

Individual Tax Compliance: Trust versus Power

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Abstract— The objective of this study regards with the issue that Indonesia is facing about tax revenue. Currently, Indonesia does not achieve the tax revenue target. Thus make the tax authority more focuses on tax payer compliance by encouraging voluntary compliance through increased trust to increase tax revenue. However, tax authority has many strategies that the tax authorities were forced to choose various strategies to achieve their goals. One of them is issuing power-based regulations that have impact on enforced tax compliance. Thus encouraging researches to verify the relation between the role of power and trust with individual tax compliance and focused on tax avoidance that is mostly done by the individual tax payer. In this research, using the Structural Equation Model to know the correlation between trust and power towards voluntary tax compliance and enforced tax compliance on individual tax payers who does independent personal services with a revenue above and below 4.8 billion per year. This research is expecting to contribute to the tax authority to find out the factors that encourage tax payer compliance. The expectation of this study is to show that trust gives a positive effect on tax compliance by mediating with voluntary compliance. While Power does not affect tax compliance even though it has been mediated by forced compliance.

Keywords—*Tax Compliance; Trust; Power; Voluntary Compliance; Enforced Compliance*

I. INTRODUCTION

Tax revenue is a very important indicator of a country's financial development. Some time ago, Indonesia succeeded in collecting Tax Amnesty to increase the tax revenue. However, the amount needed is less than the amount that should be determined by the Minister of Finance of Indonesia to hold Tax Amnesty Season Two. This is the duty of the tax authority to increase people's tax compliance in carrying out its tax obligations. Two approaches can be taken by the tax authority. The first approach is the power-

based approach. The tax authority can audit and give some fine in the case of tax evasion. While the second approach is trust-based [1]. Contrary to power, this approach emphasizes transparency and honest payment of taxes is what should be done. Both of these approaches will both increase tax compliance but in different ways. A power-based approach will result in enforced tax compliance while a trust-based approach will result in voluntary tax compliance.

Empirical research show inconsistent results. Some research says that power and trust-based approach will improve tax compliance. But other researchers say that power-based approach will reduce trust so the tax compliance also decreases. This uncertainty encourages researchers to use the slippery slope framework (SSF) to know the impact of power and trust on tax compliance. This study aims to contribute by empirically testing the role of power and trust as a determinant of individual taxpayer compliances.

II. LITERATURE REVIEW AND HYPOTHESIS

A. Slippery Slope Framework

Slippery slope Framework is the main source to learn the character of trust and power in individual taxpayer compliance. From there, Kirchler, Hoelzl, and Wahl integrated empirical discovery from the field economics, sociology, and psychology. There are two main factors that SSF introduces that affect taxpayer compliance. These two factors are power from the tax authority and trust of the taxpayer [2]. Tax authority's power is defined as the perception of the taxpayer. That means that tax authority always move to ensure good governance and free from

corruption. The power of tax authority refers to the viewpoint of taxpayers's ability to detect illegal tax compliance and detect tax avoidance [3] [4] while the taxpayer's trust is the general opinion of society that the tax authority is kind and works for the common good. Although these two factors above can improve tax compliance, the quality of the result compliance will be different. A trust-based tax compliance strategy will result in voluntary compliance while a power-based tax compliance strategy will result in enforced tax compliance.

According to the SSF, the effectiveness of tax compliance strategies depends on the tax climate. Kirchler in 2008 said that there are two tax climates, namely antagonistic and synergistic. In the antagonistic tax climate, in the view of the tax authorities, taxpayers act as robbers and they are eager to avoid taxes. In such a climate, the will be an increase in power to increase taxpayer compliance. But on the other hand, taxpayers will not have the desire and drive to obey as one of the obligations of citizens that must be done. They tend to see the tax authority who acts as the police. Therefore, the steps taken by the tax authority will be very detrimental to the taxpayer [5]. Besides the antagonistic climate, the other climate is synergistic. The tax authority views the taxpayer as a client who has the right to obtain professional services and fair procedures[6]. In this climate, taxpayer trust in tax authority is more likely to increase voluntarily[1]. While taxpayers see the tax authority as a public servant who enforces the law according to morals. This climate shows that taxpayers are more likely want to cooperate and comply with the rules [7]. This climate will resolve in a condition because there are some arrangements where the regulation will benefit one party and harm the other party, therefore, the SSF emphasize that a combination of power from the tax authority and trust of the taxpayer are required to optimize the tax compliance[8].

