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Power and Trust as Factors Influencing Tax Compliance Behavior in Malaysia

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ABSTRACT

This study adopted the slippery slope framework in the context of tax compliance in Malaysia tax. Thus, the research objective is to examine the effect of slippery slope factors on tax compliance. The slippery slope consists of power and trust. Power is distinguished between legitimate power and coercive power. Power and trust have different influence on tax compliance. Trust is perceived to influence voluntary tax compliance and power influences enforced tax compliance. Survey method is used to collect data involving individual taxpayers as respondents. The findings suggest that only trust has significant effect on tax compliance. Meanwhile, neither legitimate power nor coercive power could influence tax compliance.

Keywords: Slippery slope; tax compliance

INTRODUCTION

In tax compliance research, studies on deterrence effect which mainly apply economic model have failed to explain the cooperation between tax compliance and tax authority (Murphy 2008). There are few researches which found out that deterrence effect such as tax audit and penalty on tax compliance are still questionable (Andreoni, Errard & Feinstein 1998; Bergman & Nevarez 2006; Kirchler 2007). According to Kasipillai and Hijattulah (2006), non-compliance strategy using enforcement like penalty and audit are inadequate and it is a necessity to identify other factors that may influence tax compliance. A study by Andreoni et al. (1998) examined tax audits have weak effect on tax compliance. Thus, they suggested study on deterrence effect will be more effective considering psychology factors such as moral, psychology and social because economic model does not measure the level of actual tax compliance.

Thus, by combining economics and psychology model, Kirchler (2007) and Kirchler, Hoelzl, and Wahl (2008) developed slippery slope framework to determine the relationship between taxpayers and tax authority. This framework highlights power and trust as factors that may influence tax compliance behavior. Power refers to the power of tax authority to control taxpayers' behavior through enforcement such as penalty and tax audit. There are two types of power which are legitimate power and coercive power (Turner 2005; Kastlunger, Lozza, Kirchler, & Schabmann 2013). Meanwhile, trust is referring to the relationship between taxpayers and tax authority based on trust. If taxpayers have a high level of trust on tax authority, compliance is perceived to increase (Kastlunger et al. 2013).

Power and trust could influence tax compliance per studies conducted by Wahl, Kastlunger, and Kirchler (2010) and Kastlunger et al. (2013). Findings from these studies suggested that high trust on tax authority and power would enhance tax compliance. Kirchler (2007) classified trust and power as factors that have positive and significant relationship to improve tax compliance. He distinguished tax compliance into voluntary tax compliance and enforced tax compliance. Each of these compliances are assumed to be influenced by different factors. Trust of taxpayers toward the tax authorities is perceived to influence voluntary tax compliance whereas powers held by the tax authorities affects enforced tax compliance.

It is known that most studies on slippery slope have been carried out in European countries such as Italy, Russia, Austria and Czech Republic. However, there was one study on slippery slope conducted by Mas'ud, Abd Manaf and Saad (2015) in African countries. Meanwhile in Malaysia, Bukhari (2010) applied this framework in her study that focused on the effect of trust on voluntary tax compliance. Hence, Kastlunger et al. (2013) proposed that slippery slope should be conducted outside Europe which have different socio-cultural demographic. Therefore, this study will use slippery slope to fill the gap and conduct a study outside Europe to examine the behavior of tax compliance in Asian countries, especially in Malaysia.

SLIPPERY SLOPE FRAMEWORK

Slippery slope framework was first introduced by Erich Kirchler in his book entitled "The Economic Psychology of Tax Behaviour" in 2007. The book presents the fundamental of the slippery slope framework as he discussed the slippery slope theoretically. Basically, the framework starts from an antagonistic and synergistic perception. Antagonists lead to mistrust in the relationship between taxpayers and tax authorities, known as the 'cops

and robbers'. Tax authorities felt that taxpayers are always trying to evade from paying tax and tax authority will find a way to punish them.

From synergies, another relationship is created called as 'service and customers'. Taxpayers and tax authority work together and trust each other. The tax authorities put their trust on taxpayers to pay taxes honestly. Taxpayers feel the tax authorities treat them with courtesy and respect and this treatment makes taxpayers voluntarily pay taxes (Kirchler et al. 2008). Tax authorities would see themselves as service providers and more likely to seek cooperation from the public (Murphy 2008).

