Tax Evasion: Is It Ethical or Unethical? (Based on Samarinda Taxpayers' Perception)

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Abstract— Tax evasion is an active business taxpayer in terms of reducing, eliminating, illegal manipulation of the tax payable or not to pay tax payable as appropriate. This action is believed to be influenced by two factors, namely as tax fairness and compliance costs. If the tax fairness has been applied properly, then the taxpayer will be less likely to commit tax evasion and when the cost of compliance is too high, then the taxpayer will tend to evade taxes. Theoretically this study is expected to enrich and give some empirical evidence about factors that influence the adoption of taxpayers perceive towards tax evasion action, so it can be useful for academics, practitioners and policy makers. The population of this study are the individual taxpayer that spread across the Regional Office of Directorate General of Taxation in Samarinda. The sampling technique in this study is purposive sampling with any criteria individual taxpayer that have freelance work of 60 respondents. Freelancer work is the work performed by an individual who has special skills to earn income which is not bound by an employment relationship, such as lawyers, accountants, architects, sportsmen and the like. The analysis of research data on this study using PLS (Partial Least Square). The main findings of the study provide information that: (1) tax fairness has positive influence on taxpayer perceive towards tax evasion action, and (2) compliance cost has positive influence on taxpayer perceive towards tax evasion action.

Keywords— compliance cost, tax evasion, tax fairness, taxpayers perceive.

I. INTRODUCTION

Many cases of tax evasion have been occurred in large institutions and individuals, cause enigma whether tax evasion is ethical or unethical to do? The public's view of something ethical or unethical for a variety of reasons according to their perspectives view ([19]). Seeing from the various scandals the tax evasion act would be considered to be an ethical act due to poor bureaucracy and a lack of legal awareness of the taxpayer against such action. As [16] explains that tax evasion is considered a right derived from taxes, government corruption, and no rewards for taxes paid, resulting in a lack of income tax revenues that lead to a crisis of public trust in the institution concerned in paying taxes. Meanwhile, according to [14] states that it is unethical to avoid taxes when the results in people who do not avoid taxes have to pay more. In other words, there are some moral obligations to other taxpayers even if there is no moral obligation to the government.

The International Tax Compact (2010) explains there are various reasons taxpayers perform tax evasion and tax evasion. One of the reasons is tax fairness and compliance cost. A study on the development of taxpayer's perception to tax evasion by [18] in Hong Kong and America, one of their main findings is that tax evasion will be reduced if taxes has been applied fairly. Similarly, the research result done by [12] in Nigeria explain, on condition that the tax paying populace continues to perceive the tax laws as unfair (especially to the law and middle class) taxpayers may not be motivated to faithfully pay their taxes then tend to evade tax.

Studies on tax evasion have been also conducted in Indonesia for example [13] in West Surabaya}, and [12] in Singaraja. Both studies have decided to analysis the correlations between compliance cost and tax evasion, then findings the high level of compliance costs can lead taxpayers reluctant to pay taxes, so compliance cost can be a thing that inhibits or supports the behavior of taxpayers to do tax evasion.

Hence, this study will include tax fairness, compliance cost, on tax evasion as the variable. The main different between current study and prior tax

evasion studies in the past study is the different city (sample), different independent variable, and different year. This study has chosen Samarinda as he city (sample), tax fairness and compliance cost as dependent variable, and been examine the study at the year of 2017.

II. REVIEW OF LITERATURE

A. Theory of Perception

Perception arises from several factors. Factors that affect perceptions according to [9], is the first experience of the past (formerly) can affect a person because humans will usually draw conclusions similar to what he saw, heard, and felt. Both desires can influence a person's perception of making decisions. Humans tend to reject offers that do not match what they feel. Third experience from friends, where they will tell the experience that has been experienced. This obviously affects one's perception.

In addition, according to ([25]: 141) perception generally occurs due to two factors, namely internal factors and external factors. Internal factors come from within the individual, such as attitudes, habits, and will. While external factors are factors that come from outside the individual that includes the stimulus itself, both social and physical.

