# The Impact of Power of Authority to Tax Compliance: A Case Study on the Indonesian Banking Industry

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Abstract: Compliance with taxpayers can be measured using the perspective of the authority of the tax authority to obtain more complete results. This study aims to analyze the effect of the influence of the tax authority on tax compliance. The approach of this research is the mix methods approach, namely, quantitative and qualitative methods. Qualitative is used to enrich the analysis of the results of quantitative data processing. This study obtained results that the authority of the tax authority influences tax compliance. Taxpayer's trust in the administration and power of the tax authority is essential. The results of this study will be able to extend the theory to power authority and tax compliance. Tax authorities must control their influence and power. This study only focuses on the perspective of taxpayer behaviour.

## 1 INTRODUCTION

This research is based on previous research conducted by Harinurdin (2009). This study discusses the behaviour of taxpayers and taxpayer's intentions on compliance. The results of this study note that taxpayer intentions and taxpayer behaviour affect significantly on compliance. This research focuses on the taxpayer's side. So in the current study, researchers want to emphasize agreement from the bottom of the taxation institution (Fiscus).

The increase in tax ratio can be increased through increasing compliance. Taxpayer compliance is closely related to the tax collection system adopted by a country. Tax is forced, so the term "nothing is certain except death and taxes" appears. But on the other hand the word "no one likes to pay taxes" appears. Actually, the problem of compliance is a long-standing problem. This is similar to what was stated by Amriani et al. (2014) that the issue of tax compliance is a classic problem faced by all countries. Research on this is also done by Mustika (2007).

In the era of financial technology and electronic commerce, the problem of non-compliance is increasingly becoming and complex. Starting with the term Base Erosion and Profit Shifting (BEPS), it is known that this can erode the tax base of a country. The problem that is always experienced by every country related to this is the widespread practice of tax avoidance and tax evasion. Despite the wide acceptability of public goods, this study argues that there is a relationship between government and taxpayers. There is a need to understand how and why citizens agree to pay taxes and how they abstain (Nkundabanyanga et all, 2017)

According to Bird in Pantamee and Mansor (2015), the weak tax revenue of developing countries is the result of many things, one of which is tax administration inefficiency due to corruption and distrust of tax institutions and other inefficiencies that can change the behaviour of taxpayers for their compliance.

According to Bird (1992), to solve problems in tax administration, quick fixes alone are not enough. More sustainable and stable things are needed to solve problems related to non-compliance. In the matter of fulfilling the tax revenue target, tax officials often have the wrong perception, namely prioritizing state revenues without regard to problems related to how to make the right collection. Because basically, the method of selection will determine the compliance of the taxpayers in the future. That is, different ways will produce a separate agreement.

According to Silvani in Bird (1992), the primary purpose of tax administration is to maintain voluntary compliance. Imposing sanctions or penalties on tax evaders is not the purpose of tax administration. It's just that, if you want to succeed in improving



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voluntary compliance, it is better if the government builds a strong view in the community that non-compliance will result in them being found out and punished. But if the power is too excessive, this is feared to lead to the practice of tax evasion or tax evasion.

According to Tyler (2006), the reality of the authority of the tax authority has long been known, including by Aristotle and Plato, that the influence obtained from the power of the tax authority requires high and inefficient costs.

Voluntary compliance is more needed than forced agreement because it is expected that tax revenues can increase and be more sustainable, have lower compliance costs and can reduce the practice of tax evasion and tax avoidance. This is a winning solution for the government to increase the potential for tax revenues.

Referring to a previous study conducted by Mas'ud et al. (2014), obtained results that trust taxpayers and the authority of the tax authority affect taxpayer compliance. With the country's need to increase tax revenues and the lowest tax ratio, the government needs to find the right strategy to overcome this problem. One way to increase the rate of taxes and state revenues is by improving tax compliance.

