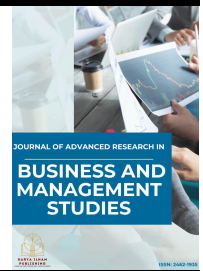




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The Role of Financial Strain in Shaping Taxpayer Compliance: A Conceptual Review

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ABSTRACT

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Tax revenue is vital for sustaining national development, yet achieving high levels of tax compliance remains challenging, particularly in regions marked by poverty and income inequality. Sabah, which records the highest poverty rate and some of the widest income disparities in Malaysia, presents a context in which financial strain may play a critical role in shaping taxpayer behaviour. This conceptual paper examines how financial strain influences individual tax compliance in Sabah, drawing on Prospect Theory to explain behavioural responses under economic pressure. Through a review of literature on tax compliance, financial strain, and behavioural decision-making, the study identifies gaps in current empirical understanding, especially in settings characterised by persistent socioeconomic hardship. The proposed framework suggests that financial strain can significantly reduce both the willingness and ability of taxpayers to meet their tax obligations, aligning with prior evidence linking financial dissatisfaction to noncompliance. Theoretically, the paper advances the application of behavioural economics to tax compliance research, while practically it offers insights for the Inland Revenue Board of Malaysia (IRBM) in developing more equitable and targeted compliance strategies. As a conceptual contribution, the study lays the groundwork for future empirical research aimed at validating the proposed relationships and deepening understanding of taxpayer behaviour in financially vulnerable contexts.

1. Introduction

Tax revenue constitutes a critical income source for governments worldwide, underpinning public expenditure in both developed and developing economies [1]. In Malaysia, direct taxes constitute the primary source of revenue, whereas indirect taxes are considered supplementary [2]. As demonstrated in Table 1, direct tax often accounts for more than half of total revenue, underscoring its importance in sustaining public expenditure and infrastructure development. Therefore, enhancing tax compliance and reducing tax evasion are top priorities for Malaysia, given that direct

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tax revenue remains the government's main source of income. To enhance the voluntary tax compliance of taxpayers and the efficiency of tax administration, a better understanding of the taxpayer's attitudes, choices and motives is pertinent [3,4]. Governments are particularly concerned with tax compliance because tax revenue is essential for funding public goods and maintaining fiscal stability [5]. The active taxpayer may tend to follow the tax regulations which submit the necessary monetary resources to contribute for development and redistribution of resources collected by the tax administrator [6].

Table 1
Federal Government Revenue (FGR) for 2017 to 2023 in (RM Million)

Year	2017	2018	2019	2020	2021	2022	2023
Tax Revenue	177,658	174,060	180,566	154,398	173,704	208,765	229,185
Direct Taxes	116,024	130,034	134,723	112,511	130,116	153,476	171,336
Indirect Taxes	61,634	44,026	45,843	41,887	43,588	55,289	57,849
Non-Tax Revenue	42,748	58,822	83,849	70,677	60,048	85,592	85,774
Total Revenue	220,406	232,882	264,415	225,075	233,752	294,357	314,959
Share of Tax Revenue to Total Revenue	80.60%	74.74%	68.29%	68.60%	74.31%	70.92%	72.77%
Share of Direct Tax Revenue to Total Revenue	52.64%	55.84%	50.95%	49.99%	55.66%	52.14%	54.40%

Source: Fiscal Update, Fiscal Outlook and Economy Outlook 2018, 2022, 2023, 2025, Ministry of Finance

According to Surugiu and other scholars [7], tax compliance refers to the extent to which taxpayers fully meet all tax obligations as required by law. It is known as a process and procedure which to convince the taxpayers to comply with the relevant tax legislations [8]. In Malaysia, the Inland Revenue Board of Malaysia (IRBM) serves as the government's agent in assessing, collecting, administering, and enforcing direct taxes. These include income tax, real property gains tax, estate duty, petroleum tax, stamp duties, and other taxes mutually agreed upon between the government and the Board. IRBM is also responsible for advising the government on taxation matters, engaging with ministries and statutory bodies, and participating in tax-related affairs both domestically and internationally.

