

The Effect of Tax System and Discrimination on Tax Evasion

Musdalifah Dimuk^{1*}, Hafsa Ahmad²

^{1,2} Faculty of Business and Accountancy, Universiti Selangor, Malaysia

*Corresponding author E-mail: ifamusdalifahdimuk@gmail.com

Abstract

This paper presents a study to investigate the effect of tax system and discrimination on tax evasion in Riau Province. The population of this investigation consists of all taxpayers registered in the Primary Tax Office in Riau Province. The sampling was done using purposive sampling technique and proportional sampling. Total sample in this research is 222 respondents. The study designs a questionnaire in Likert scale to study the effects of two independent variables (tax system and discrimination) on tax evasion. Using regression technique, the study has determined positive and meaningful relationships between discrimination and tax evasion while tax system have no effect on tax evasion.

Keywords: Tax evasion; Tax system; Discrimination

1. Introduction

Tax collection system in Indonesia uses a self assessment system, (SAS). Under the SAS, individual who has income accruing in or derived from Indonesia are required to disclose taxable income honestly, compute tax payable correctly, file tax return form and pay tax on a timely manner with self assessment system practice, the government gives full trust to taxpayers to calculate and implement tax payments in accordance with tax laws. In implementing the self assessment system requires technical knowledge of taxpayers to require technical know-how on the way tax computations, since tax officials do not interfere in the calculation and payment of taxes, but only make sure that all tax regulations are not violated in the execution of such obligations.

To prevent the avoidance and avoidance of taxes, the government has made a lawsuit against taxpayers who do not comply with tax regulations. But in reality there are still many taxpayers who do not comply with the rules. This is indicated by the facts in the field that tax revenues in Indonesia are still low and have not yet reached the targets set. The low acceptance of taxes in Indonesia is due to many tax evasion. Tax evasion are intended to prevent taxpayers from paying taxes properly by attempting to minimize tax expense and not a violation of the law because the means used to avoid taxes are not contrary to the law, but intelligently try to exploit the law itself to avoid taxes. Tax evasion is defined as avoiding the payment of taxes on income and property acquired that must go under taxation. According [1] tax evasion is, "minimize tax obligations legally and by means of full disclosure to tax authorities; financial business arrangement to reduce obligations under the law". Tax evasion research was conducted by [2], [3], [4], [5] and [6].

2. Literature Review

2.1. Tax Evasion

Tax evasion is a tax-smuggling effort, a tax-exempt scheme that violates illegal provisions, for example: not reporting some sales, increasing costs by fictitious, or collecting taxes but not depositing [7]. Over the last two decades, the problem of avoiding taxes has reduced government revenues and became the attention of other nations in the world [8]). Policymakers and social scientists have admitted that avoiding taxes is a disruptive behavior problem, such as Kaplan saying that avoiding taxes is an illegal behavior of individuals who neglect the interests of the people as a whole for personal gain. There should be a focus on the relationship between tax attitudes and tax behaviors [9].

More recently a number of authors have addressed ethical aspects of tax evasion from a number of religious and secular perspectives. [10] surveyed 200,000 people in more than 80 countries on a variety of issues, one of which was tax evasion. [11] did a doctoral thesis on tax compliance that included a discussion of tax evasion ethics. [12] divided the arguments regarding tax evasion into three categories based on the Crowe study. He found that over the centuries various scholars have categorized tax evasion as never ethical, sometimes ethical depending on the facts and circumstances or always ethical. Surveys of groups in Guatemala [13], Romania [14], Argentina [15], Poland [16], the United Kingdom [17] and Brazil [18] found that there is widespread support for the position that tax evasion can be justified on ethical grounds in certain circumstances. In some cases the results varied by gender and in other cases they did not.

2.2. Tax System

In Indonesia the current tax system is self-assessment system. In the self assessment system, taxpayers are given the trust to calculate, pay, and report the amount of tax payable. Self

assessment system is applied on the basis of the tax authorities' trust in the taxpayer [19]. The self assessment system gives full confidence to taxpayers to calculate, account for, submit, and report their own taxes, whereas tax officials act as guards and supervisors of the performance of duties performed by taxpayers both as personal taxpayers and taxpayers. In the self assessment system, taxpayers no longer have to wait for a tax assessment to pay taxes. The taxpayer calculates his tax every time he earns income and at the end of tax time, he submits his own tax to the tax office. The implication of this system is that the taxpayer's agency must have the capability to tax administration, and taxpayers should be overseen by tax officials until it is known whether the tax obligations have been properly carried out by taxpayers. [20] attributes tax system to tax rates and possible corruption in any system. So the description of the tax system is about the high rate of taxation and the collection of taxes paid, whether it is actually used for general expenses, or it is corrupt by the government or by tax officials.

