Determinants of Corporate Taxpayer Compliance Behaviour: A Study Case at Duren Sawit Small Tax Office in Indonesia

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List of Acronyms

AR   Account Representatives
ATR   Annual Tax Return
CIT   Corporate Income Tax
CORR   Corruption
DGT   Directorate General of Tax
GDP   Gross Domestic Product
IMF   International Monetary Fund
IRBM   Inland Revenue Board of Malaysia
IRS   Internal Revenue Service
LTO   Large Tax Office
OAS   Official Assessment System
OECD   Organisation for Economic Co-operation and Development
SAS   Self Assessment System
STO   Small Tax Office
TCMP   Taxpayer Compliance Measurement Program
TDS   Tax Deterrence Sanction
TLC   Tax Law Complexity
TLF   Tax Law Fairness
TPC   Tax Psychological Cost
TRS   Tax Rate Structure
VAT   Value Added Tax

Abstract

For years, the noncompliance behaviour of taxpayers has been the main problem in many developing countries like Indonesia. It makes a significant effect to the country's development, since tax takes the biggest part of the government's revenue. This study is conducted by seeing this phenomenon as a background, and it is aimed at determining the factors that are likely to have correlation with the compliance. It focuses on the corporate taxpayers behaviour, which is divided based on two aspects; the business characteristics aspect and tax attitudinal aspect. The data sources derive from the Duren Sawit STO, and survey data are based on the taxpayer perception using six-point Likert Scale. Then, it will apply two different analyses; first, the logistic regression and second, the multiple regressions.

It is shown that the previous tax income return from the taxpayers and the corruption perception influence the compliance significantly, while the other factors are mostly ignored. Overall, it implies that all factors must be brought together as a consideration to reduce noncompliance behavior with fighting corruption as the key element that should be a main policy by the government.

Relevance to Development Studies

Over the last decades Indonesia still has the major problem to increase tax revenue because of high level of noncompliance. It, later, will cause the obstacle for the government to boost economic growth, in which high government spending is not balanced with the presence of low tax revenue. Some factor might influence the taxpayers why they do not want to report their tax obligation. Moreover, there are some mixed results of different studies in determining of compliance factors. Therefore, this study attempts to carry out this pervasive tendency by finding the vital factors of noncompliance with corporate taxpayers as a research focus. Then, it can contribute to the global literature by looking at two different aspect of noncompliance that characteristics aspects and attitudinal aspects. Finally, it also gives a support for the tax authority in making the good policies for better economic development in Indonesia.

Keywords

Chapter 1
Introduction

1.1 General Outlook

This research paper will examine the factors that influence corporate taxpayer obedience in reporting of annual income tax in Indonesia, in which corporate taxpayers take parts crucially. Corporate taxpayers boost tax revenue in Indonesia with the highest contribution as much as 37.13% of non oil and gas income tax revenue. However, this situation is not balanced with the level of compliance ratio which is still as lower as 47.89% of the total number of corporate taxpayers, who have obligation to report their income tax return. Therefore, based on that background, this paper will apply eleven variables and divide the analyses by two aspects from the corporate taxpayer position, which are company characteristics aspect (firm age, business sector, business scale, tax officer performance, and previous tax return) and attitudinal aspect (tax complexity, tax structure fairness, tax sanction, general tax fairness, and tax psychological cost) towards compliance. The data will be collected by conducting survey and getting the secondary data from a tax office. The methodological process, then, will use two methods separately both logistic regression and multiple regressions with one objective of determinants of taxpayer compliance behaviour.

There will be some additional points of this paper that are different from the previous studies. First, it will use the reliable data obtained from the tax office directly. In addition, the survey also is done at the tax office with selected targets. The second point is that it will be the first research about corporate compliance at a tax office in East Jakarta region using eleven variables which measure the compliance from two sides, namely firm characteristics and attitude perception. Moreover, the factor of corruption perception will be a main extra variable to test business compliance combining with others attitudinal aspect. Therefore, it will give a contribution for the literature on determinants of corporate taxpayer compliance in Indonesia, in which there are still a few studies either international or Indonesian researches related to company behaviour in forms of business tax compliance.

More importantly, the discussion of tax compliance attitude is a major problem in most developing countries including Indonesia, which still has low level of compliance. It, later, will result in low tax revenue and decreased economic growth. Therefore, tax authority as a policy maker pays more attention to resolve this problem by encouraging taxpayers to report their taxes. Thereunto, the change of the system from the official assessment system (OAS) to the self-assessment system (SAS) as the global reform of the tax system in many countries brings the mixed result, either positive or negative effect, on the level of compliance. In Indonesia itself, the reformation since 1983 which already took part for more than twenty years did not give the high significant alteration to improve the rate of compliance. Therefore, the issue of compliance will be raised in this research as a main subject with focus on corporate taxpayers, by conducting a study case at the Duren Sawit small tax office in East Jakarta, Indonesia.

1.2 Problem Statement

Tax Ratio

According to Table 1.1 and Figure 1.1, it is clear that the ratio of total tax revenue as percentage of GDP in Indonesia was at lower position than other countries of OECD members. The ratio in 2013 was 13.1 percent compared to 16.9% in Malaysia and 16.2% in Philippines. However, it was indicated that the tax ratio in Indonesia has raised after tax reformation in 2002 by 14.2% in 2008 compared to 1997 by 9.13%. Brondolo et al (2008) confirmed that Indonesian tax system was low as the result of low rate of compliance among taxpayers. Therefore, they suggested that Indonesia must overcome this lack by widening tax base and decreasing noncompliance rate as the tax programs. In addition, IMF predicted that Indonesian tax revenue will reach 21.5% of GDP as the level maximum by implementing these programs (Arnold, 2012).

Table 1.1: Total Tax Revenue as Percentage of GDP

	1997	2008	2009	2010	2011	2012	2013
Indonesia[1]	9.1	14.2	11.9	12.1	12.8	13.1	13.1
Malaysia[2]	19.7	15.1	15.5	14.2	15.8	17.1	16.9
Philippines	-	16.2	15.0	14.8	15.1	15.8	16.2
OECD (34)[3]	34.8	34.5	33.6	33.8	34.1	33.7	34.1
Japan	26.8	28.5	27.0	27.6	28.6	29.5	-
Korea	20.3	24.6	23.6	23.2	24.0	24.8	24.3

Source: Revenue Statistics in Asian Countries, OECD (2014) and (2015)

1. The table exclude social security contribution for Indonesia as they are not available.
2. The table includes local government taxes.
3. Represent the unweighted average for OECD member countries. Japan and Korea also part of the OECD (34) group.

Figure 1.1: Tax Ratio as Percentage of GDP in 2012
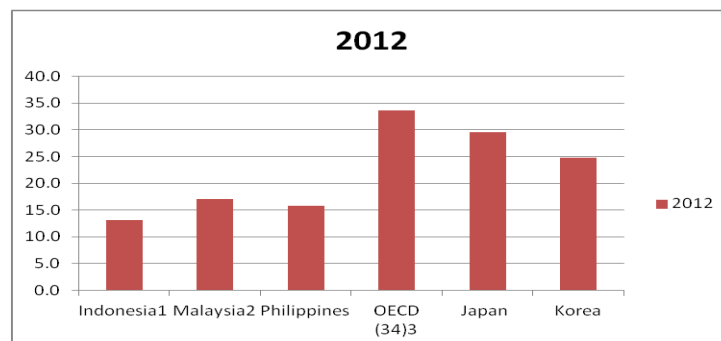
Source: Revenue Statistics in Asian Countries, OECD (2014) and (2015)

Moreover, income taxes both corporate and individual as shown in Table 1.2 indicated that Indonesia had 5.6 percent of GDP which was lower than Malaysia which had 11.9 percent, but the percentage remained stable between 2008 and 2012 by average 5.84%. Therefore, raising income tax especially for company level will create the high tax ratio considering that corporate taxpayers contribute more than 20% of total tax revenue in Indonesia.

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**Table 1.2: Taxes on income, profits and capital gains (1000)
as percentage of GDP**

	2000	2008	2009	2010	2011	2012	2013
Indonesia	4.1	6.6	5.7	5.5	5.8	5.7	5.6
Malaysia	7.7	10.3	10.6	9.4	11.1	11.9	11.6
Philippines	6.1	6.6	5.8	5.8	6.3	6.5	6.6
OECD (34)[1]	12.2	12.0	11.0	11.0	11.2	11.4	-
Japan	9.3	9.6	8.0	8.3	8.6	9.2	9.5
Korea	6.2	7.6	6.8	6.6	7.3	7.4	7.1

Source: Revenue Statistics in Asian Countries, OECD (2015)

1. Represent the unweighted average for OECD member countries. Japan and Korea also part of the OECD (34) group.

Tax Gap

Understanding the concept of tax gap is emphasized on the difference between the potential and actual tax reported by taxpayers as the existence of noncompliance under SAS, in the forms of underreported income and overstated deduction expenses. Based on the figure 1.2, it can be explained that net tax gap can be obtained by looking at the difference between potential tax revenue and true tax liability, while true tax collection derive from voluntary collection by taxpayers and tax enforcement by tax authority. Therefore, it implies that government can decrease the tax gap by doing compliance enforcement and compliance facilitation, since these two ways can enhance both enforced collection and voluntary collection (Brondolo et al, 2008). Kamdar (1997) added that the big tax gap from corporate noncompliance will result in decreasing tax revenue because of the high contribution of corporate tax payment, so high frequency of tax audits and penalties implementation are two considerable strategies to face bad behavior from taxpayers.

Figure 1.2.: the Tax Gap Concept
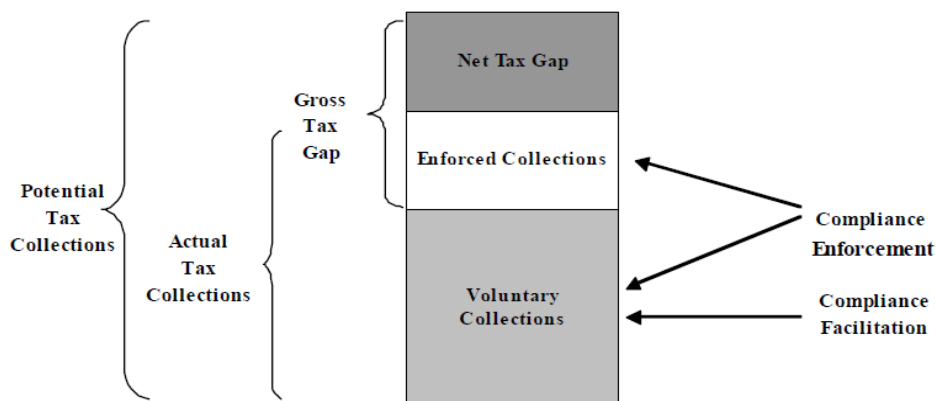
Source: Brondolo et al (2008), IMF Working Paper

Tax Compliance Rate

Under Self Assessment System, Indonesia still has an obstacle in the fight against noncompliance taxpayers. Table 1.3 describes that the compliance ratio for corporate is low and stable whereas corporate tax revenue is the biggest contribution of tax revenue in Indonesia. For instance, in 2012, the compliance

rate from the difference between the number of corporate taxpayers and the number of tax return was 53.36 percent. This ratio only showed the level of compliance from the timeliness of reporting without considering whether the taxpayers declare their income correctly or not. It is a sign that the shift from OAS to SAS in order to increase voluntary compliance is questionable and it becomes an obstacle in implementing SAS. Hani and Lubis (2010) defined the success of SAS that are 'high compliance rate', 'true tax reporting', 'tax mindedness' and 'the discipline in tax obligation'. They can be realized by giving counseling, services excellence, and law enforcement, so SAS, thereby, will reach the achievement when the compliance rate is high.

Table 1.3: Tax Compliance Ratio of Corporate Taxpayers

Year	Number of Corporate Tax Payers	Number of Corporate Tax Return	Compliance Ratio of Corporate Taxpayer
2008	1,246,173	420,689	33.76%
2009	1,373,383	559,791	40.76%
2010	1,534,933	501,348	32.66%
2011	1,590,154	520,375	32.72%
2012	1,026,388	547,659	53.36%
2013	1,141,797	546,859	47.89%

Source: Directorate General of Tax (DGT)

1.3 Research Objectives

1. This study is aimed at giving the evidence of the behavior of corporate taxpayer towards tax compliance in forms of descriptive overview related with the variables that influence tax compliance.
2. This study is aimed at determining the important factors that affect corporate taxpayers to obey their taxes obligation.
3. This study is aimed at supporting the policy makers in order to increase tax revenue in Duren Sawit Small Tax Office specifically and Indonesia generally by discovering the characteristics of noncompliance corporate taxpayers and what the corporate taxpayers need to comply with the tax regulation.

1.4 Research Question

1. Do corporate characteristics affect tax compliance behavior?
   Based on the evidences, some characteristics of corporate taxpayers such as 'business size', 'business sector', 'AR performance' (represented by business location), 'firm age', and 'previous income tax return' will affect the level of obedience, so these five variables will be put in this study.
2. Do tax attitudinal aspect influence tax compliance behavior?
   The perceptions of taxpayers based on the corporate taxpayer attitude are indicated as having mixed result in influencing tax compliance. This study will bring the aspect of tax attitudinal from the previous researches that are divided into five variables, namely 'complexity of tax law', 'tax rate fairness', 'tax deterrence sanctions', 'tax law fairness' and 'tax psychological costs'. In addition, it will ap-

ply the perception of corruption as additional attitudinal aspect which brings together with others variables as the one aspect.

1.5   Scope and Limitation of the Research

Enormous studies respected to tax compliance were concerned with individual taxpayers, while the data showed the evidence of investigation compliance behaviour among corporate taxpayers is also important and must be taken as a serious problem. As stated by Kamdar (1997), lack of the researches about corporate was not equal with high corporate noncompliance which made the difference between potential and actual tax collection between 1973 and 1987 reach about 146% based on the evaluating by Internal Revenue Service (IRS) in United States. Therefore, this study prioritizes to examine corporate taxpayer compliance through economic and non economic perspectives using two model approaches and analyses.

This paper also connects with the condition in Indonesia that has applied SAS more than 30 years, but the voluntary compliance remains low and stable. Duren Sawit Small Tax Office (STO) in Jakarta region will be chosen to narrow the scope of this research because of limitation and difficulties in obtaining global data of taxation, while most of tax offices in Indonesia have the same problem regarding with high non compliance issue. In addition, selected variables are adjusted with the data in 2013 that have been obtained from the Duren Sawit STO, in which there are five variables as corporate characteristic aspect, five variables as tax attitudinal aspect and one variable as the additional element of attitudinal form.

Furthermore, this study also brings some limitations considering the some condition in collecting the data. The data were obtained separately with different observations and different year. Secondary data which received from the tax office will focus on the 389 corporate taxpayers who have registered before 2014 and examine the five variables of corporate characteristics aspect, so the data will test the hypotheses in 2013. Meanwhile, primary data based on the survey approach will test six variables of tax attitudinal aspect with respondents as 85 taxpayers without considering the registration year as a taxpayer, so some respondent is the taxpayers who just registered in 2014 and 2015. Furthermore, the survey method has constraint to know the honesty level of respondents. Fries et al (2003) recognized that the survey basing on the manager perceptions is subjective, so the data will get effect of 'noisy' subjected to the errors in measurement. In addition, Richardson (2006) also concluded that the less reliable is the result of applying survey method especially the sensitive questions related to the tax, so the respondent may give different answers to the reality.