In the recently announced 2025 Budget, the Malaysian government introduced plans to reduce subsidies for the top 15 percent of income earners (T15), also referred to as the ultra-rich group [9]. The removal of benefits includes subsidies for education, healthcare, and petrol, while assistance for the B40 and M40 groups will be maintained. Specifically, the government intends to reallocate 40 percent of the RM8 billion in petrol RON95 subsidies, which previously benefited foreign nationals and the wealthiest households, towards the improvement of public goods such as public transportation, education, and healthcare [9]. Although this redistribution reflects the principle of

“taxing the rich to help the poor,” empirical evidence indicates that such measures do not necessarily enhance citizens’ financial satisfaction. Chan and other scholars [10] demonstrate that policies designed to reduce inequality through taxing the wealthy and subsidising the less privileged may not directly increase perceived financial well-being, as income level and overall financial security remain stronger determinants. This observation is particularly relevant for states such as Kelantan, Sarawak, and Sabah, where average household incomes remain below the national average [11]. Furthermore, in 2022, the absolute poverty rates in Sabah and Sarawak were 3.0 and 1.7 times higher than the national poverty rate, respectively [11]. Persistent poverty, low household income, and income inequality are therefore likely to remain key sources of financial strain and dissatisfaction, even under redistributive policies. Prior research further suggests that financial dissatisfaction arising from economic strain is positively correlated with the likelihood of engaging in tax fraud [12].

Such above scenario may relate to financial strain, which can be linked to noncompliant tax behavior. Past research indicates that individuals experiencing economic pressure or dissatisfaction are more prone to justifying or engaging in tax fraud as a coping mechanism [12]. While Malaysia’s overall poverty rate has declined to 6.4%, income inequality remains high by international comparison [13]. Sabah exemplifies this, recording the nation’s highest poverty rate (19.7%) and severe income disparities, as reflected in its Gini coefficient and the wide gap between mean and median household income [13]. These socioeconomic conditions create a setting in which financial strain may play a particularly influential role in shaping tax compliance decisions. Moreover, Sabah differs from other Malaysian states in that it consistently records lower individual tax compliance rates, as shown in Table 2.

Table 2
Gross direct tax collection by state for the year 2023 (RM million)

State	Total Direct Tax Revenue	Individual Income Tax	Individual Income Tax Contribution
	RM million	RM million	Percentage (%)
Special Branch*	89,978.30	-	-
Terengganu	746.37	469.27	62.87%
Negeri Sembilan	1,507.44	913.43	60.59%
Kelantan	664.30	365.84	55.07%
Perlis	201.21	103.53	51.45%
Perak	3,306.38	1,687.55	51.04%
Pulau Pinang	7,580.13	3,829.92	50.53%
Selangor	15,418.55	7,670.52	49.75%
Pahang	1,593.53	786.17	49.33%
WP Putrajaya	12,230.94	5,820.08	47.58%
Melaka	1,910.39	860.43	45.04%
WP Kuala Lumpur	24,194.36	10,681.80	44.15%
Kedah	1,675.87	714.08	42.61%

Johor	8,169.21	3,411.84	41.76%
Sarawak	6,943.62	2,180.32	31.40%
Sabah	7,176.23	1,463.17	20.39%
Others (Stamp Duty)	42.76	-	-
Total	183,339.59	40,957.94	

Source: IRBM (2024)

Note: * Special branch includes large taxpayer, special industry, multinational tax and petroleum branch

Despite these conditions, existing behavioural tax compliance research has largely concentrated on factors such as deterrence, trust, and tax morale [14-24]. In contrast, financial strain has often been treated as a background or control variable rather than a central explanatory factor [25], [26], [27]. Consequently, the role of financial strain in influencing taxpayer behaviour within high poverty and high inequality settings such as Sabah remains empirically underexplored. This study addresses this gap by offering contextualised insights into how financial strain shapes tax compliance among salaried and self-employed individuals in Sabah. By positioning financial strain as a central behavioural driver within a Prospect Theory framework, the study seeks to clarify existing ambiguities and examine whether financial strain exerts a significant influence on tax compliance behaviour in Sabah, Malaysia [28].

2. Theoretical Review

2.1 Prospect Theory

Prospect Theory (PT) serves as a descriptive alternative to Expected Utility Theory (EUT) in explaining decision-making under conditions of risk. PT are developed by Kahneman and Tversky [29], it posits that individuals do not always base their decisions on the maximization of expected utility. Instead, decisions are made by evaluating potential outcomes as gains or losses relative to a subjective reference point, rather than in terms of absolute final wealth [30]. This theoretical lens has been extensively employed in tax compliance research to provide a more nuanced explanation of taxpayers' behavioral responses [31-33].

