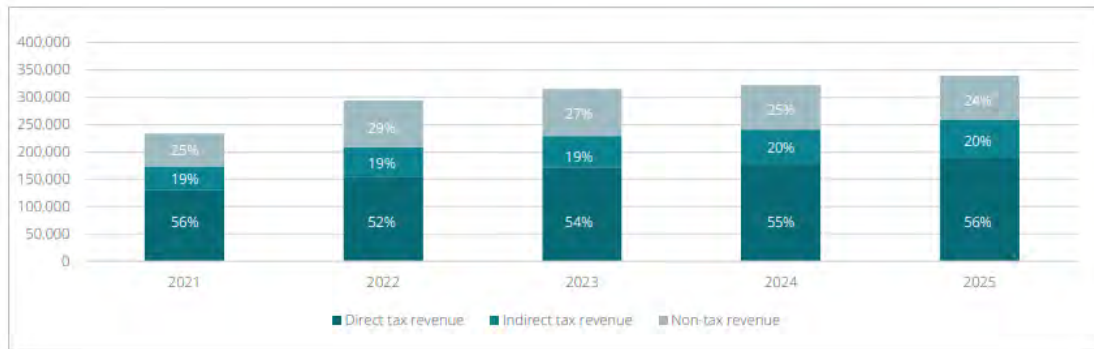


Figure 1.1 Tax Revenue over Total Revenue – Breakdown by Direct and Indirect Taxes
Source: Malaysia Budget 2025 Snapshot

However, tax compliance remains a significant challenge in tax administration, particularly developing nations of the world (Mohammed et al., 2022). In this context, an OECD report titled “Tax Administration 2024” highlighted that governments are increasingly utilising technology to enhance tax compliance and minimise tax related issues (OECD, 2024). For instance, tax authority in Malaysia continues to implement various strategic initiatives aimed at taxpayers to comply tax regulations (BusinessToday, 30 Dec 2024).

According to Adem et al.(2024), policymakers and tax authorities in developing countries are struggling in comprehending the determinants of tax compliance behaviour. A recent study conducted in Botswana by Monyake et al. (2023) revealed that this country is facing significant challenges in managing tax compliance and emphasised the need for strategic approaches that simplify tax compliance management and address the key factors influencing tax decision. According to World Bank (2021),

Indonesia faces difficulty in enhancing tax compliance and emphasising the importance to understand the psychological and social factors that influence taxpayers.

Besides that, business owners, government servants, service providers, and other organisations in developed and developing countries are obliged to pay taxes to their government, and no one can escape from the tax of these countries (Kassa, 2021). According to Mughal (2012), the amount of taxes acts as the government's lifeblood and is essential for countries' economic development. However, none of the countries have been able to fight against the phenomenon of tax non-compliance (Diakomihalis, 2020). In short, for both developed and developing countries, tax non-compliance is a global and critical issue (Obaid & Mat Udin, 2020; Tan et al., 2021).

For instance, Taing and Chang (2020) stated that Cambodia accounted for roughly 67.45% of tax collection out of the total government income as a developing country. Similarly, according to Diakomihalis (2020), Greece's massive shadow economy and low tax compliance threaten the country's public revenue. Additionally, several changes have been implemented in Yemen's government to enhance revenue and increase compliance with income taxes. However, tax compliance remains a complex issue and a primary concern for Yemen authorities (Obaid & Mat Udin, 2020). Furthermore, although tax legislation has been reformed to provide tax education and online tax assistance, tax compliance problems persist in Uganda despite the importance of taxation (Nkundabanyanga et al., 2017).

A study by Al-Taffi and Abdul-Jabbar (2020) explained that a low percentage of tax to GDP demonstrated that taxpayers are not paying their taxes. It is further argued by Blackburn and Jarvis (2020) that most developed and developing economies today

depend heavily on SMEs. As a result, their compliance with tax payments directly affects the government's ability to collect tax revenues (Maseko, 2014). As stated by Yunus et al. (2017), past research indicated that SMEs tend to struggle with tax compliance.

According to Lee Heng (2020), the Malaysian Government is facing a severe tax issue of non-compliance, where specific hidden sectors generate significant revenue but refuse to declare tax. Tax authorities have investigated company owners who have refused to pay taxes recently. From January to September 2019, the tax revenue to GDP ratio was 11.8%, less than 15.6% in 2012 to 12% in 2018. In addition, Sritharan et al. (2020) stated that Malaysia is still facing problems with under-reporting, and due to limited resources, the Inland Revenue Board cannot pinpoint the genuine reasons for non-compliance.

Revenue statistics for Asian and Pacific countries reported that Malaysia had a tax-to-GDP ratio of 11.8% in 2021, which is lower than that of Asia and the Pacific countries, which had an average of 19.8%. It also fell by 22.1%, behind the Organisation for Economic Co-operation and Development (OECD) average of 34.1%. From 2010 to 2021, Malaysia's tax-to-GDP ratio fell by 2.1%, the most significant decrease as stated by OECD (2023).

Despite this, the current Prime Minister of Malaysia also emphasised the challenges in tax collection faced by the country, highlighting that Malaysia's tax base stands at 11%, a figure notably lower than Thailand's 16.4% and Singapore's 12.6% (Shahabudin, 2024). Based on the tax-to-GDP ratios of Asian countries, as seen in Table 1.2, Malaysia has the third-lowest ratio compared to other Asian countries.

Table 1.2
Tax-to-GDP Ratio of Asian Countries

Country	Tax-to-GDP Ratio (%) (2021)
Vietnam	18.60
Philippines	18.10
Cambodia	18.00
Thailand	16.40
Singapore	12.60
Malaysia	11.80
Indonesia	10.09
Lao PDR	9.70

Source: Adapted from OECD (2023)

As the World Bank (2022) reported, taxes must increase in countries that collect less than 15% of GDP to meet the needs of the population and businesses. This amount of taxes is a significant turning point that puts a country on the pathway to development and viability. Developing countries need revenue the most. However, they always face difficulty collecting taxes (World Bank, 2022).

Additionally, some developed countries, such as Australia, the United States (US), and the United Kingdom (UK), are capable of collecting sufficient tax revenue to finance their respective governments' expenditures (Hindriks et al., 2008). In line with that, Australia and the UK contributed 22.9% and 32.77% of the tax-to-GDP ratio in 2019 and 2020, respectively (OECD, 2022a).

The Inland Revenue Board of Malaysia (IRBM) implemented a unique voluntary disclosure program (SVDP) in 2019 to increase tax revenue through improved tax compliance (Tee, 2019). Although former Deputy Finance Minister Datuk Amiruddin Hamzah had promised a low penalty rate of 10% to 15%, only 486,360 cases (approximately RM6 billion) stepped forward to declare their income in the voluntary

tax declaration (TheSunDaily, 8 July 2019). Additionally, the reintroduction of SVDP 2.0 emphasizes the importance of SMEs seizing the opportunity to address any prior tax non-compliance issues (Hilmy, 2024).

Apart from that, based on Tee (2019), in addition to the 486,360 instances already submitted to the IRBM, the government agreed to extend the grace period from June 2019 to September 2019 as IRBM aimed to collect RM10 billion from the SVDP. The fact that IRBM is still dealing with tax non-compliance until today is indicative that the issue has not been resolved.

According to Zandi et al. (2016), tax compliance is a huge issue faced by IRBM, an enduring difficulty as old as the tax institution. Based on the TheStar (13 Nov 2018), the Inland Revenue Board's identification of 79,786 unpaid taxpayers, including citizens, businesses, organisations, and cooperatives. Apart from that, Chong and Arunachalam (2018) reported that a surging shadow economy is estimated to have a 20% to 30% tax gap in Malaysia. In 2019, the Inland Revenue Board established a special voluntary disclosure program, but tax compliance is still a problem despite efforts to increase revenue through an increased tax compliance program (Tee, 2019).

Tax compliance for SMEs needs specific attention. This is because these firms are frequently unable to perform their tax requirements strictly, are more exposed to external risks, and are prone to temptations to take advantage of non-compliant possibilities (Swistak, 2016). In line with that, governments are confronted with significant problems regarding SMEs' non-payment of taxes. However, the literature has not extensively examined the elements affecting low-level compliance determinants among SMEs (Abdixhiku et al., 2017).

In addition, many determinants have been studied that influence tax compliance. However, prior studies have found results incongruent with the association between tax compliance behaviour and its determinants (Horodnic, 2018). The issue of tax compliance remains unresolved, and there have been fewer empirical studies on the compliance behaviour of SMEs in Malaysia (Ghani et al., 2012). Additionally, mixed results have been reported in past empirical studies regarding the factors of SMEs' tax compliance behaviour (Battisti & Deakins, 2018).

Notwithstanding this, Safian and Hamid (2017) mentioned that few studies so far have explored components or variables that can enhance intrinsic motivation in complying with tax law in Malaysia. A recent study by Paleka and Vitezic (2023) called for empirical studies to identify other comprehensive lists of the determinants of tax compliance. Therefore, it is imperative to conduct further investigations into tax compliance behaviour among Malaysian SMEs to close the current gap.

1.2 Problem Statement

With the gradual recovery of the economy in 2022, micro, small, and medium enterprises (MSMEs) in Malaysia continued to remain competitive and recorded excellent growth. The contribution of this sector to the nation's Gross Domestic Product (GDP) in 2022 increased by 11.6%, rising from RM520 billion in 2021 to RM580.4 billion in 2022 (SME Corp, 2022a). In 2021, MSME employment accounted for 48.2% (7.59 million workers) of the total workforce, representing a year-on-year increase of 3.8%. Productivity also rose to RM76,433 per worker, compared to RM71,089 in a similar year, and this is expected to increase in line with the broader adoption of technology (SME Corp, 2022a). Thus, SMEs mainly contribute to Malaysia's economic

growth (Adan & Hussain, 2021; Aris, 2007; SME Corp, 2022a).

Even though, SMEs serve as a key driver of Malaysia's economic growth, contributing significantly to employment and national income, tax non-compliance within this sector remains a challenging issue, as it can substantially reduce government revenue. Study by Kon et al. (2022) revealed that when SMEs fail to comply with tax regulations, overall tax collection declines, limiting the government's ability to fund public services and infrastructure development.

However, a study by Yusof et al. (2014) found that smaller SMEs tended to engage in tax non-compliance compared to larger companies and recommended that IRBM focus more on SMEs' tax audits than larger companies by allocating sufficient resources. Notwithstanding that, although government efforts to boost tax revenue are showing some progress, compliance within the SME sector remains significantly low (Ababio & Gnonsio Manguye, 2021).

In Malaysia, tax audits have been conducted regularly, and tax penalties have been imposed, but business entities continue to fail to comply with tax laws (Mohd Yusof, 2018). The small-scale industry is notoriously difficult when it comes to paying taxes. Even though there is a rise in small and medium enterprises, tax collection from these enterprises is still small (Abd Hamid et al., 2019). This fact aligns with the IRBM (2017) report, which found that 541,798 audited cases were resolved for SMEs in 2016, compared with 529,010 in 2015 and this published data up to 2016 only. This shows a 2.4% increase in SMEs and indicates that tax non-compliance persists in Malaysia.

Moreover, IRBM's former CEO, Datuk Dr Mohd Nizom Sairi, stated that e-invoicing should be used for firms, including SMEs, in the first quarter of 2024. According to KPMG's Head of Tax in Malaysia, e-invoicing would improve tax compliance and transparency and be a more decisive strategy for the government to address the significant revenue leakage from the shadow economy (Soh, 2023). Based on BusinessTimes (3 Nov 2024), government also provide tax incentives for the SMEs who adopt e-invoicing. This initiative proves that the low tax compliance issue persists among SMEs in Malaysia. Apart from that, OECD (2022) also highlighted that improving tax transparency can help alleviate compliance challenges faced by SMEs. Therefore, this study introduced tax transparency and tax incentives as an independent variable.

Besides that, a study conducted by Leong et al. (2020) revealed that not all SMEs took advantage of tax incentives due to limited understanding and trust in these measures, resulting in persistent non-compliance among SMEs. This study highlighted the necessity for further research to assess tax incentives which may offer valuable insights for policymakers in designing policies. Therefore, this study introduced tax incentives as an independent variable.

Moreover, past research indicated that the tax compliance behaviour of peers strongly influences tax compliance decisions. Besides that, past study which was conducted in Uganda, developing country identified peer influence as a critical determinant of tax compliance among SMEs. This scholar also suggested that further research should delve deeper into how peer influence influence tax compliance behaviour within the SME sector in other developing country. Therefore, this study introduced peer influence as an independent variable (Peter, 2023).

A recent study by Vanessa and Nair (2024) stated that a fair tax system enhances taxpayers' confidence in meeting tax obligations. The study underscores the need to explore the role of tax fairness in shaping SMEs tax compliance behaviour, emphasising its importance for policy improvements. The scholars recommended to examine tax fairness across different states in Malaysia for a more comprehensive understanding. Therefore, this study introduced tax fairness as an independent variable.

Notwithstanding this, SMEs are also a group with a high risk of failing to comply with Malaysian tax regulations, according to statistics from Deloitte (2021). It is consistent with the findings from Yunus et al.(2017) that SMEs frequently struggle to comply with tax laws. This can result from these SMEs' characteristics (Ahmad et al., 2018). Due to their lower cash flow, erratic income, lack of tax knowledge, and inadequately developed accounting, auditing, and cash handling systems, SMEs in Malaysia typically reported lower levels of tax compliance than larger businesses (Deloitte, 2021). Thus, these factors can increase the risk of underreporting.

Apart from that, certain businesses frequently accept cash transactions, have poor or no records, and have no external financial reporting obligations, which might allow them to engage in underreporting of tax (Slemrod et al., 2017). When a tax audit is conducted on SMEs in Malaysia, they must provide details and documents to support their claimed transactions. However, the information they provided to IRBM was unclear, and they struggled to understand it fully. Dr Veerinderjeet Singh, senior adviser on tax policy, stated that SMEs should be educated appropriately to avoid non-compliance issues (The Edge Markets, 2017). Therefore, this study introduced tax knowledge as an independent variable.

Furthermore, according to Kandasamy et al. (2018), Malaysia's SMEs show that 44% are family-owned businesses. In most cases, SMEs fail because the owners do not have the capabilities and the managers do not have the knowledge and experience to run the business (Munawaroh et al., 2023). Thus, support and advice become crucial for SMEs to survive and realise their potential entirely. In light of the justifications, it can be argued that high-quality service would boost SME owners' satisfaction and confidence, which are directly connected to tax compliance (Tongora, 2023).

Apart from that, past studies indicate that, to the researcher's knowledge, no previous studies have addressed psychological empowerment as an independent variable in tax compliance behaviour. Cahyonowati et al. (2023) posit that no comprehensive empirical research has examined the psychological aspects of tax compliance. This study introduces psychological empowerment as an independent variable to close the gap.

Many previous studies have suggested various determinants that influenced tax compliance behaviour, but tax compliance issues are still present in the system, and this could reduce national revenues and subsequently diminish national development (Horodnic, 2018). Previous empirical approaches have shown that tax compliance is associated with its determinants but there were inconsistent results. Miles (2017) explains the evidence gap when an exception becomes a provocative exception to widely accepted conclusions if a new research finding contradicts. It consists of a gap in prior research contradicting the findings. Further discussions on this have been done in the literature review. According to this study, the introduction of service quality moderates the determinants of tax compliance behaviour among SMEs.

Service quality has been extensively examined in prior research as both an independent and mediating variable influencing tax compliance behavior among Small and Medium Enterprises (SMEs) (eg., Adikur & Imran, 2022; Mustapha & Obid, 2014; Saptono et al., 2023; Sukesi & Yunaidah, 2020; Savitri & Musfialdy, 2016). Furthermore, research by Hamid et al. (2022) emphasized the importance of service quality in fostering tax compliance among SMEs, suggesting that better services from tax authorities lead to higher tax compliance rate. Therefore, service quality introduced as a moderating variable in this study.

In addition, SMEs in developing countries play an integral role in continuous development goals through the development of sustainable innovations. One of the most vital elements in attaining sustainable innovation is psychological empowerment. This helps achieve economic growth and sustainable development due to such innovation (Begum et al., 2020). Psychological empowerment is the process of improving intrinsic motivation and is associated with individual thoughts, feelings, and beliefs, which is crucial for Malaysian industries (Loke et al., 2018). Thus, according to Jayawardane (2015), psychological elements have the most influence or impact on tax compliance behaviour. In addition, the most recent research paper indicated that it is still a huge hurdle to identify appropriate variables that shape attitudes toward taxation (Pacaldo & Ferrer, 2020). Notwithstanding that, Mohamad et al. (2023) stated that other factors could affect tax compliance behaviour. Therefore, this study introduced psychological empowerment into taxation as an independent variable.

Fischer's model has long been known to study tax compliance behaviour. Fischer's tax compliance model remains relevant in recent years as it provides a comprehensive framework for understanding tax compliance behaviour by integrating economic,

psychological, and social factors. Recent studies among SMEs in Malaysia still applying Fischer's framework and validated the model's applicability (eg., Nair, 2024; Sing & Bidin, 2020; Vanessa & Nair, 2024).

However, as idealised dimensions presented by Fischer's model are unsuitable for formalising this research framework owing to the exclusion of factors like demographic variables, noncompliance opportunities, and tax system or structure, the dimensions offered in this model will not be considered. The reason is that these factors have been explored and studied in the literature, and the causal relationship of these factors based on the Malaysian environment (e.g., Ghani et al., 2012; Isa, 2014; Ngah et al., 2020; Remali et al., 2020; Sing & Bidin, 2020; Yusof et al., 2014). Consequently, to overcome the shortcomings of Fischer's model in the Malaysian context, this study targeted to capture other key determinants not included in the current model, namely psychological empowerment, tax transparency, tax incentive, tax knowledge, and service quality, which are also equally important. Although these expansions offer little research surrounding psychological empowerment as an independent variable and service quality as a moderator variable, there is still limited research within the literature presently available.

This study chose to focus on SMEs in Malaysia to explain the relationship between the variables, as the underpinning theory is social influence theory, supported by social exchange theory and social cognitive theory which represents an extension of Fischer's model. Therefore, this study makes a great contribution to the knowledge in this body by combining these theories with a body of literature by empirically testing the relationship between psychological empowerment, tax transparency, tax incentive, peer influence, tax knowledge, and tax fairness with tax compliance behaviour in SMEs in

Malaysia. Finally, this study investigated whether the linkage between peer influence, tax knowledge, tax incentive, tax fairness, and tax compliance behaviour is conditioned upon service quality.

1.3 Research Questions

The primary purpose of this study is to explore the determinants influencing the tax compliance behaviour of SMEs in Malaysia, with service quality moderating. Following that, this study intends to answer these research questions:

- (i) Do psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentives, and tax fairness have a relationship with the tax compliance behaviour among SMEs in Malaysia?
- (ii) Does service quality moderate the relationship between peer influence, tax knowledge, tax incentive, tax fairness, and tax compliance behaviour among SMEs in Malaysia?

1.4 Research Objectives

- (i) To examine the relationship between psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, tax fairness and tax compliance behaviour among SMEs in Malaysia.
- (ii) To examine whether service quality moderates the relationship between peer influence, tax knowledge, tax incentive, tax fairness and tax compliance behaviour among SMEs in Malaysia.

1.5 Significance of the Study

By further developing Fischer's model, this study examines the factors influencing tax compliance behaviour among SMEs in Malaysia. In addition to providing theoretical contributions to the knowledge base, this study offered practical contributions.

1.5.1 Theoretical Significance

Given the theoretical perspectives aiming to enhance knowledge, this study aimed to expand Fischer's model with four independent variables which are psychological empowerment, tax transparency, tax knowledge, tax incentive, and one moderating variable — service quality in correlation to SME tax compliance behaviour in Malaysia. Secondly, the dimensions provided in Fischer's model are thought to be inadequate for developing this study's research framework. Further, in this study, demographic variables, non-compliance opportunities and the tax system or structure will never be considered as factors. That is because in the literature, these factors have been extensively studied, and the relationship between these factors in the context of the Malaysian environment has been demonstrated (e.g., Ghani et al., 2012; Isa, 2014; Ngah et al., 2020; Remali et al., 2020; Sing & Bidin, 2020; Yusof et al., 2014).

Moreover, Safian and Hamid (2017) mentioned that limited studies have explored intrinsic motivation in complying with tax law in the Malaysian context. Notwithstanding that, Cahyonowati et al. (2023) posit that no comprehensive empirical research has looked at psychological aspects of tax compliance, and Mohamad et al. (2023) stated that other factors could affect tax compliance behaviour. Therefore, introducing psychological empowerment as an independent variable and service quality as a moderator could close the gaps. Regarding the scholar's views, this study

represents the first time these variables are combined into a model. Specifically, this study was likely conducted for the first time to analyse the direct effect of psychological empowerment on tax compliance behaviour and the moderating effect of service quality, specifically in Malaysia.

Besides, social cognitive theory through the Spreitzer model has not been extensively examined concerning the tax compliance behaviour of SMEs in Malaysia. This study has added theoretical value by introducing the Spreitzer model through the independent variable of psychological empowerment to the context of tax compliance behaviour. It has directly linked psychological empowerment and SME tax compliance behaviour.

Existing literature has mostly utilized the benefits of applying Fischer's Model to the individual level, while SMEs are known to have better tax evasion opportunities than individuals (Al-Adofi, 2015). In addition, several researchers have identified the relatively prevalent bias of compliance with individual income taxes that are paid far more attention than with business income taxes (Alabede, 2012; Alm & McClellan, 2012; Gangl et al., 2014). Consequently, this study contributes to the literature by providing evidence of tax compliance behaviour, particularly in SMEs using Fischer's Model. To extend the model, this study initially looked at individual taxpayers to provide insight into the tax compliance dynamics of SMEs.

Factors of tax compliance cannot be entirely accounted for by a single theory (Marandu et al., 2015). In order to present this study, the underpinning theory is presented through social influence theory, and such theories as social exchange theory and social cognitive theory are supported through the use of the Spreitzer model.

1.5.2 Practical Significance

This study made a significant contribution in practice to the tax authority by providing valuable insights. For instance, the tax authority may utilise this insight to analyse and determine the variables influencing SMEs' tax compliance behaviour. Thus, this study offered valuable information for developing appropriate tax compliance regulations that would boost tax income in Malaysia.

Tax authorities have also made significant efforts to increase taxpayers' tax compliance, but the problem persists. This study examined the moderating effect of service quality on peer influence, tax knowledge, tax incentives, tax fairness, and tax compliance behaviour among SMEs in Malaysia. The outcomes of this research may aid the tax administrator and tax authority in enhancing the service quality of tax administration.

The study's findings identified key drivers influencing SMEs' tax compliance behaviour. By identifying these factors, SME managers may demonstrate commitment to tax compliance. These might result in favourable treatment from tax authorities to SMEs.

Furthermore, this study may be helpful to policymakers who are interested in determining what factors determine tax compliance behaviour among Malaysian SMEs because it provides an understanding or knowledge of tax compliance behaviour through service quality and psychological empowerment. As a final point, the results of this study may assist policymakers in developing a sensible and practical plan to increase tax compliance behaviour among Malaysian SMEs.

1.6 Scope of the Study

The study aims to analyse the direct relationship between psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentives, tax fairness, and the moderating role of service quality with the tax compliance behaviour among SMEs in Malaysia.

The study looks at the service quality of tax authorities. Al-Ttaffi and Abdul-Jabbar (2016) suggest that the service quality of the tax authority must be magnificent, assuming a very high level of trust in the tax authority which would stimulate tax compliance of the taxpayers. Hence, favourable tax compliance behaviour in taxpayers should be evoked where tax service quality levels are high. This suggests that taxpayers will usually connect with quality taxing authorities that provide tax services, and these taxing authorities also treat the taxpayers as partners in raising revenues (Ameyaw et al., 2016).

This study focuses on SMEs that contribute to the GDP growth in Malaysia. In other words, the current economic situation makes SMEs an imperative part of the economy since they employ many people. The government also gave SMEs several initiatives to boost economic development.

SMEs are divided into five sectors: services, construction, manufacturing, agriculture, mining, and quarrying. Among these sectors, manufacturing is selected in this study because this sector has contributed to GDP growth in Malaysia (SME Corp, 2022b). Aside from that, manufacturing is the most significant industry supporting SME performance development (Ab Wahab et al., 2013) and essential to the Malaysian economy (Khan et al., 2021).

This study also concentrates on direct tax. Referring to Figure 1.1, direct taxes being greater than indirect taxes form more than 50% of revenue collected over the years 2021 through 2025 (Deloitte, 2024).

In this study, the unit of analysis is the organisation, which is the SMEs in the manufacturing industry. The respondents were chief executive officers, accountants, and managers or owners who are dealing with tax filing submissions of SMEs and are equipped with knowledge of tax filing. They represent the company's top management and are responsible for making decisions that will ensure the survival and growth of their company (Ab Wahab et al., 2020). In addition, they are the most suitable respondents to provide details about their company tax compliance choice (Alkhatib, 2019).

1.7 Definition of Key Terminologies

This study investigates psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentives, tax fairness, and the tax compliance behaviour among SMEs in Malaysia moderated by service quality. The conceptualization and operationalization of this study's variables and terminologies are provided below for a better understanding of this research undertaking.

Psychological Empowerment. A feeling of perceived behavioural control, competence, and goal internalisation distinguishes individuals' cognitive states. In this study, psychological empowerment is interpreted as a motivational construct for SME taxpayers to demonstrate positive attitudes and behaviour, which can promote valuable government policies.

Tax Transparency. Generally, transparency is information that aids everyone interested in a choice to understand what is being selected, why it is being chosen, and where it is being decided. A measure of tax transparency is defined in this study as the level of transparency that SME taxpayers perceive concerning tax authority in terms of their awareness of open and transparent dissemination of information.

Peer Influence. Individuals and groups, such as classmates, co-workers, family members, and friends, can influence others' judgement depending on how they assess the behaviour, whether they would approve of it, and how driven the individuals are to comply with their beliefs. In the context of taxation, peer influence is defined as the influence of industry peers who have a significant role in SMEs, which could affect tax compliance decisions and, in a way, help develop their attitudes concerning tax compliance.

Tax knowledge. Level of tax legislation understanding and sensitivity by the taxpayer. This study defines tax knowledge as taxpayers' potential to comprehend tax legislation and calculate tax obligations.

Tax incentive. Incentives prevent dishonest taxpayers from persuading more honest taxpayers to pay their fair amount. In this study, the tax incentive is an exemption granted to SMEs by the government that complies with tax laws in Malaysia.

Tax fairness. Generally, tax fairness is the taxpayer's view toward the justice of tax laws. In this study, the perception among SME taxpayers is that the current tax system operates according to applicable legislation without deviation.

Service Quality. Service quality may be measured objectively or subjectively and is described as a level of excellence or superiority. In this study, service quality is defined as the taxpayer's opinion or attitude on the superiority of the tax authority's tax services.

Tax Compliance Behaviour. Generally, tax compliance consists of a taxpayer who is willing to follow tax law and administration. In this study, tax compliance behaviour is SMEs' willingness and desire to adhere to tax regulations, such as accurately disclosing income and expenses and correctly paying taxes.

1.8 Organisation of the Thesis

Chapter One with the background of the study and followed by problem statements. It also discusses the research questions, objectives, the significance of the study, the scope, and the definitions of key terminologies.

Chapter Two reviews the literature on tax compliance behaviour. This chapter presents an overview of SMEs, both the concept and the definition in general, and of the contribution of SMEs to the economy. This chapter then looks into the concept and definition of tax compliance and the research on tax compliance worldwide and in Malaysia. Along with determinants of tax compliance, this section further elaborates on these underpinning theories and supporting theories.

Chapter Three deals with the research framework, hypotheses development, research design, research unit, research method, operational definitions, and measurements of variables. In addition to the data collection procedure and pilot study, the methods or the data analysis techniques involved in the current research are discussed.

Chapter Four explains the collected data and presents the measurement and structural model findings.

Chapter Five engages in in-depth discussions of these findings, ultimately concluding. It concludes with recommendations for future research endeavours.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses SMEs' concept, definition, and their economic contribution. Furthermore, this chapter discusses past studies regarding tax compliance behaviour worldwide and in Malaysia, theories, and models, as well as the factors contributing to tax compliance behaviour based on the research framework presented in this study, which consisted of psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, tax fairness, and service quality.

2.2 The Concept and Definition of Small and Medium Enterprises (SMEs)

Businesses of all sizes, especially SMEs, are the most dynamic types of businesses in transitional economies (Akimova, 2002). SMEs contribute significantly to developed and developing nations' economic and social development. Apart from combating poverty and unemployment, they also drive economic growth (Magableh et al., 2011).

In many emerging economies, SMEs account for more than 35% of the GDP, more than 50% of jobs, and more than 95% of all enterprises with a registered address globally (World Bank, 2022a). In most developing nations, SMEs comprise the majority of business taxpayers and directly influence government revenue (Maseko, 2014).

SME definitions differ from one country across the globe (e.g., Augustine, 2016; Berisha & Pula, 2015). Many authors have often defined this SME business class in various ways.

Some authors try to use capital assets, while others use labour skills and turnover rates. Some authors grouped SMEs according to their status as a legal entity and the nature of their production (Abor & Quartey, 2010). Table 2.1 shows international definitions of SMEs based on the number of employees.

Table 2.1
International Definitions of SMEs by Employees

Countries	Small	Medium
UK	Business with up to 49 employees	Business with up to 249 employees
European Union	Business with up to 50 employees	Business with up to 250 employees
Australia	Business with up to 5 or more employees but less than 20	Business with up to 200 employees
USA	Business with up to 100 employees	Business with up to 500 employees

Source: Adopted from Darren and Conrad (2009)

Therefore, any definition that uses metrics such as profitability, turnover, or employee count to define SMEs might lead to all businesses being classified as small when applied to a particular industry. However, it is essential to note that using the exact definition in a different sector may yield different results. Hence, scholars and international authorities or organisations have continuously tried to offer a yardstick for classifying SMEs, and also, because of regional differences and the nature of SMEs everywhere, no such definitions have been adopted globally (Augustine, 2016).

Throughout history, SMEs have been the main driving force behind industrial development and economic growth. Malaysia's rapid economic expansion and development depend in large part on SMEs. Their sheer size, scope, and nature make

them critical sources of endogenous growth. The continuous growth of SMEs results from the interconnection of SMEs in interacting with one another (Aris, 2007).

Besides international definitions, developing countries also have their criteria for defining SMEs. For example, in Palestine, according to Alkhatib (2019), the definition of SME was adopted by the Palestinian National Authority. The number of employees, yearly monetary activity, and capital for each are the basis for two out of the three categories used to categorise the size of SME businesses in Palestine. The business sizes were divided into four categories: micro, small, medium, and large. Micro consists of 1 to 4 employees, small consists of 5 to 9 employees, medium consists of 10 to 19 employees, and large consists of more than 20 employees. In terms of annual monetary in USD, micro are up to 20,000, small are between 20,001 and 200,000, medium are between 200,001 and 500,000, and large are more than 500,001. Besides that, micro, small, medium, and large capital are 5,000, 5,001 up to 50,000, 50,001 up to 100,000, and 100,001 more, respectively.

In Nigeria, Augustine (2016) conducted a collaborative survey in 2010 on Nigerian SMEs and defined SMEs using employment and assets (excluding land and buildings) as the dual criteria for defining micro, small, and medium enterprises (MSMEs). There are 3 categories of business sizes: micro, small, and medium. The micro-sized business comprises less than 10 full-time workers and less than 5 assets. Small enterprises shall comprise 10 to 49 full-time workers and 5 to less than 50 assets. The medium enterprise comprises 50 to 199 full-time workers and 50 to less than 500 assets.

Besides that, Alshira'h (2018) stated that the total number of workers defines Jordanian SMEs. The business sizes are divided into three categories which are micro, small, and

medium. A micro enterprise is an enterprise with 1 to 9 employees. The small enterprise, as the smallest unit of an enterprise, has 10 and 49 employees. The size of this medium enterprise is 50 to 249 employees.

Like every other country, Malaysia has a definition of an SME. Two factors are used in defining SMEs: The number of full-time employees as well as sales turnover. In manufacturing, it is a known practice to have defined SMEs using less than 200 full-time staff or less than RM50 million in sales turnover. For service and other sectors, SMEs are defined as firms with less than 75 full-time employees and a sales turnover of no more than RM20 million.

Manufacturing, as stated by SME Corp (2013), is the physical or chemical transformation of raw materials or parts into a finished product. Services consist of all types of services such as retail trade, lodging and dining, business, professional, and ICT services, private health and education, entertainment, financial intermediation services, and services ancillary to manufacturing such as R&D, logistics, warehouse management, engineering, etc., Tables 2.2 and 2.3 elaborate the categories of business sizes by the manufacturing sector.

Table 2.2
Type of Business Size of Manufacturing Sectors

Business Size	Sales Turnover	Employees
Micro	Less than RM300,000	Less than 5
Small	Less than RM15 million	Less than 75
Medium	Less than or equal to RM50 million	Less than or equal to 200

Source: SME Corp (2013)

Table 2.3
Type of Business Size of Service Sectors

Business Size	Sales Turnover	Employees
Micro	Less than RM300,000	Less than 5
Small	Less than RM3 million	Less than 30
Medium	Less than or equal to RM20 million	Less than or equal to 75

Source: SME Corp (2013)

Furthermore, as part of the new definition, all SMEs must be registered with SSM or another similar organisation. However, it excludes firms that are listed publicly on the main board, subsidiaries of such entities, multinational corporations (MNCs), companies that are affiliated with the government (GLCs), the Minister of Finance (Incorporated), and state-owned businesses (SME Corp, 2013).

2.3 Concept and Definition of Tax Compliance

Al-Maghrebi et al. (2016) state that there are many ways in which practitioners and researchers define tax compliance. Compliance with tax regulations (e.g., Chong & Arunachalam, 2018; Marziana et al., 2010) is the level of tax compliance. Brown and Mazur (2003) posit that compliance is a complex metric and classify compliance into three processes: filing compliance, payment compliance, and reporting compliance. Mohamad and Ali (2017) pointed out that the term tax compliance consists of a taxpayer who is willing to follow tax law and administration in the spirit and letter and willing to carry out what has been demanded.

In this case, tax compliance is the tax laws followed by taxpayers. Their explanations of tax compliance were divided into two categories. The first is the tax gap, which is the compliance with less real revenue. On the other hand, the second approach is

voluntary — according to which there is the willingness to act under the spirit and the letter of tax law. Beyond that, Chattopadhyay and Das-Gupta (2002) define tax compliance as what is stipulated in law, for instance, being a taxpayer with all the required documentation. Both tax authorities and multinational organizations over the years have proposed definitions of tax compliance.

For example, the Australian Tax Office, 2009 stated that tax compliance means the ability and willingness of taxpayers to comply with tax laws, to declare their real income each year, and to pay the right amount of taxes on time. The OECD (2001), on the other hand, introduced two categories of tax compliance: administrative compliance and technical compliance. Based on the above description, technical compliance is the fulfilment of specific legal obligations. On the other hand, administrative compliance also refers to a wider range of compliance, including reporting compliance, procedural compliance and regulatory compliance (OECD, 2001).

Moreover, Kirchler and Wahl (2010) argue that tax law is vague about what is compliance and what is non-compliance. The most general and innocuous term is used to describe taxpayers' willingness to meet their tax obligation; that is, tax compliance. However, compliance might or might not be voluntary or might be forced by the authorities. Based on this study, tax compliance is SMEs' ability and desire to comply with the tax rules, including reporting true income and expenditures and paying the right tax on time.

2.3.1 Studies on Tax Compliance Worldwide

Tax compliance remains a significant challenge across both developed and developing countries. The Innovations in Tax Compliance (ITC) program was introduced to improve tax collection by promoting a comprehensive approach to tax reform, with the goal of boosting compliance across countries. Nevertheless, in United States, the Internal Revenue Service (IRS) has introduced initiatives to tackle non-filing and non-reporting income issues among small businesses, acknowledging the difficulties they encounter in navigating intricate tax regulations (World Bank, 2022). Similarly, small businesses in United Kingdom contributed to non-compliance to tax obligations, leading to an estimated annual loss of £4.4 billion. HM Revenue & Customs has faced criticism for not having a robust strategy to address this problem, drawing attention to the administrative challenges and complexities that small businesses encounter when attempting to comply with tax regulation. (FinancialTimes, 9 Sep 2024). To address the gaps, tax compliance studies have been studied worldwide, as shown in Appendix A.

Marandu et al. (2015) performed the review, which included 18 global empirical studies released between 1985 and 2012. Khlif and Achek (2015) also cover and analyse as well as evaluate as many as six tax compliance studies that were carried out between 2004 and 2012. According to them, the evidence remains insufficient, many techniques for identifying the root reasons for tax compliance haven't been adequately looked into, and the outcomes were inconsistent. The research on tax compliance identifies four type of determinants: cultural and behavioural, demographic, economic, legal, and institutional characteristics.

For instance, Birskyte (2014) investigated the impact of governmental trust on sole landlords' tax-paying behaviours in the US. According to the survey, people who strongly believe in the government are more inclined to adhere to tax laws. In the context of Australia, Langham et al. (2012) conducted a study to investigate the national SME owners' tax compliance factors. Their research shows that taxpayers frequently exhibit insufficient self-control, which makes it challenging to guarantee that all tax responsibilities are fulfilled. The study also shows that even having a solid intention to comply with taxes is not always followed by compliance.

In addition, there is an inverse relationship between tax complexity and the desire to adhere to tax laws. Before that, Evans et al. (2005) examined the connection between small business owners' record-keeping practices and compliance problems in Australia. The findings imply that SMEs' subpar record-keeping procedures contribute to their lower levels of tax compliance. The study also emphasises the link between high tax compliance expenses and inefficient record-keeping procedures.

Brainyiah and Rusydi (2013) carried out such a study in Indonesia whereby fairness, complexity and a better understanding of taxes matter in the compliance of SME business owners to income tax law. The results showed that tax knowledge has no effect on tax compliance but is commanded by tax justice. Tax complexity, however, has a negative impact on tax compliance. In Indonesia, as in Inasius (2015), the questionnaire was sent through to 319 SMEs to evaluate their compliance with tax laws. Results indicate a positive association between tax audits, tax awareness and referral groups with tax compliance. However, it was found that the income tax rate was inversely related to tax compliance. Despite that, Fauziati et al. (2016) carried out another study in Indonesia in order to investigate the impacts of tax compliance on SMEs of Kota

Padang and the impacts of tax awareness. SME association with tax awareness and tax compliance were found to be insignificant in the research.

Iskandar et al., (2016) also did a survey to look at the factors that influence tax compliance among Indonesian polluting firms. They suggested a more comprehensive model of taxpayer compliance that considers the factors that affect compliance with environmental taxes. According to the results, typical elements, including tax rates, acceptable rates, reward rates, audit probabilities, and income, may not be decisive in determining whether or not people would pay their taxes on time. Another study by Pertiwi et al. (2020) studied how fairness and awareness affect tax compliance in Indonesia and discovered that fairness affects tax compliance. The data was gathered through a survey distributed to 107 MSMEs.

Furthermore, in Indonesia, the impact of the e-tax system's level of service on tax professionals' intentions to comply with the law was investigated by Saptono et al. (2023). The outcome showed that efficient service quality tends to encourage tax compliance. This result also recommended that when tax authorities take action immediately upon tax professionals to raise complaints about the inefficiency of the e-tax system, it would eventually lead to a better tax compliance level. Notwithstanding that, Adikur and Imran (2022), Awaluddin and Tamburuka (2017), as well as Sukesi and Yunaidah (2019) have tested service quality as an independent variable towards tax compliance among taxpayers in Indonesia.

As a mediating variable between taxpayer knowledge, tax socialisation, tax penalty compliance cost, and taxpayer compliance, Savitri and Musfialdy (2016) examined service quality among Indonesian taxpayers. The study's findings suggested that

taxpayers should be aware of the laws and regulations and that efforts should be made to raise the standard of services offered. Apart from that, to boost tax revenue, it is recommended that tax service offices provide comprehensive counselling to taxpayers, intending to increase awareness about their obligations and encourage compliance with tax payments (Kamil, 2015).

Adegboye et al. (2018) conducted a study in Nigeria to determine how tax administration and business factors interact with tax compliance among small-scale enterprises. The effectiveness of tax administration measures, including tax education, was examined in the study. The results demonstrated that tax education has a considerable impact on tax compliance. Besides that, a study by Oladipupo and Obazee (2016) examined how taxpayer knowledge and tax penalties affected SME owners' income tax compliance. The results revealed that tax knowledge and tax penalties positively affect tax compliance.

A study by Abdul and Wang'ombe (2018) was carried out in Kenya to examine the relationship between tax compliance and costs for corporate taxpayers. Their research showed that tax compliance significantly declined as compliance expenses rose. They found that compliance was significantly impacted by the costs related to comprehending the complexity of current tax laws, adapting to tax rule changes, and meeting compliance obligations. The study showed that increased expenses for compliance were particularly harmful to tax compliance. In a separate study, the effect of exchange fairness and tax compliance was examined by Abdul and McFie (2020) on large and medium-sized firms in Kenya as well. After accounting for the various views on fairness, they discovered that exchange fairness affected business taxpayers' tax compliance behaviour.

Based on another research conducted in New Zealand by Yong (2012), the survey examined the tax audit questions for small business owners to determine their experiences and their consequences on how people may perceive taxes with the use of a procedural justice metric. The study noted that taxpayers' willingness to contact the tax authority was negatively related to unfair procedures. At the same time, Musimenta et al. (2017) analyzed the influence of tax fairness on the tax compliance of SMEs in Uganda. They found relationships between tax fairness and tax compliance.

Alshira'h (2018) did a study in the Middle East to look at how well Jordanian SMEs complied with sales tax laws. According to the study, the compliance of SMEs with sales tax is positively correlated, accompanied by tax audits, fines, tax morale, tax justice, and patriotism. The study also identified a negative relationship between tax complexity and sales tax compliance. However, neither peer pressure nor tax rates were found to impact sales tax compliance substantially.

Several academics stress the need for more research into tax compliance among SMEs despite the abundance of factors investigated in the literature now available as indicators of tax compliance, especially in developed economies. According to them, more research is needed to understand better the variables that affect tax compliance (e.g., Alshira'h et al., 2018; Chan & Mo, 2000; Musimenta et al., 2017; Nur-tegin, 2008). As evidenced by this, to fully understand tax compliance among SMEs, additional factors must be considered since the existing factors do not entirely explain tax compliance practices. In terms of the size of the current research, it is clear from the literature that developed countries account for a sizable share of the studies on the factors influencing SME tax compliance compared to developing countries. Conversely, there is a noticeable gap in research about developing countries, indicating

the need for further investigation on tax compliance among SMEs.

Various factors have been examined in the literature to understand their impact on tax compliance (e.g., Birskyte, 2014; Mas'ud et al., 2014). They include the personal income tax rate, the Internal Revenue Service, operational audits, and trust. For example, Abdul and McFie (2020), Ayuba et al. (2015), and Mahangila (2014) looked into work-family conflict, tax complexity, business size, tax fairness, tax knowledge, income level and tax penalty as factors facing them). So far, however, to the best extent of the researcher's knowledge, some other factors, including psychological empowerment, tax transparency, tax knowledge, tax incentive, peer influence, tax fairness, and the moderation effect of service quality in SMEs' tax compliance behavior, were only briefly studied by a few studies.

2.3.2 Studies on Tax Compliance in Malaysia

An alarming issue of tax compliance in Malaysia has been studied through numerous past studies. Tax compliance among Small and Medium Sized Enterprises (SMEs) has been studied by highlighting challenges such as complex tax regulations and the importance of tax education (Vanessa & Nair, 2024). Thaha et al. (2023) conducted a bibliometric analysis by utilising 783 Scopus publications to explore the determinants of tax compliance among SMEs in Malaysia and the analysis revealed that they often face challenges in meeting their tax obligations due to limited resources and understanding. The analysis also revealed that future may look at how tax incentives affect tax compliance behaviour among SMEs which is similar to Vanessa and Nair (2024).

The literature review matrix prepared by the author indicated 26 studies that were conducted on tax compliance in the Malaysian context, published from 2006 to 2021 (refer to Appendix B). Of the 26 studies, 15 related to individuals, while the rest play on SMEs.

The first part of the following review deals with the past individual taxpayer's tax compliance studies, then on SME studies. Mohdali and Pope (2014) studied taxpayers' attitudes towards tax compliance role in their religiosity using questionnaires and interviews. Religiosity had a small and extremely significant impact on voluntary tax compliance, according to the results. Mohdali and Pope (2014) also assessed individual taxpayers for tax compliance behaviour and tax knowledge.

