The Influence of Perceptions of Tax Fairness and Detection Rate on Tax Evasion

Widya Indah Nurmalasari[1], Nobertus Purnomolastu[2], Natasha Lusia Pratama[3], Ninda Bella Fransiska[4]
[1,2,3,4]Politeknik Ubaya, Surabaya, Indonesia
Email: widyaindah@staff.ubaya.ac.id

Abstract

With increasing public needs every year, the government through the Directorate General of Taxes (DJP) strives to always improving tax revenues by reforming the implementation of the tax system. However, in reality the tax collection process is still not running optimally due to a poor tax administration system accompanied by various tax violations such as Tax Evasion. There are several factors that influence Tax Evasion, such as Perception of Tax Fairness and Detection Rate. The research seeks to analyse the influence of Tax Fairness Perceptions and Detection Rate on Tax Evasion. The research uses a quantitative research approach with data collection techniques through distributing questionnaires. The research population is taxpayers in Surabaya with a sample of 100 people. The research data analysis technique was carried out using SEM PLS. The research results prove that Perception of Tax Fairness and Detection Rate have a significant positive influence on Tax Evasion.

Keywords: *Taxpayers, Perception of Tax Fairness, Detection Rate, Tax Evasion.*

A. INTRODUCTION

Taxes are the country's main source of income. According to Salamah & Imahda (2020), taxes are a source of state income amounting to 70% of all state revenues. Collecting taxes on the people aims to improve people's welfare (Akhadi, 2022). This causes the government to need large funds to implement state development plans (Yusmanda, 2018). Without taxes, state development activities will be difficult to implement.

With the increasing needs of society every year, the government through the Directorate General of Taxes (DJP) is trying to increase state tax revenues through tax system reform. This is also reinforced by the number of taxpayers which continues to increase in line with population growth (Nugroho, 2006). However, in reality the tax collection process is still not running optimally. Not optimal tax revenues in developing countries, such as Indonesia, are influenced by poor tax administration (Sari et al., 2021). Poor tax administration is related to various cases of violations such as tax avoidance, tax evasion and tax corruption. Apart from poor tax administration, the public's view of the importance of taxation also influences state tax revenues.

Tax evasion is an effort to reduce taxes through violating regulations such as providing false data (Ma'ruf & Mustikasari, 2018). Tax evasion arises from the public's assessment of taxes that is different from the (Effendi & Amelia, 2022). To increase tax fairness for taxpayers and prevent tax evasion, tax checks are needed. Even though taxpayers are entrusted with calculating, paying and reporting their own

taxes, law enforcers are obliged to monitor compliance with tax laws (Lesmana & Bakti, 2020). Tax audits aim to test compliance with tax payments and compliance with tax laws (Law Number 16 of 2009).

There are several factors that cause Tax Evasion, such as Perception of Tax Fairness and Detection Rate. Perception of tax fairness is the taxpayer's perception of the tax system which influences regulatory compliance (Rosmawati, 2021). Taxpayers feel that justice occurs if the tax system applies equally to all taxpayers (Berutu & Harto, 2012). Even though tax is a mandatory payment, because it takes the form of a transfer of wealth between people and the state, tax collection must meet the requirements of justice (Zulkifli, 2022). Fairness underlined here is fairness according to law, such as the imposition of taxes in general and evenly according to the taxpayer's capabilities and fairness in implementation. The existence of a relationship between Perceptions of Tax Evasion and Tax Fairness can be seen from previous research studies. Yusmanda (2018) proves that perceptions of tax fairness have significant negative impact on tax evasion. A high perception of tax fairness will reduce the frequency of Tax Evasion. Fatimah (2017) shows tax fairness has negative impact on tax evasion. Kurnia & Faisal (2022) proves Tax Justice has significant impact on Tax Evasion. If taxpayer justice is not realized, it will give rise to the perception of tax evasion (Ervana, 2019).

