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FACTORS AFFECTING COMPLIANCE WITH TAX REGULATIONS: A THEORY OF PLANNED BEHAVIOR ANALYSIS

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ABSTRACT

This study aims to investigate the effect of perceived tax equity (vertical, horizontal and exchange), normative expectation (social and moral norms) and legal sanctions (detection risk and penalty magnitude) toward tax compliance intentions. The design of this research is quantitative method using primary data. The sample used in this study consisted of 75 individual taxpayers who work as employees. Employees are the object of this research because they have a large portion in Indonesia's taxpayer structure. This study was held in Jakarta as the capital city of Indonesia. Taxpayer in Jakarta is considered to be able to represent the characteristics of Indonesian tax payer. The result of this study shows that equity perception has a positive and significant effect towards tax compliance intentions. Moral and Social Norms has a positive and significant effect towards tax compliance intentions. This research also found that Penalty Magnitude has a positive and significant effect towards tax compliance intentions. Meanwhile, Detection Risk has no effect towards tax compliance intentions.

KEY WORDS

Equity perception, moral and social norms, penalty magnitude, detection risk, tax compliance intentions.

The Government of Indonesia has carried out tax reforms by changing the tax collection system that formerly used Official Assessment System to become Self Assessment System. This system change was made because of the growth in the number of taxpayers that was not proportional to the number of tax authorities. Although it looks more practical, the application of Self Assessment System contains many consequences related to non-compliance behavior (Saad, 2013). The emergence of this problem is inseparable from the feature of the Self Assessment System itself, which transfers tax obligations from the tax authorities to taxpayers to calculate, pay and report their own tax owed based on tax legislation. This system puts a burden on taxpayers because taxpayers are required to understand various tax provisions to carry out their tax obligations. In his study, Torgler (2005) states one of the factor affecting the amount of tax revenue generated by government is the willingness of taxpayers to conform with provisions of the tax laws. McGee et al. (2008) emphasized the impossibility of achieving a 100% compliance to tax regulations in any country. In Indonesia, taxpayer's compliance as reflected in the percentage of the implementation of the annual tax return reporting obligation is still quite low. For the 2017 Tax Year, there were only 10.59 million Individual taxpayers who reported Annual Tax Returns out of a total of 18 million Individual taxpayers who were required to report annual tax returns or only around 58.83%. Whereas in that year Director General of Taxation (DGT) targeted 14 million individual taxpayers to report their annual tax returns.

According to James and Alley (2004) the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity. Fulfillment of the tax obligations must be in accordance with applicable regulations without the need for inspection, careful investigation (obtrusive investigation), warnings, threats, and the application of sanctions both in law and in administration. Kirchler et. al. (2008) in the slippery slope framework theory states that to achieve high compliance, not only does the authority (power) of the government have to be strengthened, but also the trust of the people (trust) towards the government must be built.

Theory of Planned Behavior (TPB) (Ajzen, 1991) is one of the theories of social psychology that can be applied to explain human behavior. This theory can also be used to predict the factors (determinants) that influence taxpayer compliance behavior. One of the studies conducted using this approach is the research of Serkan Benk, Ahmet Ferda Çakmak and Tamer Slave (2011) as outlined in a journal entitled "An Investigation of Tax Compliance Intention: A Theory of Planned Behavior Approach". The research model developed by Serkan Benk, Ahmet Ferda Çakmak, and Tamer Slave (2011) is a model developed through the TPB theory approach conducted in Turkey. This model was built by Benk et. al. by testing perceived tax equity (vertical, horizontal and exchange), normative expectation (social and moral norms), and legal sanctions (detection risk and penalty magnitude) for their influence on intentions to comply with tax regulations (tax compliance intentions).

LITERATURE REVIEW

Theory of Planned Behavior (TPB) proposed by Ajzen (1991) is a development of the previous theory, namely Theory of Reasoned Action (Fishbein and Ajzen, 1975). This theory is structured to predict and explain human behavior in specific contexts. The main factor in TPB is someone's intention to take an action. The main hypothesis from Theory of Reasoned Action (TRA) itself states that the occurrence of behavior is driven by the willpower of one's will, Ajzen (1991) then modifies TRA and suggests Theory of Planned Behavior. TPB adds the factor of perceived behavioral control and then broadens the theoretical framework of TRA. Thus, based on TPB intention is influenced by 3 factors, namely attitude, subjective norm and perceived behavioral control. Perceived behavioral control (PBC) refers to perceptions related to a person's ability to perform a particular behavior.

