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1. INTRODUCTION

History indicates that tax compliance behaviour remains problematic around the globe (Chau and Leung, 2009; Mc Kerchar and Evans, 2009; OECD, 2012). Several strategies have been introduced and developed to address this issue (OECD, 2012a). Due mainly to inconsistent findings that have emerged from the economic deterrence approach (Andreoni, Erard & Feinstein, 1998; Kirchler et al., 2010) recent developments in compliance strategies have emphasised the importance of psychological and behavioural factors (GongdonKling & Mullainathan, 2009; James, 2012; Kirchler, 2007; Kirchler, Kogler

2. LITERATURE AND THEORETICAL FRAMEWORK

2.1 Corruption and perceptions of corruption

2.1.1 Corruption

Corruption is an ongoing global issue (Shleifer and Vishny, 1993; Transparency International, 2015) and is recognised as a major impediment in preventing economic development in many areas of the world (Blackburn, Bose & Haque, 2010; Wilhelm, 2002).

As a social phenomenon, the concept of corruption does not operate in a *vacuum*, meaning largely depends upon the specific social and political contexts in which it is applied (Brown, 2006).⁶ Social rules as well as moral views may also interrelate and vary significantly among different cultures and societies; as a result, an action could be a common courtesy in one society, but in a different context it could be considered as corrupt practice (Melgar Rossi & Smith, 2010; Philp, 2006). Specifically, in the Indonesian context, apart from its political and economic situation, cultural aspects

unconsciously encouraging people to accept that engaging in corruption is normal and socially acceptable in a national context. In this regard, Ross, Greene & House (1977, p. 279) argue that in a sense, every social observer is an intuitive psychologist who is forced by everyday experience to judge the causes and implications of behaviour. It is common that to decide on appropriate behaviour in a given situation, individuals attempt to seek relevant information as to how similar others have behaved or are behaving, to be able to evaluate the appropriateness of their own beliefs, attitudes and behaviours (Liska & Valentin, 1999).

2.2 Tax compliance behaviour

While there is no consensus of what precisely is meant by compliant behaviour (Devos, 2014; McKerchar, 2003; Weber, Eriksen & Herrmann, 2014), definitions of tax compliance can be broadly categorised into two approaches: conceptual and operational. The conceptual approach tends to emphasise the taxpayers'

unintentionally non-compliant; (iii) accidentally or unintentionally compliant and (iv) deliberately or intentionally non-compliant.

It is apparent that two related aspects need to be taken account in examining tax compliance behaviour: intention and outcome (see, for example, Antonides and Robben, 1995; Ed, 2015; Long and Swingen, 1991; McKerchar, 2003; Langham Paulsen & Hartel, 2012; Tran-Nam, 2003; World Bank, 2015)⁶ While the outcomes of compliance behaviour vary, intention can be reasonably considered as the accurate proxy for the performed behaviour (Antonides & Robben, 1995; Lewis, 1982; OECD, 2010).

Taken together, to obtain a greater clarity on the definitional issues and to maintain the specificity of the results, this study sets out two conceptual boundaries. First, tax compliance is defined as 'taxpayers' w11.3 (i9 (p)2w2,o4aTp)2w2,oPpay7'ec11.2 2.9 (e

Figure 1: Conceptual model of the study

To clearly comprehend the scope of the study, the research propositions are presented as a set of alternative and null hypotheses in Table 1 as follows:

Table 1: Research hypotheses

Hypothesis	Prediction
Hypothesis 1	H1 _a : Perceptions of corruption positively influence taxpayers' attitudes towards tax underreporting.

3. RESEARCH METHODS 3 POPULATION AND DATA COLLECTION

This study employs both the qualitative and quantitative paradigms in a sequential priority model of qual ~~to~~ QUANT to enhance research method capabilities and to improve the quality of the research findings²⁵. In the first phase, in-depth interviews are used to clarify, modify, and develop more robust observed independent and dependent variables in the design of the questionnaires from theoretical perspectives. This is then followed by an extensive survey to explain the structural patterns, through numeric measurement, of relationships among the variables of perceptions of corruption and the prescribed TPB constructs through quantitative analysis. A high-risk human research ethics approval, covering the research design for both the qualitative and the quantitative investigations, was granted prior to the research being conducted.

