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An Empirical Study on the Determinants of Tax Compliance Behaviour of Business Income Earning Individuals in Malaysia

Puteri Nur Liana*, Yuvaraj Ganesan, and Teoh Ai Ping

Graduate School of Business, Universiti Sains Malaysia, 11800 USM Penang, Malaysia

Email: yuvaraj@usm.my

*Corresponding Author Email: puteriliana@student.usm.my

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Abstract

Individual taxpayers with business income represent an important group in the Malaysian tax system, yet their tax compliance behaviour remains a concern. This study examines the effects of tax fairness, enforcement level, dynamic capability, and social norms on tax compliance behaviour, while investigating the mediating role of attitude and the moderating role of tax agent appointment. Using a quantitative design, data were collected through structured questionnaires from 133 registered individual taxpayers with business income in Malaysia, selected using stratified random sampling and analysed using SmartPLS. The findings indicate that tax fairness has no significant effect on attitude or tax compliance behaviour. In contrast, enforcement level significantly affects both attitude and tax compliance behaviour, while dynamic capability significantly influences attitude. Social norms significantly affect both attitude and tax compliance behaviour. Attitude also has a significant positive effect on tax compliance behaviour, whereas tax agent appointment does not significantly moderate the relationships examined. The findings provide practical insights for tax authorities in developing targeted compliance strategies and contribute theoretically by incorporating dynamic capability into the tax compliance framework and examining the mechanisms underlying taxpayer compliance using actual compliance indicators of registration, filing, reporting, and payment.

Keywords: Tax Compliance Behaviour, Dynamic Capability, Attitude, Tax Fairness, Enforcement Level

Introduction

This study investigates the determinants of tax compliance behaviour among individual taxpayers with business income in Malaysia by applying the Theory of Planned Behaviour (TPB) (Ajzen, 1991). Specifically, it examines the influence of perceived tax fairness, perceived enforcement level, dynamic capability, and social norms on taxpayers' attitudes towards compliance and, subsequently, on actual tax compliance behaviour. The study

further examines the mediating role of attitude and the moderating role of tax agents. Although previous tax compliance studies have extensively examined psychological, economic, and institutional determinants of compliance, several gaps remain. First, tax compliance behaviour has frequently been measured using taxpayers' self-reported intentions or perceptions, which may not necessarily reflect their actual compliance behaviour. Consequently, there remains a need for empirical research that links behavioural determinants to objective compliance outcomes based on administrative records. Second, while the concept of dynamic capability has been widely discussed in organisational and strategic management research, its application in explaining tax compliance behaviour at the individual business taxpayer level remains limited. Third, although tax agents are important intermediaries in the tax system, particularly for taxpayers with business income, their potential moderating role in the relationship between behavioural determinants and tax compliance has received comparatively limited empirical attention. Addressing these gaps, this study contributes a more comprehensive assessment of tax compliance by incorporating dynamic capability as an explanatory variable, examining tax agents as a moderating factor, and, most importantly, measuring the dependent variable using actual tax compliance data obtained from the Inland Revenue Board of Malaysia (IRBM).

The motivation for this research stems from the persistent challenge of the tax gap and the need for a more nuanced understanding of compliance behaviour in a developing economy. While traditional tax compliance models often emphasise economic deterrence, taxpayers' compliance decisions may also be shaped by psychological perceptions, social influences, institutional factors, and their own capability to manage tax-related responsibilities. By extending the TPB framework to include dynamic capability and perceived tax fairness, this study provides a broader perspective on the factors underlying tax compliance among individual business owners. The use of actual compliance records further strengthens the analysis by moving beyond intention-based or self-reported measures and providing evidence based on taxpayers' observed compliance across key tax obligations. Furthermore, examining the moderating role of tax agents recognises that professional intermediaries may influence how taxpayers translate their perceptions and attitudes into actual compliance behaviour.

In addition to its theoretical contributions, this study carries significant practical implications for tax administration and policy design in Malaysia. Individual taxpayers with business income represent an important taxpayer group and often face more complex tax reporting and payment responsibilities than salaried employees. Understanding the factors associated with their actual compliance behaviour can assist tax authorities in developing more targeted taxpayer education, communication, and enforcement strategies. The findings may also support the design of interventions that strengthen taxpayers' capability to manage tax obligations while recognising the potential role of tax agents in facilitating compliance. Rather than relying solely on deterrence-based measures, the findings may contribute to a more balanced approach that combines enforcement with taxpayer support and capability development. Ultimately, this study seeks to provide a more holistic understanding of tax

compliance by connecting taxpayers' psychological and institutional perceptions with their capabilities, professional tax assistance, and, importantly, their actual compliance outcomes.

Literature Review

This section reviews the relevant literature underpinning the development of the research framework. It begins with the theoretical foundation based on the Theory of Planned Behaviour (TPB), followed by a discussion of key determinants of tax compliance behaviour, including perceived tax fairness, enforcement level, dynamic capability, and social norms. The section also examines the mediating role of attitude and the moderating effect of tax agents in shaping taxpayers' compliance behaviour.

