

Impact of Social Norms on Tax Morale in Malaysia: Empirical Evidence Through Structural Equation Modelling

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Abstract

Purpose: This study examines the influence of social norms on tax morale among individual taxpayers in Malaysia by applying the multidimensional model of the theory of Social Norms.

Design/methodology/approach: The study develops the research instrument by including hypothetical tax scenarios with specific items. Using the purposive sampling method, the online and paper surveys were distributed across all states in Malaysia, resulting in 319 usable responses from salaried individual taxpayers. The partial least square-structural equation modelling (PLS-SEM) tool was used to analyse the data collected.

Findings: The results show that social norms positively influence tax morale. The findings provide evidence to support the hypothesis related to personal, descriptive, injunctive, and subjective norms. Social norms are powerful determinants of tax morale that increase social awareness and influence social interactions and dynamics for taxpayers in making compliance decisions.

Research limitations/implications: The scope of the study is exclusively focused on non-economic intervening variables; thus, only a social perspective is adapted to explain the reasons why people pay taxes.

Practical implications: The study expects to benefit many stakeholders, including researchers, policymakers, practitioners, and the taxpayers' community, by enhancing tax morale through a multifaceted approach. Governments can create a more efficient, fair, and resilient tax system by understanding and fostering tax morale.

Originality/value: The study extends the literature on social norms in the context of tax morale, while prior literature only examined the relationships between social norms and tax compliance. Furthermore, this study empirically tested the valid and reliable social norms dimensions, thus modelling the direct role that examined their impact on tax morale. This study evaluates social norms as a higher-order construct reflected by its multidimensionality. Hence, this study enriches the limited literature on social norms and tax morale and demonstrates that each dimension of social norms is interrelated.

Keywords: Social Norms, Personal Norms, Descriptive Norms, Tax Morale, Social Psychology

Introduction

Tax morale is a dynamic and multifaceted concept which has garnered worldwide attention over the past decade. It has been widely studied and differently defined by many scholars as a ‘black cave’ (Hidayat, 2022), ‘inherently complex’ (Prichard, 2022), a ‘black box’ and a ‘meta-preference’ of taxpayers (Torgler, 2007). Tax morale is defined as the intrinsic motivation of taxpayers to pay taxes (Torgler, 2007; Alm & Torgler, 2004) that arises from the moral obligation to pay taxes or the belief in contributing to society (Mohamad, 2014). The Organisation for Economic Co-operation and Development (OECD) highlights that tax morale could increase tax revenues in the short term through behavioural economic approaches and, in the longer term, through well-designed reforms towards building trust and legitimacy (OECD, 2019). Tax morale plays a significant role in securing sustainable tax revenue (OECD, 2019), improving tax compliance (OECD, 2019; Timothy & Abbas, 2019) and reducing tax evasion (Owusu et al., 2021). While past studies focused on the socio-economic perspective that partially explains why people pay taxes, tax morale remains an intriguing and complex phenomenon that requires further investigation from a social perspective. Thus, this study underscores the importance of considering social interactions (Hidayat, 2022) in understanding taxpayers’ attitudes and willingness to pay their fair share of taxes.

Many studies investigating taxpayers’ behaviour have shifted their emphasis from enforcement to voluntary compliance, appealing to the significant role of social norms on the compliance decisions of individuals (Alm et al., 2019; Górecki & Letki, 2021; Garcia et al., 2018; McAuliffe, 2017; Pemstein et al., 2019). Social norms have been found to have a prevailing influence on human judgement and behaviour (Van Kleef et al., 2019), and exploring the social dynamics in shaping individuals’ attitudes and behaviour (Chung & Rimal, 2016). Norms prescribe how to make decisions in social situations, while social interactions are combined with rules and norms that guide many aspects of people’s behaviour (Gross & Vostroknutov, 2022). Social norms are powerful determinants of tax morale that increase social awareness and influence social interactions and dynamics for taxpayers in making compliance decisions. Thus, understanding the impact of social norms is essential for comprehending human behaviour, particularly in the context of tax morale.

Empirical evidence revealed that social norms significantly influenced tax compliance decisions (Bobek et al., 2011; Bobek et al., 2013; Cahyonowati et al., 2022; Paleka, 2022; Pope & Mohdali, 2015; Onu & Oats, 2015). While existing research has explored the relationship between social norms and tax compliance, questions remain about how social norms influence the tax morale or the intrinsic motivation and internalized willingness of taxpayers to pay their fair share of taxes. Interestingly, recent studies documented that social norms have significantly influenced tax morale (Lamantia & Pezzino, 2021; McCulloch et al., 2020). This study extended the previous tax compliance studies by developing a comprehensive model on the impact of social norms on tax morale. The measurement of social norms is reflected by its four dimensions comprising personal norms, injunctive norms, descriptive norms, and subjective norms identified by Cialdini and Trost (1998) and empirically tested by Bobek et al. (2013). Additionally, the social norms construct is treated as a higher-order construct, offering a more comprehensive understanding of how each social norms dimension collectively shapes taxpayers’ motivation and compliance behaviour that influence tax morale in Malaysia.

