

Tax Morale and Tax Compliance

Yuniadi Mayowan

Faculty of Administrative Science

University of Brawijaya

Malang, Indonesia

ymayowan@ub.ac.id

Abstract—People pay taxes because they are forced to obey laws and regulations. Forcing people to pay tax will encourage them to avoid or even to evasive tax. In order to reduce tax avoidance and tax evasion, tax institution has to increase tax morale. Tax morale has a function to increasing intrinsic motivation to pay taxes so the belief in paying tax is not caused just to obey laws and regulations but intrinsic motivation. Poor tax morale result in a low level of tax compliance. In building a tax morale model, we use model from Torgler and finding from other researcher and a slight comparison with Australian Tax Office Tax Compliance. The indicators used both in tax morale model and tax compliance seem to be coincided, in other words, we have to encourage to develop tax morale indicators. We encourage to add another indicator, based on finding of other researcher that is Perceived Tax Benefit. We believe that Perceived Tax Benefit is a strong indicator of tax morale to raise the intrinsic motivation where the tax payer believes that their tax is used to finance development and tax payer also able to perceive for what they pay tax for. “median voter theorem” indicates that the taxpayers must be able to feel that what they are paying for is best used for development and this theorem can be represented by perceived tax benefit.

Keywords—tax morale; tax compliance; perceived tax benefit; median voter theorem

I. INTRODUCTION

Why do people pay taxes? The simple answer for developing countries is because they are forced to obey laws and regulations. As we know that tax is a mandatory contribution to the country in which it is acquisition is used for the country's needs for the prosperity of the people. On a further level, citizens pay taxes to exchange it with goods and public services. This statement should produce good political legitimacy when the country provides the best goods and public services to the public. The developing countries, including Indonesia, the relationship between rights and obligations is poor, even in various media when it comes to taxes and state revenues it tends only as the community obligation to pay taxes [1]. The poor relationship between right and obligation makes national income from taxes stay at low level which results in low supply of goods and public services (quantity and quality) at the same time there will be a lot of avoidance and tax evasion [2], this shows how low our public tax morale. These conditions become obstacles in the development of the nation where taxes are the major mobilization component of domestic resources that used to encourage economic and development growth. Tax reform

without involving the political dimension and the relationship of income and expenditure often fails to achieve success [3].

The level of tax compliance in Indonesia in 2017 can be seen from the tax ratio which indicate about 10.3 percent [4]. The tax ratio illustrates that public compliance to pay their tax is still very low. If we compared it with the neighbor countries, the level of compliance of Indonesian to pay taxes is very left behind. Indonesian tax compliance is much lower when we compared it with neighbor countries such as Malaysia which is already above 13 percent or Vietnam that has even reached 16 percent so did Singapore [4]. The economic approach to improve tax compliance is insufficient, increasing tax compliance must also be balanced by using a behavioral approach.

Most developing countries require financing investments and expenditures to achieve development goals where traditionally financial sources of development are insufficient [5]. Efforts to increase domestic tax revenues to support economic and social development can increase the effectiveness of external funds, by increasing domestic capacity and building stronger institutions. National development and consolidation require domestic ownership of development priorities. That ownership is strengthened when part of the financial effort involved public ownership [5]. Therefore, an improvement in the efficiency and effectiveness of public spending is more likely to occur when there is a broad domestic constituency compared with situations where the government is responsible for how to spend their resources, especially for external partners. Of course, there is no mechanical connection between mobilizing domestic resources with greater effectiveness and transparency of expenditure, but historical evidence shows that demands from domestic taxpayers play an important role [5].

Poor tax morale result in a low level of tax compliance, therefore, it causes development obstacles, especially related to economic growth. The other causes of low tax revenues such as low capacity in tax administration. The low capacity is often becoming problem that creates opportunities for higher levels of tax avoidance [6]. In particular, institutional aspects such as corruption, transparency and accountability in the public sector have also been found to have a significant impact on tax efforts [7]. For this reason, you need to think about how the model can be applied to increase tax compliance in terms of tax morale.

