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Deontological ethics as moderating the relationship between trust determinations and taxpayer intentions on taxpayer compliance

Ni Luh Gede Mahayu Dicriyani * and Ni Luh Putu Sandrya Dewi

Accounting Department, Faculty of Economics and Business, Mahasaraswati University Denpasar, Bali, Indonesia.

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Abstract

Taxpayer compliance is influenced by the level of trust that arises from within each individual, thus showing obedience to their obligations as taxpayers. The purpose of this study was to examine the relationship between trust and taxpayer intentions on taxpayer compliance by moderating deontological ethics. The object of this research is MSME actors in Bali. The results showed that trust and intention had a significant effect on taxpayer compliance. The effect of trust is considered higher with a path coefficient (0.471) than intention (0.298), although intention is also still seen by respondents as providing benefits in encouraging compliance with tax obligations. The Deontological Ethics variable is considered to significantly moderate / strengthen the effect of trust and intention on Taxpayer Compliance. The higher and better the Deontology Ethics attitude grows in respondents, the stronger the influence of respondents' understanding of trust is higher (path coefficient 0.273) and intentions (0.157) on taxpayer compliance.

Keywords: Trust; Intention; Taxpayer Compliance and Deontological Ethics

1. Introduction

Taxes are the main revenue of Indonesia, it can be seen from the State Budget (APBN) for Fiscal Year 2023 that 82 percent of State revenue comes from taxes (Law No. 28 of 2022). The high state revenue budget is not matched by the realization of state revenue almost every year. Based on the Annual Report of the Directorate General of Taxes for 2019 - 2023, Indonesia's average tax ratio is around 10%. The tax ratio shows that Indonesia still has a very low tax ratio when compared to countries in Asia and the Pacific (news.ddtc.co.id, 2024).

The 2021 Macroeconomic Framework and Fiscal Policy Principles (KEM-PPKF) document explains that the low tax ratio indicates that there is still a policy and compliance gap in the implementation of national tax collection. According to the Minister of Finance (Menkeu) Sri Mulyani Indrawati (pajakku.com, 2020) said that the cause of Indonesia's low tax ratio is because the level of public compliance in paying taxes is still low. Not only that, but some people also still think that paying taxes is a form of colonization and not an obligation. In line with the statement of the Minister of Finance, Desideria and Ngadiman (2019) explained that tax revenue is influenced by the level of taxpayer compliance. Problems regarding tax compliance are a classic problem faced in almost all countries that implement a taxation system.

According to Heider's research (1958), attribution theory describes that everyone is basically a pseudo scientist who tries to understand the behavior of others by collecting and integrating pieces of information until they arrive at a plausible explanation of the reasons why others behave in certain ways. In this theory there are two sources of behavioral attribution: Internal attribution or dispositional attribution and External attribution or environmental attribution. According to Dewi & Diatmika (2020), in accordance with attribution theory, compliance can be influenced

* Corresponding author: Ni Luh Gede Mahayu Dicriyani

by the level of trust that arises from within each individual, thus showing obedience to their obligations as taxpayers because the enactment of the government system and tax law has succeeded in creating a sense of trust in taxpayers towards this. According to Ariwangsa & Kariyani (2022) Increased trust can make taxpayer compliance increase. This is supported by several studies conducted by Saputra (2018), Toniarta & Merkusiwati (2023), Edwy et al (2021), Handayani et al (2020), Ibrahim (2020) and Deo et al (2022) which state that the level of trust has a significant positive effect on taxpayer compliance. Where the increasing level of trust, the taxpayer compliance in fulfilling their tax obligations will increase. Different results were found by Purnamasari (2017), Kristanti & Subardjo (2021) and Andana (2022) who stated that the level of trust has a significant positive effect on taxpayer compliance.

Apart from being influenced by trust, according to Feld and Frey (2002) taxpayer compliance can also be seen from the psychological aspect. This is because in a country that adheres to a democratic system, the relationship between taxpayers and tax authorities can be seen as a psychological contract. The psychological aspects of taxpayers can be studied with the Theory of Planned Behavior (TPB) or planned behavior is a theory used to examine more specific behavior, namely behavior to disobey tax provisions. The TPB model is used because it examines more specific behavior, namely behavior not to comply with tax provisions. TPB in Ajzen's research (1991), explains that individual behavior not to comply with tax provisions is influenced by the intention to behave non-compliant. The intention to behave is influenced by three factors, the first is behavioral belief, normative belief, and control belief. Based on the three dimensions of TPB is the basis of trust. According to Woro and Supramono (2013) trust in the tax system will lead to awareness or intention to tax. This awareness or intention to tax will encourage taxpayer compliance to carry out tax obligations.

Ajzen (1991), Bobek and Hatfield (2003) and Hanno and Violette (1996) state that attitudes towards tax non-compliance have a significant effect on tax non-compliance intentions. Hidayat and Nugroho (2010) are based on the intention not to comply with taxes. In line with research by Wahyuni et al (2017), Rosidi (2018) and Purnamasari & Fetrisia (2020) state that the intention to comply has a significant effect on taxpayer compliance in paying taxes. The research results of Wahyuni et al (2017), Rosidi (2018) and Purnamasari & Fetrisia (2020) are not in line with the research of Andana et al (2022) which states that the intention to comply has no significant effect on taxpayer compliance.

