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The Effect of Peer Influence on Service Tax Compliance Among Malaysian Service Tax Registrants: The Moderating Role of Trust

Maryani Jamian[1*], Zainol Bidin[2], Saliza Abdul Aziz[3]
[1] *Tunku Puteri Intan Safinaz School of Accountancy (TISSA), Universiti Utara Malaysia (UUM), Kedah, Malaysia*
[2] *Tunku Puteri Intan Safinaz School of Accountancy (TISSA), Universiti Utara Malaysia (UUM), Kedah, Malaysia*
[3] *Tunku Puteri Intan Safinaz School of Accountancy (TISSA), Universiti Utara Malaysia (UUM), Kedah, Malaysia*
maryani_jamian@cob.uum.edu.my; b.zainol@uum.edu.my; saliza@uum.edu.my
[1] https://orcid.org/0009-0009-1148-7890; [2] https://orcid.org/0000-0002-9756-9724; [3] https://orcid.org/0000-0002-7664-2865
*Corresponding Author: maryani_jamian@cob.uum.edu.my

Abstract— Indirect taxes constitute a significant source of government revenue in Malaysia, particularly following the reintroduction of the Sales and Service Tax (SST). Despite ongoing administrative improvements, compliance among service tax registrants remains a policy concern. This study examines the relationship between peer influence and service tax compliance among Malaysian service tax registrants, while considering trust as a moderating factor between the exogenous and endogenous variables. Using a quantitative research design, data were collected from 200 service tax registrants across selected service sectors. Of these, 70% were deemed valid and suitable for further statistical analysis. Hypotheses were tested using Partial Least Squares Structural Equation Modelling (PLS-SEM). The findings indicate that peer influence has a positive and statistically significant effect on service tax compliance. However, the moderating analysis reveals that the inclusion of trust weakens the explanatory power of the model in predicting service tax compliance, suggesting that the direct influence of business partner networks operates relatively independently of trust levels. This study contributes to the growing literature on tax compliance behaviour by highlighting the importance of social and relational determinants within the Malaysian service tax context. The findings offer practical implications for tax authorities, particularly the Royal Malaysian Customs Department (RMCD), in designing compliance strategies that leverage peer and network-based mechanisms alongside institutional trust-building initiatives.

Keywords— Fischer model, Malaysia, peer influence, PLS-SEM, service tax compliance, trust

I. Introduction

This study seeks to examine the influence of peer on service tax compliance among service tax registrants in Malaysia, while identifying the moderating role of trust. This study theoretically grounded in the Fischer Model and support from Slippery Slope Framework, which posit peer influence and trust shape taxpayer's compliance behaviour. Prior literature suggests that peer or business network influence plays a critical role in shaping tax compliance behaviour. Firms often rely on information and norms communicated within their business networks when interpreting tax obligations and determining compliance strategies [1]-[3]. For instance, [4], similarly confirms that social influence theory holds that individuals' compliance behaviour and attitudes toward the tax system are influenced by the behaviour and social norms of their reference group, including friends, neighbours, and family. Similarly, [5] discuss how subjective norms essentially, the perceived social pressure to comply are critical in influencing tax compliance intentions and behaviours. This aligns with findings from [6], who indicate that social interactions can significantly affect compliance behaviours among small and medium enterprises. The advancement of research in this domain has led to a greater understanding of how peer influence operates within the context of tax compliance. Recent studies, by [7], uncover how peer group dynamics among Generation Z affect compliance behaviours, emphasizing the significance of digitalization and social media in facilitating peer influences on tax behaviour. This indicates a modern shift in compliance dynamics as younger generations engage with tax obligations in ways that differ from traditional influences experienced by older cohorts.

However, the evidence surrounding the influence of peer effects on tax compliance behaviours is mixed. While many studies emphasize positive peer influence as a driver for compliance, others highlight the possibility of negative peer effects, where a community of non-compliant peers may discourage individual tax compliance. [8], found that peer influence significantly and positively influenced compliance behaviour, with the compliance model explaining a substantial proportion of the variance in compliance decisions in the context of SMEs. Their finding that Zakah compliance of entrepreneurs is significantly influenced by peer influence, alongside system fairness and Zakah morale, underscores the importance of social dynamics in shaping compliance behavior among business owners. Study from [9], found that peers, colleagues, and family have a significant positive influence on tax compliance intention, concluding that peer influence were sufficient to affect taxpayers' intention to comply with tax compliance. Their regression analysis confirmed that the higher the taxpayer's trust to pay taxes, the more likely they will be encouraged to comply, partly through the influence of people in the surrounding environment [9]. [10] studies on business profit taxpayers in Addis Ababa found that the influence of peer groups was among the most significant determinants of tax compliance behavior, with peer attitudes and perceptions positively and significantly affecting compliance.

In contrast, some studies indicate a negative correlation whereby heightened peer pressure leads to decreased tax compliance [11], [12]. Study from [13], on Romanian taxpayers similarly found that an individual's reference group has an insignificant effect on tax compliance behaviour, implying that the opinions and actions of others do not influence an individual's decision to comply with tax laws. In Malaysia specifically, [14] discovered substantial evidence of a negative relationship between peer influence and compliance with excise duties. Furthermore, [15] noted that the findings regarding peer influences and sales tax compliance were insignificant. Taking a socio-psychological approach to indirect taxes, this study echoes previous research indicating an insignificant relationship between peer influence and service tax compliance.

