TAX MORAL AND COMPLIANCE OF INDIVIDUAL TAXPAYER

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Abstract. This study aims to obtain empirical evidence about the relationship between income level, tax sanctions, and trust in government with individual taxpayer's compliance through tax morale. This study is designed as a quantitative, and the data analysis used is path analysis. The research sample was 100 individual taxpayers in Pamekasan Regency. We are using path analysis techniques with the help of SPSS software. The results of this study are the income level has a relationship with individual taxpayer's compliance through tax morale, but tax sanctions and trust in the government do not have a relationship with individual taxpayer's compliance through tax morale. The limitation of this research is that the research scope is still limited, only in Pamekasan Regency. Further research related to tax morale can add other independent variables and expand the research sample's scope.

Keywords: Income level; tax sanctions; trust in government; tax morale; individual taxpayer's compliance

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Jel Codes: O1, O53

1 Introduction

In carrying out its activities, Indonesia is in dire need of funds whose numbers are increasing every year. A significant income source in the nation is revenue from government taxes (Ajzen, 1991; Hosseini Kondelaji, Sameti, Amiri, & Moayedfar, 2016; Panjaitan, Tarmizi, Daulay, & Ginting, 2019; Olaoye, Ogunleye, & Solanke, 2019; Sasongko, Huruta, Wardani, 2019; Vergara, 2020).

Taxes are people's contributions to the government with counter-achievements that are not directly obtained, regulated by law. There are two problems in increasing tax revenue: taxpayer compliance and bribery cases committed by tax officials. Tax compliance is crucial for a nation. Tax compliance is one of the factors for government tax revenue. When the country's tax compliance is high, the country will also receive high tax revenues and vice versa. Taxpayer compliance in Indonesia is one of the challenges in efforts to increase tax revenue. Indonesia's low tax ratio evidences this statement. The tax ratio reflects the tax contribution in the national budget by comparing tax revenue with the Gross Domestic Product (GDP) of the year concerned.

Table 1. Tax Ratio of 10 Asia Pacific Countries for 2018

Country	Tax Ratio
Indonesia	11.5%
Malaysia	13.6%
Papua New Guinea	13.7%
Singapore	14.1%
Philippines	17.5%
Thailand	17.6%
Korea	26.9%
Australia	27.8%
Japan	30.6%
New Zealand	32%

Table 1 shows that Indonesia's tax ratio (source: Ministry of Finance of the Republic of Indonesia, 2019) was 11.5% in 2018, this figure increased from 2017, which was at 10.7%. However, this figure is still the lowest among the tax ratios of countries in the Asia Pacific. Another tax problem in Indonesia is that the income tax of individual taxpayers is still far below the income tax for corporate taxpayers. Income tax receipts for individual taxpayers is IDR 9,406.75 billion (approx. USD 627 million) compared to IDR 254,024.73 billion (approx. USD 16,935 million) for corporate taxpayers in 2018 (Source: Directorate General of Taxes, 2019). Therefore, it is vital to make comprehensive strategies for increasing taxpayer compliance in Indonesia.

Several cases that occurred in Indonesia related to bribery committed by tax officials can trigger a taxpayer's reluctance to pay taxes. In other words, it will affect tax morale and tax compliance. Taxpayers may have some intrinsic motivation, which is the main instrument that helps them respect the law and pay taxes or feel some moral guilt due to failure to comply (Luttmer & Singhal, 2014; Vythelingum, Soondram, & Jugurnath, 2017). Therefore, research is needed on the factors that can influence tax morale and the relationship between tax morale and taxpayer's compliance using the Theory of Planned Behavior and the Theory of Slippery Slope.

This study aims to obtain empirical evidence about the relationship between income levels, tax sanctions, and trust in the government with individual taxpayer compliance through tax morale. This study used a questionnaire with a Likert scale of 1-5 as the primary data source. The research sample was selected using probability sampling, and the Slovin formula found 100 individual taxpayers in Pamekasan Regency in 2019 as research samples. The Pamekasan Tax Office is a tax office that has had an increase in individual taxpayers for the last five years with a decreasing level of compliance every year. Therefore, in this study, Pamekasan Tax Office was chosen to obtain empirical evidence whether the variables in this study were the cause of individual taxpayers in Pamekasan Regency not fulfilling their tax obligations accurately. This research is expected to contribute to the development of policy recommendations for the Directorate General of Taxes regarding efforts to increase individual taxpayers' tax morale, which are expected to help increase individual taxpayer compliance (Vythelingum et al., 2017).

