Are Psychological Empowerment and Tax Transparency Related with Tax Compliance Behaviour of SMEs in Malaysia? An Empirical Approach

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ABSTRACT
The study explores the factors influencing tax compliance behaviour among small and medium enterprises (SMEs) in Malaysia. Its main objective is to examine the relationship between psychological empowerment and tax transparency on tax compliance behaviour. Malaysia continues to struggle with issues of under-reporting. Due to limited resources, the Inland Revenue Board of Malaysia (IRB) cannot fully ascertain the underlying causes of non-compliance. This study is novel in that it proposes a different model for measuring tax compliance behaviour, including the variable of psychological empowerment, which has been limited in previous taxation studies. The study employed SPSS and AMOS for data analysis. Responses from 230 SMEs in the manufacturing sector were collected using stratified random sampling. The results indicate that both psychological empowerment and tax transparency have a positive and significant relationship with tax compliance behaviour. These findings will be valuable for tax authorities and administrators by highlighting key areas that can be managed more effectively to reduce the high number of tax compliance issues in the country.

KEYWORDS: Psychological empowerment, Tax transparency, Tax compliance behaviour

1. INTRODUCTION
Tax revenues are a lifeblood for governments, playing a vital role in their nation's economic development (Ibrahim & Jahja, 2022). Tax collections support government budgets and finance government spending (Ajzen, 2005). However, no countries have been able to completely eradicate tax non-compliance. For instance, a massive shadow economy and low tax compliance in Greece have threatened the public revenue of the country (Diakomihalis, 2020). In Yemen, the government has implemented several changes to enhance revenue and increase compliance with income tax regulations. However, tax compliance remains a complex issue and a major concern for the Yemeni authority (Obaid & Udin, 2020).

Sritharan et al. (2020) stated that based on recent news sources, Malaysia is still facing problems with under-reporting. Due to limited resources, the Inland Revenue Board of Malaysia (IRB) is unable to determine the true reasons for non-compliance. The IRB implemented a special voluntary disclosure programme (SVDP) in 2019 to increase tax revenues through enhanced tax compliance (Tee, 2019). Despite the promise of low penalty rates ranging from 10% to 15% by then Deputy Finance MinisterDatuk Amiruddin Hamzah, only 486,360 cases stepped forward to declare their incomes under the SVDP, resulting in tax collections of approximately RM6 billion (IRB, 2019).

According to the World Bank (2022a), countries that collect less than 15% of gross domestic product (GDP) must increase their tax collections in order to meet the basic needs of their populations and businesses. This rate is an important cut-off point to put a country on the pathway of development and viability. While developing countries are the ones that need revenues the most, they always face difficulties in collecting taxes (World Bank, 2022b). For instance, the revenue statistics for Asian and Pacific countries reported that Malaysia had a tax-to-GDP ratio of 11.4% in 2020, 7.7% lower than the average of 19.1% for the region. A low percentage of the tax-to-GDP ratio suggests that taxpayers are not paying their taxes (Al-Taffi & Abdul-Jabbar, 2020). This clearly shows that tax non-compliance continues to be an unresolved challenge in Malaysia's income tax regime (Abdul Rashid et al., 2022). Recently, business
tax compliance has garnered significant media focus (Mickiewicz et al., 2017). Specifically, over the last ten years, there has been growing interest in SME taxation in both developing and developed nations (Pope & Abdul-Jabbar, 2008; Alshira’h & Abdul-Jabbar, 2019), recognizing SMEs as crucial contributors to the tax system (Christensen et al., 2001). Thus, there is a necessity for further research on the subject of taxation concerning SMEs (Swistak, 2016).

Numerous studies have been conducted to assess tax compliance behaviour in various scenarios. The studies by Khurana and Diwan (2014) and Jayawardane (2015) found psychological elements to be the most significant factors in influencing the level of tax compliance behaviour. However, no comprehensive empirical research has been done on the psychological aspects of tax compliance (Cahyonowati et al., 2023). Safian and Hamid (2017) mentioned that few studies have explored the components or variables that can enhance the intrinsic motivation to comply with the tax law in Malaysia. Therefore, the current study attempts to propose psychological empowerment to close the existing gap. This is due to Stefura (2011) suggesting that in order to better explain the puzzle of tax compliance, future research needs to include more psychological factors or elements.