However, the strength of such influence may vary depending on contextual and relational factors, including the level of trust in tax authorities and the tax system. Trust has been widely acknowledged as a key determinant of voluntary tax compliance. Recent studies demonstrate that higher levels of trust in government and tax authorities are associated with greater willingness to comply and lower propensity toward evasion [2], [16], [17]. Nevertheless, existing empirical findings regarding the moderating role of trust remain inconclusive. Some studies suggest that trust strengthens the positive effects of social norms and peer influence on compliance, whereas others report limited or inconsistent moderating effects [1], [18]. When trust in government is high, taxpayers may be less dependent on peer behavior as a compliance cue, as they are already intrinsically motivated to comply through their trust relationship with the authorities [19]. Conversely, when trust is low, the conditional cooperation mechanism may operate in the negative direction, with taxpayers looking to non-compliant peers as justification for their own evasion [18]. Given these mixed findings, it is essential to examine the moderating role of trust in the relationship between business partner influence and service tax compliance within the Malaysian context. Understanding how trust interacts with social influence can provide policymakers and tax authorities with deeper insights into the behavioural drivers of compliance. Such insights are valuable for designing more effective compliance strategies, strengthening cooperative relationships with taxpayers, and enhancing overall service tax compliance among businesses.

II. Background Of The Study

Tax compliance is a fundamental concern for governments and tax authorities worldwide, as it directly determines the capacity of states to generate revenue for public expenditure, social services, and economic development. At its most basic level, tax compliance refers to the degree to which taxpayers fulfil their tax obligations in accordance with the prevailing tax laws and regulations, encompassing the accurate reporting of income, timely filing of tax returns, and prompt payment of tax liabilities [13], [20]. The study of tax compliance has evolved considerably over the past several decades, moving from a narrow focus on economic deterrence, rooted in the seminal Allingham-Sandmo model toward a broader, multidisciplinary framework that incorporates behavioral, psychological, social, and institutional dimensions of taxpayer decision-making [13], [21]. The determinants of tax compliance are numerous and varied, spanning economic factors such as tax rates, audit probabilities, and penalties, as well as non-economic factors including tax knowledge, fairness perceptions, trust in government, social norms, peer influence, and tax morale [10], [13], [20]. [13] empirical study of Romanian taxpayers identifies nine key drivers of tax compliance behavior, including tax system fairness, trust in government and tax authorities, knowledge of tax legislation, personal financial constraints, coercive measures, moral standards, and tax legislation simplicity, demonstrating the multidimensional nature of compliance behavior. Similarly, [20] study of Nigerian SMEs, rooted in behavioral economics theory, finds that tax system complexity, tax deterrence sanction, tax noncompliance opportunity, tax information, and tax attitude and perception are important determinants of compliance behavior, while acknowledging that certain economic factors such as tax rate and compliance cost may not necessarily exert significant influence. These findings collectively underscore the complexity of tax compliance as a behavioral phenomenon and the importance of adopting a comprehensive, multidisciplinary approach to this study [10], [13], [20].

III. Theoretical Literature Review

A. *Peer Influence and Service Tax Compliance*

Based on Fischer's model, the influence of business partners is recognised as an important non-financial factor affecting tax compliance behaviour [22]. The model acknowledges social and demographic influences, including peer effects, as relevant determinants alongside economic considerations. This is particularly relevant for small and medium-sized enterprises (SMEs), where compliance decisions are often embedded within close business networks [23]. In service tax systems such as sales tax or VAT, business owners rarely make compliance decisions in isolation. Research grounded in social norm theory and the Theory of Planned Behavior suggests that individuals are influenced by the expectations and behaviour of significant referent groups [24], [25]. SME owner-managers frequently discuss tax matters with business partners, suppliers, colleagues, and other trusted contacts before determining how to report and remit taxes [26], [27]. Consequently, the views and practices prevailing within business networks can shape both compliance attitudes and actual behaviour. When peers promote accurate reporting and timely payment, compliance levels tend to increase [23], [28]. Conversely, when non-compliance is perceived as common or socially acceptable within the network, individuals may experience reduced moral costs of evasion, thereby weakening compliance motivation [25].

Peer influence affects service tax compliance through several mechanisms. First, business owners tend to adjust their behaviour based on what they believe is normal or acceptable within their close business circle. According to the Theory of Planned Behavior, people are influenced by the expectations of important others when making decisions [24]. In tax settings, research shows that these social expectations can influence compliance as strongly as, or even more strongly than, formal penalties and enforcement [23], [25], [26]. Among service-sector SMEs, business partners often discuss invoicing practices, tax rates, and reporting procedures. These discussions gradually create shared views about what is "right" or "normal," which then guide compliance behaviour.