Today, the Indonesian government, especially the Directorate General of Taxes, continues to strive to increase voluntary compliance of taxpayers. This has also been stated by Gunadi (2004) that voluntary compliance is the backbone of the self-assessment system adopted by Indonesia. This framework is also in accordance with the structure built by Kaplanoglou et all (2016). This framework assumes that tax payments are influenced by the trust in government and the power of tax authorities. People might pay their taxes because they want to or because they are forced to do so. Increasing confidence in government boosts voluntary compliance while increasing the power of increases in enforced conformity. This is the topic of this research, namely how the authority of the tax authority powers the compliance of banking taxpayers and other financial companies. The purpose of this study is in accordance with the research objectives proposed by Gangl et al. (2015): the use of the present paper is to conceptualize these dynamics and to collaborate on how they might influence tax compliance.

# 2 LITERATURE REVIEW

## 2.1 Power of Authority

According to Raven (2008), social power is a potential influence, namely the ability of a leader or community leader to make changes through their resources. Power is the ability to form gains and losses for other parties through threats or coercion to prevent undesirable behaviour or through rewarding desired actions.

According to Kirchler et al. (2008), the authority of the tax authority is a taxpayer's perception of the ability of the tax authority to detect and punish tax crimes. In the context of regulating citizen behaviour, there are two theories of power approaches that are widely known. The first, refer to Becker's (1968) economic approach that strict supervision and punishment affects a person's behaviour. Second, referring to the proposal by Tyler (2006) that legitimate power can change a person's behaviour efficiently than through supervision and punishment put forward by Becker.

According to Turner (2005) and Tyler (2006) in Hofmann et al. (2014), in psychology, power quality is divided into two, namely coercive Power and legitimate Power. The difference in factors from this power was identified by French and Raven (1959) as harsh Power and Soft Power. Coercive power also referred to as hash power, is shown in a way that is seen as negative and positive, namely in the form of sanctions and benefits. Negative ways that are usually applied by the tax authorities can be in the form of fines and gitjzeling.

According to Turner (2005) and Tyler (2006) in Hofmann et al. (2013), coercive power is a power of authority based on applying pressure through supervision and punishment. Legitimate Power is Power that is used through expertise, legitimacy and gaining support. According to Hofmann et al. (2013), the term coercive power proposed by Turner (2005) is used instead of the harsh power term, which consists of coercive control and reward power.

The term legitimate power refers to soft power which consists of reasonable Power, expert Power, referent power and information power. When coercive power is used through negative and positive ways such as imposing sanctions and giving gifts, legitimate power is characterized by the legitimacy of a strong position, knowledge and skills, authority capacity as a public figure, and the desire to provide relevant information. Legitimacy has the characteristic that having legitimacy is like being placed in a place that is seen as something that is right and appropriate. The root of the modern approach to legitimacy was first written by Weber (1968) who stated that social values and norms become part of one's internal motivation system and guide their behaviour regardless of the influence of incentives and sanctions.

According to Tyler (2006), legitimacy is an additional form of power that allows authorities to shape the behaviour of other parties who are different from their control through incentives or sanctions. This study shows that police and institutions are seen as more legitimate, and decisions and regulations are accepted when the authorities exercise their authority through procedures deemed fair by the community. This is also supported by studies in organizations that powers who use influence reasonably will be seen as legitimate and widely accepted.

According to Gangl et al. (2012), the concept of legitimate power is based on someone who follows a voluntary legal authority because it is based on the reason that it is the right action. To integrate the view of power and refer to a psychological perspective, then Gangl et al. refer to the "bases of social power" theory proposed by French and Raven (1959). This theory was first conceptualized as a basis for measuring relationships between individuals. The concept of power is divided into six, namely coercive power, reward power, legitimate power, expert power, referent power, and information power.

All of this Power is integrated into two dimensions of the structure by Raven et al. (1998) into harsh and soft power forms. In order to be consistent with the development of the slippery slope framework model, Gangl et al. (2012) then use the term coercive power to refer to harsh Power and legitimate Power to apply to soft power. Coercive power comes from pressure through punishment or remuneration, and according to the concepts put forward by French and Raven, it consists of coercive control and reward power. Coercive power is based on the taxpayer's expectations that non-cooperative behaviour will be punished through penalties or guzzling. Reward power is based on the hope that an obedient taxpayer will be given an award or gratuity.

