

Exploring Items for Measuring the Sales and Service Tax (SST) Compliance Constructs using Exploratory Factor Analysis (EFA) Procedure

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Abstract

Tax compliance is a crucial factor affecting the revenue in any government. Revenues are collected for financing the goods and services provided to their citizens and businesses. Constructs such as tax audit, tax penalty, complexity of laws, tax fairness, and peer influence, are important components that may influence tax compliance behaviour. The aim of this study is to conduct verification of tool via exploratory factor analysis (EFA). This questionnaire was modified from previous studies which consists of 32 items and distributed online to the Sales Tax and Service Tax (SST) registered persons. 120 responses were collected for EFA in which each construct was done individually. The findings revealed that all the constructs had one dimension or component. Each item in the construct had a factor loading of > 0.5 while Bartlett's Test of Sphericity was < 0.05 . The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy was more than 0.6 for all constructs, which meant the sample size was sufficient and appropriate. All items were reliable as Cronbach's Alpha result was above 0.7. This study discovered a definitive tool to evaluate the effectiveness of economics and non-economics constructs towards SST compliance.

Keywords: Exploratory Factor Analysis (EFA), Sales Tax and Service Tax (SST), Economics and Non-Economics Constructs, Tax Compliance

Introduction

Tax compliance is generally a field of interest to many governments, policy makers, and tax administrators (Lee et al., 2019). The revenue collected and how the budgetary management by government for society obligations are based on tax compliance (Azmi et al., 2020). Enhancing tax compliance is crucial aim for governments and tax administrations which can only be achieved if taxpayers voluntarily comply with their tax declarations and payments. Thus, giving superb quality services that yield higher tax collection and reduction of tax gap are needed to improve tax compliance. The economics and non-economics constructs based

on prior studies such as tax audit, tax penalty, complexity of laws, tax fairness, and peer influence factors may affect the response behaviour of Sales Tax and Service Tax (SST) taxpayers in Malaysia (Hayat et al., 2022; Tee & Bidin, 2020). One way to achieve higher voluntary tax compliance is by introducing self-policing or self-assessment. This paper investigates the factors of influence faced by SST registered persons in Malaysia in adhering to self-policing thus accomplishing higher voluntary tax compliance. Therefore, there is a need to measure the effectiveness for each item of constructs towards SST compliance to enhance Malaysian revenue, in accordance with the objective of this study which is to find a definitive tool evaluating SST compliance among the registered persons in Malaysia.

Literature Review

Tax Compliance

Over decades, many studies on tax compliance had been done (Abu Hassan et al., 2022; Andreoni et al., 1998). However, focus was mainly on direct tax like individual income tax or corporate tax. There is limited study done on tax compliance in indirect taxes as compared with direct taxes (Bidin et al., 2016; Lee et al., 2019; Woodward & Tan, 2015, 2017). More research on indirect tax of SST is needed to add to the insufficient literature in this area of study (Tee & Bidin, 2020; Yong et al., 2017). Besides, non-compliance is a challenge to indirect tax administrator of the Royal Malaysian Customs Department (RMCD) even though there are strict provision laws for tax non-compliance (Lee et al., 2019). As such, instrument of items in the construct is adapted, modified, and developed from direct tax compliance and have to be tested through Exploratory Factor Analysis (EFA) procedure in indirect tax SST environment to narrow the void of knowledge. This study, SST compliance means declaring returns SST-03 on time with correct and accurately payment of SST, keeping records, do not misuse the exemptions given and abiding the SST laws.

Tax Audit

Deterrent approach suggested tax audit as a way to solve non-compliance. Studies conducted earlier discovered that increased possibility of audit checking would deter taxpayers from non-compliance (Alm, 2018; Yee et al., 2017; Devos, 2013). Yee et al (2017) stated that a heavier fine levied by tax administrator may cause a positive effect on SST registered persons as taxpayers to fulfil their tax accountability.

Tax Penalty

Tax penalty is related to sanctions or punishment for not complying. There is significance effect between tax penalty and tax compliance behaviour (Devos, 2013). However, Slemrod (2004) mentioned that tax penalty may cause the SST taxpayers not reporting the accurate and correct sales returns by weighing the profit and risk involved.