Theory of Planned Behaviour and Tax Compliance Behaviour

Grounded in the Theory of Planned Behaviour (TPB), prior research indicates that attitude, subjective norms, and perceived behavioural control are significant determinants of tax compliance intention among Malaysian taxpayers (Razak & Bidin, 2019; Shaharuddin et al., 2023). These constructs collectively explain how individuals form intentions that subsequently translate into actual compliance behaviour. The Organisation for Economic Co-operation and Development (OECD, 2014) identified four key areas of tax compliance: registration for tax purposes, timely filing of tax returns, accurate reporting of tax liabilities, and timely payment of taxes. A comprehensive analysis of tax compliance requires an integrated approach that considers the interplay of psychological, economic, social, and cultural factors influencing individual and organisational behaviour in the tax context (Michael and Widjaja, 2024). According to Hayat et al. (2022), the intention to abide by tax laws and regulations is closely linked to perceived fairness of the tax system, tax penalties, and tax awareness, all of which have a substantial influence on tax compliance behaviour. Inspired by these insights, the purpose of this study is to investigate how societal norms, enforcement levels, dynamic capabilities, and tax fairness affect tax compliance behaviour.

Perceived Tax Fairness and Attitude towards Tax Compliance

Within this broader perspective, taxpayers' attitudes toward compliance are fundamentally shaped by their perceptions of tax fairness, equity, and transparency. Prior research consistently demonstrates that perceptions of tax fairness influence taxpayers' behavioural evaluations of the tax system and, consequently, their propensity to comply (Saptono & Khozen, 2023; Taing & Chang, 2020). Conversely, when the tax system is perceived as unjust or inequitable, such perceptions may undermine compliance and encourage non-compliant behaviour. For instance, Kassa (2021) identified a significant positive relationship between perceived unfairness and tax evasion, suggesting that taxpayers are more inclined to evade their obligations when they perceive the tax system as inequitable. Nevertheless, taxpayers' compliance decisions are not determined by perceptions of fairness alone, but are also influenced by the perceived likelihood and consequences of non-compliance.

Perceived Enforcement Level and Attitude towards Tax Compliance

While perceptions of tax fairness shape taxpayers' evaluations of the tax system and their willingness to comply, compliance behaviour is also influenced by the perceived likelihood of detection and the consequences of non-compliance. Enforcement and deterrence mechanisms therefore remain fundamental components of tax administration systems. Empirical evidence suggests that effective monitoring, audit probability, and penalty

enforcement significantly enhance compliance motivation (Khristy et al., 2022; Mat Jusoh et al., 2021). However, Slemrod (2019) argues that when taxpayers already perceive themselves as being routinely audited, additional enforcement actions may yield diminishing behavioural effects. This highlights the importance of designing efficient and well-targeted audit strategies (Drogalas et al., 2015).

Dynamic Capability and Attitude towards Tax Compliance

In addition to taxpayers' perceptions of fairness and enforcement, tax compliance may also be influenced by their internal capacity to effectively manage tax-related responsibilities. According to Teece et al (1997), a firm's dynamic capabilities are its capabilities to integrate, learn and reconfigure both internal and external resources. Moving beyond traditional deterrence-based explanations, this perspective highlights the role of dynamic capability in fostering voluntary compliance. Dynamic capability refers to a taxpayer's ability to adapt, organise, and systematically manage tax-related responsibilities in response to changing tax requirements and circumstances. Mohamad et al. (2023) suggest that stronger tax management capabilities enhance voluntary compliance tendencies. In the present study, dynamic capability is operationalised through tax risk management practices, reflecting taxpayers' structured and systematic capacity to identify, manage, and respond to tax-related risks. This perspective is further supported by Binauli et al. (2018), who found a significant positive relationship between effective risk management practices and tax compliance behaviour.

Social Norms and Attitude towards Tax Compliance

Beyond taxpayers' perceptions of the tax system, external enforcement pressures, and their internal capacity to manage tax obligations, compliance behaviour may also be shaped by the social environment in which taxpayers operate. Social norms represent an important social influence through which individuals form perceptions of what constitutes acceptable and expected tax behaviour. Empirical findings indicate that societal expectations, peer influence, and referent groups can shape taxpayers' behavioural orientations towards compliance (Sritharan et al., 2020). When tax compliance is perceived as a socially expected and positively reinforced behaviour, individuals may be more likely to internalise such expectations and develop favourable attitudes towards fulfilling their tax obligations.

Attitude as a Mediating Mechanism in Tax Compliance Behaviour

Taken together, the preceding perspectives suggest that tax compliance behaviour is shaped by multiple, interrelated influences that extend beyond a taxpayer's direct response to the tax system. Within the Theory of Planned Behaviour (TPB), attitude provides an important psychological mechanism through which these influences may be translated into behavioural outcomes. Perceptions of tax fairness shape taxpayers' evaluations of the legitimacy and equity of the tax system, perceived enforcement influences their assessment of the likelihood and consequences of non-compliance, dynamic capability reflects their capacity to effectively manage tax obligations, while social norms capture the influence of social expectations and referent groups on acceptable tax behaviour. These distinct influences may, in turn, shape taxpayers' overall evaluation of tax compliance and their willingness to engage in such behaviour. Accordingly, taxpayers who perceive the tax system as fair, perceive enforcement as effective, possess stronger tax management capabilities, and are exposed to supportive social norms are expected to develop more favourable attitudes

towards tax compliance. Such favourable attitudes are subsequently expected to translate into stronger tax compliance behaviour. This perspective therefore positions attitude not merely as another determinant of compliance, but as a psychological mechanism that integrates diverse external and internal influences into the behavioural decision-making process.