Here are five instruments in measuring the power of the authorities as stated by French and Raven (1959) in Raven et al. (1998):

1. Coercive power is a power that arises from a threat to the applicable sentence.

2. Reward Power is a promise for compensation given by the state to citizens if they obey.

3. Legitimate power is a power that comes from the right of a person or a party to influence other parties in a structural relationship.

4. Expert Power is a power that relies on superior knowledge of a person or party so that citizens are expected to believe that the state knows which is best. According to Raven (1990), this power has more advantages than coercive power and reward power and can prevent problems that come from legitimate authority when used effectively.

5. Referent Power is a power based on mutual trust that citizens and state officials have the same desire.

6. Furthermore, in Raven (1990), there are six power bases by adding informational power based on information or a logical argument that officers who have influence can bring change to citizens.

## 2.2 Tax Compliance

Compliance is a strong trigger for individuals. Compliance is an essential element that is important for the formation of an orderly and orderly social life. To improve voluntary compliance, according to Silvano (1992), justice and openness are needed in the application, tax procedures, simplicity of regulations and good and fast service to taxpayers. From the definition above, it can be said that tax compliance is the implementation of the obligation to register, deposit and report tax payable in accordance with tax regulations (self-assessment). The expected compliance in the self-assessment system is voluntary compliance rather than compliance that is implemented.

According to Nashuca (2004), tax compliance can be seen from three aspects, namely:

a). Juridical aspects, namely tax compliance, is seen from compliance with existing tax administration procedures. This aspect includes reports on the progress of SPT submission, reports on the progress of SPT submission in the percentage of correctly and incorrectly filled in, and reports on the growth of the instalment submission based on the development of the SPT period.

b). Psychological aspects, namely taxpayer compliance seen from the taxpayer's perception of counselling, service and tax audit.

c). Sociological perspectives, namely taxpayer compliance seen from the social aspects of the taxation system, including the policy of discipline, fiscal policy, taxation policy and tax administration.

Taxpayer compliance is an embodiment of the taxpayer's discipline of rights and obligations in paying and reporting the amount of tax owed in accordance with tax regulations. Taxpayer compliance can be motivated by the existence of formal binding tax policy, in the sense that it can encourage taxpayers' behaviour to be obedient, and there must be compelling legal sanctions in the form of taxation policies that contain legal penalties for those who do not comply compliance requirements. These legal sanctions must be given to each taxpayer who is not eligible and does not meet. Because basically, every policy as a licensed product in the field of taxation will not be meaningful if it is not implemented in a certain way (sandy: 2001).

Tax compliance is enhanced by external incentives, predominantly by audits and fines. The second path stresses taxpayers' and the authorities' interaction style, mutual trust, and commitment to the society in which they live. Trust is defined as a relational variable providing the base for voluntary cooperation. If confidence is high, taxpayers perceive a duty in fulfilling societal needs (Kastlunger et all, 2013)

Tax compliance is defined as the ideal condition of taxpayers who fulfil tax regulations and report their income regularly and honestly. From these perfect conditions, tax compliance is defined as a state of taxpayers who meet all tax obligations and carry out their taxation rights in the form of formal and material respect. The concept of tax compliance above is in accordance with the opinion of Yoingco (1997) which states the level of voluntary tax compliance has three aspects, namely: formal, material (honesty) and reporting (reporting).

According to Toshiyuki in Nasucha (2004), a description to measure taxpayer compliance can be done based on an approach to economic rationality, psychology, and sociology. The compliance dimension consists of conditions including essential compliance, requirements for tax reporting, conditions for paying taxes, taxpayer responses to checks and billing, terms of financial management, terms of business workers, conditions of non-governmental organizations, and understanding of people other than taxpayers regarding taxation.

According to Jimenez and Iyer (2016) that the dominant theory in tax compliance literature is that the perception of fairness in the tax system increases the individual's trust in government and consequently, has a positive influence on compliance.