According to Taylor (1948) tax is compulsory contribution from the person, to the government to cover the expenses incurred in the common interest of all, with little reference to special benefit conferred. Smeets (1954) states that tax is an achievement to the government that is owed through general norms and which can be imposed without any counter-achievements that can be demonstrated in terms of the individual intended to finance government expenditure.

Based on the tax definitions described above, there are 5 elements tax principal, namely: fees or levies, collected under the law, taxes may be imposed, does not accept or obtain counter-achievement, and to finance general Government expenditure.

The tax collection systems are classified into two (Kaur, 2016), namely:

- Official Assessment System. In Official Assessment System taxpayers are only required to file their annual tax returns when tax officials issues the notices of assessment to tax payers;
- Self Assessment System. Under Self Assessment System tax payers are required to assess their tax liability and to file the tax return properly.

Tax compliance can simply be interpreted to the extent that taxpayers comply with tax regulations (James and Alley, 2004). A good taxation system will create conducive environment for taxpayers to fulfill their tax obligations voluntarily without the need for examinations, investigations, warnings, threats or the application of administrative or legal sanctions. In addition, compliance can also be measured through the fulfillment of reporting obligations that are done accurately and in a timely manner in accordance with tax regulations (Devos, 2005). Therefore, it can be concluded that the compliance of taxpayers in carrying out their tax obligations is closely related to their ability and willingness to comply with applicable tax regulations.

Intention is defined as the subjective possibility of someone to take an action (Ajzen, 1991) or the tendency of composite behaviors towards action. In general, a higher intention to do something is associated with a greater likelihood of doing so. Therefore, tax compliance intentions can be interpreted as the intention of taxpayers to comply with tax regulations that can affect the behavior of taxpayers in complying with the regulations.

According to Ajzen (1985) in Efebera (2004) equity perception is capable of influencing

people's attitudes toward their positions in a relationship, toward their partners in the relationship, toward the relationship as a whole, toward the tasks they are to perform, and toward the person or agent responsible for the inequity. Previous research on the perception of equality / fairness related to intentions and behavior to comply with tax regulations is based on Equity Theory (Adam, 1965) which focuses on fairness judgments of outcomes and the behavioral effect of such judgments. The theory suggests that when individuals perceive their outcomes to be inequitable, they will try to restore equity by altering their input-to-output ratio, either by reducing their input or increasing their output. Considering the research literatures, the hypothesis is proposed as follow:

H1: Equity perception has a positive effect toward tax compliance intentions.

In psychology literature, social norms are often called subjective norms, which mean social pressure that is accepted based on the view of others that influences or does not influence an act (Beck & Ajzen, 1991). This explains that someone's perception is influenced by people who are important to them, for example spouse, family, friends, coworkers, and so on in carrying out an action (Randall and Gibson, 1991). In addition, each person's view of moral obligations or responsibility for compliance will significantly increase the power to describe the choice of an action (Ajzen, 1991). Considering the research literatures, the hypothesis is proposed as follow:

H2: Moral and social norms have a positive effect toward tax compliance intentions.

Efebera (2004) concludes detection risk as a possibility of tax authority to detect violations of tax regulations. That is, the possibility of taxpayers being examined by the DGT tax examiner when carrying out violations of tax regulations. Previous research examining the effect of detection risk on intentions to comply and compliance behavior attests to a variety of results (Roth & Witte, 1985); Webley et al., 1985). Fischer et al. (1992) in Efebera (2004) said that the results of previous studies which concluded the various results were due to the different concept of risk detection so that different understanding needed if more research needed to be done. Considering the research literatures, the hypothesis is proposed as follow:

H3: detection risk has a positive effect toward tax compliance intentions.

Penalty magnitude is defined as the amount of fines or suffering due to sanctions and penalties related to the discovery of a violation. In contrast to detection risk, several studies have shown that the effect of penalty magnitude on tax law violations is more significant (Carnes & Englebrecht, 1995; Witte & Woodbury, 1985) although it contradicts other studies (Klepper & Nagin, 1989). Considering the research literatures, the hypothesis is proposed as follow:

H4: penalty magnitude has a positive effect toward tax compliance intentions.