Based on slippery slope framework, tax authorities secure cooperation from taxpayers through two different factors, namely, power and trust. Power emphasizes on the power of tax authorities to control the behavior of taxpayers to increase tax compliance by using deterrence approach such as audits and penalties. Trust also emphasizes on the relationship between taxpayers and tax authorities with more courtesy and considerate approach.

The term slippery slope is used to illustrate the potential interaction between trust and power (Kirchler 2007). Basically, the slippery slope will interact the relationship between taxpayers and tax authorities to improve tax compliance. Figure 1 shows the slippery slope framework originally developed by Kirchler (2007). Referring to the figure, the front part of the framework indicates trust on tax authorities is at a low level and the power of tax authorities is weak. In this situation, taxpayer will try to maximize the utilities and evade tax resulting in low levels of compliance. At the top left of the framework associated with the power of tax authorities with low level of trust, compliance is still increasing due to the power of tax authorities enforcing tax audit, the probability of detection and penalties. Thus, taxpayers have less chance to evade paying taxes because the power will enhance enforced tax compliances.

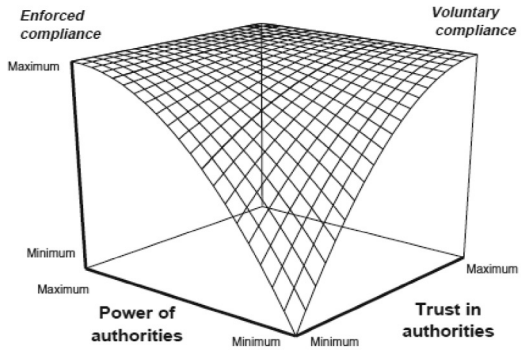
At the top right of the framework, we can see that trust on tax authorities at the maximum level with low power. At this stage, the high level of trust enhances voluntary tax compliance. Therefore, the level of compliance will be at high level when the power of tax authorities and trust are high.

In addition to the power and trust that could affect compliance, slippery slope also assumes power and trust do influence each other. This relationship is known as dynamic relationship (Gangl, Hofmann, Pollai & Kirchler 2012). Per Muehlbacher and Kirchler (2010), too frequent tax audits and penalties will affect taxpayers' compliance who have high level of trust towards tax authorities. However, no enforcement will lead to mistrust by taxpayers with the efficiency of tax authorities in carrying out their work. Taxpayers who have a level of trust towards tax authorities may be able to help increase the power of tax authorities as whistleblower in cases of tax evasion.

Meanwhile, Turner (2005) divided the power to legitimate power and coercive power. Legitimacy of power refers to the power of the authorities in which individuals willingly cooperate. In contrast, coercive power refers to attempts by the authorities to the people who are not adhering the law by using coercive means. Thus, when taxpayer has the impression that the power of tax authorities is legitimate, level of their confidence in tax authorities is also high. In short, the framework 'slippery slope' is to shed light on the behavior of tax compliance by reviewing the various effects of different factors that can affect compliance.

Empirical Studies on Slippery Slope

As far as it is known, there are five empirical studies conducted in Europe and one in Africa on slippery slope using different research methods on different subjects. Only one study in Malaysia applied slippery slope which was a study conducted by Bukhari (2010). Wahl et al. (2010) is the first empirical study carried out using slippery slope to examine the effect of trust and power over tax payments. The study used laboratory and online experiments conducted on students and self-employed individuals. However, both experiments did not test



Source: Kirchler et al. (2008): p. 212

FIGURE 1. Slippery slope framework

the actual tax behavior and implications on the actual compliance behavior. Moreover, the impact of trust and power on compliance either voluntary or enforced compliance are quite similar for both experiments. Thus, the studies suggested future research of which is to apply other methods measuring and distinguishing between voluntary compliance and enforced compliance.

Kogler, Batrancea, Nichita, Pantya, Belianin, and Kirchler (2013) used an experiment on students with scenarios adapted from Wahl et al. (2010). However, the study aims to examine whether there are differences in the effects of slippery slope on tax compliance in different countries which also have different economic conditions. There are differences in the findings by Kogler et al. (2013) from Wahl et al. (2010) even though the same methods and scenarios were used. Wahl et al. (2010) found that if trust and power are at a low level it would increase tax evasion. In contrast, a study by Kogler et al. (2013) found no such effect. This is because the respondents in Kogler at al. (2013) study are students of Economics and Business who do not have experience paying taxes as compared to self-employed individuals.

