

# Tax Fraud Reporting: The Effect of Envious Motive and Financial Reward

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**Abstract**—This research examines the influence of envious and financial reward on tax fraud reporting. The focus in this research is on the motivation of a tax payer in reporting other tax payer who committed tax fraud. This research use fully crossed between-subjects design in experimental studies. This research use primary data which is obtained by using experimental studies as a media. The sample used in this research is data from 50 personal tax payers in Indonesia, with an accidental sampling method. There are two motivations in this research, first is intrinsic motivation that we mention as the existence of envious. The envious here means a tax payer who committed tax fraud has higher net income so that they have bigger funds or capital to develop their business, compared to tax payers who obey paying taxes. Extrinsic motivation in this research is financial reward, which means the tax payers who report the tax fraud (whistleblower) to the Pusat Pengaduan Direktorat Jenderal Pajak will get amount of money as a reward. This research found that both of this motivation do not have significant effect on the intention to report a tax payer who committed tax fraud. But, when envious motive associated with moral obligations as mediation variable, it shows better result. This research contributes to Indonesia Tax Authority in optimizing the participation of whistleblower, which will minimize the occurrence of tax fraud. The result of this research gives some suggestions to improve tax compliance that will create justice for all tax payers in Indonesia, some action that will support whistleblower is increasing protection for the tax fraud reporter. Other suggestion is to motivate even more, both in moral and reward.

**Keywords**—Tax Fraud Reporting; Financial Reward; Envious Motive; Whistleblower

## I. INTRODUCTION

Generally, taxes have always been the most important source of the state budget. But in reality, taxpayers are constantly looking for ways to avoid paying taxes or to reduce the amount of tax liability.[1] Tax evasion and tax fraud are current and serious problems of each economy, it is possible

for someone to reduce or limit their tax obligations through legal means. However, sometimes there are situations when someone gives fault information about their tax return, by preparing their record of overstating expenses, hiding assets and also reporting only a portion of their income. Multinational companies are also likely to misappropriate transfer pricing so that they appear to suffer losses. When someone intentionally does the things above, they are considered as committing tax fraud.

Tax fraud certainly creates a Tax Gap, which in quiddity creates less tax revenue than it should. To optimize tax revenue, Direktorat Jenderal Pajak Indonesia can involve tax payers or other parties, by reporting (whistleblowing) if it is deemed to find another tax payers committing tax fraud.

But the realization is not as easy as it says, there needs driving factors for the tax fraud reporting action. In this study, we examined two factors, namely Envious Motive and Financial Rewards.

To encourage taxpayers to report other taxpayers who committed tax fraud, tax authorities often give money as a reward for those whistleblower. For some example, tax authorities in United States of America (Morse, 2009; West, Skarbnik & Brunetti, 2012), United Kingdom (UK, 2012), and Canada (CRA, 2014) offering money as the prize for tax fraud reporter. The whistleblower program has recently increased in Indonesia. The role of a whistleblower is very important before the law, but in reality, threats and intimidation against whistleblowers is still high. The Institute for Criminal Justice Reform (ICJR) found several whistleblowers of corruption cases that received threats, one of them was Daud Ndakularak, a Corruption Reporter from Waingapu, NTT. The main purpose of this research is to find out if envious and financial reward are influencing someone to report tax fraud activities that they found, whether because of envious, or financial rewards or maybe both. In addition, this study also aims to provide input to the Indonesian tax authority, namely by optimizing the participation of

whistleblower. Whistleblowing activity are expected to minimize the occurrence of tax fraud, thereby creating tax reporting compliance in order to create tax justice for all taxpayers in Indonesia.

## II. LITERATURE REVIEW AND HYPOTHESIS

### A. Financial Reward

Financial incentive results in a higher intention to whistleblow to a relevant external authority[2]. Researcher also find that Financial rewards were more effective at motivating performance than non-financial rewards. More specific to our context, all find that the presence of a financial reward can motivate individuals to report wrongdoing[2]. Although this study suggests that a financial incentive can motivate taxpayers to report tax fraud, further research is needed to understand this decision from both an economic and psychological perspective, as extrinsic and intrinsic motives tend to be present simultaneously in decision-making[3]

### B. Envious Motive

When recalling envious experiences, people most often report that friends or relative were the ones they envied[4] (Harris, 2007b; Hill and Buss, 2006). Envious motives were tested by modifying the scenario Mr. A felt envy of Mr. B, where Mr. B's business development was felt to be much more rapid. In the condition of envious motives, we also give the statement, "Mr. A feels envy and suspicious of Mr. B", to ensure that participants understand Mr. A's envious response, because envious is related to the desire to bring justice. The effect of the envious variable on tax fraud reporting is supported by mediation of questions about moral obligation.

