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The Influence of Power and Trust on Tax Compliance Motivation in Malaysia

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ABSTRACT

Previous studies showed mixed findings regarding the relationship between the different types of power and tax compliance motivations. Besides, past studies that applied the slippery slope framework and the extended version had neglecting reward power. Empirical evidence on the relationships between different types of trust in tax administrators and tax compliance motivations is also limited. Therefore, this study examines the relationship between tax administrators' power and trust in tax administrators with tax compliance motivations. This study applied a quantitative approach using a mailed survey questionnaire on 388 professional taxpayers in Malaysia. The data were analyzed using structural equation modeling (SEM) using AMOS Graphic. First, in line with the slippery slope and the extended version, coercive power, and legitimate foundation power have a significant positive relationship with enforced compliance. Second, this article also found that voluntary cooperation is influenced positively by reward power, persuasive power, and reason-based trust. Lastly, committed cooperation is influenced by coercive power negatively, and positively by legitimate foundation power, reward power, and implicit trust. Besides contributing to existing literature, the findings are useful for tax administrators in designing their regulatory strategies. This study suggests that tax administrators implement a targeted approach in which regulatory strategies depend on taxpayers' characteristics and the tax environment. This targeted approach allows for the highest level of compliance to be achieved at the lowest cost.

JEL Classification: H24, H26, H31

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INTRODUCTION

Tax compliance is a concern of every government worldwide. The volatility of global commodity prices has resulted in most governments mobilizing funds from internal sources to ensure inclusive national growth. However, the tax non-compliance problem may compromise the sustainability of funds from internal sources, affecting its development and growth. Compared to other developing countries, tax non-compliance in Malaysia is alarming since Malaysia is ranked in the top five out of 151 developing countries with an average illicit financial outflow (not taxed) of RM170.54 billion, equivalent to USD41.85 billion (Kar and Spanjers, 2015). Second, tax penalties collected from 2011 to 2015 shows a rising trend where RM2.676 billion collected in 2011, RM3.29 billion collected in 2012, RM5.041 billion collected in 2013, the collection dropped slightly to RM4.477 billion in 2014, and it increased substantially to RM9.843 billion in 2015 (Inland Revenue Board Malaysia, 2015, 2014, 2013, 2012, 2011). This rising trend reflects that tax non-compliance in Malaysia is a serious issue.

Inland Revenue Board Malaysia (IRBM) uses balanced tax compliance programs focusing on both enforcement and accommodative approaches in managing tax non-compliance issues. However, IRBM is more focused on the enforcement approach (Loo et al., 2010; Inland Revenue Board Malaysia, 2016; 2015; 2013; IRBM, 2021). The imbalance focus on deterrence approach could negatively affect intrinsic motivations of honest and compliant taxpayers, undermining the trust in administrators, and causing taxpayers to have negative attitudes towards tax administrators and the tax system (Katslunger et al., 2013, Dukes et al., 2014, Mendoza et al., 2017). This situation could increase the cost of tax compliance over the long term (Strimling and Eriksson, 2014, Gangl et al., 2016). Therefore, this study seeks to identify the effect of ~~using~~ different qualities of powers on motivations to comply with tax laws. The understanding is essential to shedding light on how to devise a more balanced tax compliance strategy adopted by the IRBM in overcoming tax non-compliance.

Despite the long history of tax compliance studies that have identified various factors affecting tax compliance and non-compliance decision, tax compliance is still a major concern by tax administrators and researchers worldwide. Realizing that human behavior is complex, past researchers move to a more comprehensive perspective combining economic and psychological approaches referred to as the fiscal and psychological approach (Alm et al., 2012). The latest tax compliance model that uses this hybrid approach is the slippery slope framework (SSF) introduced by Kirchler (2007) and Kirchler et al. (2008), which then being extended by Kirchler et al. (2012) and Gangl et al. (2015) known as the extended Slippery Slope Framework (eSSF). This model is developed based on responsive regulation (Ayres and Braithwaite, 1992) and motivational postures (Braithwaite, 2003). SSF argues that two factors, namely power and trust, can influence tax compliance.

Generally, the power of tax administrators influenced enforced tax compliance as well as overall compliance. Coercive power influences positively enforce tax compliance (Batrancea et al., 2019; Chong and Arunachalam, 2018; Hofmann et al., 2017; Gangle et al., 2016; Gobena and Van Dijke, 2016; Hofmann et al., 2014; Kastlunger et al., 2013). Past studies that applied the eSSF found that legitimate power contributes to voluntary cooperation (Gangl et al., 2019, 2016; Hofmann et al., 2014), a voluntary compliance form. However, instead of influencing voluntary compliance, Kastlunger et al. (2013) reported that legitimate power has a positive effect on enforced compliance. Similarly, some previous studies also fail to confirm both relationships involving coercive and legitimate power with the intended tax compliance motivation (Faizal et al., 2019; Faizal et al., 2017b). Concerning reward power, previous studies using SSF seem to be neglecting it. Only one study that used eSSF by Gangl et al. (2016) includes reward power but fails to confirm the relationship between reward power and enforced compliance.

Next, trust, in general, is argued to positively influence voluntary tax compliance and overall tax compliance (Mas'ud et al., 2019; Damayanti and Martono, 2018; Mas'ud et al., 2015; Faizal et al., 2017a; Faizal et al., 2017b). However, instead of voluntary compliance, Chong and Arunachalam (2018) reported that trust in the tax administrators and trust in the government influence enforced tax compliance. Empirical evidence on reason-based and implicit trust is limited. Hofmann et al. (2014) reported that reason-based trust increases voluntary cooperation. Similary, Hofmann et al. (2017) argued that reason-based trust is influenced by legitimate power, which will foster the service climate that contributes to increased voluntary cooperation.

With regards to implicit trust, Gangl et al. (2016) reported that implicit trust and moral responsibilities foster a confidence climate, increasing committed cooperation.