Meanwhile Muehlbacher, Kirchler and Schwarzenberger (2011) and Kastlunger et al. (2013) used different questionnaires to test the effect of slippery slope. Muelbacher et al. (2011) adapted the questionnaire developed by Hartner, Rechberger, and Kirchler, (2009). However, the questionnaires which were originally in German was translated into English and Czech would probably affect the understanding of the questions. Kastlunger et al. (2013) used a questionnaire adapted from Tax Compliance Inventory introduced by Kirchler and Wahl (2010). The questions specifically measure the slippery slope. In addition, a study by Kastlunger et al. (2013) also differentiated power into coercive power and legitimate power which was not reviewed by Wahl et al. (2010), Muelbacher and Kirchler (2010), and Kogler et al. (2013). The results supported findings from other researchers in which trust and power could influence voluntary tax compliance and enforced tax compliance respectively. Specifically, trust and legitimate power relate to voluntary compliance. Legitimate power and coercive power are associated with enforced tax compliance. In addition, trust and power do have influence on each other.

Meanwhile, Mas'ud et al. (2015) adapted cross-country data for 37 sub-Saharan African countries to test the association between trust and power on tax compliance without looking at different types of compliance. The results revealed that there is relationship between trust and power with tax compliance in which the relationship between power and tax compliance is stronger than the relationship between trust and tax compliance. As mentioned earlier, one unpublished study on slippery slope was conducted in Malaysia by Bukhari (2010). However, her study did not ascertain the effect of power on enforced tax compliance. The results proved that trust could influence voluntary tax compliance. Therefore, this study will determine the relationship between trust with voluntary tax compliance and the relationship between power (i.e legitimate power and coercive power) and enforced tax compliance in Malaysia. This study will adapt slippery slope framework used by Kastlunger et al. (2013) that led to the establishment of the following hypotheses:

H_1: Trust has a significant relationship with voluntary tax compliance.

H_2: Legitimate power has a significant relationship with voluntary tax compliance.

H_3: Legitimate power has a significant relationship with enforced tax compliance.

H_4: Coercive power has a significant relationship with enforced tax compliance.

H_5: Trust has a significant relationship with legitimate power.

H_6: Coercive power has a significant relationship with legitimate power.

H_7: Coercive power has a significant relationship with trust.

Methodology

This study applied quantitative approach using questionnaire to obtain respondents' perception on power and trust in Malaysian tax system. Questionnaires were distributed randomly to the selected respondents. The respondents comprise of academicians who are teaching in the public and private higher institutions in Klang Valley (Selangor and Kuala Lumpur) since it is the most highly located public and private higher institutions and they were selected using cluster sampling method. Then, convenience sampling method was used to determine the actual number of respondents. The academicians were selected as they are salaried taxpayers in the individuals' taxpayers group and they need to file in tax return forms by themselves without assistance from the IRB or tax agent. They may be less skilled in filing in tax forms and that will lead to non-compliance (Loo & Ho 2005). Besides, there are fewer study on tax compliance which focuses on academicians, thus this study is intended to obtain responses and views from this group.

The questionnaire used in this study contains statements to measure each of the variables adapted from previous studies about slippery slope and tax compliance which has been used by Kirchler and Wahl (2010) and Kastlunger et al. (2013). However, the questions have been amended according to situation in Malaysia. Variables in respondents' perception is measured using a Likert scale to determine the level of agreement to a statement given (5 point Likert scale, 1 = strongly disagree, 2 = disagree, 3 = unsure, 4 = agree, and 5 = strongly agree).

FINDINGS

BACKGROUND OF RESPONDENTS

From 1,669 questionnaires which were distributed, only 241 are usable for data analysis. Table 1 shows the descriptive data of the respondents. From the total, 90 (37.3%) respondents were male and 151 (62.7%) were female. The respondents comprise of 152 lecturers (63.1%), 47 senior lecturers (19.5%), 23 professors (9.5%), 17 associate professors (7.1%) and two assistant lecturers (0.8%). 146 respondents have more than ten years teaching experience (60.6%), 52 respondents with five to nine years teaching experience (21.6%), 35 respondents with one to four years of teaching experience (17.8%) and eight respondents teached less than one year (3.3%).