Apart from the Perception of Tax Fairness, the Detection Rate factor can also influence Tax Evasion. Detection Rate is defined as the possibility of inspection by the tax authority (Yusmanda, 2018). When taxpayers consider that the percentage of possible fraud through tax audits is high, they will comply with the regulations and not commit tax evasion (Indriyani et al., 2016). Audits are actions that must be carried out by tax authorities to detect fraudulent implementation of tax obligations, such as fictitious financial reporting. The probability of a tax audit depends on the tax authority. If there is an increase in tax audits by the competent authorities, it is possible to reduce cases of embezzlement and increase disclosure of cases (Safitri, 2018). The relation between Detection Rate with Tax Evasion can also be proven in research Safitri (2018) which proves that Detection Rate has a significant negative influence on Tax Evasion. Yusmanda (2018) also states that high levels of detection tend to reduce individual tax avoidance. Tania (2020) proves that detection rate has a significant positive influence on tax evasion. Tax audits through a strict system cause taxpayers to feel afraid of committing tax evasion (Pulungan, 2015).

According to the background of the problem, it is concluded that taxes are important for the development of a country. However, a lack of awareness and weak tax administration causes irregularities and violations of state tax revenues. One of these deviations is Tax Evasion which is influenced by Perceptions of Tax Fairness and Detection Rate. With the important role of tax, researchers will conduct a study on "The Influence of Perceptions of Tax Fairness and Detection Rate on Tax Evasion".

B. METHODS

The research approach is a quantitative method, namely a research activity that is prepared systematically, planned and methodical from the start, so that the research design includes research objectives and objects, samples and data sources and methods. The research variables consist of 2, namely the independent variable (Perception of Tax Fairness and Detection Rate) and the dependent variable (Tax Evasion). The research population was Taxpayers in Surabaya, the sample was determined using the Total Sampling so the total sample was 100 Taxpayers in Surabaya. The data gathering technique was carried out by sending out questionnaires, and the analysis technique was Partial Least Squares analysis.

This figure is the framework of concept for this research:

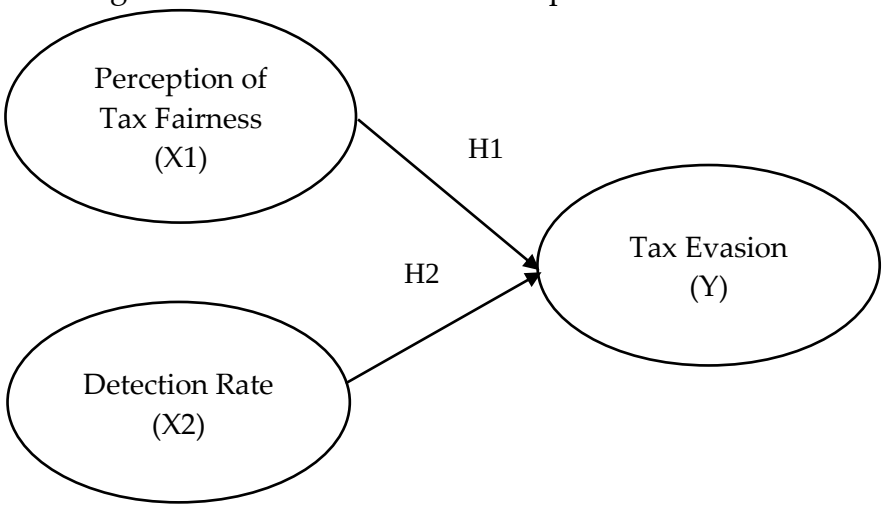

Figure 1. Conceptual Framework

From the figure above, several research hypotheses can be named:

H_1: Perception of Tax Fairness has positive and significant relationship to the Tax Evasion Taxpayers in Surabaya

H_2: Detection Rate has positive and significant relationship to the Tax Evasion Taxpayers in Surabaya

C. RESULTS AND DISCUSSIONS

1. Validity Test

Each indicator in the model must fulfill convergent validity and the value must higher than 0.5 (Amalia & Achmad, 2023).

