

The Mediating Impact of Trust on the Role of Power towards Tax Compliance: Empirical Evidence from Malaysia

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ABSTRACT

Manuscript type: Research paper

Research aims: This study examines the impact of power on voluntary and enforced tax compliance behaviour and the mediating impact of trust on the relationship between institutional power and tax compliance in Malaysia.

Design/Methodology/Approach: Utilising survey method the data was collected from Malaysian individual taxpayers as respondents through multistage cluster and purposive sampling method.

Research findings: Coercive power significantly drives enforced compliance, whereas legitimate power only influences voluntary compliance when fully mediated by trust in government and the tax authority (IRBM).

Theoretical contribution/Originality: This study integrates Social Influence Theory and Social Exchange Theory and extends the Slippery Slope Framework to an emerging ASEAN economy, demonstrating that while the impact of legitimate power is fully mediated by trust, coercive power operates via complementary partial mediation.

Practitioner/Policy implication: Results suggest that the IRBM must prioritise institutional trust-building over mere service improvements to successfully transition from enforcement-driven to voluntary compliance regimes.

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Research limitation: The cross-sectional design limits longitudinal insights; future research should incorporate qualitative interviews to explore shifting political trust.

Keywords: CCoercive Power, Enforced Tax Compliance, Legitimate Power, Malaysia, Trust in Government, Trust in Tax Authority, Voluntary Tax Compliance

JEL Classification: H24, H26

1. Introduction

The long-term economic stability and fiscal sustainability of any nation are critically dependent on its ability to effectively and efficiently mobilise domestic revenue, primarily through taxation (Alm & Torgler, 2011). As an emerging economy, Malaysia relies heavily on tax revenues as the principal source of government income to fund its strategic shift toward becoming a high-income nation. According to the Economic Outlook 2025 report, the Federal Government's revenue for 2024 is estimated at RM322.1 billion, with taxation contributing 74.8 per cent of total revenue (MOF, 2024).

However, governments worldwide face persistent challenges in ensuring a stable internal revenue stream due to the pervasive issue of tax non-compliance (Rashid et al., 2022). This fiscal threat is particularly severe in emerging ASEAN markets, where Medina and Schneider (2018) estimate that the shadow economy represents approximately 21 per cent to 25 per cent of GDP. The gravity of this issue in Malaysia is further emphasised by a tax-to-GDP ratio of approximately 12.6 per cent, which remains significantly lower than the OECD average of 34 per cent (OECD, 2024). This gap is largely attributable to the persistence of the informal sector and systemic non-compliance (MFM, 2024).

A pivotal shift in Malaysian tax administration occurred with the implementation of the Self-Assessment System (SAS). Under this regime, the burden of responsibility shifted to the taxpayer to voluntarily and truthfully estimate their tax liabilities. However, the transition has not yielded expected compliance levels; Malaysia continues to record high negative indicators, with billions lost annually (Tan et al., 2018). Alm (2023) highlights the dual nature of technological advancement in tax administration. While digital technologies can improve compliance by enhancing information availability, data integration, and enforcement efficiency, they may simultaneously provide new mechanisms for taxpayers to engage in sophisticated tax avoidance and evasion strategies. Although

technological transformation effect on tax compliance is difficult to predict, technological disruptions are expected to contribute to greater economic inequality, presenting an additional challenge for policymakers seeking to promote both equitable economic outcomes and sustainable tax compliance. Most recently, the implementation of the mandatory e-invoicing system in Malaysia represents a significant digital transformation initiative that facilitates automated transaction processing, enhances tax compliance, and improves operational efficiency (Ilias et al., 2025). The deployment of mandatory e-invoicing represents a paradigm shift toward real-time transaction monitoring, substantially magnifying the state's Coercive and Legitimate monitoring power while shrinking information asymmetry. With the digital transformation, the Inland Revenue Board of Malaysia (IRBM) digital cross-checks successfully detected around RM1.4 billion in unreported income by early 2025 (IRBM, 2025), demonstrating a formidable increase in monitoring power and enforcement-driven tax system.

There is a growing consensus that economic deterrence provides an incomplete picture of taxpayer behaviour (Mascagni, 2018). Gangl et al. (2020a) emphasise that institutional power and taxpayer trust must be strategically balanced to prevent the erosion of the social contract. Utilising data from an experimental scenario study in 44 nations from five continents, Batrancea et al. (2019) established that the variables of power and trust remain globally relevant, though their influence is shaped by specific cultural landscapes. However, the study by Medina and Schneider (2018) indicated that despite intensified enforcement, a quarter of the Malaysian economy remains hidden. This discrepancy highlights a critical failure in the direct application of power and reinforce the urgency for a more effective compliance framework that moves beyond traditional deterrence. In the Malaysian context, tax compliance serves as a critical pillar of the social contract, reflecting the reciprocal relationship between taxpayers and the state. As highlighted by Jamaludin et al. (2025), contemporary governance challenges require governments to simultaneously uphold fiscal sustainability, deliver high-quality public services, and maintain institutional accountability, all of which are essential for achieving long-term sustainable development.

This study seeks to empirically examine the mediating impact of Trust on the relationship between Power (Coercive and Legitimate) and Tax Compliance. Theoretically, this study advances existing discourse by substituting the abstract dimensions of 'Reason-Based' and 'Implicit' trust traditionally embedded in Slippery Slope

Framework (SSF) literature with the distinct constructs of Trust in Government and Trust in the Tax Authority (IRBM). The SSF operates on a direct-effects paradigm, positioning institutional power and trust as parallel, independent pillars that combine to determine individual behavioural compliance (Gangl et al. (2020a). In an emerging economy like Malaysia undergoing aggressive structural transitions such as Ekonomi MADANI framework and mandatory e-invoicing (Ilias et al., (2025), trust is not a uniform construct, but it may split along institutional lines Gangl et al. (2020a). It is based on the empirical reality that an emerging market taxpayer can highly trust the technical capability of the IRBM to execute digital audits while simultaneously experiencing low trust due to shifting governance regimes (Alm, 2023), a divergence that traditional implicit and reason-based trust categories fail to isolate.

Hence this study extends SSF by integrating Social Influence Theory (SIT) and Social Exchange Theory (SET) to establish a sequential behavioural relationship where power and trust exist in an explicit structural hierarchy. While SIT examines how power shapes behaviour, SET explains the reciprocal relationship where Trust acts as the essential mediator. Rather than viewing the relationship between authorities and taxpayers as a simple deterrent-response mechanism, this study introduces Trust as a pivotal mediating factor. By examining this mediation, this study offers a more sophisticated interpretation of the dynamics that either foster voluntary cooperation or trigger enforced compliance.

Practically, this paper provides timely empirical evidence within the unique context of the Malaysian fiscal landscape. Malaysia has experienced significant shifts in its political and institutional environment over the last decades, which have direct implications for public perception, government transparency, and economic stability. Understanding how these dramatic changes influence taxpayer trust and their subsequent reaction to tax authority power is crucial. The findings will offer tax administrators and policymakers actionable data to refine tax strategies in a volatile socio-political climate.

The remainder of this paper is organised as follows. Section 2 provides a comprehensive review of the existing literature concerning the influence of coercive and legitimate power on tax compliance, establishing the theoretical framework for trust as a mediating variable and developing the research hypotheses. Section 3 details the research methodology, including the sampling design, instrumentation, and analytical techniques employed. Section 4 presents the empirical findings derived from the data analysis.

Finally, Section 5 discusses the theoretical and practical implications of the results, acknowledges the study's limitations, and offers concluding remarks alongside suggestions for future research.