Second, information sharing within business networks also shapes compliance. Business partners commonly exchange information about audits, penalties, new regulations, and filing procedures. Experimental evidence indicates that learning about peers' past tax behaviour can influence future compliance decisions [28]. For example, if a business owner hears that a partner was audited and penalised, the perceived risk of detection may increase. On the other hand, if peers share stories of avoiding tax without consequences, this may weaken the perceived seriousness of enforcement. In this way, information shared within networks updates both social expectations and perceived risks. Third, reputation matters. Non-compliance may damage a business owner's standing within their professional network. Studies using network and behavioural models suggest that fear of losing trust, credibility, or future business opportunities can discourage tax evasion [29]. In service industries where relationships are ongoing and repeated transactions are common, maintaining a good reputation may be just as important as avoiding legal penalties. Therefore, reputational concerns can independently encourage service tax compliance, even when enforcement intensity is moderate.

The influence of business partners on service tax compliance does not operate in the same way in every situation. Its strength and direction depend on several contextual factors. First, the type of tax and the level of enforcement matter. In complex service tax systems, business owners may rely more on advice and guidance from peers to understand unclear rules. In such cases, peer influence becomes stronger. However, in environments where enforcement is strict and penalties are severe, formal deterrence may become more important than social influence [30], [31]. Firm size also affects how strong peer influence is. Studies show that peer influence is usually stronger in small and medium-sized enterprises (SMEs) because these businesses rely more on informal relationships and close business networks when making tax decisions (Tee & Bidin, 2020). SME owners often discuss tax matters directly with partners and colleagues. In contrast, larger companies normally have formal compliance departments and clear internal procedures. Tax decisions are guided more by company policies than by informal discussions [26], [27]. Therefore, peer influence tends to be weaker in larger firms compared to SMEs.

Cultural and national context also influence how peer effects operate. Research shows that in countries with high tax morale and strong trust in government, social norms that support compliance can significantly increase voluntary tax payment [25], [26]. When people believe that most others are paying taxes honestly, they are more likely to comply as well. However, in low-trust environments where tax evasion is perceived as common, peer influence may instead encourage non-compliance. If individuals believe that many others are avoiding taxes, they may feel less motivated to comply themselves ([28].

B. *Trust and Service Tax Compliance*

Trust in government, also can be understood as a citizen's expectation that the government will fulfill its mandate competently while acting for the benefit of society [32]. As [33] highlighted, individuals base their trust levels on these evaluations of governmental performance. This trust can also arise from perceived outcomes and efficient public service delivery or social support systems. Building this trust is essential for governments as it enables them to govern without relying on coercion, thus reducing transaction costs and improving efficiency and effectiveness [34]. The relationship between trust in government and compliance with indirect taxes, particularly in the context of taxpayer behaviour, has garnered significant attention in recent research [35], [36], [37].

Higher levels of trust lead to a greater willingness among taxpayers to meet their tax obligations, with indirect tax compliance showing particular sensitivity to trust levels. Research indicates that when taxpayers exhibit high trust towards the government, they are more likely to assume that tax revenues will be managed fairly and effectively [38]. This perception cultivates a sense of intrinsic motivation to comply with tax regulations, thereby enhancing tax morale, which is crucial for ensuring compliance with indirect taxes [39], [40]. Taxpayers with high trust in the government have a significant correlation with their willingness to pay taxes, particularly influenced by perceived fairness and competent management of tax revenues [38].

Moreover, the effectiveness of tax compliance strategies is enhanced when trust is integrated as a moderating variable. For example, research by [41] suggests that taxpayers with higher trust levels exhibit concessionary behaviours, often willing to pay more than the minimum required. This finding highlights how trust not only fosters compliance but can also lead to a more cooperative relationship between taxpayers and tax authorities [42]. Thus, high trust in government can moderate the effects of other predictors such as perceived fairness and transparency, reinforcing compliance behaviours [43]. Other studies affirm that when trust levels rise, behaviours such as voluntary disclosure of income and adherence to tax obligations increase correspondingly [44].Study by [45] investigate the factors influencing tax compliance in Cambodia. Trust in government does not show statistical significance and fails to support the initial hypothesis. Meanwhile, [37] examine how trust in public authorities impacts tax compliance among SMEs in Indonesia. The findings indicate a weak correlation between SME tax compliance and trust levels towards governmental bodies. This suggests that although increased trust may enhance compliance, its influence appears less significant compared to other intrinsic motivational factors. [46] demonstrated that trust positively impacts tax compliance, supporting the slippery slope theory. When both taxpayer trust and authoritative power are low, people tend to exploit opportunities for tax evasion. On the other hand, even if the authority is weak but public trust is high, citizens may still comply with tax obligations willingly. [47] proposed model examined how perceptions of fairness affect voluntary tax compliance, considering trust in the government as a possible moderator. However, their findings showed mixed outcomes concerning these moderating effects.[48], examines the potential factors affecting tax compliance among SMEs in Jordan, with a particular emphasis on trust in government as a moderating variable. Sales tax compliance behaviour is considered the dependent variable. This study found that trust plays a significant role in moderating the relationship between taxpayers and both tax authorities and tax rates. However, it found no significant moderating effects of trust in government concerning, knowledge about taxes, taxpayer morale, or penalties related to taxation. Studies by [49], uncovers a positive, statistically significant relationship between trust in government and tax compliance.