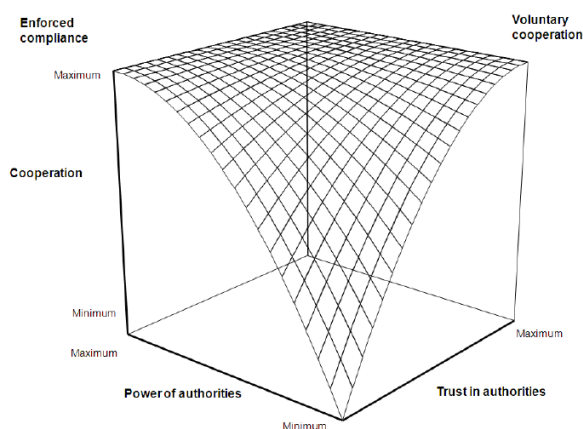


Fig. 1. The Slippery Slope Framework [1]

B. Tax Compliance

Tax compliance is a problem facing tax authorities around the world. Tax compliance can be defined as the willingness of taxpayers to comply with tax regulations in a country. Concerning compliant taxpayers, the understanding of taxpayer compliance is an obedience to carry out taxation provisions or rules that are required to be implemented [5].

C. Trust

The compliance of the individual taxpayer in paying taxes is not only based on the opportunity and possibility to be tracked, or not but also based on the individual's awareness to obey or avoid their taxation obligations. If the tax authority acts fairly towards all taxpayers, it will grow and increase the taxpayer's trust in the tax authorities. If the taxpayer has a high level of trust in the taxation system implemented by the government, the taxpayer will tend to carry out their tax obligations voluntarily and not avoid tax [9].

D. Power

If taxpayers do not do tax compliance voluntarily, then taxpayers tend to do so because of the rules set by the tax authority. This means power comes from the Tax Authorities to produce laws that must be obeyed by every taxpayer. Power seems to offset the effects of trust and voluntary compliance beyond a spesific point [4].

E. Enforced Compliance

Tax penalty can be interpreted as one of the factors that can be used by tax authorities to influence the compulsory compliance of taxpayers because the function of the penalty itself is used as a way of regulating a group of people to be able to comply with established rules [10]. Tax also contains an element of coercion which means that if the Taxpayer does not comply with tax regulations, the Taxpayer will get legal consequences in the form of tax penalty that have been determined based on tax laws. The tax penalty imposed aim to increase the compliance of taxpayers in carrying out their tax obligations.

F. Voluntary Compliance

The taxpayer's trust in the tax authority is very influential on the taxpayer's compliance with tax payments. If the taxpayers' trust the tax authority, they will automatically perform tax compliance voluntarily [11] In this case if there is a taxpayer who obediently sees the disobedience of others, for example, competitors are not punished, then they can follow that and reduce their compliance itself for example for economic reasons. So if the power of the tax authority is considered low, another approach that can be taken is a trust-based approach to improve tax compliance [12].

G. Hypothesis Development

1. The relation between Trust and Voluntary Compliance

The taxpayer's trust in the tax authority makes the taxpayer perform his tax obligations voluntarily. Taxpayers pay taxes not because of pressure or fear of penalty that will be imposed if they do not pay taxes, but because of a sense of awareness as a citizen to contribute to his country.

H1: Taxpayer's Trust is positively related to Voluntary Tax Compliance

2. The relation between Voluntary Compliance and Tax Compliance

When conducting Voluntary Tax Compliance, the relationship between the Taxpayer and the Tax Authority will respect each other. In addition to respect, fair and transparent treatment by the authority of taxpayers is important to be trusted. Therefore, respectful and fair treatment is relevant that leads to trust in the tax authority.

H2: Voluntary Tax Compliance is positively related to Taxpayer Tax Compliance

3. The relation between Power and Enforced Compliance

Tax authorities are considered to have power if they work efficiently and can detect and prosecute non-compliant taxpayers. Besides, they are also considered have power if they can force taxpayers to do tax compliance. Therefore, penalty are the most efficient way to detect non-compliant taxpayers.

