

Examining the Moderating Effect of Financial Constraint on Tax Compliance: A Sequential Explanatory Design Study on Malaysian Tax Professionals

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Abstract

The COVID-19 Pandemic has created a new normal across the world regardless of its economic status. The financial condition of individuals as well as corporate sectors had put them in a situation to alter their decision-making in many aspects. This paper is aimed to examine the moderating effect of financial constraints on the personal tax compliance of tax professionals who work for Malaysian businesses. It is assumed in the previous studies related to corporate tax compliance that a tax professional's personal tax compliance behaviour may influence corporate tax compliance decision-making. Therefore, this study tests their tax compliance behaviour. For that sequential explanatory design has been employed. The preliminary data was collected from the tax professionals of Malaysian businesses and then supplementary data was collected from tax experts such as tax agents, tax officers, and tax scholars. 392 responses from tax professionals and 9 responses from tax experts were analyzed using structural equation modeling. The finding reveals that the financial constraints of Malaysian tax professionals moderate their personal tax compliance. The outcome produces a piece of empirical evidence that tax policymakers should consider and implies the importance of accrual basis accounting in tax management.

Keywords

Financial Constraint, Tax Compliance, Structural Equation Modeling, Sequential Explanatory Design, Tax Professionals

INTRODUCTION

Taxation is a mechanism established as a mandatory law by the constitution of a country (Kasipillai, 2002; Sritharan et al., 2022a). Malaysia's financial sustainability is primarily derived from the collection of direct tax revenue from corporate taxes, individual taxes, real estate taxes, petroleum taxes, and stamp duties, which accounted for nearly 65 percent of the national cumulative economy, according to the annual budget 2020 (Ministry of Finance Malaysia, 2019a). The Malaysian government plays a vital role in raising money from the above-mentioned sources to offer socio-economic advantages to the nation by enacting a

statutory income tax act (Tax Act No. 47 of 1967, and amended Act No. 53 of 1971, section 103) in its constitution (Salawati et al. 2021). Failure to comply with any of the aforementioned taxes causes societal devastation, jeopardising Malaysia's national revenue stability and weakening its economic stability by promoting cheating and fraud (Sritharan and Salawat, 2019a; Sritharan et al., 2020). This study is concerned with the taxation system practiced in Malaysia.

Referring to Figures 1 and 2, Malaysia's overall gross national income (GNI)¹ has been consistently increasing over the last two decades (World Bank, 2020). Meanwhile, Malaysia's tax income has been steadily falling over the last two decades (World Bank, 2018). The rise in GNI and decline in tax revenue highlight Malaysia's severe tax gap, indicating a loss in national revenue from tax collection and a real cost imposed on society.