Being transparent in tax administration is essential to managing a country’s revenues within a legally approved tax structure in order to boost public confidence (Mat Isa, 2018). The study examined the factors contributing to the tax authority’s transparency and discovered a positive but insignificant relationship between external publication and tax transparency. The study was conducted due to the scarce academic literature on transparency in the Malaysian context despite the significant research already done on tax administration across the world. Similarly, Sikayu et al. (2022) mentioned that while transparency is not a new concept in the taxation context, past studies on tax transparency in relation to tax compliance among SMEs are still scarce. Al-Maghrebi et al. (2022) and Al-Rahamneh and Bidin (2022) suggested that future research should incorporate tax transparency in tax compliance behaviour.

Thus, the purpose of the study is to identify the factors that would enhance tax compliance behaviour among SMEs and also investigate how psychological empowerment and tax transparency have a relationship with tax compliance behaviour among SMEs in Malaysia.

This study offers several significant contributions to the field of taxation literature. Firstly, to the researcher’s knowledge, there is no existing published research exploring psychological empowerment in the taxation context. By proposing psychological empowerment would close the existing gap. Besides that, the phenomenon of low tax compliance is influenced by a variety of factors, and it cannot be adequately explained by a single theory alone, as highlighted by Alm (1999). Therefore, this study integrates Spreitzer’s model and social exchange theory as supporting theories through the extension of Fischer’s model, which serves as the underpinning theory.

The following section will discuss the literature review, followed by the methodology. The final section covers the results and discussion, conclusion, limitations, and suggestions for future study.

2. LITERATURE REVIEW

This section outlines tax compliance behaviour as the dependent variable, psychological empowerment and tax transparency as an independent variable, Spreitzer model and social exchange theory as supporting theories and conceptual framework.

2.1 Tax Compliance Behaviour

According to Al-Maghrebi et al. (2016), practitioners and researchers define tax compliance in several ways. For example, James and Alley (2002) defined tax compliance as the extent to which taxpayers follow the tax laws. Their explanations of tax compliance were divided into two categories, the first approach and the second approach. The first approach is the tax gap, which refers to “compliance less actual revenue”. Meanwhile, the second approach is voluntary, which refers to “the willingness to act in accordance with the spirit as well as the letter of tax law”. Apart from that, tax compliance is defined by Chattopadhyay and Das-Gupta (2002) as meeting all statutory requirements outlined in the tax law, such as registering to become a taxpayer and keeping needed documents.

Besides that, Kirchler et al. (2008) stated that the tax law lacks a clear definition of compliance and non-compliance. The term “tax compliance” is the most comprehensive and unbiased method to assess whether taxpayers are willing to pay their taxes and their ability to do so. Compliance might be voluntary or forced by the authorities. In the context of the present study, tax compliance is defined as SMEs’ ability and desire to comply with tax regulations, namely, disclosing the correct income and expenses and paying the tax amount accurately.

2.2 Psychological Empowerment and Tax Compliance

People tend to use the term empowerment without completely comprehending what it means (Page & Czuba, 1999). According to Cunningham et al. (1996), the definition of empowerment is not always agreed upon or clear. Conger and Kanungo (1988) defined empowerment as the mechanism for increasing one’s
confidence in their skills or talents. Meanwhile, Corsun and Enz (1999) defined empowerment as a motivating process based on a person's perception of feeling enabled. Regarding psychological empowerment, Thomas and Velthouse (1990) defined it as enhanced intrinsic motivation. Psychological empowerment is also defined by Oladipo (2009) as an ability to hold one's behaviour under control, to develop competence and internalise goals within one's own mind, and to make intelligent decisions. Further, according to Page and Czuba (1999), empowerment is a multidimensional, social, and process-oriented concept.

