




### Does Religiosity Moderate Personal Tax Compliance? A Study Involving In-House Tax Professionals of Malaysian Businesses

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#### ABSTRACT

This study limns the moderating impact of religiosity made on the in-house tax professionals who deal with tax affairs in the corporate sectors in Malaysia. Therefore, we intend to produce a seminal article, wherein religiosity is tested for its moderating effect between the determinants such as peers' tax compliance, tax audit, service quality of tax authority, satisfaction with government spending, and the level of tax compliance among the tax affairs officers. Purposive and snowball sampling techniques have been chosen to collect data from the tax professionals of the Malaysian businesses. A total of 392 respondents have managed to participate in this survey questionnaire to disclose their opinion. "SmartPLS" is used to analyse the data. The finding reveals that religiosity does not moderate the relationship between the determinants and the level of tax compliance among the Malaysian tax professionals. The interpretation of the relationship between the "Factors of Personal tax compliance" (Independent variables) among the tax affairs officers of the Malaysian businesses and the "Personal tax compliance behaviour" (Dependent variable) can be explained by 83.9 percent by the variance studied. To produce an extensive and expeditious report of exploration on the said nexus of personal tax compliance and the taxpayers' decision on the corporate tax compliance, the selection of one type of data collection approach is not sufficient. Therefore, the future researchers are advised to make research with the collection of supplementary data, such as interviews, as their primary data collection so that the robustness of their findings could be strengthened.

#### KEYWORDS

religiosity, personal tax compliance, structural equation modelling, tax professionals


JEL H24, H25, H26

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### Влияет ли религиозность на персонифицированное соблюдение налогового законодательства? Исследование с участием штатных налоговых специалистов малайзийских предприятий

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#### АННОТАЦИЯ

В данном исследовании показано сдерживающее влияние религиозности на деятельность профессиональных налоговых специалистов, которые занимаются налоговыми делами в корпоративном секторе Малайзии. Религиозность про-

верялась в разрезе ее сдерживающего эффекта по таким детерминантам как соблюдение налоговых требований коллегами, налоговый аудит, качество услуг налоговых органов, удовлетворенность государственными расходами и уровень соблюдения налоговых требований среди налоговых инспекторов. Сбор данных от налоговых специалистов малайзийских предприятий производился посредством целенаправленной выборки и методом «снежного кома». В общей сложности 392 респондента смогли принять участие в этом опросе-анкете, чтобы выразить свое мнение. Анализ данных производился методом «SmartPLS». Результаты исследования показывают, что религиозность не смягчает взаимосвязь между детерминантами и уровнем соблюдения налоговых требований малайзийскими налоговыми специалистами. Интерпретация взаимосвязи между «Факторами соблюдения налоговых требований физическими лицами» (независимые переменные) среди налоговых инспекторов малайзийских предприятий и «Поведением соблюдения налоговых требований физическими лицами» (зависимая переменная) может быть объяснено на 83,9% изученной дисперсией. Для подготовки обширного и оперативного отчета об изучении указанной взаимосвязи соблюдения налоговых требований физических лиц и решения налогоплательщиков о соблюдении налоговых требований корпораций выбора одного типа подхода к сбору данных недостаточно. Поэтому будущим исследователям рекомендуется проводить исследования со сбором дополнительных данных, таких как интервью, в качестве сбора первичных данных, чтобы можно было повысить надежность их выводов.

#### **КЛЮЧЕВЫЕ СЛОВА**

религиозность, соблюдение налогового законодательства, моделирование структурными уравнениями, налоговые специалисты

### **1. Introduction**

Taxation is a mechanism established as a mandatory law by the constitution of a country [1]. Malaysia's financial sustainability is primarily derived from the collection of direct tax revenue from the corporate taxes, individual taxes, real estate taxes, petroleum taxes, and stamp duties, all of which account for nearly 65 percent of the national cumulative economy as stated in the annual Budget 2020 [2]. The Malaysian government plays a vital role in raising money from the above-mentioned sources to provide socio-economic benefits to the nation by means of the statutory income tax act (Tax Act No. 47 of 1967, and amended Act No. 53 of 1971, section 103) of its constitution [3].

Failure to comply with any of the taxes causes societal devastation, jeopardising and weakening the stability of Malaysia's national revenue and its economy by encouraging cheating and fraud to take place in the country [4; 5]. This study is concerned with the system of taxation practiced in Malaysia.

The International Monetary Fund [6] alerts that severe tax gaps may lead to

the prevalence of a shadow economy in the country. According to the Malaysian Inland Revenue Board, a tax gap of RM13 billion has been noted in 2018 [7]. The non-compliance behaviour of taxpayers is one of the primary reasons for the tax gap. Even though the corporate income tax remains the most significant source of contribution of income to the Government of Malaysia, of all the other sources of income, the tax planning of a corporate business is done by an individual on behalf of the business or a firm [8]. It is noted that when an individual has a proclivity not to comply with the said tax system, a corporate business also follows suit [9; 10].

The basis of the tax gap, resident non-compliance, resists the government's commitments to the people such as completing developments, providing services, etc. to the people of the country, thereby forcing the government to borrow more and more money from other sources [11]. As a result, a need to study the link between the personal tax compliance and the corporate tax compliance has arisen [12].

When looking at the literature that is related to tax compliance, it is clearly

highlighted that the studies have mostly looked at the economic factors that impact on the tax compliance behaviour of taxpayers. Religiosity is one of the non-economic factors, which is always neglected by researchers when closely analysing the personal tax compliance behaviour. Religiosity means the degree of strongest believe and practice in their respective religions. Generally, religious beliefs strongly moderate the relationship between the factors that motivate tax compliance and the level of tax compliance, especially in the western part of the world, the Occident. Being the very earliest case, it is recorded in the United States in 1965 that the United States Congress allowed an Amish<sup>1</sup> to be exempt from taxes after hearing his case and claim that the income collected from taxes is used for activities that are disastrous and are against the wellbeing of humanity, violating their religious beliefs<sup>2</sup>.

However, the assumption that religiosity moderates the Malaysian personal tax compliance behaviour is still unknown. The moderation effect of religiosity is hardly learned in Malaysia, where a significant level of non-compliance is prevailing. Malaysia is an important nation to consider religiosity as a variable since the religious tolerance in the country is practiced well and significantly across the nation<sup>3</sup>.