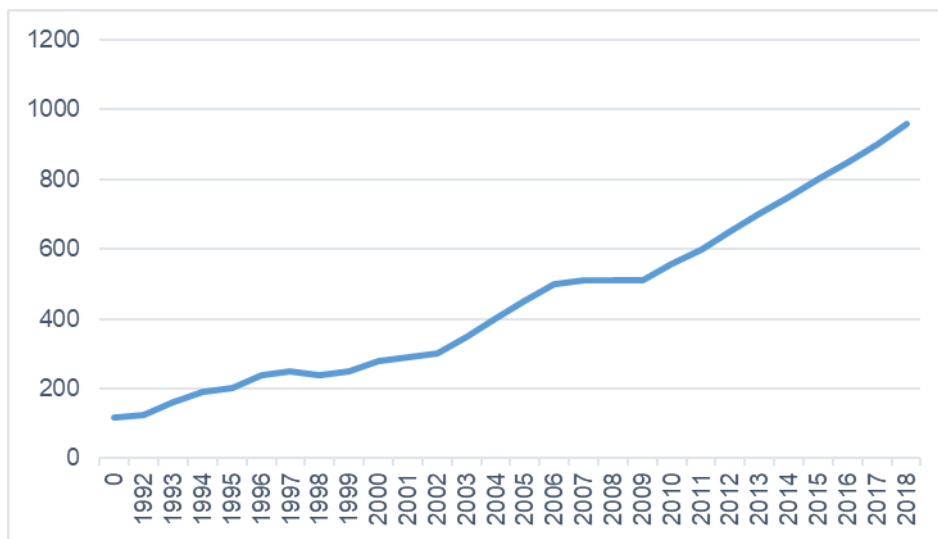
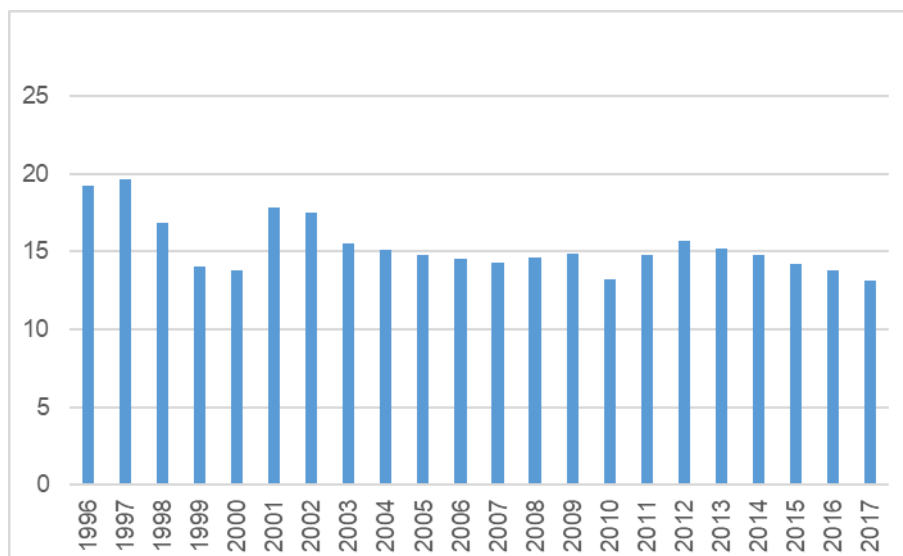


Figure 1: Gross National Income, Malaysia (Source: World Bank, 2020)



¹ The 'GNI' is the total domestic and international production claimed by a country's people, consisting of gross domestic product (GDP) and excluding non-resident income (World Bank, 2020).

Figure 2: Malaysian Tax Revenue Collection (Source: World Bank, 2018)

According to the Malaysian Inland Revenue Board, a tax gap of RM13 billion was noted in 2018 (Ministry of Finance Malaysia, 2019b). 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 among all other forms of taxes, tax planning is done by an individual on behalf of a firm. Individuals have a proclivity to not comply with the said tax system, and corporations have a proclivity to do the same. The basis of the tax gap, resident noncompliance, slows down the government's operational efforts since national revenue is largely assigned for operational expenditure instead of developmental outlay, forcing the government to borrow more. According to the Malaysian government, small and medium-sized companies (SMEs) account for 98.5 percent of all firms in the nation (SME Corporation Malaysia, 2020). As a result, there is a need to study the link between personal and company tax compliance (Baghdad et al., 2017).

A review of literature presents that most studies have looked at socio-economic factors as the independent variable causing an impact on the personal tax compliance behaviour (Sritharan et al., 2022b). However, studies are lack with empirical evidence to present the moderating effect of financial conditions that cause by socio-economic variables. Also, financial constraint is one of the economic factors always neglected by studies while analysing the compliance behaviour. Financial constraints are a situation in which an individual or a business do not pose sufficient cash to settle an outstanding debt or complete a financial/non-financial transaction. The financial constraint of an individual or a business mostly influenced by the type of accounting basis they practice. According to International Federation of Accountants (2022), Malaysia is currently in the phase of transition from cash basis² to accrual basis³ (Refer to Figure 3). This transition may cause difficulties to the entrepreneurs who still mixed accounting basis.