Past studies showed mixed findings and sometimes limited evidence regarding the relationship between the different qualities of power and trust in tax administrators towards tax compliance motivations. However, reward power is missing in SSF, and in the eSSF, there was minimal discussion on reward power. Therefore, this study aims to examine the relationship between the power of tax administrators (namely coercive power, reward power, legitimate foundation power, and persuasive power) and trust in tax administrators (namely reason-based trust and implicit trust) with tax compliance motivations (specifically enforced compliance, voluntary cooperation, and committed cooperation). Besides contributing to the literature, the findings of this study could be useful for tax administrators in designing their regulatory strategies to increase tax compliance.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Responsive regulation developed by Ayres and Braithwaite (1992) suggests that if intervention is necessary to control regulated parties, the regulator should use strategies in line with the regulated parties' characteristics, including the environment. Tax administrators should consider how good or lacking the taxpayers are in regulating themselves before deciding to intervene. In solving a problem, emphasis should be given not only on a weakness that is tax non-compliance but more on strength-building, which is developing taxpayers' ability to comply (Dukes et al., 2014). Based on this, Kirchler (2007) and Kirchler et al. (2008) developed SSF. that emphasizes on tax administrators' regulatory approach should match taxpayers' characteristics, perceptions, beliefs, and attitudes. SSF argues that power and trust are closely related and influence motivation and compliance behavior (Kirchler et al., 2008). Tax administrators' enforcement activities contribute to the power, while the tax administrators' friendly treatments form taxpayers' trust. SSF applies two different tax environments to discuss the power of tax administrators and trust in tax administrators. First, in a hostile climate, a restrictive approach is needed to enforce taxpayers' compliance. The second climate is a friendly and highly cooperative environment known as the synergistic climate, in which mutual trust exists, allowing for better relationships. The closer relationship could make taxpayers less likely to consider tax evasion and contribute voluntarily.

Tax Compliance Motivation

In line with Inland Revenue Board Malaysia (IRBM), Palil and Mustapha (2011) define tax compliance as taxpayers' willingness to comply with tax laws, declare the correct income, claim tax deductions, reliefs, and rebates, as well as timely payment of tax liabilities. This compliance behavior is achievable either through force or own desire (Turner, 2005). Most tax administrators worldwide strive to instill in the taxpayers the desire to comply voluntarily. This is because such compliance is argued could last longer (Strimling and Eriksson, 2014; Muehlbacher et al., 2011), thus reducing long-term compliance costs (Pentland and Carlile, 1996). A self-assessment system is an example of efforts towards promoting voluntary compliance in which tax administrators place complete trust in taxpayers to self-assess their tax liabilities (Marshall et al., 1997). The desire or pressure to comply is what motivates tax compliance, which varies among taxpayers.

Comparably, using the work of Braithwaite (2003) on motivational postures, Kirchler (2007) and Kirchler et al. (2008) differentiate tax compliance motivations as enforced tax compliance and voluntary tax compliance in the SSF. Enforced tax compliance is referred to as taxpayers' willingness to comply with tax laws to avoid the adverse effect of non-compliance, such as audits and penalties. However, SSF did not clearly define voluntary tax compliance. Kirchler and Wahl (2010) then provide a more precise definition of voluntary tax compliance, which refers to taxpayers' willingness to obey based on their own volition out of a sense of responsibility and habit as a society member. Voluntary tax compliance has been further differentiated into voluntary cooperation and committed cooperation in the eSSF (Kirchler et al., 2012, Gangl et al., 2015). This differentiation is also made by following the work of Braithwaite (2003), where tax deference attitude is represented by two positive postures, namely capitulation and commitment posture. The rationale behind this differentiation is because the motivation or reason for compliance differs significantly between voluntary cooperation and committed cooperation, although the nature of both compliance are voluntary. The differentiation also allows for identifying specific measures that can be applied to taxpayers based on their motivations to pay tax (Kirchler et al., 2012). In line with capitulation posture, voluntary cooperation refers to taxpayers' willingness to comply resulting from their acknowledgment and acceptance of tax administrators because of their positive interactions experience (Kirchler et al., 2012). In contrast, following commitment posture, committed cooperation is referred to as taxpayers' willingness to comply based on the stronghold towards moral, national responsibility, and norms shared with society (Gangl et al., 2015). Committed cooperation reflects narrower social distance with greater motivation to comply compared to voluntary cooperation. This is because the desire to comply is intrinsic, which is because of responsibility towards oneself, the country, and others that must be fulfilled. On the other hand, voluntary cooperation reflects taxpayers' readiness to comply because of their acceptance towards tax administrators since they believe that tax administrators will be fair and continue to be friendly if they act well and comply with obligations. Therefore, in line with eSSF, tax compliance motivations are studied in three forms: enforced compliance, voluntary cooperation, and committed cooperation.

Power of Tax Administrators

Power generally refers to an influence measured through psychological changes resulting from various sources that operate simultaneously. For example, change in an opinion occurs due to psychological influence caused by internal (oneself) and external forces (other parties). French and Raven (1959) outlined six bases of social power that are important in influencing psychological change: coercive power, reward power, legitimate foundation power, information power, expert power, and referent power. Based on these social powers, Kircher et al. (2008) divide the power of tax administrators into coercive power and legitimate power. Coercive power is defined as the power resulting from enforcement activities that include audit threats and punishment. In line with Turner (2005), the eSSF conceptualized coercive power by treating both coercion and reward as coercive power (Gangl et al., 2015). Treating coercive and reward power as one using resource argument is invalid since French and Raven (1959) argued that coercive produces negative valences while reward produces positive valences. A recent study by Gangl et al. (2016) provides support since they found that coercion and reward provide conflicting effects on coercive power. Furthermore, eSSF conceptualizes legitimate power by combining the legitimate foundation power with other persuasive powers (Gangl et al., 2015). This treatment is questionable since legitimate foundation power is meant to control using vested authority, while persuasive power is meant to persuade using education and assistance (Turner, 2005). Regarding reward power, Gangl et al. (2016) argued that reward is independent of other social powers since their study found that reward is incompatible with both coercive and legitimate power. Therefore, this study studied tax administrators' power as a coercive power, legitimate foundation power, reward power, and persuasive power (information, expert, and referent power).