Other studies considered religiosity mainly as another independent variable. The review of literature on tax compliance emphasises that peer influence, role of tax authority, satisfaction with government spending, and the probability of audit by the tax authority are the strongest determinants that impact on the personal income tax compliance [13].

<sup>1</sup> A group of Christian Anabaptist church fellowship.

<sup>2</sup> Cornell Law School. 26 U.S. Code § 3127 - Exemption for employers and their employees where both are members of religious faiths opposed to participation in Social Security Act programs. Legal Information Institute; 1992. Available at: <https://www.law.cornell.edu/uscode/text/26/3127>

<sup>3</sup> BBC News. Malaysia's harmonious approach to life. BBC News; 2021. Available at: <https://www.bbc.com/travel/article/20210308-malaysias-harmonious-approach-to-life>

However, the studies related to tax compliance still lack conclusive evidence, the cause of which might be due to the influence exerted by the taxpayer's individual factors, like their religious beliefs that twists their decision-making towards taxation. This study completes the need for the study and finds the overall impact that the above-mentioned variables bring forth on the tax compliance behaviour.

*Purpose of the study* (1) is to examine the impacts of the "factors of tax compliance" on the "level of personal tax compliance" among officers of tax affairs; (2) investigate the moderating impact of "religiosity" on the "factors of tax compliance" and the "level of personal tax compliance" among officers of tax affairs.

*Research hypotheses:*

H1: There is a positive association between the factors of personal tax compliance and the level of personal tax compliance.

H2: Religiosity moderates the relationship between the factors and the personal tax compliance.

## 2. Literature Review

### 2.1. Theories

Kelman proposed that an individuals' attitude, action, beliefs, and subsequent behavioural reactions are influenced by the referral of other people associated with the individual at three stages: "Compliance", "Identification", and "Internalization" [14]. Compliance occurs when an individual starts to accept external influences and accommodates to those influences. The external social factors such as the government, peer groups, or relevant authorities heavily determine an individual's decision-making [15]. Kelman explained that the different environments where the individual operates, in the long run, lead to enforce tax compliance, voluntary tax cooperation, and committed to tax cooperation [16].

The theory of Planned Behaviour is a cognitive theory developed by Azjen [17], which explains that an individual's action towards a specific behaviour, such as engaging in compliance, is determined by

the intention of the individual. The compliance behaviour of an individual is determined by the factors that motivate the individual to behave in a manner to be accommodative to the determining factors. The said theory is much fitting for the tax compliance behaviour of an individual since the individual’s intention of complying with the tax system is determined by the said factors and is moderated by the individual’s personal religious beliefs (Figure 1).

**2.2. Factors impact upon personal tax compliance**

**2.2.1. Peer Tax Compliance**

In taxation, the term “Peers” refers to the people who are in association with an individual taxpayer, especially those who are the taxpayer’s relatives, friends, co-workers, and colleagues [18]. The study claims that if an individual comes to know that the behaviour of tax compliance is widespread among the individual’s peer group, accepted and practiced by the peer group wholeheartedly, then the individual tends to be fully compliant with the tax system.

The individual taxpayer’s behaviour is impacted by the behaviour of the individual’s neighbours, or by the behaviour of those with whom the individual frequently interacts [19; 20]. This study has employed an experimental method to test the role of the peers on the tax compliance behaviour, and it has been found that there is a positive relationship between the neighbours’ tax compliance behaviour and the individual’s tax compliance

behaviour. However, the study further concludes that this information, regarding the neighbours’ compliance behaviour, does not always improve an individual’s tax compliance behaviour. In addition, it is also expressed that the tax compliance behaviour is so wide that it cannot be narrowed down and condensed into a piece of mere information about neighbours’ behaviour [19].

Another study conducted by utilising a laboratory experimental setting, named “Quasi-Experimental Design”, claims that the peer reporting behaviour may promote decisions to comply with the tax system [21].

A study made by Ho [22] has found that the taxpayers in China adopt a relationship-based reasoning to make judgements on tax compliance issues. The study further highlights that people are always ready to react to the social norms and behaviour of their neighbours and their peers.

The study made by Alshira’h [23] claims that the Peers’ influence does not make any significant effect on tax compliance behaviour among the Jordanian taxpayers. Further, the outcome of their claims has been justified as such that the influence exercised by an individual’s peers does not always promote tax compliance behaviour in individuals.

As far as an individual’s decision-making on tax compliance is concerned, the influence exerted on the individual by the individual’s peers who are near the individual in a community is more effective than the influence exerted by the individual’s peers who live remotely in the community [24]. Referring to the decision-making of an individual on tax com-

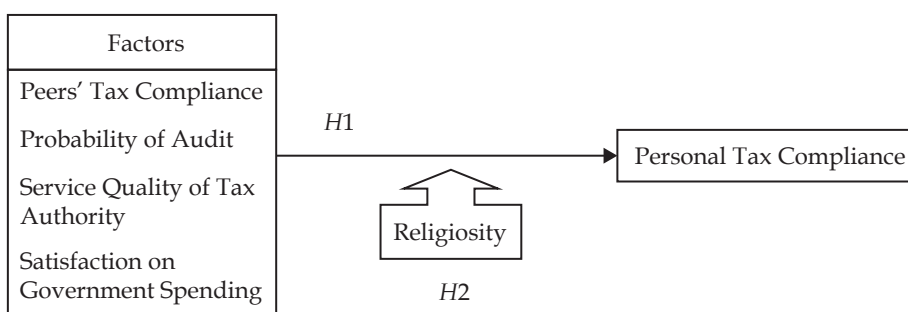


Figure 1. Conceptual Framework

pliance [23], it has been discovered that the influence exerted by the individual's peers may be the determinant of tax compliance in different regions, except Jordan where the culture of Jordanians is highly individualism-oriented, being resistant to social interaction among the people of the country and indicating the reason for the insignificance of their relationship.

Interestingly, another study made by Obaid [25] from the same study setting, made in the Middle East, has found that the influence of peers strongly determines the tax compliance behaviour of an individual in Yemeni. This finding highlights the relationship between social grouping and an individual in the decision-making. A similar outcome has been briefed up by a study made in Indonesia that explains that the referral group has the most significant influence on the tax non-compliance behaviour among the Small and Medium Enterprises [20].