In accordance with the classification in social psychology, there are three types of justice used in the study of Kogler et al. (2015), namely procedural truth, distributive justice, and retributive justice. Procedural justice is justice for the process of distribution of resources and tax decisions made by the tax authority. According to Tyler and Lind (1992), Murphy in Kogler et al. (2015), an essential component of procedural justice is the neutrality of procedures, trust in the tax authority, and respectful treatment of taxpayers.

According to Kirchler et al. (2008), when taxpayers are asked about the tax system; in general, they pay more attention to the issue of justice. According to Wenzel in Kirchler et al. (2008) state that the conceptual framework for justice is divided into three according to social psychology, namely distributive justice, procedural justice, and retributive justice. Distributive justice refers to the exchange of resources, namely benefits and costs. Procedural justice refers to the process of distributing these resources. Retributive justice refers to perceptions of eligibility for sanctions if violations occur.

Damayanti et all (2015) stated that psychological contracts require a balanced relationship between taxpayers and tax officials. In addition, tax success depends on how many taxpayers and tax officials have mutual trust and adhere to the commitments in this psychological contract. According to Braithwaite (2003), there are two fundamental dimensions of community responsiveness, namely attitude and conception in general, and the second is specific actions. This model adopts the concept of motivational postures. Attitudes toward responsiveness are measured through motivational positions. Motivational postures describe the approach of taxpayers who must be managed when the tax authority tries to change or requires an explanation of the behaviour of taxpayers in paying taxes. Taxpayer behaviour responses that are considered by the tax authorities are illegal behaviour or minimize taxes aggressively. To be able to distinguish between attitudes and actions consistently, specific approaches need to be paired with particular activities, as well as between general positions and general operations. Braithwaite argues that motivational postures evaluate the tax authority.

The difference between voluntary compliance and coercion is reflected in the motivation to obey. In a study conducted by Wahl et al. (2010), commitment and resistance in motivational postures are used as indicators of voluntary compliance and compulsion compliance. In engagement, taxpayers feel a moral obligation to contribute to the state by paying taxes. In resistance, taxpayers do not believe that the tax authorities have good intentions and are cooperative with them. Brow and Mazur (2003) define tax compliance according to IRS tax compliance which consists of 3 variables, namely: filing compliance, payment compliance and reporting compliance.

The research hypothesis proposed is:

H1: Power Authority influences Tax Compliance.

## 2.3 Operationalization Concept

In this study, researchers used an independent variable in the form of trust in taxpayers and the authority of the tax authority. These dimensions and indicators are used as part of the renewal of research from previous studies.

The authority variables of the authority of the tax authority are revealed to be dimensions and indicators that refer to Tyler (2006), Raven (2008), and Raven et al. (1998). The concept of the authority of the tax authority is taken from Tyler (2006), which consists of legitimate and coercive power. While the dimensions of the body of the tax authority are taken from Raven et al. (1998) which includes harsh Power and Soft Power. The authority indicator of the body of the tax authority is taken from Raven (2008) and Raven et al. (1998).

The dependent variable of this study is taxpayer compliance (tax compliance), referring to Yoingco (1997), Braithwaite (2003), Brow & Mazur (2003), Wahl et al. (2010), Kirchler et al. (2008), Damayanti et al. (2015) and Kogler et al. (2015) in reducing the dimensions and indicators. Referring to Kirchler et al. (2008), the taxpayer compliance dimension consists of voluntary tax compliance and enforced tax compliance. This issue is also a research topic from Hofmann (2013).

Below is table 1. on the operationalization of research concepts consisting of concepts, variables, dimensions, indicators and scales:

Table 1: Operationalization Concept.

| Concepts | Dimensions | Indicators | Scale |
|---|---|---|---|
| Power Of Authority) (Tyler, 2006) (Raven, 2008) (Gangl *et al.* 2012) | Soft Power | Legitimate Power | Interval |
| | | Expert Power | |
| | | Information al Power | |
| | | Referent Power | |
| | Harsh Power | Coercive Power | Interval |
| | | Reward Power | |
| (Tax Compliance) (Yoingco, 1997) (Brown & Mazur,2003) (Harinurdin, 2009) (Damayanti et al. 2015) (Kogler et al. 2015) | Voluntary Tax Compliance | Filing compliance | Interval |
| | | Payment compliance | |
| | | Reporting compliance | |
| | Enforced Tax Compliance | Audit | Interval |
| | | Law enforcement | |

# 3 RESEARCH METHODS

Based on the thought and review of the literature and previous studies, this study aims to test the hypothesis of the influence of the power authority on tax compliance. The model built in this study involves an independent variable, namely power authority which consists of 2 dimensions and six indicators and one dependent variable, tax compliance.