The current study primarily attempts to identify what could motivate people to pay taxes by applying social norms approach. This has been essential for exploring the interactions between social factors and tax morale, particularly in Malaysia. As the underlying theoretical base, the Social Norms Theory (SNT) is adapted in this study as it provides valuable insights into which norms shape taxpayers’ tax morale. Blay et al. (2016) perceived that the SNT offers internal individual factors to motivate taxpayers from norm-based behaviour. A considerable amount

of research suggests that social theories can help explain why some taxpayers are willing to pay taxes (Kondelaji et al., 2016; Paleka et al., 2022; Torgler, 2007). However, studies found mixed findings and relationships from both economic and non-economic factors, and thus, it is still unclear what factors influence tax morale. Therefore, this study primarily examines the impact of social norms on tax morale among salaried individual taxpayers in Malaysia. This study is expected to contribute to testing the direct relationship between social norms as a higher-order exogenous construct and tax morale as an endogenous construct. The next section discusses theoretical approaches to structure the conceptual framework of tax morale and social norms based on prior literature. The subsequent section describes the research methods. The final section discusses the key findings of the study and their implications for knowledge, theoretical, policy and practical and is wrapped with conclusions and suggestions for future research.

Literature Review

Tax Morale Concepts

The emergence of the notion of tax morale started 65 years ago with the first criticisms of economic deterrence models. In the classical definition of tax morale in the 1960s by the “Cologne school of tax psychology” among German scholars, they had defined tax morale as an “attitude regarding tax compliance and non-compliance” (Schmölders, 1959). Strümpel (1969) termed tax morale as ‘tax mentality’ to describe a person’s willingness to pay tax. He highlighted the importance of cultivating tax morale in taxpayers as it would reduce tax compliance cost. However, over the past three decades, a study on tax morale has been neglected (Torgler, 2007). Only in the 1990s was the tax morale aspect recognized and increasingly attracted attention worldwide. Since then, tax morale has become a central issue in empirical research on tax compliance (Torgler, 2007). Numerous tax morale studies have been conducted in both developed countries like Greece (Fotiadis & Chatzoglou, 2022), Rome (Di Gioacchino & Fichera, 2020), Germany (Doerrenberg & Peichl, 2017), Turkey (Yucedogru, 2016) and Croatia (Bejaković & Bezeredi, 2019); and in developing countries like Albania (Emiljan, 2022), India (Korgaonkar, 2022), Ghana (Owusu et al., 2021), Philippines (Pacaldo & Ferrer, 2020), Pakistan (Madni et al., 2020); Indonesia (Hidayat, 2022; Parlaungan, 2017), Iran (Kondelaji et al., 2016), and Jordan (Alasfour et al., 2016). A deeper understanding of what motivates taxpayers to pay taxes, which boosts tax morale, not only increases voluntary tax compliance (OECD, 2019; Timothy & Abbas, 2019) but also reduces tax evasion by lowering the use of capital and labor income (Bethencourt & Kunze, 2019) and avoiding roundtripping investments through tax havens (Kemme et al., 2020).

However, the literature on tax morale studies, particularly in Malaysia, is limited since many scholars have put more emphasis on tax compliance research. Ten years ago, a survey of 121 SME taxpayers in Kuala Lumpur examined the role of tax morale as an independent variable in influencing tax compliance. The result showed a significant positive relationship between tax morale and tax compliance (Mohamad, 2014). In that study, tax morale, which comprised tax knowledge, attitude, and social and cultural norms, was viewed as closely related to the taxpayers’ ethics. Conversely, a recent study by Abu Bakar et al. (2022) revealed that tax morale has a significant negative relationship with tax compliance. In 2021, it was found that only one prior study that examined tax morale as a dependent variable was conducted, a survey among individuals working in the gig economy (Md Fadzil & Che Azmi, 2021). The study, however, focuses explicitly on taxpayers in the gig economy and tax morale behaviour is measured from multi-dimensional aspects, including government spending efficiency, corruption level, tax rate, audit rate, penalty rate, perception of fairness and referent group (Md Fadzil & Che Azmi, 2021). Due to mixed evidence on the relationships between tax morale

and tax compliance in Malaysia, a more concise understanding of the tax morale concept is required. Therefore, the determinants of tax morale among individual taxpayers in Malaysia from a social perspective are examined using the social norms theoretical framework.

Social Norms Theory

The concept of social norms has been widely applied across various disciplines, leading to diverse developments in the social norms literature (Chung & Rimal, 2016; Legros & Cislighi, 2020). The exploration of social norms extends across multiple disciplines., including business management (Boytsun, 2011; Dannals & Miller, 2017; Morris et al. 2015), economics (Burke & Young, 2011; Young, 2015); health sciences (Bell & Cox, 2015; Reid et al., 2010), communication science (Chung & Rimal, 2016); international development (Mackie et al., 2015; Vaitla, 2017), and social psychology (Anderson & Dunning, 2014; Cialdini & Trost, 1998). This study adapts Social Norms Theory (SNT) from a social psychology perspective to review the conformity and compliance of the taxpayers' behaviour.