Coercive Power and Tax Compliance Motivation

Based on responsive regulation, SSF argued that the regulator should use strategies in line with the regulated parties' characteristics and the tax environment (Kircher, 2007). Based on tax administrators' enforcement activities, power can influence tax compliance motivation and tax compliance behavior (Kirchler et al., 2008). In explaining power, SSF argued that enforcement creates an antagonistic climate that explains the hostile relationship where tax administrators act as "police" who regard taxpayers as "robbers" who will continue to evade taxes when an opportunity arises. Instead, taxpayers view tax evasion as their right because they perceive themselves as the victims of taxation. Both parties seem to have bitter feelings towards each other, making voluntary compliance challenging. Therefore, a restrictive approach is needed to force compliance under this climate. Similarly, eSSF argued that coercive power cultivates an antagonistic climate, leading to enforced tax compliance. Past studies reported that power has a positive relationship with enforced tax compliance (da Silva et al., 2019; Chong and Arunachalam, 2018; Kogler et al., 2015; Lisi, 2012; Muehlbacher et al., 2011; Wahl et al., 2010) as well as on overall tax compliance (Damayanti and Martono, 2018; Mas'ud et al., 2015; Wahl et al., 2010). In addition to that, tax administrators' power reduces tax evasion (Kogler et al., 2015). These findings mean that when the tax administrators' power is perceived as high, taxpayers will apply strategic behaviors to their decision-making by choosing the one that seems most favorable to them (Grasmick and Green, 1980; Milliron and Toy, 1988). They perform compliance to maximize their utilities by eliminating the adverse effect of non-compliance, thus reduces tax evasion. In other words, the tax administrators who are perceived to be assertive by taxpayers are better at driving towards enforced compliance (Batrancea et al., 2019). Past studies that study enforcement power explicitly using the term coercive power also reported that coercive power influences enforced tax compliance (Batrancea et al., 2019; Chong and Arunachalam, 2018; Gobena and van Dijke, 2016; Hofmann et al., 2017; Gangl et al., 2016; Hofmann et at., 2014; Kastlunger et al., 2013) as well as overall tax compliance (Kogler et al., 2013; Lisi, 2012). Furthermore, the eSSF argued that coercive power could reduce committed cooperation (Gangl et al., 2015). Coercive power is perceived as a sign of distrust by honest complaint taxpayers, resulting in them showing defiance towards tax administrators (Torgler, 2004). Honest compliant taxpayers are argued to exist in a confidence climate, a climate with mutual trust between taxpayers and tax administrators, resulting in committed cooperation. Therefore, based on the discussions, the following hypotheses are formed.

H1: Coercive power has a positive relationship with enforced compliance.
H2: Coercive power has a negative relationship with committed cooperation.

Reward Power and Tax Compliance Motivation

Previous studies that study reward power within the SSF and eSSF context are limited. This is because SSF ignores reward power while the eSSF argued that reward power is similar to coercive power where they argued that both coercion and reward contribute to coercive power, which fosters an antagonistic climate, increasing enforced compliance (Gangl et al., 2015). This treatment is argued as invalid since past studies argued that reward and coercion produce different effects (French and Raven, 1959). This situation happens since rewards are perceived as positive incentives that crowd in the intrinsic motivation of taxpayers who initially feels forced to comply (Gangl et al., 2016). Furthermore, an explorative analysis by Gangl et al. (2016) reported that reward power is also incompatible with legitimate foundation power and persuasive power. This is due to the differences in the nature of those powers since different strategy or approach is used for each power. Reward power is meant to persuade using resources either in material or non-material form, while legitimate foundation power is meant to control using vested authority, and persuasive power is meant to persuade using respectful service (Turner, 2005). Therefore, reward power is studied independently from other social powers.

Past studies suggest that tax rewards can be in material form that includes the lucky draw tickets, tax amnesty programs, and tax rebates, and in non-material form, which includes appreciation involving good taxpayers privilege cards, and “thank you” messages (Bornman, 2015; Rillstone, 2015; Brockmann et al., 2016; Firmansyah dan Putu, 2018). In Malaysia, material reward offered by IRBM is limited to tax rebates and tax amnesty programs. However, a lucky draw ticket has been used aggressively by local authorities in Malaysia since 2009 by awarding a lucky draw ticket for payment of land tax (Razak, 2016). Since then, the usage of lucky draw tickets continues since more local governments, namely the city council, municipal council, and district council, are seen using the same method to attract taxpayers to pay assessment tax (Razak e al., 2017). On the other hand, IRBM is seen as ready to be using the non-material reward. Since 2018, IRBM has extended the appreciation message to include corporate taxpayers and individual taxpayers privately using emails and publicly using billboards. Therefore, the study of reward power in this study is limited to taxpayers’ perception of the ability of IRBM in offering tax rewards that are limited to tax amnesty programs, tax rebates, and appreciation messages.

Responsive regulation argued that reward power is a supportive approach that results in voluntary compliance. Dukes et al. (2014) suggest that when the strength of regulated parties has improved, regulators should acknowledge the achievement through informal praise, followed by gift-giving and other creative ways in showing appreciation. The purpose is to increase one’s desire to comply voluntarily so that non-compliance can be solved effectively. Previous studies not within SSF and eSSF support responsive regulation argument about reward power, First, past studies reported that tax rewards increase taxpayers’ internal motivation to comply with tax laws (Bornman and Stack, 2015; Rillstone, 2015; Brockmann et al., 2016). Therefore, tax administrators should give credit to compliant taxpayers, incentivizing the compliant taxpayers and others to strive for similar recognition (Bornman and Stack, 2015), indirectly promoting voluntary compliance. Second, previous studies have also found that taxpayers who receive recognition seem happier since they regard that as an exchange for them fulfilling their tax responsibility (Smith and Stalans, 1991), which will result in them continuously comply. Thus, the following hypotheses are formed.