2. Literature Review and Hypotheses Development

2.1 *Research Model Development*

To provide a robust explanation of tax compliance behaviour in Malaysia, the integration of SIT and SET allows for a comprehensive analysis of both the authoritative pressure and the reciprocal relationship between taxpayers and the state. SIT provides a foundational framework for understanding how external social pressures, such as government policies and administrative actions, shape individual attitudes and behaviours (Kelman, 2017). Within the fiscal context, the power of authorities is a critical component of the social system that dictates compliance norms (Alabede et al., 2011). SIT posits that individuals adopt induced behaviours based on the perceived credibility and values of the influencing agent (Hwang, 2016). In the Malaysian tax environment, the government exerts influence through two distinct dimensions of power: Coercive Power (the capacity to punish) and Legitimate Power (the recognised right to lead). The internalisation of compliance is not merely a reaction to enforcement but is deeply tied to the taxpayer's perception of the government's credibility and the alignment of tax policies with societal values (Yusoff & Mohd, 2017).

While SIT explains the how of influence, SET views tax compliance as a social exchange where taxpayers weigh the costs (taxes paid) against the benefits (public services and fair treatment) provided by the government (Lambe et al., 2001). According to SET, social behaviour is the result of an exchange process where the actions of one party (the tax authority) directly influence the reactions of the other (the taxpayer) (DeLamater, 2006). A stable exchange relationship requires interdependence; if the exercise of power is perceived as unfair or purely coercive, the relationship becomes unstable, leading to non-compliance. Therefore, this study argues that the relationship between the Malaysian government and its taxpayers is governed by an exchange of trust, which acts as the psychological currency sustaining the social contract.

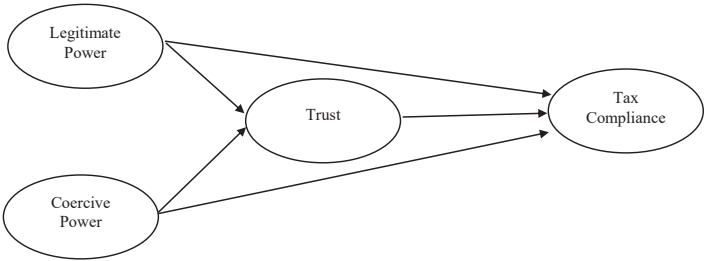
Despite extensive research into tax compliance and attempts to expand the tax compliance model by adding one or more factors to suit their research needs in the tax environment (e.g. Alm et al., 2009; Kirchler et al., 2006; Landsman et al., 2002; Mohdali et al., 2017;

Palil, 2010; Saad, 2012), scholars argue that current models often fail to capture the complexities of emerging economies (Mascagni, 2018; Gobena & Van Dijke, 2017). Given the unique socio-political climate in Malaysia, there is a clear need to extend the tax compliance paradigm by incorporating the interplay between power and trust (Acheke, 2015).

The structural model proposed in this study advances the classical SSF by transitioning from a direct-effects taxonomy to a sequential, multi-layered behavioural mechanism. Traditional SSF literature primarily treats institutional power and taxpayer trust as parallel, independent drivers of compliance orientations (Gangl et al. (2020a). However, this study merges SIT and SET to argue that power and trust exist in a structural hierarchy. In emerging economies characterised by digital disruptions and institutional transitions, macro-level and micro-level powers do not automatically yield compliance (Alm, 2023). Instead, legitimate power operates as an antecedent to trust; it acts as a signal of institutional capability and benevolence that taxpayers evaluate. Compliance is only achieved once this power is psychologically converted into Trust in Government and Trust in the Tax Authority. Decomposing trust into these distinct operational layers provides a more granular, context-specific extension of the SSF than abstract ‘reason-based’ or ‘implicit’ trust constructs (Gangl et al., 2020a, Muehlbacher & Kirchler, 2010).

Hence, this study proposes a comprehensive model that positions Legitimate Power and Coercive Power as primary predictors, with Trust in Government and Trust in Tax Authorities serving as critical mediating variables. Utilising both SIT and SET, this study seeks to explain how different forms of institutional power are filtered through taxpayer trust to determine ultimate compliance behaviour. Figure 1 depicts the suggested tax compliance paradigm for investigation.

Figure 1: Research model



2.2 *Legitimate and Coercive Power in Tax Compliance*

Tax compliance behaviour is a complex phenomenon driven by a confluence of economic and non-economic determinants (Alm et al., 1994). Central to these determinants is the role of institutional power, defined as an authority's capacity to influence a party toward a desired behaviour (Russell, 1986). In the context of tax administration, power is generally categorised into two distinct dimensions: Coercive Power and Legitimate Power (Turner, 2005).

Coercive power relies on the threat of punishment or force to ensure obedience (Raven et al., 1998). In tax systems, this manifests through audits, fines, and legal sanctions. While coercive power is effective in generating enforced compliance, it frequently cultivates an antagonistic tax climate between the state and the taxpayer, characterised by mutual suspicion and resistance (Lozza & Castiglioni, 2018). This dynamic creates a vicious cycle where reciprocal distrust necessitates increasingly costly enforcement activities. Based on SSF, in a climate characterised by high coercion and low trust, individuals comply primarily out of fear of detection rather than a sense of duty (Kirchler et al., 2010; Kirchler & Wahl, 2010).

In contrast, legitimate power is derived from the taxpayers' recognition of the authority's right to influence and govern (Raven et al., 1998). This form of power is fundamental to voluntary cooperation, where individuals fulfil their tax obligations because they perceive the system as fair and the authorities as credible. Legitimate power aligns with a "service and client" social climate, where collaboration replaces confrontation (Hofmann et al., 2014).

The effectiveness of tax policy often depends on the prevailing social climate. Muehlbacher & Kirchler (2010) suggest that while trust enhances collaboration, the efforts to build trust may reach a point of diminishing marginal returns if not supported by an underlying structure of power. Therefore, a balance is required: coercive power serves as a deterrent for potential evaders, while legitimate power sustains the commitment of honest taxpayers. To provide a structured understanding of these dynamics, the existing literature may be broadly categorised into studies conducted in developed economies and those undertaken in developing economies, including research situated within the Malaysian context.

(a) Studies in Developed Economies

Extant literature in developed economies extensively discusses the optimal balance of power required to secure tax compliance.

Conceptual frameworks, most notably the SSF, suggest that tax authorities should deploy a strategic blend of coercive and legitimate power to migrate taxpayers from enforced compliance to voluntary cooperation (Gangl et al., 2015; Kirchler et al., 2008).

In a developed context, legitimate power is viewed as the cornerstone of a service climate. Studies suggest that when authorities emphasise legitimate power, characterised by transparency, expertise, and high-quality service, they can effectively shift taxpayer motivations from external pressure to internal duty (Hofmann et al., 2014). For instance, experimental research by Batrancea et al. (2019) and Gangl et al. (2020b) confirms that legitimate power significantly enhances behavioural intentions to cooperate.

Furthermore, the establishment of legitimate power is often a precursor to reason-based trust. When taxpayers perceive the authority as competent and fair, a positive social climate emerges, which significantly boosts voluntary compliance (Hofmann et al., 2017). This service-oriented approach suggests that authorities should minimise intimidating tactics, such as excessive audits and harsh penalties, and instead focus on cultivating long-term loyalty through legitimate influence (Gangl et al., 2015). In their synthesis of the SSF, Gangl et al. (2020a) refine the distinction between reason-based trust and implicit trust, positing that as authorities move toward more sophisticated monitoring, the perceived legitimacy of that power becomes the primary determinant of whether a taxpayer adopts a cooperative or an antagonistic posture.

In contrasting the effects of legitimacy versus coercion, the impact of perceived power on compliance is not monolithic. While high legitimacy is consistently linked to voluntary cooperation (Hartl et al., 2015; Kasper et al., 2015), the exercise of power can sometimes yield counterproductive results. Wahl et al. (2010) demonstrated through experimental evidence that an over-reliance on raw authority can diminish voluntary cooperation and increase a sense of enforced compliance. A critical distinction identified in the literature is the interaction between power and trust. For example, Kaplanoglou & Rapanos (2015) found that the influence of power on voluntary compliance is negligible when trust is already high; however, in low-trust environments, the strategic use of power becomes the primary determinant of compliance behaviour.