Additionally, individuals' tax compliance behaviour, perceptions of government spending, penalties, personal financial constraints, and referent groups were influenced by the likelihood of being audited. According to Zandi et al. (2016), the factors that hinder taxpayers towards tax compliance were identified, and the researchers observed that tax morale, knowledge and rate of tax impact tax compliance behaviour. The study recommended further research about the fairness of tax collection.

Manual and Xin (2016) looked at the relation between tax deterrence, tax knowledge, and tax compliance cost with respect to tax compliance behaviour in Selangor and Johor. The results suggest that there was a significant association between tax deterrence and tax compliance behavior, but tax knowledge and tax compliance were not associated with tax compliance behavior.

Apart from that, Sritharan et al. (2020) researched ways in which social element impacts the tax compliance behaviour of an individual tax payer/ taxpayer. It was found that

changes in government policies, referral groups, the role of IRBM, political government, and cultural influence as important factors that influence taxpayer compliance behaviour. However, religiosity and tax knowledge were not strongly associated with tax compliance behaviour, the vice versa in other studies such as Mohdali and Pope (2014), Palil and Mustapha (2011), and Zandi et al. (2016).

Remali et al. (2020) studied the factors of tax compliance behaviour of individual taxpayers in Selangor and Putrajaya. The findings show that tax compliance perceptions studied are significantly and positively related to tax fairness, knowledge, and complexity. However, a statistically insignificant relationship exists between demographic factors such as age, gender and education and the perception of tax compliance. It also pointed out that the study covered solely Selangor and Putrajaya taxpayers and therefore suggested expanding the data collection for Malaysia.

Determinants of tax evasion among Shah Alam individual residents were examined by Ishak and Ali (2020). Results show that religiosity and perceptions toward government have a high impact on tax evasion. The researchers also argued that government accountability and integrity could be enhanced by identifying citizen behaviour.

Such reviews of past tax compliance studies on SMEs are the following. By Abd Hamid et al. (2019), the analysis of factors of tax compliance by SMEs doing online business was done. According to the interview results, tax knowledge, complexity, morale, and compliance costs presented mixed results. Overall, the study revealed that tax knowledge is crucial in affecting tax compliance among online businesses. The researchers also added that since it was a phone interview, the facial expressions of respondents could not be seen. Thus, it was uncertain whether the responses provided

were accurate. On the other hand, Abd Hamid et al. (2020) studied factors influencing tax compliance and found that grab drivers' compliance cost, behaviour, and knowledge of taxation affect tax non-compliance. They discovered that grab drivers' attitude towards tax compliance is neutral as being taxed is disagreed by half of the grab drivers.

Using the theory of planned behavior, Sing, and Bidin (2020) find that among the factors affecting the sales tax compliance of individual SMEs, tax complexity, tax fairness, peer influence and tax knowledge cause a significant impact on tax compliance behavior. Tax law and enforcement, compliance cost and service quality, as independent variables, have insignificant effects on the correlation with sales tax compliance behaviour. Ali et al. (2020) found a relationship between tax penalties and tax compliance among SMEs, namely penalty rate, knowledge of tax penalties, education on tax penalties, and taxpayers' psychological behavior. Nonetheless, tax compliance remains minimally impacted by the punishment of the tax penalty.

Past studies on the factors linked to corporate SME tax non-compliance in Malaysia were done through qualitative (Ghani et al., 2012) based on 282 tax audit cases and quantitative (Yusof et al., 2014) utilizing 303 tax audit cases. Additional studies conducted by both researchers concluded that the marginal tax rate had a statistically significant relationship with the size of the company with respect to corporate tax non-compliance. Furthermore, Ghani et al. (2012) argued that industry type cannot influence tax non-compliance, while Yusof et al. (2014) established a correlation between the two. This study found that the construction industry and service industry are some of the industries involved in tax non-compliance.

Furthermore, Ngah et al. (2020) examined tackling one of the issues in tax evasion: fraudulent financial reporting among SMEs using tax audit cases from 2016 until 2017 related to dishonest reporting. During this qualitative study, it was discovered that family ownership firms and company size were significantly correlated with tax evasion. The researchers also acknowledge that a greater frequency of tax audits contributed to increased tax evasion. Another research conducted by Ngah et al. (2021) examined another independent variable: the presence of tax professionals in correlation with tax evasion among SMEs using tax audit cases. The results of this study revealed that the presence of tax professionals could be associated with fraudulent financial reporting among SMEs, which may result in tax evasion.

According to the review of Malaysian studies on tax compliance, it was revealed that several studies were conducted among SMEs but mainly focused on specific states. The majority of the past studies focused on individual taxpayers only (e.g., Chong & Arunachalam, 2018; Fatt & Khin, 2011; Ishak, 2020; Kasipillai & Abdul Jabbar, 2006; Mohdali & Pope, 2014; Palil & Mustapha, 2011; Sing & Bidin, 2020; Sritharan & Salawati, 2019; Zandi et al., 2016).

Overall, it is evident that most Malaysian studies focus mainly on individual taxpayers, just like international studies. Notwithstanding that, Abd Hamid et al. (2020) suggested that future studies on tax compliance can consider an enormous scope and more respondents. Thus, this study examined tax compliance behaviour among SMEs in Malaysia, building on insights from the bibliometric analysis conducted by Thaha et al.(2023), which highlights the global significance of the SME sector and its complex relationship with tax systems. While international studies have explored these issues, this research provides context-specific insights that can inform targeted policies for

Malaysian SMEs, addressing a gap in the existing literature.

Besides, through reviewing Malaysian tax compliance studies, it is evident that hefty studies were put into gender, education, income level, tax complexity, tax audit, tax penalty, and tax rate (i.e., Ali et al., 2020; Fatt et al., 2011; Isa, 2014; Kasipillai & Abdul Jabbar, 2003; Mohamad & Deris, 2018; Ngah et al., 2020; Palil & Mustapha, 2011; Sritharan & Salawati, 2019; Yusof et al., 2014) but there is a deficient previous study examining psychological empowerment, tax transparency, tax incentive, peer influence as independent variables coupled with service quality as moderator in tax compliance behaviour context. In this study, these variables help to close the gap.

Based on the review of Malaysian studies on tax compliance found that even though some past studies investigated tax knowledge and tax fairness, the results revealed mixed and inconsistent results. Therefore, examining these factors on tax compliance behaviour among SMEs is imperative.

2.4 Underpinning Theory

Sinclair (2007) stated that it is crucial to assess the theory behind the knowledge base of the phenomena to be investigated at the beginning of every specific research. This is because a theory attempts to comprehend and explain why certain occurrences occur (Sutton & Staw, 1995). This study's underpinning theory, which is the social influence theory, is discussed below.

2.4.1 Social Influence Theory

According to social influence theory which was originally propounded by Kelman (1958) and later refashioned by Bandura (1977) and Kelman (1974), the environment

plays an important part not just in the individual's socialization but in behaviour itself. It argues that individuals are influenced by others and the actions thereof within that environment, either intentionally or by accident. Rashotte (2007) states that social influence occurs when, due to interaction with another individual or a group, an individual's beliefs, feelings, attitudes, or behaviours change.

Kelman (1958) introduced three dimensions: the definition of compliance, identification, and internalization. Compliance is when someone commits to influencing another person or group to elicit a positive response. One may yield influence to liaison a gratifying, self-defining contact with one more or a group to gain identification. Internalization is said to occur when a person accepts influence because the concepts and behaviours that comprise the induced behaviour are in and of themselves rewardable.

Also, social influence can be understood using obedience and compliance and can be derived from power—the capacity to influence or affect the behaviour of others. French and Raven (1959) described five (subsequently six according to Raven (1993): reward power, coercive power, informational power, expert power, legitimate power, and referent power (Hogg & Vaughan, 2018). Reward power means the ability to grant or provide rewards for compliance. Reward power has, for instance been used by Manaf (2004) to explain tax compliance in relationship with incentives.

Punishing non-compliance is being capable of coercive power. Informational power means a belief that the influencer is a better source of information. For example, taxpayers' tax knowledge will motivate taxpayers to comply with their tax obligations (Alabede, 2012; Al-Taffi, 2017). Secondly, expert power implies that when

you feel you know more than the others. For example, tax authorities might help an individual with problems with taxes, thereby inducing that individual to comply with regulations (Alabede, 2012; Al-Ttaffi, 2017). What's more, legitimate power is a belief in a legitimate authority structure — authorities that sanction the influencer and give them the right to demand and decide. The sixth power is referent power which means power sourced out of a reference group that guides and influences the person's behavior and attitudes.

In the context of taxation, a taxpayer's perspective on paying taxes or the tax authority responsible for collection is shaped by their beliefs and attitudes. A positive outlook in these areas can lead to a favourable attitude towards tax payment, which may result in positive behaviour. In taxation, this social influence theory has been utilised by past researchers (e.g., Bidin, Idris & Faridahwati, 2009; Bobek, 1997; Bobek & Hatified, 2003; Manaf, 2004; Song & Yarbrough, 1978).

2.5 Supporting Theories

Researchers have determined that numerous factors impact tax compliance, making it impossible for any single theory to fully account for the behaviour of tax compliance. Consequently, it has been proposed that sociology, psychology, and economics theories may also help explain tax compliance behaviour (Jackson & Milliron, 1986). In this regard, several theories under the socio-psychological approach have been utilised in this study as supporting theories: social exchange theory and social cognitive theory, as discussed below.

2.5.1 Social Exchange Theory

The theory of social exchange was first presented by Homans in 1958, and it was expanded upon by Blau in 1964 (Lambe et al., 2001). As Blau put it forth in 1968, the theory of social exchange is related to the voluntary actions people take that are motivated by the hope of earning rewards in exchange. The author also claimed that social exchange can result in extrinsic or intrinsic benefits and is not the same as economic transactions. This is because social exchange promotes social integration by fostering trust among individuals, stimulating distinction, and ensuring adherence to community standards. The social exchange theory also offered insight into how an individual perceives a system.

The Social exchange theory is one of the most important frameworks conceptually, based on Cropanzano and Mitchell (2005) explaining the behaviour. On the other hand, Lambe et al. (2001) reported that scholars widely use the social exchange theory to describe the trade-to-trade relational exchange.

According to Cropanzano and Mitchell (2005), government–taxpayer interaction also goes beyond material good to symbolic value, like supporting. Taxpayers are more likely to comply in these circumstances when we consider that they are better off if they perceive the tax system to be fair or if they believe that effective governance delivers high-quality public goods and services (Taiwo, 2012).

Apart from that, Bouckaert and Van de Walle (2003) stated that the basis of achieving a good government can be achieved by measuring trust among citizens through transparency. The absence of trust causes taxpayers to end up not paying taxes and eventually would not follow the country's law. In other words, the government and the

tax administration must establish trust in their integrity and ability to deliver on promised tax returns. When taxpayers interact with tax authorities, it is known that solid emotional bonds and loyalties are involved in the process, which can be viewed as a psychological or relational contract (Torgler, 2007). Therefore, taxpayers are obliged to pay taxes when their trust in the government increases, which can be boosted by transparency.

According to Jonason and Middleton (2015), social exchange theory explains people's behaviour by describing that cost-benefit calculations determine people's actions as they try to connect with society and their environment through their actions. As long as a person believes that they will gain more from engaging in an activity, then there is a chance that they will lose by doing it. They will likely get involved in it as well. Individuals refrain from acting when they believe the costs outweigh the rewards. If someone is uninterested in sustaining a social connection or skeptical of others, they will expect a lesser value for any social trade.

Heath (1971) reviewed Homan's Blau's work on exchange theory. The author stated that Homan's work on exchange theory has proposed propositions such as success, stimulus, and value. In terms of success propositions, success means all human actions, and for every action that entails some benefit, that individual is more likely to perform that action again.

From a taxation perspective, Alabede (2012) reported that the greater the benefits taxpayers receive from paying taxes, such as improved governance and public access to goods, the more likely they are to comply with tax obligations. Stimulus proposition means that if the incentives received by taxpayers gratify them in the past, these will

likely encourage them to adhere to tax duties. In other words, continual improvements in the quality of governance in public goods supply, accountability, rule of law, and transparency would boost taxpayer compliance. In addition, value proposition means that taxpayers are more inclined to comply if the government provides a desirable benefit in exchange for compliance.

In the context of taxation, Torgler (2007) posited that if the tax paid by the taxpayer and the services rendered by the government are equitable, for example, there is a more significant likelihood that taxpayers will abide by the law. Therefore, based on the discussion on social exchange theory as discussed above, it can be said that taxpayers may pay tax obligations if tax transparency and tax fairness satisfy and benefit them.

2.5.2 Social Cognitive Theory

According to social cognitive theory (Bandura, 1986), human agency occurs within a mutually dependent causal relationship among persons, their actions, and their settings. Additionally, this theory explains human behavior by studying how people make sense of and make representations of their experiences and then plan for their actions (Hogg & Vaughan, 2005). The value of cognitive theory in tax compliance research is also emphasised by its impact on compliance (Jackson & Millron, 1986; Sutinen & Kuperan, 1999).

According to social cognitive theory, accessing information makes empowerment easier. Organisations need to create more information available to more people to further empowerment. Individuals who feel that they have a high degree of access to information will report a higher level of psychological empowerment and will ultimately achieve the organisational goals (Spreitzer, 1995). For tax information

dissemination, correct or relevant tax information is disseminated or resources shared with the taxpayers to enable them to understand their tax obligations (Khozen & Setyowati, 2023).

According to research by Singh and Singh (2018), when an environment is fair and empowering, employees are more likely to feel engaged, driven, and connected to their firm, ultimately boosting their productivity or performance. Apart from that, Singh and Singh (2018) also found that psychologically empowered employees who are happy in their jobs are more inclined to identify with their company and to engage in actions that may not be immediately noticeable but are nevertheless advantageous to the business.

Besides that, the core concept of psychological empowerment builds upon a significant model of task-based intrinsic motivation initially developed by Thomas and Velthouse (1990) and later expanded by Spreitzer (1995). Spreitzer's (1995) research was derived from the original model proposed by Thomas and Velthouse, which was rooted in the empowerment framework established by Conger and Kanungo (1988). In short, social cognitive theory heavily influences Spritzer's empowerment model.

Based on Figure 2.1, empowerment is a medium between social structure and behavioural outcomes in the organisational context. Psychological empowerment is the employees' intrinsic motivation to perform any task. In other words, a strong sense of personal empowerment might result in behavioural consequences, as shown in Figure 2.1. Thus, it can be inferred that SMEs with psychological strength are more likely to pay taxes when the environment is just. As a result, Spreitzer's empowerment model can be used to identify the relationship between psychological empowerment and tax compliance behaviour.

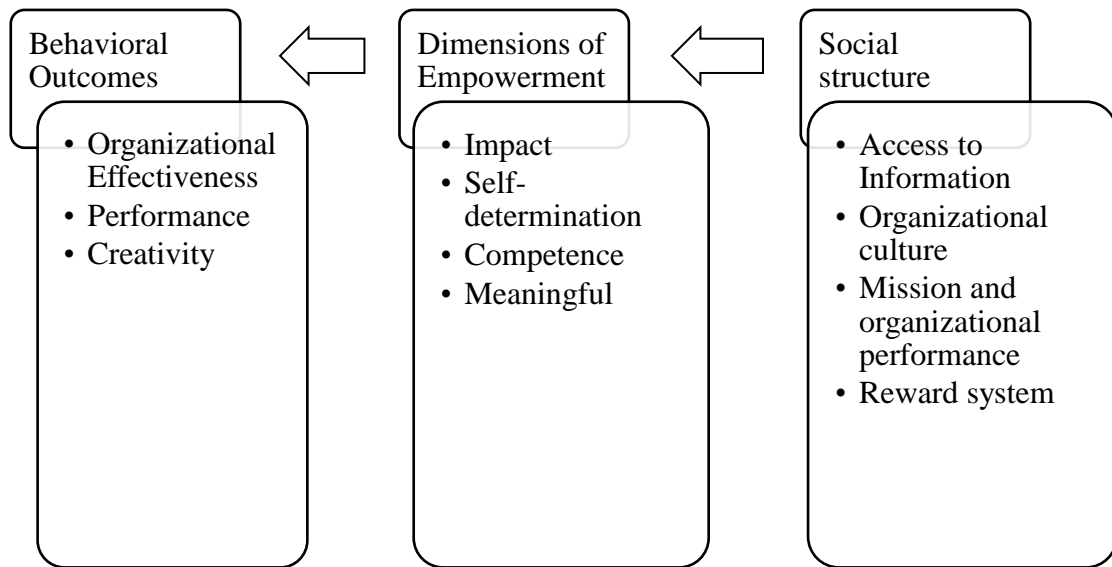


Figure 2.1 *Spreitzer's Empowerment Model*
 Source: Gorji and Ranjbar (2013)

Table 2.4
 Summary of the Relevant Tax Compliance Theories

Theory	Variables Tested	Source
Social influence theory	Tax knowledge, service quality, peer influence, and tax incentive	Kelman (1958)
Social exchange theory	Tax transparency and tax fairness	Blau (1964)
Social cognitive theory	Psychological empowerment	Bandura (1986)

2.6 Model of the Study

This study develops its model based on the framework established by Fischer et al. (1992). The following section explains Fischer's model.

2.6.1 Fischer's Model

The first examination to make and join together the essential bits of tax compliance characterized by Jackson and Milliron was by Fischer et al. (1992) who came out with what was known as Fischer's tax compliance model, expanding and affirming the foundational components in four overpowering gatherings. Fischer's study is generally acknowledged to be possible to take into account as a detailed study, which identifies and analyzes tax compliance behaviour based on economic, social, and psychological factors. As seen in Figure 2.2, the Fischer model (1992) consisted of four factors: tax structure (tax complexity, tax audit, tax penalty, tax rate), attitudes and perceptions (fairness of tax system and peer influence), noncompliance opportunity (income level, income source, and occupation), and demographic (age, gender, and education).

The construct, 'tax system or structure,' includes three variables, namely, attitude and perception construct, noncompliance opportunity construct, and the direct construct which affects tax compliance (in Fischer's model). Demographic variables, however, form antecedent variables linking non compliance opportunity, attitude and perception.

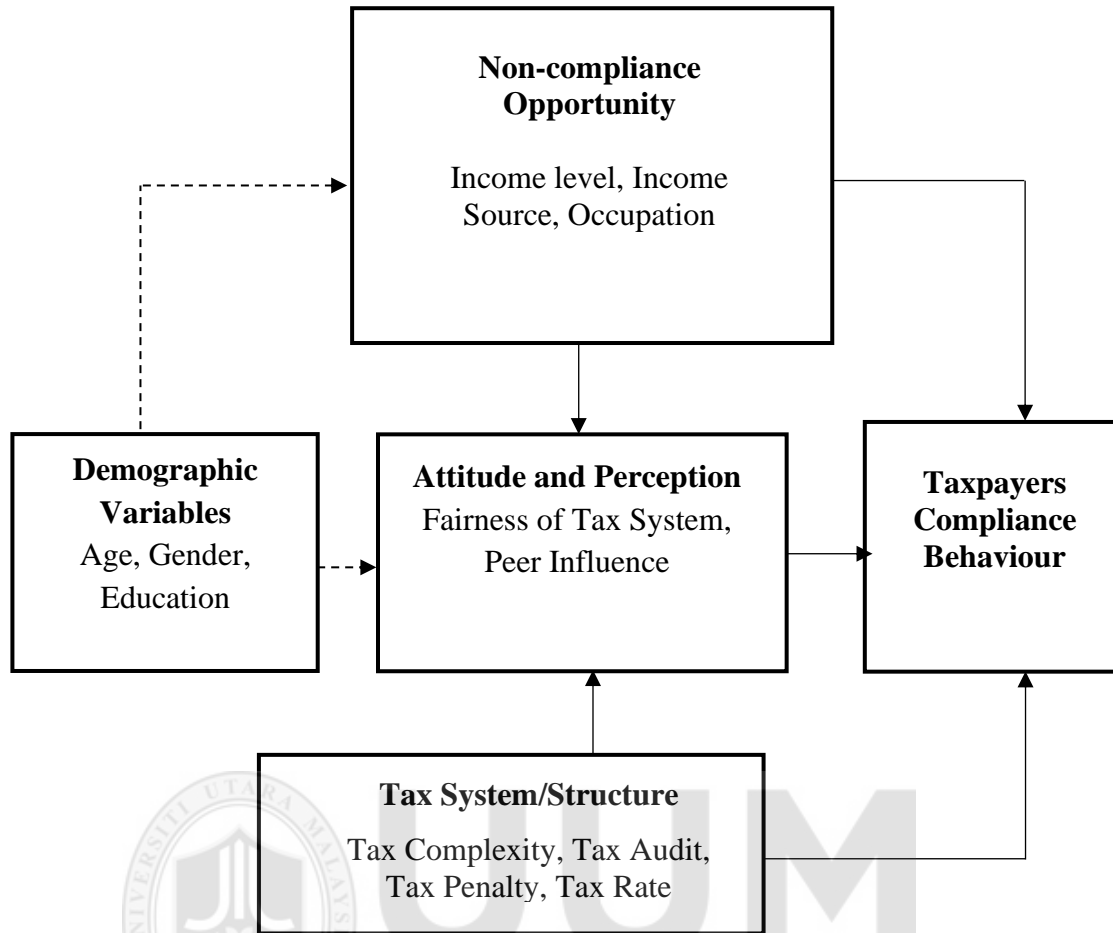


Figure 2.2 *Tax Compliance Model*
Source: Fischer et al. (1992)

Due to factors such as demographic variables, noncompliance opportunities, and tax system or structure being excluded from this study the dimensions of Fischer's model are not appropriate for developing this research framework. These factors were of the reason, for they have been thoroughly investigated in the literature and the effects among these factors has been confirmed in the scenario of the Malaysian environment. (e.g., Ghani et al., 2012; Isa, 2014; Ngah et al., 2020; Remali et al., 2020; Sing & Bidin, 2020; Yusof et al., 2014).

Besides that, the original Fischer's model focused more on individuals (Abd Obaid, 2021). Due to this, many other variables of tax compliance were not considered by Fischer's model (Alabede, 2012; Chau & Leung, 2009). Therefore, this study expanded Fischer's model by incorporating psychological empowerment, tax transparency, tax knowledge, and tax incentives as the independent variables and service quality as moderator on the tax compliance behaviour within the context of SMEs in Malaysia. In short, this expanded Fisher's model focused on the perspective of SMEs at the organisational level.

The Fischer Tax Compliance Model (1992) remains relevant in recent years as it provides a comprehensive framework for understanding tax compliance behaviour by integrating economic, psychological, and social factors. Past studies has applied Fischer's framework and validated the model, particularly in Malaysia context (eg., Perabavathi & Sinnasamy, 2017; Saw, 2019; Sing & Bidin, 2020). According to Alabede (2012), Fischer's model, grounded in an integrated socio-psychological theory, is the most effective in tax literature. Therefore, Fischer's model was utilised as the basis for the foundation of this study.

2.7 Factors of Tax Compliance

This section discusses tax compliance factors. Psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentives, and tax fairness are the factors.

2.7.1 Psychological Empowerment

Based on Page and Czuba (1999), it is common for people to use the term empowerment without completely comprehending what it defines. Similarly, Cunningham et al.

(1996) also stated that definitions of empowerment are not always agreed upon or clear. According to Conger and Kanungo (1988), empowerment is the mechanism of increasing one's confidence in one's skills or talents, while Corsun and Enz (1999) stated that empowerment is a motivating process based on a person's perception of feeling enabled.

Thomas and Velthouse (1990) stated that intrinsic motivation enhances psychological empowerment. Psychological empowerment is also defined by Oladipo (2009) as an ability to hold one's behaviour under control, develop competence, internalise goals within one's mind, and make intelligent decisions. Page and Czuba (1999) mentioned that a multidimensional, social, and process-oriented concept which is referred to as empowerment. It is possible to find multi-dimensional aspects in various fields, such as sociology, psychology, economics, etc. The empowerment process occurs in multiple forms, such as at an individual level, a group level, and a community level.

As a multi-dimensional social process, empowerment is widely viewed as helping people eventually take charge of their lives by empowering them to make decisions independently. Through this process, the power of people can be used for their benefit, the community's benefit, and society in ways deemed necessary for them. In line with that, a past study by Mas'ud et al. (2014) revealed that having trust in citizens in the government through the power of the authorities may enhance tax compliance in a country.

Thomas and Velthouse (1990) stated four cognitions associated with psychological empowerment: meaningfulness, choice, competence, and impact. Meaningfulness is concerned with the worth of the work objective or purpose as evaluated against the

individual's own goals or criteria. In short, it involves the individual's interest in a specific job. Choice refers to a person's causal responsibility for their acts. Competence refers to a person's ability to do tasks skilfully when given the opportunity. To achieve the objectives established for a job, several aspects can influence whether activity is perceived as making a difference. Impact is the creation of expected effects in one's task environment.

Besides that, according to Cicolini et al. (2014), in the organisational environment, the term empowerment has two aspects: psychological and structural. Psychological empowerment is one of the most motivating concepts in four cognitions: meaning, competence, self-determination (choice), and impact (Spreitzer, 1995). Meanwhile, according to Mills and Ungson (2003), structural empowerment emerges from significant uncertainty and information asymmetry in environments where organisational players trade information and resources.

In the business environment, employees' commitment to their work or organisation can be raised by having these four psychological empowerment cognitions, which can ultimately increase task motivation (Thomas & Velthouse, 1990; Spreitzer, 1995). This can be linked to the taxation context, where Torgler (2007) stated that taxpayers' commitment to the tax system could be enhanced when the government performs good deeds, leading to increased tax compliance behaviour.

Psychological empowerment among employees will be enhanced when they have high trust in leaders or authorities that would encourage or support them in achieving psychological needs, namely, meaningfulness, choice, competence, and impact. The result revealed that when authorities refrain from taking advantage of the employees,

they perceive more power and effect over what occurs in the workplace, as stated by Gyamerah et al. (2022). Taxpayers tend to be more tax compliant when they trust tax authorities (Faizal et al., 2017; Van Dijke & Verboon, 2010; Wahl et al., 2010).

A study conducted by Khairani et al. (2021) posited that if employees do not have psychological empowerment, they may not recognise the significance of their jobs and may question their abilities and expertise. Therefore, to empower individuals, it is essential to offer them opportunities for skill development, which helps them become self-sufficient and less reliant on experts (Zimmerman, 1995). In the context of taxation, taxpayer education and improved communication from the revenue authority can be utilised to strengthen the empowerment of taxpayers (Bornman & Ramutumbu, 2019; OECD, 2023a).

Bowen and Lawler (1992) suggested that providing employees with information they perceive as an additional resource can lead to psychological empowerment. Similarly, Spreitzer et al. (2017) posited that employees who feel psychologically empowered due to possessing knowledge and resources tend to have greater confidence when carrying out job-related tasks. For instance, one way to create a more positive attitude towards taxation is by equipping or empowering taxpayers with knowledge (Oberholzer, 2008).

According to Armache (2013), employee empowerment has many benefits. A few benefits of empowerment include promoting learning, knowledge, and success and instilling common ideals and an atmosphere of invention, creativity, and drive. There is a direct correlation between increased productivity and dedication when there is greater accountability. Then, the empowerment of employees allows employees to take responsibility for their job and accept responsibility for their actions. In short,

empowerment is more about productivity rather than power. Rodríguez (2018) also postulated that domestic tax revenue not only can be boosted by democracy but with citizen empowerment too.

Even though the researcher has not discovered any published studies that have examined the association between psychological empowerment and tax compliance behaviour, many researchers have investigated the association of psychological empowerment with other contexts. For instance, an investigation of psychological empowerment on organisational commitment was studied by Joo and Shim (2010). The study of public sector employees in Korea revealed a significant impact of psychological empowerment on organisational commitment. When employees reported increased psychological empowerment, they demonstrated greater organisational commitment. In addition, Ahmad and Oranye (2010) revealed that empowerment and organisational commitment have a positive link. Taxpayers' commitment is crucial in improving tax compliance, and a positive relationship has been found with taxpayer compliance (Mangoting & Junfandi, 2021).

As mentioned earlier, psychological empowerment is a motivational construct that enhances intrinsic motivation. A few empirical studies were found about psychological empowerment and intrinsic motivation. Hahm (2018) examined on effects of psychological empowerment to improve workers' creativity in an e-business environment. The study revealed that intrinsic motivation increases when a person is empowered psychologically. In addition, Aslam (2017) evidenced that intrinsic motivation is positively influenced by employees' psychological empowerment within an organisation.

Empowered individuals within SMEs tend to exhibit greater control and responsibility over their business decisions, leading to higher adherence to regulations (Ye et al., 2022). This empowerment fosters a proactive attitude towards compliance, as empowered individuals feel competent and impactful in their financial and regulatory choices. They view compliance not just as a mandatory duty but as a reflection of their business ethics and values. This aligns with broader literature highlighting the role of intrinsic motivation and perceived control in driving responsible business conduct among SMEs (Ahadi & Suandi, 2014). Therefore, it is expected that psychological empowerment could affect tax compliance behaviour. In addition, no direct association between psychological empowerment and tax compliance behaviour has been examined in previous studies.

Numerous studies have been conducted to assess tax compliance behaviour in various scenarios. In line with that, Jayawardane (2015) and Khurana and Diwan (2014) indicated that psychological elements are the greatest factors influencing tax compliance behaviour. Besides that, the general belief is that when people feel that their organisations acknowledge their contributions, they experience stronger psychological empowerment (Zimmerman, 1995). Aside from that, to the best of the knowledge of Cahyonowati et al. (2023), no comprehensive empirical research has looked at the psychological aspects of tax compliance.

Besides that, Stefura (2011) suggested that future research should include more psychological factors or elements to better explain the puzzle of tax compliance. This study incorporated psychological empowerment as one factor determining tax compliance behaviour among SMEs in Malaysia. As in the above review, it was found that limited studies examined the underlying association between psychological

empowerment and tax compliance behaviour among small and medium-sized enterprises.

2.7.2 Tax Transparency

According to the International Monetary Fund (1999), in terms of transparency refers to providing the public with easily understandable and approachable data and information relating to monetary and financial policies, policy objectives, the legal, institutional, and economic framework, policy decisions, their justifications, and accountability terms. According to Holtzman (2007), there is also a term known as transparency of a tax system, which refers to the willingness of taxpayers to be able to gain knowledge about how their obligations have been calculated, the logic behind the tax legislation, the burden of their own and other taxpayers as well as the possibility of paying fines due to non-compliance. Chindengwike and Kira (2021) posited that tax authorities should implement transparency strategies that benefit taxpayers and tax officials to enhance tax compliance. This boosts tax compliance and the implementation of transparent environments, which can increase trust in public institutions (Kiw et al., 2017).

Holtzman (2007) provided a brief overview of the key issues of simplicity, transparency, equity, and the effective administration of the United States tax code. He analysed that having a transparent tax system reduces taxpayers' uncertainty, thus enabling people to make better plans for their employment, financial, and spending decisions. It will give them the confidence to predict their financial obligations in the future, adding a sense of trustworthiness to the tax system as a whole. Therefore, implementing a clear and accessible tax systems fosters trust and encourages voluntary

compliance (OECD, 2022).

Furthermore, Kabir (2020) concluded that tax administration is one of the most critical tasks in any nation because tax revenue is collected for the government through them and the efficiency of the tax collection system. However, due to the absence of transparency, the tax system of Bangladesh is ineffective, which causes a lower collection of taxes. Mbise et al. (2022) also highlighted that transparent tax system to calculate tax liability enhance tax compliance as well.

In Indonesia, a study carried out among individual taxpayers by Mangoting et al. (2019) reported that transparency builds trust and confidence in the tax authority. This means that people are likelier to believe that the tax authority is doing its job correctly and acting with integrity. The study found that being transparent shows a democratic country that gives citizens a chance to be involved in making decisions and knowing what happens, and eventually, they can ensure they are following their obligations, such as paying taxes (Mangoting et al., 2019).

Augustine and Rufus (2019) studied tax transparency towards tax compliance among individual taxpayers in Nigeria. The result revealed that the government is not open about how tax money is utilised, which creates a lack of accountability. This study recommended that for the government to ensure taxpayers pay taxes promptly, it must be transparent and accountable in their tax collection. Besides that, Al – Rahamneh et al. (2023) postulated that when SMEs perceive the tax system as transparent, their intrinsic motivation to comply tax obligations increases, leading to lower evasion rates. This highlights the need for transparent tax practices to cultivate ethical compliance among SME taxpayers.

Mat Isa (2018) found that transparency in tax administration is essential to managing a country's revenues within a legally approved tax structure to boost public trust. The researcher examined the factors that contribute to the transparency of IRBM. The study discovered that external publication has an insignificant relationship with tax transparency. The researcher also stated that there is significant research on tax administration worldwide. However, past studies on Malaysia's tax administration have been studied very little regarding transparency. Notwithstanding this, according to Sikayu et al. (2022), transparency is not a new concept in the taxation context. However, past studies on tax transparency and tax compliance among SMEs are still scarce.

Therefore, due to a lack of research on this topic among SMEs in Malaysia, this study investigated how tax transparency influences tax compliance behaviour among SMEs. According to Al-Rahamneh and Bidin (2022), tax transparency appears to be attracting the attention of current academics due to its characteristics and the substantial changes that have been made in tax laws, rules, and regulations in recent years. Al-Maghrebi et al. (2022) and Al-Rahamneh and Bidin (2022) suggested that future research should incorporate tax transparency into tax compliance behaviour as it would enhance the existing body of literature on tax compliance and further enhance our understanding of this topic.

2.7.3 Peer Influence

According to Laursen and Veenstra (2021), peer influence is when one person has an effect on, or is impacted by, one or more people of a similar age. There is also a definition by Alkhatib (2019) of peer influence, as it can be defined as knowing about another taxpayer's tax compliance or evasion may influence another taxpayer's decision to avoid taxes or not. Family, friends, and co-workers might provide factors of peer influences or referent groups (Chau & Leung, 2009). Undoubtedly, peer influence is integral to Fisher's model (Sing & Bidin, 2020). Notwithstanding that, as defined by Bobek and Hatfield (2003), peer influence describes the degree of motivation a person has for adhering to other individuals or organisations and whether or not they accept or disapprove of the specific action. As stated by Apriwanto (2024), in tax compliance behaviour, peer influence plays an significant role.

According to Chau and Leung (2009), if the people who surround taxpayers and those deemed significant have a positive attitude toward taxes, the taxpayers will be more likely to obey tax decisions. The study by Maseko (2014) posited that in SMEs, peers have a significant impact on their counterparts' compliance with tax obligations, and this may lead SMEs to evade their tax obligations if they believe that their peers are evading despite being punished by the authorities. In addition, Alm et al.(2017) stated that the behaviour of individuals regarding tax compliance is affected by the behaviour of their neighbours or those with the knowledge or contact daily. It is postulated by Wirawan et al. (2024) that the influence of peers has also been proven as a factor towards tax compliance behaviour among SMEs.

Maroney and Rupert (2000) studied on investigated potential theories for how peer influence may influence these compliance decisions through questionnaires among part-time adult students who experience with tax returns. The study revealed that respondents who had previously earned self-employment income had more peers who understated their tax liability than those who had never earned self-employment revenue.

Peer influence and tax compliance behaviour have been studied in several studies using a questionnaire, and an analysis of peer influence and tax compliance behaviour among Yemeni SMEs has been studied by Abd Obaid et al. (2020). According to the study results, peer influence positively and significantly impacts tax compliance behaviour. Interestingly, the results of this study are similar to those of some previous studies (Alm et al., 2017; Maroney & Rupert, 2000; Mutatembwa, 2013). Thus, peers significantly impact one another's decisions (Lawan & Salisu, 2017).

Apart from that, determinants of tax compliance behaviour at an international level were conducted by O'Shaughnessy (2014). As a result of the findings, it has been shown that peer influences directly impact decision-making regarding tax compliance. In addition, Sasmaz (2019) posited that non-compliant peers influence non-compliant tax behaviour. The study also discovered that tax morality cannot overcome the influence of non-compliance peers; alternatively, it can be done by lessening the impact of tax morality.

Several prior studies have also reported that peer influence negatively impacts tax compliance behaviour. In Malaysia, an analysis of the association of peer influence of tax agents and importers' excise duty compliance was studied by Bidin and Sinnasamy

(2018). The results indicated that peers do not influence importers to appropriately declare excise duty according to tax legislation. Palil et al. (2012) also posit that influence from relatives and friends would not enhance tax compliance.

As mentioned above, past research on peer influence revealed mixed findings. Considering that peer influence is among the crucial determinants of a taxpayer's compliance behaviour, it is necessary to examine further how it affects taxpayers' compliance behaviour among SMEs in Malaysia.

2.7.4 Tax Knowledge

According to Asrinanda (2018), taxpayers' knowledge of taxes will influence their adherence to their tax duties. It will also affect the state's revenue from taxes if the citizens are already familiar with the tax system and have an in-depth understanding of it. Palil et al. (2013) posited that there would be less inadvertent non-compliance if the individuals had appropriate tax knowledge. Kirchler et al. (2008) claimed that assessing tax compliance heavily depends on a person's expertise.

Based on Kustiawan et al. (2019), an individual's level of tax knowledge refers to how well they understand or are sensitive to tax laws. A study by Wadesango et al. (2018) mentioned that taking additional steps to deliver tax knowledge to a broader audience prevents tax evasion and promotes voluntary compliance. According to Olaoye et al. (2017), taxpayers should be educated by government agencies on tax laws and regulations to boost tax compliance.

Based on Tishar and Hasanuzzaman (2019), factors about the non-compliance of SMEs with their income tax in Bangladesh have been investigated. The researchers noticed

that even though an essential determinant of tax non-compliance behaviour was tax knowledge, they emphasized that there is a need to improve morale obligations to ensure that a person uses the tax knowledge they acquire correctly.

Augustine (2016) also investigated determinants of tax compliance behavior through the Nigerian SMEs. He stated that there are three levels of tax knowledge to taxation: general, technical & legal. According to this study's findings, tax knowledge does not stand out as a must have in the tax compliance behaviour. Future research is therefore needed to confirm whether other moderating variables can strengthen or enhance the tax knowledge and tax compliance behaviour.

Palil (2010) conducted an examination of tax knowledge and tax compliance behaviour using a questionnaire and interview. His study found tax knowledge is a key ingredient, and that there is a reasonable expectation that possessing more tax knowledge would lead to better compliance. This is in line with the other studies (e.g., Asrinanda, 2018; Tishar & Hasanuzzaman, 2019; Yahya et al., 2021), which argued that tax compliance behaviour is motivated by tax knowledge.

The following studies have proven the relationship of tax knowledge to tax compliance behaviour (Abd Hamid et al., 2019; Appiah, 2024; Palil et al., 2013; Remali et al., 2020;). However, preceding studies reported no significant relationship between tax knowledge and compliance behaviour (Augustine, 2016; Fauziati et al., 2020; Wibowo et al., 2025). However, Kamil (2015) discovered a negative relationship between tax knowledge and tax compliance behaviour.

Finally, previous researchers have found there is considerable interest in finding out how tax knowledge relates to tax compliance behaviour in tax. Even so, the outcomes

of research in this area have been inconsistent and therefore how tax knowledge relates to tax compliance behaviour remains unknown. As a result of this fact, tax knowledge is one of the determinants influencing tax compliance level in Malaysia. As a result, there is a need to conduct additional studies on the relation between the tax knowledge and the tax compliance behaviour of Malaysian SMEs.

2.7.5 Tax Incentive

According to Chukwumerije and Akinyomi (2011), individuals or businesses may qualify for a tax incentive to minimize the effects of taxes. In other words, according to Zolt (2015), tax incentive reduces tax burden of individuals and businesses. In Malaysia, tax incentives may include profit exemptions, capital expenditure allowances, or double expense deductions (Fischer & Peters, 1997).

Based on Feld and Frey (2007), incentives are offered to keep taxpayers with low morale from manipulating the more honest taxpayers and avoiding paying their fair share. Tax authorities are well aware that extrinsic incentives, as well as tax morale, have a significant impact on tax payments. This aligns with Sheedy et al. (2019), who found that financial incentives are the most important factor in constant compliance behaviour. This aligns with Somorin's (2015) view that tax incentives, such as reductions or complete waivers of tax liability, are typically provided by the government to support specific sectors of the economy. Specifically, fixed rewards considerably boost compliance based on predicted profits.

In Nigeria, Feyitimi et al. (2016) assessed a review of the role of government tax incentives in boosting SMEs' growth and evolution. The review revealed that for a country's economic development, SMEs of all nations play an important role, especially

in terms of their financial contributions to the increased gross domestic product of those nations. In line with that, tax incentives are essential for small and medium-sized businesses' expansion, improvement, and ongoing survival (Anim et al., 2020). A strong correlation between taxation and SME growth has been found in the study. It is also recommended that a friendly tax policy be put in place for new businesses that are small and medium-sized to sustain tax payments.

In Indonesia, a literature review on tax incentives and tax compliance was conducted by Palupi and Putri (2021). The review revealed that domestic and international analyses of tax incentives' impact have not been able to provide conclusive findings on tax compliance. Various studies show that tax incentives enhance compliance, but many studies show the contrary. For instance, Meiyrani et al. (2024) revealed an insignificant association between tax incentives and tax compliance behaviour among SMEs in Indonesia.

Furthermore, Atawodi and Ojeka (2012) suggested that the government should consider increasing tax incentives and exemptions since they would attract new taxpayers and encourage voluntary compliance. The assertion is consistent with Augustine (2016) and Tohari et al.(2024), who discovered a significant and positively related relationship between these two, namely, between incentives (positive inducements) and tax compliance behaviour of Nigerian SME owners or managers.

An analysis of attitudes and incentives toward tax compliance was explored by Trivedi et al. (2005) by utilising published data from the Canada Revenue Agency. According to their study, increasing fines and audit rates will improve compliance if taxpayers rely solely on incentives by engaging in an audit lottery. Therefore, in line with the above

study, incentives are positively associated with tax compliance behaviour.

In Malaysia, Manaf et al. (2005) investigated the factors associated with Malaysian land taxpayers' attitude towards compliance to pay taxes. The study revealed that incentive (positive inducement) was statistically significant with compliance attitude. Similarly, in a separate study, Devos (2005) found that taxpayers should be provided incentives to pay the correct amount of tax and be compliant.

Studies explicitly investigating the tax incentive variable in the context of tax compliance behaviour are lacking, as shown in the previous literature review above. According to Manaf et al. (2005), no literature was given attention or emphasis on tax incentives in Malaysia. Tax incentives play an essential role in determining SMEs' tax compliance behaviour. Hence, Palupi and Putri (2021) stated that future research into the effectiveness of tax incentives is still very much needed.

2.7.6 Tax Fairness

Tax fairness plays a vital role as a primary component of any sound tax system (Thomas, 2012). Voluntary tax compliance relies heavily on tax fairness, which is equitable tax burden distribution (Benk et al., 2012). According to Chau and Leung (2009), a key reason for non-compliance with tax is the growing dissatisfaction with tax structure fairness among taxpayers and tax administrators.

Besides that, according to Alkhatib (2019), the definition of tax fairness is considering the taxpayer's opinion on the fairness of the tax law. According to Van Dijke and Verboon (2010), tax equity entails comparing one's tax burden to that of other taxpayers and the equity of the present tax system which is inline with Adam Smith's (1776) who

proposed 4 canons such as canon of equity, the canon of certainty, the canon of convenience and the canon of economy. Adam Smith (1776) highlighted that the ultimate goal of imposing tax is to increase revenue for government to manage its affairs and provide essential amenities and benefits to the public. However, in imposing taxes, there must be a good tax system which measures fairness, certainty, convenience and efficiency in its implementation (Salaudeen, 2024).

Gerbing (1988) studied determining the dimensions to examine fairness that taxpayers use. The results indicated four underlying dimensions: general fairness towards the tax system, exchange with the government, and self-interest, as well as the attitude of wealthy people on the amount of tax paid and tax rate preferred. In 2011, Saad (2011) conducted a cross-cultural study of taxpayers in New Zealand and Malaysia on their perceptions of fairness. In the survey, 7 dimensions that were perceived as necessary were included such as general fairness, exchange fairness, horizontal fairness, vertical fairness, retributive fairness, personal fairness, and administrative fairness. The results indicated that fairness perceptions vary among New Zealand and Malaysian taxpayers.