The Moderating Role of Tax Agent

Previous studies show that the use of tax professionals is related to taxpayer compliance behaviour. Devos (2012) found that professional tax advice can influence compliance, particularly among taxpayers who do not intentionally avoid their tax obligations. Similarly, Irwan and Oktris (2024) found that tax representatives support taxpayers through supervision, advice, and consultation, which can improve compliance. Based on these findings, this study includes tax agents as a moderating variable. Tax agents may influence not only compliance directly but also the relationship between taxpayers' attitudes and their compliance behaviour. By providing technical knowledge and helping taxpayers understand complex tax rules, tax agents may help taxpayers turn positive attitudes into actual compliance. Therefore, examining the moderating role of tax agents can provide a better understanding of how professional assistance may influence the link between taxpayers' attitudes and actual tax compliance.

Research Hypotheses

Drawing on prior literature and the study's conceptual model, the following hypotheses are developed: (H1) perceived tax fairness positively influences attitude towards tax compliance; (H2) perceived enforcement level positively influences attitude; (H3) dynamic capability of the owner-manager positively influences attitude; (H4) social norms positively influence attitude; and (H5) attitude positively influences tax compliance behaviour. Furthermore, (H6a) attitude mediates the relationship between tax fairness and tax compliance; (H6b) attitude mediates the relationship between enforcement level and tax compliance; (H6c) attitude mediates the relationship between dynamic capability and tax compliance; (H6d) attitude mediates the relationship between social norms and tax compliance. Finally, (H7) the appointment of a tax agent moderates the relationship between attitude and tax compliance behaviour.

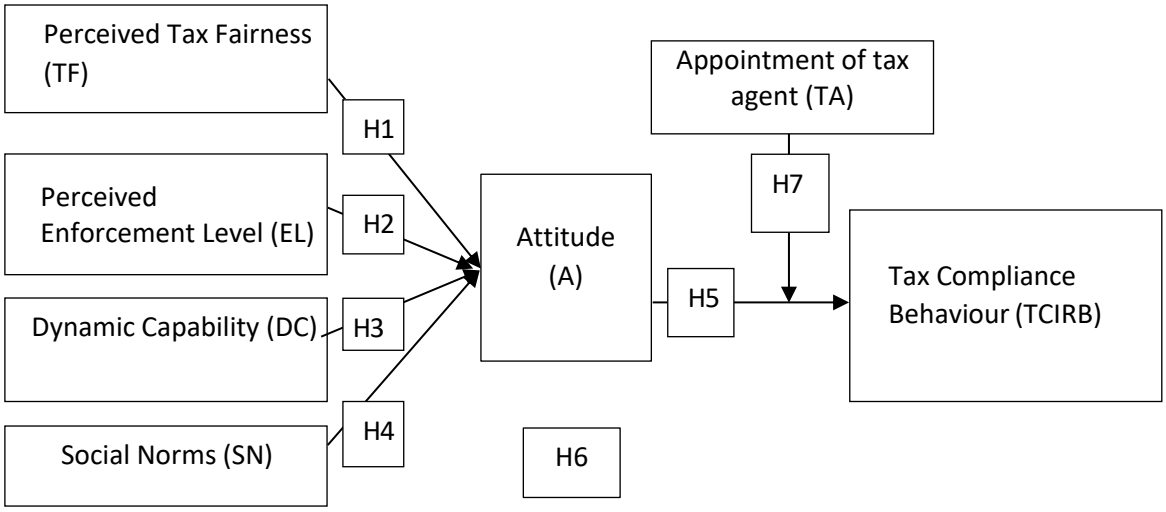


Figure 1: Research Framework

Methodology

This study uses a quantitative research method with a causal approach to determine the effect of one or more variables that have a cause-and-effect relationship with tax compliance behaviour in Malaysia. The study population comprises individual taxpayers with business income in Malaysia. The sampling techniques in stratified random sampling. This method is used to cover various states in Malaysia. There are two types of data being used in this study. First, the primary data are for variables that influence attitude and tax compliance behaviour. Second, the secondary data for tax compliance behaviour is obtained from the IRBM's compliance record. The determinant of compliance is using the four pillars of compliance as mentioned by the Organisation for Economic Co-operation and Development (OECD), which are tax registration, filing, reporting, and payment.