Interestingly, the perception of power as legitimate rather than coercive is often tied to democratic processes. When taxpayers are engaged through public voting or transparent political participation, they are more likely to view the tax authority's power as justified

(Lozza et al., 2013). Conversely, a lack of agency can trigger an adversarial orientation; in such a hostile tax climate, compliance is no longer a civic duty but a calculative struggle where taxpayers utilise information asymmetries to circumvent authority (Wahl et al., 2010). Empirical surveys in developed nations further corroborate these findings, showing that legitimate power not only directly influences cooperation but is also fully mediated by implicit trust (Kastlunger et al., 2013; Gangl et al., 2020a). Additionally, justice-related factors are significantly associated with voluntary compliance, provided the authority maintains a high level of legitimate power (Dijke et al., 2019).

(b) Studies in Developing Economies

Despite the diversity of tax regimes across the developing world, these developing nations share a fundamental fiscal challenge: the necessity to mobilise domestic revenue to meet public expenditure in an economically viable manner (Bird, 2008). While traditional deterrence models that centred on coercive power through audits and penalties have historically been the primary tool for securing compliance (Gangl et al., 2020a), there is an increasing recognition that voluntary cooperation remains the most sustainable and cost-effective objective for tax administrations (Jimenez & Iyer, 2016).

There is a shift toward reciprocity and voluntary compliance. Recent experimental evidence from developing contexts, such as Indonesia and various emerging markets, aligns with global frameworks like the SSF (Kirchler et al., 2008). These studies suggest that voluntary compliance rates are maximised when institutional power is balanced with reciprocal trust (Damayanti & Supramono, 2019; Olsen et al., 2018). Within this paradigm, legitimate power is identified as the primary driver of the willingness to comply voluntarily, as it reduces the perceived distance between the state and its citizens (Gobena & Van Dijke, 2016). Nevertheless, the application of these power-compliance dynamics in developing nations is not without contradiction. Empirical evidence remains mixed, reflecting the diverse institutional landscapes of these regions. For example, while surveys of self-employed taxpayers in Turkey and Ethiopia found a significant positive relationship between legitimate power and voluntary compliance (Benk & Budak, 2012; Gobena & Dijke, 2016), other studies have reported no significant causal impact. Notably, research using secondary data across various developing economies failed to uncover a robust link between authority power and compliance behaviour (Mas'ud et al., 2015; 2019).

These inconsistencies are further exemplified by a more recent findings in Cambodia, where authority power showed no statistical correlation with compliance intentions (Taing & Chang, 2020). Prior literature highlights a critical divide between deterrence-based perspectives, which focus on imposed compliance, and socio-psychological perspectives, which prioritise voluntary cooperation (Alm et al., 2012). Distinguishing between coercive and legitimate power is essential for a better understanding of taxpayer behaviour in emerging markets (Gobena & Van Dijke, 2016). Given that high levels of coercion can lead to evasion and distrust, focusing on the determinants of voluntary compliance is essential for the long-term fiscal health of developing states (Young et al., 2016).

In Malaysia, empirical evidence on the interplay between power, trust, and tax compliance remains relatively limited. Despite the extensive body of international research on tax compliance, there is a notable scarcity of studies examining the influence of power and the mediating role of trust within the Malaysian tax context. Existing studies by Faizal et al. (2017), Chong and Arunachalam (2018), and Rashid et al. (2021a) reported findings that differ from the propositions of the SSF, revealing that the legitimate power exercised by tax authorities had either a weak or statistically insignificant direct effect on voluntary tax compliance. These findings suggest that taxpayer-authority relationships in an emerging economy may be shaped by factors beyond formal institutional power alone. Consequently, a more nuanced understanding of the behavioural and psychological mechanisms underlying tax compliance is required. In particular, the attitudes, perceptions, and motivations of Malaysian taxpayers should be examined within the context of the country's evolving socio-political environment and ongoing digital transformation of tax administration.

2.3 Hypothesis Development: The Dual Dimensions of Power

2.3.1 Legitimate Power and Voluntary Compliance

Legitimate power is theorised as the authority's right to prescribe behaviour, rooted in the taxpayer's internalisation of the system's values (Raven et al., 1998). In developed nations, empirical and experimental evidence consistently supports the premise that legitimate power fosters a service climate, leading to high levels of voluntary cooperation (Gangl et al., 2015; Hofmann et al., 2017). Studies in Europe have shown that when authorities leverage legitimate methods, such as transparent communication and

democratic participation, taxpayers identify more closely with the state, viewing tax evasion as a violation of a shared social contract (Kastlunger et al., 2013; Lozza et al., 2013). This relationship is often mediated by trust; legitimate power signals that the authority is credible, which in turn reduces the psychological cost of compliance (Gangl et al., 2020b). The transition of these findings to developing economies presents a more complex picture.

While some studies found a significant positive relationship between legitimate power and voluntary compliance (Gobena & Van Dijke, 2016), others, such as those in Cambodia and various emerging markets, failed to uncover a robust link (Mas'ud et al., 2019; Taing & Chang, 2020). These inconsistencies underscore a deeper theoretical problem where factors driving compliance in developing nations may be more sensitive to specific local constraints. Medina and Schneider (2018), in their 20-year longitudinal synthesis, identify a strong inverse correlation between institutional quality and the size of the shadow economy. They argue that as the power of authorities increases through digitalisation, the shadow economy only shrinks significantly if accompanied by a corresponding rise in tax morale and institutional trust, suggesting that coercive measures alone are insufficient for long-term fiscal formalisation.

In Malaysia, prior findings by Faizal et al. (2017) and Rashid et al. (2021a) suggest that legitimate power had a negligible impact on voluntary compliance. These studies were also limited by small sample sizes and focusing only on specific demographic clusters. This lack of a clear consensus necessitates a more rigorous, large-scale investigation to determine if legitimate power can indeed foster voluntary compliance in a middle-income emerging economy. Moreover, the rapidly evolving socio-political landscape in Malaysia, characterised by shifts in governance and institutional transparency, suggests that older empirical data may not capture the current psychological state of taxpayers.

Following the logic of SIT, which posits that the credibility of an agent (legitimate power) increases the internalisation of desired behaviours, we propose:

H_1 : Legitimate power is positively related to voluntary tax compliance in Malaysia.

2.3.2 Coercive Power and Enforced Compliance

While legitimate power focuses on the carrot, coercive power represents the stick in terms of the capacity of the state to detect

non-compliance and impose sanctions. In this study, the inclusion of coercive power does not signify an endorsement of purely punitive policies; rather, it acknowledges that a certain level of enforcement is required to address tax imbalances and deter potential free riders (Kirchler et al., 2008). In climates of low trust, coercive power is the primary driver of enforced compliance, where taxpayers comply not out of duty, but to avoid financial and legal repercussions (Kasper et al., 2015; Kogler et al., 2013).

Based on the SIT, the power of an agent, such as a government department, directly shapes the decisions and attitudes of individuals through the process of compliance. Coercive power refers to the authority's capacity to detect illegal non-compliance and penalise offenses (Wahl et al., 2010). Prior literature suggests that without this fundamental presence of power, a tax system cannot fully exist, as it provides the necessary pressure to ensure that non-compliant taxpayers fulfil their civic duties (Kasper et al., 2015; Kogler et al., 2013). The impact of coercive power is deeply intertwined with the interaction climate between the state and its citizens. Studies have indicated that when coercive power is exercised within a transparent and trustworthy institutional framework, it can effectively reinforce the tax structure (Kasper et al., 2015). Batrancea (2019) synthesises a decade of empirical research to demonstrate that the effectiveness of coercive tax enforcement is increasingly contingent upon taxpayers' trust in public institutions. This evidence suggests that the legitimacy of tax authorities has evolved from a predominantly legal concept to a relational and trust-dependent construct, reflecting broader changes in taxpayer-government interactions.