1.6   Structure of Research Paper

This research paper is organized into six chapters to examine the factors that affect corporate taxpayers to be obedient with tax requirements. Chapter one discusses the broadly introduction that consist of briefly explanation of the idea of this paper including the problem statement; the research objective and question; and the limitation and significance of the study. Chapter two presents the background of compliance theories that involve different approaches to assign the tax compliance behaviour among taxpayers, followed by discussing

the summary of the previous studies both international review and Indonesian discussion among researchers. Chapter three will focus on the overview of taxation in Indonesia related to SAS. Then, chapter four gives the explanation related to data and methodology that will be used in this paper, while the data contain of both secondary and primary data that will be separated in the analyses process. Therefore, this paper consists of two models, two methods, and two results which will be mixed into one conclusion. Next section in the chapter five discusses the outcome from the data analyses both secondary data and primary data from questionnaire. In the end, it will cover the summary of this study including the major finding of this analysis.

Chapter 2
Literature Review

2.1 Theoretical Framework

Taxation becomes a concern of the government in most countries including Indonesia because it can finance the public spending in many sectors in order to achieve economic development. Mobilizing tax revenue will be the most issue to achieve this fiscal objective, in which corporate income tax revenue has become a main source of income tax in Indonesia as much as 37.13 % in 2013. Moreover, Indonesia reformation has been a step taken by the government, in which one of the programs is establishing large tax offices (Brondolo et al, 2008). It implies that the government is aware that corporate income tax is important to enhance the total tax revenue and the presence of low tax compliance among corporations makes the tax authority also centralize its goal to corporate taxpayers. Therefore, the presence of LTO will make tax employees pay more attention on monitoring and giving consultation to companies. In addition, the evidence of government consideration against corporation can be associated with Indonesian tax law, in which the penalty imposed by corporate if they do not report their income tax return is higher than individual as one million rupiah. In addition, the need of financial statements as attachments in tax reporting can also be an evidence of tax authority attention on monitoring and analyzing their income tax return. In short, government has taken serious actions to enhance the revenue by focusing on corporate taxpayers as the main element.

Tax Compliance Definition and the Basic Approaches

Various meanings of tax compliance have been stated by researches by giving the variety of the definitions to support their investigation towards both individual and corporate taxpayers. Allingham and Sandmo (1972) defined that taxpayers can be stated as golden taxpayers when they can declare their true income. The authors also claimed that taxpayers face uncertainty condition to make decision whether to report their tax correctly or not, in which it is related with an advantage and a disadvantage reporting unreal income. They will get the benefit for undeclared true income by saving the amount of tax that they should report to tax office, but it will be the negative action by getting a penalty from tax authority which is the amount to be paid will be higher because they have to pay in accordance with the actual income plus the penalty. Singh (2003) claimed the simple definition of tax compliance as taxpayer behaviour voluntarily reporting without the intervention of law enforcement by tax authority.

Next, according to Internal Revenue Service (2009) as stated by Palil and Mustapha (2011), the meaning of tax compliance is the ability of taxpayers to obey tax laws made by tax authority, to inform their real income in tax return and to pay the amount of tax correctly, in which it must be conducted at the right time appropriate with the tax regulation. In contrast to broadly compliance definition, Kircler (2007) as cited by Palil and Mustapha (2011) described that noncompliance is the negative action from the taxpayer either they do not report their tax obligation or not report their actual earnings and expenses. Al-

lingham and Sandmo (1972) developed this behaviour into two attitudes, namely unintentional and intentional actions which can be connected with tax evasion and tax avoidance. Intentional behaviour can be defined as the failure of taxpayer to report the tax by shadow economy, incorrect tax return, and lawlessness (Naibei et al, 2012). However, unintentionality is more emphasized on the failure of taxpayer to understand the tax system regulation associated with tax complexity or shallow tax knowledge (James and Alley, 2002).

Furthermore, previous studies also divided tax compliance into different approaches to get deeper understanding in determining the factors that affect tax compliance behaviour. McBarnet (2001) confirmed four types of compliance that are 'committed compliance', 'capitulative compliance', 'non compliance' and 'creative compliance'. He defined these types as followed: First type, they will obey the tax laws without complaint even though they feel compelled to conduct it. The second one, they will report their tax return with inappropriate way such as reduction the expenses or doing 'cash economy' in operating their business. The third, they will hire the lawyers from the legal side to help them to interpret the tax law that can give the benefit to manipulate the tax. The last one, they will find the weakness of tax law by redefining their earnings and recalculate their cost when they report their tax. Moreover, Chow (2004) separated compliance into two forms that are administration and exactness in tax return. Taxpayers must collect their tax return on time every year and they also have to pay the reported tax accurately, in which this condition will depend on the behaviour of taxpayer themselves who have freedom under SAS.

Tax Compliance Framework of This Research Paper

The studies about individual taxpayer compliance have been concentrated by some researchers, while there was a lack of evidences which focus on business compliance as the centre of this study. A lot of researches related to individual taxpayers provided the theoretical framework to explain the factors that affect on individual compliance (Fischer et al, 1992; Cuccia, 1994; Devos, 2014). Meanwhile, previous studies about corporate taxpayers recognized that the theory of individual taxpayer compliance can be applied to explain the corporate compliance (Kamdar, 1997; Santoso, 2008; Abdul-Jabbar, 2009; Hani and Lubis, 2010; Tedds, 2010; Sapiei et al, 2014). Joulfian (2000) also mentioned that it can be appropriate using the theory because of managerial preferences. He claimed that managers represent a company, in which they run the business and manage the company's financial to get high profit after taxed. Therefore, firms do not declare their income tax return, but their managers as a person conducts it.

Furthermore, two approaches will be proposed by this research paper, namely economic approach and behaviour approach based on the previous studies to raise the compliance issue in Indonesia. The economic side is based on a theoretical view of economic rationality, in which this approach can be referred as an economic deterrence model to inspect tax evasion. Meanwhile, the behaviour concept can be understood by studying psychology and sociology discipline, in which this approach is developed by the economic approach that cannot explain the compliance issue from the attitude and norms perspectives (Azrina Mohd Yusof et al, 2014; James and Alley, 2002; Devos, 2014;

Sapiei et al, 2014). Therefore, combining these two models will give mixed result to explain the taxpayer behaviour and improve the explanation of overall compliance condition.

Economic approach uses two theories that are utility theory and deterrence theory that has been proposed by Allingham and Sandmo (1972) based on the project of Becker (1968) about economics of crime model. They stated that taxpayers will maximize their income in maximizing utility theory by evading tax which the taxpayer is under uncertainty condition. Meanwhile, 'increasing tax rate', 'the probability of detection' and 'severity sanction' under deterrence theory will influence taxpayer action for evading tax (Cuccia, 1994; Devos, 2014). Combining these two theories imply a complex circumstance, in which taxpayers will be under uncertainty position, either to get tax savings or punishment for conducting tax evasion and will be determined by the chance of being detected and sanction acquisition. Based on the explanation, Fischer et al (1992) proposed a financial self-interest model to consider compliance behaviour through tax rate, the chance of detection, and penalty structure as drawn by figure 2.1.

Figure 2.1: Financial Self Interest Model
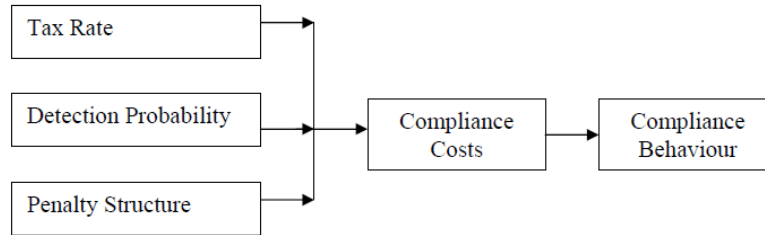
Source: Fischer, Wartick and Mark (1992, p.3) derived from Becker (1968)

However, this economic theory lacks of evidence to determine the compliance behaviour on the whole disciplines, because there are other factors affecting taxpayer behaviour that cannot be explained by three variables of financial self-interest model. Devos (2014) sum up that human aspect must be included in the measurement because every person interacts with each other in accordance with social norms in the society and they do not maximize their utility. Therefore, human behaviour in terms of attitude, belief and norm is a concern of the behaviour concept of compliance. Thus, Fischer et al has divided 14 main variables found by compliance literature review into four categories that are 'demographic' based on the age and gender, 'non compliance opportunity' measured by education, level of income, source of income and employment, 'attitudinal' viewed by tax system fairness, moral principles and influence among taxpayers, and 'structural' subjected to tax complexity, sanction, the chance to being detection and tax rates. Therefore, Fischer et al developed the first model to be an expanded model of taxpayer compliance behaviour as shown in Figure 2.2, in which economic variables were included in this new model. According to the scheme below, demographic variables will affect compliance behaviour indirectly through both non compliance and attitude and perceptions.

Figure 2.2: Expanded Model of Taxpayer Compliance
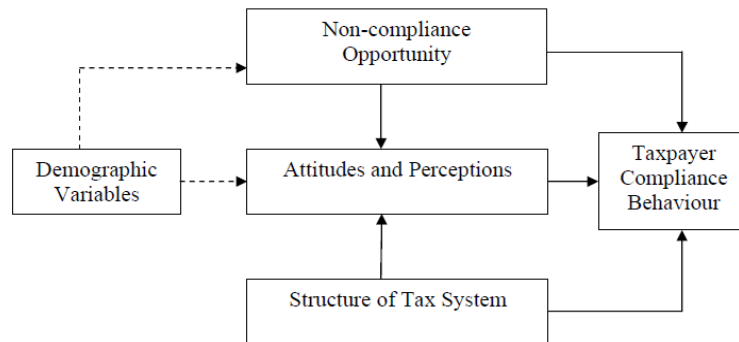
Source: Fischer, Wartick and Mark (1992, p.4)

To sum up, both the economic and behaviour approach can be seen as a single approach to test the level of compliance among taxpayers which is more complex, because it contains of all disciplines such as economics, psychology and sociology (Sapiei et al, 2014). Hence, this paper will apply these approaches by doing the research considering the previous researches from Abdul-Jabbar (2009) and Sapiei et al (2014) who explained the determinants of tax compliance focussing on corporate taxpayers as an object of their researches in Malaysia. Moreover, they also combined these two theories using combination of some variables such as corporate age, company size, business sector, complexity and fairness of tax law, structure of tax rate, tax sanctions, and tax psychological costs. The framework of this research is shown at Figure 2.3 below.

Figure 2.3: Model Development of this research
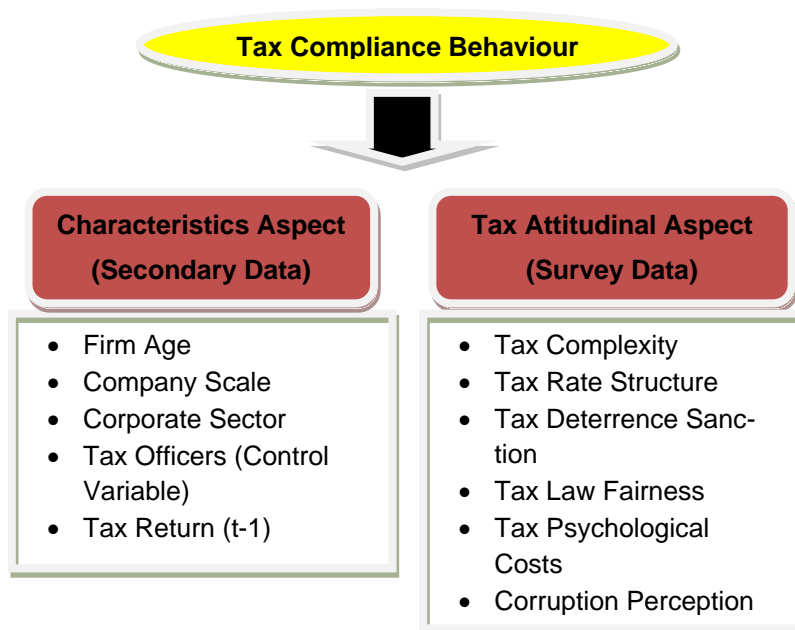
2.2 Empirical Evidences

There are a few studies concerned with corporate tax compliance in which researchers are more focusing on individual taxpayers to investigate the compliance indicators. Moreover, the results, among factors that influence taxpayer compliance, are mixed, both in international reviews and Indonesian studies by using different data and methods, since every state has different characteristics and behaviour among taxpayers. As the scope of this study, this literature will discuss corporate taxpayer compliance behaviour based on the company characteristics such as firm size, age of company, firm equity and business sector and also their attitude such as tax complexity, tax rate structure, tax audit, tax penalties, law fairness and the corruption perception.

Furthermore, the contribution of this study is that it will use the data immediately from a tax office and apply survey approach that is conducted by selected sampling with manager or director as a targeted respondent. It means that the data used in this research are more accurate and reliable. Moreover, concerned with Indonesia studies, there is a lack of researches using more than ten variables to examine the business compliance, so there will be more detailed conclusion in determining the corporation tax compliance applying eleven variables. In addition, there are no previous studies examining the corporate compliance at Duren Sawit STO, so this is the first investigation. This study also put one new variable, which is the corruption perception as a factor of attitudinal aspect in order to get information related to the company perception towards corruption within taxation, while the others factors of attitudinal aspects are still included in this study such as tax complexity, tax rate structure, tax law fairness, tax penalties, and tax psychological cost.

International Studies

Joulfaian (2000) studied about tax compliance by emphasizing on managerial preferences with managers who do not declare their personal earning as proxy. In addition, he also measured corporate taxpayer compliance behaviour through other factors such as audit level, tax rate, net revenue, business sale and foreign ownership. Then, using Taxpayer Compliance Measurement Program (TCMP), he found that corporate tax payers who are not compliant are supervised by managers who do not declare their individual income tax to tax office. Moreover, marginal tax rate and income are also correlated with tax compliance in the way that the lower level of tax rate will lead to larger level of compliance and the higher income causes corporate more noncompliance. Meanwhile, the corporation size represented by corporate sales and tax audit have negative correlation in measuring noncompliance behaviour, in which the smaller firm indicates less compliance and business compliance rate will be higher after increasing the level of tax audit.

The study of Hanlon et al (2005) found that there is the U-shaped pattern from the variable of company. Small-sized companies are described more noncompliance than medium-sized company and more compliance than large-sized company. In addition to that, they concluded that domestic corporate will be more obedient than corporate that are managed by foreign and then, public companies are claimed to be more compliant than private companies. There is a tendency of private corporations to not report their financial publicly, so it, later, encourages the low income firms to not report their tax and

cause less compliance. Moreover, multination corporations also have lower tendency to comply with taxation than non-multinational corporations.

Another research in 2008 by Nur-tegin examining the corporate tax compliance found that corruption has the significant influence on business compliance. This effect is the consequence of the high tax tariff imposed by the government, so they have the chance to bribe tax officers. However, even though tax rate has influence on tax compliance, it is relatively small. It indicates that companies feel overwhelmed by corruption rather than tax regulation. Another detection was larger firms will be more compliant than smaller firms because they tend to be risky for being audited, since tax officers pay more attention on those who have high possibility to give high revenue like large firms. Then, the government also has to simplify the complexity of tax because it will effect on the compliance, in the way that it can reduce the time spent by managers to discuss tax laws. Overall, it was clear that high tax rate is not a good excuse why taxpayers do not want to declare their actual income, but high corruption is the strong reason why firms go to the shadow economy.

Abdul-Jabbar (2009) conducted the research of Small and Medium Enterprises in Malaysia using eleven variables in establishing the model of non compliance action and doing three model regressions in line with three measurements of respond variables (under-reporting income, over-claiming cost and mixed of them). The main result is that tax complexity and tax audit are related to noncompliance behaviour, where the effect of complexity is very high and audit effect is fair. The findings imply that decreasing tax complexity and increasing the level of audit will support taxpayers to be compliant. Meanwhile, tax compliance cost as the main factor that is examined this study is no significantly connected with noncompliance. Corporate scale, tax rate, law fairness and IRB relation also have no relationship in evaluating the research objectives.