Table 1. Validity Testing

Variable	Item	Original Sample	P-Values	Note
Perception of Tax Fairness (X1)	X1.1	0.868	0,000	Valid
	X1.2	0.838		
	X1.3	0.899		
	X1.4	0.886		
	X1.5	0.796		
	X1.6	0.840		
	X1.7	0.790		
	X1.8	0.700		

Variable	Item	Original Sample	P-Values	Note
Detection Rate (X2)	X2	1.000		
Tax Evasion (Y)	Y1	0.900		
	Y2	0.893		
	Y3	0.862		

Based on convergent validity test above, it is clear that indicators values larger than 0.5, implying that they are valid.

An indicator is considered to valid if its cross-loading value on the intended variable higher than its cross-loading values on other variables (Roemer et al., 2021).

Table 2. Cross Loading

Item	Perception of Tax Fairness (X1)	Detection Rate (X2)	Tax Evasion (Y)
X1.1	0.868	0.382	0.664
X1.2	0.838	0.332	0.596
X1.3	0.899	0.392	0.687
X1.4	0.886	0.408	0.708
X1.5	0.796	0.359	0.560
X1.6	0.840	0.319	0.538
X1.7	0.790	0.345	0.627
X1.8	0.700	0.321	0.440
X2	0.432	1.000	0.640
Y.1	0.737	0.456	0.900
Y.2	0.636	0.667	0.893
Y.3	0.578	0.573	0.862

The cross-loading test above show that each indication within the study variable has the maximum cross-loading value on its related variable when compared to other variables, demonstrating strong discriminant validity.

The AVE is judged satisfactory if it is more than 0.5 (Belawati et al., 2023)

Table 3. Average Variance Extracted

Variable	AVE
Perception of Tax Fairness (X1)	0,687
Detection Rate (X2)	1,000
Tax Evasion (Y)	0,784

The results show that the AVE value in the indicator block measuring the construct indicate good discriminant validity, as all AVE values are greater than 0.5.

2. Reliability Test

A variable is considered to measure reliable if the composite reliability value greater than 0.70 (Syardiansah et al., 2022)

Table 4. Composite Reliability

Variable	CR
Perception of Tax Fairness (X1)	0,946
Detection Rate (X2)	1,000
Tax Evasion (Y)	0,916

Based on the test, it can be concluded all variables are valid based on Composite Reliability value > 0.70.

Variables with a Cronbach's alpha value greater than 0.6 are considered reliable (Belawati et al., 2023).

Table 5. Cronbach Alpha

Variable	CR
Perception of Tax Fairness (X1)	0,934
Detection Rate (X2)	1,000
Tax Evasion (Y)	0,862

The test findings in the table above show that the Cronbach's alpha value for each study variable is greater than 0.60, so it meets the minimum for the Cronbach alpha value.

3. Inner Model Test

To assess the study hypothesis, Partial Least Squares (PLS) analysis utilised in conjunction with the SmartPLS programme. The Inner Model shows the relations between the constructs being evaluated (Hair et al., 2014). The following is a picture of the proposed PLS model.