Some findings are specifically connected to direct tax. However, these insights are pertinent to this study because both tax collectors and tax authorities operate within a similar environment. As government representatives, their interactions and responsibilities in the tax system provide valuable perspectives relevant to this study. This common context emphasizes the importance of understanding the dynamics of tax administration, regardless of whether the focus is on direct or indirect taxation. In the realm of tax compliance, greater efforts are required to investigate strategies for restoring public trust in government. Trusting tax authorities and governmental institutions is expected to improve compliance rates [50]. As a moderator variable, trust is introduced to assess its interaction on either strengthening or weakening the relationship between independent and dependent variables [51].

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IV. Empirical Literature Review and Hypotheses Development

Past studies show mixed results regarding the relationship between peer influence and tax compliance. [52] indicating that referent groups like business associates can significantly affect taxpayers' compliance to local sales tax requirements. [23], [53] studies in SMEs but in different tax context, found out peer influence positively and significantly impacts tax compliance behaviour. In addition, [40] indicate that there is a significant relationship between the referent group and tax compliance. The findings suggest that referent groups become the most significant factor in determining tax compliance. Thus, positive peer influence can create a supportive environment that fosters compliance through shared values and expectations [54].

Conversely, certain studies show a negative relationship where increased peer influence, results in reduced tax compliance [11], [12]. On the other hand, [55] found out there is no relationship between peer influence with voluntary tax compliance. [15] noted that peer influences had minimal effect on sales tax compliance. From a socio-psychological standpoint on indirect taxes, the findings align with previous studies indicating an insignificant relationship between peer influence and service tax compliance. Grounded on the preceding discussion, this hypothesis posited:

H1a: There is a positive relationship between peer influence and service tax compliance.

When there is an inconsistent relation between an independent variable and an outcome across studies, a moderating variable are introduced [51], [56]. Companies look to their peers when submitting service tax returns to RMCD, weighing the potential government response or consequences in doing so. Without considering this moderation effect, business partners' experiences with RMCD submissions could significantly affect their perceptions based on service quality received. A satisfactory service is likely to have a positive effect, while unsatisfactory service may reduce the company's willingness to fulfilled its obligations. However, if there is substantial trust in government institutions, this relationship should become even more pronounced. Thus, this hypothesis is posited:

H1b: Trust moderates the relationship between peer influence and service tax compliance.

V. Theoretical Framework

The theoretical framework illustrated in Fig. 1 is developed based on the Fischer model, which emphasize the importance of non-economic and social factors in shaping tax compliance behaviour. The framework proposes that peer influence affects service tax compliance among Malaysian service tax registrants. In addition, trust in government is incorporated as a moderating variable, as it may strengthen or weaken the relationship between peer influence and service tax compliance.

Following the literature reviewed and the hypotheses developed, Fig. 1 presents both the direct relationship between peer influence and service tax compliance, and the moderating effect of trust in government on this relationship. Service tax compliance is positioned as the dependent variable, business partner influence as the independent variable, and trust in government as the moderating construct.

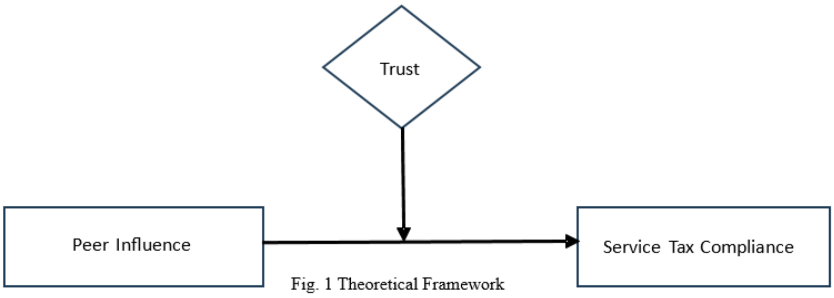

Fig. 1 Theoretical Framework

VI. Research Design

This study adopts a quantitative research design to examine the effect of peer influence on service tax compliance and the moderating role of trust among service tax registrants in Malaysia. Quantitative approaches are commonly used in behavioural taxation research because they allow researchers to empirically test relationships among variables and evaluate theoretical models using statistical techniques [57] – [59]. Such an approach is particularly suitable for studies involving multiple constructs and hypothesised relationships derived from existing theories [60].

Primary data were collected using a self-administered structured questionnaire distributed via email to service tax registrants located in Selangor and Wilayah Persekutuan (Kuala Lumpur). These locations were selected because they represent the largest concentration of service tax registrants in Malaysia, accounting for more than 63 percent of the total population. The population of this study comprises 53,083 registered service tax companies. Since the unit of analysis is the organisation, the respondents consisted of owners, managers, directors or company representatives for tax-related matters within the firms, as they are directly involved in service tax reporting and compliance decisions.

Prior to the main data collection, a pilot study was conducted to assess the clarity, reliability, and suitability of the questionnaire items. A total of 75 questionnaires were distributed, and 65 responses were returned and analysed. Feedback from the pilot study enabled minor revisions to the questionnaire to improve clarity and ensure that the items were clearly understood by respondents, which is an important step in instrument development [58].