Next research comes from Tedds (2010) who have different ways to engage with tax compliance by generating worldwide data. He used more than 10,000 companies from 80 countries based on the WBES datasets to make comparison across countries. The results revealed that high government corruption has the largest effect on noncompliance by reducing the tax revenue as much as 51.3 %. The high corruption makes the companies to raise their cost and lose their trust in the government. Another finding was that tax rate also affects compliance, in the way that the companies will manipulate their output in line with the higher tax rate. Then, corporate size also has the contribution, where larger firms will be more compliance because they have the larger audited opportunity. Overall, the conclusion of this investigation is that 60% of companies across the countries showed the high tendency to avoid reporting their actual income. However, this study clarified that there will be different performance of compliance in every state, in which there are different factors that will affect the level of compliance.

Palil and Mustapha (2011) reviewed several literatures associated with the concept of tax compliance by considering the definition and measurement, and comparing compliance level among countries. They summarized that there are many factors that affect the level of compliance among countries. For example, USA and Hongkong has been affected by cultural difference, while economic factors have the mixed indication both in positive and negative ways. However, the important conclusion of this study is that tax audit and tax penalties are the necessary to make lower deficiency. In addition, government should review the

tax regulation to increase law enforcement and improve their relationship with taxpayers to lower the deficiency of non compliance.

Juahir et al (2010) has the different focus to test noncompliance by proposing company characteristics such as firm size and audit firm size with business sector as a control variable. There is a negative correlation between company size and noncompliance, in which larger firms is more compliant because they have a better internal monitoring. Thus, the construction industry also has strong connection with misstatement of financial reporting compared to others business type, so it implies that different company sectors has different treatment burdened by tax regulation. However, this study does not reflect entirely to determine the non compliance behaviour because it only involved few variables showed by low R^2, so there are other variables that have to be engaged.

Most recently, Sapiei et al (2014) examined three aspects to determine tax compliance behaviour among corporate taxpayers in Malaysia, namely the compliance cost, firm's types and taxpayer attitudes. They obtained 101 respondents that proxy 21.4 percent of overall respond rate, in which response of questionnaires derived from managerial perspective such as finance manager and accountants who are recognized as having tax knowledge and responsibility to manage the corporate tax. The findings of their study are that tax complexity, firm age and tax liability affect on tax noncompliance behaviour through three ways, that are understatement income, over charged cost and both of them combined. Tax complexity is the most significantly determinant variable, while the compliance cost is insignificant variable that are not related to non obedient action from corporate taxpayers in Malaysia.

Furthermore, the new study from Azrina Mohd Yusof et al, 2014, who conducted the research based on the tax audit substantiation. They verified the finding from Allingham and Sandmo (1972) who concluded that 'tax rate', the detection probability', and 'rate of penalty' influence on tax compliance. Using 282 observations from the companies who were already audited in 2011, they found that the there is no relationship between the tariff of penalty and corporate tax non compliance. The reason behind this result is that the tax authority imposes the low sanction, so the taxpayers will prefer to avoid declaration of true income and get the courtesy to pay the tax penalty. In contrast, the size of business also has the affect with a negative sign. It implies that small companies will be more noncompliance than large companies because the tendency to maintain the reputation is lower than larger business.

However, the tax tariff has effect positively with non compliance, in which it shows that IRBM made a good policy of reducing the tax rate as 3% in 2009. This result shows dependence on the business type, which also did not have connection with the noncompliance behaviour because the perception of taxpayers towards the probability of being audited by IRBM is that IRBM just focus on specific business types without considering all types of industry. In addition, they inform that the limitation of the data of corporate taxpayers created the low R-Square as7.3%, in which there are other factors beside six variables used by this study that have significant contribution to determine the corporate compliance actions.

Indonesian Studies

Furthermore, there are few researches in Indonesia connected to business compliance, in which they focussed with Indonesian cases. First, identification of compliance factor among corporate taxpayer can be checked by involvement of AR. Amilin and Anisah (2008) tested the perception of the roles of AR in the compliance at a STO in Jakarta. They divided the perception of AR into three elements connected with three main jobs of AR, namely servicing, consulting, and controlling. The outcome of this study was that the service excellence that is given by AR showed the positive impact on compliance, so it interprets that AR has good communication with taxpayers to transfer the suggestion and advice in terms of taxation through direct and indirect ways. Meanwhile, giving consultation and monitoring did not have influence to persuade taxpayers to comply with taxation. Therefore, it is needed to increase the ability of AR to perform their tasks, so their job will be more effective to boost the level of compliance.

Secondly, Hani and Lubis (2010) conducted research using 95 samples at a tax office in 2004 and 2005. They concluded that business size, business sector, debt to equity and return on investment have simultaneous influence to the level of compliance, but size of company and the sector of business have no partial effect. The limited variables which only apply four variables of company characteristics aspect causes the low score of R-Square, which means that there are others factor besides this research variables that influence corporate taxpayer obedience such as ethics and moral effect, and tax administration. In addition, the researchers ignored the attitudinal aspects like the human behaviours, which have the high contribution to determine the compliance as expressed by Devos (2014). Overall, they sum up that corporate taxpayer in East Medan STO has fulfilled the compliance indicators along with tax regulation based on the statistic descriptive in testing the samples.

Another study was conducted by Irawan and Sadjiarto (2013) who brought the issue about taxpayer perception towards Account Representative (AR) to investigate the compliance. AR is a tax officer who has direct relationship with taxpayers as supervisor and consultant. 100 respondents participated in this research and showed that the presence of AR is needed to help taxpayers in fulfilling their tax duties. Moreover, based on the formal compliance supervision (timeliness of reporting) which conducted by AR, it will not increase the level of compliance because taxpayers feel that they will get the penalties automatically when they do not report their tax on time even though AR does not perform formal controlling. Meanwhile, taxpayers will be more compliance when AR enforces monitoring in the material compliance, in which they can get audit action with the high sanctions if there is indication of evasion. Overall, this study stated that AR brings the positive effect on the high compliance, so they have to increase their tax knowledge to give tax consultation and tighten the supervision of tax report.

Next, Suyapto and Lasmana (2014) conducted analyses in East Java I regional tax office observing 145 taxpayers with survey approach. They applied a former theory from Allingham and Sandmo (1972) that was used by Palil (2010) as a basic theory to understand the tax compliance, in which combination both economic and non economic theory is the main point of this study. As a result, they found that the financial condition and audit, government spending, and fairness perception have positive effect towards compliance. Tax

fairness as an economic aspect has positively significant effect, it implies that the taxpayer desire the justice in the execution of their obligation. If there are taxpayers who do not get the consequence such as sanction or penalties when they refuse to report their income, the other taxpayers will reduce their compliance because of unfairness.

Meanwhile, the perception of sanctions, tax administration, tax knowledge, and business sector are insignificant in affecting tax compliance. Insignificant variable of corporate sector due to its classification only consists of two categories that are manufacturing and non manufacturing, while non manufacturing itself derived from some sectors such as trade and services. Thus, the trade and services has different requirement in fulfilling tax duties, so it needs expansion the types of company sector. Moreover, the variable of sanction also has the negative relationship with non compliance action which indicates that the sanction imposed to taxpayers can be negotiated through reduction of sanctions. In conclusion, it indicates that nine factors used in this study also have the mix results in affecting business compliance.

The last review came from Hutagalung and Waluyo (2014) who tested the corporate descriptive through the length of business age and company scale. In examining the compliance, the authors focused on formal compliance which is based on the timeliness of reporting whether taxpayers report their tax on time or not. The findings are that the firm age is negative and not significant to determine tax compliance, so it is defined that new firms can be more compliance than old companies. This result also rejects the hypothesis that the old firm will more responsible and more understanding toward how to implement their tax duties. Another result is the business type proxied by total asset influence positively, in which the bigger income business tend to be more compliance. This positive result reflects that the respondents in this research engage in property and real estate sector, in which they are subjected to final tax, so they will be charged the final tax directly in every transaction. It can be concluded that different taxpayers will get different tax handling, depending on the business type and business sector and it, later, will influence on their compliance.

To sum up, most of the studies showed in this empirical evidence apply the theory by Allingham and Sandmo (1972) that concluded the three indicators (tax rate, detection probability, and penalty structure) as the deterrence theory. Then, the theory has also been proposed by Fischer et al (1992), who introduce financial self interest model and expanded model of taxpayer compliance. The previous researcher, as the empirical evidences in this study, combined all aspects to examine the tax compliance among corporate taxpayers by focusing on some variables. For example, while Sapiei et al (2014) concentrate on attitudinal and structure of tax system, Hanlon (2005) and Juahir et al (2010) centralize their study on corporate characteristics. Finally, it can be concluded that these literatures have the same theoretical background used by this research paper, in which the studies about business compliance referred to theory of individual compliance.

Chapter 3
Overview of Taxation in Indonesia

3.1 Introduction

Taxation is an important root to generate national income in most countries, since it is the vital source for the governments to finance their public spending and manage their economy in terms of economic development. Tax itself can be interpreted as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayers receives nothing specific in return' (Lymer and Oats, 2009: 3 as cited by Palil, 2010). It implies that no one deals to pay taxes because it is forced by the tax authority and there are no perceived benefits directly by the taxpayers. However, most of the studies indicated that tax cannot be segregated from the government system of a country because it benefits from both economic and social development. Yalama and Gumus (2013) explained that a government can run the programs for public interest when the expected tax revenue can be reached every year. Moreover, they also stated that the high revenue will make the government reduce its dependency towards the foreign loans. Palil (2010) added the importance of taxation by giving the statement that it can reduce the big income gap among societies by implementation a government policy to redistribute income in order to reach greater social equality.

Taxation in Indonesia also takes the important part of boosting the national revenue and it, then, will increase the economic performance. Arnold (2012) stated that high economic growth will be achieved by fulfilling the needs of public expenditures, so it means that the demand of tax revenue will increase in line with the high spending for the public interest. According to the table 3.1, it has been proved that tax revenue has dominated domestic revenue in Indonesia. For example, in 2013, tax revenue accumulated more than three-fourths of domestic income by 76.68%. 2008 to 2012 also showed the significant percentages of more than 50%. Moreover, as a focus of this study, income tax is also the main source of tax revenue, in which 46.92% of total tax revenue derived from income tax in 2013. The previous year also indicated the same cases where the percentage ratios ranged from 47% to 52%. However, it can also be concluded based on the table 1 that the growth of tax revenue did not show an increment every year, in which it has experienced the reduction by 7.65% in 2012 compared to the tax growth in 2011. It means that the government must take extra efforts how to enhance tax revenue for development goals.

Table 3.1: Tax Revenue in Indonesia

(Billion Rupiah)

Year	Tax Revenue	Total Income Tax	Domestic Revenue	Tax Revenue over Domestic Revenue	Income Tax over Tax Revenue
2013	1,148,365	538,760	1,497,521	76.68%	46.92%
2012	980,518	465,070	1,332,323	73.59%	47.43%
2011	873,874	431,122	1,205,346	72.50%	49.33%
2010	723,307	357,045	992,249	72.90%	49.36%
2009	619,922	317,615	847,096	73.18%	51.23%
2008	658,701	327,498	979,305	67.26%	49.72%

Source: Statistics Indonesia

Furthermore, income tax as the main element of tax revenue in domestic budget has an important influence in Indonesia. Income tax can be defined as the contribution from the individual and corporate taxpayers that is collected by the tax authority to fund this developing country, so income tax is imposed on an individual and corporate related to income that is received during the tax year (Indonesia Tax Laws). Therefore, one of the sources of income tax in Directorate General of Tax (DGT) is corporate income tax, in which it has the highest portion of the total income tax revenue in DGT. As shown in Table 3.2, corporate income tax took the key role from 2008 to 2013 with the percentages of about 40%, so it will be appropriate to examine how the corporate compliance can influence on tax revenue in Indonesia.

Table 3.2: Contribution of Corporate Income Tax

(Million Rupiah)

Year	Total of Non-Oil and Gas Income Tax	Corporate Income Tax	Percentage Ratio
2008	250,479,813.50	106,368,030.40	42.47%
2009	267,569,764.10	120,316,072.60	44.97%
2010	297,859,844.90	131,951,082.30	44.30%
2011	357,986,455.20	155,502,571.30	43.44%
2012	381,203,981.10	152,624,894.10	40.04%
2013	417,656,587.80	155,066,468.20	37.13%

Source: Directorate General of Tax

Comparing with other countries such as Malaysia and Philippines as shown in table 3.3, the contribution of taxes on income and profit in Indonesia is lower than Malaysia as much as 42.5%, but it is higher than Philippines. To be specific, according to the Figure 3.1, corporate taxpayers took parts importantly as much as 25.9% in 2013 even though Malaysia has the highest percentage by 52.8%. It means that Indonesia still has high probability to increase the corporate tax revenue by improving tax compliance rate. Additionally, it can also be concluded that Corporate income tax revenue become a main source of taxes on income and profit comparing with individual income tax.

Table 3.3: Taxes on Income and Profit as percentage of Total Taxation

		2009	2010	2011	2012	2013
Indonesia		47.8	45.8	45.2	43.2	42.5
	Individuals	16.2	15.7	15.8	15.9	16.6
	Corporates	31.6	30.2	29.4	27.3	25.9
Malaysia		65.6	63.4	67.9	69.1	68.6
	Individuals	13.6	15.1	14.0	14.2	13.9
	Corporates	50.3	46.6	51.7	52.8	52.8
Philippines		38.8	39.2	41.7	41.5	41.1
	Individuals	11.4	12.6	13.2	13.4	13.2
	Corporates	25.2	24.6	26.7	26.0	26.1

Source: Revenue Statistics in Asian Countries, OECD (2015)

Figure 3.1: Comparison of Contribution of Corporate Tax Revenue
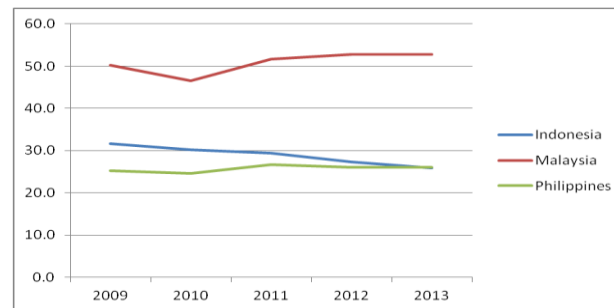
Source: Revenue Statistics in Asian Countries, OECD (2015)

3.2 Tax Reform and Self Assessment System (SAS)

Indonesian tax administration reform in 2002 has been seen as an importunate process to achieve economic growth through increasing tax revenue. There were four main points in conducting this institution reform in Indonesia as stated by Arnold (2012), in which it is related to bad organization structure of tax government, inadequate tax employees, low integrity problem, and high level of noncompliance. First, reformation through re-structuring the institution have been done by establishing Large Tax Offices (LTO) in order to take more attention to large taxpayers who have high contribution to boost tax revenue, so it will reduce tax avoidance among the taxpayers. The next point is that DGT increase the staff performances by giving training programs, so tax officials will have high capability to face taxpayers who have different characters such as various business sectors and company incomes, therefore they will be treated in accordance with tax regulations. The third reform is connected with the public trust. It has become the crucial issue in line with the reporting of corruption involving tax employees, so it needs to improve the internal control and enforcement of strict sanction. Lastly, high compliance level is included in the target of reformation agenda by giving the easy ways to taxpayers in conducting their tax payment and report. DGT renews its system with the introduction of electronic application and tax payment via internet banking, so these are provided to support taxpayers in order to make them to be more compliant. Thus, he concluded that these reforms have brought significant result in increasing tax revenue in Indonesia.