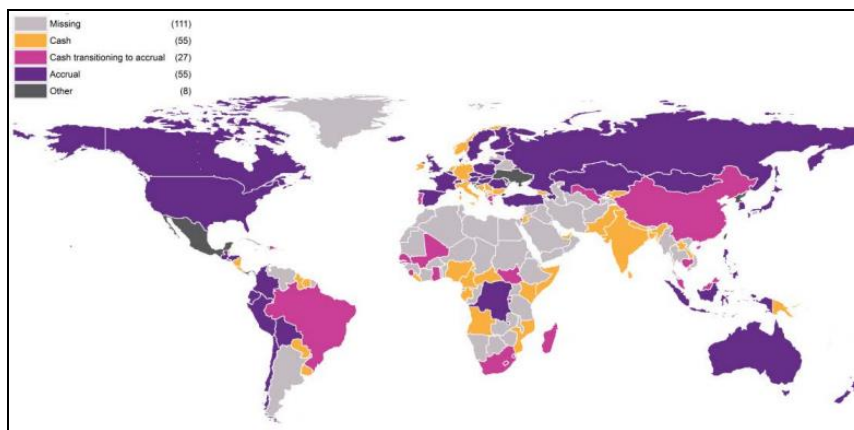


Figure 3: Accounting Basis by Country (International Federation of Accountants, 2022)

This study intends to investigate the impact made on the personal tax compliance behaviour. Also, this study examines moderating effect of their personal financial constraints on their personal tax compliance.

Research Objective

² Cash basis accounting reflects business transactions when the cash flows into or out of the business (Xero, 2022).

³ Accrual accounting recognizes revenue when it's earned and expenses when they're incurred (Xero, 2022).

- examine the impacts of the “factors of tax compliance” on the “level of personal tax compliance” among the Malaysian tax professionals; and
- investigate the moderating effect of “financial constraint” between the “factors of tax compliance” and the “level of personal tax compliance” among Malaysian tax professionals.

The following sections present the literature review, the research methodology, results and discussion, and the conclusion of this study.

LITERATURE REVIEW

Theory

Kelman (1958) proposed that an individuals’ attitude, action, beliefs, and subsequent behavioural reactions are influenced by the referral of other people associated with the individual over three stages: ‘Compliance’, ‘Identification’, and ‘Internalization’. Compliance occurs when an individual starts to accept the external influence (Sriharan & Salawat, 2019b). The external social factors (Government, Peer groups, or the ‘Relevant authorities) heavily determine an individual’s decision-making. Kelman (2006) explained that the different environments, where the individual operates, in the long run, lead to enforce tax compliance, voluntary tax cooperation, and committed tax cooperation.

Utility maximizing theory is a concept that elaborates the choice or decision an individual or a firm take to enjoy economic benefits. The theory is developed by two utilitarian philosophers of Jeremy Bentham and John Stuart Mill (Russell, 2013). The taxpayers closely looking at cost minimization if they do not pay for the taxes. Further, taxpayers assess the cost of penalty if they are caught under audit and the tax liability to compare the benefit in doing one action (IMF, 2008).

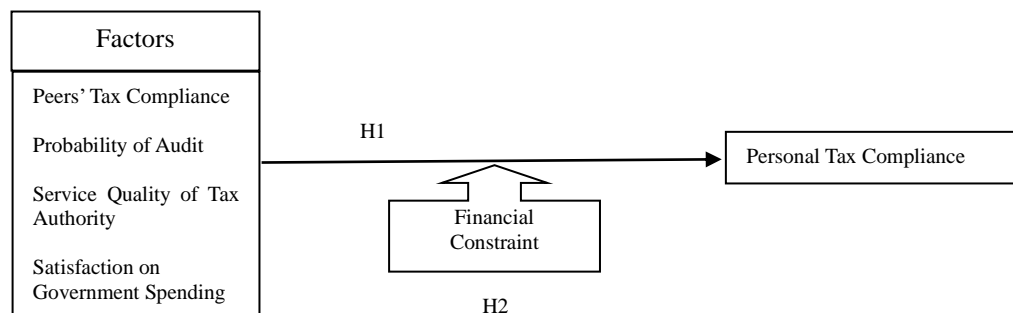


Figure 4: Conceptual Framework

Tax compliance

Tax compliance with the tax law means true and honest reporting of tax with correct calculation of liability, timely filing of the tax return, and timely payment of the amount due (Kiw et al., 2017). Most of the individual corporate taxpayers in Malaysia are hesitant to pay their taxes to the tax authority; and to cut down their tax liabilities, they engage in various

