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## THE EFFECT OF TAX REFORM PRACTICES AND TAX AUDIT INTENSITY ON TAXPAYER COMPLIANCE AND PERCEPTIONS

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### ABSTRACT

This study aims to analyze the impact of tax reform practices and the intensity of tax audits on taxpayer compliance and perceptions in Indonesia. Using a sample of 117 respondents, the data were analyzed using structural equation modeling (SEM). The results of the study found that Tax Reform Practices and Tax Audit Intensity had a significant and positive effect on Taxpayer Compliance. In contrast, Tax Reform Practices and Tax Audit Intensity have no significant effect on Taxpayer Perceptions. These results contribute to the development of literature in the field of taxation.

**KEYWORDS:** Tax reform practices, the intensity of tax audits, taxpayer compliance, taxpayer perceptions.

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### 1. INTRODUCTION

Tax reform plays a key role in improving the investment climate. Efforts to improve the tax administration system include improving service functions, including improving tax office governance, simplifying tax returns, intensifying compliance and supervision, and modernizing support functions. In order to carry out more comprehensive tax reform, the President hopes to soon be able to complete the discussion of three Draft Tax Laws, namely General Provisions and Procedures for Taxation, Income Tax, Value Added Tax, and Sales Tax on Luxury Goods. The three laws contain provisions regarding reducing the tax burden, increasing compliance, and more balanced treatment between taxpayers and tax officials.

State Address of the President of the Republic of Indonesia and Government Information on the Draft Law on the 2007 State Budget and its Financial Notes: (a) In reality, taxation implementing regulations often experience changes and developments in line with changes and developments in the business community; (b). In line with the trend of reform, the government should not have to

highlight its interference. It is enough just to formulate the goals to be achieved. How to achieve this, the formulation should be left to a truly independent institution (the government has appointed the Chairperson of the Fiscal Analysis Agency at the Ministry of Finance), and it is they who will objectively screen and formulate all input. (c) It should be remembered that each party (the tax authorities and WP) often seeks to prioritize their own interests; one wants ease of service while the other wants not to bother working. In this case, all proposals that have been screened by the Independent Team must be in accordance with legal principles, rational, and free from group interests. (d) To carry out tax reform this time, it seems that the Government does not want to wait too long to implement the new regulation. While awaiting the process of amending the Tax Law in the DPR, the government plans to issue a Decree from the Minister of Finance, which in the future, perhaps all parties will agree that taxes are an important source of state revenue. The state budget is increasingly dependent on tax revenues.

In 2018, 2019, and 2020, tax revenue in East Kalimantan is targeted 2018 to be Rp. 20.854 trillion, in 2019, it is Rp. 23.278 trillion, and in 2020 it is Rp. 18.434 trillion. Based on these figures, the 2018 revenue target has increased by around IDR 2,424 or 11.62 percent. But in 2020, the target has decreased by 4.844 trillion or 20.81 percent. The individual taxpayer compliance ratio in East Kalimantan is, on average, still low or only 27.29% in 2018, then decreased to 25.56% in 2019, and in 2020 it rose again with a value of 28.27%. On average, the percentage of individual taxpayers who report SPT for 3 years (2018 – 2020) is only 27.04%. Based on the nominal amount in 2018, the number of individual taxpayers who reported SPT was 245,137 WP out of 898,427 registered WP; in 2019, only 246,395 WP out of 964,165 registered WP, and in 2020 only 322,730 WP out of 1,141,781 registered WP. These ratios and figures show the low level of compliance of individual taxpayers to report their tax returns on time and correctly report the amount of tax owed.