The purpose of this paper is to investigate the factors that impact on the tax compliance behaviour of Small and Medium Enterprises. A mixed conclusion made by researchers has failed to provide a clear understanding of the relationship between the "Peer tax compliance behaviour" and the "Individual tax compliance behaviour". Also, the studies that focus on the tax compliance behaviour of individuals, impacted by the referral of the individual's peers in the developing countries, are lacking.

Lutfi [26] suggest that "Peer tax Compliance" is abstract, not an easily observable variable, as it is involved with social pressure; an anonymous way of data collection, in this regard, should be employed to get the true and honest reflection of the perception from the individual concerned.

### 2.2.2. Probability of Tax Audit

According to Allingham & Sandmo [27], taxpayers comply more with the tax system if they feel that the probability of their being caught or detected is high. According to the Malaysian "Self-Assessment System" (SAS), a tax audit is set as a critical task for the tax authority [6; 28].

Some studies have found that there is a positive relationship between tax audits and tax compliance [29; 30]. Supplemental analysis carried out by Ayers [29] shares the fact that the probability of audit alters the expectation and intention of the managers on future tax submissions. Previous studies have mixed results on the association between the "Probability of Audit" and the "Tax Compliance level".

For example, the study made by De-Backer [31], using the US Revenue authority's data and the financial statement data, explains that legal enforcement, like the audit, may cause the increase of subsequent misbehaviours in the businesses.

A recent study made by D'Agosto [32] has found that a positive relationship exists between tax audit and the tax compliance behaviour, in terms of deterrence theory. The study has collected data from the tax return registry and from the audit database of the Italian Revenue Agency for a period of five years, commencing from 2004 to 2009, and focused on the self-employed and the sole proprietors of businesses. The study further found that the rate of Italian tax compliance had been increased relatively by three types of audits. They are as follows: "On-Site Audit" (soft audit), "Desk Audit" (deep audit), and the "Mixed-Audit" (mixture of "On-Site" and "Desk-Audit"). However, this study suggests that those data had been collected for study a decade earlier; at present, a need has arisen for the data to be studied again within the current time frame, with a wider geographical setting, or in a different region.

### 2.2.3. Service Quality of Tax Authority

The study made by Supriyono [33] collected data from various business entrepreneurs and learned that the individuals in businesses in Indonesia are motivated to report their income to the tax authority, being influenced by the authority with its service quality.

If the tax policies adopted by the government seem to be unfair to the people, they will form a negative perception of the tax system and the role played by the tax authority in collecting tax for the country; the reason for the formation of such a per-

ception among the people of the country is that the “Tax Socialization” theory (arousal of awareness on tax compliance) is not applied to the people [34].

The lessening of the complexities in the tax system and maintaining leniency in the administration of tax collection by the tax authority could make the taxpayers become more tax compliant [35].

Nevertheless, the adoption of mixed tax system of “Self-Assessment System” (e-filing) and the “Official Assessment System” (manual submission) around the world has given no standard finding to discover the relationship between the service quality of tax authority and the taxpayer’s compliance behaviour [36].

Further, the tax compliance performed by small and medium-sized businesses and their perception towards the tax authority are remaining unclear to be understood. Also, Supriyono [33] suggest testing this variable on a large-scale respondent’s rate, for example, by conducting survey and direct interviews since this outcome has been solely made out from a qualitative approach. In view of the above fact, this study further explores the service quality of the Malaysian tax authority that adopts the “Self-Assessment System” in taxation.

Kasipillai [37] have found that better interactions between the Inland Revenue Board of Malaysia (IRBM) and the taxpayers boost better tax compliance. It is also suggested that the Malaysian tax compliance level may increase if the tax collection authority upgrades the relevant technology for the sake of the taxpayers [38].

Experiments reveal that the people who are treated well with good acknowledgment by the authorities tend to comply more with the tax system [39; 40].

The OECD [41] explains that among the three types of fairness in taxation, two of them, the “Procedural fairness” (the perception that the tax authority is just and fair in dealing with clients) and the “Retributive fairness” (the perception that the tax authority is fair in applying penalties), relate to how the tax authority deals with taxpayers.

Murphy [42] has emphasized that among the taxpayers, the level of tax non-compliance could rise if the taxpayers lose their trust, by chance, in the administration of the authority.

Reeson [43] and Alm [35] stated that the taxpayers’ perception of fairness in taxation is felt to be good and positive to the taxpayers, and that their unwavering trust in the tax authority is considered to be the important element and tool for lessening the level of tax noncompliance.

The NEF [44] further supported this fact by explaining that the likelihood for the taxpayers to comply with the tax system would be high if the taxpayers are treated respectfully by the authority.

If this study finds a significant connection between the tax authority and the tax compliance behaviour among the individuals, then a modern risk treatment model, called “Right from the Start”, which is adopted by the Swedish Tax Agency, could be recommended to the Inland Revenue Board of Malaysia for adoption as well. The “Right from the Start” model investigates the issues in taxation that cause tax noncompliance, it analyses the root cause of the issues, and nips the issues in the bud before they become problematic to the tax authority. To prevent further errors from emerging in tax compliance, and to promote tax compliance among taxpayers, the “Right from The Start”, a rectifying method, has been introduced by the Swedish Tax Agency [45], based on the principle that the tax authority has a role to play in creating a favourable environment for the advancement of tax compliance among taxpayers.

The tax authorities in most countries across the globe, including the Inland Revenue Board of Malaysia (IRBM), focus on their scheduled work only at the time when problems in taxation have occurred. For example, the tax authority of Malaysia begins to find ways and means to narrow down the tax gap only after recognizing a gap of a few billion Ringgit taxes. If the “Right from the Start” model is adopted at the right time, no other post measures are needed to rectify the aftereffects of the issues and to recover the losses incurred.

#### 2.2.4. Satisfaction on government spending

The research focusing on the relationship between the government's expenditure and the tax compliance behaviour of the people in the developing countries are very scarce.

Due to the unavailability of empirical evidence to explain the relationship between the government's expenditure and tax compliance, it is assumed that the taxpayers are concerned about their contribution of income to the government, prying to know whether the expenditure made by the government is just and reasonable as per the duties and obligations of the Government to its residents as mentioned in its constitution [36].