METHODS OF RESEARCH

The design of this study is a quantitative approach. This research uses validity and reliability test to determine whether the research measurement instrument is valid. Data collection was carried out through a survey technique with a questionnaire to respondents.

This research was conducted on individual taxpayers who work as employee who are domiciled in Jakarta. As stated in the DGT Performance Report in 2017, employees have a large proportion in the structure of registered taxpayers in Indonesia. In 2017 there were 26.9 million employee taxpayers from a total of 36 million registered taxpayers. Employee taxpayers have a percentage of 74% of all registered taxpayers.

The population of this study is employee taxpayers who live in Jakarta whose numbers cannot be known and can be said to be in the infinite category. The sampling technique in this study is non-probability technique using incidental sampling technique. Incidental sampling technique is a sample determining technique based on coincidence that is anyone who accidentally meets researcher will be sampled with a note that the person sampled is in accordance with the criteria (Sekaran & Bougie, 2016).

This study aims to analyze the factors influencing the intentions of the taxpayers as regards to tax compliance within the framework of theory of planned behavior. Data required

to test the model developed in line with this aim were obtained through questionnaires applied to employee individual taxpayers operating in Jakarta, city of Indonesia. This study received a sample of 75 respondents. The respondent demographics is presented in the following table 1.

Table 1 – Demographics

Sample Size = 75	Frequency	Percent	Valid Percent	Cumulative Percent
Gender				
Male	44	58.7	58.7	58.7
Female	31	41.3	41.3	100.0
Age				
20-30	38	50.7	50.7	50.7
31-40	37	49.3	49.3	100.0
Education				
SMA	3	4.0	4.0	4.0
D3	33	44.0	44.0	48.0
D4/S1	38	50.7	50.7	98.7
S2/S3	1	1.3	1.3	100.0
Annual Income				
< RP 50.000.000	18	24.0	24.0	24.0
Rp 50.000.000 - Rp 100.000.000	5	6.7	6.7	30.7
Rp 100.000.001 - Rp 150.000.000	20	26.7	26.7	57.3
Rp 150.000.001 - Rp 200.000.000	25	33.3	33.3	90.7
Rp 200.000.001 - Rp 250.000.000	4	5.3	5.3	96.0
Rp 250.000.001 - Rp 300.000.000	2	2.7	2.7	98.7
>Rp 300.000.000	1	1.3	1.3	100.0
Total	75	100.0	100.0	
Marital Status				
Married	34	45.3	45.3	45.3
Single	41	54.7	54.7	100.0

The research model used in this research is a multiple linear regression model to determine the magnitude of the influence of the independent variables, consists of 4 variables: EP (Equity Perception), MSN (Moral and Social Norms), DR (Detection Risk), PM (Penalty Magnitude) to the dependent variable (Y) as presented below:

$$Y = \beta_0 + \beta_1 EP + \beta_2 MSN + \beta_3 DR + \beta_4 PM + \varepsilon$$

RESULTS AND DISCUSSION

Table 2 shows the descriptive statistics for the dependent variables (TC), independent variables (EP, MSN, DR, PM). The dependent variable TC has a mean of 8.59, showing that most taxpayers have a compliant attitude towards tax regulations. Independent variable EP has a mean 11.81, meaning that most respondents agree on equality / fairness related to intentions and behavior to comply the regulations. Variable MSN has a mean 15.27, showing that most respondents agreed that social pressure was received based on the views of others. Variables DR has a mean 6.87, showing that tax authorities to detect violations are quite netral. Variable PM has a mean 7.19, meaning that fines given due to violations are quite neutral. Mode, Standard Deviation, minimum and maximum of the variables are also presented in table.2.

Table 2 – Descriptive Statistics

n/n	mean	Min	max	mode	Std. deviation
EP	11.81	5	15	12	2.947
MSN	15.27	6	20	16	3.181
DR	6.87	2	10	8	2.082
PM	7.19	3	10	8	1.666
TC	8.59	2	10	10	2.074

Before hypothesis test, validity and reliability test are conducted. The purpose of the test is to measure whether research variables are valid and reliable. The results of the test have indicated that variables used in this study are valid and reliable.