strategies and actions (Ahmed & Kedir, 2015). Corporate tax compliance is an action that is performed by a corporate taxpayer for fulfilling the taxpayer's obligations to the corporate, adhering to the rules and regulations of the corporate. The governments of countries around the world certainly keep their focus immensely on collecting taxes. However, they experience difficulties when collecting taxes from the taxpayers. Most the individual taxpayers are reluctant to pay their taxes to the tax authority, and they resort to performing various actions to cut down their tax liabilities (Ahmed & Kedir, 2015).

Factors affected personal tax compliance (H1)

According to Alm et al. (2017), the tax compliance behaviour of an individual is strongly affected by the tax compliance behaviour of their neighbours, or by the people with whom they frequently interact. There are situations where individuals become more likely to disclose their income when they come to know that their peers also do the same action. This scenario may occur vice versa, when the neighbours of an individual dodge taxes, there is a higher possibility for the individual to do the same. According to an experiment conducted by Inasius (2018), a 'two-treatment setting' was set up for the participation of two groups of respondents in the experiment. First, a group of respondents was informed that their neighbours had complied with the tax system. In the other setting, another group of respondents was informed that their neighbours had been audited and they had paid their taxes with penalties. In conclusion, the above experiment shows that the behaviour of an individual is impacted and changed significantly and differently by the behaviour of other people concerning tax compliance. Obaid et al. (2020) discuss that there are individuals who do not associate with other people to be influenced by them on tax compliance, and for such people, 'Peer influence' cannot be a factor to determine their tax compliance behaviour.

According to Ayers et al. (2018), in business, the managers' decision to comply with the tax system is determined by the probability of audit. The study by DeBacker et al. (2013) placed a different opinion claiming that legal enforcement increases tax aggressiveness, which is a way for the corporate sectors to act by reducing the tax payment, following an audit, and then increasing it sharply. Businesses comply with the tax system more when they have the probability of their businesses being audited by the tax authority; and soon after the audit, they become noncompliant with the tax system. Such a pattern of behavior of the businesses is called 'U-Shaped Impact'. In the meantime, D'Agosto et al. (2017) state that there is a positive and significant relationship between tax audit and tax compliance. Different types of audits are carried out by the tax authority in Italy, relating to the cases of tax non-compliance they handle, which improved the level of tax compliance significantly in the country. However, the adoption of on-site, and desk audits has shown a great effect on the tax compliance.

Having a strong influence on tax compliance behaviour, tax socialization is the service quality of the tax authority (Supriyono et al., 2021). Service quality must be upheld by the tax authority because taxpayers frequently face difficulties in calculating, paying, and reporting their taxes. The tax authority is obliged to improve its service quality in terms of knowledge, skills, and other facilities so that it can facilitate the taxpayers in fulfilling their tax compliance. Indonesian taxpayers reveal that they fail to comply with the tax system since they cannot acquire the required information of the regulation that they are looking for from the tax authority, and also they do not understand what the tax authority demands and expects from them. A similar argument was presented by Alm et al. (2017) that the 'Service paradigm for tax administration', where the tax officers act as facilitators and share their

services, will increase the level of tax compliance.

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 (Doerrng, 2015). Also, the citizens of the country keep a close eye on the money handled and spent by the government. The government's ineffective spending determines the negative impact on the tax compliance behavior of taxpayers (Braithwaite et al., 2009). With a similar argument, Mohani (2001) 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 et al. (2016) 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 of the government, which has been hit heavily by corruption. Transparency International (2017) has highlighted that Jordan remains as 59th most corrupt country. Meanwhile, Transparency International (2021) has ranked Malaysia as the 57th corrupt country, emphasizing 'satisfaction with the government spending' be an important determinant for personal tax compliance.