Tax Complexity

Long & Swingen (1987) defined tax complexity as unclear declaration, frequent changes of regulations, unclear statement or directive, complicated forms and record-keeping. Corruption in tax regime may be due to tax complexity (Chander & Wilde, 1992). Saad (2014) mentioned tax complexity can be the reason for intentional or unintentional non-compliance.

Tax Fairness

Fairness in tax can be viewed as the benefit received compared to the tax paid and equity on taxpayers' burden. If SST registered taxpayers believe there is equity in the tax system, there will be strong motivation for compliance. Studies showed that there is positive connection of tax fairness and compliance (Uvaneswaran et al., 2020; Remali et al., 2020). Nevertheless, other studies found no correlation (Ya'u & Saad 2019; Abdul Jabbar, 2009).

Peer Influence

Peer influence included family members, close pals, husbands, or wives that have significant effect on each other (Al Zeer et al. 2019). There is mixed result on past research of peer influence on compliance. A person can be easily influenced by another person or group of person behaviour particularly on disapproved behaviour (Obaid et al. 2020).

The inconsistent findings in these constructs above suggested for further investigation needed to bridge the literature gap especially in difference tax system.

Research Methodology

Collection of data was done via an online survey. A total of 120 self-administered questionnaires were collected. The questionnaire was adapted from previous studies (Braithwaite, 2001; Faridy et al., 2014; Isa & Pope, 2011; Saad, 2011; Woodward & Tan, 2015; Murphy, 2008) and modified according to the need of this research. Population and sampling frame comprise of SST business registered with the RMCD. The questionnaire was answered by the SST registered persons who are owners, managers or employees directly dealing with SST affairs such as declaring the sales, SST-02 returns, exemptions, record-keeping and financial of the business. This online survey consists of 5 independents constructs to measure the influence towards SST compliance.

The first construct is related to tax audit measured using 4 items. Tax penalty is the second construct measured using 4 items. Tax complexity the third construct measured using 7 items. Tax fairness is the fourth measured using 7 items. Fifth construct is peer influence measured using 5 items and SST compliance as independent construct measured using 5 items. The respondents can mark their response anywhere between 1 to 5 based on their agreement or disagreement with their views in the questionnaire. Score 1 reflects strongly disagree while score 5 reflects strongly agree with the statement regarding the construct. Anuar et al. (2023) and Rahlin et al. (2021) suggested that a Likert Scale without labels should be used as this would produce continuous data with an interval scale which is in line with the postulate for a parametric statistical analysis.

Anuar et al (2023); Awang et al (2018, 2023); Fitriana et al (2022); Hair et. al (2010) agreed for instruments that were adapted, adjusted, and altered from past studies, there is a need to do a pre-test and pilot-test for the changes and alteration on the items before it can be used in the actual or field study. Experts review of questionnaire content on item validation and pre-test are needed. Researchers need to get opinions from field experts on content validity of the content in the questionnaire; criterion validity by a statistical or measurement experts in the field of academic; and face validity through language experts of the instruments. After taking into consideration the experts' comments and suggestions, validation tests are finalized. The instrument was dispensed to 12 respondents for their feedback and response consistency. The researcher distributed the questionnaire after editing was made according to the initial test data. A minimum of 100 responses are to be gathered in order to be able to perform the EFA (Awang et al., 2018, 2023; Rahlin et al., 2021).

Table 2

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.721
Bartlett's Test of Sphericity	Approx.Chi-Square	122.975
	df	6
	Sig.	.000

Every construct should undergo the EFA procedure to inspect any changes in dimension of items as well as the factor loading due to characteristics changes in the population. The EFA was analyzed using SPSS package 25.0. This study is conducted in a cross-sectional design as data was only gathered once within a duration of period from the respondents.

Results and Discussions

In this study, EFA was performed for every construct to examine any changes in the ambit of items as a consequence of different environment and conditions of research.

EFA on Tax Audit

TA1 to TA4 listed in Table 1 measured tax audit using a 5-point interval scale. Each item with statement, mean response, and standard deviation were shown in Table 1. Principal Component Analysis (PCA) was applied as an extraction procedure by the EFA for 4 listed items to calculate the tax audit. Table 2 showed the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) value was 0.721, in which the suggested value was above 0.60. The Bartlett's Test of Sphericity $\chi^2(6) = 122.975$, $p < 0.001$, and Bartlett's Test of Sphericity was significant as 0.05 to be retained (Anuar et al., 2023; Fitriana et al., 2022). The data was acceptable.