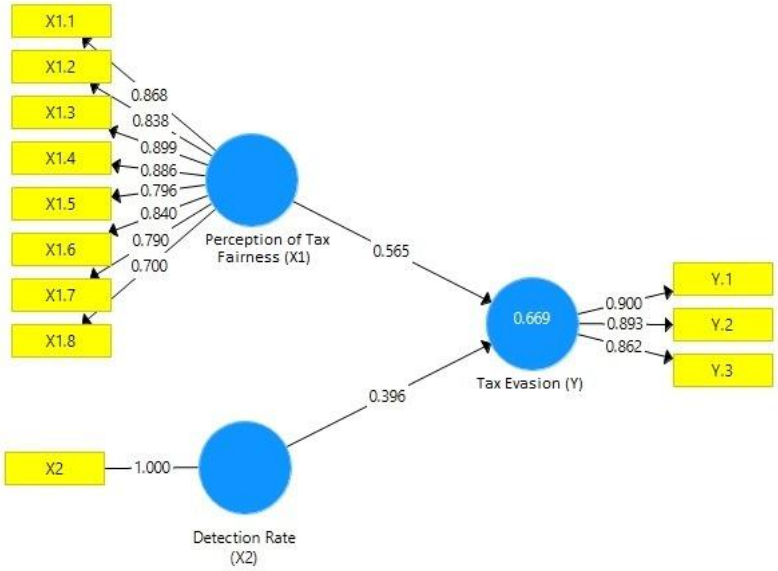

Figure 1. PLS Model

The findings of the Inner Weight values above finds that the Tax Evasion variable (Y) is influenced by the Tax Fairness Perception (X1) and Detection Rate (X2) variables which can be described in the structural equation below: Y = 0.565 X1 + 0.396 X2

4. R-Square

The R^2 classification aims to estimate parameters in complex models consisting of several equations (Rönkkö & Antonakis, 2022). Fluctuation in the R-square value can help evaluate the effect of specific independent variables toward the significance of the dependent latent variable. For endogenous latent variables in a structure model, an R^2 of 0.75 indicate a "strong" model, an R^2 of 0.50 indicate a "moderate" model, also a R^2 of 0.25 indicate a "weak" model (Ghozali, 2016).

Table 6. R-Square

	R^2
Tax Evasion (Y)	0,669

Based on findings of R-square test, it can be read that Tax Fairness Perception and Detection Rate variables have an influence on the Tax Evasion in model has an R2 0.669, indicating that the model is "Moderate".

5. Hypothesis Test

Hypothesis testing is an important feature that is common to almost every management research (Subudhi, 2019). To address the study problem formulation, the following t-statistics:

Table 7. Hypothesis Test

Variable Relations	Original Sample	T Statistics	P Values	Note
Perception of Tax Fairness (X1) -> Tax Evasion (Y)	-0,565	7,888	0,000	Significant
Detection Rate (X2) -> Tax Evasion (Y)	-0,396	4,430	0,000	Significant

Perception of Tax Fairness (X1) has a significant negative influence on Tax Evasion (Y). The conclusion supported by a T value of 7.888, that exceeds critical value 1.96, and P value of 0.000, that is below the 0.050. Additionally, the negative Original Sample value -0.565 indicates a negative relationship, meaning that as the Perception of Tax Fairness improves, Tax Evasion decreases.

Detection Rate (X2) has a significant negative influence on Tax Evasion (Y). This is demonstrated by a T value 4.430, that exceeds critical value 1.96, and a P value of 0.000, which is below the significance level 0.050. Additionally, the negative Original Sample value of -0.396 indicates a negative relationship, meaning that as the Detection Rate increases, Tax Evasion decreases.

The research finding found that Perception of Tax Fairness has a significant influence on Tax Evasion, as evidenced by a t-statistic 7.888, which higher than 1.96 threshold for significance. The negative Original Sample value of -0.565 suggests that an increase in Perception of Tax Fairness leads to a reduction in Tax Evasion.

Perception of Tax Justice is the perception of taxpayers to assess the tax system which influences taxpayer compliance (Rosmawati, 2021). The study findings are align with Yusmanda (2018) who stated that perceptions of tax fairness have a significant negative influence on tax evasion. Then it is also in line with Kurnia & Faisal (2022) which proves that Tax Justice has significant impact toward Tax Evasion.

The findings reveal that the Detection Rate significantly affects Tax Evasion, demonstrated by a t-statistic value of 4.430, which is higher than 1.96 and it can be concluded that the Detection Rate is a factor that have impact toward Tax Evasion. Based on the value of the relation between the two variables, it shows a negative relation with Original Sample -0.396, so the variable relation has opposite impact, meaning that the better the Perception of Tax Fairness, the lower the Tax Evasion.

Detection Rate is defined as the possibility of inspection by the tax authority (Yusmanda, 2018). The research results are consistent with Yusmanda (2018) study

that states perceptions of tax fairness have a significant negative effect on tax evasion. Then it is also in line with Kurnia & Faisal (2022) study that proves Tax Justice has a significant effect on Tax Evasion.

