

Determinants of Tax Compliance: A Conceptual Framework

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Abstract—This study proposes a conceptual exploration of how tax penalties, tax morale, patriotism, and perceived tax rates influence individual tax compliance in Selangor. Drawing upon the Theory of Planned Behavior and Deterrence Theory, the study addresses the persistent issue of low tax compliance among working-age Malaysians, particularly in Selangor the nation's most industrialized state. Despite economic activity and income potential, actual taxpayer registration and contribution remain disproportionately low. By integrating behavioral and psychological dimensions into existing compliance frameworks, this study offers new perspectives for policymakers, especially in designing interventions that appeal not only to enforcement mechanisms but also to civic values.

Keywords— Behavioral Economics, Deterrence theory, Patriotism, Tax compliance, Tax morale, Tax penalties.

I. INTRODUCTION

Tax compliance whether enforced by law or driven by voluntary civic duty is vital to the financial health and governance legitimacy of nations. It reflects citizens' willingness to support public finance systems and contributes directly to national development, public service provision, and social trust. In Malaysia, personal income tax is a significant source of government revenue, regulated under the Income Tax Act 1967. Although the Inland Revenue Board of Malaysia (IRBM) has adopted digitalization strategies and improved enforcement mechanisms, tax compliance among individual taxpayers remains uneven across regions (Rahman et al., 2024; Hayat et al., 2022; Musimenta et al., 2019).

Selangor, the country's most economically advanced and urbanized state, demonstrates a notable compliance gap. Despite high income potential among its residents, data from the IRBM indicates that only around 175,344 individual taxpayers filed solo tax assessments in 2022 out of approximately 2.4 million residents aged 30 to 49. This reveals a significant compliance deficit, suggesting that administrative or structural reforms alone are insufficient to close the gap (Nartey, 2023; Alm et al., 2023). Instead, there is a growing need to understand the behavioral and psychological drivers influencing taxpayers' decisions.

While traditional deterrence models emphasize audit probability and penalties, contemporary research increasingly highlights the role of non-coercive influences such as tax morale, patriotism, institutional trust, and perceived fairness of the tax system (Abu Bakar et al., 2023; Alshira'h & Abdul-Jabbar, 2020). However, in the Malaysian context, there is still limited empirical integration of institutional and psychological constructs. To bridge this gap, this study proposes a

conceptual framework investigating the effects of tax penalties, tax morale, patriotism, and perceived tax rate fairness on tax compliance moderately by a taxpayer's sense of responsibility.

II. LITERATURE REVIEW

Defining Tax Compliance Tax compliance refers to the extent to which taxpayers meet their legal obligations in reporting, calculating, and remitting taxes accurately and on time. It includes voluntary compliance, which is shaped by intrinsic motivation, and enforced compliance, which relies on penalties, audits, or regulatory oversight. The OECD (2010) describes it as a cornerstone of effective tax systems and public trust. Scholars have increasingly examined how both economic and behavioral drivers shape compliance behavior.

A. Tax Penalties

Deterrence Theory posits that taxpayers are rational actors who weigh the expected cost of evasion against its benefits. Higher penalties and audit probabilities increase this perceived cost, making evasion less attractive (Becker, 1968; Alm & Torgler, 2023). Numerous studies confirm a positive correlation between perceived penalty severity and compliance. However, in Malaysia, enforcement gaps and inconsistent auditing may reduce deterrence effectiveness. Understanding how perceived enforcement influences behavior is key, especially where the legal framework exists but public confidence in its execution may waver.

Empirical evidence suggests that when penalties are visible, consistently applied, and perceived as credible, taxpayers are more likely to comply (Ali et al., 2014). Therefore, the relationship between tax penalties and tax compliance is positive and stronger perceived penalties increase compliance levels.

B. Tax Morale

Tax morale refers to a person's internal motivation to comply with tax obligations, influenced by ethical beliefs, social norms, and trust in public institutions. Unlike enforcement-based compliance, tax morale stems from a sense of civic duty and fairness. In Malaysia, where public perceptions of institutional effectiveness can vary, tax morale is a key factor in shaping voluntary compliance (Abu Bakar et al., 2023).

Recent studies in emerging economies highlight that high tax morale leads to reduced tax evasion and increased willingness to pay taxes. When taxpayers believe the system is

fair and their contributions are used responsibly, they are more likely to comply willingly (Dularif & Rustiarini, 2022; Hayat et al., 2022). Promoting ethical governance and transparency can therefore strengthen tax morale and support sustainable revenue collection.

C. Patriotism

Patriotism, or emotional attachment to one's nation, is increasingly recognized as a compliance driver. It reflects a sense of civic pride and moral obligation to contribute to national welfare. Studies in Southeast Asia (Saptono & Khozen, 2023) show that patriotic individuals are more likely to view tax payment as a moral duty rather than a legal burden. In Malaysia's multiethnic society, patriotism could serve as a unifying factor that encourages civic behaviour, especially where institutional trust is fragile.

Mahang et al. (2019) found that patriotic campaigns significantly increase taxpayer morale and trust in public institutions. Hence, there is a positive relationship between patriotism and tax compliance, as stronger patriotic sentiment leads to greater civic responsibility in fulfilling tax duties.

D. Tax Rate

The level of the tax rate has long been considered a critical factor influencing taxpayer behaviour. Traditional economic theory suggests that higher tax rates reduce the net benefit of compliance, making tax evasion more appealing. Recent studies support this view, indicating that when tax rates are perceived as excessive, they can trigger psychological resistance especially if not matched by visible public benefits (Hayat et al., 2022; Nartey, 2023). In Malaysia, although tax rates are moderate compared to developed countries, many middle-income earners perceive the tax burden as disproportionate to the services received.

The relationship between tax rate and tax compliance tends to be negative higher rates often correlate with lower compliance due to perceived financial burden and reduced disposable income. However, this effect may be influenced by other factors such as trust in government or patriotic sentiment (Rahman et al., 2024). In this study, the direct relationship considered is that higher tax rates may discourage tax compliance, while lower or moderate rates may encourage voluntary compliance.

III. METHODOLOGY

This conceptual study proposes a framework for future empirical testing that explores the relationship between four independent variables and tax compliance: tax penalties, tax morale, patriotism, and perceived tax rate.

Tax penalties are justified by Deterrence Theory, which holds that higher perceived punishment reduces evasion (Alm & Torgler, 2023). Tax morale reflects individual ethical standards and civic responsibility (Abu Bakar et al., 2023). Patriotism captures non-material motivations for compliance, such as emotional and national loyalty (Saptono & Khozen, 2023). Perceived tax rate fairness is added to reflect how judgment about equity and burden-sharing affects willingness to comply (Alm et al., 2023).

IV. CONCLUSION

This study develops a conceptual framework to explore the institutional and psychological determinants of tax compliance in Selangor. By integrating both enforcement mechanisms and civic values such as tax morale, patriotism, and fairness perception, the framework offers a multidimensional view of compliance behavior. While Deterrence Theory provides a structural foundation, the inclusion of behavioral variables reflects contemporary thinking in tax research. Policymakers can benefit from this approach by designing interventions that not only punish noncompliance but also cultivate voluntary engagement. The model is intended as a foundation for empirical testing, with the potential to inform tax education campaigns, ethical outreach, and strategic enforcement in Malaysia's most economically vibrant region.

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