Based on the exposure to research on trust and intention on taxpayer compliance, it is found that the results are varied / inconsistent or still controversial, which is thought to be due to other factors that influence the relationship between the independent variable and the dependent variable. Conceptually and the results of empirical research, there are several variables that are thought to play a role in moderating the effect of trust knowledge and intentions on taxpayer compliance, one of which should be considered, namely ethical deontology.

According to Feld and Frey (2002) taxpayer compliance can also be seen from the psychological aspect. Dicriyani and Sandrya (2019) explain that deontology ethics can increase taxpayer compliance from the psychological aspect. Kusuma and Dewi (2018) explain that deontology ethics is an action that must have consequences, in this case the consequences of actions should not be taken into consideration. Deontology ethics emphasizes that in an action there must be consequences, in this case the consequences of the action should not be a consideration, the action is good not seen from the result but because the action must be done.

2. Literature review

2.1. Attribution Theory

Attribution theory is a theory that explains the causes of various events and the behavior of others. Heider (1958), explains that every individual is basically a pseudo scientist who tries to understand the behavior of others by collecting and combining pieces of information until they arrive at a plausible explanation of the reasons why others behave in certain ways. According to Samsuar (2019) in his research explains that attribution theory is a theory that explains a process carried out to find an answer or question why or what is the reason for the behavior of others or oneself. This attribution process is very useful for helping to understand the causes of behavior and is an important mediator for reactions to the social world. Attribution has 3 dimensions, namely: cause location, stability, and control.

2.2. Trust Theory

Woro and Supramono (2013) trust in the tax system will lead to awareness or intention to tax. This awareness or intention to tax will encourage taxpayer compliance to carry out tax obligations. Mayer et al (1995), there are three factors that form a person's trust in others, namely ability, benevolence, and integrity. Ability refers to the competence

and characteristics of the seller / organization in influencing and authorizing specific areas, Goodwill (benevolence) is the willingness of the seller to provide mutually beneficial satisfaction with consumers, Integrity is related to how the seller's behavior or habits in running his business. The information provided to consumers is true according to the facts or not.

2.3. Theory of Planned Behavior (TPB)

Theory of Planned Behavior assumes that humans are rational beings and use information that is possible for them, systematically. People think about the implications of their actions before they decide to do or not do certain behaviors. Ajzen and Fishbein (1969) in their research identified the determinants of behavioral intentions. They theorized that intention is a function of two main determinants, namely: attitude towards behavior and subjective norms of behavior. Attitude is considered the first antecedent of behavioral intention. Attitude is a positive or negative belief to perform a certain behavior. These beliefs are called behavioral beliefs. An individual will intend to perform a certain behavior when he/she evaluates it positively. Attitudes are determined by an individual's beliefs about the consequences of performing a behavior (behavioral beliefs), weighed against the outcome evaluation. These attitudes are believed to have a direct influence on behavioral intentions and are linked to subjective norms and perceived behavioral control. Subjective norms are also assumed to be a function of beliefs that specifically a person agrees or disagrees to perform a behavior. The beliefs included in subjective norms are also called normative beliefs. An individual will intend to perform a certain behavior if he perceives that important other think that he should do it. These important others could be a spouse, best friend, doctor, etc. This is known by asking respondents to rate whether these important others are likely to agree or disagree if they perform the behavior in question.

2.4. Deontological Ethical Theory

Deontological ethics talks about the obligations on a person that must be carried out and applied in society where the actions taken must be in accordance with norms and morals, regardless of whether it is beneficial or harmful (Bertens, 2010). The essence of deontological ethics is that an action is done without seeing and considering things that are beneficial, but a person must do something related to obligation.

Deontological ethicists, such as the pioneer Immanuel Kant (1724-1804) for example, argue that moral norms are absolutely binding and do not depend on whether the observance of the norm brings beneficial results or not. For example, the moral norm "do not lie" or "act justly" does not need to be considered first whether it is profitable or not, favorable or not, but always and everywhere must be obeyed regardless of the consequences. Moral law is absolutely binding on all humans as rational beings.

Hypothesis

- H1 : Trust has a positive effect on taxpayer compliance
- H2 : Intention has a positive effect on taxpayer compliance
- H3 : Deontological ethics strengthens the influence of trust on taxpayer compliance
- H4 : Deontological Ethics strengthens the influence of Intention on Taxpayer Compliance

3. Methods

This research was conducted on MSME taxpayers in Denpasar. The location was chosen because there are still many MSME taxpayers who have not fulfilled their tax obligations while MSME is a strengthener of the economy in Indonesia. Sampling was done with purposive sampling technique. Based on calculations with Slovin's income from 60,000 WP to be used as respondents as many as 100 taxpayers. 100 taxpayers who will be used as respondents in this study are carried out with accidental sampling techniques.