II. LITERATURE REVIEW

A. Tax Morale

What encourage people to behave more honestly, provide correct information and increase the level of tax compliance? One answer to this question is the intrinsic motivation to pay taxes, which is sometimes called, "tax morale" [8-10]. The tax morale measures the desire of individuals to pay taxes or the belief that paying taxes give them contribution to society.

What factors can improve and maintain tax morale? One of which is strong political decisions as the main determinant in tax morale [8,9,11]. Social contracts [12] also need to be strengthened by exchanging security with the level of production in a business, in other words the tax benefits must always be continuously invested in the community and not limited to the function of tax which is for development but also another tax functions that can be enjoyed within narrower/regional. This is certainly rather difficult to apply to countries that adopt fiscal centralization and the role of local governments is very little to directly finance development. For example, that the Village Fund or Village Fund Allocation is tent to be the part of the project or funding from the center government compared to how much a region pays taxes.

B. Tax Compliance

Tax compliance is defined as: A compliance to reporting requirements means that taxpayers report all required tax returns at the right time and tax returns are accurately carried out in tax obligations in accordance with the tax agency code (Dirjen Perpajakan RI), regulations, and court decisions that apply when it is submitted. Roth, Scholz and Witte, [13]. While the definitions that are most often used for tax compliance are people who report accurately, on time and pay in full without enforcement efforts by tax agencies [14].

Tax compliance according to Jackson and Milliron is influenced by 14 variables, such as age, gender, education, income level, source of income, residence, peer influence, ethics, honesty, complexity, contact of tax authorities, sanctions, detectable probability, tax level and other variables [14].

C. Tax Morale Model

The tax morale has continuously decreased; therefore, it is suggested to convert income tax into something that is not forced through commodity taxes [15]. This opinion is one of the experimental designs to achieve optimal tax. The tax morale has decreased due to the low sanctions received by taxpayers when committing tax violations [16]. Tax morale are found to be lower in centralized systems [17]. Tax morale as a variable will produce a very broad scope, considering the definition of tax is the intrinsic motivation of individuals to pay taxes so that all conditions that cause individuals to be motivated to pay taxes will be the cause of tax morale. The decision to pay taxes for a long time has been classified into two approaches they are the economic approach and the

behavioral approach. The behavioral approach has greater attention in economic research, especially tax.

The tax morale as the dependent variable is recognized as something new by Torgler. In his research, Torgler proposed many concepts related to tax morality, such as socio-demographic, socio-economic, trust, political participation, tax and cultural policies [18]. The model can be seen in figure 1 below:

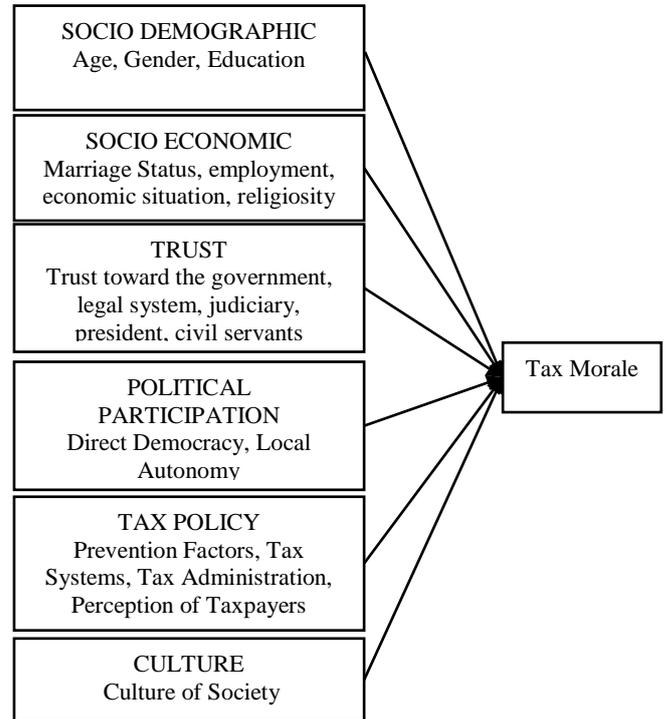


Fig. 1. Tax morale model [18].