Doerrenberg [46] explains that the collection of taxes goes to the federal treasury and that the people, especially those who pay additional taxes to the government, watch the government diligently to ascertain that their contribution of income is handled properly, reasonably, and justly by the government as per the needs and wants of the people and other requirements of the government [47].

Similar findings have been studied by Alasfour [48], where it is stated that non-compliance with tax system in Jordan is morally acceptable since the people of Jordan have formed a negative impression of the government due to its engagement in corruption and in the misuse of the taxpayers' money, in guise of expenditure.

The purpose of the study, using a questionnaire survey with a multivariate test procedure, is to investigate how the individuals in Jordan determine the level of their tax morale and their tax compliance. The findings further reveal that the worthwhile and reasonable expenditure made by the Government paves the way for smooth and unresisting tax compliance, devoid of any adverse impacts made on it. It is also assumed that if the taxpayers predict that the expenditures made by the government are not so fruitful and worthwhile as they expected, they have the tendency to avoid paying tax to the tax authority [39].

In the developed countries of the Occident, a tax-paying method, called "Pay

as You Earn', is adopted by the employers of organizations, institutions, and businesses of the countries. Through PAYE method, the taxes due to be paid to the government by the employed individuals are deducted from their salaries by their employers, and the collected taxes are sent to the tax authority, reducing the impact on the individuals, relieving them of their burden of paying their tax to the authority themselves and making them give up their idea of evading tax. Because of the adoption of the "PAYE" ("Pay, as You Earn") system in the business entities, the taxpayers who are employed in the business entities are deprived of opportunities to form their own concepts in their minds about the government spending and to take their own decision on tax compliance [49]. Very narrowed studies have focused their attention on the people's perception of the government spending.

#### 2.2.5. Religiosity

Religiosity is defined by Johnson [50] as the "Extent of the religion of an individual, to which the individual remains committed, upholding and professing the teaching of the particular religion of the individual"; the individual's commitment reflects inexplicably on the individual's behavioural aspects, such as attitude, personality, etc.

Religiosity is also referred to as the religious commitment of a person, which is further defined as "The degree of a person's religious beliefs and religious practices, to which the person adheres deeply and uses them in daily life" [51]. The commitment of religiosity is divided into two categories: (1) "Intrapersonal religious commitment" that originates from the beliefs and attitudes of an individual. (2) "Interpersonal religious commitment" that derives from the involvement of an individual in religious activities with a religious community, or an organization.

Earlier studies had been carried out in the developed countries, such as Austria [52], Australia [53], Canada [54], the Netherlands [55], and some European countries [56], where the people with

strong and extreme religious beliefs seem highly tax compliant.

The study by Sawyer [57], and Raihana [58] reveal that religiosity is considered one of the concepts of tax morale, and one of the strongest determinants of tax compliance. The religious values, held by most individuals, are generally expected to effectively prevent the individuals from having negative attitudes, and thereby encourage the individuals to keep positive attitudes in their daily life. Hence religiosity is presumed to be positively motivating taxpayers to voluntarily comply with tax systems. It has been observed that religiosity might provide a possible explanation for the strong positive compliance attitudes found in most taxpayers as apparent in the prior literature.

However, it has been taken into account that to gain knowledge of tax compliance, the researches made on religiosity are lacking so much that the future researchers are suggested to explore the concept that religious norms can also be the possible factors to raise tax morale among the taxpayers and for the better understanding of the concept, in addition to the current tax compliance theory [59].

Based on a recent study by Raihana [60], religiosity appears to moderate the effect that is between the determinants of individual tax compliance and the voluntary tax compliance level.

It is believed that religion paves the way for the economic development of a country in varying degrees. The measurements of religiosity are the amount of attendance of individuals at religious functions and at religious services, the degree of religious beliefs held by the individuals, and the decline of the above attendance and services when the per capita Gross Domestic Product (GDP) increases [61].

Further, religion also serves to instil certain qualities such as sense of responsibilities, work ethics, honesty, dependability, obedience, etc. into the behaviour of individuals, conducive to the economic prosperity of the individuals' country; all the above facts indicate that the economic growth of a country corresponds positively to such qualities of religion.

A study of a laboratory experiment made by Puspitasari [21] suggests the inclusion of religiosity in the future studies, making it compulsory for all the students since a clear conclusion of the study has not yet been made so far.

### **2.3. Hypothesis Development**

According to Alm [19], the tax compliance behaviour of an individual is strongly affected by the tax compliance behaviour of the individual's neighbours or the people with whom the individual frequently interacts. There are situations, wherein individuals become more likely to disclose and report their income to the IRBM when they come to know or believe that the other people who are around them and are in association with them also do the same action. This scenario may occur vice versa: when the neighbours of an individual dodge taxes, there will be a higher degree of possibility for the individual to do the same, that is, to dodge taxes. According to an experiment conducted in a study, a "Two-Treatment Setting" had been set up for the participation for two groups of respondents. In one treatment setting, one of the two groups of participants was informed that their neighbours had complied with the tax system; in the other setting, the other group of respondents was informed that their neighbours had been audited and that they had paid their taxes with penalties. In conclusion, the above experiment reveals that the behaviour of an individual is subjected to change significantly, highly, and differently by the behaviour of other people, especially in tax compliance.

Obaid [25] discuss that there are individuals who do not associate with other people to be influenced by them on tax compliance, and for such people, the theory of "Peer Influence" cannot be a factor to determine their tax compliance behaviour.

According to Ayers [29], in business entities, the managers' decision to comply with tax system is determined by the probability of audit. The study by DeBacker [31] placed a different opinion, claiming that legal enforcement increases tax aggressiveness among the corporate



taxpayers, leading them to reduce tax payment after an audit and then to increase it sharply afterwards. Businessmen comply with tax system more when they have the probability of their businesses being audited by the tax authority; soon after the audit, they become noncompliant with the tax system. Such a pattern of behaviour that prevails among the businessmen is called "U-Shaped Impact".

In the meantime, D'Agosto [32] state that there is a positive and significant relationship between tax audit and tax compliance. In Italy, different types of audits are carried out by the tax authority as per the type of cases of non-compliance they handle, improving the level of tax compliance significantly in the country. However, the adoption of "On-Site" and "Desk-Audit" has been found to be forceful and effective in tax compliance.

