The Attitudes of Tertiary Students on Tax Evasion: A Study of Tax Compliance

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Abstract

This research aims to examine whether tax knowledge and religiousity influence on tertiary student's non-compliance behaviour and whether there are differences of the tertiary student's non-compliance behaviour depends on the level of education and gender. A pilot study revealed that the demographic variables held statistically significant relationship with tax evasion behaviour. Tertiary students who have received tax education and also who have not received yet were used as samples. Data was proccessed using ANOVA and the result shows that tax knowledge and religiousity have an impact on tertiary student's non-compliance behaviour, there are differences of the tertiary student's non-compliance behaviour depends on the level of education but do not depends on gender. This result shows the importance of information and tax socialization in Indonesia, especially the role of religious leaders in tax socializing.

Keywords: Tax Knowledge, Religiousity, Tax Evasion and Tax Compliance.

INTRODUCTION

Tax is the major source of revenue in Indonesia. It becomes a mainstay for the government to fund the expenditures. It is showed by Realization of Indonesian Revenue and Expenditure Budget 2007-2012. The table below proves that taxes provide more than 70% of domestic revenue.

Table 1. Domestic revenue in Indonesian Revenue and Expenditure (in billion rupiah)

Year	Tax revenue	Domestic revenue	Percentage of tax revenue to domestic revenue
2007	490.988,60	706.108,30	69,53%
2008	658.700,80	979.305,40	67,26%
2009	619.922,20	847.096,60	73,18%
2010	723.306,70	992.248,50	72,90%
2011	873.874,00	1.205.345,70	72,50%
2012	1.016.237,30	1.357.380,00	74,86%

Source: prepared by researcher based on www.anggaran.depkeu.go.id

That is the reason why government encourages the people to pay taxes. So that, Government, through Directorate General of Taxation (DGT), improves the efficiency of tax collection. However, taxpayers tend to claim that tax is a burden for them, so that with this concept, there is a different opinion within DGT and taxpayers. DGT optimizes the revenue from tax sector continuously, while taxpayers avoid paying tax.

Tax evasion appears, especially, in the implemented of Self Assessment System. In this system, taxpayers are given trust form DGT to calculate, to pay, and to report their tax payment. Hence, taxpayer's responsibility was bigger (it means the awareness of taxpayers to fulfill their obligations is to pay taxes). In this way, tax compliance has an important role in the effectiveness of tax collection in this country.

Loo et al. (2009) stated that tax knowledge emerged as the most influence in determining individual taxpayer's compliance behavior. Furthermore, they revealed that the major impact of the introduction of self assessment was its contribution towards improvement in the level of tax knowledge, which is tax knowledge itself could affect taxpayer's attitudes to taxation. Another research finding explains that there is a difference in tax compliance behavior between respondents that have tax knowledge and with those who do not have tax knowledge (Roshidi et al., 2007; Kasipillai et al., 2003; Palil, 2005; Carolina & Simanjuntak, 2011). Personal tax compliance will increase when respondents receives the taxation study for one semester. After those study, the level of tax knowledge increased, so that the level of tax evasion decreased (in other words, it created a voluntary tax compliance).

It is interesting to conduct research studies, using tertiary student as the subjects, about tax evasion practice as part of the tax compliance's study. This research was motivated by Devos (2005) by expanding the sample selection criteria, not only tertiary students in taxation major but also in all departments. Religiousity is a different demographic variable from the prior study. Tax knowledge, level of education, and gender are another demographic variables that used to predict tax evasion practice. Thus, this study contributes in investigating whether tax knowledge, religiousity, level of education, and gender have an impact on tertiary students behavior to conduct tax evasion practices.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Tax Knowledge

Lack of understanding tax laws is a factor causing non-compliance behavior (Abuyamin, 2010). In Self Assessment System, taxpayers must actively upgrade their understanding in tax laws, so that they can fulfill their obligations according to taxation rules.

There are some concepts explained tax knowledge:

1. Loo et al. (2009) stated that tax knowledge refers to a taxpayer's ability to correctly report his or her taxable income, claim relief and rebates, and compute tax liability. It is useful especially in terms of their confidence in handling their tax affairs, which eventually would affect their compliance behaviour.
2. Fallan (1999) stated that tax knowledge combines information about tax rules with financial knowledge to calculate economic consequences for taxpayers.
3. Roshidi et al. (2007) stated that understanding tax laws will result a positive behavior so that taxpayers will decrease tax evasion practices.
4. It is important to create a condusive tax climate. It is intangible factor between tax resistance and tax compliance. Zain (2007) said that the intangible factor will change into tax compliance if these condition are met:
    - Taxpayers understand (or trying to understand) the tax laws.
    - Accuracy in filling tax forms.
    - Calculating the amount of tax must be paid correctly.
    - Paying tax on time.