H3: Tax Authority Authority is positively related to forced Tax Compliance

4. The relation between Enforced Compliance and Tax Compliance

Penalty imposed by the tax authority does affect tax behavior but do not increase tax compliance. Based on research from the slope framework, the power possessed by tax authorities causes a lot of mistrust and climate of antagonistic interactions between tax authorities and taxpayers [1]. Under such conditions, distrust will decrease taxpayer compliance

H4: Enforced tax compliance is positively related to Taxpayer Tax Compliance

5. The relation between of Trust and Tax Compliance with Voluntary Compliance as Mediation Variable

High taxpayer trust will encourage taxpayers to perform tax compliance voluntarily. Taxpayers will take the initiative to carry out their tax obligations without being forced, taxpayers will feel that paying taxes is a form of contribution to the state, so indirectly, if the trust of taxpayers is high, it will relate to tax compliance taxpayers.

H5: Taxpayer Trust is positively related to Taxpayer Tax Compliance mediated by Voluntary Tax Compliance

6. The relation between Power and Tax Compliance with Enforced Compliance as Mediation Variable

The tax authority has the power to force taxpayers to carry out their tax obligations, both by imposing penalty on taxpayers who do not carry out their tax obligations, as well as other legal actions. But in its application, taxpayers tend to carry out tax obligations compulsorily and as much as possible keep doing tax avoidance.

H6: Tax Authority Authority is positively related to Taxpayer Tax Compliance which is mediated by enforced Tax Compliance.

III. METHODOLOGY

A. Research Model

Based on our explanation above, we presented our research model as below:

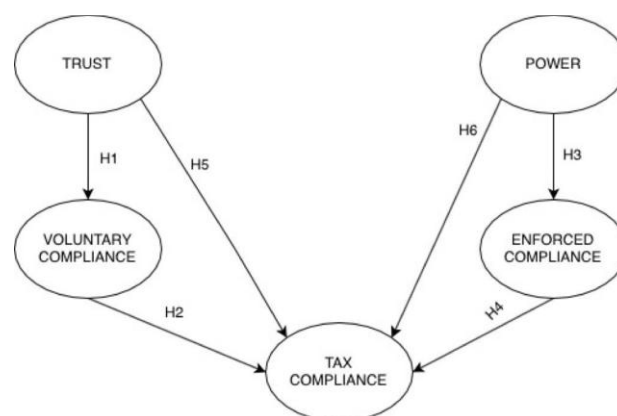


Fig. 2. Visualization of Hypothesis

B. Sample Selection

The sample in this study is an individual taxpayer who does Independent Personal Services with income above and below 4.8 billion per year for 2014-2019. The sample in this study was collected as part of a study aimed at explaining the relationship between trust and tax compliance through voluntary compliance as well as the relationship between power and tax compliance through enforced compliance. Sampling in this study was carried out by distributing surveys to individual taxpayers conducting business activities, as well as doing Independent Personal Services with income above and below 4.8 billion and having Taxpayer Identification Number. The sample consisted of 100 respondents with a proportion of 75% male respondents and 25% female respondents (see appendix 1).

C. Measurement Instrument

The format of the questionnaire in this study is based on the development of the questionnaire in previous studies. Questionnaire questions were Given to 100 respondents with different occupations (see appendix 1). This questionnaire used a Likert scale measured by a seven-point Likert scale. The scale of this questionnaire consists of seven levels where 1 shows the most disagreements and 7 shows the most agree (see appendix 2).

IV. RESEARCH RESULT AND ANALYSIS

This study uses the structural equation model (SEM) method to test our hypothesis. This model examines the correlation between power and trust, voluntary and enforced compliance as well as tax compliance. Besides, it also saw a direct relationship between trust and tax compliance as well as power and tax compliance.

TABLE 1. DESCRIPTIVE STATISTIC

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted
EC	0.711	0.858	0.829	0.623
POWER	0.729	0.745	0.880	0.786
TC	0.882	0.887	0.927	0.809
TRUST	0.724	0.780	0.842	0.642
VC	0.761	0.780	0.892	0.806

Based on Table I, the results of the construct reliability check can be done to see the AVE value to emerge the range of the variant of the indicators conceived by the construct. Where is the boundary value of $AVE \geq 0.5$. The next construct reliability test is an evaluation of the construct reliability values measured by the Cronbach's Alpha value

of all constructs should be ≥ 0.7 . In Table I, the Cronbach's Alpha value of all constructs is greater than 0.7 so that it can be concluded that indicators are consistent in measuring the construct.