For the main survey, 200 questionnaires were distributed to service tax registrants in Selangor and Wilayah Persekutuan. A total of 180 questionnaires were returned, and after data screening procedures to remove incomplete responses and ensure data quality, 140 questionnaires were deemed usable for further analysis. To determine the adequacy of the sample size, G*Power analysis was conducted. Based on four predictors with a medium effect size ($f^2 = 0.15$) and a statistical power of 0.80 at a 5 percent significance level, the minimum required sample size was 92 respondents. Therefore, the final sample of 140 usable responses exceeds the minimum requirement, indicating that the dataset is sufficient for hypothesis testing and structural model analysis. The data were subsequently analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM), which is appropriate for analysing complex relationships among constructs and examining moderating effects in behavioural research [60], [61].

A. Measures

The theoretical constructs in the conceptual framework were measured using multi-item scales adapted from prior tax compliance literature. All measurement items were assessed using a seven-point Likert scale, ranging from 1 “strongly disagree” to 7 “strongly agree”. The use of a seven-point Likert scale allows respondents to express their perceptions more precisely and provides greater variability in responses, which enhances measurement sensitivity and reliability in behavioural research [60], [61]. Likert-type scales are widely used in tax compliance studies because they effectively capture respondents’ attitudes, perceptions, and behavioural intentions related to tax compliance [59], [62].

B. Peer Influences

Peer influence (PIN), according to [63], refers to the impact that individuals within a social group have on each other’s attitudes and behaviors, particularly regarding compliance with social norms and regulations. This influence can shape how individuals perceive their obligations and the consequences of their actions, leading to either increased or decreased compliance with tax laws. In the context of this study, peers specifically refer to the taxpayers' business partners. This relationship is significant because business partners can directly affect each other’s behaviours regarding tax compliance. According to [63], the norms and behaviours exhibited by these peers can create a social environment that either encourages or discourages adherence to tax regulations.

C. Trust

In this study, trust (TST) specifically pertains to the trust that taxpayers have towards the government. According to [64], refers to the belief in the reliability, integrity, and fairness of a system or authority, particularly in the context of tax compliance. It encompasses the expectations that taxpayers have regarding how the government will manage tax revenues, enforce tax laws, and treat taxpayers fairly.

D. Service Tax Compliance

In this study, service tax compliance (STC) can be understood as the adherence of taxpayers to these specific regulatory requirements. Relating this to the views of [65], service tax compliance reflects the broader concept of tax compliance by focusing on the specific actions individuals and businesses must take to

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meet their legal obligations under the Service Tax Act. According to the Service Tax Act 2018 [66], tax compliance specifically entails that taxpayers register their businesses upon reaching a designated threshold, accurately declare their income, submit returns, and make timely tax payments.

VII. Empirical Results

The collected data were analysed using SmartPLS software (version 4) through the PLS-SEM approach. PLS-SEM has become a widely adopted analytical technique in social science and business research, including tax compliance studies, due to its capability to estimate complex relationships among latent constructs and handle models with multiple indicators and moderating effects [61], [67]. The technique is particularly suitable for analysing models that involve numerous constructs, indicators, and structural relationships [60], [68].

Following the recommended two-stage analytical procedure, the analysis first involved the assessment of the measurement model, followed by the evaluation of the structural model [60], [61]. The measurement model assessment examined indicator reliability, internal consistency reliability, convergent validity, and discriminant validity to ensure the adequacy of the measurement instruments. Once the measurement model met the required criteria, the structural model was evaluated by assessing the significance of path coefficients, the model's explanatory power (R^2), effect size (f^2), and predictive relevance (Q^2) to determine the predictive capability and explanatory strength of the proposed model.

A. *Assessment of Measurement Model*

The measurement model was evaluated by assessing indicator reliability, internal consistency reliability, convergent validity, and discriminant validity following the guidelines suggested by [60]. Indicator reliability was examined through the outer loadings of the measurement items, where values exceeding the recommended threshold of 0.708 indicate adequate reliability.

Internal consistency reliability was assessed using cronbach's alpha and composite reliability (CR). As shown in Table I, all constructs achieved reliability values above the recommended threshold of 0.70. Specifically, partner influence recorded a cronbach's alpha of 0.799 and composite reliability of 0.939, Trust demonstrated values of 0.869 and 0.888, while Service Tax Compliance reported a Cronbach's alpha of 0.933 and composite reliability of 0.938. These results indicate satisfactory internal consistency reliability among the measurement items. Convergent validity was evaluated using the Average Variance Extracted (AVE). The AVE values for all constructs exceeded the recommended threshold of 0.50, with values of 0.721 for Business Partner Influence, 0.716 for Trust, and 0.790 for Service Tax Compliance, confirming adequate convergent validity.

Table I
Measurement Model Results

Construct	Items	Cronbach's α	Composite Reliability	AVE
Service Tax Compliance	5	0.933	0.933	0.790
Peer Influence	3	0.799	0.939	0.721
Trust	4	0.869	0.888	0.716

Discriminant validity was further assessed using the Fornell–Larcker criterion and the Heterotrait–Monotrait ratio (HTMT) as recommended by [69]. The square root of AVE for each construct was greater than the correlations with other constructs, indicating satisfactory discriminant validity as shown in Table II. Additionally, all HTMT values were below the recommended threshold of 0.85, further confirming that the constructs are empirically distinct as shown in Table III. Overall, the results indicate that the measurement model in Fig. II, demonstrates satisfactory reliability and validity, allowing the study to proceed with the structural model evaluation.