Table 1

The Summary Result for Exploratory Factor Analysis (EFA) - Tax Audit

Item Code	Items For Tax Audit	Mean	Standard Deviation	Factor Loading
				1
TA1	I pay the correct amount of tax when there is greater enforcement of tax audit.	3.9500	1.37107	.840
TA2	The likelihood of tax audits encourages me to comply with the SST laws and regulations	4.2583	1.06507	.862
TA3	I am often subjected to the Customs Department's tax audits inspections.	3.3000	1.51519	.577
TA4	I pay taxes as required by the SST regulations because Customs Department often carry out tax audits.	4.0167	1.23658	.714
Percentage of Total Variance Explained (%)				57.306
Cronbach Alpha				.741

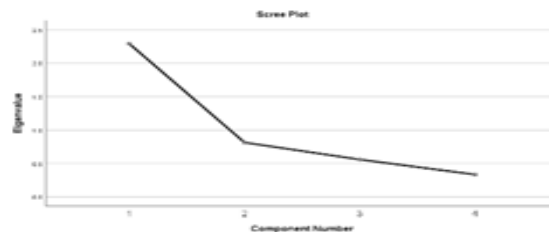


Figure 1. Scree Plot Tax Audit

There was only one component emerging from the EFA as shown in Figure 1 of the scree plot. All items of tax audit belonged to one component emerging from the EFA method based on the calculated Eigenvalue >1.0 . The total variance explained (TVE) for calculating tax audit is 77.583% and was admissible since it surpasses the requirement of 50% (Field, 2017; Pallant 2020). The results for each item in a component belonging to one component only as shown in Table 1. Previous studies found that for better outcome factor loadings should be above 0.5 (Dharmayanti et al., 2023; Le et al., 2020; Ojo et al., 2023) in order to be retained. Hence, all items were retained. Moreover, the four items of tax audit showed satisfactory consistency with Cronbach Alpha value of 0.741 which above 0.7 (Hair et al., 2006) for items to attain internal consistency.

EFA on Tax Penalty

TP1 to TP4 listed in Table 3 measured tax penalty using a 5-point interval scale. Each item with statement, mean response, and standard deviation were shown in Table 3. PCA were applied as an extraction procedure by the EFA for 4 listed items to calculate the tax penalty. Table 4 showed the KMO value was 0.749, in which the suggested value was above 0.60 (Anuar et al., 2023; Fitriana et al., 2022). The Bartlett's Test of Sphericity $\chi^2 (6) = 162.110$, $p < 0.001$, as shown in Table 4, reached statistical significance. The results indicated that the data collected was acceptable.

Table 3

The Summary Result for Exploratory Factor Analysis (EFA) - Tax Penalty

Item Code	Items for Tax Penalty	Mean	Standard Deviation	Factor Loading
				1
TP1	SST registered persons that are discovered for non-compliance of SST payment will be forced to pay the SST they owe with penalty.	4.2083	1.06033	.861
TP2	SST registered persons that are discovered for non-compliance of SST payment will be taken to court to pay the tax they owe with fine.	3.9833	1.24336	.866
TP3	I pay taxes as required by the SST laws because the punishment for tax evasion is very severe which includes imprisonment.	4.2500	1.05520	.799
TP4	The tax penalty imposed by the Customs Department for non-compliance is high (10% to 40%).	4.2917	1.10306	.589
Percentage of Variance (%)				62.188
Cronbach Alpha				.874

Table 4

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.749
Bartlett's Test of Sphericity	Approx. Chi-Square	162.110
	df	6
	Sig.	.000

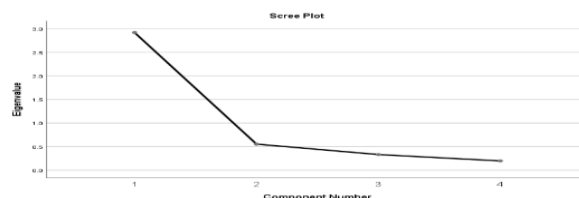


Figure 2. Scree Plot Tax Penalty

There was only one component emerging from the EFA as shown in Figure 2 of the scree plot. All items in tax penalty belonged to one component emerging from the EFA method based on the calculated Eigenvalue >1.0 . TVE for measuring tax penalty was 62.188% and was admissible since it surpasses the requirement of 50% (Field, 2017; Pallant 2020). The results for each item in a component belonging to one component only as shown in Table 3. Previous studies found that for better outcome factor loadings should be above 0.5 (Dharmayanti et al., 2023; Le et al., 2020; Ojo et al., 2023) in order to be retained. Thus, all items tax penalty were retained. Moreover, the four items showed satisfactory consistency with a Cronbach Alpha value of 0.874 which is above 0.7 (Hair et al., 2006) for items to attain internal consistency.