TABLE II. STATISTICAL RESULT OF T TEST

	Original Sample	Sample Mean	Standard Deviation	T Statistic	P Value
EC -> TC	0.014	-0.002	0.111	0.124	0.901
POWER -> EC	0.362	0.373	0.091	3.988	0.000
POWER -> TC	0.070	0.076	0.116	0.606	0.545
TRUST -> TC	0.346	0.342	0.101	3.428	0.001
TRUST -> VC	0.397	0.408	0.094	4.212	0.000
VC -> TC	0.409	0.403	0.086	4.758	0.000

After testing the construct validity and reliability, the next measure is to appraise the structural model. At this stage, the evaluation of structural models will be analyzed by looking at the significance of the relationship between constructs indicated by the T value statistically by notifying at the output value. Where the indicators that have a T value of statistics ≥ 1.96 are said to be valid and the hypothesis is accepted. The indicator can also be said to be valid if it has a P-value ≤ 0.05 .

Based on the results of Table II above, hypothesis testing can be carried out as follows:

First Hypothesis: Trust give a positive effect on Voluntary Compliance. The result of the statistical T value is 4.212 which is greater than 1.96 that means there is a significant affect between the two variables. This supports the hypothesis that high trust in tax authorities is in line with voluntary compliance that occurs due to the domination of the synergistic climate that occurs [9]

Second hypothesis: Voluntary Compliance has a positive effect on Tax Compliance. The result of the statistical T value is 4.758 which is greater than 1.96 so there is a positive and significant effect. Honest taxpayers can feel this voluntary compliance as a sign that disingenuous taxpayers will be punished with good reason. Thus, their trust in the authority will increase and automatically increase tax compliance and honest payment [4].

Third Hypothesis: Power towards Enforced Compliance has a positive effect. The result of the T-statistic value is 3,988 which is greater than 1.96 so that means there

is a positive influence from the Power and Enforced Compliance. In this situation, taxpayers tend to question whether they must obey the tax authority or not. This results in the fear effect that tax authorities can abuse their power [13].

The fourth hypothesis: Enforced Compliance with Tax Compliance has a positive effect. The result of the statistical T value is 0.124 which is smaller than 1.96 so this becomes invalid and the hypothesis is not accepted. Supporting references [6], the antagonistic climate within enforced compliance is characterized by distrust and hatred of tax authorities. Thus, taxpayers can only be forced to comply with tax laws on the grounds of existing controls and penalty.

Fifth Hypothesis: Trust give a positive relation with Tax Compliance. The result of the statistical T value is 3.428 so the hypothesis is accepted because the data is valid. When the taxpayer believes in the tax authority, the taxpayer feels treated fairly by the tax authority, especially when committed to paying taxes because it is one of the obligations as citizens so that it will automatically increase respect for tax authorities and carry out tax compliance [14].

The sixth hypothesis: Power has a direct relationship to Tax Compliance. The result of the T-statistic value is 0.606 which is smaller than 1.96 so the hypothesis is not accepted because it is invalid. Supporting Reference [1], antagonistic tax climate refers to power and enforced compliance which causes some mistrust between taxpayers and tax authorities. In this climate, there is assumption by tax authority that taxpayers avoid taxes anytime. So, the authority conduct audit and impose severe penalty to force taxpayers to make honest payments and reports. This make taxpayers feel persecuted and try to hide from the power of the tax authority[4].

To conclude all this, the picture below shows the results of all the lines and their valuation.

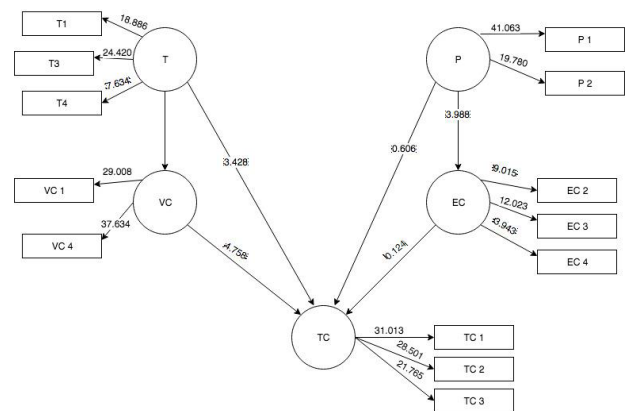


Fig. 3. Significant Result of Structural Equation Model
T = T = Trust, P = Power, VC = Voluntary Compliance, EC = Enforced Compliance, TC = Tax Compliance

