

Curtin Law School
Curtin Business School

The Tax Morale of Individual Taxpayers in Indonesia

Gorga Parlaungan

This thesis is presented for the Degree of
Doctor of Philosophy
of
Curtin University

March 2017

DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person where due acknowledgment has been made. This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

Signature:

A handwritten signature in black ink, consisting of several overlapping loops and a final horizontal stroke.

Date: 3 March 2017

ABSTRACT

This research investigates the tax morale of individual taxpayers in Indonesia. Indonesia dominantly relies on tax revenue for its national finances, with tax revenue accounting for around 70% of the total revenue in the national budget. Despite a long history of taxation in the country, the contribution of individual taxpayers has been low, justifying studies to encourage the involvement of individual taxpayers in tax collection attempts. Tax morale, defined as the 'intrinsic motivation to pay tax' or 'willingness to pay tax', is particularly relevant in the Indonesian administration system, which adopts a self-assessment system (SAS), where it is the taxpayers' own duty to calculate and pay their tax, as well as file tax reports with the tax office. Tax morale, closely related to voluntary willingness of taxpayers to pay their tax, is therefore crucial for a healthy level of taxpayer compliance in this system.

This research employs a mixed methodology of quantitative and qualitative approaches. The sampling process uses stratification based on the labour force, as the labour force reflects the number of individual taxpayers obligated to pay income tax (once an individual's total income reaches a certain threshold within a taxable year). A drop-off survey was used to obtain data from samples of individual taxpayers registered in the three largest cities in Indonesia: Jakarta, Surabaya and Medan. From 750 questionnaires distributed, 338 responses were usable for analysis.

Along with the quantitative approach, interviews were conducted to obtain qualitative data. As many as 15 participants were involved in the interviews, comprising ten individual taxpayers, of whom one was a multinational corporate manager with insight into employees' tax matters, in addition to five tax consultants. The varied backgrounds of the participants are regarded as being helpful to generate wide-ranging data that may enrich or confirm findings. The selection of the participants, including the tax consultants, was conducted using the purposive sampling method to ensure that participants have adequate experiences and knowledge about individual taxpayers and related topics.

Survey data show that individual taxpayers in Indonesia have a high level of tax morale, in that most respondents claim that they have paid their tax willingly, without any intervention from others. This research also found that their sentiment towards tax and their perception of the legal system are statistically significant in influencing their tax morale, justifying the demand for actions to improve the public's understanding of taxation and its benefits to the public, as well as the just and fair

enforcement of the law. Further, it is also found that better education and a good financial situation positively influence the level of tax morale of individual taxpayers. There is a difference found in the tax morale level between the younger generation and the older generation; arguably, this is related to the sentiment towards tax, as the older generation are more likely to have been exposed to poor, corrupt governance in the past, while the younger generation are more familiar with the improved tax system and governance. This result is enhanced by interview data, where participants with lengthy experiences confirmed the improvement of governance relative to the past, and its positive influence on their willingness to pay tax. It is found that an understanding of tax and good sentiment towards tax are catalysts to good tax compliance.

From qualitative research, factors suggested as influencing tax morale and the taxpayers' decision to pay tax emerge. While sentiment towards tax and the understanding about tax play an important role, simplicity of the tax administration system is suggested to improve the willingness to pay tax and the ability of the taxpayers to execute their willingness, and hence achieve better tax compliance. Interestingly, most interview participants suggest that taxpayers pay their taxes merely because it is an obligation, without considering any benefit in return or its benefit to the public. They view paying tax in a pragmatic way as an obligation, and pay because of fear of a fine. This finding arguably does not converge with the findings of the quantitative approach suggesting that the individual taxpayers in Indonesia have a high level of tax morale. Nevertheless, the results from the qualitative approach can be used to enrich the data from the quantitative measures, where the latter is designed to infer the tax morale among the individual taxpayers in the country.

Several other factors emerge from the qualitative approach believed to influence willingness to pay tax and the decision to pay tax, including individual traits, the role of tax consultants, law enforcement and the disclosure of data secrecy, as well as a personal approach to influence taxpayers to pay their tax. Discussion about 'zakat' (compulsory donation based on Islamic rules) suggested it is better perceived than tax, suggesting a wide-ranging approach be recommended to the tax authority in its attempt to improve tax compliance.

Several limitations are acknowledged in this research, including the self-reporting nature of the survey employed, which may result in a difference between what the respondents say and what the respondents actually do, especially for a sensitive topic such as tax. This research tries to address this limitation by employing

anonymous questionnaires. The samples, consisting of registered individual taxpayers, may also produce a bias as they do not cover all kinds of taxpayers, including those who are obligated but choose to ignore the obligation to register at the tax office, and all other kinds of evasion. However, the use of samples from those who are considered compliant, at least in the registration context, is suitable for this research, as a tax morale study asks 'why people pay tax' rather than 'why people evade tax', which is more relevant for compliant taxpayers. The limitation of samples including only those who reside in the three largest cities, instead of covering the whole of Indonesia, is also acknowledged, but is arguably inevitable because of cost and time constraints. Further, as suggested in previous studies, the lack of standardisation of the measurement of tax morale is acknowledged. Therefore, the findings in this research need to be carefully interpreted to formulate policies to improve individual taxpayers' compliance. The use of a mixed methodology of quantitative and qualitative approaches is aimed at tackling these shortcomings and producing more robust and convincing findings.

The results of this research call on the government and the Directorate General of Taxes (DGT) to improve taxpayers' sentiment towards tax, which will eventually increase their willingness to pay tax. The authorities need to embed the improvement of tax awareness strategies in their policies, and encourage a better understanding of the benefits of tax among taxpayers. A sense of integrity and just law enforcement from the law-enforcing bodies are also crucial in attempts to coax taxpayers to comply with their obligations. These findings show that efforts to increase tax compliance do not depend solely on the revenue authority, but extend to the actions of other parties, such as legal authorities.

In regard to tax compliance, there is also a need for the tax system to be simplified, to reduce the burden of complying with tax obligations. Taxpayers have a pragmatic mind-set about paying their tax; they are willing to pay, provided they are not burdened by administrative difficulties. In this context, the use of a withholding system, where tax laws allow, as well as an increased and improved role of intermediaries, such as tax consultants, are recommended.

DEDICATION

This thesis is dedicated to my dearest family: my father, Prof Dr. H. Abdurrahman Ritonga, my mother, Hj. Nisra Pardede, my beloved wife, Marina Yasman, SE, MSc, and my sons, Tondi Rizki Ritonga and Riga Ramadhan Ritonga, and equally to my father-in-law, late Brigjen H Jasman Ismail, and mother-in-law, Zafrida Jasman, for their endless love and support.

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful. All praise and thanks are due to Allah SWT for all the blessings in my life, particularly during this PhD journey.

I would like to express my gratitude and appreciation to many individuals without whose support this thesis would not have been completed. First and foremost, I would like to express my sincere gratitude to my main supervisor, Professor Dale Pinto from the Curtin Law School, Curtin Business School, for his guidance, advice, comments, patience and relentless support throughout my research. My gratitude and appreciation also go to my co-supervisor, Dr Prafula Pearce, for her support and advice during the research and thesis writing process. My heartfelt gratitude also goes to my former Supervisor, Professor Jeff Pope, for his guidance and support during my application process to Curtin University, the early stage of my research, during and after the candidacy process, as well as his advice and friendship after his retirement from the university.

I also owe my thanks to my colleagues at the Directorate General of Taxes for all their encouragement and support before and during my PhD process. My appreciation and thanks go to Dr Sumihar Petrus Tambunan and Dr Amri Zaman, both former Directors of Potential, Compliance and Revenue; Yon Arsal, SE, Ak, MEc, PhD, former Head of Policy Impact Sub-Directorate; Dr Harry Yusuf A. Laksana, SE, MA also former Head of Policy Impact Sub-Directorate, and my former team mates at the Macro-Economic Condition Impact Section and at the General Affairs Section. This research was also possible because of the support of Ir. Iwan Djuniardi, MM, the then Director of Taxation Technology and Information of DGT and his staff members. I wish to extend my thanks to them all.

I owe my hearty thanks to my friends in Perth, especially Dr Budi Susila who supported me before and during my arrival in Perth, for his valuable advice about research as well as his family's warm camaraderie. I sincerely thank Dr Raihana binti Mohammad Ali, for her advice and enlightenment during the initial stage of my research, and Professor Pope's PhD students for our refreshing discussion during Friday breakfasts and beyond. Special thanks and appreciation are also owed to my friends and research fellows, Achmad Komara, Dr Dwi Poedjiastuti and family, and Budi Cahyono, who have helped me a lot along our journey of PhD research, as well as Dr Filbert H Juwono for his companionship.

My life in Perth is also enriched and blessed by the company of caring friends such as Kiran Raj Awasthi and his family, Hee Jun Lee, Chloe Shu Yu, Mamsy Mammetsi, Kazeem Femi, and all friends and residents of Japan House 2013–2014. I also thank friends at Farnham Street Batch I who gave much help and broadened my view beyond research and taxation: Akhdian Reppawali, Dr Tubagus Solihuddin, and Ahmad Jauhari. I would also like to extend my warmest gratitude to all friends at the Association of the Indonesian Postgraduate Students and Scholars in Australia (AIPSSA), AIPSSA Curtin and Curtin Indonesian Muslim Student Association (CIMSA).

I am indebted to the Government of Indonesia and the Directorate General of Taxes, Ministry of Finance, which gave me the opportunity to pursue this further study, and the Government of Australia through the Department of Foreign Affairs and Trade (DFAT) and Australia Awards, who provided me with such a valuable opportunity to know Australia and study in Australia. My appreciation and sincere thanks also go to the Curtin University International Sponsored Student Unit (ISSU) Manager, Julie Craig, and her team members who assisted me in my study and made life in Perth easier.

Above all, my loving gratitude goes to my family: my mother, Dra. Hj. Nisra Pardede, my father, Professor Dr. H. Abdurrahman Ritonga, my wife, Marina Yasman, SE, MSc, my sons, Tondi Rizki Ritonga and Riga Ramadhan Ritonga, my late father-in-law, Brigjen TNI AD (Purn) H Jasman Ismail, my mother-in-law, Hj. Zafrida Jasman, my sisters, Doris Apriani Ritonga, SPsi, MA Psikolog and Yusriana, SP, MSi, my sister-in-law and my brothers-in-laws for all their prayers and loving support during my PhD journey.

Lastly, I wish to express my gratitude to all of those who have supported me in completing this study, including the research participants and respondents. May Allah bless us all.

CONFERENCE AND PAPER PRESENTATION

1. The Tax Morale of the Individual Taxpayers in Indonesia based on some Demographic Factors. Paper presented at the 28th Australasian Tax Teachers Association Conference, University of New South Wales, Sydney, 20–22 January 2016.
2. The Tax Morale of the Individual Taxpayers in Indonesia by Demographic and Economic Factors. Paper presented at Higher Degree Research Students' Colloquium 2016, Curtin Business School, Curtin University 31 August–1 September 2016.

TABLE OF CONTENTS

DECLARATION	i
ABSTRACT	ii
DEDICATION	v
ACKNOWLEDGEMENT	vi
CONFERENCE AND PAPER PRESENTATION.....	viii
TABLE OF CONTENTS.....	ix
LIST OF FIGURES	i
LIST OF TABLES	i
LIST OF ABBREVIATIONS	iv
LIST OF APPENDICES	v
CHAPTER 1 INTRODUCTION	1
1.1. Chapter Overview.....	1
1.2. Background	1
1.3. Indonesian Tax System Development	2
1.4. The 2002 Modernisation	3
1.5. The Problem of Individual Taxpayers in the Indonesian Tax System	4
1.6. Rationale of the Research: Why Perform a Tax Morale Study?	6
1.6.1. Tax Compliance and Tax Morale	6
1.6.2. Tax Morale in Tax Compliance Models.....	7
1.7. Research Objectives.....	9
1.8. Research Questions	10
1.9. Significance of the Research	10
1.10. Research Design	11
1.11. Key Terminology.....	11
1.11.1. Tax Morale	11
1.11.2. Tax Compliance.....	12
1.11.3. Tax Evasion.....	12
1.11.4. Registered Taxpayer	13
1.12. Structure of the Thesis.....	13
1.13. Chapter Summary	13
CHAPTER 2 LITERATURE REVIEW.....	14
2.1. Introduction.....	14
2.2. Tax Compliance.....	14
2.3. Models of Tax Compliance	17

2.3.1.	Economic Deterrence Models.....	17
2.3.2.	Socio-Psychological Models	20
2.3.3.	Fiscal-Psychological Models.....	23
2.4.	Tax Morale	26
2.4.1.	Tax Morale Definitions	26
2.4.2.	Tax Morale's Influence on Tax Compliance	28
2.4.3.	Tax Morale Determinants	30
2.4.3.1.	Demographic: Age, Gender, Education, Religion and Marital Status	30
2.4.3.2.	Socio-economic: Employment Status, Employment Type, Financial Condition and Tax Interaction	32
2.4.3.3.	Interaction with Tax (Tax Knowledge).....	32
2.4.3.4.	Sentiment	33
2.4.3.5.	Fairness	33
2.4.3.6.	Trust in the Government.....	34
2.4.3.7.	Trust in the Tax Authority.....	35
2.4.3.8.	Perception of the Legal System	36
2.4.3.9.	Democracy	36
2.4.3.10.	Public Goods.....	37
2.4.3.11.	Attitude to Punishment.....	38
2.4.4.	Challenges in Tax Morale Studies	39
2.4.4.1.	Measurements.....	39
2.4.4.2.	Methods Used in Surveys of Tax Morale	40
2.4.5.	Tax Morale Studies in Indonesia.....	40
2.5.	Chapter Summary	43
CHAPTER 3 TAXATION IN INDONESIA.....		44
3.1.	Introduction.....	44
3.2.	History of Taxation in Indonesia.....	44
3.2.1.	Traditional Kingdoms Era	44
3.2.2.	Colonial Era.....	45
3.2.3.	Post-Independence to the First Modern Tax Reform (1984)	46
3.2.4.	First Tax Reform.....	47
3.2.5.	Amendments 1994–97.....	48
3.2.6.	Tax Administration Reform 2002	49
3.3.	Present Tax System	50
3.4.	Role of Central Taxes in the APBN.....	50
3.5.	Tax Authority	51

3.6.	Tax Revenue Structure.....	52
3.7.	Tax Obligations Related to Individual Taxpayers	53
3.8.	Chapter Summary	57
CHAPTER 4 RESEARCH DESIGN AND METHODOLOGY		58
4.1.	Introduction.....	58
4.2.	Research Design	58
4.2.1.	Research Paradigm	58
4.2.2.	Mixed Methodology	60
4.3.	Methods.....	63
4.3.1.	Survey	63
4.3.1.1.	Introduction.....	63
4.3.1.2.	Sample Selection.....	64
4.3.1.3.	Sample Cities	65
4.3.1.4.	Questionnaire Design	66
4.3.1.5.	Ethical Considerations	68
4.3.1.6.	Pilot Study	68
4.3.1.7.	Data Analysis	70
4.3.2.	Interviews	71
4.3.2.1.	Introduction.....	71
4.3.2.2.	Participant Selection.....	72
4.3.2.3.	Questionnaire Design	73
4.3.2.4.	Data Analysis	73
4.4.	Chapter Summary	74
CHAPTER 5 QUANTITATIVE DATA ANALYSIS		76
5.1.	Introduction: Survey.....	76
5.2.	Data Collection Procedure.....	76
5.2.1.	Response Rate.....	77
5.2.2.	Response Representativeness	78
5.2.3.	Respondent Profiles	79
5.2.4.	Statements of Determinants and Tax Morale	84
5.3.	Factor Reduction	84
5.4.	Test of Assumptions	86
5.5.	Findings.....	86
5.5.1.	Sentiment Towards Tax.....	87
5.5.2.	Perception of the Fairness of Tax System	88
5.5.3.	Trust in the Government.....	90

5.5.4.	Trust in the Tax Authority.....	91
5.5.5.	Perception of the Legal System.....	94
5.5.6.	Attitude to Democracy.....	96
5.5.7.	Perception of Public Goods.....	100
5.5.8.	Attitude to Punishment.....	103
5.5.9.	Tax Morale.....	104
5.5.10.	Attitude to Tax Evasion.....	106
5.5.11.	Summary of Descriptive Statistics and Mean Test.....	108
5.5.12.	Summary of p Values of Each Topic by Group.....	109
5.5.13.	Correlation Analysis.....	110
5.5.14.	Multivariate Regression.....	111
5.6.	Chapter Summary.....	113
CHAPTER 6 QUALITATIVE DATA ANALYSIS.....		115
6.1.	Introduction.....	115
6.2.	The Interviews.....	115
6.2.1.	Interview Process.....	115
6.2.2.	Participant Profiles.....	117
6.3.	Analysis Process.....	118
6.3.1.	Transcribing.....	118
6.3.2.	Translating.....	119
6.3.3.	Identifying Themes.....	119
6.3.4.	Categorisation.....	120
6.4.	Analysis of Interview Themes.....	120
6.4.1.	Perception of Tax.....	121
6.4.2.	The Benefits of Tax.....	124
6.4.3.	Has Tax Been Collected Well?.....	126
6.4.4.	Has Tax Been Utilised Well?.....	130
6.4.5.	Trust in the Government.....	131
6.4.6.	Trust in the Tax Authority.....	133
6.4.7.	Tax and Public Goods and Services.....	138
6.4.8.	Simplicity of Tax System.....	143
6.4.9.	Factors that Influence Willingness to Pay Tax.....	145
6.4.10.	Factors that Influence the Decision to Pay Tax.....	149
6.4.11.	Willingness to Pay Tax.....	152
6.4.12.	Tax, 'Zakat' and Religious Charities.....	156
6.4.13.	Tax Education and Information Dissemination.....	158

6.4.14.	Additional Comments and Recommendations	162
6.4.14.1.	Individual Traits	162
6.4.14.2.	Tax Consultants.....	163
6.4.14.3.	Disclosure of Data	163
6.4.14.4.	Law Enforcement.....	164
6.4.14.5.	Personal Approach	164
6.5.	Summary of the Interview Findings.....	165
6.5.1.	Sentiment towards Tax.....	165
6.5.2.	Trust in the Government and Tax Authority	166
6.5.3.	Public Goods and Service	167
6.5.4.	Simplicity of Tax System.....	167
6.5.5.	Willingness to Pay Tax	168
6.5.6.	Factors that Influence the Decision to Pay Tax.....	168
6.5.7.	Other Factors that Influence the Willingness to Pay Tax.....	169
6.6.	Chapter Summary	170
CHAPTER 7 DISCUSSION		172
7.1.	Introduction.....	172
7.2.	Review of Determinants.....	172
7.2.1.	Sentiment towards Tax.....	172
7.2.2.	Trust in the Government.....	174
7.2.3.	Trust in Tax Authority.....	174
7.2.4.	Perception of the Legal System	176
7.2.5.	Attitude to Democracy	176
7.2.6.	Perception of Public Goods	178
7.2.7.	Attitude to Punishment.....	179
7.3.	Tax Morale	179
7.3.1.	Descriptive Analysis	179
7.3.2.	Demographic and Economic Factors	180
7.3.3.	Determinants of Tax Morale.....	181
7.3.4.	Factors that Influence the Decision to Pay Tax.....	182
7.3.5.	Other Factors	183
7.4.	Chapter Summary	185
CHAPTER 8 CONCLUSION AND POLICY RECOMMENDATIONS.....		186
8.1.	Introduction.....	186
8.2.	Summary of Key Findings.....	186

8.2.1. First Objective: The Level of Tax Morale of Individual Taxpayers in Indonesia	186
8.2.2. Second Objective: Differences of Tax Morale in Demographic, Social, and Economic Groups in Indonesia	187
8.2.3. Third Objective: Determinants of Tax Morale of Individual Taxpayers in Indonesia	188
8.3. Fourth Objective: Policy Recommendations	189
8.4. Limitations of the Research	192
8.5. Recommendations for Future Research	193
8.6. Concluding Remarks	194
REFERENCES	195
APPENDICES	214
Appendix A: Organisational Structure of the DGT: Headquarter	214
Appendix B: Organisational Structure of the DGT: Regional Tax Office	215
Appendix C: Organisational Structure of the DGT: Tax Office	216
Appendix D: Ethics Approval	217
Appendix E: Ethics Revision Approval	218
Appendix F: Survey Respondent Information Sheet (Indonesian Language)	219
Appendix G: Survey Questionnaire (Indonesian Language)	220
Appendix H: Survey Respondent Information Sheet (English Translation)	227
Appendix I: Survey Questionnaire (English Translation)	228
Appendix J: Interview Participation Information Sheet (Indonesian Language)	235
Appendix K: List of Interview Key Questions (Indonesian Language)	236
Appendix L: Participant Consent Form (Indonesian Language)	237
Appendix M: Interview Participant Information Sheet (English Translation)	238
Appendix N: List of Interview Key Questions (English Translation)	239
Appendix O: Interview Participant Consent Form (English Translation)	240
Appendix P: List of Statements based on PCA Result	241
Appendix Q: Normality Test	243
Appendix R: Rotated Component Matrix	244
Appendix S: Correlation Matrix	245
Appendix T: Regression Model. Dependent Variable: Tax Morale	246
Appendix U: Regression Model. Dependent Variable: Tax Evasion	247

LIST OF FIGURES

Figure 2.1: Expanded Model of Taxpayer Compliance.....	16
Figure 4.1: Concurrent Triangulation Strategy	62
Figure 4.2: Flow of Interview Data Analysis	74

LIST OF TABLES

Table 1.1: Revenue Ratios to GDP 2010–2014.....	2
Table 1.2: Indonesian and Neighbouring Countries Tax Ratios	3
Table 1.3: Number of Registered Taxpayers by Type 2010–2014.....	5
Table 1.4: Tax Revenue by Type of Taxpayers 2010–2014	6
Table 2.1: Studies in Indonesia Related to Tax Morale	41
Table 3.1: Government Revenues 2010–14 (billions Rp).....	51
Table 3.2: Tax Revenues 2010–14 (billions Rp).....	52
Table 3.3: Income Brackets and Individual Income Tax Rates.....	54
Table 3.4 Non-Taxable Income Threshold per Financial Year	54
Table 4.1: Characteristics of Positivism and Interpretivism	59
Table 4.2: References for Survey Instruments	67
Table 5.1: Survey Response Rate.....	78
Table 5.2: Labour Force Sample Representativeness by City.....	78
Table 5.3: Labour Force Sample Representativeness by Employment Type	79
Table 5.4: Labour Force Sample Representativeness by Employment Status	79
Table 5.5: Sample Representativeness by Religion	80
Table 5.6: Sample Proportion by Education Level.....	81
Table 5.7: Sample Proportion by Marital Status.....	81
Table 5.8: Sample Proportion by Financial Situation.....	81
Table 5.9: Sample Proportion by Tax Filing Help.....	82
Table 5.10: Sample Proportion by Tax Influencer.....	82
Table 5.11: Sample Proportion by Time Registered as Taxpayer.....	83
Table 5.12: Sample Proportion by Interaction with Tax	84
Table 5.13: Cronbach's Alpha of Topics in Questionnaire Data	85
Table 5.14: Mean, Median, Mode and Standard Deviation of Sentiment Toward Tax	87
Table 5.15: Post-Hoc Test by Education Level	88
Table 5.16: Post-Hoc Test by Interaction with Tax Level	88

Table 5.17: Mean, Median, Mode and Standard Deviation of Fairness of Tax System	89
Table 5.18: Post-Hoc Test of Fairness of Tax System by Age Group	89
Table 5.19: Post-Hoc Test of Fairness of Tax System by Interaction with Tax Level	90
Table 5.20: Mean, Median, Mode and Standard Deviation of Trust in the Government.....	91
Table 5.21: Post-Hoc Test of Trust in the Government by Education Level.....	91
Table 5.22: Mean, Median, Mode and Standard Deviation of Trust in Tax Authority	92
Table 5.23: Post-Hoc Test of Perception of Tax Authorities by Age Group.....	93
Table 5.24: Post-Hoc Test of Perception of Tax Authorities by Employment Status	93
Table 5.25: Post-Hoc Test of Perception of Tax Authorities by Financial Difficulty..	93
Table 5.26: Mean, Median, Mode and Standard Deviation of Perception of the Legal System	94
Table 5.27: Post-Hoc Test of Perception of the Legal System by Age Group	95
Table 5.28: Post-Hoc Test of Perception of the Legal System by Education Level .	95
Table 5.29: Post-Hoc Test of Perception of the Legal System by Financial Situation	95
Table 5.30: Post-Hoc Test of Perception of the Legal System by Interaction with Tax Level.....	96
Table 5.31: Mean, Median, Mode and Standard Deviation of Attitude to Democracy	97
Table 5.32: The Independent t-test of Attitude to Democracy by Marital Status.....	97
Table 5.33: The Independent t-test of Attitude to Democracy by Employment Type	97
Table 5.34: Post-Hoc Test of Attitude to Democracy by City	99
Table 5.35: Post-Hoc Test of Attitude to Democracy by Age Group.....	99
Table 5.36: Post-Hoc Test of Attitude to Democracy by Education Level.....	99
Table 5.37: Post-Hoc Test of Attitude to Democracy by Religion.....	99
Table 5.38: Post-Hoc Test of Attitude to Democracy by Religion.....	99
Table 5.39: Post-Hoc Test of Attitude to Democracy by Financial Situation	100
Table 5.40: Post-Hoc Test of Attitude to Democracy by Length of Being Registered	100
Table 5.41: Post-Hoc Test of Attitude to Democracy by Interaction with Tax Level	100
Table 5.42: Mean, Median, Mode and Standard Deviation of Perception of Public Goods.....	101
Table 5.43: Post-Hoc Test of Perception of Public Goods by City	102
Table 5.44: Post-Hoc Test of Perception of Public Goods by Age Group.....	102

Table 5.45: Post-Hoc Test of Perception of Public Goods by Education Level	102
Table 5.46: Post-Hoc Test of Perception of Public Goods by Employment Status	103
Table 5.47: Mean, Median, Mode and Standard Deviation of Attitude to Punishment	103
Table 5.48: Post-Hoc Test of Attitude to Punishment by City	104
Table 5.49: Mean, Median, Mode and Standard Deviation of Tax Morale.....	104
Table 5.50: Post-Hoc Test of Tax Morale by Age Group	105
Table 5.51: Post-Hoc Test of Tax Morale by Education Level.....	105
Table 5.52: Post-Hoc Test of Tax Morale by Financial Situation.....	106
Table 5.53: Post-Hoc Test of Tax Morale by Financial Situation.....	106
Table 5.54: Mean, Median, Mode and Standard Deviation of Attitude to Tax Evasion	107
Table 5.55: Post-Hoc Test of Attitude to Tax Evasion by City	107
Table 5.56: Post-Hoc Test of Attitude to Tax Evasion by Education Level.....	108
Table 5.57: Post-Hoc Test of Attitude to Tax Evasion by Financial Situation.....	108
Table 5.58: Tendencies of the Topics.....	109
Table 5.59: Summary of p Values of Each Topic by Group	110
Table 5.60: Correlation between the Determinants of Tax Morale and the Determinants of Attitude to Tax Evasion	111
Table 5.61: Regression Output of Model 1 and Model 2	113
Table 6.1: Interview Participant Profiles	118

LIST OF ABBREVIATIONS

- APBN : Anggaran Pendapatan dan Belanja Negara (Indonesian State Revenue and Expenditure Budget)
- AR : Account Representative
- DGT : Directorate General of Taxes
- GDP : Gross Domestic Product
- GOI : Government of Indonesia
- KPP : Kantor Pelayanan Pajak (Tax Office)
- MUI : Majelis Ulama Indonesia (Indonesian Islamic Cleric Council)
- NPWP : Nomor Pokok Wajib Pajak (Tax Identification Number)
- OECD : Organisation for Economic Co-operation and Development
- PBB : Pajak Bumi dan Bangunan (Land and Building Tax)
- PCA : Principal Component Analysis
- Perda : Peraturan Daerah (Local Regulation)
- PPh : Pajak Penghasilan (Income Tax)
- PPN : Pajak Pertambahan Nilai (Value Added Tax)
- PSI : Public Service Institutions
- PTKP : Penghasilan Tidak Kena Pajak (Non-taxable Income)
- SAS : Self-Assessment System
- SOE : State-Owned Enterprises
- WVS : World Values Survey

LIST OF APPENDICES

- Appendix A : Organisational Structure of the DGT – Headquarter
- Appendix B : Organisational Structure of the DGT – Regional Tax Office
- Appendix C : Organisational Structure of the DGT – Tax Office
- Appendix D : Ethics Approval
- Appendix E : Ethics Revision Approval
- Appendix F : Survey Respondent Information Sheet (Indonesian Language)
- Appendix G : Questionnaire (Indonesian Language)
- Appendix H : Survey Respondent Information Sheet (English Translation)
- Appendix I : Questionnaire (English Translation)
- Appendix J : Interview Participation Information Sheet (Indonesian Language)
- Appendix K : List of Interview Key Questions (Indonesian Language)
- Appendix L : Interview Participant Consent Form (Indonesian Language)
- Appendix M : Interview Participation Information Sheet (English Translation)
- Appendix N : List of Interview Key Question (English translation)
- Appendix O : Interview Participant Consent Form (English translation)
- Appendix P : List of Questions as PCA Result
- Appendix Q : Normality Test
- Appendix R : Rotated Component Matrix
- Appendix S : Correlation Matrix
- Appendix T : Regression Model. Dependent Variable: Tax Morale
- Appendix U : Regression Model. Dependent Variable: Tax Evasion

CHAPTER 1

INTRODUCTION

1.1. Chapter Overview

This chapter presents an overview of the thesis. It provides the background to the research, a brief description of the Indonesian tax system, rationale for the study, research objectives, research questions, significance of the research, research design, definitions of key terminologies and how the thesis is structured and presented. A summary concludes the chapter.

1.2. Background

Indonesia currently relies heavily on taxes for its national financing. From 2005 to 2014, the contribution of tax to the State Revenue and Expenditure Budget (APBN) ranged from 60% to 85%, averaging 75% (Republic of Indonesia 2016, Appendix 2). The APBN tax collection is generated mostly from income tax, value added tax and land and building tax. Other revenues are collected from royalties on natural resource exploration, profit shares from state-owned enterprises and other non-tax revenues (Republic of Indonesia 2016; Appendix 3).

Previously, Indonesia generated revenues mostly from oil. Following the boom in world oil prices in 1973, this sector contributed almost 80% of revenue in the early 1980s (Ikhsan, Trialdi and Syahrial 2005, 1031; Alsah 1992, 30). In 1982, the non-oil-tax-to-GDP ratio was 6.6%, only twice as much as the ratio of foreign aid to GDP (Gillis 1985, 225). The combination of natural resource depletion, population growth and increasing domestic consumption of fossil fuels has forced Indonesia to find more reliable and sustainable resources.

To aid in this, in 1983, Indonesia overhauled its taxation system (implemented long before independence in 1945). The aims of the reform were to increase participation from people, promote a more even income distribution and establish a more self-sustaining state budget (Rizal 2011, 417). Several new laws were enacted, replacing tax laws inherited from the colonial period (Pohan 2014, 15–7). A self-assessment system (SAS) was introduced, substituting for the official assessment system put into practice decades earlier.

Reform began with the promulgation of three tax laws (dated 1983 but effective from the beginning of the subsequent year): General Provisions and Tax Procedures (KUP) Law, Income Tax (PPh) Law and Value Added Tax and Sales Tax on Luxury Goods (PPN dan PPnBM) Law. These newly enacted laws replaced previous laws,

regulations and hundreds of decrees that were considered outdated and confusing (Uppal 2000, 3). As an example of the simplification, the new Income Tax Law regulated both corporate and individual taxpayers, whereas previously, these two types of taxpayers had been stipulated separately. A Value Added Tax (VAT) system, considered more powerful in generating revenue and less complicated (Uppal 2000, 36), was also introduced, replacing the old sales tax system. New Land and Building Tax (PBB) Law was enacted two years later (in 1985).

1.3. Indonesian Tax System Development

After the 1983 reform, the Indonesian tax system improved (Ikhsan, Trialdi and Syahrial 2005), with a reduction in the dependency on natural resources and a gradual, consistent increase in tax revenues. Domestic taxes, namely income tax and VAT, began to dominate, reflecting growth in the national economy (Ikhsan, Trialdi and Syahrial 2005, 1031).

However, despite positive developments, weaknesses remain. One frequently cited issue is the low tax-to-GDP ratio (Ikhsan, Trialdi and Syahrial 2005, 1030; Rizal 2011, 418; Pakpahan 2012, 8). The tax-to-GDP ratio has been consistently low, around 12% for the combined central and local taxes, and even less for the central taxes collected by the DGT (Table 1.1). In 2014, the ratio fell to less than 11%.

Table 1.1: Revenue Ratios to GDP 2010–2014

Ratio to GDP	Year				
	2010	2011	2012	2013	2014
Central Taxes + Local Taxes + Natural Resources	14.70%	15.72%	15.58%	15.17%	14.42%
Central Taxes + Local Taxes	12.08%	12.84%	12.84%	12.94%	12.14%
Central Taxes	11.21%	11.77%	11.90%	11.81%	10.88%

Source: DGT (2015, 9).

To present a clearer view, Table 1.2 shows a comparison of the Indonesian tax ratio to those of other countries in the region, including Australia, from two datasets—one from the World Bank (2012 data) and one from the Heritage Foundation (2016).

Table 1.2: Indonesian and Neighbouring Countries Tax Ratios

Country	Tax Ratio (%)	
	World Bank (2012)	Heritage Foundation (2016)
Australia	21.3	27.5
Vietnam	N/A	18.9
Thailand	15.5	16.2
Malaysia	15.6	15.8
Singapore	13.8	13.8
Philippines	12.9	13.3
Indonesia	11.4	11.8

Sources: World Bank (2016); Heritage Foundation (2016).

According to the World Bank, in 2012, Indonesia had a tax ratio of 11.4%, lower than those for Australia, Thailand, Malaysia, Singapore and the Philippines. More recent data from the Heritage Foundation¹ showed, in 2016, Indonesia's tax ratio was still the lowest, at only 11.8%. The Philippines, the second lowest, had a tax ratio of 12.9% in 2012, rising to 13.3% in 2016. Singapore recorded a moderate ratio of 13.8%, Malaysia and Thailand had relatively high tax ratios of more than 15%, and for Australia, the ratio was more than 20%. Even compared to other countries in the region, the Indonesian tax ratio was very low. This may be due to under-collection, a problem faced by many developing countries, arising from challenges such as collecting from hard-to-tax taxpayers, weak administration, poor governance and low taxpayer morale (International Monetary Fund [IMF] 2011, 8).

1.4. The 2002 Modernisation

After the 1998 Asian financial crisis that severely hit Indonesia, it was realised that the demand for a more robust and efficient tax administration system was more vital than before. Poor governance and corruption were considered to have contributed to the crisis (Rizal 2011, 415), and the DGT, as a public institution, was not excluded. Despite the successes of the 1983 reform, corrupt practices at the DGT were recognised and public trust was low (Rizal 2011, 418). While the World Bank praised Indonesia for its sound tax administration at that time, it still criticised the DGT for weak enforcement and collection, as well as widespread corruption (World Bank 2005, 70).

¹ Heritage Foundation uses the terminology 'tax burden', as tax collection is viewed as inhibiting economic freedom (Heritage Foundation 2016).

In the early 2000s, the government launched a further round of tax administration reform, better known as tax modernisation (Pandiangan 2008, 47–57; Wihantoro et al. 2015, 44) or the 2002 reform. Reform was divided into two phases—the first phase ran over 2002–2008 and the second phase over 2009–2014 (Pakpahan 2012, 2). The objectives of the reform were to increase taxpayers' compliance, improve public trust in the DGT and encourage more productive tax officers by fostering integrity (Rizal 2011, 416). Tax modernisation also aimed to increase revenue and investment, to allow the economy to recover from the crisis (Brondolo et al. 2008, 4).

1.5. The Problem of Individual Taxpayers in the Indonesian Tax System

The 2002 reform switched the DGT's operations from taxpayer type based to function based (Susila 2014, 74; Araki and Claus 2014, 15). In this structural change, every tax office includes Monitoring and Consultancy sections (DGT 2015a, 153), which counsel and monitor taxpayers, regardless of type: corporation, government treasurer or individual. Counselling and monitoring is conducted by account representatives (AR), under the supervision of Section Heads and the Tax Office Head.

The new structure allows the DGT to focus on the largest contributing taxpayers in order to maximise revenue. At present, besides headquarters, there are 574 operational offices in charge of administering tax affairs throughout regions in Indonesia. The complete, current DGT organisational structure is discussed in Chapter 3, and presented in Appendix A, Appendix B, and Appendix C of this thesis.

The administration structure exposes a weakness in tax collection at present—the small contribution of individual taxpayers. There are holes where the least-paying taxpayers—most of them individual taxpayers—tend to be less monitored, and thus receive less attention with regard to achieving the revenue targets by the tax offices. This may be one explanation as to why there are few studies on individual tax behaviour conducted in Indonesia.

The DGT has succeeded in increasing the number of individual taxpayers, expecting this will provide a large base of tax contribution. However, while the number of individual taxpayers dominates all registered taxpayers, at around 90% of the total, their share in terms of tax contribution is low (see Table 1.3. and Table 1.4).

Table 1.3: Number of Registered Taxpayers by Type 2010–2014

Year	Type of Taxpayer			Total
	Corporate	Individual	Government treasurer	
2010	1,608,337	13,861,253	441,986	15,911,576
2011	1,760,108	16,880,649	471,833	19,112,590
2012	1,898,547	20,132,036	534,386	22,564,969
2013	2,116,049	22,231,714	538,875	24,886,638
2014	2,322,686	25,056,570	563,314	27,942,570
Share in 2014	8.31%	89.67%	2.02%	100.00%

Source: DGT (2015b, 45).

In 2010, there were more than 13.86 million registered individual taxpayers (Table 1.3). This number increased to around 16.88 million the year after, exceeded 20 million in 2012, and by 2014, it leaped to more than 25 million of taxpayers. Conversely, the number of corporate taxpayers was only around 1.60 million in 2010 and reached around 2.32 million in 2014, or only about 8.31% of all registered taxpayers. The remaining taxpayers were government treasurers², which accounted for around 2.02% of total taxpayers. The numbers show the structure of taxpayers in Indonesia, where the number of the registered individual taxpayers dominated the registered taxpayers by almost 90% of the total.

In terms of tax contribution, these percentages are reversed—although representing only around 8% of the registered taxpayer population, corporate taxpayers accounted for around 88% of tax revenue in 2014 (Table 1.4). The next largest contributor was government treasurers, which provided around 3.34%. Despite comprising the largest number of registered taxpayers, individual taxpayers only contributed around 1.40% of total tax revenue. On average, an individual taxpayer paid only around Rp550,063 in tax, equivalent to around AU\$55, in 2014.

² A government treasurer is a government officer who withholds, remit and manages tax matter in an institution/project with spending sourced from the State/Regional Budget.

Table 1.4: Tax Revenue by Type of Taxpayers 2010–2014

Revenue in billion rupiah					
Year	Type of Taxpayer				Total
	Corporate	Individual	Government treasurer	Others	
2010	361,385.36	8,184.99	17,279.29	170,695.03	557,544.67
2011	455,055.31	9,417.31	18,683.02	259,564.22	742,719.86
2012	603,582.66	10,835.38	24,423.93	196,985.96	835,827.93
2013	807,723.80	12,055.71	29,920.02	72,328.58	922,028.11
2014	868,711.26	13,782.69	32,946.30	69,691.84	985,132.09
Share in 2014	88.18%	1.40%	3.34%	7.07%	100.00%

Source: DGT (2015b, 30).

Similarly, Arnold (2012) noted that individual taxpayers in Indonesia make a small contribution in terms of tax revenue, of only around 1.4% of GDP—less than one-third the percentage in other ASEAN countries (Arnold 2012, 8). Further, filing compliance is also low—only 58% of obligated registered taxpayers filed tax returns in 2014 (DGT 2015b, 3), with 3% of households contributing to 80% of total household tax revenues (Arnold 2012, 10). One important measure to address these issues is to increase individual taxpayers' compliance by broadening the tax base and encouraging voluntary compliance (Arnold 2012, 10–1).

1.6. Rationale of the Research: Why Perform a Tax Morale Study?

1.6.1. Tax Compliance and Tax Morale

Indonesia has adopted the SAS, a tax system that requires taxpayers to comply with their tax obligations, such as calculating total income, tax-free income and taxable income, by themselves (Barr, James and Prest 1977, 3–4). Tax compliance involves registering in the tax system, filing tax returns and bookkeeping or recordkeeping (Brown and Mazur 2003, 2). Compliance, as interpreted by Roth, Scholz and Witte (1989, 2), occurs when taxpayers file the required tax returns in time, and tax liabilities are reported accurately, in accordance with the regulations and court decisions that are valid when the return is filed.

In the SAS, voluntary compliance is crucial, as the system depends on taxpayers reporting and paying their taxes and undertaking other tax-related obligations properly. The tax authority holds the power to conduct an audit; however, it may be constrained by the system and limited capacity of the authority to conduct such

measures to enforce compliance. These shortcomings have been regarded as needing to be addressed by the Indonesian administration during several reforms over the past two decades. For example, Arnold (2012, 11) noted that there was a considerable amount of taxes overlooked by tax officials because of the absence of a systematic approach to assessing self-employed individuals, while Ikhsan, Trialdi and Syahrial (2005, 1034) showed that less than half of the potential taxes were collected from individual taxpayers. Moreover, audit productivity was low—in 2004, there were more than 40,000 unfinished audit cases, and close to 65% of the total number of the audits conducted were for taxpayer refund claim purposes (Rizal 2011, 433), resources that should have been allocated to more productive cases (Brondolo et al. 2008, 13). The DGT also had a limited number of auditors, around 7% of total staff, far less than the suggested number in an effective tax administration of around 30–40% of total staff (Brondolo et al. 2008, 15).

It is worth noting that taxpayers' compliance is not only driven by the risk of audit and the fear of being penalised by the tax authority (see, for example, Murphy 2008 and Batrancea et al. 2012). There are other dimensions that encourage individuals to meet their tax obligations. Previous studies suggest that various factors are influential, including the 'intrinsic motivation to pay tax' or tax morale (Devos 2014; Torgler 2007).

1.6.2. Tax Morale in Tax Compliance Models

Models of tax compliance are broadly divided into three types: economic deterrence, socio-psychological and fiscal-psychological model (Hasseldine and Bebbington 1991, 34; McKerchar and Evans 2009, 177; Pope and McKerchar 2011, 588; Cuccia 1994, 82; Riahi-Belkaoui 2004, 136). The economic deterrence model argues that taxpayers are rational individuals, whose decisions are affected by the expected benefits or losses in an economic situation. Taxpayers choose to comply in accordance with calculations on whether they will be financially better off by taking action in regard to their tax liabilities. The model was first put forward by Allingham and Sandmo (1972) as acknowledged in many later tax compliance research such as in Alm, Jackson and McKee (1992); Li (2010) and Torgler (2007), incorporating four main variables—income, tax rate, probability of detection and penalty.

Conversely, models relying on the attitudinal approach suggest that taxpayers' compliance does not merely depend on rational thinking in terms of losses and benefits; rather, compliance is also affected by non-economic variables, for example, ethical beliefs (Reckers, Sanders and Roark 1994, 833). The socio-

psychological model also suggests that conformity to a group can affect an individual's decision—individuals are not fully independent but affected by their environment, due to their interactions with others (James and Alley 2002, 33). Besides conformity, social norms affect evasion intention (Blanthorne and Kaplan 2008, 699), and social orientation or preference of a taxpayer—to self (egoistic) or to others or the public (pro-social)—also affects compliance (Brizi et al. 2015).

The third model, the fiscal-psychological model, combines the deterrence and socio-psychological models (Hasseldine and Bebbington 1991, 304; Pope and McKerchar 2011, 588). This model suggests that taxpayers' compliance is also affected by the dynamic interaction of taxpayers with fiscal aspects, such as the tax authority, the government, the tax rate and the audit system, which all combine to result in a tax compliance decision (McKerchar and Evans 2009, 177). Fairness of a tax system, for example, is one of the fiscal factors that stimulates the willingness of individuals to comply with tax obligations (Devos 2014, 14).

Tax morale, frequently defined as 'intrinsic motivation to pay tax' (Pope and Mohdali 2010, 568) and 'willingness to pay tax' (Braithwaite and Ahmed 2005, 534; Tekeli 2011, 8), is suggested to have an important role in tax compliance (Pope and McKerchar 2011; Devos 2014). Kornhauser calls tax morale 'a collective name for non-rational factors and motivations' (Kornhauser 2007, 602–3), while Luttmer and Singhal (2014, 150) use the phrase 'non-pecuniary factors'. Therefore, tax morale is a factor outside of the economic deterrent model, and can be incorporated into the attitudinal approach models (the socio-psychological and fiscal-psychological models).

As per the definitions 'intrinsic motivation to pay tax' and 'willingness to pay tax', tax morale is closely related to voluntary compliance, which falls into the 'conceptual' aspect of tax compliance—the other aspect is 'operational' compliance (Rosid, Evans and Tran-Nam 2016, 6). The higher the level of tax morale embedded in an individual, the more likely it is that the individual intends to pay taxes. Taxpayers meeting their obligations is the ultimate objective of tax authorities in administering and managing taxpayers (Rizal 2011). Voluntary compliance is even more relevant in the SAS, where the fulfilment of obligations depends more on the willingness of taxpayers, especially when taxpayers have plentiful opportunities to evade, for example, because of limitations in the system and the tax authority. Pope and McKerchar (2011, 600) argued that tax morale could deter taxpayers from active attempts to evade paying tax, while Devos (2014, 11, 225) found, in an empirical study, that tax morale significantly influences the tax compliance of evaders as well

as compliant taxpayers. These results support other studies that suggest that tax morale influences tax compliance, for example, Torgler and Murphy (2004), Kornhauser (2007) and Cummings et al. (2009).

This research investigates the tax morale of individual taxpayers in Indonesia, with the ultimate objective of enabling the tax authority to influence taxpayers' compliance through tax morale. By understanding the current level of tax morale, how it was shaped and which factors determine tax morale in the Indonesian context, the tax authority will be able to formulate appropriate policies to increase tax morale, and hence, taxpayers' compliance.

The level of tax morale in this research refers to the level of willingness of the taxpayers to pay tax as similarly has been investigated in previous studies, for example by Torgler (2007) and Tekeli (2011). They used a question in World Values Survey (WVS) to measure the level of tax morale of the respondents which asked "please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between": V200. Cheating on tax if you have the chance (Tekeli 2011 8). The level was measured using the answer to the question in a ten-point scale with point 1 for "never justified" to 10 for "always justified". The results were interpreted that the smaller point the respondents chose the higher their level of tax morale was. However, as Devos (2014) has pointed out "the problem of inconsistency in measurement of the tax morals variable amongst the various studies still exists" (Devos 2014, 28). Therefore, the researcher chooses to use several statements constructed based on questions and statements from previous tax morale studies and measures the level of tax morale using five-point Likert scale. This measure is conducted in order for the researcher to be able to capture a more reliable measurement of the level of tax morale of individual taxpayers in Indonesian context. The statements to measure the level of tax morale in this research will be elaborated in details in Section 4.3.1.4.

1.7. Research Objectives

The main objective of this research is to investigate the factors that dominate in shaping the level of the tax morale of individual taxpayers in Indonesia. According to literature, various variables influence tax morale, ranging from demographic variables, sentiment towards tax, fairness of the system, trust in the government, trust in the tax authority, and perceptions of the legal system, democratic process and public goods and service provision. This research examines which variables

among these are relevant to the Indonesian case. Specific research objectives include:

1. Investigating the level of tax morale of individual taxpayers across the three largest cities in Indonesia.
2. Investigating the differences in tax morale level among different demographic, social, and economic groups of taxpayers, in order to identify which features influence tax morale.
3. Finding the determinants and other factors (if any) that influence tax morale in the Indonesian context, other than those that have been studied in tax morale and tax compliance studies thus far.
4. Providing policy recommendations related to tax morale of individual taxpayers in Indonesia based on the findings of this research, to be used as a dynamic base for formulating Indonesian tax administration policy settings to increase tax compliance.

1.8. Research Questions

To reach the objectives of Section 1.7. this research addresses the following questions:

1. What is the current level of tax morale, or the willingness to pay tax, of individual taxpayers in Indonesia?
2. What demographic, social, as well as economic characteristics differentiate tax morale among individual taxpayers in Indonesia?
3. Which determinants from the theory most influence the tax morale of individual taxpayers in Indonesia? Which are most influential in determining voluntary tax compliance?
4. What are the most appropriate policies for the DGT and the Government of Indonesia (GOI) to use to increase tax compliance effectively?

1.9. Significance of the Research

Indonesia has a vast population of 240 million people, and more than 100 million of these are in the labour force (Central Bureau of Statistic 2013). Currently, there are around 25 million registered taxpayers, of which 88% are individual taxpayers.³ Given the low contribution of individual taxpayers to tax revenue,⁴ research on tax morale is timely in order to formulate policies to increase individual taxpayers' morale level. This would allow willingness to observe tax regulations and pay taxes

³ Table 1.3.

⁴ Table 1.4.

to improve, consequently raising voluntary tax compliance. The DGT's limited resources could then be allocated to more productive uses, such as audit of delinquent taxpayers. This research contributes to the body of knowledge on tax morale in developing country contexts, often characterised by vast populations and substantial non-compliance. Specifically, this research contributes to the theory, body of knowledge and practice in taxation and tax studies as follows:

1. To extend the tax morale literature by providing an in-depth study of tax morale in a developing country with a long history of SAS implementation.
2. To add to the body of knowledge of tax morale by applying a mixed methodology approach using a combination of stratified random sampling (quantitative), and interviews of different types of participants (qualitative), which is expected to provide more reliable and valid findings about tax morale.
3. To conduct a comprehensive tax morale research in Indonesia by conducting research in the three largest cities in the country with different characteristics.
4. To provide the government and tax authority with information on tax morale in Indonesia, in order for them to better formulate policies to increase individual taxpayers' compliance.

1.10. Research Design

The research is conducted using a mixed methodology approach, combining quantitative and qualitative measures. Mixed methodology is a research design that utilises more than one method or strategy (McKerchar 2010, 118; Tashakkori and Teddlie 1998, 19). In this research, a survey (quantitative) is conducted, with individual taxpayer sample respondents from the three largest cities in Indonesia: Jakarta, Surabaya and Medan. The survey is then combined with interviews (qualitative). Quantitative measures are used to investigate the tax morale of individual taxpayers, and its relationship to other variables. A qualitative approach is conducted simultaneously, to explore the dynamics of perception of tax and other related issues as viewed by taxpayers and tax consultants, in order to further explain tax morale in the Indonesian case. The findings obtained from both approaches are corroborated to achieve the research objectives in Section 1.7. and to answer the research questions in Section 1.8.

1.11. Key Terminology

1.11.1. Tax Morale

There is no exact definition of tax morale (sometimes called tax moral or tax mentality) (Devos 2014); however, most studies define tax morale as 'intrinsic

motivation to pay tax' or 'willingness to pay tax' (Pope and Mohdali 2010, 568; Alm, Martinez-Vazque and Torgler 2006; Torgler 2004a, 2004b; Tekeli 2011). It is worth noting that tax morale is characterised as 'all non-rational factors and motivations that strongly affect individual's voluntary compliance with laws' (Kornhauser 2007, 602–3) and 'non-pecuniary motivations for tax compliance' (Luttmer and Singhal 2014, 151). Braithwaite and Ahmad (2005, 524) interpret tax morale as the 'internalised willingness to pay tax'. Despite the differences, we can draw on similarities in these definitions to state that tax morale is about internal 'willingness' and 'motivation', and is not affected by 'pecuniary factors', but by 'non-rational aspects and motivations'. This research uses these definitions and characteristics, highlighting the 'willingness or internal motivation of taxpayers to pay tax'.

1.11.2. Tax Compliance

Tax compliance as derived from the literature is a condition in which taxpayers meet their tax obligations, be it by following a set of laws and regulations or in accordance with court decisions. Roth, Scholz and Witte (1989, 2) define it as the condition in which 'the taxpayers file the required tax returns in time and tax liabilities are accurately reported in the tax return, in accordance with regulations and court decisions which are valid when the return is filed'. As stipulated by laws, regulations and court decisions, tax compliance does not only cover paying tax, but also other administrative obligations. In this fuller context, Ohms, Olesen and Khin-Carter (2015, 428) define compliance as 'actions of a taxpayer in engaging in the set of statutory obligations cast upon them in respect of their annual total tax liability to register, record and report, return and enable assessment, pay and participate in any post-assessment adjustment process'.

1.11.3. Tax Evasion

Webley (2004) refers to tax evasion as an illegal action that involves intentional, illegal measures to reduce payment of tax. Evasion includes 'underreporting incomes; by overstating deductions, exemptions, or credits; by failing to file appropriate tax returns; or even by engaging in barter' (Alm 2011, 55). Tax evasion is different from tax avoidance, with the latter being within the legal rules, while the former goes against the rule of law (Webley 2004, 95). Evasion results in less tax paid than should be, in accordance with either the letter or the spirit of the law (Sawyer 1996, 484–5).

1.11.4. Registered Taxpayer

A registered taxpayer is an individual or entity that has registered in the DGT system for income tax and other administration purposes. Individual taxpayers are required to register with the DGT by applying to the tax office and receiving a 'Nomor Pokok Wajib Pajak' (NPWP) or Tax Identification Number after generating income above a threshold within a financial year. Individuals are eligible to register even if their income has not yet reached the threshold. Registered taxpayers are required to file annual income tax reports (and other periodic income tax returns where applicable), containing the consolidation of income earned during a financial year.

1.12. Structure of the Thesis

This thesis contains eight chapters. Chapter 1 contains an introduction and overview of the thesis, presents background to the research, the rationale of the study and the research questions and objectives, and offers a brief explanation of the research methodology. Chapter 2 contains the tax morale literature review, including its relationship with tax compliance, the determinants of tax morale based on previous studies, and tax morale studies conducted in Indonesia. Chapter 3 discusses taxation in Indonesia. As this research investigates tax morale, which is linked to the perception of tax, the history of tax in Indonesia, including the reforms, is detailed. This chapter also contains an introduction to the Indonesian tax system—current taxes, the tax authority and the role of taxes in the national fiscal position. Chapter 4 sets out the research methodology, including the paradigm on which it is based. This chapter also describes the methods used in this research, namely the survey and interviews, including the steps conducted prior to and during the data collection process. Chapter 5 analyses the (quantitative) survey data, while Chapter 6 analyses the qualitative data, and presents findings based on the interviews. Chapter 7 discusses the overall findings, with reference to the theory and literature, and the Indonesian experience. Chapter 8 concludes the thesis and offers recommendations based on the findings of the research.

1.13. Chapter Summary

This chapter presents an overview of the thesis by setting out the background of the research, the aims of the research, the research questions, the importance of the research, the research design, key terminologies and the significance of the research. Each of these components is explored and explained in greater detail in subsequent chapters.

CHAPTER 2

LITERATURE REVIEW

2.1. Introduction

This chapter undertakes a comprehensive exploration of the current tax morale literature. It begins with tax compliance, including which issues have been studied and why, and how compliance has been conceptualised. A discussion of tax compliance is imperative when studying tax morale, as it is the ultimate objective of increasing taxpayer morale. The tax compliance section presents several models, including one that includes tax morale. Discussion then turns to tax morale and its determinants. Finally, studies of tax morale in Indonesia are covered, followed by the summary of the chapter.

2.2. Tax Compliance

To generate revenue, tax administrators generally focus on improving taxpayers' compliance. The definition of tax compliance by Roth, Scholz and Witte (1989, 2)—'the situation where the taxpayers file the required tax returns in time and tax liabilities are accurately reported in the tax return, in accordance with regulations and court decisions which are valid when the return is filed'—is considered to capture the substance of tax compliance, as it includes both intentional and unintentional non-compliance (Fischer, Wartick and Mark 1992, 6). Intentional non-compliance refers to a situation where a taxpayer deliberately decides not to fulfil tax obligations in accordance with the law, despite fully understanding the regulations (McKerchar 2003), while unintentional non-compliance is a situation where a taxpayer is not compliant but this is unintended; for example, if the taxpayer is not aware of the obligation (Devos 2014, 5).

McKerchar and Evans (2009, 172–3) reformulate the interpretation of compliance as the fulfilment of practices by taxpayers in registering, reporting, filing tax returns, paying tax due and maintaining all records as stipulated by law. From a different perspective, Brown and Mazur (2003, 2) differentiate tax compliance into three elements: payment compliance, filing compliance and reporting compliance. While noting that there is no universal definition of tax compliance, Ohms et al. (2015, 428) offer their own definition—compliance is the 'actions of a taxpayer in engaging in the set of statutory obligations cast upon them in respect of their annual total tax liability to register, record and report, return and enable assessment, pay and participate in any post-assessment adjustment process'.

While obligations may be different in different tax administrations in accordance with the legal rulings in force, the above definitions explain a comprehensive actions of taxpayer in performing their tax liabilities including with court decisions when disputes occur. Tax compliance as an action is an output, whether it is by enforcement of tax authority or voluntary by the taxpayer. Particularly, voluntarily compliant taxpayers are crucial in a tax administration that adopts the SAS, as they are the parties responsible for most tax-related operations, including calculation of total income, tax-free income and taxable income (Barr, James and Prest 1977, 3–4). Taxpayer compliance is even more relevant in situations in which the tax authority has limited resources relative to the number of taxpayers and hard-to-tax taxpayers, such as those in the underground economy (International Monetary Fund 2011, 8).

Kidder and McEwen (1989, 50–5) list a comprehensive typology of tax compliance from the US tax system context, which consists of eight types of compliance:

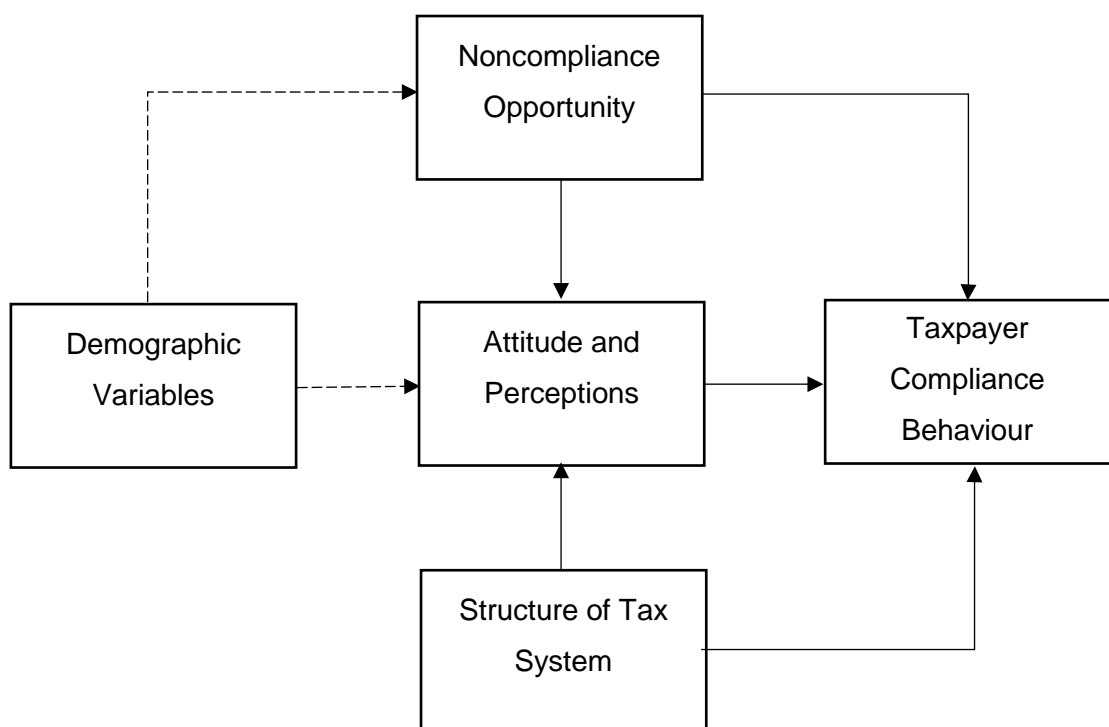
- 1) defensive compliance, in which a taxpayer complies due to concerns of being penalised by the tax authority
- 2) structured compliance, in which compliance is met due to structure that leads to a reduced chance of non-compliance, for example, pay-as-you-earn schemes
- 3) self-serving compliance, in which a taxpayer has sufficient resources or capabilities to comply with tax rules, including for his/her own interest
- 4) habitual compliance, in which compliance is a result of habit built over time
- 5) loyal compliance, in which taxpayers feel a moral obligation to comply, and experience guilt if they do not comply fully
- 6) social compliance, in which compliance occurs due to the influence of others, such as family and friends
- 7) brokered compliance, in which compliance occurs with the assistance of other parties, such as consultants
- 8) lazy compliance, in which taxpayers 'take the easy way out' in meeting their obligations, due to limited knowledge on other options.

This typology of taxpayers is of practical use for the tax authority in formulating appropriate policies based on the drivers of why taxpayers do or do not comply.

Compliance is influenced by numerous factors. For Niemiowski, Baldwin and Wearing (2000, 200), traditional factors include 'legal' tax avoidance, political

culture, opportunity, costs, tax mentality, attitude and norms, as well as perceived mistreatment by a tax department, effectiveness of sanctions and appeals to conscience, beliefs, motives, enforcement techniques and social impact. In their review of the US context, Jackson and Milliron (1986) listed 14 key variables: age, sex, education, income level, income source, occupation, peer influence, ethics, fairness, complexity, IRS contact tax authority, probability of detection, sanctions and tax rates. This list was categorised by Fischer, Wartick and Mark (1992, 4) into four broad groups: 1) demographic (age, sex), 2) avoidance opportunity (education, income level, income source and occupation), 3) attitudinal (ethics, fairness, peer influence) and 4) structural (complexity, IRS contact, sanctions, detection probability and tax rates). Fischer, Wartick and Mark (1992) built an expanded taxpayer compliance model that incorporated these four groups and the relationships among them, which are shown below (Figure 2.1). They model taxpayer compliance as influenced by non-compliance opportunities, attitudinal factors and structural factors (economic deterrents), which influence each other to form a dynamic relationship influencing taxpayer compliance behaviour.

Figure 2.1: Expanded Model of Taxpayer Compliance



Source: Fischer, Wartick and Mark (1992, 4).

A number of further studies have been based on the Fischer, Wartick and Mark (1992) model, including Andreoni, Erard and Feinstein (1998), Houston and Tran (2001) and Richardson (2006). Chau and Leung (1990) proposed a modified model

in which culture is incorporated in the form of social norms and ethical values that also have an impact on the attitude and perceptions of taxpayers. Mohdali (2013) and Torgler (2007) both incorporated religion as having an impact on taxpayer attitude towards complying with tax obligation—a variable that the Jackson and Milliron (1986) list and the modified Fischer, Wartick and Mark (1992) model did not explicitly consider.

There are numerous variables that might affect compliance, and no unanimous agreement on these (Devos 2014, 14). It should be noted, however, that Jackson and Milliron (1986, 143) recognised other variables besides the 14 on their list, including ‘perceived personal control, the cost of compliance, the influence of tax preparers, the geographic location and mobility of the taxpayers, and finally the manner in which taxpayers frame their compliance decisions’.

2.3. Models of Tax Compliance

To help encourage compliance, it is in the interest of researchers and tax authorities to investigate the driving factors causing taxpayers to want or not want to pay their tax. The trend of adopting SAS means voluntary compliance is paramount in maximising revenue in many countries. Consequently, the need for tax compliance studies has accelerated and expanded to different disciplines, including economics, accounting, law and social policy (Lamb 2005, 4), as well as psychology (Janne and Trivedi 2003; Eriksen and Fallan 1996; Kirchler and Wahl 2010).

Tax compliance studies are often divided into two main groups: those based on the economic deterrence model and those based on the fiscal-psychological model (Riahi-Belkaoui 2004, 136; Cuccia 1994, 82). However, studies are sometimes further divided into three groups, based on a general deterrence model, a psychological model and a fiscal-psychological model (McKerchar and Evans 2009, 175–9; Mohdali 2013, 19–29; McKerchar 2003, 37–63). While there is conformity in the deterrence model, the fiscal-psychological model combines a psychological model with interaction between taxpayers and the tax administration, as well as institutions related to fiscal policy. In this section, in order to present a deeper examination of tax compliance studies, the three-way division of studies is used.

2.3.1. Economic Deterrence Models

The work of Becker (1968) on the economics of crime is often cited as the basis of the deterrence model of tax compliance (for example, Pope and McKerchar 2011). Becker suggested that the threat of punishment was instrumental in reducing illegal behaviour, and encompassed a wide range of violations, including traffic violations,

vandalism, assault, robbery, murder and tax evasion (Becker 1968, 170–1). His ideas were adapted by Allingham and Sandmo (1972) in their theoretical analysis on income tax evasion, in which it is conceived that taxpayers' decisions to evade tax are based on their calculation of whether they would be financially better off to do so—in the language of economics, they seek to maximise their utility (Alm, Sanchez and De Juan 1995; McKerchar and Evans 2009, 175). The variables used to model compliance in Allingham and Sandmo (1972) were tax rate, probability of detection and penalty. Using these variables, there were three outcomes for taxpayers, based on their decision. First, taxpayers pay their tax as required by law, and receive true income minus tax. Second, they evade or underreport payable tax, do not get audited, and are better off financially. Third, they evade or underreport payable tax, are audited and penalised, and end up worse off financially. The model predicts decisions based on an assumption of a fully rational taxpayer, who decides whether to evade paying tax under tax audit uncertainty.