Tax knowledge is a major key in Self Assessment System. It is expected to clarify the impact of tax knowledge on tertiary students behavior to conduct tax evasion practices. Therefore, the first hypothesis is formed as follows:

H1: Tax knowledge has a direct impact on tertiary students behavior to conduct tax evasion practices.

Religiousity

Religion can be termed as a moral commitment to act within the prescribed rules (Rajagukguk & Sulistianti, 2011). Religiousity itself creating a mindset for all individuals. It is believed that religiousity is a belief about good behaviors.

Maarisit (2006) stated that a lot of taxpayers eschew from their obligation to pay taxes, one reason is the lack of information, especially the lack of role from the religious leaders in tax socializing. Previous research found 50% of respondent claim that their conscience will disturb (guilty) if they pad business activities, overstate medical expense, understate income, not filling a return, or claim an extra dependent (Rajagukguk & Sulistianti, 2011).

It is expected to clarify the impact of religiousity on tertiary students behavior to conduct tax evasion practices. Therefore, the second hypothesis is formed as follows:

H2: Religiousity has a direct impact on tertiary students behavior to conduct tax evasion practices.

Gender and Level of Education

According to Jackson and Milliron (1986) and Fallan (1999), Gender is one significant factor affecting tax compliance attitude. Past studies have shown that females were more responsive to conscience appeal than sanction threat. Kasipillai and Jabbar (2006) also stated that there are 4 general forms of non-compliance attitudes as follows:

1. Not submiting the Annual Tax Form within the stipulated period or non-submission.
2. Understating income.
3. Overstating deductions.
4. Not paying tax by the due date.

Those items will be successfully done if taxpayers have an adequate education. So that, it is expected to clarify differences in tertiary students behavior to conduct tax evasion practices based on gender and level of education. Therefore, the third and forth hypotheses are formed as follows:

H3: There are differences in tertiary students behavior to conduct tax evasion practices based on gender.

H4: There are differences in tertiary students behavior to conduct tax evasion practices based on the level of education.

METHODS

Research Subjects and Samples

Tertiary means education after secondary level. Primary and secondary level are compulsory (in most countries) whereas tertiary is not. A higher education, e.g. college, university, is called tertiary. This research used tertiary students as subjects because they are future potential taxpayers.

The population in this research is the students in Maranatha Christian University, Indonesia. This research used purposive sampling method to select the sample with the criteria as follows:

1. They are both who have received tax education and have not received yet.
2. They are who was taking postgraduate programme are included in the sample selection.

Therefore, every person who was taking undergraduate or postgraduate programmes are used as samples.

Definition and Measurement of Variables

Tax compliance is usually cast in terms of the degree version relate which taxpayers comply with the tax law (James and Alley, 2002). In ordert to comply with the tax law, taxpayers need tax knowledge as their ability to correctly report his or her taxable income (Loo et al., 2009). The major consequences of implemented Self Assessment System is that taxpayers must always update their knowledge. Thus, tax knowledge was measured by ordinal scale. Tertiary students who have never received tax education were coded one (1). Tertiary students who have received tax education but never or seldom updating tax informations were coded two (2). Finally, tertiary students who have received tax education and are always updating tax informations were coded three (3).

When religiousity is a belief about good behaviors and it is believed that the religious leaders have an important role in creating positive behavior on taxation, therefore religiousity was measured by ordinal scale. Tertiary students who have never gone to the place of worship or did it 4-6 times a year were coded one (1), within once a month to once a week were coded two (2), and more than once a week were coded three (3).

Jackson and Milliron (1986) found that between male and female have a different way to conduct their tax obligation. Gender was measured by nominal scale. Men were coded one (1) dan women were coded two (2). Finally, Kasipillai et al. (2003) found that there is an improvement in personal tax compliance (decreasing of tax evasion practices) when someone gets an education, so that the level of education was measured by ordinal scale. Tertiary students in the undergraduate programmes were coded one (1) and tertiary students in the postgraduate programmes were coded two (2).

Lyons Susan M in Suandy (2011) stated that tax evasion is the reduction of tax by illegal means. Some examples of tax avoidance schemes include locating assets in offshore jurisdictions, delaying repatriation of profit earn in low-tax foreign jurisdictions, ensuring that gains are capital rather than income so the gains are not subject to tax (or a subject at a lower rate), spreading of income to other tax payer with lower marginal tax rates and taking advantages of tax incentives. A seven-point likert scale was used to indicate the degree of agreement or disagreement of non-compliance schemes.