B. Theory of Planned Behavior

This theory of planned behavior can be attributed to the emergence of an individual's behavior determined by the individual's intentions and motivations. Meanwhile, according to [2], the emergence of behavioral intention is determined by three determinants: 1) Individual Belief (Behavioral beliefs), which is a belief of the individual will result from a behavior and evaluation of the result (beliefs strength and outcome evaluation) whether the behavior is positive or negative. 2) Normative beliefs, a belief about the normative beliefs and motivation to comply, which references such as family, friends, superiors, or tax consultants to approve or refuse to do so a given behavior. 3) Confidence in Control Beliefs, which is a belief about the existence of things that support or inhibit the behavior that will be displayed and the

perception of how strong things that support or inhibit its behavior (perceive power).

C. Perception of Tax Evasion

Perception of tax evasion arise from the experience felt by the taxpayer itself, from the will or the desire of the taxpayer in conducting tax evasion to the taxation of Indonesia which makes the perception that the action of tax evasion is a right thing to do, regardless of the consequences that taxpayers will be able to perform when tax evasion. In this case the individual will mean tax evasion is unethical, sometimes ethical, or even ethical ([16]).

Tax evasion is an intentional payment of less tax than what the law requires ([7]). Every taxpayer wants a tax rate that is as low as possible. Tax evasion is influenced by the attitude of the taxpayer in fulfilling his tax obligations. So, it can be understood, whether the taxpayer has a good behavior or deviate from the fulfillment of tax obligations. Tax evasion is indeed an unethical thing to do unless the taxpayer feels that the tax evasion treatment is not detected by the tax apparatus or the sanction given is smaller in magnitude than the benefit. In addition, if there is imposition of taxes that are not in accordance with the ability of the taxpayers themselves and there are costs that according to the taxpayer is something that burden them in fulfilling its tax obligations, then embezzlement will be considered a good thing (ethical) by the taxpayer.

D. Tax Fairness

According to [15] in accordance with the objective of law, namely to achieve justice, legislation and implementation of the collection should be fair. As research conducted by Etzioni [8] find tax evasion arises from the unfair tax federal felt by taxpayers. Same went to McGee's research ([16]) poses a view of tax evasion where, according to his research, embezzlement is an unethical behavior due to unfair taxes felt by some taxpayers. Syahrani and Pratomo [22] conducted in Bandung showed that the negative influence of tax fairness on the taxpayer's perception of tax evasion ethics. In addition, McGee, Ho, and Li [18] research resulted that the fairness variable has a strong influence on tax evasion ethics. The reasons that

support this view are that every society has an obligation and a right to its country to pay taxes. Where the obligation is to make tax deposits and it is fair to take the benefit from the deposit.

The tax evasion behavior of an individual taxpayer concerning tax fairness may be attributed to the theory of perception. This theory is analogized that tax evasion behavior is influenced by the paradigm of benefits and cost of each action selected taxpayer. When an individual taxpayer feels that the rate charged has been applied fairly to each individual with the same income, it will indirectly reduce the individual's desire to evade tax, or to be non-compliant in paying taxes or reporting the tax return. Based on the above explanation it can be concluded the higher the prevailing fairness then the taxpayer's perception of tax evasion is getting lower. Based on the description, the researcher took the first hypothesis is:

H1: Tax Fairness negatively affects the taxpayer's perception on the tax evasion.

E. Compliance Cost

Compliance cost or tax compliance fee is the amount of expenses incurred by individual taxpayer in carrying out various tax payment/deposit activities ([6]). As the research conducted by [13] conducted in West Surabaya shows that there is a positive influence of compliance cost to taxpayer perception on tax evasion. Sariani, Wahyuni, and Sulindawati [21] studies conducted in Singaraja produce variable tax compliance costs have a positive influence on the taxpayer's perception of tax evasion ethics. The reasons that support this statement is that every taxpayer in fulfilling his tax obligations will sacrifice the cost of doing his obligations. So, these costs will be burdensome to them.

The tax evasion behavior by an individual taxpayer regarding compliance costs here can be attributed to the theory of planned behavior. In the theory of planned behavior, explaining that the existence of certain things can support or inhibit one's behavior. In fulfilling its obligations and taxation rights, the taxpayer issues a fee. Expenses incurred should not burden taxpayers and not a taxpayer inhibiting factors in fulfilling its tax obligations. Based on the above description it is

concluded, the higher the compliance cost, the taxpayer's perception of tax evasion is also higher. Based on the description, the second hypothesis is:

H2: Compliance Cost positively affects the taxpayer's perception of tax evasion.