While the role of coercive power has been extensively investigated internationally, empirical evidence within the Malaysian context remains remarkably sparse. In the context of Malaysia, the role of coercive power remains an area of active debate. Despite the IRBM high penalty collection rates, few studies have clearly mapped how this coercive pressure translates into long-term compliance behaviour (Chong & Arunachalam, 2018). Preliminary evidence from Faizal et al. (2017) and Rashid et al. (2021a) has been inconclusive, failing to present a clear consensus on whether increased coercion effectively steers the broader Malaysian population toward compliance or merely fosters a "cops and robbers" mentality. Consequently, the relationship between coercive measures and enforced compliance among Malaysian taxpayers remains empirically unclear. Understanding the specific impact of coercion is vital for Malaysian policymakers to determine if the current audit-heavy

approach is sustainable. To address this gap and validate the deterrence component of our integrated model, we propose:

H_2 : Coercive power is positively related to enforced tax compliance in Malaysia.

2.4 *The Mediating Effect of Trust in Government*

Trust is the fundamental glue of social, economic, and political interactions (Bornman, 2015). In the fiscal domain, trust in public authorities serves as a catalyst for positive taxpayer attitudes, which ultimately dictates the level of compliance (Damayanti & Supramono, 2019; Torgler, 2004). When a government successfully cultivates public trust, it strengthens the fiscal system both directly by fostering a sense of duty and indirectly by enhancing the perceived legitimacy of its power (Prichard et al., 2019).

While the exercise of power may lead to a non-cooperative posturing, where taxpayers and authorities act as strategic opponents, trust establishes a synergistic climate built on reciprocal social contracts (Kirchler et al., 2008). In such a climate, the relationship between the state and the taxpayer is viewed as a relational or psychological contract characterised by mutual loyalty and shared goals (Park & Blenkinsopp, 2011). Under these conditions, the need for expensive enforcement measures diminishes because compliance becomes an act of committed cooperation rather than forced submission (Kogler et al., 2015).

According to SET, taxpayers are more likely to support government policies if they perceive the state as trustworthy and its exercise of power as legitimate (Tyler, 2006). Trust acts as the bridge in this exchange. For instance, when taxpayers perceive the government's power as legitimate derived from expertise or democratic mandate, it signals that the government is a credible partner. This signal increases trust, which in turn reduces the motivation to evade (Hunt et al., 2019). Conversely, a decline in trust leads taxpayers to view their obligations as excessive and the government's power as coercive (Inasius et al., 2020).

Prior research has explored trust largely as an independent variable with mixed results (Ishak & Mohd Ali, 2020; Kaplanoglou & Rapanos, 2015). However, a growing body of evidence suggests that trust serves as a critical mediator. For example, global data across 182 countries suggests that trust in government mediates the relationship between citizens' perceptions of state actions (transparency, services) and tax behaviour (Batrancea & Nichita, 2015). Moreover, Alm (2023) argue digitalisation simultaneously expands both enforcement

opportunities and compliance challenges. Although digital technologies enhance the government's ability to monitor transactions and identify non-compliance, their effectiveness ultimately depends on taxpayers' perceptions of legitimacy and trustworthiness.

Despite the theoretical importance of trust, several gaps remain in the existing literature. First, most studies focus on behavioural intentions rather than actual compliance behaviour. Second, the mediating role of trust, specifically how it funnels the impact of legitimate power into voluntary compliance, has been examined in areas like Zakah compliance (Mohd Noor & Saad, 2016) and transparency (Siahhaan, 2013) but remains largely untested in the Malaysian tax compliance model. Given Malaysia's recent efforts to reform public institutions and restore institutional trust, it is imperative to investigate whether the taxpayer's trust in government serves as the mechanism that converts legitimate power into voluntary cooperation. This study addresses this gap by positioning trust as the pivotal mediator in the Malaysian tax compliance nexus. Therefore, we hypothesise:

H_3 : Trust in government mediates the relationship between legitimate power and voluntary tax compliance.

2.5 *The Mediating Role of Trust in the Tax Authority (IRBM)*

While trust in government represents a broad political sentiment, trust in the tax authority, specifically the IRBM, reflects the taxpayers' perception of the operational fairness and competence of the fiscal administration (Sebele-Mpofu et al., 2021). The SSF suggests that the interaction between institutional power and trust determines whether a tax climate is synergistic or antagonistic (Kirchler, 2007; Wahl et al., 2010).

Trust in the tax authority is a relational construct that serves as the foundation for voluntary cooperation (Bornman, 2015). When taxpayers believe that the IRBM operates with integrity, transparency, and benevolence, they are more inclined to provide accurate information and honour their tax obligations as part of a reciprocal social contract (Damayanti & Supramono, 2019; Prichard et al., 2019). This "reciprocity component" is vital; compliance levels rise when taxpayers feel the authority trusts them, shifting the dynamic away from adversarial posturing toward one of reciprocal cooperation (Tyler, 2003; Torgler, 2004).

Theoretically, the presence of trust can either amplify or dampen the effects of power. In a synergistic climate, legitimate power is

filtered through reason-based trust, where taxpayers comply because they recognise the authority's expertise and service orientation (Gangl et al., 2013; Hofmann et al., 2017). Conversely, in an antagonistic climate, trust is often calculative and coercive power becomes the primary tool for securing enforced compliance. Prior studies support the mediating role of trust; for example, trust in tax authorities has been found to mediate the influence of procedural justice on voluntary compliance in various emerging markets (Gobena & Van Dijke, 2016). However, the mediating effect on coercive power is more divergent; while some argue trust can soften the blow of coercion, others suggest that implicit trust may not always mediate the path between a coercive climate and enforced cooperation (Hofmann et al., 2017).

In the Malaysian context, the literature presents a fragmented picture. While Faizal et al. (2017) identified that procedural justice improves trust, they failed to find a significant mediation effect on compliance behaviour in their sample of 90 academicians. Similarly, Chong and Arunachalam (2018) found only partial mediation, while Rashid et al. (2021b) reported that trust in the tax authority did not mediate the link between legitimate power and cooperation among professional taxpayers. These mixed results in Malaysia suggest a mediation gap that may be caused by sample specificity where prior studies often relied on students or specific professional groups (academicians, accountants), which do not represent the actual and diverse taxpayers' population of Malaysia. In addition, most prior local research measured the intention to comply rather than the perceived actual behaviour, leading to potential social desirability bias. This study therefore seeks to bridge these gaps by testing the dual mediation of trust across both power dimensions.

Based on the theoretical strength of SET and the SSF, there is a strong basis to expect that trust in the IRBM is the psychological bridge through which institutional power influences behaviour. If the IRBM is seen as using its power legitimately, it builds trust, which then fuels voluntary cooperation. Conversely, if its coercive power is seen as transparent and necessary, trust ensures that even enforced compliance is seen as part of a fair system. Based on the preceding arguments and the need to resolve the inconclusive findings in Malaysia, this study proposes:

H_{4a} : Trust in tax authority (IRBM) mediates the relationship between legitimate power and voluntary tax compliance.

H_{4b} : Trust in tax authority (IRBM) mediates the relationship between coercive power and enforced tax compliance.

3. Methodology

A research design is a systematic framework designed to fulfil research objectives and provide empirical answers to research questions. Selecting an appropriate design is a complex process necessitated by the vast array of available approaches, procedures, and sampling techniques (Cooper & Schindler, 2014). In ensuring a cohesive alignment between theory and evidence (Greener, 2008), the design of this study is inextricably linked to the chosen data collection methods and analytical techniques. We adopt a positivist paradigm, which is grounded in the belief that social reality can be measured objectively through quantitative means. Positivism is particularly suited for this study as it seeks to test hypotheses derived from established theories (SIT and SET) and identify causal relationships between power, trust, and compliance.