H3: Reward power has a positive relationship with voluntary cooperation.
H4: Reward power has a positive relationship with committed cooperation.

Legitimate Foundation Power, Persuasive Power, and Tax Compliance Motivation

Responsive regulation suggests that education and persuasion should be the primary approach used by tax administrators to improve tax compliance since it can foster trust (Ayres and Braithwaite, 1992). These persuasive approaches are argued to contribute towards strength-building, which is the ability and desire to comply voluntarily (Dukes et al., 2014). Specifically, eSSF argued that legitimate power is seen to foster an environment of service where taxpayers regard themselves as customers, resulting in voluntary cooperation. Past studies confirm the argument where legitimate power (persuasive and legitimate foundation power) is reported to contribute to voluntary cooperation (Gangl et al., 2019; Gangl et al., 2016; Hofmann et al., 2014). However, the earlier study on legitimate power using a similar definition by Kastlunger et al. (2013) reported that legitimate power negatively affects enforced compliance. Comparably, in a survey within the Malaysian context, Faizal et al. (2017b) and Faizal et al. (2019) also reported that they fail to find a significant relationship between legitimate power and voluntary tax compliance. This study argued that the mixed empirical evidence is due to the conflicting nature of power represented by legitimate power. Therefore, this study studies legitimate foundation power following the power classification by Turner (2005). Legitimate foundation power is regarded as a form of power to control taxpayers. In short, legitimate foundation power is the ability to control that arises from taxpayers' acknowledgment of tax administrators' legal right to prescribe their beliefs, attitudes, or actions (Turner, 2005). However, contrary to coercive power, legitimate foundation power is argued to control based on voluntary respect and personal acceptance of authorities (Turner, 2005). Once taxpayers acknowledge the legal position, they will comply voluntarily out of respect towards the virtuous, law vested, and protected right (voluntary cooperation and committed cooperation). Therefore, the following hypotheses are formed.

H5: Legitimate foundation power has a positive relationship with voluntary cooperation.
H6: Legitimate foundation power has a positive relationship with committed cooperation.

Concerning persuasive power, taxpayers' willingness to work along with tax administrators is likely to be driven by tax administrators' quality of services related to information power, expert power, and referent power. This educative and supportive power is closely related to tax administrators' strategies to persuade compliance (Ayres and Braithwaite, 1992). Therefore, in studying soft power, this study follows Prinz et al. (2014) using persuasive power instead of legitimate power since it represents the overall dimensions involved better. Thus, the following hypothesis that is in line with SSF and eSSF is formed.

H7: Persuasive power has a positive relationship with voluntary cooperation.

Trust in Tax Administrators

Trust in tax administrators is defined in SSF as the general opinion of individuals and social groups that tax administrators are kind and work well for the common good (Kirchler et al., 2008). Then, in the eSSF, trust is differentiated into reason-based and implicit trust (Kirchler et al., 2012). Reason-based trust is rational decision-making that goes through a cognitive process. This trust is likely to exist when taxpayers and tax administrators share common goals and perceived administrators as competent, resulting in them relying on tax administrators (Castelfranchi and Falcone, 2010). In contrast, implicit trust is a trust that exists automatically and unintentionally (Castelfranchi and Falcone, 2010) due to repetitive and persistent positive interactions with tax administrators (Misztal, 2013). However, this trust develops unconsciously through time, without emphasizing the reasons, thus, without considering an institution's competence or intentions (Gangl et al., 2015). Therefore, implicit trust is argued to exist more in experience taxpayers rather than new taxpayers. Based on the discussion, this study studied trust as reason-based and implicit trust.

Trust in Tax Administrators and Tax Compliance Motivation

In line with responsive regulation, SSF argues that a supportive approach through education and persuasion fosters trust and forms a positive tax attitude (Braithwaite and Makkai, 1994) and tax compliance behavior (Kirchler et al., 2008). Friendly treatments of tax administrators instill taxpayers' trust. SSF applies a synergistic climate to explain trust. In a highly cooperative environment, tax administrators are seen as a service provider by the taxpayers, while tax administrators see taxpayers as their valued customers. The narrow social distance allows for better relationships making taxpayers less likely to consider evasion and contribute voluntarily. Past studies reported that trust has a positive influence on voluntary tax compliance (Mardhiah et al., 2019; da Silva et al., 2019; Faizal et al., 2017a; Faizal et al., 2017b; Kogler et al., 2015; Kastlunger et al., 2013; Lisi, 2012; Muehlbacher et al., 2011; Wahl et al., 2010) as well as on overall tax compliance (Mas'ud et al., 2019; Damayanti and Martono, 2018; Mas'ud et al., 2015; Lisi, 2012). Also, trust in tax administrators is found to positively influence tax compliance intention and reduce tax evasion as a whole (Batrancea et al., 2019). These findings show that tax administrators must continue acting benevolently and work towards enhancing common goals so that taxpayers will perceive them as trustworthy, making taxpayers comply voluntarily, which reduces evasion action. In addition to trust in the administrators, trust towards the government is also essential to minimize tax evasion (Lisi, 2012). Furthermore, the eSSF divides trust into reason-based trust and implicit trust resulting in the synergistic environment being divided into service climate and confidence climate. The social distance in the confidence climate is narrower than the service climate. In the eSSF, legitimate power and reason-based trust are seen to foster an environment of service, resulting in voluntary cooperation. Hofmann et al. (2014) applied eSSF and reported that reason-based trust increases voluntary cooperation. In support, Hofmann et al. (2017) said that reason-based trust is influenced by legitimate power, which will foster the service climate, contributing to increased voluntary cooperation. Regarding implicit trust, eSSF argued that implicit trust creates a confidence climate, a climate with a high level of mutual trust, resulting in committed cooperation. (Gangl et al., 2015). In this climate, taxpayers believe administrators work for the good of society, and taxpayers reciprocate by contributing as members of society. Gangl et al. (2016) support that implicit trust and moral responsibilities foster a confidence climate, increasing committed cooperation. Therefore, the following hypotheses that are aligned with SSF and eSSF are formed.