III. RESEARCH METHODOLOGY

Variable Perceptions of Taxpayer for Tax Degradation Measures in this study is allegedly influenced by the variable of Tax Fairness and Compliance Costs of the Taxpayer perceived itself. The framework model of the research concept is referred to as the following figure:
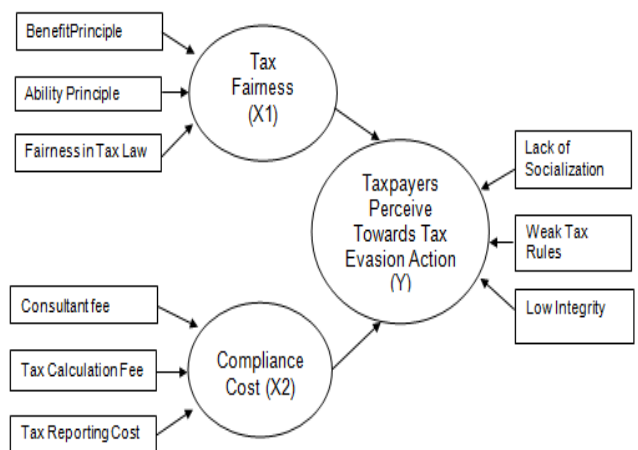
Picture 1. Research Model Concept

Each indicator has one question. Furthermore, each indicator is measured using the Likert scale with the lowest score of 1 (Strongly Disagree), 2 (Disagree), 3 (Hesitant), 4 (Agree), and the highest 5 (Strongly Agree). The higher the number score indicates that the higher the level of tax evasion by taxpayers. This research uses quantitative approach through survey type confirmatory research method based on data collection through questionnaire ([11]: 45).

The questionnaire of this study is based on past study and researcher make a development of the questionnaire. Tax fairness is based on the study conducted by [17]. Compliance cost is based on the study conducted by Sanford [20].

A. Sample and Population

Population in this research is individual taxpayer registered in KPP Pratama Samarinda City. The sample is part of the number or characteristic possessed by the population. Because the research

population was too large, samples were taken using Hair et al. with a maximum of 60 respondents [2], In this research, the researcher uses purposive sampling, that is the sample chosen based on the researcher's assessment that the respondent is the best party to be used as the research sample ([10]:68). Sample criteria that researchers formulated in this study are: 1) Individual taxpayers registered in KPP Pratama Kota Samarinda. 2) Individual taxpayers who have a freelancer work. 3) An individual taxpayer who have a freelancer work of more than three years.

B. Data Analysis

1. Measurement of Outer Model in this research apply:

- Validity Test is used to measure the validity or validity of a questionnaire, ie a questionnaire able to reveal something that will be measured by the questionnaire ([11]: 58). Researchers will test the reliability of items on each construct through construct validity testing using SmartPLS ver. 3.0 M3, namely convergence validity test and discriminant validity test. Hartono and Abdillah ([11]:71) suggest that the result of cross loading is be consider sufficient if the level is ±0.05.

- Reability Test is a tool for measuring a questionnaire that is an indicator of a variable or construct. Reliability items are tested by looking at Alpha Coefficients by conducting Reliability Analysis with SmartPLS Ver 3.0 M3.

Hartono and Abdillah [11] suggested that the test of the validity of all constructs in the early stages of the study can also be seen from the value of outer loading with a minimum level of ± 0.30 and the rule of thumb usually used to make the initial examination of the factor matrix is ± 0.30 is considered to have met the minimum level, for loading ± 0.40 is considered better, and for loading more than 0.50 is considered to be significantly practical. The value of reliability that is considered sufficient is ±0.05 and composite reliability is considered better in estimating the internal consistency of a construct.

2. Measurement of Inner Model in this research apply:

- R2 Test is used to measure the level of variation of change of independent variable to dependent variable. The higher the value of R2 means the better the prediction model of the proposed research model.

- Path coefficient Test shows significant level in hypothesis testing. The path coefficient score shown by the T-statistic value, should be above 1.96 for the two-tailed hypothesis, and above 1.64 for the one-tailed hypothesis. When the t-statistic value is more than 1, 96 (two tailed) or 1.64 (one tailed) then the research result is acceptable, but if the t-statistic value is below that number, the result is rejected.