The remainder of this paper is structured as follows. Section 2 literature review and develops the research hypotheses. Section 3 describes the sample, variables, and research design. Section 4 specifies the empirical result. Section 5 summarizes the paper and presents concluding remarks.

2 Literature Review and Hypotheses Development

2.1 Theory of Planned Behavior

The theory of Planned Behavior describes a central factor in individual behavior influenced by individual intentions for certain behaviors (behavioral intention). The intention to act is influenced by attitude, subjective norm, and perceived control behavior (Ibrahim, Musah, & Abdul-Hanan, 2015; Sukoco, Hardi, & Qomariyah, 2018; Herachwati, Sulistiawan, & Alfirdaus, 2018). Income level variables and tax sanctions are variables included in perceived behavioral control, while trust in government is a variable that is included in subjective norm. Perceived behavioral control is related to whether someone is affluent to do a particular behavior. A person's belief in the driving or inhibiting factors of behavior is called control belief. Meanwhile, the subjective norm is a person's understanding of the social impact of modeling behavior (Alasfour, Samy, & Bampton, 2016). The views of another group or individual can be a consideration in one's behavior. If another group or individual encourages someone to do a behavior, that individual will do it, and vice versa (figure 1).

Figure 1. Theory of Planned Behavior

2.2 Theory of Slippery Slope

Theory of Slippery Slope is a theory which states that tax compliance will be formed because of two things, namely the power of authorities and trust in authorities. The power of authority is the taxpayer's perception of the tax authorities' ability to detect and provide penalties for taxpayers who violate tax regulations. Trust in authority is the opinion of an individual or social group that the tax authority has a dependable performance and works for the good of society. This theory explains that social psychology and deterrence variables can affect tax compliance (Cyan, Koumpias, & Martinez-Vazquez, 2016).

2.3 Mediation Role of Tax Moral in Relationship between Income Level and Individual Taxpayer Compliance

The effect of income levels with tax morale is challenging to assess theoretically (Cyan et al., 2016). It depends on individual risk preferences and progressive rates that apply. Individuals prefer to spend their income on their daily needs rather than pay taxes. Individuals with sufficient or even high-income levels will be better able to meet their daily needs and, at the same time, fulfill their tax obligations. Meanwhile, individuals with an income level that can only be used to meet their daily needs will find it more challenging to fulfill their tax obligations. The level of income in the theory of planned behavior is related to control belief. It means that how healthy one's income level influences one's tax morale is in encouraging or inhibiting tax morale.

Research conducted by Solichah and Soewarno (2019) stated that an individual's income level has no relationship with the tax morale of the individual. In contrast to the research of Grundmann and Lambsdorff (2017) also Tambun and Kopong (2017) which explains how income and tax rates encourage someone to commit tax fraud. In this study, the results show that the level of income has a negative relationship with tax morale, meaning that the increase in an individual's income leads to a decrease in the moral tax he has.

Based on the theory of planned behavior, the level of income can affect a person's intention to behave; this intention will later encourage or hinder the behavior of taxpayers in complying with their obligations. It is human nature to think that if you cannot pay, why should you. If you can pay less, why should you pay more (Kamil, 2015; Rahmiati & Sandi, 2018). Taxpayers who have high incomes will tend to use their income for their own needs and have low motivation to act in compliance with taxes. Meanwhile, those with low income are considered to have high motivation to pay taxes because if they violate and are known by the tax authorities, then the sanctions they must bear will be much burdensome for them in the future. The level of income has a relationship with taxpayer compliance (Williams & Krasniqi, 2017; Mahestyanti, Juanda, & Anggraeni, 2018).