Tax socialization is the service quality of the tax authority, with which the tax authority exerts influence on the taxpayers to achieve tax compliance [33]. The service quality of the tax authority is to be upheld by the tax authority to help the taxpayers achieve tax compliance as the taxpayers frequently face difficulties in calculating the amount of tax to be paid to the authority when reporting income to the authority. The tax authority is obliged to improve its service quality in terms of knowledge, skills, and other factors and facilities needed by the taxpayers to fulfil the process of their tax compliance, especially at times when they have difficulties in calculating the amount to be paid to the tax authority, reporting their income. The Indonesian taxpayers reveal that they fail to comply with the tax system since they cannot acquire the required information of the rules and regulations that they are looking for from the tax authority as they cannot understand what the tax authority wants and expects from them to do in respect of the tax system.

A similar argument has been presented by Alm [19] that the "Service paradigm for tax administration", where the tax officers act as facilitators and share their services with taxpayers, could increase the level of tax compliance among the taxpayers.

The collected tax is directed to the treasury of the federal government, and the flow of cash is expected to be transparent to the public [46]. Further, being taxpayers, the citizens of the country take note of the money that is handled and spent by the government.

If the taxpayers perceive that the expenditures made by the government are not worthwhile and fruitful, contrary to their wish and expectation, their negative perception makes an impact adversely on their tax compliance behaviour, altering it in some manner [39].

With a similar argument, Mohani [47] rationalizes that the people who pay an additional tax to the government monitor the government diligently when it handles the taxpayers' money.

An empirical study by Alasfour [48] reveals that the people of Jordan have the tendency not to comply with the tax system in the country due to the negative perception that they have formed in their minds about the government, which has been hit heavily by corruption.

Having estimated the corruption perception index, the Transparency International<sup>4</sup> has highlighted that Jordan is remaining 59<sup>th</sup> corrupt country out of the 180 countries.

Meanwhile, the Transparency International<sup>5</sup> has ranked Malaysia as the 57<sup>th</sup> corrupt country out of the 180 countries, letting the variable "Satisfaction with the government spending" to be an important determinant for the personal tax compliance.

Therefore, *H1*: There is a positive association between the factors of personal tax compliance and the level of personal tax compliance. (IV: Factors of personal tax compliance, DV: Level of Personal Tax Compliance).

According to Johnson [50], religiosity is the commitment of an individual

<sup>4</sup> Transparency International. 2017 Corruption Perceptions Index - Explore the results. Transparency.Org; 2017. Available at: <https://www.transparency.org/en/cpi/2017>

<sup>5</sup> Transparency International. Malaysia. Transparency.Org;2021. Available at: <https://www.transparency.org/en/countries/malaysia>

towards the individual’s religion, and according to Worthington [51], religiosity is the degree of the values of the religion, to which an individual adheres.

In some countries, strong and extreme religious beliefs encourage tax compliance [56; 62]. It means to say that the individuals who practice religion feel guilty highly when they avoid taxes. Further, it highlights that the practicing of religion wards off evil thoughts formed in the minds of the individuals, negates them even if they are formed, and inculcates a sense of religious belief and obligation in the minds of the individual taxpayers.

According to Raihana [60], religiosity moderates the effects between determinants and tax compliance. It is believed that at times, when the taxpayers become reluctant or hesitant to comply with the tax system, their conscience is alerted by their religious beliefs to act truthfully, and sincerely as a result the taxpayers are exhorted and influenced by their religious beliefs to act conscientiously with a sense of ethics in the fulfilment of their obligation to the government.

Therefore, *H2*: Religiosity moderates the relationship between the factors and the personal tax compliance. (IV: Factors of personal tax compliance, DV: Personal Tax Compliance).

### 3. Methodology

This study has been intended to be conducted in Malaysia because of the rising tax gap in the tax system of the country. The tax gap is caused by the noncom-

pliance behaviour of the taxpayers. About the amount of income contributed to the government, the income derived from the corporate tax is more in amount than the amount derived from the personal tax.

However, the decision on corporate tax compliance of a particular business is made by a tax professional of the business. Therefore, when investigating tax professionals’ personal tax compliance behaviour, it is assumed that their personal tax compliance behaviour impacts on their corporate tax compliance behaviour. There is no precise statistical report to disclose specifically the population of tax professionals in Malaysia.

The Government and the Non-Governmental organizations’ websites such as Companylist.org, SMEMalaysia.org, Small and Medium Enterprise Association (SAMENTA), Investpenang.gov.my, Saveoursmes.org, and businesslist.my have been used to retrieve email addresses of the particular companies. They are of immense help to the researcher for the distribution of questionnaire, via email, to the individuals concerned for tax affairs in the Malaysian business entities.

This study chooses the purposive and snowball sampling techniques; it is the appropriate sampling method to get the “Feel” of the phenomenon, or the variable interest of the said responding individuals [65]. Sample size is 400 [65].

The “Smart PLS” is used to analyse the data and to test all the hypotheses (Figure 2).

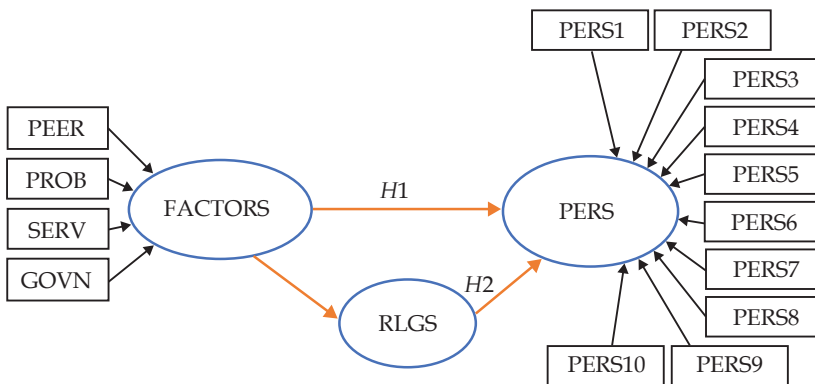


Figure 2. Research Model

Tax compliance is a behaviour of the taxpayers, and it changes depending on the perception of the tax system in the taxpayers' minds. Tax compliance is measured by two dimensions, namely "Voluntary compliance", and "Enforced compliance". Likewise, "Non-compliance" has two measurements, "Tax avoidance",

and "Tax evasion" [64], all of which have been modified to suit the context of the study.