Brondolo et al (2008) also mentioned two main goals of tax reform in Indonesia that are raising tax revenue and driving investment. They explained that the revenue will be raised by holding some programs. The program of taxpayer extension, for example, is one way to increase the number of taxpayers focusing on the individuals or companies with high income. This plan has worked by increasing the number of new taxpayers both high and low income from 2002 to 2005. The result of it brought the high tax revenue in 2005. Besides this program, DGT also implemented the plan to accumulate tax arrears from taxpayers who do not pay tax on time and postpone their payment, which has caused the significant loss of the revenue. This program also showed a good impact of increasing the potential tax revenue in 2005 around 10.5 trillion rupiah. Furthermore, connected with the investment, tax administration has been seen as an obstacle to run the business in Indonesia based on the survey. Therefore, the reformation by establishing LTO gave the positive views

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among companies, in which the tax performance is increased by giving simple tax regulation and the presence of tax officers with good attitudes.

The results of the reform are also supported by Nur-Tegin (2008) who analyses 4,538 companies in twenty three countries in 2002 by doing survey. The author found that tax compliance among taxpayers will increase significantly in the level of one percent as a result of tax reforms by improving tax administration such as low corruption index and reducing tax complexity, with the main finding that corruption is a highly significant contribution to effect low compliance. Moreover, the improvement of tax reformation varies among countries, in which every state does not have the same effect from reforming its institution, but it leads to one goal 'tax compliance'. Therefore, tax compliance will be one of the benchmark of the tax reformation achievement.

Before the administration reform in 2002, Indonesia has adopted a self assessment system (SAS) in 1984, instead of the official assessment system (OAS) that was previously used. This change is aimed at enhancing voluntary obedience among taxpayers and facilitating tax government in collecting tax revenue through a simpler tax system. Okello (2014) even concluded that this alteration took many benefits for the tax institution such as increasing the number of taxpayers, earlier tax return, improvement audit level, and decreasing disputed assessments. Then, there will be a higher revenue because of better compliance and more excellent of tax administration. Meanwhile, Al-mamun et al (2014) pointed out from the taxpayer sight where SAS requires more duty from taxpayers in forms of computational and filling tax returns without interference of tax employees, so it needs more tax knowledge to report their tax correctly, to provide the appropriate data of their actual income and expenses. However, taxpayers can become noncompliance by presenting incorrect tax return because they have independency to declare their tax liability (Hasseldine and Hansford, 2003 as cited by Palil, 2010). Therefore, it needs the high compliance from the taxpayer, and to increase the frequency of tax audit and to tighten regulation from the government that can give penalties to reduce noncompliance actions from the taxpayers both individual and corporate because SAS itself does not have the good measurement in tax administration to check the true tax return from taxpayers (Okello, 2014).

3.3 Tax Compliance

The issue of tax compliance both in developed and developing countries has been a major discussion among researchers since every state indicates different factors that cause noncompliance. Generally, people still have a judgment that taxes are a burden for them, so they will try to avoid taxes which later will be an impediment in achieving economic development. This tax compliance problem should become the main tax policy by the governments in order to reduce budget deficit in most countries such as the United Kingdom and the United States, but the compliance case is not the sole indicator that cause budget deficit (Yalama and Gumus, 2013). In addition, as shown in Table 3.3, Indonesia experienced the budget deficit from 2008 to 2012 and continues until this current year. For example, Indonesia face budget deficit that was 2.4% percent and 2.1% of its respective GDPs in 2009 and 2010.

Table 3.4: Indonesian Budget Deficit/Surplus (Billion Rupiah)

Years	2008	2009	2010	2011	2012	2013
Budget Deficit	-94.5	-129.8	-133.7	-150.8	-190.1	-153.3
Deficit as a Percentage of GDP	-2.1	-2.4	-2.1	-2.1	-2.23	-1.65

Source: Financial Note and Indonesian Budget (Fiscal Year 2013)

Riahi-Belkaoui (2004) used four variables as measurement of compliance rate that are 'high level of economic freedom', 'the important of equity market', 'the effectiveness of law on competition' and 'moral norms represented by low criminal level' will yield low noncompliance. Economic freedom brings the positive effect on compliance by giving the freedom to person in society to be more productive and it makes people have tax moral to obey with their tax duties. Then, the equity in market also gives the good result in terms of compliance, in the way the presence of strong regulation in equity market will open the big chance to buy the public goods and later it makes people more obedient to tax regulation. Next, the fairness of law competition results in the high compliance because it will avoid the less competitiveness and cause higher moral among individuals.

The last factor, moral norm, also has influence upon tax compliance. It means that lower level of crime in one country, the higher the level of moral norms will be, and it, then, creates the higher rate of compliance itself. In addition, this result also confirmed that developed countries have the high level of compliance, but this finding only represented countries in general because the author measured the same variables for every state and they did not consider that every country has the different cause of noncompliance. However, this research has shown that the institutional and moral elements must be counted as the good index to test the compliance level in every country.

Furthermore, Indonesian government via DGT also created the tax policy to solve this issue, in which sunset policy and national tax census were two of taxation programs that has been done in 2008 and 2011 in order to increase the voluntary compliance rate of taxpayers. Sunset policy was opportunity given by the government to taxpayers, in which tax authority will omit tax administration sanctions when taxpayers make the correction of their tax return or when they declare their tax return in case of they did not report previously. As a result, Ardani (2010) reported that sunset policy bring the positive effects for the government, it does not only decrease the level of noncompliance, but it also increase the number of taxpayers, tax return, and tax revenue in Indonesia. Next, national tax census is the tax project in 2012 aimed at two goals, extension and intensification. Intensification itself is aimed at optimizing the taxpayers in conducting their tax duties which later will increase the degree of compliance. Fajriyan (2015) supported the purpose of this program by doing survey focused on individual perception of the taxpayers in Mojokerto which he found that tax census influences significantly in boosting individual taxpayers compliance. It is necessary to have the strong positive perception among individuals toward the census, so this program can be fully implemented in order to improve the obedience against the tax rules.

Related to SAS, Most of the countries applied this system as the concern of tax compliance purpose. However, one risks of the system is that taxpayers will not declare their tax correctly or they will not even report their tax return

every year. Although government has implemented some projects such as national tax census and sunset policy, the rate of non compliance remains high in Indonesia. Unfortunately, even though the compliance rate remains low, the target of tax revenue every year continues to increase as the adjustment of high government spending to boost economic growth. Therefore, it is important to examine determinants of tax compliance behaviour in Indonesia.

Chapter IV
Data and Methodology

4.1 The Profile of Duren Sawit Small Tax Office

Duren Sawit STO is a small tax office in East Jakarta, Indonesia which consists primarily of individual and corporate taxpayers. Thus, there are monitoring and counseling sections that oversee seven regencies: 'Pondok Bambu', 'Malaka Jaya', 'Duren Sawit', 'Pondok Kopi', 'Pondok Bambu', 'Malaka Sari', and 'Klender'. In addition, these sections also consist of around twenty account representatives (AR) who are tax officers with obligation to supervise and give tax consultation to taxpayers. Moreover, the STO has 7,416 effective company taxpayers and 100,983 effective individual taxpayers who are under the responsibility of AR in 2015. Generally, the diagram below shows the organization structure of small tax office at Directorate General of Tax in Indonesia.

Figure 4.1: Organization Structure of Small Tax Office
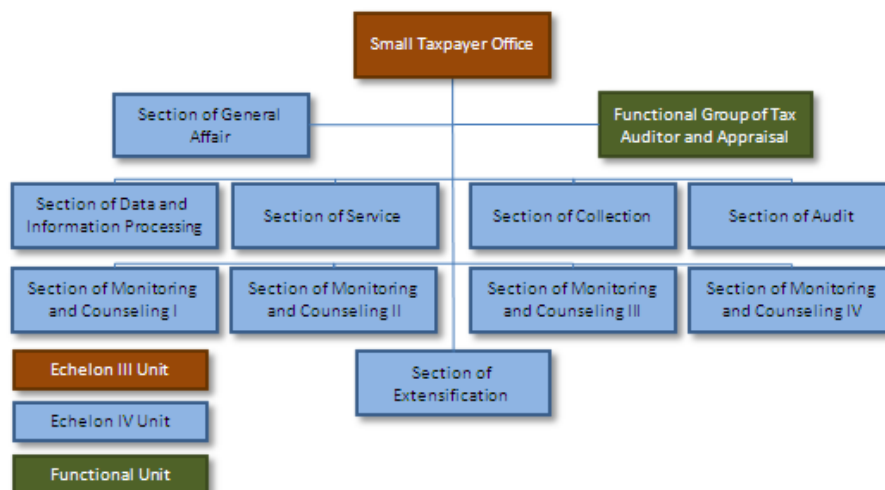
Source: Directorate General of Tax

A further look inside of the corporate taxpayers show that primary businesses the STO takes care of are in trade and services in certain scale transactions, which also become the focus of this study. As the taxpayers who run businesses, they must be registered as corporate taxable enterprises to get tax invoice number for running their business and they, then, have the obligation to report their income tax return annually at the tax office. The STO itself has 2,766 company taxable enterprises in 2015 with different corporation types such as limited corporations, 'commanditaire vennootschap'/limited partnership, cooperative, foundation, and joint operation. Moreover, in carrying out their business, they have to issue or get tax invoices and then report their transactions monthly in forms of value added tax (VAT) both output and input VAT.

4.2 Data

This research is conducted in Duren Sawit Small Tax Office (STO) in Jakarta, Indonesia, in which the rate of compliance in this office remains low and stable referring to national compliance ratio by 56.19% in 2013 with 47.89% for corporate compliance tax ratio. Moreover, this study has the objective to determine the factors that affect the compliance behaviour through two approaches, which are corporation characteristic and company attitudes, and will focus on corporate taxpayers who are registered as corporate taxable enterprises[1]. Corporate taxable enterprises are selected because they are obliged to collect their tax and report their tax return every year, and they also should have business transactions by issuing tax invoices. Furthermore, in testing the objective of this research, it will involve two data with two methods separately due to the limitation of data at the tax office and incomplete questionnaire returned by respondent in terms of corporate profile. To complete all of the research questions, it needs to apply separated data, in which the secondary data derived from tax system manually at Duren Sawit STO and primary data are obtained by questionnaire distribution which is also conducted at the Duren Sawit STO. The detailed information about both of the data will be explained separately as follows:

Secondary Data

First, the secondary data available at the STO consist of 'firm age', 'business size', 'business sector', 'section group' and 'previous tax return' in 2012 as the dependent variables, and the taxpayer position either they are compliance or noncompliance in 2013 as the respond variable. The indicator of respond variable is limited only formal compliance, in which compliance requires reporting the tax return on time, and noncompliance considers both not reporting tax return and late reporting tax return The description both predictor and respond variable is shown in Table 4.1 including variables classification to create dummy in the regression.

Then, the data obtained at STO will examine corporate compliance behaviour using data in 2013 because the compliance rate in 2013 did not show the progress after more than 10 years of tax reform in Indonesia. In addition, there are several improvements related to tax regulation in 2013 such as the method of reporting tax return by e-filling, in which it causes different condition from taxpayer behaviour after new rule applied. However, the change of new system has been not implemented entirely for corporate taxpayers at Small Tax Office including Duren Sawit STO, but the introduction of new system has been done by tax officers. Another reason is that data of tax return from corporate taxpayers who did not report their tax using e-filling will be inputted manually by tax employees, so the current tax data over 2013 has not fully showed in the tax data system.

Moreover, taxpayers who are selected are those who have already registered as the taxable enterprises before 2013. It reflects that companies have

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[1] Generally Corporate taxpayers are divided into two, namely corporate taxable enterprises and corporate non taxable enterprises. Companies who run the business by trade in goods and services must registered as the taxable enterprises.

become corporate taxable enterprise for years. Therefore, they should have tax knowledge and understand their rights and obligation of taxation such as how to report their tax related to tax filling and time of tax reporting, and how to consult with tax officers to avoid errors in implementing tax regulation. If they have been registered as the taxpayers before 2013, they should have had one year to adjust their knowledge before reporting tax in 2013 and they are also already familiar with income tax return. These reasons are the basis of determining the number of corporate taxable enterprises at Duren Sawit STO in this study.

Furthermore, recently corporations at Duren Sawit STO have been separated into three sections. Section 2 consist of 617 firms, section 3 is about 490 companies and 653 in section 4, while 319 companies are controlled by extension region because they are new firms at the STO. However, in 2013, the tax officers, account representatives, were divided into four sections based on the seven regions at Duren Sawit sub-district. Next, narrowing population based on the year of this study, there are 1096 companies who are taxable enterprises below 2013 that can be the research population to examine the corporate characteristics aspect. Next, 389 samples are chosen by selecting only for corporate taxpayers who are in Duren Sawit sub-district and they have legal entity as limited corporation and commanditaire vennootschap/limited partnership, so it represents 35.49% of total 1096 companies of six regions.

Table 4.1: The Variables Description and Categorization

Variables	Description	Classification
Business Age	The length period of corporate taxpayer as corporate taxable enterprises with 2013 as tax base which measured from the registered date.	It will be divided into two categories that are less than five years and above five years for only statistics descriptive.
Business Size	The proxy is business type, in which the limited corporation is characterized as the large firm and commanditaire vennootschap is included as the small firm.	It will be divided into two, 1 for large firms and 0 for otherwise.
Business Sector	Company sector based on the taxpayer profile in tax system which is there are two types most business sector in Duren Sawit area, namely trades and services.	It will be divided into two, 1 for services and 0 for otherwise.
AR Performances	The region of corporate taxpayers can be selected as the proxy of tax officers, in which tax officers are divided into four sections at the STO based on the business location of the taxpayers.	1. Section I (Pondok Bambu). 2. Section II (Duren Sawit and Pondok Kopi). 3. Section III (Pondok Bambu). 4. Section IV (Malaka Jaya and Malaka Sari).
Previous Tax Return	The behaviour of corporate taxpayer to be compliance or not in 2012 can be indicator to measure their action in the next year.	It will be divided into two, 1 for compliance and 0 for otherwise.

Survey Data

The primary data in this research will be conducted by survey methods through distribution questionnaire at Duren Sawit STO, in which perception of tax complexity, tax rate, sanction, fairness, psychology cost, and corruption perception as the attitudinal aspect will be obtained. Most researches examining the tax compliance to know the taxpayer reaction towards attitudinal aspect applied the survey method (Kamdar, 1997; Nur-Tegin, 2008; Abdul-Jabbar, 2009; Sapiei et al, 2014). The survey approach for corporate taxpayers is based on the managerial preferences, in which the managers of employees who are responsible for their companies' tax obligation are assumed knowing corporate tax regulation and can represent their companies to complete the tax duties. Joulfaian (2000) found the evidence that managers are influential against corporate noncompliance, in the way that employees who do not comply to report their individual income tax will be a negative effect for their firm in terms of corporate tax compliance. In addition, he stated that manager preferences against tax risks and individual honesty are very important to determine the behaviour of corporate taxpayers.

Furthermore, there are 150 companies to be the targeted respondents. Selected method to examine the attitudinal aspect which selected targets are used because the research population is large and it is dependent on the taxpayers who come to the tax office in the period time of questionnaire distribution. Then, the selected respondents in this survey are the managers who come to the STO representing their companies in the period of survey. In addition, the distribution of questionnaire will be directed by a tax officer in servicing section, a part of Duren Sawit STO. This tax officer will be responsible for giving the number of tax invoice to managers or company directors who come to the STO immediately, while they will be the target of this research[2].