Tax fairness and tax compliance behaviour have been examined in a few studies. Taing and Chang (2020) investigated using a theory of planned behaviour (TPB) to analyse the association between tax fairness and tax compliance in Cambodia. According to the findings, tax fairness significantly impacted the intention to comply with taxes. Furthermore, Fischer's model was used to examine the SMEs' tax compliance behaviour in Yemen in a study conducted by Abd Obaid et al. (2020). Study findings indicated that tax fairness impacts Yemeni SMEs' tax compliance behaviour significantly and positively. Furthermore, Geberegbe et al. (2015) analysed the association between the perception of tax fairness and tax compliance behaviour among

SME taxpayers of Rivers State, and according to the research, the variables have a positive and significant association which is inline with Hauptman et al. (2024).

Oladipo et al. (2022) assessed the impact of tax fairness on the tax compliance behaviour of Nigerian manufacturing businesses. The study revealed that tax fairness significantly influenced tax compliance behavior. Similarly, Tumwesigye's (2011) study also showed that tax fairness significantly influences tax compliance behaviour in Uganda.

Faizal and Palil (2015) analysed how tax fairness influences tax compliance behaviour through 82 Malaysian academicians in Malaysia. As a result of the study, it was found that procedural fairness significantly and positively influences tax compliance behaviour, while distributive and retributive fairness had only an insignificant and negative association with tax compliance behaviour. Another study examining the role of fairness in affecting Malaysian salaried taxpayers' tax compliance behaviour is analysed by Saad (2010). However, the findings revealed that insignificant relationship due to inconclusive evidence.

Furthermore, Sikayu et al. (2022) examined the effect of fairness on tax evasion among SMEs in Sarawak, Malaysia and the result indicated that general fairness has an insignificant relationship with tax evasion. This study also suggested future studies in Malaysia to generalise the findings, as the study focused on 91 service business owners in Sarawak only.

The literature has inconsistent evidence about the association between tax fairness and tax compliance behaviour (Sikayu et al., 2022). The author also recommended that future research focus on sectors other than service business owners to understand which

sectors are more involved in non-compliance. Apart from that, there have been a few types of research examining tax compliance among SMEs and some studies investigating tax fairness and tax compliance among individuals. Therefore, the correlation between tax fairness and tax compliance behaviour among Malaysian SMEs requires further investigation. This is because it has been shown that fairness plays an influential role in shaping tax compliance behaviour among SMEs.

2.8 Moderating Variable

This section provides a discussion on a moderating variable of this study. The moderating variable of this study is service quality.

2.8.1 Service Quality

The potential that the degree and pattern of association between two variables will depend on the presence of a moderating variable. In essence, a moderator is a possible qualitative variable that can control or sway the strength or magnitude of the connection between an independent variable and a dependent variable (Adigwe, 2021). A moderator variable is proposed by a researcher when the connection between the independent and dependent variable is inconsistent (Bennett, 2000). The based of this opinion, the researcher has proposed service quality as a moderating variable in this study.

Service quality refers to how an intangible offering meets a customer's expectations, wants, and requirements. The individual perceptions of each consumer shape the service quality evaluation, which is a crucial determinant of customer satisfaction. The definition of service quality varies depending on the different models and measurement tools used, but ultimately, it refers to a key attribute of intangible services that affect

customer satisfaction (Al-Jazzazi & Sultan, 2017). As Sukeesi and Yunaidah (2020) reported, providing valuable services to taxpayers can enhance their awareness and eventually achieve tax compliance. The hypothesis that prompted the conceptualization of service quality as a moderator between the factors of tax compliance behaviour was developed as this study identified an apparent empirical gap, knowledge gap, and population gap, as explained below.

Past study conducted by Hamid et al. (2022) emphasised the importance of service quality in fostering tax compliance among SMEs in Malaysia, suggesting that better services from tax authorities lead to higher compliance rates. Khamis and Mastor (2021) also highlighted that efficient and responsive tax authority services enhance tax compliance more effectively. Thus, it shows that service quality has significant effect towards tax compliance behaviour.

Besides that, past scholars such as Jacobs (2011), Miles (2017), and Müller-Bloch and Kranz (2014) stated that research findings or propositions need to be evaluated or empirically verified. By referring to the literature review conducted by this study, it can be concluded that there are limited past studies that focus on tax compliance behaviour that did adopt service quality as the moderator in their study. This situation can be referred to as the evidence gap and knowledge gap as the desired research findings do not exist (Jacobs, 2011; Miles, 2017; Müller-Bloch & Kranz, 2014).

In other words, these past studies tested the direct association between service quality and tax compliance behaviour or adopted service quality as the independent variable (e.g., Adikur & Imran, 2022; Alabede et al., 2011; Al-Taffi & Abdul-Jabbar, 2020; Aregawi et al., 2021; Awaluddin & Tamburaka, 2017; Daryanto & Santioso, 2020;

Dharmayanti, 2023; Hartikayanti et al., 2021; Hong, 2022; Khairunnisa et al., 2022; Khamis & Mastor, 2021; Nguyen, 2022; Putra & Setiawan, 2020; Ratnawati et al., 2019; Safiq & Bhisri, 2022; Saptono et al., 2023; Sukei & Yunaidah, 2020; Susuawu et al., 2020; Trisnawati & Sudirman, 2015).

Past studies also adopted service quality as a mediating variable (e.g., Mustapha & Obid, 2014; Savitri & Musfialdy, 2016). However, the limited study focuses on service quality as the moderating variable (e.g., Fadilah & Panjaitan, 2016; Rahmah et al., 2021). Therefore, this shows that previous studies have neglected to focus on the moderating variable of service quality despite the significant evidence regarding the direct impact of service quality on tax compliance behaviour. Thus, this study proposed service quality as the moderator variable in this study due to a lack of empirical evidence.

Robinson et al. (2011) explained the existence of a population gap when research regarding the population is not adequately represented or under-researched in the evidence base or prior studies. Thus, while this study concluded that previous studies have neglected to focus on the moderating variable of service quality when investigating tax compliance behaviour, this situation also directly proves the existence of a population gap in understanding tax compliance behaviour, particularly involving SMEs in Malaysia (population).

Past studies that tested the direct association between service quality and tax compliance behaviour or adopted service quality as the independent variable focused on different populations such as in Nigeria (Alabede et al., 2011; Mustapha & Obid, 2015), Yemen (Al-Ttaffi & Abdul-Jabbar, 2020), Indonesia (Awaluddin & Tamburaka,

2017; Fadilah & Panjaitan, 2016; Ratnawati et al., 2019; Savitri & Musfialdy, 2016; Trisnawati & Sudirman, 2015), and Ghana (Susuawu et al., 2020). Very little research has been done on among Malaysian population. Khamis and Mastor (2021) performed a study among the Malaysian population and e-commerce enterprises.

Thus, this study concluded that exploring factors of tax compliance behaviour with service quality as a moderating variable among SMEs in Malaysia has been unexplored and under-researched. The Malaysian SME population appears essential and worthy of investigation due to their prominent role as the backbone of many developed countries (Attrai & Pathak, 2023; Torres-Ortega, 2015).

Due to the apparent empirical, knowledge, and population gaps, service quality must be adopted as the moderating variable. In other words, service quality as the moderating variable should be explored further to provide an understanding of both internal and external factors of tax compliance and narrow the mentioned gaps. Hence, this study examined the moderating effect of service quality on peer influence, tax knowledge, tax incentives, tax fairness, and tax compliance behaviour among SMEs in Malaysia.

2.9 Summary

The concept, definition, and contribution of SMEs to the economy have been discussed in this chapter. Furthermore, this section also discussed past studies regarding tax compliance behaviour in Malaysia, underpinning theories and supporting theories followed by the factors contributing to tax compliance behaviour based on the research framework presented in this study, which consists of psychological empowerment, tax knowledge, peer influence, tax transparency, tax incentives, and tax fairness, and followed by the moderating variable of service quality. Given that previous research has explored other factors towards tax compliance behaviour, this review focused on psychological empowerment and service quality.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology of the study. This chapter begins with the research framework and is followed by a discussion of the hypotheses. Besides that, this chapter also elaborates on research design, operational definitions, and the measurement of variables. Last but not least, the data collection procedure and methods or data analysis technique are highlighted in this chapter as well.

3.2 Research Framework

According to the framework used in this study, the following elements included 8 variables which were: 1 dependent variable tax compliance behaviour, 6 independent variables (psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, and tax fairness), and 1 moderating variable which was service quality.

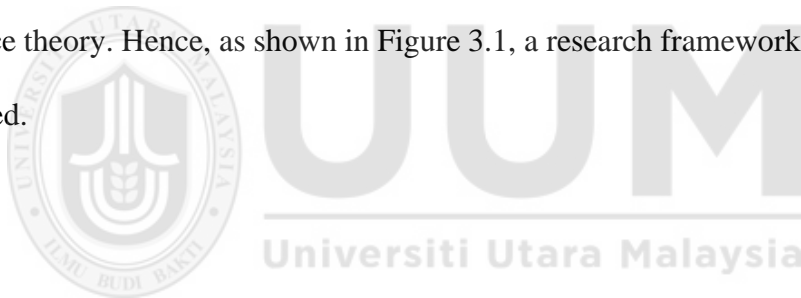
This study is underpinned by social influence theory and supported by social exchange theory and social cognitive theory. This study also utilised Fischer's model to establish the research framework in this study.

Exceptions for psychological empowerment and tax transparency were that all independent factors were assessed as variables that can be directly measured and examined for the moderating variable of service quality. The psychological empowerment variable was eliminated from the moderating association since it was a novel or new independent variable with no prior studies on the relationship towards

the impact of tax compliance behaviour. This was covered in the literature review part of this study.

The independent variables of this study are tax knowledge, peer influence, and tax incentive are supported by social influence theory. Then, tax transparency and tax fairness were highlighted by social exchange theory. Furthermore, the social cognitive theory through the Spreitzer model supports psychological empowerment in this study.

This study also included a moderating variable, which is service quality. According to Sekaran and Bougie (2016), the link between the initial set of independent and dependent variables could be changed by including a third variable (the moderating variable). Service quality is the moderating variable in this study, supported by social influence theory. Hence, as shown in Figure 3.1, a research framework for this study is presented.



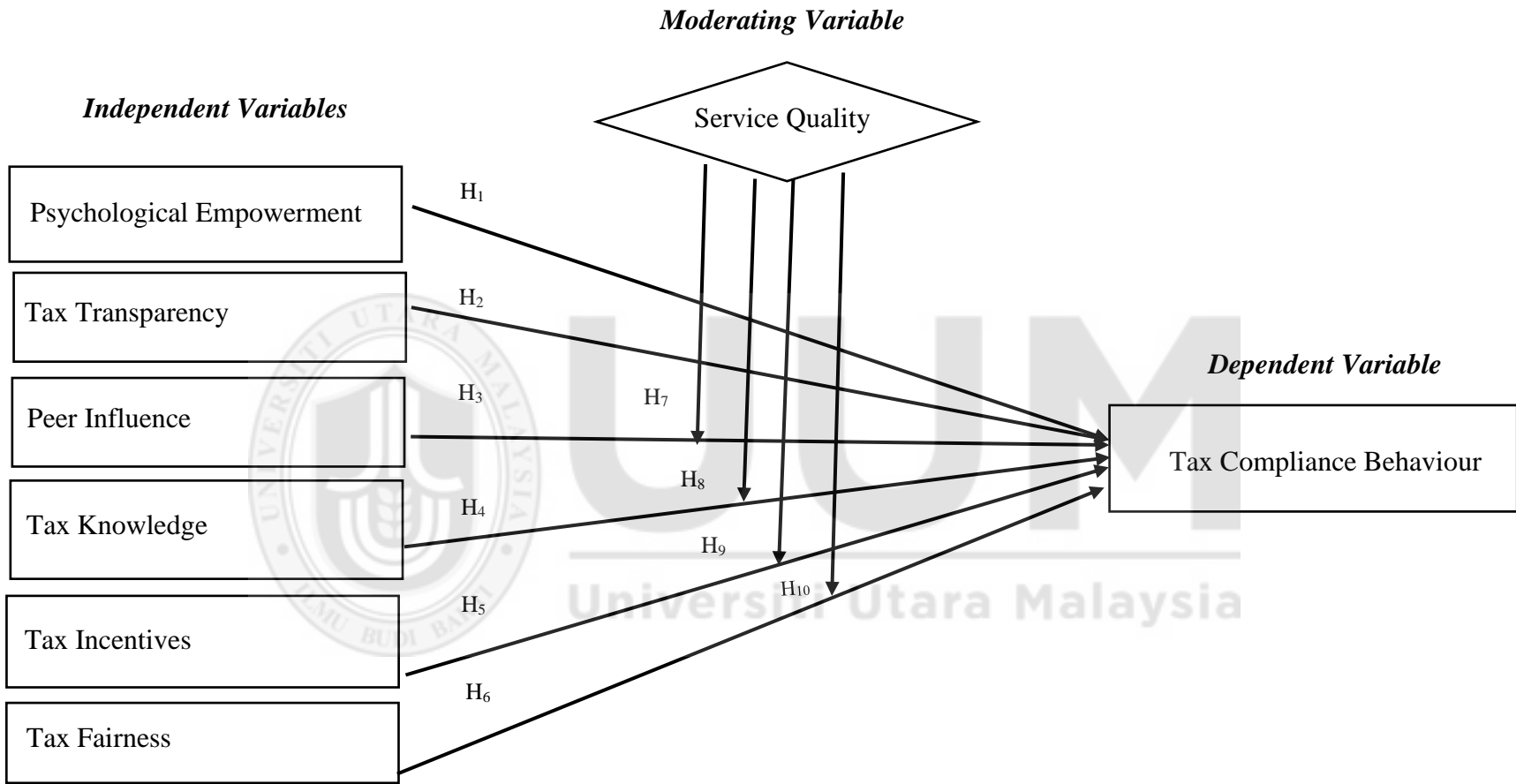


Figure 3.1 *Research Framework*

Following Safian and Hamid (2017), Malaysian studies on intrinsic motivation in the context of tax compliance behaviour are still very scarce. Hence, psychological empowerment, which can enhance one's intrinsic motivation, as posited by Thomas and Velthouse (1990), could close the gap. According to Meng and Sun (2019), higher degrees of empowerment among faculty members may lead to better job performance. Therefore, this study anticipated how psychological empowerment can interact with the factors of tax compliance behaviour among Malaysian SMEs.

A prior study by Indriyarti and Christian (2020) found that external factors can positively influence taxpayers' compliance with paying taxes. Tahar and Rachman (2014) stated that individual behaviour usually seeks to provide others with information, motivation, or facilities by aiming to achieve a sense of satisfaction or comfort as one of the external factors. Therefore, this study expected that service quality can interact with other tax compliance behaviour factors to enhance tax compliance levels among Malaysian SMEs.

Consistent with the Fischer model, social exchange theory, social influence theory, and the social cognitive through the Spreitzer model, the current research framework consists of eight variables. Figure 3.1 illustrates the proposed relationships.

3.3 Hypotheses Development

The hypothesis is an assertion that is tentative and testable, allowing for the prediction of the results of empirical research. The hypotheses supporting the conceptual model are generally character-related and developed from theories. In this sense, hypotheses are rationally conjectured connections between variables given in a way that assertions can be tested (Sekaran & Bougie, 2016). As a result, this study proposed ten hypotheses

to examine both the model's validity of this study as well as the assessment of the strength of the proposed link based on the literature and theoretical justifications.

3.3.1 The Relationship between Psychological Empowerment and Tax Compliance Behaviour among SMEs in Malaysia

Psychological empowerment is a motivational construct. A few empirical research on psychological empowerment and intrinsic motivation have been discovered. Several past studies have found a positive correlation between psychological empowerment and intrinsic motivation (Ahadi & Suandi, 2014; Aslam, 2017; Hahm, 2018). Empowered individuals within SMEs tend to exhibit greater control and responsibility over their business decisions, leading to higher adherence to tax regulations. This empowerment fosters a proactive attitude towards compliance, as empowered individuals feel competent and impactful in their financial and regulatory choices. They view compliance not just as a mandatory duty but as a reflection of their business ethics and values. This aligns with broader literature highlighting the role of intrinsic motivation and perceived control in driving responsible business conduct among SMEs (Ahadi & Suandi, 2014).

Besides that, a study conducted by Khairani et al. (2021) posited that if employees do not have psychological empowerment, they may not recognise the significance of their jobs and may question their abilities and expertise. Therefore, to empower individuals, it is essential to offer them opportunities for skill development, which helps them become self-sufficient and less reliant on experts (Zimmerman, 1995). In the context of taxation, taxpayer education and improved communication from the revenue authority can be utilised to strengthen the empowerment of taxpayers (Bornman & Ramutumbu, 2019).

Based on the above discussions of psychological empowerment prior studies, the following hypothesis has been developed:

H₁: There is a positive relationship between psychological empowerment and tax compliance behaviour among SMEs in Malaysia.

3.3.2 The Relationship between Tax Transparency and Tax Compliance Behaviour among SMEs in Malaysia

Transparency contributes to accountability. It may be possible to hold individuals accountable for the actions that they have taken. Trust between a government and those it controls will be absent if transparency and accountability are not implemented (Carstens, 2005). Kallas (2008) posited that it is a win-win for both administrations and the public when a complex government system becomes more transparent. The key component of transparency is that it plays a significant part in fostering a more citizen-friendly society, thus enhancing the public's trust in the government. Al – Rahamneh et al. (2023) demonstrated that, when SMEs perceive the tax system as transparent, their intrinsic motivation to comply tax obligations increases, leading to lower evasion rates.

In Lagos State, Nigeria, Adeyeye et al. (2013) found that taxpayers were willing to comply with tax laws when they perceived effective governance. It can be seen that the people may be more willing to pay taxes if they believe there is transparency and strong management in place. Furthermore, a study by Kim and Lee (2012) indicated that openness in the government has a positive effect on the citizen's trust. Mangoting et al. (2019) study on tax compliance in Indonesia revealed that transparency could affect taxpayer's compliance. A positive association has been found in past studies between transparency and tax compliance behaviour (Fuad & Khusfiyah, 2019; Okwara, 2020).

Thus, the following hypothesis has been developed:

H₂: There is a positive relationship between tax transparency and tax compliance behaviour among SMEs in Malaysia.

3.3.3 The Relationship between Peer Influence and Tax Compliance Behaviour among SMEs in Malaysia

Grasmick and Scott (1982) posited that individuals are likely to engage in tax non-compliance if they have friends who would do the same. Several prior studies indicated mixed results.

Peer influence has impacted tax-compliance behaviour and as postulated by Apriwarto (2024), in tax compliance behaviour, peer influence plays an significant role. Thus, a few studies reported a positive relationship (e.g., Abd Obaid et al., 2020; O'Shaughnessy, 2014; William, 2015; Wirawan, 2024). For instance, William (2015) examined the association between Tanzanian SMEs' social norms and tax compliance behaviour. According to their study, it was revealed that members of society affect taxpaying behaviour. The finding implied that the higher influence of society members results in tax compliance. O'Shaughnessy (2014) examined tax compliance determinants at the international level, and the results showed that tax compliance behaviour was directly influenced by peer influence. Furthermore, the tax compliance behaviour of Yemeni SMEs was positively and significantly influenced by peer influence (Abd Obaid et al., 2020).

On the contrary, tax compliance behaviour was negatively influenced by peer influence, as reported by Bidin and Sinnasamy (2018) and Palil et al. (2012). For example, Palil et al. (2012) posited that peer influence, such as relatives and friends, would not enhance tax compliance behaviour. Apart from that, an insignificant association

between peer influence and sales tax compliance among small and medium-sized businesses in Jordan was reported by Alshira'h (2018). Thus, this hypothesis was developed:

H₃: There is a positive relationship between peer influence and tax compliance behaviour among SMEs in Malaysia.

3.3.4 The Relationship between Tax Knowledge and Tax Compliance Behaviour among SMEs in Malaysia

According to Hofmann et al. (2008), an individual's tax compliance behaviour can be seen through their knowledge of taxes. Several studies have examined tax knowledge to determine how it impacts tax compliance (Engida & Baisa, 2014).

A positive association between tax knowledge and tax compliance behaviour was reported (e.g., Appiah, 2024; Asrinanda, 2018; Palil, 2010; Remali et al., 2020; Tishar & Hasanuzzaman, 2019; Yahya et al., 2021). Mukasa (2011) posited that there is a way to show how tax knowledge impacts tax compliance. For instance, as the tax knowledge of small companies improves, taxpayers are more likely to satisfy their tax obligations. Conversely, a negative association between tax knowledge and tax compliance behaviour was reported (Kamil, 2015). Even previous studies of tax knowledge found an insignificant association with tax compliance behaviour in past studies (e.g., Augustine, 2016; Fauziati et al., 2020, Wibowo et al., 2025). Thus, this hypothesis was developed:

H₄: *There is a positive relationship between tax knowledge and tax compliance behaviour among SMEs in Malaysia.*

3.3.5 The Relationship between Tax Incentive and Tax Compliance Behaviour among SMEs in Malaysia

Tax levies intended to motivate people to behave are known as tax incentives. Augustine (2016) stated that some academicians have noted that an effective tax system must give appropriate incentives to taxpayers. According to Zolt (2015), tax incentive also reduces tax burden of individuals and businesses. Feld and Frey (2007) mentioned that rewards could increase the benefits of paying taxes and how incentives are distributed to good taxpayers; thus, it is essential to impact taxpayer behaviour.

Harju and Kosonen (2013) state that more favorable tax incentives would strengthen businesses' economic activities. According to Atawodi and Ojeka (2012), tax incentives or exemptions should be extended because they draw in new taxpayers and eventually promote voluntary compliance. A positive link between incentives and tax compliance behaviour was also discovered (e.g., Augustine, 2016; Manaf et al., 2005; Tohari et al., 2024; Trivedi et al., 2005). Thus, this hypothesis was developed based on the above arguments:

H₅: There is a positive relationship between tax incentives and tax compliance behaviour among SMEs in Malaysia.

3.3.6 The Relationship between Tax Fairness and Tax Compliance Behaviour among SMEs in Malaysia

The connection between taxpayers and government is a measure of fairness (O'Shaughnessy, 2014). According to Azmi and Perumal (2008), taxpayers' perception of the tax system has significant implications because fair taxes will lead to greater compliance. Previous studies found mixed results on the association between tax

fairness and tax compliance behaviour.

According to Abd Obaid et al. (2020), Faizal and Palil (2015), Geberegbe et al. (2015), Hauptman et al. (2024), as well as Taing and Chang (2020), they discovered a positive linkage between tax fairness with tax compliance behaviour. On the contrary, Oladipo et al. (2022) and Tumwesigye (2011) found that tax fairness and tax compliance behaviour were negative. Besides that, the association discovered by Saad (2010) and Sikayu et al. (2022) between tax fairness and tax compliance behaviour was insignificant. Thus, this hypothesis was developed based on the above arguments:

H₆: There is a positive relationship between tax fairness and tax compliance behaviour among SMEs in Malaysia.

3.3.7 The Moderating Effect of Service Quality on the Relationship between Peer Influence and Tax Compliance Behaviour among SMEs in Malaysia

The results for this variable, peer influence, have been inconsistent in previous studies. Based on the argument above, this study intended to incorporate service quality as a moderating variable to investigate the correlation between peer influence and tax compliance behaviour. As stated by Apriwanto (2024), in tax compliance behaviour, peer influence plays an significant role. According to AlAwadhi and Morris (2008), the government must ensure that users have a favourable experience when using e-services because their opinions can be shared with other users. Besides that, users' perception of ease of use and efficiency towards tax website service quality could influence them to recommend it to their peers (Connolly et al., 2010). Similarly, in the area of taxes, it is anticipated that peer influence and service quality will interact to improve the degree of tax compliance behaviour among SMEs in Malaysia. Thus, this hypothesis was developed:

H7: Service quality strengthens the positive relationship between peer influence and tax compliance behaviour among SMEs in Malaysia.

3.3.8 The Moderating Effect of Service Quality on the Relationship between Tax Knowledge and Tax Compliance Behaviour among SMEs in Malaysia

The results for this variable, tax knowledge, have been inconsistent in previous studies. Thus, this study incorporated service quality as a moderating variable between tax knowledge and tax compliance behaviour. Earlier research by Razak et al. (2018) suggested that Malaysian entrepreneurs should be provided with assistance to increase their understanding, as knowledge development is one of the issues Malaysian SMEs face. According to Olaoye et al.(2017), taxpayers should be educated by government agencies on tax laws and regulations to boost tax compliance. Also, insufficient information and instructions in the tax service setting may result in taxpayers not comprehending tax regulations. Thus, eventually, it will hinder their trust and cooperation with tax officials (Nguyen, 2022). Therefore, it is anticipated that service quality can interact with tax knowledge and tax compliance behaviour. Thus, this hypothesis was developed based on the above arguments:

H8: Service Quality strengthens the positive relationship between tax knowledge and tax compliance behaviour among SMEs in Malaysia.

3.3.9 The Moderating Effect of Service Quality on the Relationship between Tax Incentive and Tax Compliance Behaviour among SMEs in Malaysia

The literature review indicated a lack of studies on tax incentive variables in the Malaysian taxation context. Consequently, it shows inconclusive results (eg.,

Meiyrani et al., 2024; Palupi and Putri, 2021) . Thus, there is a need to examine the tax incentive variable with tax compliance behaviour in this study. To moderate the relationship between tax incentives and tax compliance behaviour, service quality is expected to moderate the link. The tax officers should encourage people to submit their income taxes on time by offering incentives such as early tax refunds. This enhancement might improve the accessibility and satisfaction of the tax filing system among users (Chen, 2010).

Therefore, service quality can positively impact the economy by generating more revenue for the government through tax incentives. Thus, this hypothesis was developed based on the above arguments:

H₉: Service Quality strengthens the positive relationship between tax incentive and tax compliance behaviour among SMEs in Malaysia.

3.3.10 The Moderating Effect of Service Quality on the Relationship between Tax Fairness and Tax Compliance Behaviour among SMEs in Malaysia

A few past studies found a negative and insignificant association, while most other prior studies found a positive association between tax fairness and tax compliance behaviour. The results for this variable were that tax fairness has been inconsistent in previous studies. Thus, this study proposed that service quality can strengthen the association between tax fairness and tax compliance. Following social influence theory, Torgler (2007) contended that the government's high-quality services encourage taxpayers to comply with their tax responsibilities. As postulated by Thaha et al. (2024), enhancing taxpayer satisfaction plays a vital role in building public trust and increasing tax compliance. In addition, fair service holds great importance as it not only significantly impacts customer satisfaction but also holds an equivalent role to service quality in

shaping customer's trust and perceived value (Chen et al., 2012). In a taxation context, by assisting, countries can build a robust "tax capacity" in a way that allows them to raise the revenue they need to foster stability, growth, good governance, and fairness (International Monetary Fund, 2016). The discussion above on the moderating variable of the service quality led to the following hypothesis:

H₁₀: Service quality strengthens the positive relationship between tax fairness and tax compliance behaviour among SMEs in Malaysia.

3.4 Research Design

A research design aligns the circumstances of data collection and analysis so that both relevance and procedural economy are maximized when collecting and analyzing information. Research designs are conceptual frameworks for conducting research or a blueprint or guide for measuring, collecting, and analyzing data (Kothari, 2004).

Quantitative research may give reliability by critically analysing and facilitating numerical data for groups and the extent to which respondents agree or disagree (Choy, 2014). The majority of tax compliance past studies used a quantitative approach, specifically questionnaires (e.g., Manual & Xin, 2016; Mohdali & Pope, 2014; Palil & Mustapha, 2011; Remali et al., 2020; Sritharan et al., 2020; Zandi et al., 2016).

Apart from that, Augustine (2016) used a quantitative research strategy in his study because it was thought to be more appropriate for investigating the association between variables using statistical methods. Similarly to the previous studies, this study also aimed to examine the relationship between independent variables and moderating variables incorporated into the study with the dependent variable (tax compliance behaviour). Based on the discussions above, this study has been used as a quantitative

research technique.

3.4.1 Unit of Analysis

The primary purpose of this study is to identify the determinants influencing the tax compliance behaviour of small and medium-sized enterprises in Malaysia, with service quality moderating. While there are many other units of analysis, including individual, group, organisation, social category, social institution, and society (Neuman, 2003), the unit of analysis in this study is the organisation, which is the SME in Malaysian manufacturing industries as this study aims to analyse business entity as a whole rather focusing on individuals who are working in the SMEs.

3.4.2 Research Approach

This study adopts a quantitative approach to examine factors affecting Malaysian SMEs' tax compliance behaviour. Studies involving large groups of people or generalising findings from a specific sample to broader populations are facilitated most effectively with quantitative approaches (Holton & Burnett, 2005). In addition, this study examined the correlation between the independent variables and the dependent variable. Thus, based on Chih-Pei and Chang (2017), quantitative research is ideal when multiple variables and treatments are involved.

Data collection on tax compliance over a short time is the subject of this study. This study has been classified as cross-sectional because data collection has occurred at a specific time. Therefore, a questionnaire was employed to acquire the metric data for this study's survey.

3.4.3 Population and Sample Size of the Study

Population is the totality of people, events, or objects of interest they wish to study (Ahmad, Alias, & Abdul Razak, 2023). On the other hand, the sample is a subset of the population, and several members are chosen from it. In other words, a sample includes some but not all of the people in the population (Sekaran & Bougie, 2016). Due to the unavailability and accuracy of data from SME Corp. on population (see Appendix E), this study referred to the data provided by the Federation Malaysian Manufacturers (FMM) Directory of Malaysian Industries (2022).

According to the Federation Malaysian Manufacturers (FMM) Directory of Malaysian Industries (2022), 2,941 manufacturing SMEs were considered the population in this study. However, 100 companies from Selangor state were excluded as they were used for the pilot study. Selangor state was selected as the number of companies in this state is enormous. Therefore, 2,841 manufacturing SMEs were utilised to determine the sample size for the data collection. According to Krejcie and Morgan (1970), the minimum sample size for a 2,800-person population is 338 samples. However, Salkind (1997) suggested increasing the sample size by 45% to minimise the possibility of non-response bias. Thus, this study increased the sample size by 152 samples ($45\% \times 338$ samples). The minimum sample size should be 490 ($338 + 152$ samples). However, due to rounding decimals, as shown in Table 3.1, the final number for the sample size of this study is 491.

Table 3.1

Proportionate Stratified Random Sampling

States	Number of Manufacturing SMEs	Formula to Select Sample Size	Results in Decimals	Sample Size (After Rounding Up)
Selangor	1146	$= (1146/2841)490$	197.66	198
Johor	451	$= (451/2841)490$	77.79	78
Penang	335	$= (335/2841)490$	57.78	58
Perak	243	$= (243/2841)490$	41.91	42
Federal Territory of Kuala Lumpur	226	$= (226/2841)490$	38.98	39
Melaka	94	$= (94/2841)490$	16.21	16
Negeri Sembilan	115	$= (115/2841)490$	19.83	20
Kedah	83	$= (83/2841)490$	14.32	14
Perlis	3	$= (3/2841)490$	0.52	1
Pahang	37	$= (37/2841)490$	6.38	6
Terengganu	9	$= (9/2841)490$	1.55	2
Kelantan	3	$= (3/2841)490$	0.52	1
Sabah	49	$= (49/2841)490$	8.45	8
Sarawak	47	$= (47/2841)490$	8.11	8
Total	2, 841		490.00	491

Source: Calculated by this study based on statistics provided by the Federation of Malaysian Manufacturers (FMM) (2022)

The stratified random sampling method refers to a population divided into strata or subgroups and selected individuals from each stratum. Each stratum's members have similar traits and attributes (Fowler, 2013). The stratified random sampling method is popular and helpful when the target population is diverse or heterogeneous. This method also aided in reducing sample selection bias and guaranteed that particular population groups were not unfairly over- or underrepresented.

Apart from that, a proportionate sample, a specific or predetermined percentage of subjects, was drawn from each stratum. According to the statistics in the FMM report, the population that was chosen for this study was split into 14 subgroups: Selangor, Johor, Penang, Perak, Federal Territory of Kuala Lumpur, Melaka, Negeri Sembilan, Kedah, Perlis, Pahang, Terengganu, Kelantan, Sabah and Sarawak. It was decided that the proportionate stratified random sampling method would work best for this study. The sample size for each state listed in Table 3.1 was selected by applying the `{=Randbetween()}` function in Microsoft Excel, respectively.

3.5 Operational Definitions and Measurements of Variables

There are eight constructs in this study to be measured: psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, tax fairness, service quality, and tax compliance behaviour. This study employed a survey method using a questionnaire. Therefore, a 5-point Likert scale was used as a measurement tool for the questionnaire. Regarding measurement quality, 5-point scales produce higher-quality data (Revilla et al., 2014).

3.5.1 Dependent Variable

The dependent variable of this study is tax compliance behaviour. The following section discusses the operational definitions and measurements for tax compliance behaviour.

3.5.1.1 Tax Compliance Behaviour

The dependent variable in this study is tax compliance behaviour. Tax compliance behaviour is defined by Chattopadhyay and Das-Gupta (2002) as meeting all statutory requirements outlined in the tax law, such as registering to become a taxpayer and keeping needed documents. The authors also added that it is essential to file tax returns promptly, accurately, and on time and to pay taxes accurately. According to this study, tax compliance behaviour is SMEs' willingness and desire to adhere to tax regulations, such as accurately disclosing income and expenses and correctly paying taxes.

This study adapted and refined ten items from Yankelovich et al. (1984) to measure tax compliance behaviour. Ayuba et al. (2018) used these instruments in Nigeria context. Saad et al. (2021) also adopted these instruments which shows the items' applicability in Malaysia context as well. The items of tax compliance behaviour are depicted in Table 3.2. However, while the Yankelovich et al. (1984) version is simple, this study utilised an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree with ten items, similarly to the study conducted by Richardson (2006) in Australia and Hong Kong. Higher score suggested that SME taxpayers are more tax compliant while lower score indicated that they are low tax compliant.

Table 3.2
Measurement for Tax Compliance Behaviour

Items

1. Even with the rising cost of living these days, it is not permissible for businesses to not declare or hide some business earnings on their tax returns.
2. It is not so wrong to under-report certain income since it does not really hurt anyone (reverse-coding).
3. It is permissible to occasionally under-report certain income or claim deductions which are not entitled by business (reverse-coding).
4. Not reporting some earnings by the business from interest earned or investment, which the government would not be able to detect is acceptable (reverse-coding).
5. Adding a little bit more of what the business actually spent when reporting is not permissible.
6. It is permissible for businesses to deduct some items that are not really considered deductions (reverse-coding).
7. When businesses are uncertain about whether or not they deserve a tax deduction, it makes sense to take a chance and take a deduction anyway (reverse-coding).
8. It is not really cheating when businesses find ways to pay less tax than they are supposed to (reverse-coding).
9. It is not wrong for businesses to pay incorrect amount of taxes since the government spends too much anyway (reverse-coding).
10. It is not a big deal if businesses underpay a little tax as a lot of rich people pay no taxes at all (reverse-coding).

Source: Adapted from Yankelovich, Skelly, and White (1984)

3.5.2 Independent Variables

The independent variables of this study are psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentives, and tax fairness. The following section discusses operational definitions and measurements for these variables.

3.5.2.1 Psychological Empowerment

As an independent variable, psychological empowerment was considered in this study. Psychological empowerment is defined by Oladipo (2009) as the ability to hold one's behavior under control, develop competence and internalise goals within one's mind, and make intelligent decisions. People may demonstrate negative attitudes and behaviours without psychological empowerment, obstructing valuable government policies. This study operationalized psychological empowerment as a motivational construct for SME taxpayers to establish a positive attitude and behaviour, which can promote valuable government policies.

This study measured psychological empowerment based on eight items adapted from Spreitzer (1995) to measure psychological empowerment among SME taxpayers. Gong et al. (2020), Varma and Malhotra (2022), and Zhou and Chen (2021) also adopted this instrument in their studies. Table 3.3 depicts the items for psychological empowerment. This study utilised an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with eight items. Higher score indicated that SME taxpayers feel more psychologically empowered while a lower score suggested that they are less psychologically empowered.

Table 3.3
Measurement for Psychological Empowerment

Items
1. My company needs to comply with tax obligations to support government policies.
2. My company needs to file taxes properly as a law-abiding entity.
3. My company has capabilities to comply with tax obligation properly.
4. My company has adequate expertise to handle tax affairs.
5. My company has significant freedom on how to deal with tax affairs.
6. My company's way of dealing with tax obligations will have consequences for the company itself.
7. My company's tax filing has a large impact on the company's reputation.
8. My company would bear any consequences resulting from the tax filing.

Source: Adapted from Spreitzer (1995)

3.5.2.2 Tax Transparency

In this study, tax transparency is an independent variable. According to Chindengwike and Kira (2021), tax transparency is a government trait that requires being open in disclosing information, rules, methods, procedures, and actions. In another study by Androniceanu (2021), tax transparency progresses beyond the straightforward requirement to inform the public about how public funds are being spent to the need to guarantee equal access to public funds for all suppliers who are competent and interested in the industry in which public procurement is going to take place. As part of this study, tax transparency is operationalized as taxpayers' and SMEs' perceptions of the degree to which tax authority keeps them informed about being open in the transparent disclosure of information.

In measuring tax transparency and to fit Malaysia's taxation context, items 1 to 4 were adapted from Rawlins (2008), while items 5 to 7 were adapted from Park and Blenkinsopp (2011). Indeed, studies conducted by Al-Rahamneh et al. (2023), Hadziahmetovic and Salihovic (2022), as well as Wisnu et al. (2022) also adapted the questions from Rawlins (2008). In the meantime, the instruments from Park and Blenkinsopp (2011) were also adopted by other scholars, such as Mansoor (2021) and Nguyen et al. (2023). These items were measured using an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with seven items. The tax transparency items are depicted in Table 3.4. Higher score indicated SME taxpayers perceived tax authority being transparent in disclosing information whereas lower score indicated they perceived tax authority as lacking transparent in information disclosure.

Table 3.4
Measurement for Tax Transparency

Items
1. The tax authority makes it easy to find the tax information needed for complying with tax obligation.
2. The tax authority provides tax information that is easy to understand tax law.
3. The tax authority provides reliable tax information for complying with tax obligation.
4. The tax authority provides tax information that could be verified by an outside source, such as an auditor, for tax compliance purpose.
5. The tax authority discloses sufficient information to taxpayers about its tax collection to encourage tax compliance.
6. The tax authority discloses tax-related information publicly or through the media to encourage tax compliance.
7. The tax authority discloses information to taxpayers on how tax collection is distributed transparently to encourage tax compliance.

Source: Adapted from Park and Blenkinsopp (2011) and Rawlins (2008)

3.5.2.3 Peer Influence

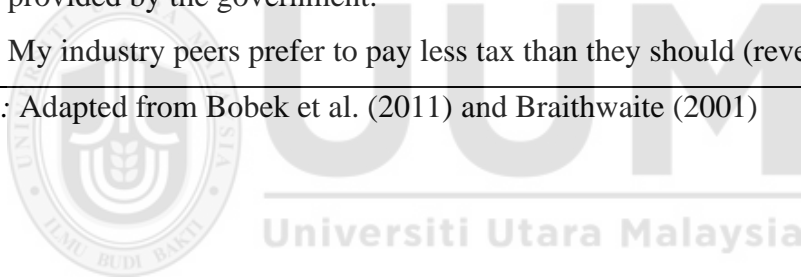
Peer influence is an independent variable in this study. As defined by Bobek and Hatfield (2003), peer influence describes a person's motivation for adhering to other individuals or organisations and whether or not they accept or disapprove of the specific action. As defined in this study, small and medium enterprises develop tax compliance attitudes through peer influence, which is the influence of other industry peers towards SMEs on their tax compliance decisions.

In this study, items 1 to 5 were adapted to measure peer influence (Bobek et al., 2011). Professor Bobek published more than 25 journals on tax and developed these items with the two other scholars. Similarly to Abd Obaid (2021), this study adapted items six and seven from Braithwaite (2001). These items were measured using an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with seven items. Peer influence items are presented in Table 3.5. Low score indicated that peer influence is perceived to be low while high score suggested that peer influence is perceived to be high.

Table 3.5
Measurement for Peer Influence

Items
1. My industry peers believed it was acceptable to pay less income taxes than the actual amount due (reverse-coding).
2. My industry peers believed that business cash earnings should be reported honestly on a tax return.
3. My industry peers believed that it was acceptable to overstate tax deductions on a tax return (reverse-coding).
4. My industry peers agreed that business cashing without paying tax was a trivial offense (reverse-coding).
5. My industry peers would definitely think it is not alright (i.e., morally right) to deduct the additional RM2,000 expenses from the business income.
6. My industry peers believed that the tax paid was fair given the services provided by the government.
7. My industry peers prefer to pay less tax than they should (reverse-coding).

Source: Adapted from Bobek et al. (2011) and Braithwaite (2001)



3.5.2.4 Tax Knowledge

One of the independent variables in this study is tax knowledge. Based on Kustiawan et al. (2019), an individual's level of tax knowledge refers to how well they understand or are sensitive to tax laws. A study by Wadesango et al. (2018) mentioned that taking additional steps to deliver tax knowledge to a broader audience prevents tax evasion and promotes voluntary compliance.

In this study, an SME taxpayer's capacity to understand is defined as their tax knowledge to grasp tax legislation and determine their tax liability properly. Items 1 to 4 were adapted from Ndirangu (2014). Items five to seven were adapted from Kasipillai and Jabbar (2003) as well as Saad (2011), who focused on tax compliance attitudes. Mat Jusoh et al. (2021) also adapted the items from these scholars. These items were measured using an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with seven items. The items of tax knowledge are listed in Table 3.6. Low score indicated that tax knowledge is perceived to be low while high score suggested that tax knowledge is perceived to be high.

Table 3.6
Measurement for Tax Knowledge

Items
1. My company knows how to declare actual income received from all sources that are related to the business.
2. My company is aware about the requirement to keep records or documents pertaining to income and expenditure for a period of seven years after the tax return submission.
3. My company understands that it must pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period.
4. My company is aware that asset depreciation is not allowed in determining taxable income.
5. My company is responsible for paying business tax to the government to collect revenue to manage a country.
6. My company can be penalised and prosecuted for not complying with the Tax Act.
7. My company is aware that it needs to adhere to the deadline for the submission of tax return forms.

Source: Adapted from Kasipillai and Jabbar (2003), Ndirangu (2014), and Saad (2011)

3.5.2.5 Tax Incentive

In this study, tax incentives are an independent variable. According to Chukwumerije and Akinyomi (2011), individuals or businesses may qualify for a tax incentive to minimize the effects of taxes. SME taxpayers complying with Malaysian tax laws receive exemptions from the government, which are defined as tax incentives in this study. Items 1 to 4 were adapted from Feyitimi et al. (2016), and the 5th item was adapted from Khairunnisa et al. (2022). These items were measured using an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with five items. Table 3.7 presents the tax incentive items. High score indicated that tax incentive is satisfied while low score suggested that tax incentive is unsatisfied.

Table 3.7
Measurement for Tax Incentive

Items
1. Tax incentives granted by the government motivate my company to comply with tax laws.
2. The eligibility to claim special allowances for small assets valued at not more than RM2,000 encourages my company to meet its tax obligations.
3. A tax rate of 17% granted to my company with paid-up capital of less than RM2.5 million and yearly sales of less than RM50 million and taxable income up to RM600,000 motivates my company to comply with tax regulations.
4. Stamp duty exemptions and special deductions encourage my company to meet its business tax obligation.
5. Giving tax incentives makes my company, as a SME taxpayer, more obedient.

Source: Adapted from Feyitimi et al. (2016) and Khairunnisa, Maryasih, and Nuraini (2022)

3.5.2.6 Tax Fairness

Tax fairness is taken into account as one of the independent variables. According to Alkhatib (2019), the definition of tax fairness is considering the taxpayer's opinion on the fairness of the tax law. According to Van Dijke and Verboon (2010), tax equity entails comparing one's tax burden to that of other taxpayers and the equity of the present tax system. Tax fairness is defined in this study as the perception among SME taxpayers that the current tax system has been operating according to applicable legislation without deviation.

Six items from Gilligan and Richardson (2005) are adapted to measure tax fairness on a five-point Likert-type scale. Strongly disagreeing indicates that the tax system is not fair, while strongly agreeing suggests that the tax system is fair. The measurement from Gilligan and Richardson (2005) is similar to Azmi and Perumal (2008) and Sikayu et al. (2022). These items as listed in Table 3.8 were measured using an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with six items. Low score indicated that tax system is not fair while high score suggested that the tax system is fair.

Table 3.8
Measurement for Tax Fairness

Items
1. The income tax system is unfair to SME taxpayers (reverse-coding).
2. The manner in which tax burden is distributed across SME taxpayers is unfair (reverse-coding).
3. The income tax is fair to SME taxpayers.
4. The burden of income taxes is fairly distributed among SME taxpayers.
5. SMEs should never pay more than a fair share of the income tax burden.
6. The share of total income taxes paid by SMEs is not too high.