A quantitative research approach utilising a survey instrument was employed to facilitate the collection of authentic data from a representative sample of the Malaysian population. To maintain content validity, all constructs in the research model were measured using items adapted or adopted from established literature, with minor modifications to align with the Malaysian fiscal context. The dependent variables (Tax Compliance) were operationalised as a two-dimensional construct: Voluntary Compliance and Enforced Compliance. These scales were originally developed by Braithwaite (2003) and further refined by Kirchler and Wahl (2010) to objectively capture the motivations behind taxpayer behaviour. For the independent variables, institutional power was operationalised using two distinct scales adopted from Kastlunger et al. (2013), consisting of five items each to measure coercive power and legitimate power. The mediating variables were captured through two specialised instruments: trust in government was measured using four items developed by Bélanger and Carter (2008), while trust in the IRBM was assessed via a six-item scale designed by Kastlunger et al. (2013). All items were measured on a five-point Likert scale, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). This scale length was selected to minimise respondent fatigue while maintaining sufficient variance for statistical analysis.

The target population for this research encompasses individual Malaysian taxpayers, including both salaried employees (under the monthly tax deduction scheme) and sole proprietors. Unfortunately, a centralised institutional database list of individual taxpayers could not be utilised due to strict legal confidentiality and data protection laws governing taxpayer records held by the IRBM.

To overcome this, a systematic two-stage sampling approach was utilised. In the first stage, a multistage cluster sampling strategy determined the distribution matrix across all Malaysian states, with sample allocations calculated proportionately to each state's actual population size. In the second stage, a purposive sampling strategy was applied to identify respondents who meet the criteria of being active taxpayers under the SAS. The sampling criteria was applied to select respondents who had prior experience interacting with the IRBM, thereby ensuring that participants possessed the necessary knowledge and experience to provide meaningful responses to the survey.

To capture the attitudes and behavioural intentions of individual taxpayers, a self-administered questionnaire was utilised. This method is widely regarded as an effective tool for quantifying individual perceptions regarding complex social issues like taxation (Bryman, 2012). While digital surveys are becoming common data collection method, this study employed a drop-off and pick-up (DOPU) method whereby questionnaires were personally distributed to eligible respondents and collected after completion. Respondents were approached at major shopping malls located in key cities across all Malaysian states. These locations were selected because they attract a diverse cross-section of residents from different demographic and socioeconomic backgrounds, thereby increasing the likelihood of reaching potential taxpayers. To ensure the relevance of the sample, potential respondents were screened before participation. Specifically, respondents were asked whether they had prior experience interacting with the IRBM. Only individuals' taxpayers who confirmed such experience were considered eligible to participate in the study.

Prior to participation, respondents were informed about the purpose of the study, the voluntary nature of participation, and their right to withdraw at any time. To protect anonymity and eliminate social desirability bias, participants were provided with a sealable envelope. Completed questionnaires were placed inside the envelope by the respondent, sealed, and collected by the researcher either later that day or within a scheduled 48-hour window. Signed consent forms were collected separately from the main survey instruments to ensure no linkage could be made to individual identities. Although this approach is resource-intensive and requires extensive travel for hand-deliveries and retrievals (Zikmund et al., 2009), it is recognised as one of the most effective strategies for maximising response rates and ensuring the quality of data collected in developing economies (Dillman, 2007). The physical presence of the researcher

during delivery often fosters a higher sense of commitment from the respondents, which is crucial in a sensitive context like tax compliance. To ensure ethical compliance and data quality, each questionnaire was accompanied by an institutional support letter, a detailed information sheet, and a formal consent form.

The number of respondents assigned to each state was proportionate to the state's population size, ensuring broad geographical representation across Malaysia, including both Peninsular Malaysia and East Malaysia (Sabah and Sarawak). Table 1 outlines the geographical distribution of respondents by state, including the number of questionnaires distributed, not returned, collected, discarded as unusable/outliers, and the final set retained for analysis. A total of 490 questionnaires were distributed to the identified clusters. There is a non-retrieval of 49 units where the respondents did not return the survey. Moreover, as the data underwent a strict screening process, 45 responses are removed due to excessive missing data or being identified as multivariate outliers during initial screening. Final usable sample of 396 cases resulted in a 90 per cent response rate, which is exceptionally high for tax-related studies and provides a robust foundation for the analysis. In addition, by linking our Stage 1 cluster allocation directly to geographic population weights, across all the surveyed states are proportionately represented. East Malaysia accounts for a robust and balanced portion of the final analyzed data (Sabah: $n=51$, Sarawak: $n=37$; combined $n=88$ or 22.2 per cent of the final sample), ensuring high external validity for the broader Malaysian taxpayer population.

Table 1: Distribution and Collection of the Questionnaires Based on Malaysian States

State	Distributed	Not returned	Collected	Discarded	Final
Kuala Lumpur & Selangor	106	12	94	8	86
Pahang	27	4	23	1	22
Terengganu	31	3	28	3	25
Kelantan	41	2	39	6	33
Perak	32	3	29	3	26
Penang	25	2	23	3	20
Kedah	36	3	31	2	29
Malacca	21	2	21	4	17
Johor	62	7	55	5	50
Sabah	64	6	58	7	51
Sarawak	45	5	40	3	37
Total	490	49	441	45	396

To address potential regional bias, we analysed the collection profiles across all the 11 states shown in Table 1. The analysis demonstrates that response rates (measured as questionnaires collected relative to questionnaires distributed) remained consistently high and structurally uniform across all locations, ranging tightly between 85.2 per cent (Pahang) and 100 per cent (Malacca), with an aggregate national response rate of 90.0 per cent. As no single state or region exhibited a substantially lower response rate, threat of localised non-response or regional bias is statistically minimised. This highly stable response pattern across geographical zones is directly attributable to our rigorous nature of the retrieval process resulted in a high initial return. By utilising the DOPU method, which relies on face-to-face interaction and scheduled physical retrievals, we were able to maintain high engagement and minimise dropout rates uniformly across both Peninsular and East Malaysia.

4. Results

This section presents the empirical findings derived from the statistical analysis of the survey data. To ensure a robust evaluation of the research model, a two-staged analytical procedure was adopted. First, IBM SPSS Version 22.0 was utilised for data screening, preliminary cleaning, and the generation of descriptive statistics to profile the respondents. Second, Smart-PLS Version 3.0 was employed to perform Partial Least Squares SEM (PLS-SEM). It was selected as the primary analytical tool due to its effectiveness in handling complex mediation models and its ability to estimate relationships without requiring stringent distributional assumptions (Hair et al., 2017). The analysis followed the standard protocol of evaluating the measurement model (reliability and validity) prior to assessing the structural model (hypothesis testing and mediation effects).

4.1 Respondents' Profile

The demographic characteristics of the 396 respondents are summarised in Table 2. The gender distribution of the sample is relatively balanced, with females representing 54.5 per cent ($n=216$) and males accounting for 45.5 per cent ($n=180$). In terms of economic status, the monthly income of respondents was categorised into four tiers, ranging from below RM4,000 to RM10,000 and above, ensuring a broad representation across different tax brackets. Notably, a significant majority of the participants (81 per cent) are salaried employees, while the remainder comprises self-employed individuals.

Regarding their experience with the Malaysian tax system, the largest segment of respondents reported having between two to five years of active interaction with tax authorities, followed by those with less than two years of experience. This profile indicates a sample that is sufficiently familiar with the SAS to provide informed responses regarding their compliance behaviour.