Next, the questionnaires that are distributed to taxpayers consist of five sections. Section 1 confirms the corporate characteristics such as the firm age and business sector. Section 2 is about tax compliance cost. Section 3 has twelve statements linked with the opinion of taxpayers towards taxation measure by six-point Likert scale[3]. Then, there are ten statements related to the taxpayer perception about corruption at Directorate General of Tax in section 4. Lastly, section 5 observes respond variable consisting of two scenarios of taxpayer behaviour that are undeclared income and overstatement of costs measured by six-point Likert scale. Therefore, this survey adopts the material compliance connected with the unreported income and overstated costs. The table below describes the variables that are used in this survey referring the previous research from Sapiei et al (2014) with some modification to adjust with taxpayers in Indonesia.

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[2] During the distribution of the questionnaires, some of the respondents were also interviewed to know their opinions more detailed.

[3] Section 3 which has 12 questions are divided into some variables, in which the respondents will be given the three questions about tax complexity, three questions of tax rate structure, two statements of law fairness, three statement of tax sanctions and penalties, and two opinions about tax psychological cost.

Table 4.2.: Description of Attitudinal Aspect in Survey Method

Variables	Description	Number of Questions
Tax Law Complexity	The three questions reflect complexity preparation of tax return, tax regulations, and the difference treatment among taxpayers.	3
Tax Rate Structure	The questions refer to fairness toward tax rates that are flat tariff, proportional tariff, and progressive tariff.	3
Tax Deterrence Sanctions	The opinion of tax audit, probability of detection, and tax penalties are included in the questions.	3
Tax Law Fairness	This variable examines the fairness of tax law through the taxpayer perception of moral obligation and SAS system.	2
Tax Psychological Cost	The stress level of managers in preparation of corporate tax return.	1
Corruption Perception	It is the attitude of companies that represented by managers related to the news about corruption in DGT.	5

4.3 Methodology Analyses

This research applies two methods to observe two data both secondary and primary with one objective that is to determine the compliance behaviour among corporate taxpayer at Duren Sawit STO in Indonesia. There are two main models connected with these two types of data as follows:

Model 1:

$$\log\left(\frac{\mu_i}{1-\mu_i}\right) = \mathbf{x}_i'\boldsymbol{\beta} \; ; \; \mu_i = \Pr(ATR_i = 1|\mathbf{x}_i', \boldsymbol{\beta}) \; ; i = 1,2,\ldots,n$$

with μ = probability of being compliance

Model 2:

Compliance =   f (tax complexity, tax rate, sanctions, law fairness, psychological cost, corruption)

The secondary data from Duren Sawit STO will be analyzed using logistic regression with the first explanation about descriptive analyses among variables. Logistic regression is used to test the compliance attitude because respond variable in this model is categorized into two. They are 0 for noncompliance and 1 for compliance. Dummy variables are used in several variables where the decision in categorizing every variable considers the regression analyses and normal distribution. The variable of AR performances will be used as

the control variable which is divided into four group based on the zoning at the STO. It consists of group 1 ('Pondok Bambu' and 'Malaka Jaya'), group 2 ('Duren Sawit' and 'Pondok Kopi'), group 3 ('Pondok Kelapa') and group 4 ('Malaka Sari' and 'Klender')[4].

Furthermore, the second data of survey approach are reviewed by statistics descriptive considering frequency and mean analyses, in which every statement will be discussed separately to know the perception of taxpayers in different dimensions of every variable. Next, testing relationship between tax compliance behaviour and tax attitudes is done through correlation analyses to know the connection between non compliance behaviour with respond variable using spearman's rank correlation. Finally, three multiple regression analyses will be conducted to identify three different scenarios of non compliance actions, namely understatement of income tax, and over charged of company costs, then combining both of two scenes.

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[4] Every monitoring and consultation section has five or six account representatives who have responsibility to control and give spoken and written consultation to the taxpayers. Therefore, the section can be a proxy of AR performances in this study.

Chapter V
Result and Discussion

This research identifies the factors that will influence tax compliance behaviour of corporate taxpayers through both characteristics aspects such as firm age, business sector and business size, and attitudinal aspects such as tax complexity, tax rate structure, tax law fairness, the perception towards penalties, psychological cost, and corruption. The measurement of these two aspects will be organized into two methods separately. The first method involves the secondary data based on the availability data at the Duren Sawit STO tested by logistic regression and the second method requires the survey data examined by multiple regressions. Therefore, the result of these two approaches will be discussed severally to reach one objective of determining corporate taxpayer compliance action.

5.1 First Investigation using Secondary Data

Examination on compliance affected by the corporate characteristics such as firm age, business types, company sectors and previous report of tax return will be discussed in this part, in which there will be region difference based on monitoring and counselling sections by AR (Section I to IV) as a control variable, namely AR performance. This is due to the fact that every taxpayer has difference regions and different account representatives, in which AR have influence to persuade taxpayers to obey the taxation by giving information and consultation related with tax to taxpayers. Then, this part will be reviewed by statistics descriptive comparing the frequency of compliance and by logistic regression.

Descriptive Analyses

According to the table 5.1, the level of compliance in 2013 was high with the percentage 67.61% compared to non compliance level. It is probably because the taxpayers in this study are corporate taxable enterprises who have the business transaction using tax invoices. However, the number of corporate taxpayer who complied in reporting their tax return in 2013 showed a reduction from 2012 as much as 74.04%. The calculation from the table implies that the respond rate for the taxpayers who have worked for more than five years and less than five years is comparable, while business in Ltd Corporation showed higher response as much as 80.21%. In addition, services sector also is the high respondent in this study. The last result from the table compares the four sections at the STO, in which section II performed the highest percentage response as much as 30.08%.

Looking at every section to compare the compliance level, area II has the highest compliance, while section I performs the highest non compliance and the lowest compliance. It implies that the behaviour of AR who are responsible for monitoring the different taxpayers based on their location influences the compliance level, in which Section I ('Pondok Bambu' and 'Malaka Jaya' area) needs to increase AR actions in monitoring and controlling taxpayers in their region. Overall from the table, it is indicated that all variables shows a high

percentage of compliance in 2013 when it is separated based on the respective dummy categories. For instance, service sector has a high ratio of compliance percentage compared non compliance percentage, and the business type of limited partnership also disclosed the greater number of obedience. Finally, the table also revealed that companies which became the object of this research reveal high compliance in line with the length of their business operation.

Table 5.1.: Secondary Data Descriptive

Variables		Compliance		Non Compliance		Total
ATR-2013	-	263	67.61%	126	32.39%	389
Age	< = 5 years	105	55.56%	84	44.44%	189
	> 5 years	158	79.00%	42	21.00%	200
Business Type / Scale	Ltd Corporation	205	65.71%	107	34.29%	312
	Limited Partnership	58	75.32%	19	24.68%	77
Sector	Services	178	65.68%	93	34.32%	271
	Non Services	85	72.03%	33	27.97%	118
Section	Section I	54	65.06%	29	34.94%	83
	Section II	82	70.09%	35	29.91%	117
	Section III	69	69.00%	31	31.00%	100
	Section IV	58	65.17%	31	34.83%	89
ATR-2012	Compliance	239	82.99%	49	17.01%	288
	Non Compliance	24	23.76%	77	76.24%	101

Statistical Analyses

Logistic regression analysis was conducted to determine the corporate taxpayer compliance. There are four regression analyses carrying out repeatedly based on the four sections of AR at the STO as the control variable. The result showed in Table 5.2 on 389 observations indicates that there are only two of five variables in all models which have influence significantly towards tax compliance, namely 'firm age' and reporting from previous tax return. Meanwhile, 'business scale', 'corporate sector' and 'AR performances' do not have influence determining compliance rate. Moreover based on the estat classification test, it implies that the model is fit to explain the influence of variables as much as 81.23%, when in fact the models are only able to determine tax compliance as around 25% and the rest is explained by other factors excluding in these variables. The discussion below gives the detail explanation of every variable as the factor of tax compliance determination.

Corporate Age:

The firm age is considered as one of the many factors affecting corporate taxpayer compliance. Nevertheless, there is no substantial difference among models to explain the marginal effects. In the first model, corporate taxpayers who run the business longer in Pondok Bambu and Malaka Jaya are more possible to report their income tax return by 1.67 percentage point than those who operate the business in the shorter period in the first section. This interpretation also applies in model 2 until 4 which have percentage as much as 1.68%, 1.64% and 1.68% in different locations depending on the every section. This result implies that the older taxpayers will be more compliant than taxpayers who are new registered as the taxable enterprises at the STO.

This supports the study from Sapiei et al (2014) and Abdul-Jabbar (2009) who explained that older firms have more compliance attitude than new companies in terms of formal compliance. In contrast, Hutagalung and Waluyo (2014) rejected this relationship, by stating that new firms might be more obedient than long-time business operations. Indication of the mix result can be connected with the tax knowledge and experience of taxpayers. Old firms have good tax knowledge in correlation with submitting their income tax returns, the consequence of tax sanctions, and the presence of AR in monitoring. Moreover, old firms usually have larger business, so they must show their tax performance to their business partner.

Previous Tax Return:

Submitting the previous tax return in 2012 becomes the most significant factor to detect the compliance action among corporate taxpayers, with one percent level of significance. The sign of this marginal effect is positive for these four models. In model 1, 2 and 4, it can be defined that corporate taxpayer who show compliance behaviour to report their tax in the previous year have the probability by 38.7 percentage point to submit again in the next year, while it will be 38.9% for model 3 which focuses on Pondok Kelapa area. However, the lack evidences of tax return previously which became consideration by prior researchers create a new finding in this paper with strong relationship with compliance action. The result concludes that the positive behaviour of taxpayers to report their income tax return in one previous year indicates the high possibility to declare their tax report again in the next year.

Business Scale, Business Sector and AR Performances

These three variables do not give the affect on corporate compliance with the level of significance of more than 10%. However, the sign can be interpreted to give the explanation related to the direction of influence. For example, the corporate scale. Large firms represented by limited corporations are less likely to be compliant, by 0.06 percentage point lower than the small firms indicated by limited partnerships/CV in Model 1. In Pondok Kopi and Duren Sawit (Model 2), there are only 0.02% small firms which are more compliance than the big firms. This insignificant relationship brings the same findings with the previous studies (Hani and Lubis, 2010; Abdul-Jabar, 2009), but it is contrast with Juahir et al (2010) who stated that business size influence the compliance positively because of the effective internal controlling within companies. It implies larger firms have strict monitoring of financial reporting, and it, later, causes the high commitment to report their tax. Moreover, bigger companies must maintain their reputation towards their business partners, so they will be more obedient than smaller firms (Azrina Mohd Yusof et al, 2014).

Nur-tegin (2008) also added the reason why larger firms are more likely to be compliance than smaller firms. He explained that they have become the main target of tax officers to boost the high tax revenue. It means that larger firms have greater potential to increase the revenue than smaller firms, so it becomes easy for small enterprises to be invisible. Therefore, it can be concluded based on the previous researchers that the level of internal monitoring within firms at the STO is still low either smaller firms or larger firms. In addi-

tion, the level of tax audit conducted by tax officers is also at low rate, so the bigger companies still have tendency to evade taxes. However, some different findings upon the influence of company size toward compliance also refer to different proxy used by researchers. This study divides the business size using two business types that are Ltd Corporations and Limited Partnership, while Juahir et al (2010) used the total company sales to represent the company size and Nur-tegin (2008) used the number of employees within the company based on the survey dataset.

Regarding the company sector, although the result shows it has no effect with tax compliance, it can be summarized from the first model that taxpayers who run the business in services sector tend to have less probability to submit their tax return by 6.32% than those who operate the business in trade sector. It shows the same result for the Model II, III, and IV with the percentage of 6.48%, 6.51%, and 6.87%. This result is inconsistent with the descriptive statistics as shown in Table 5.1 which indicates that services sector is more compliance than trade sector. It is also contrary to Hanlon et al (2005) who stated that business sectors have strong connection with noncompliance. However, this insignificant finding is in line with some studies (Suyapto and Lesmana, 2014; Hani and Lubis, 2010; and Azrina Mohd Yusof et al, 2014), which implies that there might be a connection with tax audit by tax officers who focus only on specific sectors, so it gives an opportunity for taxpayer to take the risk of avoiding tax.

Next, testing the variable of AR performances represented by sections which have four areas to monitor and control the taxpayers give different direction every section. For instance, 'Pondok Kelapa' area in the section 3 of third model has the positive mark, and it suggests that companies in this area are more likely to obey with tax regulation with 3.28% higher probability than other sections. In contrary, corporate taxpayers who operate in 'Klender' and 'Malaka Sari' included in the fourth model will be less likely to comply with their tax duties as much as 3.27% than other sections at the STO. Lastly, the first model indicates the same explanation with the Model IV as much as 1.80% negatively and the second model shows the same result with the Model III as much as 1.17% positively. However, this variable gives insignificant effect on corporate compliance for all model, it implies that AR performance cannot be used to explain the business compliance partially.

Based on the study by Amilin and Anisah (2008), AR who have the good relationship with taxpayers will later result in the tax compliance. However, as tax supervisor and adviser for taxpayers, AR have no ability to increase the corporate compliance. It implies that AR have to improve their skills in forms of monitoring and consulting in order to encourage taxpayers to fulfil their tax obligation. Moreover, this finding also has same argument with Irawan and Sadjiarto (2013) who stated that AR do not have relationship with tax compliance in formal definition. It means that, there is no different taxpayer treatment either compliance or noncompliance when it is only connected with timeliness of reporting, in which the penalties will be imposed automatically without the supervision of AR if taxpayers report their tax overtime.

Table 5.2: Logistic Regression based on Four Groups

Variable	Logistic Regression							
	Model I (Section I)		Model II (Section 2)		Model III (Section 3)		Model IV (Section 4)	
	Marginal Effect	Coeficent	Marginal Effect	Coeficent	Marginal Effect	Coeficent	Marginal Effect	Coeficent
Firm Age	0.0167*	0.1124*	0.0168*	0.1132*	0.0164*	0.1108*	0.0168*	0.1131*
Age*2	-0.0005	-0.0030	-0.0005	-0.0031	-0.0004	-0.0030	-0.0005	-0.0031
Business Type	-0.0006	-0.004	-0.0002	-0.0012	0.0008	0.0053	0.0007	0.0050
Company Sector	-0.0632	-0.4259	-0.0648	-0.4363	-0.0651	-0.4391	-0.0687	-0.4635
Previous Tax Return	0.3901***	2.6285***	0.3897***	0.2625***	0.3921***	2.6443**	0.3905***	2.6335***
AR Performances	-0.0180	-0.1215	0.0117	0.0788	0.0328	0.2212	-0.0327	-0.2207
Prob > Chi2	0.0000		0.0000		0.0000		0.0000	
Pseudo R2 (Logit)	0.2535		0.2534		0.2543		0.2542	
Number of Observation	389		389		389		389	

Significant at 10% (*), 5% (**), and 1% (***)

5.2 Second Investigation using Survey Data

Examining the perception of corporate taxpayers towards their attitude to be either compliance or noncompliance has been done by distributing questionnaire at Duren Sawit STO. Selected respondents were chosen and given the questionnaire when they come to the tax office for asking the number of tax invoice, in which it engages managers or company directorate. Then, the questionnaire is divided into five sections related to respondent profile, compliance cost, attitudinal view, the corruption perception, and non compliance scenarios. However, the part of compliance cost (the second part of the questionnaire) will not be used in this study because some respondents did not understand with the questions and they did not fill it completely. Moreover, there are only five of ten questions in Section 4 (Corruption's perception) that will be applied in this study for analyses purpose. Then, the result of this survey is that there are 91 respondents who are willing to fulfil the questionnaire during the period of survey, while the target of respondent is 150. The reason is that not all taxpayers are willing to fill out this survey because they have limited time and some of them are worried if it will be used to conduct the investigation audit.