The hypothesis test used is Moderated Regression Analysis (MRA). MRA testing can use the SmartPLS program depending on whether the exogenous and moderator constructs are reflexive or formative. If the exogenous and moderator constructs are reflexive, then the appropriate method for testing the moderation effect is to use the Product Indicator Approach (Chin et al., 2003 and Henseler & Chin, 2010 in Latan & Ghazali, 2012: 201).

4. Results and discussion

The questionnaires responded were 100 questionnaires or 100 percent. Questionnaires that can be used are 100 questionnaires or 100 percent of all questionnaires received, so this research is feasible to continue. Based on the descriptive testing carried out, it shows that overall the respondents gave a positive response to all variables which indicated that the respondents were relatively likely to be obedient to tax obligations. This is indicated by the overall high average value between 4.3 to 4.606 with a standard deviation of 0.5 to 0.6.

The results of the measurement model evaluation show that all questions on the questionnaire to measure all variables tested in this research model show that the results of the discriminant validity evaluation with cross loading are met. The results of the structural model evaluation which consists of checking the collinearity between variables with the Inner VIF (Variance Inflated Factor) measure, testing the hypothesis of the path coefficient where if the test p-value is less than 0.05 (significant), testing the significance of moderating variables and evaluating the influence of variables at the structural level with f square show that the VIF value is less than 5. This explains that the multicollinearity between variables is of low value (negligible). These results indicate that the resulting parameter estimates are unacceptable/unbiased.

Table 1 Hypothesis testing results

Hypothesis Testing	Path Coefficient	T Statistic	P values	F Square
Trust→ Taxpayer Compliance	0.471	6.122	0.000	0;341
Intention→ Taxpayer Compliance	0.298	3.468	0.001	0;153
Interaction (Deontological Ethics x Trust)→ Taxpayer Compliance	0.273	2.160	0.031	0;108
Interaction (Deontological Ethics x Intention)→ Taxpayer Compliance	0.157	2.592	0.044	0;105

Primary Data, 2024

The test results show that trust and intention have a significant effect on taxpayer compliance. The effect of trust is considered higher with a path coefficient (0.471) than intention (0.298), although intention is also still seen by respondents as providing benefits in encouraging compliance with tax obligations. The Deontological Ethics variable is considered to significantly moderate / strengthen the effect of trust and intention on Taxpayer Compliance. The higher and better the Deontology Ethics attitude grows in respondents, the stronger the influence of respondents' understanding of trust is higher (path coefficient 0.273) and intentions (0.157) on taxpayer compliance.

5. Discussion

The first hypothesis (H₁): Trust has a significant positive effect on taxpayer compliance is accepted with path coefficient (0.471) and p-value (0.000 < 0.05). These results indicate that any change and increase in trust will increase taxpayer compliance. The results of this hypotheses are in line with the explanation in attribution theory which explains that compliance can be influenced by the level of trust that arises from within each individual, thus showing obedience to their obligations as taxpayers because the enactment of the government system and tax law has succeeded in creating a sense of trust in taxpayers towards this. According to Ariwangsa & Kariyani (2022) Increased trust can make taxpayer compliance increase. This is supported by several studies conducted by Saputra (2018), Toniarta & Merkusiwati (2023), Edwy et al (2021), Handayani et al (2020), Ibrahim (2020) and Deo et al (2022).

The second hypothesis (H₂): Intention has a significant positive effect on taxpayer compliance is accepted with path coefficient (0.298) and p-value (0.000 < 0.05). These results indicate that any change and increase in intention will increase taxpayer compliance. In line with the Theory of Planned Behavior (TPB) in Ajzen's (1991) research, it explains that individual behavior to disobey tax provisions is influenced by the intention to behave non-compliant. Tax non-compliance behavior according to Hidayat and Nugroho (2010) is based on the intention not to comply with taxes. In line with research by Wahyuni et al (2017), Rosidi (2018) and Purnamasari & Fetrisia (2020).

The third hypothesis (H₃): Deontological Ethics significantly moderates / strengthens the effect of trust on Taxpayer Compliance with path coefficient (0.273) and p-value (0.031 < 0.05). These results indicate that the Deontology Ethics

variable plays an important role as a moderating variable that can strengthen the effect of trust on taxpayer compliance. At the structural level, this moderating effect is classified as high (f square = 0.108).

The third hypothesis (H₄): Deontological Ethics significantly moderates / strengthens the effect of intention on taxpayer compliance with path coefficient (0.157) and p-value (0.044 <0.05). These results indicate that the Deontology Ethics variable plays an important role as a moderating variable that can strengthen the effect of intention on taxpayer compliance. At the structural level, this moderating effect is classified as high (f square = 0.105).

6. Conclusion

Based on the problem formulation and data analysis that has been carried out as well as the discussion stated in the previous chapter, the conclusions of this study can be drawn as follows:

- Trust has a significant positive effect on taxpayer compliance
- Intention has a significant positive effect on taxpayer compliance
- Ethical Deontology significantly moderates / strengthens the effect of trust on Taxpayer Compliance
- Ethical Deontology significantly moderates / strengthens the effect of intention on Taxpayer Compliance

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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