H₁: The income level has relationship with individual taxpayer compliance through tax moral

2.4 Mediation Role of Tax Moral in Relationship between Tax sanctions and Individual Taxpayer Compliance

The theory of Planned Behavior describes tax sanctions related to control belief, which means that tax sanctions can encourage or inhibit an individual's intention to behave in compliance with taxes. The imposition of strict tax sanctions for violators will boost taxpayers' tax morale, which will later influence their behavior to comply with their tax obligations. This relationship is in accordance with the control belief in the Theory of Planned Behavior. Following the theory of decision making, giving strict sanctions to those who do not comply with tax regulations is one of the alternatives expected to reduce the perpetrators of tax fraud. Taxpayers who think about the tax sanctions that will be received if they commit tax fraud will be motivated to carry out their obligations honestly. Research conducted by Williams and Horodnic (2015) and Bejaković and Bezeredi (2019) states that tax sanctions have a relationship with tax morale. Tax sanctions relate to taxpayer compliance based on research conducted by (Basri & Dwimulyani, 2018).

H₂: Tax sanctions has relationship with individual taxpayer compliance through tax moral

2.5 Mediation Role of Tax Moral in Relationship between Trust in the Government with Individual Taxpayer Compliance

In the Theory of Planned Behavior, trust in the government is included as normative belief, which means normative expectations from other people. The reliable performance of the government will motivate taxpayers to comply with their tax obligations (Hussain et al., 2020). Trust is not an attitude that can be demanded by the government to taxpayers, but the taxpayer who determines whether he or she gives confidence in the government or not (Torgler & Schneider, 2005; Sitorus, 2018). However, the government can encourage this sense of trust by building a good reputation. According to Brink and Porcano (2016), there are two essential aspects, namely, first, the transparency of procedures established by the government. This transparency means that if the procedures are communicated clearly and openly, and taxpayers can easily understand decisions by the government and tax officials, the motivation to comply with tax laws is much higher, and vice versa. Second, taxpayers respond systematically to the treatment of members of the government, meaning that proper treatment from the government will tend to increase the taxpayer's intrinsic motivation to comply. Trust in government relate to tax morale (Pratama, 2018). Also, the government's tax services in the form of facilities or activities that can support taxpayers in carrying out their obligations. The tax services will also increase taxpayer confidence in the government and obey in carrying out tax obligations (Paramaduhita & Mustikasari, 2018; Rahmat et al., 2019). Service is considered to have value-added when service providers can work according to precise procedures,

rules, and standards (Leonardo & Martinez-Vazquez, 2016, Fernandes & Rinaldo, 2018). The existence of services through the online system also makes it easier for taxpayers to carry out their tax obligations and rights, so that compliance will increase (Blaufus, Braune, Hundsdoerfer, & Jacob, 2015; Astutik, Harymawan, & Nasih, 2018). It is vital to building trust between citizens and the government to eliminate one's intention to avoid taxes (Williams & Horodnic, 2016). This importance means that when a person has confidence in the government, he or she will believe that the taxes flowing into the government treasury will be adequately used by the government so that he or she will be motivated to comply in paying his taxes. Trust in government can relate to taxpayer compliance (Dulleck et al., 2016; Dobrovič et al., 2016; Rajnoha et al., 2017; Chong & Arunachalam, 2018; Musimenta, Naigaga, Bananuka, & Najjuma, 2019; Liu et al., 2019).

H₃: Trust in the government has relationship with individual taxpayer compliance through tax moral

3 Research Methodology

3.1 Sample and Data Sources

This research is included in quantitative research with a questionnaire as the primary data source, namely a questionnaire with 1-5 Likert scale measurements. Individual taxpayers in Pamekasan Regency in 2019 are the population in this study using probability sampling and the Slovin formula. The number of research samples obtained is 100 individual taxpayers in Pamekasan Regency.

3.2 Operational Definition and Variable Measurement

All variables in this study used a Likert scale measurement with numbers 1 - 5 with a number 1, which means strongly disagree and number 5 means strongly agree to describe the level of respondent's approval of the statements in the questionnaire.

3.2.1 Dependent Variable

Taxpayer Compliance

Taxpayer compliance is an obedient attitude and conscious behavior to be orderly in fulfilling their tax obligations and rights (Jimenez & Iyer, 2016; Hasan, Gusnardi, & Muda, 2017; Paramaduhita & Mustikasari, 2018; Rita et al., 2018). The research questionnaire for taxpayer compliance variables was developed from Bruno (2019) research with taxpayer compliance variable indicators, namely (1) compliance in registering as taxpayers, (2) compliance in submitting a tax return, (3) compliance in paying taxes payable, (4) has no tax arrears, and (5) has never been sentenced to criminal taxation.