The ratio of achieving the target of tax revenue in East Kalimantan has hardly changed, as evidenced by the fact that in 2018 it was 92.06%; in 2019, it actually decreased to 91.31%; then in 2020 it increased again to 92.63%. Thus, the efforts to achieve the tax revenue target have not fully met expectations based on the tax achievement target for the East Kalimantan DGT Regional Office for 2018 to 2018 until 2020. Tax reform with the implementation of a self-assessment system, taxpayers is entrusted with calculating, paying, and reporting the amount of tax owed. The self-assessment system is implemented on the basis of trust from the tax authorities to taxpayers (Rahayu, 2007). From the administered taxpayer data, it will be seen whether the taxpayer has complied or not (Mustikasari, 2007). Increasing taxpayer compliance in East Kalimantan will provide an increase in tax revenue performance, but the reality shows that tax revenue is still low even though taxpayer compliance has increased. Taxpayer compliance is an interaction between the behavior of individual groups and organizations. The motivation of taxpayers is strongly influenced by environmental factors, both internal and external. Taxpayer compliance is the behavior of doing or not doing certain activities in accordance with applicable rules and regulations. For this reason, taxpayer compliance is the act or behavior of taxpayers in fulfilling their tax obligations in accordance with applicable regulations. On the other hand, according to Chairman (2004), tax revenue is largely determined by taxpayer compliance, but these efforts will face various obstacles, including low public awareness (taxpayer's awareness) to pay taxes, not yet optimal implementation

of counseling and services in the field of taxation, and many tax potential that has not been explored and realized optimally so that the tax ratio is low (Kurniawan, 2004).

The level of taxpayer compliance is influenced by factors including the amount of income, tax rates, taxpayer perceptions of the use of tax money, tax treatment, implementation of law enforcement, the severity (mild) of tax sanctions and the completeness and accuracy of the database (Alm. et al. ., 1990). Taxpayer compliance is the extent to which taxpayers follow applicable laws and regulations in reporting tax payable. Simanjuntak & Mukhlis (2012) state that taxpayer compliance also includes non-compliance, namely intentional non-compliance and unintentional non-compliance. Willful non-compliance is a violation of tax regulations. This is because taxpayers try to avoid their tax obligations. Unintentional non-compliance occurs because taxpayers do not know or understand tax rules.

Efforts to increase compliance and increase compliance as well as improve tax performance in East Kalimantan from 2018 to 2020 are continuously being carried out by all tax officers in charge of each tax service office, both at the primary level and at the middle level. Efforts to provide appeals and corrections are carried out by conducting examinations of taxpayer compliance with the method and method of determining the tax payable, which during the reform was carried out by self-assessment, if there were very material violations in number or there were efforts to avoid tax, the tax authorities carried out an official assessment system to determine the tax that was underpayments or taxes that should be owed. Examinations on taxpayers, when viewed from the number of inspection orders, have decreased as a whole, namely 2,549 in 2018, and then increased to 2,799.

## **2. LITERATURE REVIEW**

Tax compliance can be defined as the extent to which taxpayers comply or do not comply with the tax laws of their country. This suggests that the goal of efficient tax administration is to encourage voluntary tax compliance (Park and Hyun, 2003). Previous literature on tax compliance, namely tax compliance, is seen from three theoretical perspectives. The first theory is felt that tax compliance is due to sanctions. Second, the theoretical model of pure tax compliance as an economic decision (Allingham & Sandmo, 1972), and the third theory of tax compliance model is compliance influenced by non-economic factors such as demographics, attitudes, and perceptions of taxpayer compliance (Kinsey, 1986). In this study, we try to understand tax compliance by using the third model (Kinsey, 1986), which shows that tax compliance is influenced by non-economic factors.

In order to increase taxpayer compliance, Richardson (2006) and Kirchler et al. (2008), believes that tax knowledge plays an important role. Therefore, people must be equipped with tax education so that everyone has sufficient knowledge of competent taxpayers. Park & Hyun (2003), argued that tax education is an effective tool to encourage taxpayers to be more compliant. On the other hand, if the taxpayer understands the basic concepts of taxation well, then the taxpayer is willing to comply (Marziana et.al 2010).

Compliance is the motivation of a person, group, or organization to do or not do something with predetermined rules. A person's obedient behavior is an interaction between the individual group

and organizational behavior (Bobek and Hatfield, 2003). A person's motivation is strongly influenced by environmental factors, both internal and external. Compliance is a behavior to do or not to do certain activities in accordance with the rules and regulations that apply. From this definition, it can be interpreted that taxpayer compliance is the act or behavior of taxpayers in fulfilling their tax obligations in accordance with applicable regulations.