Australia implements the ATO Compliance Model to improve tax compliance. This model can be seen in the figure 2.

III. METHODOLOGY

Focused Literature review is used to evaluate and to compare torgler’s tax morale model and Australian Tax Office Tax Compliance. This will give a good scope in discuss the two models.

IV. RESULTS AND DISCUSSION

The ATO Compliance Model (Australian Tax Office) and Tax Compliance of Jackson and Milliron [14], if we associated it with the tax morale model, it shows psychological (trust) and Sociology factors (norms, age, gender, education level, ethnic background) directly related to tax compliance while placing tax morale (if it treated as a variable) as an intervening variable, between factors that caused tax compliance with tax compliance.

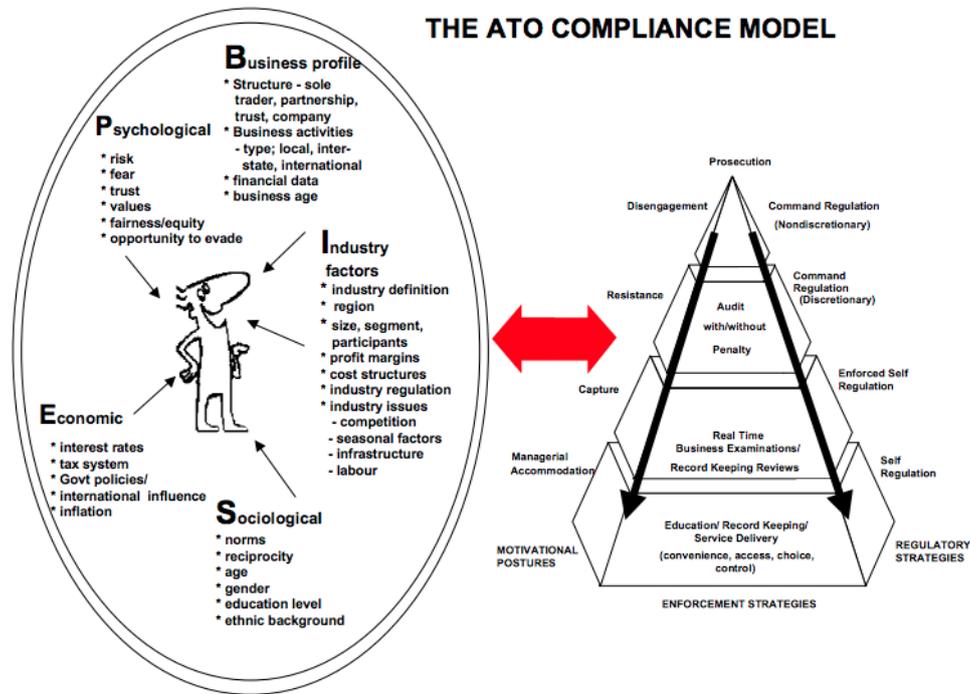


Fig. 2. ATO compliance model [19].

From those models it can be seen that it is very important to include behavior in tax research, especially tax compliance. A comprehensive understanding of tax behavior will provide input to policy makers in order to improve tax compliance.

Related to other tax morale studies, it is seen that tax morale is found higher in individuals who see many benefits from paying tax [10]. Torgler, Schneider, and Schaltegger state that greater fiscal autonomy will make a region spends income from taxes according to local preferences [21]. Barone and Mocetti concluded that morale is higher when taxpayers feel and see that government runs efficiently [22].