3.2.2 Independent Variable

Income Level

Based on the Indonesian Income Tax Law Article 4 paragraph 1, income is defined as additional economic capacity received by taxpayers from inside and outside Indonesia, which can be used for consumption or added to the taxpayer's wealth, regardless of name and form. The income level variable questionnaire was developed from Haswidar's (2016) research with variable indicators of income level: (1) income level, (2) high and low income, and (3) taxable income.

Tax sanctions

Tax sanctions guarantee that taxpayers will comply with the applicable Indonesian Taxation Laws (Cvrlje, 2015). So, tax sanctions can be interpreted as a preventive tool to ensure that taxpayers do not violate applicable tax rules. The research questionnaire was developed from research by Horodnic (2018) with variable indicators of tax sanctions, namely (1) understanding of taxpayers on tax penalties, and (2) taxpayer compliance with tax sanctions.

Trust in the Government

Trust in the government is a taxpayer's belief to the government regarding the implementation of the applicable taxation system. The research questionnaire on trust in government was developed from Çevik (2016) and Juwanti (2017) with indicators of trust in the government, namely, (1) Trust in the government, (2) Trust in the legal system, (3) Trust in the judiciary, (4) Trust in levies taxes that are reallocated back to the public, (5) Trust in tax collectors.

3.2.3 Intervening Variable

Tax morale is an intrinsic motivation that an individual has to pay taxes (Parlaungan, 2017). The research questionnaire for the tax morale variable was developed from the research of Belmonte, Dell'Anno, and Teobaldelli (2018) with indicators of the tax morale variable, namely (1) one's actions, (2) motives, and (3) circumstances.

3.3 Research Design

This study uses path analysis techniques to determine the relationship directly or indirectly by using SPSS software. This study uses several analytical techniques, such as descriptive statistics, data quality testing (reliability and validity), ordinary least square regression, and determination coefficient test. The path analysis equation is formulated in the following equation:

$$Z = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_1 \quad (1)$$

$$Y = \alpha + \beta_4 X_1 + \beta_5 X_2 + \beta_6 X_3 + \beta_7 Z + \varepsilon_2 \quad (2)$$

Where Z is the tax morale, α is a constant, β is the path coefficient, X_1 is the income level, X_2 is the tax sanctions, X_3 is the trust in the government, and ε is the tolerable error.

4 Result and Discussion

4.1 Respondent Characteristics (see table 2)

Table 2. Respondent Characteristics

Characteristic		Frequency	Percentage
Years old	17-25 years	14	14%
	26-40 years	33	33%
	More than 40 years	53	53%
Gender	Male	61	61%
	Female	39	39%
Job	Employee	75	75%
	Entrepreneur	18	18%
	Freelance	7	7%
Education	Senior High Scholl	24	24%
	Associate's Degree	8	8%
	Bachelor	59	59%
	Master	9	9%
	Doctoral	0	0%
	Lain-lain	0	0%

This research makes individual taxpayers registered at Pamekasan Tax Office as research subjects. The total amount of individual taxpayers at Pamekasan Tax Office are 94,549 people. The number of samples in this study was 100 individual taxpayers in Pamekasan Regency.

4.2 Data Quality Test

Table 3. Result of Reliability and Validity Test

Variable	Item	Cronbach's Alpha	Corrected Item-Total Correlation
Income Level (X_1)	1	0.612	0.542
	2	0.611	0.537
	3	0.623	0.511
	4	0.692	0.389
Tax Sanctions (X_2)	1	0.782	0.371
	2	0.679	0.649
	3	0.707	0.562
	4	0.691	0.588
	5	0.715	0.526
Trust in the Government (X_3)	1	0.780	0.394
	2	0.723	0.493
	3	0.665	0.656
	4	0.680	0.624
	5	0.714	0.519
Tax Moral (Z)	1	0.720	0.413
	2	0.657	0.653
	3	0.692	0.480
	4	0.746	0.343
	5	0.678	0.554
	6	0.680	0.525
Taxpayer Compliance (Y)	1	0.714	0.733
	2	0.823	0.407
	3	0.770	0.558
	4	0.733	0.688
	5	0.763	0.583

The reliability test results prove that the Cronbach's Alpha value for each item of each variable is > 0.6 , meaning that all of the research variables can be said to be reliable in their use. Table 3 also shows the validity test results on the indicators in all variables with the Corrected Item-Total Correlation for all indicator variables being more than 0.3. This value means that all indicators of the research variables are valid and sufficient to be used as indicators in this study.

