Understanding Tax Compliance Intention among E-Commerce Entrepreneurs: Proposing a TPB-Based Framework

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ABSTRACT

The rapid proliferation of e-commerce in Malaysia has reshaped the nation's business environment, contributing to economic growth while simultaneously posing significant challenges to tax enforcement and compliance. Many e-commerce sellers, particularly those unregistered or informal, participate in the shadow economy, often evading tax obligations. This conceptual paper aims to examine the determinants influencing tax compliance intention among e-commerce sellers in Malaysia. Drawing upon the Theory of Planned Behavior (TPB), this paper proposes a framework linking tax knowledge, tax complexity, tax morale, and future tax cost to tax compliance intention. Through an extensive review of existing literature, this paper underscores the need for effective policy responses, taxpayer education programs, and enhanced enforcement strategies tailored to the digital economy. The proposed conceptual framework lays the groundwork for future empirical research to validate the relationships hypothesized herein.

Keywords - E-Commerce, Tax Compliance Intention, Tax Knowledge, Tax Complexity, Tax Morale, Future Tax Cost, Theory of Planned Behavior.

INTRODUCTION

The evolution of digital technology has transformed the global economic landscape, with e-commerce emerging as a dominant and disruptive business model. In Malaysia, e-commerce has experienced exponential growth, with total income recorded at RM801.2 billion in 2021 (Mahidin, 2021). This growth, however, has introduced new complexities in tax compliance, particularly as online businesses often lack physical presence and use anonymous identities, creating enforcement challenges for tax authorities such as the Inland Revenue Board of Malaysia (IRBM).

The proliferation of e-commerce has contributed to the expansion of Malaysia's shadow economy, which was estimated to be worth up to RM300 billion, accounting for 21% of the country's GDP (Guie, 2020). Tax leakages from this sector reduce government revenue and hinder national development. Furthermore, the COVID-19 pandemic has accelerated the digitalization of businesses, intensifying challenges for tax enforcement agencies struggling to track online transactions lacking formal documentation.

Although regulatory initiatives, including the 2019 IRBM E-Commerce Taxation Guidelines have been introduced, tax compliance levels among e-commerce sellers remain unsatisfactory. Previous studies predominantly focused on SMEs or corporate taxpayers, with limited attention given to e-commerce sellers as a unique taxpayer segment. Consequently, there is a need to examine the behavioral factors influencing tax compliance intention among this group. This paper proposes a conceptual framework based on the Theory of Planned Behavior (Ajzen, 1991) to identify and evaluate these determinants.

LITERATURE REVIEW

A. E-Commerce and Tax Compliance Challenges in Malaysia

E-commerce refers to the digital exchange of goods and services, often conducted through various platforms

including social media, online marketplaces, and personal websites (Palil, 2004; Rainer & Cegieski, 2011). The sector's rapid growth has created an environment conducive to tax non-compliance due to its anonymity, ease of market entry, and cross-border transaction capabilities (Gaspareniene & Remeikiene, 2015). IRBM's efforts to monitor this sector are complicated by limited transactional footprints and difficulties in tracing business owners operating under pseudonyms (Maisarah, 2021).

The Inland Revenue Board of Malaysia (IRBM) faces unique challenges in identifying, monitoring, and taxing e-commerce sellers, particularly those operating informally without proper business registration or tax file numbers (Maisarah, 2021). The shadow economy, which includes both legal and illegal income-generating activities unreported for tax purposes, was estimated to account for 21% of Malaysia's GDP, amounting to RM300 billion (Guie, 2020). Regulatory initiatives, such as the issuance of IRBM's 2019 E-Commerce Taxation Guidelines, aim to improve compliance but face limitations due to gaps in enforcement, taxpayer education, and digital transaction traceability (Aziz, 2019; Deloitte, 2021).