The operational definition in this study includes dependent, independent, moderating, and mediating variables. The dependent variable is the tax compliance behaviour of individual taxpayers with business income, while the independent variables are perceived tax fairness, perceived enforcement level, dynamic capability, and social norms. The moderating variable is tax agents, and the mediating variable is attitude. The independent, moderating, and mediating variables were measured using questionnaire items on a six-point Likert scale. Perceived tax fairness captured taxpayers' perceptions of the overall fairness and reasonableness of the tax system, including tax burden distribution, allowable tax deductions, and progressive taxation. Perceived enforcement level reflected perceptions of the strictness and effectiveness of tax enforcement, including penalty rates, enforcement actions, and the likelihood of facing serious consequences for non-compliance. Dynamic capability measured taxpayers' ability to stay informed about regulatory changes, respond to tax requirements, manage tax-related information, formulate strategies, and allocate resources effectively. The items were adapted from Banjongprasert (2013) and contextualised to the tax management setting. Social norms captured perceptions of tax compliance as a social and civic responsibility, including societal expectations and adherence to the rule of law, with items adapted from Górecki and Letki (2021). Attitude measured taxpayers' overall evaluation of tax compliance, including views on honest income declaration, avoiding false deductions and tax evasion, and timely tax payment. Tax agent appointment was measured using questionnaire items assessing the extent to which taxpayers engage or rely on tax agents in managing their tax affairs.

Tax compliance was initially recorded as a binary measure (yes/no) for four compliance pillars: registration, filing, reporting, and payment. As all respondents were registered taxpayers, the registration pillar was constant and was therefore excluded from further analysis. The remaining three pillars, which are filing, reporting, and payment, were converted into a numerical compliance score based on the number of pillars with which each taxpayer complied. Taxpayers complying with all three pillars received the highest score, while those complying with two or one pillar received lower scores. The resulting score provided a more differentiated measure of tax compliance than the original binary responses and enabled the compliance data to be incorporated into the analysis alongside the Likert-scale measures used for the other study variables.

The data collection technique in this study involves conducting surveys directly with respondents who are required to pay income tax in Malaysia. The survey is conducted through

a physical questionnaire related to the variables to be tested in the study. As for secondary data, the data are obtained from the IRBM's database. Before data collection, the necessary ethical considerations were observed, including ensuring that respondents participated voluntarily and that their responses were treated confidentially and used solely for academic purposes. For the secondary data, the study utilised taxpayer compliance information obtained from the Inland Revenue Board of Malaysia (IRBM) database. The use of IRBM administrative data was conducted with the consent and approval of IRBM and in accordance with the organisation's applicable requirements concerning data confidentiality, privacy, and ethical use of information. The data were accessed and utilised strictly for this research, with appropriate measures taken to protect the confidentiality and anonymity of the taxpayers concerned. The data analysis technique used in this study is Structural Equation Modelling (SEM) with the Partial Least Squares (PLS) approach. This is suitable for relatively small sample sizes and indicators that are reflective, formative, and a combination of both. The analysis is conducted using SmartPLS 4.0, starting with the measurement model to ensure that the measurements used are valid and reliable.

Data were collected through questionnaires from 133 individual business income taxpayers in Malaysia, selected using stratified random sampling. Prior to data collection, G*Power analysis was conducted to determine the minimum required sample size for the study. The analysis indicated that a minimum sample size of 129 respondents was required to achieve adequate statistical power for the proposed model. Therefore, the final sample of 133 respondents exceeded the minimum sample size requirement and was considered sufficient for the analysis.

The study employed hypothesis testing to investigate the relationships among several factors and tax compliance behaviour. The core hypotheses (H1 through H4) propose that various antecedents, specifically perceived tax fairness, perceived enforcement level, owner-manager dynamic capabilities, and social norms, will each exert a significant positive influence on an individual's attitude towards tax compliance. H5 posits that this resulting attitude will, in turn, positively affect the final tax compliance behaviour. Furthermore, a series of mediation hypotheses (H6a through H6d) predict that attitude will serve as a positive mediator, fully or partially transmitting the positive effects of the four antecedent variables on tax compliance behaviour. Finally, H7 introduces a moderating effect, proposing that the appointment of a tax agent will significantly alter the nature or strength of the relationship between attitude and tax compliance behaviour.

The collected data were subsequently analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) to examine the relationships among the constructs in the proposed research model. The results indicate that enforcement level, dynamic capability, and social norms significantly and positively affect taxpayer attitudes, which in turn positively influence compliance behaviour. However, perceived tax fairness shows no significant effect. These findings highlight the importance of enforcement and capability building, alongside social norms, as key drivers of compliance. The study contributes to theory by extending TPB with the construct of dynamic capability and to practice by offering insights for the Inland

Revenue Board of Malaysia (IRBM) in shaping evidence-based compliance strategies (Ahamad Nawawi et al., 2025).

Results

The research model was tested using SPSS for descriptive, correlation, and reliability analysis. Then we proceeded to use Smart PLS version 4.0 to test the Structural Equation Modelling. The respondent profile is presented in Table 1. The sample size was 133 respondents, and the profile of respondents reasonably reflects the sample population of individual taxpayers with business income. The distribution of the respondents was 39.8% in the age range 30-39 years old, followed by 25.6% who were 40-49 years old, 24.8% who were 50 and above, and 9.8% who were 20-29 years old. For education, 74.4% completed tertiary education, followed by 20.3% secondary, and 5.3% professional. In terms of business income, 84.2% earned over RM15,000, and the remaining earned less than RM15,000. For annual income, 39.8% earned more than RM120,000, followed by 27.1% who earned RM30,001-60,000, 14.3% earned RM60,001-RM90,000, 14.3% earned RM90,001- RM120,000, and 4.5% earned RM30,000 and below. Finally, for the number of employees, 47.4% did not have any employees, 39.8% hired 1-5 employees, 12% hired 6-30 employees, and 0.8% hired more than 30 employees.