This model emphasises deterrence, and hence is focused on tax evasion or non-compliance. It is often cited as the pioneer work on tax compliance using an economic deterrence model (Alm, Jackson and McKee 1992; Li 2010, 108; Torgler 2007, 64), and has been the base for much further research, including Kolm (1973), Christiansen (1980), Spicer and Thomas (1982), Chang, Nichols and Schultz (1987), and Scotchmer and Slemrod (1989). At almost the same time, a similar model based on economic utility was built by Srinivasan (1972), who argued that the level of tax evasion would increase if the taxpayer's income increased. Yitzhaki (1974) suggested that the penalty rate should be imposed on the evaded tax instead of on the undeclared tax, a measure considered more realistic than those of Allingham and Sandmo and Srinivasan (Devos 2014, 17). Models have been developed with additional variables, including social stigma, information uncertainty, labour supply and economic choices such as allocation of work time and high expense employment (Batrancea et al. 2012, 19–20). The economic deterrence model is still in use; for example, Aرسال (2007), who incorporated the capacity of auditors in Indonesia, and Atawodi and Ojeka (2012), whose research on small and medium-sized taxpayer compliance in Tanzania concluded that the tax rate was the most instrumental factor in compliance.

The economic deterrence model has also been subject to criticism. First, in only incorporating financial factors and considering taxpayers as 'fully rational utility maximisers', it was considered too simplistic (Batrancea et al. 2012)—it overlooks human behavioural elements, and thus only explains a small fraction of the decision

(Graetz, Reinganum and Wilde 1986; Webley 1991; Fischer, Wartick and Mark 1992). Further, Murphy (2008) and Torgler and Murphy (2004) found that the likelihood of being penalised has a small impact on taxpayers' compliance. Second, the model did not capture taxpayer perception of audit probability well—many taxpayers overestimated the probability of audit and overpredicted the penalty (Alm, McClelland and Schulze 1992; Cuccia 1994). Third, it was argued that it failed to explain the true level of compliance behaviour—the economic deterrence factors did not suffice to explain taxpayer compliance behaviour; if these factors were the only determinants of compliance, the compliance level would be very low (Elffers, Weigel and Hessing 1987; Cullis, Jones and Savoia 2012). In reality, compliance data show that many people comply despite the low probability of audit and small penalty (Alm 1991; Alm, Sanchez and De Juan 1995). Fourth, many studies using the deterrence variables to explain compliance did not converge to a firm conclusion, with a large number of predictions showing different results (Batrancea et al. 2012). For example, Mohdali (2013) suggested that the tax audit probability results in different impacts depending on the type of taxpayer. Fifth, deterrence-based measures might backfire in the long term, as the relationship between the tax authority and taxpayers deteriorates, as argued by Murphy (2008) in her analysis comparing deterrent measures and accommodative measures. Sixth, Murphy (2008) also argued that a deterrence system is costly to sustain, so nurturing trust in taxpayers is a preferable way to encourage compliance.

Alm (1991) explored the economic deterrence model in the United States using experiments, and concluded that economic variables did influence taxpayers' reporting decisions. However, he suggested that factors beyond this maximum utility model needed to be incorporated to better explain taxpayer decisions, including public goods provided by the government as a result of the tax paid and social norms around compliance, that is, beliefs around whether others comply and how the taxpayer is treated by the tax authority relative to other taxpayers (Alm 1991, 591). Further, using laboratory experiments, Alm, Jackson, and McKee (1992) and Alm, Bahl and Murray (1993) examined the responses of individuals with regard to compliance. The results demonstrated that a more complete set of variables needed to be incorporated to explain tax compliance behaviour more comprehensively. Slemrod (2007, 45) suggested a need to consider individual moral values.

Along with these criticisms, there has been a growing number of studies conducted to improve explanations of tax compliance that depart from the economic deterrent model, including the emergence of the psychological model, which focuses on

behavioural factors. One substantial difference between the two models is that while the deterrent model focuses on why people evade tax and how to deal with this, the psychological-behavioural model concentrates more on why people pay tax, and hence how to induce people to be more willing to comply—sometimes termed a ‘carrot for compliance’ approach rather than a ‘stick for non-compliance’ (Slemrod 1992, 7).

The fiscal-psychological model further incorporates taxpayer relationships within the tax system, including with the government, tax authority and other parties, such as tax advisers. Pope and McKerchar (2011, 591) noted four factors that influence a taxpayer’s decision to comply: perceived chance to evasion, role of tax advisers, level of trust in administration and the government and the formation of attitudes. The next sections describe in detail the psychological models, beginning with an introduction to the socio-psychological model and later the fiscal-psychological model.

2.3.2. Socio-Psychological Models

Socio-psychological study refers to the systemic study of behaviour and ‘how we respond to others and they to us, and in general how we are affected by social situations’ (Sears et al. 1988, 2). Allport (1985, 3) suggested that social psychology is ‘an attempt to understand and explain how the thought, feeling, and behaviour of individuals are influenced by the actual, imagined, or implied presence of others’. Socio-psychology focuses on individuals as humans, who have sets of traits, beliefs and attitudes, as well as perceptions derived from interactions with other humans or the community. In the tax compliance context, the socio-psychological model differs from the deterrent model in that it believes ‘individuals are not simply independent, selfish and utility maximisers but they also interact with other human beings according to differing attitudes, beliefs, norms and roles’ (James and Alley 2002, 33). Instead of making decisions independently based on the calculation of economic loss and benefit, it is believed that individuals make decisions based on a unique intention as a human, which stems both from inside individuals and from the influence of others surrounding them (Ashby, Webley and Haslam 2009, 217).

The key element of social norms (or social control, as norms control or influence behaviour in the community) is conformity—‘the processes through which an individual accepts (or complies with) the group view’ (Martin and Hewstone 2003, 348). Sears et al. (1988, 358–9) suggested that an individual is inclined to conform for two reasons. First, *informational influence*, where actions taken by other people

provide helpful information that can be copied by the individual to receive desirable results. Second, *normative influence*, where the individual seeks approval from others in order to be accepted and treated well. Similarly, Elster (2007, 354) argued that social norms provide warnings to violators, in two forms, 'either direct punishment or by the loss of opportunity caused by social ostracism'.

Bobek, Roberts and Sweeney (2007, 61) showed that there were differences across countries that influence tax compliance intentions. They also believed that the social norms of people considered important to the individuals had the greatest impact on intentions. This idea was supported by Alm and McKee (2004), who further believed that social norms had a determining role in tax compliance.

There are several widely recognised socio-psychological approaches in relation to tax compliance, including compositional modelling (which includes the theory of reasoned action and perceived behaviour), attribution theory, prospect theory and equity theory (McKerchar and Evans 2009; Mohdali 2013). Each of these is briefly explained below.

The theory of reasoned action (TRA) emphasises that the main driving factor of an action or behaviour is intention. Ajzen and Fishbein (1980, 6–8) used the term 'reasoned action' as they believe that an individual taking action has awareness of the action, including its implications. They believe that intention is determined by two factors: individual attitude and social norms. For individual attitude, the more positive an individual's attitude towards an action, the more likely he or she is to do it. Social norms refer to the individual's perception of the view of other people important to the individual (referents) regarding the action—if the individual perceives that the referents agree with the action, they are more likely to perform the action.

TRA was later expanded to the theory of perceived behaviour (TPB), which also includes consideration of the individual's perception of whether he or she can perform an action or not (Ajzen 1991, 184). Crucially, the perception of whether the action can be performed is distinct from whether the action can be performed by the individual. Fishbein and Ajzen (2010, 21) add another factor, actual control, defined as 'the relevant skills and abilities as well as barriers to, or facilitators of behavioural performance'. Therefore, besides intention, which is determined by individual attitude and social norm, perceived control and self-efficacy play important roles in behaviour. This notion is instrumental in tax authority policy and measures to encourage tax compliance or deter tax evasion.

Several previous studies use TRA and TPB approaches in tax compliance research. Langham, Paulsen and Hartel (2012) use the TPB approach to investigate the compliance of 234 business taxpayers in Australia. They proposed three additional variables—taxpayer identity, perception of cooperation by tax office and the awareness of the law. While the first two factors (taxpayer identity and perception by the tax office) are considered to have a direct influence on intention, awareness of the law has a direct impact on behaviour, and hence compliance. They suggested that social norms also have an influence on the decision, something that the tax authority and government need to be aware of in promoting taxpayer compliance.

In ‘attribution theory’, the focus is on the causal relation between the relevant factors. Kelley (1973) encompassed two elements: self-perception and social perception, where self-perception concerns an individual’s perception of himself (herself), including the individual’s own ability, feelings and attractiveness. Attribution theory considers whether an action is the result of an individual’s traits or a response to the surrounding social environment (Kelley 1973, 107). An Australian example of this model in tax compliance is that of Wenzel (2005), who investigated 1,036 respondents through a panel analysis survey on tax ethics—personal belief about compliance and non-compliance—social norms and tax compliance. His findings suggest that not only do ethics and social norms influence compliance, but compliance influences tax ethics and social norms—‘with greater compliance leading to more ethical beliefs and more ethical beliefs leading to more compliance’ (Wenzel 2005, 505).

Prospect theory is concerned with individuals’ decisions on assessing exposing risks when the action involves potential gains or losses (Kahneman and Tversky 1979). In the tax compliance context, Smith and Kinsey (1987) conducted a study that predicted the taxpayers who expect gains are inclined to comply with tax rules, while those who expect loss are inclined to evasion. Conversely, inequity theory involves a comparison between perceived individual contributions (inputs) and rewards (outputs), as well as a comparison of other parties’ inputs and outputs (Thibaut, Friedland and Walker 1974). Inputs take a wide range of forms, such as time, commitment and hard work, while outputs include monetary rewards (salary), acknowledgement and reputation, as well as benefits in the form of public goods or services (in the context of taxpayers and the government). Spicer and Becker (1980) conducted an experiment of 57 students at the University of Colorado and found that those who considered an inequity in the imposition of tax rate were inclined to engage in tax evasion. It is also suggested that those who perceive an inequity

attempt to adjust their contributions to a level commensurate with perceived rewards. In the tax compliance context, tax evasion may occur as an adjustment to a perceived lack of benefits from the government (Spicer and Becker 1980, 172). Additionally, Alm et al. (2012) found that benefits in the form of tax credits given after retirement to taxpayers induced tax filing, implying that the prospect of receiving benefits would encourage compliance.

McKerchar and Evans (2009) and Mohdali (2013) class prospect theory and inequity theory as social-psychological models. In this thesis, however, prospect theory is considered comparable to the maximum utility model (see Section 2.3.1), in that it involves assessing economic costs and benefits to make decisions in relation to tax obligations. Conversely, inequity theory also involves elements of the tax system, such as the tax rate and benefits received from the government; consequently, it is considered somewhat fiscal-psychological. The notion of 'inequity' is discussed further in the next section on fiscal-psychological models, as 'fairness'.

2.3.3. Fiscal-Psychological Models

Fiscal-psychological models integrate the deterrence and socio-psychological models (Hasseldine and Bebbington 1991, 304; Pope and McKerchar 2011, 588; McKerchar and Evans 2009, 177), as neither of these models was able to fully explain the decisions of taxpayers with regard to compliance. It builds on another stream of research that acknowledges the role of the government, the tax authority and the tax system in taxpayers' compliance behaviour. The dynamic interaction of the tax authority and the taxpayer has been found to influence taxpayer behaviour—in the fiscal-psychological model, the more positive the attitude taxpayers have towards tax, the more compliant they are likely to be with regard to their tax obligations (Schmolder 1970, cited in McKerchar and Evans 2009, 177; Slemrod 1992, 7).

Taxpayers' attitude is influenced by various fiscal factors. The tax rate, audit, and fines, for example, are considered determinants of the tax climate (Alm, Kirchler and Muehlbacher 2012, 136), while the rigidity of assessment also influences the compliance level (Strumpel 1969). However, it is acknowledged that impacts vary depending on the type of taxpayer and situation (Alm, Kirchler and Muehlbacher 2012, 143). Although these factors are the same as those in the deterrence model, the channel to behaviour is different. In the deterrence model, the focus is on the economic loss or benefit—whether an individual will be financially better or worse off. In the fiscal-psychological model, conversely, the focus is on the attitude of

taxpayers affected by such elements. McKerchar and Evans (2009, 177) note that 'tax mentality, feelings of tax tension, and tax morale' are the dominant elements that shape taxpayer attitude. Correspondingly, Devos (2014, 14) considers that deterrence, fairness and tax morale have the predominant role and greatest impact on taxpayer compliance and behaviour. According to this model, attempts to encourage positive attitude are important in efforts to improve compliance.

In slippery slope framework as suggested by Kirchler, Hoelzl and Wahl (2008), taxpayers respond to the prevalent enforcement and tax climate, which lies between two ends, an 'antagonistic climate' and a 'synergistic climate' (Kirchler, Hoelzl and Wahl 2008, 211). In an antagonistic climate, the relationship between the tax authority and taxpayers is that of 'cops and robbers' (Kirchler, Hoelzl and Wahl 2008, 212) —the tax authority views taxpayers as needing to be monitored, based on the perception that they will always try to escape from their obligations; taxpayers feel oppressed by the tax authority because of this treatment and reflected as their 'motivational pasture' towards tax authority (Braithwaite 2003, 34). Conversely, in a synergistic climate, the tax authority is perceived as caring and as providing a service to the community, and the relationship between the tax authority and taxpayers is one of 'service and client' (Kirchler, Hoelzl and Wahl 2008, 211).

Based on this idea, Kirchler, Hoelzl and Wahl (2008) built a framework that includes three variables: power of authorities, taxpayer trust in authorities and the dynamic interaction between the tax authority and taxpayers. While power of authorities refers to the perception of taxpayers about the ability of the tax authority to enforce the law, trust in authorities refers to the perception of the community about whether the tax authority is working for the public benefit. They suggest that two continuums of power and trust produce either *enforced compliance* or *voluntary compliance*, and that the level of compliance is determined by a combination of these factors. The ideal position is high levels of both power of authorities and trust in authorities, which results in a low level of evasion and a high level of voluntary compliance. They acknowledge that this ideal stance is in reality unattainable, so there is a dynamic interaction between the tax authority and taxpayers based on the perception of power and trust. An example of dynamic interaction is the case where a decrease in trust occurs, potentially causing a decrease of perceived power, resulting in an inclination to non-compliance. Once perceived power and trust fall beyond a certain level, compliance will drop considerably (Prinz, Muehlbacher and Kirchler 2014, 21; Kirchler, Hoelzl and Wahl 2008, 211–4).

Equity (or more broadly, fairness) is another factor linked to tax compliance (Mason and Calvin 1984). Fairness in the tax context refers to perceptions of treatment in the tax system by authorities, the latter including the tax authority and the government, both directly towards the taxpayer and in comparison with other taxpayers (Kirchler, Kogler and Muehlbacher 2014, 88). The perception of equal treatment (or fairness) has a positive relationship with tax compliance (Spicer and Becker 1980; Schweitzer and Gibson 2008; Slemrod 2007); that is, the more taxpayers perceive the tax system is fair to them and in comparison with others, the more inclined they are to comply with tax rules. Fairness in the tax context also includes the 'output' that taxpayers receive in return for the taxes they pay or 'input', such as public goods and services. When the output is perceived to be less than the input, tax is perceived as unfair. Webley (2004) and Bazart and Bonein (2012) refer to the relationship between authorities and taxpayers as a 'vertical relationship', whereas the relationship among taxpayers is a 'horizontal relationship'. They argue that taxpayers will retaliate if they deem the government is unfair, or if they believe other taxpayers evade (Bazart and Bonein 2012, 2; Webley 2004, 104–5).

Another variable affecting tax compliance in fiscal psychology is tax knowledge. Eriksen and Fallan (1996, 399) suggested that tax knowledge is important in improving tax attitude and the perception of fairness of the tax system. However, studies involving tax knowledge and tax compliance have found differing results. Loo and Ho (2005) showed that knowledge of tax-related matters is vital for taxpayers to comply in the SAS in Malaysia (Loo and Ho 2005). Knowledge on the uses and benefits of tax is also believed to increase the level of commitment—education about social responsibility encourages a positive tax attitude (Kirchler, Hoelzl and Wahl 2008, 216). However, Wärneryd and Walerud (1982, 209) found from telephone interview data of 426 male adults in Sweden that tax knowledge seemed to have negative effect on tax compliance, that the higher knowledge of the taxpayers was a statistically significant predictor of tax planning.

Attitude to tax is also associated with the provision of public goods and services—taxpayers expect to have the vote and to receive benefits from the tax they pay. If public goods and services are provided, compliance will increase (Kirchler 2007, 38). Alm, Jackson and McKee (1992, 111) conducted an experiment with 15 university students that involved the estimation of public goods' impact on tax compliance; however, the relationship between provision of public goods and compliance was small, revealing a tendency for 'free riders', who benefit from the goods but do not contribute. These results cannot be considered conclusive,

because of limitations in the experimental design including the small number of participants and the involvement of non-tax-paying participants. Further, Alm, Jackson and McKee (1993, 287–8) found that taxpayers tend to be more willing to pay tax if they perceive they can participate in the decision on how and where the taxes will be spent, especially on widely supported programmes. This relationship between the taxpayer and the government providing goods and services is frequently dubbed the ‘social contract’, and frames the voluntary compliance of individuals in their tax obligations (Bird, Martinez-Vazque and Torgler 2008; Feld and Frey 2002, 2007).

2.4. Tax Morale

From the literature on tax compliance (Section 2.3), there is broad acknowledgement that taxpayer compliance is affected by non-economic variables, ignored in the maximum utility (economic) model. When tax compliance is considered a moral issue, taxpayers tend to comply ‘regardless of the tax situation’ (Reckers, Sanders and Roark 1994, 833). Tax morale is one element discussed in the fiscal-psychological research believed to have an impact on taxpayers’ attitude towards tax, and consequently tax compliance (Devos 2014; Torgler 2007).

The term ‘tax morale’ can be traced back more than 50 years (Kirchler 2007, 99). When discussing tax morale, the discussion focuses more on ‘why people pay tax’ than on ‘why taxpayers evade tax’, frequently addressed by the deterrence or other criminal-based models (Pope and McKerchar 2011, 589; Alm and Torgler 2011, 637). In brief, there are attitudinal or ‘non-rational’ aspects that influence people to comply, now known as ‘tax morale’.

2.4.1. Tax Morale Definitions

The term taxpayer morale was used in 1944 when Lasser wrote about a tax debate in the United States (Lasser 1944, 62). Later, Kirchler (2007, 99) stated that the term tax morale was coined by Schmolders in 1960, who defined the term as the ‘attitude of a group or the whole population of taxpayers regarding the question of accomplishment or neglect of their tax duties; it is anchored in citizens’ tax mentality and in their consciousness to be citizens, which is the base of their inner acceptance of tax duties and acknowledgment of the sovereignty of the state’. The terms ‘tax ethics’ or ‘tax mentality’ are sometimes also used (Torgler and Murphy 2004; Morelo and Pujol 2012, 151). A commonly accepted definition is ‘intrinsic motivation to pay tax’ (Pope and Mohdali 2010, 568), while Braithwaite and Ahmed (2005, 524) prefer ‘internalised willingness to pay tax’. For Tekeli (2011, 8), tax morale is about an

individual's 'willingness to pay tax'. In addition, Torgler and Murphy refer to tax morale as the 'moral principles or values held by individuals about paying their taxes' (Torgler and Murphy 2004, 301; Pope and Mohdali 2010, 568).

In a more complete characterisation, Kornhauser states that tax morale is 'a collective name for all non-rational factors and motivations—such as social norms, personal values and various cognitive process—that strongly affect individual's voluntary compliance with laws' (Kornhauser 2007, 602–3). In a broader sense, Luttmer and Singhal (2014, 151) define tax morale as 'non-pecuniary motivations for tax compliance as well as factors that fall outside the standard, expected utility framework', emphasising the difference between tax morale and utility in the economic sense, although they acknowledge that elements of loss and benefits may subsist—compliance induced by a high level of tax morale can influence taxpayer's reputation, and eventually benefit them economically (Luttmer and Singhal 2014, 151).

Besides personal value, tax morale is also related to citizens' duty (Orviska and Hudson 2003), while Frey and Torgler (2007) associate it with the 'belief in contributing to society by paying taxes'. Mohdali (2013, 31–2) argues that 'commitment to the responsibilities of citizenship and respect for the law', as argued by Graetz and Wilde (1985, 358), may be the most suitable definition to explain tax morale. Torgler and Murphy (2004) linked tax morale to tax ethics, as defined by Song and Yarbrough (1978), as 'the norms of behaviour governing citizens as taxpayers in their relationship with government'.

Pope and Mc KERCHAR (2011) point out that tax morale is relevant where enforcement is not present—tax morale is most evident when taxpayers are not forced to comply. This is supported by the OECD (2013, 1) in their definition of tax morale—'(taxpayers) motivation to pay their taxes—other than their legal obligation to do so'. Tax morale is obscured once legal consequences are enforced—tax compliance may be high despite a low level of tax morale in situations where the tax authority is able to exercise power in preventing tax fraud (María-Dolores, Alarcón and Garre 2010, 858).

From the various definitions above, we gain an understanding that tax morale relates to the attitude inside individuals that motivates them to pay tax—it is unrelated to economic or financial drive, but to the values and moral principles held by the person. It is also closely connected to the relationship with authorities, including the government and tax administrator, as well as the understanding that

tax collections contribute to society. This stands in contrast to the economic deterrent model, where self-interest and the direct effects on finances drives the decision to evade or not.

To clarify and summarise, tax morale is:

- an attitude driven from inside the taxpayer
- related to the values embraced by the taxpayer
- not caused by economic or pecuniary factors
- driven by awareness about public interest rather than self-interest
- voluntary, that is, not caused by enforcement.

It should be noted that the above features may not be fully independent of economic and enforcement factors, which may have an underlying influence not directly related to the level of tax morale. For example, the inclination to comply may be driven by the expectation of a better personal and business network, which leads to higher business profits and development. Enforcement by the tax authority might lead to a deterioration of taxpayer reputation, and hence business prospects. The difference between the two is that, when discussing tax morale, attitude is central, despite material economic rewards. It is important to tightly demarcate tax morale, to allow for clear and focused studies on tax morale and compliance, especially as economic factors may still be included in tax morale studies. It is frequently acknowledged that the term tax morale is often treated as a 'black box', without precise knowledge of its contents (Kornhauser 2007; McKerchar, Bloomquist and Pope 2013).

2.4.2. Tax Morale's Influence on Tax Compliance

It is important to acknowledge at the onset of tax morale discussions that, despite the myriad literature, to date, there is no consensus about the exact or concrete determinants of tax morale (Kornhauser 2007, 603; McKerchar and Evans 2009, 178). Tax morale as a concept is often not clearly defined, and there are various measurements and explanations as to how it works (Kirchler 2007, 100), leading to it being described as a 'puzzle' (McKerchar, Bloomquist and Pope 2013; Kornhauser 2007).

Pope and McKerchar (2011, 596) list factors they regard as the key influences on tax morale based on previous literature, which includes individual attitude, family and friends, religious beliefs, society, government policies, policies on taxation (including rates) and the overall tax system. Tax morale is believed to be influenced by attitudinal factors such as norms (which incorporate culture) and tax knowledge

or the use of a professional adviser, which is affected by taxpayer risk preferences. Pope and McKerchar (2011, 598) note that the tax system incorporates notions of democracy and citizenship. Torgler (2007) states that there are three key factors to understanding tax morale: moral rules and sentiments, fairness, and the relationship between taxpayers and the government. He studied tax morale in a wide range of countries, such as Switzerland, the United States, Spain, Belgium, Canada, as well as other Asian and Latin America countries, and found that socio-demographic and socio-economic factors including age, gender, education, marital status, employment, economic situation and religiosity shape tax morale. He added that trust in government, the legal system, the president and public officials, as well as national pride, influence tax morale (Torgler 2007, 30–50). Similarly, Daude, Gutiérrez and Melguizo (2012, 12–3), who focus on tax morale in developing countries, break down the list into various factors, including demographic factors such as age and gender, religious identity, self-perceived economic situation, education and employment status. They believe tax morale is affected by political aspects, such as trust in the government and democracy, the goods and services provided by the government and trust in the legal system and perception of corruption—the greater the trust in the legal system, the lower is perceived government corruption, and the greater the willingness to pay tax. This is also found by Rosid, Evans and Tran-Nam (2016, 28), who found that perceptions of corruption influence taxpayers to ‘intentionally underreport their income tax’.

From a fiscal-psychological view, the tax system and administration play an important role in the perceived chance of evasion and the final decision to comply. In this context, literature shows that employed individuals (whose income is taxed at the source) have higher tax morale than the self-employed, who calculate and pay their share for themselves (Wärneryd and Walerud 1982, 208). Blanthorne and Kaplan (2008, 698–9) suggested that those who have the opportunity to evade are influenced by ethical beliefs, and this affected compliance. This idea is also supported by Blaufus et al. 2015, 93) who showed that individuals who had a better chance to evade considered that evasion was less ethical.

In this context, the tax system is not just an external factor in compliance, but also affects willingness to pay tax. Compliance costs, for instance, include psychological costs that may influence tax morale. Many tax authorities in developing countries impose a single income tax rate or other incentives to maximise tax revenue from ‘hard-to-tax’ taxpayers, such as small and medium businesses (Shome 2004; Pope 2008). A less complex tax system may be perceived as less burdensome, thus

increasing willingness to meet tax obligations. Pope and Abdul-Jabbar (2008, 16) do not find any statistical evidence of a relationship between compliance and compliance costs in small and medium enterprises; however, they suggest that further study is needed because of the limited scope of their research.

The focal point of this study is the tax morale of individual taxpayers in Indonesia. While acknowledging that there are other elements regarded as relevant to tax morale, for example, national pride (Torgler 2007), this study focuses on the factors related to the Indonesian context as a developing country, based on previous literature including Torgler (2007), Daude, Gutiérrez and Melguizo (2012), and Devos (2014). Determinants to be analysed are demographic (age, gender, marital status, education, religion); socio-economic (employment status [employed or self-employed] and type [private sector employee, public sector employee, state-owned enterprise employee, retiree] and financial situation); level of interaction with the tax system; sentiment; fairness or equity; trust in the government; trust in the tax authority; perception of the legal system; attitude to democracy; perception of public goods; and attitude to punishment. The following sections discuss each in more detail.

2.4.3. Tax Morale Determinants

2.4.3.1. Demographic: Age, Gender, Education, Religion and Marital Status

Studies on the relationship between age and tax morale show that age has an impact on willingness to pay taxes. Devos' (2005) study involving 306 tertiary students showed that gender, age, education/qualifications and occupation influenced attitude to tax evasion. Torgler (2007) used the WVS data to show that older age groups have a higher level of tax morale in some European countries, including Switzerland, Germany, Spain, Belgium and the United Kingdom. When compared to respondents aged 16–29 years, respondents from the 30–49 years, 50–64 years and 65 years and older groups had higher tax morale (Torgler 2007, 32–3). Further, even stronger relationships between age and tax morale were found in Latin America countries using both WVS and Latinobarómetro (Torgler 2007, 34).

It is also suggested that there is a difference in tax compliance according to gender, although so far results are not conclusive. For example, Chung and Trivedi used an experimental setting to show that females tend to report higher incomes than their male counterparts, thus indicating females are more compliant in 'friendly persuasion treatment' (Chung and Trivedi 2003, 139). Niesobedzka (2014, 46)

found that, for Poland, males are more inclined to evade tax than females. Torgler and Valev (2010, 555, 563) found that women tend to disapprove of corruption and tax evasion more than their male counterparts; however, they indicate that different constraints and opportunities may contribute to these differences. Kastlunger et al. (2010, 543) evaluated several prior studies that resulted in mixed results. Their study, which differentiates between gender, which refers to 'cultural influence, social categorisation, and identity', and sex, which refers to a biological state, results in a suggestion that the difference between males and females in tax compliance is better explained by 'socialization, self-image, and femininity–masculinity traits', not by biological differences (Kastlunger et al. 2010, 549). Torgler (2004b, 246–60) did not find a statistically significant difference between female and male correspondents' compliance in Asian countries including Japan, South Korea, Taiwan, China, Philippines and India. In summary, there is not yet conclusive evidence of whether sex/gender affects tax compliance.

As regards education, Webley (2004) believes that individuals with more knowledge on tax have more positive attitudes towards tax, and social norms that deter them from audit and sanctions. More educated people tend to have better knowledge on fiscal policy; however, it is also argued that they tend to have better knowledge on how to avoid tax so the eventual results are inconclusive (Torgler and Schneider 2005, 13).

Torgler's (2007) study on religiosity in relation to tax morale showed that religious people tend to exhibit higher tax morale. The study covered 40 communities across various countries, with religiosity assessed through several measures, including church attendance, religious education, activities in church groups, importance of religion, religious guidance and trust in the church. Torgler (2007, 124–41) found that religiosity is positively related to willingness to pay tax, indicating that those who report and are observed to show religious values have higher tax morale. However, this finding is not conclusive or free from criticism. For example, Pope and Mohdali (2010, 582), in a study focusing on religiosity and tax compliance, point out that besides the sensitivity of the issue, it is difficult to measure religiosity, especially across religions where values are different. Further, Mohdali (2013, 160), in a study on religiosity and tax compliance in Malaysia, found results that differ from many previous studies conducted in the United States and European countries.

This current study of tax morale in Indonesia does not examine this relationship, as there are different major religions embraced in Indonesia that carry different teachings and values, including Islam, Protestant Christianity, Catholicism,

Buddhism, Hinduism and Kong Hu Cu. Instead, this study only examines the presence of difference in tax morale among respondents from the embraced religions. This is expected to shed light on this issue in the Indonesian case, and provide a platform for further research.

Lastly, marital status is argued to have an impact on legal behaviour and risk perception (Torgler and Schneider 2005, 13)

2.4.3.2. Socio-economic: Employment Status, Employment Type, Financial Condition and Tax Interaction

In tax compliance studies, it is mostly recognised that employed individuals have higher willingness to pay tax than their self-employed counterparts. This difference is due to several factors, for example, lower compliance costs (Lewis 1982) and the 'out-of-pocket' factor, as paying from one's own pocket is regarded as more of a loss than tax withheld at the income source (Kirchler 2007, 153). Greater opportunity for the self-employed to practise non-compliance is also a factor (Wärneryd and Walerud 1982, 208). Torgler (2004b, 245–6) showed that, in several Asian countries, the self-employed have tax morale—they take advantage of the opportunity to evade and to participate in the shadow economy. Further, Ahmed and Braithwaite (2005), in a study of 2,040 randomly selected Australians, suggested that there are differences between the two in terms of businesses practices and tax morale. They found that small business owners are harder working and more competitive, and that they tend to oppose the idea of tax benefits in redistributive programmes.

In his several studies, Torgler (2007) found that financial situation influences tax morale, and those who are better off financially are more willing to pay tax. For both Europe and Latin America, financial satisfaction has a positive relationship with both tax morale and tax compliance (Torgler 2007, 38–40).

2.4.3.3. Interaction with Tax (Tax Knowledge)

Interaction with tax hypothetically has an influence on tax morale, as the more frequent the interaction is, the more the understanding of tax builds. Individuals with more tax knowledge derived from positive interactions have more positive attitudes towards tax. This positive attitude, in turn, affects their willingness to pay tax (Webley 2004). Consistent with this, Lewis (1982, 59) found that lack of knowledge is related to negative attitudes to tax, which might be improved by greater knowledge.

Further, an empirical study by Eriksen and Fallan (1996) showed that tax knowledge has an influence on tax perception. Two groups of students were surveyed on their knowledge and attitudes towards tax—better understanding of tax led to the perception of greater fairness of the tax system, and an improved knowledge changed the perception of their own and other's tax evasion, with a test conducted after tax classes showing that evasion was perceived as more serious (Eriksen and Fallan 1996, 398).

2.4.3.4. Sentiment

The view of individuals towards tax accumulates from experience and knowledge. Kornhauser (2007, 610) cites an example where the historical and political context in the United States meant that, at that point in time, being anti-tax was viewed as patriotic, and states that 'the manner in which acts, stimuli, or situations are presented—or framed—can affect a person's reaction to it' (Kornhauser 2007, 607). Consequently, it is suggested that if paying taxes were viewed as a gain instead of a loss, there would be greater willingness to comply (Kornhauser 2007, 609).

Carroll (1995, 48–9) suggests that individuals may have different views on tax depending on the analogies used to describe tax, which may take the form of 'compliance with the law', 'payment for services' or 'giving to the common good'. Compliance from those who view tax in terms of legality depends on whether they consider the law fair, or avoid the penalty as a result of non-compliance. Conversely, those who see tax in terms of 'payment for services' will try to avoid their obligation if they perceive the delivered services as unsatisfactory.

In the Indonesian case, tax has frequently been framed in terms of a legacy of colonialism and a tribute for rulers, and this view persists for many (Burton 2014, 173). This historical background as context affects taxpayers' sentiment and compliance, as taxes are perceived as a forced obligation that benefit rulers and not the public. However, over the long course of tax implementation across different periods of Indonesia's history (discussed further in Chapter 3), sentiment may be changing to a more positive conceptualisation of tax. Therefore, Indonesia's historical context justifies the investigation of sentiment as one of the main determinants of tax morale.

2.4.3.5. Fairness

Fairness, as briefly introduced in Section 2.3.3, is multidimensional in nature (Gerbing 1988), with vigorous debate about dimensions in the literature. With regard to taxation, Christensen and Weihrich (1996) suggest five areas of fairness:

exchange with the government, tax rate structure, fairness of special provisions, overall fairness and personal fairness. Richardson (2005) suggests general fairness, exchange with the government, fairness of special provisions, tax rate structure and self-interest (Richardson 2005), while Tan and Chin-Fatt (2000) include personal fairness, tax rate fairness and income level fairness.

Reithel, Baltes and Buddhavarapu (2007) divide the dimensions of fairness into two types: distributive and procedural. Distributive fairness refers to the ends or rewards, such as punishments and compensation (Reithel, Baltes and Buddhavarapu 2007, 62), while procedural fairness refers to the process or means (Alexander and Ruderman 1987, 178). In the tax compliance context, fairness refers to the resource allocation, comprising horizontal equity, vertical equity and exchange equity (Wenzel 2002, 632). Horizontal equity means that taxpayers in the same situation have equal tax obligations, while vertical equity means that taxpayers in different financial situations have different tax obligations, with the financially better off taxpayers paying more. Exchange equity refers to the return taxpayers receive from the tax paid, such as public goods and service provision to taxpayers and the community (Farrar 2011, 7–8). As previously described in Section 2.3.3, fairness is instrumental to tax compliance that the more taxpayers perceive the tax system is fair to them and in comparison with others, the more inclined they are to comply with tax rules.

2.4.3.6. Trust in the Government

Trust in the government is believed to influence tax morale—if taxpayers trust the government, they are more willing to pay taxes (Torgler 2003, 35; Torgler et al. 2008, 336). In studies conducted in an extensive range of countries including European countries (Belgium, Poland, Spain and Switzerland), transitional countries (Russia, Estonia, Latvia, Lithuania, Belarus and Bulgaria) and Asian countries (for example, India), Torgler 2003, 44–7) showed that trust in the government has a positive relationship with tax morale. Alm, Martinez-Vazque and Torgler (2006, 846) argued that when taxpayers trust the government and public officials, they tend to be more honest in paying their taxes and see the relationship as a form of exchange. Cummings et al. (2009, 457), in a study in Botswana and South Africa, found that tax morale improved tax compliance, and in particular, the quality of governance influenced tax compliance positively. Governance was judged good if it comprised a fair tax system, a functional government that provided public goods and a non-corrupt political system (Cummings et al. 2009, 448). Leonardo (2011) suggested that willingness to pay tax may be increased if the government accords impartial and unbiased treatment to all taxpayers (Leonardo 2011, 134–5), and that

extending trust to taxpayers would encourage taxpayers' trust in the government (Leonardo 2011, 135).

Another study by Lago-Peñas and Lago-Peñas (2010) using the second wave of European Social Survey data (2004–05) also emphasizes the important role of trust and confidence in tax compliance. Citizens who distrust political institutions are likely to evade paying tax, whereas trust in politicians is positively related to tax morale (Lago-Peñas and Lago-Peñas 2010, 446, 451). Cummings et al. (2009) compared South Africans and Botswana and found that the attitude towards the government has an impact on tax morale; in Botswana, respondents scored higher in their level of tax morale and had greater trust in their government. Comparably, studies of tax morale in countries in Asia and Latin America suggest that trust in the government, legal system and parliament, as well as support for democracy, improve tax morale (Torgler 2004b, 2005b). A similar tendency is found in European countries using the WVS (Torgler and Schneider 2007).

2.4.3.7. Trust in the Tax Authority

The relationship between taxpayers and the government is also believed to influence willingness to pay tax. One important factor in this regard is reciprocity, which Torgler (2007, 74) divides into positive reciprocity and negative reciprocity. Positive reciprocity refers to the returns individuals expect for compliance. It is related to the 'tax contract', which is argued to be based on trust that encourages better tax morale (Torgler 2005a). Trust in public officials encourages positive attitudes, taxpayer honesty and greater compliance (Torgler 2003, 129; Torgler et al. 2008); thus, the government should engage in positive actions to generate trust among taxpayers. However, such policies may have different impacts depending on the type of taxpayer, with those inclined to evade encouraged to greater evasion. A study in Switzerland suggests that taxpayers are more compliant in filing their revenue and property declarations when they have trust in the government—to an even greater extent than economists predicted (Kucher and Götte 1998, 442).

The relationship between taxpayers and tax authority also has a determining influence. Feld and Frey (2002, 97) suggest that tax morale is not a value that instinctively exists in a person, but is subject to the interactions with 'tax authorities, on the legal framework, and on the constitutional environment'. They believe that trust between taxpayers and tax authorities, or what they call the 'psychological contract', must be built and preserved in order for taxpayers to be compliant with existing rules. If tax authorities control taxpayers in a negative way, willingness to

comply and tax morale will decline (Feld and Frey 2003, 3). Tax authorities, they argue, need to conduct positive actions towards taxpayers to maintain trust; however, they also concede a need to take negative action in cases where taxpayers breach the psychological contract in order to sustain a healthy relationship (Feld and Frey 2002, 95). In their investigation on the relationship between 26 Swiss cantons and taxpayers, they found that a psychological contract and respectful treatment exist, based on trust but accompanied by deterrence actions to maintain the relationship (Feld and Frey 2002, 97). They suggest that 'friendly treatment' has a more powerful influence than the 'authoritarian procedure' on tax evasion in cantons where referendums are conducted, and the latter approach is counterproductive in communities where direct democracy takes place (Feld and Frey 2003, 14). If tax authorities give taxpayers trust, respect and the opportunity to have a voice, tax morale might improve (Niesiobedzka 2014, 44).

2.4.3.8. Perception of the Legal System

Torgler (2007) includes the legal system as one of the institutional factors that determine tax morale (besides the government and tax administration)—a well-functioning legal system accompanied by positive actions by the institutions will be rewarded by higher taxpayer tax morale (Torgler 2007, 35). Trust in a country's legal system creates cooperation and a psychological contract between the state and taxpayers (Torgler 2003). An empirical study by Torgler and Schneider (2009, 239) on the relationship between the shadow economy, tax morale and institutional quality finds a statistically significant relationship between institutional quality and tax morale. Further, Torgler (2003, 134), using the WVS and Taxpayer Opinion Survey, shows that trust in the legal system has a 'highly significant effect on tax morale'. Perception of the legal system was measured via the question, 'Could you tell me how much confidence you have in the legal system: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?' This evidence of the importance of legal system perception to tax morale justifies the examination of the perception of Indonesian taxpayers of the existing legal system, and its relationship with tax morale.

2.4.3.9. Democracy

Democracy is also believed to have an impact on tax morale. Pommerehne and Weck-Hannemann (1996, 168) conducted a study on household income in 25 cantons in Switzerland to show that political control has a negative correlation with tax evasion—in cantons where the degree of political control was high, non-reported

income was lower, other variables held constant. Probability of detection and penalty did not have any influence on income-reporting behaviour; thus, they argued that the standard economic model should be expanded to include institutional factors (Pommerehne and Weck-Hannemann 1996, 168). Direct democracy allows citizens to debate and influence tax law, which in turn provides information to taxpayers. Their preferences are taken into consideration, as democracy gives taxpayers a 'weapon against representatives if they act against their preferences' (Torgler 2002, 51). D'Arcy (2011, 14), in a study on tax morale in African countries, reveals that satisfaction with democracy improves willingness to pay tax by 3.6%. Torgler, in Asian countries (2004b) and Latin America (2005b), found a similar positive relationship. In a study using the WVS data from 55 countries across Europe, Asia, Africa, Oceania, North America and Latin America, there was a consistent finding that respondents who favour democracy tend to have positive attitudes towards paying tax (Daude, Gutiérrez and Melguizo 2012, 20–1).

2.4.3.10. Public Goods

One of the primary reasons governments impose tax is to provide public goods. Public goods as defined by Samuelson and Nordhaus are 'commodities which can be enjoyed by everyone and from which no one can be excluded' (Samuelson and Nordhaus 2005, 37), or often refer to having 'non-rivalry' and 'non-excludability' characteristics. Non-rivalry means that the consumption of the commodity by someone does not diminish the possibility of other people to consume it, while non-excludability means that people cannot be excluded from consuming it even though they do not pay for it (Stiglitz 2000, 128). Tax imposed consequently is considered as 'price' in order to pay for the public goods, except its difference from price is that tax is compulsory not voluntary (Samuelson and Nordhaus 2005, 38). While tax causes distortions to economic activity, the economy cannot function without public goods (Weil 2009, 351). Provision of well-functioning public goods and services is highly related to taxpayers' willingness to pay taxes.

Alm, McClelland and Schulze (1992, 36) found that people pay tax not only because of deterrence, but also because 'they value public goods that their tax finance', and that an increase in the return on tax collections would increase compliance, even if 'there is no chance of detection and punishment'. Torgler (2003, 137) found that taxpayers tend to comply with the set rules when the services they receive from the government are perceived as comparable to the taxes they pay. An experimental study by Guth, Levati and Sausgruber (2005, 171) shows that compliance is affected by taxpayer perceptions of the outcomes they receive in return, and

perceptions of others' contribution: the less the perceived contribution from others, the more likely they are to evade paying taxes. In this context, the more taxpayers benefit from their taxes, the higher their tax morale (Guth, Levati and Sausgruber 2005, 172). From the perspective of the structure of government, taxpayers tend to be more willing to pay taxes in a decentralised structure (Guth, Levati and Sausgruber 2005, 185). This accords with the assumption that a decentralised government is more able to exclusively provide benefits to the contributing society in the form of public goods.

In an experiment on games involving public and private goods in the Netherlands, Keser and van Winden (2000, 32) found that contributions declined sharply at the end of the game, exhibiting willingness to cooperate depends on participants' view of prospective interaction—participants who perceived that their contribution to public goods and to other members was not beneficial anymore stopped contributing (Keser and van Winden 2000, 31). In addition, participants in groups comprising members who knew each other (the partners group) tended to contribute more than those who were in a group who did not know each other (the strangers group), and people tended to respond as they were treated—'cooperation with cooperation and defection with defection' (Keser and van Winden 2000, 33). Hypothetically, taxpayers are more inclined to contribute if their taxes are transformed into good quality public goods.

Morelo and Pujol (2012, 158) suggest that positive information about the provision of public goods is important in increasing tax morale because of misperceptions among taxpayers, and that in cases where public goods provision is deservedly perceived as bad, the only way to improve tax morale is to provide better quality public goods.

The current study incorporates an investigation of public goods provision in Indonesia as a developing country. Results are analysed to investigate whether perceptions of public good provision affect taxpayers' willingness to pay tax.

2.4.3.11. Attitude to Punishment

Attitude to punishment is included in this research as it is considered one of the drivers of tax compliance in the socio-psychological model (Section 2.3.2). Punishment in this context includes the probability of audit and penalty; however, it is not measured in the sense of the economic utility model, but rather in how it forms taxpayers' attitudes to paying taxes. In general, punishment is considered to deter evasion, especially probability of audit (Fischer, Wartick and Mark 1992, 32). A field

experiment by Schwartz and Orleans (1967, 299–300) on taxpayers in the United States suggested that while the threat of punishment can increase compliance, ‘appeals to conscience works better than threat of sanctions’; nevertheless, they suggest that ‘the threat of sanction can deter people from violating the law, perhaps in important part by inducing a moralistic attitude towards compliance’. This finding justifies the inclusion of the taxpayers’ attitude towards punishment among the tax morale determinants in this research.

2.4.4. Challenges in Tax Morale Studies

2.4.4.1. Measurements

In addition to the ‘black box’ challenge and the undefined operationalisation of tax morale in compliance (see Section 2.4.1), another challenge in tax morale studies is the measurement of tax morale. The WVS is one of the most frequently used sources of survey data for tax morale studies (Li 2010; Torgler 2004b, 2007; Daude, Gutiérrez and Melguizo 2012; Alm and Torgler 2006; Tekeli 2011). Tax morale is addressed by assessing the attitude of the respondents towards cheating on tax if there were a chance with one question.⁵ Some studies used the relationship to tax laws or moral appeal (Devos 2014, 29). Devos (2014) used interviews to gauge tax morale (tax morals, in this study) of Australian taxpayers. Another cross-country survey conducted in Latin America countries, Latinobarómetro, asks respondents about taxpayers not reporting all their income in order to pay less tax. This survey covers 18 countries in the region representing more than 600 million people, to explore the development of democracy, economy, and societies, ‘using indicators of opinion, attitudes, behaviour and values’. (Latinobarómetro 2017). A similar question is asked to respondents of the International Social Survey Programme, which covers 30 countries in Europe (Torgler 2007). Cummings et al. (2005, 13) uses a question from Afrobarometer, a survey conducted in Africa covering democracy, governance, economic conditions, and other issues on whether respondents have engaged in avoiding paying taxes. This survey currently covers 35 countries in Africa and now has conducted the sixth round in 2015 since it started in 2000 (Afrobarometer 2017).

Inconsistencies in defining and measuring tax morale pose challenges; nevertheless, tax morale studies have managed to develop using definitions such as ‘intrinsic motivation’ and ‘willingness to pay tax’ stemming from inside the taxpayer. It is important to note; however, that more conformity in the definition and

⁵ See Section 1.6.2 for the question asked in the WVS measuring tax morale.

measurement of tax morale is required to improve research of tax morale and tax compliance.

2.4.4.2. Methods Used in Surveys of Tax Morale

One of the advantages of the WVS is that it covers many countries. Moreover, it has been conducted regularly in intervals, with first wave in 1990, followed by surveys in 1995, 2000 and 2005 and the latest wave in 2010–12 (WVS 2013), enabling the investigation of changes of view on topics in a country or cross-country over time. However, because of its wide scope, this survey does not delve deep into the explanation of taxpayer attitudes. In addition, as highlighted by Pope and Mohdali (2010, 580) from the work of Silver and Dowley (2000), the survey tends to treat cultures as 'homogenous', while in fact they are different among regions in a country. Therefore, it is important to differentiate groups of taxpayers, for example, cultural groups or business sectors, to better investigate tax morale.

Devos (2008, 2012) conducted studies using surveys and interviews of individual taxpayers in Australia. McKerchar, Bloomquist and Pope (2013, 18) explored tax morale from 1,101 audit cases of sole-proprietor taxpayers in the United States using tax return data. They acknowledge that it is difficult to measure tax morale because of the limited information on its determinants in the tax returns; however, one benefit is that opposed to previous tax morale and compliance studies, they involve taxpayers and utilise data in actual tax returns. The WVS, in contrast, may involve non-taxpayers in providing data; however, it can provide a rich, wide range of data including demographic factors, which are valuable in tax morale studies.

Previous research studies utilising different methods have provided a wide array of findings in understanding tax morale and tax compliance. The utilisation of improved methods or a combination of several methods is expected to offer more confidence in explaining the tax morale of individual taxpayers. This justifies the examination of tax morale via a mixed method combining survey and interviews in this research.

2.4.5. Tax Morale Studies in Indonesia

Although the Indonesian DGT has considered the importance of public perception in its performance (Rizal 2011) and is now changing its paradigm to one of serving taxpayers (Pandiangan 2008), there is no clear evidence that tax morale has been taken into account in efforts to increase taxpayers' compliance. To the author's best knowledge, there has been no use of the term 'tax morale' in its policy documents.

To date, there have been few research studies on tax morale in Indonesia, with most conducted by academics. Current available researches on tax morale in

Indonesia, most produced in Indonesian language, are presented in Table 2.1. Tax morale studies have only been conducted in Indonesia in recent years, with the first research published in 2010.

Table 2.1: Studies in Indonesia Related to Tax Morale

No	Author	Year	Title
1	Widodo, Widi, Deddy Djefris and Eka Wardhani	2010	Book: Morality, Culture and Tax Compliance*
2	Hidayat, Widi and Argo Adhi Nugroho	2010	Empirical Study of Theory of Planned Behaviour and the Effect of Moral Obligation on Tax Non-compliance Behaviour of Individual Taxpayers*
3	Cahyonowati, Nur	2011	Morale Model and Tax Compliance: Individual Taxpayers*
4	Priantara, Diaz and Bambang Supriyadi	2011	Factors Affecting Small and Micro Enterprises to Register as Registered Individual Taxpayer*
5	Siahaan, Fadjar OP	2012	The Influence of Tax Fairness and Communication on Voluntary Compliance: Trust as an Intervening Variable

Note: * in Indonesian language.

Widodo, Djefris and Wardhani (2010, 248) studied tax morale and culture in relation to tax compliance (the dependent variable) of 600 registered individual taxpayers registered in five tax offices in different cities in Indonesia. Their survey found that tax morale had a significant impact on tax compliance, while demographic variables have the strongest influence on tax morale (Widodo, Djefris and Wardhani 2010, 11). Further, their study also suggested that culture played a more important role in tax compliance than tax morale. Besides demographic factors, they investigated tax morale determinants such as national pride, participation level, trust level, local government autonomy, economic situation, tax system and deterrent variables. Tax regulations, relationship between taxpayers and tax officers and national culture were considered factors in the culture variable (Widodo, Djefris and Wardhani 2010, 16). Despite being comprehensive, the study could be improved with additional measures, such as the triangulation (qualitative) method to attain more robust results.

One limitation of the other tax morale studies in Indonesia is the limited number of samples—Supriyadi and Priantara (2011), for example, involved only 126 returned questionnaires from tradesmen in Jakarta. Such small numbers limits inference to the general population of individual taxpayers. Hidayat and Nugroho (2010) investigated individual taxpayers based on the theory of planned behaviour and found that the social environment affects taxpayers' compliance. However, the number of respondents was limited to 155, randomly selected from registered individual taxpayers at one tax office. Cahyonowati (2011) studied tax morale and compliance with a bigger sample of 232 registered individual taxpayers; however, all respondents were from one city, Semarang. Her research demonstrated that tax morale in individual taxpayers did not develop from intrinsic factors; instead, their willingness emerged from fear of external factors (fine and penalties).

The previous studies in Indonesia have begun developing useful insights into tax morale and compliance in developing countries. However, such studies still leave gaps in tax morale studies by employing a limited dimension of analysis and small numbers of samples intended to infer to larger, heterogeneous population of the individual taxpayers. These limitation add to challenge posed to tax morale study in the measurement of tax morale as described in Section 2.4.4.1. In this regard, this research is designed to fill such gaps, both in literature and tax compliance policy, by the following reasons. First, it employs a triangulation technique in form of mixed methodology design using quantitative and qualitative approaches in order to obtain more solid and valid findings about tax morale in Indonesia. Second, the research employs survey which covered large and heterogeneous population of individual taxpayers from three different cities, which represented diverse background of samples in terms of regions and cultures; which is considered more representative to Indonesia. Third, contrary to previous studies which used only one question to measure the level of tax morale, this research uses a number of statements, tested by statistical analysis in order to be able to capture more accurately the respondents' level of tax morale. In addition, the interviews employed in this research used a triangulation technique by including individual taxpayers, tax managers, as well as tax consultants in order to obtain comprehensive and more valid findings. Therefore, with such design and measures, this research is expected to be able contribute to tax morale with more robust and valid explanation about tax morale in Indonesian context, and be able to offer appropriate policy recommendation to tax authorities based on such valid explanation.

2.5. Chapter Summary

This chapter presents a literature review of studies on tax morale and tax compliance. Tax compliance is the ultimate objective of a tax authority in its task to collect revenue, with tax morale one of the contributing factors. Tax compliance studies cover a wide range of factors, including economic, social and psychological factors, as well as the fiscal-psychological factors that involve the government and tax authority and their relationship with taxpayers. Tax morale falls into the socio-psychological and fiscal-psychological models, which tend to ask 'why people pay tax', rather than 'why people evade tax', as frequently addressed by economic deterrence models.

Studies on tax morale have been conducted for decades in many countries around the world. Nevertheless, substantial work is required to provide an exact definition of tax morale, its determinants, how to measure it, and how it operates to affect taxpayer behaviour, leaving ample room for further research. Moreover, detailed studies on tax morale have focused on developed country tax administration, while studies in developing countries have been conducted in aggregate using general survey data such as the WVS, Afrobarometer and Latinobarómetro.⁶ This situation justifies a need for a deeper study of tax morale to be conducted in Indonesian context where individual tax compliance is arguably low as presented in Section 1.5. The use of mixed methodology using a number of statements in this research rather than only one question such in the aforementioned surveys, combined with interviews, is expected to contribute more to the literature in this area with an in-depth research about tax morale.

⁶ See Section 2.4.4.1 for explanation about the surveys

CHAPTER 3

TAXATION IN INDONESIA

3.1. Introduction

This chapter presents the Indonesian taxation system in order to provide context and background for the topic being researched. The historical development of the taxation system in Indonesia is presented, in particular, in order to link the aspects that may have contributed to the public perception of tax and taxpayers' willingness to pay tax. It also provides context for data analysis especially in the qualitative approach, where participants express their opinion regarding tax in Indonesia and the tax system. The chapter then continues to present several reforms which have taken place in the Indonesian tax administration. The importance of tax in the Indonesian fiscal position, especially in the last five years is highlighted. It then presents the current structure of the tax system in Indonesia and the DGT, an institution in charge of the administration and collection of central taxes. The chapter concludes with a summary of obligations that individual taxpayers must observe in accordance with existing laws and regulations. It also highlights some differences between employed individual taxpayers and business owners in their administrative obligations.

3.2. History of Taxation in Indonesia

3.2.1. Traditional Kingdoms Era

Taxation is believed to have existed in the place now Indonesia (Indonesia became an independent, united country in 1945) since traditional kingdoms inhabited the archipelago prior to the 16th century. It is believed that different forms of collection regarded as similar to taxes were imposed in ancient kingdoms on various commodities such as lands, livestock, crops and rice harvests. These taxes were most likely collected on sufferance, and used by the rulers for their own ends, without any benefit for the people (Burton 2014, 173–4; Widodo, Djefris and Wardhani 2010, 99). Pohan (2014, 13) and Siahaan (2010, 29) take a different view, suggesting that tax was considered an offering to kings, given freely by their subjects, as kings were believed to be the manifestation of power. The use of offerings gradually changed, so as to benefit not just rulers, but the public as well, funding security and the construction of dams, roads and irrigation schemes (Burton 2014, 173; Pohan 2014, 13).

The oldest indication of tax imposition in the region is an inscription, estimated to be built in 1301, found in a village in Java, a main island in Indonesia, which suggests a 'tax holiday' was granted by the king at the time (Nurmantu 2005, 9).

3.2.2. Colonial Era

The practice of tax collection changed in the colonial era, when the colonials took over power from the traditional kingdoms. The Netherlands, through *Vereenigde Oost Indische Compagnie* (Dutch East India Company in English) monopolised trade with kingdoms across the region, and later expanded their power to politics, exercising power as a semi-government representing the Netherlands (Bremen 2010, 91). This exercise of power was regarded as a dictatorship (Vickers 2005, 14), and included administrative power (Oemar et al. 1994, 114) and the imposition of taxes on people's properties and harvests (Pohan 2014, 14).

However, it was during the short British occupation of 1811–16 that a widely recognised milestone in Indonesian tax administration history took place. In 1813, Thomas Stamford Raffles, the British Government's Lieutenant Governor of Java, introduced the imposition of '*landrent*'. Arguably, it was from the enactment of this landrent that the modern term for tax in Indonesian, '*pajak*', was derived (Siahaan 2010, 31).

Although the word implies 'rent', landrent was considered an income tax, with the objective of estimating the annual harvest of farmers (Samudra 2015, 6). Landrent was in place for more than a century—only in 1951, six years after Indonesia gained independence, was it replaced with Income Tax 1951 (Samudra 2015, 8).

The enforcement of tax in the colonisation era is said to be the 'most bitter experience', as it supported the colonialists not only economically, but politically (Pohan 2014, 15). During 1830–71, a law to force labour to produce crops essential to the Netherlands economy, named *Culturstelsel* (Cultivation System), was enacted, under which people were required to plant and produce the required commodities, such as coffee and indigo, and sell them to the Netherlands government for trade, at prices determined by the colonial government (Oemar et al. 1994; Ricklefs 1993).

Two forms of tax were enforced in the implementation of this policy: harvests/yields and labour (Oemar et al. 1994, 115). Those who did not have any land were required to contribute their labour to a government-owned estate for 75 days a year. However, in practice, villagers were forced to use resources mostly for crops that were suitable for European markets—rice and other staple crops were

underprovided and the price soared (Ricklefs 1993, 159–60). Collection was made worse because of the oppression of the local rulers—who were under control of the colonialists—and rife corruption from both the local and Dutch officials (Ricklefs 1993, 157).

Carey (2007, 759) suggests that the policies the Netherlands enforced during this time in Java ‘may have been the saving of the Dutch state, but they spelt disaster for the Javanese’, including famine, starvation, disease epidemics and extreme poverty, as local people were forced to cultivate crops not for their own use, but with their resources (Ricklefs 1993, 160). Oemar et al. (1994, 117) claimed that because of the famine, Grobogan, one of the municipalities in Java, lost around 90% of its population in the two years between 1849 and 1850, with the population dropping from 89,500 to only 9,000. Demak, another municipality, lost around 64%, with the population dropping from 36,000 to 12,000. In total, the number of people to die from starvation because of this policy in Middle Java only is claimed to amount to around 543,000 people. In addition, there were more than 100 rebellions in Java during the years 1830–1908, mostly farmers, because of resistance to these policies (Pohan 2014, 15).

The policy was abolished around 1870, mostly because of protests and ethical issues surrounding the system, as well as a change of political view in the Netherlands (Brown 2003, 88). However, the period, argued as one of the gloomiest in Indonesian history, may have influence on people’s views of oppression and exploitation, which include the perception of tax policies.

3.2.3. Post-Independence to the First Modern Tax Reform (1984)

From the beginning of the 1900s to the year of independence and the introduction of Income Tax 1951, several changes in the tax rules were enacted by the colonial government. Among others, as noted by Pohan (2014, 16–8), these included Income Tax Law 1920, Corporate Tax Ordinance 1925, Income Tax Ordinance 1932, Wage Tax 1935 and Income Tax 1944 Law (a revision of Income Tax Ordinance 1932). Even after independence in 1945, Indonesia used these laws and ordinances regulating tax imposed by the colonial government—hundreds of decrees were issued, with the last in 1970 (Uppal 2000, 3). In 1950, a sales tax was introduced on the delivery of goods and services, including imports.

Tax regulations during this time were considered unclear and confusing, with insufficient definitions and even contradictions in a complicated system producing uncertainties (Uppal 2000, 3; Pohan 2014, 24). There were also different rates of

income taxes, from 10% to 50%, for different groups. Uppal (2000, 4) suggested that, during the application of this taxation system, the buoyancy and flexibility of income tax was very low and failed to affect income distribution. In fiscal year 1977–78, the individual income tax revenue was very small, 3% of the total, while indirect taxes accounted for 76% of non-oil tax revenue (Heij 2001, 234). The Income Tax Ordinance 1925 was still in effect, with some amendments, until 1970. As regards sales tax, there was also confusion and uncertainty, combined with multiple taxes and a disproportional burden of goods imposed with the sales tax (Uppal 2000, 33).

3.2.4. First Tax Reform

In 1983, around four decades after Independence Day in 1945, the old tax system was overhauled. Three new laws were issued in 1983 to replace the previous ones: General Provision and Tax Procedure Law, Income Tax Law and VAT and Sales on Luxury Goods Law. The laws took effect from the beginning of 1984 and are still in effect today, albeit having been amended three times. The enactment of these tax laws marked a shift from the official assessment system to the SAS, which is still in force in the central government tax system. Widely cited reasons for the changing of the system and the issuance of the new tax laws were to replace the outdated, confusing previous laws and decrees with simplified ones, improve economic efficiency and income distribution and reduce the dependency of the government on foreign aid and natural resources (Alsah 1992, 29).

One of the objectives of the reform was simplification. This was reflected in the issuance of the Income Tax, which replaced both the Individual Income Tax Law and Corporate Income Tax Law, and the issuance of the VAT, which replaced the old Sales Tax Laws. The new taxes were considered simpler and more powerful in generating revenue, and able to 'reduce cascading effects of the sales tax, to improve resource allocations, curb evasion of taxes through non-reporting or underreporting manufacture output, to promote exports by leaving zero tax rate on exports and most importantly, to raise additional tax revenues for financing mounting government expenditure' (Uppal 2000, 36). Two years later, in 1985, a new property tax law (Land and Building Tax) replaced the federal wealth tax and state property tax (Alsah 1992, 33).

The new laws provided clearer definitions on deductions and exemptions to promote certainty for taxpayers as well as tax officials in their rights and obligations. VAT was set to a single rate of 10%, including on goods imported, and 0% on exported goods

to promote export activities; while sales tax on luxury goods ranged from 10% to 20%.

The new tax laws were designed based on five principles. First, trust in taxpayers to fulfil their tax obligations, including tasks such as computing, paying and filing. Second, togetherness, which required all members of society to be responsible and actively participate in financing the nation. Third, justice in taxpayers' rights and obligations before the tax laws—an improvement from the previous official assessment system where the tax authority assessed and determined taxpayers' obligations. Fourth, legal certainty, and more regulation certainty, including timelines in taxpayers' and the tax authority's completion of obligations. Fifth, equity—that the national financial burden should be carried by all responsible parties; in this case, taxpayers. In accordance with the equity principle, taxpayers should be registered and compliant in fulfilling their tax obligations (Pohan, 2014, 26–7).

The new tax laws aimed to achieve five objectives. First, encouraging independence in national financing by using all aspects of national capability. Second, simplification of tax rules and administration, including tax types, rates and methods of payment. Third, constructing a fair and just tax system in order to encourage more taxpayers. Fourth, improving the tax apparatus, including the organisation, procedures, discipline and ethics. Fifth, promoting equity in the tax burden, to both encourage taxpayers to fulfil their obligations and close existing loopholes exploited by non-compliant taxpayers (Pohan 2014, 25–6).

3.2.5. Amendments 1994–97

In terms of revenue, the 1983 tax reform made a solid contribution to the aim of establishing independence from natural resource revenues, especially oil. During the decade 1973–83, as much as 67.50% of government tax revenue was generated by the oil tax, reaching a peak in 1981, at 73.47% of total tax revenue (Alsah 1992, 30). Gradually, dependence on the oil tax was reduced, such that in the decade 1991–2000, the contribution of natural resources to the government revenue dropped to an average of 28.07% while tax revenues contribution averaged 63.53% (Bank Indonesia 2016).

A decade after the promulgation of the laws, amendments were conducted. The changes were designed predominantly to cope with national and global developments, especially with the demands of tax as the dominant source of the government revenue and its function as a fiscal tool. There were several changes, including tax facilities for certain sectors and certain regions in Indonesia, on income

tax rates and the return of provisions on interest for late payments. There was also an introduction of an incarceration sentence for tax officials on disclosing taxpayers' tax information. In addition, the income and VAT tax bases were broadened, such that taxable goods included natural resources, except those taken directly from the source, as well as intangible goods (Bawazier and Kadir 2009).

Subsequent to the 1994 tax laws amendments, further reform was conducted in 1997—this was still considered part of the '1994 reform', as it held the same paradigms, principles and objectives (Bawazier and Kadir 2009, 174). Four new laws were enacted, comprising the Tax Dispute Settlement Body Law, Local Government Tax and Retribution Law, Tax Collection with Coerce Warrant Law and Fee on Land and Building Transfer Law. The enactment of these laws were aimed at improving tax administration and presenting more certainty to taxpayers and the tax authority.