Thomas and Velthouse (1990) stated that there are four cognitions associated with psychological empowerment such as meaningfulness, choice, competence and impact. Meaningfulness is concerned with the worth of the work objective or purpose as evaluated against the individual's own goals or criteria. In short, it involves the individual's personal interest in a certain job. Choice refers to a person's causal responsibility for their acts. Competence refers to a person's ability to do tasks skillfully when given the opportunity. In order to achieve the objectives established for a job, several aspects can influence whether activity is perceived as making a difference. Impact is defined as the creation of expected effects in one's task environment.

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

Psychological empowerment among employees will be enhanced when they have high trust in leaders or authorities that they would encourage or support them in achieving psychological needs, namely, meaningfulness, choice, competence and impact. The result revealed that when authorities refrain from taking advantage of the employees, they would perceive more power and impact over what occurs in the workplace as stated by Gyamerah et al. (2022). In taxation, taxpayers tend to be more tax compliant when they have trust in tax authorities (Van Dijke & Verboon, 2010; Wahl et al., 2010; Faizal et al., 2017).

Employees' commitment to their work or organisation can be raised by having these four psychological empowerment cognitions, which can ultimately increase task motivation (Thomas & Velthouse, 1990; Spreitzer, 1995). This can be linked to the taxation context where Torgler (2007) stated that taxpayers' commitment towards the tax system can be enhanced when there is a good deed by the government which eventually can turn into increased tax compliance behaviour.

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

To the best of the researcher's knowledge, there is no published research regarding the association between psychological empowerment and tax compliance behaviour. Nonetheless, many researchers have investigated the association of psychological empowerment with other contexts. For instance, an investigation of the effect of psychological empowerment on organisational commitment was studied by Joo and Shim (2010). Their study focused on public sector employees in Korea and found that psychological empowerment had a significant impact on organisational commitment. When employees reported increased psychological empowerment, they demonstrated greater organisational commitment. Further, Ahmad and Oranye (2010) discovered a positive link between empowerment and organisational commitment. In the context of taxation, taxpayers' commitment was found to have a positive relationship with tax compliance (Mangoting & Junfandi, 2021).

As mentioned earlier, psychological empowerment is a motivational construct that enhances intrinsic motivation. According to Mohdali and Pope (2012), the concept of tax morale pertains to the internal drive that is derived from an individual’s religious or moral conviction which motivates them to comply with tax obligations. In line with that, Luttmer and Singhal (2014) posited intrinsic motivation as one of the drivers of tax morale. Thus, past studies (see, e.g., Cummings et al., 2009; Ramona-Anca & Larissa-Margareta, 2013; Alasfour et al., 2016) have investigated the impact of tax morale on tax compliance behaviour. The results of the studies imply that tax morale enhances tax compliance behaviour. In Malaysia, Ghani et al. (2020) found a positive relationship between tax morale and tax compliance among self-employed taxpayers. Therefore, the current study proposed psychological empowerment can influence tax compliance behaviour.

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

2.3 Tax Transparency and Tax Compliance

According to the International Monetary Fund (1999), the term transparency refers to “providing the public with easily understandable and approachable data and information relating to monetary and financial policies, policy objectives, the legal, institutional, and economic framework, policy decisions, their justifications, and accountability terms”. Holtzman (2007) defined the transparency of a tax system as the willingness of taxpayers to gain knowledge about how their obligations have been calculated, the logic behind the tax legislation, the burden of their own and other taxpayers, as well as the possibility of paying fines due to non-compliance. Chindengwike and Kira (2021) posited that to enhance tax compliance, tax authorities should implement transparency strategies that benefit both taxpayers and tax officials. The objective is not only to boost people’s tax compliance but also to increase their trust in public institutions (Kiow et al., 2017). Transparency leads to accountability. It may be possible to hold individuals accountable for their actions. There will be no trust between a government and those it controls without transparency and accountability (Carstens, 2005). Kallas (2008) posited that increasing the transparency of a complex government system will result in a win-win situation for the administration and the public. Transparency plays a significant role in fostering a society that is more citizen-friendly, thus enhancing the public’s trust in the government.