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

Financial constraints (H2)

The decision on tax compliance, taken by an individual, is altered by the negative financial capacity of the individual (Supriyono et al., 2021). The empirical evidence presented by Supriyono et al. (2021) explains that people who have personal financial constraints intentionally do not comply with the tax system. It means they do not possess enough money in hand at the time of the tax payment. A very recent study made by Gottlieb and Hollenbach (2016) has found that the financial capacity of an individual act as a moderator between an individual and the tax compliance behavior of the individual. Although taxpayers do not have problems paying taxes, their financial capacity makes them decide whether to comply with the tax system or not. When comparing the importance and the urgency of fulfilling their needs, the taxpayers give priority to the fulfillment of their personal needs over the tax payment (Mohani, 2001). The taxpayers do calculate the cost incurred for the tax compliance, and if the cost for it seems unaffordable to them, at the time of making the payment, they intentionally do not comply with the tax system.

H2: Financial constraint moderates the relationship between the factors of tax compliance and the level of personal tax compliance.

METHODOLOGY

Research design

Nearly, all the research studies made on tax compliance behavior, at the doctoral degree level, have employed a mixed method of approach to arrive at a clear and accurate conclusion (Rosid, 2017; Tusubira, 2018; Abdul Hamid, 2013). The perception of the tax system in the minds of taxpayers changes their behavior. A survey method of data collection is the best tool chosen to collect the taxpayers' perceptions of the selected variables (Sekaran, 2005). This study is intended to be conducted in Malaysia, because of the rising tax gap. The tax gap is caused by the noncompliance behaviour of the taxpayers. Corporate taxes are generally

higher contributions made to the government compared to personal taxes. However, corporate tax compliance decision-making is done by a tax professional of the business. Therefore, investigating tax professionals' personal tax compliance is assumed to influence their corporate tax compliance. There is no specific statistical report to disclose specifically the population of tax professionals in Malaysia. Government and Non-Government organization's websites such as Companylist.org, SMEMalaysia.org, Small and Medium Enterprise Association (SAMENTA), Investpenang.gov.my, Saveoursmes.org, and businesslist.my were used to retrieve email addresses of the company.

Apart from this, the officers who deal with the individual and the corporate taxpayers, such as the tax agents, and the IRBM officers have real experience handling tax cases. Also, tax scholars pose sufficient tax theoretical knowledge. Therefore, their opinion toward the perception of the taxpayers will strengthen the accuracy of the analysis. This kind of sequential explanatory design method is necessary to be adopted for interdisciplinary studies, such as 'Taxation'. Opinions shared by officers interacting with taxpayers can strengthen the weak part of the survey result. Further, the quality of research will be improved under the mixed-method approach (Rosid, 2017). Furthermore, this method allows the researcher to begin to analyze the results separately and to discuss the common and different results from both methods. Meanwhile, interviews with experts dealing with taxpayers provide some information to support the survey result.

Sample

The sample in this study is the individuals who manage/handle their / others' tax affairs in Malaysian businesses. The purposive sampling method is adopted to perform the sampling first. Related research studies suggest performing snowballing sampling to increase the responses from the respondents (Dusek et al., 2015). Since both falls under the non-probability sampling technique, the respondents chosen to participate under purposive sampling are requested to forward the invitation to the survey to their known individuals who also manage/handle some tax affairs in their businesses. Nearly 1 million (97.5%), in Malaysia, are Small and Medium Size Enterprises (SME Corporation Malaysia, 2018). Krejcie and Morgan (1970) proposed a suitable sample number at a 95% confidence level based on the population. If the population is greater than seventy-five thousand, a sample size of three hundred and eighty-four (384) is considered to be reasonable.

Construct measurement

Tax compliance is measured by two dimensions, namely 'Voluntary compliance, and 'Enforced compliance'. Likewise, Non-compliance has two measurements, 'Tax avoidance', and 'Tax evasion' (Kirchler & Wahl, 2010), 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.