4.3 Analysis of Ordinary Least Square Regression

Table 3. Result of Ordinary Least Square Regression

Model	Model 1			Model 2		
	Coeff.	t	Sig.	Coeff.	T	Sig.
(Constant)		1.716	0.089		3.804	0.000
Income Level	0.427	4.642	0.000	-0.182	-1.776	0.079
Tax Sanctions	0.259	2.942	0.004	0.304	3.274	0.001
Trust in the Government	0.141	1.712	0.090	0.189	2.237	0.028
Tax Moral				0.470	4.558	0.000
R^2	0.440			0.434		
Adjusted R^2	0.423			0.410		

Table 4. Result of Indirect Relationship Test

Hypothesis	Direct Relationship	Indirect Relationship	Conclusion
H ₁ : Income Level (X ₁) → Taxpayer Compliance (Y) through Moral Tax (Z)	-0.182	0.201	Significant relationship
H ₂ : Tax Sanctions (X ₂) → Taxpayer Compliance (Y) through Moral Tax (Z)	0.304	0.122	Not significant relationship
H ₃ : Trust in the Government (X ₃) → Taxpayer Compliance (Y) through Tax Moral (Z)	0.189	0.066	Not significant relationship

The indirect relationship on hypothesis 1 is 0.201 (0.427 x 0.470). (See table 3 and table 4). This relationship value is greater when compared to the direct relationship, which has a beta value of -0.182; this means that H₁ is accepted. Besides, a Sobel test was also conducted to determine whether tax morale significantly mediates the relationship between income levels and individual taxpayer compliance:

$$z = \frac{p1p7}{\sqrt{p1^2SEp7^2 + p7^2SEp1^2}} \quad (3)$$

$$z = \frac{0.624 \times 0.337}{\sqrt{0.624^2 0.074^2 + 0.337^2 0.134^2}} \quad (4)$$

$$z = \frac{0.210288}{0.0645869022} \quad (5)$$

$$z = 3.2558923379 \quad (6)$$

The results obtained are 3.256 because the z value obtained is 3,256 > 1.96 indicates that tax morale significantly mediates the relationship between income levels with individual taxpayer compliance. The indirect test value in hypothesis 2 shows a number of 0.122 (0.259 x 0.470) lower than the beta value of the direct relationship of 0.304. This value means that there is no relationship between income levels with individual taxpayer compliance through tax morale, meaning that H₂ is rejected. The third hypothesis has an indirect test value of 0.066 (0.141 x 0.470) lower than the direct relationship beta value of 0.189. Like the second hypothesis, the third hypothesis is rejected as there is no relationship between trust in the government and individual taxpayer compliance through tax morale. This conclusion is derived as indirect relationship value is lower than the direct relationship value.

4.4 Coefficient of Determination

Table 3 shows that the R² result in model 1 is 0.440. This value means that the variable level of income, tax sanctions, and trust in government can explain the variances of tax morale by 44%, while the remaining 56% tax morale is influenced by other variables that excluded in this study. Whereas in model 2, R² shows the number 0.434. Like the previous explanation, 43.4% of taxpayer compliance variances are explained by tax morale, income level, tax sanctions, trust in the government, and other variables defining the rest (56.6%).

4.5 Relationship between Income Level and Individual Taxpayer Compliance through Tax Moral

The results of the first hypothesis test empirically prove the existence of the relationship between income levels with individual taxpayer compliance through tax morale. The test results prove that the relationship between income levels with taxpayer compliance is mediated by tax morale. The results of this test are consistent with the Theory of Planned Behavior, namely, the level of income can raise tax morale, which will later influence taxpayer behavior, in this case, the behavior to comply with taxes (Zattoni et al., 2017).