The items under each dimension are anchored on a seven-point Likert scale, ranging from completely disagree=1 to completely agree=7. The list of indicators is presented in Table 1.

Table 1

## List of research indicators

Code	Indicator	Code	Indicator
PTAX1	I would feel guilty if I under-report my actual income in my annual tax return.	PEER1	Most taxpayers expect me to report all my income on the annual tax return.
PTAX2	To feel guilty for under-reporting income tax is good.	PEER2	Generally, I would do what most taxpayers expect me to do.
PTAX3	Under-reporting my income tax makes me better off.	PEER3	Most people who are important to me (e.g. family, friends, and business partners) expect me to report all my income on the annual tax return.
PTAX4	There are a number of government services, infrastructures and facilities for which I am thankful.	PEER4	Generally, I would do what people who are important to me would expect me to do.
PTAX5	Under-reporting income is acceptable if any portion of the money collected is wasted by government.	PEER5	Most taxpayers under-report their actual income on their annual tax returns.
PTAX6	Paying as little tax as possible is important.	PEER6	Generally, I would do what most other taxpayers do.
PTAX7	Government has spent the money collected from tax efficiently.	PEER7	The people who are important to me (e.g. family, friends, and business partners) under-report their actual income on their annual tax return.
PTAX8	Under-reporting my income will not hurt the society as a whole.	PEER8	Generally, I would do what people who are important to me do.
PTAX9	I feel that I have made a positive contribution to my country by fully reporting all of my income.	SATS1	I believe the government utilizes a realistic amount of tax revenue to achieve social goals.
PTAX10	Scenario question.	SATS2	I think the government spends too much tax revenue on unnecessary welfare assistance.
SERV1	The revenue authority has extensive means to force corporations to be honest about income tax.	SATS3	We receive fair value of services from the government in return for our corporate tax paid.
SERV2	Income tax compliance is much higher when the tax authority has the capacity to match tax returns and third-party reports in a systematic way.	SATS4	We pay high corporate taxes when compared to the services we get from the government.
SERV3	If we evaded taxes and got caught, the penalties would be very high for my company.	PROB1	If there was a discrepancy in the annual tax return, how likely is that it would be audited?

End of Table 1

Code	Indicator	Code	Indicator
SERV4	Inland revenue board treats me fairly in my dealings with them.	PROB2	If my company were to be chosen for a compulsory audit, how likely would a discrepancy be identified?
SERV5	Inland revenue board treats us respectfully in our dealings with them.	PROB3	The penalties are severe if my discrepancy were discovered in audit.
SERV6	We trust IRMB and government when dealing with them on corporate tax matters.	PROB4	The chances of being audited are so low that it is worthwhile trying to economize a little on corporate income taxes for various reasons.
RLG	Apart from special occasions such as wedding and etc, about how often do you attend religious services?		

The actual population of this study is the tax professionals of the Malaysian businesses. A tax affairs officer in Malaysia may be the owner of a business entity, or an appointed qualified officer, depending on the size and the nature of the businesses.

A total of 392 respondents have managed to participate in this survey questionnaire to disclose their opinion. Among the respondents who participated in the survey, 72.2 % of them are males and 27.3% are females. Most of the respondents are the tax affairs officers of businesses in Malaysia: The majority of the respondents are Chinese (47%), followed by Malays, Indians and other Bumiputras, representing 33.16%, 16.07%, and 3.06%, respectively; among those who represented, 62.24% are between the ages of 31 and 40; 45.66% of the respondents work for food and beverage industry; 18.62% and 11.99 of the respondents work for retail, and manufacturing industry, respectively. It is mandatory for the researcher to check and ensure that the survey questionnaire is free from Common Method Bias.

This "Common Method Bias" usually occurs in researches where the independent and the dependent variables are gathered from the same respondents for measurement [65]. The researcher follows the steps suggested by Huang [66] by ensuring anonymity and keeping in mind that the responses delivered by

the respondents are based solely on their own perception. Also, the questionnaire includes a reversal measurement for certain constructs. The next section examines the validity and the reliability of the constructs.

#### 4. Results

Kock [67] made a study on the Common Method Bias in "PLS-SEM", highlighting that a full collinearity test is much sufficient to identify the issues relating to the bias. According to the Table 2, the VIF values indicate the collinearity level between items, shown below, all the benchmark values of 3.3. If the value is above 3.3, it highly indicates the contamination of Common Method Bias. Therefore, if all the VIF in the inner models shows a full collinearity test, equal to or below 3.3, it is an indication that it is free from the Common Method Bias. Confirmatory factor analysis is a superior method to Exploratory Factor Analysis (EFA) [68]. Although there are various methods to test the reliability of the construct, this study used Cronbach's alpha ( $\alpha$ ) coefficients by composite reliability (CR) when evaluating the measurement model for Confirmatory factor analysis (CFA).

The analytical outcome explains the strength of the measurement model (Table 2-7). Table 2 exhibits the outer loading of the reflective constructs, and Table 3 explains the outer weight of the formative constructs.

Table 2

Collinearity Test (VIF)			
Indicators	VIF	Indicators	VIF
PEER1	1.176	PERT1	1.904
PEER2	1.097	PERT10	1.470
PEER3	1.030	PERT2	1.680
PEER4	1.094	PERT3	2.281
PEER5	2.163	PERT4	1.688
PEER6	1.124	PERT5	1.939
PEER7	1.087	PERT6	1.722
PEER8	1.283	PERT7	1.901
PROB1	2.089	PERT8	1.153
PROB2	1.088	PERT9	1.880
PROB3	1.007	SATS1	1.011
PROB4	2.005	SATS2	1.012
SERV1	1.865	SATS3	1.013
SERV2	1.988	SATS4	1.014
SERV3	1.548	SERV5	1.951
SERV4	1.246	SERV6	1.049

The resulting outcome of the analysis of the above mentioned reflective and formative constructs is higher than the benchmark level 0.6, except the indicators PEER2, PEER6, PERT3, PERT6, and PERT9. In the meantime, Table 4 explains the composite reliability (CR), which shows the indication of the indicators on the latent variables, ranging between 0.816 and 0.922, and highlighting the value above the benchmark level of 0.7. The average variance extracted (AVE) of the factors is reported to be between the range of 0.596 and 0.747, exceeding the recommended benchmark level of 0.5.