### C. Tax Fraud Reporting

Measurement of this dependent variable is the taxpayer's response to the question: "If you were in Mr. A's position, how likely is it that you would report this instance of fraud to the tax authorities?". Participants respond this question with 7-point Likert scale, where '1' is 'strongly disagree' and '7' is 'strongly agree'. Respondents who respond to indirect questions about themselves by imagining themselves in that situation can reduce the risk of bias from social desires, also reflecting what they will do (rather than what they think others will do).

### D. Hypothesis Development

#### 1) The Effect of Envious Motive to Tax Fraud Reporting.

Envy "refers to emotional feelings and behaviors that are directed at a person who possesses what the envious person desires but lacks". Therefore, envy "need involve only two characters: the envious person and the person envied.[5] Envy involves two elements (oneself and the person to whom one compare poorly). Someone who has envious toward his

colleague is usually more motivated to report the mistakes made by his colleague.

H1 : Envious Motive increase the potential of reporting others individual's tax fraud.

#### 2) The Effect of Financial Reward to Tax Fraud Reporting.

Financial rewards are tested by giving a statement about the percentage of the amount of cash that Mr. A will receive, or by stating that Mr. A is not eligible for the cash prize. In the condition that there is a financial reward, Mr. A qualifies for a cash prize, 15% of the amount of Mr. B's tax fraud. Due to differences in the rules of each country regarding the terms of receiving financial rewards are different, it is also necessary to check whether Mr. A is eligible to receive financial rewards.

H2 : Financial Reward increase the potential of reporting others individual's tax fraud.

## III. METHODOLOGY

### 1. Research Model

We employed a 2 (financial reward: present, absent) x 2 (envious motive: present, absent) fully crossed between-subjects design. Participant are given a scheme where there are two entrepreneurs, that are Mr. A and Mr. B. Both have the same business line. One day, Mr. A discovered that Mr. B committed tax fraud in reporting his business income so that the taxes paid by Mr. B were smaller than Mr. A. As a result, Mr. B has bigger additional capital to expand his business more than Mr. A. Mr. A who found this fraud felt he must report this to tax authorities in order to create justice in business.

### 2. Experimental Procedures

Potential participant are given invitation link from us to participate in filling one of four questionnaire that we prepared. After the participants state their willingness to participate in filling this questionnaire, participant can read the scenarios and answer the questions about envious motive, financial reward, tax fraud reporting and questions about moral obligation and demographic.

First, the respondent will read the scenario of envious motives that occur between Mr. A and Mr. B. In a situation where there envious motive is absent, we state "These two entrepreneurs have similar business growth between each other." as supporting sentences to direct the reader.

In condition where there is an envious motive between Mr. A and Mr. B, we give supporting sentences "Mr. A feels envy and suspicious of Mr. B.'s success." In condition where there is an envious motive between Mr. A and Mr. B, we give supporting words "Mr. A feels envy and suspicious of Mr. B.'s success."

Then the respondent reads the same general scenario on each questionnaire link, as follows:

“Recently, Mr. A discovered that Mr. B had falsified his tax documents and reported his income dishonestly in tax payments. In this case, Mr. B reports a smaller amount of income so that the taxes paid are smaller than Mr. A. As a result, Mr. B has bigger additional funds to expand his business. Mr. B does not realize that someone knows about his tax avoidance”

At the end, respondents are given a scenario related to financial reward. In the event that there is a financial reward, the scenario gives the statement "If Mr. A contacts the tax authorities to report Mr. B, he would be eligible for 15% of Mr.B income that is not reported.”

Whereas in the condition when financial reward is absent, the scenario gives the statement "If Mr. A contacts the tax authorities to report Mr. B, he would not eligible for a cash reward.”

*3. Sample Selection*

This study uses sample from the results of an experimental survey. The criteria for filling out the survey are Indonesian taxpayers, both those who work as entrepreneurs or employees with ages ranging from 25 to 60 years. Data is collected randomly and we received 56 valid responses.