Table 3 below shows that Equity Perception (EP) with significance value as of 0,028 which is under 0.05. Hence, it could be concluded that the first hypothesis is accepted. The compliance of taxpayers intention with tax regulations is influenced by the perception of equality / fairness. Individual taxpayers who work as employees in Jakarta area who are respondents in this study mostly feel that they receive equality or justice for the tax that they pay. This justice is measured by the justice received by other people with the same income (horizontal), those who earn more (vertical) and justice for what they get from paying taxes, especially on public services (reciprocity). The result of this hypothesis testing is also in line with research conducted by Hite & Roberts (1992) and also Maroney et al (1998) where they find a positive relationship between perceived fairness and taxpayer compliance. Therefore it is important for the government to continue to apply the principle of justice to taxpayers both in terms of regulations and in terms of services to improve taxpayer compliance.

Moral and Social Norms (MSN) has significance value 0,034 which is under 0.05. The result shows that moral and social has a positive and significant effect on the level of tax compliance. In other words, the compliance of taxpayers in carrying out their tax obligations is very much influenced by the moral norms that exist in themselves and socially adopted by the community, as it is indicated by Randall and Gibson (1991).

Detection Risk (DR) has significance value 0,014 with negative sign. This result is contradicting with the positive sign of hypothesis. The result is different from Benk et al (2011) which states that the detected risk has a positive and significant effect on intention to comply. This might be caused by the assumption of the taxpayers that taxpayers with employee status will not be inspected by the DGT's tax examiners because they feel that their income taxes has been collected by the employer and later their annual tax return status becomes zero so that the risk to be inspected becomes narrow. That's can also because employee taxpayers assume only a large taxpayer that will be audited by the DGT, so that employee taxpayers as small taxpayer will be spared from the audit. This result is in line with research conducted by Alm, Sanchez and De Juan (1995) that studied the effect of changes in the audit rates (5%, 30% and 60%) on tax compliance and found a negative relationship.

The fourth hypothesis is accepted because Penalty Magnitude (PM) has significance value: 0,014 which is under 0.05. Thus, the result indicates that the amount of sanctions has a positive and significant effect on the intention to comply with tax regulations. This result supported by Carnes & Englebrecht (1995) and Witte & Woodbury (1985).

Table 3 – Hypothesis Test

Equation: $TC = \beta_0 + \beta_1 EP + \beta_2 MSN + \beta_3 DR + \beta_4 PM + \varepsilon$				
Variables	Pred. Sign	Coeff. (B)	T	Sig
Constant		3.291	2.334	.022*
EP	+	.211	2.243	.028*
MSN	+	.162	2.168	.034*
DR	+	-.280	-2.518	.014*
PM	+	.314	2.093	.040*
Adj R2		.262		
N		75		

Note: * Significant at 5%; EP: Equity Perception; MSN: Moral and Social Norms; DR: Detection Risk; PM: Penalty Magnitude.

CONCLUSION

This study aims to prove the factors that influence the intention to comply of the taxpayers. In this case, researchers examined individual taxpayers who work as employees in Jakarta. The factors studied were equity perception, moral and social norms, detection

risk, and penalty magnitude. Employee taxpayers are chosen because they have a large proportion in the taxpayer structure in Indonesia and the research was held in Jakarta as the capital of Indonesia because taxpayers in Jakarta were considered to be representative of the Indonesia's taxpayer characteristics in general. Based on the analysis and discussion in the previous chapter, conclusions were obtained from the research conducted, namely; Equity perception has a positive and significant effect on tax compliance intentions, Moral and social norms have a positive and significant effect on tax compliance intentions, Detection risk does not affect tax compliance intentions, Penalty magnitude has a positive and significant effect on tax compliance intentions.

In the next research it is hoped that there will be some adjustment in the hypothetical scenario of the questionnaire to reduce the differences in perception of the object of research, because respondents who are the object of research may be in different (economic and non-economic) conditions. Second, the next researchers can also add variables that are possibly affect tax compliance intentions, both by combining different theories with the theories in this study or by proposing new theories that are possibly to be sufficiently capable in influencing tax compliance intentions.

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