Data Analysis

Survey

Structural equation models are often used to assess unobservable 'latent' constructs. The use of SEM is commonly justified in the social sciences because of its ability to impute relationships between unobserved constructs (latent variables) and observable variables (Hair, 2021). SEM, therefore, allows the researcher to diagnose which observed variables are good

indicators of latent variables. Various methods in structural equation modelling have been used in the sciences, business, and other fields. While researchers agree that large sample sizes are required to provide sufficient statistical power and precise estimates using SEM, there is no consensus on the appropriate method for determining an adequate sample size (Sarstedt et al., 2021). The set of models is then interpreted so that claims about the constructs can be made, based on the best fitting model. In the confirmatory technique, each individual construct is validated at the measurement model level. In the measurement model, the validity and reliability of measures in each construct are ensured before proceeding to the structural model. Hair, (2021) explains that an absolute threshold or a benchmark for factor loading, which is the correlation coefficient between observed variables and latent common factors, in the PLS model is not established. As per previous studies, a cut-off loading of 0.5 is sufficient (Hair, 2021).

Interview

This study inclines to collect data from tax experts (Tax agents, IRBM officers, and tax scholars) who have experience in dealing with tax professionals in Malaysian businesses. Some findings from the survey questionnaire may require additional explanations. Having an interview session with tax experts is expected to provide explanations. Therefore, having an interview session with the tax specialists about their experience in dealing with taxpayers is possible only if their identities are not disclosed. A semi-structured interview is one of the common approaches adopted in many behavioral studies (Sekaran, 2005). The findings from the survey questionnaire reveal what relationship exists among the variables. At the same time, semi-structured interviews helped the researcher to explain the findings with the questions ‘Why’, and ‘How’ (Saunders et al., 2003). Patton (1990) justifies that there are no specific criteria to determine the sample size for qualitative inquiry. However, Sekaran (2005) highlights that 10-interview sample should be sufficient to serve the purpose. Therefore, this study aims for a minimum of 10 samples for the interview sessions.

RESULTS AND DISCUSSION

Most of the tax professionals who substantially participated in this survey questionnaire are Chinese (47.7%), male (72.70%), aged between 31 and 40 (62.24%), working in the food and beverage sector (45.66%), and are from Selangor (23.47%). Nevertheless, the officers of other ethnicities also have taken part in a considerable number. It is mandatory for researchers to check and ensure 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 (Berbekova et al., 2021). The researcher follows the steps suggested by Huang et al. (2018) by ensuring anonymity and keeping in mind that the responses delivered are based solely on their own perception. Also, questionnaire including a reversal measurement for certain constructs.

In the meantime, Kock (2015) 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 1, the VIF values indicate the collinearity level between items that show below all the benchmark values of 3.3. If the value is above 3.3, it highly indicates 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) (Khreisat & Mugableh, 2020). Although there are various

methods to test the reliability of the construct this study used Cronbach's alpha (α) coefficients by composite reliability (CR) when evaluating the measurement model for Confirmatory factor analysis (CFA).

Table 1: VIF Collinearity Test

Items	VIF	Items	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

Measurement model

Table 2: Outer Loading

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

Table 3: Outer Weight

Code	Individual Tax Compliance	Peer's Tax Compliance	Probability of Audit	Financial Constraints
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				
PROB2			0.793	
PROB3			0.849	
PROB4			0.867	
FINC				1

Table 4: Internal consistency (Composite reliability)

Variables	Cronbach's Alpha	rhea	Composite Reliability
Satisfaction on Government spending	0.814	0.829	0.854
Individual Tax	0.849	0.85	0.816

Variables	Cronbach's Alpha	rhea	Composite Reliability
compliance			
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 5: Convergent validity (AVE)

Variables	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 6: Discriminant Validity (HTMT)

	Individual Tax Compliance	Satisfaction with Government Support
Satisfaction with Government Spending	0.772	
Service Quality of Authority	0.347	0.843

Structural Model

Table 7: Path Coefficient

Variables	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	0.171	0.098	1.745	0.038**