Van Kleef et al. (2019) emphasized that social-psychological research on norms is flourishing, with a growing demand for innovative empirical methods. The influence of societal norms on individuals' compliance with tax laws has attracted increasing interest among tax researchers. Social norms refer to the way society defines 'right' and 'wrong', and influences individuals to 'do the right thing' (McAuliffe, 2017). Prior studies have noted the importance of social norms in tax compliance decisions without disaggregating between the four types of social norms (Alm & McKee, 1998). In the same year, Cialdini and Tross (1998) determined that social norms have four distinct taxonomies, including personal, descriptive, injunctive, and subjective norms, which influence tax compliance significantly.

SNT was the prime theory underpinning the study, which has been conceptualized in various ways in psychological phenomena. The majority of recent work on the social norms aspect stems from the seminal works of Cialdini and Trost (1998) and the empirical experimental evidence of Bobek et al. (2013), Bobek et al. (2011), and Bobek et al. (2007). There have been increasing calls for a social norms approach in the context of tax morale and compliance behaviour. Prior literature revealed that SNT is valuable for empirical research because it considers organizational and individual factors that drive norm-based behaviour (Blay et al., 2016; Bobek et al., 2013). Injunctive, subjective, and personal norms are associated with the expectations of certain groups, while descriptive norms are related to observing individuals' behaviour (Bobek et al., 2013).

Social norms strongly influence cognition and behavior, impacting perception, judgment, and decision-making (Blay et al., 2016). McAuliffe (2017) conducted a qualitative study on tax morale, testing behavioral theories and examining how social norms contribute to understanding tax morale. It is recommended that future research should advance the hallmarks of a more scientific approach (Sekaran & Bougie, 2016) to measure the effects of social norms on tax morale. Thus, this study builds on McAuliffe's recommendation by adapting the Social Norms theory to explain the relationship between social norms and tax morale using a quantitative approach in Malaysia. Social norms are powerful determinants of tax morale that increase social awareness and influence social interactions and dynamics for taxpayers in making compliance decisions. This study extends the literature on social norms in the context of tax morale, while previous studies only examined the relationships between social norms and tax compliance. Therefore, this study is intended to close the knowledge gap by examining the direct relationship between social norms and tax morale.

The Dimensions of Social Norms

Cialdini and Tross (1998, p.152) characterized social norms as ‘*rules and standards that are understood by members of a group, and that guide and/or constrain social behaviour without the force of laws*’. This study draws on a comprehensive theory of social norms to synthesise the measurement items used in prior research to examine to what extent social norms constructs influence the tax morale of taxpayers. A closely related prior tax research that adopted SNT in Malaysia was conducted by Mohd Ali et al. (2015), which aimed to test the relationship between each social norm construct and tax compliance. This study widened their studies by examining to what extent the four social norms construct would influence tax morale among Malaysian taxpayers. Specifically, this study relied on comprehensive discussions by Cialdini and Tross (1998) and Bobek et al. (2011) on SNT and the measurement of each social norms construct. Cialdini and Tross (1998) have identified four different valid and reliable dimensions of SNT and subsequently tested them empirically (Bobek et al., 2011; 2013). First, personal norms refer to individual standards or expectations for behaviour. Second, descriptive norms denote standards that develop from observing others’ behaviour. Third, injunctive norms refer to the general societal perception of the group's approval or disapproval. Fourth, subjective norms signify the expectations of important others like family, friends, and colleagues for his own behavior (Bobek et al., 2013). These dimensions are reflected from SNT and subsequently formed the conceptual framework of the study.

Social Norms and Tax Morale

Social norms play a crucial role in tax morale research in emerging and developing countries. As the tax morale phenomenon involves interactions between people and society that change over time, tax morale studies are important topics as they help assess the relevance of incorporating social psychology into tax morale (Torgler, 2007; Paleka et al., 2022). Prior literature revealed that social norms have significantly impacted tax morale (Lamantia & Pezzino, 2021; McCulloch et al., 2020; Torgler, 2007).

Based on the reviews of prior research on tax compliance determinants, it is discovered that psychological factors such as tax morale, social norms, and fairness influenced tax compliance behaviour. While they emphasised the importance of including psychological determinants in tax compliance, this study extended the suggestions by exploring the tax morale determinants in a socio-psychological context.

Generally, in the context of social norms as a construct, there was a strong positive correlation between the belief that other Nigerians pay taxes and tax morale (McCulloch et al., 2020). Specifically, in the context of individual norms, it was found that individual norms, including religiosity, influence tax morale. This suggests that Nigerian tax payment decisions are influenced by their perception of others’ payment compliance (McCulloch et al., 2020). It is recommended that the inculcation of tax payment norms be supported by positive attitudes toward paying taxes, known as ‘tax morale’ under an effective tax system. Prior to McCulloch et al.’s study, Vythelingum et al. (2017) also revealed the same results in their quantitative study identifying the factors that shape tax morale in Mauritius. The results of the study found that social norms, fairness and equity, trust in government, and trust in tax authorities influence tax morale. In order to increase the tax morale of taxpayers, Vythelingum et al. (2017) suggested that the population should be educated, the tax system should be simplified, the government should be fair, and tax authorities should respect the population. As demonstrated by a randomised survey experiment, social norms and reciprocity frequently play a central role in explaining the determinants of tax morale (Doerrenberg & Peichl, 2017). The results of empirical study in Croatia also indicated that social norms and tax morale influence taxpayers’ compliance significantly (Paleka et al., 2022).