Prospect Theory (PT) explains that people evaluate decisions based on perceived gains and losses relative to a reference point rather than their overall wealth [29]. In the editing stage, individuals simplify information by coding outcomes as gains or losses, combining or separating amounts, and focusing only on differences between options [29]. In the evaluation stage, they choose the option that provides the highest subjective value [30]. Two main effects are central here: loss aversion, where losses are felt more strongly than equivalent gains [32,34], and diminishing sensitivity, where smaller changes close to one's income level matter more than the same changes at higher income levels [32]. In the context of tax compliance, this means taxpayers often perceive tax payments as painful losses, especially when facing financial strain, while rebates or reliefs are seen as meaningful gains. For lower-income groups, even small amounts of tax create greater sensitivity and may heighten resistance or risk-taking behavior, such as underreporting. How tax obligations are framed also matters: when seen as a loss, individuals under financial pressure may be less compliant, whereas framing taxes as contributions to public benefits may increase acceptance [33].

PT has been widely applied as a theoretical framework in various fields such as consumption and saving behavior [35], trading strategies and market quality [36], poverty and welfare measurement [37], political decision making [38], and tourism decision making [39]. Beyond these areas, PT has

also been applied in tax related studies. According to Kanbur and other scholars [40], when taxpayers face income uncertainty, their behavior may be influenced by PT, particularly through loss aversion and risk seeking tendencies. Financial condition and risk preference are key factors shaping tax compliance [41]. Bloomquist [42] finds that taxpayers with sufficient income but poor financial condition, where expenditures exceed income, are more likely to evade taxes. Conversely, Anuar Syahdan and other scholars [41] empirically demonstrate that stronger financial conditions and certain risk preferences are positively associated with higher compliance. These findings may appear contradictory but are, in fact, complementary: poor financial condition tends to decrease compliance, while better financial condition tends to enhance it. For low-income earners, strong loss aversion may sometimes offset the government's own risk aversion. When individuals perceive tax payment as a sure loss, they may strive to maintain their pre-tax position, thereby engaging in risk taking behavior such as evasion [43].

Overall, the literature suggests that financial strain weakens both taxpayers' ability and willingness to comply with tax obligations. From a behavioural perspective grounded in Prospect Theory, financial strain shifts individuals' reference points, leading tax payments to be experienced as meaningful and burdensome losses. Consequently, elevated levels of financial strain reduce tax compliance by intensifying perceived losses, increasing psychological stress, and encouraging taxpayers to prioritise immediate financial necessities over longer-term civic responsibilities, which may in turn lead to risk-seeking behaviours such as tax evasion or income underreporting.

2.2 Tax Compliance

Tax compliance is behavior of the taxpayers who adheres with the tax laws and regulations of the country. The act of appropriate in reporting of income or tax base includes compute the tax liability accurately, filing returns and make payment in timely manner [44]. According to Kirchler [45], the tax compliance may be separate into two types which are voluntary and enforced tax compliance. Voluntary compliance possibly mediates by the trust between the taxpayers and the tax authorities, also determine the willingness of the taxpayers comply with the tax laws and regulations administer by the authorities. The lack of cooperation and distrust between the taxpayers and authorities could possibly leads to tax hostile situation which authorities will enforce compliance by implying the threats of fines and tax audit. Alm, Jackson and Milliron [46,47] describe tax compliance as report the income and payment regarding tax returns by fulfilling the constitution, policies and judgement.

In this study, tax compliance has been selected as the response variable. The efficiency in tax collection and the tax compliance behaviour from the taxpayers are crucial for sustain the future infrastructure development and the economy growth of a country. Therefore, whether its voluntary or enforced tax compliance, it's both important in terms of tax collections in order to ensure the federal revenue increase. To understand the relationship between the independent variable and dependent variable, the current study proposes a comprehensive framework to determine their influences towards tax compliance, as demonstrated in Fig 1.

Tax compliance has been defined also been defined as the extent to which taxpayers obey tax rules and legislation by accurately reporting their liabilities, filing the required returns, and making timely payments [48]. According to Adeyeye [49], tax compliance refers to the ability of both taxpayers and tax authorities to ensure that taxation rules and legislation are appropriately applied so that taxes are paid accurately. Kuokštis [50] further emphasizes that tax compliance reflects the degree to which taxpayers follow tax laws, highlighting its practical importance.