Holtzman (2007) provided a brief overview of the key issues of simplicity, transparency, equity, and the effective administration of the United States tax code. He analysed that having a transparent tax system reduces taxpayers’ uncertainty, thus enabling people to make better plans on their employment, financial, and spending decisions. It will provide them with the confidence to predict their financial obligations in the future, adding a sense of trustworthiness to the tax system as a whole.

In Indonesia, a study carried out among individual taxpayers by Mangoting et al. (2019) reported that transparency builds trust and confidence in the tax authority. This means that people are more likely to believe that the tax authority is doing its job correctly and that it is acting with integrity. The study found that being transparent is showing a democratic country and that it is acting with integrity. The study found that external publication has a positive but insignificant relationship with tax transparency. The researcher also stated that there is significant research on tax administration all over the world. However, past studies on Malaysia’s tax administration have been studied very little in terms of transparency. Notwithstanding this, according to Sikayu et al. (2022) transparency is not a new concept in the taxation context, however past studies on tax transparency in relation to tax compliance among SMEs are still scarce. In the state of Lagos, Nigeria, Adeyeye et al. (2013) found that taxpayers were willing to comply with tax laws when they perceived the presence of effective governance. People might be more willing to pay taxes when they believe that there is transparency and strong governance in place. Furthermore, a study by Kim and Lee (2012) found that transparency in the government had a positive effect on citizens’ trust. Mangoting et al. (2019) studied tax compliance in Indonesia and discovered that transparency could affect taxpayers’ compliance. A positive association has also been found in past studies on the link between transparency and tax compliance behaviour (Fuad & Khusfiyah, 2019; Okwara, 2020). Thus, the following hypothesis was proposed:

H$_{2}$: There is a positive relationship between tax transparency and tax compliance behaviour among SMEs in Malaysia.

2.4 The Spreitzer Model

Spreitzer (1995) developed and assessed an organisation’s psychological empowerment measured across multiple dimensions. Thomas and Velthouse (1990) defined psychological empowerment as a feature of motivation that manifests itself in four cognitions, namely, meaning, competence, self-determination, and impact. Additionally, each cognition is a measurement of psychological empowerment. The absence of a single measurement does not eliminate completely overall degree of felt empowerment.

Empowerment is an intermediary between social structure and behavioural outcomes (Figure 1). Psychological empowerment is employees’ intrinsic motivation to perform any task. In other words, a strong sense of personal empowerment might result in behavioural consequences, as shown in Figure 1.
The study conducted by Singh and Singh (2018) found that when the environment was fair and empowering, employees were more likely to feel engaged, driven, and connected to their organisation, ultimately boosting their productivity or performance level. Singh and Singh (2018) also found that psychologically empowered employees who were happy in their jobs were more inclined to identify with their company and to engage in actions that might not be immediately noticeable but were nevertheless advantageous to the business. Thus, it can be inferred that small businesses with psychological strength are more likely to pay taxes when the environment is just. Therefore, the Spreitzer model can be used to determine the relationship between psychological empowerment and tax compliance behaviour.

2.5 Social Exchange Theory

According to Cropanzano and Mitchell (2005), social exchange theory is conceptually one of the most significant frameworks for explaining behaviour. This theory has been widely used by scholars to describe the trade-to-trade relational exchange (Lambe et al., 2001). Bouckaert and Van de Walle (2003) explained that a good government can be achieved by measuring trust among citizens through transparency. The absence of trust deters taxpayers from paying taxes, resulting in non-compliance with the country’s law. In other words, the government and the tax administration must establish people’s trust in their integrity and ability to deliver on the promised tax returns. The interaction between taxpayers and tax authorities involves strong emotional bonds and loyalties, which can be viewed as a psychological or relational contract (Torgler, 2007). Therefore, taxpayers feel obliged to pay taxes when their trust in the government increases, and this trust can be boosted by transparency.

According to Jonason and Middleton (2015), social exchange theory explains people’s behaviour by describing that people’s actions are determined by cost-benefit calculations as they try to connect with society and their environment through their actions. As long as a person believes that they will gain more from engaging in an activity than they will lose by doing it, it is highly likely that they will perform the activity. Individuals refrain from taking action when they believe the costs will outweigh the rewards. If someone has no interest in sustaining a social connection or if they are sceptical of others, they will expect a lesser value for any social trade (Figure 2).