Jenkins (1992) emphasizes that the tax system can never work better than its tax administration, and even the best tax administration will inevitably fail to turn a bad tax system into a single source of operations. He also cautioned that many ambitious tax reforms failed due to inefficient tax administration. Without improvements in tax administration and improvements in management, it is impossible to expect that tax reforms will be successful (Quintana, 1986). In tax reform, there is a close correlation between successful policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1992).

One of the government's efforts to increase state revenue from the tax sector is by reforming the Tax Laws and Regulations, as well as the tax administration system. Tax reform has actually been carried out since 1983 by changing the official assessment system to a self-assessment system, while the tax reform program in 2008 included the concept of modernizing tax administration (Abe, 1995). Tax administration reform has several important aspects which are expected to improve the performance of tax services. The first aspect is in terms of organizational structure. The second aspect is in terms of work systems and procedures, as well as other equipment related to information technology and human resources. The last aspect is related to the implementation of good governance, which is often associated with the integrity of employees and institutions.

The relationship between tax reform practice variables and taxpayer perceptions refers to previous research conducted by Murphy & Director (2003), Nordiana (2012), and Abdul & Adafula (2013), which revealed that tax reform practices have a significant effect on taxpayer perceptions. The variable relationship between tax reform practices and tax collection refers to Please (1967), Hatta & Haltiwanger (1986), Gordon & Li (2005), Prichard (2010) who reveals that the relationship between tax reform practices and tax collection is significant. Other researchers, namely Grossman & Helpman (1994), Karingi et al. (2004), Auriol & Warlters (2005) obtained different results, namely the relationship between tax reform practices and tax collection was not significant. Meanwhile, the relationship between tax reform practices and taxpayer compliance based on previous research conducted by Alm, J., Jackson, et al. (1992), Jenkins (1992), Alm, James & McKee (1993), Murphy & Director (2003), Torgler (2005), revealed that the relationship between tax reform practices and taxpayer compliance is significant. However, other researchers, namely Richardson (2006), Kiabel & Nwokah (2009) revealed that the relationship between tax reform practices and taxpayer compliance was not significant.

The empirical reference for the relationship between the intensity of tax audits and the perceptions of taxpayers is research conducted by Sakurai & Braithwaite (2003) where they revealed that the intensity of tax audits has a significant effect on perceptions of taxpayers. The relationship between tax audit intensity and tax collection according to research conducted by Cobham (2005), Suryadi

(2006), Listyaningtyas (2012), which is also an empirical reference in this study, has revealed that the relationship between tax audit intensity and tax collection is significant.

According to the empirical references of this study regarding the relationship between the intensity of tax audits and taxpayer compliance, namely research conducted by Bobek & Hatfield (2003), Torgler (2005), Feld, L. P., & Frey, B. S. (2007), Torgler et al. (2008), Devos, K. (2015), found that the relationship between the intensity of tax audits and taxpayer compliance is significant. Different results were suggested by Slemrod et al. (2001) in his research which revealed that the relationship between the intensity of tax audits and taxpayer compliance was not significant.

### **3. METHOD**

#### **3.1. Variable Operational Definitions**

Tax Reform Practices (X1). In this study, what is meant by the practice of tax reform is a fundamental change in all aspects of tax practice. Tax reform covers two areas, namely tax policy reform (tax policy), namely tax regulations or regulations in the form of tax laws and tax administration reform. So the tax reform covers the areas of regulation and the areas of supervision. The tax reform indicators are 1) Tax provisions (X1.1); 2) Quality of Human Resources (X1.2); 3) Tax Information System (X1.3); 4) Tax Service (X1.4).