Table 1
Demographic profile of respondents

Demographic Profile	n	%
Gender		
Male	74	55.6
Female	59	44.4
Age		
20-29	13	9.8
30-39	53	39.8
40-49	34	25.6
50 Years and above	33	24.8
Status		
Single	24	18.0
Married	109	82.0
Education		
Secondary	27	20.3
Tertiary	99	74.4
Professional	7	5.3
Business Income		
0-2500	7	5.3
2501-5000	4	3.0
5001-10000	3	2.3
10,001-15000	7	5.3

Table 1: *continued*

Over 15000	112	84.2
Annual Income		
30,000 and below	6	4.5
30,001-60,000	36	27.1
60,001-90,000	19	14.3
90,001-120,000	19	14.3
More than 120,000	53	39.8
Employee		
None	63	47.4
1-5	53	39.8
6-30	16	12.0
More than 30	1	0.8

Table 2 reports the demographic profile of respondents by state in Malaysia. The table shows that most of the respondents are from Selangor (24.8%) and Kuala Lumpur (18.8%).

Table 2
Demographic profile of respondents by state in Malaysia

State	Frequency	Percent
Selangor	33	24.8
Kuala Lumpur	25	18.8
Perak	15	11.3
Johor	13	9.8
Pulau Pinang	9	6.8
Sabah	8	6.0
Melaka	7	5.3
Pahang	7	5.3
Sarawak	6	4.5
Negeri Sembilan	4	3.0
Kelantan	3	2.3
Terengganu	2	1.5
Kedah	1	0.8
Total	**133**	**100.0**

Table 3 reports the results of construct reliability and validity. Construct reliability was measured by looking at Cronbach's alpha and composite reliability, while convergent validity was established by examining indicator loadings and AVE. Hair, Hult, Ringle, and Sarstedt (2014) stated that the minimum composite reliability value in the PLS-SEM analysis should exceed 0.7. The findings show Cronbach's alpha of Tax Fairness was 0.866, for Enforcement Level 0.787, for Social Norms 0.885, for Dynamic Capability 0.95, for Attitude 0.67, and for Tax Agent 0.967. The values of composite reliability of Tax Fairness, Enforcement Level, Social Norms, Dynamic Capability, Attitude, and Tax Agent were 0.903, 0.863, 0.909, 0.956, 0.819, and 0.973. Furthermore, it was found that the range of AVE was 0.560-0.879, indicating satisfactory convergent validity.

Table 3

The results of construct reliability and validity

Construct/Item	Indicator Loading	Cronbach Alpha	Composite RealibilityRhoC	Average Variance Extracted
Attitude		**0.675**	**0.819**	**0.604**
A1	Deleted (-0.492)			
A2	Deleted (-0.435)			
A3	0.886			
A4	0.772			
A5	0.658			
Dynamic Capability		**0.95**	**0.956**	**0.623**
DC1	0.761			
DC2	0.818			
DC3	0.787			
DC4	0.797			
DC5	0.844			
DC6	0.836			
DC7	0.755			
DC8	0.794			
DC9	0.752			
DC10	0.779			
DC11	0.765			
DC12	0.802			
DC13	0.768			

Table 3

continued

Enforcement Level		**0.787**	**0.863**	**0.613**
EL1	0.871			
EL2	0.713			
EL3	0.748			
EL4T	0.791			
Social Norms		**0.885**	**0.909**	**0.56**
SN1	0.901			
SN2	0.881			
SN3T	0.737			
SN4T	0.756			
SN5	0.665			
SN6	0.656			
SN7	0.677			
SN8	0.67			
Tax Agents		**0.967**	**0.973**	**0.879**
TA1	0.972			
TA2	0.96			
TA3	0.903			
TA4T	0.946			

TA5T	0.905			
Tax Fairness		**0.866**	**0.903**	**0.655**
TF1	0.856			
TF2	0.899			
TF3	0.85			
TF4	0.833			
TF5	0.564			
Tax Compliance	one item			

For Tax Compliance, which was measured using secondary data, a reliability assessment was not conducted using the same statistical procedures applied to the primary data constructs. This is because the Tax Compliance measure was derived from objective administrative records rather than multiple questionnaire items designed to capture an underlying latent construct. In this study, the secondary data comprised the 2022 Year of Assessment (YA) tax compliance records of individual taxpayers with business income.

The assessment focused on four key pillars of tax compliance, namely registration, filing, reporting, and payment, which represent observable dimensions of taxpayers' actual compliance behaviour. Each pillar reflects a distinct compliance requirement and was assessed based on the taxpayer's recorded compliance status. Therefore, rather than evaluating internal consistency among questionnaire items, the Tax Compliance measure was constructed based on actual administrative compliance records. This approach is consistent with the objective of the study to assess taxpayers' actual compliance behaviour rather than relying solely on self-reported perceptions or intentions.

Table 4 reports the HTMT of the model. Henseler, Ringle, and Sarstedt (2015) described the HTMT ratio as an excellent measure compared to other procedures such as the Fornell-Larcker criteria. In order to develop the validity of discrimination, they recommended cut-off values of 0.85 and 0.90 for the HTMT criteria. Correlation between any pair of constructs should be < HTMT 0.85 (Hair et.al. 2015). However, HTMT <0.9 is still acceptable. The findings demonstrated that the values of HTMT were less than 0.9, indicating acceptable discriminant validity.