2.6 Conceptual Framework

Figure 3 presents this study’s conceptual framework. The objective of this study is to examine the relationships between psychological empowerment, tax transparency, and tax compliance behaviour among SMEs in Malaysia.
Thus, the unit of analysis in this study is the organisation, which is the SMEs in Malaysian manufacturing industries. Performing a study in Malaysia would broaden the field of research on tax compliance behaviour among SMEs. The proposed respondents of the questionnaire can be chief executive officers, accountants, owners or managers who are dealing with tax filing submission of SMEs or equipped with tax knowledge on tax filing. According to Kamleitner et al. (2012), managers play significant roles in the SMEs’ tax decisions. Lignier (2009) stated that owners or managers understand tax compliance exercises as helping them improve their records and be more prudent in their financial transactions.

Currently, SMEs are divided into five (5) sectors which are services, construction, manufacturing, agriculture and mining and quarrying. Among these sectors, the manufacturing sector is proposed in the current study because this sector has contributed tremendously to Malaysia’s GDP growth (SMECorp, 2022). The manufacturing sector is also the most significant sector in supporting SMEs’ performance (Abdullah et al., 2013; Ab Wahab et al., 2020).

The current study used Fischer’s model as the underpinning theory. This is due to the original Fischer’s model focused more on individuals (Abd Obaid, 2021). Considering the limitation of Fischer’s model, this study proposes to combine or integrate Spreitzer’s model and social exchange theory as supporting theories through the extension of Fischer’s model in a business context. Hence, a significant contribution can be achieved in this study to the body of knowledge by combining these theories and the body of literature by examining the direct relationship of psychological empowerment and tax transparency towards tax compliance behaviour among SMEs.

3. METHODOLOGY

The study used a quantitative approach to ensure that the findings could be applied to a larger population. Respondents of this study are small and medium enterprises from the manufacturing sector. The samples of 491 out of 2,841 selected through stratified random sampling. Participants were given a four-month period to complete and return the questionnaires in this study. In the end, 260 responses were collected, with 230 deemed suitable for analysis. Psychological empowerment contains 8 items and is adapted from Spreitzer (1995). Tax transparency contains 7 items. Items 1 to 4 were adapted from Rawlins (2008), while items 5 to 7 were adapted from Park and Blenkinsopp (2011). The data was first coded and organized into a matrix in Microsoft Excel, followed by analysis using the Statistical Package for Social Sciences (SPSS) and the Analysis of Moment Structures (AMOS).

4. RESULTS AND DISCUSSION

The profile of the SMEs who participated in the survey was described using descriptive analysis as shown in Table 1. This part analysed organisational information consisting of location, type of manufacturing business, number of employees, company turnover, age of business, availability of tax agent, and position of respondents.

Beginning with the location of small and medium enterprises of respondents, Table 2 indicates that Selangor and the Federal Territory of Kuala Lumpur have the highest number of respondents with 65 (28.3%) and 57 (24.8%) respectively. The result reveals that machinery and electric manufacturing businesses have the highest representation with 34 (14.8%) respondents each. The majority of respondents are medium-sized enterprises, with 76 to 200 employees, constituting 20 (52.2%) of the sample. The category with turnover between 300,001 to 15 million dominates with 109 (47.4%) of the respondents. Companies with turnover less than 300,000 account for 65 (28.3%), while those with 16 million to 50 million constitute 56 (24.3%). The result reveals that businesses operating for 11-15 years have the highest representation among SME respondents, with 65 respondents, accounting for 28.3% of the total. Following this, businesses in operation for 6-10 years constitute 21.3% of the sample, represented by 49 respondents. The result indicates that the largest proportion of respondents, 53.9%, hold the position of Accountant, totalling 124 individuals.