TABLE 1. Descriptive data

	Respondents (n=241)	Percentage
Gender		
Male	90	37.3
Female	151	62.7
Academic position		
Professor	23	9.5
Associate Professor	17	7.1
Senior Lecturer	47	19.5
Lecturer	152	63.1
Assistant Lecturer/Tutor	2	0.8
Teaching experience		
< 1 year	8	3.3
1 – 4 years	35	14.5
5 – 9 years	52	21.6
> 10 years	146	60.6

CONFIRMATORY FACTOR ANALYSIS (CFA)

CFA was conducted in order to validate the model before modeling the interrelationship in a structural equation model (SEM). CFA would assess the unidimensional, validity and reliability of the constructs. Unidimensional is achieved if every item used for each construct have the minimum standardized factor loading. Low standardized loading values need to be removed in order to achieve the validity and reliability of each construct. Table 2 indicates the standardized loading values for each items in the constructs. Five items with low standardized loading of 0.5 have to be deleted as suggested by Hair et al. (2010) and Awang (2015).

Next is to test the validity and the reliability of constructs. Table 3 summarizes the validity and the reliability of the constructs. Average Variance Extracted (AVE) represents the convergent validity and Composite Reliability (CR) indicates the reliability and internal consistency of the constructs. The value of AVE must exceed 0.5. From Table 3, we can see that there are three constructs which failed to meet the minimum requirement with score below 0.5. Those constructs are the enforced tax compliance (0.496), legitimate power (0.431) and coercive force (0.416). However, according to Fornell and Larcker (1981), this value is still acceptable as long as the CR value exceeds 0.6. Liu, Wub, Yehc, and Chen (2015) in their study also accepted the AVE exceeding 0.4. For the reliability test, the value of the CR need to have a

TABLE 2. Standardized loading for each item

Construct	Item	Standardized loading
Voluntary compliance	PS1	0.564
	PS2	0.681
	PS3	0.660
	PS4	0.740
	PS5	0.827
	PS6	0.844
	PS7	0.629
	PS8	deleted
Enforced compliance	PK1	0.700
	PK2	0.720
	PK3	0.812
	PK4	0.730
	PK5	0.622
	PK6	deleted
	PK7	0.623
Trust	TR1	0.737
	TR2	0.798
	TR3	0.735
	TR4	0.866
	TR5	0.605
	TR6	0.754
	TR7	0.835
	TR8	0.880
Legitimate power	LP1	deleted
	LP2	0.600
	LP3	0.541
	LP4	0.641
	LP5	0.714
	LP6	0.800
Coercive power	CP1	deleted
	CP2	0.600
	CP3	0.647
	CP4	0.610
	CP5	0.661
	CP6	0.700
	CP7	deleted

TABLE 3. Validity and reliability test for the constructs

Construct	AVE (min 0.4)	CR (min 0.6)
Voluntary tax compliance	0.508	0.844
Enforced tax compliance	0.496	0.854
Trust	0.610	0.925
Legitimate power	0.441	0.796
Coercive power	0.416	0.685

minimum value of 0.6. Referring to the same table, the CR for all constructs exceeded the value of 0.6.

In addition to the above tests, fitness of the measurement model must be evaluated. Table 4 shows fitness indexes for the model and all required levels are achieved.

STRUCTURAL EQUATION MODEL (SEM)

After the CFA was administered, the next step is to model the constructs into SEM for analysis. Table 5 represents the regression path coefficient in the relationship between slippery slope and tax compliances. The results show that only trust has a significant relationship with the voluntary compliance with $p = 0.007$ with the estimate of the regression coefficient (beta) = 0.304 which indicates that when trust goes up by 1, voluntary tax compliance goes up by 0.304. This means voluntary tax compliance is influenced positively by taxpayers' perceptions of trust on the tax authorities. In contrast, no slippery slope factors could influence enforced tax compliance and this is contrary from previous studies.

Finally, results for the dynamic relationship between slippery slope factors is shown in Table 6. The findings show that legitimate power has significant relationship with ($p = 0.000$ and the estimate of the regression coefficient = 0.499) and coercive power ($p = 0.000$ and the estimate of the regression coefficient = 0.644), whereas the coercive power does not have a relationship with trust as expected ($p = 0.853$). This value indicates when coercive power and trust go up by 1, the legitimate power goes up by 0.644 and 0.499.

The findings from the analysis can be concluded that three hypotheses were supported. Those hypotheses are Hypothesis 1, Hypothesis 5, and Hypothesis 6 as shown in Table 7.