D. CONCLUSIONS

Based on the findings and discussion in this research, several conclusions can be obtained, namely: 1) Perception of Tax Fairness has a significant negative effect on Tax Evasion and 2) Detection Rate has a significant negative effect on Tax Evasion. Meanwhile, the research suggestions are 1) It is recommended to the Surabaya Tax Service to increase the public's perception of tax justice through the implementation of a transparent tax management system so as to minimize the occurrence of tax evasion. 2) It is recommended to the Surabaya Tax Service to increase the public's perception of tax justice through the implementation of a transparent tax management system so as to minimize the occurrence of Tax Evasion and 3) It is recommended to other researchers to add variables that influence Tax Evasion to improve the research results

ACKNOWLEDGEMENT

Thank you to all parties who contributed to the implementation of this research.

REFERENCES

1. Akhadi, I. (2022). The Influence of Tax Revenue on Per Capita Income Variables and Poverty Rates as Indicators of People's Prosperity. *INDONESIAN TAX JOURNAL (Indonesian Tax Review), 6*(1), 60–71. https://doi.org/10.31092/jpi.v6i1.1548
2. Amalia, M. M., & Achmad, G. N. (2023). The influence of Instagram marketing, brand ambassador and brand image towards customer satisfaction and customer loyalty on Scarlett whitening product. *PERFORMANCE: Journal of Economics and Management, 20*(1), 11–20.
3. Belawati, T., Daryono, D., Sugilar, S., & Kusmawan, U. (2023). Development of an instrument to assess independent online learning readiness of high school students in Indonesia. *Asian Association of Open Universities Journal, 18*(1), 34–45. https://doi.org/10.1108/AAOUJ-09-2022-0139
4. Berutu, D. A., & Harto, P. (2012). Perception of Tax Fairness on Individual Taxpayer Compliance Behavior (Wpop). *Diponegoro Journal of Accounting, 2*(2), 1–10.
5. Effendi, H. N., & Amelia, S. (2022). Analysis of Factors That Influence Taxpayer Actions in Tax Evasion. *Journal of Accounting, 11*(1), 1–12. https://doi.org/10.46806/ja.v11i1.798
6. Ervana, O. N. (2019). The Influence of Tax Audits, Tax Fairness and Tax Rates on the Ethics of Tax Evasion (Case Study at the Pratama Klaten Tax Service Office). *Dewantara Tax Accounting Journal, 1*(1), 80–92.
7. Fatimah, S. (2017). Factors That Influence Tax Evasion at the Temanggung Pratama