Firstly, the validity and reliability of the items in the measurement model are evaluated through several criteria, including composite reliability (CR), average variance extracted (AVE), as displayed in Table 2, and discriminant validity, as shown in Table 3. Each composite reliability value exceeds the acceptable threshold of 0.7, as recommended by Hair et al. (2019), affirming the internal consistency reliability of the model. Additionally, all AVE values are above the minimum requirement of 0.5, consistent with (Hair et al., 2019). Overall, the reflective measurement model exhibits strong validity and reliability. For discriminant validity, the square roots of the AVEs are greater than the correlations with other variables, demonstrating that the study has achieved the required level of discriminant validity among its variables.
Table 1: Organisational Information (n = 230)

<table>
<thead>
<tr>
<th>Demography</th>
<th>Indicators</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Selangor</td>
<td>65</td>
<td>28.3</td>
</tr>
<tr>
<td></td>
<td>Johor</td>
<td>33</td>
<td>14.3</td>
</tr>
<tr>
<td></td>
<td>Penang</td>
<td>37</td>
<td>16.1</td>
</tr>
<tr>
<td></td>
<td>Perak</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>Federal Territory of Kuala Lumpur</td>
<td>57</td>
<td>24.8</td>
</tr>
<tr>
<td></td>
<td>Melaka</td>
<td>9</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>Negeri Sembilan</td>
<td>23</td>
<td>10.0</td>
</tr>
<tr>
<td></td>
<td>Kedah</td>
<td>4</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Pahang</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Type of manufacturing business</td>
<td>Food</td>
<td>14</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>Chemicals</td>
<td>13</td>
<td>5.7</td>
</tr>
<tr>
<td></td>
<td>Fabric</td>
<td>11</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>Machinery</td>
<td>34</td>
<td>14.8</td>
</tr>
<tr>
<td></td>
<td>Electric</td>
<td>34</td>
<td>14.8</td>
</tr>
<tr>
<td></td>
<td>Plastic</td>
<td>10</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>Non-Metallic Minerals</td>
<td>10</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>Transport Vehicle Equipment</td>
<td>17</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>Basic Metal</td>
<td>12</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Rubber</td>
<td>5</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Medical</td>
<td>6</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>Textile</td>
<td>8</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>Furniture</td>
<td>4</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Wood</td>
<td>9</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>Recycling</td>
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<td>3.9</td>
</tr>
<tr>
<td></td>
<td>Office</td>
<td>12</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Paper, Printing &amp; Publishing</td>
<td>14</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>8</td>
<td>3.5</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Less than 5 employees</td>
<td>20</td>
<td>8.7</td>
</tr>
<tr>
<td></td>
<td>6 to 75 employees</td>
<td>90</td>
<td>39.1</td>
</tr>
<tr>
<td></td>
<td>76 to 200 employees</td>
<td>120</td>
<td>52.2</td>
</tr>
<tr>
<td>Company turnover</td>
<td>Less than 300,000</td>
<td>65</td>
<td>28.3</td>
</tr>
<tr>
<td></td>
<td>300,001 to 15 million</td>
<td>109</td>
<td>47.4</td>
</tr>
<tr>
<td></td>
<td>16 million to 50 million</td>
<td>56</td>
<td>24.3</td>
</tr>
<tr>
<td>Operation of business</td>
<td>Less than 5 years</td>
<td>26</td>
<td>11.3</td>
</tr>
<tr>
<td></td>
<td>6-10 years</td>
<td>49</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td>11-15 years</td>
<td>65</td>
<td>28.3</td>
</tr>
<tr>
<td></td>
<td>16-20 years</td>
<td>50</td>
<td>21.7</td>
</tr>
<tr>
<td></td>
<td>More than 20 years</td>
<td>40</td>
<td>17.4</td>
</tr>
<tr>
<td>Availability of tax agent</td>
<td>Yes</td>
<td>225</td>
<td>97.8</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>5</td>
<td>2.2</td>
</tr>
<tr>
<td>Position of Respondents</td>
<td>Chief executive officer</td>
<td>29</td>
<td>12.6</td>
</tr>
<tr>
<td></td>
<td>Manager</td>
<td>22</td>
<td>9.6</td>
</tr>
<tr>
<td></td>
<td>Accountant</td>
<td>124</td>
<td>53.9</td>
</tr>
<tr>
<td></td>
<td>Owner-managers</td>
<td>38</td>
<td>16.5</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>17</td>
<td>7.4</td>
</tr>
</tbody>
</table>
After confirming the measurement reliability, it is crucial to present supporting evidence for the theoretical model, as illustrated in Figure 3. For the structural model, the evaluation consists of the coefficient of determination ($R^2$), effect sizes ($f^2$), goodness of fit of the model and path coefficients (Hair et al., 2019). In accordance with Cohen (1988) recommendation, $R^2$ values of 0.02, 0.13, and 0.26 for the endogenous variable can be interpreted as indicative of weak, moderate, and substantial relationships, respectively. It can be concluded that the results of $R^2$ have achieved an acceptable level as shown in Table 4.