Data Collection and Analysis

Data was collected by distributing questionnaires, which was adapted from Devos (2005). Testing of the questionnaires begins with a normality test, when validity and reliability analysis were following.

Kolmogorov-Smirnov test was used for the test with hypotheses as follows:

H_0: Residual data is normally distributed.

H_a: Residual data is not normally distributed.

When Asymp. Sig. (2-tailed) is higher than alpha (5%), then accept H_0 (Ghozali, 2006).

Validity test was conducted by running pearson correlation. Instruments are valid when the value of *r* (correlation) on the SPSS result are higher than the value of *r* on the product moment table (with degree of freedom (df) = n – 2). While reliability analysis was conducted by running one shot method. Intruments are reliable when Cronbach's Alpha is higher than 0,6 (Ghozali, 2006).

Data was proccessed using Analysis of Variance (ANOVA). ANOVA is a method to examine the correlation between one metric dependent variable and one non-metric (categorial) independent variable or more. The first and the second hypotheses were tested by two way anova, when the third and the forth were tested by one way anova.

Homogeneity of variance should be met before running the ANOVA. Homogeneity of variance means dependent variables and independent variable (categorial) have a similiarity. While Levene's test of homogeneity of variance is not significant (probability is higher than alpha (5%)) then the assumptions are met (Ghozali, 2006). Acceptance of all hypotheses are based on criteria Sig. (2-tailed) is lower than alpha (5%).

Interaction test is also conducted when running ANOVA. It aims to indicate whether there is an interaction between the two independent variables when affecting dependent variable. The hypotheses for interaction test are:

H_0: there is no interaction between tax knowledge and religiousity in affecting tertiary students behavior to conduct tax evasion practices.

H_a: there is an interaction between tax knowledge and religiousity in affecting tertiary students behavior to conduct tax evasion practices.

When Sig. (2-tailed) is higher than alpha (5%), then accept H_0 (Ghozali, 2006).

EMPIRICAL TESTS AND RESULTS

Characteristics of Respondents

The survey was distributed to 100 undergraduate economic students (management and accounting programme) and 48 postgraduate economic and psychology students at Maranatha Christian University. Only 134 completed survey were received, giving a response rate of 91%. It was due to incompleteness in filling the survey. The table below shows the characteristics of respondents.

Table 2. Characteristics of Respondents

	Frequency	Percentage
Tax knowledge		
Never receive tax education	13	9,7%
Never/seldom update tax informations	82	61,2%
Always update tax informations	39	29,1%
Religiousity		
Never/4-6 times a year	24	17,9%
Once a month/a week	82	61,2%
More than once a week	28	20,9%
Level of education		
Undergraduate	90	67,2%
Postgraduate	44	32,8%
Gender		
Male	51	38,1%
Female	83	61,9%

Normality Test

The table below shows the result of normality test.

Table 3. One-Sample Kolmogorov-Smirnov Test

		P
N		134
Normal Parameters[a]	Mean	3.4638
	Std. Deviation	.73950
Most Extreme Differences	Absolute	.046
	Positive	.046
	Negative	-.033
Kolmogorov-Smirnov Z		.536
Asymp. Sig. (2-tailed)		.936

a. Test distribution is Normal.

Kolmogorov-Smirnov test shows that *Asymp. Sig. (2-tailed)* is 0,936. When the value is higher than 5%, then accept H_0. Thus, it means that the data is normally distributed.

Validity Test

The value of *r* on the product moment table, with degree of freedom 132, is 0,17. While the value of *r* (correlation) on the SPSS result are summarized by the table below. This table shows that the instrument is defined valid.

Table 4. Validity Results

Items	*r* value	*r* table
1	0,171	0,17
2	0,218	
3	0,735	
4	0,278	
5	0,231	
6	0,762	
7	0,756	
8	0,644	
9	0,684	
10	0,490	
11	0,364	
12	0,348	
13	0,598	

Reliability Test

The result of reliability test shows by the table below.

Table 5. Reliability Statistics

Cronbach's Alpha	N of Items
.734	13

Cronbach's Alpha is 0,734, which is higher than 0,6. Thus, the instrument is reliable.

Homogeneity of Variance Test

The table below shows the result of homogeneity of variance test.