This study will test the hypothesis of the influence of the power authority on tax compliance. This study is an empirical study using the analysis to get an overview of the importance of the power authority on tax compliance. Testing is done using linear regression.

Table 2: Sample Selection Criteria.

| Research Population | | |
|---|---|---|
| 1 | Banking company in Indonesia | 120 |
| 2 | Foreign banks | -10 |
| 3 | Banking mix | -15 |
| 4 | banking - non-open/ not registered in bei | -34 |
| 5 | Banking which is the research sample | 61 |
| 6 | Number of samples (observations that filled out the questionnaire) | 40 |

The population of this study is a banking company that is already open (listed in IDX) because in general public companies have a formal accounting information system (Bouwens and Abernethy, 2000; Siahaan, 2005) allowing tax professionals to compile their corporate tax reporting. The research location is the stock exchange tax office that applies modern tax administration based on information technology systems to improve service, compliance and state revenue. The population data from the study and sample selection criteria can be seen in table 2. below.

The data obtained from field surveys were analyzed using a linear regression model. Therefore, the sample size is suitable if using the Maximum Likelihood Estimation

technique in this modelling between 30-150 samples (Ferdinand, 2002). The sampling technique is done by stratified random sampling, namely, sampling of open banking companies. The population is all other banking and corporate financial taxpayers registered in the Tax Service Office (TSO) of the Stock Exchange Taxpayers. Questionnaires are sent to the company through an Account Representative found in the TSO and then sent to the taxpayer.

In this study, each question in the questionnaire represents an observed variable. All answers to items will be measured in a 7-point Likert scale. The use of the 7-point Likert range has been used by Siahaan (2005) and Mustika (2007). Data collected through a list of questionnaires that have been filled in by respondents were analyzed using linear regression analysis.

The model to be analyzed by linear regression analysis must have a theoretical framework that supports it, namely the theory of tax compliance with the approach of individual behaviour theory and organizational behaviour theory. Correlation between variables is the primary measuring tool by using the main factors of measurement scale type: the homogeneous range of values, imbalance or kurtosis, linear, sufficient number of samples (representative and appropriate), significant, and influential (Schumacker and Lomax, 1996).

The measurement scale used can use a nominal, ordinal, interval, or ratio scale, but it is not recommended to use a different level in the correlation matrix. Pearson product-moment correlation is used as a basis for regression analysis, path analysis, factor analysis, and structural equation modelling. Measuring variable values is used numerical scale (1-7 or 1-9) so that it gets measurements of intervals or ratios. The same measurement scale will be beneficial and facilitate the interpretation of results and comparison of variables.

The theoretical framework used is decisive in interpreting correlations between variables. You can get a correlation between variables that are strong, but the relationship between these variables is not meaningful at all. The relationship between variables used as the basis of a model comes from a clear and plausible theoretical framework and has become an agreement among experts in these disciplines. The model to be tested in this study is the influence of the power authority on tax compliance. Model testing uses linear regression analysis which will estimate the model of the relationship between the independent variables on the dependent variable.

# 4 FINDINGS AND DISCUSSION

## 4.1 Validity and Reliability Test

In this section, data analysis will be conducted to test the hypotheses that were carried out previously. The steps of data analysis begin with testing validity and reliability and ending with linear regression analysis. Validity and reliability testing is done to measure whether the questions used to measure the indicators in the questionnaire have met the requirements statistically or not. If all variables have met these requirements, the next step is to do a regression analysis accompanied by its interpretation.

Validity and Reliability Testing is done to measure whether the questions used to measure indicators in the questionnaire have met the requirements statistically or not. To see the test results The reliability of the questionnaire data for each symbol can be seen in table 3. below this.