V. CONCLUSION

In "slippery slope framework" it is stated that tax compliance is a purpose of the tax authority's power and trust of tax authority. It was also stated that if the level of public trust in the tax authority was high, the community would be willing to work together to comply with tax regulations, which meant the community would fulfill their tax obligations. Meanwhile, if the level of the tax authority's power is high, then people will feel compelled to obey. Meanwhile, both the trust and power of the tax authority are made to achieve sustainable community tax compliance. Empirical research focussed on the character of tax authority's power in public tax compliance, but there has not been much discussion about the character of trust and the interaction between tax authority's power and trust in tax authorities.

In the individual taxpayer compliance study, we conclude that there is a positive relationship between public trust in tax compliance (in accordance with hypothesis 1), in addition there is also a positive relationship between voluntary tax compliance with tax compliance taxpayers (in accordance with hypothesis 2), Moreover there is a positive relationship between the tax authority's power and enforce tax compliance (in accordance with hypothesis 3), and there is also a positive relationship between enforced tax compliance with tax compliance taxpayers (in accordance with hypothesis 4). Although there is a positive relationship between power and enforced tax compliance but this study concludes that more forced compliance does not make taxpayers do their tax obligation. These can be seen from the negative relationship between Enforced Compliance and the direct relationship between Power and Tax Compliance. Besides, our study shows the mediating effect of forced tax compliance (in accordance with hypothesis 5).

Supports the idea that the purpose of power weakens the positive contribution of trust towards taxpayer's

compliance. This study also found that there is a positive relationship between public trust with taxpayer's compliance that is related to the mediating effect of voluntary tax compliance. This study has several limitations that can affect the results. First, the action is relatively easy. Recent study of Hofmann et al., 2014 proposing a more complex approach in terms of trust and power that can distinguish between legitimate and coercive power. Also, between logic and implicit based trust. This study may not cover all dimensions of trust and power, but this study provides a starting point of trust and power based on evidence that occurs in Indonesia. From this, Future research can develop various types of trust and power. Second, this study collects data by asking representatives of individual taxpayers fairly. Therefore, their response may be considered subjective. However, in this study, we chose taxpayers who know best about taxation and its ongoing problems. Besides, we also overcome by ensuring that the respondents we examined would fill in the survey objectively. Overall, this research confirms/Approved the assumptions of the Slippery Slope Framework by Kirchler in 2008. Supporting References [15], this study also shows that if taxpayers have confidence in tax authorities, they will voluntarily comply with tax laws. However, taxpayers do not assume that the power held by the tax authority will have an impact on their actions to comply with the tax system. Tax authority's power will result in forced compliance while trust will result in voluntary compliance and eventually tax cooperation will occur. This study reveals that the theory in SSF also can be applied to Indonesian individual taxpayers.

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Appendix 1. Demographics of Taxpayers in Indonesia (N=100)

Gender	Percentage (%)
Male	75%
Female	25%
Profession	Percentage (%)
Actuary	3%
Accountant	20%
Architect	7%
Doctor	7%
Consultant	17%
Entrepreneur	28%
Notary Public	5%
Lawyer	9%
Appraiser	4%

Appendix 2. Questionnaires, Item Wording and Samples of the Questionnaires

Variabel	Item Coding	Item Wording
Trust	Trust 1	The Tax Authority treats everyone the same way
	Trust 3	The Tax Authority ensures that information is needed to make a desicion
	Trust 4	The Tax Authority can be trusted in Indonesia
Power	Power1	The Tax Authority has broad powers to force honest citizens about taxes
	Power2	The Tax Authority can find more or less Tax Evasion that occurs based on an inspection carried out
Enforced Compliance	EC2	I pay taxes because the risk of being checked is too high
	EC3	I pay taxes because the penalty for tax evasion is too severe
	EC4	I pay taxes because I do not know exactly how to avoid taxes without attracting attention
Voluntary Compliance	VC1	I pay taxes as a matter of course
	VC4	I pay taxes because it is my duty as a citizen
Tax Compliance	TC1	I always fill the Tax Annual Return Form according to Law on General Provisions and Tax Procedures
	TC2	I always report the Tax Annual Return Form that has been filled on time
	TC3	I always calculate the income tax payable correctly according to Law on General Provisions and Tax Procedures