3.2.6. Tax Administration Reform 2002

Ikhsan, Trialdi and Syahrial (2005, 1031) noted that, after the reform of the 1980s, the Indonesian tax system had developed several positive aspects—it was now based on an income and value added system, progressiveness had been addressed, dependence on oil and natural gas had been reduced, the share of international tax had been limited, income and consumption taxes were balanced and equity issues had been addressed. On this assessment, most the objectives of the 1983 reform as suggested in Section 3.2.4 had been addressed. The World Bank also acknowledged that Indonesia had a sound tax system; however, they were critical of the weak tax administration, which suffered poor enforcement and collection as well as rampant corruption (World Bank 2005, 70). Thus, in 2002, another major milestone in tax reform, commonly dubbed 'modernisation', was implemented.

The 2002 reform saw the DGT switch its operation from a base of tax types to functions. Previously, the structure was designed such that a unit at a tax office (*Kantor Pelayanan Pajak* or 'KPP') had to monitor a taxpayer based on his/her tax—taxpayers needed to consult different units to reconcile taxes whenever the taxpayer was obligated to pay different taxes. This system was argued to achieve accountability in the organisation, control for every tax and enhance the quality of service. However, there were limitations—it had high collection and compliance costs, and in particular, it allowed the possibility of collusion and corruption (McKerchar and Evans 2009, 185).

In the 2002 structural change, still in force at present, Monitoring and Consultancy sections were introduced to each KPP, to provide counsel and monitor taxpayers, regardless of the type of taxpayer—corporations, government treasurers or individuals. Counselling and monitoring of taxpayers are conducted by account representatives, while auditors are positioned at every level (headquarters, regional offices and tax offices) to audit taxpayers on their compliance.

3.3. Present Tax System

By constitution a unitary nation, Indonesia has two different types of tax according to the institution in charge. The first is central government tax, which includes taxes collected and administered by the DGT, structurally under the Ministry of Finance. The second is local government tax, which includes taxes collected by two different local government levels: city or municipal governments and provincial governments.

Local government taxes are stipulated in local regulations (*Peraturan Daerah* or *Perda*), which are issued by local governments and local parliaments. However, it is compulsory that regulations on local taxes be in accordance with the Laws of Local Tax and Retribution issued by the central government, and cannot overlap taxes imposed at the central level. Revenue generated from these taxes is used in the Local Budget and Expenditure, administered by the unit in the relevant local government.

There are currently 34 provinces, 98 cities and 410 municipalities in Indonesia (Local Government Autonomy Implementation Supervisory Committee 2016). At present, provincial government taxes include motor vehicle tax, motor vehicle transfer of ownership tax, motor vehicle petrol tax, surface water tax and cigarette tax. City and municipal government taxes comprises of hotel tax, restaurant tax, entertainment tax, advertisement tax, road light tax, non-metal and stone mineral tax, parking tax, inland water tax, swallow birdnest tax, land and building tax in urban and rural areas and transfer of ownership fee for land and buildings (Komara 2012, 4; Samudra 2015, 53).

3.4. Role of Central Taxes in the APBN

Central taxes, which are the focus of this study's research on tax morale, are administered and collected by the DGT. At present, the DGT is structurally under the Ministry of Finance. The revenue generated from central taxes is used in the APBN. At present, tax revenues contribute the largest share to the APBN; in the last five years, contributing to around 70% of revenues generated by the government (Table 3.1.).

Table 3.1: Government Revenues 2010–14 (billions Rp)

No	Source	Financial Year					% Average
		2010	2011	2012	2013	2014	
I	Domestic Revenues	992,248.3	1,205,345.7	1,332,322.9	1,432,058.6	1,633,053.4	99.64
1	Tax Revenues	723,306.6	873,873.9	980,518.1	1,077,306.7	1,246,107.0	73.84
	a. Domestic Tax	694,392.1	819,752.4	930,861.8	1,029,850.1	1,189,826.6	70.28
	b. International Tax	28,914.5	54,121.5	49,656.3	47,456.6	56,280.4	3.57
2	Non Tax Revenue	268,941.7	331,471.8	351,804.8	354,751.9	386,946.4	25.80
	a. Natural Resources	168,825.4	213,823.3	225,844.0	226,406.2	241,114.6	16.40
	b. Profit Transfers From SOE	30,096.9	28,184.0	30,798.0	34,025.6	40,000.0	2.49
	c. Other Non Tax Revenues	59,428.6	69,360.5	73,458.5	69,671.9	84,968.4	5.45
	d. Revenue from PSI	10,590.8	20,104.0	21,704.3	24,648.2	20,863.4	1.47
II	Grants	3,023.0	5,253.9	5,786.7	6,832.5	2,325.1	0.36
	Total	995,271.3	1,210,599.6	1,338,109.6	1,438,891.1	1,635,378.5	

Note: SOE is state-owned enterprises; PSI is public service institutions.

Source: Republic of Indonesia (2016).

3.5. Tax Authority

The DGT is headed by a Director General of Taxes. The DGT's main task is to formulate and implement technical policies in the area of taxation in accordance with laws (Minister of Finance 2015, 190). In order to do this, the DGT sets and implements tax policies, constructs norms, standards, procedures and criteria to provide technical guidance and supervision related to taxation, conducts monitoring, evaluation and reporting of taxation, administers the DGT and performs other functions as stipulated by the Minister of Finance (Minister of Finance 2015, 189).

The DGT consists of two major sections: head office and the operational offices. The head office is located in Jakarta, the capital city, and houses the Secretariat General, 14 directorates and four senior advisers (Minister of Finance 2015, 190). The operational offices comprise of 31 regional tax offices throughout Indonesia, which include four large regional tax offices, 28 medium tax offices, 299 small tax offices, 207 tax services, a Dissemination and Consultation Office and five technical implementing units, for a total of 574 operational offices throughout Indonesia (DGT 2015a, 47).

The tasks of the regional tax offices are to coordinate, control, analyse and evaluate tax offices operations, as well as provide guidance in the implementation of head office policies. The large taxpayers regional tax office, Jakarta special regional tax office, 29 other regional tax offices are located throughout Indonesia. The tasks of the tax office are to deliver tax services, disseminate tax information and monitor taxpayers under its jurisdiction.

Tax offices are divided into three categories, based on the taxpayers registered and monitored by the tax office. Large tax offices monitor large national corporate taxpayers, state-owned enterprises and high-wealth individuals. Medium tax offices monitor large corporate taxpayers, foreign investment companies, permanent establishments and expatriates and public-listed companies. Small taxpayer offices monitor and administer individual and corporate taxpayers under their jurisdiction. Under the tax office are the tax service, dissemination and consultation offices, tasked with disseminating tax information, consulting and providing other tax services, including to remote areas (DGT 2015a, 46). Technical implementing units, which include taxation data and document processing centre, taxation data and document processing office and the external data processing office, are tasked with recording and storing taxpayers' documents, while an information and complaint service office delivers tax information and improves the quality of DGT services (DGT 2015a, 47).

3.6. Tax Revenue Structure

The central taxes administered and collected by the DGT are Income Tax, VAT, Sales Tax on Luxury Goods, Land and Building Tax for Mining and Estate and stamp duty. Income tax on oil and gas is also collected, but this is based on a contract between the GOI and the oil contractors conducting oil and gas exploration under the Production Sharing Contract scheme (Fabrikant 1973). In the past five years, the largest share of tax revenue has been collected from income tax, at around 45% of all taxes collected. The second largest category is VAT and sales tax on luxury goods, at around 40% (Table 3.2). Contributions from other taxes are small, with land and building tax of mining sites and estates contributing only around 3.62%.

Table 3.2:
Tax Revenues 2010–14 (billions Rp)

No	Financial Year					% Average
	2010	2011	2012	2013	2014	
1 All Income Tax	334,779.8	387,918.7	410,577.7	442,999.9	507,719.8	50.01
1 Income Tax	298,172.8	358,026.2	381,608.8	417,695.3	485,976.9	46.39
2 Income tax on oil and gas	58,872.7	73,095.5	83,460.9	88,747.4	83,889.8	9.33
2 VAT and Sales Tax on LG	230,604.9	277,800.1	337,584.6	384,713.5	475,587.2	40.12
3 Land and Building Tax	36,607.0	29,892.5	28,968.9	25,304.6	21,742.9	3.62
4 Other taxes	3,968.8	3,928.2	4,210.9	4,937.1	5,179.6	0.54
Total	628,226.2	742,742.5	835,834.1	921,397.9	1,072,376.4	100.00

Note: VAT = value added tax, LG = luxury goods.

Source: Republic of Indonesia (2016).

3.7. Tax Obligations Related to Individual Taxpayers

This section offers a brief discussion on taxpayers in Indonesia and their obligations in relation to the tax administration. In line with the research topic, the focus is on individual taxpayers.

There are two types of taxpayers recognised in the Indonesian tax system: individual taxpayers and entity taxpayers. An entity refers to a 'group of individual and/ or capital which constitutes a unity either performing business or not which includes limited company, limited partnership, other company, state-owned enterprise or local government-owned enterprise in any name, firm, joint venture, cooperative, pension fund, association, organisation, foundation, mass organisation, socio-politic organisation, other organisations, institutions, any form of bodies including collective contract investment and permanent establishment' (Republic of Indonesia 2007, Article 1 Paragraph 3). These taxpayers include those who are obligated to pay their own tax and those who withhold other's tax (tax-withholding agents) (Republic of Indonesia 2007, Article 2 Paragraph 2).

For income tax purposes, there are four income tax subjects: individual, undivided heritage, entity and permanent establishment (Republic of Indonesia 2008, Article 2 Paragraph 1). Resident individual taxpayer refers to individuals who reside in Indonesia more than 183 days within a period of 12 months, or reside in Indonesia within a financial year and have the intention to reside in Indonesia (Republic of Indonesia 2008, Article 2 Paragraph 3 Sub paragraph a.). In the DGT revenue records, there are also government treasurers, tasked with withholding taxes payable from government institutions, using the fund from the APBN (DGT 2012, 22).

For income tax purposes, resident individual taxpayers whose income exceeds the non-taxable income threshold within a financial year are obligated to register at a tax office and receive an NPWP⁷, and are thus administratively considered registered taxpayers (Republic of Indonesia 2007, Article 2). Those whose income has not reached the threshold may also register and receive an NPWP.

Currently, income tax for entities is set in the Income Tax Law to a single rate of 25% (Republic of Indonesia 2008, Article 17 Paragraph 2a). It is stipulated that entities with sales less than Rp50 billion a year will receive a discount of as much as 50% off this rate, limited to taxable income applicable to sales up to Rp4.8 billion of

⁷ NPWP is the abbreviation of 'Nomor Pokok Wajib Pajak' or Tax Identification Number. See Section 1.11.4

total sales (Republic of Indonesia 2008, Article 31E). For individuals, progressive rates are applicable, ranging from 5% to 30% depending on income (Table 3.3).

**Table 3.3:
Income Brackets and Individual Income Tax Rates**

Income	Tax rate
Up to Rp50 million	5%
Rp50 million–Rp250 million	15%
Rp250 million–Rp500 million	25%
> Rp500 million	30%

Source: Republic of Indonesia (2009b), Article 17.

Income tax rates are applied to net taxable income—gross income minus non-taxable income (PTKP) and ‘zakat’⁸ or any compulsory religious donation. Income tax law sets the PTKP brackets; however, it also stipulates that adjustments may be made to PTKP via regulation issued by the Minister of Finance after consulting the parliament (Republic of Indonesia 2008, Article 7 Paragraph 3), in order to be more flexible in coping with rapidly changing economic situations. The non-taxable income brackets are differentiated by the family status of the taxpayer: single or married, number of dependants and whether spouse has a non-separated income from the individual taxpayer. The last PTKP structure in 2016 is show in Table 3.4.

**Table 3.4
Non-Taxable Income Threshold per Financial Year**

Rp54 million for an individual taxpayer
Additional Rp4.5 million for a married taxpayer
Additional Rp54 million for wife’s income, accumulated with husband’s income
Additional Rp4.5 million for each eligible dependant, maximum three dependants

Source: Minister of Finance (2016), Article 1.

Registered individual taxpayers are obligated to file an annual income tax report for the financial year, no later than three months after the financial year ends.

⁸ ‘Zakat’ is a compulsory donation based on Islamic rules. Only ‘zakat’ paid to government-approved foundations is allowed to be deducted from income.

Consequently, if the financial year is the same as the calendar year, the due date for annual income tax report is 31 March of the following year. The due date for annual income tax report for entity taxpayers is four months after the financial year ends—in the case that the financial year is the same as the calendar year, the due date is 30 April of the following year. All incomes must be declared and reconciled in the filed annual income tax report, and when there are taxes payable, these must be fully paid (Republic of Indonesia 2007, Article 3).

Taxpayers are provided opportunities to file annual income tax report revisions, provided that no audit is currently in the process of being conducted, or has been conducted, on the taxes already reported (Republic of Indonesia 2007, Article 8).

Employed individuals who are registered taxpayers have fewer administrative obligations than their business owner counterparts. Employed individuals are only obligated to file the annual income tax report, in which they must also report incomes generated from other sources, if applicable, and pay any taxes due. However, income tax imposed on their earnings is withheld monthly by their employer, and it is the obligation of the employer to remit the payment to any of the payment posts and report it to the tax office (Republic of Indonesia 2008, Article 22).

Late filing of the annual income tax report incurs a penalty of Rp100,000 for individual taxpayers (around A\$10), while the penalty for late filing by entity taxpayers is Rp1,000,000 (around A\$100) (Republic of Indonesia 2007, Article 7).

Business owners, conversely, have more administrative responsibilities with regards to tax. They are obligated to pay monthly tax and submit periodic tax reports (filed monthly). The monthly payments function as instalments, which are later reconciled with actual taxes payable for the full financial year. They are also responsible for the withholding and remitting of their employees' income tax (with respect to the salary they pay), and for reporting and filing it with the tax office.

Further, unlike employed individuals, business owners are also obligated to engage in bookkeeping for tax purposes (Republic of Indonesia 2007, Article 28). Small business owners whose sales do not exceed a threshold (set by the Income Tax Law) are relieved from this obligation—at present, individuals whose sales do not exceed Rp4.8 billion (approximately A\$480,000) in a financial year may opt out of bookkeeping; however, their income tax will be calculated using the deemed-profit system. Currently, the income tax rate for these small businesses is 1% of their monthly sales, paid monthly (President of the Republic of Indonesia 2013). Business owners are still required to maintain records of their sales for tax purposes.

There are several periodic income tax reports that must be submitted by taxpayers to the tax office, depending on their business activities. Periodic income tax reports include those in relation to the withholding of employees' salary income tax, both resident and non-resident; income tax on imports; income tax on dividends, interest, royalties, grants and prizes, rentals; income generated from the use of assets; income from deposits, bonds, shares and the like; and income generated by specific businesses such as international airlines, oil and gas drilling, international insurance and foreign trading companies. Most of these activities are conducted by entity taxpayers; the exceptions are the withholding, paying and reporting of employees' salary income tax and income tax on rentals and the use of assets, which involve many individual taxpayers as well (Republic of Indonesia 2008, Article 4).

In addition, whenever applicable, individuals are levied with the land and building tax (Republic of Indonesia 1994) and income tax on land and building transfers (President of the Republic of Indonesia 2016).

There are also individual taxpayer obligations with regards to VAT when they deliver taxable goods or services above a certain threshold. In cases where the individual taxpayers' sales in a financial year exceed Rp4.8 billion, they must register as a taxable person for VAT purposes (Republic of Indonesia 2009b, 2007). As part of every transaction, they must withhold VAT on the taxable goods delivered or services rendered using a tax invoice, and to remit the VAT withheld and report it to the tax office in a periodic tax report. Small business owners whose sales are equal to or less than Rp4.8 billion are excluded from this obligation; however, they may opt to be registered as a taxable person for VAT purposes and conduct their business in line with the stipulation on VAT regulations.

VAT and sales tax on luxury goods is operated via a negative list; that is, all goods and services are taxable, except those on the exempted list. Examples of goods exempted from VAT include mining and drilling products taken directly from their sources; basic necessities; food and beverages served in hotels, restaurants, food stalls and shops; and money, gold bars and securities. Example of services which are not taxable are educational services, social services, religious services, medical services, financial services and employment services (Republic of Indonesia 2009b, Article 4A Paragraph 3).

The VAT rate is set at 10%, while a 0% rate is applied on exports of tangible and intangible taxable goods and exports of taxable services. This 10% rate can be

changed to 5% at the lowest and 15% at the highest, at a single rate, as stipulated by government regulation (Republic of Indonesia 2009b, Article 7).

Sales tax on luxury goods, conversely, is set to range between 10%–200%, based on the categorisation of the luxury good, with the export rate still 0% (Republic of Indonesia 2009b, Article 8).

3.8. Chapter Summary

This chapter presents the history, system and fundamental obligations of individual taxpayers in Indonesia. Indonesia has a long history of taxation—in some form, it has been conducted for more than four centuries. As recorded by historians and tax researchers, the imposition and enactment of taxes vary across time, starting from the feudalistic era when tax was considered an offering to rulers, to the exploitation system during the colonial era, to post-independence, when several tax reforms have taken place to improve the tax system and administration. This long history, passed from generation to generation, may have shaped the current perceptions of tax.

At present, tax is the government's main revenue source. The purpose of tax has changed through time, from the past, when it was used to benefit rulers, many of them dictatorships, to the present, where tax benefits the public. Tax has a redistributive function, benefiting those in the lower socio-economic levels. This is reflected in the structure of tax revenue, where income tax makes a dominant contribution to total revenues generated. The continuous and frequent improvements, as reflected in the reforms over the past decades in Indonesia, demonstrate the willingness to formulate a good and reliable tax system.

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1. Introduction

This chapter discusses the research design and methodology in this research. It begins with a description of the paradigm relevant to the context of taxation and behavioural studies inherent in this research. It then continues with the rationalisation for the mixed methodology employed, and a discussion of mixed method and triangulation techniques. Quantitative and qualitative measures comprising the mixed methodology employed are presented, discussing the survey and interviews conducted to obtain the data and how to analyse them in order to achieve the research objectives as presented in Chapter 1. This chapter concludes with a description of the data collection strategies, procedures and analysis.

4.2. Research Design

4.2.1. Research Paradigm

Paradigm or 'philosophical orientation' (Tashakkori and Teddlie 1998, 6) is defined by Greene and Caracelli (1997, 6) as the 'interlocking assumptions and stances about knowledge, our social world, our ability to know that world, and our reasons for knowing it—assumptions that collectively warrant certain methods, certain knowledge claims, and certain actions of those claims'. Creswell (2003, 3–6) argues that framework in research comprises three main elements: assumptions about the knowledge claims, research procedures, and methods. This 'knowledge claim' or paradigm embodies the assumptions researchers use during their inquiries. Paradigms direct the orientation of research inquiries, including the questions, knowledge claims, methods and the definition of quality (Greene and Caracelli 1997, 6). Morgan (2007, 51) adds that paradigm is a 'shared belief' in a research field.

Traditionally, there are two principal streams of research paradigm: 'positivism' and 'interpretivism' (McKerchar 2010, 70), with the latter also known as 'constructivism' and 'naturalism' (Tashakkori and Teddlie 1998, 9). Positivism typically constructs the inquiries for quantitative methodology studies, while interpretivism directs the inquiries for the qualitative methodology (McKerchar 2010, 72). For a succinct description of these paradigms and their differences, Table 4.1 presents the paradigm characteristics as compiled by Tashakkori and Teddlie (1998) from the work of several authors, including Lincoln and Guba (1985), Preissle and LeCompte (1984) and Patton (1990), with the addition of the work of McKerchar (2010).

Table 4.1: Characteristics of Positivism and Interpretivism

Feature	What Positivists Believe	What Interpretivists Believe
Nature of reality (ontology)	There is only one single reality	There are multiple, constructed realities
The position of the researcher and what is researched (epistemology)	Independent	Inseparable
The view of the researcher as to what is researched (epistemology)	Objective	Subjective
Role of values (axiology)	Value-free	Value-bound
Generalisation of time and context of an inquiry	Possible	Not possible
Causal linkages between case and effects	Existent	Non-existent
Logic	General to particular (deductive)	Particular to general (inductive)

Sources: Adapted from Tashakkori and Teddlie (1998, 7–11); McKerchar (2010, 75).

A variant of the positivism paradigm, ‘postpositivism’, sometimes called ‘critical realism’, has subsequently been developed, with several differences from the main philosophy. An area of difference relative to positivism is the challenge against the absolute truth of knowledge (Phillips and Burbules 2000). Postpositivists believe that no absolute truth can be attained, and recognise that there cannot be any absolute claims in studies of human behaviour and actions (Creswell 2003, 7). They also hold the idea of ‘probability rather than certainty’, as they believe that humans are not capable of knowing everything (Crotty 1998, 40). However, this paradigm still advocates that being objective is an essential characteristic of research; consequently, research demands examination of bias that may arise in the inquiry process, as well as validity and reliability (Creswell 2003, 7–8).

Another major philosophical orientation to later emerge in between the two paradigms is ‘pragmatism’. Pragmatism is similar to postpositivism, but less attached to the assumptions made (McKerchar 2010, 79). In this knowledge claim, researchers are unrestricted in choosing procedures, and place more attention on the goal of achieving the research purpose. Researchers can freely use approaches of any kind to understand the problem, and choose what works best (Rossman and Wilson 1985; Patton 1990). This stance is supported by McKerchar (2010), who argues that a researcher should emphasise the procedures to solve the research problem more than the paradigm. She believes that a suitable framework depends

on the problem, and therefore, recommends studying the problem from many positions (McKerchar 2010, 69). This is especially true in the context of social and behavioural studies (Crotty 1998, 40).

This research employs mixed methodology approach conducting quantitative and qualitative procedures. The methods employed are survey (for the quantitative approach) and interviews (for the qualitative approach). The combination of approaches is expected to utilise the strengths of both approaches and to counterbalance weaknesses inherent in each approach when conducted alone. The utilisation of mixed methodology in this research is corresponding to the recommendation by Creswell (2003, 7) and McKerchar (2010, 7) to apply procedures which are consistent with the best possible and most accurate explanation of the problems and their solution. Consequently, this research can be regarded as constructed on the pragmatic paradigm. As Creswell (2003, 18) suggests, mixed methods is an approach where the researcher is inclined to pragmatic characteristics that focus on consequences and problems as well as being pluralistic.

While in the quantitative approach the researcher conduct the analysis based on objectivity and independence as in postpositivism paradigm, in qualitative approach; on the other hand, the researcher utilizes the characteristics of interpretivist as to analyse the interview data.⁹

4.2.2. Mixed Methodology

Mixed methodology—often referred to as ‘mixed model’ (Tashakkori and Teddlie 1998), ‘integrative research’ (Johnson and Onwuegbuzie 2004) or ‘mixed method’ (Leech et al. 2010)—in a broad sense can be defined as research that utilises more than one methodology or method in the design or process of research (McKerchar 2010, 18). Johnson, Onwuegbuzie and Turner (2007, 118) asked 19 global leaders in mixed methods research to define the concept—15 of the resulting definitions imply that the methodology mixes quantitative and qualitative approaches, with the intention to corroborate and enrich understanding. Thus, Johnson, Onwuegbuzie and Turner (2007, 123) came to the following definition:

Mixed methods research is the type of research in which a researcher or team of researchers combined elements of qualitative and quantitative research approaches (e.g. use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purpose of breadth and depth understanding and corroboration.

⁹ See Table 4.1 for the characteristics of each paradigm

Creswell (2014) defines mixed methods research as the research methods used in social, health and behavioural disciplines, where the investigator collects both qualitative and quantitative data to address research problems. Tashakkori and Teddlie (1998) characterise their mixed model studies as the result of the pragmatism paradigm, using the combination of qualitative and quantitative measures in the research phases. McKerchar (2010, 118) points out that a mixed method presents when the researcher employs more than one method or strategy inquiry. In relation to this, Johnson, Onwuegbuzie and Turner (2007, 118) previously suggested that the term 'method' (defined by Greene and Caracelli (1997, 7) as 'a procedure for gathering or analysing data') be viewed broadly, that it also embraces important research elements, including principles and practices. Thus, mixed method and mixed methodology represent similar traits, in that both are conducted using more than one approach and represent similar underlying principles.

It is important to note that as Creswell (2014) suggests, mixed method is not merely conducting both quantitative and qualitative approaches in research. Importantly, it needs to reflect an integration between the two, in order to cancel each other's weaknesses and complement each other. Utilising a mixed method approach, therefore, is expected to produce better validity and reliability in outputs.

'Triangulation' is another term commonly used to depict procedures similar to those of mixed methods. Triangulation is suggested as 'multiple operationalism' when researchers used more than one method (Creswell 2003, 15; Johnson, Onwuegbuzie and Turner 2007, 113–4). The procedure is thought to ensure validity of results (Johnson, Onwuegbuzie and Turner 2007, 113–4). Using different research methods is believed to allow for an improvement in output measurement accuracy (Moran-Ellis et al. 2006, 47). According to Denzin (2012, 82), originally triangulation was an operational level approach, used only in qualitative research, rather than in mixed qualitative and quantitative approaches. It is used to seek in-depth understanding of a problem, in an attempt to find validation. However, triangulation is currently used in a broader sense, similar to mixed methods (Creswell 2003, 214–7).

Utilising many methods is suggested to offer several advantages in research. First, in *the design stage*, quantitative and qualitative approaches can be combined to improve the sampling framework and overall research design (Madey 1982, 227). Using both approaches also helps to identify representative and unrepresentative cases for generalisability and development of further models and theories (Madey 1982, 233). Second, in *the data collection stage*, mixed methods helps in the

instrument development, enables creative ways to explore and collect data, and allows reframing to address the research questions (Jick 1979; Greene, Caracelli and Graham 1989; Onwuegbuzie, Bustamante and Nelson 2010). All of these allow the researcher to obtain rich and relevant data for research (Sieber 1973; Rossman and Wilson 1985). Third, in *the analysis stage*, the use of different methods helps cancel out biases inherent in each method (Denzin 2012; Jick 1979; Madey 1982). Convergence and corroboration are also expected to result in more certainty in the results. This combination will lead to better understanding and explanations, and consequently, better confidence for the researcher (Johnson, Onwuegbuzie and Turner 2007). Overall, the method is believed to allow the exploration of the complex social world (Malina, Nreklit and Selto 2011), and enable unpredicted output such as contradictions to be uncovered, which may lead to further development or an expansion in a study, or even to new theory formulation (Jick 1979).

Data in this research are collected in two methods: first by surveying a random sample reflecting the population under study, and second by in-depth interviews of targeted respondents. Survey data are analysed using inferential statistics to examine the trends and generalise to the larger population. The interview data are analysed qualitatively in order to obtain an in-depth explanation and to reality construction (Punch 2005). The mixed methodology study is conducted using the 'concurrent triangulation' strategy, intended to confirm and corroborate results from both approaches (Greene, Caracelli and Graham 1989; Morgan 2007; Creswell 2003). This strategy offers advantages such as the results can be validated well and a shorter data collection period (Creswell 2003, 217). The diagram of the methodological process is presented in Figure 4.1.

Figure 4.1: Concurrent Triangulation Strategy



Source: Creswell (2003, 217).

Initially, the results of each approach will be analysed separately and then compared to examine whether convergence occurs. The qualitative results are expected to

enrich the quantitative outputs, and also provide rationale to further explain the quantitative results.

4.3. Methods

This section presents the methods used to obtain data for this research. The survey sub-section presents details on the selection of samples, questionnaire designs and related measures in planning and conducting the survey. The next sub-section presents the interview process used in collecting the qualitative data.

4.3.1. Survey

4.3.1.1. Introduction

A survey takes many forms and is used for 'myriad purposes' (Groves 2004, 2); however, it can generally be defined as a way to collect information from a population (Babbie 1990, 36; Czaja and Blair 2014, 2). Survey has main advantages that it can be conducted in a short time to capture the current condition and can be used to generalise a larger population (Rea and Parker 2005, 7). In addition, this method is also usable in examining a conclusion and observing whether a difference exists between groups (Sapsford 2006, 10). Such difference may occur between one group and another or within the same group at a different time. The WVS is a sample in both dimensions, with surveys conducted to investigate issues in and among countries, as well as in time series (World Values Survey, 2013). It is therefore reasonable that surveys are one of the most widely used methods in taxation research besides experiments and interviews (McKerchar 2010, 125).

In conducting a survey, efforts must be taken to minimise errors in order for the output to be useful. There are two typical issues to be considered for a successful survey: whether the samples used are a correct representation of the population, and whether the instruments and the estimation used are accordance with research theory (Groves 2004). Dillman argues that there are four sources of errors in surveys. First, sampling error, in which the survey only takes account of part of the population. Second, coverage error, in which not all population members has the same probability of taking part in the survey. Third, measurement error, in which responses cannot be accurately gathered because of poorly constructed instruments. Fourth, non-response error, in which there is a difference in output from the survey due to sampled respondents not providing information (Dillman 2007, 11). In summary, there are two determining factors in a successful survey: sample and measurement. This section discusses actions and measures the researcher should undertake to minimise these problems when developing survey instruments

and conducting the survey, so that the research output accurately reflects the targeted population.

A detailed discussion of the selection of samples, sample location, the construction of instruments, ethical considerations, the pilot study for a preliminary test of the instruments and data collection procedures is then presented. A summary of the data analysis for the survey data is also discussed.

4.3.1.2. Sample Selection

As this research is about the tax morale of individual taxpayers in Indonesia, the sample selection uses a database source that provides access to a sample of individual taxpayers. The researcher requested sample data of individual taxpayers from the DGT, based on certain criteria.¹⁰ The requested information was limited to names and addresses, and was solely used to distribute the questionnaire. The use of the database ensured that all sample respondents were factual individual taxpayers. No tax-related information was requested nor provided, and this research did not request nor involve any form of individual taxpayers' obligation performance. The permit for the sample generation was granted on 7 January 2014.

The sample selection used stratified random sampling. Besides the city, the stratification was also based on type of employment (self-employed or employee). Data based on this stratification can be provided by the DGT, as individual taxpayers lodge their tax filing with different forms in accordance with their type of employment: self-employed (Tax File Form 1770¹¹) or employee (Tax File Form 1770S¹² or 1770SS¹³). However, there is a difference in stratification between sector codes in the national statistics with business sector code numbers used and reported by individual taxpayers in their tax files. Accordingly, the sample stratification for self-employed individual taxpayers was based on sectors the DGT used.

The database contains a more detailed division for the employee individual taxpayers. The file contains information on whether the taxpayers are private enterprise taxpayers, government employees or retirees. Hence, the stratification is further broken down in accordance with these divisions. This may be useful in terms

¹⁰ The criteria included the stratifications: city, self-employed, employed, and based on the taxpayers registered as of 31 December 2012.

¹¹ Form 1770 is for individual taxpayers who run their own businesses.

¹² Form 1770S is for individual taxpayers who are employed but may still have other sources of income.

¹³ Form 1770S is for individual taxpayers who are employed by only one employer and no other sources of income.

of seeing the difference of perception and characteristics among groups of employee individual taxpayers later in the analysis.

Initially, the survey was planned to be conducted using the mail service; however, costs were prohibitive given the increased cost of printing and mail delivery service in Indonesia. The method required a significant number of questionnaires to be distributed in order to get statistically significant responses, a good representation of the sample frame, and the mail survey response rate in developing countries were usually low. For example, a mail survey by Abdul-Jabbar and Pope (2008) to small and medium enterprises achieved only 175 questionnaires usable out of 1300 sent (16%). Even more, survey of large and medium corporate taxpayers in Jakarta conducted by Susila and Pope (2012) resulted in a response rate of only 8.2%. Expecting about 400 returned responses in such a response rate range from 8% to 16%, therefore, required mailing between 2,500 to 5,000 questionnaires with return stamps. Accordingly, it was decided to alter the data collection method to a self-administered survey; or alternatively, a structured interview to the respondents.¹⁴ The implemented questionnaires distribution is presented in Section 5.2. about Data Collection Procedure.

As many as 2,361 names, together with addresses, were provided by the DGT. From the dataset, a further selection was carried out to reduce the number of samples to be distributed. Further selection via stratified random sampling resulted in 750 final samples of individual taxpayers.

4.3.1.3. Sample Cities

The samples for the survey were taken from the three largest cities in Indonesia: Jakarta, Surabaya and Medan. Jakarta, the capital city, is the largest city in Indonesia, with a population of around 10 million people in 2014 (Bureau of Regional Development Planning of Jakarta 2014). The DGT headquarter is located in Jakarta, along with seven regional tax offices, supervising 70 tax offices (DGT 2015a, 167–71). Jakarta had 3,135,870 registered taxpayers in 2014 (DGT 2015b). Surabaya, also located on Java, is the second largest city, both on the island and in the country, with a population of 3,200,454 in 2013 (Central Bureau of Statistic of Surabaya City 2014). Surabaya has one regional tax office, with 13 tax offices under its supervision. The number of individual taxpayers registered at the offices in the city in 2014 was 487,816 (DGT 2015b). Medan, conversely, is located on Sumatera,

¹⁴ In case that a respondent preferred not answering the questions or request in the questionnaire by him/herself, the researcher would offer to read the questions and statements and tick the choice based on the respondent's answer. No respondent chose the latter option.

and is the largest city on that island. The population of the city in 2012 was 2,122,804 (Central Bureau of Statistic of North Sumatera Province 2016), and it had one regional tax office and nine tax offices (DGT 2015b). In 2014, there were 780,003 individual taxpayers in the city registered at the tax offices (DGT 2015b).

The selection of these three cities was based on cost and time constraints—it was not possible to cover the whole population of Indonesian taxpayers in all areas. However, individual taxpayers from the three largest cities should represent all the types of taxpayers, both self-employed and employed. The samples also represent diverse economic and demographic groups, such as professionals, government employees, private sector employees, state-owned enterprise employees and retirees. Other demographic groups, such as groups based on education, religion and age, are also represented in the respondents.

4.3.1.4. Questionnaire Design

The questionnaire is divided into two sections. The first section contains general questions about the respondent, including gender, city of domicile, age group, education level, marital status, religion and employment status. There are also two questions relating to economic situation: number of dependents and financial situation over the past year. The limit of one year was chosen so that participants would be able to remember the situation more accurately—a longer time span might induce memory distortion (Elffers, Weigel and Hessing 1987, 315). For tax-related information, questions were included on how the respondent prepared and lodged his/her tax file. These questions were presented to explore whether there is another party who helped and influenced the respondent in preparing his/her tax return. Further, this section also contained questions about the level of formal interaction of the respondent with taxation as an alternate means to measure assumptions about a respondent's familiarity and knowledge on taxation. To make it easier for the respondent to answer, the last part was broken down into three questions. All questions in this section were measured in a nominal scale.

The second section contains 40 statements, in response to which the respondent was requested to choose an attitude using the Likert scale. There were five options for each statement: 1 for 'Strongly Disagree', 2 for 'Disagree', 3 for 'Neutral', 4 for 'Agree' and 5 for 'Strongly Agree'. The statements were intended to cover topics such as sentiment towards tax, perception of tax system, trust in the government, perception of the tax authority, perception of democracy, perception of the legal

system and its enforcement, perception of public goods and services, attitude to punishment, tax morale and tax evasion.

The statements were constructed based on previous studies related to tax compliance and tax morale, combined with the researcher's self-developed statements in accordance with the topic and context. For example, the statements on the sentiments to tax were derived from the studies by Torgler (2007) which argued that sentiment was one of the key factors to understanding tax morale besides fairness and the relationship between the taxpayers and the government (Torgler 2007), constructed in Indonesian context. The tax morale statements were constructed similarly to the study by Filippin, Viorio and Viviano (2013) and from Lubian and Zarri (2011) for example the statements they used to measure the tax morale: "paying taxes is one of the basic duties of citizenship" and "it is right to pay tax because it helps the weak" (Filippin, Viorio and Viviano 2013, 323; Lubian and Zarri 2011, 225). The statements in this research were designed to capture the opinion and experiences of the respondents in order to be analysed to reflect their tax morale and the influence of the factors on their tax morale to achieve the research objective and to answer the research questions in Chapter 1. The complete statements translated into English are presented in Appendix I.

The statements are constructed with consideration of simplicity, ease, completeness and in order to avoid inaccuracies and biases from the respondents (Dillman 2007, 53–78). The number of technical terms in relation to taxation were kept minimal, as the respondents ranged from those who were technically familiar with tax to people with little knowledge about the topic. The respondents may also have a wide range of education level, from elementary school graduate to doctoral degree.

Statements were adapted from previous tax morale studies, as presented in Table 4.2.

Table 4.2: References for Survey Instruments

Theme	References
Sentiment towards tax	Torgler 2007
Perception of tax system	Maria-Dolores 2010; Torgler et al. 2008
Perception of government	Lubian and Zarri 2011; Torgler 2004b
Perception of authority	Torgler et al. 2008
Perception of the legal system	Torgler 2004b

Theme	References
Perception of democracy	Frey and Torgler 2011; Lago-Peñas and Lago-Peñas 2010; Mohdali 2013; Tekeli 2011
Perception of public goods	Braithwaite, Murphy and Reinhart 2007; Mohdali 2013
Attitude to punishment	Kierchler and Wahl 2010; Niemirowski, Baldwin and Wearing 2000
Tax morale	Filippin, Viorio and Viviano 2013; Lubian and Zarri 2011; Torgler et al. 2008
Attitude to tax evasion	Morelo and Pujol 2012; Torgler 2004b; Torgler et al. 2008; the World Values Survey 2016

4.3.1.5. Ethical Considerations

As this research involves humans, ethical clearance was required prior to the commencement of data collection. The first Ethics Approval was issued on 2 October 2013. Later, following a change in data collection method from mail survey to the self-administered survey or structured interview¹⁵, an application for a revision was submitted to the Human Research Ethics Committee. The Amendment of Ethics Approval, containing the approval of the change, was issued on 28 April 2014. Copies of the approval letters are presented in Appendix D and Appendix E.

All respondents were clearly informed about the ethics clearance issued by the Human Research Ethics Committee, Curtin University in the cover letter. The cover letters included all pertinent information, including the contact person and addresses, as required in the ethics clearance application process.

4.3.1.6. Pilot Study

A pilot study was conducted prior to data collection. A pilot study is important in gathering information to test the questionnaire and the probability that the survey will work 'under realistic conditions' (Babbie 1990, 225; Dillman 2007, 140–1; Fowler 1993, 100). A pilot study may also help researchers to be aware of biases, and lead to a revision before the final survey is conducted (Bourque and Fielder 2003, 92–3).

Prior to developing the draft questionnaire, two PhD students at Curtin University with study topics related to tax, who had conducted their survey research in a

¹⁵ See Section 4.3.1.2.

comparable manner, were consulted.¹⁶ The discussion was intended to give a practical understanding of constructing questionnaires on a sensitive issue such as taxation. This was essential in order that the respondents would be able to easily draw an answer from his/her experience and perspective and be willing to complete the whole questionnaire, so as to produce a high response rate and useful data for the analysis. Substantial feedback was received, including on the simplicity of the questions and the use of numbers alongside the qualitative scale in the Likert scale.

The pilot study was conducted in March 2014. Two methods were applied: mail and online methods. Although an online survey was not utilised in the subsequent real research, the use of this method was selected in addition to the mail method in order to increase the numbers of pilot study respondents to provide sizeable feedback. For the online pilot survey, questions were pasted to Google form (Google documents), and the link was distributed to the intended respondents. The mail method delivered the questionnaire to respondents considered to resemble the stratifications of the respondents in the real survey to be conducted later. For example, the pilot survey questionnaires were sent to self-employed individuals, government employees and private company employees.

Along with the cover letter, an assessment sheet was provided to the respondents to evaluate the questions. Similarly, an assessment page was provided to the online respondents. The evaluation focused on the easiness of the questionnaire, the easiness of responding to the questions accurately in accordance with the respondent's situation, the number of technical terms, the perception of length of the questionnaire and the willingness to complete the questionnaire. The evaluation used a 1–10 scale, where in most assessments 1 was the most positive value (very easy, very easy to respond accurately, very small number of technical terms and very short). Only in the fifth category, it reversed: 1 was very unwilling and 10 very willing. The respondents were also requested not to answer or select an attitude to a question or statement in the case they did not find it easy to understand or found it ambiguous. In that case, they were requested to leave the question blank. This aimed to test the questions for simplicity and clarity, so that the design and wording of the questions could be easily interpreted and answered by the respondents. They were also requested to give comments or feedback when necessary. It was expected that simple, clear and accurate questions would encourage respondents to be willing to complete and return the questionnaire.

¹⁶ The researcher wants to thank Dr. Budi Susila and Dr. Raihana Mohdali (then Doctoral Candidates at the School of Economics and Finance, Curtin Business School) who provided stimulating discussions on some parts of this research study design and procedure.

The pilot study was distributed to 36 respondents: 12 online and 24 mail respondents. Four respondents refused to participate, comprising two online respondents and two mail respondents. At the end of the pilot study, four questionnaires were not returned, resulting in 28 completed questionnaires to be used for feedback for questionnaire finalisation.

Based on the comments and feedback, one question about the income bracket was omitted, as six respondents did not respond to the question. It was later substituted with a more normative question about the respondent's financial situation in the past year. This question was deemed an appropriate substitute as they cover a similar topic. Moreover, the topic of financial situation in the tax morale context has already studied as discussed in Section 2.4.3.2. Based on the pilot study results and feedback, the questionnaire was finalised and distributed to the sample respondents.

4.3.1.7. Data Analysis

Data analysis for the survey was calculated using descriptive and inferential statistics. Descriptive statistics are used to explore the frequencies of respondents according to groups or categories, as well as the inclination of respondents towards the topics presented. Descriptive statistics mainly capture the mean, mode, median and standard deviation. While the median is the appropriate method to examine ordinal data, the score in Likert scales demonstrate 'the strength of one respondent's view in relation to that of another' (Kumar 2005, 146); therefore, mean scores of the scales were also used. The standard deviation examines how far the inclination towards a topic deviates.

The inferential statistics in this research drew on Principal Component Analysis (PCA), multivariate analysis which included mean tests, correlation analysis and regression analysis. Mean tests included independent t-test used to examine whether there was a difference between two groups, whereas the One Way ANOVA test was performed to check whether there was a difference among more than two groups about the topic being observed. Further, correlation analysis was carried out to investigate the relationship between the topic and the respondent's willingness to pay tax as the main theme of this research. This series of analysis has been used in previous studies, such as Mohdali (2013), on the attitudes of individual taxpayers investigating the influence of religiosity on tax compliance in Malaysia. Therefore, these inferential statistic techniques are considered appropriate to investigate the level of tax morale, the differences among groups being examined, and

determinants that influence the tax morale of the individual taxpayers to achieve the research objectives and answer research questions in Chapter 1, particularly research objectives 1 to 3 and research question 1 to 3.

4.3.2. Interviews

4.3.2.1. Introduction

Marvasti (2010, 424) argues that interviews are 'a basic form of data collection based on a question-answer format'. The interview method is often used in qualitative studies where a researcher intends to study a situation, event, role, group, or interaction (Locke, Spirduso and Silverman 1987). One focus in qualitative research is the respondents' views and experiences (Creswell 2003, 199), and interview is widely used as it is considered one of the most powerful methods available to understand human beings (Fontana and Frey 1994, 361). Punch (2005, 168) emphasises that interviews are a powerful means to understand perceptions, definitions of situations and reality construction.

Interview can take many forms, including individual interview, group interview, mail or self-administered interview and telephone interview, as well as in the forms of structured, semi-structured and unstructured (Fontana and Frey 1994, 361). Structured interview is expected to deliver consistency, uniformity and structure, while an unstructured interview is focused more deeply on the respondents' view (Marvasti 2010, 425). Unstructured interview is usually intended to gain deep knowledge about the respondents' perspectives and experiences. Johnson (2002, 106) argues that deep understanding from an interview helps the researcher obtain four benefits: first, to understand the inner feeling or thinking of respondents; second, to discover 'what is usually hidden from ordinary view or reflection or to penetrate to more reflective understanding about the nature of that experience'; third, to help the researcher to understand his or her own experiences that create his or her interests; and fourth, to obtain multi-perspectives and meanings of the object and phenomena being studied.

In the qualitative approach of this research, the researcher conducted interviews with participants¹⁷ to study how individual taxpayers perceive taxation, the problems related to tax compliance and other issues and explanations that might emerge. The strategy design was to corroborate the quantitative results and to explore further. Therefore, the interview questions were constructed to be similar to the statements

¹⁷ In order to differentiate the respondents of the survey from the respondents of the interview, the term 'participant' is used for the interview respondents.

in the survey questionnaires; however, the interviews were conducted in an open-ended, unstructured manner, where the participants could freely express their opinion or reveal their experiences. This was expected to provide deep understanding of the participants' views and opinions, and thus help the researcher to understand deeper about the topics being researched.

4.3.2.2. Participant Selection

It is important to note that the qualitative approach, in this case interview is not intended to obtain data for generalisation of the population.¹⁸ The qualitative approach is mainly conducted to gather in-depth information of a phenomenon, to enrich the data and analysis obtained from quantitative approach through corroboration.¹⁹ It also enables the exploration of more complex phenomenon and expansion of the theory existed. In this research, it may also allow lead to the exploration of new factors influencing tax morale in Indonesian or developing country context.

Consequently, the selection of participants for interviews in this research used purposive sampling, by identifying individuals that could appropriately contribute to the research. This approach is widely used in the qualitative approach, in line with the purpose of the method to corroborate and obtain in-depth explanations (Beitin 2012). The researcher identified individual taxpayers who had experiences with taxation, so that the data would be relevant in the context of taxpayers and tax compliance inherent in the issues. Consequently, potential participants were individual taxpayers who had registered with the tax office, and were considered to possess relevant experiences and opinions on the government, public goods and services, democracy, the tax authority and law enforcement. Based on these criteria, 15 individual taxpayers were approached and asked to give interviews, of which nine were willing and successfully interviewed.

Over the course of the interview process, it was regarded that information about the individual taxpayers' compliance from different angles was crucial. For example, tax consultants and tax managers have knowledge on individual taxpayers' compliance issues capable of enriching and conforming the data obtained from the individual taxpayers. This is in line with the triangulation technique to achieve better validity in the findings.²⁰ Consequently, a number of tax consultants and tax managers were approached. Eventually, five tax consultants were willing to provide information

¹⁸ See Table 4.1 "Generalisation of time and context of an inquiry".

¹⁹ See Section 4.2.2.

²⁰ See Section 4.2.2.

through interviews, and one tax manager from a multinational company whose work also dealt with employees' tax matters was successfully interviewed. Interviews of the tax consultants and the tax manager were conducted over January–February 2015. The interviews of these informants brought the number of interview participants for this research to 15 in total, comprising ten individual taxpayers (including the tax manager) and five tax consultants. This number of participants is considered ideal, as the number recommended by Creswell (1998) of around five to 25 participants for interview.

4.3.2.3. Questionnaire Design

The interview questions were similar to those in the survey questionnaire. After covering demographic information, the researcher asked about issues related to perspectives on tax and tax morale, including sentiment towards tax, relationship between tax and government services, public goods and services, the tax authority, and other factors that emerged during the interview that appeared to have an influence on the participant's willingness to pay tax. However, as the purpose of this method is to gain understanding of the issues from the participants' perspectives as taxpayers, the questions were open-ended. The participants were requested to elaborate their answers and views, allowing the enrichment of data and the expansion of the information in accordance with the participant's experiences. The researcher focused on the participants' perspectives and opinions—nothing related to the tax obligations of the participant was asked. The list of interview key questions translated into English is presented in Appendix N.

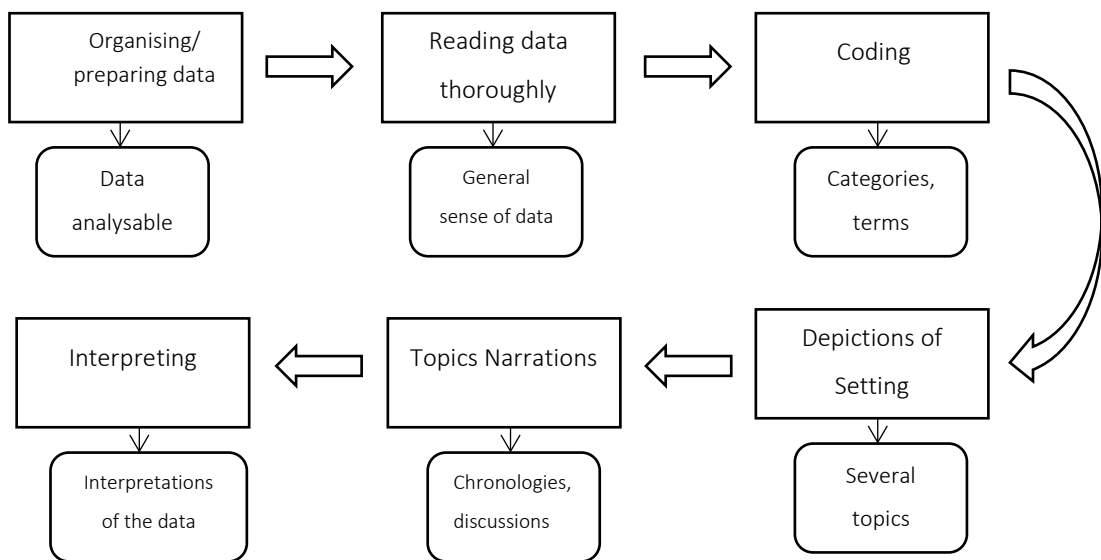
4.3.2.4. Data Analysis

Qualitative analysis is interpretive (Creswell 2003, 182). The researcher has the role of interpreting the data, and it is acknowledged that the researcher cannot avoid his or her personal interpretation.²¹ Therefore, careful measures must be taken to ensure the validity of the analysis. Procedures in qualitative research vary (Creswell 2003, 190); however, there are several common steps. This research follows the process outlined in Creswell (2003) to analyse the interview data. First is organising and preparing the data. In this research, this step involves converting the interview audio data into transcripts that can be easily analysed further. Second is reading the data thoroughly in order to acquire a 'general sense' or impression of the overall information. Third is a coding process, which includes categorising the words or terms derived from the interviews. Fourth, based on the coding process, is creating

²¹ See also Table 4.1.

depictions of the interview and participant settings, contained in a small number of topics. Fifth is to create relevant narrations on the topics obtained from the fourth step, which may take the form of chronological discussion. The sixth (final) step is interpreting the data, which can be based on the researcher's own knowledge and experiences, in comparison with existing theories, or on factors emerging from the analysis (Creswell 2003, 191–5). Figure 4.2 presents the flow of these steps, with the expected outputs from each step.

Figure 4.2: Flow of Interview Data Analysis



Source: Adapted from Creswell (2003, 191–5).

4.4. Chapter Summary

This chapter presents a discussion on the methodology employed in this research. It begins by briefly describing research paradigms, which are considered to drive the orientation or strategy of research. This research is underpinned by the pragmatic paradigm, which emphasises achieving a purpose rather than being inflexibly assigned to a traditional model of solely quantitative or qualitative methods. This paradigm is considered appropriate to this research as a behavioural study of individual taxpayers. Accordingly, the research employs a mixed methodology strategy, where the researcher examines the problems from quantitative and qualitative approaches in order to obtain the best possible explanation and most reliable findings. Surveys were employed to provide quantitative data and analysed using descriptive and inferential statistics to provide information on trends and generalisations to the larger targeted population. Qualitative data were obtained via in-depth interviews for exploration, and were analysed through interpretation. Initially, the quantitative and qualitative data were analysed separately, but later,

both are further discussed for corroboration, in order to acquire a comprehensive understanding and more reliable findings of the phenomenon in order to achieve the objective in and to answer the research questions in Chapter 1.

CHAPTER 5

QUANTITATIVE DATA ANALYSIS

5.1. Introduction: Survey

This chapter presents the quantitative approach employed in this research in order to achieve the research objectives and to answer the research questions in Chapter 1. It starts with the presentation of the survey procedures conducted, the responses obtained from the samples and the respondents' profiles. It continues with further data processes, which includes the employment of factor reduction, test of the assumptions and the analysis of the data. It then presents the findings from the analysis, including analysis using descriptive statistics, independent t-tests, One Way ANOVA and multivariate regression. The chapter concludes with a summary. The findings in this chapter will be later discussed in collaboration with the findings in chapter 6 on qualitative analysis in chapter 7: Discussion.

5.2. Data Collection Procedure

The researcher distributed 750 questionnaires to the sample respondents from June to August 2014—that is, the process took about three months from the distribution to the collection of the questionnaires. The questionnaires were distributed to respondents in Jakarta, Surabaya and Medan.²² The selection of the samples was based on stratified random sampling, using the database of taxpayers and their addresses provided by the DGT. The sampling frame distribution was carried out to reflect the labour force proportion of the three cities.²³ Although not the whole labour force is registered as taxpayers yet, this selection is considered best to represent individual taxpayers in Indonesia as self-employed persons and employees are obliged to pay income tax whenever they earn a certain income, as set by tax laws.

In order to ease the distribution in the field, the addresses of the respondents were clustered and grouped by city, district, sub-district and street. This method took more time than a mail survey and online survey would, but was anticipated to produce a higher response rate and good representativeness of the population.²⁴

The questionnaire was distributed to the respondents accompanied by a cover letter, which offered information about the questionnaire and the research. It disclosed the objective of the questionnaire and the research and other related information, as well as ensuring the confidentiality of the research and data provided

²² See Section 4.3.1.3 for explanation about the sample cities.

²³ See Table 5.2.

²⁴ See 4.3.1.2.

by the respondents. It also contained the contact name and address of the researcher, including the address of the Curtin University Ethics Committee, in case the respondent had any queries regarding the questionnaire or the research.

In the survey, the researcher located and visited the addresses of the sample respondents. If respondents were home, they were requested to answer the questions, and given the option of being interviewed or to fill out the questionnaire by themselves. However, as the questionnaires were mostly distributed on weekdays and the addresses were residences, most respondents were not at home, so the questionnaires were left with a message that they would be collected a few days later.

Two attempts were made to collect the questionnaire. The collections were conducted at a maximum of twice. If the respondents did not make the questionnaire available in the first re-visit, another prompt to fill out the questionnaire was delivered, with a message that the questionnaire would be collected on another day. If on the second visit the respondents had still not responded, the questionnaires were left out, to minimise response bias from respondents who were not willing to answer the questionnaire. As the responses were received in a period considered to be one wave, there was no timing bias.

All documents, including the cover letter and the questions, were written in Bahasa Indonesia, the national language, widely used in formal occasions and day-to-day interactions among people. The survey questionnaire in Indonesia is presented in Appendix G of this thesis, and the English translation is presented in Appendix I.

5.2.1. Response Rate

At the end of the collection period, 392 questionnaires had been returned, representing a 52.27% response rate—a response rate of greater than 30% is considered acceptable for sensitive topics such as tax (Devos 2005). The response rates among cities ranged from 49% to 57%, with 222 respondents in Jakarta eventually returning the questionnaire (49.33%). From the 180 questionnaires distributed, 101 respondents in Surabaya returned the questionnaires (56.11%), while from the 120 sample respondents in Medan, 69 (57.50%) returned the questionnaire. During the recording and coding stage, some of the questionnaires were qualitatively examined to find missing data and inconsistencies. Questionnaires with significant missing information or inconsistent answers were excluded from the dataset. Responses were considered inconsistent if they were similar both for the positive and negative questions (e.g., tax morale vs tax evasion,

as the first is the willingness to pay tax and the second is attitude to evading tax) or respondents had only selected one answer for all or almost all questions (e.g., all 'agree' or 'strongly agree').

At the end of the process, 338 responses were used, representing a 45.07% usable response rate in total—response rates of 44.67%, 43.33% and 49.17% for Jakarta, Surabaya and Medan respectively. The summary of the response rates is presented in Table 5.1.

Table 5.1: Survey Response Rate

No	City	Distributed		Returned		Usable		Unusable
		Number	Percentage	Number	Percentage	Number	Percentage	
1	Jakarta	450	60.00%	222	49.33%	201	44.67%	21
2	Surabaya	180	24.00%	101	56.11%	78	43.33%	23
3	Medan	120	16.00%	69	57.50%	59	49.17%	10
Total		750	100.00%	392	52.27%	338	45.07%	54

This number of usable responses is considered sufficient to represent the intended taxpayer population in the three cities, based on Fowler's (2009, 24) assertion that 'a sample of 150 people will describe a population of 15,000 or 15 million with virtually the same degree of accuracy, assuming that all other aspects of the sample design and sampling procedures are the same'.

5.2.2. Response Representativeness

The usable responses are compared to the research population, in this case, the labour force in the three cities, in order to examine the response representativeness. As mentioned earlier in Section 5.2., the labour force is used because it reflects the taxpayers, both the already registered and potential taxpayers. The proportion of the labour force and the respondents is presented in Table 5.2.

Table 5.2: Labour Force Sample Representativeness by City

No	City	Labour Force Population		Respondents in this Research	
		Number	Percentage	Number	Percentage
1	Jakarta	9,607,787	66.39%	201	59.47%
2	Surabaya	2,765,487	19.11%	78	23.08%
3	Medan	2,097,610	14.50%	59	17.46%
Total		14,470,884	100.00%	338	100.00%

As can be seen from Table 5.2, respondents in Jakarta account for 59.47% of the total, whereas the labour force population is 66.39%; respondents from Surabaya account for 23.08%, whereas the population represents 19.11%; and the percentage of respondents from Medan is 17.46%, while the labour force proportion is 14.50%. Thus, these proportions are not too different from the population shares, so the data may be considered acceptable in terms of population representativeness.

Further, respondents are divided by their employment type and status in Tables 5.3 and 5.4. These categories are compared to the number of registered taxpayers and the database from the DGT provides information about the individual taxpayers' population. The numbers of this research respondents are similar to the proportion of the labour force where the self-employed respondents account for almost 39% of the total respondents and the employee respondents is around 61%, comparable to those of the labour force.

Table 5.3: Labour Force Sample Representativeness by Employment Type

No	Employment Type	Labour Force*		Respondents in this Research	
		Number	Percentage	Number	Percentage
1	Self-Employed	42,795,708	39.02%	131	38.76%
2	Employee	66,874,691	60.98%	207	61.24%
Total		109,670,399	100.00%	338	100.00%

*Source: Central Bureau of Statistic (2013, 94–5).

Table 5.4: Labour Force Sample Representativeness by Employment Status

No	Employment Status	Registered Taxpayers		Respondents in this Research	
		Number	Percentage	Number	Percentage
1	Private Enterprise	11,840,360	61.96%	169	50.00%
2	Employee				
	State-Owned	699,516	3.66%	19	5.62%
	Enterprise Employee				
3	Government Employee	5,785,570	34.19%	18	4.33%
4	Professional	n/a	n/a	6	1.78%
5	Retired	35,005	0.18%	1	0.30%
Total		19,108,630	100.00%	207	100.00%

5.2.3. Respondent Profiles

This section presents respondent profiles, categorised in groups which may represent the differences in demographic, social (which includes experiences and

knowledge about tax), as well as economic of the respondents and other factors as in Section 2.4.3 which discusses tax morale determinants. Consequently, the respondent profiles are categorised into the following groups: religion, education level, marital status, financial situation, tax filing help, tax influencer, time registered as taxpayer, and their interaction with tax.

By religion, most of the respondents in this research were Muslims (57.10%), followed by Catholics (15.98%), Protestants (15.09%), Buddhists (7.99%), Kong Hu Cu followers (3.5%) and Hindus (0.30%). These proportions were not overly similar to the national population; however, the shares considered acceptable as the ranks are similar. Additionally, no individual taxpayers provide information on religion in the tax files nor in labour force-related data, so comparison by religion is not presented. Table 5.5 shows the numbers and shares of the respondents according to their religion as follows:

Table 5.5: Sample Representativeness by Religion

No	Religion	National Population**		Respondents in this Research	
		Number	Percentage	Number	Percentage
1	Islam	207,176,162	87.18%	193	57.10%
2	Catholic	6,907,873	2.91%	54	15.98%
3	Protestant	16,528,513	6.96%	51	15.09%
4	Buddha	1,703,254	0.72%	27	7.99%
5	Hindu	4,012,116	1.69%	1	0.30%
6	Kong Hu Cu	117,091	0.05%	12	3.55%
	Others	299,617	0.13%	-	-
	Not answered	139,582	0.06%	-	-
	Not included in census	757,118	0.32%	-	-
Total		237,641,326	100.00	338	100.00%

**Source: Central Bureau of Statistic (2014).

Further, in education, Table 5.6 shows that around 67% of the respondents were educated to the tertiary level (diploma and undergraduate), while those who had only finished high school and below account for 68 persons (around 20%). The smallest share of respondents was those who had a post-graduate degree (Master's or Doctoral Degree), at around 12%. The numbers and shares are presented in Table 5.6 as follows:

Table 5.6: Sample Proportion by Education Level

No	Education Level	Respondents in this Research	
		Number	Percentage
1	Up to High School	68	20.12%
2	College	228	67.46%
3	Post-Graduate	42	12.43%
Total		338	100.00%

By marital status, only around 10.65%, or 36 respondents, replied that they were 'single/not married' while most of them were married as shown in Table 5.7. as follows:

Table 5.7: Sample Proportion by Marital Status

No	Marriage Status	Total	
		Number	Percentage
1	Married	302	89.35%
2	Not married	36	10.65%
Total		338	100.00%

When asked about financial situation²⁵, most of the respondents of about 62%, stated that they had only occasionally had financial difficulty over the last year; 'never' was the second most common choice (18.64%), close to 'often', selected by 16.86% of respondents. Only eight respondents (2.37%) replied they faced continuous financial difficulty during the period. The following Table 5.8 shows the numbers and proportions.

Table 5.8: Sample Proportion by Financial Situation

No	Financial Situation	Total	
		Number	Percentage
1	Never	63	18.64%
2	Occasionally	210	62.13%
3	Often	57	16.86%
4	Always	8	2.37%
Total		338	100.00%

When asked about whether they were helped in filing tax return, almost 60% of the respondents claimed to prepare the tax files by themselves, followed by 13% who

²⁵ See Section 4.3.1.4 for the discussion about the question.

replied that they had been helped by their employer. As many as 30 respondents, or around 9%, said that they received help from colleagues, 24 respondents, or around 7%, used the assistance of tax consultants, and 22 respondents, or 6.51%, replied that they were helped by a family member. Only 18 respondents stated that they received help from the tax office. The numbers and proportions are presented in Table 5.9 as follows:

Table 5.9: Sample Proportion by Tax Filing Help

No	Tax Filing Help	Total	
		Number	Percentage
1	None	200	59.17%
2	Family member	22	6.51%
3	Colleague	30	8.88%
4	Employer	44	13.02%
5	Tax consultant	24	7.10%
6	Tax office	18	5.33%
Total		338	100.00%

Further, as many as two hundred and thirty (230) respondents, or almost 70%, claimed that they submitted their tax files of their own volition, without any influence from any other party. As many as 42 respondents (12.43%) answered that their employers influenced them to file taxes, with 31 respondents claiming that their colleagues have that role. These were followed by the 22 respondents who stated that the tax office influenced them to file taxes. Only seven and six respondents claimed they submitted tax files under the influence of a family member (2.07%) and tax consultant (1.78%) respectively as shown in Table 5.10 as follows:

Table 5.10: Sample Proportion by Tax Influencer

No	Tax Influencer	Total	
		Number	Percentage
1	None	230	68.05%
2	Family member	7	2.07%
3	Colleague	31	9.17%
4	Employer	42	12.43%
5	Tax consultant	6	1.78%
6	Tax Officer	22	6.51%
Total		338	100.00%

When asked how many years respondents had been registered with the tax office, 38 respondents replied that they had been registered more than ten years. As many as 51 respondents had been registered less than two years, while 116 (34%) of the respondents claimed they had been registered between two and five years. Most respondents, 133 persons, or around 40% of the total, replied that they had been registered for between five and ten years, a medium–long period as shown in Table 5.11 as follows.

Table 5.11: Sample Proportion by Time Registered as Taxpayer

No	Length of Time Registered	Total	
		Number	Percentage
1	Less than two years	51	15.09%
2	Two–five years	116	34.32%
3	Five–ten years	133	39.35%
4	More than ten years	38	11.24%
Total		338	100.00%

Lastly, respondents were asked about their formal interaction with tax. This query was represented by three questions. The first was, ‘Have you ever attended any course or class on taxation?’ with options of ‘yes’ and ‘no’ answers. The second question was, ‘In the last five years, have you ever attended any seminar, workshop, or any taxation-related event?’ with options ‘yes’ and ‘no’. The last question was an extension of the second, in which the respondents were asked ‘If you answered ‘yes’ to the above question, how many times have you attended such kind of events in the last five years? (If do not remember exactly please estimate)’. The options for the last question were one to five times, six to 15 times (once or three times a year on average), and more than 15 times.

Respondent who answered ‘no’ to the first and second questions were categorised as not having any formal interaction with tax, because they had not had any experience in formal education regarding tax, such as courses, classes, seminars or any other tax-related event. Respondents were considered to have ‘low’ formal interaction with tax if they responded ‘no’ to tax-related course and class attendance, but ‘yes’ when asked about attendance in the second question about tax-related occasional events such as seminars and workshops, and had attended such events no more than five times in the previous five years. Respondents were grouped as having ‘medium’ interaction when they had attended classes or courses

on taxation with no attendance at an occasional event, or attended tax-related occasional events more than 15 times in the previous five years. Respondents who had attended courses and/or courses on tax and had attended more than five occasional events on tax were considered to have a high interaction with taxation.