Tax Inspection Intensity (X2). Tax audit is a series of bookkeeping audit activities, checking records and documents, conducting interviews and physical examinations, cross-checking with third parties, and conducting tax reconciliation. This variable is measured by adopting indicators, namely: 1) Examination of the Taxpayer's Bookkeeping (X2.1); 2) Examination of Records and Documents (X2.2); 3) Interview and Physical Examination (X2.3); 4) Cross Test With Third Parties (X2.4); 5) Reconciliation (X2.5)

Taxpayer perception (Y1). Perception indicators of taxpayers are knowledge of taxation and the complexity of the tax system. Indicators of perceptions of taxpayers, according to Sakurai and Braithwaite (2003) are avoidance of punishment or punishment avoidance, social obligations or social duty/obligation, and principles of justice or principles of justice. Taxpayer perceptions consist of taxpayer knowledge and taxpayer satisfaction. Thus, the indicators of taxpayer perception used are: 1) Knowledge of Taxation (Y1.1); 2) Tax Sanctions (Y1.2); 3) Social Obligations (Y1.3); 4) Justice (Y1.4).

Compliance (Y2) is the motivation of a person, group, or organization to do or not do something according to predetermined rules. A person's obedient behavior is an interaction between the individual group and organizational behavior. The level of voluntary tax compliance has three aspects, namely formal, material (honestly), and reporting (reporting) aspects. Decree of the Minister of Finance No.544/KMK.04/2000 (an audit was not issued because the sample was WP OP) as follows: 1) Timely Submission of SPT (Y2.1); 2) Have no tax arrears (Y2.2); 3) Never Sentenced to Punishment (Y2.3); 4) Organizing Bookkeeping (Y2.4).

All variables are measured using a Likert scale which has five levels of preference, each of which has a score of 1-5 with the following details: a score of 1 means that the respondent Strongly

Disagree (STS) with the statement, a score of 2 means that the respondent Disagree (TS) to the statement, a score of 3 means that the respondent is Neutral (N) to the statement, a score of 4 means the respondent Agree (S) to the statement and a score of 5 means the respondent Strongly Agree (SS) to the statement.

### 3.2. Data and Samples

The location of this research will be carried out throughout the province of East Kalimantan, Indonesia. The research schedule to be carried out starts in July 2021 until August 2021 (2 effective months). The type of data used in this study is qualitative data, where qualitative data is obtained based on the results of distributing questionnaires, the questionnaire data in qualitative form is quantified by giving weights or scores using the Likert scale method, namely from 1 to 1.5, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree, then the results of the data weighting are statistically processed using SPSS to test the validity of the data and SmartPLS for processing data analysis. In this study using primary data, namely direct data from respondents who were collected, tabulated and processed by the researchers themselves. In this case the data was obtained through questionnaires which were distributed to taxpayers using digital assistance, namely the Google Form. Google forms are a useful tool to assist in creating surveys and gathering information. This application is used to make it easier to distribute and collect questionnaires and to be more efficient, namely by inputting questionnaire questions through the Google form and later distributing them digitally to research respondents.

### 3.3. Alat Analisis Analysis Tools

The method chosen to be used in analyzing data must be in accordance with the research pattern and the variables to be studied. In this study Structural Equation Modeling (SEM) with the SmartPLS program. SmartPLS as a structural equation model is often used in research on marketing management and strategic management. SmartPLS shows measurements and structural problems and is used to analyze and test hypotheses. The purpose of this study is to test the hypothesis that has been determined in Chapter III, namely with the provisions:

- 1) If H1, then a relationship of the existing variables has a significant influence. This can be proven by the results of calculations using SmartPLS where the Output Estimate in the Regression Weight section produces a standardized estimate column  $> 0$  and a Critical Ratio column  $> 1,96$  and the Possibility column  $< 0.05$
- 2) If H0, then a relationship of the existing variables does not have a significant effect. This can be proven by the results of calculations using SmartPLS where the Output Estimate in the Regression Weight section produces one or more conditions from the standardized estimate column  $< 0$  (negative) or Critical Ratio  $\leq 1.96$  or Possibility column  $\geq 0.05$ .

## 4. RESULT AND DISCUSSION

This research was conducted using the Structural Equation Model (SEM) approach using Partial Least Square (PLS) software, namely Smart PLS software. The reason for using this method is that the number of samples needed in the analysis is relatively small and the Smart PLS analysis does not have to have a normal distribution. PLS is a powerful analysis method because it can be applied to all data scales, it doesn't require a lot of assumptions.