Table 4
HTMT of the model

HTMT	AT	DC	EL	SN	TA	TCIRB	TF
AT							
DC	0.668						
EL	0.784	0.365					
SN	0.57	0.4	0.459				
TA	0.262	0.331	0.241	0.316			
TCIRB	0.546	0.258	0.151	0.23	0.119		
TF	0.543	0.446	0.382	0.498	0.102	0.167	

Table 5 reports the assessment of multicollinearity. Multicollinearity occurs when two or more predictor variables are highly correlated with each other, which can lead to unstable parameter estimates and make it challenging to interpret the individual effects of the predictors. VIF < 5 is considered a mild case of collinearity. The recommended tolerance level

used in the predictors for PLS-SEM is above 0.2 and less than 5.0 for VIFs. This is to ensure that the structural model is free from collinearity issues. A variance inflation factor value of five or above generally indicates a potential problem with collinearity in the structural model. (Hair et al., 2011).

Table 5
The assessment of multicollinearity

VIF	Attitude	Tax Compliance
Attitude		1.060
Dynamic Capability	1.336	
Enforcement Level	1.253	
Social Norms	1.392	
Tax Agent		1.241
Tax Fairness	1.393	
Tax Agents x Attitude		1.181

Table 6 reports the assessment of R-square (R^2). R-square is typically referred to as the "Coefficient of Determination" and represents the size of variance in the endogenous constructs (dependent variables) explained by the model's exogenous constructs (independent variables). The amount of variance explained in an endogenous latent variable by all exogenous latent variables in a structural model. R2 = 0.25, 0.50, and 0.75 are respectively considered weak, moderate, and substantial (Hair, Ringle & Sarstedt, 2011). The findings show R-square of attitude was 0.516, which was at the moderate level, while tax compliance was 0.294, indicating a weak level.

While the R2 for Tax Compliance (0.294) is categorized as weak according to the thresholds set by Hair et al. (2011), it is noteworthy that such values are common in behavioral research due to the complexity of human decision-making. To improve the predictive power (R2) in future iterations of the model, additional exogenous constructs such as tax knowledge or psychological deterrence could be integrated. Furthermore, the inclusion of more complex moderating or non-linear effects may help capture the unexplained variance in tax compliance behavior.

Table 6:
The assessment of R-square (R^2)

Endogenous Construct	R^2	(Hair, Ringle & Sarstedt, 2011).
Attitude	0.516	Moderate
Tax Compliance	0.294	Weak

Table 7 reports the assessment of F-square. The f2 effect size was analyzed to determine the substantive impact of each exogenous construct. As suggested by Hair et al. (2014), f2 is calculated by observing the variation in R2 when a specific exogenous variable is excluded from the model. This variation describes the impact that the 'missing' variable has on the endogenous construct's explained variance. According to Cohen (1988), f2 values of 0.02, 0.15, and 0.35 are considered small, medium, and large effect sizes, respectively. The

assessment of effect sizes (f2) reveals that Attitude (0.321), Enforcement Level (0.255), and Dynamic Capability (0.182) exert a medium effect on Tax Compliance.

The message derived from these results is that these three constructs are the primary practical drivers of tax compliance behavior in this model. Conversely, variables such as Social Norms, Tax Fairness, and Tax Agents yielded small effect sizes (f2 < 0.15). This indicates that while these factors may be statistically significant, their substantive contribution to explaining the variance in Tax Compliance is relatively limited. Therefore, interventions or policies aimed at improving tax compliance should prioritize shifting taxpayer Attitudes and strengthening Enforcement Levels, as these changes will yield the most significant impact.

Table 7
The assessment of F-square

F square	Attitude	Tax Compliance
Attitude		0.321 (medium)
Dynamic Capability	0.182 (medium)	
Enforcement Level	0.255 (medium)	
Social Norms	0.029 (small)	
Tax Agent		0.013 (small)
Tax Fairness	0.009 (small)	
Tax Agents x Attitude		0.071 (small)

Table 8 reports the predictive relevance result. Predictive relevance in Partial Least Squares Structural Equation Modeling (PLS-SEM) refers to the ability of the model to make accurate predictions of the dependent (endogenous) constructs using the independent (exogenous) constructs. It is an important aspect of model assessment that focuses on the model's predictive power evaluation. In PLS-SEM, predictive relevance is commonly assessed using the Q^2 (Q-squared) statistic, which is an extension of the traditional R-squared (R^2) used in linear regression. Q^2 is calculated separately for each endogenous construct and provides an estimate of the proportion of variance in the endogenous construct that can be predicted by the model. A value larger than 0 indicates that the exogenous constructs have predictive relevance for the endogenous construct (Fornell & cha 1994). A negative Q^2 means that the model does not have predictive relevance.