Previous studies revealed that social norms have an influence on compliance decisions, but only indirectly through internalization as personal norms of an internal perspective (Jimenez & Iyer, 2016; Kostritsa & Sittler, 2017). From an external perspective, social norms appear to be more approachable as they involve an interconnection between society and the individual such as trust in government. Therefore, the impact of social norms on tax morale must be carefully examined from both individual and social groups perspectives as social norms serve to inform the behavior of taxpayers and to guide social interactions. Personal norms are focused solely on the individual values, whereas injunctive norms, descriptive norms and subjective norms involve a connection between society and the individual (Kostritsa & Sittler, 2017), and encourage taxpayers more willing to comply with tax law voluntarily (Yıldırım et al., 2016). This clarifies why social norms appear to be more accessible from an external perspective than personal norms, given that they incorporate external factors. Based on the results of the path analysis conducted by Bobek et al. (2013), it is revealed that personal and subjective norms have a direct influence on tax compliance decisions, whereas injunctive and descriptive norms have an indirect influence. It implies that social norms exert significant direct and indirect influences on tax compliance behavior.

Bobek et al. (2013) stated that taxpayers are more likely to willingly pay taxes if they perceive that the majority of people believe everyone in society should contribute by paying taxes. Injunctive norms are expected to positively impact the willingness to pay tax voluntarily (Bobek et al., 2013). Bobek et al. (2011) described subjective norms as an individual's perceptions about what those important to him think he should or should not do in a certain circumstance. These are an individual's perceptions of the rules or expectations held by the people whose opinions matter most to them. Specifically, subjective norms relate to the expectations of important others, including family, friends, coworkers, spouses or significant others (Bobek et al., 2011; 2013) and peers (Kostritsa & Sittler, 2017). In this study, subjective norms refer to the taxpayer's perceptions about what important others like family, friends, colleagues and spouse or the significant other think he should or should not pay the income taxes. Subjective norms can be assessed by requiring people to identify the referents' expectations for their behaviour and describe the extent to which they are willing to comply with subjective norms (Cialdini & Tross, 1998).

Compliance with injunctive norms results from the desire to develop and maintain social relations (Bobek et al., 2011; Yıldırım et al., 2016). Compliance is driven less by actual approvals and more by the expectation of them, whether in the form of positive or negative feedback or actions (Mackie et al, 2015). An individual motivated to comply with taxes will do so, even if they expect others to disapprove of noncompliance. Injunctive norms tend to imply moral judgment because actions are viewed unfavourably (Chung & Rimal, 2016). Injunctive norms refer to people's understanding of what others expect them to do in a social context. Assessment of injunctive norms can be made directly by asking people to describe their perceptions of those held by those whose opinions matter most to them and their willingness to follow those directions (Cialdini & Tross, 1998). They also highlighted that injunctive norms motivate taxpayers' behaviour by promising social rewards or punishments for it. Bobek et al. (2011) stressed that to the extent one desires to conform to societal norms, injunctive norms should influence behaviour. It is interesting to note that injunctive norms could affect taxpaying behaviour (Wenzel, 2005). Thus, this study includes injunctive norms as it may influence tax morale by conforming to societal norms.

Bobek et al. (2011) revealed that personal norms, as a primarily internal influence on decision-making relate to the individual's desire to live up to self-based standards or expectations. Personal standards play a significant role on shaping individual norms. Numerous important studies have demonstrated that personal norms positively and statistically significantly impact

tax morale (Koumpias et al., 2020; Onu et al., 2018; Pacaldo & Ferrer, 2020; Yucedogru 2016). Results from a quantitative approach study conducted by Yucedogru (2016) on SME owner-managers in Turkey, revealed that personal beliefs and values of owner-managers including religiosity have motivated them to pay taxes. Onu et al. (2018) in their study on the dynamics of internalised and extrinsic motivation, defined internalised motivation, also known as “intrinsic motivation” or “self-motivation” whereby a person performs a task without the need for external prompts. In 2015, online surveys of 330 small business owners in the United Kingdom revealed that high levels of internalised motivation are associated with strong personal moral norms (Onu et al., 2018). The definition of internalised motivation in the study by Onu et al. (2018) is consistent with the definition of tax morale in this study, which is the intrinsic motivation to pay taxes. Therefore, it can be concluded that there is a strong association between personal moral norms and tax morale or intrinsic motivation.

On the contrary, descriptive norms are standards developed from observing how others behave in specific situations (Bobek et al., 2011). Recent studies refer to descriptive norms as how individuals behave appropriately when they know others behave similarly (Pryor et al., 2019; Yıldırım et al., 2016). A study conducted on ninety sole proprietors in Malaysia using a simple linear regression revealed that descriptive norms significantly influenced tax compliance decisions (Shaharuddin et al., 2018). Taxpayers are more likely to imitate others’ behaviour to pay taxes in paying taxes when they are uncertain about their willingness to comply with tax obligations. It has been proposed that reinforcing descriptive norms could serve as a new strategy for enhancing tax morale and promoting voluntary tax compliance. Taxpaying behaviour may be affected by a descriptive norm, which is the perceived level of support and prevalence of tax evasion among a reference group (Wenzel, 2005). In contrast, the results of an experimental study revealed that the descriptive norms had no associations with other people either ingroups or outgroups (Mellon, 2021; Pryor et al., 2019). Due to these mixed results, little is known about the extent to which descriptive norms would impact the tax morale of Malaysian taxpayers.