Table 3: Reliability of Questionnaire Data Test Results

| Reliability Statistics | | | |
|---|---|---|---|
| Construct | Cronbach's Alpha | Cronbach's alpha based on standardized items | N of items |
| Legitimate Power | 0.921 | 0.911 | 3 |
| Expert Power | 0.946 | 0.905 | 3 |
| Informational Power | 0.927 | 0.873 | 3 |
| Referent Power | 0.907 | 0.896 | 3 |
| Coercive Power | 0.912 | 0.901 | 3 |
| Reward Power | 0.932 | 0.909 | 3 |
| Tax Compliance | 0.967 | 0.914 | 8 |

Based on table 4.1. it can be seen that overall the observed variables or questions in the questionnaire have ***the above*** Cronbach's alpha of 0.896, which indicates that these results have quite good reliability. This is in line with Sakaran (2003), which states Cronbach's alpha as a coefficient that shows how well the correlation and consistency between items. The Cronbach's alpha value gets better if it approaches 1.

## 4.2 Regression Analysis Results

Regression analysis used in this study aims to determine the effect of the Power Authority on Taxpayer Compliance. To find out the pattern of the relationship between Power Authority (X) and Tax Compliance (Y), expressed by a simple linear regression model: $Y = a + bX$

The results of the regression analysis using SPSS version 11.5 software in table 4 are as follows

Table 4: Model Summary.

| lodel | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .870 | .757 | .751 | 3.14187 |

a. Predictors: (Constant), Power Authority

Based on the table above, it can be seen that there is a relationship between the Power Authority and Tax Compliance which is equal to 0.870 while the influence of the Power Authority on Tax Compliance is 0.757 or 75.7%. This shows that the Power Authority can contribute 75.7% to Tax Compliance, while the remaining 24.3% is the influence of other factors. This result is in accordance with the results of a study that refers to Kirchler et al. (2008), in the slippery slope framework there are two dimensions of determining taxpayer compliance, namely the trust of taxpayers and the authority of the tax authority. To assess the significance of the influence of the Power Authority on Tax Compliance.

Based on the result, it can be seen that the F statistic value obtained is 118,653 with a significance value of 0,000. The significance value obtained is much smaller than the specified α value, which is equal to 0.05 (5%), which means that H0 is rejected. Thus it can be concluded that the linear model used is correct. This shows that the model can be used to explain or explain the relationship and influence of the Power Authority on Tax Compliance.

Because the linear regression model used is right based on Anova testing, then it is followed by a t-test to get the regression coefficient and test its significance.

It can be seen that the t-calculated value obtained for the Power Authority regression coefficient is 10,893 with a significance value (sig) of 0,000. The significance value obtained is much smaller than the specified α value, which is equal to 0.05. With this result, the decision taken is to reject H0, which means that there is a significant influence from the Power Authority on Tax Compliance. Based on the table above, the linear regression equation obtained is:

$$\hat{Y} = -3,587 + 0,606X$$

The equation can be interpreted as follows:

- The constant on the model is -3.587 giving the meaning that when there is no Power Authority, the average value of Tax Compliance is -3.587.
- The regression coefficient of 0.606 gives the sense that the Power Authority has a positive influence on Tax Compliance. This value also means that the Power Authority increases by one unit, then the Tax Compliance will increase by 0.606 units. These results are in accordance with the opinion of Gobena and Djike (2016) and (2017), namely, we argue that the relationship between procedural justice and voluntary tax compliance is the most pronounced among citizens with low (vs high) tax authorities who at the same time weakly (vs strongly) identify with their nation**.**

# 5 CONCLUSIONS

The coefficient of determination ($R^2$) or Adjusted $R^2$ is 0,757 means that 75.7% of the ability of the independent variable is the power authority capable of explaining the independent variable tax compliance in an open banking company (listed on the IDX).

The advice that can be given to the government is to pay attention to the elements of trust that can influence the increase in tax compliance so that it can be used as a consideration in decision making. Further researchers are advised to add other variables such as economic conditions or conditions of company performance.

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