**IV. RESEARCH RESULTS AND ANALYSIS**

*1. Manipulation Effectiveness*

To ensure high quality data, and make sure respondents understand what they read, we ask four attention-check questions. A participant who was not paying close attention to the question may not be effectively exposed to the manipulation, and would thus serve as a source of noise[6]. Only respondents who correctly answered all four questions were allowed to complete the instrument. We carry out manipulation checks for financial rewards and envious motives. For manipulation of financial reward conditions, we provide questions with "yes" or "no" answer choices:

“In the scenario, was Mr. A eligible for a cash reward from the authorities?”.

This question also functions as a manipulation check question, in order to ensure that all respondents in the condition of "eligible for financial rewards" know that Mr. A is eligible for financial rewards, and ensure that all respondents in the condition "without financial rewards" know that Mr. A are not qualified for financial rewards.

To make sure that respondents in the condition of "eligible for financial rewards" are perceived that the award of 15% of

Mr. B income that was not reported is a significant amount, the respondent is asked the following question:

“The amount of the cash reward seemed significant.”

This statement is measured on a 7-point Likert scale, where '1' is 'strongly disagree' and '7' is 'strongly agree'. The mean score was 4.59/7 (standard deviation 1.45).

Manipulation questions also ensure the envious motives, we give questions with "yes" or "no" answer choices

"Does Mr. A have envious feeling towards Mr. B?"

This question is to ensure that the respondent understands that Mr. A feels jealous of Mr. B, and in the condition "there is no envious motive " the respondent believes that between Mr. A and Mr. B there is no envious.

Other manipulation checks regarding envious motives ask respondents to rate how much they agree with the following statement

“Mr. A wants a fair position with Mr. B.”

This statement is measured on a 7-point Likert scale, same with financial reward measurement. The mean score was 5.4/7 (standard deviation 1.865). Along with this, the result show that our manipulations are effective.

*2. Test Of Hypotheses*

First, we did an independent sample t test for the four survey form that has been filled with the respondent. We distinguish the four test as:

	Treatment			
	1	2	3	4
Financial Reward	2	2	1	1
Envious	1	2	1	2

Code “1” refers to “absent” condition, meanwhile code “2” refers to “present” condition. The result shows that there is no significant difference between this comparison:

1. Comparison of surveys when envious motive is absent and envious motive is present
2. Comparison of surveys when financial reward is absent and financial reward is present.

Respondents in condition “Envious Motive Present” had mean score of 5,13/7 in statement

“If you were in Mr. A’s position, how likely is it that you would report this instance of fraud to the tax authorities?”

Meanwhile, respondents in “Envious motive absent” had mean score of 4,35/7. The result shows sig (2-tailed) 0,201

and 0,203 ( $>0,05$ ), it can be concluded that H1 is not supported.

Respondents in condition "Financial Reward present" had mean score of 4,76/7 in statement:

"If you were in Mr. A's position, how likely is it that you would report this instance of fraud to the tax authorities?"

Meanwhile, respondents in condition "Financial Reward absent" had mean score of 4,91/7. Therefore, it can be concluded that H2 is not supported.

### SUPPLEMENTAL ANALYSIS

Most people still do not know or even understand their own motives is a challenging problem when the motives has so many aspect. As a complementary analysis, we want to explore the possibility that the motive for envy might be related to moral obligation. Studies have shown that moral obligation has an impact on the ethical decision-making process [7]. Bouville state that whistle-blowing is a moral obligation [8].

When designing this instrument, we included several items about moral obligation and whistleblowing, which used to develop a three-items measure of moral obligation in this supplemental analysis. Those three items are:

"I would feel an obligation to report Mr. B's fraud to the tax authorities";

"If I were Mr. A, I would feel that reporting the fraud is just the right thing to.";

"It would be morally wrong for Mr. A not to report the fraud to the tax authorities."

All statements were measured with 7-point Likert scales, with '1' being 'strongly disagree' and '7' being 'strongly agree'. The Cronbach Alpha for this measurement is 0.886 which is excellent result. We used the average score of the three statements above as our moral obligation measure.

We find that moral obligation and intention to report tax fraud, as the coefficient correlation is positive and significant ( $p < 0,01$ ). To evaluate whether moral obligations mediate the relationship between envious motives and tax fraud reporting intentions, we tested a simple mediation model, where causal variables (envious motives) affect outcomes (tax fraud reporting intentions) through a single intervention variable (moral obligation).