PLS besides being able to be used as confirmation of theory can also be used to build relationships where there is no theoretical basis or for testing propositions. PLS can also be used for structural modeling with indicators that are reflective or formative (Sumertajaya, 2008). The variables in this study are latent because they require indicators or statements to explain them, and the sample is not too large so a suitable analytical tool is using PLS. In this study, the direction of the relationship used between indicators and variables uses the direction of a reflective relationship.

Convergent validity aims to determine the validity of each relationship between indicators and constructs or latent variables. There are two types of validity in PLS-SEM, namely convergent validity, and discriminate validity. Convergent validity means that a set of indicators represents one latent variable and the underlying latent variable. The convergent validity of the measurement model with the indicator reflective model is assessed based on the correlation between the item score/component score and the construct score calculated by PLS. The reflective measure is said to be high if it correlates more than 0.70 with the construct you want to measure. However, for the initial stage of research, the development of a measurement scale, a loading value of 0.5 to 0.60 is considered sufficient. Next, look at the loading factor indicators for each variable. All indicators formed by variables have a loading factor value greater than 0.60. This result indicates that it has a high level of validity, thus fulfilling convergent validity.

The cross-loading value of the relationship between variables and indicators that are formed is greater than the relationship between variables and indicators that are not formed. For the loading value of the Tax Reform Practices variable (X1) to the indicator X1.1, a value of 0.792 is greater than the loading value to the X2.1 indicator, which is 0.631 as well as the loading value of the X1 variable to an unformed indicator. The Average Variance Extracted (AVE) value of all the variables used in this study is at, or greater than, 0.05. so it can be concluded that there are no convergent validity problems in the model tested in this study. The results of the Composite reliability analysis test contained in the table above, shows that the composite reliability value for all constructs is above the value of 0.70. With the resulting value, all constructs have good reliability in accordance with the minimum value limit that has been required.

R Square for the variable Taxpayer Perception (Y1) is 0.219 or 21.90%, this result explains that the variable Taxpayer Perception (Y1) is influenced by 21.90% by the variable Tax Reform Practices (X1) and Tax Audit Intensity (X2)).

**Table 5.19. Results of Variable Analysis**

No	Keterangan	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
1	Tax Reform Practices (X1) -> Taxpayer Perceptions (Y1)	0,257	0,253	0,122	2,104	0,036
2	Tax Reform Practices (X1) -> Taxpayer	0,068	0,070	0,117	0,580	0,562

	Compliance (Y2)					
3	Tax Audit Intensity (X2) -> Taxpayer Perception (Y1)	0,254	0,270	0,093	2,737	0,006
4	Tax Audit Intensity (X2) -> Taxpayer Compliance (Y2)	0,134	0,122	0,086	1,552	0,121

The Tax Reform Practices variable (X1) has a significant and positive effect on the Taxpayer Perception variable (Y1) with the acquisition of a t statistic value of 2.104 greater than 1.96 with a P value of 0.036 less than 0.05. The results of statistical calculations using SMARTPLS software reveal that the effect of Tax Reform Practices (X1) on Taxpayer Perceptions (Y1) in East Kalimantan is significant and positive. This reveals that the variable Tax Reform Practices (X1) which is measured through 4 indicators or dimensions namely Tax Provisions, Quality of Human Resources, Tax Information Systems, and Tax Services can increase the variable of taxpayer perception (Y1). Thus it can be said that the loading factor of the tax information system indicator (X1.3) is the most dominant, meaning that if you want to increase the tax reform practice variable, what needs to be paid more attention to is through increasing the tax information system indicators for taxpayers, although other indicators remain the same. Must be considered.

