

## The Effect Tax Fairness on Tax Evasion

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### **Abstract:**

*This paper presents a study to investigate the effect of tax fairness on tax evasion in Riau Province. The population of this investigation consists of all taxpayers registered in the Primary Tax Office in Riau Province. The sampling was done using purposive sampling technique and proportional sampling. Total sample in this research is 222 respondents. The study designs a questionnaire in Likert scale to study the effects of one independent variables (tax fairness) on tax evasion. Using regression technique, the study has determined positive and meaningful relationships between tax fairness and tax evasion.*

**Key words:** Tax Fairness, Tax Evasion

### **INTRODUCTION**

Research on tax evasion has been widely practiced but most of the tax evasion studies in the existing literature have been conducted from an economic or public finance perspective. Just a little research that examines the factors of a philosophical or ethical viewpoint. The issue of tax evasion is still crowded because there are many tax evasion payers. With still many tax evasion actions this resulted in low tax revenue in Indonesia so that state revenues will decrease. Excise evasion is not a violation of the law as the way in which to avoid excise is not against the law, but cleverly seeks to exploit the rule of law

itself to avoid excise. However, although the act of avoiding customs is considered legal, Mardiasmo (2011) still states it as a form of disobedience to the deed of the settlement. This opinion was supported by Kessler (2004) who stated that both evasion and evasion of excise duty is a violation of the principle of voluntary compliance by taxpayers.

An example of tax evasion by taxpayers is by utilizing the rules of inducement in Indonesia or also in other countries to alleviate the excise or excise of taxpayers at all, which must be based on extensive and appropriate knowledge so that it often has to be done by using services excise tax negotiator. Turning taxes on the other hand is a tax deduction that goes against the law (Mardiasmo, 2011). According to Indrayagus (2007) the duties of excise duties carried out in Indonesia, among others, sales trade dealings are not fully reported; manipulating the board becomes bigger than it really is; and citing excise but not submitted to the Customs Bureau. Another way according to Rahayu (2010) is to reduce, eliminate, manipulate income statements, and manipulate documents by changing the income data to be not the actual. All this is done by taxpayers in order to get rid of tax obligations. Starting from the effort to release the duty, the various modes of duty evictions are emerging, among others there are taxpayers who do not report all of their income, as well as the cooperation of denying the excise between the excise taxpayers and the taxpayers as they have ever been caught and given legal advice by the courts (Suminarsasi and Supriyadi , 2011).

### **Problem Statement**

Based on the explanation in the introduction, it can be formulated whether tax fairness has effect on tax evasion ?

## **LITERATURE REVIEW**

### **Tax Fairness**

Seminal work on tax fairness dimensions was done by Gerbing (1988) who undertook a survey to identify the existence of five fairness dimensions: general fairness/distribution, exchange with government, attitude towards taxes of the wealthy, progressive versus flat tax rate, and self-interest. The majority of research on taxpayers' perceptions of tax fairness has been undertaken mainly in developed countries (Hite, 1991; Sheffrin, 1993; Wilson, 2003; Hammar, 2009). Andreoni et al. (1998) urged for a greater need to investigate tax compliance in jurisdictions outside of the United States. In an attempt to heed this call, Richardson (2006) examined the dimensions for Hong Kong. The factor analysis approach in addition to an ordinary least square (OLS) multiple regression analysis showed that general fairness, middle-income earners tax share or burden, and exchange with the government were statistically significant in influencing the behaviour of taxpayers' tax morale. Gilligan (2005) and Richardson (2006) analysed fairness dimension factors on tax compliance for two distinct countries, one developed and the other emerging. The statistics showed that there were significant variations of opinions between the participants from Australia and Hong Kong as it relates to general fairness, tax rate structure on the ability to pay and self-interest. Australians indicated slightly lower mean scores for tax compliance behaviour. The findings from the study suggested that there are no universally accepted relationship between the different aspects of tax fairness perceptions and tax compliance behaviour. Chittenden and Foster (2008) also employed a multi-cultural approach to investigate tax simplicity, tax transparency and tax burden.