R²=0.839
F²=0.330

The above analytical outcome explains the strength of the measurement model. Table 2 exhibits the outer loading of the reflective constructs, and table 3 explains the outer weight of the formative constructs. The resulting outcome of the analysis of the above-mentioned reflective and formative constructs is higher than the benchmark level of 0.5, except for 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 highlights 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. It is the extent to which a construct is empirically distinct from other constructs in the structural model (Hair et al., 2019). Discriminant validity is examined by looking at the correlation between constructs and the square root of the variance extracted for a construct. The top values presented in Table 6 show the square root of the construct’s average variance extracted and the rest of the values show the correlation between the construct and are less than the square root of the average variance extracted. In summary, the measurement model confirms the goodness of the measurement. Generally, formative constructs are exempted from discriminant validity.

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

Supplementary results

“Yes, mostly the clients of mine are referred by an existing client. Generally, what our Malaysian taxpayers do is just following what their peers do. I think it’s because of our culture. We tend to have a close relationship with our peers in discussing personal and professional matters including tax planning.

(Participant No.6, Tax Agent)

“It doesn’t matter who are important to a taxpayer. A taxpayer normally spent much time discuss things which are new to him or her with peers. Maybe we could say their friends. Here in Malaysia, finding a job, choosing an e wallet, shopping, and other personal things are

the topic friends closely discuss. Tax compliance also a part of it. I would say, taxpayer start discussing this during their tax payment due date. A serious conversation will be touching how to under-report their income or over-stating their expenses among peers, so that they could enjoy limited tax payments. Meaning to say, negative influence impact individual tax compliance intention.

(Participant No.9, Tax Scholar)

“In an average conversation between peers through a social media or in an actual meeting, at least 20 percent of their conversation covers political, government, and other common things. Most of their conversation are related to their workplace, studies, or entrainment. Talking about tax compliance commonly come out on their discussion during the time of tax compliance. When they have a positive or encouraging peer who genuinely participate in government duties, then his or her behavior influence the other peer. I would say the tax payer will be motivated to comply with the tax system because his or her peer also comply with the tax system right”.

(Participant No.7, Tax Scholar)

“I think it normally deal by my boss. I don’t directly receive any calls from IRBM regarding any of our clients. But I know that our boss handles the communication on behalf of clients. When I work for clients, I do understand that they fear of audit by IRBM. This is why they wanted to keep all accounts and fillings comply with the system. So that no penalty will impose by IRBM if they were chosen for an audit”.

(Participant No.6, Tax Agent)

“Not just for corporate taxes, also for other taxes, the taxpayers trust our organization. Hasil always serves for the best interest of the country. Means, it’s here to help people on paying their taxes. Of course, we do have our enforcement. IRBM does not fail to collect customer satisfaction. You can check out website. The e survey feedback form allows the people to express their satisfaction on the overall performance by a IRBM branch office. Our management frequently review the feedback and take necessary action to enhance the service quality. We serve the people both ways face-to-face and through online. As you said our assistance provided to them increases their intention to comply with the tax system. People may get scared with taxes. But they get motivated by the help we do to them to comply with the tax system. We explain them the consequences of noncompliance and the benefit of making payment make them understand their obligation. I believe our role strongly influence people’s decision to pay their taxes in an honest manner”.

(Participant 2: Tax Authority)

“Tax payment is an accrual-based approach. What I mean is we pay taxes for the last year. Though, there are many facilities available to follow Pay As You Earn model, most of us accrue out tax liabilities. The problem is the taxpayer’s financial condition of the taxpayer during the particular tax period. Many occasion ay alter the taxpayer’s financial condition on their taxpayment time. Taxpayer is honest and he is a good citizen. But the problem is that the tax payer does not have the money which prevents him from paying. This Is one example. There might be several examples that might create the same scenario right”.