Source: Adapted from Gilligan and Richardson (2005)



3.5.3 Moderating Variable

The moderating variable of this study is service quality. The following section discusses operational definitions and measurements for service quality.

3.5.3.1 Service Quality

It is not easy to define service quality, but it is suggested that it is the source of customer satisfaction (Anita et al., 2017). Service quality may be measured objectively or subjectively and is described as a level of excellence or superiority (Christensen, 1992). As a construct in this study, service quality is defined as the taxpayer's overall opinion or attitude about the superiority of the tax services offered by the tax authority.

The five service quality aspects known as SERVQUAL proposed by Parasuraman et al. (1985), tangible, reliable, responsive, assurance, and empathy, were said to be universal; yet, they may vary depending on the environment. For instance, past studies measured service quality dimensions differently in the taxation context, as shown in Table 3.9. According to Au et al. (2023), there have been consistency issues about service quality in general and tax service quality in particular. Besides that, Hoang et al. (2024) also adapted the items from these scholars. Therefore, this study adapted items from Au et al. (2023), as these authors recommended using their tax service quality scale which measures professionalism and responsiveness in future tax compliance research among SMEs. This study adapted these items to close this gap, as shown in Table 3.10. These items were measured using an interval scale with a 5-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree, with nine items. High score indicated that service quality of tax authority is satisfied while low score suggested that service quality of tax authority is unsatisfied.

Table 3.9

Dimensions of Service Quality used by Past studies in Taxation Context

Dimensions	Past studies
Service product, service delivery, and service environment	Rust and Oliver (1994)
Interaction quality, physical environment quality, and outcome quality	Alabede (2012)
Responsiveness, reliability, informativeness, assurance, usability	Mustapha and Obid (2014)
Research facilities provide detailed information, privacy and security, interaction facilities and contacts, speed, and facility of access, availability of relevant downloads, reliable and up-to-date information, searching facilities, claims, and suggestions	Carlos et al. (2011)
Responsiveness, reliability, tangible, empathy, assurance	Al-Ttaffi (2017); Anita et al. (2017); Awaluddin and Tamburuka (2017)

Source: Compiled by this Study

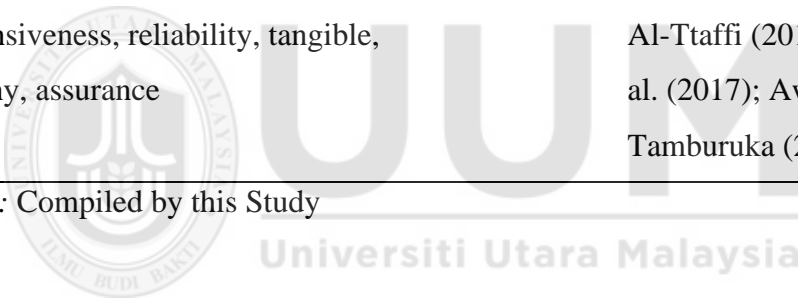


Table 3.10
Measurement for Service Quality

Items
1. The tax authority delivers service when promised.
2. The tax authority keeps its records accurate.
3. The tax authority makes accurate promises about the delivery time of services.
4. The tax authority protects information about taxpayers.
5. The tax authority has an up-to-date system.
6. Tax officers are always ready to provide services.
7. The problems related to the tax support application system of the tax authority are rectified on time.
8. Tax authority's website does not freeze after information is entered.
9. Tax authority actively cooperates with other agencies (such as banks) to solve problems for businesses when paying taxes.

Source: Adapted from Au et al. (2023)

3.6 Questionnaire Design, Translation, and Validity

This study utilised a questionnaire to collect data. According to Sekaran (2003), the questionnaire is beneficial when potential respondents are in various geographical areas. Notwithstanding this, Zikmund et al. (2013) stated that data can be collected within the time frame of the employed survey method. Besides that, past scholars such as Alabede (2012), Al-Taffi and Abdul-Jabbar (2020), and Augustine (2016), who conducted tax compliance research, employed questionnaires too.

Before beginning the pilot study, the drafted questionnaire was sent to experts for content validity purposes. Content validity ensures that the instruments are well-constructed and the dimensions adequately measured (Sekaran & Bougie, 2016). The experts in assessing content validity were one taxation professor, one SME owner, and

one director of IRBM from the Research and Strategic Department.

Some modifications were made to the original questionnaire based on the experts' review. The professor suggested replacing "people closest to my company" words for peer influence items as they are so general and suggested using precise referent groups. Therefore, sentences start with "people closest to my company" for peer influence items were replaced with "my industry peers."

Secondly, the expert of the IRBM director suggested adding "organisational turnover" under the organisational information section. Apart from that, item number six of service quality, which is "tax staff is ready to provide services," is suggested to be rephrased to "tax officers are always ready to provide services," item no seven of service quality, "problems to the tax support application system of the tax authority are regularly overcome in time" suggested to rephrase to "the problems related to the tax support application system of the tax authority are regularly rectified on time" and, item no eight of service quality "pages at this site do not freeze after the information is entered" suggested to rephrase to "tax authority's website do not freeze after the information is entered." All the feedback has been taken into account and amended accordingly. In sum, none of the questionnaire items were removed.

The questionnaire was divided into nine parts. Parts 1 to 8 consist of variables investigated in this study. Part nine consists of organisational information on SMEs. Initially, the questionnaire was written in English and translated into Malay by a certified translator of the School of Languages, Civilisation and Philosophy at Universiti Utara Malaysia. For a final check, the translated questionnaire is checked and verified by the researcher's supervisor before proceeding with the pilot study. The English and Malay versions questionnaires are attached in Appendices C and D.

3.7 Pilot Study and Reliability Test

This study consists of a pilot study. An initial pilot study is the starting point for any research project and is usually conducted on a small scale to improve the main study design (Arnold et al., 2009). According to Johanson and Brooks (2010), the pilot study is frequently proposed to address the issues, evaluate response rates, and examine study viability or reliability. Johanson and Brooks (2010) also suggested that 30 respondents are reasonable or sufficient to conduct a pilot study. Similarly, according to Malhotra and Birks (2007), a pilot study's sample size can be between 15 and 30 respondents. Thus, questionnaires have been administered to 100 SMEs to avoid poor responses. Out of 100, 31 responses were received via Google Forms.

Exploratory Factor Analysis (EFA), conducted in the initial stages of a study, aims to distil items from an extensive questionnaire into a cohesive single construct. This process helps ascertain the number of constructs that can be derived from the initial set of items through rotation (Pallant, 2011). According to Yahaya et al. (2018), EFA aids in verifying that the questionnaire effectively captures the intended constructs.

Kaisen Meyer-Olkin (KMO) should exceed the value of 0.60 to fulfil the need for factoring correlation matrices, and Bartlett's Sphericity Test scores are significant when $p < 0.05$ (Hair et al., 2010; Pallant, 2011). Hence, the construct's correlation matrix where all the constructs exceeded 0.60 and Bartlett's Sphericity Test scores are significant. These can be achieved by maintaining the constructs' components' increment factors, which are above 0.5, and removing the one peer influence (PI) item, which is "My industry peers believed that the tax paid was fair given the services provided by the government" and one tax fairness (TF) item which is "SMEs should never pay more than a fair share of the income tax burden." Hence, these two items

were omitted from the list for this construct, and other construct items have been preserved. Thus, out of 59 items, 57 items were preserved for actual data collection.

After that, Cronbach Alpha was performed as Cronbach's alpha, which is the primary internal consistency and reliability test, according to Sekaran and Bougie (2016). Table 3.11 presents the summary of Cronbach's alpha values.

Table 3.11
Summary of Cronbach's Alpha Values (N = 31)

No.	Constructs	No of items		Cronbach's Alpha
		Original	Dropped	
1	Tax Compliance Behaviour (TCB)	10	-	0.959
2	Psychological Empowerment (PE)	8	-	0.959
3	Tax Transparency (TT)	7	-	0.928
4	Peer Influence (PI)	7	1	0.901
5	Tax Knowledge (TK)	7	-	0.937
6	Tax Incentive (TI)	5	-	0.889
7	Tax Fairness (TF)	6	1	0.900
8	Service Quality (SQ)	9	-	0.955

3.7.1 Analysis of Missing Data

In the context of data quality, missing data is a common issue. Research surveys may contain missing data if respondents neglect or fail to complete one or more questions (Hair et al., 2014). When missing data are present, the number of samples available for analysis is reduced (Hair et al., 2010). The researcher proceeded with missing data analysis after all questionnaires were returned. When fewer than 5% of the values per item or indicator are missing, the mean should be used to replace the missing values

(Hair et al., 2021). To obtain clean, error-free data, it is crucial to address any missing data during pre-analysis (Musa, 2018). Thus, this study has utilised the latest version of SPSS to analyse missing data.

3.7.2 Analysis of Outliers

The definition of an outlier is a set of observations that are distinctly different from all the others because they possess a unique combination of characteristics. The impact of outliers can be assessed from a practical and substantive perspective. An outlier can significantly impact any empirical analysis from a practical perspective. As a substantive matter, the outlier should be regarded in the context of its representativeness of the population (Hair et al., 2010). Consequently, this study employed Mahalanobis' measure (D2) to detect and address outliers, as Tabachnick and Fidell (2013) recommended. Thus, this study utilised the latest version of SPSS to analyse outliers.

3.7.3 Descriptive Statistics

Frequencies, central tendency measures, and dispersion provide descriptive statistics for a single variable (Sekaran & Bougie, 2016). Descriptive statistics have been carried out in this study and presented in mean and standard deviation.

3.7.4 Normality Test

An essential assumption of multivariate analysis is normality. The concept of normality is used in statistics to compare the distribution of a single metric variable with that of a normal distribution (Hair et al., 2010). This study assessed normality using graphical methods and statistical tests, namely, skewness and kurtosis. Skewness and kurtosis are the most efficient approaches to detecting normality (Pallant, 2011). Skewness

indicates the degree to which a variable's distribution is asymmetric, while kurtosis measures distribution peakiness. Several values may have positive or negative skewness and kurtosis or be undefinable (Kim, 2013). A value of ± 1.96 is the most commonly used critical value to assess skewness and kurtosis (Hair et al., 2010).

3.7.5 Multicollinearity Test

Statistically, the strongly correlated nature of two or more variables in a multiple regression model is called multicollinearity. Detecting multicollinearity can be accomplished most easily by checking the correlation matrix for the independent variables. In most cases, correlations above 0.90 indicate high multicollinearity, as is the presence of high correlations. Another method To identify multicollinearity is by looking at the tolerance value and the variance inflation factor (VIF). Multicollinearity is commonly demonstrated by setting the tolerance under 0.10 and the VIF greater than 10 (Sekaran & Bougie, 2016).

3.7.6 Non-response Bias Test

According to Berg (2005), nonresponse bias is when certain types of respondents are under-represented in a sample of survey data due to non-response. An independent-sample t-test may be used to compare two different groups of respondents. If Lavene's test shows a value larger than .05 (e.g., .07, .10), it refers to equal variances where non-response bias does not exist (Pallant, 2016).

3.7.7 Common Method Variance Test

Common method variance pertains to the variance associated solely with the measurement process rather than the underlying variables represented by the measures (Podsakoff et al., 2003). Since the independent and dependent variables were gathered simultaneously with the same tool, there is a risk of common methods bias affecting the data. Therefore, it is crucial to examine the possibility of common method bias in behavioural studies (Meade et al., 2007). The benchmark for common method bias is that individual factors should not account for more than 50% of the variability (Podsakoff et al., 2003).

3.8 Data Collection Procedure

In terms of research, data can be collected from various sources. Survey data may be gathered in multiple ways, including questionnaires that can be administered in person, by email, mail, web, or fax, and interviews that can be conducted by telephone or in person (Zikmund et al., 2013). Self-administered questionnaires were employed in this study, which could provide a greater response rate (Sekaran & Bougie, 2016). Based on Guldenmund (2007), using a self-administered questionnaire is a valuable method of gathering data in social scientific research.

In addition, participating in self-administered questionnaires requires respondents to read and answer the questions (Zikmund et al., 2013). Any concerns that respondents may have on any subject may be cleared up immediately, which can eventually build rapport and motivate the respondents. Besides that, a self-administered questionnaire can establish the respondent's anonymity (Sekaran & Bougie, 2016). Apart from that, a self-administered questionnaire can save time and does not require skills to administer

a questionnaire compared to conducting an interview (Sekaran & Bougie, 2016).

Previous taxation studies employed self-administered questionnaires, too (Alkhatib, 2019; Ayuba et al., 2016; Mohdali & Pope, 2014; Saad, 2010). Thus, the self-administered questionnaire has been employed for this study. This study performed in-person follow-ups and phone calls to speed up the data collection process and maximise a high response rate.

3.9 Methods or Techniques of Data Analysis

Researchers analyse data, evaluate hypotheses, and refine theories in data analysis. This study examined factors influencing Malaysian SMEs' tax compliance behaviour. An analysis using Analysis of Moment Structure (AMOS) was conducted in this study to test the established constructs (Sarstedt et al., 2021).

The utilisation of Structural Equation Modeling (SEM) offers several advantages. Firstly, SEM allows for greater flexibility in assumptions, particularly enabling interpretation even when facing multicollinearity. Secondly, SEM employs Confirmatory Factor Analysis (CFA) to mitigate measurement error by incorporating multiple indicators for each latent variable, thereby enhancing the validity and reliability of observed scores from measurement instruments. This is crucial given the increasing recognition of measurement error as a significant concern across various disciplines, which historically has been addressed separately from statistical analysis. SEM techniques explicitly integrate measurement error into the statistical data analysis (Hair et al., 2010).

Additionally, SEM evaluates models comprehensively rather than assessing coefficients individually, accommodating models with multiple dependent variables,

including mediating or moderating variables, and adeptly managing challenging data types such as non-normal or incomplete data. Consequently, SEM emerges as a suitable and highly efficient estimation technique for concurrently estimating a series of separate multiple regression equations (Hair et al., 2006). Hence, this research employed SEM AMOS for analysis.

3.9.1 Measurement Model Assessment

To ensure the validity of the measurement model, both the goodness-of-fit and construct validity are crucial (Hair et al., 2010). Subsequently, the following sections have delved into both aspects.

The objective of goodness-of-fit (GOF) is to gauge the degree to which the survey data conforms to the specified model. Numerous alternative metrics exist for evaluating goodness-of-fit (GOF). While each metric possesses distinct characteristics, they are commonly categorised into three main categories, as outlined below (Byrne, 2010; Hair et al., 2010).

a. **Absolute fit index:** This index directly evaluates the model's ability to replicate the observed data, shedding light on how well theoretical constructs align with the data sample.

b. **Incremental fit index:** This metric compares the performance of the proposed model with a baseline model, known as the null model, where all observed variables are treated as uncorrelated.

c. **Parsimony fit index:** This index provides insight into the model's goodness-of-fit relative to its complexity, aiding in selecting the most optimal model from a set of

competing models. Conceptually similar to adjusted R^2 , it establishes a connection between model fit and complexity.

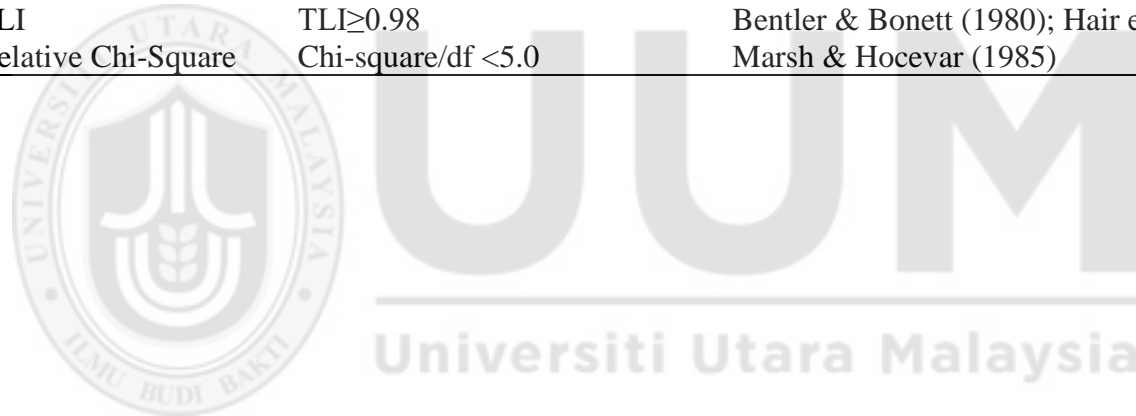
This study employed three classifications of model fit, namely absolute, incremental, and parsimonious fit indices. A literature review revealed the presence of various indices for assessing goodness-of-fit (GOF), with some being less affected by the number of parameter estimates and sample size. Consequently, following Hair et al. (2010), employing three or four fit indices is deemed sufficient to demonstrate model fit, as additional indices often duplicate information. Table 3.12 provides fit indices utilised in this study.



Table 3.12

Model Fit Indices of Measurement Model

Category	Name of index	Level of Acceptance	Source
1.Absolute Fit	Chi-Square	P-value > 0.05 Not applicable for large sample sizes (more than 200')	Bentler (1990); Browne & Cudeck (1993); Curran et al. (1996); Hair et al. (2010)
2.Incremental Fit	RMSEA	RMSEA < 0.08	Browne & Cudeck (1993); Bryne (2010); Hair et al. (2010)
	CFI	CFI ≥ 0.90	Chau (1997); Hair et al. (2010); Kline (2005)
	TLI	TLI ≥ 0.98	Bentler & Bonett (1980); Hair et al. (2010)
3.Parsimonious Fit	Relative Chi-Square	Chi-square/df < 5.0	Marsh & Hocevar (1985)



Hair et al. (2010) and Iacobucci et al. (2007) emphasised that the Chi-square (CMIN or χ^2) statistic serves as a fundamental absolute fit index. The Chi-square test aims to assess the degree of difference between the anticipated (theoretical) and observed (actual) covariance matrices (Hooper et al., 2008). The way χ^2 behaves changes depending on how many degrees of freedom it has, like many other statistical distributions. Therefore, to understand χ^2 better, it is suggested to compare it to its degrees of freedom by calculating a specific ratio (χ^2 / df). Next, the root mean square of error approximation (RMSEA) indicates how much the sample data differs from what is expected if the model were accurate. Besides that, the comparative fit index (CFI) evaluates the extent to which the researcher's model improves relative to the baseline model (null model or independence model), which assumes zero covariance in the model. The Tucker-Lewis Index (TLI) indicates the model's effectiveness relative to the baseline model. A higher value suggests a better fit (Dion, 2008).

After evaluating GOF, internal consistency reliability was measured. The indicator's internal consistency reliability measures how closely they are related. It is acceptable to have reliability levels between 0.60 and 0.70. The indications are troublesome, redundant, and may reveal unfavourable response patterns, according to reliability values exceeding 0.95 (Hair et al., 2021).

In addition, convergent validity describes a construct's ability to account for the variation in its indicators after it converges. The measurement most typically employed at this point to determine the convergent validity is average variance extracted (AVE). This means the value should be greater than 0.50 (Hair et al., 2021).

The last factor to consider is discriminant validity, which shows how much one variable varies from others empirically. Items for a variable should have a larger outer loading

than those that cross-load against the other variables. Moreover, the square root of AVE for a single variable should be greater than its strongest association with other variables (Fornell-Larcker Criterion) (Hair et al., 2021).

3.9.2 Structural Model Assessment

The structural model covers relationships between hypothetical constructions. Any latent variable dependent variable in at least one causal association is endogenous. Exogenous latent variables are those that exclusively predict other latent variables. The assessments covered in this stage are discussed as follows for easy understanding.

Firstly, the R^2 measures the model's ability to explain variance in each endogenous construct. For endogenous latent variables in the structural model, R^2 values of substantial, moderate, and weak are as follows: 0.75, 0.50, and 0.25, respectively (Hair et al., 2021).

Secondly, F^2 assesses how a predictor construct affects an endogenous construct's R^2 . To be precise, F^2 captures the contribution of predictor constructs: psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, and tax fairness to the R^2 value of the endogenous construct, tax compliance behaviour. Significant F^2 values are 0.35, moderate is 0.15, and weak is 0.02, respectively (Vinzi et al., 2010).

3.9.3 Moderation Test Criteria

The moderator variable (or construct) modifies an association between two constructs in a model by modifying its strength or direction. An approach based on product indicators was adopted in this study. The product indicator approach was most suitable

for testing the moderating effect of service quality in this study. Generating product terms between the indicators of the latent exogenous variable and the indicators of the latent moderator variables was necessary as a first step before applying the product indicator technique to determine each moderating effect (Hair et al., 2021).

3.10 Summary

Firstly, this chapter discussed the research framework, followed by hypotheses. This chapter also explained the approaches and methodology to address the research questions and objectives mentioned in this study. In addition, operational definitions of the variables were presented in this section, and the items used to measure the variables were elaborated. The data collection procedure, pilot study, and method or techniques of data analysis were presented in this section.



CHAPTER FOUR

RESULTS

4.1 Introduction

This chapter presents the quantitative results from 230 usable survey questionnaires by SMEs in Malaysia. This chapter begins with their response rate before highlighting the coding, reverse coding, data screening, and preliminary analysis undertaken before the actual data analysis. Then, this chapter discusses the organizational profiles of these SMEs, followed by the descriptive analysis of the variables. After that, this chapter also presents the assessment of measurement models, which consists of internal consistency reliability, convergent validity, and discriminant validity. This chapter ends after presenting the structural model, which consists of the coefficient of determination, effect size, model goodness of fit, and direct and moderation relationship of hypotheses testing.

4.2 Response Rate

As explained in the previous chapter, this study disseminates the self-administered survey questions via the Google Forms link in Bahasa Malaysia¹ and English² among SMEs in Malaysia between December 2023 and March 2024. These self-administered survey questions allow the respondents to complete the survey on their own without the direct assistance of the researcher in this study. After conducting follow-ups with the targeted respondents via multiple phone calls and WhatsApp messages to enhance the

¹ https://docs.google.com/forms/d/e/1FAIpQLSfh3fDVG1TMyWhiLJJSr9M01LE6Gj_VbF11-arRZJS9tqyTxA/viewform

² <https://docs.google.com/forms/d/e/1FAIpQLSdhnUwKPLO1H2InPbeWcJD-ajm-91DgB5C1eqjtNvyiddiHRw/viewform>

response rate, this study received 260 completed responses out of 491 Google Form links distributed. Thus, this study's 53% response rate is considered sufficient for further analysis. Based on past research in tax compliance studies conducted in Malaysia, response rates above 50% have been reported. For instance, Ahmad et al., (2018) documented a response rate of 64% in their study on tax compliance costs among SMEs, while Radzi et al. (2023) achieved a 72.8% response rate in their investigation of tax literacy and tax non-compliance intentions among SME owners. According to Sekaran and Bougie (2016), a response rate of at least 30% is deemed acceptable in survey research. Table 4.1 presents the summary of the response rate.

Table 4.1
Summary of Response Rate

Response	Rate
Questionnaires administered	491
Questionnaires not returned	(231)
Questionnaires returned	260
Valid response rate (260/491)	53%

4.3 Coding, Reverse-Coding, Data Screening, and Preliminary Analysis

This study coded all data in SPSS version 29, including reverse-coding all negatively worded items before beginning the preliminary analysis. These negatively worded items are TCB2, TCB3, TCB4, TCB6, TCB7, TCB8, TCB9, TCB10, PI1, PI3, PI4, PI6, TF1 and TF2 (to refer Appendix C). Then, this study conducted data screening to assess the appropriateness of the collected data before conducting the analysis. This study conducted data screening, as Hair et al. (2014) suggested, addressing missing data, outliers analysis, normality test, multicollinearity, non-response bias, and common method variance test. The following subsections detail these aspects.

4.3.1 Analysis of Missing Data

In social science research, missing data frequently pose challenges, especially in projects utilizing survey methodologies. Hair et al. (2014) highlighted that such data gaps arise when respondents intentionally or unintentionally omit answers to one or more questions. As explained earlier, this study distributed the survey questionnaires using an online platform, Google Form, with the form settings configured to require the respondents to answer all questions. The respondents cannot proceed with the following questions if they leave the existing question empty. In other words, they can proceed with the following question after answering the existing question. As a result, there were no missing values in the collected responses.

4.3.2 Outliers Analysis

As suggested by Tabacnick and Fidell (2013), this study assessed the data for multivariate outliers using a Mahalanobis Distance Test. When the Mahalanobis Distance (D2) reaches its highest value, it exceeds the Chi-square threshold at a significance level of 0.001, with degrees of freedom equivalent to the number of predictors. This situation indicates the presence of outliers in the dataset (Hair et al., 2010). Following this criterion, this study detected and removed 30 multivariate outliers. This study retained 230 responses for further analysis.

4.3.3 Normality Test

Earlier, Hair et al. (2014) stressed that it is crucial to ensure that the data distribution does not deviate significantly from normality, as highly non-normal data can pose challenges in assessing the significance of parameters. Previously, Field (2009) also suggested any study with more than two hundred sample sizes to check the normality.

Due to the suggestions from these scholars, this study used a graphical method to assess data normality. Figure 4.1 depicts the normal data distribution curve through a histogram. Therefore, the data in this study adhere to the normality assumptions.

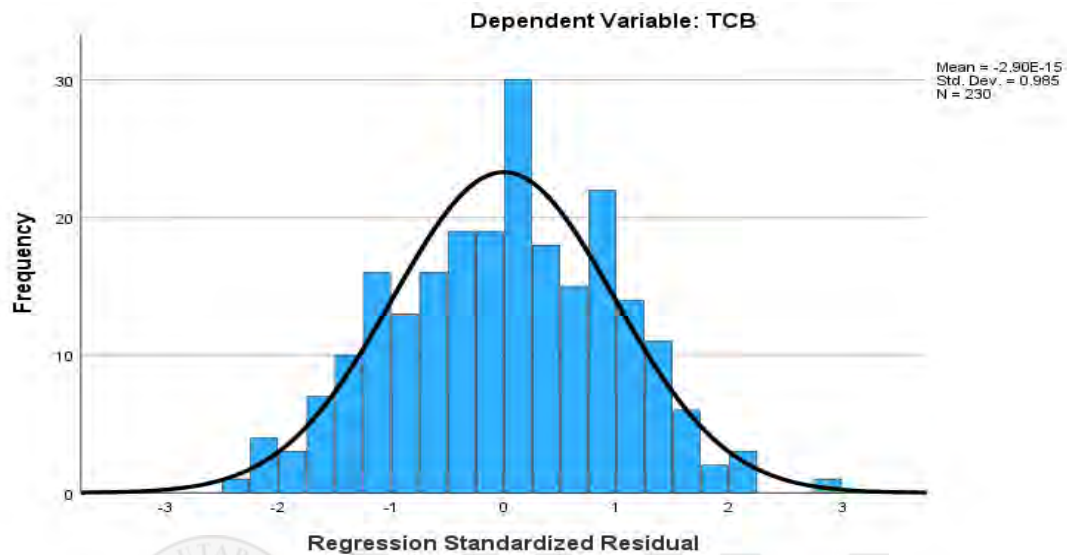


Figure 4.1 *Histogram*

Other than that, this study also checked the normality of the data through the statistical method of skewness and kurtosis. Skewness evaluates the symmetry of a variable's distribution, indicating whether the responses cluster towards the right or left tail, signifying a skewed distribution. According to Kline (1998), skewness should be between +3 and -3. Meanwhile, kurtosis measures the peakedness of the distribution, reflecting whether it is overly narrow with a concentration of responses in the center (Hair et al., 2014). Curran et al. (1996) believed Kurtosis should be between +7 and -7. Table 4.2 presents the results of skewness and kurtosis, which are in the limited range. Thus, this study adhered to the normality assumptions, enhancing confidence in the integrity of the collected data.

Table 4.2
Results of Skewness and Kurtosis for Normality Test

Variables	Skewness		Kurtosis	
	Value	Std. Error	Value	Std. Error
Tax Compliance Behaviour	-0.068	0.16	-1.613	0.32
Psychological Empowerment	-0.292	0.16	-1.092	0.32
Tax Transparency	-0.010	0.16	-1.107	0.32
Peer Influence	-0.247	0.16	-0.867	0.32
Tax Knowledge	-0.313	0.16	-0.564	0.32
Tax Incentive	0.001	0.16	-1.052	0.32
Tax Fairness	-0.379	0.16	-0.911	0.32
Service Quality	-0.721	0.16	-0.256	0.32

4.3.4 Multicollinearity Test

In statistical analysis, Sekaran and Bougie (2016) explained that multicollinearity occurs when two or more independent variables exhibit high correlation in a multiple regression model. One of the ways to examine multicollinearity is through a correlation matrix. Hair et al. (2010) proposed that inter-correlation values exceeding 0.90 indicate a high level of correlation. Table 4.3 depicts the results of the correlation matrix where the values are less than 0.90, indicating no multicollinearity is present in this study.

Table 4.3
Correlation Matrix

	PE	TT	PI	TK	TI	TF	SQ	TCB
PE	1.000							
TT	.470	1.000						
PI	.636	.325	1.000					
TK	.556	.239	.543	1.000				
TI	.493	.236	.301	.278	1.000			
TF	.705	.405	.479	.412	.438	1.000		
SQ	.608	.290	.484	.473	.257	.514	1.000	
TCB	.349	.173	.261	.269	.438	.147	.156	1.000

Besides the correlation matrix presented in Table 4.3, this study also examined the multicollinearity by testing the variation in inflation factor (VIF) and tolerance level. Pallant (2010) indicates high collinearity when tolerance values fall below .100 and VIF values exceed 10. Table 4.4 shows tolerance values between 0.546 and 0.804 and VIF values between 1.243 and 1.833. Therefore, these values show that multicollinearity is not present in this study.

Table 4.4
Tolerance & VIF

Variables	Collinearity Statistics	
	Tolerance	VIF
Psychological Empowerment	0.804	1.243
Tax Transparency	0.582	1.719
Peer Influence	0.624	1.603
Tax Knowledge	0.665	1.504
Tax Incentive	0.546	1.833
Tax Fairness	0.625	1.600
Service Quality	0.758	1.319

4.3.5 Non-Response Bias Test

Berg (2005) defines non-response bias as when certain respondent groups are not adequately represented in survey data due to non-participation. This study then evaluates the non-response bias test by performing a t-test that categorizes respondents into early and late response groups.

The extrapolation method is one of the ways to estimate non-response bias. The extrapolation method assumes that people responding slowly or needing more reminders to answer are similar to those who do not respond. Time trends, the basis of extrapolation, suggest that people who reply after the time frame are similar to those who do not respond. This method is better than waves because it removes any bias from the survey (Armstrong & Overton, 1977).

In this study, respondents must return the questionnaire by a specified time frame. Therefore, this study classified respondents who submitted their responses before or by 9th February 2024 as early responders. 179 responders submitted their responses before or by this date. Then, this study classified those who replied after this date as late responders. 51 responders submitted their responses after this date.

As suggested by Pallant (2011), if the $p > 0.05$, there is no statistically significant difference between the two groups. Based on Table 4.5, where $p > 0.05$ for 8 variables, it can be inferred that the assumption of equal variance is upheld. Consequently, there is no evidence of non-response bias in this study.

Table 4.5
Non-Response Bias t-test

Variables	Response	N	Mean	Std. Deviation	Levene's Test for Equality of Variance	
					F	Sig.
Psychological Empowerment	Early	179	3.8352	0.92488	0.880	0.349
	Late	51	3.7377	0.90321		
Tax Transparency	Early	179	3.6688	0.80363	0.000	0.999
	Late	51	3.5966	0.82843		
Peer Influence	Early	179	3.6089	0.91257	0.089	0.766
	Late	51	3.4641	0.94535		
Tax Knowledge	Early	179	3.8508	0.72271	1.629	0.203
	Late	51	3.7143	0.85714		
Tax Incentive	Early	179	3.5888	0.86160	0.047	0.829
	Late	51	3.4706	0.85587		
Tax Fairness	Early	179	3.7743	0.92287	0.924	0.337
	Late	51	3.7569	0.97350		
Service Quality	Early	179	3.7716	0.87985	0.503	0.479
	Late	51	3.8736	0.83740		
Tax Compliance Behaviour	Early	179	3.7721	0.90237	0.024	0.879
	Late	51	3.6863	0.93617		

Note: As explained in Section 4.2, this study received 260 completed responses out of 491 Google Form links distributed. However, as described in Section 4.3.2, this study detected and removed 30 multivariate outliers. This study retained 230 responses for further analysis.

4.3.6 Common Method Variance Test

This study conducted a principal components factor analysis on all 57 items to address common method variance, as Podsakoff and Organ (1986) suggested. According to Podsakoff and Organ (1986), a single factor should account for no more than 50% of the variance. The analysis of this study revealed a single factor of 31.413% of maximum variance explained, as detailed in Appendix H. Thus, these findings indicate that the data in this study are free from common method bias.

4.4 SMEs Organizational Profiles

This study presents the SMEs' organizational profiles using descriptive analysis in Table 4.6. These organizational profiles specify their location, type of manufacturing business, number of employees, company turnover, operation of business, availability of tax agent, and position of the representative of these SMEs. As explained in Section 4.2, this study received 260 completed responses out of 491 Google Form links distributed. However, as described in Section 4.3.2, this study detected and removed 30 multivariate outliers. Thus, this study retained 230 responses.

Table 4.6
Organisational Information (n = 230)

Demography	Indicators	Frequency	Percentage (%)
Location	Selangor	97	42.2
	Johor	36	15.7
	Penang	37	16.1
	Perak	11	4.8
	Federal Territory of Kuala Lumpur	25	10.9
	Melaka	9	3.9
	Negeri Sembilan	10	4.3
	Kedah	1	0.4
	Pahang	4	1.7
Type of manufacturing business	Food	14	6.1
	Chemicals	13	5.7
	Fabric	11	4.8
	Machinery	34	14.8
	Electric	34	14.8
	Plastic	10	4.3
	Non-Metallic Minerals	10	4.3
	Transport Vehicle Equipment	17	7.4
	Basic Metal	12	5.2
	Office	12	5.2
	Paper, Printing & Publishing	14	6.1
	Others	49	21.3
Number of employees	Less than 5 employees	20	8.7
	6 to 75 employees	90	39.1
	76 to 200 employees	120	52.2
Company turnover	Less than 300,000	65	28.3
	300,001 to 15 million	109	47.4
	16 million to 50 million	56	24.3
Operation of business	Less than 5 years	26	11.3
	6-10 years	49	21.3
	11-15 years	65	28.3
	16-20 years	50	21.7
	More than 20 years	40	17.4
Availability of tax agent	Yes	225	97.8
	No	5	2.2
Position of the Representative	Chief executive officer	29	12.6
	Manager	22	9.6
	Accountant	124	53.9
	Owner-managers	38	16.5
	Others	17	7.4

According to Table 4.6, 42.2% (97 SMEs), 16.1% (37 SMEs), 15.7% (36 SMEs), and 10.9% (25 SMEs) are from Selangor, Penang, Johor, and Kuala Lumpur respectively. On the other hand, only 4.3% (10 SMEs) from Negeri Sembilan. This distribution shows that the sample of this study is predominantly from the Selangor and Penang areas.

Regarding the type of manufacturing business, the statistical data from Table 4.6 reveals that SMEs from machinery and electric manufacturing businesses have the highest representation, with 14.8% (34 SMEs) each. 7.4% (17 SMEs) are manufacturers of transported vehicle equipment, and 6.1% (14 SMEs) are food manufacturers and paper, printing, and publishing manufacturers. On the other hand, other business consists of rubber, medical, textile, furniture, wood, and recycling. Thus, the distribution shows a varied representation across different manufacturing sectors, with machinery and electric sectors being the most prominent in the study's sample.

Table 4.6 also provides a breakdown of SMEs based on the number of business employees. The breakdown reveals a diverse mix of SMEs across various ranges of employees. For instance, 52.2% (120 SMEs) are medium-sized enterprises, with 76 to 200 employees. This suggests a predominant presence of medium-scale businesses in this study. Then, 39.1% (90 SMEs) with 6 to 75 employees are from small to medium-sized enterprises. This indicates a substantial representation of this category. In contrast, micro-enterprises with less than five employees form this study's smallest group of SMEs. 8.7% (20 SMEs) belong to this group.

Besides, Table 4.6 also illustrates the distribution of SMEs based on their turnover. The result shows a diverse range of SMEs based on their turnover categories. For instance, 47.4% (109 SMEs) have a turnover between 300,001 and 15 million, and 28.3% (65

SMEs) have a turnover of less than 300,000. 24.3% (56 SMEs) have a turnover between 16 million and 50 million.

The descriptive analysis detailed in Table 4.6 also shows the operation years of these SMEs. The result reveals that 28.3% (65 SMEs) operated between 11 and 15 years. Then, 21.7% (50 SMEs) operated between 16 and 20 years, 21.3% (49 SMEs) operated between 6 and 10 years, 17.4% (40 SMEs) operated more than 20 years, and 11.3% (26 SMEs) operated less than five years. This situation shows that these SMEs are well-established and experienced in manufacturing sectors. The descriptive statistic also revealed that most SMEs utilize tax agent services. For example, 97.8% (225 SMEs) hire tax agents. Conversely, 2.2% (5 SMEs) are reported not hiring any tax agent.

Then, as stated in the earlier chapter, the unit of analysis is the organization. However, this study also collected statistical data on the position of the representative of these SMEs. Others in the analysis consists of senior associate, auditor, accounts executive, account assistant, finance director and analyst. These representatives are the people in charge of these SMEs, who take the responsibility to answer the survey questionnaire on behalf of these SMEs. Based on these statistical data, 53.9% (124 representatives) are accountants. 16.5% (38 representatives) are the owner-manager, 12.6% (29 representatives) are the chief executive officers, 9.6% (22 representatives) are the managers, and 7.4% (17 representatives) hold the other positions.

4.5 Descriptive Analysis of the Variables

This study used a 5-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. Revilla, Saris, and Krosnick (2014) believed a 5-point Likert scale produced high-quality data. In the meantime, Boone and Boone (2012) also posited that the Likert

scale is based on the mean, a composite score. Hence, the mean and standard deviations must be analysed. Following that, this section discusses the mean and standard deviation for all variables of this study in Table 4.7. The mean values for all variables are between 3.563 and 3.821. The standard deviation values for all variables are between 0.755 and 0.932, respectively.

Table 4.7
Descriptive Statistics of the Variables of the Study

Variables	Number of Items	Mean	Std. Deviation
Psychological Empowerment	8	3.814	0.919
Tax Transparency	7	3.653	0.808
Peer Influence	6	3.577	0.920
Tax Knowledge	7	3.821	0.755
Tax Incentive	5	3.563	0.860
Tax Fairness	5	3.770	0.932
Service Quality	9	3.794	0.870
Tax Compliance Behaviour	10	3.753	0.909

The mean and standard deviation scores show the respondents' views on this study's variables. Psychological empowerment recorded a mean score of 3.814 and a standard deviation of 0.919. This relatively high mean indicates that respondents feel psychologically empowered in their tax-related decisions, suggesting a positive perception of personal control, competence, and influence. The standard deviation of 0.919 shows moderate variability in responses, meaning there are differences in how individuals perceive their psychological empowerment, but the perceptions are relatively consistent among respondents.

Tax transparency had a mean score of 3.653 and a standard deviation of 0.808. This

mean score suggests that respondents perceive a moderate level of transparency in the tax system, reflecting the clarity, openness, and accessibility of tax-related information. The standard deviation of 0.808 indicates a relatively low variability among responses, implying that most respondents share similar views regarding the transparency of the tax system.

Peer influence recorded a mean of 3.577 and a standard deviation of 0.920. This suggests that respondents acknowledge a moderate impact of peer influence on their tax compliance behaviour, indicating that social factors, such as the behaviour or advice of peers, have a noticeable effect. The standard deviation of 0.920 shows that while peer influence is generally recognized, respondents' perceptions of its impact vary moderately.

Tax knowledge showed a mean score of 3.821, the highest among all the independent variables, with a standard deviation of 0.755. This high mean suggests that respondents feel relatively well-informed about tax matters, such as rules, regulations, and processes. The relatively low standard deviation of 0.755 indicates a fairly consistent understanding of tax knowledge among respondents, suggesting a solid foundation of tax awareness within the group.

Tax incentives had a mean score of 3.563 and a standard deviation of 0.860. The mean score indicates that respondents perceive the incentives offered by the tax system as moderately motivating in influencing their compliance behaviour. The standard deviation of 0.860 reflects moderate variability, suggesting that opinions about the effectiveness of tax incentives differ somewhat among respondents.

Tax fairness recorded a mean of 3.770 and a standard deviation of 0.932, indicating that respondents generally perceive the tax system as fair and equitable. The mean score suggests a positive perception of fairness, vital for encouraging compliance. However, the standard deviation of 0.932 indicates moderate variability, suggesting diverse opinions about how fair the tax system is perceived among the respondents.

Service quality had a mean score of 3.794 and a standard deviation of 0.870. The relatively high mean suggests that respondents generally rate the service provided by tax authorities as satisfactory, reflecting good customer service, efficiency, and support. The standard deviation of 0.870 indicates moderate variability, showing that while many view service quality positively, there is still some diversity in perceived service quality.

Tax compliance behaviour, the dependent variable, had a mean of 3.753 and a standard deviation of 0.909. Respondents generally exhibit moderately positive tax compliance behaviour, influenced by knowledge, fairness, and incentives. The standard deviation of 0.909 shows moderate variability, indicating that while tax compliance is generally viewed positively, respondents have varying degrees of compliance behaviour.

Overall, these descriptive statistics provide an overview of the respondents' perceptions of key factors influencing tax compliance, highlighting the importance of psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, tax fairness, and service quality in shaping tax behaviour.

4.6 Assessment of the Measurement Model

The measurement model was assessed through Analysis of Moment Structure (AMOS) version 28. This study confirmed the measurement model by performing confirmatory factor analysis (CFA). These CFA results evaluate initial and modified measurement models, internal consistency reliability, convergent validity, and discriminant validity.

Besides that, Hair et al. (2010) and Holmes-Smith et al. (2006) suggest that employing at least one Goodness of Fit (GOF) index from every model fit category for evaluation purposes is sufficient. This study evaluated GOF by referring to the model fit indices, as shown in Table 4.8.



Table 4.8

Model Fit Indices of Measurement Model

Model Fit Category	Name of Index	Level of Acceptance	Sources
Absolute Fit	Discrepancy Chi-Square (Chi-Square)	P-value > 0.05 Not applicable for large sample sizes (more than 200)	Bentler (1990); Browne & Cudeck (1993); Curran et al. (1996); Hair et al. (2010)
	Root Mean Square of Error Approximation (RMSEA)	RMSEA < 0.08	Browne & Cudeck (1993); Bryne (2010), Hair et al. (2010)
Incremental Fit	Comparative Fit Index (CFI)	CFI ≥ 0.90	Chau (1997); Hair et al. (2010); Kline (2005)
	Tucker-Lewis Index (TLI)	TLI ≥ 0.98	Bentler & Bonett (1980); Hair et al. (2010)
Parsimonious Fit	Relative Chi-Square (Chisq/df)	Chi-square/df < 5.0	Marsh & Hocevar (1985)

4.6.1 Initial and Modified Measurement Model Evaluation of Tax Compliance Behaviour

The results of the CFA for tax compliance behaviour are presented in Table 4.9 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.000. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value of 0.118 exceeds the recommended threshold of 0.08 and TLI (0.892), indicating a less-than-ideal fit. On the positive side, indices like CFI (0.916) and IFI (0.917) suggest a good fit. The χ^2 / df ratio is 4.214, meeting the less or equal to 5.0 criterion. Modifications are needed to improve the model.

Table 4.9
Goodness-of-Fit Indexes for Tax Compliance Behaviour (TCB)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	P > 0.05 P < 0.05	0.000	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.118	Not Passed
CFI	CFI > 0.90	0.916	Passed
IFI	IFI > 0.90	0.917	Passed
TLI	TLI > 0.90	0.892	Not Passed
χ^2/df	Chi-Square/df \leq 5.0	4.214	Passed

As Appendix I shows, AMOS suggested correlating the errors to get a fit model. The errors of item e5 were correlated with those of item e6. Correlating error terms can help reduce model misfits by accounting for shared variance not explained by the latent construct. Then, the items TCB1 and TCB4 were removed from the model. Removing problematic items that do not fit well can significantly enhance the overall model fit. These items likely had large residuals or poor factor loadings, negatively impacting the fit indices. Items TCB2, TCB3, TCB5, TCB6, TCB7, TCB8, TCB9 and TCB10 retained for further analysis.