Table II
Discriminant Validity – Fornell–Larcker

Construct	Business Partner Influence	Service Tax Compliance	Trust
Peer Influence	**0.849**		
Service Tax Compliance	0.540	**0.889**	
Trust	-0.018	0.137	**0.846**

Table III
Discriminant Validity – HTMT

Construct	Peer Influence	Service Tax Compliance	Trust
Peer Influence	-		
Service Tax Compliance	0.587	-	
Trust	0.065	0.148	-

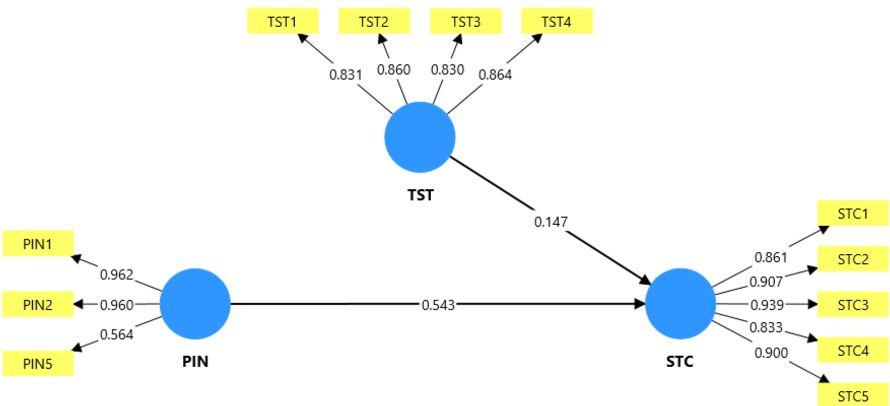

Fig 2 Measurement Model

B. *Assessment of Structural Model*

After establishing the reliability and validity of the measurement model, the structural model was assessed to evaluate the hypothesised relationships among the constructs. Following the guidelines recommended for PLS-SEM analysis, the assessment included examining collinearity, path coefficients, coefficient of determination (R^2), effect sizes (f^2), predictive relevance, and moderation effects [60], [61].

Prior to interpreting the structural relationships, collinearity among predictor constructs was examined using the variance inflation factor (VIF). As reported in Table IV, the VIF values is 1.108, which are well below the recommended threshold of 5. This indicates that multicollinearity is not a concern, and the structural model estimates can be interpreted reliably.

Table IV
Collinearity Assessment

Construct	**VIF**
Peer Influence (PIN)	1.108

The significance of the hypothesised relationships was assessed using the bootstrapping procedure. The results presented in Table V show that peer influence (PIN) has a significant positive effect on service tax compliance (STC) ($\beta = 0.509$, $t = 7.775$, $p < 0.001$). Therefore, H1a is supported, indicating that business partners play an important role in shaping compliance behaviour among service tax registrants.

Table V
Hypothesis Testing – Direct Effects

Hypothesis	**Relationship**	**β**	**Std Error**	**t-value**	**p-value**	**Decision**
H1a	PIN → STC	0.509	0.065	7.775	<.001	Supported

a*p<.01
bService tax compliance (STC), Peer influence (PIN)

The coefficient of determination (R^2) was examined to evaluate the explanatory power of the model. As reported in Table VI, the results show that the predictors explain 34.2 percent of the variance in service tax compliance in the direct model. After incorporating the moderating variable and interaction terms, the explanatory power increased to 38.7 percent, indicating that the inclusion of trust improved the model's ability to explain service tax compliance behaviour.

Table VI
Coefficient Determination (R^2) Comparison

Construct	**Direct Model R^2**	**Moderation Model R^2**	**Adjusted R^2**
Service Tax Compliance (STC)	0.342	0.387	0.345

The effect size (f^2) was examined to determine the relative contribution of each predictor construct to service tax compliance. As shown in Table VII, peer influence exhibits a large effect size ($f^2 = 0.365$), suggesting that it is the most influential determinant in the model. Effect size analysis further indicates that the interaction effect of trust and peer influence exhibits a small effect size ($f^2 = 0.044$), while the remaining interaction effects demonstrate negligible effects.

Table VII
Effect Size f^2

Relationship	**f^2**	**Effect Size**
PIN → STC	0.365	Large
TST x PIN → STC	0.044	Small

aEffect size interpretation follows [60]:0.02 = small, 0.15 = medium, 0.35 = large.
bService tax compliance (STC), Peer influence (PIN), Trust (TST)

The model's predictive relevance was assessed using the PLS-predict procedure. As shown in Table VIII, all Q^2predict values are greater than zero, ranging from 0.139 to 0.262, indicating that the model has predictive relevance for service tax compliance indicators. Furthermore, the comparison between PLS-SEM RMSE and linear model (LM) RMSE values reveals that the PLS-SEM RMSE values are consistently lower than the LM RMSE values across all indicators. This result indicates that the model demonstrates good out-of-sample predictive performance.

Table VIII
Predictive Power Assessment

	Q^2predict	**PLS-SEM_RMSE**	**LM_RMSE**	**PLS-LM RMSE**
STC1	0.139	0.804	0.858	-0.054
STC2	0.262	0.732	0.775	-0.043
STC3	0.230	0.711	0.752	-0.041
STC4	0.224	0.893	0.947	-0.054
STC5	0.210	0.696	0.714	-0.018

aService Tax Compliance (STC)
bQ^2predict values greater than zero indicate predictive relevance. Negative PLS-LM RMSE values indicate that the PLS model performs better than the linear model.