Finally, the researcher is required to assess the discriminant validity. Discriminant validity is examined by looking at the correlation between constructs and square root of the variance extracted for a construct. It is the extent, to which a construct is empirically distinct from other constructs in the structural model [69]. The top values presented in Table 6 show the square root of construct's average, variance extracted, and the rest of the values show the correlation between constructs and are less than the square root of average variance extracted.

Table 3

Outer Loading		
Indicators	Satisfaction on Government Spending	Service Quality of Tax Authority
SATS1	0.745	
SATS2	0.871	
SATS3	0.702	
SATS4	0.762	
SERV1		0.661
SERV2		0.731
SERV3		0.712
SERV4		0.705
SERV5		0.664
SERV6		0.656

Table 4

Outer Weights				
	Individual Tax Compliance	Peer's Tax Compliance	Probability of Audit	Religiosity
PEER1		0.616		
PEER2		0.512		
PEER3		0.645		
PEER4		0.629		
PEER5		0.618		
PEER6		0.525		
PEER7		0.621		
PEER8		0.617		
PERT1	0.628			
PERT10	0.627			
PERT2	0.623			
PERT3	0.523			
PERT4	0.638			
PERT5	0.615			
PERT6	0.515			
PERT7	0.615			
PERT8	0.619			
PERT9	0.512			
PROB1			0.793	
PROB2			0.849	
PROB3			0.867	
PROB4			0.848	
RELG				1

Table 5

**Internal consistency  
(Composite reliability)**

	Cronbach's Alpha	rhea	Composite Reliability
Satisfaction on Government spending	0.814	0.829	0.854
Individual Tax compliance	0.849	0.85	0.816
Peer's tax compliance	0.846	0.843	0.817
Probability of Audit	0.918	0.919	0.922
Service quality of Tax Authority	0.825	0.898	0.843

Table 6

**Convergent validity (AVE)**

	Average Variance Extracted (AVE)
Satisfaction on Government spending	0.596
Individual Tax compliance	0.680
Peer's tax compliance	0.719
Probability of Audit	0.747
Service quality of Tax Authority	0.711

Table 7

**Discriminant Validity (HTMT Ratio)**

	Personal Tax Compliance	Satisfaction on government
Satisfaction on government spending	0.772	
Service Quality of Authority	0.347	<b>0.843</b>

The tables presented below (Table 8-10) explain the strength of the structural model. Based on the analysis, the R<sup>2</sup> value for the relationship between the independent variables, (factors for the tax compliance), and the dependent variable (the tax compliance level) is 0.839. Thus, it can be summarised that 83.9 percent of the variance in the tax compliance level among tax affairs officers of Malaysian businesses are explained by the selected variables, with the F-Size of 0.530.

The interpretation of the relationship between the "Factors of Personal tax compliance" (Independent variables) and the "Personal tax compliance behaviour" among the tax affairs officers of the Malaysian businesses (Dependent variable) can be explained by 83.9 percent by the variance studied. Moreover, the effect size (f-square) results in more than 0.2, which is the indication of a significance effect on the construct and validity of the model.

Table 8

**R-Squares**

	R Square	R Square Adjusted
Personal Tax Compliance	0.839	0.831
Religiosity	0.004	-0.006

Table 9

**F-Squares**

Variables	Personal Tax Compliance	Religiosity
Factors	0.530	0.004
Moderating Effect 1	0.004	
Religiosity	0.054	

Table 10

**Path Coefficient**

	Original Sample (O)	Standard Deviation	T Statistics	P Values
Factors → Personal Tax Compliance	0.117	0.055	2.128	0.024**
Moderating Effect 1 → Personal Tax Compliance	0.006	0.031	0.193	0.731

## 5. Discussion

Interpretation of hypothesis test, path coefficient, clearly articulates that there is a positive association between the peer tax compliance and the personal tax compliance. This outcome correlates with the previous studies made by Alm [19], and Obaid [25] by confirming that the impact is on the personal tax compliance decision making by peers. The decision making of an individual is impacted by those who are around the individual and are in association with the individual, persuading the individual to apply the same decision that they apply on tax compliance.

This fact clarifies that every individual taxpayer should understand their responsibilities and obligation towards the nation, and they should always have the best interest in the national economy. According to Kelman's Social Influencing theory [14; 16], with these facts the individuals could be influenced in a positive way by the individual's peers.

This analysis further reveals that there is a positive association between the probability of tax audit and the personal tax compliance. This outcome parallels with the finding of Ayers [29] and D'Agosto [32] but contradicts with that of DeBacker [31].

As an example, this evidence could be followed by the IRBM to amend and extend its audit procedures. Generally, the IRBM conducts two types of audits, known as "Tax audits" and "Tax investigations". From this empirical evidence, the IRBM could increase its average audit rates for the individual and the corporate taxpayers. This action may make the taxpayers comply with the tax system, in fear of the tax authority and the penalty imposed on the taxpayers, in the following tax assessment.

Further assessment showcases that there is a positive association existing between the service quality of the tax authority and the personal tax compliance. Previous studies have no mixed conclusion on this finding, especially those of Alm [19]; Supriyono [70] state the same in their conclusion, justifying that the "Ser-

vice paradigm for tax administration", where the tax officers act as facilitators and share their services, could increase the level of tax compliance.

This fact implies that the IRBM should continue measuring its services and take initiative to review the comments and complaints made by the taxpayers. Also, the IRBM may engage in online facilities fully to curtail the in-person visits of the public to their branch offices. This curtailment of visits of individuals to the IRBM may allow the other taxpayers to visit the branch offices, while the regular taxpayers could complete their tasks online.

Meanwhile, analysis reveal that there is a positive association between satisfaction on the government spending and the personal tax compliance. The studies made by Alasfour [48], Braithwaite [39], and Mohani [47] had similar findings. It was shared that residents of a country are mindful of how the government handles and spends their tax money. The findings demand that the funds collected from the income tax of the public should be spent carefully on developments and other beneficial projects for the people rather than on luxurious activities and projects. Also, the government should take note that every allocation of money to new programs and projects is carefully monitored by the public of the country.