This study acknowledged that salaried taxpayers constitute approximately 81 per cent of the sample, while sole proprietorship/business taxpayers only represent approximately 19 per cent. This is consistent with our sampling design that focused strictly on achieving robust geographic representation across all Malaysian states, and not to achieve equal representation across taxpayer categories. According to taxation statistics and the structure of the Malaysian tax system, salaried taxpayers constitute the largest segment of individual taxpayers registered with the IRBM. While the compliance behaviours of salaried and self-employed individuals can differ, letting the categories register organically ensures that our sample accurately reflects the true, real-world taxpayer distribution in Malaysia, enhancing the realism and ecological validity of the study.

Table 2: Respondents' Profile

No.	Demographic items	Categories	Frequency	Percentage
1	Gender	Male	180	45.5
		Female	216	54.5
2	Level of income	Less than iRM 3,000	253	63.9
		RM3,001–iRM 4,000	75	18.9
		RM4,001–RM6,000	49	12.4
		RM6,001–RM 8,000	13	3.3
		RM8,001–RM 10,000	4	1.0
		Above RM10,000	2	0.5
3	Taxpayer category	Self-employed	75	18.9
		Salaried Employees	321	81.1
		Less than two years	169	42.7
4	Experience	2–5 years	106	26.8
		6–10 years	69	17.4
		11–15 years	17	4.3
		16–20 years	17	4.3
		Above 20 years	18	4.5

To address the concern regarding external validity, where there might be behavioural differences and varying compliance risks between salaried employees and self-employed business taxpayers, we did not rely solely on this population alignment. We have performed independent samples *t*-tests to evaluate if these two categories exhibit structurally divergent compliance behaviours. The results confirmed no statistically significant differences between salaried workers and sole proprietors. This empirical uniformity proves that the structural paths identified in our model are highly stable and generalisable across both taxpayer categories, successfully preserving the external validity of our conclusions. The non-response bias was also evaluated via wave analysis, comparing early respondents against late respondents, proxying non-respondents. Independent sample *t*-tests across all primary latent constructs revealed no statistically significant differences between the two groups, confirming that non-response bias does not systematically distort the findings.

To evaluate potential regional variations across the nation, the final analysed sample ($N=396$) was aggregated into five major macro-geographical zones representing both Peninsular and East Malaysia, namely Central, Northern, Southern, East Coast, and East Malaysia. The mean scores for VTC and ETC for each specific zone show structural stability across regions, showing that regional clustering does not introduce systematic behavioural skews into our model. The regional compliance matrix demonstrates remarkable behavioural uniformity across Malaysia, with decentralised VTC means tightly bounded between 3.85 and 3.91, and ETC means varying narrowly from 3.22 to 3.29. This close proximity to the respective national baselines of 3.87 and 3.26 indicates that geographical clustering does not introduce systematic behavioural skews or regional distortions into the dataset.

To address representativeness, we have executed the post-hoc subgroup analysis using independent samples *t*-tests and one-way Analysis of Variance (ANOVA). The *t*-tests results reveal no statistically significant difference between the two categories of taxpayers on either VTC or ETC. Specifically, the independent samples *t*-tests indicate that there are no statistically significant differences between salaried employees ($n = 321$) and self-employed business taxpayers ($n = 75$) regarding either VTC ($t(394) = 1.12, p = 0.26$) or ETC ($t(394) = 0.89, p = 0.374$).

A one-way ANOVA was also executed to evaluate if the early-career cohort with <2 years of experience behaved differently than

mid-career and seasoned taxpayers. Similarly, the ANOVA metrics establish that compliance postures remain statistically uniform across different tax-filing experience tiers for both VTC ($F(2, 393) = 1.45, p = 0.235$) and ETC ($F(2, 393) = 1.18, p = 0.311$). The post-hoc test established that compliance levels are invariant across different types of taxpayers and experience bands. These findings strengthen the robustness of the proposed structural model by demonstrating that the observed behavioural relationships are largely consistent across heterogeneous taxpayer groups, thereby enhancing the generalisability of the study's findings within the Malaysian context.

4.2 Descriptive Analysis

Descriptive statistics provide a fundamental overview of the dataset's properties, capturing the central tendency and dispersion of the examined constructs. Table 3 summarises the mean, median, standard deviation, and the theoretical versus actual ranges for each variable. Based on the empirical findings, the mean and median scores for nearly all variables were positioned slightly above the theoretical midpoint, suggesting a generally positive trend in taxpayer perceptions across the model's dimensions. The proximity between the mean and median values across all constructs indicates a high degree of distributional symmetry. Furthermore, the standard deviation values suggest that the responses were reasonably distributed around the mean, providing sufficient variance for the subsequent inferential analysis via PLS-SEM. These preliminary results confirm that the data is well-suited for further structural testing and does not exhibit extreme skews that could bias the model estimation.

Table 3: Descriptive Statistics

Construct	Skewness					Kurtosis	
	Mean	Median	Std. D	Statistic	Std. Error	Statistic	Std. Error
CP	3.1793	3.2500	.75014	-.171	.123	.267	.245
LP	3.5543	3.5000	.65740	-.351	.123	.812	.245
TG	3.2468	3.2500	1.02214	-.430	.123	-.338	.245
T.IRB	3.5598	3.6667	.75151	-.625	.123	1.061	.245
VTC	3.8784	3.8571	.71815	-.492	.123	.498	.245
ETC	3.2664	3.2500	.82431	-.269	.123	.352	.245

Note: CP=Coercive Power, LP=Legitimate Power, TG=Trust in Government, T.IRB=Trust in tax authority, VTC=Voluntary Tax Compliance, ETC=Enforced Tax Compliance

4.3 Measurement Model (Outer Model)

Evaluating the outer model is a prerequisite for testing the structural relationships, as it ensures that the measures used have satisfactory psychometric properties, specifically in terms of reliability and validity (Fornell & Larcker, 1981). Indicator reliability was assessed by examining the outer loadings of each construct. Based on Hair et al. (2017), a loading of 0.708 or higher is ideal, as it indicates that the construct explains more than 50 per cent of the indicator's variance.

Table 4: Measurement Model

Construct	Composite Reliability	Cronbach's Alpha	AVE	Items	Factor loading					
					CP	ETC	LP	TG	T.IRB	VTC
CP	0.841	0.755	0.572	CP1	0.747					
				CP3	0.610					
				CP4	0.835					
				CP5	0.813					
ETC	0.816	0.714	0.534	ETC3		0.499				
				ETC4		0.813				
				ETC5		0.822				
				ETC6		0.741				
LP	0.854	0.775	0.598	LP1			0.613			
				LP2			0.786			
				LP4			0.817			
				LP5			0.855			
TG	0.961	0.946	0.861	TG1				0.916		
				TG2				0.938		
				TG3				0.921		
				TG4				0.936		
T.IRB	0.938	0.920	0.717	T.IRB1					0.797	
				T.IRB2					0.817	
				T.IRB3					0.833	
				T.IRB4					0.895	
				T.IRB5					0.886	
				T.IRB6					0.876	

Construct	Composite Reliability	Cronbach's Alpha	AVE	Items	Factor loading					
					CP	ETC	LP	TG	T.IRB	VTC
VTC	0.905	0.877	0.578	VTC1						0.645
				VTC2						0.781
				VTC4						0.817
				VTC5						0.789
				VTC6						0.732
				VTC7						0.749
				VTC8						0.795

Note: CP=Coercive Power, LP=Legitimate Power, TG=Trust in Government, T.IRB=Trust in tax authority, VTC=Voluntary Tax Compliance, ETC=Enforced Tax Compliance.