As many as 200 respondents, or almost 60%, answered that they had not had any formal interaction with taxation. As many as 80 respondents were considered to have had medium interaction, and 33 respondents, or about 10%, had 'low' interaction. Only 25 respondents, or around 7% of the total, could be categorised as having had high interaction with taxation based on their responses. The numbers and proportions are presented in Table 5.12 as follows:

Table 5.12: Sample Proportion by Interaction with Tax

No	Interaction with Tax	Total	
		Number	Percentage
1	None	200	59.17%
2	Low	33	9.76%
3	Medium	80	23.67%
4	High	25	7.40%
Total		338	100.00%

5.2.4. Statements of Determinants and Tax Morale

Further to the questions about profiles, the respondents were asked to respond to 40 statements constructed to uncover their sentiment towards tax, perception of the fairness of the tax system, the government, the tax authority, perception of the legal system, democracy, public goods, attitude to punishment, tax morale and attitude to tax evasion with five-point Likert scale options. The statements to be analysed to measure the determinants that influence tax morale and the tax morale were constructed based on previous theories as discussed in Section 4.3.1.4. The complete statements in Indonesian language are presented in Appendix G, with English translations in Appendix I.

5.3. Factor Reduction

The obtained, usable responses to the 40 statements as discussed in Section 5.2.4 are initially processed via the PCA, often used in attitudinal studies to reduce the number of questions on a similar theme (Tabachnick and Fidell 2013) and to find groups of variables (Field 2009, 628). Correlations appear among the factors when

the data are checked with the Oblique rotation method using Promax. The questions with weak correlation based on the PCA were omitted. To make the factors easier to distinguish, coefficients with loading less than 0.4 suppressed, such scores are considered poor (Comrey and Lee 1992; Field 2009, 661). The number of factors retained is 10, in order to reflect all the themes considered to influence tax morale as suggested by various research studies²⁶—that is, the researcher uses the a priori approach to obtain the factors (Dean 2009a, 22). The results of the PCA should be considered guidelines, with the researcher making final decisions (Dean 2009b).

From the PCA on respondents' responses to the 40 statements, four statements have been omitted, as they appear to have no clear correlation with any of the factors. Accordingly, 36 statements were used in the quantitative analysis of this research. The 40 statements, including those omitted from the PCA, are presented in Appendix P, while the usable statements are presented in each section discussing the theme, from Section 5.5.1 to Section 5.5.10.

The PCA results in the construction of 10 factors (KMO = 0.871; Bartlett's Test of Sphericity $p=0.000$). The KMO score of 0.871 shows that the data can be further analysed using factor analysis, as it is categorised as 'meritorious' (Hair et al. 2006). Cronbach's Alpha is used to test the reliability of the statement scores in each emerged theme, resulting in consistent good scores of more than 0.6, a well-known threshold for reliability analysis (Hair et al. 2014). The theme, number of constructing questions, and Cronbach's Alpha score for each of the factors are presented in Table 5.13.

Table 5.13: Cronbach's Alpha of Topics in Questionnaire Data

No	Theme/Factors	Number of Questions	Cronbach's Alpha
1	Sentiment towards Tax (Sent)	4	.810
2	Perception on the Fairness of Tax System (Fair)	2	.762
3	Trust in the Government (Gov)	2	.729
4	Perception of the Authorities (Auth)	6	.909
5	Perception of the Legal System (Law)	4	.839
6	Attitude to Democracy (Dem)	3	.800
7	Perception of the Public Goods (PubG)	4	.760
8	Attitude to Punishment (Pun)	3	.794
9	Tax Morale (TMo)	4	.765
10	Attitude to Tax Evasion (TEv)	4	.860
Number of Questions Used		36	

Note: Words in the parentheses are abbreviations used in further analysis.

²⁶ See all the themes in Table 4.2.

5.4. Test of Assumptions

The items derived from the PCA are then tested for assumptions before proceeding to multivariate regression. The multivariate regression using SPSS requires that the data be normally distributed, independent, linear and have homogeneity of variance. The data are normally distributed, as shown by the skewness and kurtosis scores of less than one and three. Most of the data are homogeneous, although some are found to be heterogeneous in variance; however, the heterogeneous data can still be assessed using ANOVA as a robust test (Roberts and Russo 1999, 69). Data for two factor categories, length of time registered as taxpayers and interaction with taxation, are omitted in the ANOVA tests, as they have highly statistically significant heterogeneity, thus violating the assumptions for parametric tests (presented in Appendix Q). Further, the data do not exhibit multicollinearity, as can be seen from the correlation coefficients, which are less than 0.8, as well as VIF scores of less than 10 (presented in Appendix S).

5.5. Findings

The following section contains the findings for each item, including the mean, median, mode and standard deviation of overall respondents for each question to describe the perception or attitude of the respondents towards a theme. The mean, median, mode and standard deviation scores are calculated from the Likert scale scores used for responding to statements, where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree.

An independent t-test is then conducted to examine the difference between categories that have two groups—gender, marital status and type of employment (self-employed or employee)—for each item. Further, One Way ANOVA is carried out to investigate the difference among the eight categories that have more than two groups—city, age group, education level, religion, employment status and financial situation.

In the cases where a statistically significant difference is found, a post-hoc test is carried out to investigate between which groups the difference is statistically significant. As most of the data are homogeneous, Hochberg's GT2 is used, as it is considered the most reliable measure for data with different sample sizes and large population (Field 2000, 275).

Lastly, it is noted that a few mean test results show a statistically significant difference, but fail to pass the homogeneity assumption. While ANOVA is 'a robust test under most circumstances' and a slight degree of violation tends not to affect

the output (Roberts and Russo 1999, 69), it is important to report output violating the condition. In these few cases, Welch ANOVA is conducted post-hoc using the Games-Howell procedure, to provide reliable results for interpretation (Field 2000, 275). The following sections will present the findings of the quantitative analysis of each theme.

5.5.1. Sentiment Towards Tax

Descriptive statistical analysis shows that respondents generally have positive sentiments towards tax. The inclination towards agreement is represented by the modes of 4, as well as the high number of respondents who answer 'Agree' to the four statements, accounting for 63%, 49.4%, 48.8% and 54.75% respectively. The means of the responses range from 3.53 to 3.87, with a grand mean of 3.69 and standard deviation of 0.77, as shown in Table 5.14 as follows:

Table 5.14: Mean, Median, Mode and Standard Deviation of Sentiment toward Tax

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Sent1	So far, tax is very beneficial to the country's development	3.84	4	4	.72	2	15	63	213	45
						0.6	4.4	18.6	63.0	13.3
Sent2	So far, I get benefit from tax	3.52	4	4	.82	4	34	107	167	26
						1.2	10.1	31.7	49.4	7.7
Sent3	So far, the people get benefit from tax	3.54	4	4	.82	1	40	102	165	30
						0.3	11.8	30.2	48.8	8.9
Sent4	The individual taxpayers' compliance in paying tax strongly affects the country's development	3.87	4	4	.72	0	10	84	185	59
						0.0	3.0	24.9	54.7	17.5
Sentiment towards Tax		3.69	4	4	0.77					

Further, the independent t-test showed that there is no significant statistical difference of means between groups with two categories, whether the respondent is male or female, married or unmarried or self-employed or an employee.

Subsequently, the One Way ANOVA tests demonstrate that sentiment towards tax is statistically different by education level ($F(2,335) = 3.35, p < 0.05$) and formal interaction with tax (Welch's $F(3,82.13) = 3.33, p < 0.05$). The post-hoc test on education level groups reveals the difference occurs between the respondents with education of up to high school versus respondents with college level education (Table 5.15).

Table 5.15: Post-Hoc Test by Education Level

Education Level	Mean	SD	Sig.
Up to High School	3.52	0.63	<i>p</i> < 0.05
College	3.73	0.60	

The post-hoc test using Games-Howell in the interaction with tax group demonstrates that a difference of sentiment towards tax is statistically significant between respondents with no interaction and respondents with a medium level.

Table 5.16: Post-Hoc Test by Interaction with Tax Level

Interaction with Tax Level	Mean	SD	Sig.
None	3.61	0.70	<i>p</i> < 0.05
Medium	3.81	0.48	

5.5.2. Perception of the Fairness of Tax System

The descriptive statistics demonstrate that the perception of the fairness of the tax system is relatively neutral. This item is represented by two statements: one on the perception of fairness to the respondents themselves, and the other on the perception of the fairness to other taxpayers. The median and mode for both statements are 3, with means of 3.30 and 2.92 respectively. Standard deviation is 0.75 for the first statement and 0.88 for the second statement. In the first statement the responses slightly tend towards positive agreement, with 133 (almost 40%) of respondents agreeing that the tax authority treats them fairly, just behind the neutral response, which had 152 respondents (45%). For the second statement, a similar number answered 'Disagree' and 'Agree', with 77 (22.8%) respondents disagreeing and 72 (21.3%) respondents agreeing that the tax system is fair to all taxpayers.

Overall, the mean score of the fairness of the tax system is 3.11 with standard deviation of 0.82, and median and mode scores of 3. This demonstrates a neutral stance with an inclination to a positive opinion. The scores are presented in Table 5.17 as follows:

Table 5.17: Mean, Median, Mode and Standard Deviation of Fairness of Tax System

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Fair1	So far tax authority/tax office has treated me as a taxpayer fairly	3.30	3	3	.75	4	41	152	133	8
						1.2	12.1	45.0	39.3	2.4
Fair2	So far tax system is fair to all taxpayers	2.92	3	3	.88	20	77	160	72	9
						5.9	22.8	47.3	21.3	2.7
Fairness		3.11	3	3	0.82					

Further, the independent t-test results on the perception of the fairness of tax system reveal that the differences between groups based on gender, marital status and type of employment are not significant.

The One Way ANOVA results reveal that the difference is statistically significant in two categories: Age ($F(3,334) = 4.28, p < 0.05$) and interaction with tax ($F(3,334) = 2.98, p < 0.05$). Post-hoc tests using Hochberg's GT2 show that the differences are statistically significant between the respondents in the 50–64 years age group and the 30–49 years age group, and between the respondents in 50–64 years age group and those under 30 (Table 5.18).

Table 5.18: Post-Hoc Test of Fairness of Tax System by Age Group

Age Group	Mean	SD	Sig.
Under 30	3.32	0.70	
30–49 years	3.14	0.68	$p < 0.05$
50–64 years	2.89	0.76	

From Table 5.18 above, it can be seen that respondents in 50–64 years age group agree less that the tax system is fair compared to both groups of respondents under 30 and between 30–49 years of age.

Another statistically significant difference in this category is in the interaction with tax groups. The post-hoc results show that there is a statistically significant difference between respondents who have no formal interaction with tax versus those who have high interaction, as well as between those who have medium interaction versus respondents who have high interaction with tax (Table 5.19).

Table 5.19: Post-Hoc Test of Fairness of Tax System by Interaction with Tax Level

Interaction with Tax Level	Mean	SD	Sig.
None	3.09	0.65	
Medium	3.02	0.79	$p < 0.05$
High	3.50	0.57	

Table 5.19 demonstrates that respondents who have a high level of formal interaction with tax are inclined to agree with the fairness of the tax system, compared to respondents who have no or a medium level of interaction.

5.5.3. Trust in the Government

Trust in the Government is represented by two statements, as shown in the following Table 5.20. The modes and medians for both statements are 3, indicating a neutral perception of the statements; however, the means demonstrate a slight tendency to disagreement, with scores of 2.96 and 2.85 respectively, with standard deviation of around 0.8. The number of respondents who 'Agree' with Statement 1 is higher than those who 'Disagree', but the three respondents (0.9%) who responded 'Strongly Agree' are outnumbered by 14 respondents (4.1%) who 'Strongly Disagree'. For Statement 2, it is clearer that the number of respondents who reject the statement is higher than those who accept the statement—109 (32.2%) 'Disagree' and 9 (2.7%) 'Strongly disagree', compared to only 67 (19.8%) who 'Agree' and 4 (1.2%) who 'Strongly agree'—that the government has used the tax money for the welfare of the people.

Overall, Trust in the Government has mean score of 2.90 with standard deviation of 0.81, indicating a relatively neutral stance but skewing to disagreement with positive statements about trust in the government performing its task and utilising tax money.

Table 5.20: Mean, Median, Mode and Standard Deviation of Trust in the Government

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Gov1	So far, the government has made best efforts for the welfare of the people	2.96	3	3	.820	14	75	162	84	3
						4.1	22.2	47.9	24.9	0.9
Gov2	So far, the tax money paid by the taxpayers has been utilised well by the government for the welfare of the people	2.85	3	3	.808	9	109	149	67	4
						2.7	32.2	44.1	19.8	1.2
Perception of Government		2.90	3	3	0.81					

The independent t-test shows that there is no statistically significant difference between categories with two groups. Thus, the difference in Trust in the Government between male and female, married and unmarried, and self-employed and employee respondents as individual taxpayers is statistically insignificant.

Further, the One Way ANOVA test results demonstrate that the difference in Trust in the Government is statistically significant only in the education level group ($F(2,335) = 5.33, p < 0.05$). The post-hoc test using Hochberg's T2 shows that the statistically significant difference occurs between respondents who have up to high school level of education and those who have college level (Table 5.21).

Table 5.21: Post-Hoc Test of Trust in the Government by Education Level

Education Level	Mean	SD	Sig.
High School or lower	2.65	0.72	$p < 0.05$
College	2.97	0.71	

Table 5.21 shows that the respondents who have a college education have statistically higher trust in the government than their counterparts who only have high school or lower level of education.

5.5.4. Trust in the Tax Authority

Trust in the Tax Authority is constructed from six statements on the government and tax authority. It needs to be noted that the addition of two statements (Auth1) and (Auth2) in the following Table 5.22 is the result of the PCA as previously discussed in Section 5.3. The median and modes of all the statements are 3, representing a neutral viewpoint. However, the grand mean score of the item is 3.13 with standard deviation of 0.86, exhibiting a tendency to agree with the positive statements

presented. Only Statement 1 has mean score of less than 3 (2.96) as shown in Table 5.22 as follows:

Table 5.22: Mean, Median, Mode and Standard Deviation of Trust in Tax Authority

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Auth1	In general, government employees have done their job well	2.96	3	3	.83	10	87	152	83	6
						3.0	25.7	45.0	24.6	1.8
Auth2	In general, government employees have good integrity	3.01	3	3	.82	11	75	158	88	6
						3.3	22.2	46.7	26.0	1.8
Auth3	So far the Directorate General of Taxes has done its job of collecting tax revenue well	3.20	3	3	.86	14	49	138	130	7
						4.1	14.5	40.8	38.5	2.1
Auth4	Service of Tax Office is already good	3.29	3	3	.85	15	29	151	128	15
						4.4	8.6	44.7	37.9	4.4
Auth5	In general, tax officers / the Directorate General of Taxes employees have done their job well	3.18	3	3	.88	17	47	142	122	10
						5.0	13.9	42.0	36.1	3.0
Auth6	In general, tax officers / the Directorate General of Taxes employees have good integrity	3.14	3	3	.87	18	45	157	109	9
						5.3	13.3	46.4	32.2	2.7
Perception of Authorities		3.13	3	3	0.86					

Examination of the response means more closely finds that the respondents agree more with statements regarding perception of the tax authorities in comparison to the statements on the government. Perceptions regarding the tax authority are captured in Statements 3–6, while Statements 1 and 2 reflect perception of the government.

The independent t-test shows there is no statistically significant difference between groups based on gender, marital status and type of employment. However, One Way ANOVA tests result in statistically significance differences in the following categories: city ($F(2,335) = 3.26, p < 0.05$), age ($F(3,334) = 2.88, p < 0.05$), employment status ($F(4,332) = 3.86, p < 0.005$) and financial status ($F(3,334) = 4.94, p < 0.005$).

Post-hoc tests were carried out to examine the difference between the groups. Hochberg's GT2 test does not show a statistically significant difference between cities, while a statistically significant difference occurs between the 30–49 years age group and the 50–64 years age group (Table 5.23).

Table 5.23: Post-Hoc Test of Perception of Tax Authorities by Age Group

Age Group	Mean	SD	Sig.
30-49 years	3.20	0.68	p < 0.05
50-64 years	2.93	0.80	

Table 5.23 shows that respondents in the 30–49 years age group tend to express agreement with the statement, compared to the 50–64 years age group.

Further, the post-hoc test reveals a statistically significant difference between private enterprise employees and government employees (Table 5.24)—government employees consider authorities more positively than private enterprise employees.

Table 5.24: Post-Hoc Test of Perception of Tax Authorities by Employment Status

Employment Status	Mean	SD	Sig.
Private Enterprise Employees	3.02	0.73	p < 0.005
Government Employees	3.73	0.48	

Turning to financial status, the post-hoc test demonstrates a statistically significant difference between respondents who claim they had consistent financial difficulties over the past year and those who had no difficulties; the difference is also statistically significant between those always experiencing difficulties and those who only occasionally experienced difficulties (Table 5.25).

Table 5.25: Post-Hoc Test of Perception of Tax Authorities by Financial Difficulty

Financial Difficulty	Mean	SD	Sig.
Always	2.39	0.99	p < 0.05
Occasionally	3.16	0.69	
Never	3.26	0.56	

Table 5.25 above demonstrates that the respondents who claim they always have financial difficulty scored a statistically lower mean than those who never have such difficulty, and those who just have difficulty occasionally.

5.5.5. Perception of the Legal System

Perception of the legal system is captured in four statements asking about respondents' perceptions of law enforcement and the performance of law apparatus. While the modes and medians of all the statements are 3, none of the statements has a score of 3 or more. This shows respondents' inclination towards disagreement with the positive statements regarding the law and its enactment as presented in the questionnaires. Means range from 2.52 to 2.95, with a grand mean of 2.67 and grand standard deviation of 0.81 as shown in Table 5.26 as follows:

Table 5.26: Mean, Median, Mode and Standard Deviation of Perception of the Legal System

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Law1	Law in Indonesia has been implemented justly	2.58	3	3	.82	28	130	137	42	1
						8.3	38.5	40.5	12.4	0.3
Law2	The law implementation in Indonesia is going on the better track	2.95	3	3	.86	16	81	152	83	6
						4.7	24.0	45.0	24.6	1.8
Law3	In general, law apparatus have done their job well	2.62	3	3	.78	23	123	152	39	1
						6.8	36.4	45.0	11.5	0.3
Law4	In general, law apparatus have good integrity	2.52	3	3	.77	27	138	143	29	1
						8.0	40.8	42.3	8.6	0.3
Perception of the Legal System		2.67	3	3	0.81					

The independent t-tests show no statistically significant difference between gender, marital status and type of employment. However, One Way ANOVA reveals that the differences are statistically significant by age ($F(3,334) = 5.29, p < 0.005$), education ($F(2,335) = 8.96, p = 0.000$), financial situation (Welch's $F(3,30.60) = 3.23, p < 0.05$), and interaction with tax (Welch's $F(3,73.01) = 4.80, p < 0.05$).

Subsequent post-hoc tests reveal a statistically significant difference between the 30–49 years age group and the 50–64 years age group (Table 5.27)—respondents in the 50–64 years age group have a lower mean score than respondents in the 50–64 years age group in relation to perception of the legal system.

Table 5.27: Post-Hoc Test of Perception of the Legal System by Age Group

Age Group	Mean	SD	Sig.
30-49 years	2.76	0.64	p < 0.005
50-64 years	2.46	0.69	

As regards education, there is a statistically significant difference between respondents who have high school education or lower and those who have college level education, as well as those who have post-graduate level education (Table 5.28).

Table 5.28: Post-Hoc Test of Perception of the Legal System by Education Level

Education Level	Mean	SD	Sig.
Up to High School	2.37	0.64	p < 0.005
College	2.73	0.65	
Post-Graduate	2.79	0.64	

For financial situation, the post-hoc test shows a statistically significant difference between the respondents who answered they never have any financial difficulty and those who often do (Table 5.29), with the former group having a higher mean.

Table 5.29: Post-Hoc Test of Perception of the Legal System by Financial Situation

Financial Difficulty	Mean	SD	Sig.
Often	2.46	0.73	p < 0.05
Never	2.83	0.59	

Lastly, the post-hoc test for interaction with tax reveals a statistically significant difference between those in the low interaction group and those in the high interaction group, and between the medium interaction group and with the high interaction group. The means and standard deviation of the groups are presented in Table 5.30.

Table 5.30: Post-Hoc Test of Perception of the Legal System by Interaction with Tax Level

Interaction with Tax Level	Mean	SD	Sig.
Low	2.52	0.75	$p < 0.05$
Medium	2.52	0.70	$p < 0.005$
High	3.00	0.52	

Table 5.30 above shows that respondents who have a high level of interaction have higher mean scores than their counterparts who have low and medium levels of formal interaction with tax. However, the difference between those with high and medium interactions with tax has a p value of < 0.005 , whereas the difference between those with high and low levels of tax interaction has a p value of < 0.05 .

5.5.6. Attitude to Democracy

Three statements emerged from the PCA representing respondents' perception on Indonesian democracy. The first two pertain to the perception of democracy in general, while the third is a statement about people's access to information about how their tax is spent by the government.

The first two statements received mode and median scores of 3 (neutral), with a positive inclination towards democracy represented by mean scores of 3.30 and 3.21. The standard deviation is relatively high, at 0.93 and 0.99 respectively. For the third statement, however, the mean score is 2.97—still neutral but indicating a slight tendency to disagreement with the statement that people have access to information on how tax is spent. This is also demonstrated by the mode of the statement of 2, with 119 respondents (35.2%) saying they 'Disagree' with the statement. The standard deviation for the third statement is 1.03. Overall, the mean score for the democracy item is 3.16, with standard deviation of 0.99. The scores are presented in Table 5.31 as follows:

Table 5.31: Mean, Median, Mode and Standard Deviation of Attitude to Democracy

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Dem1	So far democracy is well implemented in Indonesia	3.30	3	3	.93	6	52	154	86	40
						1.8	15.4	45.6	25.4	11.8
Dem2	So far people have opportunity to monitor the government performance	3.21	3	3	.99	5	89	110	98	36
						1.5	26.3	32.5	29.0	10.7
Dem3	So far people have opportunity to monitor what tax money is spent for by the government	2.97	3	2	1.03	11	119	109	67	32
						3.3	35.2	32.2	19.8	9.5
Democracy		3.16	3	3	0.99					

Further, the independent t-test shows that the difference in perception of democracy is statistically significant for the marital status group ($t(336) = 2.09, p < 0.05$) and employment type group ($t(336) = -2.09, p < 0.05$) (Table 5.32 and Table 5.33).

Table 5.32: The Independent t-test of Attitude to Democracy by Marital Status

Marital Status	Mean	SD	Sig.
Married	3.19	0.84	$p < 0.05$
Not Married	2.88	0.73	

Table 5.33: The Independent t-test of Attitude to Democracy by Employment Type

Employment Type	Mean	SD	Sig.
Self-Employed	3.04	0.82	$p < 0.05$
Employee	3.23	0.83	

It can be seen from Table 5.32 and Table 5.33 that respondents who are married have higher mean score than unmarried respondents, while those who are employed have a higher mean score than the self-employed.

One Way ANOVA tests showed that the difference is significant in seven groups: city ($F(2,335) = 8.15, p = 0.00$), age (Welch's $F(3,20.20) = 7.05, p < 0.005$), education ($F(2,335) = 11.07, p = 0.00$), religion ($F(5,332) = 8.29, p = 0.000$), financial situation ($F(3,334) = 2.72, p < 0.05$), length of time registered as a taxpayer (Welch's $F(3,128.77) = 5.50, p < 0.005$) and interaction with tax (Welch's $F(3,77.83) = 3.53, p < 0.05$).

As regards city, the subsequent post-hoc tests demonstrate that the difference is statistically significant between respondents from Medan and Jakarta, with respondents in Medan having mean score lower than those in Jakarta—a score of 2.80 compared to 3.28, with significance $p = 0.000$.

As regards age, the statistically significant difference occurs between respondents under 30 years of age and those aged 30–49 years, and respondents aged 30–49 years and those aged 50–64 years. Respondents aged 30–49 years have a higher mean score, a more positive perception of democracy, than the other two groups, with a mean of 3.29 compared to 2.96 and 2.92, with significance of $p < 0.05$ and $p < 0.005$ respectively.

As regards education, respondents who have high school education or lower have a statistically significant difference compared to those who have college and post-graduate level education. Respondents who have high school education or lower have lower mean scores than the other two groups—2.75 compared to 3.24 and 3.36, with significant levels of $p < 0.005$.

Further, differences exist between Muslims and Protestants, Catholics and Protestants, Catholics and Buddhists and Catholics and Kong Hu Cu respondents (the Hindu respondent was excluded from the test, as it cannot operate with a sample fewer than two). Among these groups, Catholics had the highest mean score of 3.53.

Further, the post-hoc test reveals that respondents who claim to have never had any financial difficulty over the past year have a statistically significant difference in their perception of democracy than those who claim to have had such difficulty occasionally. The former group has a mean score of 3.42 with standard deviation of 0.81, higher than the latter group, who had a mean score of 3.09 with standard deviation of 0.85.

As regards length of time registered as taxpayer, those who had been registered for 5–10 years have a statistically significant difference to those who had been registered for 2–5 years and those who had had their Tax Identification Number for more than ten years.

As regards interaction with tax, a statistically significant difference occurs between respondents who had no formal interaction and those who had a medium level of formal interaction with tax. However, it should be noted data in the last two categories fail to pass the homogeneity assumption, and for the last category, the significance is $p < 0.05$.

The above results are summarised in Table 5.34 to Table 5.41.

Table 5.34: Post-Hoc Test of Attitude to Democracy by City

City	Mean	SD	Sig.
Jakarta	3.28	0.82	p = 0.000
Medan	2.80	0.85	

Table 5.35: Post-Hoc Test of Attitude to Democracy by Age Group

Age Group	Mean	SD	Sig.
Under 30	2.96	0.59	p < 0.05
50–64 years	2.92	0.71	p < 0.005
30–49 years	3.29	0.89	

Table 5.36: Post-Hoc Test of Attitude to Democracy by Education Level

Education Level	Mean	SD	Sig.
Up to High School	2.75	0.66	p < 0.005
College	3.24	0.83	
Post-Graduate	3.36	0.85	

Table 5.37: Post-Hoc Test of Attitude to Democracy by Religion

Religion	Mean	SD	Sig.
Islam	3.24	0.78	p < 0.005
Protestant	2.77	0.70	

Table 5.38: Post-Hoc Test of Attitude to Democracy by Religion

Religion	Mean	SD	Sig.
Catholic	3.53	0.89	p < 0.005
Protestant	2.77	0.70	
Buddha	2.80	0.80	p < 0.05
Kong Hu Cu	2.69	0.70	

Table 5.39: Post-Hoc Test of Attitude to Democracy by Financial Situation

Financial Difficulty	Mean	SD	Sig.
Never	3.42	0.81	p < 0.05
Occasionally	3.09	0.85	

Table 5.40: Post-Hoc Test of Attitude to Democracy by Length of Being Registered

Length Registered	Mean	SD	Sig.
2–5 years	2.97	0.78	p < 0.005
> 10 years	2.97	0.57	p < 0.05
5–10 years	3.36	0.89	

Table 5.41: Post-Hoc Test of Attitude to Democracy by Interaction with Tax Level

Interaction with Tax Level	Mean	SD	Sig.
None	3.25	0.92	p < 0.05
Medium	2.96	0.65	

5.5.7. Perception of Public Goods

Perception of public goods is captured in four statements. The first three refer directly to public goods and service provided by the government, and all have mode and median scores of 3. However, all the mean scores are less than 3—2.82, 2.82 and 2.70 respectively—indicating slight disagreement with the positive statements regarding public goods provided. Statement 4 refers to the relationship between services and tax payments, and scores more strongly positive, with mean 3.48. Most of the respondents chose 4 ('Agree'), indicating agreement about the link between paying tax and public facilities and services as shown in Table 5.42.

Table 5.42: Mean, Median, Mode and Standard Deviation of Perception of Public Goods

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
PubG1	In general, public facilities (road, schools, etc.) provided by the government are already good	2.82	3	3	.864	12	116	139	62	9
						3.6	34.3	41.1	18.3	2.7
PubG2	In general, public service (permits, healthcare, education, etc.) provided by the government are already good	2.82	3	3	.860	11	121	129	71	6
						3.3	35.8	38.2	21.0	1.8
PubG3	Public service and facilities provided by the government are comparable with the tax paid by the taxpayers	2.70	3	3	.870	25	116	136	58	3
						7.4	34.3	40.2	17.2	0.9
PubG4	If the taxpayers pay tax well, public facilities and services provided by the government will be good too	3.47	4	4	.848	5	36	120	149	28
						1.5	10.7	35.5	44.1	8.3
Public Goods		2.95	3	3	0.86					

Independent t-tests reveal no statistically significant difference between groups in the gender, marital status and employment type categories. One Way ANOVA tests, however, show five groups have statistically significant differences: city ($F(2,335) = 3.40, p < 0.05$), age ($F(3,334) = 5.79, p < 0.005$), education ($F(2,335) = 3.60, p < 0.05$), religion ($F(4,332) = 3.08, p < 0.05$) and employment status ($F(4,332) = 3.90, p < 0.05$).

As regards city, the further post-hoc tests reveal that the difference is statistically significant between respondents from Medan and from Surabaya. As regards age, the statistically significant difference appears between respondents aged 30–49 years and those aged under 30 years, and respondents aged 30–49 years and those aged 50–64 years.

Further, as regards education, there is a statistically significant difference between respondents who only have education level up to high school and those with a college level education. As regards religion, however, post-hoc tests do not reveal any statistically significant difference between any pair in the group. As regards employment status, a statistically significant difference occurs between private corporate employees and government employees. Summaries of the differences are presented in Table 5.43 to Table 5.46.

Table 5.43: Post-Hoc Test of Perception of Public Goods by City

City	Mean	SD	Sig.
Surabaya	3.07	0.67	p < 0.05
Medan	2.78	0.65	

Respondents from Surabaya score higher than their counterparts from Medan in terms of positive perception about public goods (Table 5.43). The mean score in Surabaya is 3.07 with standard deviation 0.67, while respondents in Medan have mean score of 2.78 with standard deviation of 0.65.

Table 5.44: Post-Hoc Test of Perception of Public Goods by Age Group

Age Group	Mean	SD	Sig.
30–49 years	3.06	0.64	p < 0.005
Under 30	2.69	0.64	
50–64 years	2.81	0.65	

Respondents in 30–49 years age group have a better perception of public goods in comparison with the under 30 years group and the 50–64 years age group. The first group has mean score of 3.06 with standard deviation 0.64, while the other two groups have mean scores of 2.69 and 2.81 respectively, with standard deviations of 0.64 and 0.65. However, the difference between the 30–49 years age group and the under 30 years age group has a higher statistical significance of $p < 0.005$, while the other difference has $p < 0.05$.

Table 5.45: Post-Hoc Test of Perception of Public Goods by Education Level

Education Level	Mean	SD	Sig.
Up to High School	2.76	0.58	p < 0.05
College	2.99	0.67	

Respondents who have high school education or lower have lower mean scores compared to respondents with college level education. While both score mean less than 3, the mean of the high school or lower group is significantly lower, at 2.76 and standard deviation of 0.58. The college education level group scores a slightly higher mean of 2.99, with standard deviation of 0.67.

Table 5.46: Post-Hoc Test of Perception of Public Goods by Employment Status

Employment Status	Mean	SD	Sig.
Private Enterprise Employee	2.87	0.66	$p < 0.05$
Government Employee	3.43	0.57	

Government employees have a more positive perception of the provided public goods than their private enterprise counterparts. The government employee respondents score a mean of 3.43 with standard deviation of 0.57, while the private enterprise employees have a far lower mean of 2.87 with standard deviation of 0.66.

5.5.8. Attitude to Punishment

Three statements measure respondent attitude to tax penalty. Several forms of punishment are considered—penalty, audit and damage to reputation—in relation to why respondents pay their taxes. Most respondents agree with the statements, as shown by the mode score of 4 (Agree) (Table 5.47). The means also relatively strong positive scores of 3.25, 3.30 and 3.21, with relatively high standard deviations of 0.99, 1.00 and 0.95. The grand mean score and standard deviation are 3.25 and 0.99. Overall, respondents’ attitude to paying tax is influenced by fear of incurring penalties.

Table 5.47: Mean, Median, Mode and Standard Deviation of Attitude to Punishment

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
Pun1	I pay tax because I do not want to get penalty	3.24	3	4	.99	14	73	88	143	20
						4.1	21.6	26.0	42.3	5.9
Pun2	I pay tax because I do not want to get audited	3.29	4	4	1.00	14	72	76	154	22
						4.1	21.3	22.5	45.6	6.5
Pun3	I pay tax because not paying tax obligations may ruin my reputation	3.20	3	4	.95	11	74	108	125	20
						3.3	21.9	32.0	37.0	5.9
Punishment		3.25	3	4	0.99					

Independent t-tests show that there is no statistically significant difference between groups by gender, marital status and employment type. One Way ANOVA tests demonstrate that the respondents’ different attitudes to punishment are only statistically significant for city ($F(2,335) = 5.27, p < 0.05$) (Table 5.48). Respondents in Medan have a higher mean score than respondents in Jakarta (Table 5.48)—3.47, with standard deviation of 0.58, relative to 3.19 with standard deviation 0.58.

Table 5.48: Post-Hoc Test of Attitude to Punishment by City

City	Mean	SD	Sig.
Jakarta	3.19	0.69	p < 0.05
Medan	3.47	0.58	

5.5.9. Tax Morale

To measure tax morale, four statements about perception and willingness to pay tax were presented, including a statement about evading tax obligations and whether it is in accordance with or against the respondents' view.²⁷ The four statements score 4 for mode and median, demonstrating strong agreement with the positive statements on willingness to pay tax. The means are 3.91, 3.64, 3.55 and 3.68 respectively, with standard deviations of 0.79, 0.90, 0.87 and 0.87. The grand mean score is 3.70 with standard deviation of 0.86.

Table 5.49: Mean, Median, Mode and Standard Deviation of Tax Morale

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
TMO1	Paying tax is the responsibility of any able citizen	3.91	4	4	.79	2	17	59	191	69
						0.6	5.0	17.5	56.5	20.4
TMO2	I pay tax willingly without any other's influence / pressure	3.64	4	4	.90	2	40	90	152	54
						0.6	11.8	26.6	45.0	16.0
TMO3	Evading tax obligation is against my principle	3.55	4	4	.87	2	38	113	142	43
						0.6	11.2	33.4	42.0	12.7
TMO4	I have willingly paid my taxes so far	3.68	4	4	.87	2	34	85	166	51
						0.6	10.1	25.1	49.1	15.1
Tax Morale		3.70	4	4	0.86					

Further, while independent t-tests do not exhibit a difference between gender, marital status and employment type groups, One Way ANOVA tests show that there are statistically significant differences in tax morale among some groups, including age ($F(3,334) = 8.11, p = 0.000$), education ($F(2,335) = 17.14, p = 0.000$) and financial situation ($F(3,334) = 11.10, p = 0.000$).

Further post-hoc tests demonstrate that for the age group, the statistically significant difference occurs between the respondents aged 50–64 years and those aged under 30 years and aged 30–49 years (Table 5.50).

²⁷ See Section 4.3.1.4 for discussion about the statement construction

Table 5.50: Post-Hoc Test of Tax Morale by Age Group

Age Group	Mean	SD	Sig.
50–64 years	3.38	0.68	
Under 30	3.77	0.64	p < 0.05
30–49 years	3.79	0.62	p < 0.005

Respondents in the 50–64 years age group have a lower mean for tax morale than those under 30 years and in the 30–49 years age group (Table 5.50). Further, the difference for the 30–49 years age group is highly significant, with $p < 0.005$.

As regards education, the statistically significant difference appears between respondents who have education up to high school and those who have college level education, as well as with those who have post-graduate level education (Table 5.51).

Table 5.51: Post-Hoc Test of Tax Morale by Education Level

Education Level	Mean	SD	Sig.
Up to High School	3.29	0.69	
College	3.80	0.62	p < 0.005
Post-Graduate	3.73	0.53	p < 0.005

Respondents who have high school or lower education score a mean lower than the other two groups (Table 5.51). In addition, the difference is statistically highly significant for both comparisons.

For financial situation, respondents who had no financial difficulties over the past year have statistically significant differences of means relative to those who claim they occasionally, often and always experience such problems. In addition, responses from respondents who claim they have difficulties occasionally are also statistically significantly different from the responses from respondents who 'often' experience difficulties. The summaries of the differences are presented in Table 5.52 and Table 5.53.

Table 5.52: Post-Hoc Test of Tax Morale by Financial Situation

Financial Difficulty	Mean	SD	Sig.
Never	3.98	0.58	
Occasionally	3.71	0.64	p < 0.05
Often	3.37	0.64	p = 0.000
Always	3.18	0.60	p = 0.005

Respondents who never experience financial difficulties have the highest mean score among the groups (Table 5.52)—3.98 with standard deviation of 0.58. The difference between ‘never have financial difficulty’ and those who ‘often’ and ‘always’ experience difficulties is highly significant statistically, with $p < 0.005$.

Table 5.53: Post-Hoc Test of Tax Morale by Financial Situation

Financial Difficulty	Mean	SD	Sig.
Occasionally	3.71	0.64	
Often	3.37	0.64	p < 0.005

Further, the difference between respondents who claim they occasionally have difficulty and those who claim they often have difficulty is statistically significant ($p < 0.005$). The mean for tax morale of the former group is higher, 3.71 with standard deviation of 0.64, compared to 3.37 with a similar standard deviation score.

5.5.10. Attitude to Tax Evasion

Four statements comprise this item, on respondents’ attitude to tax evasion. While all mode scores are 2, medians are divided between scores of 2 and 3. Nevertheless, overall scores exhibit an inclination towards disagreement with tax evasion. The mean scores are all less than 3—2.80, 2.53, 2.58 and 2.59 respectively, with standard deviations of 0.97, 0.93, 0.96 and 1.00. The grand mean is 2.62 with standard deviation of 0.97.

Table 5.54: Mean, Median, Mode and Standard Deviation of Attitude to Tax Evasion

Item	Statement	Mean	Median	Mode	SD	1	2	3	4	5
TEV1	If there is a chance, taxpayers better evade paying tax	2.80	3	2	.97	30	108	106	89	5
						8.9	32.0	31.4	26.3	1.5
TEV2	Evading tax obligation is not a serious crime	2.53	2	2	.93	36	151	93	53	5
						10.7	44.7	27.5	15.7	1.5
TEV3	A taxpayer should not feel ashamed if she or he gets caught of evading paying tax	2.58	2	2	.96	41	134	92	69	2
						12.1	39.6	27.2	20.4	0.6
TEV4	Taxpayers should not report all of their income to tax authority / Tax Office	2.59	3	3	1.00	55	101	115	63	4
						16.3	29.9	34.0	18.6	1.2
Tax Evasion		2.62	3	2	0.97					

Further independent t-tests reveal no statistically significant difference between gender, marital status and type of employment group. The One Way ANOVA tests show that there are statistically significant differences in some groups: city (Welch's $F(2,123.48) = 4.93, p < 0.05$), education ($F(2,335) = 9.69, p = 0.000$), financial situation ($F(3,334) = 4.29, p = 0.000$) and interaction with tax ($F(3,334) = 2.77, p < 0.05$).

Summaries of the differences are presented in Table 5.55 to Table 5.57.

Table 5.55: Post-Hoc Test of Attitude to Tax Evasion by City

City	Mean	SD	Sig.
Jakarta	2.70	0.74	p < 0.05
Medan	2.33	0.80	

Respondents from Medan have a lower mean score than those from Jakarta (Table 5.55)—2.33 with standard deviation of 0.80, relative to 2.70 with standard deviation of 0.70. This difference is statistically significant, with $p < 0.05$.

Table 5.56: Post-Hoc Test of Attitude to Tax Evasion by Education Level

Education Level	Mean	SD	Sig.
Up to High School	3.00	0.83	
College	2.52	0.79	p = 0.000
Post-Graduate	2.55	0.71	p < 0.05

Those who have an education level of high school and lower demonstrate a neutral stance towards the statements on tax evasion compared to respondents in other groups, with mean of 3.00 and standard deviation of 0.83. Those who have college and post-graduate levels of education have mean scores of 2.52 and 2.55, indicating an inclination to disagree with tax evasion. In addition, the difference between the high school or lower education level group and the college level group is statistically significant, with $p = 0.000$.

Table 5.57: Post-Hoc Test of Attitude to Tax Evasion by Financial Situation

Financial Difficulty	Mean	SD	Sig.
Often	2.96	0.76	
Occasionally	2.59	0.82	p < 0.05
Never	2.35	0.72	p = 0.000

Respondents who claim they never experienced financial difficulty over past year are observed to more strongly disagree with tax evasion than those who responded they 'often' and 'occasionally' had difficulty. In particular, the difference between the 'never' and 'often' groups is highly statistically significant, with $p = 0.000$.

However, there is no statistical evidence of difference in attitudes to tax evasion in interaction with tax groups ($p > 0.05$).

5.5.11. Summary of Descriptive Statistics and Mean Test

This section summarises the descriptive and mean tests conducted for the statements presented to the respondents. For ease of interpretation, items are divided into three stance groups: positive (+), neutral, and negative (-). A positive stance represents inclination to agreement, while negative represents inclination to disagreement towards the item. The modes and medians of the statements are presented; however, inclination towards positive or negative stance is largely derived from the grand mean score of each item.

On average, respondents show agreement with five items: sentiment towards tax, perception of authorities, perception of democracy, attitude to punishment and willingness to pay tax (Table 5.58). Conversely, there are indications of general disagreement for trust in the government, law and its enforcement, perception of public goods and service provision and tax evasion. One item, fairness of tax system, was perceived neutrally.

Table 5.58: Tendencies of the Topics

Item	Mean	Median	Mode	SD	Stance
Sentiment towards Tax	3.69	4	4	0.77	+
Perception of Authorities	3.13	3	3	0.86	+
Attitude to Democracy	3.16	3	3	0.99	+
Attitude to Punishment	3.25	3	4	0.99	+
Tax Morale	3.70	4	4	0.86	+
Fairness of Tax System	3.11	3	3	0.82	Neutral
Trust in the Government	2.90	3	3	0.81	-
Law and Its Enforcement	2.67	3	3	0.81	-
Public Goods	2.95	3	3	0.86	-
Tax Evasion	2.62	3	2	0.97	-

5.5.12. Summary of p Values of Each Topic by Group

This section summarises the statistical differences among groups in each topic from the findings in Section 5.5.1 to 5.5.10. As shown in Table 5.59, the statistically significant differences in 'Marital Status' as well as 'Type of Employment' only exist in the attitude to democracy (Dem) topic. Further, if we observe the topic (horizontal column), the statistical differences as regards 'sentiment to tax' are only significant among respondents in education group (Education) and Interaction with Tax group. As regards tax morale (TMO), the differences are highly significant ($p = 0.000$) among age group (Age), education group, and Interaction with tax group. The complete statistically significant differences among groups (row) each topic (column), represented by p value are presented in Table 5.59 as follows:

Table 5.59: Summary of *p* Values of Each Topic by Group

Category	<i>p</i> value									
	Sent	Fair	Gov	Auth	Law	Dem	PubG	Pun	TMO	TEV
Gender										
Marital Status						.05				
Type of Employment						.05				
City				.05		.001	.05	.05		.05
Age		.005	.05	.05	.001	.001	.001		.000	
Education	.05		.005		.000	.000	.05		.000	.000
Religion						.000	.05			
Employment Status				.005			.05			
Financial Situation				.005	.05	.05			.000	.000
Interaction with Tax	.05	.05		.05	.05	.05	.05			.05

Sent: sentiment towards tax; Fair: perception of fairness of the tax system; Gov: trust in the government; Auth: trust in the tax authority; Law: perception of the legal system; Dem: attitude to democracy, PubG: perception of the public goods; TMO: tax morale; TEV: attitude to tax evasion.

5.5.13. Correlation Analysis

Further, correlation analysis was conducted to evaluate the relationship between the items and tax morale and attitude to tax evasion. This analysis is carried out to observe whether there is a relation of the willingness to pay tax as well as their attitude to tax evasion. 'Attitude to tax evasion' is added in correlation and later in multivariate regression analysis in order to compare the 'willingness to pay tax' or tax morale with the respondents' attitude towards evading tax. The comparison is conducted in order to obtain more confident answers to explain the factors which influence the level of 'willingness to pay tax' or tax morale and the attitude towards evading tax or why people are inclined to evade tax.

Most of the variables have a statistically significant correlation with tax morale and attitude to tax evasion (Table 5.60). For tax morale, only punishment is statistically non-significant, while the other seven variables have statistically significant positive correlations with the willingness to pay tax. Further, perception of the legal system, perception of public goods, sentiment towards tax, trust in the tax authority and trust in the government have moderately strong correlations with tax morale, with

coefficients greater than 0.2 ($p < 0.01$). Conversely, perception of fairness of the tax system and democracy have weak correlations with tax morale, with coefficients of less than 0.2. In addition, the correlation with democracy is significant ($p < 0.05$). From this analysis, it can be derived that statistically, the more positive the perception of respondents about the items, the higher their tax morale. The results are presented in Table 5.60 as follows:

Table 5.60: Correlation between the Determinants of Tax Morale and the Determinants of Attitude to Tax Evasion

Variable	Tax Morale	Tax Evasion
Sentiment	.26**	-.14**
Fairness	.19**	-.16**
Government	.21**	-.10
Authority	.22**	-.17**
Law	.29**	-.16**
Democracy	.13*	-.003
Public Goods	.28**	-.05
Punishment	-.02	-.15**

Notes: ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Further, several items have a negative correlation with attitude to tax evasion (Table 5.60), including sentiment towards tax, perception of fairness of the tax system, trust in the tax authority, perception of the legal system and its enforcement and attitude to punishment. This can be interpreted as the more positive the respondents' perceptions, the more they oppose tax evasion. However, correlations are weak, with coefficients less than 0.2. The correlations between attitude to tax evasion and trust in the government, perception of democracy and perception of public goods are statistically non-significant.

5.5.14. Multivariate Regression

Multivariate regression was conducted to examine whether the variables are statistically significant in affecting tax morale and tax evasion, and, if they are, how strong the effects are. The scores used are the mean scores of each theme. Thus, two linear regressions were carried out. Firstly, Model 1 is the regression with tax morale as the dependent variable. The independent variables are the sentiment

towards tax, perception of the fairness of the tax system, trust in the government, trust in the tax authority, perception of the legal system and its enforcement, perception of democracy, perception of public goods and attitude to punishment. Accordingly, the equation for the model is:

$$Tax\ Morale = b_0 + b_1Sent + b_2Fair + b_3Gov + b_4Auth + b_5Law + b_6Dem + b_7PubG + b_8Pun + e$$

Secondly, in Model 2, tax evasion is the dependent variable, with independent variables the same as in Model 1:

$$Tax\ Evasion = b_0 + b_1Sent + b_2Fair + b_3Gov + b_4Auth + b_5Law + b_6Dem + b_7PubG + b_8Pun + e$$

In Model 1, the regression result shows that the independent variables can predict tax morale (adjusted $R^2 = 0.12$, $F(8,329) = 6.80$, $p = 0.00$); however, only 'sentiment towards tax' and 'perception of the legal system' are statistically significant determinants of tax morale. It, therefore, can be concluded that the 'sentiment towards tax' and 'perception of the legal system' have positive influence on the level of tax morale of the respondents. Moreover, the 'perception of the legal system' has more impact on the tax morale, as shown by a higher coefficient of 0.214 compared to 'sentiment towards tax' of 0.190 (standardised coefficient).

In Model 2, the regression results in an adjusted $R^2 = 0.06$, $F(8,329) = 3.88$ and $p = 0.00$. In this model, three independent variables are significant: 'sentiment towards tax', 'trust in the tax authority' and 'attitude to punishment'. The other six variables are statistically non-significant. The results are summarised in Table 5.61. It can be concluded that 'sentiment towards tax', 'trust in the tax authority' and 'attitude to punishment' influence the respondents' attitude whether they want to evade tax or not. The coefficient are negative as shown in Table 5.61: Model 2: DV: Attitude to Tax Evasion, meaning that the higher their scores on the three topics, the less the inclination towards tax evading tax. Better sentiment towards tax, trust in tax authority, and more positive attitude to punishment will lead to less tax evasion. Trust in tax authority has higher influence on the attitude to tax evasion with coefficient of -0.166 compared to 'sentiment towards tax' (-0.127) and 'Attitude to punishment' (-0.118).

The summary of the regression outputs for both models are presented in Table 5.61 as follows while the complete results are presented in Appendix T (Model 1) and Appendix U (Model 2) of this thesis.

Table 5.61: Regression Output of Model 1 and Model 2

Model 1: DV = Tax Morale

Model 2: DV: Attitude to Tax Evasion

Variable	Unstandardised Coefficients		Standardised Coefficients	Sig.	Unstandardised Coefficients		Standardised Coefficients	Sig.
	B	Std. Error	Beta		B	Std. Error	Beta	
Sentiment	.202	.060	.190	.001	-.167	.077	-.127	.031
Fairness	-.015	.062	-.016	<i>n.s.</i>	-.101	.079	-.088	<i>n.s.</i>
Government	-.047	.067	-.051	<i>n.s.</i>	.068	.085	.061	<i>n.s.</i>
Authority	.080	.067	.086	<i>n.s.</i>	-.190	.085	-.166	.026
Law	.212	.066	.214	.002	-.144	.085	-.118	<i>n.s.</i>
Democracy	-.026	.048	-.033	<i>n.s.</i>	.095	.061	.097	<i>n.s.</i>
Public Goods	.095	.075	.094	<i>n.s.</i>	.125	.095	.100	<i>n.s.</i>
Punishment	-.040	.051	-.042	<i>n.s.</i>	-.139	.065	-.118	.033

Note: DV = dependent variable.

5.6. Chapter Summary

This chapter presents the procedures followed to survey respondents to provide quantitative data for this research, as well as the results of the quantitative analysis. The survey was designed using stratified random sampling based on the labour force in the three cities, and conducted in such a way to accurately infer the tax morale of the individual taxpayers in the three largest cities in Indonesia. Through a factor reduction process, the survey questions formed 10 categories, of which eight were categorised as independent variables and assessed for their influence on the tax morale of the individual taxpayers.

The findings in this sections show high level of tax morale among the respondents. The analysis demonstrates that the level of tax morale of the respondents is inclined to be high, with grant score of 3.70 in five-point Likert scale. Further, there are several statistically significant differences in the level of tax morale among different types of taxpayers. The respondents who are in age group of 50-64 years old score lower level of tax morale than the other age group. As regards education, those who have lower education (up to high school) score lower level of tax morale. There are also differences in financial situation group, where the respondents who report they always had financial difficulties the year before score level of tax morale. The

findings from the multivariate regression also show that 'sentiment to tax' and 'perception of the legal system' are the factors that statistically significant in influencing the level of tax morale of the respondents. The findings in this chapter will be analysed further in combination with the qualitative results to achieve the research objectives and to answer the research questions as queried in Chapter 1 and will be discussed further in Chapter 7: Discussion.

CHAPTER 6

QUALITATIVE DATA ANALYSIS

6.1. Introduction

This chapter presents the process and the analysis of the qualitative data obtained from the interviews. First, the identification of the participants, the approach and the interview process are described. Participant profiles are presented to provide their relevant background information. Following a brief description of the interview questions and topics, the chapter continues to the analysis of each themes, including the themes that emerged from the interviews as an expansion of factors as analysed in quantitative approach in Chapter 5.

Due to the lengthy content in this chapter which includes the interview direct quotes along the analysis, a summary of the interview findings is provided in section 6.5. page 165 in order to present the interview key findings in a concise manner. Subsequently, a chapter summary concludes this chapter.

6.2. The Interviews

6.2.1. Interview Process

The interviews for this research were conducted over two phases. The first involved individual taxpayers considered to have significant experience with taxes and willing to share their experiences and opinions on tax morale and related issues. Fifteen potential participants were approached, with nine willing to be interviewed. This first interview phase took place from July to August 2014. In addition, a multinational corporate tax manager was interviewed. He not only divulged his personal views and opinions as an individual taxpayer in his own right, but also provided information about individual taxpayers in general, gained through experience since joining the private sector in 1996, working as an accountant in the finance and tax department, handling corporate taxes as well as employees' tax matters. Throughout the interview process, it was observed that it would be important to also gather insights from different angles about individual taxpayer compliance and other related matters. This measure was part of a triangulation approach in gathering qualitative data, carried out by viewing and analysing a topic from different perspectives (see Section 4.2.2). One beneficial measure was obtaining information from other parties who were related to individual taxpayers, operating as 'informants' about individual taxpayers and related matters. The information was expected to confirm and expand the information previously shared by the individual taxpayers.

The researcher subsequently searched for tax consultants who had had experiences in helping individual taxpayers in their tax-related matters. Approaches were made through two main channels: tax consultant offices and former tax officers, who had resigned from the DGT and had become tax consultants. Three tax consultant offices were visited in Jakarta, and former tax officers were contacted to introduce and approach tax consultants who had extensive experience in rendering services to individual taxpayers. Careful consideration was given to ensure that the tax consultants' expertise and experiences were relevant to the objectives of this research. From six identified tax consultants assessed to be appropriate and knowledgeable, five were interviewed between January and February 2015. The interviews of the tax consultants brought the number of interview participants in this research to 15 in total, an appropriate number of interview participants as suggested by Creswell (1998).

The selection of the taxpayers, tax consultants, and the tax manager for qualitative data in this research was consistent with suggestion by Beitin (2012) as in interview methods, participants were selected in a small number but represent the phenomena being studied. He also added that in interview 'participants or informants are purposively selected to represent rich knowledge about the research questions' (Beitin 2012, 465). Consequently, the combination of taxpayers, tax consultants, and tax manager in this research may provide rich data and broader perspectives.

Eight interviews were conducted in Jakarta and seven were carried out in Medan. The places of interview were chosen in accordance with participants' preferences. Two interviews were conducted in the participants' residences, ten took place in the participants' office or places of business, and three in other meeting places agreed by the participants. All costs incurred for the interviews, including preparation costs, were borne by the researcher.

Before every interview was commenced, interview's intention and purpose were explained, while showing the information letter to the participant, so that they understood their rights, including privacy of the information and that they were free to withdraw at any stage. Each participant was then given a consent form to sign. The date, place and time of interview were decided by the participant.

All interviews were conducted in Indonesian language, and audio recorded, with approval from the participant. The recording of the interview was important for the researcher to use later for transcribing. The duration of the interviews ranged from

25–65 minutes. The list of interview key questions in Indonesian language is presented in Appendix K, while the English translation is presented in Appendix N.

In the interview process, the research being conducted and the purpose of the interviews were first explained to the participants. They were also told that the interviews were voluntary and that they could withdraw at any stage without any consequences. All participants agreed to be recorded during the interviews and signed the consent forms. In general, the interviews lasted between 25–65 minutes. One interview took only about eight minutes because of the participant's schedule; however, all relevant themes were considered covered in the interview.

6.2.2. Participant Profiles

Most of the participants were males, with two females, consisting of one individual taxpayer and one tax consultant. The age of participants ranged from 27 to 68 years old at the time the interviews were conducted. One participant had completed his doctoral degree, six others had Master's degrees, seven had undergraduate degrees, and one participant had a diploma degree. No participant had only high school or less as his/her educational background.

By profession, one participant was a private university lecturer, five were business owners, one was a lawyer, one a corporate finance director, one a corporate sales manager, one a corporate tax manager and five were tax consultants.

The tax experience of the participants was wide, from two years to 30 years of experience. However, it was observed that some participants had more tax-related experience than they indicated; for instance, a case where interaction with the tax system occurred first in the early 1990s, implying experience stretching over 25 years, however, the experience was anecdotal, and only in the last few years had interactions with tax intensified. Similar situations applied to participants who had been working for a longer period with income taxes withheld, but had delegated the withholding and filing to their employers without any considerable interest. Their experiences became more concrete following the issuance of regulations that obligated taxpayers to register, obtain an NPWP and file own tax return. Thus, the participants conveyed this as constituting their tax experience period, rather than including the earlier experiences.

Participant profiles are presented in brief in Table 6.1.

Table 6.1: Interview Participant Profiles

Label	Gender	Age (years)	Highest Education Level	Job Description	Experience with Tax
P1	Male	42	Doctoral Degree	University Lecturer	5 years
P2	Male	50	Undergraduate	Business Owner (Automotive)	11 years
P3	Male	68	Undergraduate	Business Owner (School/ Education)	2 years
P4	Male	42	Undergraduate	Sales Manager	10 years
P5	Male	44	Diploma	Business Owner (Trade/Service)	10 years
P6	Male	52	Master's Degree	Lawyer/Justice of Peace	11 years
P7	Female	66	Undergraduate	Retiree/Business Owner	2 years
P8	Male	39	Master's Degree	Director of Finance (Corporation)	18 years
P9	Male	45	Master's Degree	Tax Consultant	22 years
P10	Female	N/A	Master's Degree	Tax Consultant	19 years
P11	Male	36	Master's Degree	Tax Consultant	14 years
P12	Male	27	Undergraduate	Business Owner (Trade)	5 years
P13	Male	44	Master's Degree	Corporate Tax Manager	23 years
P14	Male	47	Undergraduate	General and Tax Consultant	26 years
P15	Male	54	Undergraduate	Tax Consultant	30 years

6.3. Analysis Process

Interview data were collected and processed for the qualitative analysis of the research following five steps: transcribing, translating into English, identifying themes, categorising and analysing based on suggestion by Creswell (2003). The following subsections briefly describe the first four steps, with the analysis of the contents of each theme covered in Section 6.4.

6.3.1. Transcribing

Firstly, the interview recordings were transcribed into written form in order for the researcher to identify themes and process further more easily. All recordings were transcribed fully in order to comprehensively record the responses in full in writing

and maximally capture the ideas conveyed by the participants. All the interviews were transcribed in Indonesian language (the language of the interviews).

The researcher performed all the transcribing because of the confidential nature of the information conveyed by the participants, including confidential cases and names. No other party was given access to the data.

Each of the transcripts were then presented to the relevant participant in order to confirm that the transcription matched the information that they expressed in the interviews. Approvals for removing the confidential parts of the interviews were requested of participants, along with a signed statement that the transcripts corresponded to the information conveyed in the interviews.

6.3.2. Translating

After the transcribing process and the removal of the confidential parts, the transcripts were translated by the researcher. The researcher performed the translation as well, as the transcripts contained mainly terminology specific to taxation that sworn translators might not be familiar with. After all the transcripts were translated into English, the translated versions were presented to the participants to ensure that the English versions captured the same content. On approval, participants were asked to sign a statement stating the translation was same as the Indonesian version.

6.3.3. Identifying Themes

A continuing analysis on categorisation was conducted by the researcher during the process of transcribing and translating the transcripts. However, after the interviews were fully transcribed and translated, the full analysis to categorise the themes emerging in the interviews was conducted using the transcripts. To make the process easier, a colour-coding measure was conducted, assigning different, specific colours to paragraphs for each emerging theme.

Initially, as many as 13 themes were captured, comprising the following: perception of tax, trust in the tax authority, perception of whether tax had been collected well, perception of whether tax had been utilised well, trust in the government, tax and public goods and services, the benefits of tax, factors that influence the decision to pay tax, factors that influence the willingness to pay tax, 'zakat' and religious charities, tax education and information dissemination and other themes and comments. The last item contained several themes mentioned by a participant during the interview but with much less frequency than other issues. Therefore, while still substantial, other themes proved to be supported by many participants

and were categorised as their own section. The 'other themes and comments' section included individual traits, simplification of the tax system, disclosure of data secrecy, tax consultants, law enforcement and personal approach.

6.3.4. Categorisation

After identifying themes, categorisation was constructed, reflecting the themes that had emerged. In order to validate the categorisation, the researcher requested other researchers to discuss the themes and their categorisations. Two PhD students at Curtin Business School, Curtin University, Ahmad Komara and Kristian Agung Prasetyo, were approached. The selection of these students was based on their competency, as both were engaged in tax research and had had lengthy experience in taxation in Indonesia. Both were informed that while input and feedback were invited, the final decision about categorisation rested with the researcher.

After discussions, the researcher decided to move the simplification of the tax system from 'other themes and comments' to its own section, as it was judged that the tax system was a significant factor influencing tax morale. Therefore, in the final analysis, 13 categories emerged, with one 'other' category comprising five themes.

6.4. Analysis of Interview Themes

The topics of the interviews were designed to be similar to those of the quantitative surveys in order to analyse the corroboration between both findings. However, in the interview process, questions were open and developed in accordance with the participants' perceptions and attitudes. Consequently, the information provided by the participants in the interviews was broader and deeper. For example, sentiment and fairness of the tax system in the quantitative analysis in Chapter 5 developed into several themes in the qualitative analysis, namely the perception of tax, the benefit of tax, the perception of whether the tax is collected well and whether it is utilised as intended. Views also emerged on other topics, such as 'zakat', personal traits and tax consultants. These views are the exploration of possible themes/factors which influence tax morale and will be blended and discussed in Chapter 7 to provide a comprehensive understanding and more valid findings in order to achieve research objectives and to answer research questions in Chapter 1.

It was explained in the Information Sheet that the interview was not a test of the participants' knowledge of tax; therefore, questions about tax-related definitions, obligations or other queries of a similar nature were avoided. The participants were merely asked about their views and perceptions, and were requested to freely express themselves and offer as much explanation as they wanted to. When

required, the researcher asked questions to clarify answers or explanations, or to seek further elaboration of participants' perceptions.

The interview analysis is conducted using the interpretation of the researcher, as suggested by Creswell that qualitative analysis is interpretive, which can be based on the researcher's knowledge, experiences, and existing theories (Creswell 2003).²⁸ In order to ensure the validity of the analysis, measures for the interview as recommended by Creswell were taken as in Figure 4.2.

The following sections discuss each of these in turn. Direct quotations of the participants' expressions are used in an attempt to present the most accurate feeling and expression on the matters being explored.

6.4.1. Perception of Tax

To obtain an understanding of the participants' view of tax, participants were first asked their perception of tax that they might have derived from experiences, knowledge and interactions with any tax-related matters. Overall, perceptions were inclined to be on the negative side, regardless of type of employment and level of education, as more participants expressed negative responses than positive ones. This negative image might have arisen from unfavourable experiences in the past. One participant expressed:

'Frankly I do not see that tax has given significant effect to community. That is why only in 2009 I started to be involved with taxation.' (P1, 42 years, university lecturer)

He further continued to explain the circumstances that led him to have such views.

'I had one experience in early 1990s, there was one time that the amount of our residence tax (land and building tax)²⁹ due rose two-fold without any prior, clear explanation. We did not even know whether the assessor came or not to assess, interview or do anything beforehand. We then came to the tax office, and I had to bring my grandmother there because the property was under her name and the person on the document herself had to be present. It was the time when my view on tax became somewhat less positive... negative I can say.

When we wanted to administer the matter at the tax office, there was no clear direction where to appeal, where to complain... It was already difficult for my old grandmother to come there, and when we got to the tax office we were only asked to fill a form, without any certainty. And if I am not mistaken the tax paid was not refunded, we had to pay in full amount, but thankfully in the next year the tax due was reduced, but it still increased from the previous one.' (P1, 42 years, university lecturer)

²⁸ See also Section 4.3.2.4.

²⁹ See Section 3.7. about Tax Obligation Related to Individual Taxpayer.

The negative image was also viewed by participants as emerging from unawareness and unfamiliarity of tax, with tax regarded merely as a liability. It was opined that not many people knew tax had a significant role in financing the nation, and was the main source of revenue for the government. Some participants implicitly voiced that the tax authority had kept people from adequately informed, so a misunderstanding about tax had developed.

'So far tax is considered by people as a burden, something frightening, because the information dissemination has not been conducted optimally.'
(P2, 50 years, business owner)

'A positive image (of tax) has not been seen, because most people do not yet understand that tax is the main source of national finance. Is not it? People think that (the revenue source) is from mining and others, while actually revenue is from tax. This is the thing that I think should be communicated to people, information dissemination (should be carried out) that it is the tax that contributes the most to the nation... In other countries this is already well known.'
(P5, 44 years, business owner)

Similarly, a tax consultant posited that many people did not understand the importance of tax, and viewed tax as unnecessary. He argued this condition was rooted in unawareness and lack of knowledge about tax. His argument suggested that the number of people who had such perceptions was high because of not many people extended their knowledge beyond high school level.

'Not all people think that tax is necessary. When did you (the researcher) start learning about tax? Did you learn it at high school? Junior high school? No, did you? I mean this, how many of the people who graduate from high school continue their education to university? That is the way if we want to analyse. How many of them who stop their education only at high school level? When they become adult and they work, suddenly they face tax, so they get surprised. Who should have alerted them? Why does not DGT request that tax information be contained in schools' curricula?'
(P14, 47 years, general and tax consultant)

Another participant related the negative perceived image of tax to the benefits. He argued that the perception was because the community did not receive the benefits well. He acknowledged that tax would be used for the community; however, he thought the use of the money collected was not optimised.