Respondents in the condition "Envious Motive Present" assessed their moral obligation to report tax fraud to be higher than taxpayers in the "Envious Motive Absent" condition ( $a=0,812$ ). Taxpayers who have high moral obligations to report tax fraud express a stronger intention to report tax fraud ( $b=0,732$ ). Meanwhile, if it is not mediated by moral obligation, the intention of taxpayers to report tax fraud committed by other taxpayers have smaller result ( $c=0,228$ ).

## V. CONCLUSION

The decision from individuals to report a fraud is complicated, because part of it may include extrinsic and intrinsic motivation simultaneously. Although a financial reward might be a motivation of whistleblowers, the desire to profit is not always the driving motive. Moral outrage, religion or faith, and revenge can each play a substantial role in motivating a whistleblower to come forward[9]. To respond this call, we do experimental investigation to check whether financial reward and envious motive are able to influence tax fraud reporting intentions.

Our results show there are no significant effect on tax fraud reporting intentions of both a financial reward and an envious motive. Therefore, both hypotheses are not supported.

Our result has a different output than our hypotheses that we expect. However, we understand that in Indonesia, it is still very rare for someone to report a tax fraud that committed by someone else. There are several factors that affect this problem, one of them is the protection for the whistleblower is still weak, as happened to Daud Ndakularak, a Corruption Reporter from Waingapu, NTT. In other words, we can conclude that action of reporting tax fraud will raise problems for the tax fraud reporter.

Meanwhile, the result shows that moral obligation significantly mediates the relation between envious motive and tax fraud reporting intentions. This result truly reflects the character of Indonesian people who still uphold moral values in their life. We find it interesting because, it suggests that individuals may turn a negative motive into something that is more positive, which will accelerate a greater pro-social behavior.

We also find that the presence of an envious motivation is well associated with a belief that there is a moral obligation to report tax fraud, it is because that individuals seem to be easily change a negative intrinsic motivation into a positive motivation. By highlighting the moral value of whistleblowing actions, tax authorities may be able to help potential whistleblowers for making this transition

Our results indicate that the existence of financial reward does not have a positive effect on tax fraud reporting. The results of this study is different from the results of prior research in the United States which states that financial reward has a positive effect on tax fraud reporting. This may be caused by low protection for the reporters of tax fraud in Indonesia. For example, someone who did reporting a tax crime, but then he is slandered and eventually thrown into prison. Therefore, there are still many Indonesians who are afraid to report tax fraud even though they will be rewarded with money due to lack of protection for whistleblowers.

To the best of our knowledge, while financial incentive didn't give an impact on tax fraud reporting but the impact of envious on tax fraud reporting could still be quite substantial when mediated by moral obligation as mediating variable.

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**APPENDIX**

**Table 1 – Demographic profile statistics**

Sample size	n=56
Gender	
male	n=23 (41.08%)
female	n=33 (58.92%)
Age	mean= 35.3 years std dev= 10.4 years
work experience	mean=9.18 years std dev=7.2 years
Previously discovered someone engaging in questionable or wrongful behavior	
yes	n=23 (41.08%)
no	n=33 (58.92%)
(If yes) Did you report this behavior to an authority?	
yes	n=12 (21.43%)
no	n=44 (78.57%)
Income	
less than 4,8 billion Rupiah per year	n= 49 (87.5%)
more than 4,8 billion Rupiah per year	n= 7 ( 12.5%)
Highest level of education completed:	
high school	n=3 (5.36%)
Bachelor degree	n=40 (71.43%)
Master degree	n=12 (21.43%)
Ph.D	n=1 (1.78%)

**Table 2- Descriptive Statistics and t-test for Tax Fraud Reporting Intentions**

		mean	std. dev	mean difference	t
Financial Incentive	present	4.76	2.099	0.154	0.259
	absent	4.91	2.172		
Envious motive	present	5.13	2.091	-0.775	-1.296
	absent	4.35	2.11		

**Table 3 – Hypotheses Bootstrapping**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/ STDEV)	p-values
E -> FR	0.228	0.236	0.111	2.062	0.040
E -> MO	0.812	0.782	0.127	6.405	0.000
MO -> FR	0.732	0.723	0.113	6.470	0.000

**Figure 1 – Model coefficients for envious motive and moral obligation mediation analysis**