From the various descriptions that the researcher stated before, the main reason to look at tax morale and as common sense, it can be seen in what taxpayers get when they comply with their tax obligations, returning the initial opinion on tax morale from Downs regarding "median voter theorem" [23]. Voters or citizens will choose those who promise a redistribution program that is better than the tax they pay. In addition, gaps that arise where the notion of Indonesian tax said to get indirect benefits because the allocation of taxes is indeed for the public interest not for personal gain. For this reason, efforts to bring this gap closer to several key variables include services from the ASN, Government Efficiency, Trust in the Government, equitable development, perceived justice and from various behavioral variables.

The coincide variables the researcher used in tax morale and tax compliance requires more in-depth study so that tax morale can stand alone as an acceptable variable while Torgler has been developing it in his dissertation since 2013. For adjustments that are deemed necessary in conditions in Indonesia, the author adds one variable such as tax benefits

(perceived tax benefits) to become one of the main keys in increasing tax morale. Perceived tax benefit as finding of the research [20] made us believe to add this indicator on Torgler model on tax morale (see figure 3).

V. CONCLUSION

High tax morale produces high tax compliance, but on the other hand there are difficulties to separate sub-variables from morale taxation and sub-variables from tax compliance. This can be seen in the tax morale model presented by Torgler and one example of the tax compliance model of the ATO Compliance Model which together includes elements of behavior, socio-demographic, socio-economic [18]. The development of morale tax research continues to this day, which was initiated by Downs with the "median voter theorem" which indicates that the community (taxpayers) must be able to feel that what they are paying for is best used for development [23]. These benefits become stronger when the government is implemented efficiently out of the snare of Corruption, Collusion and Nepotism and many budget allocations for the prosperity and welfare of the people, therefore the author feels the need to add one variable on this basis with the term TAX BENEFIT. The tax benefit is expected to reduce the gap between the notion of taxation where the benefits received are indirect. The tax benefit is perceived, or really feels that taxes provide great benefits is one of the keys to increase tax morale.

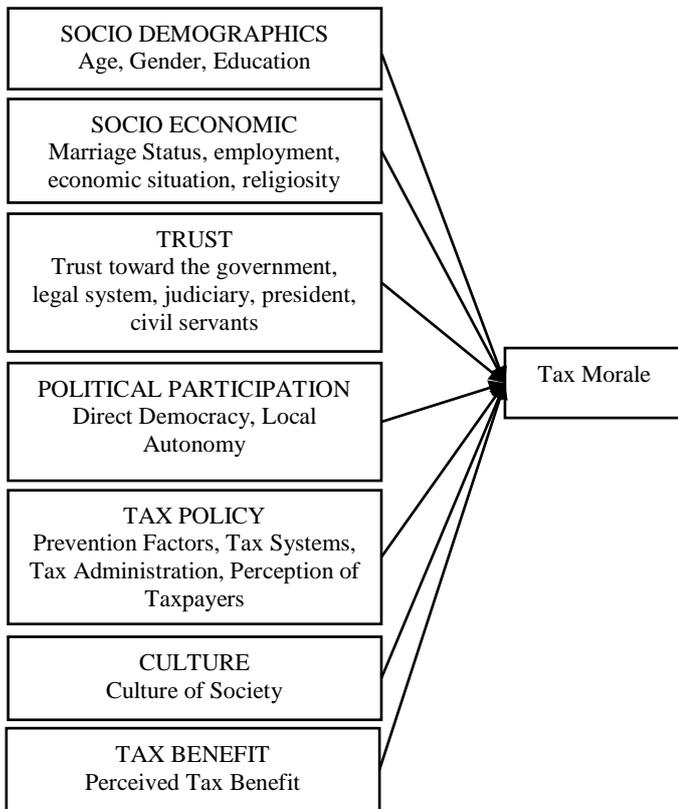


Fig. 3. Tax morale model.

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