There are two main forms of tax compliance: voluntary and enforced. Voluntary tax compliance refers to the ability and willingness of taxpayers to comply with tax policies and obligations without

coercion [49]. In contrast, enforced tax compliance arises when governments or tax authorities exercise their authority to ensure taxpayers meet their obligations [51]. Regardless whether compliance with tax is based on voluntary or enforced, ultimately, taxes are a crucial foundation for establishing an efficient government that ensures sustainable social welfare creation and redistribution [52].

2.3 The Role of Financial Strain

The meaning of financial strain also similar with financial/economic stress, financial/economic hardship, financial distress, financial difficulties or the incapable to satisfy financial needs [53]. The definition of financial distress under the presumption of corporate, it's indicate a decline in the financial position of the company before liquidate or bankrupt [54]. Economic hardship which are an individual unable to maintain an income status or living standard that satisfy their expectation. If under the policy socio-background, economic hardship is definite as insufficient income in satisfy basic living standard and necessities [55]. The economic constraint in the context of taxation is referring to the personal financial pressure which impacts to one's saving, expenditure and tax compliance behavior. The research on Lebanon on the COVID-19 outbreak disclose that the financial issues, inadequacy of infrastructure, political instability has caused a snowball effect negatively impact the mental health of the citizens, especially citizen which lived in war for 15 years that leads to economic breakdown with monetary devaluation. Lebanese has protested on demanding the ouster of corrupt politician [56]. Another research also agrees that the countries' citizens with higher establish trust in government are likely to have a better economic condition and tax compliance increase. It also assesses that the gaps in tax compliance between high trust and low trust is bigger when the times having financial strain compared to 'normal' times [50].

Since the financial strain of an individual is able to affect the willingness on tax compliance, it has been selected as one of potential factor. The reason is poverty and income inequality can be the drive of economic hardship which the individual may prioritize their basic needs before their tax obligations.

The financial condition of an individual plays a critical role in shaping their attitudes toward tax compliance. Financial dissatisfaction may generate distress, particularly when tax payments are due, as discrepancies often exist between one's actual financial situation and the aspired standard of living. In such contexts, taxes may be perceived as a significant restriction, leading to tax dishonesty [23]. Financial conditions have also been shown to moderate individual performance and commitment, indicating a positive correlation between these factors [57]. This suggests that financial strain reduces individuals' capacity to comply with obligations, including tax submissions. In these circumstances, basic needs are typically prioritized over tax responsibilities [58]. Behavioural studies further confirm that family obligations and subsistence need strongly influence taxpayers' compliance decisions [27]. In contexts marked by widespread poverty and heavy family commitments, like Nigeria, individuals commonly experience financial pressure that may reduce their capacity to comply with tax requirements [57]. Moreover, financial strain has been identified as a major source of taxpayer stress [42]. Dissatisfaction arising from lack of financial resources may also motivate individuals to engage in dishonest or criminal behaviour as they search for opportunities to cope with economic pressure [59].

Sabah is selected as the study context in Malaysia due to its pronounced income inequality. As shown in Table 3, Sabah recorded the highest Gini coefficients across most income categories in 2022, indicating the most severe income inequality nationwide. Table 4 further supports this observation through dispersion ratio measures, where Sabah ranks among the top three states in terms of income

disparity, particularly in the P90/P10 and P90/P50 ratios. Together, these indicators demonstrate a highly uneven household income distribution and substantial income inequality in Sabah.