DISCUSSIONS AND CONCLUSION

Slippery slope framework expects that the voluntary tax compliance will be influenced by trust and legitimate power, meanwhile the enforced tax compliance is

TABLE 4. Fitness index for each construct in the model

Construct	Absolute fit RMSEA*	Incremental fit CFI**	Parsimonious fit Chi-Square/df***
Tax compliance	0.054	0.968	1.655
Slippery slope	0.079	0.918	2.395

* < 0.08
** > 0.90
*** < 3.0

TABLE 5. Regression path coefficient – slippery slope and compliance

Constructs			Estimate of regression coefficient	Standard error	Critical value	*p*
VC	<---	TR	0.304	0.070	2.693	0.007*
VC	<---	LP	-0.068	0.067	-0.811	0.418
EC	<---	LP	0.151	0.165	1.206	0.228
EC	<---	CP	0.212	0.165	1.626	0.104

*significant value at $p<0.05$
Note: VC = voluntary tax compliance
EC = enforced tax compliance
TR = trust
LP = legitimate power
CP = coercive power

TABLE 6. Regression path coefficient – the dynamic relationship

Constructs			Estimate of regression coefficient	Standard error	Critical value	*p*
CP	<---	TR	-0.021	0.092	-0.186	0.853
LP	<---	CP	0.644	0.102	6.075	0.000*
LP	<---	TR	0.499	0.081	4.741	0.000*

*significant at $p<0.05$
Note: TR = trust
LP = legitimate power
CP = coercive power

TABLE 7. Results of hypotheses

	Hypotheses	Results
H1	Trust has a significant relationship with the voluntary tax compliance.	supported
H2	Legitimate power has a significant relationship with the voluntary tax compliance.	not supported
H3	Legitimate power has a significant relationship with the enforced tax compliance	not supported
H4	Coercive power has a significant relationship with the enforced tax compliance.	not supported
H5	Trust has a significant relationship with legitimate power.	supported
H6	Coercive power has a significant relationship with legitimate power.	supported
H7	Coercive power has a significant relationship with trust.	not supported

determined by legitimate power and coercive power. Findings from the analysis found that only trust has significant impact on the voluntary tax compliance. This result is similar with the findings from other researchers such as Wahl et al. (2010); Bukhari (2010); and Korgler et al. (2013). In contrast, tax compliance would not be influenced by any slippery slope factors. This means that the legitimate power and coercive power had no impact on either the voluntary tax compliance or the enforced tax compliance. This finding contrasts with the study by Kastlunger et al. (2013) who found the legitimate power and coercive power capable of influencing the voluntary tax compliance and enforced tax compliance. This difference may be due to different cultures and backgrounds of study. As discussed earlier, most of slippery slope studies have been conducted in Europe and have significant relationship with tax compliance in the European countries. However, study in Malaysia showed that trust is the only slippery slope factor significantly affecting tax compliance.

This finding indicates that if taxpayers has trust on tax authorities, they will voluntarily comply with the tax laws. However, the taxpayers do not perceive that the power held by the tax authorities will have an impact on their actions to comply with the tax system. Trust is enough to make taxpayers comply with the tax system on a voluntary basis without the use of power by the tax authorities. In conclusion, it is important that the Inland Revenue Board (IRB) as tax authorities in Malaysia to act and create a sense of trust among taxpayers toward IRB. This will facilitate the IRB to increase the level of tax compliance among taxpayers without severe enforcement.

For the dynamic relationship, it is found that a dynamic relationship exists between trust and coercive power with legitimate power. Trust that exists will produce the impression that the tax authorities use existing powers with wisdom. Power used to punish tax offenders clearly shows that the tax authorities use enforcement efficiently as to detect tax evasion. These findings are more or less similar as discovered by Kastlunger et al. (2013). It can be concluded that taxpayers perceived trust and coercive power have been used wisely and diplomatically to detect and punish tax offenders.

LIMITATION AND FUTURE RESEARCH

This study has limitation in term of low response rate and self-descriptions survey. The low response rate prevent findings to be generalized to the population of individual taxpayers in Malaysia. In addition, the use of a questionnaire to get feedback about tax compliance may lead to misunderstanding of the questions and the terms used. Moreover, tax compliance is a sensitive issue among taxpayers in Malaysia. Therefore, the questionnaire is viewed as quite difficult for respondents to understand and to measure the behavior of compliance as it often used dichotomy behavior which is compliant or non-compliant (Loo, Evans & McKerchar 2010).

Future research can consider cultural impact on the slippery slope framework as the findings are contrary from other slippery slopes conducted outside Malaysia. Different socio-cultural scope may affect the perception of slippery slope.

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