As outlined by Cohen (1988), $f^2$ values of 0.02, 0.15, and 0.35 signify small, medium, and large effects within the structural model respectively. The values remain within an acceptable range as depicted in Table 5.

Table 6 provides a comprehensive result of the goodness-of-fit indexes for the structural model. The findings from the goodness-of-fit test, along with the associated indices, collectively affirm the model’s appropriateness. Table 7 displays the direct relationships between the variables. The result of psychological empowerment towards tax compliance behaviour revealed a positive and significant relationship ($\beta = 0.113; t = 2.593; p = 0.010$), supporting H1.

It indicated that when SME taxpayers feel psychologically empowered in terms of controlling their behaviour, developing competence, and making intelligent decisions, they are more likely to exhibit a positive attitude towards government policies, which in turn could lead to increased tax compliance. The result is in line with the Spreitzer model, which suggests that factors such as impact, self-determination, competence, and meaningfulness can intrinsically motivate individuals to support organizational policies (Spreitzer, 1995). In the context of this study, it is proposed that SME taxpayers who are intrinsically motivated would demonstrate positive behaviour in complying with tax obligations. This interpretation suggests that when SME taxpayers feel a sense of impact, self-determination, competence, and meaningfulness in their tax-related activities, they are more likely to voluntarily adhere to tax regulations. Therefore, psychological empowerment plays a vital role in boosting tax compliance behaviour among SMEs in Malaysia. The result of tax transparency towards tax compliance behaviour revealed a positive and significant relationship ($\beta = 0.228; t = 3.744; p = 0.000$), hence H2 was supported. The result was in line with H2 where tax transparency towards tax compliance behaviour revealed a positive and significant relationship. It reveals that when SME taxpayers are informed of government policies or information, their motivation to comply with tax obligations increases (Fagbemi et al., 2010). Apart from that, the result is in line with the Social Exchange Theory which promotes trust among the individuals when there is transparency. This suggests that governments with a higher level of tax transparency tend to inspire greater trust and are more likely to achieve higher levels of tax compliance among SMEs in Malaysia. Therefore, it can be inferred that tax transparency is an important factor in encouraging tax compliance behaviour among SMEs in Malaysia.
4. CONCLUSION

This research explores the determinants influencing tax compliance behavior among small and medium-sized enterprises (SMEs) in Malaysia. The result revealed that psychological empowerment and tax transparency have a positive and significant relationship towards tax compliance behaviour among SMEs in Malaysia.

This study contributed by introducing psychological empowerment in the taxation context. This is due to the literature review revealed that no studies have tested psychological empowerment in a taxation context, as it was widely tested in a business or organizational context. Another contribution is this current study developed a model that is deemed to best explain tax compliance among SMEs in Malaysia. Fisher's model in this study is extended by incorporating psychological empowerment and tax transparency. These insights are particularly valuable for tax authorities and administrators, as they highlight key areas that can be managed more effectively to reduce the high number of tax compliance issues in the country.

Finally, this study employed a cross-sectional design, an observational method that analyses data gathered from a population or a representative sample at a single point in time. Therefore, future research should adopt a longitudinal design to assess the study’s variables at different time points, which would help to validate the findings of this study.

REFERENCES


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