The result of CFA after modification for tax compliance behaviour is depicted in Table 4.20. Each index, including the Chi-Square statistic, RMSEA, CFI, IFI, TLI, and χ^2/df ratio, meets the prescribed acceptable thresholds, indicating that the tax compliance behaviour measurement model is a satisfactory fit. The RMSEA value dropped to 0.074, falling within the acceptable range (<0.08), indicating an improved and satisfactory fit. The TLI increased to 0.965, well above the 0.90 threshold, suggesting a better overall model fit. CFI and IFI indices also showed improvement, reaching 0.977, above the acceptable range (>0.90). The Chi-Square/df (χ^2/df) ratio improved to 2.268, further confirming the enhancement in model fit as it's well within the criterion of ≤ 5.0 .

The modifications involving error term correlations and item removal were crucial in refining the model, bringing previously unsatisfactory indices, especially RMSEA, into acceptable ranges. This process ensured that the measurement model for tax compliance behaviour demonstrated a satisfactory fit as shown in Table 4.10, making it more reliable for further analysis.

Table 4.10
Goodness-of-Fit Indexes for Tax Compliance Behaviour (TCB) after Modification

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	$P > 0.05$ $P < 0.05$	0.001	Passed Not applicable for large sample sizes (more than 200)
RMSEA	$RMSEA < 0.08$	0.074	Passed
CFI	$CFI > 0.90$	0.977	Passed
IFI	$IFI > 0.90$	0.977	Passed
TLI	$TLI > 0.90$	0.965	Passed
χ^2/df	$Chi-Square/df \leq 5.0$	2.268	Passed

4.6.2 Initial and Modified Measurement Model Evaluation of Psychological Empowerment

The results of CFA for psychological empowerment are presented in Table 4.11 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.000. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value of 0.140 exceeds the recommended threshold of 0.08, indicating a less-than-ideal fit. On the positive side, indices like CFI (0.941), IFI (0.942), and TLI (0.918) suggest a good fit. The χ^2 / df ratio is 5.491, not meeting the less or equal to 5.0 criterion. Modifications are needed to improve the model

Table 4.11
Goodness-of-Fit Indexes for Psychological Empowerment (PE)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	$P > 0.05$	0.000	Passed
	$P < 0.05$		Not applicable for large sample sizes (more than 200)
RMSEA	$RMSEA < 0.08$	0.140	Not Passed
CFI	$CFI > 0.90$	0.941	Passed
IFI	$IFI > 0.90$	0.942	Passed
TLI	$TLI > 0.90$	0.918	Passed
χ^2/df	$Chi-Square/df \leq 5.0$	5.491	Not Passed

To improve the model fit, AMOS software suggested correlating the errors between specific items, a common practice to address model misfits caused by localized sources of error. The suggested modifications involved the following correlations, as shown in Appendix I.

- 1) Item e1 with Item e4: This correlation suggests that the underlying factor might not explain some shared variance between these two items.
- 2) Item e2 with Item e4 and Item e5: This indicates that items e2, e4, and e5 share

some common error variance.

- 3) Item e5 with Item e7: This modification suggests an overlap in the measurement error between these items.
- 4) Item e6 with Item e8: This points to another source of shared error variance that was addressed by correlating the errors.

By correlating these error terms, the study acknowledged that these items have overlapping measurement errors, likely due to similar wording, content, or other contextual factors not captured by the factor structure alone. These modifications help adjust the model to reflect the data structure without altering the underlying theoretical framework.

The result of CFA after modification for psychological empowerment is depicted in Table 4.10. Each index, including the Chi-Square statistic, RMSEA, CFI, IFI, TLI, and χ^2/df ratio, meets or exceeds the prescribed acceptable thresholds, indicating that the measurement model of psychological empowerment demonstrates a satisfactory fit. RMSEA decreased from 0.140 to 0.066, now below the 0.08 threshold, indicating a much better fit. Chi-Square to degrees of freedom ratio (χ^2/df) reduced from 5.491 to 1.994, which is well within the acceptable range (≤ 5.0). Other fit indices like CFI, IFI, and TLI also showed improvement, further confirming the satisfactory fit of the modified model. Thus, items PE1, PE2, PE3, PE4, PE5, PE6, PE7, and PE8 retained for further analysis. These adjustments made the model fit the data much better, resulting in all fit indices meeting or exceeding the recommended thresholds as shown in Table 4.12, allowing the psychological empowerment measurement model to be deemed satisfactory for further analysis.

Table 4.12

Goodness-of-Fit Indexes for Psychological Empowerment (PE) after Modification

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (x2)	P > 0.05 P < 0.05	0.012	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.066	Passed
CFI	CFI > 0.90	0.990	Passed
IFI	IFI > 0.90	0.990	Passed
TLI	TLI > 0.90	0.982	Passed
x ² /df	Chi-Square/df ≤ 5.0	1.994	Passed

4.6.3 Initial and Modified Measurement Model Evaluation of Tax Transparency

The results of CFA for tax transparency are presented in Table 4.13 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.000. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value 0.106 exceeds the recommended threshold of 0.08, indicating a less-than-ideal fit. On the positive side, indices like CFI (0.950), IFI (0.950), and TLI (0.925) suggest a good fit. The x² / df ratio is 3.584, not meeting the less or equal to 5.0 criterion. Modifications are needed to improve the model.

Table 4.13

Goodness-of-Fit Indexes for Tax Transparency (TT)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (x2)	P > 0.05 P < 0.05	0.000	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.106	Not Passed
CFI	CFI > 0.90	0.950	Passed
IFI	IFI > 0.90	0.950	Passed
TLI	TLI > 0.90	0.925	Passed
x ² /df	Chi-Square/df ≤ 5.0	3.584	Passed

AMOS suggested specific modifications to improve the model fit. These modifications involved correlating the error terms of certain items:

- 1) Item e3 was correlated with item e4.
- 2) Item e5 was correlated with item e6.

The result of CFA after modification for tax transparency is depicted in Table 4.12. Each index, including the Chi-Square statistic, RMSEA, CFI, IFI, TLI, and χ^2/df ratio, meets or exceeds the prescribed acceptable thresholds, indicating that the measurement model of tax transparency demonstrates a satisfactory fit. By correlating these error terms, the model could better account for shared variances between these items, reducing the unexplained error and improving the overall model fit. This significantly enhanced the RMSEA value, reducing it from 0.106 to 0.047, below the acceptable threshold of 0.08.

Other indices also improved slightly as a result, demonstrating that the model modifications had a positive impact on the overall fit. For example, the CFI and IFI increased to 0.992, and the TLI improved to 0.985, exceeding the 0.90 benchmark for good model fit. The χ^2/df ratio, previously at 3.584, also improved to 1.506, indicating that the modifications successfully refined the model to meet the acceptable criteria.

The study's modifications significantly improved the model's fit indices, demonstrating that a targeted adjustment of correlating specific error terms can resolve issues with model misfit, particularly for indices like RMSEA. The improved index suggests that the measurement model for tax transparency is now well-fitting as depicted in Table 4.14, allowing for the retained items TT1, TT2, TT3, TT4, TT5, TT6, and TT7 to be used confidently in further analysis.

Table 4.14

Goodness-of-Fit Indexes for Tax Transparency (TT) after Modification

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (x2)	P > 0.05 P < 0.05	0.114	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.047	Passed
CFI	CFI > 0.90	0.992	Passed
IFI	IFI > 0.90	0.992	Passed
TLI	TLI > 0.90	0.985	Passed
x ² /df	Chi-Square/df ≤ 5.0	1.506	Passed

4.6.4 Initial Measurement Model Evaluation of Peer Influence

The results of CFA for peer influence are presented in Table 4.15 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.004. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value of 0.086 slightly exceeds the recommended threshold of 0.08, considered a marginal fit according to Fabrigar et al. (1999), thus indicating that the measurement model of peer influence demonstrates an acceptable fit. On the positive side, indices like CFI (0.976), IFI (0.976), and TLI (0.960) suggest a good fit. The x² / df ratio is 2.686, meeting the less or equal to 5.0 criterion. Therefore, no modifications are needed. Thus, items PI1, PI2, PI3, PI4, PI5, and PI6 retained for further analysis.

Table 4.15

Goodness-of-Fit Indexes for Peer Influence (PI)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (x2)	P > 0.05 P < 0.05	0.004	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA ≤ 0.08	0.086	Passed
CFI	CFI > 0.90	0.976	Passed
IFI	IFI > 0.90	0.976	Passed
TLI	TLI > 0.90	0.960	Passed
x ² /df	Chi-Square/df ≤ 5.0	2.686	Passed

4.6.5 Initial and Modified Measurement Model Evaluation of Tax Knowledge

The results of CFA for tax knowledge are presented in Table 4.16 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.000. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value 0.106 exceeds the recommended threshold of 0.08, indicating a less-than-ideal fit. On the positive side, indices like CFI (0.948), IFI (0.949), and TLI (0.922) suggest a good fit. The χ^2 / df ratio is 3.929, not meeting the less or equal to 5.0 criterion. Modifications are needed to improve the model.

Table 4.16
Goodness-of-Fit Indexes for Tax Knowledge (TK)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	P > 0.05 P < 0.05	0.000	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.106	Not Passed
CFI	CFI > 0.90	0.948	Passed
IFI	IFI > 0.90	0.949	Passed
TLI	TLI > 0.90	0.922	Passed
χ^2/df	Chi-Square/df \leq 5.0	3.929	Passed

As Appendix I shows, AMOS suggested correlating the errors to get a fit model. One of the suggested modifications from AMOS was correlating the errors of certain items, specifically item e1 with item e2. This step is often recommended when items share a common variance not explained by the latent construct, suggesting they have some shared error variance or measurement overlap. The model accounts for this shared variance by correlating the errors, which can improve overall model fit. The modification also involved removing item TK3 from the model. Removing this item helps streamline the model, allowing it to better represent the underlying construct without the noise introduced by problematic items.

The result of CFA after modification for tax knowledge is depicted in Table 4.15. Each index, including the Chi-Square statistic, RMSEA, CFI, IFI, TLI, and χ^2/df ratio, meets the prescribed acceptable thresholds, indicating that the measurement model of tax knowledge demonstrates a satisfactory fit. RMSEA improved to 0.079. This value now falls below the 0.08 threshold, indicating an acceptable fit. The improvement is attributed to better accounting for shared variance between specific items and removing an underperforming item (TK3), leading to a more precise and accurate measurement model. Items TK1, TK2, TK4, TK5, TK6 and TK7 retained for further analysis.

Other indices, such as CFI (0.980), IFI (0.980), and TLI (0.963), also demonstrated substantial improvements, reflecting a model that fits the data well. Reduced Chi-Square/df Ratio to 2.621 confirms that the model modifications were successful, as it now meets the criterion of being less than or equal to 5.0, showing a good balance between model complexity and data fit. By correlating errors and removing problematic items, the study significantly improved the fit of the measurement model as shown in Table 4.17. These changes addressed the initial issues highlighted by the RMSEA and other fit indices, resulting in a model that satisfactorily captures the underlying construct of tax knowledge and meets the prescribed acceptable thresholds.

Table 4.17

Goodness-of-Fit Indexes for Tax Knowledge (TK) after Modification

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (x2)	P > 0.05 P < 0.05	0.007	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.079	Passed
CFI	CFI > 0.90	0.980	Passed
IFI	IFI > 0.90	0.980	Passed
TLI	TLI > 0.90	0.963	Passed
x ² /df	Chi-Square/df ≤ 5.0	2.621	Passed

4.6.6 Initial Measurement Model Evaluation of Tax Incentive

The results of the CFA for tax incentives are presented in Table 4.18 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.320. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value of 0.027 below the 0.08 threshold indicates an acceptable fit. On the positive side, indices like CFI (0.999), IFI (0.999), and TLI (0.997) suggest a good fit. The x² / df ratio is 1.172, meeting the less or equal to 5.0 criterion. Therefore, no modifications are needed. Thus, items TI1, TI2, TI3, TI4, and TI5 were retained for further analysis.

Table 4.18

Goodness-of-Fit Indexes for Tax Incentive (TI)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (x2)	P > 0.05 P < 0.05	0.320	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.027	Passed
CFI	CFI > 0.90	0.999	Passed
IFI	IFI > 0.90	0.999	Passed
TLI	TLI > 0.90	0.997	Passed
x ² /df	Chi-Square/df ≤ 5.0	1.172	Passed

4.6.7 Initial Measurement Model Evaluation of Tax Fairness

The results of CFA for tax fairness are presented in Table 4.19 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.026. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value of 0.082 slightly exceeds the recommended threshold of 0.08, considered a marginal fit according to Fabrigar et al. (1999), thus indicating that the measurement model of peer influence demonstrates an acceptable fit. On the positive side, indices like CFI (0.988), IFI (0.988), and TLI (0.975) suggest a good fit. The χ^2 / df ratio is 2.541, meeting the less or equal to 5.0 criterion. Therefore, no modifications are needed. Thus, items TF1, TF2, TF3, TF4, and TF5 were retained for further analysis.

Table 4.19
Goodness-of-Fit Indexes for Tax Fairness (TF)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	P > 0.05 P < 0.05	0.026	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.082	Passed
CFI	CFI > 0.90	0.988	Passed
IFI	IFI > 0.90	0.988	Passed
TLI	TLI > 0.90	0.975	Passed
χ^2/df	Chi-Square/df \leq 5.0	2.541	Passed

4.6.8 Initial Measurement Model Evaluation of Service Quality

The results of CFA for service quality are presented in Table 4.20 and can be seen in Appendix I. The Chi-Square statistic shows a significant value of 0.000. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value of 0.077 is below the threshold of 0.08, indicating an acceptable fit. On the positive side, indices like CFI (0.975), IFI (0.975), and TLI (0.966) suggest a good fit. The χ^2 / df ratio is

2.370, meeting the less or equal to 5.0 criterion. Therefore, no modifications are needed and items SQ1, SQ2, SQ3, SQ4, SQ5, SQ6, SQ7, SQ8, and SQ9 retained for further analysis.

Table 4.20
Goodness-of-Fit Indexes for Service Quality (SQ)

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	P > 0.05 P < 0.05	0.000	Passed Not applicable for large sample sizes (more than 200)
RMSEA	RMSEA < 0.08	0.077	Passed
CFI	CFI > 0.90	0.975	Passed
IFI	IFI > 0.90	0.975	Passed
TLI	TLI > 0.90	0.966	Passed
χ^2/df	Chi-Square/df \leq 5.0	2.370	Passed

4.6.9 Modified Measurement Model

Figure 4.2 and Table 4.21 presents the results of the modified measurement model. The Chi-Square statistic shows a significant value of 0.000. For large sample sizes exceeding 200, this index is not applicable. The RMSEA value 0.044 is below the 0.08 threshold, indicating an acceptable fit. On the positive side, indices like CFI (0.930), IFI (0.930), and TLI (0.925) suggest a good fit. The χ^2 / df ratio is 1.439, meeting the less or equal to 5.0 criterion.

All indices assessing model adequacy exceed the predetermined baseline threshold, indicating the favourable fit of the new measurement model to the dataset. Therefore, based on these findings, it can be inferred that the goodness-of-fit is deemed satisfactory, and 54 items were retained for further analysis.

Table 4.21

Goodness-of-Fit Indexes for Modified Measurement Model

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	$P > 0.05$ $P < 0.05$	0.000	Passed Not applicable for large sample sizes (more than 200)
RMSEA	$RMSEA < 0.08$	0.044	Passed
CFI	$CFI > 0.90$	0.930	Passed
IFI	$IFI > 0.90$	0.930	Passed
TLI	$TLI > 0.90$	0.925	Passed
χ^2/df	$Chi-Square/df \leq 5.0$	1.439	Passed



Chi-square (df) = 1941.245 (1349); P value (≥ 0.05) = .000; Relative Chi-Sq (≤ 5) = 1.439
 CFI (≥ 0.9) = .930; IFI (≥ 0.9) = .930; TLI (≥ 0.9) = .925
 RMSEA (≤ 0.08) = .044; RMR (≤ 0.08) = .057 (Standardized estimates)

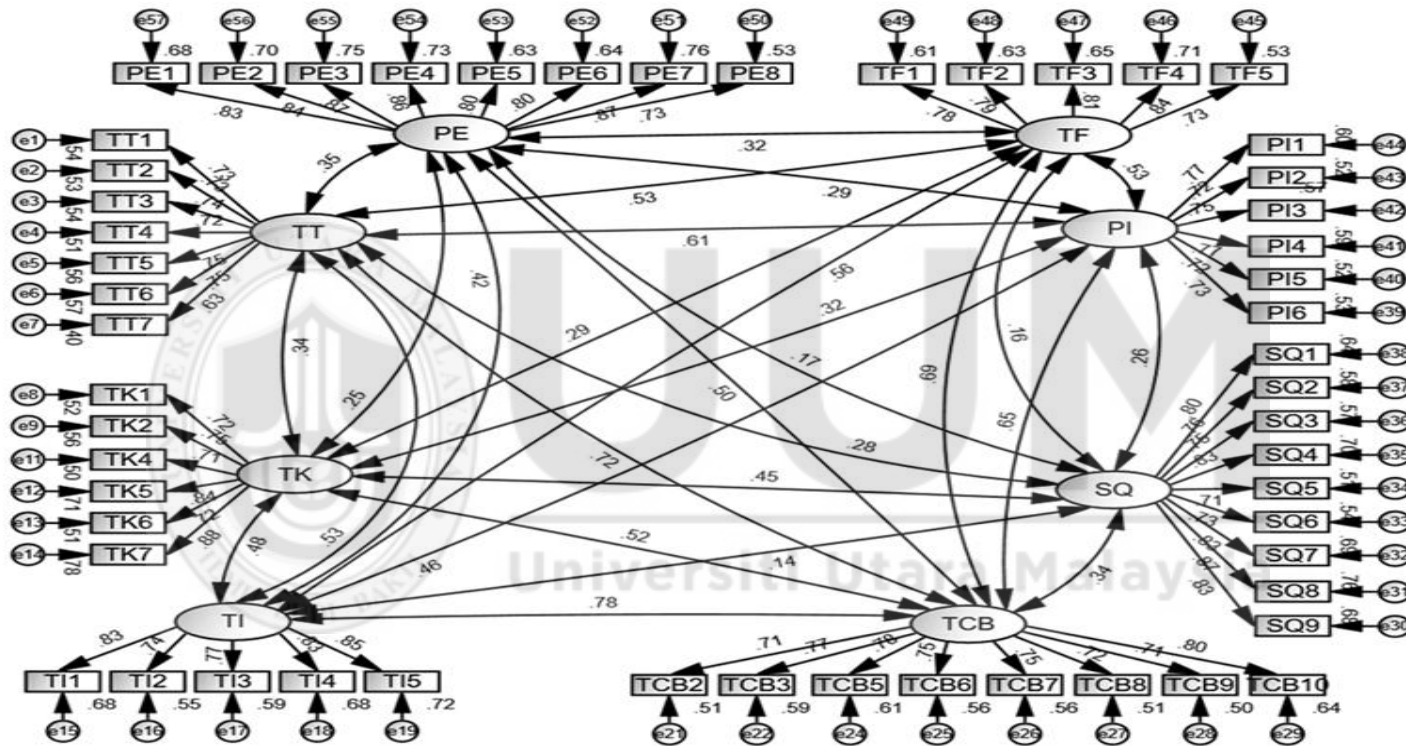


Figure 4.2 Modified Measurement Model

4.6.10 Internal Consistency Reliability (CR)

This study evaluates internal consistency using Composite Reliability (CR). Hair et al. (2014) suggested that the values should fall within the range of 0.70 to 0.95; however, those exceeding 0.95 are deemed unacceptable. Table 4.22 shows composite reliability values in the range of 0.882 to 0.944. This indicates that internal reliability measurements were achieved.

Table 4.22
Values of Composite Reliability (CR)

Variables	Composite Reliability (CR)
Psychological Empowerment	0.944
Tax Transparency	0.884
Peer Influence	0.882
Tax Knowledge	0.898
Tax Incentive	0.901
Tax Fairness	0.893
Service Quality	0.938
Tax Compliance Behaviour	0.911

4.6.11 Convergent Validity

Convergent validity in this study is evaluated through the Average Variance Extracted (AVE), employing a threshold of 0.50 (Chin, 1998). Table 4.23 depicts the values of AVE, which are in the range of 0.521 to 0.680, exceeding the threshold of 0.50. This suggests that the variables in this study exhibit satisfactory levels of convergent validity.

Table 4.23
Values of Average Variance Explained (AVE)

Variables	AVE
Psychological Empowerment	0.680
Tax Transparency	0.521
Peer Influence	0.555
Tax Knowledge	0.596
Tax Incentive	0.645
Tax Fairness	0.627
Service Quality	0.629
Tax Compliance Behaviour	0.562

4.6.12 Discriminant Validity

Discriminant validity refers to the extent to which a specific latent variable differentiates itself from others within a research model (Duarte & Raposo, 2010). This study examined discriminant validity using the Average Variance Extracted (AVE). By contrasting the correlations between latent variables and the square roots of their AVEs, discriminant validity was demonstrated. Notably, the square root of each variable's AVE surpassed its highest correlation with any other variable in the model (Hair et al., 2014). As illustrated in Table 4.24, the square roots of the AVEs exceeded the correlations of all other variables. Thus, these results suggest that the necessary level of discriminant validity has been attained among the variables in this study.

Table 4.24
Discriminant Validity (Fornell-Larcker)

	PE	TT	PI	TK	TI	TF	SQ	TCB
PE	0.825							
TT	0.351	0.722						
PI	0.293	0.607	0.745					
TK	0.249	0.336	0.320	0.772				
TI	0.421	0.531	0.464	0.484	0.803			
TF	0.317	0.535	0.526	0.293	0.562	0.792		
SQ	0.173	0.279	0.263	0.454	0.144	0.165	0.793	
TCB	0.495	0.717	0.646	0.520	0.740	0.691	0.338	0.750

4.7 Assessment of the Structural Model

After completing the measurement model assessment, this study continued with structural model evaluation. This evaluation consists of the coefficient of determination (R^2), goodness of fit of the model, the direct and indirect relationship of hypotheses testing, effect sizes (f^2), and effect size of service quality as a moderator.

4.7.1 Coefficient of Determination (R^2)

The coefficient of determination, R^2 value, is a crucial metric within the structural model evaluation undertaken in this study (Hair et al., 2014). The R^2 value illustrates the adequacy of the model's fit for a quantitative endogenous variable, indicating how the exogenous variables collectively correlate with the endogenous variable (Menard, 2012). Following Cohen's (1988) recommendation, R^2 values of 0.02, 0.13, and 0.26 for the endogenous variable can indicate weak, moderate, and substantial relationships, respectively. Table 4.25 displays the R^2 values before and after incorporating the interacting effects of the moderator. The observed R^2 is consistent with prior research, reflecting similarly high values as those previously reported by Wasao (2014) at 0.801, Korir et al. (2015) at 0.800, and Marimuthu and Ghani (2023) at 0.724. Therefore, it can be concluded that the R^2 results have achieved an acceptable level.

Table 4.25
Coefficient of Determination

Latent Construct	R² Value	Relationship
Tax Compliance Behaviour direct model	0.822	Substantial
Tax Compliance Behaviour Moderated Model	0.821	Substantial

4.7.2 Goodness of Fit of Structural Model

Figure 4.3 and Table 4.26 comprehensively analyze the goodness-of-fit indexes for the structural model. The evaluation encompasses several key metrics for assessing the alignment between the model and the observed data. Firstly, the Chi-Square test yielded a p-value of 0.000, which indicates a good fit. The Root Mean Square Error of Approximation (RMSEA) stands notably low at 0.044, well below the acceptable threshold of 0.08, indicating a favourable fit. Furthermore, the Comparative Fit Index (CFI), Incremental Fit Index (IFI), and Tucker-Lewis Index (TLI) all exceed the recommended threshold of 0.90, with values of 0.930, 0.930, and 0.925, respectively, affirming the model's robustness.

Additionally, the Chi-Square divided by degrees of freedom (χ^2/df) ratio, at 1.439, falls comfortably within the acceptable range, further supporting the model's adequacy. Thus, the findings from the goodness-of-fit test, along with the associated indices, collectively affirm the model's appropriateness.

Table 4.26
Goodness-of-Fit Indexes of Structural Model

Fit Index	Acceptable Range	Value	Evaluation
Chi-Square (χ^2)	$P > 0.05$ $P < 0.05$	0.000	Passed Not applicable for large sample sizes (more than 200)
RMSEA	$RMSEA < 0.08$	0.044	Passed
CFI	$CFI > 0.90$	0.930	Passed
IFI	$IFI > 0.90$	0.930	Passed
TLI	$TLI > 0.90$	0.925	Passed
χ^2/df	$Chi-Square/df \leq 5.0$	1.439	Passed



Chi-square (df) = 1941.245 (1349); P value (≥ 0.05) = .000; Relative Chi-Sq (≤ 5) = 1.439
 CFI (≥ 0.9) = .930; IFI (≥ 0.9) = .930; TLI (≥ 0.9) = .925
 RMSEA (≤ 0.08) = .044; RMR (≤ 0.08) = .057 (Standardized estimates)

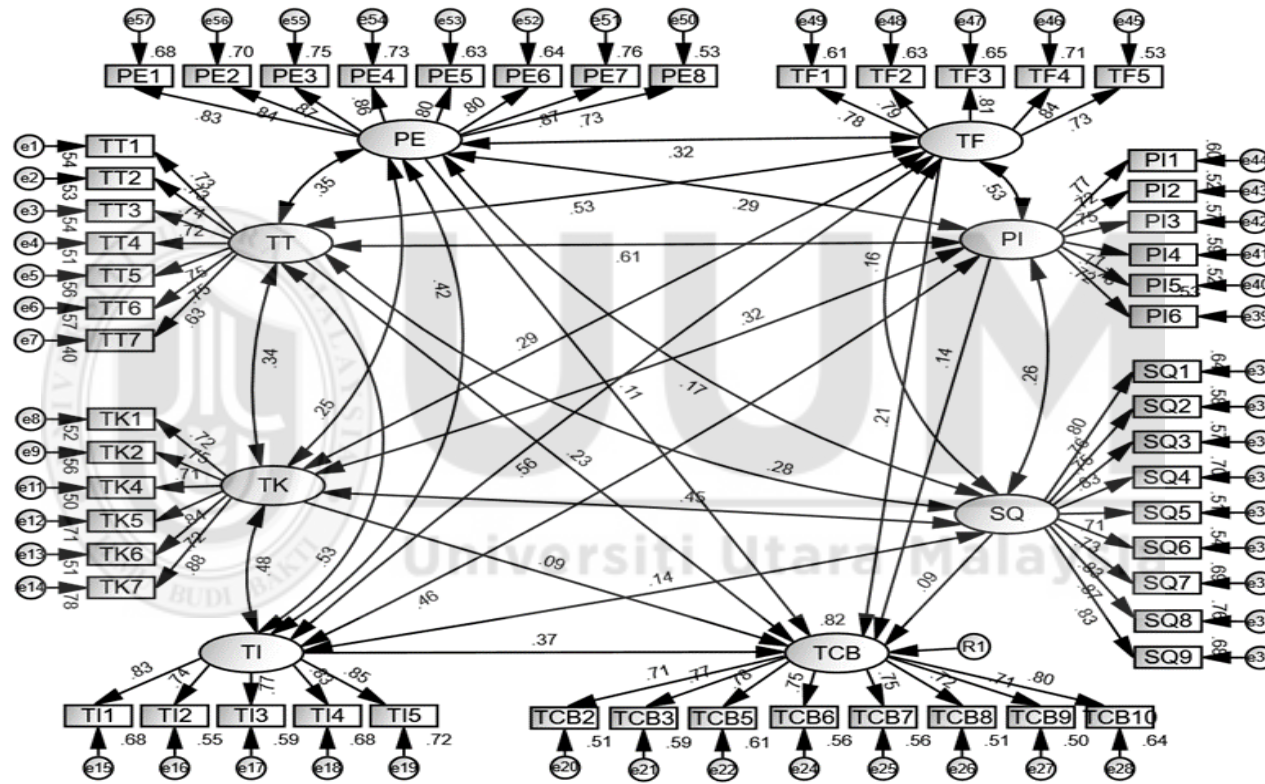


Figure 4.3 Structural Model (Direct Hypotheses)

4.7.3 Direct Relationships Hypotheses Testing

Direct associations in this study were examined through structural model assessment. This assessment is related to the first objective of this study, which covers H₁ to H₆. This study utilised the bootstrapping technique, which can be generated in AMOS. Bootstrapping is a prevalent non-parametric methodology for evaluating direct and indirect association (Mackinnon et al., 2004). Table 4.27 depicts the findings of direct relationship hypotheses testing.

Table 4.27
Results of Hypotheses Testing (Direct Relationships)

H	Relationship	Path Coefficient (β value)	S.E.	C.R.	p	Decision
H ₁	PE-->TCB	0.113	.061	2.593	.010	Supported
H ₂	TT-->TCB	0.228	.080	3.744	.000	Supported
H ₃	PI-->TCB	0.139	.066	2.457	.014	Supported
H ₄	TK-->TCB	0.088	.062	1.709	.087	Not Supported
H ₅	TI-->TCB	0.372	.071	5.749	.000	Supported
H ₆	TF-->TCB	0.210	.056	3.746	.000	Supported

Note: Significant at $p < 0.01$, $p < 0.05$. All hypotheses are based on 1-tail.

The result of psychological empowerment towards tax compliance behaviour revealed a positive and significant relationship ($\beta = 0.113$; $t = 2.593$; $p = 0.010$), supporting H₁. The result of tax transparency toward tax compliance behaviour revealed a positive and significant relationship ($\beta = 0.228$; $t = 3.744$; $p = 0.000$). Hence, H₂ was supported. The result of peer influence towards tax compliance behaviour revealed a positive and significant relationship ($\beta = 0.139$; $t = 2.457$; $p = 0.014$), supporting H₃. The result of tax knowledge towards tax compliance behaviour revealed a positive but insignificant relationship ($\beta = 0.088$; $t = 1.709$; $p = 0.087$), not supporting H₄. The result of tax incentives toward tax compliance behaviour revealed a positive and significant

relationship ($\beta = 0.372$; $t = 5.749$; $p = 0.000$), supporting H₅. The result of tax fairness toward tax compliance behaviour revealed a positive and significant relationship ($\beta = 0.210$; $t = 3.746$; $p = 0.000$). Hence, H₆ was supported.

4.7.4 Effect Sizes (f^2)

Following a comprehensive assessment of the collective influence exerted by all exogenous variables on the endogenous variable, the effect size (f^2) emerges as an important criterion, facilitating the evaluation of the relative impact of each latent exogenous variable on the endogenous counterpart (Hair et al., 2014). The formula to calculate effect sizes (f^2) as follows:

$$f^2 = \frac{R^2 \text{ included} - R^2 \text{ excluded}}{1 - R^2 \text{ included}}$$

As Cohen (1988) outlined, $f^2 \geq 0.02$, $f^2 \geq 0.15$, and $f^2 \geq 0.35$ represent small, medium, and large effect sizes, respectively. Table 4.28 describes the respective effect sizes f^2 of the latent construct on the structural model of this study. Chin et al. (2003) asserted that regardless of the magnitude of effect sizes, each holds its distinctive capacity to predict or influence the endogenous variable and should, therefore, be regarded as relevant. Consequently, it remains within an acceptable range.

Table 4.28

Effect Size

Variables	R² Included	R² Excluded	f²	Effect Size
Psychological Empowerment	0.822	0.816	0.034	Small
Tax Transparency	0.822	0.805	0.096	Small
Peer Influence	0.822	0.820	0.011	Small
Tax Knowledge	0.822	0.820	0.011	Small
Tax Incentive	0.822	0.774	0.270	Medium
Tax Fairness	0.822	0.807	0.084	Small

4.7.5 Moderation Relationships Hypotheses Testing

Including the moderating variable in the study's model is intended to understand tax compliance behaviour further. Moderation is essential when an exogenous variable influences an endogenous one, requiring the involvement of a third variable, the moderator. This moderator interacts with the exogenous variable to clarify and interpret the endogenous variable (Baron & Kenny, 1986). In this study, service quality as a moderator is expected to strengthen the relationship between peer influence, tax knowledge, tax incentive, tax fairness, and tax compliance behaviour among SME taxpayers. Figure 4.4 shows the structural model of moderating relationships.

Chi-square (df) = 1173.274 (819); P value (≥ 0.05) = .000; Relative Chi-Sq (≤ 5) = 1.433
 ; CFI (≥ 0.9) = .940; IFI (≥ 0.9) = .941; TLI (≥ 0.9) = .934
 ;RMSEA (≤ 0.08) = .043; RMR (≤ 0.08) = .055 (Standardized estimates)

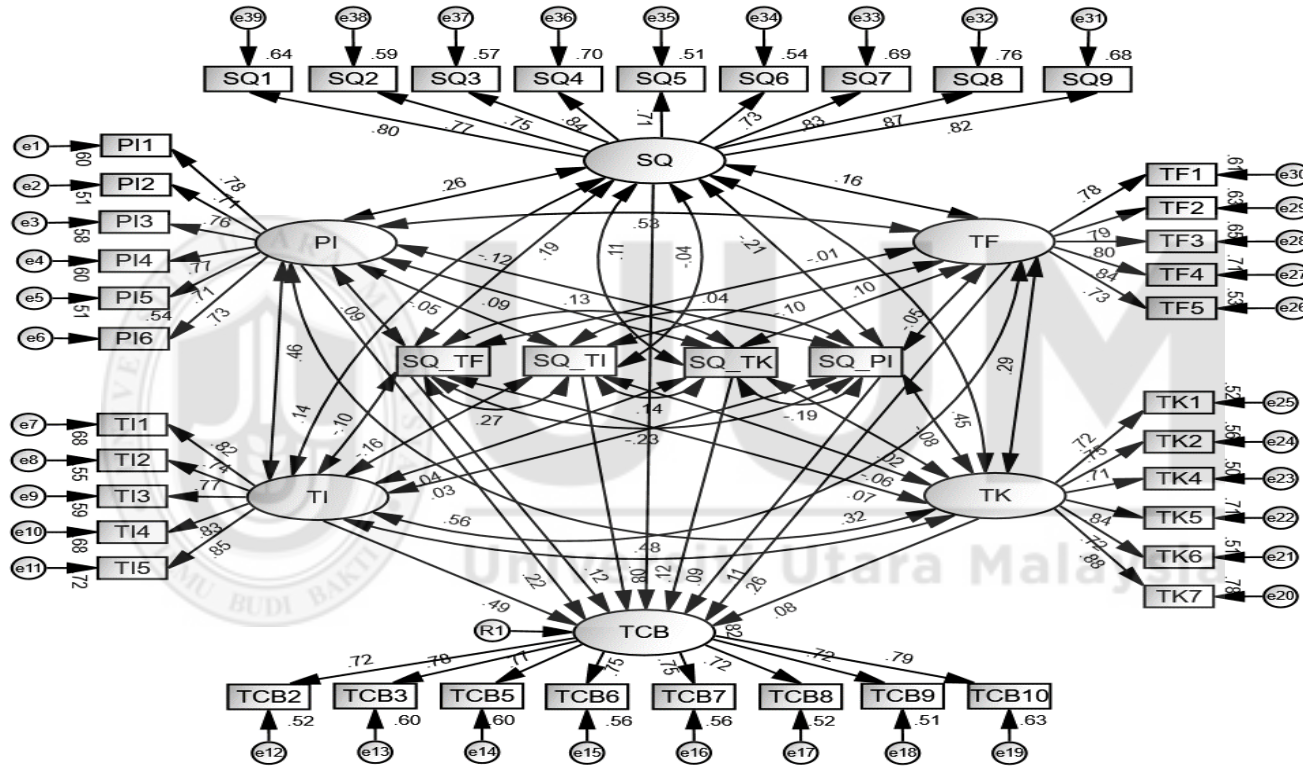


Figure 4.4 Structural Model (Indirect Hypotheses)

Table 4.29

Results of Hypotheses Testing (Indirect Relationships)

H	Relationship	Path Coefficient (β value)	S.E.	C.R.	p	Decision
H ₇	PISQ-->TCB	0.109	.048	2.707	.007	Supported
H ₈	TKSQ-->TCB	0.090	.064	1.604	.109	Not Supported
H ₉	TISQ-->TCB	0.083	.049	2.084	.037	Supported
H ₁₀	TFSQ-->TCB	0.115	.058	4.550	.00	Supported

Note: Significant at $p < 0.01$, $p < 0.05$. All hypotheses are based on 1-tail.

The results revealed that three hypothesised relationships subject to moderation demonstrated statistical significance which are peer influence, tax incentive, and tax fairness. Dawson's (2014) template was adapted to represent and visualise moderating effects. As a result, graphical depictions of the three significant moderating path coefficients were plotted, as illustrated in Figures 4.4, 4.5, and 4.6. The slope plot suggests that the connection between exogenous and endogenous constructs varied depending on the high and low levels of the moderating effects, depicted by two distinct lines (Hair et al., 2014).

4.7.5.1 The Moderating Effect of Service Quality on the Relationship between Peer Influence and Tax Compliance Behaviour among SMEs in Malaysia

Hypothesis 7 predicted that service quality would moderate the relationship between peer influence and tax compliance behaviour. In simpler terms, it suggested that the impact of peer influence on tax compliance behaviour would be stronger or more effective when service quality is higher. The statistical analysis showed that the interaction effect was significant with a Coefficient (β) of 0.109. This positive value indicates that service quality enhances the relationship between peer influence and TCB. Then, a t-value of 2.707 suggests that the effect is statistically meaningful. Next,

a p-value of 0.007 is below the standard significance level of 0.05; the moderating effect of service quality is confirmed to be significant.

Figure 4.5 shows an upward trend, indicating that tax compliance behaviour increases as peer influence goes from low to high. The effect of peer influence on TCB is evident in high and low-service quality conditions. The blue dashed line (SQ: High) is consistently above the red solid line (SQ: Low), suggesting that TCB is higher when service quality is high than when it is low, regardless of the level of peer influence. The steeper slope of the blue line compared to the red line indicates that the positive impact of peer influence on TCB is stronger when service quality is high.

The graph visually supports the statistical findings that service quality significantly enhances the positive relationship between peer influence and tax compliance behaviour. High service quality makes the influence of peers more impactful in encouraging compliance. Therefore, Hypothesis 7 is supported, demonstrating that maintaining high service quality is crucial in amplifying the effect of social factors like peer influence on tax compliance behaviour. In other words, improving service quality can make social influences, such as peer encouragement or norms, more effective in promoting compliant behaviour among individuals.

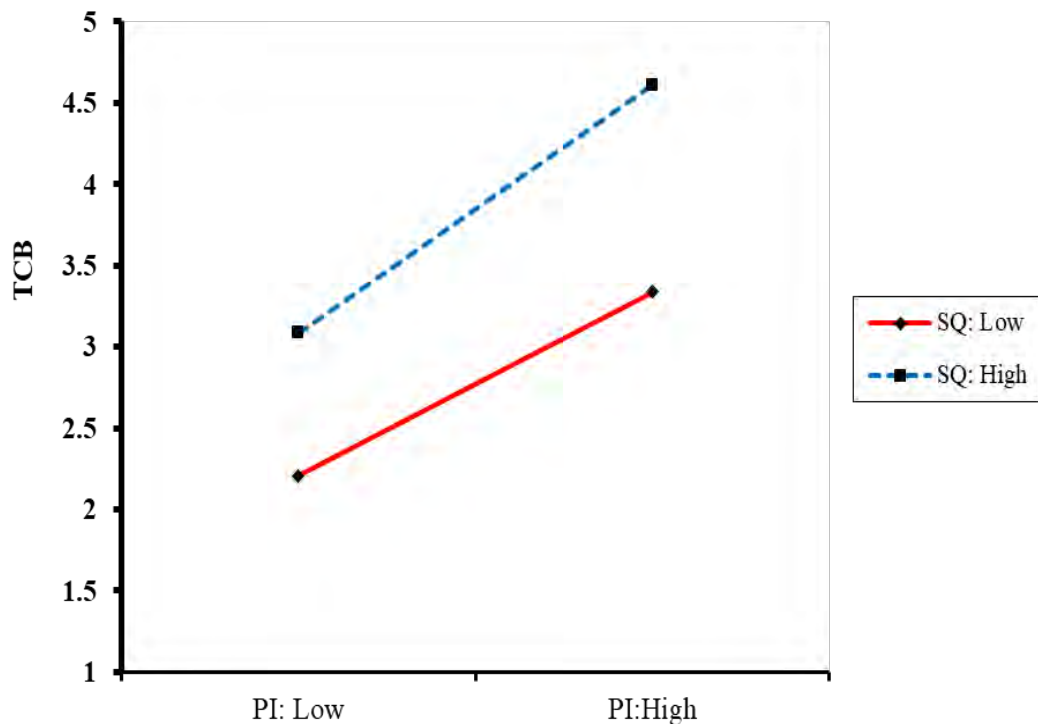


Figure 4.5 Interaction between Peer Influence and Tax Compliance Behaviour



4.7.5.2 The Moderating Effect of Service Quality on the Relationship between Tax Knowledge and Tax Compliance Behaviour among SMEs in Malaysia

Table 4.29 presents the indirect hypotheses results. The results revealed that one hypothesised relationship subject to moderation demonstrated statistical insignificance. Hypothesis 4a predicted that service quality would moderate the relationship between tax knowledge and tax compliance behaviour. The results show that ($\beta = 0.090$; $t = 1.604$; $p = 0.109$), this implies that service quality had no moderating effect between tax knowledge and tax compliance behaviour. Hence, H4a was not supported.

4.7.5.3 The Moderating Effect of Service Quality on the Relationship between Tax Incentive and Tax Compliance Behaviour among SMEs in Malaysia

Hypothesis 9 predicted that service quality (SQ) would moderate the relationship between tax incentive (TI) and tax compliance behaviour (TCB). This means that the effect of tax incentives on tax compliance behaviour would be influenced by the level of service quality, specifically that high service quality would enhance the effectiveness of tax incentives in promoting compliance. The results show that the moderating effect of service quality is statistically significant. The positive value of Coefficient (β) = 0.083 suggests that service quality enhances the relationship between tax incentives and TCB. Then, a t-value of 2.084 indicates that the effect is statistically meaningful. Next, a p-value of 0.037 is below the significance level of 0.05, confirming that the moderating effect of service quality is significant.

Figure 4.6 shows that the blue dashed line (SQ: High) is consistently above the red solid line (SQ: Low), showing that at each level of tax incentives, TCB is higher when service quality is high compared to when it is low. The steeper slope of the blue line compared to the red line indicates that the positive impact of tax incentives on TCB is stronger when service quality is high.

The statistical analysis and the graph support Hypothesis 9, demonstrating that service quality significantly enhances the positive relationship between tax incentives and tax compliance behaviour. High service quality makes tax incentives more effective in encouraging compliance.

The findings highlight the importance of maintaining high service quality to maximize the effectiveness of tax incentives. Improving service quality can make financial

incentives more persuasive and impactful in promoting compliant behaviour among taxpayers.

