The Effect of Business Partner Influence on Service Tax Compliance among Malaysian Service Tax Registrants: The Moderating Role of Trust

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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 aims to examine the relationship between business partner influence and service tax compliance among registered companies in Malaysia, 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 business partner 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, in designing compliance strategies that leverage peer and network-based mechanisms alongside institutional trust-building initiatives.

Index Terms

Business Partner Influence, Malaysia, Moderation, Service Tax Compliance, Trust