Prior studies suggested that descriptive norms and personal norms had a greater influence on conservation behavioral intentions than subjective norms (Hallsworth, 2017; Niemiec et al. 2020). This indicates that descriptive norms-based interventions are more effective than subjective or injunctive norms-based interventions at changing conservation behavior. Descriptive norms can explain the extent to which they influence taxpayers’ decisions to pay taxes, and the norms are expected to positively impact changing tax compliance behavior. It is less clear which norms influence tax morale, even though Bobek et al. (2011) and Cialdini and Tross (1998) have identified the four social norms constructs as separate and distinct. It is evidenced that all social norm constructs are significantly related to tax compliance behaviour (Bobek et al., 2011; Bobek et al. 2013). This study, however, examines each dimension of social norms and their impacts on tax morale. Thus, based on the above findings, the following hypothesis is formulated:

H1: Social norms positively influence tax morale among salaried individual taxpayers in Malaysia.

Figure 2 proposes the conceptual framework of the study, which is mainly derived from SNT. As a primary interest of the study, tax morale is recognised as the dependent variable and the social norm as the independent variable reflected by its four dimensions and characterized as a higher-order construct. In order to reduce the number of relationships in the structural model, a higher-order construct is employed in this study as recommended by Hair et al. (2019). The

lower-order constructs comprise personal, injunctive, descriptive, and subjective norms. Therefore, only one hypothesis (H1) was developed and tested in this study.

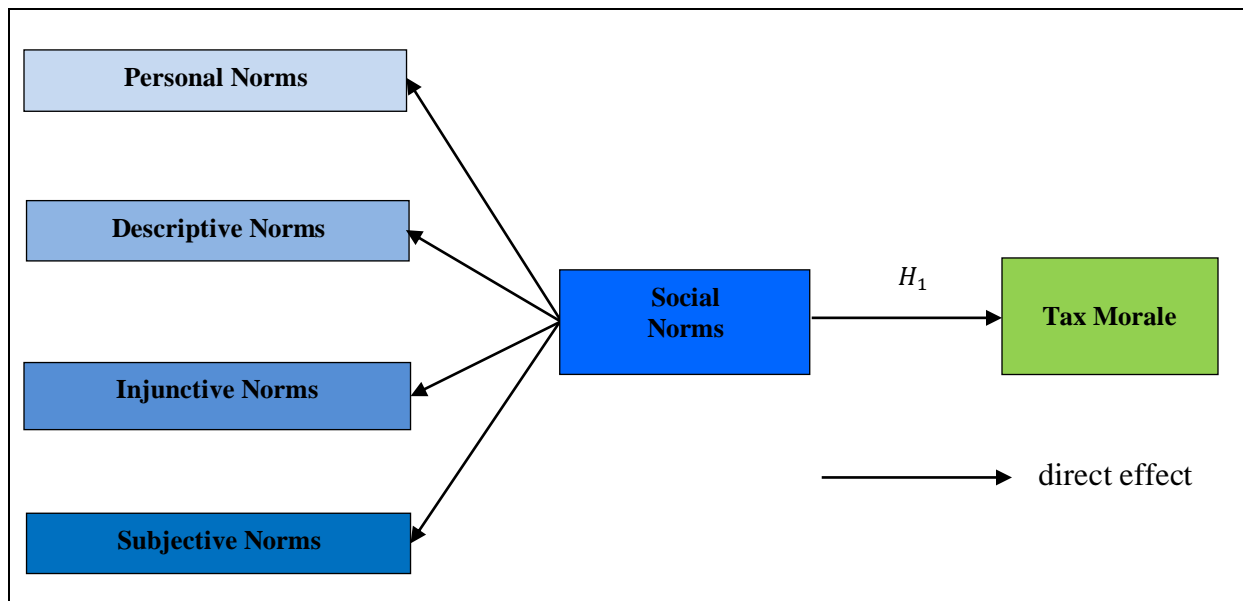


Figure 2: Conceptual Framework

Method

This paper employed a quantitative research approach. A questionnaire survey with hypothetical tax scenarios was designed by adopting and adapting items from previous literature. Using a purposive sampling method, the survey was administered personally through physical and electronic distributions, resulting in 319 usable responses from the salaried group of taxpayers. Data were analyzed, and hypotheses were tested using the Statistical Package for Social Sciences (SPSS) program and SmartPLS 4 statistical analysis technique on the Structural Equation Modeling (SEM). The data were collected both using online and paper surveys. The response rate of the online survey was 30.3%, equivalent to 91 respondents. This response rate is considered acceptable as the value is above the average of the online response rate as discovered in the previous studies (Mondal et al., 2018; Sax et al., 2003; Wu et al., 2022). Additionally, the paper survey was distributed across all countries in Malaysia. Physical data collection was conducted in various educational institutions by zones comprising the central zone, south zone, north zone and east coast zone. First, the data collection process started in the central zone, which consists of Selangor, the Federal Territory of Putrajaya, and the Federal Territory of Kuala Lumpur. Second, the data collection process was performed in Johor, Melaka, and Negeri Sembilan, whereby these states have been clustered in the south zone. Third, the paper survey was distributed in the north zone in Kedah, Penang, and Perak. Fourth, a paper survey was conducted in Pahang, Kelantan, and Terengganu in the east coast zone.