Tax Service Office. *UST Journal, 1*(1), 1–14. https://doi.org/10.29230/ad.v1i1.20
8. Ghozali, I. (2016). *Multivariate Analysis Applications with the IBM SPSS 23 Program*. Semarang: Diponegoro University Publishing Agency.
9. Hair, J. J. F., Sarstedt, M., Hopkins, L., & Kuppelwieser, V. G. (2014). Partial least squares structural equation modeling (PLS-SEM): An emerging tool in business research. *European Business Review, 26*(2), 106–121. https://doi.org/10.1108/EBR-10-2013-0128
10. Indriyani, M., Nurlaela, S., & Wahyuningsih, E. M. (2016). The Influence of Fairness, the Tax System, Discrimination, and the Possibility of Detecting Fraud on Individual Taxpayers' Perceptions Regarding Tax Evasion Behavior. *IENACO National Seminar*, 818–825.
11. Kurnia, S. A., & Faisal. (2022). The Influence of Tax Justice, Tax System, Tax Discrimination and Money Ethics (Money Ethics) on Taxpayer Intentions Regarding Tax Evasion (Empirical Study of Individual Taxpayers Registered at Kpp Pratama Semarang Candisari). *Diponegoro Journal of Accounting, 11*(4), 1–14.
12. Lesmana, A. L., & Bakti, S. (2020). The Influence of Audits, Taxpayer Knowledge, Sanctions, and Morals on MSME Taxpayer Compliance. *Journal of Accounting and Management, 17*(01), 01–15. https://doi.org/10.36406/jam.v17i01.323
13. Ma'ruf, M., & Mustikasari, E. (2018). The Influence of Individual Taxpayers' Perceptions of Free Work on Tax Rates and Penalty Rates on Tax Evasion (Empirical Study: KPP Mulyorejo). *Indonesian Accounting and Finance Periodical, 3*(1), 50–62.
14. Nugroho, A. J. (2006). The Influence of Taxpayer Attitudes on the Implementation of Fines, Fiscus Services and Tax Awareness on Taxpayer Compliance (Empirical Study of Individual Taxpayers in Semarang City). In *Master of Accounting Thesis, Diponegoro University Postgraduate Program, Diponegoro University*.
15. Pulungan, R. H. (2015). The Influence of Justice, the Tax System, and the Possibility of Detecting Fraud on Taxpayer Perceptions Regarding the Ethics of Tax Evasion. Come on. *FEKON, 2*(1).
16. Roemer, E., Schuberth, F., & Henseler, J. (2021). HTMT2–an improved criterion for assessing discriminant validity in structural equation modeling. *Industrial Management and Data Systems, 121*(12), 2637–2650. https://doi.org/10.1108/IMDS-02-2021-0082
17. Rönkkö, M., & Antonakis, J. (2022). Marketing Or Methodology? Exposing The Fallacies Of Pls With Simple Demonstrations. *Emerald Publishing, 57*(6), 1597–1617. https://doi.org/10.1108/EJM-02-2021-0099
18. Rosmawati. (2021). Perception of Tax Fairness on Taxpayer Compliance Behavior. *Amnesty: Journal of Tax Research, 4*(1), 99–113. https://doi.org/10.26618/jrp.v4i1.5311
19. Safitri, A. (2018). The Influence of Religiosity and Detection Rate on Tax Evasion. *Journal of Accounting, 6*(1), 282.
20. Salamah, B., & Imahda, K. F. (2020). The Influence of the Covid Pandemic on Tax Revenue in Indonesia in 2020. *Journal of Accounting, Taxation and Auditing, 1*(2), 277–289. https://doi.org/10.21009/japa.0102.10

21. Sari, N. P. P., Sudiartana, I. M., & Dicriyani, N. L. G. M. (2021). The Influence of Tax Justice, Tax System, Tax Rates, and Tax Sanctions on Taxpayer Perceptions Regarding the Ethics of Tax Evasion. *Journal of Charisma, 3*(1), 140–149.
22. Subudhi, R. N. (2019). Testing of Hypothesis: Concepts and Applications. *Methodological Issues in Management Research: Advances, Challenges, and the Way Ahead*, 127–143. https://doi.org/10.1108/978-1-78973-973-220191009
23. Syardiansah, S., Lubis, N., & Harahap, A. Y. (2022). The Effect of Salary, Health and Safety on Employee Job Satisfaction Moderated by the Quality of Human Resources. *MIMBAR: Journal of Social and Development, 10*, 347–353. https://doi.org/10.29313/mimbar.v0i0.10060
24. Tania, B. (2020). The Influence of Money Ethics and Detection Rate on Tax Evasion (Case Study of Individual Taxpayers Registered at KPP Pratama Ilir Barat Palembang). *Stie Multi Data Palembang*, 1–22.
25. Law Number 16 of the Year. (2009). Stipulation of Government Regulation in Lieu of Law Number 5 of 2008 concerning the Fourth Amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures into Law. Indonesian government.
26. Yusmanda, S. (2018). The Influence of Perceptions of Tax Fairness and Detection Rate on Tax Evasion. *Journal of Accounting, 6*(2).
27. Zulkifli. (2022). The influence of perceptions of tax fairness on corporate taxpayer compliance during the Covid-19 pandemic. *Journal of Accounting Finance (JAF), 3*(1), 2722–3124.