Table 6. Levene's Test of Equality of Error Variances[a]

F	df1	df2	Sig.
2.020	6	127	.068

a. Design: Intercept + TK + R + TK * R

Levene's test of homogeneity of variance is 0,068, higher than 5%. Thus, it means the assumptions of homogeneity are met.

Two-way ANOVA and Interaction Test

The result of the first and the second hypotheses testing are shown by the table below.

Table 7. Tests of Between-Subjects Effects

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	47.490[a]	6	7.915	39.822	.000
Intercept	319.488	1	319.488	1.607E3	.000
TK	3.987	2	1.994	10.031	.000
R	4.276	2	2.138	10.757	.000
TK * R	1.890	2	.945	4.754	.010
Error	25.243	127	.199		
Total	1680.485	134			
Corrected Total	72.733	133			

a. R Squared = ,653 (Adjusted R Squared = ,637)

From the table above, significant value for tax knowledge is 0,000, which is lower than 5%, it means tax knowledge has a direct impact on tertiary students behavior to conduct tax evasion practices. Likewise significant value for religiousity is 0,000, it means religiousity has a direct impact on tertiary students behavior to conduct tax evasion practices. Significant value for interaction between tax knowledge and religiousity is also lower than 5%, 0,010, then it can be concluded that there is an interaction between tax knowledge and religiousity in affecting tertiary students behavior to conduct tax evasion practices.

The result of this research confirms that tax knowledge and religiousity has a direct impact on tertiary students behavior to conduct tax evasion practices and consistent with previous research from Kasipillai et al. (2003), Palil (2005), Roshidi et al. (2007), Carolina & Simanjuntak (2011), Rajagukguk & Sulistianti (2011).

One-way ANOVA

Table 8 and 9 below show the ANOVA results for the third and the forth hypotheses testing.

Table 8. One-way ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.556	1	.556	1.017	.315
Within Groups	72.177	132	.547		
Total	72.733	133			

Table 9. One-way ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.194	1	2.194	4.106	.045
Within Groups	70.539	132	.534		
Total	72.733	133			

Table 8 shows the result for the third hypothesis. Significant value is 0,315 which is higher than 5% then it can be concluded that there are no differences in tertiary students behavior to conduct tax evasion practices based on gender. Whereas, significant value for the forth hypothesis in table 9 is 0,045, which is lower than 5%, it means there are differences in tertiary students behavior to conduct tax evasion practices based on the level of education.

The result of this research confirms that there are no differences in tertiary students behavior to conduct tax evasion practices based on gender and inconsistent with previous research from Jackson and Milliron (1986) and Fallan (1999). But, this research is consistent with Kasipillai and Jabbar (2006) who stated that tax compliance bahavior between male and female are the same. The result of this research also confirms that there are differences in tertiary students behavior to conduct tax evasion practices based on the level of education and consistent with Devos (2005).

CONCLUSIONS

The purpose of this research is to find empirical evidence about the influence of tax knowledge and religiousity on tertiary students behavior to conduct tax evasion

practices. This research also examines whether there are differences in tertiary students behavior to conduct tax evasion practices based on gender and level of education.

There are several finding in this study. Firstly, tax knowledge has a direct impact on tertiary students behavior to conduct tax evasion practices. This result is consistent with the theoritical framework. It is important to maintain tax knowledge as part of Self Assessment System, so that taxpayers can combine information about tax rules with financial knowledge to compute their tax liability correctly. To maintain their tax knowledge, taxpayers should update through seminar of taxation, etc. Hutagaol (2007) stated that tax counseling aims to spread the information of taxation so that taxpayers understand and are capable to conduct their duties according to the regulations.

Secondly, religiousity has a direct impact on tertiary students behavior to conduct tax evasion practices. This result is consistent with the theoritical framework. Religiousity will impact taxpayers' behavior through guilty feeling. It is believed that when taxpayers will conduct the practice of tax evasion, their conscience are disturbed so that they repeal it. Burton (2009) stated that seminary and workshop are the most dinamic strategy in spreading the importance of tax, and it can be conducted by anyone. In this term, the religious leaders are the main key for this.

Thirdly, gender makes no difference in tertiary students behavior to conduct tax evasion practices. It is obvious, both male and female taxpayers have similiar attitude and perceptions towards the Indonesian tax system. Finally, there are differences in tertiary students behavior to conduct tax evasion practices based on the level of education. The formal tax education can give a positive behavior, so that collaboration between DGT and educational institution can be used for improvement of voluntary tax compliance.

The result of this study cannot be generalized, because of limitation of the research area. The next research also needs another operational variables or use another demographic variables to predict compliance behavior.

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