EFA on Tax Complexity

TC1 to TC7 listed in Table 5 measured tax penalty using a 5-point interval scale. Each item with statement, mean response, and standard deviation were shown in Table 5. PCA were applied as an extraction procedure by the EFA for 7 listed items to calculate the tax complexity. Table 6 showed the KMO value was 0.837, in which the suggested value was above 0.60 (Anuar et al., 2023; Fitriana et al., 2022). The Bartlett's Test of Sphericity $\chi^2(6) = 1337.922, p < 0.001$, as shown in Table 6, reached statistical significance. The results indicated that the data collected was acceptable.

Table 5

The Summary Result for Exploratory Factor Analysis (EFA) - Tax Complexity

Item Code	Items for Tax Complexity	Mean	Standard Deviation	Factor Loading
				1
TC1	There are ambiguities in the SST laws which may lead to confusion.	3.7167	1.19652	.867
TC2	Too many computations must be made in SST laws.	3.6500	1.17859	.867
TC3	There have been frequent changes in the SST laws.	3.8333	1.13266	.887
TC4	There have been frequent changes in the SST laws.	3.9167	1.04988	.885
TC5	Detailed records (example sales, each exemption of raw materials given by Customs Department) must be kept by SST registered persons to comply with SST laws.	4.2667	.90501	.712
TC6	The format of the SST-02 return form is confusing.	3.1167	1.16809	Deleted
TC7	The instructions of the SST-02 return form are confusing.	3.0833	1.17812	Deleted
Percentage of Total Variance Explained (%)				71.624
Cronbach Alpha				.900

Table 6

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.837
Bartlett's Test of Sphericity	Approx. Chi-Square	1337.922
	df	10
	Sig.	.000

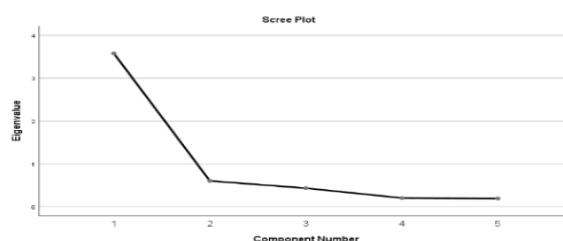


Figure 3. Scree Plot Tax Complexity

There was only one component emerging from the EFA as shown in Figure 3 of the scree plot. All items in tax complexity belonged to one element emerging from the EFA method based on the calculated Eigenvalue >1.0 . The TVE for measuring tax complexity was 71.624% and was admissible since it surpasses the requirement of 50% (Field, 2017; Pallant 2020). The results for each item in a unit belonging to one element only as shown in Table 5. Previous studies found that for better outcome factor loadings should be above 0.5 (Dharmayanti et al., 2023; Le et al., 2020; Ojo et al., 2023) in order to be retained. Thus, five items were retained, and two items were deleted. The five items tax complexity showed satisfactory consistency with a Cronbach Alpha value of 0.900 which above 0.7 (Hair et al., 2006) for items to attain internal consistency.

EFA on Tax Fairness

TF1 to TF7 listed in Table 5 measured tax penalty using a 5-point interval scale. Each item with statement, mean response, and standard deviation were shown in Table 7. PCA was applied as an extraction procedure by the EFA for 7 listed items to calculate the tax fairness. Table 8 showed the KMO value was 0.910, in which the suggested value was above 0.60 (Anuar et al., 2023; Fitriana et al., 2022). The Bartlett’s Test of Sphericity $\chi^2 (6) = 950.970, p < 0.001$, as shown in Table 4, reached statistical significance. The results indicated that the data collected was acceptable.