Findings

Demographic Analysis

The demographic characteristics of respondents comprise gender, educational level, age, ethnicity, types of income and state where their tax file is registered. This nationwide study was conducted across all states in Malaysia. The purposive sampling technique was used to select samples of respondents from all states, including Johor, Kedah, Kelantan, Melaka, Negeri Sembilan, Pahang, Perak, Perlis, Pulau Pinang, Sabah, Sarawak, Selangor, Terengganu,

the Federal Territory of Kuala Lumpur, and the Federal Territory of Putrajaya. The majority of respondents in the survey conducted among salaried individual taxpayers were Malay (91.8%), female (72.7%), aged between 40 to 49 years old (43.1%), and were bachelor's degree holders (66.5%). Most respondents registered their tax file in Johor (20.1%), followed by the Federal Territory of Kuala Lumpur (14.1%).

Common Method Variance

Common Method Variance (CMV) is a phenomenon caused by the measurement method used in the SEM analysis (Kock, 2015). The method bias will likely affect any measuring instrument used in the data collection process. It was found that CMV could occur due to a single data source (Podsakoff et al., (2012). According to MacKenzie & Podsakoff (2012), when data is collected from respondents using a self-administered questionnaire, the systematic bias would occur because multiple variables shared a common scale type and these variables have been assigned with the same number of scale points. Moreover, when the respondents answered the items or questions of the variables under study simultaneously, it caused the CMV to increase. Consequently, CMV would affect the validity and reliability of the indicators, and the covariation between latent constructs. To overcome this bias issue, both procedural and statistical procedures must be employed to remedy the bias. In this study, CMV was occurred as a result of the use of questionnaires with common Likert-type scales for both exogenous and endogenous constructs. Respondents then completed the questionnaires at a time. Therefore, for procedural remedy, different anchor scales were then used to measure the exogenous constructs (1-7 point/s) and endogenous constructs (1-5 point/s) as proposed by Podsakoff et al. (2012). For the statistical remedy, a full collinearity test was conducted, as suggested by Kock (2015).

Full collinearity

A Variance Inflation Factor (VIF) value greater than or equal to 3.3 indicates that a CMV is present in the study. VIF must be lower than 3 (Kock, 2015). Based on the full collinearity test, the analysis showed that all VIF values were less than 3.3. Thus, it can be inferred that the study was free from any bias, particularly from the CMV. Table 1 shows that all the VIF values of five constructs were lower than 3.3, thus indicating that the multi-collinearity issue was not seriously incurred in the study.

Table 1. Full Collinearity Testing

Construct	TM	DN	IN	PN	SN
VIF	1.000	1.000	1.000	1.000	1.000

Measurement model assessment

The purpose of conducting a reflective measurement model assessment is to assess and validate the items' and constructs' reliability and validity. Specifically, the relationships between latent construct, which is an unobservable variable represented by social norms, and their indicators of observable variables represented by personal norms, descriptive norms, injunctive norms and subjective norms in the research model. Reliability comprises indicator reliability indexed by factor loadings and internal consistency indexed by Composite Reliability (CR); whereas validity comprises convergent validity indexed by Average Variance Extracted (AVE) and discriminant validity indexed by Hetero-Monotrait (HTMT) (Ramayah et al., 2018). The indicator loading value for each item must exceed 0.5, CR must reach 0.7, and AVE must exceed 0.5, following the guidelines recommended by Hair (2014) and Hair et al. (2017). In

establishing the construct's convergent validity, the study followed guidelines Hair et al. (2017) recommended, which examined the indicator loadings, CR, and AVE. Table 2 demonstrates the loadings, CR, and AVE for each item under three different variables. All loadings, CR, and AVE values met the reflective model specification, thus establishing convergent validity of the constructs. As suggested by Sarstedt et al. (2019), when using reflective-reflective higher order construct type I, the value of CR and AVE for a higher order construct must be manually computed. The computation for CR and AVE values was made based on four items of social norms as a higher order construct.

Table 2. Convergent validity

Lower order construct	Higher order construct	Item	Loading	CR	AVE
Tax Morale		TM1	0.569	0.851	0.543
		TM2	0.551		
		TM3	0.867		
		TM4	0.887		
		TM5	0.742		
Personal Norms		PN1	0.878	0.925	0.756
		PN2	0.914		
		PN3	0.878		
		PN4	0.804		
Descriptive Norms		DN1	0.918	0.923	0.857
		DN2	0.934		
Injunctive Norms		IN1	0.880	0.909	0.714
		IN2	0.871		
		IN3	0.869		
		IN4	0.755		
Subjective Norms		SN1	0.879	0.961	0.833
		SN2	0.913		
		SN3	0.920		
		SN4	0.941		
		SN5	0.909		
	Social Norms	Personal Norms	0.694	0.855	0.598
		Descriptive Norms	0.852		
		Injunctive Norms	0.763		
		Subjective Norms	0.775		

Notes: CR= composite reliability, AVE= average variance extracted.