The study analysed Hong Kong, Singapore, Canada, the United States, the United Kingdom and Australia. On average, the respondents agreed that the tax system in their country is fair. For Hong Kong and Singapore, the study found that

generally taxpayers viewed the tax system as fair and simple to understand due to better communication from tax authorities. For Canada, the US, Australia, and the UK, the respondents' ratings averaged below neutral (3), that is, 2.74, 2.93, 2.55 and 2.46, respectively. Taxpayers consistently gave Hong Kong and Singapore's tax systems good ratings when questioned on the tax structures' simplicity and transparency while Australia and the UK had the lowest ratings. Azmi and Perumal (2008) attempted to reinvestigate the importance of tax fairness dimensions, as indicated in Gerbing (1988), for Malaysia. The summarised mean scores indicated that Malaysians perceived the tax system to be moderately fair. Utilising the principal component factor analysis, responses of respondents suggested that only three dimensions: general fairness, distribution of tax burden, and exchange with government were statistically significant among Malaysians when identifying tax fairness. Indeed, the literature of tax preferences and fairness indicates that most people do not like paying taxes. The studies on the Asian territory suggested that taxpayers were generally more satisfied with the current tax system than Australians and Americans. Such variations may be due to the differences in the history of communities as it relates to culture and ethical behaviour.

### **Tax Evasion**

Dictionary.com defines tax evasion as "the nonpayment of taxes, as through the failure to report taxable income." Cornell University Law School goes further to describe this nonpayment as "using illegal means to avoid paying taxes", which can involve "an individual or corporation misrepresenting their income to the Internal Revenue Service." So from this it can be said that tax evasion is the act of an individual who conscientiously refuses in some or many ways or means to pay taxes owed to a governmental entity (Cornell University Law School, 2015 and Dictionary.com, 2015). Cornell University is right to specify the illegality of matters regarding

evasion tactics. Currently, under United States law, tax evasion is a completely legal practice, but the caveat to evasion is where the line is drawn between evasion and evasion. This line can be quite blurry and an individual trying to legally pay less taxes than they owe can be hurt if they are not too careful. The bigger issue is why is this line not more clearly drawn? The government makes it easy for individuals to fall into a 'gray area' of legality and this is cause for concern. To clear matters up, an article posted on Bizfilings.com, a tax self-help site, explains this difference: "Tax evasion lowers your tax bill by structuring your transactions so that you reap the largest tax benefits. Tax evasion is completely legal and extremely wise. Tax evasion, on the other hand, is an attempt to reduce your tax liability by deceit, subterfuge, or concealment. Tax evasion is a crime." Evasion is the ability to utilize the tax code to your advantage and lower your amount of liability by being fully aware of the tax implications of your activities throughout the year. Evasion must have intent of deceit, such as misrepresenting how much was earned on your return or omitting income altogether. Other methods involving individuals would be claiming extra deductions, whereas corporations and sole proprietors could do such things as hide certain assets, claim personal expenses as business expenses, falsify journal entries, create 7 fake transactions, etc. So there are numerous ways tax evasion could occur depending on if it is a business entity or an individual (Bizfilings, 2015).

## **RESEARCH METHODOLOGY**

The population of this investigation comprises all taxpayers of the syarikat companies registered at the Prefectural Tax Office (called KPP / Jatik Pratama) Riau Region consisting of six Primary Excise Duty, namely KPP Pratama Pekanbaru Senapelan, KPP Pratama Pekanbaru Tampan, KPP Pratama Dumai, KPP Pratama Rengat, KPP Pratama Bangkinang, and KPP Pratama Pangkalan Kerinci. Sampling was done using

purposive sampling and proportional sampling technique. The sample used in this study amounted to 222 taxpayers registered in the Primary Tax Office in Riau Province.