2.3. Discrimination

According to Danandjaja [21], discrimination is an unequal treatment of a particular person or group, based on something distinctive, such as race, ethnicity, religion, or social class while the definition of discrimination of the United Nations (UN) includes what behavior only, based on differences made by nature or community categorization, which have nothing to do with the ability of the individual or his services. Tax discrimination is a disproportionate treatment of individuals or groups, which is due to the application of a policy that will only benefit a particular party while the other party is disadvantaged [22].

In this case an example of a regulation considered as a form of discrimination ie Government Regulation Number 60 Year 2010 which determines that zakat paid by Muslims, is taken into account as a deduction of gross income which is not taken into account in the payment of taxes. The existence of such provisions is considered only beneficial to Muslim taxpayers as zakat is allowed as tax deductibles. In addition Government Regulation Number 46 Year 2013 on Income Tax on Income Received or Acquired Taxpayers Having a Specific Gross Circulation, it is determined that the final tax is charged at 1 percent on gross income. It is also considered as a form of discrimination because of the loss of a small and medium-sized entrepreneur who has not been established in his business had to reduce his capital to pay taxes [23].

The existence of tax regulations that are seen as being from discrimination and adverse parties have made taxpayers trick to avoid taxes. Even without the disadvantage of the other party, or in the absence of a favored party, discrimination still makes the taxpayer feel unfairly treated. Moreover, if there is an adverse party. This has led to a view that tax avoidance is ethical or desirable even though it is not permitted to violate the prevailing provisions [23].

3. Research Methodology

This research population consists of all taxpayers registered at the Primary Tax Office (referred to as KPP / Principal Tax Department) of Riau Province consisting of six Primary Taxes Department, namely. Rengat, KPP Pratama Bangkinang, and KPP Pratama Pangkalan Kerinci. The sampling was done using purposive sampling technique and proportional sampling. This research population consists of all taxpayers registered at the Primary Tax Office (referred to as KPP / Principal Tax Department) of Riau Province consisting of six Primary Taxes Department, namely. Rengat, KPP Pratama Bangkinang, and KPP Pratama Pangkalan Kerinci with details as follows:

Table1: Population and Sample

No	Tax Office	Corporate Taxpayers
1.	KPP Pratama Pekanbaru Senapelan	9,572
2.	KPP Pratama Pekanbaru Tampan	12,084
3.	KPP Pratama Dumai	5,310
4.	KPP Pratama Rengat	3,871
5.	KPP Pratama Bangkinang	3,533
6.	KPP Pratama Pangkalan Kerinci	3,136
Total		37,506

Not all populations are investigated, but only the samples are determined by the Slovin formula :

$$n = \frac{N}{(N+1) (e)^2}$$

Whereas:

- n = Sample
- N = Population
- e = Error

In this assessment the maximum error determined is 6 percent, so the calculation of the number of samples is as follows.

$$n = \frac{37.506}{(37.506+1) (0.06)^2}$$

$$= 37.506/146,28$$

$$= 256,40 \text{ respondents} \approx 256 \text{ respondents}$$

4. Findings

Table 2: Descriptive Statistics

	Tax System	Dicrimination	Tax Evasion
<i>Mean</i>	2.38	2.82	0.69
<i>Standard Deviation</i>	0.54	0.61	0.24
<i>Minimum</i>	1.00	1.44	0.14
<i>Maximum</i>	3.56	4.00	1.00

From the table above, the tax system has a mean of 2.3814, a minimum value of 1.00, a maximum value is 3.56 and the standard deviation is 0.54466. Discrimination has a mean of 2.8233, a minimum value of 1.44, a maximum value is 4.00 and standard deviation is 0.61569 while for tax evasion variable the mean value is 0.6866. The minimum value of this variable is 0.14, a maximum value is 1.00 and the standard deviation is 0.23630.

Table 3, 4 and 5 describe the summary of the respondent's views on questions on variable tax sytem, discrimination and tax evasion.

Table 3: Summary of Respondent Views on Tax System Variables

No	Questions	Average	Meaning
1.	The tax system in Indonesia has been well implemented	2.34	Agree
2.	The size of the tax is determined based on the tax officer's agreement with the taxpayer	2.21	Agree
3.	In a good tax system the size of the tax is determined by the tax officer	2.32	Agree
4.	In a good tax system the size of the tax is determined by th e taxpayers themselves	2.49	Agree
5.	The tax payment system provides the convenience of taxpayers	2.55	Agree
6.	The tax payment system provides security for taxpayers	2.42	Agree
7.	Tax payment procedures make it difficult for companies	2.36	Agree

8.	The Directorate General of Taxation does not provide good socialization for the convenience of tax payments	2.37	Agree
9.	Routine tax examinations are performed by officers	2.36	Agree