Furthermore, there are 85 of 91 questionnaires that will be used in the regression analyses because some of respondents did not answer the first part of questionnaires completely such as the variables of firm age and company sectors. Then, the descriptive analyses of 85 data will be explained by showing the percentage of attitudinal aspect and compliance actions scenario. As the result, this survey has been divided into two group of age for the statistics descriptive: below five years as new firms and more than five year as old firms. There will be 39 companies (45.88%) categorized as the new firm and 46 firms (54.12%) is the companies who founded more than five years. Then, regarding the business sectors, 47 firms (55.29%) operate in the services sector and 45.71% of companies run the trade sector. Moreover, the other profiles of respondent such as tax liability and business income are ignored from this research due to some respondents did not remember about their tax data. In addition, some of the respondents are also the newly registered firm less than one year, so they do not have complete income report based on the fiscal year.

Descriptive Analyses

The first step of the analyses will consider reliability and validity test as showed by Table 5.3 and Table 5.4. According to the Tables, A Cronbach's alpha scores are between 0.6082 and 0.8572 which indicate that the measurements applied in this paper are generally acceptable 0f 0.6. Hair (1998) stated that low Cronbach's alpha value can be accepted as the measurement when the study is conducted with small observation. Moreover, the validity of the questionnaire is evaluated as an analysis factor using the rotated component matrix, in which it will involved variables with more than one questions that are 'tax law complexity', 'tax rate structure', 'tax deterrence sanctions', and 'corruption's perception'. The analyses convinced that all questions are valid to assess the variables and the related items in every variable are correlated.

Table 5.3: Reliability Test of Tax Attitudinal Aspects

Attitudinal Aspect	Mean*	Standard Deviation	Number of items	Cronbach's alpha
Tax Law Complexity**	3.61	1.24	2	0.6082
Tax Rate Structure**	4.44	1.13	3	0.8572
Tax Deterrence Sanctions	4.85	0.87	3	0.7524
Tax Law Fairness**	4.84	0.83	1	-
Tax Psychological Cost	3.08	1.07	1	-
Corruption Perception	4.64	0.89	5	0.7877

* Means scores measure completed questions of each aspect.
** One question of every aspect was taken out to get an acceptable alpha coefficient.

Table 5.4: Rotated Component Matrix for Factor Analysis

Variable	Tax Attitudinal Aspect			
	Complexity	Rate Structure	Sanction	Corruption
TLC2	0.8484			
TLC3	0.8484			
LR Test	0.0000			
TRS2		0.9374		
TRS3		0.9374		
LR Test		0.0000		
TDS1			0.7252	
TDS2			0.8337	
TDS3			0.8868	
LR Test			0.0000	
Corr1				0.8090
Corr2				0.7748
Corr3				0.6439
Corr4				0.6775
Corr5				0.7828
LR Test				0.0000

The next analyses analysis will overview the corporate perception through fifteen statements of five variables in section 3 of questionnaire, five statements related to corruption view in section 4, and two scenarios of noncompliance behaviour. Then, every statement is measured using a six-point Likert

scale, but these responses of every question are divided into three groups for statistics descriptive purpose. The corporate taxpayers who gave the response 'strongly agree' and 'agree' are categorized as a single answer, while those who react 'strongly disagree' and 'disagree' are also grouped a single response. Similar action is conducted for those who showed 'somewhat agree' and 'somewhat disagree' as neutral perception. Moreover, some of statements are re-encoded to get the same direction with other statements in analysing each variable. In addition, mean scores were also used in analysing both every statement and every variable of attitudinal aspect, in which the mean value are in the original score of a six-point Likert scale. Next discussion will review all statements used in this study both the independent variable and the dependent variables including a new variable that is the corruption perception.

The first three statements summarize company perception towards tax law complexity as shown in Table 5.5. 38.82% of the respondents disagreed if the preparation of tax return is difficult, and are compared to 36.47% of those who agreed (TLC1). This condition represents the small tax office which consists of small companies with the certain income and they have simple forming in reporting income tax return. The second statement (TLC2) shows the neutral condition of respondent connected with simple and understandable tax law in Indonesia. This result is supported with the second rank of this statement (36.47%) which leans to agree if tax law is easily understood. The last, based on the mean at third question (TLC3) of 4.34, most of respondents tend to choose the complexity in order to get the fairness of tax law in reporting their tax return. In conclusion, the average of overall these tax law complexity statements (TLC) imply that the present of the complexity is quite fair in implementing tax for corporations with the means as 3.61.

Table 5.5: Tax Complexity Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
TLC1	3.54	1.55	33	21	31	85
			38.82%	24.71%	36.47%	
TLC2	3.76	1.39	20	34	31	85
			23.53%	**40.00%**	36.47%	
TLC3	4.34	1.02	5	38	42	85
			5.88%	44.71%	**49.41%**	
TLC	3.61*	1.24	-	-	-	85

*mean score of complexity after omitting TLC3 to get an acceptable alpha coefficient and TLC1 is reverse coded.

Next, Table 5.6 reports the review of the fairness of tax tariff, in which tax authority imposes the flat rate of 25% related to corporate income tax. Respondents are given three expressions about three types of tax tariff, namely flat tariff (TRS1), proportional tariff (TRS2) and progressive tariff (TRS3). The table represents that respondents felt the fairest with progressive tax rate as 61.18% compared to same rate (57.65%) and comparable tariff (51.76%). However, the means overall has the high score as 4.44 (TRS), in which it draws a conclusion that the current applicable rate is fair and accepted by all respondents. This conclusion is also supported by the highest percentage of TRS1 rep-

resenting flat rate, in which 49 respondents agreeing that the tariff in Indonesia tops the 14.12% of disagreeing respondents.

Table 5.6: Tax Rate Structure Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
TRS1	4.27	1.28	12	24	49	85
			14.12%	28.24%	**57.65%**	
TRS2	4.27	1.12	7	34	44	85
			8.24%	40.00%	**51.76%**	
TRS3	4.60	1.28	6	27	52	85
			7.06%	31.76%	**61.18%**	
TRS	4.44*	1.13	-	-	-	85

*mean score of TRS after omitting RATE1 to get an acceptable alpha coefficient

The next part is three questions associated with sanction and penalties that will be charged to taxpayers as a result of non compliance for their tax obligation. These three opinions have a correlation with actions from tax officers who enforce tax audit, the probability of being detection and how severe the punishment. According to table 5.7, it is clear that most of taxpayers assume that noncompliance is not to be conducted because they think that there is high probability to be audited as much as 83.53% (TDS1) and cheating is likely to be found in audit process as much as 65.88% (TDS2). After that, they also take presumption with the percentage as 67.06% (TDS3) that they will get high penalties when the tax officers can find the difference between the real financial report and reported financial statements during auditing. Overall, the mean score is 4.85 (TDS) taking conclusion that the respondents realize that non compliance is the poor proceeding to sanctions.

Table 5.7: Tax Deterrence Sanction Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
TDS1	5.20	0.94	2	12	71	85
			2.35%	14.12%	**83.53%**	
TDS2	4.76	1.05	4	25	56	85
			4.71%	29.41%	**65.88%**	
TDS3	4.58	1.19	7	21	57	85
			8.24%	24.71%	**67.06%**	
TDS	4.85	0.87	-	-	-	85

Then, the next survey is on the fairness in terms of tax law, which are moral obligation among firm employees (TLF1) and perception of self assessment system (TLF2). The result shown in Table 5.8 indicates 70.59% of respondents views agree that employees among companies have a principle to declare actual corporate income tax compared to disagreement opinion as much as 2.35%. Meanwhile, 64.71% meets a deal that SAS in Indonesia is fair enough of a tax system, which means they prefer to report their tax return without government's interference. This is contradictory to another opinion

from a few taxpayers, which is as much as 3.53%, who stated that SAS is not good system applied by tax government. Overall, the tax regulation in Indonesia has been categorized as the fair tax law with the mean as 4.84 (TLF).

Table 5.8: Tax Law Fairness Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
TLF1	4.84	0.83	2	23	60	85
			2.35%	27.06%	**70.59%**	
TLF2	4.67	0.88	3	27	55	85
			3.53%	31.76%	**64.71%**	
TLF	4.84*	0.83	-	-	-	85

*mean score of TLF after omitting TLF2 to get an acceptable alpha coefficient

Last question in this second section of the survey discusses the anxiety and stress caused by the tax regulation. The high stress level among taxpayers to complete their income tax every year is deemed to be greater level of non compliance. The result showed in table 5.9 expresses the neutral condition with the percentage of 65.88% from total taxpayers' responses, and this average point is supported by the same score of the mean of 3.08. In addition, comparing between disagreement and agreement position, 21 respondents who feels no stress facing the tax rule in Indonesia is higher than respondents who feel high pressure to fulfil their tax duties annually, which perform the percentage of 9.41%. In general, the result shows the neutral condition related to tax psychological cost measured by level of pressure.

Table 5.9: Tax Psychological Cost Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
TPC	3.08*	1.07	21	56	8	85
			24.71%	**65.88%**	9.41%	

*mean score of TPC after re-coding

Furthermore, respondent's view concerned with their attitude towards the corruption is structured in Section 4 of the questionnaires. Five statements regarding with the high level of corruption in Indonesia especially at DGT were distributed to know their action when the government conduct bad policy and bad behaviour related to corruption. All statement posed to taxpayers in this survey who give a negative outlook related to the government if there is an indication of corruption are shown in table 5.10. For example, 74.12% of respondent (CORR1) will avoid the tax if they feel that the government are unfair in terms of distribution, 69 respondents bring the negative opinion regarding with the poor utilization of tax revenue (CORR2), 58.82% of 85 respondents do not report their tax when the government utilizes the tax for immoral programs (CORR3), 62.35% compared to 14.12% and 23.53% of total respondent (CORR4) will also give bad comment if taxes they pay have negative effect to the society, and the last statement (CORR5) related to the corrupters and their relations has 67.06% agreement toward opposing them through noncompliance behaviour. In conclusion, the mean score of 4.64

(CORRUPT) indicates high negative perception in society connected to the tax corruption in Indonesia, in which they will not pay and report their tax if the corruption remains high.

Table 5.10: Tax Corruption Perception Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
Corrupt1	4.67	1.10	7	15	63	85
			8.24%	17.65%	**74.12%**	
Corrupt2	5.11	1.21	7	9	69	85
			8.24%	10.59%	**81.18%**	
Corrupt3	4.42	1.26	8	27	50	85
			9.41%	31.76%	**58.82%**	
Corrupt4	4.36	1.29	12	20	53	85
			14.12%	23.53%	**62.35%**	
Corrupt5	4.64	1.21	9	19	57	85
			10.59%	22.35%	**67.06%**	
Corrupt	4.64	0.89	-	-	-	85

The last description concerning the action of corporate taxpayers in terms of reducing their income and increasing their expenses is expressed in Table 5.11. Section 5 of this survey discusses two scenarios of noncompliance actions using six-point Likert scale, in which high score reveals that they will do bad preparation in reporting their income tax return by manipulating their financial statements connected to income and cost. These two scenarios reflect the material compliances that are under-reporting income and overstatement cost. Therefore, it will be different with the first investigation using formal compliance by secondary data, in which it focuses on timeliness, while this second discussion will use material compliance.

In the first action, the taxpayers are asked upon their agreement to not report their selling of 50 million rupiah of the revenue when they make a financial statement for tax return. Most of them deny this behaviour with the percentage of 71.76% as opposed to only 8.24% of agreement. The second scene is linked with the company cost, in which they are asked to include their private cost in the company expense. 38.82% of respondent will not claim the cost and do not put the cost in company financial statement. However, the number of respondent who answered positively to this is quite big, which is 36.47%, so it means that it is likely that the taxpayers will use this scenario to reduce their income tax. To conclude, the result of both actions is combined by the one score which is 4.09 after re-coding the score to know the compliance level from the noncompliance scenarios, so it interprets the low level of noncompliance among corporate taxpayer at the Duren Sawit STO.

Table 5.11: Non Compliance Behaviour Summary

	Mean	Std.Dev	Disagree	Neutral	Agree	Total
Action1	2.39	1.05	61	17	7	85
			71.76%	20.00%	8.24%	
Action2	3.42	1.43	33	21	31	85
			38.82%	24.71%	36.47%	
Both Action	4.09*	0.98	-	-	-	85

*mean score of Both Action after re-coding Action 1 and 2

Statistical Analyses

Furthermore, the relationship between every variable that is included as the attitudinal aspects and compliance will be tested by the multiple regressions analyses. The regressions are conducted separately through three ways of non-compliance actions, which are 'under-reporting income', 'overstatement of deductions', and combined noncompliance actions. For the research purposes, the scores of all types of these noncompliance scenarios have been reversed in order to get the value of business compliance perception. The outcomes of these regressions are presented in Table 5.12 with the perception of corruption cases in taxation as the most influential factor. Additionally, business sector and tax law fairness do not effect the corporate taxpayer compliance at all, while the other variables show the mix determinant between types of compliance. The discussion below give the explanation of the regression result by presenting the effect of every variable of attitudinal on the compliance attitude. However, the corporate characteristics, the business length and company sector, will be skipped because they have the same results with the previous investigation using the secondary data. It implies that there is a consistency comparing the source of the data set between data from survey and data from the STO in this study.

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Tax Law Complexity

According to the table, the second regression significantly shows the negative result, in which the high complexity of tax law will bring the low level of compliance through over claiming of expenses. It implies that the corporate taxpayers prefer the simple tax law to gain an easier understanding in taxation and easy preparation of income tax return. Nur-tegin (2008) and Abdul-Jabbar (2009) gave the reason that the complexity of tax law will effect the compliance because the managers or tax staffs in a company will take more time to discuss and interpret the tax regulation and they have to update their knowledge frequently if there are amendments in tax law. It implies that there are the possibilities of errors in interpreting tax laws or the lack of tax information obtained by the taxpayers, so the tax authority must simplify the regulation to increase the compliance.

Moreover, the complexity in Indonesia can be connected with the main jobs of AR as shown in the first analysis. AR give less contribution in giving the tax consultation to the taxpayers, so they have to increase the frequency in socializing the amendments of tax laws (Amilin and Anisah, 2008). Additionally, the complexity will bring the negative attitude of the taxpayers to manipulate their financial statement, so they will include their private costs in the income tax return, therefore, it will be difficult for tax authority to find the

misstatement. Another negative behaviour is conducted by finding the tax law gap to create a different interpretation that will bring them benefit.

Tax Rate Structure

TRS in the first model and third model regressions has a positive relationship in increasing the level of compliance. This result can be connected with the high perception of taxpayers to use the progressive rate rather than flat rate as shown in the previous descriptive discussion. However, Indonesia applies the flat rate of 25% since 2010 for all types of corporate taxpayers without considering the amount of the company profit or the business income, and this rate has decreased from the previous rate which was 28%. It means that some of the taxpayers who have lower income find it unfair when comparing it with those who have higher income, so it will also bring up a negative attitude of under-reporting income. In contrary, most studies stated that high tax rate will effect negatively on the compliance, in which the taxpayer will disguise their incomes with a fictive one in tax reporting (Tedds, 2010).