Table 7

The Summary Result for Exploratory Factor Analysis (EFA) - Tax Fairness

Item Code	Items of Tax Fairness	Mean	Standard Deviation	Factor Loading
				1
TF1	Generally, I feel that SST is a fair tax.	3.3917	1.16168	Deleted
TF2	I believe that SST system is a fair system that the government uses to collect revenue.	3.3250	1.21726	Deleted
TF3	The SST registration threshold is fair to my business.	3.5333	1.11471	Deleted
TF4	Customs Departments tries to be fair when making their decisions on SST assessments.	3.8083	1.02322	.717
TF5	I believe the government utilizes a reasonable amount of tax revenue to achieve social goals.	3.2250	1.21933	.892
TF6	I received fair value from the government in return for my paid SST (e.g., benefits).	3.0917	1.33471	.921
TF7	I believe that the Malaysian government is spending public fund wisely.	2.8167	1.34716	.884
Percentage of Total Variance Explained (%)				73.473
Cronbach Alpha				.864

Table 8

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.910
Bartlett's Test of Sphericity	Approx. Chi-Square	950.970
	df	6
	Sig.	.000

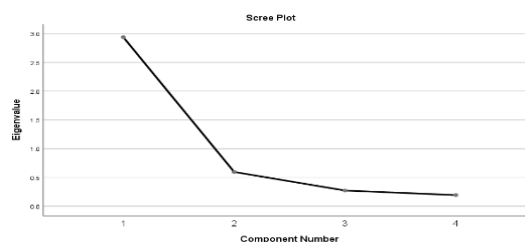


Figure 4. Scree Plot Tax Fairness

There was only one component emerging from the EFA as shown in Figure 4 of the scree plot. All items in tax fairness belonged to one component emerging from the EFA method based on the calculated Eigenvalue >1.0. The TVE for measuring tax fairness was 73.473% and was admissible since it surpasses the requirement of 50% (Field, 2017; Pallant 2020). The results for each item in a component belonging to one component only as shown in Table 7. Previous studies found that for better outcome factor loadings should be above 0.5 (Dharmayanti et al., 2023; Le et al., 2020; Ojo et al., 2023) in order to be retained. There were three items (TF1, TF2, TF3) below 0.50, thus three items were deleted, and four items were retained. The four items of tax fairness showed satisfactory consistency with a Cronbach Alpha value of 0.864 which was above 0.7 (Hair et al., 2006) for items to attain internal consistency.

EFA on Peer Influence

PI1 to PI5 listed in Table 9 measured tax penalty using a 5-point interval scale. Each item with statement, mean response, and standard deviation were shown in Table 9. PCA was applied as an extraction procedure by the EFA for 5 listed items to calculate the peer influence. Table 10 showed the KMO value was 0.628, in which the suggested value was above 0.60 (Anuar et al., 2023; Fitriana et al., 2022). The Bartlett's Test of Sphericity $\chi^2(6) = 226.722$, $p < 0.001$, as shown in Table 10, reached statistical significance. The results indicated that the data collected was acceptable.

Table 9

The Summary Result for Exploratory Factor Analysis (EFA) - Peer Influence

Item Code	Items for Peer Influence	Mean	Standard Deviation	Factor Loading
				1
PI1	Most people who are close to me think that I should report all my SST return accurately.	3.9417	1.00667	.808
PI2	Most people who are close to me think it is unacceptable to under declared actual sales on their SST return.	3.7583	1.18815	.850
PI3	Most people who are close to me think that the tax they pay is fair given the services they get from the government	3.1250	1.27393	Deleted
PI4	In general, I want to do what most people who are close to me think that I should do with regard to SST	3.3500	1.26125	.700
PI5	I usually make decisions to pay SST based on my friends' experiences or suggestions	2.8417	1.30285	Deleted
Percentage of Total Variance Explained (%)				62.141
Cronbach Alpha				.714

Table 10
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.628
Bartlett's Test of Approx. Sphericity	Chi-Square	226.72
	df	3
	Sig.	.000