'Frankly the community perception about tax is not yet good. I personally see the access to people is not maximally provided, for example, roads, transportation and others. But I am aware that tax is used for people, only the utilization is not maximal.'
(P12, 27 years, business owner)

Similarly, a tax manager and a tax consultant stated that tax tended to be perceived negatively and more as a liability because of people's unawareness about the

importance of tax to the country. While as individuals whose work is on taxation, they perceive tax as beneficial, they consider people still view tax more negatively.

'The tax (perception) score from the individual taxpayers is under 5 from 10 (scale). Not so many people know that the majority of the state revenue comes from tax. Such information is exclusive... There is also (lack of) enforcement issue, many people think "well, my neighbour do not comply either" even though there have been shock therapies and other stuff like seizures... And then how many are the tax officers (to cover all the incompliances)? Therefore, people still want to gamble.' (P13, 44 years, corporate tax manager)

Despite his understanding and good perception of tax, he argued that the unwilling taxpayers consisted of two types: those who merely wanted to avoid paying tax, and those who thought that tax should have not even be imposed.

'There are two groups of people: those who are able to pay tax but they evade, and those who think that their tax is small, that they think "why even small people like us are taxed?" That thought often transpires. This is outside of my perception. My own perception, tax (score) is 7. For them I think it is still under 5, in scale of 1 to 10.' (P13, 44 years, corporate tax manager)

Conversely, several participants viewed tax in a more positive light. Despite the perceived weaknesses in its utilisation, these participants regarded tax as a crucial element to the country's development. However, this perception did not necessarily make them want to pay taxes voluntarily.

'I think the image of tax is good... No problem....'(P3, 68 years, school owner).

'It is impossible that there has been the (country's) development if there was no tax, only maybe the implementation is not as good as expected by the people.' (P3, 68 years, school owner)

A stronger standpoint was expressed by a taxpayer who stated that he claimed to understand tax and recognised its importance to the country.

'I by chance know about tax, so if we discuss about tax, yes I think it is very important. Around 80% of revenue in the state budget comes from tax, so if you ask me about tax perception, tax cannot be set aside, as it is the main source of revenue, much more than other sources including the revenues from natural resources.' (P8, 39 years, corporate finance director)

However, he stated that his understanding about the vital role of tax in the country did not influence his willingness, mentioning other factors such as the tax rate were what had affected his motivation to pay. He further stated:

'Frankly I still find it heavy to pay tax even though we realise that it is important to the development, (this is) because of other factors, such as

the percentage (tax rate) is too high. If we see in other country the rate is 15% but in our country it reaches 30%. We are aware tax is important, but to pay is still burdensome.' (P8, 39 years, corporate finance director)

That opinion was also supported by a tax consultant who stated that people were aware that tax was important, however they were still unwilling to pay voluntarily. The people were argued to be not aware of their obligation to pay.

'In my opinion all people are aware that tax is important... everyone... especially those who have been obligated to pay.³⁰ Usually their education level and income level are already high. They know that tax is important, but who (must) pay? Other people, not me... It is other people who have to pay. They do not realise that they themselves have been obligated to pay tax.' (P9, 45 years, tax consultant)

One slightly different opinion was conveyed by a tax consultant, who considered that there was a difference between people who had direct interaction with tax and the tax authority and those who did not. The former were likely to have a more positive perception of tax, while the latter had negative inclinations. He implied that the negative perceptions of the latter were shaped by their not fully understanding tax, combined with negative information about tax cases they are exposed to.

'Present perception from those who directly interact with tax - for example finance department employees, tax department employees - is better, especially in comparison with the company owners. The owners still see tax in negative mind because owners usually do not interact with tax directly. They only know that there are taxes withheld this and that amount, here and there. Then there are negative news on corrupt officials and etcetera.' (P11, 36 years, tax consultant)

He later concluded his argument, highlighting the difference between the two groups, despite acknowledging that the system is not perfect.

'So on the side of the shareholders, individuals, tax image is not good. But for people who have direct interaction with tax the image is relatively better. There are weaknesses, there must be (weaknesses), but they are temporary and case by case.' (P11, 36 years, tax consultant)

6.4.2. The Benefits of Tax

One theme to emerge from the interviews regarding taxpayers' willingness was the benefits that they expected from the money they paid. Participants were not asked explicitly about the relationship between willingness to pay tax and the benefits; however, most of the participants expressed their expectations about the benefits the government should provide in return.

³⁰ See Section 3.7.

One participant argued that taxpayers would be willing to pay tax, provided they saw and received benefits from what they paid. If people think their sacrifice will benefit others or see these benefits, they will be willing to contribute regardless of their income. He indicated that such idealistic circumstances were not prevalent in Indonesia; therefore, people were still reluctant to pay their obligations.

'I think in Indonesia there other things we should consider. We people in Indonesia are simpler; we tend to be more based on cultural things. It means what we think is beneficial, we will participate in it.

Even people with low income, if they are asked to participate in the things considered to be beneficial, they will not mind about their low income, they will put aside a small part for the country for other people. For the fear of government regulations, or penalty, we can see now that so many people violate the traffic rules, it proves that people do not really care about the rules made by the government. So there is something missing, there are things to be further explored. For me it is simpler, our people are eastern people, religious, if needed, they will even contribute their labour.' (P1, 42 years, university lecturer)

Another participant supported that belief, arguing people did not see the benefits from tax, believed of the centralised system. He argued that the benefits should be visible directly, in the environment of the taxpayers.

'We the common people do not see the benefits, that there is a correlation between tax and the development, because of the centralisation system. If the system is localised like per bloc per district and the tax money is distributed to areas, it will be visible. So far it has never been visible.' (P2, 50 years, business owner)

Another participant was confident that the benefits were an influential factor in taxpayers' willingness of paying their tax, and he believed it was not happening in Indonesia. He compared Indonesia to other countries, where he believed that taxpayers were willing to pay their obligations because they received the benefits. He suggested that the government run a campaign to show what taxes had been used for in order to improve the willingness of people to pay their tax.

'For me it is the benefit of tax used for people that is very influential, that is why taxpayers in foreign countries are more obedient because they get benefits from what they pay. In Indonesia taxpayers do not really understand where the tax money goes and for what. If we feel that the tax is for us, who will feel reluctant? Just like *gotong royong*³¹, all members of the community have to pay some contribution but they do not object because what they build are for them as well. It is different if it is the government that should build but then we have to contribute, we will be unwilling. For me it is the benefit to people that makes people more aware

³¹ 'Gotong-royong' is term in Indonesian language which means the tradition in the country when people work together to do or build something for the interest of public without expecting nor receiving monetary rewards.

to pay tax. Just make information dissemination sessions to inform what tax is for, so people can see.’ (P5, 44 years, business owner)

One participant suggested that tax did not offer any direct return to payers; however, he also believed that visible use of the money paid in the form of public benefits would change this situation. He was confident that benefits returned to the community would induce a willingness to pay tax.

‘The benefit that returns to them, that is the thing that makes people willing (to pay tax). Although it is not 100% because the definition of tax is like that (no direct benefit to taxpayers) at least they witness some development.’ (P8, 39 years, corporate finance director)

He further stated that he believed tax collected had been utilised; however, the benefits returned to the public were not commensurate with the growth in tax revenue.

‘What I am talking is not that the benefit does not return at all. We are talking about the improvement, the delta of tax revenue versus the delta of development. Regarding benefit, there must be (benefit); that is certain. People now know that health service is better, free education, they know. But amount they pay increases while even the roads do not expand. It can be used as an indicator. What they pay apparently does not return to them equally.’ (P8, 39 years, corporate finance director)

Another participant opined that the willingness of taxpayers depended on their own interests, whether they received anything from what they contributed. If the benefits were not visible at the moment, it was expected that the benefits would be realised in the long term.

‘Most people act hoping that they will get direct impact or if not direct, they can feel the long-term effect. But fulfilling tax obligations whether they pay or file, they will not see the direct impacts. Maybe different from those in other countries, if they do not pay tax the benefits will be... Or jobless people get compensation. By paying tax they can control each other, some parties will lose if people do not pay tax. “You will lose when you lose your job,” so they control each other.

Mostly they pay tax based on their own interests. What is in it for them, whether it affects them or not.’ (P9, 45 years, tax consultant)

6.4.3. Has Tax Been Collected Well?

In order to obtain a more complete understanding of taxpayers’ perceptions, participants were further asked about their views on whether tax had been collected well, together with views on tax money utilisation. It was expected that this would add further perspectives or confirm the previous informed statements. The information was also expected to function as a ‘bridge’ to understanding the linkages between their perceptions and other themes, such as the tax authority performance

in collecting revenue, provision of public goods and services, trust in the government, the benefits people received from use of tax money, as well as their tax knowledge.

In general, most participants believed that tax had not been collected to its optimal point. One participant asserted that he knew many taxpayers who did not fulfil their tax obligations, and said he believed that such practices were common throughout the country. He stated:

'The revenue that has been collected obviously is far from optimal. Very far from what should have been collected, as well as the utilisation. From the potential, it is very far. So many corporations manipulate their obligations. From small scale businesses in a district, multiply it by how many districts in Indonesia. That is only from corporations. Not even the retailers that withhold tax of the consumers, but then their tax reports are not transparent. From the potential that can be collected and the utilisation I think there are still leakages.' (P5, 44 years, business owner)

Another participant was also confident that many taxpayers were not compliant in paying their taxes, despite understanding they had an obligation to do so.

'Tax money has been used, but (the use is) not yet maximised. Also the tax collection from taxpayers is not yet optimised, such as many business owners do not pay tax. Problematic, but however the tax utilisation is, taxpayers and businesses owners have to fulfil their obligations.' (P12, 27 years, business owner)

One participant cited herself as an example, asserting that tax was not collected optimally because the tax authority failed to approach some taxpayers to fulfil their obligations.

'Not yet (optimised). I for example, and other business owners that I know around, have never been approached by tax officer.' (P7, 66 years, retiree/business owner)

Another participant believed that approximately 30% of the potential tax remained uncollected, indicating that tax was far from optimally collected. However, he argued that the tax authority had performed quite well in achieving almost all the targets set.

'If we compare to the potential, I think it is still far from what have been collected until now. It is if we see from the potential. But if we see it from revenue target to be collected, I think what have been collected, they have been achieved more than 95% from the target. But whether the target has reflected the real potential, I do not think so. Personally I think there is 30% more that we can collect.' (P8, 39 years, corporate finance director)

A tax consultant illustrated how taxpayers dodged their obligations, stating the DGT system did not capture all taxpayers' business activities, as well as more advanced

taxpayer efforts in evading tax. If necessary, they chose to invest abroad and exploited holes in the regulations.

'This is usually how they want to evade, especially those who are not detected by DGT system. Such as the small and medium businesses, they do pay, but only as they want. For example their sales is Rp3-4 billion but they just pay Rp50 thousand per month, then it regularly is raised although their sales are much more than that. That is a simple way of evasion. In investor level, there are also so many, they hire tax consultants who are knowledgeable. They make tax planning and invest overseas, establish corporations overseas. Use available possibilities.' (P11, 36 years, tax consultant)

Another tax consultant signalled an unwillingness to pay tax in examples of contracts between two business parties. The taxpayers preferred not to be engaged in tax obligation matters, despite that costing them more. He believed that such unwillingness was caused by either not wanting to pay or not knowing about tax.

'There is a case like this, maybe this (case) can be an indicator (of evasion). There are many contracts between two parties, then one of the parties say, "I do not want any tax withheld" so the contract will be in such amount of money but tax is excluded. I would say that is a sign of an unwillingness to pay tax. Unfair, isn't it? Tax should have been obligated to both parties in the contracts. This side has these tax obligations and that side has those tax obligations, both should have understood. Even though if the withheld party get the invoices and the taxes withheld should be creditable, but instead they choose not to (be withheld). I think that is not economic factor, but unwillingness. Maybe the exact word is tax unawareness, it can be because they do not know or they do not want to know.' (P14, 47 years, tax consultant)

Further, a consultant illustrated unwillingness by noting that many taxpayers underreported their sales in order to lower their tax obligations. He also stated that taxpayers opted to move their investments once they could not comfortably continue tax evasion practices in Indonesia. They conducted practices that enabled individual taxpayers to enjoy benefits without meeting their obligations properly.

'I can say that even the share-owners of big corporations have given signals: if in Indonesia is not comfortable anymore, that we are monitored, begin to be targeted, we will move out our assets (to overseas). There was a time a tax auditor he investigated one corporation and it was revealed that its sales was Rp300 billion, but instead it only reported Rp50 billion. Many taxpayers are doing that. Maybe when a company is being audited, the individuals in the corporations should also be audited, so that they become aware. Many individual taxpayers hide their asset under corporation names. They enjoy facilities and the costs are born by the corporations, but actually (it is) the individuals who enjoy.' (P15, 54 years, tax consultant)

Conversely, there were a few participants who thought that tax was collected well. However, such opinions were less confidently conveyed, with one hastening to add that he did not really know much about the situation.

'I think it is optimal (but my opinion is) because we do not know exactly. What we see is fine, but whether the utilisation is good or not we cannot make sure yet.' (P3, 68 years, school owner)

Another participant suggested that he believed tax collection was optimal, quoting an example of paying different types of tax in a transaction line, something he did in his profession. He believed that the imposition of various obligations—final income tax, VAT, transfer fees,³² as well as income tax generated from profits—reflected that tax had been imposed maximally. However, he did not mention whether collection at the macro level had been optimised. He indicated investigating this would require checking the coverage of who had been registered as taxpayers.

'I think the collection is considerably good, (it has) already been maximised. Especially in our profession. For example how many times a taxpayer pay taxes in one transaction flow? Take for example a property developer. A developer wants to build a real estate so he buys land. When selling the land the owner pays income tax, and the buyer pays the transfer fee. When the developer constructs, he pays VAT, then he divides the land into lots, then the houses he sells will also be imposed the VAT, he pays income tax, then the buyer pays transfer fee. So in just one transaction there are several taxes imposed. So I think it is maximised.

See whether all eligible people have NPWP. That is the easiest way to check the potential. I don't know how many people have NPWP in this republic, because every individual who has NPWP is required to submit tax file annually and monthly. Unless there is a certain transaction, even though an individual does not have NPWP, when he/she sells his/her property he/she has to pay tax. Moreover, in our professions, we don't want to handle the transactions without paying taxes, because tax document will be part of the documents. No Justice of Peace wants to handle transaction without the client pay taxes beforehand.' (P6, 52 years, lawyer)

One participant believed that there were leakages in tax collection, indicating that the collection level was not as it should be. He considered that many taxpayers were unwilling to pay tax, and hid their true obligations. He believed this was a consequence of the government failing in service delivery.

'I am not sure of tax revenue has been optimal, like we all know, but this is personal opinion, there are leakages. This is because people's distrust who hide what they should pay. It happens, maybe because the government's service is not good either.' (P1, 42 years, university lecturer)

³² See Section 3.7. for the types of tax obligation for individual taxpayers in Indonesia.

6.4.4. Has Tax Been Utilised Well?

Similar to Section 6.4.3, when asked about whether tax has been utilised well, most participants believed that it had not. In general, participants related the use of tax money to improvement of people's welfare, the provision of good public facilities, and delivery of other benefits that they should enjoy. It was observed that most of the participants perceived that use of tax did not achieve those purposes. One participant stated:

'In my opinion, the government service compared to the tax compared is still under minimum. If it has reached minimum level, we shall recognise it significantly, for example from their service, at least the small services by the governments.' (P1, 42 years, university lecturer)

Another participant provided reasons why he viewed that tax was not used well. He believed there were wastages in spending in both bureaucracy and parliament.

'Expenditure is not optimised for the interest of people, in general. Why? There are many factors, it can be in bureaucracy, (it can be) parliament. Maybe local parliament, maybe in central parliament that makes decision, maybe there is hidden money. That is what we interpret... Not fully utilised for the people.' (P4, 42 years, sales manager)

Another participant believed that although tax money was used to meet people's needs, utilisation needed to improve. He regarded utilisation as providing only half of what should have been derived.

'Not yet because what I have seen the people's needs such as roads, public toilets, many things that are used by people are not completely provided, so I think it is half. There is improvement but not complete.' (P7, 66 years, retiree/business owner)

In a similar tone, another participant agreed that tax money was used for development, but that it was not maximised. The delivery of benefits from taxes had not reached the level where it affected the public's perception by taxes, which he argued was negative. He believed that improved delivery would make people more aware, and consequently, increase their willingness to pay tax.

'The utilisation is not much enjoyed. The utilisation occurs, but, it is different. It does not mean not exist at all, but they have not changed people's perception. It has not made people say "ok there is a lot improvement." It has not triggered people to change their view on public services. Bigger improvement will be more recognisable. The better public service will slightly improve the willingness to pay tax.' (P8, 39 years, corporate finance director)

Another participant believed that taxpayers perceived that the money was not utilised well, further citing that the score for perception was at most 5 on a 1 to 10

scale. He believed this was shaped by limited knowledge about tax collection and spending.

'People's perception whether tax has been utilised well by the government, I think it is not yet (perceived that way). In one to 10 scale it will be 5, or even 4. Maybe because what I said earlier, maybe because of the unawareness.

Why I emphasise the perception, because perception also depends on whether the taxpayers know or not. We can see that my perception is different. I understand about revenue and expenditure. If people give a 5 score (in 1-10 scale) I can give 6-7 even 8 for some tax offices. So it is quite difficult for me to draw what is the generalisation, because I am an outlier.' (P13, 44 years, corporate tax manager)

A tax consultant suggested that taxpayers had a poor view of utilisation because the benefits were not evident in Indonesia. He compared the evidence of the tax utilisation in other countries, which he believed were more visible to the public.

'My client compares taxes in foreign countries with them in Indonesia. In Indonesia (tax utilisation) is not clear. Tax is collected but then what is the money for? What benefits are given to people, what are for the taxpayers.' (P14, 47 years, tax consultant)

This last argument was supported by a comment by a taxpayer who admitted he felt uncertain whether tax was used well for the public or not.

'We don't know clearly, what we have seen is good. But whether the utilisation has been good or not, we cannot make sure.' (P3, 68 years, school owner)

6.4.5. Trust in the Government

Trust in the government is considered vital in the context of individual taxpayers' willingness to pay tax. Literature suggest that trust is correlated to the tax morale of individual taxpayers (Torgler 2003, 44–7; Cummings et al. 2009, 457). Therefore, this research also covers this issue.

In the interviews, participants were not asked specifically about their trust in the government. Instead, they were asked about issues related to the tasks of government, such as their performance in improving people's life, their service and providing public facilities. However, the theme 'trust in the government' (or maybe distrust is a more accurate word) emerged from the interviews.

Most of the participants voiced their disappointment about the government's performance. More specifically, they indicated their lack of trust in the government because of corruption cases and manipulation, and related this to taxpayers' unwillingness to pay the tax.

One participant stated that the willingness of taxpayers was hindered by their distrust in the government, because of the government failing to deliver services to the public in line with expectations.

'In my opinion the fiscal factors are influential, but there is another important factor. We see that the trust in the government is not yet positive, not yet recovered, because there have been complaints in low levels such as sub-districts, village so I think this dissatisfaction can also affect, not only the economic factors.' (P1, 42 years, university lecturer)

He further argued that the lack of willingness from taxpayers could not be solved by efforts from the DGT as the tax authority, but by the government as a whole. Even if the DGT provided the best service to taxpayers, it would not help, because the problem lay in taxpayers' distrust in the government more broadly.

'Maybe in Indonesia the problem is quite complex, if we burden it to DGT only, I do not think we will solve the problem. The most basic issue for me and the community is the distrust to the government, proven by the bombardment or blow ups of corruption cases by the media, not only in the government but also in the tax authority. Maybe this is a more urgent problem to address, so distrust is the main reason for the people. I view the government in general, regarding DGT, they only follow. I think our people are simple, if they see that something is beneficial, useful, they do not need fancy services.' (P1, 42 years, university lecturer)

Another participant hinted at his distrust, stating that he believed tax collection could not be maximised because there were leakages in collection that involved tax officers.

'Based on the experiences that I saw and heard, at least we can conclude that we cannot get 100% tax because there are leakages, revealed by the taxpayers and the tax officers. Several times I saw that taxpayers could manipulate the data so they did not need to pay full what they were supposed to pay. Frankly I have some colleagues who could do that. I do not know whether now we can still do it now, but what I saw there were deals, for example we were supposed to pay 100 but they played so the taxpayers just paid and filed 50, and the taxpayers gave the bad officer 10. That is a small illustration, because there are still big cases that we cannot see but they are factual in practices.'

He believed that the government should resolve the problem through better recruitment.

'The second factor is from the internal of DGT, we have to underline it. Frankly what we see is that the salary of a tax officer is very high compared to other government employees, but still there are bad officers. I mean it is the government or DGT must do well in the recruitment or in the training.' (P4, 42 years, sales manager)

Another participant indicated her distrust, stating that corruption cases were still prevalent, especially in regions where monitoring by the public was not intensive, in

contrast with that in big cities, where people were more critical and demanding. Corrupt practices consequently caused losses to taxpayers because they had to pay expenses that could not be claimed.

'I think people have seen improvements, but corruption cases are still widespread. Maybe in Jakarta people are more afraid to do the corruption, but in regions, regents are like small kings, as also the local parliament. The foreign investment corporations, they really experience that. No administration that is free from hot money. They have to incur the costs, unfortunately such costs cannot be claimed for the tax purposes, cannot be claimed as expenses. But in practice they have to pay.

Maybe in big cities such as in Jakarta, Surabaya, people are more afraid to do the corruption, because people are more aware. They also have higher level of intellectuality and are more critical. But in regions people are more accepting, they take the condition as it is. So we need to distinguish: what people? In cities the awareness maybe is good, the critical thinking is better.' (P10, age n/a, tax consultant)

Another participant who was a tax manager conveyed that distrust among his colleagues was widespread. They believed that part of the tax money paid would end up in corrupt officials' pockets, so the benefits of the tax would not be maximally enjoyed by the public. In general, people still did not trust that the money would be utilised well by the government.

'Historically tax was collected for the sake of the rulers, wasn't it? This thought still lingers, still influential. Tax will be corrupted by that side, and I will get nothing from it. I often see from mailing list groups, we discuss about tax – but the groups do not contain any tax officers – the members often say, "I bet the tax money will be stolen by corruptors". Those who have learned about tax usually will know that even some parts (of the money) is corrupted, some are used for the development. But many people still have that (bad) perception.' (P11, 36 years, tax consultant)

6.4.6. Trust in the Tax Authority

In contrast to the perception of tax in Section 6.4.1, most participants regard the tax authority as improved, especially at providing services to taxpayers. Despite some expressions of weaknesses and shortcomings regarding the tax authority and tax system, in general, perceptions were inclined to be positive. Several participants voiced some dissatisfaction; however, they were generally offset by appreciation about the betterment of tax service, system and policy. Some disappointments were reflected, as follows.

'Sometimes tax office likes to conduct surprising surveys then makes threats that may jeopardise businesses, such as telling "you should have done this, you should have done that" without any prior continued education. Some people still consider tax as a positive thing because without tax there will not be any development, but some people think it is

negative because of, quote and unquote, power of the tax authority - so people may get frightened.' (P2, male, 50, business owner)

A tax consultant was critical of the system, and emphasised that officers handling taxpayers' issues should conduct themselves better.

'Sometimes (the case is) simple. It is how to serve the taxpayers in complying with their tax obligation, isn't it? Sometimes some taxpayers complain, although this is case per case, not general. They want to pay tax correctly, but please make the administration easy. Even tax forms have already changed several times. There was not any guidance either, (taxpayers is) not assisted one by one. Just to meet the account representative (AR) is sometimes difficult, or sometimes the AR is cocky.

There are ARs who have changed their mind-set, they realise that they have to serve taxpayers. But there are also ARs that merely follow standard operating procedures. They (choose to) pursue revenue, not provide service to taxpayers.' (P11, 36 years, tax consultant)

Further, he mentioned a case when he argued a taxpayer's business and morale were damaged because of the flaws in conduct of a tax auditor. He expressed that such incidents led to a bad image of the tax authority.

'There was a taxpayer who reckoned he already calculated his tax correctly, all were in accordance with regulations. But once, he was audited, maybe because of tax overpayment statement or not, I do not know. There was a correction based on the audit resulting in extraordinary amount of tax arrears (by the auditor), maybe because of different interpretation to the regulations. The taxpayer was made bankrupt, so there was a rebellion inside him, that he said "I regret I filed my tax return correctly". He regretted that he reported properly but then he got audited and the audit made him lose his business. "Why didn't I just manipulate (my report), paying only small tax but made it incremental?"

In this case I blame the auditor. What he sought was only a correction as an achievement of an auditor. The auditor did not put attention to rationale aspect and perspectives from the taxpayer who tried to pay properly. What the auditor knew was the correction would be his achievement. The taxpayer who fell as victim finally told other taxpayers "Do not file the tax properly. The most important thing for you is how to avoid being audited. Otherwise you will be messed up like me." That's his campaign eventually.' (P9, 45 years, tax consultant)

One participant expressed that he initially viewed the DGT very negatively, especially because of the news on corrupt conducts of a few individuals in the DGT. However, he stated that when he learned that the criminals had been punished, he perceived tax and the tax authority in a more positive way.

'Based on my personal experience, in the beginning, my perception about tax was very negative. It was because so many news on tax and tax officers who took the tax money. However, I understand that it was about

individuals. After everything is processed, for me there is no problem.’ (P4, 42 years, sales manager)

Another participant welcomed the change in the DGT service, stating tax administration was easier to handle now, and this improved his perception of the tax authority.

‘Business registration and tax return filing now are quite good. They are not troublesome. In the past when we wanted to go to tax office the impression was tiresome, but now it is better. Where the direction is, who to meet, (we are) immediately directed. Where to wait. Now it is better. So the perception (towards DGT) is quite good.’ (P5, 44 years, business owner)

He further indicated that the ease provided by the tax authority would improve the process and eventually taxpayers would be more able to comply with their liabilities.

‘For me if the service is better people must be more compliant. Because, for example if we want to pay vehicle tax, in the past when we wanted to pay, they made it difficult, despite the fact that we wanted to pay money to the nation. It is now easy, it is not tedious for us to pay the tax. In the past, we wanted to pay but it was like it was we were the ones who wanted to get the money. But now it is not, it is really made easy to pay.’ (P5, 44 years, business owner)

Stronger opinions about the improvement of the tax service and system were conveyed by participants who interacted closely with the tax authority, such as tax manager and tax consultants. Some emphasised the progress made. One participant expressed that despite a few bad cases, he acknowledged that the tax authority was now much improved, and backed by competent personnel.

‘My impression on current tax system (and tax authority), all I can say it is now much better than it was five or ten years ago, especially after the modernisation³³. The only thing is, we are talking about 30 thousand tax officers. There must be bad individuals who make tax service look bad... Besides, people indeed much more easily criticise bad things than appreciate good things. So if we want to be objective, I think it is much better now, much more professional and the quality of DGT staff members are above average compared to other (government employees). This is in general.’ (P8, 39 years, corporate finance director)

Another tax consultant highlighted the improvement of the system, considering it far better than it had been in the past, and noting the better conduct by the tax officers. He praised the tax officers, who now operated better under good policy.

‘The thing is, the policy now is much better. In the past I am telling you frankly, if good individuals in DGT wanted to do good things they had to do it hidden. Now the condition has changed, now it is the opposite. But I do not know if in the future the trend will be like that (good) or return to the

³³ See Section 3.2.6.

past, because that (bad) era did happen... If remuneration (to tax officer) does not change, there is a possibility that it will return to that condition. Tax officers now become more caring, they actually do not want to do strange things.' (P14, 47 years, tax consultant)

Both of those last arguments were supported by another tax consultant, who stated that attention should turn to improving taxpayers' mindset. He maintained that the DGT had changed, especially in its officers' conduct.

'And what I salute about DGT is that they now have changed a lot. The emphasis when DGT provided Sunset Policy³⁴, it was the taxpayers' mindset ought to change. DGT is not like it was in the past, already changed a lot. In the past audit meant money, but now has changed. So now a tax office really serves. A lot... has changed a lot. There are bad individuals one or two but in general it is not like it was in the past. They do not want to negotiate (under the table). Now their direction is really for the country.' (P15, 54 years, tax consultant)

A good impression of tax service was also conveyed by a taxpayer whose job involved dealing with clients related to the tax service. Participant 6, a lawyer and Justice of the Peace, who prepared documents, including those related to clients paying tax and tax filing expressed the following:

'Our experience with the tax office, mainly the service system, service to taxpayers, I think, so far has been good. They serve us well, because I see the system is, what is the name? We only meet one person, and it is administered. Is it one-door system? I think the service is good.' (P6, 52 years, lawyer)

In addition, a participant added that the DGT Call Centre (with call number 500200), was a much improved service. He mentioned that he had used the service before, and was appreciative.

'Service-wise, the spirit is okay, especially in government office category. If you have ever tried the DGT customer service, it is one of the best. Try the 500200 now and they will refer to the regulations well. The answer is clear. The 500200 service can be categorised as advance for a government institution service. The only thing now is they ask (the caller) for their Tax Identification Number (NPWP), so a bit discouraging for people (to call the number).' (P13, 44 years, corporate tax manager)

He also expressed his appreciation for the system—despite some criticisms from other consultants, he suggested the problematic issues, such as changing regulations, were common occasions, not isolated to tax matters.

'In a dispute, it is more to the individuals (officers). Regarding regulations, tax regulations are more advanced than other regulations in terms of publication and dissemination.... The only thing, there is a public

³⁴ Sunset Policy was a program conducted in 2008 allowing non-compliant taxpayers paid and filed their previous unpaid income tax without being charged with interest penalty on the arrears.

perception about regulations - this is only for information - tax regulations constantly change. But for me, I do not really agree with them that tax regulations constantly change. Don't other regulations change? Secondly, is there anything in this world that does not change? I think it is a pre-assumption that they make. For me that is the dynamics, that is when our expertise is tested, right?' (P13, 44 years, corporate tax manager)

However, based on personal experience, he was critical about DGT officers' stance over disputes. He opined that the tax officers should be fairer in the face of appeals by taxpayers, especially those favoured to be won by the taxpayers.

'In audit and objection, there is a conclusion among my fellow tax consultants that because of the current tax reforms, everything is more transparent and with more integrity. (However) the tax officers become less responsible to take decision over their tasks, for example, even if from a fair judgement we know a taxpayer will surely win a dispute, the auditor still does not want to let it be won (by the taxpayer).'

 (P13, 44 years, corporate tax manager)

A similar tone was voiced by another participant, appreciating the better service now offered by the tax office, especially in administration, such as filing taxes and the use of technology to help taxpayers comply.

'Tax office service has enhanced, I mean the administration-related services. Tax filing can be done everywhere, there was a drop-box system, previously we could file at any tax office not only at the tax office where we were registered. That is also appreciable. Electronic filing (e-filing), electronic tax invoice, the taxpayers appreciate these things. We do not have to be in queue because of the e-filing.'

 (P10, age n/a, tax consultant)

However, she was also critical in regard to some aspects of the tax system, including the rate, threshold and regulations. Further, she argued that tax regulations in Indonesia had not been designed to support business, and indicated that it felt like a burden to business. She implied there was a room for improvement, especially in order to support business growth.

'Regarding tax laws in general our rate is not too high, maybe for individual taxpayers it needs to be reduced, for individuals (the rate) now is 35%³⁵, and taxable income threshold should be increased. Then I think many tax regulations are being questioned.

DGT is revenue oriented, and does not see how the real business world is. If we observe the link, the regulations are more revenue oriented, they do not yet consider what business market is like. We want to see a competitive business world, don't we? Business people want to move forward, but if they are burdened by tax in the first place, how will they grow?' (P10, age n/a, tax consultant)

³⁵ The existing law sets the highest rate for individual income tax at 30%. See Table 3.3 at Section 3.7.

6.4.7. Tax and Public Goods and Services

The next theme explored in the interviews was public service provision in relation to willingness to pay tax. Participants were asked their perceptions about public goods and services they had experienced, and whether this was related to their, or general individual taxpayers', attitude towards paying tax. They were also asked their opinion on whether provision of goods and services were influential in the willingness to pay tax by the individual taxpayers.

Most participants expressed dissatisfaction with the quality of public goods and services provided by governments. Transport and related infrastructure such as roads and bridges were frequently mentioned. Some participants implied that their reluctance to pay tax (and to obey regulations) were due to the poor services and unclear returns in forms of public facilities.

'On one side, in every monsoon, there are floods, meaning that water channels are bad. Then the apparatus too.... There are many simple issues that should have been resolved by the government, but not resolved. These things, these are actually simple things, that make us distrust the government. So what is this tax for? If it is just collected without any benefit.... The apparatus in district and sub district areas always use slogans, "Pay your tax so that it can be used to this and that", but on the other side when they serve us, even for easy things, are not done well. There must be, sorry to say, lubricating money here and there, also so that our matters can be accelerated. Perhaps those simple things that make tax image, for me personally, to be quite negative until now.

As we know our local government cannot get anything from natural resources for their revenue, so maybe tax is the most weighted source for them. Then the construction of roads and other public facilities, I believe, are also taken from the tax. So to say that there is no relation between tax and the deliverance of public goods and service is too much. But the service has not reached to minimum acceptance level either. That is my opinion.' (P1, 42 years, university lecturer)

Another participant stated that there was a relationship between tax paid, however, benefits in the form of public goods and services were not always delivered. He believed that there was a cross-subsidy from regions where tax was paid and collected and regions considered to need the funds more.

'I think there has been a correlation between the tax paid and the public goods and service provisions, even though the extent depends.... If we see the portions, it is true that not everything we have paid must return to us. For example maybe a region needs a big amount of financing, but that region does not generate enough revenue. Maybe like cross-subsidy, maybe that is the way; that is my opinion. I do not know whether the government has done this or not but I think the government has allocated to the main (things).' (P4, 42 years, sales manager)

Other participant argued that awareness of the relationship between tax and public goods and services provision was currently emerging.

'Recently there have been perceptions directed there (that tax is related to public goods and service provision). If we see the comments in the internet, awareness has begun to develop... that the corrupt officials that they realise tax is people's money. That it comes from tax money, such awareness has emerged.' (P5, 44 years, business owner)

Another participant agreed that there should be a relationship between tax and public goods and services provision; however, he stated that such a thing had not materialised in Indonesia, compared to what he believed occurred in other countries.

'Not yet (materialised). Especially if compared to the situation in foreign countries. For example why people in Europe want to pay high tax, because their basic needs are provided well and the quality is good. They do not panic when they get sick. The government is there to guarantee its citizens.' (P12, 27 years, business owner)

A similar opinion was expressed by another participant, who said that tax is not optimally utilised for public goods and services provision. There have been leaks, and not everyone enjoys the benefits of tax.

'Maybe there are leaks here and there (on the tax utilisation) so tax is not optimally used. If all the tax is used for the people, I think it can be like what happens in foreign countries. But see, many roads are holed, so it is not optimal.

I see that taxes have been collected from big corporations, actually we still can see (the utilisation) but not optimal. If the people's needs are provided, for example bridges. Farmers want to bring their commodities to towns, sometimes even though bridges should have been constructed by the government, the people eventually have to construct it by themselves, independently. So like I said earlier, where did the tax money go? Do not just concentrate on cities. The (distribution of) the tax is not yet equal.' (P7, 66 years, retiree/business owner)

Another participant conveyed a similar argument, and expressed more firmly that the leaks made the correlation between tax and public goods and services blurred. There is a distortion of services delivered to people because of the leaks and corruption.

'The increase of tax revenue is not correlated to the increase in service provisions. I think we all have to understand it. There is distortion because of, one of the factors, corruption. So the development funds do not return to people who should receive it. So there is another problem outside tax, it should not be blamed to DGT, it should be blamed to the corruptors, wherever they are from. Perhaps DGT as a body to collect tax has already done its job, revenue target has been accomplished, let us say 95% of the target but that percentage has reached acceptable area, but then has the development reached that level too? No. So there are leakages. So the

problem is the leakage. That is the thing that people have not realised, and it is used to justify people's reluctance to pay tax, even though there are other factors (that make people reluctant to pay tax).

It is what happens in Indonesia. But if we want to look further, that is the tax definition, that the taxpayers will not get direct benefits, it is different from retribution. However, people still expect, they know that what they pay will not return to them directly, but they still need to see the improvement (of public service and facilities) from what they pay.' (P8, 39 years, corporate finance director)

The participant then emphasised the corruption case that he believed eroded the optimal utilisation of the tax, as the main cause of the leaks.

'First thing I said earlier, corruption. As long as corruption still exists we pay 100 it is not certain that 100 will return. We will be tired of discussing whatever system (to install).' (P8, 39 years, corporate finance director))

Another participant believed that there was a connection; however, in his view, there was a misunderstanding about taxes and the benefits expected by the people. Despite not providing comments on the level of the public goods and services provided by the government, he argued that taxes have been returned as public facilities, and disagreed with those who expected that they should enjoy the benefits individually.

'I think there must be correlation, it is clear that tax is the state revenue, managed by the government and monitored by the parliament. Maybe people want direct benefits, but I do not see that way. The government aims to improve the welfare of people, it is impossible it provides it to individuals. So they build public facilities, roads, and farm water channels. People sometimes want direct correlation, I already have paid tax, and what will I get? I do not see that way. We entrust the government to manage it for the sake of public, not individual interests, even though in the public interests there are also individual interests, there are road construction, port constructions, we use them together. That is my answer, there must be correlation between the tax and the public goods and service, but no correlation with benefits to individuals.' (P6, 52 years, lawyer)

Similar to the previous statement, one tax consultant believed that taxpayers have not realised the correlation between the tax paid and public goods and services provision. Likewise, he stated that corruption was the cause of insufficient returned benefits and separated the DGT, whose task it is to collect revenue, and other government institutions.

'The relation between public facilities and service with tax: no (relation). None at all. So far DGT has fought alone, they fight alone to death to collect tax from taxpayers but the image is not supported by the other departments, other institutions. For example, DGT says tax is for the development, then, bang! There is a corruption case (revealed). How many

trillion rupiah gone there? There come other (corruption) cases. There is a disconnection isn't it? This side tries to say, "Hey, this tax is for all of us", but then it comes out in practice differently, it goes into (the corruptors') pockets. It can truly be seen by people that apparently the money goes here and there, because in the court everything is exposed. Therefore people think, oh actually our money is not used for us, it is used by those bad individuals.

Basically people are unwilling to pay tax, then (the unwillingness) is supported by those non-technical factors, it strengthens their reluctance to pay tax. Their perception is that the government has not given optimally, like bad roads, traffic jams (still occur), that is the perception. The government maybe has done for example road repairs, although then when it rains the road go bad again. But it tends to the corruption. Corruptions cause the distortion to the goods given by the government, so the utilisations are not optimised.' (P11, 36 years, tax consultant)

Another tax consultant added that taxpayers were still oblivious to the relationship; however, he suggested that their unwillingness was due to negative perceptions that developed from negative cases that were not balanced with good reports.

'It is true that people become more aware now. But they still ignore the relation of public facilities and tax. Besides, there are still many tax (corruption) cases so they think what is the tax (used for)? And mostly the perceptions are negative: oh in fact most of the tax is stolen by corruptors. It will be no use if we pay tax. Then (DGT) has not made enough counter-argument, made constructing advertisement to counter the bad image.' (P9, 45 years, tax consultant)

One tax consultant argued that taxpayers have not related the tax they pay with the demand for good public goods and services. She confirmed that taxpayers paid their taxes merely as a way to fulfil their obligations.

'Whether they enjoy the benefits directly or not apparently they have not thought there. So paying tax is an obligation and this is part of our revenue so they have to. Whether they get the benefits, I think not yet. In relation with the government facilities and services, if they want to administer things in government institution, it is always still (laugh). Go to immigration, customs, local government, etcetera they always find it What I have seen, so be it, this (administration service thing) is not related to the taxes I pay. Tax is an obligation to every citizen, so I have to pay, never mind. So they still understand all the government can give to people for now is only that...' (P10, age n/a, tax consultant)

However, she added that awareness had begun to develop, although not to the extent that saw tax paid as equivalent to facilities and services.

'But awareness has grown, because now people are more critical. I see because they think they pay tax, so the salary of the parliament members, ministers, and other government body employees are all paid with the taxes we pay, they become more critical, but have not reached that level... They do not expect too much, have not reached there from what I see.' (P10, age n/a, tax consultant)

One participant suggested that tax be understood as a means of sharing, that tax is not supposed to give benefits in return to people as expected by some taxpayers. Individuals or groups cannot expect to directly enjoy facilities funded by their taxes.

'We do not explain where (the tax money) flows. And indeed the substance of tax is different from retribution. For tax we do not get direct benefits. That is the explanation, want it or not, and also the government cannot promise... (to give direct benefits).' (P13, 44 years, corporate tax manager)

He then stated the difference between the revenue side and expenditure side of the government, emphasising that it is difficult to equalise tax collected and money spent, as they are under different institutions.

'There is an equal benefit or not, because I personally understand the (state money) flows, DGT collects but it is not only DGT that spends, this understanding should be continuously spread. There are revenue side and expenditure side. It means one institution collect but it is the other institutions that spend it irresponsibly, isn't it? That is the fact so that people cannot receive the land and building tax they pay. At least now the government puts attention to subsidies, so the spirit is still giving to the people.

That concept should be made clear to people, that revenue side and expenditure side are different. Tax actually means sharing, doesn't it? It is different from retribution. We pay retribution for our own sake, it is more egoistic. But tax, other people get benefits from us who get excessive (income) and it is given to those who need it.' (P13, 44 years, corporate tax manager)

A tax consultant made a similar point—that people see the government as a unit, rather than as having a revenue side and an expenditure side. People view the government as a whole, and this shapes their perceptions on development and service provision.

'The problem is that they (the people) see all apparatus as a whole, and it is supposed to be so. If we see from this understanding, to fix the government apparatus is them as a whole isn't it? It can be made through the enactment of apparatus law, or the betterment of government employees. Maybe it is because there is no continuation of development, president changes then policy changes and it causes distrust. And actually the political parties do not make Indonesia better, but they make the country even messed up. It is different from other countries. When there is a national general election the public service is still continuing well, it is not bothered by the event.' (P14, 47 years, tax consultant)

Both these arguments were acknowledged by the last comment by a tax consultant. While he agreed that people should see there is difference between the revenue and expenditure side in terms of public facilities and services, he understood that taxpayers demanded better returns on taxes regardless who delivers them.

'The fact is DGT has heavy task, they have to collect this trillions (of rupiah), while other departments will enjoy. If a taxpayer says I pay tax but I do not get benefits from what I pay, there are still traffic jams and roads are still bad, it is not the DGT's task but it is the task of other departments to provide, maybe the Public Works department because the fund has been supplied by the people's tax. But still it is normal that people pay say I already pay tax but I do not enjoy, ugly roads, congested, it is normal. I do not know from where we begin to fix.' (P15, 54 years, tax consultant)

6.4.8. Simplicity of Tax System

One issue frequently emphasised by the participants was the complicated and troublesome tax system, and they advocated for simplification. They viewed the current tax system as difficult and believed many taxpayers could not afford to comply, because of the time or effort required to fulfil obligations. In addition to unawareness of tax, the complicated system worsened their reluctance to be involved in tax matters.

One taxpayer explained his view and his experiences in completing tax administration, from the preparation of tax forms to the filing of the return. He found that even the forms looked troublesome and difficult to understand.

'Common people do not understand tax matters with the entire forms et cetera and in many looks that make people confused just by reading them. What to do. Not even to filling out, just seeing the forms already makes them confused.' (P5, 44 years, business owner)

He added that because of the confusion, some taxpayers decided not to complete, and were not fully aware of the legal consequences. He also believed that the DGT should provide assistance to help the taxpayers in fulfilling obligations; otherwise, taxpayers might choose to abandon the process as they did not know what to do, resulting in non-compliance.

'People sometimes do not take it seriously because they do not know what to do but do not realise what the legal effect will be.

At least in the beginning there should to be an officer that explains it. Also most forms are directly sent to the taxpayers' addresses, so if the taxpayers do not know how to fill it they will ask tax consultants. But they are the taxpayers who are willing, what about the taxpayers who are not willing? They will just leave the forms. If they are asked, they will answer, I do not know how to.' (P5, 44 years, business owner)

Another taxpayer agreed that administration was a burden to individual taxpayers. Unawareness of tax added to the difficulty in completing administration, discouraging taxpayers from filing tax returns. He viewed such cases as prevalent among businesses, up to middle-sized business individual taxpayers.

'Preferably the taxpayers are not troubled by such sophisticated reports. Just make it simple, guide. So I think taxpayers are willing to pay tax, only the information dissemination is very lacking. I know if taxpayers go to the tax office, they will be served well. But they have to go there. Those who go there means that they have good awareness of their tax obligations. What about those with low level of awareness? They will just ignore it and they do not pay they do not file tax return, unless there is an action from the tax office to take it. So give information dissemination.

Corporations usually have personnel to handle tax matters. But for medium businesses, (the administration) is disturbing.' (P6, 52 years, lawyer)

A tax consultant voiced a similar concern, expressing that individual taxpayers did not prepare administration matters related to tax well. He believed that complicated administrative requirements increased taxpayers' reluctance to obey regulations and strengthened bad perceptions of tax. He recommended that the DGT change the system for individual taxpayers from self-assessment to final tax or a withholding system.

'The system should be simplified, because individual taxpayers do not administer their taxes well. Taxpayers will be discouraged and think it would be better not involved in tax matters. Just final or withhold, so it will not deepen their antipathy to tax, and there will be no negative campaign about tax. As long as the individual taxpayers, just final or withhold, finished. Anyway employees' tax are withheld by the employers, and in tax context we consider them to be compliant.' (P9, 45 years, tax consultant)

He further suggested that individual taxpayers were willing to pay tax, provided that they were not burdened by administrative burdens, because they did not have resources to handle them.

'In general taxpayers are willing that their incomes be taxed, not so many people oppose, except if they think that the rate is too high like 30%. But the willingness is there, everyone knows that income should be taxed, but do not trouble them anymore because they cannot afford it. For us consultants it is good that they do not know because it means income to us, but that is not good.

So just make it simple, taxpayers do not need to prepare tax returns. Tax officers just come to check whether the taxpayers have paid or not, so there will be tax invoice every month to prove that they have paid.' (P9, 45 years, tax consultant)

Another taxpayer had a similar view, praising the current regulation stipulating that small and medium taxpayers pay final income tax of 1% of sales. He believed it was a good regulation and liberated individual taxpayers from an administrative burden that they could not afforded.

'Now a particular group of taxpayers has been imposed the final income tax, I think that is a good rule, because the taxpayers are not troubled to calculate their profit.

They pay one percent of the sales as income tax, then tax officers do not bother them anymore. In the past they wanted to pay, but did not know how to calculate and file. No time either. For big businesses, ok, ask them prepare the bookkeeping.' (P8, 39 years, corporate finance director)

He further argued that measures in the administration created obstructions for tax collection, and that there were many steps from the obligation to the realisation of revenue for the national finance accounts.

'The distance between the taxpayers and the execution of paying tax should be made shorter.

In current practices, after business owners generate revenue, there are several steps from there to paying tax. First they have to calculate total sales, then calculate the cost, then prepare bookkeeping, then make tax returns, then go to the bank to pay, go to tax office to file; so many steps that separates the money from the state account. But if the distance of my money and the state account is short, no many processes in between, maybe people will not be troubled to pay. If necessary they can pay the percentage online using ATM or mobile banking monthly. Finished. The taxpayers' easiness means less efforts to DGT too.' (P8, 39 years, corporate finance director)

A tax consultant further suggested that taxpayers know they are obligated to pay tax; however, the complications in fulfilling the obligation made them decide against complying with the regulations.

'Taxpayers understand the tax obligations, but when they are faced by the difficulties in complying with the regulations, they will think it is better not to do this.' (P11, 36 years, tax consultant)

6.4.9. Factors that Influence Willingness to Pay Tax

Participants were asked about the factors that affected taxpayers' attitude towards paying their taxes. In this session the participants were asked to highlight what factors they considered to be influential in shaping their willingness to pay their tax based on their experience. Thus, this question is closely related to the factors that influence tax morale.

Most of the taxpayers mentioned that provision of good public facilities and services as well as transparency in the use of tax money would induce willingness to pay tax. One participant believed taxpayers would be compliant if the government provided good facilities and serviced to improve their life, regardless of level of income.

'I tend to vote for the availability of public goods and services. It will encourage us to pay tax. It is related to the government service and the

easiness for people. The more caring the government to people and the easier things for people to do in their daily life, surely will make them more willing to pay tax. However small is an individual's income, if the government serves him/her well, he/she will be willing if a part of his/her income taken for the sake of other people.' (P1, 42 years, university lecturer)

Another participant did not believe that the service delivered by the DGT was sufficient to induce taxpayers to be willing to pay their tax. Instead, he was confident that good quality of public goods and services were the underlying factors that would affect the willingness of taxpayers to be compliant in fulfilling their obligations.

'Maybe higher quality of public goods and services and the impression that the government service is better, not exclusively only tax service. Sometimes there is no problem if we do not get tax service because we can directly pay to the bank, even if there is no contact with the tax office it is still not a problem. But if we see those two factors increase, I am sure people will have willingness to pay tax. I pay tax but it is ok because my children's education quality is also good. I pay tax, traffic congestion decreases, roads expand, and public transports improve. Those are what we expect from what we pay.' (P8, 39 years, corporate finance director)

He added that the government's treatment of people, not only from the tax authority, was influential in improving tax morale. He believed that if the government's service was good, people would see the benefits of their taxes, increasing their willingness to pay tax.

'For me personally if the tax service is good, that is normal, not an added value. That is the way it should be. If we know that it is good, but it does not make us more willing to pay. But if we witness that the developments is getting better, the apparatus are more serving, not arrogant, that they really realise that they eat from the tax money paid by the taxpayers, those things will change the people's perception of tax as a whole. So it is not only about the tax.

So it is about the public goods and service provided by the government and the service of all the government apparatus, not only the tax apparatus. Normally people who pay need to feel something from what they pay. If people pay but they do not enjoy anything it means they pay only because of fear, because of being forced, because obligation, and if there is a chance they will evade. For me personally I will be much more delighted if the money I pay will return to me or to my children.' (P8, 39 years, corporate finance director)

Another participant, a tax consultant, mentioned public facilities as one of the influential factors. In addition, he further suggested from his knowledge that empathetic service from the tax authority as well the easiness of the system had a significant impact on taxpayers complying with obligations.

The first factor is the public facility, then the second is the easiness.

How the tax authority treat them well. I discussed with taxpayers several times and they paid the tax not because of fear but more because of discomfort that the relationship (between the taxpayers and the account representative/tax officer) will be ruined. Because they had been served well; and the officers helped them. If there was a facility to pay in instalments but the facility was not given, the taxpayers would think they had better run, make a new company. There are people like that. When they want to pay tax, they understand that tax is an obligation. What they do not understand is when they want to pay but it is made too difficult to them. They have to follow many procedures. That is DGT procedures, they do not want to know; all they want is how things are made easy.' (P11, 36 years, tax consultant)

Further, a participant believed that people's economic situation was influential on taxpayers' willingness to pay tax. She believed that if people were well off, they would be likely to fulfil the obligation more willingly. She then added that public facilities were also effective, that if people knew that their tax would provide benefits in the form of good public goods and services, they would be more compliant.

'The most influential factor is obviously people's welfare. If people are well off they will be easier to be appealed to participate in this country. Also if benefit is unclear, people will think that "why should I pay tax if there is no benefit?" If facilities are provided well, and the goods and service are equal to the tax paid by the taxpayers, people will be happy.' (P7, 66 years, retiree/business owner)

In addition, a tax consultant explained that taxpayers would be encouraged in their willingness to meet their obligations if the government used the money well in the public interest. He described an example of a taxpayer who was more willing after he learned that the tax money would be used for infrastructure development, instead of a fuel subsidy, which is enjoyed by rich people who own vehicles rather than the common people.

'If the government is honest, ok. The subsidy will be reallocated to infrastructure, so people are aware. An individual taxpayer told me, I do not want to pay tax, (because) the money will be used to subsidise the fuels. It will be just burned (as fuels), how may trillion rupiah is that? Based on the analysis the persons who enjoyed the fuel subsidy were 75% people who owned cars. If the government dares to turn the (subsidy money) to infrastructure, I will salute, hopefully it can be (reallocated). Many individual taxpayers say so, ah the money is burned into subsidised fuel. But if the government promises that the money will be used for infrastructure, I will pay.' (P15, 54 years, tax consultant)

Another factor that was frequently mentioned by participants was the transparent use of the tax money. They believed that when taxpayers knew how their tax money would be used, they were more inclined to observe the regulations.

'While other factors are necessary, I think transparency maybe important, that we know where our tax goes.' (P3, 68 years, school owner)

The statement was supported by another participant, who pointed out that the lack of transparency on the use of tax money was the reason for taxpayers' reluctance to pay.

'Personally I agree with the four factors, but the main (factor) is the transparency of the tax money utilisation by the government. Currently it is still unconfirmed. That is why sometimes people are reluctant to pay tax because the transparency is not clear. That is the principle that I see from people.' (P4, 42 years, sales manager)

While mentioning transparency, another participant emphasised the need to educate people about the use of tax revenue. He argued that currently people did not know what the money was used for. He believed that the use of tax money should be transparent, and equally, people should be well informed.

'The most important thing is the transparency, where it is used. Information dissemination is necessary so that people know that tax is used for this... In general people do not know it yet. We are always told to pay, but we do not know that the roads are funded by the tax, isn't it? State teachers' salary are paid with tax. People do not know (that), what they know is that the government pays that, state money, without knowing where the state money comes from.' (P5, 44 years, business owner)

One participant pointed out that administration was still troublesome. He believed that simplicity of the system and an easy way to pay were influential factors on the willingness of the taxpayers to pay tax.

'All factors are important, but sometimes I also complain about how tiresome it is to administer the tax. So many components have to put attention into and to fill. So I choose the administration simplicity. Tax payment should have been made very-very easy for even the most common people.' (P12, 27 years, business owner)

In addition, a tax consultant believed that personal belief was also highly influential on the willingness of taxpayers to pay tax. He mentioned 'zakat' as an example taxpayers compare with tax. He pointed out that some taxpayers were more willing to pay 'zakat' than tax because of their belief.

'Some people do not pay tax, first because of belief. Religious belief strengthens their stance to pay 'zakat' more than to pay tax. The second is because of unawareness. The third is because of evasion. These are three categories of people not wanting to pay tax. The biggest percentage? In Indonesia, the belief.

There are many people that think like that, why pay to the state? It is better to pay 'zakat', besides helping people, they are also (believing to be) rewarded in heaven. If we are egoistic we will be like that, won't we? We'd better help the villagers.' (P14, 47 years, tax consultant)

It was observed that when asked about what the eminent factor which would affect their willingness to pay tax, most taxpayers suggested that good provision of public goods and service would do so. Some participants believed that if the government succeeded in delivering good public goods and service, they would have a sense that what they paid was worthy. It would encourage them to be compliant to share their contribution in form of tax payment. This opinion, however, was somewhat different from the previous suggestion that the provision of public goods and service was believed to not entirely related to the tax compliance of individual taxpayers; rather, they paid their tax merely as an obligation without expecting any benefit in return.³⁶ Nevertheless, this difference shows that the perceptions about factors affecting the taxpayers and how such factors affect their willingness vary among taxpayers. The information from the interview will be further analysed and triangulated with the quantitative analysis to capture more reliable answer to the question whether the provision of public goods and service is influential on the individual taxpayer compliance in Indonesia.

6.4.10. Factors that Influence the Decision to Pay Tax

Participants were asked which factor was the most influential on their decision to eventually pay their taxes, from a list including fiscal factors income, tax rate, fine or penalty and fear of audit (as discussed in Section 2.3.1). It needs to be noted that the question is different from that of the willingness to pay tax as queried in Section 6.4.9, where in this Section the question is to explore why the taxpayers eventually pay their tax regardless they are willing or not. Participants were also asked to provide factors other than these four, if any, that they thought influential or that had effect on their decision to pay tax up to the date they were interviewed.

No participant conveyed that taxpayers pay their tax voluntarily. Most participants mentioned that the fine and fear of being audited were the key determinants in influencing them to meet their obligations.

A participant whose business was schooling simply mentioned that he paid taxes mostly in order to avoid fines.

‘Fine and others.’ (P3, 68 years, school owner)

Another participant similarly pointed out that the fine was the most influential factor that deterred him from paying taxes late. In a further statement, he expressed that he also wanted the means to meet the obligation to be simplified.

³⁶ See Section 6.4.7.

'Fine. I pay in time because I am afraid to be fined. And administration simplicity. It irritates us that even we want to pay we are still made tired. That annoys people who want to pay. That is the thing, even we want to pay for the nation it is made difficult to us. In the past even when we wanted to pay tax, we had to bribe, that was weird, wasn't it?' (P5, 44 years, business owner)

Similarly, another business owner mentioned that the fine was the reason he paid his tax, and suggested he did not look closely at the utilisation of the money he paid.

'For me it is the fine. I don't like to be fined. If something has to be paid, why should get fined first to pay? Regardless of the (tax money) utilisation in the future, the most important thing is fulfil the obligation first.' (P12, 27 years, business owner)

One participant indicated that non-transparent use of tax money induced reluctance to pay tax; however, he hinted that his paying decision was influenced by the imposition of a fine.

'For me personally, the lack of transparency in the allocation of the tax makes people reluctant to pay tax. I am also afraid of fine.' (P7, 66 years, retiree/business owner)

One participant added fear of audit as an accompanying factor, along with the penalty. Being involved in an audit might involve legal problems and be time-consuming.

'Maybe I tend to the audit factor and fine. Fine can cause financial difficulty to me, audit can cause legal problems and et cetera, and consume our time.' (P1, 42 years, university lecturer)

Similarly, a tax consultant mentioned fear of being audited as well as being fined were the most influential factors on taxpayers' decision to pay. She also emphasised that paying tax was not conducted voluntarily but because of enforcement.

'There is influence from the soft factors but they are not the main reasons. They pay tax because it is an obligation. They do not want to get fined and to be get involved with tax offices. Fulfilling obligation may be because of willingness or by force, and I see this case as by force.' (P10, age n/a, tax consultant)

While admitting that good service played a role in encouraging people to comply with their tax obligations, another participant believed that the fine and fear of audit were the most influential factors compelling taxpayers to pay.

'In my opinion the penalty and fear of being audited are in front. Tax rate is just so-so, taxpayers don't really bother about rates. But if they think the rate is too high for Indonesia, saying too high must have another (rate) for comparison, right? Another thing is service.' (P13, 44 years, corporate tax manager)

Another participant was confident that fear of audit was the sole factor in paying tax, as taxpayers are driven to avoid it.

'Afraid of being audited. So actually (they pay tax) because of fear.' (P8, 39 years, corporate finance director)

Fear of audit was also mentioned by a tax consultant as a deterrent to taxpayers avoiding their tax obligations.

'The most influential thing is the fear to be audited. Maybe if taxpayers have income routinely managed by corporations, willing or not there is a need. If they do not report it they will get audited. But it is also problematic, if they report they may get audited, if they do not report they may also get audited.' (P9, 45 years, tax consultant)

Ease of paying and administrative simplicity were the preferred factors mentioned by four participants. They indicated that if administration were simpler, taxpayers would be more willing to meet their obligations. They argued that the troublesome tax arrangements hindered taxpayers in paying their tax. A participant suggested that ease was the most influential factor, hinting that greater ease would increase the number of those who eventually comply with their tax obligations.

'Administration simplicity, when taxpayers want to pay the system is made easier. Don't make it difficult to pay. For example paying vehicle tax, so at least those who do not have time, (because of the payment points are) available in malls, on the street junction, initially they do not want to pay, eventually they pay.' (P4, 42 years, sales manager)

Another participant also suggested that individual taxpayers be freed from troublesome administration, suggesting that the work to calculate the tax due should be conducted by the tax authority, as individual taxpayers could not afford to conduct the work as corporations did. He believed that current technology should be used to help with this.

'The most need factor is the administration simplicity. We don't need to prepare all reports, just like paying electricity bills. This NPWP holder must pay this amount of tax. Corporations prepare book keeping, but individuals just pay through ATM. Pay with invoice. Tax office just assesses and set the amount to be paid and where to pay, no need for any formalities. IT system now is advanced, with NPWP we can detect the names and other identities.' (P2, 50 years, business owner)

A tax consultant also mentioned simplicity as the factor that encouraged taxpayers to comply with their tax obligations, comparing the situation in Indonesia with what he believed occurred in other countries. He indicated that some taxpayers felt it tedious to get involved with tax matters currently.

'Administration simplicity. This is a comparison with a friend in another country. How easy the administration is there. The taxpayers file their income tax monthly and how much costs they spend, how much refund they will get, or how much tax arrears they must pay. It is all so easy. While in Indonesia the refund is so.... Refund is really unfavourable matter. Applying for refund will get you audited. Then there come other matters. Instead of getting the refund, taxpayers will eventually have to pay arrears. So there are some taxpayers that ask not to apply for refund, even though the amount is big and it is their right.' (P14, 47 years, tax consultant)

Another tax consultant also believed that simplicity was necessary to induce taxpayers to pay their tax, in addition to assessing the benefits.

'The most influential thing actually, based on my experiences, people tend to want simplicity. That is very influential. Indonesian treat things like transactions. Is this beneficial for me or not? If it is not, why should I get involved? Then is easy or not, if it is not easy, why should I do it too?' (P11, 36 years, tax consultant)

Lastly, one tax consultant mentioned that the rate also had a role in the decision of taxpayers to pay their tax. He mentioned an example where a taxpayer tried to find a way to lower the tax paid because the taxpayer considered the rate too high. The taxpayer wanted to pay tax; however, at a lower rate.

'My experience as tax consultant, regarding tax rate, that really happened. Most of the high income taxpayers asked, because their income has a higher tax rate. Why don't we try to lower it, how do we do it? So those kind of questions from the taxpayers are real. They asked how to arrange to only be imposed the lower layers of income tax rate, how to be imposed only 10%. So that kind of thinking, people tend to find the cheaper ones, they think the most important thing is that they pay tax.' (P9, 45 years, tax consultant)

6.4.11. Willingness to Pay Tax

When asked about willingness to pay tax, both groups, individual taxpayers and tax consultants, expressed reluctance, either implicitly or explicitly, to pay tax. Some participants briefly explained the reasons why they were unwilling to comply, while others did not express a cause, but only indicated that tax was an obligation as regulated by law. No participant suggested that he/she paid tax because of an inner desire, as a means of sharing or providing benefits to others or the nation. Among the generally unwilling stances, the following opinion was considered quite positive:

'So actually if we are talking about willing or unwilling I am sure everyone says I am not willing (that my income) to be taxed, but that is narrow mindedness. We must think widely, comprehensively, because tax is related to the national development. How can this country advance if nobody wants to pay tax? Furthermore, there are some people who may have to pay big amount of tax, but they hide (their income). Talking about willing or unwilling, frankly willing or not, we already consider tax as charity,

as an obligation. So like it or not we must be willing, because it is a responsibility for the country.' (P2, 50 years, business owner)

Similarly, other participants expressed:

'The main thing is, tax is an obligation.' (P5, 44 years, business owner)

'(I pay tax) only because I comply with regulations. I do not consider the fiscal factors. Normatively I do not see them. I only want to comply with regulations. Taxpayers have to pay tax, so just comply. I do not know about other people, maybe because they are afraid to be audited, maybe because of penalty, I do not know.'

'I pay tax, because I comply with regulations. And I think it is citizens' responsibility, together helping the government to develop this republic.' (P6, 52 years, lawyer)

Another taxpayer suggested that she would pay tax in accordance with regulations if a tax officer came. She also suggested there are taxpayers who do not want to comply.

'However it is, not everybody is honest. Some people are afraid that their tax amount will be too high, so they underreport their income. As for me, I will follow the rules. If tax (officer) comes, I will pay according to regulations.' (P7, 66 years, retiree/business owner)

One tax consultant expressed a similar sentiment, suggesting that taxpayers see tax merely as an obligation, without considering the return they will get from paying.

'In general from the individuals inside the corporate taxpayers - because in corporations there are individual taxpayers - tax is viewed more as an obligation. Whether they get benefit directly or not it seems that they do not think that far. So this is an obligation and this is a part of state revenue, so we have to... Whether they get something in return, I think it is not yet (considered).' (P10, age n/a, tax consultant)

One participant emphasised his feeling, straightforwardly expressed, that his paying tax did not intend to help the country develop. He stated that he paid tax because tax was an obligation.

'Personally I pay tax not because of the awareness that the taxes I paid will be used for the development. This is because I never know how far and (there is) no transparency in the utilisation of the taxes. I pay because it is an obligation that I have to fulfil.' (P12, 27 years, business owner)

Two participants voiced their unwillingness to pay tax more explicitly than the others. While one participant provided the reason that the use of the tax was not clear to him, the other argued that the tax rate was a factor.

'There is no clear consideration for the decisions to increase the tax. It is the thing that causes us as the members of the community question at that time, "what is this tax used for?"' (P1, Male, 42, university lecturer)

'Frankly I still find it heavy to pay tax even though we realise that it is important to the development, (this is) because of other factors, such as the percentage (tax rate) is too big, if we see in other countries the rate is 15% but in our country it reaches 30%. We are aware tax is important, but to pay is still burdensome... ' (P8, 39 years, corporate finance director)

More lengthy explanations about the situation were expressed. One participant working as a tax manager divided uncompliant individual taxpayers into three groups: those who did not want to pay tax because they did not want to, those who did not want to pay tax because they did not know what tax was and what it was used for, and those who did not want to pay because they had a negative perception about tax and the tax authority.