As presented in Table 4, while a majority of indicators exhibited outer loadings above the ideal threshold, most notably item ETC3, which registered a loading of 0.499, was intentionally retained in the measurement model. According to Hair et al. (2017), reflective items with factor loadings between 0.40 and 0.70 should only be eliminated if their removal results in a substantial increase in the construct's composite reliability (CR) or average variance extracted (AVE) above recommended thresholds. As the Enforced Tax Compliance (ETC) construct's aggregate AVE is 0.534 (exceeding the 0.50 threshold) and its CR is 0.816 (exceeding the 0.70 threshold), dropping ETC3 was unnecessary. Retaining the item preserves the complete content validity and thematic scope of the original established scale without compromising the model's overall psychometric validity.

Convergent validity was evaluated using the AVE for each latent variable. The results in Table 4 also demonstrate that all constructs achieved an AVE value above the recommended 0.50 threshold (Fornell & Larcker, 1981). This confirms that, on average, each construct accounted for more than half of the variance in its assigned indicators, thereby establishing robust convergent validity. To ensure the internal consistency of the constructs, this study utilized CR. It is often preferred in PLS-SEM as it does not assume that all indicators are equally weighted (Hair et al., 2017). The results indicate that the CR values for all latent variables ranged from 0.714 to 0.946, exceeding the benchmark of 0.70. These findings provide strong evidence that the measurement scales are highly reliable and accurately represent the theoretical constructs in the Malaysian tax compliance model.

4.4 *Structural Model (Inner Model)*

Following the confirmation of the measurement model’s reliability and validity, the inner model was evaluated to test the hypothesised relationships. SEM was utilised to provide a rigorous framework for simultaneously examining direct and indirect pathways between exogenous and endogenous latent variables (Hair et al., 2017). Following the benchmarks suggested by Cohen (1988), R2 values of 0.26, 0.13, and 0.02 are categorised as substantial, moderate, and weak, respectively. Based on Table 5, the model demonstrates robust explanatory power as the exogenous variables account for 41.4 per cent of the variance in VTC and 31.4 per cent in ETC. Both values exceed the substantial threshold, indicating that the integrated model of power and trust provides a strong theoretical explanation for taxpayer behaviour in Malaysia.

Table 5: R-Square of the Endogenous Latent Variables

Construct	R ²	R ² (adj)	Evaluation
Voluntary Tax Compliance (VTC)	0.414	0.403	Substantial
Enforced Tax Compliance (ETC)	0.314	0.311	Substantial

The structural relationships were examined using a bootstrapping procedure to determine the significance of the path coefficients. The results of the structural path analysis, including direct and indirect effects, are detailed in Table 6. The significance of each hypothesis was assessed based on the T-statistics and the corresponding p-values. The analysis of the direct paths reveals that the majority of the hypothesised relationships are statistically significant. Specifically, Coercive Power demonstrated a strong positive influence on Enforced Tax Compliance (H_2) with a $p < 0.001$. However, the direct relationship between Legitimate Power and Voluntary Tax Compliance (H_1) was found to be statistically insignificant ($p=0.129$). This suggests that in the Malaysian context, legitimate power may not directly translate into compliance without the presence of a mediating psychological mechanism.

Table 6: Results of Structural Model Analysis

No.	Path	Std. Beta	T-value	P-value	Decision
H_1	LP → VTC	-0.085	1.519	0.129	Not Supported
H_2	CP → ETC	0.496	11.440	0.000	Supported
H_3	LP → TG → VTC	0.040	1.997	0.046	Supported
H_{4a}	LP → T.IRB → VTC	0.073	2.520	0.012	Supported
H_{4b}	CP → T.IRB → ETC	0.036	2.408	0.016	Supported

Note: CP=Coercive Power, LP=Legitimate Power, TG=Trust in Government, T.IRB=Trust in tax authority, VTC=Voluntary Tax Compliance, ETC=Enforced Tax Compliance, Sig=significant.

To test the mediation hypotheses (H_3 , H_{4a} , and H_{4b}), this study utilised the bootstrapping method to calculate the indirect effects and their associated significance levels, as recommended by Preacher and Hayes (2008). In contrast to the mixed direct effects, all hypothesised indirect paths were statistically significant ($p < 0.05$). The results confirm that Trust in Government and Trust in the IRBM serve as essential conduits for institutional power. As expected, Trust in Government significantly mediated the relationship between Legitimate Power and Voluntary Compliance (H_3). Similarly, Trust in the IRBM was found to positively mediate the nexuses between both dimensions of power and their respective compliance outcomes (H_{4a} and H_{4b}). Since the direct path for H_1 was insignificant while the indirect path was significant, this indicates a Full Mediation effect, highlighting that trust is the primary driver through which legitimacy influences Malaysian taxpayers. Conversely, for the coercive power framework (H_{4b}), because both the direct path (H_2) and the indirect path remain statistically significant, a complementary partial mediation profile is established.

5. Discussion

The empirical findings of this study provide a salient understanding of the tax compliance landscape in Malaysia, demonstrating key alignments with established Western-centric models while offering valuable contextual refinements to these frameworks. One of the most striking findings of this study is the lack of a significant direct relationship between legitimate power and voluntary tax compliance. While SIT (Kelman, 1958) suggests that the credibility and legitimacy of an authority should naturally lead to the internalisation of desired behaviours, our results indicate that in the Malaysian context,

legitimacy alone is insufficient to trigger compliance. This outcome stands in stark contrast to the vast majority of European studies (e.g., Gangl, et al., 2020b; Kastlunger et al., 2013; Kirchler et al., 2008; Kogler et al., 2015; Muehlbacher et al., 2011) which consistently report a strong direct path. This divergence may be attributed to cultural and institutional differences. In many developed countries, the service climate is long-established, whereas, in emerging economies, taxpayers may still perceive legitimate power as a hollow attribute unless it is backed by a demonstrable level of institutional trust. This finding suggests that for Malaysian taxpayers, the right to rule (legitimate power) lacks a direct impact on compliance; it must be continuously validated through the mediating lens of trust.

The finding that legitimate power lacks a direct significant path to compliance (H_1) initially seems to contradict the classic SSF. However, when viewed through the lens of Alm (2023), this may reflect the technological shock currently experienced by the Malaysian tax base. As the IRBM transitions toward the mandatory e-invoicing mandate described by Ilias et al. (2025), taxpayers may perceive this increase in legitimate monitoring power as an administrative burden rather than a service-oriented facilitator. This supports the argument that technological efficacy alone cannot bridge the tax gap without addressing the compliance capacity gap inherent in emerging economies.

This unexpected insignificance of the direct path between legitimate power and voluntary compliance (H_1) becomes theoretically clear when evaluated against the structural profile of the sample, which is heavily dominated by salaried employees (81.1 per cent). Within the Malaysian fiscal administration, salaried individuals are bound to the statutory Monthly Tax Deduction (MTD) framework. Consequently, these taxpayers do not exercise a monthly proactive, autonomous choice to comply; their tax obligations are structurally enforced and paid at source before net income is distributed. Since their compliance is structurally pre-determined by institutional arrangement, the tax authority's outward displays of legitimate power, such as operational expertise or procedural clarity, cannot directly stimulate an active behavioural choice to cooperate. Instead, as demonstrated by the full mediation profiles (H_3 and H_{4a}), legitimate power for a workforce whose income is automatically withheld, legitimacy must be converted into macro-political Trust in Government and operational Trust in the IRBM. It is this trust that transforms automatic, passive salaried-taxpayer obligations into a felt sense of voluntary civic duty and alignment with the national social

contract, validating the core tenets of Social Exchange Theory within a structurally restricted taxpayer base.