In addition, Joulfian (2000) also explained that there is the positive impact of tax tariff with tax evasion, but he applied the marginal tax rate which has different tax tariff for different income. It concludes that the taxpayers prefer the progressive tax rate to the fixed in order to get the fairness, and it, later, will result in high compliance by reducing tax rate. Additionally, Nur-tegin (2008) confirmed that the effect of tax rate on compliance is ambiguous especially for the taxpayers who do not want to take high risks connected to the probability of being detected. Therefore, although the tax rate is raised by the tax authority to boost tax revenue, they will remain declaring their real income. Lastly, Kalangi added the information that this positive result can be referred to expected utility theory connected to the other factors, such as audit probability and tax services. High detection probability and penalties causing the underreported income utility of the taxpayer will decline, so they will tend to comply even though they must apply high tax rate.

Tax Deterrence Sanction

Next, in the second model, it defines the negative relationship between compliance and TDS under overstatement of company costs. The higher tax penalties, the lower compliance will be. It indicates that imposing high sanctions in Indonesia are not effective in increasing tax compliance, but it will result in negative actions of the taxpayers instead. Andreoni et al (1998) also claimed that the compliance rate will remain high in the modern tax system even though tax sanction is low because there are other factors to effect the compliance, like non economic factor (human behaviour) as shown in the Chapter 2 of this paper based on the expanded model by Fischer et al (1992). This reason is also supported by Cahyonowati et al (2012) who summarized that the important factor to increase the voluntary compliance is through the improvement of moral and ethics of the taxpayers rather than imposing high penalties.

This result can be connected to the tax audit, in which the high penalties must be in line with the greater audit. However, the tax audit rate in Indonesia is still low, which is shown by the low probability of the taxpayers to be audited. The audit inspection in Indonesia follows audit selection, in which not all

taxpayers will get the audit. Some of the criteria for getting the audit are tax-payers who report their tax late or they report their income tax return with tax overpayment. Therefore, they can avoid getting into these criteria when they report their income tax return in order to reduce the probability to be investigated by the tax auditor. The audit selection is also correlated with the size of the companies, then, it will influence compliance (Cahyonowati et al, 2012). They stated that the high compliance refers to the taxpayer who will get high probability of getting audited and vice versa, so it defines that high sanction will be balanced with the high inspection from the tax auditor.

Tax Law Fairness

Then, another factor that is suspected to be influencing compliance is tax law fairness, but the result indicates there is no relationship both of them for all noncompliance types. The survey statistics showed that more than 70% of the taxpayers experience the fairness of tax law in Indonesia. However, it does not bring the impact of their compliance action, in which they will focus more with other factors such as the complexity and the penalties if they evade the tax. Therefore, they keep reporting their tax return even though some of other tax-payers do not report the tax because those who have low risk aversion will consider the penalties and the tax audit they will obtain if avoiding the tax. Nevertheless, it contradicts the studies from Suyapto and Lasmana (2014) who found the positive relationship. They argued that unfairness will cause low compliance because there are no severe consequences for taxpayers who do not report their tax, so it reflects the low sanctions in Indonesia. Later, it can become the bad idea if the taxpayers perceive that it is a great opportunity to avoid the tax because of the low probability of audit and penalties.

Tax Psychological Cost

Another tax attitudinal aspect which does not have influence on compliance is the tax psychological cost for combined types of noncompliance actions. It is in line with the number of the taxpayers in this survey who do not find it stressful and have anxiety to obey the tax regulation. Moreover, Lopes and Martins (2013) stated that the psychological cost can be coupled with the tax complexity, in the way that the higher complexity there is, the higher the cost will be. However, in this study, the complexity does not have any influence on the compliance for the third scene of the regression, so it causes no correlation between the cost and business compliance. However, TPC gives a positive re-lationship with the compliance under the first scene, in which it implies that the taxpayer's stressed feeling can lead to the high compliance in relation to the fear of sanctions and penalties if they do not report their tax correctly. This outcome contrasts with the previous studies (Yesegat, 2009 and Sapiei et al, 2014) which stated that the relationship should be negative towards compli-ance.

Tax Corruption Perception

The corruption remains the highest contribution in establishing the conclusion to noncompliance determination. It can be showed by three types of compli-ance which point out that corruption effects significantly. Higher rate of tax

corruption in Indonesia leads to higher noncompliance, so the taxpayers do not want to report their tax correctly by conducting underreporting of income, overstatement of deduction, or combination both of them. Tedds (2010) claimed that corruption generates the bad reactions of the corporate taxpayers by manipulating their business costs, decreasing the morality, and reducing their trust in government. Nur-tegin (2008) connected the corruption with the bribery that causes the taxpayers to do business in shadow economy. Moreover, the author added that the amount of bribery given to the tax authority is almost equal to the hidden income for doing noncompliance action.

Furthermore, the corruption can be connected with the tax rate which has the positive effect on compliance. The taxpayers will not refuse to pay the tax with high tax rate and they will remain compliant. The presence of bribery and corruption, however, will remove their obedience toward taxation. Friedman et al (2000) espoused by giving statement that there are no ways for the companies to avoid the bribery unless by doing underground business. They also cited the opinion of a western manager who operates the business in Russia:

> "It doesn't matter who it is: fire inspector, zoning committee member, mayor for that region, anybody can come and shut you down in five minutes. The fire guy could come, find fire hazards, and demand $50,000 into his overseas account. They know that if you shut down production for a few days, you're going to lose a lot more. "

Therefore, the strong impact of the corruption upon the compliance based on the corporate taxpayer perception in Indonesia must become the government's top attention priority to fight the corruption, especially in DGT.

Table 5.12: Result of Multiple Regressions

Regression	Overstatement of Income	Over Claiming of Cost	Overall Compliance
Firm Age	0.068	0.074	0.071*
	(0.041)	(0.063)	(0.041)
Age2	-0.003*	-0.003	-0.003**
	(0.001)	(0.002)	(0.001)
Company Sector	0.097	0.259	0.178
	(0.185)	(0.293)	(0.196)
Tax Complexity	0.060	-0.302**	-0.121
	(0.089)	(0.145)	(0.096)
Tax Rate Structure	0.245*	0.212	0.228***
	(0.128)	(0.164)	(0.098)
Tax Deterrence Sanction	0.027	-0.411**	-0.192
	(0.158)	(0.186)	(0.122)
Tax Fairness	0.018	0.191	0.104
	(0.144)	(0.185)	(0.129)
Psychological Cost	0.340**	-0.220	0.060
	(0.134)	(0.146)	(0.102)
Corruption Perception	-0.277***	-0.592***	-0.435***
	(0.094)	(0.142)	(0.089)
Constant	2.992***	7.781***	5.386***
	(0.923)	(1.416)	(0.970)
Number Observation	85	85	85
R-squared	0.3709	0.2985	0.2992

Significant at 10% (*), 5% (**), and 1% (***)

Chapter VI
Conclusion

The main objective of this study was to determine the factors that influence the corporate taxpayer compliance through business characteristics aspect and attitudinal aspect. It applied two different data source and two methodologies for these two kinds of aspects. The corporate characters such as 'firm age', 'company sector', 'business types', 'tax officer performance', and 'previous tax return' applied the logistic regressions using the secondary data derived from the Duren Sawit STO with the company sector as the control variable. Meanwhile 'tax law complexity', 'tax rate perception', 'tax deterrence sanction', 'tax law fairness', 'tax psychological cost', and 'tax corruption perception' as the attitudinal forms were tested using the multiple regression analyses, in which the data were obtained by conducting survey at the STO. In addition, it also has done the statistics descriptive to summarize the profile of the taxpayers at the STO and to know their perception related to the survey result.

Furthermore, the analyses of the two data set using different regressions are carried out to answer two main questions. It can be concluded from the first investigation that the taxpayer behaviour in reporting their previous income tax return has become the most significant factor to influence the compliance for the upcoming years. Concerning the business age, this paper also found it to be a significant element of compliance behaviour. However, the business types, business sectors, and AR performances do not seem to have a relationship with the taxpayer compliance. In addition, based on the data statistics, it can be stated that the taxpayers have shown a good attitude by reporting their income tax at the right time. Overall, the tax authority must realize that all variables of this aspect correlate with each other and influence the compliance simultaneously. It means, to increase the voluntary compliance among the taxpayers, it cannot consider only one factor because it will get a little effect or no influence at all.

Next, the second investigation using survey data were done by doing three regressions considering noncompliance behaviours, namely 'under-reporting of income', 'overstatement of deductions', and 'combination both of them'. These noncompliance scenarios focus more on material compliance, while the first analysis concentrates on formal compliance. The result shows that the most influential factor on the business compliance is the tax corruption perception. Meanwhile, the other factors, i.e. the complexity of tax law, the fairness of tax tariff, the penalties, the general tax fairness, and the cost of stress and anxiety' result in the mixed findings of these three models, in which it implies that they will be inconclusive conclusion for these regressions in this study. Overall, the corruption perception of the taxpayers based on the regression and statistics descriptive implies that the corporate taxpayer behaviour represented by the managers or the owners depends on the tax officer attitude in collecting the tax revenue. They will take notes on the officers' bad attitude, and it, later, will become a reason to avoid their tax obligation. Then, fighting the corruption should be a key policy for the government to enhance the compliance, in which it, later, will boost the tax revenue in Indonesia.

Finally, these findings are to give an additional contribution to the global literature especially in Indonesia context. All factors are influential towards the

compliance concurrently, but most of them partially have a little impact, or no relationship with the compliance. Therefore, it means that all factors both characteristics and attitudinal aspect must be considered simultaneously to enhance the level of voluntary compliance by the government. Meanwhile, the corruption itself will bring the biggest effect on the compliance as a result of most influential factor. It can be concluded that reducing the level of the corruption will bring the high correlation with other factors such as tax penalties, tax complexity, and tax fairness. The factors will, then, either positively or negative impact the voluntary corporate compliance if the government prevents the bribery and bad corruption in Indonesia.

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APPENDICES

Appendix 1: Questionnaire of Survey (English Version)

QUESTIONNAIRE
Determinants of Corporate Taxpayer Compliance Behaviour in Indonesia

SECTION A: GENERAL INFORMATION

Kindly tick the most appropriate responses or fill in the appropriate details in the space provided.

1. What is your company main business **activity**?
   - ☐ Trade in Good _____(please mention more specific sector)
   - ☐ Trade in Services _____(please mention more specific sector)
   - ☐ Others (please state) _____(please mention more specific sector)

2. What was the **income** of the company in 2012:
   - ☐ Less than Rp 10.000.000,-
   - ☐ Rp 10.000.000 – Rp 50.000.000
   - ☐ Rp 50.000.000 – Rp 100.000.000
   - ☐ Rp 100.000.000 – Rp 250.000.000
   - ☐ Rp 250.000.000 – Rp 500.000.000
   - ☐ More than Rp 500.000.000

3. How much company **income tax** in total, in relation to the 2012 year of income did the company remit to the Tax Office?
   - ☐ No Tax Liability
   - ☐ Less than Rp 1.000.000
   - ☐ Rp 1.000.000 – Rp 10.000.000
   - ☐ Rp 10.000.000 – Rp 50.000.000
   - ☐ Rp 50.000.000 – Rp 100.000.000
   - ☐ More than Rp 100.000.000

4. The **period** your company has been in business is:_____years.

5. Have the company reported the annual tax return in 2012?
   - ☐ I have reported the tax return
   - ☐ I have not reported the tax return

SECTION B: TAX COMPLIANCE COSTS

Kindly fill in an approximate estimated time, monetary amount and/or breakdown of the following internal costs of complying with corporate income tax:

6. How much time has your company spent for doing the additional job related to the tax responsibilities in 2012?

	Total hours/ month
Finance Director	
Finance/ Tax Manager	
General / Non-Financial Manager	
Finance/Tax Staff	
Other (please state) _____	

7. Does your company spend other costs excluded tax employees costs such as stationery and transportation in order to perform tax obligation in 2012?
   - ☐ No
   - ☐ Yes, Please estimate the other costs that has been spent in 2012: Rp [_____]

8. Does your company employ **external tax professionals or tax consultant** in 2012?
   - ☐ Yes
   - ☐ No, please go to Question 10 (Section C)

9. Please estimate the **external tax fees** that have been spent by your company for the corporate income tax responsibilities in 2012. Rp [_____]

SECTION C: PERCEPTIONS AND OPINIONS

10. Kindly respond to the following statements to indicate your **opinion** to each of the statements. There are no right and wrong answers. *(Please tick one box on a 6 point scale for each statement.)*

	LEVEL OF IMPORTANCE							
Personally, I consider that the preparation of corporate income tax return is difficult.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Corporate income tax law is relatively simple to understand.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Complexity in tax law is necessary so that companies are treated fairly.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
A 'fair' tax rate should be the same for every company regardless of their size (small, medium or large).	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Large companies have a greater ability to pay income tax, so it is fair that they should pay a higher rate of tax than small and medium companies.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
It is fair that high profit companies should pay a higher rate of tax than low profit companies.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
If there was a discrepancy in the annual tax return, how likely is that it would be audited?	Very Likely	⑥	⑤	④	③	②	①	Very Unlikely
If your company was to be chosen for compulsory audit, how likely would a discrepancy be identified?	Very Likely	⑥	⑤	④	③	②	①	Very Unlikely
If discrepancies were discovered during an audit, how severe are the penalties?	Very Severe	⑥	⑤	④	③	②	①	Not Very Severe
I believe that each company's officers have a moral obligation to report all of their company's income and pay the correct amount of corporate income tax.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Do you believe that the move to self-assessment made corporate tax laws more or less fair?	Much more fair	⑥	⑤	④	③	②	①	Much less fair
The tax compliance requirement may have caused stress and anxiety to taxpayers. Indicate your position with respect to the psychological costs causes by the income tax system.	Very Stressful	⑥	⑤	④	③	②	①	Not Very Stressful

SECTION D: TAX AVOIDANCE AND CORRUPTION PERCEPTION

11. Kindly respond to the following statements to indicate your **opinion** to each of the statements. There are no right and wrong answers. *(Please tick one box on a 6 point scale for each statement.)*

	LEVEL OF IMPORTANCE							
Tax avoidance is natural to be conducted if tax regime is not fair enough.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is fair if the money collected from the taxpayer is not used wisely by the government.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is fair even though the money collected from the taxpayer used wisely by the government.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is natural if the money collected from the taxpayer is used by the government to carry out a project which is contrary to the moral.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is natural even though the money collected from the taxpayer used by the government to carry out projects that have a positive impact on society.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is fair if the money collected from the taxpayer is used by the government to carry out a project that cannot benefit for me.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is fair even though the money collected from the taxpayer used by the government to implement a project that will benefit for me.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is reasonable because everyone conducts it as a habit.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is reasonable if the money collected from taxpayers instead into the "pocket" corrupt politicians or family and relationships.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree
Tax avoidance is reasonable when the possibility of getting caught and put on trial for tax evasion practices is low.	Strongly agree	⑥	⑤	④	③	②	①	Strongly disagree

SECTION E: COMPLIANCE BEHAVIOUR
Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

12. "Mr A, a self-employed businessman is considering not disclosing a cash sale of Rp 10.000.000,- as his business income in his 2012 tax return. Legally, the cash receipts of Rp 10.000.000,- should be included as a business income. However, he is almost certain that the tax authority will not audit him and would not know if the amount is not disclosed".

(a) Taking into account all known and likely business circumstances, to what extent do you agree with Mr A's possible action of not reporting that cash sale of Rp 10.000.000,- as his business income?

Strongly agree	6	5	4	3	2	1	Strongly disagree

(b) Would he be likely to report only part of the Rp 10.000.000,- as business income?