'I can say that 50–60% of employees do not want their income to be taxed. When it was stipulated that all employees ought to have NPWP, I made three shifts (of information sessions) from the Human Resources Department to promote the NPWP. It was tough but I told them "this is law". If you want to protest, go protest to the parliament. (What I did was) such a feudalistic way, wasn't it? So I can tell that 60% of them were not willing.

There are three possibilities of their unwillingness. One because they do not want, whatever the reason (they say) "I do not care, I do not want to pay." Another one because they do not know, they do not know what the tax concept is, that indirect concept. If they pay here, their villages back home are helped, (but) that is beyond their knowledge. Then the tax officers who had scandals worsened their unwillingness, even we need to check (whether there is) correlation between the scandals and the unwillingness. But I think those are the general perceptions of the employees.' (P13, 44 years, corporate tax manager)

Two tax consultants mentioned that administration difficulties had a role in taxpayers' unwillingness. While the withholding system helped compliance, as taxpayers do not have to deal with payment and administration issues, the problems are considered to be more complex for business owners as they have to calculate, pay and file tax returns by themselves.

'Based on my observation on day to day facts about the willingness of the individual taxpayers, the intrinsic willingness is very lacking... whether the persons are public figures or common individuals, all of them tend to be reluctant to think about the administration in order to know how much their tax obligation really are. They tend to like the practical things, for example, if they are in institution then they want the institutions to withhold, file and help them with their obligations. Maybe the problem is in the administration issue. Maybe they also lack knowledge, then maybe they also lack of time to deal with the tax filing.

There are also controls (over transactions) between corporations; but for individuals there is no such thing. There is no control of transaction between individuals, so the willingness I think is lacking, except if it is related to institutions. If they deal with institutions they have to follow the

system, because usually every institution has standard operating procedures so they have to follow it, employees or whoever is involved in the transaction. For individuals, the system is self-assessment. I think the tax (paid to the state account) has been far from what should have been paid and filed. I interact with many people, most of them do not know there is an obligation to file. Most of them do not understand. If they are not audited they will not file the tax return.’ (P9, 45 years, tax consultant)

‘For individual taxpayers this is relative. We have to divide. For employees, directors, their income taxes are withheld, they only need to file, finished. So I think they do not really have a problem. The problematic ones are the business owners, they have the most problems. They must think “why do I pay such high amount of tax?” News of corruption are broadcasted everywhere. Parliament members are involved in corruption scandals. Also corrupt tax officers are kept hostages in media. Those things really affect their willingness to pay tax, because they think even if they pay high amount of tax, the money will be stolen by the parliament members, ministries. That kind of thought still exists in the society.

The tax reform is an added value, but that is not enough. Other must follow, all (institutions) must be better, reforms in all government employees. Therefore people will experience that services improve in every sector. Also the easiness to pay tax. Easiness in government administration. If, only in tax sector things improve but in other bureaucracy systems do not change, their image will still remain, “why do I need to pay tax if the service does not change, roads are still bad with pot holes, the street lights are off.” Even though those are not DGT domains, but that image still affects. “The government service is still bad, so we do not need to pay much (tax).” (P11, 36 years, tax consultant)

Another example was added by a tax consultant, citing his client, who was also reluctant to pay tax. The explanation was that the client did not see any benefits returned to him as a taxpayer—he did not realise tax had contributed to development.

‘My client is a professor in a well-known university in Indonesia. He is one of those who actually are reluctant to pay tax. Why? Because the benefit concept is not clear. I pay tax then what do I get (in return)? The road are full pot holes. We seem to pay to thugs, (there is) no use. There is development, but it seems the development is not done by the government but private sectors. Malls are constructed by private companies. There is no government role, and the roads are full of holes. Then if I retire later, what will I get?’ (P14, 47 years, tax consultant)

Another participant, a tax consultant, spoke of a similar attitude of individual taxpayers. He said most of the individual taxpayers were inclined to hide their asset information in order to evade paying tax. He believed that lack of willingness was also influenced by individual characteristics—whether a person was honest or not.

‘Pressure must be applied to individual taxpayers. There are many individuals who have not owned NPWP. Some individuals own corporations, they have NPWP, but most of their assets are managed by

their siblings, and their siblings do not have NPWP. That is possible, isn't it? They do not have any saving in banks, they do not want to pay tax. They just evade. Therefore I really support the (implementation of) Single Identification Number (SIN)³⁷. Yesterday I received an SMS from a friend, there was an information about tax that everything would be exposed. So asset information will be able to be detected, you have to report your asset, (for example) house was acquired in what year, how much the acquired price was, et cetera. At present you do not have to put your bank account information, but later you have to and you inform to tax authority, then, is it conformed? (with the information you put in the tax filing). I have told some potential taxpayers like that it would happen, and they got panic. (They ask) how do I hide it? Those were the words uttered, "How do I hide it?" That is not fair, isn't it?

There are people born honest and there are people born dishonest, but most are dishonest. As long as they enjoy the assets that they hide, they will hide them... So DGT must be more intensive to examine such cases.' (P15, 54 years, tax consultant).

6.4.12. Tax, 'Zakat'³⁸ and Religious Charities

One issue mentioned frequently was 'zakat', particularly in direct comparison with the opinion on tax they were expressing. Some participants had the belief that people tended to be more willing to pay 'zakat' or other religious charity rather than tax. Some participants considered that 'zakat' or religious charities are more observed because they provide a more noticeable return, especially to the community in their surroundings. Tax, in contrast, was perceived not to show any benefits.

One participant believed 'zakat' was a better system and had been more useful for the poor, while the government failed to provide this help.

'The image does not reach the poor people yet. 'Zakat' system is far better, the system used in masjids because it directly touches people. We do not object to pay (the 'zakat' rate) 2.5% but it is directly paid to the poor people who need. So far the (tax) money collected and the government uses it but it does not reach the needy. There are still people sleeping under the bridges, there are still beggars. There is no institution that handles the tax to be delivered to people. Not maximised yet.' (P2, 50 years, business owner)

He further concluded that the difference made people reluctant to pay tax.

'When we pay 'zakat' we do not feel it burdensome. People pay 'zakat' annually to masjid. People are willing (to pay). The difference is, (the use of tax) is not visible to people, and does not return to the people.' (P2, 50 years, business owner)

³⁷ Single Identification Number (SIN) is an administration proposal to combine various identification numbers such identity (ID) card, tax number, social number and others into one single identification number.

³⁸ See Section 3.7. for definition about 'zakat'.

Another participant added that people were willing to pay 'zakat', and voluntarily visited the collecting authority. He believed this was because the payers believed that the money would be used well, and that people saw the use of the money that they paid.

'There is an example, a small case, in Islam (religion) maybe 'zakat fithrah'³⁹, I saw in a region the collectors did not need to collect door to door, but it was the people who came (to the collection site). Why? Because the people believed that the money would be managed well, and they saw the management conducted an economic system that benefits to poor people in the area, there was a visible change. So the people came by themselves, reported by themselves. It shows that our people are unique, when they are served well they will not trouble people, they will come.' (P1, 42 years, university lecturer)

One tax consultant confirmed that individual taxpayers preferred paying 'zakat' to tax, because they perceived the government failed to provide benefits in return. He also added that the reluctance was partly due to belief as well.

'Around 75% of my clients are Muslims, they often give statements – I do know whether because of being upset or not – I prefer paying 'zakat' to tax. That is because of the religiosity factor, also they consider that the government is not able to give contribution in return.' (P9, 45 years, tax consultant)

Another tax consultant added that paying 'zakat' was preferable because it was a matter of belief. He believed that rewards drove people to pay 'zakat', a reward that they believed was not offered by paying tax. They even wanted to pay more 'zakat' while they tried to pay less tax.

'Zakat is a matter of belief. It is a relation between a person and God. The supervision is only the person and Him. The person is the actor, and he supervises himself. People are afraid of not getting heaven as rewards. Even after the 2.5% 'zakat' obligation is already calculated well, they still want to overpay because they are afraid (of not complying with the teaching). But if it is tax, they still want to reduce it. They want to reduce it because there is no heaven as rewards.' (P14, 47 years, tax consultant)

Another tax consultant expressed his belief that the attitude towards paying tax was affected by surroundings—because the Indonesian community is intensely religious, people observed religious systems and instructions more than national regulations.

'Our people have not reached the level to know that tax means sharing. We are in religious community, most people want to pay 'zakat', 'sodaqoh' (charity). In Christianity the rate is even 10%, and they are willing to pay for the church. In Islam that happens to. But they still do not see that tax is a means to share with other people. This is because we are religious people,

³⁹ Zakat fitrah is one kind of 'zakat' to be paid once every one Islamic year, prior to a religious festival called Idul Fithri.

whatever the religion is. If it is not related to the religion, what is paying for? But when it involves religion, there will be reward to go to heaven or there will be reincarnation to become better-off persons. They will pay willingly even in a higher rate, because it is for their after-life. But if for nation, they do not think far yet.' (P9, 45 years, tax consultant)

He further mentioned that the inclination towards paying religious charity rather than tax was not confined to a particular religion. He mentioned an example of a client who was reluctant to pay tax but more willing to pay for religious matters, despite the payment for the religious activity being six-fold the tax payable.

'Some people are not willing that their income is taxed at 5% but they are willing to pay religious charity at 30%. That is a real occasion. I was surprised, when the taxpayer had income and her income was about to be taxed 5% she said "do not bother pay tax", but then her income was taken 30% for her church and she was willing. Imagine, 30% for religious charity she was willing, but not for tax. Eventually she had to pay the 5% tax but she actually was more willing to give it to church than for tax.' (P9, 45 years, tax consultant)

He suggested that an appeal be made to taxpayers to pay tax, to nurture a better understanding that tax is also a good deed, and communicate through religious leaders that tax is an important item.

'So I think strategy should be made that the tax is an obligation to the nation, some part of religious charities should be for tax. It should be communicated to religious leaders to disseminate to people that if there is a 'zakat' obligation, tax should be put in front. Tax is also 'zakat'. Maybe (the strategy) will work. But there has to be cooperation with MUI⁴⁰ and churches. So it is encouraged that from the 30%, 15% is paid as tax. That is a good deed too.

What makes the difference between 'zakat' and tax is what is nurtured inside people, and the rewards (of the 'zakat').' (P9, 45 years, tax consultant)

6.4.13. Tax Education and Information Dissemination

Information dissemination was another theme to emerge from the interviews. Some participants voiced that the DGT should conduct more intensive information dissemination so that taxpayers had more understanding of their obligations. They indicated that a number of taxpayers were willing to pay their tax; however, there were many occasions when they did not know how to do so, resulting in non-compliance.

A participant suggested that lack of information about tax and the tax authority caused a prejudice that undermined willingness to obey regulations.

⁴⁰ MUI is the abbreviation of 'Majelis Ulama Indonesia' or 'Indonesian Islamic Cleric Council'.

'Actually people do not know exactly the way or how to pay taxes. There should be information dissemination to people, because sometimes people have prejudice about things which are not clear. They hear things and what they think may not be the same with the truths.' (P3, 68 years, school owner)

Another participant believed that many taxpayers did not know how to fulfil their tax obligations because of a lack of information. Another factor mentioned in his statement was complexity, especially for taxpayers who were not in formal business activities, despite being obligated to pay tax.

'My suggestion is the better and sympathetic service from the officers and more active to go to the people. So many people do not know how to prepare tax files and where to file them. What to prepare, while actually there are so many things to prepare.

Let us say medium business owners. They usually do not know about administration, their businesses are quite successful so they already have tax obligations, but they do not know where to go (to pay tax). There is no explanation that they already have obligations, no such information. Only when they want to formalise their businesses they will be directed to such things.' (P5, 44 years, business owner)

He further urged that the DGT provide guides for taxpayers to help comply with their obligations. At present, such information does not exist so taxpayers feel confused about what to do.

'So there is a need that tax officers go to community, there are so many informal business owners. Inform them that it is not sophisticated to get administered, if necessary provide tutors to help them. Do not just give them forms and ask them to fill out, (because) they do not know how to, myself included. A few years ago, I did not know how to fill out the tax forms, what to do with these forms, where do I have to bring them to. There should have been directions. At least there are officer who can guide us how to make it. If we go to the tax office sometimes we feel stupid there. Sometimes other people know, but we often have to ask people here and there.' (P5, 44 years, business owner)

Another participant supported this, saying he did not get any explanations from the DGT. Instead, he acquired the information and know-how by himself. He pointed out that the DGT should take more initiative in providing information so taxpayers know what to do.

'Information dissemination, I think we are lack of it. We do not know because we never get any. When we get NPWP there should be brochures about our obligations as taxpayers. But what happens when we get the NPWP? We only get information from the practices (from our work), that we have to submit tax files monthly, how to calculate the income, how to pay tax, annual tax return.

Sorry to say but I do not get those kind of information from the tax office. Not at all. That is why I say information dissemination is very lacking. What (information) we have got is actually because of our own initiatives.' (P6, 52 years, lawyer)

He also believed that the better information would help to increase revenue because some taxpayers were willing to pay, but ended not paying because they did not understand what to do.

'I think the information dissemination should be intensified. It will also will find the potential sources for the tax revenue. We often find this difficulty, even for filling out the form we have to learn first, don't we? So in general people do not know how to. There are so many sheets, while actually not all the sheets are necessary. Do not let it happen that because of the difficulty taxpayers do now want to file the report, especially the medium and small sized businesses.' (P6, 52 years, lawyer)

Another participant supported more information dissemination, suggesting the DGT use social media and other modern technology. He also found the present system difficult to understand and satisfy.

'Good information dissemination. In this era tax authority can utilise the help of social media users. Why don't embrace bloggers to inform, for example, how easy it is to pay tax, perhaps?

I have already tried to find information in the internet. I found complete sites but they are very difficult to understand. Tax office service should also be improved. Not only kind, they also have to be competent to explain in plain simple language that is understandable by common people.' (P12, 27 years, business owner)

Similarly, another participant voiced the same concern that many taxpayers did not understand tax well, and added that information should also contain aspects of the use of the tax money.

'Taxpayers should be given information so they understand tax more, how to administer and what it is for, because I think so many people do not know yet what tax is for. Information about what tax is for, why we should pay tax, where it is used at.' (P7, 66 years, retiree/business owner)

Another participant opined that information dissemination was important, following the benefits of tax.

'I think the important things are the good public facilities and services, then information dissemination.' (P8, 39 years, corporate finance director)

One tax consultant suggested that the DGT should intensify information dissemination by conducting campaigns to familiarise people with tax. Not only should the campaigns cover the knowledge of how to fulfil the liabilities, but also the

use of the tax money. He believed that such campaigns would also improve the DGT's public image.

'I think a good measure is to make campaign. A real information dissemination that when the tax revenue is raised then where it will be allocated and what it contributes to the people. I think such kind of information will influence their perception. They will realise that it is not as bad as they thought. So far what the media has exposed have been the bad things about DGT.' (P11, 36 years, tax consultant)

He further added that information dissemination on tax matters was vital to support business development. By providing information, taxpayers would be able to anticipate changes and take measures to adapt.

'We know that regulations often change. If we are informed about the coming changes, then the time when the regulations will change, next year or in few several years, we can prepare. If we are short of personnel we will add personnel. We know that the regulations forbid a certain thing, so we do not do such thing. So we can anticipate. Business demands certainty, doesn't it?' (P11, 36 years, tax consultant)

Another tax consultant also supported the DGT conducting campaigns; however, she hinted that campaigns should be backed up by real development resulting from tax revenue, saying that campaigns alone would not succeed if not supported by evidence.

'DGT must make campaigns, but the campaigns must inform real things. If it only campaigns without proofs, people will complain that they do not see anything. Real things have to materialise before the campaigns. The taxpayers also need to be more active, and must be equalled with the campaigns, and also equalled with the real developments, especially in regions.' (P10, age n/a, tax consultant)

Another participant believed that people were not familiar with tax matters, nor supported by adequate intermediaries. Therefore, he believed that campaigns played a crucial role in increasing understanding of tax.

'Not so many people are familiar with tax professions. Even though the number of registered taxpayers increases, many taxpayers still want to evade tax. In Japan I think the number of tax consultants is quite high, around 70 thousands something, while in Indonesia we do not have such big number, so there are not enough public relations to people. Besides, the number of tax officers is also limited. So I think tax campaign is quite important.' (P13, 44 years, corporate tax manager)

With the necessity to familiarise tax, he suggested that the DGT use well-known figures in order to produce an effective campaign.

'There is a need to introduce tax more intensively, maybe DGT should think to use celebrity figure. Find compliant celebrities, not the non-compliant ones because it (using them) can boomerang DGT. People now

have their own pre-assumptions, so if DGT comes with a member of community who has good understanding about tax, the information will be proportional. Testimonies from people who have good understanding are also good psychologically.’ (P13, 44 years, corporate tax manager)

One tax consultant suggested that currently people do not understand tax well. While he acknowledged that tax was not a means to contribute returns directly to payers, he suggested that the DGT conduct corporate social responsibility campaigns in order for people to understand tax and have a more positive perception of it.

‘I resigned from DGT in 1999, so I understand that tax is not supposed to offer direct benefit. However I think it would be good if DGT presents publication or things like corporate social responsibility, for example when there is a construction, DGT can say this construction is funded by your taxes, or expressions like that. I mean there are things broadcasted through media so that people put more attention to tax, as if there is a CSR division of DGT. For now people do not know, that is a problem actually.’ (P14, 47 years, tax consultant)

Another participant voiced a similar sentiment, expressing that the DGT should campaign to reach people and make them more aware of tax. However, he emphasised the use of a more personal approach, especially drawing on influential people. He believed such a strategy would persuade taxpayers to be more compliant.

‘DGT must make a lot of efforts and go to communities, to approach. DGT comes to community leaders and give examples. Give input. More close emotionally, so they feel uncomfortable if they do not pay tax. I think that is very influential, it will help tax revenue collection.’ (P11, 36 years, tax consultant)

It is observed from the responses of the participants that there was a shared understanding about the lack of knowledge about tax and tax system among many taxpayers. This situation was not helped by the fact that information from the authority was also believed as lacking. It was suggested that the DGT disseminate information about tax more intensively and provide taxpayers with necessary information in order for the taxpayer to be more compliant.

6.4.14. Additional Comments and Recommendations

6.4.14.1. Individual Traits

A taxpayer argued that a person's characteristics were influential in deciding whether to comply or not with a regulation. Characteristics are believed to be not just confined to tax matters, but to have an impact in other areas as well. In discussing factors that influence willingness to pay tax and tax compliance, he

believed individual characteristics should be considered too. He further argued that personal characteristics are instrumental, because the system is not yet able to prevent and control factors that influence taxpayers' decisions.

'The willingness can be influenced as the individual's character. There are some people who are compliant, so not just in tax matters, but in any other things they are compliant. On the other hand, there are some business owners who are unconcerned; not only tax rules but they also violate other rules. So even one company has different strategies according to the directors, and the directors may distort the tax compliance. Moreover there is a high level of cash economy in Indonesia, so the system still cannot capture everything. Unless the level of cash economy can be reduced to minimal, people cannot execute their personal preferences, because all are captured by system.' (P8, 39 years, director of finance)

6.4.14.2. Tax Consultants

A participant mentioned the importance of tax consultants operating as intermediaries between taxpayers and the DGT. He felt that the DGT should involve tax consultants in encouraging taxpayers to comply with their obligations. While he admitted that there were also tax consultants who were inclined to help taxpayers avoid their tax, he believed by applying appropriate measures, tax consultants would help, because, in general, taxpayers put their trust in people they know, in this case, on tax matters.

'DGT should make gatherings of consultants, appeal to them, both consultants who formally register or not. I do not see whether a consultant is registered or not, as long as he/she can give confidence to taxpayers to pay tax it is okay, no need to be certified, as long as he/she works in taxation matters.

Actually tax consultant is a bridge between DGT and taxpayers. The characters of the consultants vary, depending on the person. If they see the DGT personnel work hard, they will help. If they do not care, many of them scam taxpayers by telling DGT wants this and that, while actually (the DGT) does not. So I think it is better that heads of tax offices make approach to the taxpayers. The heads of tax offices can make approach through people who are trusted by the taxpayers. Some heads of tax offices talked to me, so through me, the taxpayers opened (the information).' (P15, 54 years, tax consultant)

6.4.14.3. Disclosure of Data

One tax consultant emphasised the importance of disclosure of bank information. Based on his experience, he suggested that many individual taxpayers were non-compliant and hid their assets in order to avoid tax obligations. He supported the DGT having access to the financial data of taxpayers, to improve taxpayers' compliance.

'For individual taxpayers, DGT needs to have a system that can monitor all the individual taxpayers, in what banks, etcetera. There should be cooperation with banks about individual bank accounts' secrecy. If such cooperation is regulated, the individual taxpayers need to provide the invoices of their income tax on deposit interest so they can be synchronised with their taxes and assets. So the DGT's task is huge, how to have banks open (the information).' (P15, 54 years, tax consultant)

6.4.14.4. Law Enforcement

The importance of law enforcement was pointed out by a tax consultant, adding to his argument on the necessity of the tax system simplification. He highlighted that enforcement must be upheld in order for taxpayers to comply with regulations.

'The principle is that behind every good service lies a tough law enforcement. Taxpayers need to know that if they do not pay tax they will get punished, whichever the way. We expect that we understand tax but the matters made simple. Paying tax easy, calculating tax easy, and we are provided with updates. The languages made easy, and we are informed about the penalty, and executed. The execution will give lesson to taxpayers.' (P11, 36 years, tax consultant)

6.4.14.5. Personal Approach

One consultant believed a personal approach would significantly help the DGT to increase taxpayers' compliance. He believed that taxpayers in Indonesia were not influenced by their views on democracy, but more by the care and attention they received from the tax authority.

'Sometimes when the taxpayers make a mistake, they should be informed. Do not do this, if you do you will get penalty. It is simpler and if they get informed beforehand they will be happy. So about the democracy and others (that will influence their willingness), no, they are not influential yet. They tend to like the sympathetic, heart-to-heart services to them.' (P11, 36 years, tax consultant)

He further suggested that the personal approach had been proven to be influential in affecting taxpayers to pay their tax more willingly, as they were happy with the service.

'What have been missed so far is personal approach. So far the approaches have been formal. I think however high is the revenue target, DGT can achieve it if the officers want to personally approach the taxpayers. Just like marketing approach, the taxpayers have emotional relation with DGT, they will not feel comfortable to hide tax related information, as long as the officers maintain professional ethics. I have met individual taxpayers several times and they told me that, I am not comfortable to hide my tax because the ARs are so kind, when we ask any regulations they provide (the regulations), they answer our questions well, so if I have to pay I pay. They are happy, so maybe now how DGT can provide such kind of service.' (P11, 36 years, tax consultant)

6.5. Summary of the Interview Findings

This section presents the summary of the analysis from the interviews as presented in Section 6.4. in order to provide a concise explanation of the findings. The themes analysed are similar to the factors as analysed in Section 5.5. in the quantitative analysis except several factors which were not captured in the interviews such as fairness, attitude in democracy and demographic factors. However, some other topics believed to be influential other than those in the quantitative analysis also emerged, such as simplicity of the tax system, individual traits, role of tax consultants, data disclosure, and personal approach by the authority to taxpayers.

It is important to note that the main theme of this research is the willingness to pay tax or 'tax morale', which is one of the themes analysed in this Chapter. Therefore the findings of this qualitative on the topic will be used in collaboration with the quantitative findings to answer the research questions as in Chapter 1, in particular, questions one to three.⁴¹ However, other themes emerged from the interview will also be used to enrich and further explore the possibility of factors influencing tax morale of the individual taxpayers, particularly the research question four on the policy recommendation.⁴²

6.5.1. Sentiment towards Tax

As regards 'sentiment towards tax', the findings in this topic are derived from four topics and questions queried to participants: 'perception of tax'⁴³, 'the benefits of tax'⁴⁴, 'has tax been collected well?'⁴⁵, and 'has tax been utilised well?'⁴⁶ From the interviews, it can be observed that sentiment towards tax by the individual taxpayers in Indonesia was inclined to be negative, although showed some glimpses of optimism. Reasons for such negativity included the nature of the tax itself, which meant individuals paying tax would be worse off financially. Other reasons expressed were the taxpayers' lack of knowledge about the importance of tax to public and country's development, as well as the lack of information or realisation of the benefits of tax.⁴⁷

Further, most of the participants expected the benefits in return of the tax paid. However, there was a tone in the opinions that such benefits had not been received by the public, at least equally to the money the taxpayers paid. Participants

⁴¹ Section 1.8.

⁴² Section 1.8.

⁴³ Section 6.4.1.

⁴⁴ Section 6.4.2.

⁴⁵ Section 6.4.3.

⁴⁶ Section 6.4.4.

⁴⁷ Section 6.4.1 and Section 6.4.2.

expected more visible benefits of the tax, be it for their own interest or for the public in order for them to be more willing to pay tax, which they perceived to be lacking.

The interview data also show that most participants perceived tax collection had not been collected optimally. Several participants believed that there were leakages in the collection besides the ill intention of many taxpayers to avoid paying tax. Only one participant opined that tax had been maximised; however, he expressed it as an experience in practical level in transactions he did, where several taxes were imposed on a flow of transaction in his work.⁴⁸

As regards the utilisation of tax money, participants expressed an inclination to a rejection that tax had been utilised well. Most participants believed that people did not witness the development by the use of money, especially when they compared it to their perception on how tax money was utilised in other countries. Only one participant implied that he regarded the efforts by tax office; however, he believed that such opinion was not common that he considered he was an outlier. In summary, there was a similar opinion that the tax had not been utilised well.⁴⁹

6.5.2. Trust in the Government and Tax Authority

In the subsequent topic, it can be observed from the responses that the trust in the government was lacking. Several participants expressed corruption scandals as the cause while other suggested that manipulative conducts by apparatus were among the factors. One participant suggested that improvement in personnel recruitment for public sector be implemented in order to improve the service and increase trust in the government. Participants strongly believed distrust in the government influenced the taxpayers' willingness to pay tax negatively.⁵⁰

The responses from the participants on 'trust in the tax authority' suggest that there was a mixed opinion, especially before and after modernisation reform which started in 2002.⁵¹ Several participants criticised the DGT for handling tax matters, for example tax dispute and tax collection impact on taxpayers' businesses; however, most of the participants expressed their acknowledgement that there had been improvement in the tax authority performance especially with regard to services. The latter opinion was especially prevalent among participants who had more interactions with tax administration in recent years. It can be observed from the responses that while in general the trust in the tax authority was inclined to be

⁴⁸ Section 6.4.3.

⁴⁹ Section 6.4.4.

⁵⁰ Section 6.4.5.

⁵¹ See Section 3.2.6 about Tax Administration Reform.

positive; however, perception existed that the DGT performance still needed improvement.⁵²

6.5.3. Public Goods and Service

Further, it is observed from the responses that there was widespread dissatisfaction from the participants about 'public goods and services' provided by the government. Several participants opined that corruption was the cause such shortcoming, so that the tax money collected was not spent properly. Interestingly, most participants suggested that they did not view solid relation between the tax they paid and the goods and services they received. They tended to view tax as merely an obligation without seeing further what to get in return, unlike retribution. Nevertheless, several participants suggested that there should be linkage between the tax obligation and the goods and service provision, and the government comprising collection side (tax authority) and revenue side (government institutions which provide public goods and service) should be seen as a unit; therefore the linkage between tax payment and public goods and service needed to develop.⁵³

6.5.4. Simplicity of Tax System

One factor frequently suggested to be influential by the participants on taxpayers' willingness to pay tax was the 'simplicity of the tax system'. It is observed that the existing tax system was perceived difficult by the taxpayers. Based on their experiences, most participants claimed that lack of knowledge about how to fulfil the tax obligation had deterred them from compliance. Participants claimed that they would be more willing to pay tax provided that the tax system was not difficult and wearisome. Some participants opined that there were willing taxpayers who eventually became non-compliant due to the complexity of the system. A number of taxpayers might be willing to seek help from others such as tax consultant in order to perform their liabilities; however, some others might not, which eventually resulted in their non-compliance. This notion was prevalent among the individual taxpayers interviewed and backed by the information from the tax consultants. There was a resounding sentiment that tax system was complicated to individual taxpayers, and it hindered them from being compliant.⁵⁴

⁵² Section 6.4.6.

⁵³ Section 6.4.7.

⁵⁴ Section 6.4.8.

6.5.5. Willingness to Pay Tax

As regards 'willingness to pay tax' or 'tax morale', it was observed from the answers by the participants that taxpayers tended to be reluctant to pay tax. Some participants suggested that taxpayers paid their tax merely as obligation, which they might have observed due to variety of reasons, for example economic factors.⁵⁵ The reasons expressed to cause such willingness ranged from paying tax meant reducing financial ability, lack of knowledge about tax and its purposes, as well as perception that there was no benefit they would receive by paying tax. There was no participant who believed or claimed that taxpayers or the participants themselves were categorically willing to pay tax. Those who claimed they wanted to pay tax did it because they regarded paying tax was an obligation which should be observed.⁵⁶

When asked about what the eminent factor which would affect their willingness to pay tax, most taxpayers suggested that good provision of public goods and service would do so. They believed if the government succeeded in delivering good public goods and service, they would have a sense that what they paid was worthy. It would encourage them to be compliant to share their contribution in form of tax payment. One participant added that the transparency use of the money also had effect, that knowing how and what for their money was used would influence the motivation to comply. This opinion, however, was somewhat different from the previous suggestion that the provision of public goods and service was believed to not entirely related to the tax compliance of individual taxpayers⁵⁷; rather, they paid their tax merely as an obligation without expecting any benefit in return.⁵⁸ Nevertheless, this difference shows that the perceptions about factors affecting the taxpayers and how such factors affect their willingness vary among taxpayers.

Another factor suggested to affect the willingness to pay tax in the above responses was the easiness of tax system. This opinion was supported by the interview data about the simplicity of tax system as previously presented in Section 6.5.4. Participants suggested that they would be more willing to pay tax provided that the system was not difficult and demanding.

6.5.6. Factors that Influence the Decision to Pay Tax

When asked about the factor which influenced their decision to pay tax, it was found out that economic deterrent factors still had important role. Most participants

⁵⁵ Section 6.4.10.

⁵⁶ Section 6.4.11.

⁵⁷ Section 6.4.7.

⁵⁸ Section 6.4.11.

suggested that audit, fine, and rate were influential on the decision of the taxpayers to eventually pay tax. Based on the frequency as mentioned by all participants, fine ranked the first as the influential factor, followed by the fear of being audit and tax rate consecutively. Most participants believed that taxpayers paid their tax due the fear of being penalised with fine, as well as because of fear of audit. Besides non-economic factors, the economic factors were still prevalent in the compliance of the individual taxpayers.

Supportive to the opinion as expressed in earlier findings in Section 6.5.4, most participants also believed that 'simplicity of tax system' affected the individual taxpayers' decision to pay tax. The complexity in fulfilling the obligation obstructed them from the decision to pay tax, hence non-compliance. The simplicity of the tax system had appeared as one of the prevalent factors, both in the willingness of the taxpayers to pay tax and their eventual decision to do so. Therefore, it was observed that fine, fear of being audited, as well as a simple tax system would stimulate taxpayers to pay tax.

Further, it is observed from the responses of the participants that there was a shared understanding about the lack of knowledge about tax and the tax system among many taxpayers. This situation was not helped by the fact that information from the authority was also believed as lacking. It was suggested by the participants that the DGT disseminate information about tax more intensively and provide taxpayers with necessary information in order for the taxpayer to be more compliant.

6.5.7. Other Factors that Influence the Willingness to Pay Tax

Others factors believed to be influential on the willingness to pay tax by the interview participants were individual traits, role of tax consultants, data disclosure, law enforcement and personal approach. Individual trait means that the inclination towards compliance or avoidance also depended on the personality of the taxpayer, whether he or she was a compliant or risk taker.⁵⁹ Tax consultant, on the other hand, was suggested to be able to function as an intermediary between taxpayers and tax office, and believed to have relatively better trust from the taxpayers that the tax authority did, consequently be able to help tax authority improve tax morale.⁶⁰ Another suggestion was personal approach by the tax authority to taxpayers.⁶¹ Disclosure of data⁶² and law enforcement⁶³ on tax were among factors which were

⁵⁹ Section 6.4.14.1.

⁶⁰ Section 6.4.14.2.

⁶¹ Section 6.4.14.5.

⁶² Section 6.4.14.3.

⁶³ Section 6.4.14.4.

suggested to improve tax compliance; however, these factors were considered as not directly related to behavioural study but rather they resemble an enforced compliance.

Another factor frequently mentioned by the interview participant related to the questions about tax was 'zakat'.⁶⁴ Most Muslim participants expressed that taxpayers' paid 'zakat' more voluntarily than they paid tax. The reason expressed was that 'zakat' perceived to be more contributing, at least more visible, to community or individuals. The interview data showed that taxpayers viewed 'zakat' more positively than tax; consequently, taxpayers claimed to be more willing to comply with the regulation about it.

Inherent with the 'simplicity of the tax system' which was frequently mentioned by the participants as in Section 6.5.4, another factor frequently pronounced and demanded by participants was information dissemination and tax education from the tax authority. Arguably, this demand was related to the previous expression that many taxpayers were lack of knowledge about tax and no sufficient information was provided by the tax authority to process their tax liabilities.⁶⁵ Many participants claimed that this lack of understanding on how to perform the obligation was the cause to non-compliance. Most participants suggested that the DGT provide and help taxpayers to understand their obligation and how to perform the processes, both were believed to increase taxpayers' morale and compliance.⁶⁶

6.6. Chapter Summary

This chapter began by presenting the procedures of the interview method conducted to obtain qualitative data for this research. The interview involved 15 participants in total, including ten individual taxpayers and five consultants. The inclusion of a variety of parties was regarded as advantageous in providing rich and broader perspective about the topics presented to them which may corroborate each other.

The interview analysis showed that several participants perceived tax negatively; however, this was offset by participants who noted how much the tax service had improved. Most participants rated public goods and services as poor; however, they did not see the relationship between public goods and services provision and the obligation to pay tax.

⁶⁴ Section 6.4.12.

⁶⁵ Section 6.5.4.

⁶⁶ Section 6.4.13.

The answers of the participants in the interviews showed that economic deterrent factors still had important role on tax compliance. Most participants suggested that audit, fine, and rate were influential on the decision of the taxpayers to pay tax. Further, the analysis showed that taxpayers saw paying tax as an obligation of citizens—there was no ‘indication of intrinsic motivation to pay tax’ found during the interviews, except that they regarded paying tax as an obligation without the nature of ‘tax morale’ as outlined in Section 2.4.1. (for example: driven by awareness of public awareness, and not caused by enforcement). This finding did not corroborate the findings of the quantitative approach as analysed in Chapter 5. It should be noted, however, that qualitative methods, such as these interviews, are aimed at exploring the topics under study instead of making inference of samples to the population. Therefore, the interview approach was used further to seek what caused such reluctance.

Most participants believed that simplicity of tax system affected the decision to pay tax. The complexity in fulfilling the obligation obstructed them from the decision to pay tax, hence non-compliance. The simplicity of the tax system had appeared to be one of the dominant factors, both in the willingness of the taxpayers to pay tax and their eventual decision to do so. Therefore, it was observed that fine, fear of being audited, as well as a simple system would stimulate taxpayers to pay tax. Consequently, there was a strong suggestion from the participants that the DGT provide campaigns and extensive tax information dissemination in order to help taxpayers understand and know how to perform their tax obligations.

The findings obtained from the interview data analysis in this Chapter will be combined and discussed with the findings from the survey analysis in Chapter 5 in the subsequent Chapter 7, in order to achieve the research objectives and answer the research questions in Chapter 1.

CHAPTER 7

DISCUSSION

7.1. Introduction

This chapter discusses results derived from the quantitative and qualitative approaches as presented in Chapters 5 and 6. It begins with a discussion of each of the variables considered tax morale determinants in the Indonesian context. Other variables that emerged during interviews are discussed, to present comprehensive and integrated findings about tax morale. The chapter then continues with a discussion on the level of tax morale of individual taxpayers in Indonesia, followed by a discussion on its determinants and perceptions among taxpayers. It then proceeds to elaborate on the impact of the variables on the tax morale of individual taxpayers in order to achieve the research objectives and to answer the research questions as in Chapter 1. The discussion integrates the findings of the quantitative and qualitative analysis, theory and findings from previous studies. The chapter concludes with an articulation of the policy implications based on the findings and discussion.

7.2. Review of Determinants

7.2.1. Sentiment towards Tax

According to the analysis of survey data in Chapter 5, sentiment towards tax appeared to be positive—that 63% of the total respondents agreed on the benefits of tax to the country’s development.⁶⁷ The data also indicated agreement with the statement that they had benefited from tax—mode scores of 4, and a total mean score of 3.69, with the strongest agreement on the statement that taxpayers’ compliance influenced the development of the country a mean score of 3.87.⁶⁸ Arguably, sentiment derived from unfavourable experiences, especially those based on the pre-reform period (discussed in Section 3.2.1 to Section 3.2.3), was not evident in the findings of the quantitative data.⁶⁹

However, during the exploration of the sentiment towards tax using interviews, it was observed that most of the participants’ perceptions tended to be negative, corroborated by information from tax consultants about their clients’ views. Bad experiences when addressing tax matters at the tax office contributed to such perceptions, as well as the perception that tax was not viewed as contributing to the

⁶⁷ Section 5.5.1.

⁶⁸ Table 5.14.

⁶⁹ Section 5.5.1.

community in practice. Some participants suggested that the negative perception developed because of unawareness and lack of knowledge about tax. People who had little interaction with tax and little knowledge about the issue would not appreciate the benefits of tax.⁷⁰

Nevertheless, information about the role of knowledge and interaction with tax conformed to the findings from the survey data about sentiment towards tax. Based on the survey data analysis, respondents belonging to the least educated group scored the lowest level of perception of tax, and the difference was statistically significant compared to those who had college level education.⁷¹ The difference in interaction with tax also was statistically significant, with those who claimed to have no formal interaction with tax having a more negative attitude than those who had more interaction.⁷² These notions, derived from the quantitative analysis, were strongly supported by the interviews with the tax consultants. The consultants suggested that those who had little interaction with tax were inclined to have a negative attitude to tax.⁷³ However, despite having a better understanding of tax, some participants who claimed to have more positive sentiment about tax still implied they found it burdensome to pay tax⁷⁴—the positive attitude they possessed did not necessarily transform into greater willingness to pay tax.

As discussed in Section 2.3.3, in the fiscal-psychological model of tax compliance, some studies demonstrated a positive relationship between tax knowledge and attitude to tax compliance. Eriksen and Fallan (1996, 399) suggested that tax knowledge was important to improve tax attitude and better perception of fairness of tax system, while Loo and Ho (2005) showed that knowledge of tax-related matters was vital for taxpayers to comply in an SAS in Malaysia. The commitment to be involved in tax was also believed to be raised by taxpayers' understanding of social responsibility (Kirchler, Hoelzl and Wahl 2008, 216).

In summary, the findings of the survey and interviews did not corroborate each other in terms of taxpayers' level of sentiment towards tax in Indonesia. While survey data analysis suggested a positive stance of sentiment towards tax by taxpayers, this was not confirmed by the qualitative data. However, qualitative findings conformed to the quantitative results that better tax knowledge was positively related to attitude

⁷⁰ Section 6.4.1 and Section 6.4.2.

⁷¹ Table 5.15.

⁷² Table 5.16.

⁷³ Section 6.4.1.

⁷⁴ Section 6.4.1.

towards tax, as well as sentiment towards tax, a result that was consistent with previous findings of other studies.

7.2.2. Trust in the Government

Both survey and interview data showed an inclination to unfavourable results in trust in the government by individual taxpayers. The survey, which represented this item in two statements about the performance of the government in utilising tax money and its efforts for the welfare of the people, showed a tendency to disagree with both statements. While more respondents perceived that the government had made an effort for the welfare of the people, taxpayers felt differently in terms of utilisation of the tax money—the number of those who disagreed that the money had been utilised well was almost double the number who agreed, resulting in a mean score of 2.85.⁷⁵

Results also showed that there was no statistically significant difference between groups in their trust in the government, except in the education group. Those who had the lowest level of education scored a lower mean score than those with a college education.⁷⁶

Lack of trust was also apparent in the interview data. Most participants were disappointed with the government's performance, with perceived corruption and manipulation in tax issues mentioned as reasons.⁷⁷ Consultants cited that some of their clients believed that some of their tax money would not end up in the form of public goods, but in the pockets of corruptors.⁷⁸ This lack of trust was especially strong in regions where the people were less critical (regional, rather big cities).⁷⁹ Data from the quantitative and qualitative sources cross-validated one another to reveal an overall lack of taxpayer trust in the government. Previous studies, such as Cummings et al. (2009) and Rosid, Evans, and Tran-Nam (2016), showed that such lack of trust in the government might undermine willingness to pay tax. The impact of this lack of trust on tax morale is discussed further in Section 7.3.3.

7.2.3. Trust in Tax Authority

In contrast to trust in the government, trust in the tax authority was more positive, in both the survey and the interviews. Survey data showed that the respondents responded positively to the statement that the service delivered by the DGT had

⁷⁵ Table 5.20.

⁷⁶ Table 5.21.

⁷⁷ Section 6.4.5.

⁷⁸ Section 6.4.5.

⁷⁹ Section 6.4.5.

been good (Section 5.5.4). The respondents who agreed that the DGT had done its job well outnumbered respondents who disagreed with that in the ratio 130 to 49. Those who regarded DGT employees as having integrity outnumbered those who disagreed with the statement.⁸⁰

The quantitative results about trust in the tax authority were confirmed by the qualitative data, where the perception of the participants was slightly mixed, with a strong inclination towards satisfaction with the service and the DGT. Several participants voiced a dissatisfaction with the DGT officers' service, and blamed them for hampering taxpayers' business; however, most participants expressed their satisfaction with DGT performance and the ease of the current system, particularly the service delivered by DGT employees. There was also explicit acknowledgement that the integrity of the DGT had improved.⁸¹ A plausible explanation for the improvement in taxpayers' perceptions is the last round of reforms, which took place in the last decade and resulted in better service delivery and improved satisfaction (Section 3.2.6).

The quantitative data also showed that there was a difference in trust in the tax authority by age group. Statistically, respondents who were in the younger 30–49 years age group had a better perception than those in older age 50–64 years group, with mean score 3.20 compared to 2.93.⁸² A possible explanation for this result is, again, that older taxpayers had negative experiences when the system was corrupt, while younger taxpayers had avoided these experiences. This point was also acknowledged by the long-term tax consultants, who have experiences prior to and after the reforms, as expressed in the interviews.⁸³

Another statistically significant difference in trust in the tax authority was between government employees and private sector employees, with public sector employees recording a higher mean score of 3.73, indicating stronger agreement with the good performance of the DGT than their private sector counterparts.⁸⁴ While the reason for this was not definite, a plausible explanation is that public sector employees might have better acceptance of DGT service and performance as the DGT is a public institution as well. The last statistically significant difference was among the groups based on financial situation. Those who reported that they always had financial problems over the past year scored the lowest, and those who claimed they

⁸⁰ Table 5.22.

⁸¹ Section 6.4.6.

⁸² Table 5.23.

⁸³ Section 6.4.6.

⁸⁴ Table 5.24.

had never experienced financial difficulty had the most positive perception towards authorities. However, these two statistically significant differences could not be triangulated with the qualitative data, because of the limited number of participants and the nature of the question, especially regarding the financial situation.

7.2.4. Perception of the Legal System

Similar to the trust in the government, the legal system was perceived negatively by taxpayers. The respondents expressed disagreement with the statement that the law had been enforced justly, while they also disagreed that law apparatus had integrity. In response to the statement ‘in general, law apparatus have good integrity’, 165 respondents disagreed, while only 30 agreed.⁸⁵ In general, the perception of the legal system was inclined to be negative.

Similar to trust in the tax authority (Section 7.2.3), there was also a statistically significant difference between the 30–49 years and the 50–64 years age groups, with the latter scoring lower—the older respondents viewed law enforcement and law apparatus more negatively.⁸⁶ Another statistically significant difference occurred among education groups, where the lowest level education group disagreed most strongly that the law had been enforced well and the apparatus had good integrity. However, although the law and related apparatus was still perceived negatively, taxpayers who had a higher degree of education (post-graduate) had the least negative sentiments, feeling more positive than their counterparts with a college level of education. It can be seen that greater education among individual taxpayers has a positive influence on perception of the law.⁸⁷

Slightly similar to the perception of trust in the tax authority (Section 7.2.3), the difference between taxpayers who reported they never had financial difficulty was statistically different from the group who claimed they had often had such difficulties over the previous year.⁸⁸ Additionally, respondents who had a greater degree of interaction with tax scored statistically higher in regard to the law.⁸⁹

7.2.5. Attitude to Democracy

In general, the perception of democracy was positive among taxpayers, with most agreeing that democracy had been implemented well in Indonesia. They also showed an inclination to agree that people had the chance to monitor the

⁸⁵ Table 5.26.

⁸⁶ Table 5.27.

⁸⁷ Table 5.28.

⁸⁸ Table 5.29.

⁸⁹ Table 5.30.

government, a practice that is common in a democratic country. However, there was disagreement that people had opportunity to monitor how tax money was spent by the government; 130 taxpayers conveyed their disagreement, compared to 99 taxpayers who agreed with that claim.⁹⁰ This might be explained by the fact that Indonesia had been a democratic country for almost two decades (since 1998), and now the president, parliament members and local heads of government such as governors, mayors and regents, are elected in a general election by the public based on the amendment in the constitution.⁹¹ There is also a law that ensures the right of people to express their voices in democratic fashion through various public channels (Republic of Indonesia 2009a). In this regard, the positive attitude to democracy as shown by the findings of the analysis was not unexpected. However, more interesting was the finding that in such a democratic environment, taxpayers viewed that people had less opportunity to monitor the use of tax money than to monitor government performance.⁹² A possible explanation for this result is that there has been insufficient information disseminated, resulting in a lack of taxpayer knowledge about public expenditure using the tax money. Qualitative data obtained from interviews showed that many taxpayers did not pay attention to how the tax was spent; at present, they merely viewed tax as an obligation without any expectation in return.⁹³

The quantitative data showed that the perception of democracy was statistically different between married and unmarried people, with those who were married having a more positive attitude towards democracy.⁹⁴ The difference was also statistically significant between the respondents who were employed and those who were self-employed, with employees having a more positive attitude.⁹⁵ In terms of age, the differences between the 30–49 years age group and those under 30 and those in the 50–64 years age group were statistically significant. The respondents aged 30–49 years had a more positive attitude towards democracy in Indonesia than the two other groups.⁹⁶ As regards education, taxpayers who had a higher level of education also scored higher in their attitude, where those with high school education or lower had the lowest score.⁹⁷ Taxpayers who embraced Catholicism had the most positive attitude towards democracy compared to other religious

⁹⁰ Table 5.31.

⁹¹ Constitution 1945, as last amended in 2002.

⁹² Table 5.31.

⁹³ Section 6.4.7.

⁹⁴ Table 5.32.

⁹⁵ Table 5.33.

⁹⁶ Table 5.35.

⁹⁷ Table 5.36.

groups.⁹⁸ Similar to previous attitudes towards law and trust in the tax authority, as regards attitude towards democracy, taxpayers who claimed they never had financial difficulty were more positive towards democracy, and the difference between this group and those who reported financial problems through the previous year was statistically significant.⁹⁹

7.2.6. Perception of Public Goods

The findings from both the quantitative and the qualitative analyses showed that taxpayers' perceptions about public goods and services tended to be negative. The goods and services provided by the government were generally perceived as poor and lacking, and there was much disagreement with the statement that public goods and services were already well provided. In addition, taxpayers thought that public goods and services were not comparable to the tax paid by taxpayers.¹⁰⁰ This perception was supported by the interview data, where, in general, participants voiced their dissatisfaction with public goods and services. Some participants expressed how public goods, such as roads, were not well maintained, and that the services provided by the government were far from satisfactory. Other participants suggested that the shortcomings in the public goods and services provision were due to leakages in tax collection and fiscal spending, so that tax money was not maximally utilised. Corruption was another issue cited as a cause of deficiency.¹⁰¹

The analysis showed that there was a statistically significant difference in the perception of public goods and services between city groups, with taxpayers from Surabaya perceiving public goods and services provision more positively than those in Medan.¹⁰² The difference was also statistically significant for age groups, with taxpayers from the 30–49 age group having a more positive opinion than those under 30 and those in the 50–64 age group.¹⁰³ This finding was consistent with previous analysis of perception of the legal system, as discussed in Section 7.2.4. Similar to the difference in trust in the government, those who had the lowest level of education had a more negative view on the provision of public goods and services, and the difference from those who had a college level education was statistically significant.¹⁰⁴ Lastly, there was also a statistical difference in the perception of public goods and services provision between public sector employees and private sector

⁹⁸ Table 5.37.

⁹⁹ Table 5.39.

¹⁰⁰ Section 5.5.7.

¹⁰¹ Section 6.4.7.

¹⁰² Table 5.43.

¹⁰³ Table 5.44.

¹⁰⁴ Table 5.45.

employees. Taxpayers from the public sector saw the provision relatively positively (mean score 3.43); conversely, private sector employees had very different views (mean score 2.87).¹⁰⁵ This difference can be plausibly explained by the fact that government employees are in charge of public goods and services provision, hence the tendency towards perception of good quality.

7.2.7. Attitude to Punishment

As discussed in Section 2.4.3.11, attitude to punishment was included in regard to the formation of attitude towards the prospect of punishment when taxpayers did not comply with their obligations. The quantitative analysis showed that fear of penalty was one of the key reasons why taxpayers paid their taxes. Most taxpayers agreed that they paid because they did not want to be penalised, or audited, or because evading might ruin their reputation (Section 5.5.8). This finding showed that deterrence had an important role in forming the attitude of taxpayers, which eventually influenced their compliance. This claim was also supported by qualitative data, which showed that some participants admitted they paid their taxes because of fear of being audited or receiving a fine.¹⁰⁶ In this regard, while willingness to pay tax is central to this research, the deterrence factor in preventing taxpayers from evading their obligation must not be ignored.

7.3. Tax Morale

7.3.1. Descriptive Analysis

The findings from quantitative data in this research show that individual taxpayers in Indonesia are inclined to have positive tax morale. Most respondents believed that tax was the responsibility of any citizen who was capable of paying, in addition to being an obligation under the stipulation of the law. Most taxpayers also claimed that they had paid their tax without other influences, and paid it willingly.¹⁰⁷ In this regard, the level of tax morale of individual taxpayers in Indonesia was found to be high. The survey result was consistent with the findings of several previous studies that included Indonesia; for example, Tekeli (2011), investigating tax morale using the WVS data, showed that Indonesia had the third highest level of tax morale among Asian countries surveyed, after Japan and South Korea. In their study on tax morale using the AsiaBarometer, Daude, Gutiérrez and Melguizo (2012, 28–9) showed that Indonesia had a relatively strong inclination towards good level of tax morale by agreeing to more service provision even though it means paying more tax. Widodo,

¹⁰⁵ Table 5.46.

¹⁰⁶ Section 6.4.9.

¹⁰⁷ Table 5.49.

Djefris and Wardhani (2010) on tax morale in Indonesia also confirmed such findings. This result, however, should be interpreted with caution, as the respondents were taxpayers who had already registered and paid their tax, meaning they were likely to be compliant taxpayers to some degree. A survey with a wider range of respondents, including registered and unregistered taxpayers (both intentional and unintentional), might have complemented the findings of this research in the employee and self-employed context.

7.3.2. Demographic and Economic Factors

The independent t-tests showed that tax morale levels were not different according to marital status or employment type (employee or self-employed).¹⁰⁸ The latter was particularly interesting, as previous studies suggested that employed individuals had higher voluntary tax compliance than those who were self-employed (Daude, Gutiérrez and Melguizo 2012; Kirchler 2007).

The One Way ANOVA tests also showed that the difference of tax morale level was statistically different by age, where it was observed that respondents who were in the 50–64 years group showed a lower level of tax morale than younger respondents, both in the 30–49 years and under 30 years brackets.¹⁰⁹ This result was slightly different from some previous studies; for example, the research conducted by María-Dolores, Alarcón and Garre on 1,500 respondents in Spain, which suggested ‘the older the respondent, the greater their tax morale tends to be’ (María-Dolores, Alarcón and Garre 2010, 864). However, this result is similar to that of Russo (2013, 113) for Italy, where although the respondents of 30–39 years of age had higher tax morale than younger respondents, those who were older than 60 years had lower tax morale. A plausible explanation for this might be that the older age group in our study might have been exposed to poor service and a corruption-ridden tax system in the past (Section 3.2.3). The younger generations, conversely, may have better experiences and understanding about tax, as the reforms are considered to have improved service, and consequently, the image of tax (Section 3.2.4 to Section 3.2.6).

Further, the tests revealed a statistically significant difference among education groups. Those who had a high school or below education level scored lower in willingness to pay tax than their counterparts who had higher levels of education, namely graduate and post-graduate level.¹¹⁰ This result was consistent with

¹⁰⁸ Section 5.5.9.

¹⁰⁹ Table 5.50.

¹¹⁰ Table 5.51.

previous studies that argued that education relates positively with level of tax morale and voluntary compliance (Torgler 2003; Torgler and Schneider 2005), and Webley (2004), who suggested that better educated people tend to have better attitudes towards tax.

The tests resulted in a statistically significant difference among the financial situation groups. Those who reported that they never had any difficulty in their financial situation scored a higher level of mean tax morale, and those who said they always have difficulties in this area scored the lowest mean.¹¹¹ Such results were consistent with previous findings across many countries, which suggest that financial satisfaction increases tax morale (Torgler 2004b, 2004a, 2005b, 2012).

7.3.3. Determinants of Tax Morale

The correlation analysis showed that most determinants investigated in this research had a correlation with tax morale. Sentiment towards tax, perception of the legal system as well as perception of public goods had moderately strong correlations with tax morale, scoring more than 0.25 points, while trust in the government, trust in the tax authority and fairness scored around 0.2 points, with attitude to democracy recording a weaker correlation of 0.13 points. Meanwhile, attitude to punishment showed the weakest correlation, with no statistical significance.¹¹² These results demonstrated that the determinants as investigated in this research are proven to be correlated to willingness to pay tax of individual taxpayers in Indonesia (except attitude to punishment).

Further, the multivariate regression showed that only two variables had an impact on the level of tax morale of individual taxpayers in Indonesia: sentiment towards tax and the perception of the law. The result that sentiment towards tax was influential on tax morale was consistent with previous findings and theories that the better the attitude towards tax, the higher the tax morale (Carrol 1995, 48–9; Kornhauser 2007, 610). Perceptions of the legal system having an impact on tax morale was supported by a quantitative finding showing the more positive taxpayers' perception about legal system in the country, the greater their willingness to pay tax (Torgler 2004a, 2012).

Further, it is found out that the findings from the qualitative analysis on the relation of the willingness to pay tax and the provision of public goods and service corroborate the quantitative results. While the quantitative analysis did not result in

¹¹¹ Table 5.52 and Table 5.53.

¹¹² Table 5.60.

any statistically significant influence of the provision of public goods and service on tax morale, the qualitative analysis showed similar results. Only few interview participants claimed that the factor which influence their willingness to pay tax was the provision of public goods by the government—that they would be more willing to pay tax if they perceived the public goods and services were delivered well.¹¹³ Stronger opinion; however, was expressed that no such relationship had existed in Indonesia.¹¹⁴ Taxpayers paid their tax due to its obligatory nature instead of expecting the benefits in return in form of public goods and services.¹¹⁵

On the other hand, transparency in the use of tax money was claimed as a factor that induced tax morale—if they knew how and where the money was spent, they would have a better chance of deciding to comply.¹¹⁶ Appropriate use of the tax money, for example, to build infrastructure rather than fund a poorly allocated subsidy, was a measure by which the government could raise willingness to pay tax.

These results show the importance of developing awareness about the relationship between public goods and services and tax obligation in Indonesia. Public goods and service provision is among the reasons why governments impose tax.¹¹⁷ The importance of public goods and service provision and its relation with tax compliance were also suggested by several previous studies such as Alm, McClelland and Schulze (1992) and Guth, Levati and Sausgruber (2005).

Another factor mentioned as influencing tax morale and tax compliance was the ease of paying the tax, discussed in the next section.

7.3.4. Factors that Influence the Decision to Pay Tax

It is important to note that willingness to pay tax or tax morale does not automatically materialise into compliance, as explained in Section 7.3.3. A high level of tax morale does not necessarily mean that taxpayers successfully fulfil their obligations in accordance with the letter and the spirit of the law. Tax morale, as formed by its determinants, is the intention of doing so, but actual compliance is further defined by other factors. From the qualitative analysis in this research, two compelling reasons emerged as to why taxpayers eventually decided to pay their tax. The factor most frequently mentioned was simplicity of the tax system. Most participants claimed that taxpayers would be more willing to pay their taxes if the system were easy; that taxpayers should not be burdened with administrative issues. Several participants

¹¹³ Section 6.4.9.

¹¹⁴ Section 6.4.7.

¹¹⁵ Section 6.4.11.

¹¹⁶ Section 6.4.9 and Section 6.4.10.

¹¹⁷ See Section 2.4.3.10.

compared it with paying vehicle tax, a local government tax, and paying regular bills, such as for electricity and water, which were easy to administer and fulfil without any prior calculating or preparing of reports. The difficulty in preparing and paying taxes was believed to deter taxpayers from fulfilling their obligations.¹¹⁸

One important implication of the finding is the suggestion to provide easier means of fulfilling obligation by the taxpayers. One example is a wider implementation of withholding system. It was suggested that taxpayers had a pragmatic approach to their fulfilling obligations. Participants argued that taxpayers were willing to pay their taxes; however, they did not want to be burdened by the troubles of administration. Even more, it was strongly believed by some participants that difficulty in administration would reduce willingness to comply with the rules.¹¹⁹ Additionally, taxpayers' willingness to pay their tax would be further undermined by a lack of knowledge about administration, and by facing uncertainty about what to do. This is consistent with the findings of a study by Alm et al. (2010, 583), which suggested that information provided to taxpayers by the tax authority to abolish uncertainty would increase tax compliance in the form of tax reporting.

Another important factor in the decision of taxpayers to be compliant was the penalty in the form of a fine—most participants claimed that their decision to pay tax was not due to any other force save ridding themselves of the potential fine. This finding was interesting in regard to tax morale, as fear of a fine is outside the intrinsic motivation of the taxpayers; rather, it is a response to a threat of punishment in the form of financial loss. Only one consultant suggested that taxpayers pay their share because of fear of audit. These results, which show the role of tax morale as well as external factors, justify the implementation of a blended approach including economic deterrent, socio-psychological and fiscal-psychological factors to increase tax compliance.

7.3.5. Other Factors

Other factors influencing willingness to pay tax were also noted by interview participants. These were not included as variables in the quantitative analysis in this research but emerged as part of the qualitative interviews; however, these factors should be considered as possible determinants of tax morale in future research.

Notable factors believed to hamper people's willingness to pay tax were the lack of understanding about tax and how it would be spent. It was believed that unfamiliarity

¹¹⁸ Section 6.4.10.

¹¹⁹ Section 6.4.8 and Section 6.4.10.

with tax had a role in people's reluctance to deal with tax matters when it was possible to do so.¹²⁰ Therefore, it was suggested that if the DGT made efforts to improve the public's understanding of tax and its benefit, willingness to pay tax would improve. Continual information disbursement and a campaign were suggested to increase such understanding; however, understanding must be accompanied by a real improvement in good governance and healthy realisation of the tax money spending. A campaign about the benefits of tax in terms of public goods, without real betterment of public goods and services provision was believed to undermine the trust of the public, and thus, would fail to increase willingness to pay tax. In this context, government as a whole, not only the tax authority, had an instrumental role to play.

The role of adviser or tax consultant was also emphasised in the interviews, as these parties are considered close to and trusted by taxpayers. Moreover, not all individual taxpayers understood tax matters, which were often considered difficult and troublesome. Tax consultants, in this context, could help, as intermediaries between taxpayers and the tax authority.¹²¹ The importance of tax consultants in the efforts to increase taxpayers' compliance is supported by Pope and McKerchar (2011, 591).

Personal traits were another factor believed to determine the compliance of individual taxpayers, where the inclination to comply with or evade obligations depended on the individuals, for example, whether a person was a risk taker or risk averse.¹²² Consequently, approaches to taxpayers to comply with their obligations should consider this factor as well, and may include the addition of a personal approach, as suggested by some participants. It was suggested that some taxpayers paid their tax because of the personal approach made by tax officers—they did not feel comfortable evading tax because of the service provided by the tax office in their tax matters.

Religious aspects, such as 'zakat' as a form of religious charity, were suggested as examples that may provide lessons for increasing willingness to comply with tax. This factor emerged from interviews, with participants arguing that people were more willing to pay 'zakat' than tax, even stating that it was a substitution for tax. Reasons for this were that 'zakat' represented beliefs about charity, which offered benefits and returns to its payers in accordance with religious teachings, and that

¹²⁰ Section 6.4.13.

¹²¹ Section 6.4.14.2.

¹²² Section 7.3.5.

'zakat' was believed by some people to provide more concrete evidence of helping others than tax.¹²³ Religious values embraced by individuals were believed to be a driving force in willingness to pay 'zakat' or other religious charity. However, such claims need further investigation, as data show that even 'zakat' collection in Indonesia is not encouraging, with reports that only around Rp3.2 trillion of 'zakat' was collected in 2014, from its potential of Rp217 trillion or less than 2% (Kusniawan 2015; Sudibyo 2016).

7.4. Chapter Summary

This chapter discusses the findings obtained from the quantitative data analysis (Chapter 5) combined with those from the qualitative analysis (Chapter 6). The combination produced mixed results, with some findings from the qualitative data analysis corroborating those from the quantitative analysis, while others offered some divergences. For example, while survey data showed that most of the individual taxpayers had good sentiments about tax, the findings of the interviews did not support such results. It is important to note that the quantitative approach using survey data is used for broader inference and the qualitative approach is helpful in exploring about the topic being investigated. Some findings were corroborated from the two approaches, for example, the role of tax knowledge and education on sentiments about tax and tax morale. Both factors were found to be statistically significant in the quantitative data analysis, and also emerged in the interviews as strong causal factors which impacted upon tax morale. The findings on the relation between public goods and service provision with tax morale in the qualitative approach also support those of from the quantitative findings; in that both showed no statistically significant evidence about the influence of the former factor on the latter.

The quantitative analysis showed that perception of legal system and sentiment towards tax were influential factors on tax morale. Qualitative findings added up that the simplicity of the tax system, knowledge about tax and how to settle their tax issues encouraged taxpayers to be more willing to pay tax, and correspondingly, their compliance.

¹²³ Section 6.4.12.

CHAPTER 8

CONCLUSION AND POLICY RECOMMENDATIONS

8.1. Introduction

This chapter provides conclusions containing key findings and policy recommendations of the research. These key findings are constructed based on the answers to the research questions in order to achieve the research objectives as outlined in Chapter 1. In this Chapter, the fourth objective, policy recommendations based on the findings of the analysis and subsequent discussion, is discussed in its own sub-section. Limitations of this research are acknowledged, followed by recommendations for future research. A concluding remark is then offered.

8.2. Summary of Key Findings

8.2.1. First Objective: The Level of Tax Morale of Individual Taxpayers in Indonesia

The results of this study on tax morale indicate that tax is a multi-faceted subject, with determining factors spanning individual traits, social environment, financial situation, the larger government–citizen relationship, perception of the legal system and justice enforced by judicial forces. The results support the understanding that increasing taxpayers' compliance cannot be carried out by a one-dimensional strategy, but that different approaches are needed in accordance with different aspects for a responsive policy arrangement.

As regards the research question one as outlined in Section 1.8. the quantitative results show that individual taxpayers in Indonesia had high levels of tax morale.¹²⁴ This finding is consistent with previous studies on tax morale covering Indonesia such as Widodo, Djefris, and Wardhani (2010), Tekeli (2011), and Daude, Gutiérrez and Melguizo (2012). The survey conducted to make inference to larger population show the inclination that taxpayers paid tax willingly upon the awareness as citizens' responsibility without other parties' influence. However, although taxpayers understand that tax is important and an obligation required by law, qualitative results reveal that their compliance is also stimulated by the fear of fines and provided that the tax system is uncomplicated. Lack of knowledge about how to settle the obligations, combined with the perceived lack of information provision by the tax authority also affects their willingness to pay tax. In conclusion, the level of tax morale of individual taxpayers in Indonesia is high; however, other measures to shift

¹²⁴ See Chapter 5 and Section 5.5.9.

this willingness into compliance, such as the economic deterrent factors and responsive approaches to encourage compliance, are also instrumental, in particular, fines, simplification of the system, as well as sufficient information to taxpayers on how to perform their tax obligations.