Hair et al. (2019) recommended that discriminant validity can be established if the HTMT values are less than 85 or 0.9. Table 3 demonstrates the HTMT values for the social norms and tax morale constructs. The results show that all values were smaller than 0.9, thus confirming that discriminant validity was established and that all constructs are separate and distinct. Based on the results from PLS-algorithm analysis, convergent validity for lower order constructs has been established in this study when all items fulfilled the criteria assessment for measurement model.

Table 3. Discriminant validity presented by HTMT values

Construct	DN	IN	PN	SN	TM
DN					
IN	0.382				
PN	0.295	0.802			
SN	0.801	0.448	0.438		
TM	0.509	0.292	0.353	0.626	

Notes: HTMT= hetero-trait mono-trait

The convergent and discriminant validity results showed that the measurement items were valid and reliable, allowing this study to assess the structural model.

Structural model assessment

The primary objective of structural measurement using PLS is to assess the strength, direction, and significance of the path relationship between social norms and tax morale constructs by developing a hypothesis (H1) based on prior literature. In assessing the direct effect, a bootstrapping procedure with a resampling of 5,000 was conducted (Hair et al., 2017). The structural results hypothesis was supported when the beta value was aligned with the hypothesis with a *t*-value of ≥ 1.645 , a *p*-value of ≤ 0.05 , and if there were no null values between lower level (LL) and upper level (UL) for the confidence interval. By performing PLS algorithm analysis, the SmartPLS produced the graphical output and results of the structural model, as shown in Figure 3.

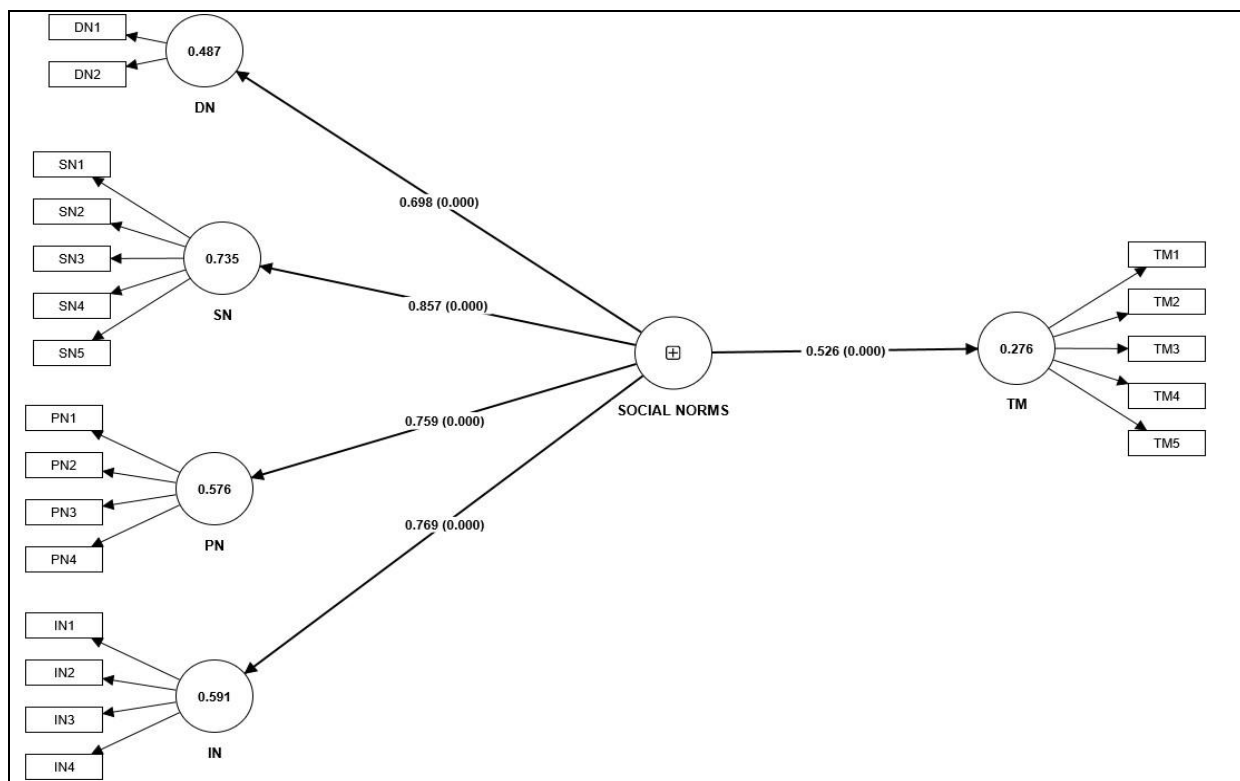


Figure 3: Structural Model

Figure 3 illustrates the direct relationship between social norms and tax morale. Results for the direct effects show that social norms ($\beta = 0.5260$, $p < 0.001$) positively impact tax morale.