3.1 Phase one: In-depth interviews

3.1.1 Participants

There were nine participants in the qualitative phase: three taxpayers, three tax officers and three tax agents. They resided in two big cities of East Java province (Malang and Surabaya) and ranged in age from 36 to 54. Both the tax agents and tax officers have at least eight years of working experience while the taxpayers have at least five years of working experience.

3.1.2 Procedures

The participants were interviewed in the period from January to February 2015 using 20 semistructured questions. The interviews were open-ended and interviewees were encouraged to priy 4.6 (he)9.2 ()0.3 (l)- /TT3 J -0.002 T5n

with the Indonesian tax authority. By doing so, it was considered that the extent of social desirability bias in responding to the questionnaire could be minimised.

The survey was conducted by using mixed modes: a combination of face-to-face interviews and self-completion survey. Face-to-face interviews were initially used by the research assistants to recruit respondents while completion surveys were employed to capture respondents' answers. There were two justifications for adopting this mixed modes approach. First, face-to-face interviews have had a good reputation for gaining cooperation (de Vaus, 2014). Second, reflecting on the sensitive nature of the study, self-completion questionnaire surveys were considered as the most suitable mode to particularly capture confidential responses.

Structural equation modelling (SEM) was used for inferential quantitative data analysis by using IBM SPSS Statistics and IBM SPSS Amos. Commonly used to assess dependence relationships among latent variables simultaneously (Hair et al.,²⁹ 2010) SEM is defined as a technique to specify, estimate, and evaluate models of linear

total of 272 assigned codes were identified from the transcribed interview data. To provide an easier description of the findings, a representation of the assigned codes was converted into clustered bar charts and depicted in Figure 2.

Figure 2: Diagrammatic interpretation of qualitative findings

Note: This figure shows the number of identified pre-existing codes for each category in a double-sided bar. The length of the bar proportionally indicates the number of identified codes. For instance, as shown at the top of the chart, there was no participant who had opined that general corruption was 'low' in Indonesia. In contrast, 18 codes were found indicating that general corruption was 'high'.

Several meaningful patterns emerged from the graphing the TPB as an analytical tool, the patterns were intuitively easy to interpret. First, the qualitative data suggests that PITs were perceived by participants as having a high likelihood not to comply with the tax law, indicated by the extent of negative intention to comply. In this sense, the TPB posits that 'intention to comply' has three antecedents: (i) attitudes towards behaviour; (ii) subjective norms; and (iii) perceived behavioural control (Fishbein & Ajzen, 2010). Generally speaking, people will comply when the utility

Figure 3: Hypothetical relationships between perceptions of pervasive corruption and poor level of tax compliance arising from qualitative findings

4.2 Results of phase two: Survey instrument

4.2.1 Representativeness test

1770 form for their annual tax return, employed PITs used two types of annual tax return: the 1770S and the 1770SS. As noted earlier, the 1770S was used by employed PITs with annual income more than IDR 60 million and the 1770SS was completed by employed PITs with annual income less than or equal to IDR 60 million. The majority of respondents (70 per cent) had an annual income level less than IDR 60 million while only eight (2 per cent) respondents had an annual income more than IDR 200 million. Further, PITs who had an annual income level less than IDR 60 million were the majority for both self-employed (1770) and employed PITs (1770SS) with 68 per cent and 71 per cent respectively.

By their age groups

The respondents were concentrated in two age ranges, 32-44 and 35-44 years old with 35 per cent and 33 per cent respectively. This is followed by 45-54 years old group which comprised 19 per cent of the total respondents. Surprisingly, respondents who had ages exceeding 65 years old were the age group with the

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received additional income. Further, roughly four per cent of employed PITs (seven respondents) have reported that they did not earn income in 2014.

In terms of the amount of income being underreported in the annual tax returns, the data indicated that 44 per cent of self-employed PITs had underreported between 50 per cent and 100 per cent of their actual income. Surprisingly, no respondent from employed PITs who received additional income other than from employment reported their additional income in the annual tax return.