8.2.2. Second Objective: Differences of Tax Morale in Demographic, Social, and Economic Groups in Indonesia

As regards research question 2 on the differences in demographic, social and economic characteristics, several factors are investigated in this research: age, education, religion, employment status, employment type, financial situation, length of time being a registered taxpayer and level of interaction with tax.¹²⁵ Most of the variables do not show any statistical difference in the respondents' tax morale level, including city, religion, employment type and level of interaction with tax.¹²⁶ However, several other factors imply a different level of tax morale among respondents, including age, education and financial situation.¹²⁷ One factor, length of time being a registered taxpayer, shows a statistically significant difference; however, the data exhibit significant multicollinearity, so this result cannot be considered reliable.

One of the findings of this research is that there is a different perception between generations—younger respondents, currently in the productive age groups of under 30 years and 30–49 years, have more positive views than their older counterparts. The respondents from the 50–64 years age group have relatively low levels of tax morale. A plausible explanation for this finding is that it is related to one of the determinants found to be significant in this research: sentiment towards tax. The older generation is more likely to have been exposed to and experienced the poor governance and perceived widespread corruption of the past.¹²⁸ The younger cohorts, conversely, are more exposed to knowledge and understanding of tax, and the improvements the several rounds of reform have made to Indonesian tax administration.¹²⁹ This shows that public perception of tax has an important role in building willingness to pay tax among taxpayers.

Education was also found to be an important factor in tax morale. Less educated taxpayers tend to have lower appreciation of tax, which consequently deteriorates

¹²⁵ Section 2.4.3.1 and Section 2.4.3.2.

¹²⁶ Section 5.5.9 and Section 7.3.2.

¹²⁷ Section 5.5.9 and Section 7.3.2.

¹²⁸ Section 3.2. and Section 3.2.4.

¹²⁹ Section 3.2.6.

their willingness to pay.¹³⁰ However, comparable with high tax morale, a high level of education does not necessarily translate into high tax compliance in practice, especially as those who have more education may have better resources to understand loopholes in tax laws, and hence maximise their financial utility by avoiding paying tax. Other approaches may be needed to ensure that individual taxpayers who have a good level of tax morale eventually fulfil their tax obligations.

Financial situation was also found to be a significant determinant differentiating the tax morale of individual taxpayers. This research shows that those who claim not to have any financial problems are inclined to be more willing to comply with the rules for paying tax.

In conclusion, age, education and financial situation are the demographic and economic variables that statistically differentiate the level of tax morale of the individual taxpayers in this research.

8.2.3. Third Objective: Determinants of Tax Morale of Individual Taxpayers in Indonesia

As regards the research question 3, two of the eight variables investigated in the quantitative analysis were found to have a statistically significant influence on the tax morale of individual taxpayers in Indonesia: sentiment towards tax and perception of the legal system. This research finds that the more positive the sentiment of taxpayers to tax, the more they are willing to pay their tax. Taxpayers also see enforcement of the law as an important factor that has an impact on their tax morale. The more they perceive the law is properly enacted, the higher their intrinsic motivation to pay tax. Between these two variables, perception of the legal system has a slightly more significant impact based on the quantitative analysis, with a coefficient of 0.214, compared to that of sentiment towards tax of 0.190.¹³¹

However, it should be noted that despite showing no statistically significant impact on tax morale, other variables have a moderately strong correlation with the level of tax morale among taxpayers, with the only exception attitude to punishment. Therefore, the role of other factors should not be neglected, particularly when data from the qualitative method also show that these factors should be taken into consideration. Provision of public goods and service, for example, show that it has moderately strong correlation with tax morale similar to the correlations between

¹³⁰ Table 5.51

¹³¹ Section 5.5.11 and Table 5.61.

sentiment towards tax and perception of legal system with tax morale.¹³² While the qualitative approach results in mixed findings about this topic, some interview participants believe the perception of public goods provision is important in taxpayers' willingness to pay tax; that if they perceive that public goods are provided and maintained well by the government, they would be more willing to pay their taxes. It might be that the perception of the participants about public goods provision is still poor, and this discourages them from paying their taxes because they do not regard the tax money as being used well.

Further, while a connection between the tax morale variables and the eventual decision to fulfil tax obligations does not appear in this study, it emerged that the simplicity of the tax system might play an instrumental role in final compliance. It is observed from the interviews, both of taxpayers and tax consultants as informants, that taxpayers are reluctant to pay their tax when they find it troublesome dealing with the administration, particularly when they lack knowledge—not understanding how to settle tax matters may lead to a deterioration in their willingness to do the right thing.

One of the highlights of the factors mentioned to be catalysts in taxpayers' compliance is simplicity of the system. Taxpayers in Indonesia have a high level of tax morale; however, the research findings show that they tend to pay their tax pragmatically. Perceived complication of the system, including having to calculate tax due, file a report and find a way to pay, therefore affect their willingness to comply negatively, and eventually deter compliance. A smaller burden and easier administration as well as improving public perception might reduce taxpayers' reluctance to deal with tax administration, and eventually, increase their compliance.

8.3. Fourth Objective: Policy Recommendations

As regards the research question 4 and the research objective 4 about policy recommendations, the findings of this research offer several policy recommendations.

The findings show that efforts to improve the public image of tax might encourage taxpayers to be more involved in the tax system. The sentiment of taxpayers is instrumental in influencing taxpayers' willingness to pay. Therefore, a major recommendation based on this finding is the enhancement of information disbursement about tax and its benefits to the public. This approach needs to be embedded in the authorities' policies, not only by the DGT and the Ministry of

¹³² Table 5.60

Finance, but also by other institutions that utilise the tax money in their operations. This measure requires an extensive and continuous campaign from the DGT as the finance collection side, and better use of the money for public benefits from other government institutions as the expenditure side. Explaining and demonstrating that tax money is used to benefit the people would improve the sentiment of taxpayers; consequently, providing an understanding of why they need to pay taxes would enhance their willingness to pay tax. This approach needs to be set strategically in all short-, medium- and long-term policies to ensure that taxpayers and potential taxpayers understand the importance of tax and realise that public welfare depends on their compliance.

Another finding from this research is that the perception of enforcement in the legal system influences the willingness of taxpayers to pay their taxes. The DGT is a tax authority, while law enforcement in general is more the domain of other legal authorities. Just and strong law-enforcing bodies, such as the National Police and Courts, are instrumental in persuading taxpayers to pay their contribution. In order to increase the willingness of taxpayers to pay tax, this situation needs to be understood by the many parties involved. Tax morale is not influenced just by the tax authority and government policies and actions; it also requires legal authorities' participation. Therefore, it is crucial that the DGT approach other parties to develop support for better tax morale.

In terms of tax compliance as the eventual objective of tax morale, simplicity of the tax system plays a role in encouraging and determining whether taxpayers are able to fulfil their tax obligations. Paying tax is a cost to taxpayers that should not be made more of a burden by an overly complicated system. The use of an IT system in fulfilling obligations, such as e-filing and e-payment, may reduce the cost to taxpayers, including psychological costs, although this is difficult to quantify (Tran-Nam and Glover 2002). The DGT has already provided infrastructure for such a system by providing systems that taxpayers can use; for example, the electronic filing of the Annual Tax Return (e-filing) by individual taxpayers increased significantly from 61,651 in 2010 to 556,542 in 2014 (DGT 2015a, 133). However, it should be noted that not all taxpayers have access to the internet; consequently, more fundamental administration simplification is instrumental. Taxpayer compliance costs need further attention. Susila (2014, 204) recommended that compliance costs of large taxpayers be reduced by minimising the complexity of tax rules, an idea that also applies to taxpayers in general, especially individual taxpayers, who do not have the resources of large entity taxpayers in complying with their obligations. Tax

laws in Indonesia have provided such simplification, for example, the use of the deemed-profit system for individual taxpayers who do not conduct bookkeeping. Recently, the government issued Government Regulation Number 46 Year 2013 on Income Tax for Micro-Small and Medium Enterprise, which sets income tax at 1% of sales. Such an approach is an example of ways of increasing taxpayers' compliance, which could be expanded; however, careful attention needs to be paid, so that taxpayers' rights are not violated and there is fairness in the system towards all taxpayers, including businesses. For example, there has been criticism that the imposition of the income tax on sales neglects the fact that not all taxpayers record profits or income, and according to this scheme, they have to pay regardless of the outcome of their business activities. One plausible solution to this 'simplicity versus fairness' debate is to provide taxpayers with the option of a simplified system that encourages compliance, while also providing an alternative measure, to ensure that they can fulfil their obligations, regardless of their size and sales.

Another pragmatic, plausible approach in encouraging more compliance is greater utilisation of the withholding system in collecting tax, where it is possible and authorised by law. In this setting, taxpayers do not need to calculate and report their own taxes; withholding agents withhold their taxes and report to the tax office, while providing proof of payment or receipts to taxpayers. Employed taxpayers whose income taxes are withheld by employers have been proven to have higher tax morale, and this notion should be considered as a means of increasing tax compliance. This is supported by Blanthorne and Kaplan (2008, 699), who find that restricting opportunities to evade is beneficial both economically and ethically. Consequently, the use of IT systems and sound administration, such as obligating withholding agents to disclose taxes and the ability of the DGT to cross-check activities, must be established as well.

The last important recommendation pertains to the necessity of a party to bridge the gap between taxpayers and the tax authority—while the trust of taxpayers in the government is not yet encouraging, this trust is imperative in reducing their reluctance to pay tax. In this context, the tax authority needs to utilise intermediaries, such as tax agents or tax consultants, to help taxpayers fulfil their obligations, as well as improve their sentiment towards the utilisation of tax money. While tax agents and consultants provide 'shortcuts' for taxpayers in their tax compliance, they may also help develop the understanding of the obligation and improve the perception of tax. For this to be effective, there is an urgency to establish rules and policies for regulating tax agents and consultants, so that they

help improve taxpayers' compliance, rather than help taxpayers with tax avoidance or aggressive tax planning. Moreover, this measure can help involve potential taxpayers who may not be reached by the tax authority because of geographical constraints or other restrictions.

8.4. Limitations of the Research

This research was designed to explain the tax morale of individual taxpayers in Indonesia by using a mixed method approach that departs from extant studies on tax morale. The research was carried out to capture the phenomenon comprehensively, in order to achieve the research objectives accurately. However, it should be noted that limitations remain, and findings in this research should be interpreted with caution in this regard, to ensure correct use for policy formulation and further research.

The first limitation relates to the nature of tax morale measurement. This research on the tax morale level of individual taxpayers was developed based on a number of other studies on the topic across different countries with various methods of measuring tax morale. However, it should be noted that hitherto, there is no unitary accord about how to measure tax morale, or on the exact relationship between tax morale and tax compliance. Therefore, caution needs to be taken in interpreting the results of this research—a broad understanding about the topic and related circumstances is required. Nevertheless, this research attempts to converge theories on tax morale definitions and measurements, to present a more focused tax morale scope. Further, this research offers new insights about tax morale, examined using a triangulation of quantitative and qualitative approaches in order to present more robust findings about tax morale in developing countries, such as Indonesia.

The second limitation is related to the nature of the self-reporting method or surveys used in this research. It is suggested that self-reporting methods may exhibit bias (Elffers, Weigel and Hessing 1987). Moreover, as tax is considered a sensitive issue, it may cause discomfort to respondents that may hinder them from answering honestly (Elffers, Robben and Hessing 1992). The survey for this research was designed prudently, and constructed so that respondents could retrieve their experiences and express them anonymously; however, caution should be taken in that there may still be biases between their answers and their actual behaviour regarding tax matters.

The third limitation is the survey samples of this research—registered individual taxpayers. While this offers advantages in that the respondents will provide better

answers as to 'why people pay their taxes' (because they have done so), it may create biases as the respondents may represent individuals that are inclined to be compliant or have a tendency towards having a good level of willingness to pay tax and comply with their tax obligations. Therefore, the results of the individual taxpayers in this research, which show a high level of tax morale, must be viewed in this context. A comprehensive examination of tax morale of individual taxpayers that involves those who are compliant and those who are not may offer different perspectives, such as that of Devos (2014), which includes both compliant taxpayers and tax evaders. Nevertheless, the qualitative interviews, which involved taxpayers, tax-related managers and tax consultants, widened the perspective on examining the tax morale phenomenon in individual taxpayers in Indonesia.

The fourth limitation of this research is that samples were taken from three largest cities in Indonesia. The selection of the three cities was conducted as taxpayers in these three cities were regarded as likely to exhibit different characteristics, and thus represent a wide variety of taxpayer attributes. However, even the involvement of the taxpayers from the three largest cities may not reflect the taxpayer population in Indonesia as a whole—this would be an impossibility given limitations in time and costs. In this regard, the involvement of wider samples—such as individuals from more regions, and rural areas in addition to those from cities—may enrich the output of the study. Research that includes whole regions of Indonesia as well as broader population characteristics may provide a different and more comprehensive representation of tax morale in Indonesia as a whole.

8.5. Recommendations for Future Research

Tax morale is a vast topic, and despite continuous and ample research conducted over the past decades, there is ample room for further studies. This is especially true in relation to tax administration in developing countries, such as Indonesia, which is considered to be in need of a significant improvement in taxpayers' compliance. In Indonesia, this topic has only been studied recently, by a small number of researchers, with limitations due to the vast areas and large population of taxpayers in the country. Therefore, further studies on tax morale in relation to tax compliance specifically in the Indonesian context are still required. One further improvement to be recommended by this study is wider coverage of respondents to include registered and unregistered taxpayers, compliant citizens and evaders, as well as samples that capture the voice of the population and taxpayers in remote areas. Coverage representing all areas and all parties will provide a more comprehensive and complete explanation of the tax morale phenomenon.

Another important feature recommended for future research is the exploration of tax morale factors that may present specifically in the Indonesian context. Tax morale studies started in developed countries, such as the United States and Switzerland, and have expanded to cover developing countries, including those in Asia, Africa and South America. While the coverage has involved many countries, both developed and developing, studies into the tax morale in many countries are not deep, because of the width of the coverage and the use of single questions from the WVS. In such cases, detailed, specific research of tax morale may bring to light significant, specific issues or variables, different in terms of both essence and magnitude. The exploration of specific characteristics and variables relating to tax morale in the developing country setting may enrich theories, which have been spawned from developed countries, thus providing a more comprehensive picture of tax morale in taxation studies.

8.6. Concluding Remarks

The study of individual taxpayers in Indonesia is important as, up to the present, Indonesia has relied heavily on tax from large entity taxpayers in its revenue collection. Previous data show that the contribution of individual taxpayers is small, despite their large number. The attempt to increase individual taxpayers' involvement in taxation and improve their tax compliance is therefore crucial to increasing the contribution of these taxpayers and tax revenue collection. This research has investigated why individual taxpayers are willing to pay their taxes, an attempt to hear the voice of the individual taxpayers, with the aim of finding which factors encourage all related and obliged parties to fulfil their tax obligations. This research highlights the factors that will help authorities increase the willingness of individual taxpayers to pay their taxes, and factors that are found to be conducive for the individual taxpayers in complying with their obligations. Using the findings and recommendations presented in this research will enable authorities and other interested parties to formulate productive policies and strategies to increase the willingness of taxpayers to pay their tax and increase their tax compliance. This research also broadens pathways to further research on individual taxpayers' compliance in Indonesia, which could lead to an ideal tax system to collect revenue—which should be efficient, fair and beneficial to the public.

REFERENCES

- Abdul-Jabbar, Hijatullah, and Jeff Pope. 2008. 'Exploring the Relationship Between Tax Compliance Costs and Compliance Issues in Malaysia'. *Journal of Applied Law and Policy* 1(1): 1-20.
- Afrobarometer. 2017. 'Afrobarometro. Let the People Have a Say'. Accessed 12 February 2017. Doi: <http://www.afrobarometer.org>
- Ahmed, Eliza and Valerie Braithwaite. 2005. 'Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice'. *International Small Business Journal* 23 (5): 539–568.
- Ajzen, Icek. 1991. 'The Theory of Planned Behavior'. *Organizational Behavior and Human Decision Processes* 50: 179–211.
- Ajzen, Icek and Martin Fishbein. 1980. *Understanding Attitudes and Predicting Social Behavior*. New Jersey: Prentice-Hall, Inc.
- Alexander, Sheldon and Marian Ruderman. 1987. 'The Role of Procedural and Distributive Justice in Organizational Behavior'. *Social Justice Research* 1 (2): 177–198.
- Allingham, Michael G. and Agnar Sandmo. 1972. 'Income Tax Evasion: A Theoretical Analysis'. *Journal of Public Economics* 1 (3–4): 323–338. doi: [http://dx.doi.org/10.1016/0047-2727\(72\)90010-2](http://dx.doi.org/10.1016/0047-2727(72)90010-2).
- Allport, Gordon W. 1985. 'The Historical Background of Social Psychology'. In *Handbook of Social Psychology*, edited by Lindzey, Gardner and Aronson, Elliot, 1–46. New York: McGraw Hill.
- Alm, James. 1991. 'A Perspective on the Experimental Analysis of Taxpayer Reporting'. *The Accounting Review* 66 (3): 577–593.
- . 2011. 'Measuring, Explaining, and Controlling Tax Evasion: Lessons from Theory, Experiments, and Field Studies'. *International Tax Public Finance* 19: 54–77.
- Alm, James, Roy Bahl and Matthew N. Murray. 1993. 'Audit Selection and Income Tax Underreporting in the Tax Compliance Game'. *Journal of Development Economics* 42 (1): 1–33. doi: [http://dx.doi.org/10.1016/0304-3878\(93\)90070-4](http://dx.doi.org/10.1016/0304-3878(93)90070-4).
- Alm, James, Todd Cherry, Michael Jones and Michael McKee. 2010. 'Taxpayer Information Assistance Services and Tax Compliance Behavior'. *Journal of Economic Psychology* 31 (4): 577–586.
- Alm, James, Todd Cherry, Michael Jones and Michael McKee. 2012. 'Social Programs as Positive Inducements for Tax Participation'. *Journal of Economic Behavior & Organization* 84 (1): 85–96.
- Alm, James, Betty R. Jackson and Michael McKee. 1992. 'Estimating the Determinants of Taxpayer Compliance with Experimental Data'. *National Tax Journal* 45 (1): 107–114.

- Alm, James, Betty R. Jackson and Michael McKee. 1993. 'Fiscal Exchange, Collective Decision Institutions, and Tax Compliance'. *Journal of Behavior and Organization* 22: 285–303.
- Alm, James, Erich Kirchler and Stephan Muehlbacher. 2012. 'Combining Psychology and Economics in the Analysis of Compliance: From Enforcement to Cooperation'. *Economic Analysis & Policy* 42 (2): 133–151.
- Alm, James, Jorge Martinez-Vazque and Benno Torgler. 2006. 'Russian Attitudes toward Paying Taxes – Before, During, and After the Transition'. *International Journal of Social Economics* 33 (12): 832–857.
- Alm, James, Gary H. McClelland and William D. Schulze. 1992. 'Why Do People Pay Taxes?' *Journal of Public Economics* 48 (1): 21–38. doi: [http://dx.doi.org/10.1016/0047-2727\(92\)90040-M](http://dx.doi.org/10.1016/0047-2727(92)90040-M).
- Alm, James and Michael McKee. 2004. 'Tax Compliance as a Coordination Game'. *Journal of Economic Behavior & Organization* 54 (3): 297–312. doi: <http://dx.doi.org/10.1016/j.jebo.2003.02.003>.
- Alm, James, Isabel Sanchez and Ana De Juan. 1995. 'Economic and Noneconomic Factors in Tax Compliance'. *International Review for Social Sciences* 48 (1): 1–18.
- Alm, James and Benno Torgler. 2006. 'Culture Differences and Tax Morale in the United States and in Europe'. *Journal of Economic Psychology* 27 (2): 224–246. doi: <http://dx.doi.org/10.1016/j.joep.2005.09.002>.
- . 2011. 'Do Ethics Matter? Tax Compliance and Morality'. *Journal of Business Ethics* 101 (4): 635–651.
- Alsah, Achmad Sjarifuddin. 1992. 'The Effect of the 1983 Indonesian Tax Reform on the Effective Tax Rates on Capital' (PhD thesis, Indiana University).
- Andreoni, James, Brian Erard and Jonathan Feinstein. 1998. 'Tax Compliance'. *Journal of Economic Literature* 36: 818–860.
- Araki, Satoru and Iris Claus. 2014. 'A Comparative Analysis of Tax Administration in Asia and the Pacific'. Asian Development Bank, Mandaluyong City, Philippines. <http://hdl.handle.net/11540/780>.
- Arnold, Jens. 2012. *Improving the Tax System in Indonesia*. Paris: OECD Publishing.
- Arsal, Yon. 2007. 'Tax Compliance in Indonesia: A Study on Tax Compliance, Corruption and Tax Reform in Tax Administration' (PhD thesis, Kobe University).
- Ashby, Julie S, Paul Webley and Alexander S. Haslam. 2009. 'The Role of Occupational Taxpaying Cultures in Taxpaying Behaviour and Attitudes'. *Journal of Economic Psychology* 30 (2): 216–227. doi: <http://dx.doi.org/10.1016/j.joep.2008.08.005>.
- Atawodi, Ojochogwu Winnie and Stephen Aanu Ojeka. 2012. 'Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North

- Central Nigeria'. *International Journal of Business & Management* 8 (12): 87–96. doi: 10.5539/ijbm.v7n12p87.
- Babbie, Earl R. 1990. *Survey Research Methods*. 2nd ed. Belmont, California: Wadsworth.
- Bank Indonesia. 2016. Government Revenues. Accessed 20 October 2016. doi: www.bi.go.id/seki/tabel/TABEL4_1.xls
- Barr, Nicholas A., James Simon R. and Alan R. Prest. 1977. *Self Assessment of Income Tax*. London: Heinemann Educational Books.
- Batrancea, Larissa-Margareta, Ramona-Ancha Nichita, Ioan Batrancea and Bogdan Andrei Moldovan. 2012. 'Tax Compliance Models: From Economic to Behavioral Approaches'. *Transylvanian Review of Administrative Sciences* 36: 13–26.
- Bawazier, Fuad and M. Ali Kadir. 2009. 'Kebijakan Dalam 'Tax Reform' 1994 Dan 'Tax Reform' 1997 (Policies in 1994 Tax Reform and 1997 Tax Reform)'. In *Era Baru Kebijakan Fiskal*, edited by Anggito Abimanyu and Andie Megantara, 151–180. Jakarta: Penerbit Buku Kompas.
- Bazart, C. and A. Bonein. 2012. 'Reciprocal Relationships in Tax Compliance Decisions'. *Journal of Economic Psychology* 40: 83–102. doi: <http://dx.doi.org/10.1016/j.joep.2012.10.002>.
- Becker, Gary S. 1968. 'Crime and Punishment: An Economic Approach'. *The Journal of Political Economy* 76 (2): 169–217.
- Beitin, Ben K. 2012. 'Interview and Sampling: How Many and Whom'. In *Handbook of Interview Research – The Complexity of the Craft*, edited by Jaber F. Gubrium, James A. Holstein, Amir B. Marvasti, Karyn D. McKinney, 455–474. 2nd ed. Thousand Oaks, CA: Sage Publications.
- Bird, Richard M., Jorge Martinez-Vazque and Benno Torgler. 2008. 'Tax Effort in Developing Countries and High Income Countries: The Impact of Corruption, Voice and Accountability'. *Economic Analysis & Policy* 38 (1): 55–71.
- Blanthorne, Cindy and Steven Kaplan. 2008. 'An Egocentric Model of the Relations among the Opportunity to Underreport, Social Norms, Ethical Beliefs, and Underreporting Behavior'. *Accounting, Organizations and Society* 33 (7): 684–703. doi: 10.1016/j.aos.2008.02.001.
- Blaufus, Kay, Matthias Braune, Jochen Hundsdoerfer and Martin Jacob. 2015. 'Self-Serving Bias and Tax Morale'. *Economics Letters* 131: 91–93. doi: 10.1016/j.econlet.2015.03.041.
- Bobek, Donna D., Robin W. Roberts and John T. Sweeney. 2007. 'The Social Norms of Tax Compliance: Evidence from Australia, Singapore, and the United States'. *Journal of Business Ethics* (74): 49–64.
- Bourque, Linda B. and Eve P. Fielder. 2003. *How to Conduct Self-Administered and Mail Surveys*. 2nd ed. Thousand Oaks: Sage.
- Braithwaite, Valerie. 2003. Dancing with Tax Authorities: Motivational Postures and Non-compliant Actions. In Valerie Braithwaite (Ed.), *Taxing Democracy*.

Understanding Tax Avoidance and Tax Evasion (pp. 15–39). Aldershot: Ashgate.

- Braithwaite, Valerie and Eliza Ahmed. 2005. 'A Threat to Tax Morale: The Case of Australian Higher Education Policy'. *Journal of Economic Psychology* 26 (4): 523–540. doi: <http://dx.doi.org/10.1016/j.joep.2004.08.003>.
- Braithwaite, Valerie, Kristina Murphy and Monika Reinhart. 2007. Taxation Threat, Motivational Postures, and Responsive Regulation. *Law & Policy* 29 (1): 137–158.
- Breman, Jan. 2010. *Keuntungan Kolonial Dari Kerja Paksa. Sistem Priangan Dari Tanam Paksa Kopi di Jawa 1720–1870*. Jakarta: Yayasan Pustaka Obor.
- Brizi, Ambra, Mauro Giacomantonio, Birga M. Schumpe and Lucia Mannetti. 2015. 'Intention to Pay Taxes or to Avoid Them: The Impact of Social Value Orientation'. *Journal of Economic Psychology* 50: 22–31. doi: 10.1016/j.joep.2015.06.005.
- Brondolo, John, Carlos Silvani, Eric Le Borgne and Frank Bosch. 2008. *Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001–2007)*. International Monetary Fund.
- Brown, Colin. 2003. *A Short History of Indonesia: The Unlikely Nation?* Crows Nest, NSW: Allen & Unwin.
- Brown, Robert E. and Mark J. Mazur. 2003. 'IRS's Comprehensive Approach to Compliance Measurement'. *National Tax Journal* 56 (3): 689-700.
- Bureau of Regional Development Planning of Jakarta. 2014. *Statistik Jumlah Penduduk (Population Statistic)*. Accessed 25 October 2016. doi: http://bappedajakarta.go.id/?page_id=1131.
- Burton, Richard. 2014. *Kajian Perpajakan Dalam Konteks Kesejahteraan Dan Keadilan (Taxation Analysis in Welfare and Justice Context)*. Jakarta: Mitra Wacana Media.
- Cahyonowati, Nur. 2011. 'Model Moral Dan Kepatuhan Perpajakan: Wajib Pajak Orang Pribadi (Morale Model and Tax Compliance: Individual Taxpayers)'. *Jurnal Akuntansi dan Auditing Indonesia* 15 (2): 161–177.
- Carey, Peter. 2007. *The Power of Prophecy: Prince Dipanagara and the End of an Old Order in Java, 1785–1855*. Leiden: KITLV Press.
- Carroll, John S. 1995. 'How Taxpayers Think About Their Taxes: Frames and Values'. In *Why People Pay Taxes*, edited by Joel Slemrod, 43–63. Ann Arbor: University of Michigan Press.
- Central Bureau of Statistic. 2013. *Statistic Indonesia 2012*. Jakarta: Central Bureau of Statistic.
- . 2014. *Population Census 2010 – Population by Region and Religion*. Accessed 28 October 2014. doi: <http://sp2010.bps.go.id/index.php/site/tabel?tid=321>.

- Central Bureau of Statistic of North Sumatera Province. 2016. *Luas Wilayah, Jumlah Penduduk, Dan Kepadatan Penduduk Menurut Kabupaten/Kota, 2012 (Areas, Population, and Population Density by Municipalities/Cities, 2012)*. Accessed 25 October 2016. doi: <http://sumut.bps.go.id/frontend/linkTabelStatis/view/id/362>.
- Central Bureau of Statistic of Surabaya City. 2014. *Population by Sex and Sub District Taken from Population Registrar of 2014*. Accessed 25 October 2016. doi: <https://surabayakota.bps.go.id/linkTabelStatis/view/id/322>.
- Chang, Otto H., Donald R. Nichols and Joseph J. Schultz. 1987. 'Taxpayer Attitudes toward Tax Audit Risk'. *Journal of Economic Psychology* 8 (3): 299–309. doi: [http://dx.doi.org/10.1016/0167-4870\(87\)90025-0](http://dx.doi.org/10.1016/0167-4870(87)90025-0).
- Chau, Gerald and Patrick Leung. 2009. 'A Critical Review of Fischer Tax Compliance Model: A Research Synthesis'. *Journal of Accounting and Taxation* 1 (2): 34–40.
- Christiansen, Vidar. 1980. 'Two Comments on Tax Evasion'. *Journal of Public Economics* 13 (3): 389–393. doi: [http://dx.doi.org/10.1016/0047-2727\(86\)90012-5](http://dx.doi.org/10.1016/0047-2727(86)90012-5).
- Christensen, Anne L. & Wehrich, Susan G. (1996). Tax Fairness: Different roles, Different Perspectives. *Advances in Taxation*, 8, 27.
- Chung, Janne and Viswanath Umashanker Trivedi. 2003. 'The Effect of Friendly Persuasion and Gender on Tax Compliance Behavior'. *Journal of Business Ethics* 47 (2): 133–145.
- Comrey, Andrew Laurence and Howard B. Lee. 1992. *A First Course in Factor Analysis*. 2nd ed. Hillsdale, NJ: L. Erlbaum Associates.
- Creswell, John W. 1998. *Qualitative Inquiry and Research Design: Choosing among Five Traditions*. Thousand Oaks, CA: Sage.
- . 2003. *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. 2nd ed. Thousand Oaks, CA: Sage Publications.
- . 2014. *A Concise Introduction to Mixed Method Research*. Thousand Oaks, CA: Sage Publications.
- Crotty, Michael. 1998. *The Foundations of Social Research: Meaning and Perspective in the Research Process*. St Leonards, NSW: Allen & Unwin.
- Cuccia, Andrew D. 1994. 'The Economics of Tax Compliance: What Do We Know and Where Do We Go?' *Journal of Accounting Literature* 13: 81.
- Cullis, John, Philip Jones and Antonio Savoia. 2012. 'Social Norms and Tax Compliance: Framing the Decision to Pay Tax'. *The Journal of Socio-Economics* 41 (2): 159–168. doi: <http://dx.doi.org/10.1016/j.socec.2011.12.003>.
- Cummings, Ronald G, Jorge Martinez-Vazque, Michael McKee and Benno Torgler. 2005. 'Effects of Tax Morale on Tax Compliance: Experimental and Survey Evidence'. IDEAS Working Paper Series from RePEc. Federal Reserve Bank of St Louis. doi: <http://ideas.repec.org/p/ays/ispwps/paper0516.html>

- . 2009. 'Tax Morale Affects Tax Compliance: Evidence from Surveys and an Artefactual Field Experiment'. *Journal of Economic Behavior & Organization* 70 (3): 447–457. doi: <http://dx.doi.org/10.1016/j.jebo.2008.02.010>.
- Czaja, Ronald and Edward A. Blair. 2014. *Designing Surveys: A Guide to Decisions and Procedures*. Edited by Johnny Blair and Edward Blair. 3rd ed. Thousand Oaks, CA: Sage Publications.
- D'Arcy, Michelle. 2011. *Why Do Citizens Assent to Pay Tax? Legitimacy, Taxation and the African State*. APSA 2009 Toronto Meeting Paper. doi: <https://ssrn.com/abstract=1452128>
- Daude, Christian, Hamlet Gutiérrez and Ángel Melguizo. 2012. 'What Drives Tax Morale?' OECD Working Paper 315, OECD Publishing, Paris. doi: 10.1787/18151949
- Dean, James Dean. 2009a. 'Choosing the Right Number of Components or Factors in PCA and EFA'. *JALT Testing & Evaluation SIG Newsletter* 13 (2): 19–23.
- . 2009b. 'Principal Component Analysis and Exploratory Factor Analysis-Definitions, Differences, and Choices'. *JALT Testing & Evaluation SIG Newsletter* 13 (1): 26–30.
- Denzin, Norman K. 2012. 'Triangulation 2.0*'. *Journal of Mixed Methods Research* 6 (2): 80–88. doi: 10.1177/1558689812437186.
- Devos, Ken. 2005. 'The Attitudes of Tertiary Students on Tax Evasion and the Penalties for Tax Evasion – A Pilot Study and Demographic Analysis'. *eJournal of Tax Research* 3 (2): 222–273.
- . 2008. 'Tax Evasion Behaviour and Demographic Factors: An Exploratory Study in Australia'. *Revenue Law Journal* 18 (1): 1–44.
- . 2012. 'The Impact of Tax Professionals Upon the Compliance Behavior of Australian Individual Taxpayers'. *Revenue Law Journal* 22 (1): 31–56.
- . 2014. *Factors Influencing Individual Taxpayer Compliance Behaviour*. Dordrecht: Springer Netherlands.
- Dillman, Don A. 2007. *Mail and Internet Surveys: The Tailored Design Method. 2007 Update with New Internet, Visual, and Mixed-Mode Guide*. Hoboken, NJ: Wiley.
- Directorate General of Taxes (DGT). 2012. *Buku Saku Pajak Dalam Angka 2002–2012 (Tax in Numbers Pocket Book 2002–2011)*. Jakarta: Direktorat Jenderal Pajak.
- . 2015a. *Annual Report 2014*. Jakarta: Direktorat Jenderal Pajak.
- . 2015b. *Buku Saku Pajak Dalam Angka 2005–2014 (Tax in Numbers Pocket Book 2005–2014)*. Jakarta: Direktorat Jenderal Pajak.
- Elffers, Henk, Henry S. J. Robben and Dick J. Hessing. 1992. 'On Measuring Tax Evasion'. *Journal of Economic Psychology* 13 (4): 545–567. doi: [http://dx.doi.org/10.1016/0167-4870\(92\)90011-U](http://dx.doi.org/10.1016/0167-4870(92)90011-U).

- Elffers, Henk, Russell H. Weigel and Dick J. Hessing. 1987. 'The Consequences of Different Strategies for Measuring Tax Evasion Behavior'. *Journal of Economic Psychology* 8 (3): 311–337. doi: 10.1016/0167-4870(87)90026-2.
- Elster, Jon. 2007. *Explaining Social Behavior*. New York: Cambridge University Press.
- Eriksen, Knut and Lars Fallan. 1996. 'Tax Knowledge and Attitudes Towards Taxation; a Report on a Quasi-Experiment'. *Journal of Economic Psychology* 17 (3): 387–402. doi: [http://dx.doi.org/10.1016/0167-4870\(96\)00015-3](http://dx.doi.org/10.1016/0167-4870(96)00015-3).
- Fabrikant, Robert. 1973. *Oil Discovery and Technical Change in Southeast Asia: Legal Aspects of Production Sharing Contracts in the Indonesian Petroleum Industry*. 2nd ed. Singapore: Institute of Southeast Asian Studies.
- Farrar, Jonathan M. 2011. 'The Impact of Tax Fairness Dimensions on Tax Compliance: Canadian Evidence'. Graduate Program in Administration (Accounting) Schulich School of Business York University, Toronto, Ontario. (PhD thesis, York University)
- Feld, Lars P. and Bruno S. Frey. 2002. 'Trust Breeds Trust: How Taxpayers Are Treated'. *Economics of Governance* 3 (2): 87–99.
- . 2003. 'Deterrence and Tax Morale: How Tax Administrations and Taxpayers Interact'. *OECD Papers* 3 (10): 1–19.
- . 2007. 'Tax Compliance as the Result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation'. *Law & Policy* 29 (1): 102–120. doi: 10.1111/j.1467-9930.2007.00248.x.
- Field, Andy. 2000. *Discovering Statistics Using SPSS for Windows*. Thousand Oaks, CA: Sage Publications.
- Field, Andy P. 2009. *Discovering Statistics Using SPSS (and Sex and Drugs and Rock 'N' Roll)*. 3rd ed. Thousand Oaks: Sage Publications.
- Filippin, Antonio, Carlo V. Fiorio and Eliana Viviano. 2013. The Effect of Tax Enforcement on Tax Morale. *European Journal of Political Economy* 32: 320–331.
- Fischer, Carol M., Martha Wartick and Melvin Mark. 1992. 'Detection Probability and Taxpayer Compliance: A Review of the Literature'. *Journal of Accounting Literature* 11: 1–46.
- Fishbein, Martin and Icek Ajzen. 2010. *Predicting and Changing Behavior: The Reasoned Action Approach*. New York: Psychology Press.
- Fontana, Andrea, and J. H. Frey. 1994. 'Interviewing: The Art of Science'. In *Handbook of Qualitative Research*, edited by Norman K. Denzin and Yvonna S. Lincoln, 361–376. Thousand Oaks, CA: Sage Publications.
- Fowler, Floyd J. 1993. *Survey Research Methods*. 2nd ed. Thousand Oaks, CA: Sage Publications.
- . 2009. *Survey Research Methods*. 4th ed. Thousand Oaks, CA: Sage Publications.

- Frey, Bruno S. and Benno Torgler. 2007. 'Tax Morale and Conditional Cooperation'. *Journal of Comparative Economics* 35 (1): 136–159. doi: <http://dx.doi.org/10.1016/j.jce.2006.10.006>.
- Gillis, Malcolm. 1985. 'Micro and Macroeconomics of Tax Reform: Indonesia'. *Journal of Development Economics* 19 (3): 221–254. doi: 10.1016/0304-3878(85)90030-6.
- Graetz, Michael J., Jennifer F. Reinganum and Louis L. Wilde. 1986. 'The Tax Compliance Game: Toward an Interactive Theory of Law Enforcement.' *Journal of Law, Economics, and Organization* 2 (1): 1–32.
- Graetz, Michael J. and Louis L. Wilde. 1985. 'The Economics of Tax Compliance: Fact and Fantasy'. *National Tax Journal* 38 (3): 355–363.
- Greene, Jennifer C. and Valerie J. Caracelli. 1997. 'Defining and Describing the Paradigm Issue in Mixed-Method Evaluation'. *New Directions for Evaluation* 1997 (74): 5–17. doi: 10.1002/ev.1068.
- Greene, Jennifer C., Valerie J. Caracelli and Wendy F. Graham. 1989. 'Toward a Conceptual Framework for Mixed-Method Evaluation Designs'. *Educational Evaluation and Policy Analysis* 11 (3): 255–274.
- Groves, Robert M. 2004. *Survey Errors and Survey Costs*. Hoboken, NJ: Wiley-Interscience.
- Guth, Werner, Vittoria Levati and Rupert Sausgruber. 2005. 'Tax Morale and (De-)Centralization: An Experimental Study'. *Public Choice* 125 (1): 171–188.
- Hair, Joseph F., William C. Black, Barry J. Babin and Rolph E. Anderson. 2014. *Multivariate Data Analysis*. 7th ed. Harlow, Essex: Pearson Education Limited.
- Hair, Joseph F., William C. Black, Barry J. Babin, Rolph E. Anderson and Ronald L. Tatham. 2006. *Multivariate Data Analysis*. New Jersey: Pearson, Prentice-Hall.
- Hasseldine, John and K. Jan Bebbington. 1991. 'Blending Economic Deterrence and Fiscal Psychology Models in the Design of Responses to Tax Evasion: The New Zealand Experience'. *Journal of Economic Psychology* 12 (2): 299–324. doi: [http://dx.doi.org/10.1016/0167-4870\(91\)90018-O](http://dx.doi.org/10.1016/0167-4870(91)90018-O).
- Heij, G. 2001. 'The 1981–83 Indonesian Income Tax Reform Process: Who Pulled the Strings?' *Bulletin of Indonesian Economic Studies* 37 (2): 233–251.
- Heritage Foundation. 2016. *2016 Index of Economic Freedom – Tax Burden % of GDP*. Accessed 28 October 2016. doi: <http://www.heritage.org/index/explore?view=by-variables>
- Hidayat, Widi and Argo A. Nugroho. 2010. 'Studi Empiris Theory of Planned Behavior Dan Pengaruh Kewajiban Moral Pada Perilaku Ketidakpatuhan Pajak Wajib Pajak Orang Pribadi (Empirical Study of the Theory of Planned Behavior and the Influence of Moral Obligation on Tax Non-Compliance Behaviour of Individual Taxpayers)'. *Jurnal Akuntansi dan Keuangan* 12 (2): 82.

- Houston, Jodie and Alfred Tran. 2001. 'A Survey of Tax Evasion Using the Randomized Response Technique'. *Advances in Taxation* 13: 69–94.
- Ikhsan, Mohamad, Ledi Trialdi and Syarif Syahrial. 2005. 'Indonesia's New Tax Reform: Potential and Direction'. *Journal of Asian Economics* 16 (6): 1029–1046. doi: <http://dx.doi.org/10.1016/j.asieco.2005.10.004>.
- International Monetary Fund. 2011. 'Revenue Mobilization in Developing Countries'. Fiscal Affairs Department, IMF, Washington, DC. doi: <https://www.imf.org/external/np/pp/eng/2011/030811.pdf>
- Jackson, B. R. and V. C. Milliron. 1986. 'Tax Compliance Research: Findings, Problems and Prospects'. *Journal of Accounting Literature* 5: 125–165.
- James, Simon and Clinton Alley. 2002. 'Tax Compliance, Self-Assessment and Tax Administration'. *Journal of Finance and Management in Public Services* 2 (2): 27–42.
- Jick, Todd D. 1979. 'Mixing Qualitative and Quantitative Methods: Triangulation in Action'. *Administrative Science Quarterly* 24 (4): 602–611.
- Johnson, J. M. 2002. 'In-Depth Interviewing'. In *Handbook of Interview Research: Context and Method*, edited by J. Gubrium and J. Holstein, 103–119. Thousand Oaks, CA: Sage Publications.
- Johnson, R. B. and A. J. Onwuegbuzie. 2004. 'Mixed Methods Research: A Research Paradigm Whose Time Has Come'. *Educational Researcher* 33 (7): 14–26. doi: 10.3102/0013189X033007014.
- Johnson, R., Anthony Onwuegbuzie and Lisa Turner. 2007. 'Toward a Definition of Mixed Methods Research'. *Journal of Mixed Methods Research* 1 (2): 112–133. doi: 10.1177/1558689806298224.
- Kahneman, Daniel and Amos Tversky. 1979. 'Prospect Theory: An Analysis of Decision under Risk'. *Econometrica* 47 (2): 263–291.
- Kastlunger, Barbara, Stefan G. Dressler, Erich Kirchler, Luigi Mittone and Martin Voracek. 2010. 'Sex Differences in Tax Compliance: Differentiating between Demographic Sex, Gender-Role Orientation, and Prenatal Masculinization (2d:4d)'. *Journal of Economic Psychology* 31 (4): 542–552. doi: <http://dx.doi.org/10.1016/j.joep.2010.03.015>.
- Kelley, Harold H. 1973. 'The Process of Causal Attribution'. *American Psychologist* 28 (2): 107–128.
- Keser, Claudia and Frans van Winden. 2000. 'Conditional Cooperation and Voluntary Contributions to Public Goods'. *Scandinavian Journal of Economics* 102 (1): 23–39.
- Kidder, Robert and Craig McEwen. 1989. 'Taxpaying Behavior in Social Context: A Tentative Typology of Tax Compliance and Noncompliance'. In *Taxpayer Compliance: Social Science Perspectives*, edited by J. A. Roth and J. T. Scholz. Philadelphia: University of Pennsylvania Press.
- Kirchler, Erich. 2007. *The Economic Psychology of Tax Behaviour*. Cambridge University Press.

- Kirchler, Erich, Erik Hoelzl and Ingrid Wahl. 2008. 'Enforced Versus Voluntary Tax Compliance: The "Slippery Slope" Framework'. *Journal of Economic Psychology* 29 (2): 210–225. doi: <http://dx.doi.org/10.1016/j.joep.2007.05.004>.
- Kirchler, Erich, Christoph Kogler and Stephan Muehlbacher. 2014. 'Cooperative Tax Compliance'. *Current Directions in Psychological Science* 23 (2): 87–92. doi: 10.1177/0963721413516975.
- Kirchler, Erich and Ingrid Wahl. 2010. 'Tax Compliance Inventory Tax-I: Designing an Inventory for Surveys of Tax Compliance'. *Journal of Economic Psychology* 31 (3): 331–346. doi: <http://dx.doi.org/10.1016/j.joep.2010.01.002>.
- Kolm, Serge-Christophe. 1973. 'A Note on Optimum Tax Evasion'. *Journal of Public Economics* 2 (3): 265–270. doi: [http://dx.doi.org/10.1016/0047-2727\(73\)90018-2](http://dx.doi.org/10.1016/0047-2727(73)90018-2).
- Komara, Ahmad. 2012. *Cara Mudah Memahami Ketentuan Umum Dan Tata Cara Perpajakan (Easy Method to Understand General Provision and Tax Procedures Law)*. Jakarta: Bee Media – MUC Consulting Group.
- Kornhauser, Marjorie E. 2007. 'A Tax Morale Approach to Compliance: Recommendations for the IRS'. *Florida Tax Review* 8 (6): 599–640.
- Kucher, Marcel and Lorenz Götte. 1998. 'Trust Me: An Empirical Analysis of Taxpayer Honesty'. *Finanzarchiv* 55: 429–444.
- Kumar, Ranjit. 2005. *Research Methodology: A Step-by-Step Guide for Beginners*. 2nd ed. Frenchs Forest, NSW: Pearson Longman.
- Kusniawan, Teten. 2015. Ini Penyebab Pengumpulan Dana Zakat Masih Rendah (This Is Why Zakat Collection Is Still Low). Accessed 18 September 2016. doi: <http://industri.bisnis.com/read/20150630/12/448776/ini-penyebab-pengumpulan-dana-zakat-masih-rendah>.
- Lago-Peñas, Ignacio and Santiago Lago-Peñas. 2010. 'The Determinants of Tax Morale in Comparative Perspective: Evidence from European Countries'. *European Journal of Political Economy* 26 (4): 441–453. doi: <http://dx.doi.org/10.1016/j.ejpoleco.2010.06.003>.
- Lamb, Margaret. 2005. *Taxation: An Interdisciplinary Approach to Research*. Edited by Margaret Lamb. Oxford: Oxford University Press.
- Langham, Jo'Anne, Neil Paulsen and Charmine E. J. Hartel. 2012. 'Improving Tax Compliance Strategies: Can the Theory of Planned Behaviour Predict Business Compliance?' *eJournal of Tax Research* 10 (2): 364–402.
- Lasser, J. K. 1944. 'Taxpayer Morale'. *The Journal of Accountancy* 78: 44.
- Latinobarómetro. 2017. 'Latinobarómetro. Opinión Pública Latinoamericana'. Accessed 12 February 2017. Doi: <http://www.latinobarometro.org/lat.jsp>
- Leech, Nancy L., Amy B. Dellinger, Kim B. Brannagan and Hideyuki Tanaka. 2010. 'Evaluating Mixed Research Studies: A Mixed Methods Approach'. *Journal of Mixed Methods Research* 4 (1): 17–31. doi: 10.1177/1558689809345262.

- Leonardo, Gabriel. 2011. 'Politics and Tax Morale: The Role of Trust, Values, and Beliefs in Shaping Individual Attitudes Towards Tax Compliance'. Edited by Jorge Martinez-Vazquez. Ann Arbor: UMI Dissertations Publishing.
- Lewis, Alan. 1982. *The Psychology of Taxation*. Oxford: Martin Robertson.
- Li, Sherry Xin. 2010. 'Social Identities, Ethnic Diversity, and Tax Morale'. *Public Finance Review* 38 (2): 146–177.
- Lincoln, Yvonna S. and Egon G. Guba. 1985. *Naturalistic Inquiry*. Edited by Egon G. Guba. Thousand Oaks: Sage Publications.
- Local Government Autonomy Implementation Supervisory Committee 2016. Daftar Provinsi, Kabupaten & Kota di Indonesia Mei 2013 (List of Provinces, Municipalities & Cities in Indonesia Mei 2013). Accessed on 10 October 2016. Doi: <https://www.kppod.org/datapdf/daerah/daerah-indonesia-2013.pdf>
- Locke, Lawrence F., Waneen Wyrick Spirduso and Stephen J. Silverman. 1987. *Proposals That Work: A Guide for Planning Dissertations and Grant Proposals*. Edited by Waneen Wyrick Spirduso and Stephen J. Silverman. 2nd ed. Thousand Oaks, CA: Sage Publications.
- Loo, Ern Chen and Juan Keng Ho. 2005. 'Competency of Malaysian Salaried Individuals in Relation to Tax Compliance under Self Assessment'. *eJournal of Tax Research* 3 (1): 47–64.
- Lubian, Diego and Luca Zarri. 2011. Happiness and Tax Morale: An Empirical Analysis. *Journal of Economic Behavior & Organization* 80: 223–243.
- Luttmer, Erzo F. P. and Monica Singhal. 2014. 'Tax Morale'. *Journal of Economic Perspectives* 28 (4): 149–168. doi: 0.1257/jep.28.4.149.
- Madey, Doren L. 1982. 'Some Benefits of Integrating Qualitative and Quantitative Methods in Program Evaluation, with Illustrations'. *Educational Evaluation and Policy Analysis* 4 (2): 223–236.
- Malina, M. A., H. S. O. Nreklit and F. H. Selto. 2011. 'Lessons Learned: Advantages and Disadvantages of Mixed Method Research'. *Qualitative Research in Accounting and Management* 8 (1): 59–71. doi: 10.1108/11766091111124702.
- María-Dolores, Ramón, Gloria Alarcón and María Encarnación Garre. 2010. 'Tax Morale in Spain: A Study into Some of Its Principal Determinants'. *Journal of Economic Issues* XLIV (4): 855–876.
- Martin, Robin and Miles Hewstone. 2003. 'Social-Influence Process of Control and Change: Conformity, Obedience to Authority, and Innovation'. In *The Sage Handbook of Social Psychology*, edited by Michael A. Hogg and Joel Cooper, 347–366. London: Sage Publications.
- Marvasti, A. 2010. Interviews and Interviewing. *International Encyclopedia of Education*. London: Elsevier Science: 424–429.
- Mason, Robert and Lyle D. Calvin. 1984. 'Public Confidence and Admitted Tax Evasion'. *National Tax Journal* 37 (4): 489–496.

- McKerchar, Margaret. 2003. 'The Impact of Complexity Upon Tax Compliance: A Study of Australian Personal Taxpayers'. Australian Tax Report Foundation Research Studies 39. Sydney, N.S.W.
- . 2010. *Design and Conduct of Research in Tax, Law and Accounting*. : Pyrmont, N.S.W. Lawbook Co.
- McKerchar, Margaret, Kim Bloomquist and Jeff Pope. 2013. 'Indicators of Tax Morale: An Exploratory Study'. *eJournal of Tax Research* 11 (1): 5–22.
- McKerchar, Margaret and Chris Evans. 2009. 'Sustaining Growth in Developing Economies through Improved Taxpayer Compliance: Challenges for Policy Makers and Revenue Authorities'. *eJournal of Tax Research* 7 (2): 171–201.
- Minister of Finance. 2015. 'Organisasi Dan Tata Kerja Kementerian Keuangan' (Minister of Finance Regulation on the Structural Organisation and Procedures of the Ministry of Finance). Jakarta: Ministry of Finance.
- . 2016. 'Adjustment of Non-Taxable Income'. Jakarta: Ministry of Finance.
- Mohdali, Nor Raihana. 2013. 'The Influence of Religiosity on Tax Compliance in Malaysia' (PhD thesis, Curtin University).
- Moran-Ellis, J., V. D. Alexander, A. Cronin, M. Dickinson, J. Fielding, J. Slaney and H. Thomas. 2006. 'Triangulation and Integration: Processes, Claims and Implications'. *Qualitative Research* 6 (1): 45–59. doi: 10.1177/1468794106058870.
- Morelo, Juan Carlos and Francesc Pujol. 2012. 'Walking inside the Potential Tax Evader's Mind: Tax Morale Does Matter'. *Journal of Business Ethics* 105: 151–162.
- Morgan, David L. 2007. 'Paradigms Lost and Pragmatism Regained: Methodological Implications of Combining Qualitative and Quantitative Methods'. *Journal of Mixed Methods Research* 1 (1): 48–76. doi: 10.1177/2345678906292462.
- Murphy, Kristina. 2008. 'Enforcing Tax Compliance: To Punish or Persuade?' *Economic Analysis & Policy* 38 (1): 113–135.
- Niemirowski, Pauline, Steve Baldwin and Alex Wearing. 2000. 'Thirty Years of Tax Compliance Research: Of What Value Is It to the ATO?' In *Tax Administration in the 21st Century*, edited by Chris Evans and Michael Walpole. Sydney: Prospect Media.
- Niesiobedzka, Malgorzata. 2014. 'Relations between Procedural Fairness, Tax Morale, Institutional Trust and Tax Evasion'. *Journal of Social Research and Policy* 5 (1): 41–52.
- Nurmantu, Safri. 2005. *Pengantar Perpajakan*. Jakarta: Granit.
- OECD. 2013. 'What Drives Tax Morale?' *Working Paper No. 315*. Paris: OECD Publishing.
- Oemar, Moh, Sudarjo, Abu Suud, Hartono Kasmadi, Soewardi, Hargiono, Bedjoanggoro, Wiyono, Annito, Waritun Noto Widagdo, and A.T. Sugito.

1994. *Sejarah Daerah Jawa Tengah (History of Middle Java Region)*. Jakarta: Ministry of Education and Culture.
- Ohms, Chris, Karin Olesen and Natalie Khin-Carter. 2015. 'Taxpayer Compliance Models: A Literature Review and Critique'. *New Zealand Journal of Taxation Law and Policy* 21: 427–461.
- Onwuegbuzie, Anthony J., Rebecca M. Bustamante and Judith A. Nelson. 2010. 'Mixed Research as a Tool for Developing Quantitative Instruments'. *Journal of Mixed Methods Research* 4 (1): 56–78. doi: 10.1177/1558689809355805.
- Orviska, Marta and John Hudson. 2003. 'Tax Evasion, Civic Duty and the Law Abiding Citizen'. *European Journal of Political Economy* 19 (1): 83–102. doi: [http://dx.doi.org/10.1016/S0176-2680\(02\)00131-3](http://dx.doi.org/10.1016/S0176-2680(02)00131-3).
- Pakpahan, Robert. 2012. 'Tax Reform in Indonesia: Issues, Challenges and Solutions'. In *IMF-Japan High Level Tax Conference for Asian and Pacific Countries*. Tokyo: International Monetary Fund.
- Pandiangan, Liberti. 2008. *Modernisasi Dan Reformasi Pelayanan Perpajakan Berdasarkan Undang-Undang Terbaru*. Jakarta: PT Elex Media Komputindo.
- Patton, Michael Quinn. 1990. *Qualitative Evaluation and Research Methods*. 2nd ed. Newbury Park, CA: Sage Publications.
- Phillips, D. C. and Nicholas C. Burbules. 2000. *Postpositivism and Educational Research*. Edited by Nicholas C. Burbules. Lanham, MD: Rowman & Littlefield.
- Pohan, Chairil Anwar. 2014. *Pembahasan Komprehensif Pengantar Perpajakan – Teori Dan Konsep Hukum Pajak*. Jakarta: Mitra Wacana Media.
- Pommerehne, Werner and Hannelore Weck-Hannemann. 1996. 'Tax Rates, Tax Administration and Income Tax Evasion in Switzerland'. *Public Choice* 88 (1): 161–170. doi: 10.1007/BF00130416.
- Pope, Jeff. 2008. 'Small Business Taxation: An Evaluation of the Role of Special Treatment Policies'. *The Business Review* 10 (2): 14–20.
- Pope, Jeff and Margaret McKerchar. 2011. 'Understanding Tax Morale and Its Effect on Individual Taxpayer Compliance'. *British Tax Review* 5: 587–600.
- Pope, Jeff and Raihana Mohdali. 2010. 'The Role of Religiosity in Tax Morale and Tax Compliance'. *Australian Tax Forum* 25 (4): 565–596.
- Pope, Jeff and Hijattulah Abdul-Jabbar. 2008. 'Tax Compliance Costs of Small and Medium Enterprises in Malaysia: Policy Implications'. Working Paper. School of Economics & Finance, Curtin University of Technology, Perth, Western Australia.
- Preissle, Judith and Margaret Diane LeCompte. 1984. *Ethnography and Qualitative Design in Educational Research*. Edited by Margaret Diane LeCompte. Orlando: Academic Press.
- President of the Republic of Indonesia. 2013. 'Tax on Income Received or Earned by Taxpayer with a Certain Sales Threshold'. In 46, edited by The

- Government of the Republic of Indonesia. Jakarta: The Government of the Republic of Indonesia.
- . 2016. 'Tax on Income from the Transfer of Right of Land and/or Building, and Contract of Selling and Purchasing of Land and/or Building with Its Amendment'. In 34, edited by The Government of the Republic of Indonesia. Jakarta: The Government of the Republic of Indonesia.
- Priantara, Diaz and Bambang Suproyadi. 2011. 'Faktor-Faktor Yang Mempengaruhi Pengusaha Kecil Dan Mikro Mendaftar Menjadi Wajib Pajak Orang Pribadi'. *Jurnal Akuntansi dan Keuangan* 13 (2): 98.
- Prinz, Aloys, Stephan Muehlbacher and Erich Kirchler. 2014. 'The Slippery Slope Framework on Tax Compliance: An Attempt to Formalization'. *Journal of Economic Psychology* 40: 20–34.
- Punch, Keith F. 2005. *Introduction to Social Research: Quantitative and Qualitative Approaches*. 2nd ed. Thousand Oaks, CA: Sage Publications.
- Rea, Louis M., and Richard A. Parker. 2005. *Designing & Conducting Survey Research A Comprehensive Guide*. San Fransisco: Jossey-Bass.
- Reckers, Philip M. J., Debra L. Sanders and Stephen J. Roark. 1994. 'The Influence of Ethical Attitude on Taxpayer Compliance'. *National Tax Journal* 47 (4): 825–836.
- Reithel, Scott M., Boris B. Baltes and Swati Buddhavarapu. 2007. 'Cultural Differences in Distributive and Procedural Justice: Does a Two-Factor Model Fit for Hong Kong Employees?' *International Journal of Cross Cultural Management* 7 (1): 61–76.
- Republic of Indonesia. 1994. 'Amendment of Law Number 12 on Land and Building Tax'. Jakarta: Republic of Indonesia.
- . 2007. 'Law on General Provisions and Tax Procedures'. Jakarta: Republic of Indonesia.
- . 2008. 'Income Tax Law'. Jakarta: Republic of Indonesia.
- . 2009a. 'Freedom to Convey Opinion in Public'. Jakarta: Republic of Indonesia.
- . 2009b. 'Law on Value-Added Tax and Sales Tax on Luxurious Goods'. Jakarta: Republic of Indonesia.
- . 2016. *Nota Keuangan Beserta Rancangan Anggaran Pendapatan Dan Belanja Negara Tahun Anggaran 2016 (Fiscal Note with the Draft of National Revenue and Expenditure Budget 2016)*. Vol. II. Jakarta: Republic of Indonesia.
- Riahi-Belkaoui, Ahmed. 2004. 'Relationship between Tax Compliance Internationally and Selected Determinants of Tax Morale'. *Journal of International Accounting, Auditing and Taxation* 13 (2): 135–143. doi: <http://dx.doi.org/10.1016/j.intaccudtax.2004.09.001>.

- Richardson, Grant. 2005. 'A Preliminary Study of the Impact of Tax Fairness Perception Dimensions on Tax Compliance Behavior in Australia'. *Australian Tax Forum* 20 (3): 407–434.
- . 2006. 'Determinants of Tax Evasion: A Cross-Country Investigation'. *Journal of International Accounting, Auditing and Taxation* 15 (2): 150–169. doi: <http://dx.doi.org/10.1016/j.intaccaudtax.2006.08.005>.
- Ricklefs, M. C. 1993. *A History of Modern Indonesia since C. 1300*. 2nd ed. Houndmills, Basingstoke, Hampshire: Macmillan.
- Rizal, Yond. 2011. 'Lessons from Indonesian Tax Administration Reform Phase 1 (2001): Does Good Governance Matter?' In *Limits of Good Governance in Developing Countries*, edited by Hirotsune Kimura, Suharko, Aser B. Javier and Ake Tangsupvattana, 414–462. Yogyakarta: Gadjah Mada University Press.
- Roberts, Maxwell J. and Riccardo Russo. 1999. *A Student's Guide to Analysis of Variance*. London: Routledge.
- Rosid, Arifin, Chris Evans and Binh Tran-Nam. 2016. 'Do Perceptions of Corruption Influence Personal Income Taxpayer Reporting Behaviour? Evidence from Indonesia'. *eJournal of Tax Research* 14 (2): 1–35.
- Rossmann, G. B. and B. L. Wilson. 1985. 'Numbers and Words: Combining Quantitative and Qualitative Methods in a Single Large-Scale Evaluation Study'. *Evaluation Review* 9 (5): 627–643. doi: 10.1177/0193841X8500900505.
- Roth, J. A., J. T. Scholz and A. D. Witte. 1989. *Taxpayer Compliance, Volume 1: An Agenda for Research*. Philadelphia: University of Pennsylvania Press.
- Russo, Francesco Flaviano. 2013. 'Tax Morale and Tax Evasion Reports'. *Economics Letters* 121 (1): 110–114. doi: 10.1016/j.econlet.2013.07.004.
- Samudra, Azhari Aziz. 2015. *Perpajakan Di Indonesia – Keuangan, Pajak Dan Retribusi Daerah (Taxation in Indonesia – Finance, Tax and Regional Retribution)*. Jakarta: Rajawali Press.
- Samuelson, Paul A. and William D. Nordhaus. 2005. *Economics*. Eighteen Edition. New York: McGraw Hill.
- Sapsford, R. J. 2006. *Survey Research*. London: Sage Publications.
- Sawyer, Adrian. 1996. 'Blurring the Distinction between Avoidance and Evasion – The Abusive Tax Position'. *British Tax Review* (5): 483–504.
- Schmolder, Gunter. 1970. 'Survey Research in Public Finance – A Behavioural Approach to Fiscal Theory'. *Public Finance Review* 25 (2): 300–306.
- Schwartz, Richard D. and Sonya Orleans. 1967. 'On Legal Sanctions'. *The University of Chicago Law Review* 34 (2): 274–300. doi: 10.2307/1598934.
- Schweitzer, Maurice and Donald Gibson. 2008. 'Fairness, Feelings, and Ethical Decision-Making: Consequences of Violating Community Standards of

- Fairness'. *Journal of Business Ethics* 77 (3): 287–301. doi: 10.1007/s10551-007-9350-3.
- Scotchmer, Suzanne and Joel Slemrod. 1989. 'Randomness in Tax Evasion'. *Journal of Public Economics* 38: 17–32.
- Sears, David O., Letitia Anne Peplau, Jonathan L Freedman and Shelley E. Taylor. 1988. *Social Psychology*. 6th ed. New Jersey: Prentice-Hall.
- Shome, Parthasarathi. 2004. 'Tax Administration and the Small Taxpayer'. *IMF Policy Discussion Paper 04/2*. Washington, DC: IMF.
- Siahaan, Fajar O. P. 2012. 'The Influence of Tax Fairness and Communication on Voluntary Compliance: Trust as an Intervening Variable'. *International Journal of Business and Social Science* 3 (21): 191–198.
- Siahaan, Marihot Pahala. 2010. *Hukum Pajak Elementer – Konsep Dasar Perpajakan Indonesia (Elementary Tax Law – the Basic Concept of Taxation in Indonesia)*. Yogyakarta: Graha Ilmu.
- Sieber, Sam D. 1973. 'The Integration of Fieldwork and Survey Methods'. *American Journal of Sociology* 78 (6): 1335–1359. doi: 10.1086/225467.
- Silver, B. D. and K. M. Dowley. 2000. 'Measuring Political Culture in Multiethnic Societies: Reaggregating the World Values Survey'. *Comparative Political Studies* 33 (4): 517–550.
- Slemrod, Joel. 1992. 'Why People Pay Taxes: Introduction'. In *Why People Pay Taxes*, edited by Joel Slemrod, 1–8. Ann Arbor: University of Michigan Press.
- . 2007. 'Cheating Ourselves: The Economics of Tax Evasion'. *Journal of Economic Perspectives* 21 (1): 25–48.
- Smith, Kent W. and Karyl A. Kinsey. 1987. 'Understanding Taxpaying Behaviour: A Conceptual Framework with Implications for Research'. *Law and Society Review* 21 (4): 639–663.
- Song, Young-Dahl and Tinsley Yarbrough. 1978. 'Tax Ethics and Taxpayer Attitudes: A Survey'. *Public Administration Review* 38 (5): 442.
- Spicer, Michael W. and Lee A. Becker. 1980. 'Fiscal Inequity and Tax Evasion: An Experimental Approach'. *National Tax Journal* 33: 171–175.
- Spicer, Michael W. and J. Everett Thomas. 1982. 'Audit Probabilities and the Tax Evasion Decision: An Experimental Approach'. *Journal of Economic Psychology* 2 (3): 241–245. doi: [http://dx.doi.org/10.1016/0167-4870\(82\)90006-X](http://dx.doi.org/10.1016/0167-4870(82)90006-X).
- Srinivasan, T. N. 1972. 'Tax Evasion: A Model'. *Journal of Public Economics* 2: 339–346.
- Stiglitz, Joseph E. 2000. *Economics of the Public Sector*. Third Edition. New York: W.W. Norton & Company.