Table 8
Predictive relevance (Q^2)

Endogenous Construct	SSO	SSE	Q^2 (=1-SSE/SSO)
Attitude	665	553.58	0.168
Tax Compliance	133	101.354	0.238

Table 9 reports the results of the direct effects of perceived tax fairness, perceived enforcement level, dynamic capability, and social norms on attitudes towards tax compliance. The analysis also examines the direct effect of attitude on tax compliance behaviour. The findings reveal that perceived enforcement level, dynamic capability, and social norms exert

statistically significant influences on attitudes towards tax compliance, thereby providing support for Hypotheses 2, 3, and 4.

Conversely, perceived tax fairness does not demonstrate a significant effect on attitude towards tax compliance, and therefore, Hypothesis 1 is not supported. Additionally, the results indicate that attitude exerts a significant positive influence on tax compliance behaviour, supporting Hypothesis 5.

Table 9

The results of the hypothesis (direct effect)

Hypo	Path	Beta	SM	SD	t	P values	Results
H1	TF -> A	0.077	0.086	0.076	1.004	0.1580	Rejected
H2	EL -> A	0.393	0.387	0.091	4.317	0.0000	Accepted
H3	DC -> A	0.343	0.342	0.06	5.668	0.0000	Accepted
H4	SN -> A	0.139	0.143	0.063	2.22	0.0130	Accepted
H5	A-> TC	0.49	0.49	0.101	4.875	0.0000	Accepted

SM: Sample Mean, SD: Standard Deviation, t: t-statistic
TF: Tax Fairness, EL: Enforcement Level, DC: Dynamic Capability, SN: Social Norms, A: Attitude, TC: Tax Compliance.
P-values are based on one-tailed analysis

Table 10 presents the mediation analysis results examining the indirect effects of perceived tax fairness, perceived enforcement level, dynamic capability, and social norms on tax compliance behaviour via attitude towards tax compliance. The findings provide mixed support for the mediation hypotheses (H6a–H6d) concerning the mediating role of attitude (A) in the relationship between the independent variables and tax compliance (TC).

Hypothesis 6a was rejected, as the indirect effect of tax fairness on tax compliance through attitude was not significant ($\beta = 0.038$, $t = 0.945$, $p = 0.172$), and the 95% confidence interval (-0.081, 0.084) included zero. This result indicates that attitude does not mediate the relationship between tax fairness and tax compliance. In contrast, Hypothesis 6b was supported, demonstrating a significant mediating effect of attitude on the relationship between enforcement level and tax compliance ($\beta = 0.193$, $t = 3.791$, $p < 0.001$, CI [0.125, 0.313]). Similarly, Hypothesis 6c was also supported, as the indirect effect of documentation on tax compliance through attitude was significant ($\beta = 0.168$, $t = 3.593$, $p < 0.001$, CI [0.106, 0.265]).

Lastly, Hypothesis 6d was supported, with results indicating a significant mediation effect ($\beta = 0.068$, $t = 1.799$, $p < 0.05$, CI [0.009, 0.139]). Overall, these findings suggest that attitude plays an important mediating role in linking enforcement level, documentation, and social norms to tax compliance, but not in the case of tax fairness.

Table 10
The results of the mediating effect

Hypo	Hypothesis Statement	Beta	SM	SD	t	P Values	Bias Corrected CI 95%		Remark
							5.00%	95.00%	
H6a	TF -> A -> TC	0.038	0.042	0.04	0.945	0.1720	-0.081	0.084	Rejected
H6b	EL -> A -> TC	0.193	0.187	0.051	3.791	0.0000	0.125	0.313	Accepted
H6c	DC -> A -> TC	0.168	0.168	0.047	3.593	0.0000	0.106	0.265	Accepted
H6d	SN -> A -> TC	0.068	0.072	0.038	1.799	0.0360	0.009	0.139	Accepted

Table 11 presents the results of the moderation analysis examining the interaction effect between the appointment of a tax agent and attitude on tax compliance behaviour. The results show that Hypothesis 7, which examines the moderating effect of attitude on the relationship between appointment of a tax agent and tax compliance, was rejected. The analysis showed that the interaction term between tax agent appointment and attitude was not statistically significant (β = -0.245, t = 1.728, p = 0.084), indicating that appointment of a tax agent does not significantly moderate the relationship between attitude and tax compliance. This finding suggests that taxpayers' attitudes are neither strengthened nor weakened by the influence of having a tax agent on their tax compliance.

Table 11
Moderating effect of TA

Hypo	Hypothesis Statement	Beta	SM	SD	t	P values	Remark
H7	TA x A -> TC	-0.245	-0.247	0.142	1.728	0.084	Rejected

Discussion

The findings of this study provide several insights into the determinants of tax compliance behaviour among individual taxpayers with business income. The results from the direct effect analysis reveal that perceived enforcement level, dynamic capability, and social norms significantly influence attitudes towards tax compliance, while perceived tax fairness does not. These results suggest that taxpayers are more responsive to factors reflecting enforcement strength, tax management capability, and societal expectations rather than perceptions of fairness alone. This finding aligns with prior studies (e.g., Alm & Torgler, 2011; Kirchler & Braithwaite, 2007) which posit that compliance behaviour is shaped not only by perceptions of fairness but also by the perceived certainty and efficiency of enforcement mechanisms, as well as the influence of normative social pressures.