The Tax Reform Practices variable (X1) has no influence and is not significant on the Taxpayer Compliance variable (Y3) with a positive relationship. The results of the t statistical analysis were  $0.580 < 1.96$  and the P value was  $0.562 > 0.05$ . The results of statistical calculations using SMARTPLS software reveal that the effect of Tax Reform Practices (X1) on Taxpayer Compliance (Y3) of taxpayers in East Kalimantan is not significant positive. Thus it can be said that the loading factor of the ability indicator (X1.3) is the most dominant, meaning that if you want to increase the tax reform practice variable, what needs to be paid more attention to is through increasing the tax information system indicators for taxpayers, although other indicators must also be considered.

The path coefficient value of the influence of the Tax Audit Intensity variable (X2) on the perception of the taxpayer (Y1) has a Standard Deviation value of 0.137. The Tax Reform Practices variable (X1) has no effect and is not significant on the Tax Collection variable (Y2) with a negative relationship. The statistical t value of 0.091 is less than 1.96 and the P value of 0.928 is greater than 0.05. The results of statistical calculations using the SMARTPLS software reveal that the effect of Tax Audit Intensity (X2) on the perceived quality (Y1) of taxpayers in East Kalimantan is not significant positive. These results reveal that the variable Tax Audit Intensity (X2) as measured through 5 indicators or dimensions, namely Taxpayer Bookkeeping Examination, Records and Document Examination, Interviews and Physical Examination, Cross-Test with Third Parties and Reconciliation is not able to increase the taxpayer's perception variable ( Y1).

The Tax Audit Intensity Variable (X2) has no significant effect on the Taxpayer Compliance variable (Y2) with a positive relationship. The results of the t statistical analysis were  $1.552 < 1.96$  with a P value of  $0.121 > 0.05$ . The results of statistical calculations using SMARTPLS software

reveal that the effect of Tax Audit Intensity (X2) on Taxpayer Compliance (Y2) of taxpayers in East Kalimantan is significantly positive. Thus it can be said that the loading factor of the reconciliation indicator (X2.5) is the most dominant, meaning that if you want to increase the tax audit intensity variable (X2), then what needs to be paid more attention is through reconciliation to taxpayers in East Kalimantan.

## 5. CONCLUSION

Based on the results of the research and the results of the hypothesis testing of the estimation parameters that have been carried out, it can be concluded as follows: 1) Tax reform practices have a significant and positive effect on the perceptions of taxpayers in East Kalimantan. These results also indicate that tax reform practices and taxpayer perceptions have a direct relationship. 2) Tax Reform Practices have no significant effect on Taxpayer Compliance in East Kalimantan. These results also indicate that tax reform practices and taxpayer compliance do not have a direct relationship. 3) Tax Audit Intensity has a significant and positive effect on Taxpayer Perceptions in East Kalimantan. These results also indicate that the intensity of tax audits and taxpayer perceptions have a direct relationship. 4) Tax Audit Intensity has no significant effect on Taxpayer Compliance in East Kalimantan. These results also indicate that the intensity of tax audits and taxpayer compliance has no direct relationship.

Based on the conclusions that have been drawn, the suggestions and recommendations that can be given in this study are: 1) The results of the analysis state that the practice of tax reform has a significant and positive effect on the perception of taxpayers in East Kalimantan, meaning that if the practice of tax reform is increased, namely more emphasis on the tax information system as a dominant indicator it will increase the perception of the taxpayer. 2) The results of the analysis reveal that the relationship between Tax Reform Practices has no significant effect on taxpayer compliance in East Kalimantan with the dominant tax reform practice indicator being the tax information system. It is better if other indicators of tax reform practices such as the quality of human resources or tax provisions are endeavored to become dominant, namely by sharing information about tax provisions, so that it is hoped that tax reform practices will have a significant and positive effect on taxpayer compliance. 3) The results of the analysis state that the intensity of tax audits has a significant and positive effect on the perception of taxpayers in East Kalimantan, meaning that if the intensity of tax audits is increased, namely in accordance with the dominant indicator of reconciliation, it will increase the perception of taxpayers. 5) The results of the analysis state that the Tax Audit Intensity has a significant and positive effect on tax collection in East Kalimantan, meaning that if the Tax Audit Intensity is increased according to the dominant indicator, namely checking records and documents, it will increase tax collection.

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