Tax non-compliance among e-commerce sellers contributes significantly to the shadow economy, defined as legal income-generating activities deliberately concealed from authorities to avoid taxation and regulatory obligations (Herwartz et al., 2013). Various initiatives, including increased audit enforcement and partnerships with financial institutions, have been introduced (Aziz, 2019). However, gaps in legislation and public awareness persist (Deloitte, 2021).

B. Determinants of Tax Compliance Intention

Numerous studies have identified factors influencing tax compliance behavior. These determinants include tax knowledge, tax complexity, tax morale, and perceived future tax cost. Firstly, tax knowledge. Tax knowledge is recognized as a fundamental factor influencing taxpayers' voluntary compliance behaviour. It encompasses general awareness of tax obligations, procedural knowledge, and an understanding of tax laws and regulations (Bornman & Ramutumbu, 2019). Kasippillai et al. (2003) and Muzakkir et al. (2019) found that higher tax knowledge correlates positively with tax compliance, as informed taxpayers are more likely to understand the consequences of evasion and appreciate the role of taxes in national development. Hamid et al. (2019) also emphasized that limited tax knowledge contributes to non-compliance among Malaysian SMEs and online sellers.

Second, the complexity of tax systems poses significant barriers to compliance, particularly for small businesses and e-commerce traders who may lack access to professional tax services. Tax complexity includes difficulties in interpreting tax provisions, frequent legislative amendments, complicated filing procedures, and extensive documentation requirements (Isa, 2014; Saad, 2014). According to McKerchar (2002), even tax practitioners struggle with complexities in tax law, resulting in higher compliance costs for taxpayers. Studies by Taing and Chang (2020) and Hamid et al. (2019) confirm that increased tax complexity discourages compliance by diminishing perceived behavioural control and increasing compliance burdens.

Third, tax morale reflects the intrinsic motivation to fulfil tax obligations, influenced by personal ethics, cultural values, social norms, and perceptions of government accountability (Alm & Torgler, 2006). High tax morale promotes voluntary compliance without the need for coercive enforcement (Torgler et al., 2007). Barone and Mocetti (2011) argued that perceptions of government inefficiency and corruption erode tax morale, leading to higher evasion rates. Recent findings by Balla (2017) and Taing and Chang (2020) support the importance of tax morale in predicting compliance behaviour, particularly in environments characterized by weak enforcement and opaque public spending.

Forth, future tax cost refers to anticipated consequences of non-compliance, including penalties, fines, legal action, and reputational risks (Ching, 2013). This deterrent effect influences taxpayers' decisions by increasing the perceived costs of evasion relative to its benefits (Alemu, 2020). Research by Asnawi (2013), Alemu (2020), and Obid (2004) demonstrates that heightened audit probabilities and severe penalties positively affect tax compliance behaviour. In Malaysia's e-commerce context, Hamid et al. (2019) reported that many sellers evade tax due to perceived low detection risks and lenient enforcement, suggesting that increasing perceived future tax costs could improve compliance.

C. Application of the Theory of Planned Behaviour in Tax Compliance Research

The Theory of Planned Behavior (Ajzen, 1991) has been extensively applied in tax compliance studies to predict taxpayers' intentions and behaviors. The model posits that intention to perform a behavior is shaped by attitude toward the behavior, subjective norms, and perceived behavioral control. Benk et al. (2011) and Taing and Chang (2020) demonstrated the utility of TPB in explaining tax compliance behavior among individual taxpayers in diverse contexts. In this study, tax morale aligns with attitude, future tax cost with subjective norms, and tax knowledge and tax complexity with perceived behavioral control. By integrating these constructs, the framework offers a comprehensive understanding of factors affecting tax compliance intention among Malaysian e-commerce sellers.

Conceptual Framework and Propositions Development

This study proposes a conceptual framework based on the Theory of Planned Behavior (Ajzen, 1991), which integrates four key determinants that are tax knowledge, tax complexity, tax morale, and future tax cost to predict tax compliance intention among e-commerce sellers. The rationale for selecting these determinants is grounded in their theoretical alignment with the TPB constructs and empirical evidence from prior studies. Figure 1 illustrates the proposed conceptual framework.