Furthermore, the mediation analysis demonstrates that attitude towards tax compliance plays a significant mediating role in the relationships between perceived enforcement level, dynamic capability, and social norms with tax compliance behaviour. These findings emphasize the psychological pathway through which enforcement and social mechanisms operate by shaping taxpayers' attitudes, which subsequently translate into compliant actions. The absence of a mediating effect for perceived tax fairness implies that fairness perceptions may not be sufficient to alter compliance attitudes unless supported by credible enforcement and strong social norms. This reinforces the dual-path model of tax compliance, which integrates both deterrence-based and behavioural perspectives. The

moderation analysis reveals that the appointment of a tax agent does not significantly moderate the relationship between attitude and tax compliance behaviour. This indicates that engaging a tax agent does not necessarily strengthen or weaken the impact of taxpayers' attitudes on their compliance actions. One possible explanation is that the ultimate compliance decision still rests with the taxpayer, and the presence of a tax agent primarily facilitates administrative or procedural aspects rather than influencing behavioural intent. This finding contrasts with some prior research suggesting that professional tax intermediaries can shape compliance outcomes (Devos, 2012; Tan & Sawyer, 2003), highlighting the contextual differences in the Malaysian tax environment where tax agents may play a more technical than behavioural role.

Implication and Recommendation

The findings also provide several practical implications for the Inland Revenue Board of Malaysia (IRBM). First, the significant role of dynamic capability and social norms suggests that IRBM could strengthen targeted taxpayer education for individual taxpayers with business income, particularly by providing practical guidance on tax management, record-keeping, filing, and reporting obligations. Such education could be tailored to the needs of business taxpayers rather than relying solely on general tax awareness programmes. Second, IRBM could further explore the use of digital compliance tools to provide taxpayers with simple and timely reminders, guidance, and prompts throughout the tax compliance process. These tools could help taxpayers better manage their tax obligations and reduce unintentional non-compliance. Third, given the significant influence of perceived enforcement level, a differentiated enforcement approach could be considered, whereby enforcement activities are prioritised according to taxpayers' compliance risk and behaviour. For example, taxpayers with a history of non-compliance could receive closer monitoring, while taxpayers with a consistent compliance record could be subject to less intensive intervention. These measures would allow IRBM to combine taxpayer support, digital facilitation, and risk-based enforcement in promoting more sustainable tax compliance among individual taxpayers with business income.

Limitation of the Study

As with most empirical research, the present study is subject to several limitations. Most notably, the sample size is constrained to 133 respondents. This relatively small sample may limit the statistical power and the flexibility of effect size estimates. Consequently, such constraints can introduce greater variability, potentially impacting the overall reliability and generalizability of the survey findings. Compounding these statistical constraints is the broad nature of the demographic profile. The sample population encompasses individuals from diverse industries and income brackets, rather than focusing on a singular business background. While this inclusivity provides a wide-reaching perspective, such diversity may result in a more heterogeneous dataset, potentially reducing the suitability of the findings for broad generalization across specific, uniform segments of the business taxpayer population.

Furthermore, the scope of this research is intentionally confined to registered taxpayers. The inclusion of only registered individuals may indicate a naturally higher baseline for compliance attitudes compared to non-registered counterparts. Consequently, this study does not address the more critical challenges associated with the shadow economy, where business activities are conducted informally, and income remains entirely unreported to the

tax authority. Beyond the composition of the sample, certain operational variables were also outside the current scope of analysis. Specifically, this research does not explicitly incorporate filing experience into the empirical model. While the direct impact of filing history on compliance behaviour remains debated in existing literature, it is plausible that such experience serves as a precursor to taxpayer attitude. Frequent engagement with filing processes may enhance a taxpayer's dynamic capability in tax management, thereby indirectly shaping their overall disposition toward compliance. To address these constraints, future research should utilize a larger and more segmented sample to enhance statistical power and allow for a more nuanced analysis of specific industry behaviours. Researchers should aim to bridge the current gap in the literature by expanding the scope to include unregistered individuals within the shadow economy, providing a more comprehensive understanding of tax non-compliance. Additionally, incorporating operational variables such as filing experience and tax management capabilities into future empirical models would help clarify how procedural familiarity shapes taxpayer attitudes over time.

Conclusion

Overall, the study underscores the critical roles of perceived enforcement, dynamic capability, and social norms in shaping tax compliance attitudes and behaviour among individual taxpayers with business income. The results highlight that compliance is not solely driven by perceptions of fairness but is more strongly influenced by taxpayers' capacity to manage tax obligations, their perception of enforcement credibility, and the influence of their social environment. Attitude emerges as a key mediating factor that bridges these determinants with actual compliance behaviour. The non-significant moderating effect of tax agent appointment suggests that policy efforts to enhance compliance should focus on strengthening taxpayer engagement, education, and enforcement transparency, rather than relying solely on intermediary mechanisms. Future research could extend these findings by exploring the qualitative dimensions of taxpayer–agent relationships or by examining other potential moderators such as trust in tax authorities or digital tax literacy. Collectively, these findings contribute to the growing literature on tax compliance behaviour by offering an integrated behavioural–institutional perspective, particularly relevant in the context of developing economies where enforcement dynamics, adaptive capabilities, and social influences play pivotal roles in shaping compliance outcomes.

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