IV. RESULT

A. Outer Model Result

TABLE 1
VALIDITY TEST

	Compliance Cost (X2)	Tax Fairness (X1)	Tax Evasion (Y)
X11	0.486	0.966	0.390
X12	0.443	0.862	0.210
X13	0.512	0.948	0.415
X21	0.879	0.506	0.389
X22	0.875	0.458	0.349
X23	0.839	0.391	0.433
Y11	0.394	0.298	0.837
Y12	0.448	0.343	0.919
Y13	0.271	0.328	0.717

The result of validity convergent test shows the outer loading >0,5 which means validity convergent has meet the requirement. Validity discriminant factor indicates the loading factor of each measurement block shows bigger value compare to other block, which means it meets the discriminant validity.

TABLE 2
REABILITY TEST RESULT

	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Compliance Cost (X2)	0.831	0.836	0.899	0.747
Tax Fairness (X1)	0.921	0.993	0.948	0.858
Tax Evasion (Y)	0.768	0.799	0.867	0.687

The result of reliability test indicates that the composite value reliability and Cronbach alpha >0,5, which shows that the variable has higher reliability.

B. Inner Mode Result

TABLE 3
R SQUARE

	R Square
Tax Evasion (Y)	0.238

R Square (R^2). R^2 value of taxpayer perception on tax evasion act as seen in table 4.8 is 0.238. This explains that the taxpayer's perception constructs for tax evasion actions can be explained 24% through the construction of tax justice and compliance costs. This proves that the prediction model has been exact to explain the level of variation of the change of the independent variable to the dependent variable.

TABLE 4
PATH COEFFICIENTS RESULT

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)
(X2) -> (Y)	0.349	0.361	0.110	3.158
(X1) -> (Y)	0.206	0.207	0.098	2.092

Based on Table 4 above, it can be concluded that all hypotheses have been accepted because the value of t-statistics is more than the rule of thumb one tailed is >1.64. The following is a description of hypothesis testing of each construct in the taxpayer's perception model of tax evasion. Hypothesis 1 (H1). H1 states that tax fairness negatively affects the mandatory perception of tax evasion. The test findings in Table 4 above shows that the t-statistics value for the first hypothesis is 2.296 (> 1.64), with a positive directional coefficient of 0.206 so it can be concluded H1 = Rejected.

The findings of the first hypothesis testing show that tax fairness does not affect the perception of taxpayers in doing tax evasion as a bad behavior (unethical). This result is aligned with the finding of [1] and [5] which states that tax fairness is not the cause of tax avoidance. However, it is not in line with the result of [22] and [17] that argue if taxation has been well implemented, then tax payers will not encourage to do tax avoidance.

Hypothesis 2 (H2). H2 states that compliance costs have a positive effect on the taxpayer's perception of tax evasion. Test results in Table 4.9 above shows that the value of t-statistics for the first hypothesis is 3.063 (>1.64), with a positive directional coefficient of 0.349 so it can be concluded H2 = Accepted.

The result of the second hypothesis test shows that compliance cost influence taxpayer perception in doing tax evasion as good behavior (ethical). This result confirms the finding of Kurniwati and Toly [13], Sariani dan Sulindawai [21], Andrayuga, Sulindawati, dan Sujana [4], which claim that the higher the compliance will burden the taxpayer so that tax evasion will be higher

V. CONCLUSIONS

Based on the data that has been collected and the tests that have been done to the problem using Partial Least Square (PLS) analysis tool, the following conclusions are taken; Tax Fairness Does Not Affect Against Taxpayer's Perception on Tax Evasion.

The results found that the results did not match the development of the hypothesis. This is because the obligation to pay taxes is an absolute obligation of individual taxpayers, so that when fair or not the applicable tax treatment is not a matter that affects individual taxpayers in tax evasion. In addition, the many cases of tax evasion will make the individual taxpayer as a critical individual to think better not to pay taxes than corrupt tax money, so tax evasion is considered good behavior (ethical). Compliance Cost Affects Against Taxpayer's Perceptions of Tax Evasion.

The results of this study found that compliance costs affect the taxpayer's perception of tax evasion. The results of the study found that the results of the study were in accordance with the development of the hypothesis. This is because half the taxpayer's condition of an individual cannot or cannot afford to pay other fees such as fees to pay tax consultants, fees to calculate taxes and fees for reporting taxes in addition to fees to pay his taxes. It could be that the cost has exceeded the ability of individual taxpayers, but it can also be taxpayers of individuals who cannot afford to meet the obligations of taxation due to difficult administration.

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