Table 3

Gini coefficient by state and type of income, Malaysia, 2016, 2019 and 2022

State	Gross Income			Gross Income Per Capita			Disposable Income			Disposable Income Per Capita		
Year	2016	2019	2022	2016	2019	2022	2016	2019	2022	2016	2019	2022
Malaysia	0.399	0.407	0.404	0.425	0.429	0.429	0.391	0.393	0.393	0.415	0.416	0.417
Johor	0.354	0.366	0.366	0.379	0.375	0.399	0.356	0.365	0.364	0.379	0.376	0.396
Kedah	0.393	0.354	0.359	0.405	0.380	0.361	0.400	0.351	0.361	0.411	0.378	0.364
Kelantan	0.389	0.378	0.385	0.399	0.390	0.351	0.396	0.375	0.393	0.403	0.388	0.358
Melaka	0.337	0.383	0.370	0.350	0.387	0.363	0.340	0.379	0.368	0.347	0.385	0.362
Negeri Sembilan	0.380	0.391	0.369	0.381	0.373	0.347	0.374	0.380	0.356	0.379	0.369	0.344
Pahang	0.324	0.330	0.308	0.357	0.349	0.321	0.318	0.321	0.305	0.348	0.341	0.323
Pulau Pinang	0.356	0.359	0.371	0.369	0.371	0.373	0.351	0.354	0.357	0.367	0.367	0.363
Perak	0.362	0.377	0.368	0.356	0.369	0.354	0.365	0.362	0.368	0.360	0.360	0.359
Perlis	0.327	0.334	0.336	0.350	0.333	0.321	0.331	0.331	0.336	0.356	0.330	0.323
Selangor	0.372	0.393	0.361	0.398	0.412	0.393	0.361	0.378	0.352	0.388	0.400	0.382
Terengganu	0.328	0.335	0.326	0.360	0.369	0.358	0.321	0.327	0.322	0.354	0.364	0.358
Sabah	0.402	0.397	0.395	0.461	0.447	0.460	0.405	0.394	0.387	0.457	0.438	0.444
Sarawak	0.386	0.387	0.382	0.420	0.418	0.406	0.384	0.377	0.379	0.414	0.406	0.398
W.P. Kuala Lumpur	0.378	0.350	0.380	0.419	0.392	0.402	0.362	0.342	0.369	0.402	0.383	0.390
W.P. Labuan	0.398	0.333	0.300	0.434	0.367	0.365	0.387	0.323	0.300	0.419	0.357	0.356
W.P. Putrajaya	0.369	0.361	0.368	0.387	0.397	0.392	0.347	0.345	0.346	0.368	0.387	0.377

Source: Income Inequality Malaysia 2022, Department of Statistics Malaysia (DOSM)

Table 4

Dispersion ratio by state and percentile using monthly household gross income, Malaysia, 2022

State	Dispersion Ratio					
	P90/P10	P90/P50	P10/P50	P75/P25	P95/P5	P99/P1
Malaysia	6.20	2.50	0.40	2.72	10.33	28.83
Johor	5.51	2.24	0.41	2.46	9.01	25.02
Kedah	4.83	2.28	0.47	2.30	7.91	21.30
Kelantan	5.59	2.61	0.47	2.38	9.37	18.55
Melaka	5.33	2.42	0.45	2.46	7.73	19.03
Negeri Sembilan	5.48	2.49	0.45	2.51	8.49	17.00
Pahang	3.96	2.14	0.54	2.05	6.08	12.24
Pulau Pinang	5.68	2.39	0.42	2.44	9.01	21.40
Perak	5.34	2.40	0.45	2.39	8.72	19.28
Perlis	4.68	2.18	0.47	2.28	7.75	18.07
Selangor	4.87	2.14	0.44	2.24	7.66	21.57

Terengganu	3.98	2.15	0.54	2.01	6.26	16.57
Sabah	5.93	2.60	0.44	2.58	9.24	22.38
Sarawak	6.05	2.53	0.42	2.65	9.59	22.43
W.P. Kuala Lumpur	4.77	2.18	0.46	2.20	7.74	27.54
W.P. Labuan	3.85	2.07	0.54	1.94	5.58	11.07
W.P. Putrajaya	5.45	2.69	0.49	2.19	8.12	17.14

Source: Income Inequality Malaysia 2022, Department of Statistics Malaysia (DOSM)

In Malaysia, particularly in Sabah, high poverty rates, income inequality, and a substantial proportion of low-income households are potential sources of financial strain. To alleviate these challenges, the IRBM, in collaboration with other government agencies, has introduced various assistance platforms for low- and middle-income households, such as the *Bantuan Khas Kerajaan* (BKK) [60]. One key scheme is the *Bantuan Keluarga Malaysia* (BKM), renamed *Sumbangan Tunai Rahmah* (STR) in 2023 (Table 4). In that year, approximately 8.7 million citizens received STR assistance, amounting to about RM8 billion in disbursements. According to state-level data, Sabah ranked among the highest in STR applications, reflecting the relatively large size of its B40 population. Although STR is primarily targeted at the B40 category, IRBM assistance has benefitted more than 60 percent of the adult population when recipients are taken as the basis of comparison. Furthermore, IRBM collaborates with multiple agencies in managing and sharing B40-related data to support government programs, including *Sumbangan Asas Rahmah* (SARA), *MySalam*, the Malaysian Indian Transformation Unit (MITRA), the Road Transport Department (RTD), the Ministry of Health (MOH), the Ministry of Education (MOE), *Lembaga Tabung Haji*, the Ministry of Communications and Digital (MCD), the Public Service Department (PSD), and the Department of Statistics Malaysia (DOSM) [60].