Figure I The Proposed Conceptual Framework
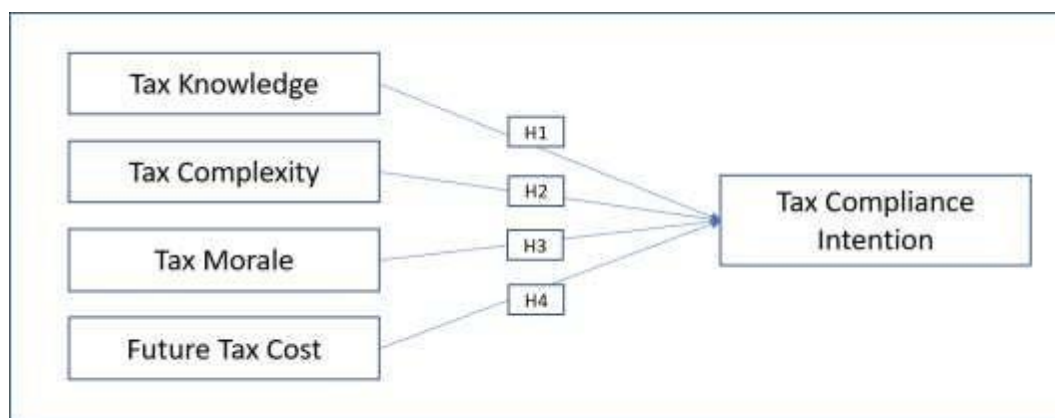
Tax knowledge refers to a taxpayer's awareness and understanding of tax laws, regulations, and procedures (Bornman & Ramutumbu, 2019). In the context of e-commerce, where informal business operations are prevalent, a lack of tax knowledge may contribute to non-compliance. Studies by Hamid et al. (2019) and Muzakkir et al. (2019) emphasize that well-informed taxpayers are more likely to comply voluntarily, as they better understand their tax obligations and the consequences of evasion. From a TPB perspective, tax knowledge enhances perceived behavioural control by increasing the individual's ability to engage in compliant behaviour. Thus, this study proposes the first proposition as follows:

Proposition 1: Tax knowledge is expected to have a positive influence on tax compliance intention.

Tax complexity encompasses the perceived difficulty in understanding, interpreting, and complying with tax laws (Isa, 2014). High complexity increases compliance costs and may demotivate taxpayers, particularly e-commerce sellers, who often lack formal accounting knowledge or access to professional services. Saad (2014) and Taing and Chang (2020) found that tax complexity negatively affects compliance intention by lowering perceived behavioural control. Simplifying tax laws and procedures may enhance compliance by reducing perceived obstacles. The second proposition as below:

Proposition 2: Tax complexity is expected to have a negative influence on tax compliance intention.

Tax morale is defined as the intrinsic motivation to pay taxes, influenced by personal values, cultural norms, and perceptions of government integrity (Alm & Torgler, 2006). Taxpayers with high tax morale view tax payment as a civic duty, contributing to societal welfare (Torgler et al., 2007). In the context of TPB, tax morale aligns

with the attitude toward behaviour component, shaping positive or negative predispositions towards compliance. Empirical studies by Balla (2017) and Taing and Chang (2020) support the positive influence of tax morale on compliance intention. Thus, the third proposition is:

Proposition 3: Tax morale is expected to have a positive influence on tax compliance intention.

Future tax cost refers to the anticipated financial and legal repercussions, such as penalties, fines, or imprisonment, that may arise from tax non-compliance (Ching, 2013). The perception of higher detection risks and punitive consequences acts as a deterrent against evasion. In TPB, this variable relates to subjective norms, as it reflects social expectations and potential sanctions for non-conformity. Studies by Alemu (2020) and Asnawi (2013) demonstrate that taxpayers who perceive high future tax costs are more likely to comply voluntarily. Therefore, the last proposition is proposed as follows:

Proposition 4: Future tax cost is expected to have a positive influence on tax compliance intention.