Therefore, hypothesis *H1*: There is a positive association between the factors of personal tax compliance and the level of personal tax compliance is supported, where ( $\alpha = 0.117, p < 0.05$ ). The findings strongly acknowledge the Kelman's Social Influencing Theory [14; 16] that emphasises that the factors such as peers' tax compliance, probability of audit, service quality of the tax authority, and satisfaction on government spending are the external influencing factors that determine the tax affairs officers' personal tax compliance behaviour. Referring to the said theory, the above "Influencing Factors", strongly motivates the taxpayers to comply with the tax system.

However, the path analysis results show that the moderation test does not signify  $p > 0.05$ . Therefore, *H2*: Religiosi-

ty moderates the relationship between the factors of compliance and the personal tax compliance is not supported. The study by Khalil [71] also reveals that religiosity is not a major variable to influence or moderate the tax compliance behaviour, especially when looking at tax evasion. The study made in Lebanon, a Muslim nation, reveals a similar outcome of the study made in Malaysia.

One more similar outcome was learned by Budiarto [72] and Atmoko [73] elaborating that religiosity has no direct influence on the decision making on tax compliance. In the year 2014, the Supreme Court of Indiana, United States refused to allow another case from Rodney Tymes, and ruled out that religious freedom could not be a valid defensive factor to perform tax evasion<sup>6</sup>.

Though certain taxpayers are protected by “Religious Freedom Restoration Act” (RFRA), the court has highlighted that using religious freedom may cause destruction to the economic stability of the nation and pointed out that collection of taxes is transferred to federal treasury<sup>7</sup>. However, this evidence may not be serious in other part of the world, especially in Malaysia.

A study by Abu Bakar [74] highlights that the practicing of religious tolerance among the people of Malaysia is one of the factors to maintain the economic sustainability of the country. According to Office of International Freedom<sup>8</sup>, 61.3 percent of the Malaysian population follow Islam. Meanwhile, Buddhist, Christian, Hindus and others are 19.8 percent, 9.2 percent, 6.3 per-

cent, and 1.7 percent, respectively. Being contrary to the western part of the world, Malaysian religious institutions are preaching the adherents the national harmony, tolerance and moderation to support the national economic and social growth.

It’s clearly emphasized in the article that religious practices in Malaysia cannot be a moderator towards tax compliance but may be a mediator encouraging the taxpayers to comply with the tax system. Even though Malaysia is a Muslim nation, it may be different from other Muslim’s nations in the world. To support this statement, a study conducted by Benk [75] finalized, “Muslims who live in Western Europe, North America or Australia might have views that are significantly different from Muslims who live in the Middle East and Southeast Asia”. In the Malaysian context, religiosity and its impact may not be playing a major role in its citizens’ tax compliance behaviour.

This suggestion is paralleling with the study of Mohdali [76], which explains further that though religiosity seems an important factor in Malaysia and Turkey in motivating the taxpayers for voluntary tax compliance, certain circumstances appear irrelevant to the Malaysian context. Muslim countries (wherein more than 50 percent of the population are Muslims) are showing pretty and fairly much treatment for tax compliance.

The overall outcome of this study strongly adheres to the Theory of Planned Behaviour, supporting the idea that the action taken by an individual to comply with another particular action is influenced by the individual’s intention. With regards to religiosity, the intention of the people of Malaysia to comply with the tax system is not moderated by their religious beliefs.

## 6. Conclusion

This study investigated the influencing factors upon the personal tax compliance behaviour among tax affairs officers in Malaysian businesses. According to This study investigated the factors that exert their influence on the personal tax compliance behaviour of the tax affairs officers in the businesses of Malaysia.

<sup>6</sup> Man accused of tax evasion says Indiana’s religious freedom law exempts him from paying. *The Washington Post*; 2016. Available at: <https://www.washingtonpost.com/news/acts-of-faith/wp/2016/11/23/man-accused-of-tax-evasion-says-he-doesnt-have-to-pay-under-indianas-religious-freedom-law/>

<sup>7</sup> CNN News. Strange tax evasion schemes. *CNN News*; 2017. Available at: <https://money.cnn.com/galleries/2012/pf/taxes/1204/gallery.tax-evasion-schemes/5.html>

<sup>8</sup> Malaysian Office of International Freedom. 2020 Report on International Religious Freedom: Malaysia. U.S Department of State. 2020. Available at: <https://www.state.gov/reports/2020-report-on-international-religious-freedom/malaysia/>



As referred to in the earlier section, an assumption is presumed that there is a tendency for a personal tax non-compliant taxpayer not to comply with the corporate tax system as well. Since this study predicted that the most important four variables: (1) Peers' tax compliance, (2) Probability of audit, (3) Service quality of tax authority, and (4) "Satisfaction on government spending", exert their influence on the personal tax compliance behaviour of the tax affairs officers in the Malaysian business entities, the future researchers should also measure the taxpayers' intention in complying with the corporate tax system, investigating further to make sure that the taxpayers apply the same decision-making to their corporate tax system as well.

To produce an extensive and expeditious report of the exploration on the said nexus of personal tax compliance and the taxpayers' decision on the corporate tax compliance, the selection of one type of data collection approach is not sufficient.

Therefore, the future researchers are advised to make researches with the collection of supplementary data, such as in-

terviews as their primary data collection so that the robustness of their findings could be strengthened.

Also, this study does not support the claim that religiosity plays a role as a moderator of an influential determinant for the tax compliance behaviour among the tax affairs officers in the Malaysian businesses.

Previous studies outline the approaches of religiosity by two ways. One way is the religious affiliation, whereby a religious person upholds religious beliefs and practices, becoming associated with it. The other way is the religious commitment, whereby a religious person gets involved in commitments, adhering to the religious beliefs, practices, etc. in line with the individual's perception of religion.

This study only measured the level of religiosity based on the participation of religious persons in religious activities, rather than their involvement in their respective religious activities, practices, beliefs, etc. Future researchers may investigate the degree of religious involvement by individuals and may also examine its effect on tax compliance behaviour.

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