H8: Reason-based trust has a positive relationship with voluntary cooperation.
H9: Implicit trust has a - positive relationship with committed cooperation.

METHODOLOGY

This study applied a quantitative approach using questionnaires to study the relationship between different qualities of power and trust towards tax compliance motivations in Malaysia. This study focuses on professional taxpayers since they can represent individual taxpayers better as the group comprises self-employed and salaried taxpayers. Based on the Malaysian Standard Classification of Occupation (MASCO, 2008) and a list of professional bodies recognized by the Public Service Department of Malaysia, professionals in Malaysia comprise nine professions: accountants, architects, doctors, dentists, engineers, lawyers, pharmacists, surveyors, and town planners. The reason for studying this group is that they are high-income earners with the potential to have more than one income source. Common tax evasion practice among this group of taxpayers is failure to report their additional income resulting in them paying lower tax (Utusan Malaysia, 2017). The IRBM has identified tax compliance of this group as problematic based on their risk analysis and intelligence information from various parties, including the Central Bank of Malaysia, resulting in them becoming IRBM's audit target (Ibrahim, 2017). Therefore, the respondent of this study is further detailed as individual taxpayers from the nine professions that are registered with their respective professional bodies.

The statements used to measure variables in this study are adapted from previous studies to the Malaysian context—the sources of questionnaire formation shown in Table 1. The level of agreement to each statement used in this study is a 5-points Likert scale (1 = strongly disagree, 2 = disagree, 3 = unsure, 4 = agree, and 5 = strongly agree). A pre-test with five tax and academic experts followed by a pilot study on a group of 32 professional taxpayers was conducted to improve the validity and reliability of the instrument. Stratified random sampling is used as a sampling method since it is suitable when the targeted population involves several subsets with a varying total in each subset (Ghauri et al., 2020). In selecting samples of this study from the sampling frame, this study applies a random selection process using Research Randomizer software (www.randomizer.org).

Table 1 Source of questionnaire formation

Constructs	Number of items	Adapted from
Coercive power	7	Kastlunger et al. (2013)
Reward power	5	Gangl et al. (2016) and Swasy (1979)
Legitimate foundation power	5	Gangl et al. (2016) , Hofmann et al. (2017), and Swasy (1979)
Persuasive power	15	Gangl et al. (2016), Yukl and Falbe (1991), and Swasy (1979)
Reason-based trust	7	Hofmann et al. (2014)
Implicit trust	5	Gangl et al. (2016) and Hofmann et al. (2014)
Enforced compliance	6	Hofmann et al. (2014) and Kirchler and Wahl (2010)
Voluntary cooperation	5	Hofmann et al. (2014)
Committed cooperation	7	Hofmann et al. (2014) and Kirchler and Wahl (2010)

A total of 2,500 questionnaires were mailed to professional taxpayers to address registered with their professional bodies to fulfill this study sample size of 500 (as suggested by Hair et al., 2019). Respondents must fill in the questionnaire received and mail them back to the researchers using the stamp-paid envelope attached with the questionnaire. Out of the total questionnaires sent, 391 questionnaires returned, giving a response rate of 15.64 percent. This response rate is considered acceptable since past taxation studies using the same method in Malaysia also recorded a similar response rate. (Pope and Jabbar, 2008; Palil, 2010). Apart from 391 responses, three were excluded since the respondents are no longer registered members of respective professional bodies, leaving 388 responses that fit for analysis. The sample size of 388 meets many researchers' recommendations and agrees that the suggested sample size should be between 250 to 500 for SEM analysis (Schumacker and Lomax, 2016; Sekaran, 2016; Kline, 2015).

RESULT AND DISCUSSION

Background of Respondents

The descriptive analysis shows that 55.7 percent were male, and 44.3 percent were female. The majority of respondents (82.5%) work for the private sector, whereas the remaining work in the public sector. In terms of employment type, 55.7 percent are salaried workers, while the remaining are self-employed. Most respondents (63.7%) have worked for more than ten years, with the largest group working between 11 and 20 years (40.0%). In line with work experience, most respondents (88.1%) reported more than RM5,001 monthly earnings, with 36.3 percent earning between RM5,001 to RM10,000 monthly, followed by 28.4 percent earn between 10,001 to RM15,000 monthly, while 23.4 percent earning more than RM15,000 monthly. With regards to tax-related experience, the majority of respondents (93.6%) have experience paying tax. Regarding past interactions with the tax administrators, most respondents (71.1 %) have been in touch with the tax administrators for at least two times or more, either asking for tax assistance (through the website, phone, or face to face) or have tax audit experience. In conclusion, the respondents' profile matches the requirement of this study since they are mature taxpayers, earning middle to high income monthly, having considerable working experience, and interacting with tax administrators in the past.