In sum, the integration of tax knowledge, tax complexity, tax morale, and future tax cost within the TPB framework provides a comprehensive lens to understand the compliance behavior of e-commerce sellers. These propositions serve as a foundation for future empirical validation and policy formulation aimed at enhancing voluntary tax compliance in the digital economy

CONCLUSION AND FUTURE RESEARCH DIRECTION

The accelerating growth of Malaysia's digital economy has introduced significant challenges for tax administration, particularly in monitoring and enforcing compliance among e-commerce sellers operating within informal or semi-formal settings. This conceptual paper responds to these challenges by proposing a robust theoretical framework grounded in the Theory of Planned Behavior (TPB), integrating four behavioral determinants that are tax knowledge, tax complexity, tax morale, and perceived future tax cost to predict tax compliance intention among e-commerce sellers in Malaysia.

The review of extant literature highlights the theoretical and empirical relevance of these variables. Tax knowledge enhances taxpayers' perceived behavioural control, while tax complexity reduces it by increasing compliance burdens. Tax morale, as an attitudinal factor, influences taxpayers' intrinsic motivation to comply, while future tax cost acts as a deterrent mechanism shaped by the perceived risk of sanctions and penalties. Collectively, these determinants offer a holistic perspective on the behavioral antecedents of tax compliance intention within the unique context of the digital economy.

Importantly, this conceptual framework offers several practical implications for policymakers and tax authorities. Tax compliance initiatives should move beyond enforcement-centric strategies and incorporate behavioural interventions such as targeted tax education programs, simplified tax filing systems tailored for digital entrepreneurs, campaigns to foster positive tax morale, and the strategic amplification of enforcement visibility to enhance perceptions of future tax cost. By addressing both cognitive and normative factors, tax authorities can foster voluntary compliance and narrow the digital shadow economy's footprint.

As a conceptual study, this paper lays the groundwork for empirical validation through future research. Quantitative studies employing large-scale surveys among e-commerce sellers across multiple digital platforms including social media sellers, marketplace traders, and independent online store owners are essential to test the propositions outlined. Structural Equation Modelling (SEM) is recommended for examining the strength, direction, and significance of the proposed relationships.

Complementing quantitative approaches, qualitative research such as in-depth interviews and focus group discussions would provide rich, context-specific insights into the lived experiences, motivational factors, and practical barriers faced by e-commerce entrepreneurs in managing tax compliance. These qualitative findings could reveal hidden determinants or culturally embedded attitudes not captured in existing models.

Furthermore, comparative studies between formal and informal e-commerce sellers, or between local and cross-border digital traders, would enhance the understanding of contextual variations in compliance behaviours. Such

studies could explore whether platform regulation policies, business size, or tax system familiarity influence the predictive strength of the proposed determinants.

Future researchers are also encouraged to extend this framework by incorporating potential moderating or mediating variables such as perceived tax system fairness, government service delivery, digital platform governance, and trust in tax authorities. These factors could significantly shape the relationship between behavioural determinants and compliance intention in the rapidly evolving digital economy.

Lastly, longitudinal studies tracking changes in tax compliance intention over time, especially in response to policy reforms, technological advancements, or shifts in public sentiment, would offer valuable insights into the dynamic nature of taxpayer behaviour. Such studies would not only test the temporal stability of the proposed framework but also inform adaptive policy designs capable of sustaining compliance in the face of digital disruption.

In conclusion, this conceptual paper provides a theoretically sound and practically relevant framework for understanding tax compliance intention among e-commerce sellers. It offers both immediate policy implications and fertile ground for future academic inquiry, addressing a critical gap in the intersection of tax compliance behaviour and digital entrepreneurship in emerging economies.

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