(Participant 4: Tax Agent)

Interpretation of hypothesis test, path coefficient, clearly articulates that there is a positive association between peer tax compliance and personal tax compliance. This result

correlates with previous studies by Alm et al. (2017), and Obaid et al. (2020) confirm that peer compliance affects individual tax compliance. A tax agent (participant no. 6) and a tax scholar (participant no. 9) agreed with the findings and highlighted that an individual's decision making is influenced by those around the taxpayer. This clarifies that every individual taxpayer should understand their duty towards the nation. And, they should always have the best interest in the national economy. According to Kelman's Social Influencing theory, these will influence their peers in a positive way.

This study also reveals that there is a positive association between the probability of tax audit and personal tax compliance. This outcome parallels the finding of Ayers et al. (2018) and D'Agosto et al. (2017), and participant numbers from tax agencies justify that taxpayers begin to organize their tax process once they realise the probability of getting audited by the authority. This evidence is an example for IRBM to extend its audit procedures. Generally, IRBM conducts two types of audits known as Tax audits and tax investigations. From this empirical evidence, IRBM should increase its average audit rate for individual and corporate taxpayers. This action may lead the taxpayers to fear the authority and comply with the tax system in the following tax assessment.

Further assessment showcases that there is a positive association existing between the service quality of the tax authority and personal tax compliance. Previous studies have no mixed conclusions on this finding. Especially that of Alm et al. (2017); Supriyono et al. (2021) state that the 'Service paradigm for tax administration', where the tax officers act as facilitators of their services, would increase the level of tax compliance. This implies that IRBM should continue measuring its services and take initiative to review the comments and complaints made by the taxpayers. Also, IRBM may engage in fully online facilities to shorten the in-person visits at their branches. This may allow other taxpayers to visit the branch, meanwhile, regular taxpayers could complete their tasks online.

Meanwhile, there is a positive association between satisfaction with government spending and personal tax compliance. The studies made by Alasfour et al. (2016), Braithwaite et al. (2009), and Mohani (2001) 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 the government to have careful spending of tax funds on development or an operational expenditure than other luxuries expenditures. Also, the government should take note that every allocation of money into new programs 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 ($\beta=0.117$, $p<0.05$). Kalman's Social Influencing theory also explains that the surrounding or external forces strongly influence an individual on their compliance behaviour.

Interestingly, path analysis results show that the moderation test does signify $p<0.05$. Therefore, H2: Financial constraint moderates the relationship between the factors of compliance, and personal tax compliance is supported. Study conducted by Supriyono et al. (2021), explains similarly that the decision on tax compliance, taken by an individual, is altered by the negative financial capacity. Participant number 4 from the tax agency explains further that those taxpayers are practicing accrual-based tax payment. Their financial condition during that particular period might twist their tax compliance, though they wish to comply with the tax system. The tax agent also highlights that taxpayers do not possess enough money in hand at the time of the tax payment. Moreover, Gottlieb and Hollenbach (2016) have found that the financial capacity of an individual act as a moderator between an

individual and the tax compliance behaviour of the individual. However, Participant number 2 from the tax authority highlights that taxpayers are mostly unaware of the tax authority's functions. The IRBM officer further states that taxpayers could negotiate with local tax authorities on their issues and the tax framework allows the taxpayers to comply with the tax system in their comfortable zone.

CONCLUSION

According to Baghdad et al. (2017) an assumption is presumed that there is a tendency for a personal tax non-compliant taxpayer to not comply with the corporate tax system as well. 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 with government spending', exert their influence on the personal tax compliance behaviour of the Malaysian tax professionals. There are couple of limitations in this study. First, this study collected data during the Covid-19 Malaysian Movement Control Order (MCO). This specific time frame a hassle condition for most of the residence since the income making for all citizens were badly affected. This may exaggerate their opinion on financial constraint. Second, the financial constraints were measured with a single item construct. The respondents were required to measure their satisfaction on their household income to measure the financial constraint. Therefore, future researchers should measure their financial constraint with another measurement approach, which could compute their financial situation in numerical value. Further, future studies should study their intention in complying with the corporate taxes to investigate whether they apply the same decision-making to their corporate taxes as well. Finally, IRBM should implement accrual basis tax management for taxpayers' liabilities.

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APPENDIX

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?
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.
FIN	How satisfied are you with the financial situation of your household?		