Table 4: Summary of Respondent Views on Discrimination Variables

No	Questions	Average	Meaning
1.	The Tax Act in Indonesia is profitable for small companies	2.69	Agree
2.	Companies with large incomes are eligible to pay higher taxes	2.68	Agree
3.	The government sets different rates on discrimination based on religion, race, and cultural background.	2.77	Agree
4.	Different rates of payment are forms of discrimination	2.92	Agree
5.	The Tax Act only benefits large-sized companies	3.05	Very Agree
6.	Tax amnesty only benefits a high-income company	2.93	Agree
7.	I think it is worthy of zakat payers to get tax deductions	2.94	Agree
8.	The tax rate for businesses with income below Rp4.8 billion is charged on gross circulation, whereas for income above Rp4.8 billion is charged on profit.	2.73	Agree
9.	Taxpayers are entitled to claim the government in case of tax discrimination	2.71	Agree

Table 5: Summary of Respondent Views on Tendency Variables to Tax Evasion

No.	Statement	Mean	Yes/No
1.	Fair taxation system makes the company voluntarily pay taxes	0.62	Yes
2.	The tax rate set at the income level supports the company to comply with the tax rate	0.58	Yes
3.	Companies tend to pay taxes if they feel that tax rules are fair	0.71	Yes
4.	Companies tend to avoid paying taxes if they feel that tax regulations are unfair	0.73	Yes
5.	Not reporting some sales transactions can be made to avoid taxation	0.73	Yes
6.	Enlarges payments in a fictitious manner to avoid tax	0.71	Yes
7.	Collecting taxes but not delivering can be done to avoid taxes	0.72	Yes

After testing the question instrument, test determination (R-square), F test and t test were performed. The influence of variable tax system and discrimination against tax evasion is explained as follows:

4.1. Test of The Influence of the Tax System on Tax Evasion

From the simplified linear regression test, results were obtained as the following:

Table 6: Model Summary the Effect of Tax System on Tax Evasion

Model	R	R _{square}	Adjusted R _{square}	SE	F	Sig
1	0.516	0.266	0.263	1.42	79.93	0.000

Predictors: (Constant), Tax System
Dependent Variable: Tax Evasion

Table 7: Coefficients the Effect of Tax System on Tax Evasion

	B	SE	β	t	Sig.
Constanta	1.066	0.428		2.491	0.013

Tax System	0.174	0.019	0.516	8.940	0.000
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Dependent Variable: Tax Evasion

The resulting regression equation is as follows:

$$Y = 1.066 + 0.174 X$$

Based on the results of this simple linear regression test it is known that the tax system has a positive influence on the tax avoidance tendency. The effect is .174. The value of the constant found = 1,066 means that if the influence of the tax system is 0, then the value of tax avoidance is 1.066.

The regression model produced was significant because the Ftest value obtained was 79.931 significant at $\alpha < 0.01$ (in this study was determined $\alpha = 0.05$). Because the Ftest is significant at $\alpha < 0.01$ it is known that the influence given by the tax system to the avoidance of taxation is significant.

R-square test results = 0.266. This means that the tax system can explain the tax avoidance tendency of 22.6 percent, while 77.4 percent is determined by other things not studied in this study. In this case the tax system that can only explain the tax avoidance tendency of 22.6 percent is not high. It can therefore be summarized that the influence of the tax system on the avoidance of taxation is low.

4.2. Test of the Effect of Discrimination on Tax Evasion

From the simple linear regression tests that are enforced, the results are as follows.

Table 8: Model Summary The Effect of Discrimination Model On Tax Evasion

Model	R	R _{square}	Adjusted R _{square}	SE	F	Sig
1	0.537	0.289	.285	1.39	89.24	0.000

Predictors: (Constant), Discrimination
Dependent Variable: Tax Evasion

Table 9 : Coefficients The Effect of Discrimination Model On Tax Evasion

	B	SE	β	t	Sig.
Constanta	0.725	0.441		1.644	0.102
Tax System	0.160	0.017	0.537	9.447	0.000

Dependent Variable: Tax Evasion

The resulting regression equation is as follows:

$$Y = 0.725 + 0.160 X$$

Based on the results of this simple linear regression test it is known that discrimination has a positive influence on tax avoidance inclinations. Its influence is for 0.160. The value of constants found = 0.725 means that if the influence of tax justice = 0, then the value of tax avoidance = 0.725.

The regression model produced was significant because the value of Ftest result of calculation which got value equal to 89.242 significant at $\alpha < 0.01$ (in this study is determined $\alpha = 0.05$). Because the Ftest is significant at $\alpha < 0.01$ it is known that the influence given by discrimination against tax avoidance incentives is significant.

R-square test results = 0.289. This means that discrimination can explain the tax avoidance tendency of 28.9 per cent, while 71.1 is not influenced by discrimination factor, but by other factors. It can be concluded that the influence of discrimination on tax avoidance is low.

5. Conclusions

The findings show tax system have no effect on tax evasion. This findings consistent with [24] which found no significant impact of the tax system on tax avoidance. The findings of this study show that the significant impact of the tax system on tax avoidance tend to be related to the implementation of self assessment system in the taxation system in Indonesia. Discrimination have positive and significance on tax evasion. These findings are consistent with [23] findings that discrimination in tax regulations is detrimental to a particular party making taxpayers trick to avoid taxes.

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