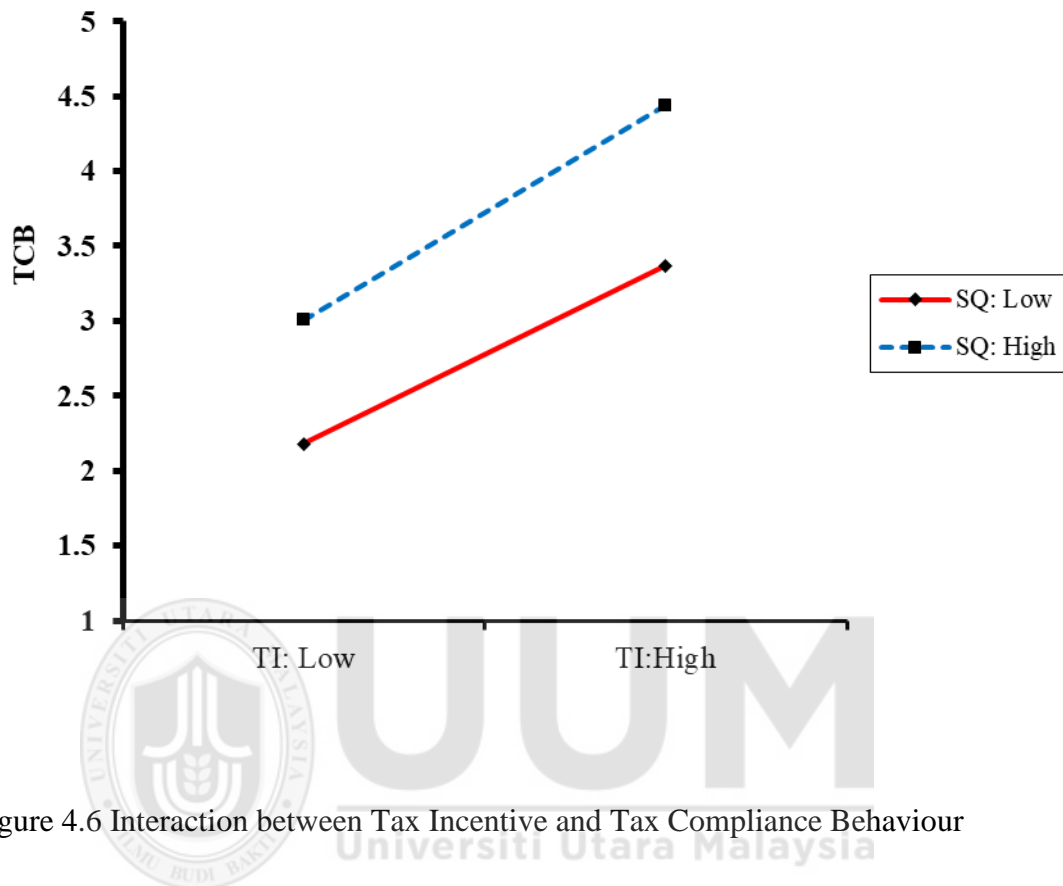


Figure 4.6 Interaction between Tax Incentive and Tax Compliance Behaviour

4.7.5.4 The Moderating Effect of Service Quality on the Relationship between Tax Fairness and Tax Compliance Behaviour among SMEs in Malaysia

Hypothesis 10 predicted that service quality (SQ) would moderate the relationship between tax fairness (TF) and tax compliance behaviour (TCB). This hypothesis suggests that the effect of perceived tax fairness on compliance behaviour would be stronger when service quality is higher. The results confirm that the moderating effect of service quality is significant. The positive value of the Coefficient (β) of 0.115 indicates that service quality enhances the relationship between tax fairness and TCB. Then, a t-value of 4.550 suggests a very strong and significant effect. Next, a p-value of 0.000 is well below the 0.05 significance threshold, confirming that the moderating

effect of service quality is statistically significant.

Figure 4.7 shows that the blue dashed line (SQ: High) is consistently above the red solid line (SQ: Low), showing that at each level of tax fairness, TCB is higher when service quality is high compared to low. The steeper slope of the blue line compared to the red line indicates that the positive impact of tax fairness on TCB is stronger when service quality is high.

The findings support Hypothesis 10, demonstrating that service quality significantly enhances the positive relationship between tax fairness and tax compliance behaviour. High service quality amplifies the impact of perceived fairness on compliance. The results emphasize that perceived fairness in the tax system is more effective in promoting compliance when taxpayers perceive high service quality. This underscores the importance of ensuring quality services and fair tax policies to encourage compliance.

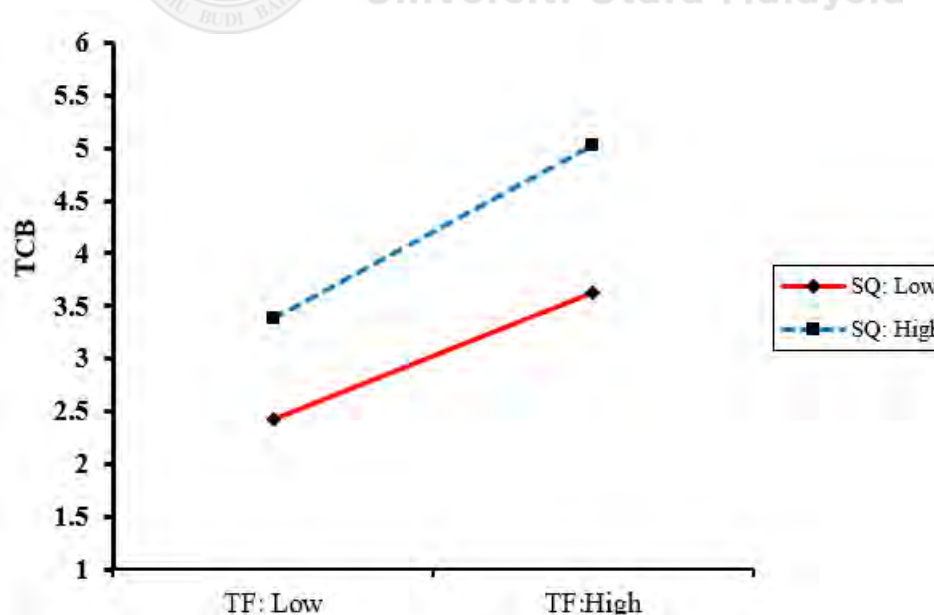


Figure 4.7 Interaction between Tax Fairness and Tax Compliance Behaviour

4.7.6 Effect Size of Service Quality as a Moderator

In assessing the degree of influence exerted by service quality as a moderator, Cohen's (1988) effect sizes were computed. As Cohen (1988) outlined, f^2 values of 0.02, 0.15, and 0.35 signify small, medium, and large effects within the structural model, respectively. The formula to calculate the effect size of the moderator is as follows:

$$Effect\ Size = \frac{R^2\ model\ with\ moderator - R^2\ model\ without\ moderator}{1 - R^2\ model\ with\ moderator}$$

Thus, Table 4.30 presents the outcomes of the effect size of the moderator, revealing that the moderation interaction effect is small. However, a small effect size does not always mean the moderating effect is unimportant. Even a small change can matter, especially in unusual situations with strong moderation. So, if the changes in beta are meaningful, it is crucial to pay attention to these situations (Chin et al., 2003).

Therefore, it can be concluded that the service quality model proposed in this study has a relatively small but still significant impact on moderating the relationship between exogenous and endogenous variables compared to the primary model.

Table 4.30
Effect Size of Service Quality as a Moderator

Variables	R² Included	R² Excluded	f²	Effect Size
PISQ-->TCB	0.821	0.812	0.050	Small
TKSQ-->TCB	0.821	0.815	0.034	Small
TISQ-->TCB	0.821	0.814	0.039	Small
TFSQ-->TCB	0.821	0.802	0.106	Small

4.7.7 Summary of Hypotheses' Results

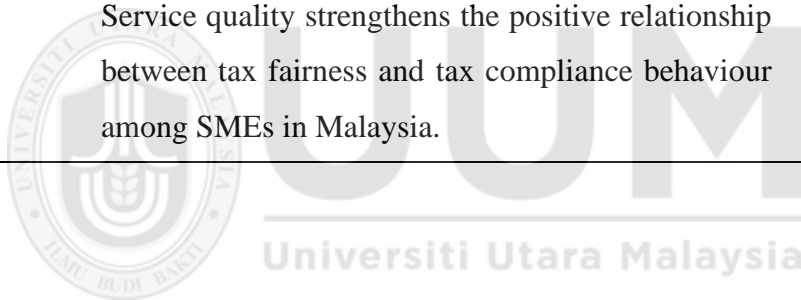
The results of the hypotheses are summarized in Table 4.31. Eight of the ten hypotheses were supported, while the remaining two were not.

Table 4.31
Summary of Hypotheses' Results

Hypotheses	Path	Result
Direct Relationships		
PE-->TCB:		
H ₁	There is a positive relationship between psychological empowerment and tax compliance behaviour among SMEs in Malaysia.	Supported
TT-->TCB:		
H ₂	There is a positive relationship between tax transparency and tax compliance behaviour among SMEs in Malaysia.	Supported
PI-->TCB:		
H ₃	There is a positive relationship between peer influence and tax compliance behaviour among SMEs in Malaysia.	Supported
TK-->TCB:		
H ₄	There is a positive relationship between tax knowledge and tax compliance behaviour among SMEs in Malaysia.	Not Supported
TI-->TCB:		
H ₅	There is a positive relationship between tax incentive and tax compliance behaviour among SMEs in Malaysia.	Supported
TF-->TCB:		
H ₆	There is a positive relationship between tax fairness and tax compliance behaviour among SMEs in Malaysia.	Supported

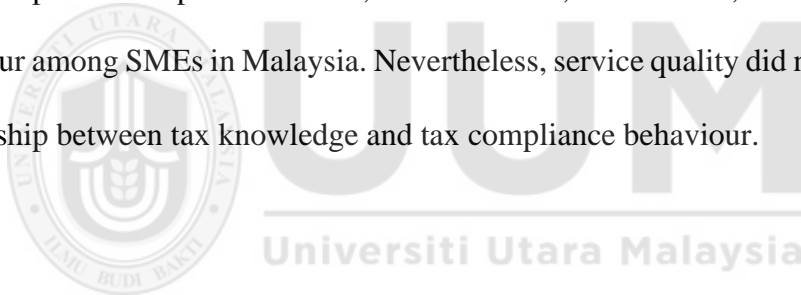
Moderating Effects

H ₇	PISQ-->TCB: Service quality strengthens the positive relationship between peer influence and tax compliance behaviour among SMEs in Malaysia.	Supported
H ₈	TKSQ-->TCB: Service quality strengthens the positive relationship between tax knowledge and tax compliance behaviour among SMEs in Malaysia.	Not Supported
H ₉	TISQ-->TCB: Service quality strengthens the positive relationship between tax incentive and tax compliance behaviour among SMEs in Malaysia.	Supported
H ₁₀	TFSQ-->TCB: Service quality strengthens the positive relationship between tax fairness and tax compliance behaviour among SMEs in Malaysia.	Supported



4.8 Summary

This chapter is structured to answer research questions and empirically fulfil research objectives. After performing several assessments of measurement models, which consist of initial and modified measurement models of each variable, internal consistency reliability, convergent validity, and discriminant validity, this study assessed a structural model that supports eight of the ten hypotheses. Indeed, this study proves that psychological empowerment, tax transparency, peer influence, tax incentives, and tax fairness are related to tax compliance behaviour among SMEs in Malaysia. However, the tax knowledge of these SMEs did not relate to their tax compliance behaviour. Besides, this study also found that service quality moderates the relationship between peer influence, tax incentives, tax fairness, and tax compliance behaviour among SMEs in Malaysia. Nevertheless, service quality did not moderate the relationship between tax knowledge and tax compliance behaviour.



CHAPTER FIVE

DISCUSSION, IMPLICATIONS AND CONCLUSION

5.1 Introduction

While the earlier chapters introduce the study, review the literature, and present the methodology and quantitative results, this chapter discusses the results based on the two research objectives and ten hypotheses. This study proposed six hypotheses for assessing the first objective and four for determining the second objective. Besides that, this chapter also highlights the theoretical and practical implications of the study. These implications address the scientific values of this study. This chapter ends by addressing the limitations that influence and bind its outcome. Thus, this chapter also provides some suggestions for future studies that can expand the results of this study and contribute to the body of knowledge.

5.2 Discussion of the First Research Objective

The first objective of this study is to examine the relationship between psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, tax fairness, and tax compliance behaviour among SMEs in Malaysia. Six hypotheses were proposed in assessing the first objective: H₁, H₂, H₃, H₄, H₅, and H₆. The following discussions elaborate on the detailed analysis of the direct relationships associated with the first objective.

5.2.1 Psychological Empowerment and Tax Compliance Behaviour

This study hypothesized that psychological empowerment would positively affect tax compliance behaviour among SMEs in Malaysia. The results confirmed this hypothesis, demonstrating a significant positive relationship between psychological empowerment and tax compliance behaviour, with a coefficient (β) of 0.113, a t-value of 2.593, and a p-value of 0.010, supporting Hypothesis 1 (H_1). This indicates that when SME taxpayers feel psychologically empowered to make competent decisions, they are more likely to comply with tax regulations, reflecting a proactive and responsible approach toward tax obligations.

Psychological empowerment is a motivational construct that reflects an individual's intrinsic motivation, characterized by perceptions of control, competence, self-determination, and meaningful impact. According to Spreitzer (1995), psychological empowerment consists of four key dimensions: meaning, competence, self-determination, and impact. Meaning refers to the alignment of work goals with an individual's values. Competence reflects an individual's belief in their capabilities to perform tasks effectively. Self-determination involves a sense of autonomy in initiating and regulating one's actions, and impact denotes the degree to which an individual feels they can influence outcomes in their environment. In the context of SMEs, psychological empowerment enables business owners and employees to feel more capable, confident, and motivated, enhancing their overall commitment to ethical and regulatory compliance, including tax obligations which is in line with social cognitive theory.

The findings of this study underscore the importance of psychological empowerment in influencing tax compliance behaviour among SMEs. Empowered individuals within SMEs tend to exhibit greater control and responsibility over their business decisions, leading to higher adherence to regulations. This empowerment fosters a proactive attitude towards compliance, as empowered individuals feel competent and impactful in their financial and regulatory choices. The study suggests that when SME owners and managers think psychologically empowered, they view compliance as a mandatory duty and a reflection of their business ethics and values. This aligns with broader literature highlighting the role of intrinsic motivation and perceived control in driving responsible business conduct among SMEs (Ahadi & Suandi, 2014).

Psychological empowerment plays a critical role in SMEs due to the unique challenges these sectors face, such as compliance with complex regulatory standards, intense competition, and the need for innovation. Empowered employees in manufacturing SMEs, who perceive their work as meaningful and aligned with organizational goals, are more likely to adhere to compliance regulations, including tax obligations. This is crucial as these industries often deal with intricate supply chains and financial transactions, where compliance is not just a legal requirement but also a key factor in maintaining operational integrity and reputation. Thus, psychological empowerment in SMEs fosters a culture of accountability, motivating employees and managers to prioritize compliance as a key component of their business strategy.

Several past studies have confirmed the positive relationship between psychological empowerment and intrinsic motivation among SMEs. For instance, Aslam (2017) found that empowered business owners were likelier to comply with tax regulations, attributing this to their increased sense of accountability and control. Similarly, Hahm

(2018) demonstrated that psychological empowerment enhances ethical decision-making among SME managers, leading to better adherence to tax and legal obligations. These studies suggest that when individuals feel empowered, they are more engaged in their roles and more committed to meeting regulatory standards, including tax compliance.

Research specific to the SME sector has also highlighted the critical role of psychological empowerment in compliance behaviour. Studies such as those by Ahmad et al. (2020) found that manufacturing SMEs with high levels of psychological empowerment in their workforce demonstrated better compliance with safety, environmental, and financial regulations, including tax laws. This is particularly important in manufacturing, where compliance failures can lead to significant operational disruptions. Empowerment enhances the ability of employees to take initiative, identify compliance risks, and implement corrective actions, thereby supporting overall regulatory adherence.

The relationship between psychological empowerment and tax compliance behaviour in this study aligns with the theoretical framework proposed by Spreitzer (1995). According to Spreitzer, empowerment through impact, self-determination, competence, and meaningfulness can intrinsically motivate individuals to support organizational policies. This study suggests that SME taxpayers intrinsically motivated by these factors are likelier to demonstrate positive behaviour in complying with tax obligations. When taxpayers feel a sense of impact, self-determination, competence, and meaningfulness in their tax-related activities, they are more inclined to adhere voluntarily to tax regulations, reinforcing the significance of psychological empowerment in fostering tax compliance.

For SMEs, fostering psychological empowerment can be a strategic tool to improve compliance behaviour. Given the sector's reliance on regulatory adherence for operational success, empowering employees through training, inclusive decision-making, and a supportive work environment can lead to a more compliant and ethically responsible workforce. Empowerment not only aids in compliance but also enhances overall business performance by encouraging proactive problem-solving and innovation (Ye et al.,2022).

Government bodies and tax authorities can leverage these findings to improve tax compliance among SMEs by creating policies and programs that promote psychological empowerment. This could include sector-specific training on compliance best practices, financial literacy, and regulatory changes for SMEs. Simplifying tax procedures and offering transparent guidelines can empower SME owners to feel competent and supported in their compliance efforts. Transparent communication about how tax revenues are used for public services can also help SMEs see the direct benefits of their compliance (OECD, 2023a).

The study highlights that psychological empowerment is critical in promoting tax compliance behaviour among SMEs. By enhancing feelings of competence, self-determination, and meaningfulness, SMEs and tax authorities can foster a culture of voluntary compliance. Policymakers should focus on creating empowering environments encouraging SME taxpayers to view compliance as a positive and impactful action. Psychological empowerment should be integrated into broader compliance and business strategies in SMEs, where compliance is crucial for operational continuity and reputation. Ultimately, prioritizing psychological empowerment can lead to a more compliant, fair, and effective tax system, benefiting

both the government and the SME sector.

5.2.2 Tax Transparency and Tax Compliance Behaviour

This study hypothesized that tax transparency would positively influence tax compliance behaviour among SMEs in Malaysia. The results confirmed this hypothesis, showing a significant positive relationship between TT and TCB with a coefficient (β) of 0.228, a t-value of 3.744, and a p-value of 0.000, supporting Hypothesis 2 (H_2). These findings suggest that increased tax transparency is associated with higher tax compliance among SMEs, where clear and accessible tax information is crucial in compliance.

Tax transparency refers to the openness and clarity with which tax authorities communicate policies, procedures, and obligations to taxpayers. It encompasses disseminating accurate information regarding tax laws, regulations, and changes, ensuring taxpayers understand their responsibilities and the implications of non-compliance. Tax transparency includes clear guidelines on tax incentives, compliance requirements, and penalties for SMEs. Transparent tax systems help reduce uncertainty and build trust between taxpayers and authorities by making tax-related information accessible and comprehensible, ultimately fostering voluntary compliance which is in line with social exchange theory (Fagbemi, Uadiale, & Noah, 2010).

The study found that tax transparency significantly influences tax compliance behaviour among SMEs, particularly in the manufacturing sector. Transparent communication from tax authorities helps SMEs understand their tax obligations, reducing ambiguity and perceived complexity (Chindengwike & Kira, 2021). Clear information about tax policies, deductions, and incentives is critical for SMEs, which

often deal with complex financial transactions and regulatory requirements. The study suggests that when SMEs are well-informed about tax regulations, they are more motivated to comply, seeing compliance as a straightforward and manageable process rather than a burdensome task. This aligns with Chindengwike and Kira (2021), which emphasizes the role of transparency in enhancing compliance by reducing the cognitive burden on businesses and promoting a culture of openness.

Several past studies have supported the positive relationship between tax transparency and tax compliance behaviour among SMEs. Fuad and Khusfiah (2019) found that transparent tax policies encourage compliance among SMEs by clarifying tax obligations and reducing the perceived risk of audits and penalties. Mangoting et al. (2019) further demonstrated that SMEs are more likely to comply with tax regulations when tax authorities are transparent about using tax revenues and the benefits of compliance. These studies suggest transparency informs and reassures SMEs, fostering a sense of security and trust that drives compliance.

Research beyond the SME sector also highlights the importance of tax transparency in promoting compliance. Okwara (2020) found that transparency in tax administration positively correlates with tax morale and compliance across various sectors. The social exchange theory supports these findings, suggesting that transparency builds trust between taxpayers and authorities, making compliance more likely. Torgler and Schneider (2009) argue that when governments lack transparency and accountability, citizens, including business owners, are less inclined to view paying taxes as a socially acceptable norm. For SMEs, which are often highly regulated, clear and transparent communication from tax authorities can significantly improve compliance rates by fostering a predictable and fair tax environment.

In the context of SMEs, tax transparency plays a critical role in compliance. Businesses often deal with complex supply chains, varying tax rates, and specific deductions related to production activities. Transparent communication from tax authorities helps these SMEs understand applicable tax incentives, such as deductions for capital expenditures or research and development. This clarity reduces the compliance burden and aligns tax obligations with the operational realities of businesses. Moreover, transparent tax systems provide SMEs with the confidence that tax regulations are applied consistently and fairly, reinforcing their willingness to comply (Mangoting et al. (2019).

Given the positive impact of tax transparency on SMEs compliance, should actively seek to stay informed about tax regulations and updates. SMEs can enhance compliance by engaging with tax advisory services, attending informational sessions, and using government-provided resources to better understand their tax obligations. A proactive approach to understanding tax policies ensures compliance and allows SMEs to take full advantage of available incentives, thus improving their financial performance and competitive positioning.

Governments and tax authorities can foster a culture of compliance by prioritizing transparency in tax administration. For SMEs, simplifying the communication of tax policies, providing clear guidelines, and making tax information readily accessible can significantly reduce compliance costs and encourage voluntary adherence (OECD, 2019). Policymakers should focus on creating platforms where SMEs can easily access up-to-date tax information, understand their obligations, and receive timely support for their queries. By enhancing transparency, governments can build trust and improve the overall effectiveness of tax collection.

To enhance tax transparency, tax authorities should invest in digital platforms that provide real-time updates on tax policies, allow easy access to tax documentation, and offer interactive tools to help SMEs calculate their tax liabilities accurately. For SMEs, specialized support services that address sector-specific tax issues, such as export duties and investment tax credits, can further boost transparency and compliance (Mbise et al., 2022). Educational programs that teach SME owners about the benefits of compliance and the direct impact of their tax contributions on public services can also help simplify the tax process (OECD, 2023a).

The findings of this study underscore the critical role of tax transparency in fostering tax compliance among SMEs. By promoting clear and open communication, tax authorities can build trust and reduce the perceived burden of compliance. SMEs, on their part, should actively engage with transparent tax systems to maximize their compliance and benefit from available incentives (Mangoting et al., 2019). Ultimately, improving tax transparency is a shared responsibility that requires the commitment of both SMEs and government bodies, to create a fair and predictable tax environment that supports business growth and public revenue generation.

5.2.3 Peer Influence and Tax Compliance Behaviour

This study hypothesized that there would be a positive relationship between peer influence and tax compliance behaviour among SMEs, particularly in the manufacturing sector in Malaysia. The results confirmed this hypothesis, revealing a significant positive relationship between peer influence and tax compliance behaviour with a coefficient (β) of 0.139, a t-value of 2.457, and a p-value of 0.014, supporting Hypothesis 3 (H_3). These findings suggest that when SME taxpayers are influenced by their peers, they are more likely to comply with tax regulations is in line with social

influence theory reflecting a shared behavioural norm within their business networks.

Peer influence refers to the impact individuals within a peer group exert on one another's behaviour, attitudes, and decision-making processes. In SMEs, peer influence can stem from various sources, including business associates, industry colleagues, and even competitors who share information, experiences, and expectations regarding tax compliance. According to Fischer's Model, peer influence is a critical factor that shapes taxpayer behaviour by aligning individual actions with perceived group norms. Wenzel (2005) noted that taxpayers are more likely to comply with tax obligations if they believe that compliance is prevalent and endorsed by their peer group. This social pressure can motivate SME owners and managers to adhere to tax rules, as they seek to maintain their reputation and align with their peers' expectations.

The study's findings highlight that peer influence significantly affects tax compliance behaviour among SMEs where business networks and industry standards play a crucial role. Manufacturing SMEs often operate in close-knit communities where information sharing and peer comparisons are common. The influence of peers can lead to a collective adherence to tax regulations, as businesses mimic the compliance behaviours of their network to avoid reputational damage and maintain industry standards. This study suggests that when SME owners perceive that their peers are compliant, they are more likely to follow suit, reinforcing a culture of compliance within the sector. This aligns with social influence theory, which posits that individual actions are shaped by the presence or behaviours of others in their environment.

Several studies have corroborated the positive relationship between peer influence and tax compliance behaviour among SMEs. For instance, Maroney and Rupert (2000) found that the perceived compliance of peers significantly influences individual

compliance decisions, highlighting the power of social norms in tax behaviour. Similarly, Alm et al. (2017) concluded that peer influence is critical in encouraging tax compliance, particularly in environments where informal networks and industry groups are prominent. These findings are particularly relevant to SMEs, where business practices are often observed and emulated within the community.

Research by Mutatembwa (2013) further supports the impact of peer influence on tax compliance, noting that SMEs are highly susceptible to social pressures. In contexts where compliance is the norm, businesses are likelier to adopt similar behaviours to avoid negative comparisons. O'Shaughnessy (2014) and William (2015) also discovered a positive relationship between peer influence and tax compliance behaviour, emphasizing the role of peer referrals and recommendations in shaping tax-related decisions. Abd Obaid et al. (2020) found that peer influence extends beyond direct advice to include observational learning, where SMEs learn compliance behaviours by observing the actions of others in their industry.

Manufacturing SMEs are particularly sensitive to peer influence due to the collaborative nature of their operations, including supply chain interactions, industry associations, and trade networks. Chong and Arunachalam (2018) noted that peer referrals significantly impact tax decision-making among Malaysian SMEs, a finding that resonates strongly within the sector. In such environments, SMEs frequently benchmark their tax behaviours against their peers, making compliance a shared expectation. This collective behaviour can lead to a ripple effect, where one business's decision to comply can positively influence others in the network.

Given the significant impact of peer influence on tax compliance, SMEs should actively engage with their business communities to foster a culture of compliance. Participating

in industry associations, attending networking events, and seeking guidance from compliant peers can reinforce positive behaviours. By creating a supportive environment where compliance is seen as a norm, SMEs can benefit from peer encouragement and shared knowledge, leading to more consistent adherence to tax regulations.

Tax authorities and policymakers can leverage the influence of peer networks by engaging with SME communities to promote compliance. Initiatives such as peer-led workshops, testimonials from compliant business leaders, and recognition programs for tax-compliant SMEs can amplify the message of compliance. Policies that enhance transparency and communication between tax authorities and industry groups can also help build trust and encourage SMEs to align their behaviours with peers seen as role models for compliance.

Tax authorities should collaborate with industry associations and business networks within the sector to maximize the impact of peer influence. Encouraging the dissemination of best practices through peer learning platforms, case studies, and collaborative forums can strengthen the perception that compliance is the standard. Peer mentoring programs, where experienced business owners advise newer SMEs on tax matters, can further embed compliance behaviours across the sector.

The study's findings highlight the vital role of peer influence in shaping tax compliance behaviour among SMEs. By recognizing the power of social norms and peer networks, SMEs and tax authorities can work together to foster a culture of compliance. Encouraging positive peer influence through targeted programs, transparent policies, and active engagement with business communities can enhance compliance rates and support the development of a robust, fair, and efficient tax system that benefits both the

government and the SME sector.

5.2.4 Tax knowledge and Tax Compliance Behaviour

This study hypothesized that there would be a positive relationship between tax knowledge and tax compliance behaviour among SMEs in Malaysia. However, contrary to expectations, the results revealed a positive but insignificant relationship between tax knowledge and tax compliance behaviour, with a coefficient (β) of 0.088, a t-value of 1.709, and a p-value of 0.087. This indicates that tax knowledge did not significantly impact tax compliance behaviour, and therefore, Hypothesis 4 (H_4) was not supported.

Tax knowledge is defined in this study as the capacity of SME taxpayers to understand tax legislation and accurately determine their tax liability. It encompasses the awareness of tax laws, the ability to apply tax regulations, and the understanding of taxpayer rights and obligations. In the context of SMEs, tax knowledge includes familiarity with specific industry-related tax incentives, deductions, and compliance requirements. Proper tax knowledge is often seen as crucial in fostering voluntary compliance, as it helps taxpayers make informed decisions about their financial responsibilities (Wadesango et al., 2018). However, this study has shown that mere tax knowledge does not necessarily translate into compliant behaviour.

As found in this study, an insignificant relationship between tax knowledge and tax compliance behaviour among SMEs can be attributed to several factors. First, many SME owners may possess a basic understanding of tax laws but lack comprehensive knowledge of specific regulations applicable to their industry. This superficial knowledge may not be sufficient to influence compliance behaviour. Additionally, the

complex nature of tax laws, especially those affecting the SMEs, can overwhelm business owners, leading to unintentional non-compliance. Moreover, based on this study's response, most SMEs have tax agents. Thus, some SMEs may rely heavily on external tax advisors, placing less emphasis on acquiring personal tax knowledge, which diminishes the direct impact of their understanding of compliance behaviour.

The findings of this study align with past research that found no significant relationship between tax knowledge and tax compliance behaviour among SMEs. Augustine (2016) reported that while SME owners in the manufacturing sector were aware of general tax obligations, this awareness did not translate into higher compliance levels. Similarly, Fauziati et al. (2020) found that tax knowledge did not significantly impact compliance behaviour. Many SMEs underestimated the importance of in-depth tax knowledge, leading them to depend on third-party services for tax matters. This reliance on external advice reduces the need for personal tax knowledge, further explaining why compliance behaviour is not significantly influenced by an individual's understanding of tax regulations.

Other studies have also reported similar findings in various sectors. For example, McKerchar (1995) observed that small business taxpayers often lack awareness of their deficiencies in tax knowledge, which inadvertently fosters non-compliance behaviours. Newman et al. (2018) found that tax knowledge did not significantly affect compliance among SMEs because business owners frequently misinterpret tax obligations or do not fully understand how to apply their knowledge practically. Yeo et al. (2019) further asserted that the complex and ever-changing nature of tax laws often overwhelms taxpayers, diminishing their knowledge's impact on compliance decisions. These studies highlight a recurring theme: having tax knowledge does not necessarily equate

to compliant behaviour, where tax complexities are prevalent.

Due to this study has found an insignificant result, a further analysis conducted separately for each location to determine whether tax knowledge significantly predicts tax compliance behaviour among Small and Medium Sized Enterprises (SMEs). The summary of findings presented in Appendix J. Out of 9 states, 5 states such as Selangor, Johor, Penang, Perak and Kuala Lumpur show tax knowledge has a significant relationship towards tax compliance behaviour among SMEs. However, 3 states which are Melaka, Negeri Sembilan and Pahang show tax knowledge has an insignificant relationship towards tax compliance behaviour among SMEs. Due to SPSS unable to run analysis sample size less than 1, a further analysis unable to conduct for Kedah state. This additional analysis would assist tax authorities in understanding the influence of tax knowledge towards tax compliance behaviour across different states as postulated by Bornman and Ramutumbu (2019).

Given that this study found no significant influence of tax knowledge on tax compliance behaviour, it is essential for SMEs to rethink their approach to tax education. While enhancing tax knowledge remains essential, SMEs should also focus on practical strategies that promote compliance, such as integrating tax planning into business operations and fostering a compliance-oriented culture. Additionally, tax authorities could develop industry-specific guidelines and simplified resources tailored to the manufacturing sector, making compliance more accessible and less intimidating for SME owners who struggle with complex tax concepts.

Tax authorities and policymakers are critical in bridging the gap between tax knowledge and compliance. One approach could involve offering targeted training programs for SMEs that focus on practical application rather than theoretical knowledge alone.

Workshops, webinars, and on-site training sessions demonstrating how tax knowledge can be practically implemented in everyday business operations could enhance compliance. Moreover, simplifying the tax reporting process for SMEs in the sector could mitigate the complexities that deter compliance, allowing business owners to apply their knowledge more effectively (Bello et al., 2024).

To improve tax compliance among SMEs, governments and tax authorities should promote digital tools and platforms that facilitate tax calculations, reporting, and payment processes. For SMEs, adopting digital tax solutions can reduce the burden of manually interpreting complex tax codes, thereby minimizing errors and enhancing compliance. Providing access to government-supported tax software specifically designed for SMEs in the manufacturing sector could empower business owners to manage their tax obligations more efficiently, leveraging technology to bridge the gap between knowledge and action (Bello et al., 2024).

SMEs should foster a compliance-driven culture within their organizations by emphasizing the importance of adhering to tax laws as a core business value. This can be achieved by setting internal standards, conducting regular compliance audits, and creating awareness about the benefits of compliance, such as avoiding penalties and fostering a good business reputation. Training sessions focused on the managerial and operational levels can help embed compliance into daily business practices, ensuring that tax knowledge is effectively translated into compliant behaviour.

In conclusion, while tax knowledge is crucial, its influence on compliance behaviour among manufacturing SMEs is not as straightforward as anticipated. Therefore, efforts should be directed toward making tax knowledge more applicable, accessible, and relevant to SME operations. Governments, tax authorities, and SME owners need to

collaborate in developing practical compliance strategies that go beyond theoretical knowledge, focusing on simplifying tax processes, enhancing digital accessibility, and fostering a proactive compliance culture. By aligning tax knowledge with practical implementation, SMEs can improve compliance, contributing to a more robust and efficient tax system that supports business growth and economic stability.

5.2.5 Tax Incentive and Tax Compliance Behaviour

This study hypothesized that there would be a positive relationship between tax incentives and tax compliance behaviour among SMEs in Malaysia. The statistical results confirmed this hypothesis, showing a significant positive relationship with a coefficient (β) of 0.372, a t-value of 5.749, and a p-value of 0.000, supporting Hypothesis 5 (H_5). These findings indicate that when SMEs perceive that they are receiving tax incentives, they are more likely to comply with tax regulations is in line with social influence theory, reinforcing the importance of tax incentives as a driver of compliance behaviour.

Tax incentives are fiscal measures governments implement to encourage certain behaviours among taxpayers, typically aimed at promoting investment, enhancing economic growth, and supporting specific sectors of the economy. These incentives can take various forms, such as tax exemptions, deductions, credits, or deferrals as postulated by Fischer and Peters (1997) and are often targeted at stimulating activities like research and development, capital investment, or exports. Tax incentives are crucial in the context of SMEs as they help reduce operating costs, enhance competitiveness, and improve cash flow. According to Somorin (2015), tax incentives such as reductions or complete waivers of tax liability are designed to foster business growth and development, particularly in priority sectors identified by the government.

The study found that tax incentives significantly influence tax compliance behaviour among SMEs. For SMEs, tax incentives can alleviate the financial burden associated with compliance and encourage reinvestment in their businesses. In SMEs, where high upfront costs and capital investments are common, tax incentives are critical in motivating businesses to remain compliant (Feld & Frey, 2007). The study suggests that when manufacturing SMEs receive tangible benefits from tax incentives, such as reduced tax liability or direct financial support, they are more likely to comply willingly with tax regulations. This behaviour is rooted in the perception that their contributions are reciprocated through supportive fiscal policies, aligning with the principles of social exchange theory (Blau, 1964).

Several past studies have reinforced the positive relationship between tax incentives and tax compliance behaviour among SMEs and other sectors. Manaf et al. (2005) found that SMEs were more likely to comply with tax regulations when they perceived the incentives as valuable and relevant to their business operations. Trivedi et al. (2005) also highlighted that tax incentives significantly enhance compliance by reducing the perceived cost of paying taxes, encouraging businesses to operate within the formal economy. Carillo et al. (2016) concluded that tangible and lasting incentives positively influence sustained tax compliance, particularly in manufacturing, where financial margins are often tight. These findings indicate that providing incentives can be a powerful motivator for compliance, especially when the incentives directly address the operational needs of SMEs.

The impact of tax incentives on compliance is particularly pronounced in the manufacturing sector, where high capital requirements and operational costs are prevalent. Augustine (2016) observed that manufacturing SMEs that benefited from tax

incentives showed higher compliance rates, as the financial relief provided by these incentives supported their growth and investment activities. Similarly, Fatas et al. (2015) found that tax compliance improves when taxpayers, including manufacturers, perceive that their tax contributions are reciprocated through government support, such as subsidies, grants, or tax breaks. These incentives help manufacturers offset some of the financial burdens associated with compliance, encouraging a more positive attitude toward fulfilling tax obligations.

The relationship between tax incentives and tax compliance behaviour aligns with social influence theory, which posits that individuals and organizations are motivated by the anticipation of reciprocal benefits (Blau, 1964). In the context of SMEs, tax incentives act as a form of government reciprocation, acknowledging businesses' contributions through financial support. This dynamic fosters a psychological commitment to compliance, as SMEs feel obligated to reciprocate the benefits received.

Policymakers and tax authorities should consider expanding the scope and accessibility of tax incentives tailored to the needs of SMEs. Designing targeted incentives that address specific industry challenges, such as high energy costs or the need for technological upgrades, can directly influence compliance behaviour. Additionally, clear communication about the availability and benefits of these incentives is essential to ensure that SMEs are fully aware of the support they can receive. Authorities should also streamline the application processes for tax incentives, making them more accessible and less bureaucratic, encouraging more SMEs to participate in the formal tax system (Anim et al., 2020).

SMEs should seek to understand and utilize available tax incentives to enhance their compliance and overall financial health. Engaging with tax advisors, participating in

government-led workshops, and staying informed about policy changes can help SMEs maximize the benefits of incentives. By aligning business strategies with available tax reliefs, SMEs can reduce operational costs, improve cash flow, and remain competitive in their markets. Moreover, by demonstrating compliance and utilizing incentives effectively, SMEs can build stronger relationships with tax authorities, positioning themselves as responsible economic contributors is in line with Anim et al. (2020).

In conclusion, this study confirms that tax incentives significantly determine tax compliance behaviour among SMEs. The positive impact of tax incentives on compliance highlights the need for continued and targeted support from the government to sustain this relationship. By fostering a favorable fiscal environment through well-designed tax incentives, policymakers can encourage greater compliance, ultimately leading to improved tax revenue collection and economic growth. For SMEs, leveraging these incentives enhances compliance and supports broader business objectives, creating a mutually beneficial cycle between taxpayers and the government.

5.2.6 Tax Fairness and Tax Compliance Behaviour

This study hypothesized that tax fairness would positively affect tax compliance behaviour among SMEs in Malaysia. The statistical analysis confirmed this hypothesis, demonstrating a positive and significant relationship between tax fairness and tax compliance behaviour with a coefficient (β) of 0.210, a t-value of 3.746, and a p-value of 0.000, supporting Hypothesis 6 (H_6). This suggests that when SME taxpayers perceive the tax system as fair, they are more inclined to fulfill their tax obligations which is in line with social exchange theory.

Tax fairness refers to the tax system's perception of equity and justice. It encompasses

the belief that tax laws are applied consistently, without bias or favouritism, and that taxpayers are treated equitably regardless of their size, industry, or individual circumstances. Fairness can be assessed in various dimensions, including distributive fairness (how tax burdens are allocated), procedural fairness (the transparency and neutrality of the tax process), and retributive fairness (how well the system punishes evaders). In the context of SMEs, tax fairness is critical as it affects their willingness to comply voluntarily. Perceptions of fairness foster trust in tax authorities, reduce resentment, and encourage compliance as taxpayers feel their contributions are valued and justly required which is in line with social exchange theory as postulated by Bouckaert and Van de Walle (2003).

The findings of this study highlight that tax fairness significantly influences tax compliance behaviour among SMEs. When SMEs perceive that the tax system is fair and consistently applied, they are more likely to comply with tax regulations voluntarily (Taiwo, 2012). This is crucial SMEs, which often operate under tight profit margins and are sensitive to external economic pressures. Perceptions of fairness can alleviate compliance burdens, as these SMEs feel assured that they are not being disproportionately targeted or unfairly treated compared to other sectors. The study's results align with broader literature, suggesting that perceived equity within the tax system encourages SMEs to view tax compliance not as a punitive requirement but as a civic duty that supports societal infrastructure and public services which is in line with Adam Smith's (1776) canon of equity.

Several studies have confirmed the relationship between tax fairness and tax compliance behaviour among SMEs. For example, Geberegbe et al. (2015) found that perceived fairness significantly influences tax compliance among SMEs, noting that

when taxpayers believe the tax system is just, they are less likely to engage in avoidance or evasion. Faizal and Palil (2015) similarly reported that perceptions of fairness enhance voluntary compliance among Malaysian SMEs, emphasizing that fairness in tax policy implementation reduces the perceived risk of unfair treatment and fosters trust between taxpayers and tax authorities. This is particularly relevant for manufacturing SMEs, which often face complex tax obligations related to production, exports, and imports.

Further evidence supports the positive relationship between tax fairness and compliance across various sectors. Abd Obaid et al. (2020) found that fairness perceptions significantly affect compliance behaviour among business owners in diverse industries. This suggests that perceived equity in tax collection processes builds a more cooperative taxpayer mindset. Taing and Chang (2021) highlighted that procedural fairness—such as clear communication and accessible tax information—improves compliance rates among SMEs, as taxpayers feel respected and well-informed. These findings underline the broader impact of perceived fairness, demonstrating that it is a critical factor among manufacturing SMEs that value consistency and transparency in their interactions with tax authorities.

The findings of this study align with the theoretical propositions of the social exchange theory, which posits that individuals reciprocate fair treatment with positive behaviours. In the context of tax compliance, when taxpayers perceive the tax system as fair, they are more likely to respond with compliance, as they feel respected and valued by the government (Torgler, 2007). This reciprocity suggests that enhancing fairness within the tax system can improve compliance rates, as taxpayers willingly fulfill their obligations when they believe the system operates justly. For SMEs, which often rely

on predictable and equitable regulations, fairness reduces uncertainty and fosters a sense of trust between businesses and the authorities.

For manufacturing SMEs, ensuring a perception of tax fairness is essential for maintaining compliance. Manufacturing SMEs, which deal with complex production processes, supply chains, and variable costs, particularly benefit from a fair tax system that recognizes their unique challenges. Fairness in tax incentives, such as exemptions or rebates on machinery and raw materials, can make these SMEs feel adequately supported, encouraging them to comply with tax requirements. This study suggests that tax policies tailored to reflect the specific needs and contributions of the manufacturing sector can enhance perceptions of fairness and drive higher compliance.

Given the critical role of tax fairness in promoting tax compliance, tax authorities should prioritize transparent and equitable tax practices. For policymakers, this means designing clear tax regulations, consistently applied, and reflective of the realities facing SMEs, especially in manufacturing. Authorities should engage with SMEs through consultative processes, ensuring that tax laws are perceived as fair and that compliance requirements are feasible. Regular feedback mechanisms can help policymakers understand the specific concerns of manufacturing SMEs and adjust tax policies accordingly, thereby enhancing fairness and compliance.

Governments should improve procedural transparency and provide clear communication about tax regulations to enhance perceptions of tax fairness. Implementing educational programs that clarify tax obligations and compliance benefits can help SMEs feel more informed and less intimidated by the tax system. Additionally, establishing accessible dispute-resolution processes can address perceptions of procedural unfairness, providing SMEs with avenues to contest

perceived biases or errors in tax assessments. For manufacturing SMEs, targeted support and clear guidelines on how tax revenues are utilized can further build trust and enhance compliance.

This study's findings underscore the importance of tax fairness in influencing compliance behaviour among SMEs, particularly those in the manufacturing sector. By fostering a fair and transparent tax system, governments can encourage voluntary compliance, supporting SMEs in their economic growth and contributions. Policymakers should continuously assess and refine tax regulations to ensure they are perceived as equitable, aligning tax policies with the needs and realities of SMEs. Enhancing tax fairness will improve compliance rates and strengthen the overall relationship between SMEs and the authorities, creating a more robust and cooperative tax environment.

5.3 Discussion of the Second Research Objective

This section addresses the study's second objective. It involves moderating the effect of service quality between peer influence, tax knowledge, tax incentives, tax fairness, and tax compliance behaviour among SMEs in Malaysia. Four hypotheses were proposed in assessing the second objective, such as H₇, H₈, H₉, and H₁₀. The following discussions elaborate on the detailed analysis of the indirect relationships associated with the second objective.

5.3.1 The Moderating Effect of Service Quality on the Relationship between Peer Influence and Tax Compliance Behaviour

This study hypothesized that service quality would moderate the relationship between peer influence and tax compliance behaviour SMEs in Malaysia. Hypothesis 7 (H₇) predicted that service quality would strengthen this relationship. The results supported this hypothesis, showing a significant moderating effect, with a coefficient (β) of 0.109, a t-value of 2.707, and a p-value of 0.007. This finding indicates that when SMEs perceive high service quality from tax authorities, the positive impact of peer influence on tax compliance behaviour is significantly enhanced.

Service quality plays a crucial moderating role in the relationship between peer influence and tax compliance behaviour, particularly among SMEs. In environments where service quality is perceived as high, SMEs are more likely to be influenced positively by their peers. For example, when SME owners and managers receive precise, timely, and supportive guidance from tax authorities, they are more inclined to comply with tax regulations, especially if their peers also exhibit compliant behaviour. A real-world scenario can be seen in SMEs operate nearby, and the decisions of one business often ripple through the community. If one SME demonstrates high compliance due to positive peer influence, others are likely to follow suit, especially when they feel well-supported by high-quality service from tax authorities.

The moderating role of service quality is particularly relevant among SMEs, where peer influence plays a significant role in shaping compliance behaviour. SMEs often operate in tight-knit clusters where businesses interact frequently, sharing information and experiences regarding tax compliance. When service quality is high, these interactions are more likely to lead to positive compliance behaviour. For example, a SME who

receives excellent customer service from the tax office, such as clear explanations of tax obligations and quick responses to inquiries, is more likely to share positive experiences with peers, thus encouraging a broader culture of compliance within the sector. The supportive environment created by high-service quality acts as a reinforcing mechanism that magnifies the impact of peer influence.