The moderating role of trust was examined by analysing the interaction effects between trust and each predictor variable. The results reported in Table IX indicate that the interaction between trust and peer influence (T × PIN) has a significant negative effect on service tax compliance ($\beta = -0.166$, $t = 2.088$, $p = 0.037$). Thus, H1b is supported. Structural model shown in Fig. III.

Table IX
Hypothesis Testing – Moderation Analysis

Hypothesis	**Relationship**	**β**	**Std Error**	**t-value**	**p-value**	**Decision**
H1b	TST x PIN → STC	-0.166	0.079	2.088	0.037	Supported

aService tax compliance (STC), Peer influence (PIN), Trust (TST)

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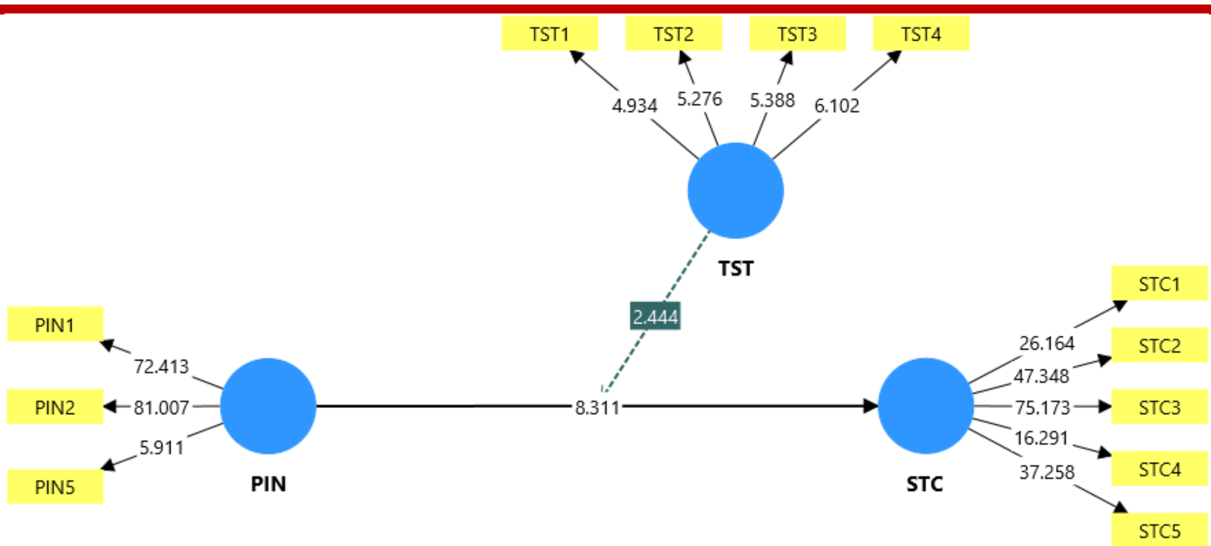

Fig. 3 Structural Model

VIII. Discussion

This study examined the determinants of service tax compliance among Malaysian service tax registrants, with particular attention to the role of peer influence and trust as a moderating variable. The findings provide several important insights into the behavioural drivers of compliance.

First, the results indicate that peer influence has a strong and significant positive effect on service tax compliance. This finding suggests that taxpayers' compliance behaviour is strongly shaped by interactions with business partners, such as suppliers, clients, and other firms within their business network. In business environments where transactions and financial practices are frequently discussed among partners, compliance behaviour may be influenced by shared norms, expectations, and advice. This finding is consistent with the social influence perspective within the Fischer tax compliance framework, which emphasizes the role of peer and social interactions in shaping taxpayers' decisions [17], [63]. In the context of Malaysian service tax, business networks may serve as informal channels through which firms exchange information about tax obligations, reporting practices, and compliance strategies.

The study also examined the moderating role of trust in government, which produced an interesting finding. The results show that trust significantly weakens the positive relationship between peer influence and service tax compliance. This negative moderating effect suggests that when taxpayers exhibit higher levels of trust in the government and tax authorities, their compliance behaviour becomes less dependent on the influence of business partners. In other words, taxpayers who trust the tax system are more likely to comply based on their own confidence in the legitimacy and fairness of the tax authority, rather than relying on the opinions or behaviours of their business partners. Conversely, when trust in government is relatively low, taxpayers may rely more heavily on informal guidance from business partners when making compliance decisions. This finding aligns with the slippery slope framework, which proposes that trust in authorities can promote voluntary compliance by strengthening taxpayers' intrinsic motivation to comply with tax regulations [17], [70].

IX. Summary and Conclusion

This study examined the determinants of service tax compliance among Malaysian service tax registrants, with particular focus on the roles of peer influence and trust as a moderating variable. Using the PLS-SEM approach, the study assessed both the direct relationships between the determinants and service tax compliance, as well as the moderating effect of trust.