- Strumpel, B. 1969. 'The Contribution of Survey Research to Public Finance'. In *Quantitative Analysis in Public Finance*, edited by A. T. Preacock, 14–32. New York: Praeger.
- Sudibyo, Bambang. 2016. 'Zakat Di Indonesia Antara Potensi Dan Realisasi (Zakat in Indonesia between Potential and Realisation)'. Accessed 18 September 2016. Doi: <http://ramadhan.antaranews.com/berita/570966/zakat-di-indonesia-antara-potensi-dan-realisasi>.
- Supriyadi, Bambang and Diaz Priantara. 2011. 'Faktor-Faktor Yang Mempengaruhi Pengusaha Kecil Dan Mikro Mendaftar Menjadi Wajib Pajak Orang Pribadi (Factors Which Influence Micro and Small Business Owners to Register as Individual Taxpayers)'. *Jurnal Akuntansi dan Keuangan* 13 (2): 98–108.
- Susila, Budi. 2014. 'The Compliance Costs of Large Corporate Taxpayers in Indonesia' (PhD thesis, Curtin University).
- Susila, Budi and Jeff Pope. 2012. 'The Tax Compliance Costs of Large Corporate Taxpayers in Indonesia'. *Australian Tax Forum* 27 (4): 719–772.
- Tabachnick, Barbara G. and Linda S. Fidell. 2013. *Using Multivariate Statistics*. 6th ed. Boston: Pearson Education.
- Tan, Lin Mei and Carrol Chin-Fat. 2000. 'The Impact of Tax Knowledge on the Perceptions of Tax Fairness and Attitudes Towards Compliance'. *Asian Review of Accounting* 8 (1): 44–58.
- Tashakkori, Abbas and Charles Teddlie. 1998. *Mixed Methodology Combining Qualitative and Quantitative Approaches*. Vol. 46, *Applied Social Research Methods Series*. Thousand Oaks: Sage Publications
- Tekeli, Recep. 2011. *The Determinants of Tax Morale: The Effects of Cultural Differences and Politics*. Tokyo: Research Department Policy Research Institute, Japan Ministry of Finance.
- Thibaut, John, Nehemia Friedland and Laurens Walker. 1974. 'Compliance with Rules: Some Social Determinants'. *Journal of Personality and Social Psychology* 30 (6): 792–801.
- Torgler, Benno. 2003. 'Tax Morale, Rule-Governed Behaviour and Trust'. *Constitutional Political Economy* 14 (2): 119–140.
- . 2004a. 'Cross-Culture Comparison of Tax Morale and Tax Compliance: Evidence from Costa Rica and Switzerland'. *International Journal of Comparative Sociology* 45 (1/2): 17.
- . 2004b. 'Tax Morale in Asian Countries'. *Journal of Asian Economics* 15: 237–266.
- . 2005a. 'Tax Morale and Direct Democracy'. *European Journal of Political Economy* 21 (2): 525–531. doi: <http://dx.doi.org/10.1016/j.ejpoleco.2004.08.002>.
- . 2005b. 'Tax Morale in Latin America'. *Public Choice* 122 (1/2): 133–157.
- . 2007. *Tax Compliance and Tax Morale*. Cheltenham: Edward Elgar.

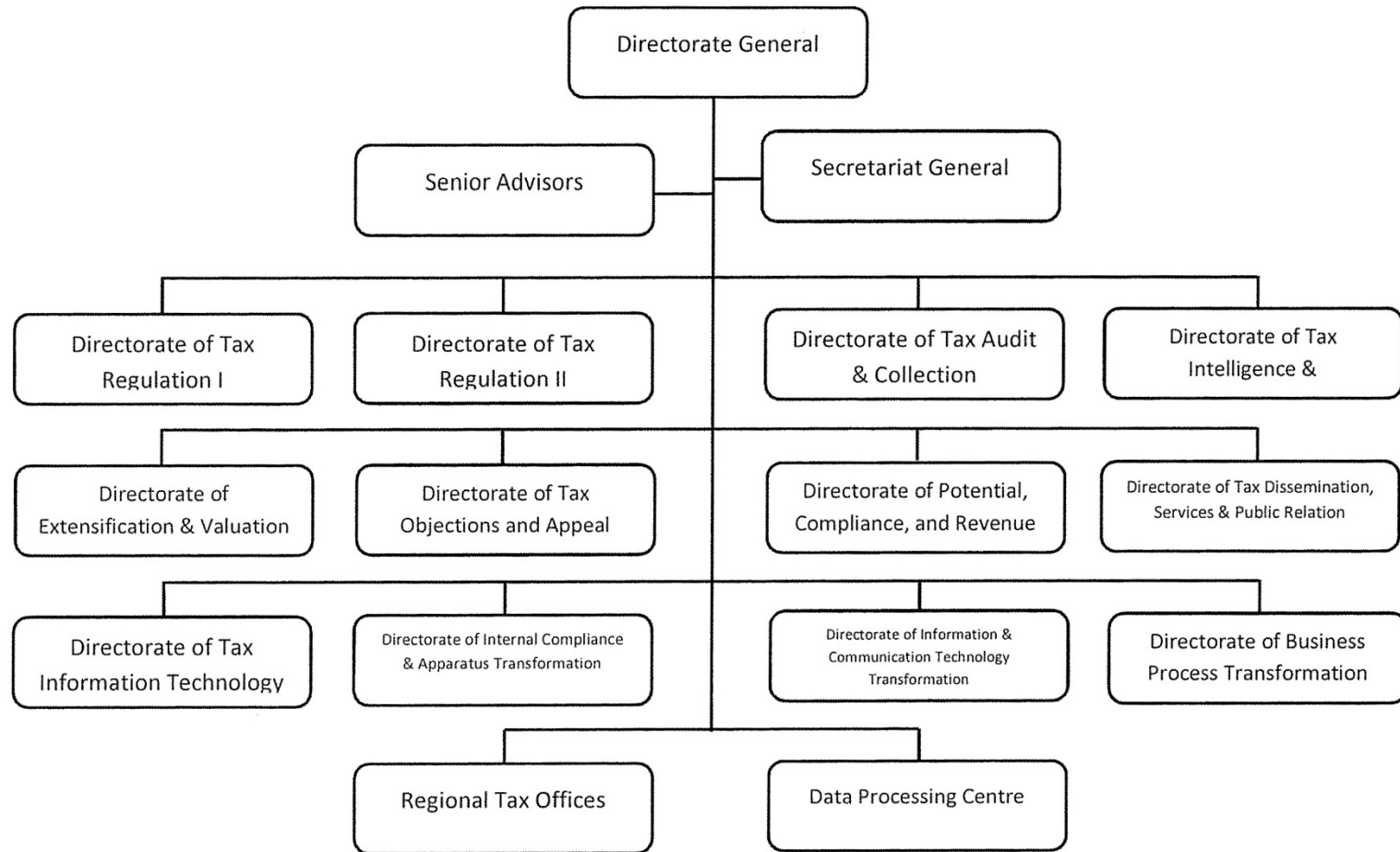
- . 2012. 'Tax Morale, Eastern Europe and European Enlargement'. *Communist and Post-Communist Studies* 45 (1–2): 11–25. doi: <http://dx.doi.org/10.1016/j.postcomstud.2012.02.005>.
- Torgler, Benno, Ihsan C. Demir, Alison Macintyre and Markus Schaffner. 2008. 'Causes and Consequences of Tax Morale: An Empirical Investigation'. *Economic Analysis and Policy* 38 (2): 313–339.
- Torgler, Benno and Kristina Murphy. 2004. 'Tax Morale in Australia: What Shapes It and Has It Changed over Time?' *Journal of Australian Taxation* 7 (2): 298–335.
- Torgler, Benno and Friedrich Schneider. 2005. 'Attitudes Towards Paying Taxes in Austria: An Empirical Analysis'. *Empirica* 32 (2): 231–250.
- . 2007. 'What Shapes Attitudes toward Paying Taxes? Evidence from Multicultural European Countries'. *Social Science Quarterly* 88 (2): 443–470.
- . 2009. 'The Impact of Tax Morale and Institutional Quality on the Shadow Economy'. *Journal of Economic Psychology* 30 (2): 228–245. doi: <http://dx.doi.org/10.1016/j.joep.2008.08.004>.
- Torgler, Benno and Neven T. Valev. 2010. 'Gender and Public Attitudes toward Corruption and Tax Evasion'. *Contemporary Economic Policy* 28 (4): 554–568.
- Tran-Nam, Binh and John Glover. 2002. 'Estimating the Transitional Compliance Costs of the GST in Australia: A Case Study Approach'. *Australian Tax Forum* 17 (4): 499–536.
- Uppal, J. S. 2000. *Taxation in Indonesia*. 2nd ed. Yogyakarta: Gadjah Mada University Press.
- Vickers, Adrian. 2005. *A History of Modern Indonesia*. Cambridge: Cambridge University Press.
- Wärneryd, Karl-Erik and Bengt Walerud. 1982. 'Taxes and Economic Behavior: Some Interview Data on Tax Evasion in Sweden'. *Journal of Economic Psychology* 2 (3): 187–211. doi: [10.1016/0167-4870\(82\)90003-4](https://doi.org/10.1016/0167-4870(82)90003-4).
- Webley, Paul. 1991. *Tax Evasion: An Experimental Approach*. Cambridge: Cambridge University Press.
- . 2004. 'Tax Compliance by Businesses'. In *New Perspectives on Economic Crime*, edited by H. Sjogren and G. Skogh, 95–126. Cheltenham: Edward Elgar Publishing.
- Weil, David N. 2009. *Economic Growth*. : Boston: Pearson Addison Wesley.
- Wenzel, Michael. 2002. 'The Impact of Outcome Orientation and Justice Concerns on Tax Compliance: The Role of Taxpayers' Identity'. *Journal of Applied Psychology* 87 (4): 629–645.
- . 2005. 'Motivation or Rationalisation? Causal Relations between Ethics, Norms and Tax Compliance'. *Journal of Economic Psychology* 26 (4): 491–508. doi: <http://dx.doi.org/10.1016/j.joep.2004.03.003>.

- Widodo, Widi, Deddy Djefris and Eka Aryani Wardhani. 2010. *Moralitas, Budaya Dan Kepatuhan Pajak*. Bandung: Alfabeta.
- Wihantoro, Yulian, Alan Lowe, Stuart Cooper and Melina Manochin. 2015. 'Bureaucratic Reform in Post-Asian Crisis Indonesia: The Directorate General of Tax'. *Critical Perspectives on Accounting* 31: 44–63.
- World Bank. 2005. *Indonesia: A Second Generation of Reforms*. Washington DC: World Bank.
- . 2016. 'Tax Revenue (% of GDP)'. Accessed 28 October 2016. Doi: <http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS>
- World Values Survey. 2013. 'World Values Survey'. Accessed 20 April 2013. Doi: http://www.worldvaluessurvey.org/index_surveys.
- Yitzhaki, Shlomo. 1974. 'A Note on Income Tax Evasion: A Theoretical Analysis'. *Journal of Public Economics* 3: 201–202.

Every reasonable effort has been made to acknowledge the owners of copyright material. I would be pleased to hear from any copyright owner who has been omitted or incorrectly acknowledged.

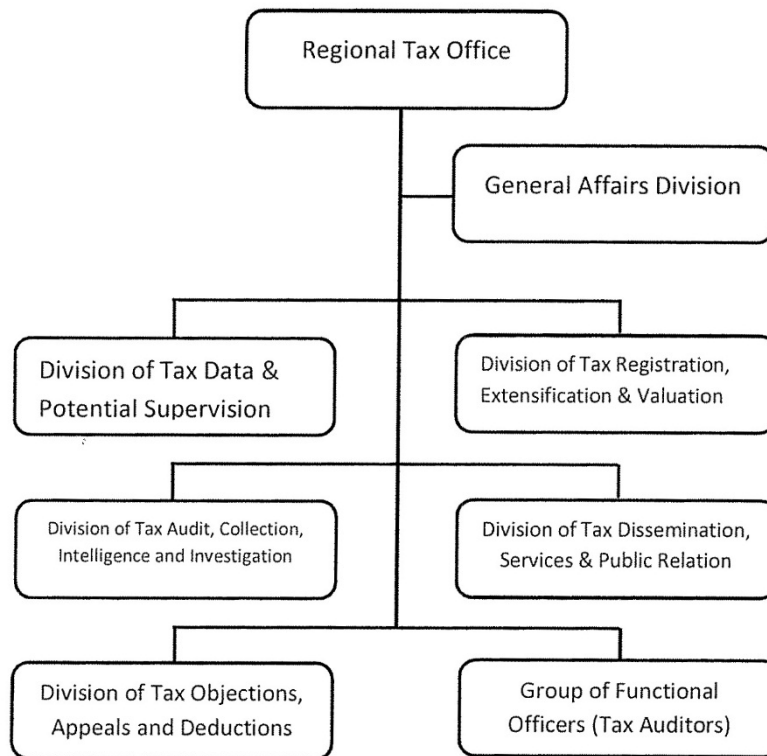
APPENDICES

Appendix A: Organisational Structure of the DGT: Headquarter



Source: Directorate General of Taxes (2015), p148-149

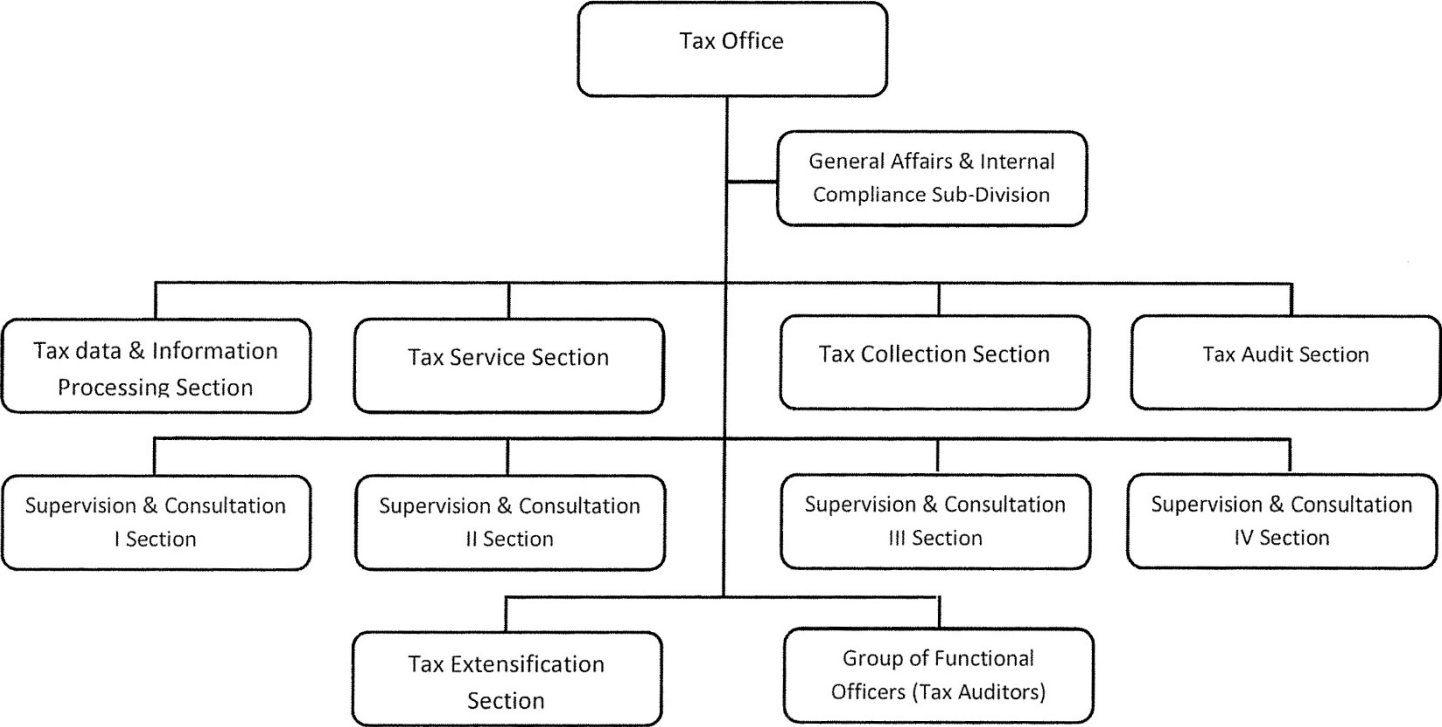
Appendix B: Organisational Structure of the DGT: Regional Tax Office



Source: Directorate General of Taxes (2015), p151

Appendix C: Organisational Structure of the DGT: Tax Office

ORGANISATIONAL STRUCTURE OF DIRECTORATE GENERAL OF TAXES
TAX OFFICE



Source: Directorate General of Taxes (2015), p152-153

Appendix D: Ethics Approval



Memorandum

To	Professor Jeffrey Pope, Curtin Business School / Economics and Finance
From	Professor Stephan Millett, Chair Human Research Ethics Committee
Subject	Protocol Approval RD-35-13
Date	2 October 2013
Copy	Gorga Parlaungan

Office of Research and Development
Human Research Ethics Committee

TELEPHONE 9266 2784
FACSIMILE 9266 3793
EMAIL hrec@curtin.edu.au

Thank you for your "Form C Application for Approval of Research with Low Risk (Ethical Requirements)" for the project titled "*The Tax Morale of the Individual Taxpayers in Indonesia*". On behalf of the Human Research Ethics Committee I am authorised to inform you that the project is approved.

Approval of this project is for a period of four years **08-10-13 to 08-10-17**.

The approval number for your project is **RD-35-13**. Please quote this number in any future correspondence.

Your approval has the following conditions:

- i) Annual progress reports on the project must be submitted to the Ethics Office.
- ii) It is your responsibility, as the researcher, to meet the conditions outlined above and to retain the necessary records demonstrating that these have been completed.

Applicants should note the following:

It is the policy of the HREC to conduct random audits on a percentage of approved projects. These audits may be conducted at any time after the project starts. In cases where the HREC considers that there may be a risk of adverse events, or where participants may be especially vulnerable, the HREC may request the chief investigator to provide an outcomes report, including information on follow-up of participants.

The attached Progress Report should be completed and returned to the Secretary, HREC, C/- Office of Research & Development annually.

Our website https://research.curtin.edu.au/guides/ethics/low_risk_hrec_forms.cfm contains all other relevant forms including:

- Completion Report (to be completed when a project has ceased)
- Amendment Request (to be completed at any time changes/amendments occur)
- Adverse Event Notification Form (if a serious or unexpected adverse event occurs)

Yours sincerely

Professor Stephan Millett
Chair Human Research Ethics Committee

Please Note: The following standard statement must be included in the information sheet to participants:
This study has been approved under Curtin University's process for low-risk Studies (Approval Number RD-35-13). This process complies with the National Statement on Ethical Conduct in Human Research (paragraph 5.1.7 and paragraphs 5.1.18-5.1.21). For further information on this study contact the researchers named above or the Curtin University Human Research Ethics Committee. c/- Office of Research and Development, Curtin University, GPO Box U1987, Perth 6845 or by telephoning 9266 9223 or by emailing hrec@curtin.edu.au.

CRICOS Provider Code 00301J

Appendix E: Ethics Revision Approval



Office of Research and Development
Human Research Ethics Committee

Telephone 9266 2784
Facsimile 9266 3793
Email hrec@curtin.edu.au
Web <http://research.curtin.edu.au/guides/>

Memorandum

To	Gorga Parlaungan, Curtin Business School / Economics and Finance
From	Professor Peter O'Leary, Chair Human Research Ethics Committee
Subject	RD-35-13 Protocol Amendment Approval
Date	28 April 2014
Copy	Professor Dale Pinto, Curtin Law School Dr Prafula Pearce, Curtin Law School

Thank you for keeping us informed of the progress of your research. The Human Research Ethics Committee acknowledges receipt of your progress report, indicating modifications / changes, for the project "The Tax Morale of the Individual Taxpayers in Indonesia". Your application has been **approved**.

The Committee notes the following amendments have been approved:

1. To update the research team as follows: Gorga Parlaungan (Investigator), Professor Dale Pinto (Supervisor) and Dr Prafula Pearce (Co-Supervisor).
2. To change the data collection method from mail survey and focus group discussion to the combination of self-administered survey, structured interview, interview and focus group discussion.

Approval for this project remains until **08-October-2017**.

Your approval number remains **RD-35-13**, please quote this number in any further correspondence regarding this project.

Yours sincerely,

Professor Peter O'Leary
Chair Human Research Ethics Committee

Appendix F: Survey Respondent Information Sheet (Indonesian Language)



CURTIN BUSINESS SCHOOL
GPO Box U1987 Perth, Western Australia 6845
Phone: +61 8 9266 7796 or +61 8 9266 7756
Fax No: +61 8 9266 3026

KUESIONER SURVEY TAX MORALE WAJIB PAJAK ORANG PRIBADI DI INDONESIA

Juni 2014

Yth. Bapak/Ibu
Di Tempat

Dengan hormat,

Perkenalkan nama saya Gorga Parlaungan, mahasiswa program Doktor di Curtin University, Perth, Australia. Saat ini saya sedang melakukan penelitian tentang *Tax Morale* Wajib Pajak Orang Pribadi di Indonesia. Tujuan dari penelitian ini adalah untuk mengetahui tingkat *Tax Morale* Wajib Pajak Orang Pribadi di Indonesia dan hubungannya dengan kepatuhan perpajakan mereka. *Tax Morale* diartikan sebagai "motivasi intrinsik untuk membayar pajak".

Dengan ini saya mohon kesediaan Bapak/Ibu untuk mengisi kuesioner survey terlampir. Survey ini dilakukan semata-mata untuk kepentingan penelitian akademis dan tidak berhubungan dengan lembaga manapun. Survey ini hanya meminta pendapat dan persepsi Bapak/Ibu tentang pajak dan hal-lain lain yang berkaitan, bukan untuk menguji pengetahuan Bapak/Ibu tentang perpajakan.

Bapak/Ibu tidak perlu mencantumkan nama pada kuesioner ini. Juga perlu disampaikan bahwa seluruh jawaban responden dalam penelitian ini bersifat rahasia. Data dan informasi yang diperoleh disini hanya dapat diakses oleh peneliti, dan akan disimpan di Curtin University selama 5 tahun dan akan dihancurkan setelahnya.

Mengisi kuesioner ini hanya memerlukan waktu sekitar 10 (sepuluh) menit. Namun demikian, jawaban Bapak/Ibu akan menjadi sumbangan yang besar untuk dunia penelitian dan menjadi masukan yang berharga bagi pemerintah.

Apabila ada hal-hal yang ingin ditanyakan tentang penelitian atau survey ini, Bapak/Ibu dapat menghubungi saya melalui email gorga.parlaungan@postgrad.curtin.edu.au, atau melalui nomor telpon +62 812-860-89810 (Indonesia) atau +61 420511973 (Australia).

Penelitian ini telah disetujui oleh Curtin University Human Research Ethics Committee (nomor persetujuan RD-35-13). Anggota Komite ini terdiri dari anggota masyarakat, akademisi, pengacara, dokter, dan pengurus keagamaan. Jika diperlukan, verifikasi atas persetujuan dapat diperoleh melalui surat yang dialamatkan kepada: Curtin University Human Research Ethics Committee, d/a Office of Research and Development, Curtin University, GPO Box U1987, Perth, 6845 atau melalui telepon +61 8 9266 2784 atau mengirim email ke alamat hrec@curtin.edu.au.

Terimakasih atas keikutsertaan Bapak/Ibu dalam survey ini.

Gorga Parlaungan
Mahasiswa Program Doktor
Curtin Business School
Curtin University
Perth, Western Australia

Appendix G: Survey Questionnaire (Indonesian Language)



KUESIONER SURVEY TAX MORALE WAJIB PAJAK PRIBADI DI INDONESIA

Mohon menjawab pertanyaan dalam kuesioner ini dengan cara mencontreng (v) kotak () yang paling sesuai.

I. Informasi Pribadi

1. Jenis Kelamin:
 - Pria
 - Wanita
2. Kota tempat tinggal saat ini:
 - Jakarta
 - Surabaya
 - Medan
 - Lainnya (mohon sebutkan)
3. Umur:
 - Dibawah 30 tahun
 - 30 – 49 tahun
 - 50 – 64 tahun
 - 65 tahun keatas
4. Pendidikan Formal Terakhir:
 - Sekolah Dasar atau sederajat
 - Sekolah Lanjutan Tingkat Pertama (SLTP) atau sederajat
 - Sekolah Lanjutan Tingkat Atas (SLTA) atau sederajat
 - Diploma (D1-D3) atau sederajat
 - Sarjana (S1)
 - Pasca Sarjana (Master/Doktor)
 - Lain-lain (mohon sebutkan)
5. Status perkawinan:
 - Belum / Tidak Menikah
 - Menikah
6. Agama:
 - Islam
 - Katolik
 - Protestan
 - Buddha
 - Hindu
 - Kong Hu Cu
 - Lain-lain (mohon sebutkan)

7. Jumlah anggota keluarga yang menjadi tanggungan saat ini:
- Tidak ada
 - 1 s.d. 2 orang
 - 3 s.d. 5 orang
 - Lebih dari 5 orang
8. Status pekerjaan (berdasarkan sumber penghasilan utama / penghasilan terbesar):
- Usaha Sendiri/Pemilik Usaha
 - Karyawan Swasta
 - Karyawan BUMN
 - Pegawai Negeri Sipil/Anggota TNI / POLRI
 - Profesional (praktek dokter, pengacara, peneliti, dan lain sebagainya)
 - Lain-lain (mohon sebutkan)
9. Dalam masa sekitar 1 tahun terakhir, pernahkah anda merasa mengalami kesulitan keuangan?
- Tidak pernah
 - Sesekali
 - Sering
 - Selalu

Beberapa pertanyaan berikut berkaitan dengan **Pajak Penghasilan (PPh)** dan **Surat Pemberitahuan Tahunan Pajak Penghasilan (SPT Tahunan PPh)**.

Sebagai pengingat, SPT Tahunan PPh adalah formulir yang diisi dengan penghasilan dan pajak penghasilan Wajib Pajak (WP) selama setahun beserta informasi terkait lainnya. SPT Tahunan PPh wajib disampaikan ke Kantor Pelayanan Pajak (KPP) oleh WP, untuk WP Orang Pribadi (WP OP) paling lambat tanggal 31 Maret setiap tahun untuk penghasilan dan PPh tahun sebelumnya.

10. Selama ini, apakah anda memperhitungkan pajak penghasilan dan menyiapkan SPT Tahunan PPh anda sendiri?
- Ya (*silahkan langsung ke pertanyaan nomor 12*)
 - Tidak, saya dibantu oleh orang/pihak lain
11. Jika pada pertanyaan angka 10 diatas anda menjawab "Tidak, saya dibantu oleh orang/pihak lain", siapakah orang/pihak yang biasanya membantu tersebut?
- Suami/istri/orangtua/anak atau saudara lainnya
 - Teman/teman sekerja/teman seprofesi
 - Perusahaan/tempat bekerja
 - Konsultan pajak
 - Otoritas Pajak (Kantor Pelayanan Pajak/staf)
 - Lain-lain (mohon sebutkan)
12. Selama ini, apakah anda menunaikan kewajiban membayar pajak karena keinginan sendiri tanpa dorongan/pengaruh pihak lain?
- Ya (*silahkan langsung ke pertanyaan nomor 14*)
 - Tidak, saya dipengaruhi orang/pihak lain

13. Jika pada pertanyaan nomor 12 sebelumnya anda menjawab "Tidak, saya dipengaruhi orang/pihak lain", siapakah orang/pihak di lingkungan sekitar tersebut?

- Suami/istri/orangtua/anak atau saudara lainnya
- Teman/teman sekerja/teman seprofesi
- Perusahaan/tempat bekerja
- Konsultan pajak
- Otoritas Pajak (Kantor Pelayanan Pajak/staf)
- Lain-lain (mohon sebutkan)

Untuk pertanyaan-pertanyaan berikutnya, Pajak/Perpajakan yang dimaksud dalam survey ini lebih kepada pajak/perpajakan pemerintah pusat, khususnya Pajak Penghasilan (PPh) WP OP, yaitu pajak yang berdasarkan Undang-undang dikenakan atas penghasilan yang diperoleh oleh WP OP.

Pajak pemerintah pusat lainnya yang banyak dibayarkan oleh orang pribadi adalah Pajak Pertambahan Nilai (PPN) yang dikenakan saat pembelian/perolehan barang atau jasa yang dikenakan PPN, dan Pajak Penjualan Barang Mewah (PPnBM) yang dikenakan pada saat pembelian/perolehan barang yang dikategorikan sebagai barang mewah.

II. Interaksi dengan Perpajakan

14. Lama terdaftar sebagai Wajib Pajak/lama telah memiliki NPWP (jika tidak ingat perkirakan saja)

- Dibawah 2 tahun
- 2 tahun – 5 tahun
- Lebih dari 5 tahun – 10 tahun
- Lebih dari 10 tahun

15. Pernahkah anda mengikuti kursus atau perkuliahan/kelas mengenai perpajakan?

- Tidak pernah
- Pernah

16. Dalam jangka waktu 5 (lima) tahun terakhir, pernahkah anda menghadiri seminar, sosialisasi, workshop, atau acara tentang pajak/perpajakan lainnya?

- Tidak pernah (*silahkan langsung ke pertanyaan nomor 18*)
- Pernah

17. Jika anda menjawab "Pernah" pada pertanyaan nomor 15 diatas, berapa kali anda mengikuti acara tersebut dalam total **5 tahun terakhir?** (jika tidak ingat silahkan perkirakan saja)

- 1 s.d. 5 kali
- 6 s.d. 15 kali (rata-rata lebih dari 1 kali setahun s.d. 3 kali setahun)
- Lebih dari 15 kali

III. Pendapat tentang Perpajakan

Silahkan mencontreng (✓) kotak (☐) jawaban yang sesuai dengan pengalaman atau pendapat anda: *Sangat Tidak Setuju, Tidak Setuju, Netral, Setuju, atau Sangat Setuju. Tidak ada* jawaban yang benar ataupun salah karena ini adalah pendapat anda.

No	Pernyataan	Sangat Tidak Setuju	Tidak Setuju	Netral	Setuju	Sangat Setuju
1.	Selama ini, pajak sangat bermanfaat untuk pembangunan negara	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
2.	Selama ini, saya dapat merasakan manfaat pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
3.	Selama ini, masyarakat mendapat manfaat dari pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
4.	Kepatuhan membayar pajak oleh orang pribadi sangat berpengaruh terhadap pembangunan negara	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
5.	Kewajiban perpajakan seperti menghitung pajak, mengisi SPT dan melaporkan SPT dapat dilakukan dengan mudah	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
6.	Selama ini otoritas pajak / Kantor Pelayanan Pajak memperlakukan saya sebagai Wajib Pajak dengan adil	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
7.	Selama ini sistem pajak sudah adil kepada seluruh Wajib Pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
8.	Saya membayar pajak karena orang lain di sekitar saya membayar pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
9.	Selama ini, pemerintah telah melakukan upaya terbaik untuk kesejahteraan masyarakat	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
10.	Selama ini, uang pajak yang dibayarkan Wajib Pajak digunakan oleh pemerintah dengan baik untuk kesejahteraan masyarakat	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

III. Pendapat tentang Perpajakan (lanjutan)

No	Pernyataan	Sangat Tidak Setuju	Tidak Setuju	Netral	Setuju	Sangat Setuju
11.	Secara umum, pegawai pemerintah melaksanakan tugas mereka dengan baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
12.	Secara umum, pegawai pemerintah memiliki integritas yang baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
13.	Selama ini, Direktorat Jenderal Pajak melaksanakan tugasnya mengumpulkan pajak dengan baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
14.	Pelayanan di Kantor Pelayanan Pajak sudah memuaskan	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
15.	Secara umum, pegawai pajak / Direktorat Jenderal Pajak melaksanakan tugas mereka dengan baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
16.	Secara umum, pegawai pajak / Direktorat Jenderal Pajak memiliki integritas yang baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
17.	Hukum di Indonesia sudah ditegakkan dengan adil	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
18.	Penegakan hukum di Indonesia sudah mengarah ke arah yang lebih baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
19.	Secara umum, aparat penegak hukum telah melaksanakan tugas mereka dengan baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
20.	Secara umum, aparat penegak hukum memiliki integritas yang baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

III. Pendapat tentang Perpajakan (lanjutan)

No	Pernyataan	Sangat Tidak Setuju	Tidak Setuju	Netral	Setuju	Sangat Setuju
21.	Demokrasi adalah sistem pemerintahan yang paling sesuai untuk Indonesia	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
22.	Selama ini, demokrasi sudah difaksanakan dengan baik di Indonesia	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
23.	Selama ini, masyarakat memiliki kesempatan untuk mengawasi kinerja pemerintah	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
24.	Selama ini, masyarakat memiliki kesempatan untuk mengetahui untuk apa uang pajak digunakan oleh pemerintah	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
25.	Fasilitas umum (jalan, sekolah, dll) yang disediakan oleh pemerintah umumnya sudah baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
26.	Pelayanan (perizinan, kesehatan, pendidikan dll) yang diberikan oleh pemerintah umumnya sudah baik	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
27.	Pelayanan dan fasilitas yang diberikan pemerintah sebanding dengan pajak yang dibayar Wajib Pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
28.	Jika pembayaran pajak baik, fasilitas dan layanan umum yang diberikan pemerintah kepada masyarakat akan semakin baik pula	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
29.	Besar kemungkinan saya akan terkena hukuman/denda jika saya tidak melaksanakan kewajiban pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
30.	Saya membayar pajak karena tidak ingin dikenakan denda	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

III. Pendapat tentang Perpajakan (lanjutan - selesai).

No	Pernyataan	Sangat Tidak Setuju	Tidak Setuju	Netral	Setuju	Sangat Setuju
31.	Saya membayar pajak karena tidak ingin berurusan dengan pemeriksaan/audit	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
32.	Saya membayar pajak karena tidak membayar kewajiban pajak bisa merusak nama baik saya	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
33.	Membayar pajak merupakan tanggungjawab setiap warga negara yang mampu	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
34.	Saya membayar pajak secara sukarela tanpa pengaruh/tekanan pihak lain	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
35.	Menghindari kewajiban membayar pajak bertentangan dengan prinsip hidup saya	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
36.	Saya merasa rela membayar pajak saya selama ini	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
37.	Jika situasi memungkinkan, Wajib Pajak lebih baik menghindar dari membayar pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
38.	Menghindar dari kewajiban membayar pajak bukanlah pelanggaran hukum serius	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
39.	Wajib Pajak tidak perlu merasa malu jika ketahuan menghindar dari kewajiban membayar pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
40.	Wajib Pajak tidak perlu melaporkan seluruh penghasilannya kepada otoritas pajak / Kantor Pelayanan Pajak	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

----- Terima Kasih Atas Partisipasi Anda -----

Appendix H: Survey Respondent Information Sheet (English Translation)



CURTIN BUSINESS SCHOOL
GPO Box U1987 Perth, Western Australia 6845
Phone: +61 8 9266 7796 or +61 8 9266 7756
Fax No: +61 8 9266 3026

SURVEY QUESTIONNAIRE THE TAX MORALE OF THE INDIVIDUAL TAXPAYERS IN INDONESIA

June 2014

Dear Sir/Madam

My name is Gorga Parlaungan, a Doctoral student at Curtin University, Perth, Australia. Currently I am conducting a research on "the Tax Morale of Individual Taxpayers in Indonesia". The objective of this research is to examine the tax morale of the individual taxpayers in Indonesia in relation with their tax compliance. Tax morale is defined as "the intrinsic motivation to pay tax".

I would like to request you to fill-out the survey questionnaire as attached. This survey is conducted for academic research purpose only and not related in any way with other institution. Please be informed that the survey only requests your opinion and perception, not an assessment of your knowledge about taxation.

You do not need to put your name on the questionnaire. Also please be assured that all responses and information in this questionnaire are strictly confidential. The data and information can only be accessed by the researcher and will be kept at Curtin University safekeeping for 5 years and will be destroyed afterwards.

Filling-out this survey questionnaire will only take approximately 10 (ten) minutes. However, your responses will be a great contribution to the research and will be a valuable input for the government.

Should you have any question or need any other information regarding this research or survey questionnaire, please do not hesitate to contact the researcher by e-mail address: gorga.parlaungan@postgrad.curtin.edu.au, or telephone number +62 812-860-89810 (Indonesia) or +61 420511973 (Australia).

This study has been approved by the Curtin University Human Research Ethics Committee (Approval Number RD-35-13). The Committee is comprised of members of the public, academics, lawyers, doctors and pastoral carers. If needed, verification of approval can be obtained either by writing to the Curtin University Human Research Ethics Committee, c/- Office of Research and Development, Curtin University, GPO Box U1987, Perth, 6845 or by telephoning 9266 2784 or by emailing hrec@curtin.edu.au.

Thank you for your participation in this survey.

Gorga Parlaungan
PhD Program Student
Curtin Business School
Curtin University
Perth, Western Australia

Appendix I: Survey Questionnaire (English Translation)



SURVEY QUESTIONNAIRE THE TAX MORALE OF THE INDIVIDUAL TAXPAYERS IN INDONESIA

Please answer the following questions by ticking (✓) the box (☐) which is most suitable to you.

I. Personal Information

1. Gender:

- Male
- Female

2. Current City of Residence:

- Jakarta
- Surabaya
- Medan
- Other (please state)

3. Age:

- Under 30 years
- 30 – 49 years
- 50 – 64 years
- 65 years or above

4. Highest Formal Education:

- Elementary School or equivalent
- Junior High School or equivalent
- Senior High School or equivalent
- Diploma (1 year diploma to 3 year diploma) or equivalent
- Undergraduate (S1)
- Post Graduate (Master/Doctoral Degree)
- Other (please state)

5. Marital Status:

- Not yet / Not Married
- Married

6. Religion:

- Islam
- Catholic
- Protestant
- Buddha
- Hindu
- Kong Hu Cu
- Other (please state)

7. Number of family members as your dependants at present:

- None
- 1 to 2 persons
- 3 to 5 persons
- More than 5 persons

8. Employment status (based on the main/biggest source of income):

- Own business/Self-employed
- Private Enterprise Employee
- State Owned Enterprise Employee
- Government Employee/Army/Police
- Professional (such as General Practitioner, Lawyer, Researcher, etc)
- Other (please state)

9. Within the duration of the latest one year, have you ever experienced any financial difficulty?

- Never
- Sometimes
- Often
- Always

Several following questions are related to **Income Tax** and **Annual Income Tax Return**.

As a reminder, the Annual Income Tax Return is a form to be filled out with incomes and income taxes generated in a year by a taxpayer along with other related information. An Annual Income Tax Return must be lodged to Tax Office by the taxpayer, for individual taxpayers not later than March 31 for the incomes and income taxes of the previous year.

10. Up to present, have you calculated your income taxes and prepared your Annual Tax Return by yourself?

- Yes (*please continue to question number 12*)
- No, somebody/other party has helped me

11. If you answered "No, somebody/other party has helped me" to the question number 10, who has helped you?

- Spouse/parent/child or other family member
- Friend/colleague
- Company/employer
- Tax Consultant
- Tax Authority (Tax Office/their staff member)
- Other (please state)

12. Up to present, have you paid your taxes based on your own willingness without any influence of others?

- Yes (*please continue to question number 14*)
- No, somebody/other party has influenced me

13. If you answered "No, somebody/other party has influenced me" to the question number 12, who has influenced you?

- Spouse/parent/child or other family member
- Friend/colleague
- Company/employer
- Tax Consultant
- Tax Authority (Tax Office/their staff member)
- Other (please state)

In the following questions, tax/taxation to be asked in this survey is meant to be the central government taxes, in particular the Individual Income Tax (IIT), which is defined as taxes imposed on the incomes generated by individual taxpayers based on the tax laws.

Other central government taxes largely paid by individual taxpayers are the Value Added Tax (VAT) which is withheld at the time of acquisition of taxable goods or the render of taxable service, and the Sales Tax on Luxury Goods which is imposed at the time of the acquisition of goods categorized as luxury goods.

II. Interaction with Taxation

14. Number of years registered as a taxpayer/number of years having Tax Identification Number (please estimate if you do not remember exactly)

- Less than 2 years
- 2 years to 5 years
- More than 5 years to 10 years
- More than 10 years

15. Have you ever attended class/course on tax/taxation?

- Never
- Yes, I have

16. In recent 5 years, have you ever attended seminar, workshop, information disbursement, or any other program, on tax/taxation?

- Never (*please continue to question number 18*)
- Yes, I have

17. In you answered "Yes, I have" to the question number 15, how many times have you attended the programs in the recent 5 years? (please estimate if you do not remember exactly)

- 1 to 5 times
- 6 to 15 times (once a year to 3 times a year in average)
- More than 15 times

III. Opinion on Taxation

Please tick (✓) the box (☐) which is most appropriate to your experience or opinion: Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree. Please keep in mind that there is **no wrong** or **right** answer because this is your opinion.

No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	So far, tax is very beneficial to the country's development	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
2.	So far, I get benefit from tax	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
3.	So far, the people get benefit from tax	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
4.	The individual taxpayers compliance in paying tax strongly affects the country's development	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
5.	Tax obligations such as calculating tax due, preparing tax return and filing the tax return can be easily done	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
6.	So far, tax authority/tax office has treated me as a taxpayer fairly	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
7.	So far, tax system is fair to all taxpayers	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
8.	I pay tax because other people in my surrounding pay tax	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
9.	So far, the government has made best efforts for the welfare of the people	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
10.	So far, the tax money paid by the taxpayers has been utilized well by the government for the welfare of the people	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

III. Opinion on Taxation (continued)

No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
11.	In general, government employees have done their job well	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
12.	In general, government employees have good integrity	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
13.	So far the Directorate General of Taxes has done its job of collecting tax revenue well	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
14.	Service of Tax Office is already good	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
15.	In general, tax officers / the Directorate General of Taxes employees have done their job well	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
16.	In general, tax officers / the Directorate General of Taxes employees have good integrity	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
17.	Law in Indonesia has been implemented justly	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
18.	The law implementation in Indonesia is going on the better track	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
19.	In general, law apparatus have done their job well	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
20.	In general, law apparatus have good integrity	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

III. Opinion on Taxation (continued)

No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
21.	Democracy is the most suitable government system to Indonesia	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
22.	So far democracy is well implemented in Indonesia	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
23.	So far people have opportunity to monitor the government performance	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
24.	So far people have opportunity to monitor for what tax money is spent by the government	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
25.	Public facilities (road, schools, etc.) provided by the government are already good	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
26.	Public service (permits, healthcare, education, etc.) provided by the government are already good	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
27.	Public service and facilities provided by the government are comparable with the tax paid by the taxpayers	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
28.	If the taxpayers pay tax well, public facilities and services provided by the government will be good too	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
29.	There is a high probability I will get penalty if I do not perform my tax obligations	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
30.	I pay tax because I do not want to get penalty	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

III. Opinion on Taxation (continued - end).

No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
31.	I pay tax because I do not want to get involved in tax audit	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
32.	I pay tax because not paying tax obligations may ruin my reputation	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
33.	Paying tax is the responsibility of any able citizen	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
34.	I pay tax willingly without any other's influence / pressure	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
35.	Evading tax obligation is against my principle	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
36.	I have paid my taxes willingly so far	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
37.	If there is a chance, taxpayers better evade paying tax	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
38.	Evading tax obligation is not a serious crime	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
39.	A taxpayer should not feel ashamed if she or he gets caught of evading paying tax	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
40.	Taxpayers should not report all of their income to tax authority / Tax Office	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

----- Thank You for Your Participation -----

Appendix J: Interview Participation Information Sheet (Indonesian Language)



LEMBAR PENGANTAR WAWANCARA

Agustus 2014

Yth. Peserta Wawancara
Penelitian "*Tax Morale Wajib Pajak Orang Pribadi di Indonesia*"

Terima kasih atas kesediaan Bapak/Ibu untuk berpartisipasi dalam wawancara ini. Wawancara ini dilaksanakan sebagai bagian dari penelitian tentang "*Tax Morale Wajib Pajak Orang Pribadi di Indonesia*". Tujuan wawancara ini adalah untuk mendapat informasi mendalam tentang *Tax Morale* Wajib Pajak Orang Pribadi di Indonesia dan hubungannya dengan kepatuhan perpajakan mereka.

Wawancara ini semata-mata digunakan untuk kepentingan penelitian akademis dan tidak berhubungan dengan lembaga manapun. Wawancara ini hanya meminta pendapat Bapak/Ibu dan bukan menguji pengetahuan Bapak/Ibu tentang perpajakan. Untuk kepentingan analisis nantinya, wawancara ini akan direkam secara audio.

Partisipasi Bapak/Ibu dalam wawancara dan penelitian ini bersifat sukarela. Bapak/Ibu bebas memilih untuk berpartisipasi atau tidak berpartisipasi atau mengundurkan diri dari tahapan manapun dari penelitian ini tanpa konsekuensi apapun.

Perlu saya sampaikan bahwa seluruh data dan informasi yang diperoleh dalam wawancara ini bersifat rahasia. Seluruh data dan informasi yang diperoleh hanya bisa diakses oleh peneliti dan akan disimpan secara aman di Curtin University selama 5 tahun dan akan dihancurkan setelahnya. Informasi dari wawancara ini akan dianalisa dan dituangkan kedalam laporan penelitian dan publikasi namun laporan penelitian dan publikasi tersebut tidak akan mencantumkan identitas ataupun informasi yang dapat menunjukkan identitas Bapak/Ibu.

Wawancara ini akan mengambil waktu sekitar 30 menit. Pendapat Bapak/Ibu akan sangat berguna untuk upaya peningkatan penelitian dan diharapkan dapat menjadi masukan yang berharga bagi pemerintah.

Apabila setelah pelaksanaan wawancara ini ada hal-hal yang ingin ditanyakan, Bapak/Ibu dapat menghubungi saya melalui email gorga.parlaungan@postgrad.curtin.edu.au, atau melalui nomor telpon 0812-860-89810 (Indonesia) atau +62 420511973 (Australia).

Penelitian ini telah disetujui oleh *Curtin University Human Research Ethics Committee* dengan nomor persetujuan RD-35-13. Apabila Bapak/Ibu memiliki hal-hal yang perlu dilaporkan tentang pelaksanaan penelitian ini, silahkan menghubungi: Secretary, Human Research Ethics Committee, Office of Research and Development, Curtin University, GPO Box U1987, Perth, Western Australia 6845, e-mail: hrec@curtin.edu.au.

Terimakasih atas dukungan Bapak/Ibu pada penelitian ini.

Gorga Parlaungan
PhD Program Student
Curtin Business School
Curtin University

Appendix K: List of Interview Key Questions (Indonesian Language)



PERTANYAAN POKOK WAWANCARA

1. Mohon ceritakan interaksi anda dengan pajak, sistem pajak, dan kantor pelayanan pajak selama ini (misalnya bagaimana anda menyampaikan SPT, pernahkah anda diaudit pajak, pernahkah anda menghubungi kantor pelayanan pajak untuk meminta saran dll). Bagaimana kesan atas pengalaman anda berinteraksi dengan pajak, sistem pajak, dan otoritas pajak selama ini?
2. Menurut anda apakah pajak memiliki citra yang positif dalam konteks pembangunan di Indonesia? Bagaimana dengan otoritas pajaknya? Bagaimana citra tersebut mempengaruhi kerelaan anda membayar pajak?
3. Bagaimana menurut anda korelasi antara pajak yang dibayarkan oleh Wajib Pajak dan kualitas barang dan jasa publik yang disediakan pemerintah di Indonesia? Mohon jelaskan.
4. Menurut anda apakah pada prakteknya penerimaan pajak sudah baik dan pajak sudah digunakan dengan baik oleh pemerintah?
5. Menurut anda apakah pajak yang dibayarkan oleh Wajib Pajak selama ini sudah sebanding dengan apa yang diberikan oleh pemerintah kepada rakyat? Mengapa?
6. Menurut teori fiskal, ada empat faktor utama yang mempengaruhi kepatuhan Wajib Pajak yaitu: 1) penghasilan, 2) tarif pajak, 3) kemungkinan dilakukannya audit/pemeriksaan, dan 4) denda. Faktor-faktor lain (misalnya pandangan terhadap pajak dan transparansi) dianggap hanya sebagai tambahan. Berdasarkan pengalaman dan pengamatan anda, apakah setuju dengan teori tersebut? Atau apakah anda faktor lain yang menurut anda memiliki pengaruh yang lebih besar daripada faktor yang disebut dalam teori tersebut?
7. Dari faktor-faktor berikut ini:
 - a. Kemudahan administrasi
 - b. Denda
 - c. Kemungkinan diperiksa
 - d. Pemeriksaan
 - e. Tarif PajakFaktor manakah yang paling berpengaruh atas keputusan anda membayar pajak? Mengapa?
8. Dari faktor-faktor berikut ini:
 - a. Keadilan sistem perpajakan kepada para Wajib Pajak
 - b. Perlakuan dan pelayanan otoritas pajak/Kantor Pelayanan Pajak
 - c. Ketersediaan barang dan jasa publik
 - d. Transparansi penggunaan uang pajak oleh pemerintah
 - e. Upaya pemerintah dalam meningkatkan kesejahteraan masyarakatFaktor manakah yang paling berpengaruh atas keputusan anda membayar pajak? Mohon dijelaskan.
9. Dari sudut pandang seorang Wajib Pajak, apakah anda memiliki saran untuk peningkatan kepatuhan pajak di Indonesia?
10. Adakah hal-hal yang ingin anda tambahkan?

Appendix L: Participant Consent Form (Indonesian Language)



LEMBAR PERSETUJUAN WAWANCARA

Penelitian "Tax Morale Wajib Pajak Orang Pribadi di Indonesia"

(Catatan: Lembar Persetujuan ini akan disimpan oleh peneliti Curtin University sebagai arsip)

Peneliti: Gorga Parlaungan

Curtin Business School, Curtin University

Dengan menandatangani Lembar Persetujuan ini, saya menyatakan setuju untuk berpartisipasi dalam wawancara untuk penelitian "Tax Morale Wajib Pajak Orang Pribadi di Indonesia".

Saya mengetahui bahwa partisipasi saya dalam penelitian ini bersifat sukarela, dan bahwa saya bebas memilih untuk berpartisipasi atau tidak berpartisipasi, atau mengundurkan diri kapan saja tanpa ada konsekuensi apapun terhadap saya.

Saya mengetahui dan menyetujui bahwa wawancara ini direkam oleh alat perekam suara oleh peneliti.

Saya mengetahui bahwa data dan informasi yang diperoleh dari wawancara ini akan dianalisa dan digunakan untuk hasil penelitian berupa laporan penelitian atau publikasi.

Saya mengetahui bahwa hasil penelitian berupa laporan penelitian atau publikasi tersebut tidak akan mencantumkan nama atau apapun yang dapat melakukan identifikasi terhadap peserta wawancara ini.

Saya telah mendapat penjelasan tentang penelitian yang sedang dilakukan dan wawancara ini, dan telah mendapat kesempatan untuk mengajukan pertanyaan tentang penelitian yang sedang dilakukan dan wawancara ini.

(Nama Peserta)

(Tanda Tangan)

(Tanggal)

Appendix M: Interview Participant Information Sheet (English Translation)



INTERVIEW INFORMATION SHEET

August 2014

To: Participant of Interview
"The Tax Morale of the Individual Taxpayers in Indonesia" Research

I would like to thank you for your willingness to participate in this interview. The interview is conducted as a part of "The Tax Morale of the Individual Taxpayers in Indonesia" research. The objective of this interview is to obtain in-depth information about the tax morale of the individual taxpayers in Indonesia in relation with their tax compliance.

The interview is conducted for academic purpose only and is not related in any way with other institution. Please be informed that the interview is about your opinion and not an assessment of your knowledge on taxation. For analysis purpose to be conducted later, this interview will be audio-recorded.

Your participation in this interview and research is voluntary. You can choose to participate or not to participate or withdraw yourself from the participation at any stage of the research or interview without any consequence.

Please be assured that the data obtained from the participants is strictly confidential. All data and information from this interview can only accessed by the researcher and will be kept at Curtin University safekeeping for 5 years and will be destroyed afterwards. The information from this interview will be analysed and extracted for the research reports and publications but the research reports and publications will not contain any identity or any other identifying characteristics.

The interview will take about 30 minutes. Your opinion and discussion will be a great contribution to research and will be a valuable input for the government.

Should you have any question or need any other information, please contact the researcher by e-mail address: gorga.parlaungan@postgrad.curtin.edu.au, or telephone number +62 812-860-89810 (Indonesia) or +61 420511973 (Australia).

This research has been approved by the Curtin University Human Research Ethics Committee with approval number RD-35-13. Should you have anything to report in relation with this research please contact: Secretary, Human Research Ethics Committee, Office of Research and Development, Curtin University, GPO Box U1987, Perth, Western Australia 6845, e-mail: hrec@curtin.edu.au.

Thank you for your support.

Gorga Parlaungan
PhD Program Student
Curtin Business School
Curtin University
Perth, Western

Appendix N: List of Interview Key Questions (English Translation)



INTERVIEW KEY QUESTIONS

1. Please tell me your interactions with tax, taxation system and tax office so far (for example how have you filed your tax return, have you ever been audited, have you contacted tax office for advice about your tax, etc.). How have your interaction experiences with tax, tax system, and the tax authority been going so far?
2. Do you think tax has a positive image in Indonesia in the context of the country's development? What about the tax authority's? How do those images affect your willingness to pay tax?
3. How do you see the correlation between the taxes paid by the taxpayers and the quality of the public good and services provided by the government in Indonesia? Please explain.
4. Do you think in practice the tax revenue has been generated well and utilized properly by the government?
5. Do you think that the tax paid by the taxpayers is comparable with what the government gives in return to the people? Why?
6. According to fiscal theory, there are four main determinants of taxpayer compliance, i.e.: 1) income, 2) tax rate, 3) probability of detection, and 4) penalty. Other factors (such as attitude towards tax and transparency) are considered merely as additions.
Based on your experience or observation, do you agree with the theory, or do you think there are other factors that have more impacts than those factors in the theory?
7. From the following factors:
 - a. Ease of administration
 - b. Penalty
 - c. Probability of audit
 - d. Audit
 - e. Tax rateWhich factor is the most influential to your decision to pay tax? Why?
8. From the following factors:
 - a. Fairness of the Tax System to taxpayers
 - b. Tax authority treatment and service to taxpayers
 - c. Public goods and service provision by the government
 - d. The transparency on how the tax money is spent by the government
 - e. The government's effort for the people's interest and welfareWhich factor is the most influential to your decision to pay tax? Why?
9. From a taxpayer's perspective, do you have any suggestion on how to improve tax compliance in Indonesia?
10. Is there anything you want to add?

Appendix O: Interview Participant Consent Form (English Translation)



INTERVIEW CONSENT FORM

"The Tax Morale of the Individual Taxpayers in Indonesia" Research

(Note: This Signed Consent Form will remain with the Researcher for the Record Purpose)

Researcher: Gorga Parlaungan

Curtin Business School Curtin University

By signing this Consent Form, I confirm to agree to participate in the interview for "The Tax Morale of the Individual Taxpayers in Indonesia" research.

I understand that my participation in this research is voluntary, and that I am free to participate or not to participate, or withdraw myself from the participation anytime without any consequence.

I understand and agree that the discussion will be audio-recorded by the researcher.

I understand that the data and information obtained from the focus group discussion may be analysed and used for the research output such as reports and publications.

I understand that the research and reports and publication will not contain names or any other identifying characteristics of the participants.

I have received the information about the research and the interview, and have had the opportunity to ask the researcher about the research and the interview.

{Participant's Name}

{Signature}

{Date}

Appendix P: List of Statements based on PCA Result

I. Sentiment towards Tax

1. So far, tax is very beneficial to the country's development
2. So far, I get benefit from tax
3. So far, the people get benefit from tax
4. The individual taxpayers compliance in paying tax strongly affects the country's development

II. Perception on the Fairness of Tax System

1. Tax obligations such as calculating tax due, preparing tax return and filing the tax return can be easily done
2. So far, tax authority/tax office has treated me as a taxpayer fairly

III. Trust in the Government

1. So far, the government has made best efforts for the welfare of the people
2. So far, the tax money paid by the taxpayers has been utilised well by the government for the welfare of the people

IV. Trust in the Tax Authority

1. In general, government employees have done their job well
2. In general, government employees have good integrity
3. So far the Directorate General of Taxes has done its job of collecting tax revenue well
4. Service of Tax Office is already good
5. In general, tax officers / the Directorate General of Taxes employees have done their job well
6. In general, tax officers / the Directorate General of Taxes employees have good integrity

V. Perception of the Legal System

1. Law in Indonesia has been implemented justly
2. The law implementation in Indonesia is going on the better track
3. In general, law apparatus have done their job well
4. In general, law apparatus have good integrity

VI. Attitude to Democracy

1. So far democracy is well implemented in Indonesia
2. So far people have opportunity to monitor the government performance
3. So far people have opportunity to monitor what tax money is spent for by the government

VII. Perception of Public Goods

1. In general, public facilities (road, schools, etc.) provided by the government are already good
2. In general, public service (permits, healthcare, education, etc.) provided by the government are already good
3. Public service and facilities provided by the government are comparable with the tax paid by the taxpayers
4. If the taxpayers pay tax well, public facilities and services provided by the government will be good too

VIII. Attitude to Punishment

1. I pay tax because I do not want to get penalty
2. I pay tax because I do not want to get audited
3. I pay tax because not paying tax obligations may ruin my reputation

IX. Tax Morale

1. Paying tax is the responsibility of any able citizen
2. I pay tax willingly without any other's influence / pressure
3. Evading tax obligation is against my principle
4. I have willingly paid my taxes so far

X. Attitude to Tax Evasion

1. If there is a chance, taxpayers better evade paying tax
2. Evading tax obligation is not a serious crime
3. A taxpayer should not feel ashamed if she or he gets caught of evading paying tax
4. Taxpayers should not report all of their income to tax authority / Tax Office

Appendix Q: Normality Test

Descriptive Statistics

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Trust in Authorities	338	-.674	.133	.635	.265
Attitude to Tax Evasion	338	-.047	.133	-.549	.265
Perception on the Law	338	-.155	.133	-.150	.265
Sentiment to Tax	338	-.563	.133	.750	.265
Attitude to Democracy	338	.373	.133	-.128	.265
Attitude to Tax Punishment	338	-.252	.133	-.128	.265
Tax Morale	338	-.118	.133	.095	.265
Perception on Public Goods	338	.118	.133	-.063	.265
Perception on Tax System	338	-.133	.133	-.259	.265
Perception on Government	338	-.078	.133	-.237	.265
Valid N (listwise)	338				

Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Trust in Authorities	4.182	2	335	.016
Attitude to Tax Evasion	3.091	2	335	.047
Perception on the Law	1.425	2	335	.242
Sentiment to Tax	.397	2	335	.673
Attitude to Democracy	.614	2	335	.542
Attitude to Tax Punishment	.518	2	335	.596
Tax Morale	2.688	2	335	.069
Perception on Public Goods	3.575	2	335	.029
Perception on Tax System	3.187	2	335	.043
Perception on Government	.383	2	335	.682

Appendix R: Rotated Component Matrix

Principal Component Analysis (PCA)

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.871
Bartlett's Test of Sphericity	Approx. Chi-Square	6797.369
	df	630
	Sig.	.000

Pattern Matrix^a

	Component									
	1	2	3	4	5	6	7	8	9	10
SENT1				.828						
SENT2				.847						
SENT3				.908						
SENT4				.402						
TSYS2									.608	
TSYS3									.791	
GOV1										.796
GOV2										.455
GOV3	.772									
GOV4	.707									
TAU1	.826									
TAU2	.733									
TAU3	.862									
TAU4	.866									
LAW1			.605							
LAW2			.849							
LAW3			.875							
LAW4			.887							
DEM2					.611					
DEM3					.883					
DEM4					.835					
PUBG1								.776		
PUBG2								.747		
PUBG3								.590		
PUBG4								.566		
PUN2						.796				
PUN3						.899				
PUN4						.867				
TMO1							.829			
TMO2							.833			
TMO3							.778			
TMO4							.561			
TEV1		.772								
TEV2		.885								
TEV3		.861								
TEV4		.878								

Extraction Method: Principal Component Analysis.
 Rotation Method: Promax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

Appendix S: Correlation Matrix

Correlations

		Tax Morale	Trust in Authorities	Perception on the Law	Sentiment to Tax	Attitude to Democracy	Attitude to Tax Punishment	Perception on Public Goods	Perception on Tax System	Perception on Government
Tax Morale	Pearson Correlation	1	.199**	.256**	.246**	.035	-.024	.288**	-.007	.275**
	Sig. (2-tailed)		.000	.000	.000	.520	.664	.000	.899	.000
	N	338	338	338	338	338	338	338	338	338
Trust in Authorities	Pearson Correlation	.199**	1	.468**	.155**	.307**	-.035	.472**	.355**	.312**
	Sig. (2-tailed)	.000		.000	.004	.000	.527	.000	.000	.000
	N	338	338	338	338	338	338	338	338	338
Perception on the Law	Pearson Correlation	.256**	.468**	1	.162**	.307**	-.037	.468**	.400**	.345**
	Sig. (2-tailed)	.000	.000		.003	.000	.503	.000	.000	.000
	N	338	338	338	338	338	338	338	338	338
Sentiment to Tax	Pearson Correlation	.246**	.155**	.162**	1	.109*	.059	.359**	.118*	.327**
	Sig. (2-tailed)	.000	.004	.003		.045	.283	.000	.030	.000
	N	338	338	338	338	338	338	338	338	338
Attitude to Democracy	Pearson Correlation	.035	.307**	.307**	.109*	1	-.026	.324**	.242**	.231**
	Sig. (2-tailed)	.520	.000	.000	.045		.629	.000	.000	.000
	N	338	338	338	338	338	338	338	338	338
Attitude to Tax Punishment	Pearson Correlation	-.024	-.035	-.037	.059	-.026	1	-.150**	-.293**	.105
	Sig. (2-tailed)	.664	.527	.503	.283	.629		.006	.000	.053
	N	338	338	338	338	338	338	338	338	338
Perception on Public Goods	Pearson Correlation	.288**	.472**	.468**	.359**	.324**	-.150**	1	.292**	.289**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.006		.000	.000
	N	338	338	338	338	338	338	338	338	338
Perception on Tax System	Pearson Correlation	-.007	.355**	.400**	.118*	.242**	-.293**	.292**	1	.002
	Sig. (2-tailed)	.899	.000	.000	.030	.000	.000	.000		.966
	N	338	338	338	338	338	338	338	338	338
Perception on Government	Pearson Correlation	.275**	.312**	.345**	.327**	.231**	.105	.289**	.002	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.053	.000	.966	
	N	338	338	338	338	338	338	338	338	338

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Appendix T: Regression Model. Dependent Variable: Tax Morale

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.377 ^a	.142	.121	.61912

a. Predictors: (Constant), Mean_Pun, Mean_TSys, Mean_Dem, Mean_Sent, Mean_Law, Mean_Auth, Mean_Gov, Mean_PubG

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.878	8	2.610	6.809	.000 ^b
	Residual	126.109	329	.383		
	Total	146.987	337			

a. Dependent Variable: Mean_TMo

b. Predictors: (Constant), Mean_Pun, Mean_TSys, Mean_Dem, Mean_Sent, Mean_Law, Mean_Auth, Mean_Gov, Mean_PubG

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.250	.285		7.906	.000	
	Mean_Sent	.202	.060	.190	3.350	.001	.813 1.230
	Mean_TSys	-.015	.062	-.016	-.240	.811	.591 1.692
	Mean_Gov	-.047	.067	-.051	-.703	.483	.490 2.041
	Mean_Auth	.080	.067	.086	1.193	.234	.505 1.979
	Mean_Law	.212	.066	.214	3.188	.002	.577 1.733
	Mean_Dem	-.026	.048	-.033	-.540	.590	.717 1.396
	Mean_PubG	.095	.075	.094	1.268	.206	.475 2.104
	Mean_Pun	-.040	.051	-.042	-.791	.429	.918 1.089

a. Dependent Variable: Mean_TMo

Appendix U: Regression Model. Dependent Variable: Tax Evasion

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.294 ^a	.086	.064	.78856

a. Predictors: (Constant), Mean_Pun, Mean_TSys, Mean_Dem, Mean_Sent, Mean_Law, Mean_Auth, Mean_Gov, Mean_PubG

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.322	8	2.415	3.884	.000 ^b
	Residual	204.580	329	.622		
	Total	223.902	337			

a. Dependent Variable: Mean_TEv

b. Predictors: (Constant), Mean_Pun, Mean_TSys, Mean_Dem, Mean_Sent, Mean_Law, Mean_Auth, Mean_Gov, Mean_PubG

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.123	.363		11.373	.000	
	Mean_Sent	-.167	.077	-.127	-2.167	.031	.813
	Mean_TSys	-.101	.079	-.088	-1.290	.198	.591
	Mean_Gov	.068	.085	.061	.805	.422	.490
	Mean_Auth	-.190	.085	-.166	-2.236	.026	.505
	Mean_Law	-.144	.085	-.118	-1.706	.089	.577
	Mean_Dem	.095	.061	.097	1.555	.121	.717
	Mean_PubG	.125	.095	.100	1.314	.190	.475
	Mean_Pun	-.139	.065	-.118	-2.142	.033	.918

a. Dependent Variable: Mean_TEv