Table 4
Application report of *Sumbangan Tunai Rahmah* (STR) in 2023 by States

State	Total Applications	Total Approved	Total Payments (RM)
Johor	1,205,037	983,722	779,264,650
Kedah	773,690	695,100	145,556,406,617
Kelantan	639,815	588,721	91,571,052,048
Melaka	301,098	256,622	32,859,991,572
Negeri Sembilan	384,988	328,907	17,360,211,172
Pahang	518,226	458,256	31,467,247,194
Perak	916,641	805,399	79,432,016,232
Perlis	93,944	85,041	14,637,017,698
Pulau Pinang	521,865	447,427	7,931,643,033
Sabah	935,084	799,526	77,658,930,164
Sarawak	1,010,340	872,433	166,601,629,293
Selangor	1,524,536	1,238,857	243,770,089,596
Terengganu	427,159	386,834	105,761,485,623

W.P. Kuala Lumpur	517,200	412,809	34,763,756,095
W.P. Labuan	24,400	21,196	1,854,688,990
W.P. Putrajaya	14,154	10,281	44,905,562
Other States	31	18	22,702

Source : IRBM (2025)

Despite these assistance schemes, low-income earners may continue to experience financial distress, as government aid is often insufficient to cover all household expenditures. Engida and Baisa [61] also highlight that individuals facing such strain tend to prioritize immediate necessities and urgent financial commitments, such as debt repayments, particularly when threatened by enforcement actions from lenders. Consequently, financial hardship may encourage taxpayers to evade rather than fulfill their tax obligations. Similarly, prior studies have found that individuals under greater financial strain are more likely to evade taxes compared to those experiencing lower levels of strain [58].

Overall, the literature indicates that financial strain may potentially exerts a direct and significant influence on tax compliance behavior. Although scholars have acknowledged these issues and proposed broad strategies to address them, there remains a notable absence of detailed and systematic measures that specifically consider the conditions of regions where poverty and inequality persist, such as Sabah.

3. Conceptual Model Development

IRBM has facilitated several assistance schemes and cooperated with other agencies to provide aid for low-income households [60]. Under the recently announced 13th Malaysia Plan, the government aims to expand social protection and cash transfers. An allocation of RM15 billion has been designated for the *Sumbangan Tunai Rahmah* (STR), alongside the continued distribution of *Sumbangan Asas Rahmah* (SARA), particularly focused on food products at affordable prices. In addition, the *RAHMAH MADANI* Sales Program will be extended to more rural areas and targeted communities to safeguard the consumption needs of the B40 group. Collectively, STR, SARA, and *RAHMAH MADANI* are designed to stabilize basic consumption and ensure food affordability across income segments [62]. These initiatives reflect the efforts of the tax authorities and the government to reduce the financial burden on low-income earners, thereby fostering tax compliance by alleviating the effects of economic hardship.

From the perspective of Prospect Theory, taxpayers experiencing financial strain may act differently from predictions of rational or traditional economic frameworks. Due to loss aversion, individuals perceive the pain of a financial loss as nearly twice as intense as the pleasure of an equivalent gain [63]. Consequently, tax payments are often viewed as an additional financial burden, particularly during times of economic distress. Empirical evidence by Ras and other scholars [16] shows that individuals under financial constraints are more likely to engage in non-compliant behaviors, such as overclaiming tax reliefs, in order to reduce their tax liabilities.

Income inequality, poverty, and low-income household status could become key sources of financial strain that may negatively influence tax compliance. Bloomquist [42] found a positive correlation between income inequality and tax underreporting rates, consistent with economic theories of tax evasion. In the Italian context, it was observed that poorer regions had significantly

higher tax evasion rates compared to wealthier ones [45]. Similarly, Brosio and other scholars [17] argued that high noncompliance can be interpreted as taxpayers' dissatisfaction with the low level of public goods provided. In the study on U.S. taxpayers, reported that the ratio of underreported tax to true tax was highest among lower-income groups [64]. Previous literature also indicates that individuals in adverse financial conditions tend to prioritize the repayment of personal debts over fulfilling tax obligations [27,65].