Conversely, the structural model provides robust support for the direct impact of Coercive Power on Enforced Compliance (H_2). This confirms that the stick remains an essential component of the Malaysian tax administration. Despite the global shift toward promoting voluntary cooperation (Jimenez & Iyer, 2016), a segment of the Malaysian taxpaying population remains purely calculative and opportunistic. For these individuals, the threat of audits and penalties by the IRBM is the primary driver of compliance behaviour. This aligns with the antagonistic climate identified in the SSF, where high enforcement is necessary to manage a relationship characterised by mutual suspicion and low initial cooperation. Consistent with Gangl et al. (2020a), the findings highlight the need for tax authorities to balance deterrence-based enforcement with reward-oriented approaches. Such a combination enables coercive power to operate not only as a mechanism for discouraging non-compliance but also as a means of encouraging voluntary compliance through positive reinforcement. While the IRBM's aggressive audit activities resulting in billions in penalties ensuring enforced compliance, our study shows that such measures are only a short-term solution. To move away from the adversarial orientation that characterises the shadow economy, the authority must leverage trust to lower the exit incentive identified by Medina and Schneider (2018).

Simultaneously, the potent direct relationship between Coercive Power and ETC (H_2) is intimately tied to the demographic socialisation of the sample, where 42.7 per cent of respondents possess less than two years of active tax-filing experience. This large cohort of early-career taxpayers has entered the Malaysian fiscal ecosystem during an era defined by aggressive technological surveillance, characterised by automated data analytics, system integrations, and the impending mandatory e-invoicing framework. Lacking exposure to the relationship-based and manual audit practices of the past, younger taxpayers tend to perceive the IRBM primarily as a technologically advanced authority capable of detecting discrepancies through automated systems in a timely manner. For this generation, the 'stick' of coercive power is an immediate, digitized reality rather than an abstract threat. This inescapable digital footprint directly compels calculated compliance out of a rational fear of systemic detection. However, our findings show that while this digital coercion successfully secures baseline compliance, the tax authority must actively leverage operational

transparency to ensure this technologically driven environment is perceived as a tool for collective equity rather than arbitrary state surveillance. This proves that even among tech-socialised, early-career taxpayers, strict enforcement is only contextually sustainable when the digital auditing apparatus is perceived as a transparent tool for collective fiscal equity rather than coercive state harassment.

The most significant contribution of this study lies in uncovering the asymmetric mediation profiles of trust, demonstrating full mediation across the legitimate power pathways (H_3 and H_{4a}) alongside partial mediation on the coercive power pathway (H_{4b}). The results reveal that while legitimate power has no direct effect, it has a significant indirect effect through Trust in Government and Trust in the IRBM. This is a pivotal theoretical insight. In Malaysia, legitimate power does not create compliance; it creates trust, and it is that trust which then creates compliance. This suggests a two-step psychological process. First, taxpayers evaluate the governments and the IRBM's expertise and right to govern. Second, if that evaluation is positive, it builds a trust reservoir. Finally, this trust fosters a synergistic relationship that makes the taxpayer willing to comply voluntarily. This validates the SIT (Homans, 1958), where compliance is the reciprocal act taxpayers offer in exchange for a government they trust.

Furthermore, the analysis showed that trust in the IRBM also partially mediates the relationship between coercive power and enforced compliance. Consistent with the results of Mohd Noor and Saad (2016) and Park and Blenkinsopp (2011), this study confirms that trust exerts a robust positive influence on tax compliance levels, further bridging the gap between administrative policy and individual taxpayer action. This indicates that while coercion works through fear, it works better when the authority is trusted. When the IRBM is seen as trustworthy, its enforcement activities (audits and fines) are not viewed as harassment but as fair enforcement against evaders.

The significant mediation effect identified in this study is consistent with the global meta-analytical evidence reported by Batrancea et al. (2019), which suggests that trust has increasingly emerged as a key mechanism through which institutional legitimacy influences taxpayer behaviour in contemporary fiscal environments. The present findings however differ from those reported by Rashid et al. (2021b), who found no significant mediating role of trust in the relationship between legitimate power and taxpayer cooperation among Malaysian taxpayers. One possible explanation

for these contrasting results lies in the methodological and contextual differences across studies. By employing a more diverse sample of Malaysian taxpayers, our study provides additional evidence regarding the role of trust in shaping tax compliance behaviour. The findings suggest that taxpayers are becoming increasingly discerning in their interactions with tax authorities, evaluating the competence, fairness, and benevolence of governmental institutions before deciding to engage in voluntary compliance. This observation reflects the growing importance of trust-based governance in fostering sustainable tax compliance within an increasingly complex and digitalised tax environment.

6. Conclusion and Recommendations

This study provides a comprehensive empirical examination of the interplay between institutional power, trust, and tax compliance behaviour within the Malaysian SAS. Through the combined lens of SIT and SET, this study illuminates the psychological mechanisms that govern taxpayer cooperation. The findings offer a valuable contextual refinement of the compliance framework: while coercive power remains an essential direct deterrent, the path toward voluntary cooperation relies critically on the intervening role of institutional trust. The empirical evidence of full mediation suggests that legitimate power is only effective when it is successfully converted into institutional trust.

This study makes several contributions to the extant tax literature. First, it contributes to the evolution of the SSF by proving that trust in both the government and the tax authority is the essential mediator that stabilises the social contract. By integrating SIT and SET, we provide empirical evidence that supports the findings of Medina and Schneider (2018) that institutional quality is the ultimate deterrent against the shadow economy. Second, it addresses the Malaysian anomaly by demonstrating that legitimate power does not have a direct impact on compliance in this specific socio-political context, contrasting with findings in Western developed economies. Furthermore, by moving beyond the traditional youth or academican-focused samples found in prior Malaysian studies (e.g., Faizal et al., 2017; Chong & Arunachalam, 2018), this study offers a more representative and inclusive perspective of the Malaysian taxpaying public. This broadens the generalisability of the results and offers a more robust empirical foundation for future tax behaviour research in the ASEAN region.

Practically, the findings offer critical insights for the Malaysian government and the IRBM. To foster a synergistic tax climate, the following recommendations are proposed. First in terms of trust-centric policy design where policymakers should recognise that increasing legitimacy (through better services or laws) will only work if it concurrently builds trust. Transparency in how tax revenue is utilised for the common good is vital to enhancing Trust in Government. By prioritising transparency and demonstrating the efficient use of tax revenue, the government can foster the reciprocal sincerity necessary to bring down the level of Malaysian shadow economy. Second is on the need of balanced enforcement. While coercive power is necessary to manage calculative taxpayers, the IRBM should ensure that audits and penalties are perceived as procedurally fair. High levels of trust allow even coercive measures to be seen as a legitimate tool for social justice rather than state harassment. Finally with regards to operational integrity, enhancing the professional credibility and expertise of tax officials can boost reason-based trust, which this study identifies as the key driver for voluntary cooperation. Reflecting the contemporary shift identified by Batrancea et al. (2019), the IRBM's operational strategy must evolve beyond traditional coercive power. This study's findings corroborate that a trust-first approach is the most effective pathway for the Malaysian tax authority to address systemic non-compliance and foster a more resilient formal economy.

Despite its contributions, this study is subject to several limitations that provide avenues for future inquiry. First, the use of a cross-sectional design captures a snapshot of taxpayer sentiment at a single point in time. Future research should consider longitudinal approaches to track how shifts in political stability and economic policy influence the trust-compliance nexus over time. Secondly, although the sample matches the relative demographic weight of individual taxpayers within the national system, it exhibits a heavy concentration of salaried employees (81 per cent), those within the lower-to-middle income tiers and features a substantial block of early-career taxpayers with less than two years of active tax-filing experience. This demographic footprint may limit immediate generalisability to more complex taxpayer segments, such as long-term sole proprietors, corporate entities, or cash-reliant micro-enterprises whose interactions with the IRBM are shaped by different risk dynamics and political developments. Future studies should deploy stratified sampling matrices to capture more diversified bands of income levels, complex business filings, and varying

generations of tax filing experience. Finally, while this study focused on employed taxpayers and small business owners, extending this model to corporate taxpayers would provide a more holistic view of the Malaysian fiscal landscape.

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