Table 2: Respondents' profile (n=388)

Demographic characteristics	Percentage of sample
Gender	
Male	55.7
Female	44.3
Sector	
Public	17.5
Private	82.5
Type of employment	
Salaried	55.7
Self-employed	44.3
Number of years working	
1 - 10	36.3
11 - 20	40.0
21 - 30	14.4
> 30	9.3
Gross monthly income	
≤ RM3,000	1.3
RM3,001 – RM5,000	10.6
RM5,001 – RM10,000	36.3
RM10,001 – RM15,000	28.4
> RM15,000	23.4
Frequency paying tax	
Never	6.4
Once	3.6
2-5	10.1
> 5	79.9
Experience dealing with LHDNM	
Never	9.3
Once	19.6
2-5	38.9
> 5	32.2

Confirmatory Factor Analysis

Confirmatory factor analysis (CFA) is used to confirm the measurement of each variable in this study before relational testing using a structural model is to be performed. In ensuring good fit indices to be achievable, few necessary modifications were made based on past studies. First, four items with loading factors below 0.5 are deleted (Hair et al., 2019). Second, six redundant items are deleted, and measurement errors of two reward power items (redundant) are constrained (Awang et al., 2018). Finally, a parceling technique is applied to this study's multidimensional variable, persuasive power (Awang et al., 2018). The deletion rate of items in the instrument is below 20 percent (16.13%, 10 out of 62 statements), thus considered acceptable and fit for further analysis (Awang et al., 2018).

Next is to test the validity and reliability of constructs. Table 3 summarises the validity and reliability of the constructs. The average variance extracted (AVE) represents the convergent validity, while construct reliability (CR) indicates the reliability and internal consistency of items measured in the constructs. Based on Table 4, the value of AVE and CR for each construct in this study has met the requirement since AVE values are more than 0.5 (Fornell and Larcker, 1981) and CR values are more than 0.7 (Hair et al., 2019). These confirm that the instrument used is valid and reliable. In addition to that, based on Table 3, the instrument used in this study also meets the discriminant validity criteria since the value of the AVE of two constructs (on diagonal) is higher than the squared correlation coefficients (on the off-diagonal) of the two constructs (Byrne, 2016). Therefore, these results confirm that the instrument used is valid since there are no multicollinearity issues within the study's constructs.

Table 3 Average variance extracted (on diagonal), contsruct reliability (CR), and squared correlation coefficients (on the off-diagonal) for study Instrument

Construct	CR	CP	RP	LFP	PP	RBT	IT	EC	VC	CC
Coercive power (CP)	0.853	0.542								
Reward power (RP)	0.868	0.009	0.576							
Legitimate foundation power (LFP)	0.839	0.021	0.016	0.573						
Persuasive power (PP)	0.847	0.026	0.241	0.001	0.649					
Reason-based trust (RBT)	0.920	0.000	0.338	0.003	0.425	0.698				
Implicit trust (IT)	0.958	0.096	0.148	0.015	0.130	0.274	0.850			
Enforced compliance (EC)	0.911	0.472	0.030	0.002	0.003	0.001	0.053	0.721		
Voluntary cooperation (VC)	0.891	0.030	0.419	0.006	0.489	0.520	0.103	0.002	0.672	
Committed cooperation (CC)	0.955	0.134	0.198	0.015	0.042	0.159	0.343	0.144	0.087	0.781

Furthermore, fit indices of the measurement model need to meet the minimum requirement by past studies. Previous studies recommend that the RMSEA value should be at less than 0.08 (Browne and Cudeck, 1993), the CFI and TLI values should be more than 0.9 (Bentler, 1990; Bentler and Bonet, 1980), while relative chi-square should be less than 5.0 (March and Hocevar, 1985). Table 4 shows that the measurement model has achieved the suggested level, thus deemed fit for structural analysis. The data in this study met the normality assumption since skewness values are within the range of -2 to 2 (Tabatchnick and Fidell, 2007), and kurtosis values are in the range of -7 to 7 (Byrne, 2016).

Table 4 Fit indices of measurement model

Model	Absolute fit: RMSEA (< 0.08)	Incremental fit: CFI (> 0.9)	TLI (> 0.9)	Parsimonious fit: Relative Chi-square (< 5.0)
Measurement model	0.059	0.928	0.920	2.334

STRUCTURAL EQUATION MODEL

The next step of the analysis is the structural model developed based on the previous section's measurement model. A structural model is developed, showing the latent constructs' correlation and matching the construct based on the hypotheses of this study. Based on Figure 1, this study's structural model achieved the level of good fit since all the indices have met the minimum requirement as suggested by previous studies.