Descriptive statistical test results can be seen from the table below:

**Table 1. Descriptive Statistics Test Results**

	Tax Fairness	Tax Evasion
<i>Mean</i>	2.6065	.6866
<i>Standard Deviation</i>	5.1945	.23630
<i>Minimum</i>	1.55	.14
<i>Maximum</i>	4.00	1.00

Tax fairness has a mean of 2.6065, a minimum value of 1.55 and its maximum value is 4.00. The resulting standard deviation is 5.1945 while for tax evasion variable the mean value is 0.6866. The minimum value of this variable is 0.14 and the maximum value is 1.00. The resulting standard deviation is 0.23630.

**Table 2. Summary of Respondent Views on Tendency Variables to Tax Evasion**

No.	Statement	Mean	Yes/No
1	Fair taxation system makes the company voluntarily pay taxes	.62	Yes
2	The tax rate set at the income level supports the company to comply with the tax rate	.58	Yes
3	Companies tend to pay taxes if they feel that tax rules are fair	.71	Yes
4	Companies tend to avoid paying taxes if they feel that tax regulations are unfair	.73	Yes
5	Not reporting some sales transactions can be made to avoid taxation	.73	Yes
6	Enlarges payments in a fictitious manner to avoid tax	.71	Yes
7	Collecting taxes but not delivering can be done to avoid taxes	.72	Yes

**Table 3. Summary of Respondent Views on Tax Fairness Variables**

No	Statement	Average	Meaning
1	Tax imposed on our company is comparable to our ability to pay taxes	2.53	Agree
2	Tax imposed according to the benefits we receive from the government	2.41	Agree
3	Companies with big revenue, must pay big taxes	2.54	Agree
4	Companies are allowed to ask the government to adjust the tax rate if it considers it overwhelming to them	2.73	Agree
5	Low income companies should be exempt from tax	2.75	Agree
6	The government sets a low tax rate	2.50	Agree

7	Taxation laws in Indonesia are fair	2.39	Agree
8	Tax officials are fair in implementing tax regulations	2.41	Agree
9	Companies may apply for a delay in tax payments when they are unable to pay taxes	2.71	Agree
10	Small businesses should get financial aid from tax	2.77	Agree
11	Taxes are channeled to help regions with small incomes to develop their region	2.93	Agree

**Table.4 :Model Summary**

Model	R	Rsquare	Adjusted Rsquare	SE	F	Sig.
1	.535	.286	.283	1.40018	88.023	.000

**Table.5: Coefficients**

	B	SE	$\beta$	t	Sig.
(Constant)	.325	.486		.668	.505
Tax Fairness	.156	.017	.535	9.382	.000

The results of the above test resulted in regression equation as follows:

$$Y = 0.325 + 0.156 X$$

Based on the simple linier regression test results it is known that tax fairness has a positive influence on tax evasion inclinations. The effect is 0.156. The value of the constants found 0.325 means that If tax fair = 0, then the value of tax evasion 0.325. The regression model produced was significant because the value of F test produced was 88.023 significant at  $\alpha < 0.01$  (in this study was determined  $\alpha = 0.05$ ). Because the Ftest is significant at  $\alpha < 0.01$  it is known that the influence given by tax fairness to the evasion of taxation is significant.

R- square test results 0.286 values. This means that tax fairness can explain the tax evasion tendency of 28.6 per cent, while 71.4 percent is determined by other variables that are not made variables in this research. It can be concluded that the influence of tax fair on the evasion of taxation is low. According to Baron and Kenny (1986) the direct test results from independent variables to these dependent variables are expected to be significant. From the results of the test above,

there was a significant result. This means that the first stage of testing is in line with the expected outcome of the causal steps developed.

## **CONCLUSION**

The findings show tax fairness have effect on tax evasion. Fairness in the preparation of the Tax Act plays a very important role in shaping the perception of fairness for taxpayers as the Taxation Act should treat equals to all taxpayers. If there is only one of the tax regulations giving different treatment, then this will be the reason for the taxpayer to refuse to pay taxes. From the above respondents' answers it is known that the highest level of fairness perceived by the company's taxpayers in relation to fairness in the drafting of the Tax Act is "a company that has a substantial income, must pay a high tax". This is the application of vertical fairness.

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