Most individual taxpayers state that the amount of tax that taxpayers pay depends on their income, whether the taxpayer's income is big or small, does not prevent them from paying taxes, and taxpayers are transparent in reporting taxes. Most of the respondents also agreed that the respondent reported the actual amount of income in the income tax return continued to pay taxes even though he or she could neglect to pay the income tax. Although it did not cause the government to lose, the respondents still reported the actual income. These indicators can indicate that the level of taxpayer income can boost tax morale and make taxpayers obey the taxpayer regulations. The results of this study are in line with Lisi (2015) research with the results that the income level has a relationship with tax morale. Tax morale having a relationship with tax compliance (Mickiewicz, Rebmann, & Sauka, 2019; Musimenta et al., 2019) .

4.6 Relationship between Tax Sanctions and Individual Taxpayer Compliance through Tax Moral

The second hypothesis test results prove that there is no relationship between tax sanctions and taxpayer compliance. These results indicate that tax morale cannot mediate the relationship between tax sanctions with taxpayer compliance so that the second hypothesis is rejected. Therefore, the results of this test are not in line with the Theory of Planned Behavior (Buallay, Hamdan, & Zureigat, 2017), which explains that control belief can influence individual behavior to mediate it. However, the test results are consistent with the Theory of Slippery Slope. This theory states that taxpayer compliance will be formed with the power of authorities, which is the taxpayer's perception of the tax authorities' ability to impose penalties on taxpayers who do not comply with tax regulations in the form of tax sanctions (Chan, Supriyadi, & Torgler, 2017). That is, tax sanctions can directly relate to taxpayer compliance without being mediated by other variables.

The majority of respondents felt that they agreed to understand tax sanctions well, heavy tax sanctions could encourage taxpayer compliance, and tax sanctions could prevent taxpayers from neglecting to fulfill their tax obligations (Vandebeek, Voordeckers, Lambrechts, & Huybrechts, 2016). Most of these respondents also agreed with the statement that they registered their tax identity number after meeting the requirements as a tax subject or tax object, submitted their income tax return by March 31, and did not have tax arrears. The imposition of tax sanctions is intended so that taxpayers do not violate tax regulations (Yucedogru & Hasseldine, 2016). Tax sanctions will encourage them to fulfill their tax obligations because they will see tax sanctions will make them paid additional cash for tax sanctions if they think not to carry out their tax obligations.

4.7 Relationship between Trust in the Government and Individual Taxpayer Compliance through Tax Moral

The results of the third hypothesis test prove that there is no relationship between trust in the government with taxpayer compliance through tax morale (Agyapong, Ellis, & Domeher, 2016). This mediation result is smaller than the result of the direct relationship test, so this second hypothesis is rejected. This result is different from the Theory of Planned Behavior, which shows that belief in government is included in a normative understanding which will encourage someone's intrinsic motivation, which will affect taxpayer compliance. However, this result is consistent with the Theory of Slippery Slope (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019), which states that taxpayer compliance will emerge with trust in authorities, which are taxpayers' perceptions of the tax authorities' performance. Taxpayers think that the tax authorities' performance is trustworthy and works best for the public welfare (Paniagua, Rivelles, & Sapena, 2018).

5 Conclusion

This study aims to obtain empirical evidence about the relationship between income levels, tax sanctions, and trust in the government with individual taxpayer compliance through tax morale. The results of path analysis with SPSS software on the results of a survey of 100 individual taxpayers in Pamekasan Regency provide several conclusions. The results of this study are the income level has a relationship with individual taxpayer compliance through tax morale, but tax sanctions and trust in the government do not have a relationship with individual taxpayer compliance through tax morale. This research is expected to contribute to the development of policy recommendations for the Directorate General of Taxes regarding efforts to increase the tax morale of individual taxpayers, which are expected to help increase individual taxpayer compliance.

The limitation of this research is that the research scope is still limited, which is only in Pamekasan Regency. Meanwhile, tax morale can be researched on all taxpayers throughout Indonesia, limiting the generalizability of research results to measure the relationship between tax morale and individual taxpayer compliance. Further research related to tax morale can add other independent variables. In addition, further researchers can research with a more extensive scope.

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