The results indicate that peer influence is the most significant determinant of service tax compliance, demonstrating a strong positive relationship with compliance behaviour. This finding suggests that business networks and interactions among firms play an important role in shaping compliance practices within the service sector. Firms may rely on the experiences, advice, and expectations of their business partners when making decisions related to tax reporting and payment obligations. The effect size analysis further confirms that business partner influence has the largest contribution to explaining service tax compliance among the constructs examined in this study.

The study also investigated the moderating role of trust in government, revealing an important behavioural insight. The results show that trust significantly weakens the positive relationship between business partner influence and service tax compliance. In other words, when taxpayers exhibit higher trust in the government, the reliance on business partners as a reference for compliance behaviour becomes less influential.

In terms of explanatory power, the structural model demonstrates moderate predictive capability, explaining 34.2 percent of the variance in service tax compliance. Furthermore, the predictive assessment using the PLSpredict procedure confirms that the model has predictive relevance, as indicated by positive Q^2 values and lower prediction errors compared with the benchmark linear model. These results suggest that the proposed model provides a meaningful explanation of service tax compliance behaviour within the Malaysian context.

These findings contribute to the broader tax compliance literature by demonstrating that institutional trust can alter the role of social influence in shaping compliance behaviour. While peer influence encourages compliance through network-based interactions, trust in government reduces taxpayers' reliance on such social cues by strengthening their intrinsic motivation to comply. From a policy perspective, the results suggest that tax authorities may benefit from strategies that strengthen trust in the tax system while also engaging business communities and professional networks to promote compliant practices. Such approaches may help encourage voluntary compliance and improve the overall effectiveness of service tax administration.

Overall, this study underscores the importance of considering both social influence and institutional trust in understanding tax compliance behaviour. By highlighting how trust moderates the effect of business partner influence, the study provides a deeper understanding of the behavioural mechanisms that shape service tax compliance within the Malaysian tax system.

X. Limitations and Recommendations for Further Studies

Despite the contributions of this study, several limitations should be acknowledged. First, the study employed a cross-sectional research design, which limits the ability to establish causal relationships between peer influence and service tax compliance. Although the findings provide empirical evidence of significant associations, future studies may employ longitudinal designs to better capture how social influence and trust evolve over time and affect compliance behaviour. Second, the study focused specifically on service tax registrants in Malaysia, which may limit the generalisability of the findings to other tax systems or institutional contexts. Tax compliance behaviour may vary across jurisdictions due to differences in regulatory frameworks, enforcement strategies, and levels of institutional trust. Future research could therefore extend this model to specific services or in the context of indirect tax system to provide comparative insights.

Finally, while this study highlights the importance of peer influence and the moderating role of trust, tax compliance behaviour is shaped by a broader range of behavioural and institutional factors. Future research may incorporate additional variables such as tax morale or the role of tax advisors and professional networks to further enrich the understanding of compliance behaviour within indirect tax systems. Moreover, to offer in-depth insights, the current study suggests adopting mixed techniques, combining quantitative and qualitative methods, including case studies interviews. A mixed methodology would enable future researchers to solicit potentially embarrassing, incriminating, or sensitive information. Finally, the current study's findings might be used to complement knowledge to understand indirect tax from a broader perspective.

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Maryani Jamian received the bachelor's degree in economics (business) from *Universiti Putra Malaysia* (UPM), Selangor, Malaysia. She is currently pursuing the Master of Science (Accounting) degree at the Tunku Puteri Intan Safinaz School of Accountancy (TISSA), *Universiti Utara Malaysia* (UUM), Sintok, Kedah, Malaysia. She has been serving with the Royal Malaysian Customs Department (RMCD), Malaysia, for almost 17 years. Her professional experience involves taxation and customs administration in the public sector. Her current research interests include taxation compliance, public sector governance, and behavioral aspects of tax compliance. Ms. Jamian is a recipient of the Hadiah Latihan Persekutuan (HLP) scholarship awarded by the Public Service Department of Malaysia (*Jabatan Perkhidmatan Awam*).

Zainol Bidin received the Ph.D. degree in accounting from *Universiti Utara Malaysia* (UUM), Kedah, Malaysia, in 2008. He is currently a Professor with the School of Accountancy, College of Business, *Universiti Utara Malaysia*, Kedah, Malaysia, where he has served for more than 20 years. He has extensive teaching experience in taxation, business accounting, and research methodology at both undergraduate and postgraduate levels. He has supervised numerous student research projects and theses related to taxation and zakah. His research interests include taxation, zakah, and behavioral accounting. Dr. Bidin is a member of the Malaysian Institute of Accountants (MIA) and has published widely in both local and international academic journals.

Saliza Abdul Aziz received the Bachelor of Accounting (Hons.) degree from *Universiti Teknologi MARA* (UiTM), Malaysia, in 2001, the Master of Professional Accounting degree from *Universiti Utara Malaysia* (UUM), Kedah, Malaysia, in 2004, and the Ph.D. degree in accounting from Universiti Utara Malaysia in 2015. She is also a Chartered Accountant (M) and a Certified Practising Accountant (CPA Australia). She is currently a Senior Lecturer with the School of Accountancy, College of Business, *Universiti Utara Malaysia*, Kedah, Malaysia. Her research interests include tax e-filing and compliance, behavioral accounting, technology adoption in taxation systems, and the application of structural equation modeling (SEM) and partial least squares (PLS) in accounting research.