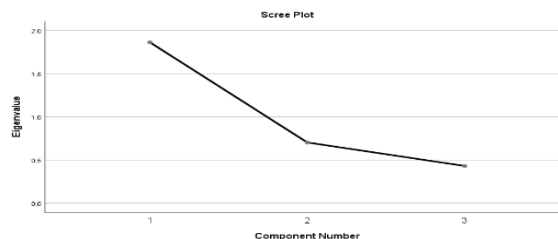


Figure 5. Scree Plot Tax Peer Influence

There was only one component emerging from the EFA as shown in Figure 5 of the scree plot. All items in peer influence belonged to one component emerging from the EFA method based on the calculated Eigenvalue >1.0. The TVE for measuring peer influence was 62.141% and was admissible since it surpasses the requirement of 50% (Field, 2017; Pallant 2020). The results for each item in a component belonging to one component only as shown in Table 9. Previous studies found that for better outcome factor loadings should be above 0.5 (Dharmayanti et al., 2023; Le et al., 2020; Ojo et al., 2023) in order to be retained. There were two items (PI3, PI5) below 0.50, thus were deleted, and three items were retained. The three items of tax fairness showed satisfactory consistency with a Cronbach Alpha value of 0.714 which above 0.7 (Hair et al., 2006) for items to attain internal consistency.

EFA on SST Compliance

CB1 to CB5 listed in Table 11 measured tax penalty using a 5-point interval scale. Each item with statement, mean response, and standard deviation were shown in Table 11. PCA was applied as an extraction procedure by the EFA for 5 listed items to calculate SST compliance. Table 12 showed the KMO value was 0.907, in which the suggested value was above 0.60 (Anuar et al., 2023; Fitriana et al., 2022). The Bartlett’s Test of Sphericity $\chi^2 (6) = 2058.569$, $p < 0.001$, as shown in Table 12, reached statistical significance. The results indicated that the data collected was acceptable.

Table 11
The Summary Result for Exploratory Factor Analysis (EFA) - SST Compliance

Item Code	Items for SST Compliance	Mean	Standard Deviation	Factor Loading
				1
CB1	I paid my SST on time.	4.4750	.83979	.902
CB2	I declared my sales accurately.	4.5417	.78746	.933
CB3	I submit my SST-02 returns on time (example not later than the last day of the following month after the end of taxable period).	4.5167	.75574	.929
CB4	I fill up my SST-02 returns correctly accordance with provisions of the SST laws.	4.5667	.79635	.944
CB5	I keep all my business records transaction including sales invoices updated as required by SST laws for seven (7) years.	4.6750	.75773	.856
Percentage of Total Variance Explained (%)				83.433
Cronbach Alpha				.950

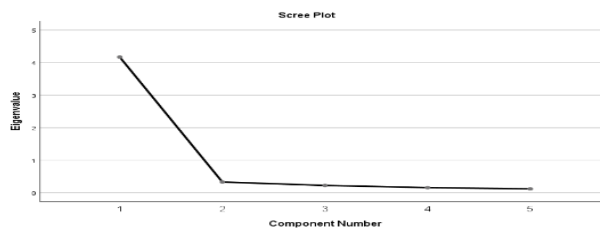


Figure 6. Scree Plot SST Compliance

There was only one component emerging from the EFA as shown in Figure 6 of the scree plot. All items in SST compliance belonged to one component emerging from the EFA method based on the calculated Eigenvalue >1.0 . The TVE for measuring SST compliance was 83.433% and was admissible since it surpasses the requirement of 50% (Field, 2017; Pallant 2020). The results for each item in a component belonging to one component only as shown in Table 11. Previous studies found that for better outcome factor loadings should be above 0.5 (Dharmayanti et al., 2023; Le et al., 2020; Ojo et al., 2023) in order to be retained. All items for SST compliance were retained. The five items of SST compliance showed satisfactory consistency with a Cronbach Alpha value of 0.950 which was above 0.7 (Hair et al., 2006) for items to attain internal consistency.

Table 12

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.907
Bartlett's Test of Sphericity	Approx. Chi-Square	2058.569
	df	10
	Sig.	.000

Conclusions

The validity and reliability of the new tool in assessing the influence of SST registered persons towards compliance has been tested in this research. Thus, the study has found a definitive tool for evaluating the effectiveness of factors determining the SST compliance in Malaysia. This study would be a contribution to the field of indirect tax of SST as items that fit for measuring the constructs of tax compliance were evaluated and tested. The instrument is a methodological contribution for the field of SST. Items were adapted from direct tax fields and modified to fit the field indirect tax system. These instruments have been validated through face validation, content validity, and reliability. For future study, these instruments are recommended to be employed by other researchers of indirect tax to enrich the body of knowledge.

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