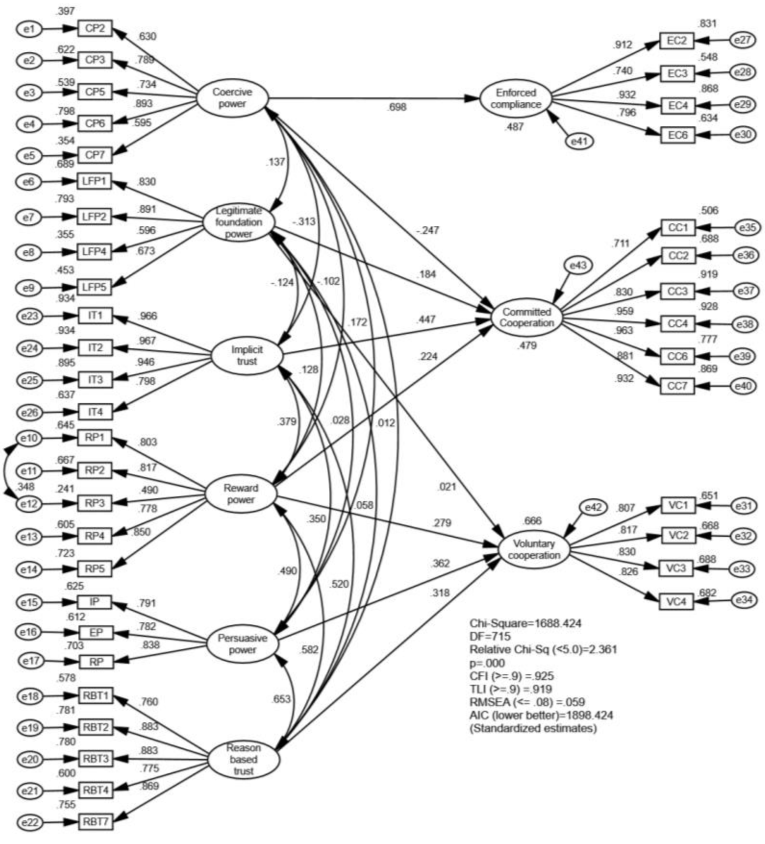

Figure 1 Structural model

Table 5 represents the regression path coefficient in the relationship between four different tax administrators' power and two types of tax administrators' trust with three types of tax compliance motivations. The results show that one relationship concerning legitimate foundation power reported an insignificant result (H5). However, the relationship between legitimate foundation power and committed cooperation (H6) showed a significant positive relationship with reported significance values (*p*) of 0.000 at the 0.01 significance level. Furthermore, the remaining relationships concerning power and two relationships regarding trust reported significant results with the respective compliance motivations with reported significance values (*p*) of 0.000 at the 0.01 significance level. Based on the results, enforced compliance is influenced positively by coercive power. Meanwhile, voluntary cooperation is affected positively by reward power, persuasive power, and reason-based trust. In contrast, committed cooperation is associated negatively with coercive power and positively with legitimate foundation power, reward power, and implicit trust.

Table 5 Regression path coefficient and hypotheses results

	Construct			Estimate of regression coefficient (*B*)	Standard error (*SE*)	Beta (*β*)	Critical value (*CR*)	Significance value (*p*)	Hypothesized relationship direction	Hypothesis decision
H1	EC	←	CP	1.359	0.124	0.698	10.94	0.000*	+	Supported
H2	CC	←	CP	-0.322	0.062	-0.247	-5.189	0.000*	-	Supported
H3	VC	←	RP	0.198	0.037	0.279	5.358	0.000*	+	Supported
H4	CC	←	RP	0.147	0.031	0.224	4.714	0.000*	+	Supported
H5	VC	←	LFP	0.030	0.056	0.021	0.534	0.593	+	Not Supported
H6	CC	←	LFP	0.247	0.059	0.184	4.177	0.000*	+	supported
H7	VC	←	PP	0.437	0.072	0.362	6.085	0.000*	+	Supported
H8	VC	←	RBT	0.340	0.065	0.318	5.219	0.000*	+	Supported
H9	CC	←	IT	0.270	0.031	0.447	8.779	0.000*	+	Supported

Note: * significance value at p <0.01, CP = Coercive power, RP = Reward power, LFP = Legitimate foundation power, PP = Persuasive power, RBT = Reason-based trust, IT = Implicit trust, EC = Enforced compliance, VC = Voluntary cooperation, CC = Committed cooperation

DISCUSSION

The analysis shows five important findings. First, coercive power has a positive relationship with enforced compliance (H1-supported), whereas the relationship is negatively associated with committed cooperation (H2 - supported). This indicates that in an antagonistic climate, the use of threats and punishment can induce compliance positively among risk-averse individuals (increased enforced compliance). In this hostile climate, this inducement takes effect since taxpayers want to avoid adverse effects of non-compliance, such as audits and penalties (Alm and McKee, 1998). However, if this assertive power is used in a confidence climate where taxpayers are honest compliant taxpayers, such usage is argued to reduce their compliance (reduces committed cooperation). This situation arises since the pressure damages honest taxpayers' intrinsic motivation, making coercion seen as a sign of distrust towards them, resulting in defiance towards tax administrators (Torgler, 2004; Schulze and Frank, 2003). These findings act as a signal to policymakers and tax administrators on the usage of coercive power. Coercive power needs to be strategized with careful deliberation and thoughts, not to impair the trust (implicit) of honest compliant taxpayers, resulting in detrimental actions to both sides (Gangl et al., 2016; Gangl et al., 2019).

Second, the reward power analysis shows a positive relationship with voluntary compliance and committed cooperation (H3 and H4 – supported). This finding is in line with the responsive regulation argument. When taxpayers' ability to comply improves to an unprecedented level (such as mistakes-free compliance), the tax administrators should acknowledge the achievement through informal praise, followed by gift-giving, and use other creative ways to show appreciation (Dukes et al., 2014). Similarly, the rewards are believed to trigger taxpayers' intrinsic motivation (Brockmann et al., 2016), making compliance more appealing to compliant taxpayers and others who desire the same acknowledgment (Bornman and Stack, 2015), increasing them to cooperate willingly. However, Gangl et al. (2016) posited that reward power does not fit into a service climate. This study, in contrast, argued that reward power could induce voluntary cooperation even in a service climate since most business service providers have used this type of inducement as a marketing strategy to maintain their customers' loyalty (Dorotic et al., 2014). Similarly, the same applies to the tax service climate. As the service provider, tax administrators see taxpayers as their valued customers and might reward them as an inducement to maintain their compliance. Rewards are capable of stimulating happiness since taxpayers regard rewards as an exchange for them fulfilling their tax responsibility (Smith and Stalans, 1991), resulting in them continuously comply to maintain their happiness. Therefore, these findings indicate that tax administrators should use the reward to improve voluntary compliance as a whole. Even though tax rewards in this study are limited to tax amnesty programs, tax rebates, and appreciation messages, taxpayers still favor those tax rewards. Concerning the magnitude of influence, reward power is seen as more appealing to average taxpayers in a service environment than honest taxpayers in a confident climate (higher Beta value, see Table 5). Therefore, the findings suggest that a targeted approach should be used by tax administrators targeting rewards on groups that yield better compliance than the other so that resources can be managed effectively.