Very Likely	6	5	4	3	2	1	Very Unlikely

13. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

"Mr B, a self-employed businessman, had incurred Rp 1.000.000,- to his personal spending. In preparing his 2012 tax return, he is thinking about claiming the costs of his spending as if it was used in his business. Legally, such claim is not allowable, but he is almost certain that he will not be audited and that the tax authority would not be able to detect the deduction".

(a) Taking into account all known and likely business circumstances, to what extent do you agree with Mr B's possible action of claiming Rp 1.000.000,- as his business deduction?

Strongly agree	6	5	4	3	2	1	Strongly disagree

(b) Would he be likely to decrease only part of the Rp 1.000.000,- as a business deduction?

Very Likely	6	5	4	3	2	1	Very Unlikely

pa **Thank you for taking time to participate in this survey**

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Appendix 2: Questionnaire of Survey (Indonesian Version)

KUISIONER
Perilaku Wajib Pajak Badan dalam Kepatuhan Perpajakan di Indonesia:
Studi Kasus KPP Pratama Jakarta Duren Sawit

BAGIAN A: UMUM
(Berilah tanda silang pada jawaban yang sesuai atau lengkapi dengan jawaban yang terperinci pada tempat kosong yang tersedia)

1. Apakah aktivitas utama perusahaan anda?
   ☐ Perdagangan Barang _____ (sebutkan sector usaha secara spesifik)
   ☐ Perdagangan Jasa _____ (sebutkan sector usaha secara spesifik)
   ☐ Lain-lain _____ (sebutkan sector usaha secara spesifik)

2. Berapa jumlah pendapatan yang perusahaan terima pada tahun 2012?

   ☐ < Rp 50.000.000,-
   ☐ Rp 50.000.000 - Rp 100.000.000
   ☐ Rp 100.000.000 - Rp 250.000.000
   ☐ Rp 250.000.000 - Rp 500.000.000,-
   ☐ Rp 500.000.000 - Rp 1.000.000.000,-
   ☐ > Rp 1.000.000.000

3. Berapa jumlah pajak tahunan (SPT Tahunan) yang perusahaan bayarkan pada tahun 2012?

   ☐ Kecendurangan tidak ada pembayaran
   ☐ < Rp 1.000.000
   ☐ Rp 1.000.000 – Rp 10.000.000
   ☐ Rp 10.000.000 – Rp 25.000.000
   ☐ Rp 25.000.000 – Rp 50.000.000
   ☐ > Rp 50.000.000

4. Berapa lama perusahaan sudah beroperasi? _____ tahun

5. Apakah Perusahaan Saudara sudah melaporkan SPT Tahunan untuk Tahun Pajak 2012?
   ☐ Sudah melaporkan
   ☐ Belum melaporkan

BAGIAN B: BIAYA KEPATUHAN PERPAJAKAN
(Isilah dengan perkiraan waktu dan jumlah biaya yang sesuai untuk memenuhi kewajiban perpajakan untuk pajak pendapatan perusahaan)

6. Berapa jumlah waktu yang dikeluarkan oleh pegawai perusahaan untuk melaksanakan perkerjaan yang sehubungan dengan perpajakan pada tahun 2012?

   Total Jam/Bulan

   Direktur Keuangan ☐

   Manager Pajak/Keuangan ☐

   Manager Non Pajak/Non Keuangan ☐

   Staff Pajak/Keuangan ☐

   Lain-lain (Sebutkan) _____ ☐

7. Berapa jumlah biaya yang perusahaan keluarkan sehubungan dengan perpajakan diluar biaya pegawai pada tahun 2012? (contoh: biaya transportasi, biaya alat tulis, biaya administrasi perpajakan lainnya)

   ☐ Tidak ada

   ☐ Ada, Sebutkan jumlah biaya perkiraan yan dikeluarkan! Rp _____

8. Apakah perusahaan menggunakan Jasa Professional atau Konsultan Pajak yang berasal dari luar perusahaan pada tahun 2012?

   ☐ Ya, _____ (Sebutkan Jasa professional yang di pakai!)

   ☐ Tidak, Lanjut ke pertanyaan no 10 (Bagian C)

9. Sebutkan perkiraan biaya yang sudah dikeluarkan sehubungan dengan Jasa Pajak Professional yang dipakai pada tahun 2012? Rp _____

BAGIAN C: PERSEPSI DAN OPINI

10. Tidak ada jawaban benar dan salah dalam pernyataan-pernyataan berikut (Berilah satu tanda silang pada satu kotak dari enam kotak dalam setiap pernyataan)

	LEVEL OF IMPORTANCE					
Saya berpikir bahwa pengisian formulir SPT Tahunan adalah sulit.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Hukum pajak pendapatan yang berhubungan dengan pajak perusahaan adalah sederhana dan mudah dipahami.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Kompleksitas dalam hukum yang berhubungan dengan perpajakan dibutuhkan sehingga perusahaan diperlakukan secara adil..	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Tarif pajak yang adil seharusnya sama untuk wajib pajak tanpa melihat skala perusahaan (kecil, menengah atau besar).	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Perusahaan besar mempunyai kemampuan yang lebih besar untuk membayar pajak, sehingga itu adalah adil jika mereka membayar pajak dengan tarif yang lebih tinggi daripada perusahaan kecil atau menengah	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Wajib Pajak Badan yang memiliki keuntungan yang lebih besar seharusnya membayar dengan tarif pajak yang lebih tingi daripada Wajib Pajak Badan yang memiliki keuntungan yang lebih kecil.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Ketika terdapat perbedaan antara SPT Tahunan yang dilaporkan dengan kondisi perusahaan sebenarnya. Seberapa mungkin perusahaan akan terkena pemeriksaan?	Sangat Mungkin	Mungkin	Agak Mungkin	Agak Tidak Mungkin	Tidak Mungkin	Sangat Tidak Mungkin
Jika dilakukan tindakan pemeriksaan kepada perusahaan. Seberapa mungkin pegawai pajak akan menemukan perbedaan antar SPT Tahunan yang dilaporkan dengan kondisi perusahaan sesungguhnya?	Sangat Mungkin	Mungkin	Agak Mungkin	Agak Tidak Mungkin	Tidak Mungkin	Sangat Tidak Mungkin
Jika perbedaan ditemukan selama proses pemeriksaan. Seberapa berat sanksi yang akan didapat oleh Wajib Pajak?	Sangat Parah	Parah	Agak Parah	Agak Tidak Parah	Tidak Parah	Sangat Tidak Parah
Saya yakin bahwa setiap pegawai perusahaan mempunyai kewajiban moral untuk melaporkan semua pendapatan perusahaan dan membayarkan pajak pendapatan perusahaan dengan benar.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Apakah anda berpikir bahwa perubahan sistem perpajakan menjadi Self Assestment System membuat hukum yang berkaitan dengan pajak perusahaan adalah lebih adil?	Sangat Adil	Adil	Agak Adil	Agak Tidak Adil	Tidak Adil	Sangat Tidak Adil
Persyaratan untuk mematuhi perpajakan mungkin sudah mengakibatkan wajib pajak menjadi stress dan khawatir.	Sangat Stress	Stress	Agak Stress	Agak Tidak Stress	Tidak Stress	Sangat Tidak Stress

BAGIAN D: PENGHINDARAN PAJAK DAN PERSEPSI KORUPSI

11. Tidak ada jawaban benar dan salah dalam pernyataan-pernyataan berikut (Berilah satu tanda silang pada satu kotak dari enam kotak dalam setiap pernyataan)

	LEVEL OF IMPORTANCE					
Penghindaran pajak adalah wajar dilakukan jika pemerintahan pajak tidak cukup adil.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah wajar jika pajak yang sudah dibayarkan oleh Wajib Pajak tidak digunakan sebagai mana seharusnya oleh pemerintahan.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah wajar jika pajak yang sudah dibayarkan oleh wajib pajak sudah digunakan sesuai dengan tujuannya oleh pemerintah.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah wajar jika pajak yang sudah dibayarkan oleh wajib pajak digunakan oleh pemerintah untuk membiayai proyek yang bertentangan dengan moral.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah wajar meskipun pajak yang sudah dibayarkan oleh wajib pajak digunakan oleh pemerintah untuk membiayai proyek yang memiliki dampak positif untuk masyarakat.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah wajar jika pajak yang sudah dibayarkan oleh wajib pajak digunakan oleh pemerintah untuk membiayai proyek yang memiliki dampak negatif untuk masyarakat.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah wajar meskipun pajak yang sudah dibayarkan oleh wajib pajak digunakan oleh pemerintah untuk membiayai proyek yang menguntungkan perusahaan saya.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah masuk akal karena setiap orang melakukannya dan menjadi sebuah kebiasaan.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah masuk akal jika pajak yang sudah dibayarkan oleh wajib pajak masuk ke kantong pribadi para korputor ataupun keluarga dan relasi mereka.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju
Penghindaran pajak adalah masuk akal apabila kemungkinan untuk ketahuan dan dilakukan pemeriksaan adalah kecil.	Sangat Setuju	Setuju	Agak Setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju

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BAGIAN E: KEPATUHAN PERPAJAKAN

Bacalah contoh kasus berikut ini dan indikasi jawaban Saudara dengan memberikan tanda silang pada jawaban yang sesuai dengan pengalaman Saudara.

12. Tuan A adalah seorang pengusaha yang mempertimbangkan untuk tidak melaporkan penjualan tunai sebesar Rp 50.000.000,- pada saat melakukan pelaporan perpajakan. Secara hukum perpajakan, Uang tunai yang sudah diterima sebesar Rp 50.000.000,- tersebut seharusnya dimasukkan sebagai pendapatan usaha dan dikenaan pajak. Akan tetapi, Tuan A sangat yakin bahwa pegawai pajak tidak akan melakukan pemeriksaan dan tidak akan mengetahui transaksi penjualan tunai sebesar Rp 50.000.000,- tersebut.

    a. Berdasarkan kasus tersebut, apakah Saudara setuju dengan tindakan yang dilakukan Tuan A dengan tidak melaporkan penjualan tunai sebesar Rp 50.000.000,- sebagai pendapatan usahanya?

Sangat Setuju	Setuju	Agak setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju

    b. Seberapa mungkin Tuan A akan melaporkan sebagian dari penjualan tunai RP 50.000.000,- tersebut sebagai pendapatan usahanya?

Sangat Mungkin	Mungkin	Agak Mungkin	Agak Tidak Mungkin	Tidak Mungkin	Sangat Tidak Mungkin

13. Tuan B adalah pengusaha yang memasukkan pengeluaran pribadinya sebesar Rp 10.0000.000,- sebagai biaya perusahaan dan melaporkannya dalam SPT Tahunana sebagai biaya perusahaan. Secara hukum, hal tersebut tidak diperbolehkan, tetapi Tuan B berpikir bahwa kemungkinan untuk dilakukan pemeriksaan terhadap usahanya adalah kecil dan kecurangannya tidak akan terdeteksi oleh pegawai pajak.

    a. Berdasarkan kasus tersebut, apakah Saudara setuju dengan tindakan yang dilakukan Tuan B dengan memasukkan pengeluaran pribadinya sebesar Rp 10.000.000,- sebagai pengeluaran perusahaan?

Sangat Setuju	Setuju	Agak setuju	Agak Tidak Setuju	Tidak Setuju	Sangat Tidak Setuju

    b. Seberapa mungkin Tuan B akan hanya memasukkan sebagian kecil pengeluaran pribadinya tersebut ke dalam pengeluaran perusahaan?

Sangat Mungkin	Mungkin	Agak Mungkin	Agak Tidak Mungkin	Tidak Mungkin	Sangat Tidak Mungkin

Appendix 3: Estat Classification Test and Goodness-of-fit Test

Estat Classification Test

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Logistic model for atr2013

                  ———— True ————
Classified │        D           ~D    │      Total
───────────┼───────────────────────────┼──────────
     +     │       239          49     │       288
     -     │        24          77     │       101
───────────┼───────────────────────────┼──────────
   Total   │       263         126     │       389

Classified + if predicted Pr(D) >= .5
True D defined as atr2013 != 0
─────────────────────────────────────────────────
Sensitivity                    Pr( +| D)    90.87%
Specificity                    Pr( -|~D)    61.11%
Positive predictive value      Pr( D| +)    82.99%
Negative predictive value      Pr(~D| -)    76.24%
─────────────────────────────────────────────────
False + rate for true ~D       Pr( +|~D)    38.89%
False - rate for true D        Pr( -| D)     9.13%
False + rate for classified +  Pr(~D| +)    17.01%
False - rate for classified -  Pr( D| -)    23.76%
─────────────────────────────────────────────────
Correctly classified                        81.23%
─────────────────────────────────────────────────
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Goodness-of-fit Test

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Logistic model for atr2013, goodness-of-fit test

  (Table collapsed on quantiles of estimated probabilities)
  (There are only 9 distinct quantiles because of ties)

        number of observations =        389
              number of groups =          9
    Hosmer-Lemeshow chi2(7) =          3.43
                Prob > chi2 =        0.8425
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Appendix 4: Logistic Regression with the Coefficient

Variable	Logistic Regression			
	Model I (Section I)	Model II (Section 2)	Model III (Section 3)	Model IV (Section 4)
	Coefficient	Coefficient	Coefficient	Coefficient
Firm Age	0.1124*	0.1132*	0.1108*	0.1131*
Age*2	-0.0030	-0.0031	-0.0030	-0.0031
Business Type	-0.004	-0.0012	0.0053	0.0050
Company Sector	-0.4259	-0.4363	-0.4391	-0.4635
Previous Tax Return	2.6285***	0.2625***	2.6443**	2.6335***
Tax Officer	-0.1215	0.0788	0.2212	-0.2207
Constanta	-1.2843***	-1.329***	-1.3691***	-1.245***
Prob > Chi2	0.0000	0.0000	0.0000	0.0000
Pseudo R2 (Logit)	0.2535	0.2534	0.2543	0.2542
Number of Observation	389	389	389	389

Appendix 5: Correlation Analyses of the Survey Data

Correlation Analysis	Under-reporting of Income	Over Claiming of Costs	Overall Compliance
Business Age	0.0775	-0.0429	0.0033
Age Square	0.0775	-0.0429	0.0033
Business Sector	-0.0361	0.1511	0.0818
Tax Law Complexity	0.2990***	-0.2193**	-0.0167
Tax Rate Structure	0.4905***	-0.0063	0.2030*
Tax Deterrence Sanctions	-0.0490	-0.3145***	-0.2339**
Tax Law Fairness	0.1965*	0.0213	0.1094
Tax Psychological Cost	0.4255***	-0.1186	0.1237
Corruption Perception	0.3533***	-0.3797***	-0.4169***

Appendix 6: Multiple Regressions by Omitting Business Sector as a Variable.

Regression	Overstatement of Income	Over Claiming of Cost	Overall Compliance
Firm Age	0.064	0..065	0..065
	(0.040)	(0.063)	(0.041)
Age2	-0.002	-0.003	-0.002*
	(0.001)	(0.002)	(0.001)
Tax Complexity	0.055	-0.314**	-0.129
	(0.089)	(0.146)	(0.096)
Tax Rate Structure	0.247*	0.215	0.231**
	(0.127)	(0.168)	(0.100)
Tax Deterrence Sanction	0.021	-0.426**	-0.203*
	(0.154)	(0.186)	(0.121)
Tax Fairness	0.014	0.181	0.098
	(0.143)	(0.187)	(0.129)
Psychological Cost	0.330**	-0.246	0.042
	(0.131)	(0.149)	(0.099)
Corruption Perception	-0.279***	-0.598***	-0.439***
	(0.094)	(0.141)	(0.088)
Constant	3.155***	8.215***	5.685***
	(0.894)	(1.282)	(0.894)
Number Observation	85	85	85
R-squared	0.369	0.2913	0.2919