While service quality is relatively new as a moderating variable in taxation studies, previous research in other contexts highlights its significant impact on behaviour. For example, Saad (2010) found that peer influence significantly affects taxpayers' decisions, especially when combined with a supportive and high-quality service environment. Al-Rahamneh and Bidin (2022) showed that peer attitudes toward compliance or evasion often swayed taxpayers' actions, emphasizing the critical role of perceived service quality in shaping these influences. Furthermore, Gangl et al. (2012) demonstrated that effective service delivery from tax authorities enhances taxpayer satisfaction, strengthening peers' influence in promoting compliance behaviour. Although these studies do not directly examine SMEs, they underscore the broader relevance of service quality in moderating compliance behaviour.

Research consistently shows that individuals are influenced by the actions and behaviours of their peers, particularly in the context of taxation (Wenzel, 2004). This is especially true in close-knit communities like those found in SME can quickly influence others. For instance, Bursztyn et al. (2014) highlighted that people tend to align their behaviour with those around them, following the perceived norms of their community. In SMEs, where informal networks play a substantial role in decision-making, the influence of peers is amplified. High service quality from tax authorities can reinforce this effect by providing accurate information and support, creating a positive feedback

loop where compliance becomes the norm.

In Asian communities, which are often characterized by strong communal bonds and a preference for group decision-making, peer influence is potent. Yu et al. (2004) noted that peers provide honest feedback and are trusted information sources, significantly impacting individual behaviour. Yong and Martin (2017) observed that in many Asian cultures, decisions made at the personal level often reflect the collective norms of the group. This dynamic is evident in SMEs, where business decisions, including compliance, are influenced by a broader network of peers. When tax authorities provide high-quality service, it strengthens the trust and communication within these networks, enhancing the positive impact of peer influence on compliance behaviour.

SMEs face unique challenges that make the moderating role of service quality particularly important. These businesses often operate with tight margins, complex supply chains, and regulatory pressures, making tax compliance seem burdensome. However, when tax authorities deliver high service quality by simplifying compliance processes, offering targeted guidance, and maintaining transparent communication, this situation reduces the perceived burden of compliance. This supportive environment enhances individual compliance and amplifies peers' influence as businesses share their positive service experiences within their networks.

Given the findings of this study, there are important policy implications for SMEs and government bodies. For SMEs, fostering a culture of compliance through peer influence can be enhanced by engaging with tax authorities prioritizing high service quality. Governments and tax authorities should improve service delivery by offering dedicated support for SMEs, implementing user-friendly compliance tools, and maintaining open communication channels. Such measures can help to build trust and reinforce positive

compliance behaviours within peer networks, ultimately leading to higher tax compliance rates across the sector.

To leverage the moderating role of service quality, tax authorities should invest in strategies that enhance their interactions with SMEs. This could include implementing digital platforms that streamline tax filing processes, providing clear and accessible information tailored to the needs of manufacturing businesses, and offering responsive customer support that addresses specific concerns. By elevating service quality, tax authorities can create a more positive compliance environment, encouraging SMEs to share their experiences and promote a culture of compliance within their peer groups.

The study's findings highlight the critical role of service quality in moderating the relationship between peer influence and tax compliance behaviour among SMEs. By providing high-quality service, tax authorities can strengthen the positive impact of peer influence, fostering a supportive environment that encourages compliance. For SMEs, actively engaging with tax authorities that offer excellent service and sharing positive experiences within their networks can help build a culture of compliance. Policymakers should prioritize service quality improvements to ensure compliance is a legal obligation and a shared value within the business community, ultimately contributing to a more robust and cooperative tax system.

5.3.2 The Moderating Effect of Service Quality on the Relationship between Tax Knowledge and Tax Compliance Behaviour

This study hypothesized that service quality would moderate the relationship between tax knowledge and tax compliance behaviour SMEs in Malaysia, specifically manufacturing and manufacturing-related SMEs in Malaysia. However, the results did

not support this hypothesis. The statistical findings showed a coefficient (β) of 0.090, a t-value of 1.604, and a p-value of 0.109, indicating that service quality had no significant moderating effect between tax knowledge and tax compliance behaviour. Therefore, H₈ was not supported, suggesting that the moderating role of service quality does not alter how tax knowledge influences tax compliance among these SMEs.

The absence of a moderating effect of service quality on the relationship between tax knowledge and tax compliance behaviour suggests that the perceived quality of tax services does not impact how tax knowledge translates into compliance among SMEs. In the SMEs, this could happen because businesses rely more on internal competencies and less on external factors, such as the quality of service provided by tax authorities, to make compliance decisions. For instance, even when the tax authority's services are perceived as helpful or responsive, if the SME owners already possess sufficient tax knowledge, they are likely to comply based on their understanding rather than service quality. Conversely, if service quality is low, but SMEs have good tax knowledge, they may still comply with tax obligations.

Previous research on the moderating effects of service quality, although limited in the context of taxation studies, has shown mixed results in other sectors. Studies such as those by Hibbing and Theiss-Morse (2002) suggest that government-provided information can often be confusing or overwhelming, leading to misconceptions rather than clarity among taxpayers. Even when service quality is high, it may not significantly change the perception or impact of tax knowledge. Similarly, Yeo et al. (2019) found that having tax knowledge does not always ensure compliance, as external factors like perceived service quality do not necessarily alter the fundamental decision-making process of taxpayers. Nguvava and Sangar (2024) also noted that taxpayers might view

tax services as insufficiently reliable to influence their compliance levels, further supporting the idea that service quality may not have a significant moderating effect in various contexts.

SMEs often deal with complex regulatory environments, which require a strong internal knowledge base to navigate effectively. Tax knowledge is crucial in ensuring compliance, but the perceived quality of external services, such as those provided by tax authorities, may not be as influential. For SMEs, operational priorities such as production efficiency, cost control, and compliance with industry-specific regulations take precedence. Focusing on internal processes over external service quality means that even with robust tax knowledge, tax services' perceived reliability or responsiveness does not significantly impact compliance behaviour. This finding aligns with the notion that SMEs rely more on self-regulation and internal expertise than external guidance to meet their compliance obligations.

SMEs, particularly those engaged in export-oriented activities, often operate under stringent compliance frameworks imposed by local and international regulatory bodies. In these contexts, the role of service quality from tax authorities may be overshadowed by the need for accuracy and adherence to complex tax codes, driven by internal expertise. Even when service quality is perceived as high, SMEs may prioritise their internal compliance mechanisms, such as hiring specialized tax consultants. This industry-specific focus on internal control measures diminishes the potential moderating role of service quality on the tax knowledge-compliance relationship.

The study's findings suggest that SMEs should continue to invest in enhancing their tax knowledge internally, rather than relying solely on the quality of service provided by tax authorities. Since service quality does not significantly alter compliance behaviour,

SMEs should focus on training, access to accurate tax information, and establishing internal compliance protocols. Emphasizing self-sufficiency in tax knowledge will enable these SMEs to meet their tax obligations more effectively, regardless of perceived service quality.

For tax authorities, the lack of a significant moderating effect of service quality implies that improving service responsiveness alone may not directly enhance compliance among SMEs. Instead, government efforts should simplify tax regulations, reduce bureaucratic hurdles, and provide clear, concise, and actionable tax guidance tailored to the SME sector's needs. Additionally, targeted educational programs that enhance tax knowledge among SME owners and managers would likely be more effective than improving service quality.

To address the gap identified in this study, tax authorities should consider initiatives that directly enhance the tax knowledge of SMEs. Workshops, webinars, and easy-to-understand guides tailored to SMEs' unique challenges could help bridge the knowledge gap. Furthermore, establishing direct communication channels for SMEs to access expert advice can empower them with the necessary knowledge to comply independently, reducing reliance on external service quality.

While service quality alone may not significantly influence compliance, collaboration between tax authorities and SMEs can foster a better understanding of the unique challenges faced by the manufacturing sector. Developing sector-specific advisory groups or forums where SMEs can provide feedback on tax processes and service quality could lead to more meaningful reforms addressing the core compliance issues. This approach ensures that improvements in service quality are aligned with the real needs of the SME community.

In conclusion, the study found that service quality does not moderate the relationship between tax knowledge and tax compliance behaviour among SMEs in Malaysia. This finding suggests that tax authorities, SMEs, and policymakers should prioritise enhancing tax knowledge and simplifying compliance processes over improving service quality. For SMEs, investing in internal tax education and compliance systems is crucial to ensuring adherence to tax regulations. Meanwhile, tax authorities should focus on making tax compliance more accessible and understandable, empowering SMEs to comply confidently and independently. Addressing these areas can foster a more effective tax compliance environment, benefiting both the government and the SME sector.

5.3.3 The Moderating Effect of Service Quality on the Relationship between Tax Incentive and Tax Compliance Behaviour

This study hypothesized that service quality would moderate the relationship between tax incentive and tax compliance behaviour among manufacturing and manufacturing-related SMEs in Malaysia (H_9). The statistical results showed a significant moderating effect, with a coefficient (β) of 0.083, a t-value of 2.084, and a p-value of 0.037. This indicates that service quality enhances the positive relationship between tax incentives and tax compliance behaviour, suggesting that when SMEs perceive high service quality from tax authorities, they are more likely to respond positively to tax incentives and comply with tax obligations.

The findings reveal that service quality is critical in moderating the relationship between tax incentives and tax compliance behaviour among SMEs. Specifically, high service quality from tax authorities, such as efficient processing, clear communication, and supportive interactions, enhances the effectiveness of tax incentives. For example,

consider a SME that receives a tax incentive for investing in energy-efficient machinery. If the tax authority provides excellent service by promptly processing claims, offering guidance on eligibility, and resolving queries effectively, the SME perceives the incentive as more accessible and beneficial. This positive interaction increases the likelihood that the SME will comply with tax obligations, as they feel supported and valued by the tax system. In contrast, poor service quality may lead to frustration, consequently, compliance behaviour will be affected.

Although service quality as a moderator is relatively new in taxation studies, several related fields have shown its importance in compliance and behaviour. Gangl et al. (2012) and Molenmaker et al. (2016, 2018) emphasized that taxpayers are more likely to comply when they perceive that tax authorities act for the community's benefit and provide responsive, fair service. These studies indicate that quality service and rewards like tax incentives foster cooperation and minimize non-compliance. Additionally, Purnaditya and Rohman (2015) found that high-quality tax services significantly influence taxpayers' satisfaction and compliance levels, reinforcing the importance of positive interactions between taxpayers and authorities. These findings align with this study's results, suggesting that while service quality has been extensively studied in general business contexts, its moderating effect on taxation, particularly among SMEs, is a valuable and innovative approach.

For SMEs, service quality plays an even more critical role due to the complexity and scale of their operations. These businesses often deal with significant capital investments and operational costs, making tax incentives highly attractive. However, the perceived value of these incentives can be significantly diminished if the service provided by tax authorities is inefficient. For instance, a SME investing in automation

may be eligible for tax deductions or credits. If claiming these incentives is complicated, slow, or followed by poor service, the perceived benefit diminishes, reducing motivation to comply. Conversely, when tax authorities provide streamlined services, clear guidance, and proactive support, these incentives become more accessible and appealing, enhancing compliance behaviour among these SMEs.

Improving service quality for SMEs can be achieved through targeted strategies, such as personalised support, dedicated service lines, and digital platforms that simplify compliance processes. For example, tax authorities could develop industry-specific support teams that understand SMEs' unique challenges, such as high upfront costs and long-term investment cycles. By providing tailored services and efficient systems, tax authorities can ensure that tax incentives are perceived as valuable, encouraging higher compliance rates. This approach supports SMEs in optimizing their financial planning and strengthens their commitment to adhering to tax regulations.

High-quality service from tax authorities helps build trust, which is crucial for encouraging tax compliance among SMEs. Trust in the tax system is particularly vital for SMEs, which often rely on predictable and supportive government interactions to plan long-term investments. Molenmaker et al. (2019) highlighted that tax officials' transparent and fair service delivery fosters a cooperative relationship between taxpayers and the government. When SMEs feel their contributions are recognized and valued and receive reliable support, they are more likely to engage positively with tax incentives and meet compliance obligations.

SMEs, such as suppliers, logistics firms, and equipment providers, benefit significantly from high service quality in their interactions with tax authorities. Tax incentives can provide critical financial relief for these businesses, which often operate on tight

margins. However, the perceived effectiveness of these incentives depends heavily on how accessible and understandable the tax processes are. High service quality ensures that these firms can efficiently claim available incentives, thereby enhancing their compliance behaviour. Furthermore, positive experiences with tax authorities can lead to a more favorable view of the overall tax system, promoting voluntary compliance.

SMEs can enhance their perception of service quality by actively engaging with tax authorities, seeking clarity on available incentives, and utilizing feedback channels to report service issues. By fostering a proactive approach to managing their interactions with tax authorities, SMEs can better navigate the complexities of tax compliance. Additionally, investing in staff tax literacy and compliance training can empower SMEs to better understand the processes involved and reduce the perceived burden of compliance.

Given the findings of this study, it is crucial for governments and tax authorities to continuously improve the service quality provided to SMEs. This can be achieved through regular training for tax officials, implementing user-friendly digital platforms, and creating clear, concise guidelines for accessing tax incentives. Additionally, establishing feedback mechanisms that allow SMEs to express their concerns and experiences can help authorities refine their services and better meet the needs of businesses. These initiatives not only enhance compliance rates but also support the growth and sustainability of SMEs.

The study highlights the importance of service quality as a moderator in the relationship between tax incentives and tax compliance behaviour among SMEs. High-quality services from tax authorities significantly enhance the effectiveness of tax incentives, encouraging compliance and fostering a cooperative relationship between businesses

and the government. By investing in service quality improvements, SMEs and tax authorities can create a more supportive and efficient compliance environment, benefiting the broader economy through increased compliance and optimized use of tax incentives. All stakeholders must work together to promote a tax system that is both fair and accessible, ensuring that SMEs feel empowered and motivated to meet their obligations.

5.3.4 The Moderating Effect of Service Quality on the Relationship between Tax Fairness and Tax Compliance Behaviour

This study hypothesized that service quality would moderate the relationship between tax fairness and tax compliance behaviour among SMEs in Malaysia. The results confirmed this hypothesis, demonstrating that service quality significantly strengthens the positive relationship between tax fairness and tax compliance behaviour, with a coefficient (β) of 0.115, a t-value of 4.550, and a p-value of 0.000. This finding indicates that perceived high service quality enhances the impact of tax fairness on compliance behaviour among SMEs, emphasizing the importance of quality interactions between tax authorities and taxpayers.

The study's findings highlight that service quality plays a crucial moderating role in the relationship between tax fairness and tax compliance behaviour among SMEs. Specifically, when SMEs perceive high service quality from tax authorities, the positive effects of perceived tax fairness on compliance behaviour are amplified. For example, in a manufacturing SME, if the tax officials provide clear guidance, efficient service, and timely support during tax filing, the business owner will likely view the tax system as fair and transparent. This perceived fairness and high service quality increase the likelihood of voluntary compliance as the taxpayer feels respected and supported by the

system. The moderating effect of service quality creates a reinforcing loop where positive experiences with tax authorities enhance the overall perception of fairness, further motivating compliant behaviour.

Although service quality is relatively new as a moderating variable in taxation studies, previous research supports that high-quality interactions with tax authorities can influence compliance. Gangl et al. (2012) found that trust and satisfaction from interactions with tax officials positively affect compliance behaviour. They argued that when taxpayers trust the tax administration and perceive it as efficient and fair, they are more inclined to comply voluntarily. Birskyte (2014) also demonstrated that trust in tax administration strengthens the link between perceived tax fairness and compliance. Moreover, Hartner-Tiefenthaler et al. (2013) contended that the impartiality and professionalism of tax officials foster trust and reinforce the perception that tax laws are fair, further influencing compliance. Sugiyarti et al. (2021) added that quality service and transparent enforcement of tax regulations are essential for boosting voluntary compliance. These findings collectively suggest that high service quality reinforces the effects of perceived tax fairness, encouraging a more compliant attitude among taxpayers.

In SMEs, service quality is particularly critical due to the complex nature of these businesses' tax obligations. For instance, manufacturers often deal with various taxes, including corporate income tax, sales tax, and import duties. High-quality service from tax authorities, such as providing clear guidelines on tax filing, prompt responses to queries, and fair dispute resolution, can significantly impact their perception of the tax system. When these SMEs perceive that tax officials are competent, helpful, and transparent, it enhances their trust in the system and strengthens their belief that tax

regulations are fair. Consequently, this positive perception drives a stronger commitment to compliance, aligning their business practices with regulatory standards as they feel more respected and valued within the tax system.

Service quality's impact extends beyond the manufacturing sector and into other areas of the economy. For example, in the service industry, research has shown that perceived fairness and high service quality from regulators can lead to better compliance rates. Hartner-Tiefenthaler et al. (2013) found that impartiality and professionalism in interactions between regulators and businesses promote a sense of justice and compliance. This phenomenon suggests that regardless of the sector, when businesses feel treated fairly and receive high-quality services, their willingness to comply with regulations, including tax laws, increases. This highlights the universal importance of service quality in regulatory interactions.

Given the significant role of service quality in enhancing the relationship between tax fairness and compliance, SMEs should prioritise fostering positive interactions with tax authorities. These SMEs can benefit from engaging with tax consultants who understand their industry and can facilitate better communication with tax officials. Additionally, SMEs should actively seek feedback on their service experiences with tax authorities and use this information to advocate for improved services. For example, a manufacturing SME facing complex tax issues can benefit significantly from a tax authority that provides timely and precise advice, reducing the perceived burden and increasing compliance rates.

The government and tax authorities can leverage these findings by enhancing the quality of their services to SME taxpayers. By investing in training for tax officers to improve communication skills, providing more explicit guidelines, and ensuring a

transparent and fair approach to tax enforcement, authorities can build trust and improve perceptions of fairness among SMEs. Initiatives such as dedicated SME helpdesks, digital platforms for streamlined tax processes, and regular engagement sessions can enhance service quality, making it easier for businesses to comply willingly with tax obligations.

To further strengthen service quality, the government should consider revising current tax policies to ensure they reflect the needs and expectations of SMEs. For example, simplifying tax procedures, reducing bureaucratic hurdles, and using technology to improve service delivery can enhance the overall taxpayer experience. Additionally, continuous feedback mechanisms should be established where SMEs can provide input on their interactions with tax authorities. This feedback loop will help identify improvement areas and ensure services remain aligned with taxpayer needs, ultimately promoting higher compliance rates.

The findings of this study underscore the importance of service quality in enhancing the perceived fairness of the tax system and, consequently, compliance behaviour among SMEs. Tax authorities should focus on building an equitable and transparent environment where SMEs feel their tax contributions are valued and used effectively. By improving service quality, tax authorities can create a positive perception of the tax system, strengthening the fairness-compliance link. This approach is particularly vital among SMEs, where complex tax regulations require clear guidance and efficient support.

In conclusion, this study demonstrates that service quality plays a vital moderating role in the relationship between tax fairness and tax compliance behaviour among SMEs.

To foster a more compliant tax environment, SMEs, government bodies, and tax

authorities should work collaboratively to enhance service quality. Engaging constructively with tax authorities and advocating for better services can lead to more positive compliance outcomes for SMEs. For the government, prioritizing high-quality, transparent, and fair services will build trust and encourage voluntary compliance, leading to a more robust and sustainable tax system.

5.4 Implications of the Study

This study has explored the factors influencing tax compliance behaviour among Malaysian SMEs and examined how service quality moderates certain relationships. The findings present several theoretical and practical implications for tax compliance and SMEs, as discussed below.

5.4.1 Theoretical Implications

This study contributed to the theoretical literature by extending Fischer's model by incorporating several variables such as psychological empowerment, tax transparency, tax incentives, tax knowledge, and the moderating effect of service quality on tax compliance behaviour among SMEs. By enhancing Fischer's model, the study provides a robust conceptual model that integrates social influence theory, social exchange theory, and social cognitive theory through Spreitzer's model to investigate tax compliance behaviour among SMEs in Malaysia.

In particular, the model of the study examined the direct effect of psychological empowerment, tax transparency, peer influence, tax knowledge, tax incentive, and tax fairness on the tax compliance behaviour of SMEs in Malaysia. Except for tax knowledge, the results revealed that they have a positive and significant relationship with tax compliance behaviour among SMEs. Besides that, past studies used Fischer's

model, which focused on the individual level. This study contributed by testing Fischer's model at the SME level.

This study made further contribution by introducing psychological empowerment in the context of taxation. The literature review revealed that limited studies have tested psychological empowerment in taxation, as it was widely tested in business or organisational contexts. Another contribution is the finding that indicated a positive and significant relationship between psychological empowerment and tax compliance behaviour among SMEs in Malaysia.

The literature review also revealed that many past scholars investigated service quality as the independent variable in taxation. Notwithstanding that, according to the literature, minimal research has been done on among Malaysian SME population. Therefore, this study contributed by introducing service quality as a moderating effect to examine peer influence, tax knowledge, tax incentive, and tax fairness on tax compliance behaviour among SMEs in Malaysia. Except for tax knowledge, this study revealed that service quality has strengthened the relationship towards tax compliance behaviour. Consequently, it made another contribution to the theoretical literature. This study provides substantial insights into taxpayer behaviour regarding tax compliance, especially in developing countries like Malaysia.

5.4.2 Practical Implications

This study provides valuable insights into the factors influencing tax compliance behaviour among Malaysian SMEs, particularly within the manufacturing sector. The findings highlight that psychological empowerment, tax transparency, peer influence, tax incentives, and tax fairness significantly affect tax compliance behaviour. These

factors offer practical guidance for tax authorities to enhance compliance and reduce tax-related issues.

Psychological empowerment was found to positively and significantly impact tax compliance. Policymakers can foster this by implementing measures that enhance taxpayers' sense of control, confidence, and motivation. Initiatives such as proactive outreach, feedback mechanisms, and skill development opportunities can empower taxpayers, making them more self-sufficient and committed to fulfilling their tax obligations.

Tax transparency, peer influence, tax incentives, and tax fairness were also significant factors. Tax authorities can improve compliance by providing clear information, updating tax incentive programs, and consistently applying tax laws. Open communication and feedback mechanisms can further build trust and satisfaction among taxpayers.

Service quality was a critical moderating factor influencing the relationship between these determinants and tax compliance behaviour. High-quality service from tax authorities, characterized by responsiveness, communication, and support, can enhance the positive impact of these factors on compliance.

The study's recommended tax compliance model, specifically designed for manufacturing SMEs, incorporates these key variables and highlights the moderating role of service quality.

Figure 5.1 presents a recommended tax compliance model specifically designed for SMEs in Malaysia, focusing on the manufacturing sector. The model aims to explain the factors influencing tax compliance behaviour among these SMEs by incorporating

key variables: psychological empowerment, tax transparency, peer influence, tax incentives, and tax fairness. These factors directly influence tax compliance behaviour, suggesting that improvements in these areas could enhance the tax compliance rates among manufacturing SMEs.

Overall, this model emphasizes the importance of a comprehensive approach that considers psychological and social factors and is moderated by service quality. This approach offers valuable insights for policymakers, tax authorities, and SMEs to improve compliance rates among manufacturing SMEs in Malaysia.

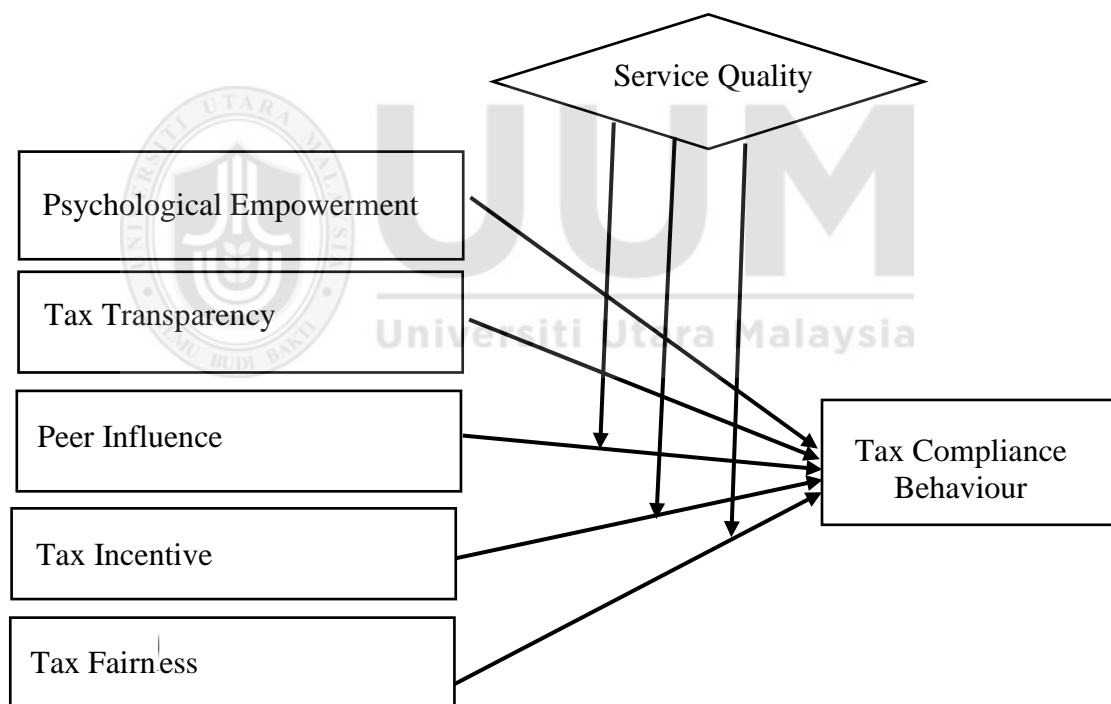


Figure 5.1 *Recommended Tax Compliance Model for SMEs in Malaysia*

5.5 Limitations and Suggestions for Future Studies

Despite this study's valuable theoretical and practical implications, it does have certain limitations. Nonetheless, these limitations highlight opportunities for future research endeavours. The primary limitation of this study lies in its measurement approach. Similar to many compliance studies, it relied on self-reported surveys from taxpayers. Self-reporting in social research often introduces issues because individuals may misrepresent their beliefs, intentions, or behaviours due to social desirability bias, recall errors, or misunderstanding of survey questions (Rosid et al., 2016). This discrepancy between reported and actual behaviour can significantly affect the study's accuracy, as respondents might overstate compliance or underreport non-compliance.

Similarly, scholars have noted that this method may not accurately reflect taxpayers' actual behaviour because self-reported data can be influenced by respondents' desire to present themselves in a favourable light or their lack of awareness of their behaviour (Hessing et al., 1988; Van Djike & Verboon, 2010). To address these issues, this study guaranteed respondent anonymity, which aimed to reduce the pressure to conform to socially desirable responses. However, future research can employ mixed methods, combining qualitative and quantitative research, as recommended by Creswell (2009), to capture a better way of understanding taxpayer behaviour.

The second limitation is that this study employed a cross-sectional design, an observational method that analyzes data gathered from a population or a representative sample at a single point in time. Al-Swidi and Mahmood (2012) point out that this approach fails to account for changes in the environment and psychological shifts in respondents over time, which limits its ability to capture dynamic processes and causal relationships. This is a significant limitation because it prevents the study from

observing how variables and behaviours evolve, which can lead to misleading conclusions when generalizing findings. A cross-sectional design also overlooks temporal effects, such as how changing policies or economic conditions might impact taxpayer behaviour. To address these shortcomings, future research could adopt a longitudinal design, which involves collecting data from the same subjects multiple times. This approach allows researchers to track changes and establish temporal sequences, enhancing the ability to infer causality and validate the findings over time.

5.6 Conclusion

This study successfully developed a comprehensive model to explain tax compliance behaviour among SMEs in Malaysia by extending Fisher's model. It incorporated additional factors such as psychological empowerment, tax transparency, peer influence, tax incentives, and tax fairness. The findings revealed that psychological empowerment, tax transparency, peer influence, tax incentives, and tax fairness positively and significantly influence tax compliance behaviour among SMEs in Malaysia. However, the relationship between tax knowledge and tax compliance behaviour was found to be insignificant.

The study also investigated the moderating effect of service quality on the relationships between peer influence, tax knowledge, tax incentives, and tax fairness with tax compliance behaviour. The results indicated that service quality significantly strengthens the relationship between peer influence, tax incentives, and tax fairness with tax compliance behaviour, but it does not moderate the relationship between tax knowledge and tax compliance behaviour.

Employing a quantitative survey method, data was gathered from 491 SMEs, with 230 responses analyzed using AMOS, providing empirical support for the theoretical model. Despite some limitations, the study met its objectives and provided significant theoretical and practical contributions. This study makes a notable empirical contribution to the existing body of research on tax compliance by exploring the direct impact of psychological empowerment and analysing the moderating effect of service quality. The results are anticipated to hold significant value for tax authorities, particularly in supporting efforts to enhance revenue generation among SMEs in Malaysia.



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APPENDICES

Appendix A: Studies on Tax Compliance Worldwide

Source	Country	Findings
Saptono et al. (2023)	Indonesia	<ul style="list-style-type: none"> • Service quality affect tax compliance
Adikur & Imran (2022)	Indonesia	<ul style="list-style-type: none"> • Service quality affect tax compliance
Sukesi & Yunaidah (2020)	Indonesia	<ul style="list-style-type: none"> • Service quality does not affect tax
Pertiwi et al. (2020)	Indonesia	<ul style="list-style-type: none"> • Tax knowledge and three dimensions of tax fairness (general fairness, structure, and self-interest) affect MSMEs compliance
Djajanti (2020)	Indonesia	<ul style="list-style-type: none"> • Significant negative relationship between tax fairness and voluntary taxpayer compliance.
Alshira'h & Abdul-Jabbar (2019)	Jordan	<ul style="list-style-type: none"> • Tax fairness positive significant relationship with sales tax compliance among SMEs
Alshira'h (2019)	Jordan	<ul style="list-style-type: none"> • Peer influence insignificant relationship with sales tax compliance among SMEs.
Abdul & McFie (2019)	Kenya	<ul style="list-style-type: none"> • Found that considering the multidimensionality of perceptions on fairness, only exchange fairness affects tax compliance behaviour of the business taxpayers. • While, perceived behavioural control was found to have a significant negative effect on compliance behaviour.
Alkhatib et al. (2019)	Palestine	<ul style="list-style-type: none"> • Peer influence and tax fairness had a negative significant effect on tax non-compliance.
Hashimzade et al. (2014)	UK	<ul style="list-style-type: none"> • Empirical evidence demonstrates that a wide range of factors, including social groupings and network effects, may impact upon the individual compliance decision.
Langham et al. (2012)	Australia	<ul style="list-style-type: none"> • Taxpayers do not have enough control over their behaviour to guarantee the successful fulfilment of all tax tasks. • A high level of intention does not always mean compliance, and tax complexity has a negative correlation

Yong (2012)	New Zealand	<ul style="list-style-type: none"> with the willingness to be tax compliant. • Unfair procedures have a negative correlation with the willingness of taxpayers to interact with the tax authority. • Tax audit operations are ineffective in detecting tax cheating by the business owner.
Verboon & Goslinga (2009)	Netherlands	<ul style="list-style-type: none"> • Distributive fairness positively affects both tax compliance attitudes and intentions to comply among entrepreneurs with relatively low personal norms. • Distributive justice has no significant effect among Entrepreneurs with high personal norms.
Chan et al. (2010)	China	<ul style="list-style-type: none"> • Book-tax differences remain informative of tax non-compliance, the informativeness attenuates as book-tax conformity weakens
Hasseldine et al. (2007)	UK	<ul style="list-style-type: none"> • Communications are particularly efficient for self-preparers when reporting turnover. • In general, tax penalties letters are more efficient than normative citizenship letters for reported turnover.
Evans et al. (2005)	Australia	<ul style="list-style-type: none"> • Record keeping practices leads to a decrease in tax compliance & tax compliance costs have a positive relation with poor record keeping
López-Laborda & Rodrigo (2005)	Spain	<ul style="list-style-type: none"> • No relation between Tax amnesties and Tax compliance
Ristsema & Thomas (2003)	USA	<ul style="list-style-type: none"> • Filling status, income and opportunity to evade are positively related to tax owed and financial constraint is a factor related to failure to report and pay tax.
Forest & Sheffrin (2002)	USA	<ul style="list-style-type: none"> • Simplifying the tax system has no effective deterrent to tax non-compliance because taxpayers did not necessarily consider the complex tax system to be unfair.
Adegboye et al. (2018)	Nigeria	<ul style="list-style-type: none"> • Tax education stimulates small businesses tax compliance behaviour, a result that is robust for both business taxes and personal taxes. • Tax administration system in Nigeria does not have significant impact on tax compliance among small businesses in

Oladipupo & Obazee (2016)	Nigeria	<ul style="list-style-type: none"> Nigeria due to inefficiencies and corruption in the system. Tax penalty and tax knowledge and have a positive association with tax compliance.
Ayuba et al. (2015)	Nigeria	<ul style="list-style-type: none"> Effect of perceived service orientation on the relation among work family conflict and tax compliance behaviour, while no interacting effect was found between fuel subsidy removal and tax compliance.
Adeyeye & Otusanya (2015)	Nigeria	<ul style="list-style-type: none"> Found that indicate that each of the individual independent variables have significant positive relationship with the dependent variable.
Atawodi & Ojeka (2012)	Nigeria	<ul style="list-style-type: none"> Tax compliance related negative with tax rate and complex filing procedure.
Alabede et al. (2011)	Nigeria	<ul style="list-style-type: none"> Other factors and the need for policy to be directed towards influencing these factors positively for improvement in tax compliance level the model of tax compliance should be extended for better understanding of tax compliance behaviour.
Abdul & Wang'ombe (2018)	Kenya	<ul style="list-style-type: none"> Tax compliance in Kenya significantly declines with increase in tax compliance costs, particularly those related to understanding of the existing complex tax laws, Changes in tax rules as well as general costs of meeting the compliance and regulatory requirements.
Musimenta et al. (2017)	Uganda	<ul style="list-style-type: none"> There are significant relationships between tax fairness and isomorphic forces with tax compliance. Insignificant relationships between strategic responses with tax compliance.
Belay & Viswanadham (2016)	Ethiopia	<ul style="list-style-type: none"> Business income taxpayers have multidimensional perceptions on the fairness of the income tax system. The impact of fairness perception on the decisions of taxpayers whether to comply or not to comply with the income tax system was found to be paramount.
Akinboade (2014)	Cameroon	<ul style="list-style-type: none"> High registration cost, time-consuming operations and complex tax system promote the tax non-compliance of

Fauziati et al. (2016)	Indonesia	<ul style="list-style-type: none"> • SMEs owners. • Perception of the tax system as being fair, clear, easy to understand promotes the tax compliance of SME owners.
Iskandar et al. (2016)	Indonesia	<ul style="list-style-type: none"> • Tax knowledge has no impact on tax compliance among small and medium enterprises (SMEs) in Kota Padang.
Inasius (2015)	Indonesia	<ul style="list-style-type: none"> • Bribery encourages evasion as the tax rate increases and curbs the positive impact of financial reward in enhancing compliance. • Tax rate has a negative relation with tax compliance. • Tax knowledge, tax audit, and referral group have a positive relationship with tax compliance.
Mukhlis et al. (2015)	Indonesia	<ul style="list-style-type: none"> • Knowledge has a significant and positive effect on tax justice, tax justice has a significant and positive effect on tax compliance and tax knowledge and has a significant positive effect on tax compliance.
Brainyyah (2013)	Indonesia	<ul style="list-style-type: none"> • Tax fairness positively affects tax compliance. • Tax knowledge insignificantly impacts tax compliance. • Tax complexity has a negative linkage with tax compliance.
Abodher et al. (2018)	Libya	<ul style="list-style-type: none"> • Reveal that both political affiliation and political instability have a significant effect on tax non-compliance among self-employed Libyans
Olsen et al. (2018)	Turkey	<ul style="list-style-type: none"> • Authorities' enforcement capacity (i.e. high power) induces negative emotions while elevating enforced compliance and the readiness to evade. • Trust, on the other hand, reduces negative emotions and raises positive feelings, which are associated with intentions to comply voluntarily. • A combination of high power and high trust reduces negative feelings and increases intentions to comply while undermining the readiness to evade.
Çevik & Yeniçeri (2013)	Turkey	<ul style="list-style-type: none"> • Social norms are positively related to tax compliance. • Efficiency of tax administration has a

Saraçoğlu & Çaşkurlu (2011)	Turkey	<p>significant positive moderating impact on the connection among social norms and tax compliance.</p> <ul style="list-style-type: none"> • Tax amnesties, workload of administrators and judicial bodies reduces and their efficiency increase; in short terms, relaxation of taxpayers and increase in tax revenue is also possible.
Juhi (2016)	Iraq	<ul style="list-style-type: none"> • Tax fairness and tax compliance has a positive relationship
Andriani (2015)	Palestine	<ul style="list-style-type: none"> • Tax morale increases with public spirit, but it is lower among Palestinians involved in associational activities. • Public spirit has more impact when the respondent has low confidence in the institutions and in the rule of law.
Mrouh (2011)	Syria	<ul style="list-style-type: none"> • Tax rate increase is positively linked with an increase in tax non-compliance and Tax penalty has a positive relation with reduced tax non-compliance

Source: Compiled by this study



Appendix B: Studies on Tax Compliance in Malaysia

Authors(s);(year)	Respondents	Method	Sampling size (sampling method)	Response number (and/or rate)	Main outcomes (Relevant to compliance behaviour)
Kasipillai & Abdul-Jabbar (2006)	Individual Taxpayers (University staffs)	f2f Interview	500 (random)	153 (30.6%)	<ul style="list-style-type: none"> • Males and females(gender) were found to have similar compliant attitude. • This survey does not show significant differences among ethnic groups on the overall non-compliance attitude.
Palil & Mustapha (2011)	Individual Taxpayers (lecturers and professionals)	Mail survey	5500	588 (55%)	<ul style="list-style-type: none"> • In the SAS in Malaysia, tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among respondents. • Males, Malays, residents of Eastern region, high income earners and taxpayers who have attended tax courses appear to be the most knowledgeable taxpayer groups. • The results also indicated that tax compliance was influenced by probability of being audited, perception of government spending,

					penalties, personal financial constraints, and referent group.
Fatt & Khin (2011)	individual taxpayers (comprising government employees, private sector employees and self-employed businessmen)	Questionnaire	-	311	<ul style="list-style-type: none"> • Findings from this study reviewed that the Self-Assessment tax system places an onerous responsibility on petty traders to comprehend the new system and to comply with the tax administration aspects as to the computations, payment of taxes, and record keepings. • It is suggested that the IRBM to impose penalty discretionary, to take into account of the educational background, financial position, the amount of tax understated, the frequency of tax defaults of the petty traders.
Ghani, Ling, & Wah (2012)	Corporate SMEs	Qualitative – Tax Audit Cases	383 cases involved	282 cases SMEs	<ul style="list-style-type: none"> • Marginal tax rate and company size were found to be significant determinants of corporate tax noncompliance. • Penalty rates, financial liquidity, types of industry and foreign ownership have no significant correlation to corporate tax non-compliance.
Yusof, Ling, & Wah (2014)	Corporate SMEs	Qualitative – Tax Audit Cases	375 cases involved	303 cases SMEs	<ul style="list-style-type: none"> • Marginal tax rate, company size and types of industry exerted significant effects on corporate tax non-

Isa (2014)	-1 st phase:Eight focus group interviews with 60 tax auditors -2 nd phase: Individual-Malaysian corporate taxpayers(questionnaire)	Interview & Questionnaire	2 nd phase: 2,876 surveys (stratified random, snowball and random)	145 (5.04%)	<ul style="list-style-type: none"> compliance. Tax complexity was identified by tax auditors as one of the major compliances variables among corporate taxpayers. Dimensions of tax complexity encountered by smaller corporate taxpayers were tax computations, record keeping.
Mohdali & Pope (2014)	individual taxpayers(salaried & self-employed)	Mixed method (interview & survey)	500 (survey) stratified sampling	302	<ul style="list-style-type: none"> Religiosity is found to have a minimal but statistically significant positive impact on voluntary tax compliance.
Mamun, Entebang, Mansor, Yasser, & Nathan (2014)	Salaried & business(bartering goods) individual taxpayers (jb residents)	Questionnaire	300	92 (30.67%)	<ul style="list-style-type: none"> Both male and female respondents were found to be having similar compliant attitudes. Ethnic group, academic qualification and attitude towards compliance were the only variables that shown a statistically significant.
Russain, Nawawi, Zakaria, Ab Aziz, & Mohamed (2014)		Qualitative-tax audit cases	-	80	<ul style="list-style-type: none"> Sales area most preferred area for taxpayers to practice tax evasion compared to other financial area(purchases, expenses, BIK & inventory).
Zandi, Aslam, & Elwahj (2016)	individual taxpayers	Questionnaire	50	50	<ul style="list-style-type: none"> The tax morale, tax evasion and tax knowledge have significant

Manual & Xi (2016)	self-employed taxpayers(johor & Selangor)	Questionnaire	150	133 (88%)	<ul style="list-style-type: none"> relationship with tax compliance. Deterrence tax measures show a significant result. The results for tax compliance costs and tax knowledge are insignificant.
Chong & Arunachalam (2018)	Individuals representing three groups - tertiary students, employed individuals, and self-employed individuals	Survey(questionnaire)	1200 Quota sampling	340 (28%)	<ul style="list-style-type: none"> Trust in government, trust in tax administrator, power of Inland Revenue Board of Malaysia, and awareness influence enforced compliance. Tax morale and tax amoral behaviours do not influence enforced compliance.
Mohamad & Deri (2018)	SME operators	questionnaire	150	86 (55.42%)	<ul style="list-style-type: none"> Company size and level of income have positively influenced the level of tax noncompliance. SME taxpayers towards tax penalty, company size and level of income is an average sensitivity.
Srivastava, Singh, & Mishra (2018)	Individuals who use cash transactions for past 6 mth	Mail survey	300	128	<ul style="list-style-type: none"> The results of the study suggest that attitude towards government and religiosity influences the consumers' intention to participate in CTE. The negative attitude toward government enhances the intention to participate in CTE. Religiosity negatively influences the intention to participate in CTE and makes people recognize participation

Sritharan & Salawati (2019)	individual salaried taxpayers	questionnaire	1,853	419	<p>in CTE as a moral issue.</p> <ul style="list-style-type: none"> • Probability of being audited, perception on government spending, penalty rate and financial position were significantly correlated with individual taxpayers' tax compliance behaviour. • Perception on equity and fairness is not significantly correlated with individual taxpayers' tax compliance behaviour.
Abd Hamid, Ibrahim, Ibrahim, Ariffin, Taharin, & Jelani (2019)	SMEs (online business)	Interview		6 sme owners	<ul style="list-style-type: none"> • Tax knowledge plays a vital role in influencing tax compliance among online companies in Malaysia. • Malaysian tax rules and regulations are too complex to understand, and the current corporate tax rate is too high and burdensome.
Abd Hamid, Ibrahim, Ibrahim, Ariffin, Taharin, & Jelani (2019)	SMEs (online business)	Questionnaire	300		<ul style="list-style-type: none"> • There are relationships between tax knowledge and attitude with tax awareness. • Higher tax knowledge and better attitude will increase the understanding of tax system and laws. • Trust in government and tax system has negative relationship with tax awareness.
Sritharan,	individual taxpayers	Questionnaire	1853	419	<ul style="list-style-type: none"> • Changes in government policies,

Salawati, & Cheuk (2020)	(self employed included)			(22.6%)	<p>referral group, the role of IRBM, political affiliation & cultural influence have significant relationship with taxpayer's compliance behaviour.</p> <ul style="list-style-type: none"> • No significant relationship: religiosity & tax knowledge.
Abd Hamida, Rasitb, Ishak, Abd Hamidd, Abdullahe, & Sanusif (2020)	Individual taxpayers-business (grab drivers)	Questionnaire	200 Non-random	55	<ul style="list-style-type: none"> • Their behaviour and knowledge on taxation affect tax compliance. • Other tax related issues such as compliance cost, behaviour and knowledge generally promotes non-compliance and influences most drivers to become tax evaders.
Sing (2020)	Individual (SMEs)	Questionnaire	977	276	<ul style="list-style-type: none"> • Findings show that tax complexity, tax fairness, peer influence, and tax knowledge have significant influences on sales compliance behaviour. • Tax law and enforcement, service quality and compliance cost variable on tax compliance were non-significant.
Leong, Lee, & Teoh (2020)	Individual (SMEs)	Questionnaire & Phone interview	- nonprobability sampling	85(questionnaire) 5(phone interview)	<ul style="list-style-type: none"> • Tax detection and penalties, tax complexity, value of tax & trust in government not significant to the relationship with the tax compliance among SMEs in Malaysia. • There are certain assistances (tax

					incentives) that the business owners hope to get from the government.
Ali, Zahari, & Harizan (2020)	SMEs (Selangor)	Questionnaire	150	130(86.7 %)	<ul style="list-style-type: none"> • Rate of penalty, knowledge of tax penalty, education on tax penalty and psychological behaviour of taxpayers toward tax penalty is significantly influencing the tax compliance. • The variable of punishment of tax penalty indicates that there is insignificant influence towards tax compliance.
Remali, Ramli, Nordin, Hamdan, & Lutfi (2020)	Individual taxpayers-private/private sectors including sole proprietors (Selangor & Putrajaya)	Questionnaire	413	290	<ul style="list-style-type: none"> • There is a positive relationship between tax fairness and tax knowledge towards perception on tax compliance. • Tax complexity is negatively related to the perception on tax compliance. • Age, gender and education have no significant differences with tax compliance perception. • Income level significantly differs with tax compliance perception.