Table 4. Hypothesis Testing for Direct Effect

Hypothesis	Relationship	Beta	SE	t-value	p-values	LL	UL	f2	VIF	Decision
H1	SN -> TM	0.526	0.045	11.700	0.000	0.419	0.601	small	1.000	Supported

Notes: This study used a 95% confidence interval with a bootstrapping of 5,000. LL=lower level, UL= upper level.

Table 4 shows the structural measurement results that support the hypothesis. These results indicate that social norms positively influence the tax morale of Malaysian individual taxpayers. The study suggests that social norms play a significant role in strengthening intrinsic motivation to pay taxes, influencing individuals' judgement and attitudes, and promoting higher levels of tax compliance. Social norms appear more approachable as they involve an interconnection between society and individuals. Paying taxes is perceived as a moral obligation rather than a legal requirement when social norms guide behaviour towards paying taxes within a society or group. This finding is consistent with that of McCulloch et al. (2020), who found that social norms appeared to influence tax morale. It is widely recognized that establishing an effective income taxation system requires fostering a norm of tax compliance, supported by a positive attitude toward paying taxes and promoting high tax morale. This study proceeds with the assessment of the coefficient of determination (R^2). The value of the R^2 represents the amount of variance in the tax morale construct, which is explained by the social norms construct in the research model. Based on the results, R^2 of the study shows a value of 0.276, indicating that social norms, which are represented by personal norms, descriptive norms, injunctive norms and subjective norms, explained 27.6 % of the variances in the tax morale.

Discussion and Conclusion

The primary aim of the study is to examine the direct relationship between social norms and tax morale using the Social Norms Theoretical approach. This study applies a multidimensionality model of SNT by incorporating lower-order constructs, namely personal norms, descriptive norms, injunctive norms and subjective norms constructs into the research model and observes the impact of social norms as a higher-order construct on tax morale. Based on the results, these constructs fit with the measurement model specification comprising loadings, composite reliability (CR), average variance extracted (AVE) and Hetero-Monotrait (HTMT). Meanwhile, the structural assessment result reveals that for H1, there is evidence to support the relationship between social norms and tax morale. The direction of the beta value, the significance level of the t-value and the p-value met the requirements to support the hypothesis. Moreover, the confidence intervals of the lower level (LL) and upper level (UL), which do not straddle a zero in between, also supported the hypothesis. The results indicate that social norms positively influence tax morale in the context of Malaysian individual taxpayers. This finding aligns with prior studies on the significant positive correlation between social norms and tax morale (McCulloch et al., 2020; Lamantia and Pezzino, 2021; Vythelingum et al., 2017). McCulloch et al. (2020) stated that the inculcation of paying taxes as a norm supported by a positive attitude towards payment leads to high tax morale under an effective tax system.

This study suggests that social norms play a significant role in strengthening intrinsic motivation to pay taxes, influencing individuals' judgement and attitudes and promoting higher levels of tax compliance. Social norms appear more approachable as they involve an interconnection between society and individuals. Paying tax is perceived as a moral obligation rather than just a legal requirement, as social norms guide behaviour towards paying taxes

within a society or group. This study concludes that people who believe paying taxes is the right behaviour will adhere to tax laws, whereas people who believe paying taxes is the wrong behaviour will feel guilty, ashamed, and afraid if they are caught not paying taxes. Adhering to tax laws, such as reporting income, filing tax returns, and paying taxes, is a kind of social norms. Therefore, social norms as one of the powerful drivers for tax morale, should be given considerable consideration in motivating taxpayers to perform their social duties. Tax morale research is essential for policymakers, academic researchers, and tax practitioners aiming to promote sustainable tax revenue, build trust in an effective tax system and contribute to the well-being and economic growth of the country. Additionally, tax morality benefits the community by creating the willingness to contribute to the well-being and economic growth of the country, building a sustainable taxpaying culture and providing an effective tax system. The findings on relationships between social norms and tax morale constitute several important contributions of this study. First, this study adds some new knowledge of social norms in tax morale research. This study provides a more profound understanding of the social norms, whereby each dimension of the social norms is thoroughly assessed. This study has extended the literature on social norms in the tax morale context, while prior literature only examined the relationships between social norms and tax compliance (Bobek et al., 2011; Casper Hunnerup, 2021; Kostritsa & Sittler, 2017). Extensive evidence in the social norms construct developed by Cialdini and Tross (1998) and validated by Bobek et al. (2011; 2013) was useful in explaining how social norms influence and motivate taxpayers to pay their fair share of taxes. Second, this study has adapted the four scenario-specific items for each norm, as those items have more predictive power than general items (Bobek et al., 2011). This has significant benefits, as scenario-specific items provide more specificity and attribute an effect to social norms. Based on hypothetical tax scenarios developed, this study modified the scenario-specific items to ensure the Malaysian income tax system reflects the measurement. Third, this study contributes to the theoretical area by measuring a higher-order construct. The measurement of social norms is reflected by four dimensions representing lower-order constructs, thus allowing social norms to be measured as a higher-order construct. Before the measurement could be performed, the conceptualisation and specification of the higher-order construct needed to be grounded in well-developed measurement theory (Sarstedt et al., 2019). Applying the reciprocity concept to the tax system is anticipated to increase people's willingness to pay taxes. Taxpayers will feel more appreciated and rewarded when receiving something in return for the tax paid.

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