Third, legitimate foundation power, which refers to the power that arises from their legal position, shows an insignificant positive association with voluntary cooperation (H5 – not supported) and a significant positive relationship with committed cooperation (H6 – supported). These findings indicate that power vested through the legitimate right to act on tax matters does not influence voluntary cooperation among average compliant taxpayers. Although argued to induce voluntary compliance (Turner, 2005), this situation might happen because the legal position is not relevant to average taxpayers in the service climate. Instead, what matters to average compliant taxpayers in this climate is the support that makes compliance possible. In contrast, this legal vested power affects the compliance of honest taxpayers (increased committed cooperation). Once authority is accorded into an institution, honest taxpayers in the confidence climate of mutual trust will acknowledge the institution and comply with any demand because of the legitimate right that the institution holds (Turner, 2005). Nevertheless, this legitimate foundation power is hard to strategize since it is somewhat similar to an implicit trust, which forms independently, through time, and mostly affects honest compliance taxpayers that always ready to cooperate.

Fourth, the analysis shows that persuasive power positively correlates with voluntary cooperation (H7 – supported). These findings indicate that persuasion using education and assistance strategies on average taxpayers would increase their motivation to voluntarily comply since compliance is made easy, making non-compliance challenging for them. This view is supported by past studies that reported legitimate power (including persuasive power) influences voluntary compliance (Chong and Arunachalam, 2018; Hofmann et al., 2017; Gobena and Van Dijke, 2016; Gangl et al., 2016; Hofmann et al., 2014; Kastlunger et al., 2013).

Finally, concerning trust, this study found that reason-based trust has a significant positive relationship with voluntary cooperation (H8 – supported). This finding is in line with Hofmann et al. (2017), where reason-based trust is found to form a service climate that ultimately contributes to voluntary cooperation. When average taxpayers rationally decide that they share a common goal with the tax administrators, depending on the tax administrators and perceived tax administrators as benevolent and competent, the taxpayers will have a favorable view towards the tax administrators (Castelfranchi and Falcone, 2010). This positive image of tax administrators will result in them trusting tax administrators and cooperate voluntarily. Regarding implicit trust, this study found implicit trust to have a significant positive relationship with committed cooperation (H9 – supported). Committed cooperation stems from a climate of confidence characterized by an implicit trust and a moral responsibility to cooperate (Gangl et al., 2016). In other words, when in an environment where mutual trust between taxpayers and tax administrators exists, the honest compliant taxpayers will automatically trust tax administrators and be very committed to serving their tax obligation (Gangl et al., 2015; Kirchler et al., 2012).

CONCLUSION AND FUTURE RESEARCH

This article provides empirical evidence on the influence of power and trust towards tax compliance motivation among individual taxpayers in Malaysia. First, this article argues that enforced compliance is influenced positively by coercive power using threats and punishments. Second, voluntary cooperation is influenced positively by reward power, persuasive power, and reason-based trust. Third, this article argues that committed cooperation is induced negatively by coercive power and positively by reward power, legitimate power, and implicit trust. The findings are useful for tax administrators in formulating their tax compliance strategies. First, from the policy perspective, the results indicate that tax administrators should implement a targeted approach in their compliance strategies depending on taxpayers' characteristics and tax environment. This targeted approach requires taxpayers to be grouped into risk-averse taxpayers, average compliant taxpayers, and honest compliant taxpayers. Average compliant taxpayers should be treated with respect. Promoting compliance among them requires persuasion (in the form of education and assistance), and reward (in the form of recognition, prize, and grants) is necessary. Similarly, honest compliant taxpayers deserve to be treated with a higher level of respect since their compliance is motivated by themselves. Also, tax administrators are encouraged to show appreciation and acknowledge them to improve their compliance. Contrary to coercive power, this appreciation is viewed as a form of respect or trust. In contrast, the treatment towards the risk-averse taxpayers should starts from education and persuasion about the consequences of an adverse action (non-compliance) followed by more intense strategies involving shaming, sanctions, criminal prosecutions, suspension, and revocation of related status. Depending on taxpayers' characteristics and the climate, this targeted approach is expected to yield the highest compliance level using the least resources. The second policy implication is that the IRBM should make persuasion using an educative and supportive approach as the primary approach in improving voluntary compliance. This is important considering it is significant in strength building that is the ability to comply, resulting in compliance that lasts for an extended period (Strimling and Eriksson, 2014; Muehlbacher et al., 2011). Concerning reward power, the IRBM is recommended to increase reward power to improve voluntary tax compliance. Various forms of rewards which include formal and informal recognition or praise, gifts, and grants in financial and non-monetary form, should be reviewed to increase the ability of IRBM to use reward power. Additionally, the IRBM is recommended to carefully strategize the use of coercive force to improve overall tax compliance effectively. Coercive power should be used to improve the level of enforced compliance among risk-averse taxpayers and, at the same time, does not lower the level of committed cooperation of honest and compliant taxpayers (Gangl et al., 2019, 2016). Audit threats and penalties should be used with caution by increasing the visibility to taxpayers with a higher risk of non-compliance.

This study has several limitations. First, this study did not examine the dynamic relationship between the tax administrators' power and trust in the tax administrators. Second, this study did not study the actual behavior of taxpayers but motives to comply, which is an intention. Past researchers argued that individuals' intention does not always align with their actual conduct because the opportunity and ability to comply also influences one's actual behavior (Onu, 2016). Third, a self-report survey that is open to bias is used as the data collection method of this study. According to Backworth and Murphy (2015), although the self-reported survey is widely being used, it has limitations since it is subject to participants' judgment and interpretability. Finally, the study sample also poses a limitation since the sample covers individual taxpayers who are highly educated. In reality, taxpayers may not comprise of highly educated individuals only. This article suggests future research to extend this study to include the dynamic relationships between different types of power and trust and examine the relationship of those factors with actual tax compliance behavior. Future research is also suggested to use different data collection methods, for example, by using experimental research where a researcher can effectively manipulate tax administrators' power. Lastly, future research should replicate this study on individual taxpayers as a whole instead of focusing on a particular group with specific characteristics.

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