Ngah, Ismail, & Abd Hamid (2020)	SMEs (Malaysia)	Qualitative – Tax Audit Cases related to fraudulent reporting	800	397	<ul style="list-style-type: none"> • Family ownership firms and company size have statistically significant positive relationship with tax evasion practices detected during tax audits. • The results also show that the frequency of tax audits conducted positively affect the increase of tax evasion activities amongst SMEs in Malaysia.
Ishak & Ali (2020)	Individual taxpayers (Shah Alam)	Questionnaire	500	402	<ul style="list-style-type: none"> • This study finds that religiosity and perception towards government have a significant influence on tax evasion.
Ngah, Ismail, & Abd Hamid (2021)	SMEs (PJ)	Qualitative – SMEs audit cases related to fraudulent reporting 2016-2017 (PJ branch)	-	-	<ul style="list-style-type: none"> • Family ownership firms, company size, presence of tax professionals, company's duration in business and frequency of tax audits could be associated with tax evasion amongst SMEs in Malaysia. • This study further proposes that highly competent tax audit officers could mitigate the relationship between frequency of tax audits and tax evasion practices amongst SMEs

Source: Compiled by this study

Appendix C: Questionnaire in English

TAX COMPLIANCE BEHAVIOUR OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) IN MALAYSIA: MODERATING ROLE OF SERVICE QUALITY



Pusat Pengajian Perakaunan
Tunku Puteri Intan Safinaz
TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY
Universiti Utara Malaysia

Dear Respondent,

I am Raja Rajeswari, currently pursuing a Doctor of Philosophy in Accounting at Universiti Utara Malaysia. As a partial requirement for the study, I am conducting a research project entitled “**Tax Compliance Behaviour of Small and Medium-Sized Enterprises (SMEs) in Malaysia: Moderating Role of Service Quality**”.

For the purpose of this research project, a set of questionnaire is administered to collect primary data. The purpose of this questionnaire is solely to conduct academic research. This study aims to discover the determinants of SMEs' tax compliance behaviour in Malaysia. Hence, the success of this research would not be possible without your cooperation. This survey will take approximately 10 to 15 minutes. Throughout the research process, neither the respondent's name nor identity will be revealed. Please be assured that all information gathered will be treated with strict confidentiality.

Thank you for participating in this study. If you have any questions, please do not hesitate to contact me at raja_rajeswari_j@oyagsb.uum.edu.my or **017-229 7087**.

Best Regards,

Raja Rajeswari
PhD Candidate

Supervisors:

Associate Prof. Dr. Natrah binti Saad
Associate Prof. Dr. Munusamy a/l Marimuthu

Part 1: Tax Compliance Behaviour

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
TCB1	Even with the rising cost of living these days, it is not permissible for businesses to not declare or hide some business earnings on on their tax returns.					
TCB2	It is not so wrong to under-report certain income since it does not really hurt anyone.					
TCB3	It is permissible to occasionally under-report certain income or claim deductions which are not entitled by business.					
TCB4	Not reporting some earnings by the business from interest earned or investment, which the government would not be able to detect is acceptable.					
TCB5	Adding a little bit more of what the business actually spent when reporting is not permissible.					
TCB6	It is permissible for businesses to deduct some items that are not really considered deductions.					
TCB7	When businesses are uncertain about whether or not they deserve a tax deduction, it makes sense to take a chance and take a deduction anyway.					
TCB8	It is not really cheating when businesses find ways to pay less tax than they are supposed to.					
TCB9	It is not wrong for businesses to pay incorrect amount of taxes since the government spends too much anyway.					
TCB10	It is not a big deal if businesses underpay a little tax as a lot of rich people pay no taxes at all.					

Part 2: Psychological Empowerment

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
PE1	My company needs to comply with tax obligations to support government policies.	1	2	3	4	5
PE2	My company needs to file taxes properly as a law-abiding entity.	1	2	3	4	5
PE3	My company has capabilities to comply with tax obligation properly.	1	2	3	4	5
PE4	My company has adequate expertise to handle tax affairs.	1	2	3	4	5
PE5	My company has significant freedom on how to deal with tax affairs.	1	2	3	4	5
PE6	My company's way of dealing with tax obligations will have consequences for the company itself.	1	2	3	4	5
PE7	My company's tax filing has a large impact on the company's reputation.	1	2	3	4	5
PE8	My company would bear any consequences resulting from the tax filing.	1	2	3	4	5

Part 3: Tax Transparency

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
TT1	The tax authority makes it easy to find the tax information needed for complying with tax obligation.	1	2	3	4	5
TT2	The tax authority provides tax information that is easy to understand tax law.	1	2	3	4	5
TT3	The tax authority provides reliable tax information for complying with tax obligation.	1	2	3	4	5
TT4	The tax authority provides tax information that could be verified by an outside source, such as an auditor, for tax compliance purpose.	1	2	3	4	5
TT5	The tax authority discloses sufficient information to taxpayers about its tax collection to encourage tax compliance.	1	2	3	4	5
TT6	The tax authority discloses tax-related information publicly or through the media to encourage tax compliance.	1	2	3	4	5
TT7	The tax authority discloses information to taxpayers on how tax collection is distributed transparently to encourage tax compliance.	1	2	3	4	5

Part 4: Peer Influence

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
PI1	My industry peers believed it was acceptable to pay less income taxes than the actual amount due.	1	2	3	4	5
PI2	My industry peers believed that business cash earnings should be reported honestly on a tax return.	1	2	3	4	5
PI3	My industry peers believed that it was acceptable to overstate tax deductions on a tax return.	1	2	3	4	5
PI4	My industry peers agreed that business cashing without paying tax was a trivial offense.	1	2	3	4	5
PI5	My industry peers would definitely think it is not alright (i.e., morally right) to deduct the additional RM2,000 expenses from the business income.	1	2	3	4	5
PI6	My industry peers prefer to pay less tax than they should.	1	2	3	4	5

Part 5: Tax Knowledge

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
TK1	My company knows how to declare actual income received from all sources that are related to the business.					
TK2	My company is aware about the requirement to keep records or documents pertaining to income and expenditure for a period of seven years after the tax return submission.					
TK3	My company understands that it must pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period.					
TK4	My company is aware that asset depreciation is not allowed in determining taxable income.					
TK5	My company is responsible for paying business tax to the government to collect revenue to manage a country.					
TK6	My company can be penalised and prosecuted for not complying with the Tax Act.					
TK7	My company is aware that it needs to adhere to the deadline for the submission of tax return forms.					

Part 6: Tax Incentive

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
TI1	Tax incentives granted by the government motivate my company to comply with tax laws.					
TI2	The eligibility to claim special allowances for small assets valued at not more than RM2,000 encourages my company to meet its tax obligations.					
TI3	A tax rate of 17% granted to my company with paid-up capital of less than RM2.5 million and yearly sales of less than RM50 million and taxable income up to RM600,000 motivates my company to comply with tax regulations.					
TI4	Stamp duty exemptions and special deductions encourage my company to meet its business tax obligation.					
TI5	Giving tax incentives makes my company, as a SME taxpayer, more obedient.					

Part 7: Tax Fairness

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
TF1	The income tax system is unfair to SME taxpayers.	1	2	3	4	5
TF2	The manner in which tax burden is distributed across SME taxpayers is unfair.	1	2	3	4	5
TF3	The income tax is fair to SME taxpayers.	1	2	3	4	5
TF4	The burden of income taxes is fairly distributed among SME taxpayers.	1	2	3	4	5
TF5	The share of total income taxes paid by SMEs is not too high.	1	2	3	4	5



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Part 8: Service Quality

Please tick (/) the appropriate boxes next to each statement to indicate your level of agreement or disagreement. Each question should only be ticked once.

Scale: 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly Agree

No	Items	Scale				
		1	2	3	4	5
SQ1	The tax authority delivers service when promised.	1	2	3	4	5
SQ2	The tax authority keeps its records accurate.	1	2	3	4	5
SQ3	The tax authority makes accurate promises about the delivery time of services.	1	2	3	4	5
SQ4	The tax authority protects information about taxpayers.	1	2	3	4	5
SQ5	The tax authority has an up-to-date system.	1	2	3	4	5
SQ6	Tax officers are always ready to provide services.	1	2	3	4	5
SQ7	The problems related to the tax support application system of the tax authority are rectified on time.	1	2	3	4	5
SQ8	Tax authority's website does not freeze after information is entered.	1	2	3	4	5
SQ9	Tax authority actively cooperates with other agencies (such as banks) to solve problems for businesses when paying taxes.	1	2	3	4	5

Part 9: Organisational Information

Location of your company:

- | | |
|--|-------------------------------------|
| <input type="checkbox"/> Selangor | <input type="checkbox"/> Kedah |
| <input type="checkbox"/> Johor | <input type="checkbox"/> Perlis |
| <input type="checkbox"/> Penang | <input type="checkbox"/> Pahang |
| <input type="checkbox"/> Perak | <input type="checkbox"/> Terengganu |
| <input type="checkbox"/> Federal Territory of Kuala Lumpur | <input type="checkbox"/> Kelantan |
| <input type="checkbox"/> Melaka | <input type="checkbox"/> Sabah |
| <input type="checkbox"/> Negeri Sembilan | <input type="checkbox"/> Sarawak |

Type of manufacturing business:

- Food, Beverage & Tobacco
- Chemicals (including Petroleum)
- Fabricated Metals
- Machinery & Equipment
- Electrical & Electronics
- Plastics
- Non-metallic Mineral
- Paper, Printing & Publishing
- Transport, Vehicle & Equipment
- Basic Metal
- Rubber
- Medical, Precision & Optical Instruments
- Textile, Wearing Apparel & Leather
- Furniture
- Wood & Wood Products, Excluding Furniture
- Recycling
- Office, Accounting & Computing Machinery
- Others, please specify: _____

Please indicate the number of employees in your company (firm size):

- Less than 5 employees
- 6 to 75 employees
- 76 to 200 employees
- More than 200 employees

Please indicate your company turnover (in RM):

- Less than 300,000
- 300,001 to 15 million
- 16 million to 50 million

How long your company has been in operation (in years):

- Less than 5 years
- 6-10 years
- 11 – 15 years
- 16-20 years

Does your company use a tax agent to submit the business tax return?

- Yes
- No

Your position:

- Chief executive officer
- Manager
- Accountant
- Owner-managers
- Others, please specify: _____

Thank you for your cooperation 😊

Appendix D: Questionnaire in Bahasa Melayu

GELAGAT PEMATUHAN CUKAI PERUSAHAAN KECIL DAN SEDERHANA (PKS) DI MALAYSIA: PERANAN PENYEDERHANAAN KUALITI PERKHIDMATAN



Pusat Pengajian Perakaunan
Tunku Puteri Intan Safinaz
TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY
Universiti Utara Malaysia

Responden yang dihormati,

Saya, Raja Rajeswari, sedang menjalankan kajian bertajuk '**Gelagat Pematuhan Cukai Perusahaan Kecil dan Sederhana (PKS) di Malaysia: Peranan Penyederhanaan Kualiti Perkhidmatan**' bagi memenuhi keperluan pengajian saya di peringkat Doktor Falsafah (PhD) Perakaunan di Universiti Utara Malaysia.

Kajian ini bertujuan untuk mengetahui bagaimana kualiti perkhidmatan yang diberikan oleh pihak berkuasa cukai mempengaruhi gelagat pematuhan cukai di kalangan PKS di Malaysia. Penyelidikan ini melibatkan pengumpulan data melalui soal selidik. Sehubungan itu, saya ingin memohon bantuan dan kerjasama anda untuk menjawab borang soal selidik ini. Soal selidik ini hanya mengambil masa 10-15 minit untuk dilengkapkan. Dapatan kajian ini akan dilaporkan secara kolektif dan identiti responden tidak akan didedahkan sama sekali. Semua maklumat yang diberikan akan dijaga dengan penuh kerahsiaan.

Kerjasama anda untuk mengisi borang soal selidik ini adalah amat penting untuk memastikan kajian ini dapat disiapkan dengan jayanya. Sekiranya anda mempunyai sebarang persoalan/~~perosalan~~/kemusykilan, sila hubungi saya melalui emel **raja_rajewari_j@oyagsb.uum.edu.my** atau talian telefon di **017-229 7087**. Terima kasih di atas perhatian dan kerjasama yang diberikan.

Yang benar,

Raja Rajeswari
Calon PhD
UUM

Penyelia:

Profesor Madya Dr. Natrah binti Saad
Profesor Madya Dr. Munusamy a/l Marimuthu
UUM

Bahagian 1: Gelagat Pematuhan Cukai

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
1	Walaupun dengan kenaikan kos sara hidup hari ini, perniagaan tidak sepatutnya menyembunyikan (tidak mengisytihar) sebahagian daripada pendapatan perniagaan di dalam Borang Nyata Cukai mereka.	1	2	3	4	5
2	Adalah tidak menjadi satu kesalahan untuk kurang lapor pendapatan tertentu kerana ia tidak merugikan sesiapa pun.	1	2	3	4	5
3	Adalah dibenarkan untuk sesekali kurang lapor pendapatan atau menuntut potongan tidak layak sebagai perbelanjaan perniagaan.	1	2	3	4	5
4	Tidak melaporkan sejumlah pendapatan perniagaan daripada faedah atau pelaburan, yang tidak dapat dikesan oleh kerajaan merupakan gelagat yang boleh diterima.	1	2	3	4	5
5	Membuat tuntutan perbelanjaan perniagaan melebihi daripada jumlah yang sebenar adalah tidak dibenarkan.	1	2	3	4	5
6	Adalah tidak menjadi kesalahan bagi perniagaan untuk membuat tolakan perbelanjaan bagi beberapa perkara yang tidak layak dianggap sebagai perbelanjaan.	1	2	3	4	5
7	Apabila perniagaan tidak pasti sama ada mereka layak mendapat potongan cukai atau tidak, ianya munasabah untuk mengambil peluang tersebut dan membuat potongan.	1	2	3	4	5
8	Ia tidak dianggap penipuan sekiranya perniagaan mencari jalan untuk membayar cukai kurang daripada yang sepatutnya.	1	2	3	4	5
9	Adalah tidak menjadi satu kesalahan sekiranya perniagaan membayar cukai yang kurang dari yang sepatutnya tidak tepat memandangkan kerajaan juga berbelanja terlalu boros.	1	2	3	4	5
10	Ia bukan masalah besar jika perniagaan membayar jumlah	1	2	3	4	5

	cukai yang kurang daripada jumlah yang sepatutnya kerana ramai orang kaya langsung tidak membayar cukai.					
--	--	--	--	--	--	--

Bahagian 2: Pemerksaan Psikologi

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
1	Syarikat saya perlu mematuhi kewajipan cukai untuk menyokong dasar kerajaan.	1	2	3	4	5
2	Syarikat saya perlu memfailkan cukai dengan betul sebagai entiti yang mematuhi undang-undang.	1	2	3	4	5
3	Syarikat saya mempunyai keupayaan untuk mematuhi kewajipan cukai dengan betul.	1	2	3	4	5
4	Syarikat saya mempunyai kepakaran yang mencukupi untuk mengendalikan urusan cukai.	1	2	3	4	5
5	Syarikat saya mempunyai kebebasan penuh untuk menangani hal ehwal cukai.	1	2	3	4	5
6	Cara syarikat saya menangani kewajipan cukai akan memberi kesan kepada syarikat saya sendiri.	1	2	3	4	5
7	Pemfailan cukai syarikat saya mempunyai kesan yang besar terhadap reputasi syarikat.	1	2	3	4	5
8	Syarikat saya akan menanggung kesan daripada pemfailan cukai.	1	2	3	4	5

Bahagian 3: Ketelusan Cukai

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
1	Pihak berkuasa cukai memudahkan proses mencari maklumat cukai yang diperlukan untuk mematuhi kewajipan cukai.	1	2	3	4	5
2	Pihak berkuasa cukai menyediakan maklumat cukai yang mudah untuk memahami undang-undang cukai.	1	2	3	4	5
3	Pihak berkuasa cukai menyediakan maklumat cukai yang boleh dipercayai untuk mematuhi kewajipan cukai.	1	2	3	4	5
4	Pihak berkuasa cukai menyediakan maklumat cukai yang boleh disahkan oleh sumber luar, seperti juruaudit, untuk tujuan pematuhan cukai.	1	2	3	4	5
5	Pihak berkuasa cukai mendedahkan maklumat yang mencukupi kepada pembayar cukai tentang kutipan cukainya untuk menggalakkan pematuhan cukai.	1	2	3	4	5
6	Pihak berkuasa cukai mendedahkan maklumat berkaitan cukai secara terbuka atau melalui media untuk menggalakkan pematuhan cukai.	1	2	3	4	5
7	Pihak berkuasa cukai mendedahkan maklumat kepada pembayar cukai tentang cara pengagihan pendapatan cukai secara telus untuk menggalakkan pematuhan cukai.	1	2	3	4	5

Bahagian 4: Pengaruh Rakan

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
1	Rakan industri saya percaya bahawa membayar cukai pendapatan yang lebih rendah daripada jumlah cukai sebenar adalah munasabah.	1	2	3	4	5
2	Rakan industri saya percaya bahawa pendapatan tunai perniagaan harus dilaporkan secara jujur di dalam Borang Nyata Cukai.	1	2	3	4	5
3	Rakan industri saya percaya bahawa membuat tuntutan perbelanjaan yang berlebihan daripada jumlah perbelanjaan sebenar di dalam Borang Nyata Cukai adalah munasabah.	1	2	3	4	5
4	Rakan industri saya bersetuju bahawa tidak melaporkan terimaan tunai perniagaan untuk pengelakan cukai adalah kesalahan kecil.	1	2	3	4	5
5	Rakan industri saya yakin bahawa menuntut potongan perbelanjaan sebanyak RM2,000 melebihi perbelanjaan sebenar merupakan hak masing-masing dan bukanlah satu kesalahan.	1	2	3	4	5
6	Rakan industri saya lebih suka membayar cukai yang rendah daripada yang jumlah cukai yang sepatutnya.	1	2	3	4	5

Bahagian 5: Pengetahuan Cukai

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
		1	2	3	4	5
1	Syarikat saya tahu cara mengisytiharkan pendapatan sebenar yang diterima daripada semua sumber yang berkaitan dengan perniagaan.	1	2	3	4	5
2	Syarikat saya sedar tentang keperluan untuk menyimpan rekod atau dokumen yang berkaitan dengan pendapatan dan perbelanjaan untuk tempoh tujuh tahun selepas penghantaran Borang Nyata Cukai.	1	2	3	4	5
3	Syarikat saya memahami bahawa ia mesti membayar cukai yang perlu dibayar dalam tempoh yang ditetapkan dari tarikh pengeluaran Notis Taksiran atau dalam tempoh yang ditetapkan.	1	2	3	4	5
4	Syarikat saya sedar bahawa susut nilai aset tidak dibenarkan dalam menentukan pendapatan bercukai.	1	2	3	4	5
5	Syarikat saya bertanggungjawab membayar cukai perniagaan kepada kerajaan untuk mengurus sesebuah negara.	1	2	3	4	5
6	Syarikat saya boleh dihukum dan didakwa kerana tidak mematuhi Akta Cukai Pendapatan.	1	2	3	4	5
7	Syarikat saya sedar bahawa ia perlu mematuhi tarikh akhir untuk penyerahan Borang Nyata Cukai.	1	2	3	4	5

Bahagian 6: Insentif Cukai

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
		1	2	3	4	5
1	Insentif cukai yang diberikan oleh kerajaan mendorong syarikat saya untuk mematuhi undang-undang cukai.					
2	Kelayakan untuk menuntut elaun khas bagi aset kecil yang bernilai tidak melebihi RM2,000 menggalakkan syarikat saya memenuhi kewajipan cukainya.					
3	Kadar cukai sebanyak 17% yang diberikan kepada syarikat saya dengan modal berbayar kurang daripada RM2.5 juta dan jualan tahunan kurang daripada RM50 juta dan pendapatan boleh cukai sehingga RM600,000 mendorong syarikat saya untuk mematuhi peraturan cukai.					
4	Pengecualian duti setem dan potongan khas menggalakkan syarikat saya memenuhi kewajipan cukai perniagaannya.					
5	Pemberian insentif cukai menjadikan syarikat saya, sebagai pembayar cukai PKS, lebih patuh.					

Bahagian 7: Kesaksamaan Cukai

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
		1	2	3	4	5
1	Sistem cukai pendapatan adalah tidak adil kepada pembayar cukai PKS.					
2	Cara beban cukai diagihkan kepada pembayar cukai PKS adalah tidak adil.					
3	Cukai pendapatan adalah adil kepada pembayar cukai PKS.					
4	Beban cukai pendapatan diagihkan secara adil di kalangan pembayar cukai PKS.					
5	Jumlah cukai pendapatan yang perlu dibayar oleh PKS adalah tidak terlalu tinggi.					

Bahagian 8: Kualiti Perkhidmatan

Sila tandakan (/) pada kotak yang sesuai bagi setiap pernyataan untuk menunjukkan pandangan anda berdasarkan skala 1 hingga 5. Setiap soalan hanya perlu ditanda sekali sahaja.

1 - Sangat Tidak Setuju; 2 - Tidak Setuju; 3 - Neutral; 4 - Setuju; 5 - Sangat Setuju

No	Perkara	Skala				
		1	2	3	4	5
1	Pihak berkuasa cukai menyampaikan perkhidmatan apabila dijanjikan.					
2	Pihak berkuasa cukai menyimpan rekod dengan tepat.					
3	Pihak berkuasa cukai menepati piagamnya untuk memberi perkhidmatan dalam tempoh yang dijanjikan.					
4	Pihak berkuasa cukai melindungi maklumat tentang pembayar cukai.					
5	Pihak berkuasa cukai mempunyai sistem yang terkini.					
6	Pegawai cukai sentiasa bersedia untuk memberikan perkhidmatan.					

7	Sekiranya terdapat masalah yang berkaitan dengan sistem permohonan sokongan cukai, pihak berkuasa cukai menyelesaikannya dengan kadar segera.	1	2	3	4	5
8	Laman web pihak berkuasa cukai memberikan maklumbalas (interaktif) apabila maklumat dimasukkan.	1	2	3	4	5
9	Pihak berkuasa cukai bekerjasama secara aktif dengan agensi lain (seperti bank) untuk menyelesaikan masalah bagi perniagaan ketika membayar cukai.	1	2	3	4	5

Bahagian 9: Maklumat Organisasi

Lokasi syarikat anda:

- | | |
|---|-------------------------------------|
| <input type="checkbox"/> Selangor | <input type="checkbox"/> Kedah |
| <input type="checkbox"/> Johor | <input type="checkbox"/> Perlis |
| <input type="checkbox"/> Pulau Pinang | <input type="checkbox"/> Pahang |
| <input type="checkbox"/> Perak | <input type="checkbox"/> Terengganu |
| <input type="checkbox"/> Wilayah Persekutuan Kuala Lumpur | <input type="checkbox"/> Kelantan |
| <input type="checkbox"/> Melaka | <input type="checkbox"/> Sabah |
| <input type="checkbox"/> Negeri Sembilan | <input type="checkbox"/> Sarawak |

Jenis perniagaan pembuatan:

- | | |
|--|---|
| <input type="checkbox"/> Makanan, Minuman & Tembakau | <input type="checkbox"/> Termasuk Perabot |
| <input type="checkbox"/> Bahan kimia (termasuk Petroleum) | <input type="checkbox"/> Kitar semula |
| <input type="checkbox"/> Logam Fabrikasi | <input type="checkbox"/> Jentera Pejabat, Perakaunan & Pengkomputeran |
| <input type="checkbox"/> Jentera & Peralatan | <input type="checkbox"/> Lain-lain, sila nyatakan: _____ |
| <input type="checkbox"/> Elektrik & Elektronik | |
| <input type="checkbox"/> Plastik | |
| <input type="checkbox"/> Mineral bukan logam | |
| <input type="checkbox"/> Kertas, Percetakan & Penerbitan | |
| <input type="checkbox"/> Pengangkutan, Kenderaan & Peralatan | |
| <input type="checkbox"/> Logam Asas | |
| <input type="checkbox"/> Getah | |
| <input type="checkbox"/> Alat Perubatan, Ketepatan & Optik | |
| <input type="checkbox"/> Tekstil, Memakai Pakaian & Kulit | |
| <input type="checkbox"/> Perabot | |
| <input type="checkbox"/> Produk Kayu & Kayu, Tidak | |

Sila nyatakan bilangan pekerja dalam syarikat anda (saiz firma):

- Kurang daripada 5 orang pekerja
- 6 hingga 75 pekerja
- 76 hingga 200 pekerja

Sila nyatakan pusing ganti syarikat anda
(dalam RM):

- Kurang daripada 300,000
- 300,001 hingga 15 juta
- 16 juta hingga 50 juta

Berapa lama syarikat anda telah beroperasi (dalam tahun):

- Kurang daripada 5 tahun
- 6-10 tahun
- 11 – 15 tahun
- 16-20 tahun
- Lebih daripada 20 tahun

Adakah syarikat anda menggunakan ejen cukai untuk menyerahkan Borang Nyata
Cukai perniagaan?

- Ya
- Tidak

Jawatan anda:

- Ketua pegawai eksekutif
- Pengurus
- Akauntan
- Pemilik-pengurus
- Lain-lain, sila nyatakan: _____

Terima kasih atas kerjasama anda 😊

Appendix E: Unavailability of data from SME Corp



Data Request <datarequest@smecorp.gov.my>
To: Rajes Rj
Cc: Alida Adam, Mohammad Nezwani Roba'i, Siti Noor Mohd Nordin

Tue, May 9 at 4:58 PM ☆

Dear Rajes,

Our conversation previously is referred.

Please be informed that the figure of 71,612 firms is from DOSM and SME Corp. Malaysia does not have a list of such firms. Therefore, we are unable to provide the information as requested.

Alternatively, if you need a list of firms for questionnaire distribution purposes, you may use the available list in our database. We have about 20,000 data in our database given that MSMEs are not compulsory to be registered with SME Corp. Malaysia. Based on your request, we do have more than 9,000 MSMEs in the manufacturing sector in our database. Please be informed that a charge of RM10 per company will be imposed for each company profile (name, address, phone no., email, contact person) that we shared.

Should you want to proceed with the data listing, seek your cooperation to provide us the revised application form incorporating the signed / supported for "Disokong Oleh" and inform us the detail of firms required for our onward action. The head of researcher or dean is sufficient to support the application form.

Thank you.

Regards,
Data Request



"Pioneering Business Transformation"



UUM
Universiti Utara Malaysia

Appendix F: Letter of recommendation for data collection and research work



UNIT PENGAJIAN SISWAZAH
POSTGRADUATE STUDIES UNIT (PSU)
UUM College of Business
Universiti Utara Malaysia
08010 UUM SINTOK
KEDAH DARUL AMAN
MALAYSIA



Tel: 604-928 7130/7121/7122/7119/7124/7156
Laman web (Web): <http://psucob.uum.edu.my/>

UUM/COB/P-40
10 October 2023

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

LETTER OF RECOMMENDATION FOR DATA COLLECTION AND RESEARCH WORK

This is to certify that **RAJA RAJESWARI A/P JAYAKUMAR (Matric No. 904970)** is a student at the UUM College of Business, Universiti Utara Malaysia, pursuing her Doctor of Philosophy (Accounting). She is conducting research entitled "**Tax Compliance Behaviour of Small and Medium-sized Enterprises (SMES) in Malaysia: Moderating Role of Service Quality**" under the supervision of Assoc. Prof. Dr. Natrah binti Saad and Assoc. Prof. Dr. Munusamy s/o Marimuthu.

In this regard, we hope that you can kindly provide her with assistance and cooperation to enable her to successfully complete the research. All the information gathered will be strictly used for academic purposes only.

Your cooperation and assistance are very much appreciated.

Thank you.

"MALAYSIA MADANI"
"BERKHIDMAT UNTUK NEGARA"
"KEDAH SEJAHTERA - NIKMAT UNTUK SEMUA"
"ILMU BUDI BAKTI"

Upholding the principles of trust and integrity

NURUL NADIAH RUSLE
Assistant Registrar
for Director
Postgraduate Studies Unit
UUM College of Business

c.c. - Supervisors
- Student's File (904970)

Universiti Pengurusan Terkemuka
The Eminent Management University



Appendix G: Translation Service



PUSAT PENGAJIAN BAHASA, TAMADUN DAN FALSAFAH
SCHOOL OF LANGUAGES, CIVILISATION AND PHILOSOPHY
Universiti Utara Malaysia
06010 UUM SINTOK
KEDAH DARUL AMAN
MALAYSIA



Tel: 604-928 5581/5701/5706/5507
Faks (Fax): 604-928 5709
Laman web (Web): www.slcp.uum.edu.my

Ref. : UUM/SLCP/T-9/2
Date : 25 September 2023

Ms Raja Rajeswari a/p Jayakumar
TISSA School of Accountancy
Universiti Utara Malaysia

Dear Ms Rajeswari,

PAYMENT FOR TRANSLATION SERVICE

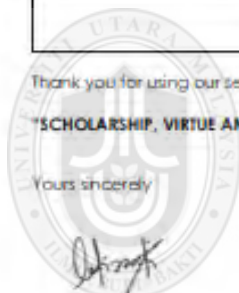
With reference to the above matter, the payment for the questionnaire translation is RM 0.15 for every word based on the original text. The document was translated by **Dr Adura binti Ahmad**. The details of payment are as below:

Title	TAX COMPLIANCE BEHAVIOUR OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN MALAYSIA: MODERATING ROLE OF SERVICE QUALITY		
Type of Document	Questionnaire		
Services	Translation		
			RM
	English – Bahasa Melayu	1,649 words x RM0.15	247.35
	Rounding		-
	TOTAL		247.35

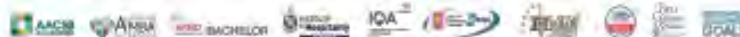
Thank you for using our service, and we hope to offer you such services in the future.

"SCHOLARSHIP, VIRTUE AND SERVICE"

Yours sincerely



Noor Izzati Muhamad Nasir
Coordinator
Editing and Translation Services
Pn. Roslita Che Ani Administrative Assistant (P/O)

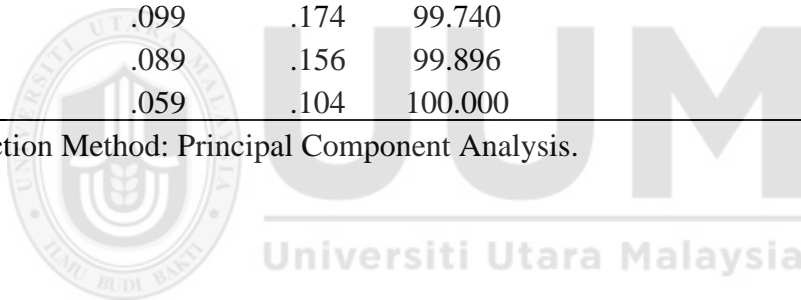


Appendix H: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	17.905	31.413	31.413	17.905	31.413	31.413
2	5.866	10.291	41.704	5.866	10.291	41.704
3	4.288	7.523	49.227	4.288	7.523	49.227
4	3.309	5.806	55.033	3.309	5.806	55.033
5	2.180	3.824	58.857	2.180	3.824	58.857
6	1.943	3.408	62.265	1.943	3.408	62.265
7	1.678	2.943	65.208	1.678	2.943	65.208
8	1.228	2.155	67.364	1.228	2.155	67.364
9	.937	1.644	69.007			
10	.844	1.481	70.489			
11	.827	1.451	71.940			
12	.764	1.340	73.280			
13	.728	1.277	74.556			
14	.698	1.225	75.782			
15	.664	1.165	76.947			
16	.625	1.097	78.044			
17	.621	1.090	79.134			
18	.585	1.026	80.160			
19	.578	1.015	81.175			
20	.537	.942	82.116			
21	.516	.905	83.022			
22	.484	.849	83.871			
23	.475	.833	84.704			
24	.471	.826	85.530			
25	.452	.794	86.324			
26	.450	.790	87.114			
27	.431	.756	87.870			
28	.414	.726	88.596			
29	.393	.690	89.286			
30	.385	.676	89.962			
31	.356	.625	90.587			
32	.350	.614	91.201			
33	.330	.579	91.780			
34	.317	.557	92.337			
35	.302	.529	92.866			
36	.280	.492	93.358			

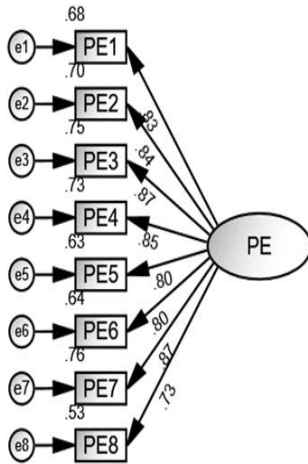
37	.272	.478	93.836
38	.267	.469	94.305
39	.254	.446	94.750
40	.252	.443	95.193
41	.244	.428	95.621
42	.235	.413	96.034
43	.228	.400	96.434
44	.216	.379	96.813
45	.203	.357	97.170
46	.200	.351	97.522
47	.182	.319	97.841
48	.178	.313	98.154
49	.171	.301	98.454
50	.147	.257	98.711
51	.137	.240	98.951
52	.129	.226	99.177
53	.118	.207	99.384
54	.104	.182	99.566
55	.099	.174	99.740
56	.089	.156	99.896
57	.059	.104	100.000

Extraction Method: Principal Component Analysis.

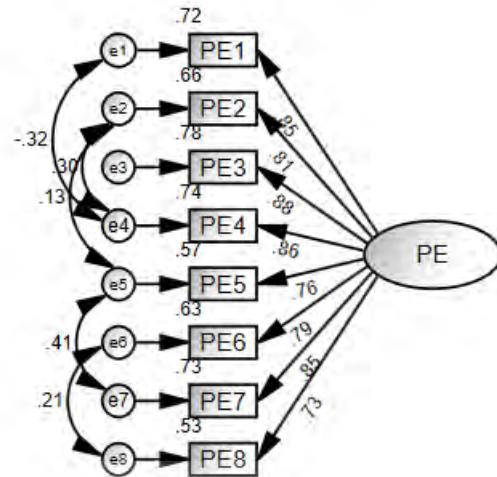


Appendix I: Confirmatory Factor Analysis

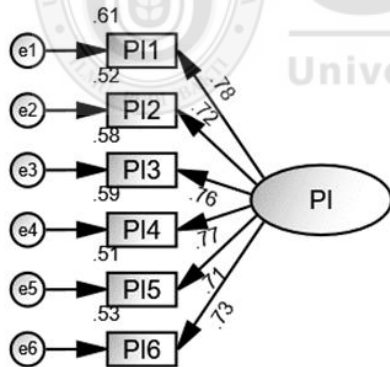
Chi-Square=109.829; p value (>.05)=.000; DF=20
 Relative Chi-Sq (<5.0)=5.491
 CFI (>=.9) =.941; IFI (>=.9) =.942; TLI (>=.9) =.918
 RMSEA (<= .08) =.140; AIC (lower better)=141.829
 (Standardized estimates)



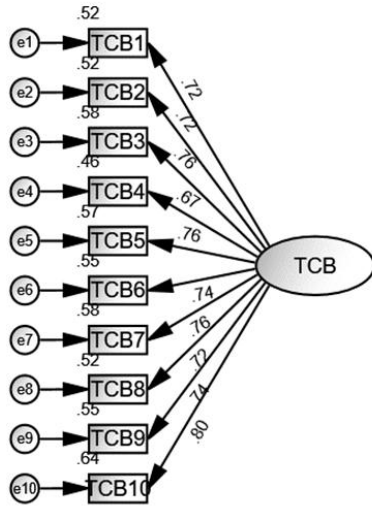
Chi-Square=29.913; p value (>.05)=.012; DF=1
 Relative Chi-Sq (<5.0)=1.994
 CFI (>=.9) =.990; IFI (>=.9) =.990; TLI (>=.9) =.9
 RMSEA (<= .08) =.066; AIC (lower better)=71.9
 (Standardized estimates)



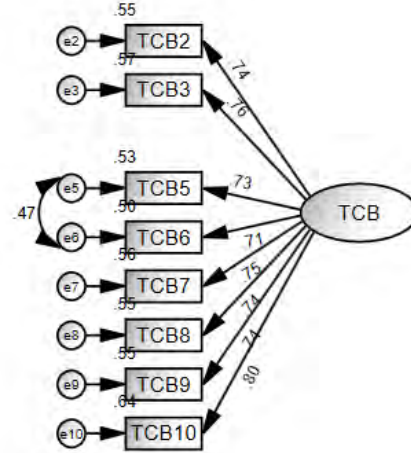
Chi-Square=24.171; p value (>.05)=.004; DF=9
 Relative Chi-Sq (<5.0)=2.686
 CFI (>=.9) =.976; IFI (>=.9) =.976; TLI (>=.9) =.960
 RMSEA (<= .08) =.086; AIC (lower better)=48.171
 (Standardized estimates)



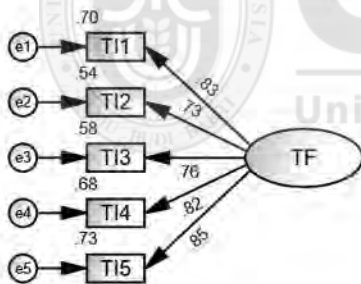
Chi-Square=147.479; p value (>.05)=.000; DF=35
 Relative Chi-Sq (<5.0)=4.214
 CFI (>=.9) =.916; IFI (>=.9) =.917; TLI (>=.9) =.892
 RMSEA (<=.08) =.118; AIC (lower better)=187.479
 (Standardized estimates)



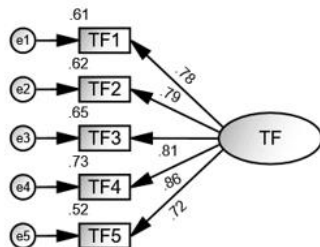
Chi-Square=43.098; p value (>.05)=.001; DF=19
 Relative Chi-Sq (<5.0)=2.268
 CFI (>=.9) =.977; IFI (>=.9) =.977; TLI (>=.9) =.965
 RMSEA (<=.08) =.074; AIC (lower better)=77.098
 (Standardized estimates)



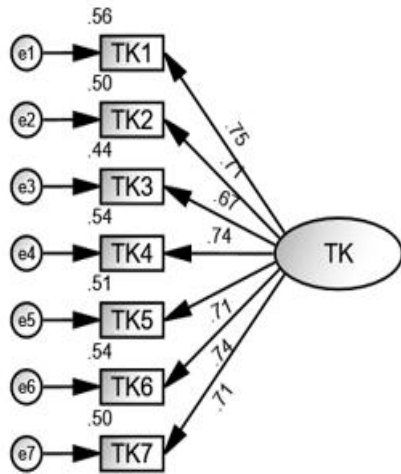
Chi-Square=5.862; p value (>.05)=.320; DF=5
 Relative Chi-Sq (<5.0)=1.172
 CFI (>=.9) =.999; IFI (>=.9) =.999; TLI (>=.9) =.997
 RMSEA (<=.08) =.027; AIC (lower better)=25.862
 (Standardized estimates)



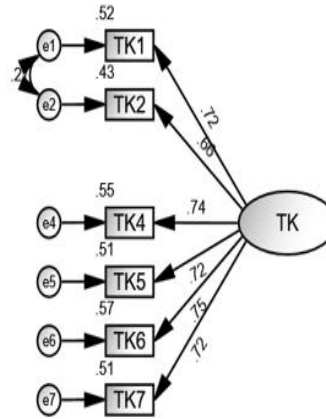
Chi-Square=12.703; p value (>.05)=.026; DF=5
 Relative Chi-Sq (<5.0)=2.541
 CFI (>=.9) =.988; IFI (>=.9) =.988; TLI (>=.9) =.975
 RMSEA (<=.08) =.082; AIC (lower better)=32.703
 (Standardized estimates)



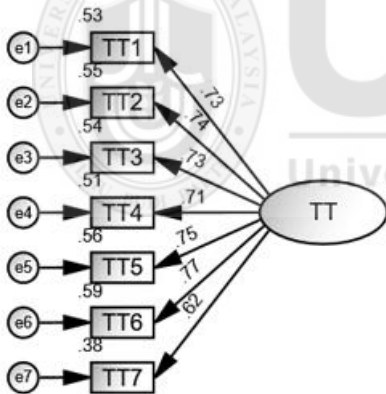
Chi-Square=55.004; p value (>.05)=.000; DF=14
 Relative Chi-Sq (<5.0)=3.929
 CFI (>=.9) = .948; IFI (>=.9) = .949; TLI (>=.9) = .922
 RMSEA (<= .08) = .106; AIC (lower better)=83.004
 (Standardized estimates)



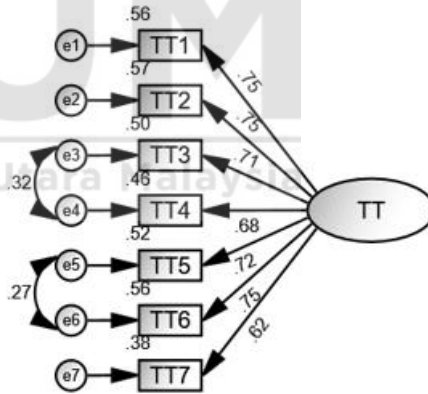
Chi-Square=20.968; p value (>.05)=.007; DF=8
 Relative Chi-Sq (<5.0)=2.621
 CFI (>=.9) = .980; IFI (>=.9) = .980; TLI (>=.9) = .963
 RMSEA (<= .08) = .079; AIC (lower better)=46.968
 (Standardized estimates)



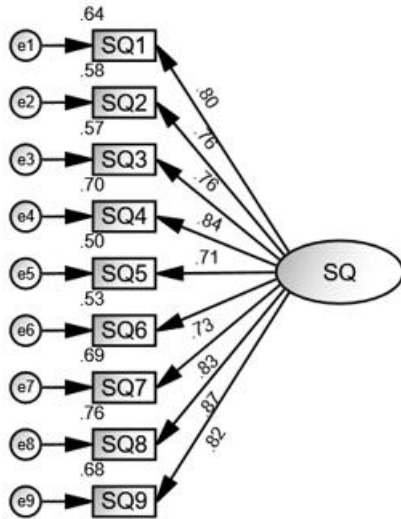
Chi-Square=50.183; p value (>.05)=.000; DF=14
 Relative Chi-Sq (<5.0)=3.584
 CFI (>=.9) = .950; IFI (>=.9) = .950; TLI (>=.9) = .925
 RMSEA (<= .08) = .106; AIC (lower better)=78.183
 (Standardized estimates)



Chi-Square=18.070; p value (>.05)=.114; DF=12
 Relative Chi-Sq (<5.0)=1.506
 CFI (>=.9) = .992; IFI (>=.9) = .992; TLI (>=.9) = .985
 RMSEA (<= .08) = .047; AIC (lower better)=50.070
 (Standardized estimates)



Chi-Square=63.981; p value (>.05)=.000; DF=27
Relative Chi-Sq (<5.0)=2.370
CFI (>=.9) =.975; IFI (>=.9) =.975; TLI (>=.9) =.966
RMSEA (<=.08) =.077; AIC (lower better)=99.981
(Standardized estimates)



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Appendix J: Additional Analysis on Tax Knowledge

Indicators	p-value	Explanation	Remarks
Selangor	0.001	Significant	
Johor	0.021	Significant	
Penang	0.006	Significant	
Perak	0.039	Significant	
Federal Territory of Kuala Lumpur	0.001	Significant	
Melaka	0.962	Insignificant	
Negeri Sembilan	0.874	Insignificant	
Kedah	-	-	SPSS unable to run analysis sample size less than 1
Pahang	0.154	Insignificant	