The proposed conceptual model explains tax compliance as a behavioural outcome shaped by financial strain through key mechanisms highlighted in Prospect Theory. Financial strain arising from poverty, income inequality, and economic pressure is expected to shift taxpayers' reference points, causing tax obligations to be perceived as salient and burdensome losses. This heightened perception of loss may increase psychological pressure and weaken willingness to comply, leading individuals to prioritise immediate financial needs over longer term civic responsibilities. As a result, financially strained taxpayers may become more inclined toward risk taking behaviours, such as tax evasion or income underreporting. The model further recognises that this relationship may be influenced by contextual factors, including trust in government and religiosity, which can either mitigate or intensify the behavioural response to financial strain.

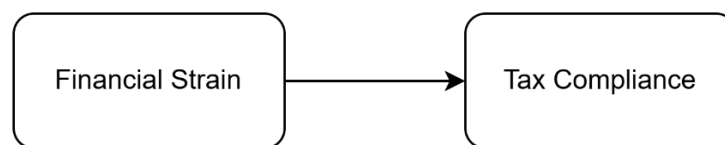


Fig 1. Proposed conceptual framework

4. Conclusions

This conceptual model provides an initial pathway for understanding how financial strain influences individual tax compliance in Sabah. Moving forward, broader and more in-depth engagement with the literature will be essential to support the next stage of empirical investigation. Although this work is conceptual in nature, the ideas presented are intended to enrich existing knowledge and offer meaningful guidance for future researchers.

By focusing on the role of financial strain, it establishes a comprehensive conceptual foundation for explaining taxpayers' compliance behaviour. Theoretically, the study applies Prospect Theory to address gaps in prior research, offering deeper insight into how behavioural (tax compliance) and economic factors (financial strain) interact to shape compliance decisions.

Building on the proposed conceptual framework, future empirical research may adopt a quantitative, survey-based approach to examine the hypothesised relationships between financial strain and tax compliance in Sabah. A cross-sectional survey using structured questionnaires would be appropriate for capturing taxpayers' perceptions and behavioural tendencies among salaried and self-employed individuals. Measurement items for all constructs can be adapted from prior empirical studies that have been tested and validated in the literature. Future research may consider examining trust in government as a potential mediating variable to explore whether government assistance schemes directed at low-income households are associated with changes in taxpayers' confidence in public institutions, and whether such trust may influence the relationship between financial strain and tax compliance. For empirical validation, Smart PLS SEM version 4.0 is a suitable analytical technique to assess both the measurement and structural models and to evaluate the robustness of the proposed relationships.

Comparative studies across different states within Malaysia or income groups could provide cross-cultural or cross-regional validation of the model. The empirical outcome may offer critical insights for the Inland Revenue Board of Malaysia (IRBM) in designing more equitable, targeted compliance strategies that reflect both taxpayers' financial capacity. Although the research focus on Sabah, the conceptual insights developed here may extend to regions facing similar economic pressures, contributing to broader policy development and enhanced tax administration. Moreover, this conceptual paper aims to provide practical value for policymakers and tax authorities by supporting efforts to strengthen voluntary tax compliance and enhance the overall effectiveness of tax administration once empirical research is fully completed.

5. Delimitations and Limitations

This conceptual paper is delimited by the scope of literature reviewed, which draws mainly from taxation and behavioural studies. As a result, the theoretical discussion does not fully reflect perspectives from other relevant disciplines such as public administration or political economy. These perspectives may further enhance understanding of the relationship between financial strain and tax compliance. The study focuses specifically on individual taxpayers in Sabah. Therefore, the geographical and demographic scope limits the generalisability of the conceptual propositions to other regions and taxpayer groups.

Several limitations should also be acknowledged. As a conceptual study, the analysis relies entirely on secondary literature. No empirical data are used to validate the proposed relationships at this stage. The framework simplifies taxpayer behaviour by focusing on behavioural mechanisms linked to financial strain. This approach may not fully capture the complexity of real-world compliance decisions. In addition, institutional and enforcement factors such as audit probability and penalty structures are not included to maintain analytical focus. While these exclusions support theoretical clarity, they also point to important directions for future empirical research. The proposed framework should therefore be viewed as a preliminary foundation that requires further refinement and empirical testing to strengthen its explanatory power and broader applicability.

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