In modelling the channel of causality, the results previously presented in Section

H4: the negative

forms of corruption on the level of reported income. Accordingly, the second test was performed on full models only.

It was found that while all types of perceptions of corruption had negative effects on intention to correctly report actual income in the partial models, perceptions of petty corruption and perceptions of petty tax corruption had insignificant effects in the full models. In terms of levels of reported income, it was found that three out of five types of perceptions of corruption seemed to have significant negative effects on the level of reported income: general corruption, grand corruption and grand tax corruption. Perceptions of grand corruption was the most influential with -0.073 , followed by perceptions of grand tax corruption with -0.071 and perceptions of general corruption at the least with 0.034 . Based on these findings, the null hypothesis H_0 can be rejected.

4.2.10 Summary of findings

PGC/ATB, PTC/ATB respectively), while only one influential relationship and one partly influential relationship were found in H2 (that is, PCO/SNO and GTC/SNO). Attitudes, subjective norms and perceived behavioural control towards tax underreporting were found to be negatively influential upon respondents' intention to report actual income, which in turn were related to the level of reported income (TCB). The effect of perceived behavioural control over tax underreporting (PBC) seemed to be fully mediated by intention to report actual income (ITC) as there was no statistically significant relationship was found between PBC and TCB. In terms of score of (direct) effect, it was found that the effect of ITC upon TCB was strongest with path coefficient greater than 0.5. In the second place was the effect of ATB upon ITC, with scores ranging from 0.400 to 0.455.

The findings suggest that three out of five of the types of perceptions of corruption were influential in undermining the respondents' level of reported income. It was found that when perceived levels of grand corruption, grand tax corruption and general corruption increase by one standard deviation, intentional tax underreporting behaviour increases by 0.073, 0.071 and 0.034 standard deviations respectively.

5. CONCLUSION

This paper has examined the relationship between perceptions of different forms of corruption and the way Indonesian personal income taxpayers behave, in the context of reporting income in their 2014 annual tax returns. Confirming the qualitative findings with the quantitative findings is one of the important aspects of the adoption of the mixed methods approach in this study. That is, in areas where convergence emerges, conclusions can be reached with greater confidence. In this regard, there are a number of confirmations where the findings of the quantitative phase support the qualitative findings, including the significance and the nature of relationships between perceptions of corruption and compliance behaviour.

The paper has demonstrated that, indeed, high levels of perceived corruption influence Indonesian PITs to intentionally underreport their income. While the extent of perceived levels of different forms of corruption is confirmed by both the qualitative and quantitative approaches, the mechanism by which perceptions of corruption impact upon intentional tax underreporting behaviour are indicated by the empirical results of the quantitative approach. This is demonstrated by way of four important findings.

First, as indicated in the full models, the findings suggest that intention to report actual income is a good predictor of tax reporting behaviour with path coefficients greater than 0.55.

Second, taxpayers' attitudes towards tax underreporting and their subjective norms towards tax underreporting, coupled with the perceived behavioural control over tax underreporting, appeared to undermine taxpayers' intention to report actual income. This pattern of results was found in both full and partial models. Attitudes towards tax underreporting seem to have the strongest direct effect upon taxpayers' intention to report actual income (with path coefficients ranging between 0.400 to 0.445), followed by perceived behavioural control over tax underreporting in the second place with path coefficients ranging from 0.165 to 0.244.

Third, perceptions of corruption appeared to have stronger influences on taxpayers' attitudes towards tax underreporting than their subjective norms towards tax underreporting. In this regard, perceptions of grand corruption and grand tax corruption were found to be influential in affecting taxpayers' attitudes towards tax underreporting (with path coefficients ranging from 0.317 to 0.363, and 0.225 to 0.290 respectively), while perceptions of petty corruption have a tendency to affect taxpayers' subjective norms towards tax underreporting (with path coefficient ranging from 0.326 to 0.331).

Finally, it was demonstrated that perceptions of corruption have an impact upon taxpayers to intentionally underreport their income tax. Perceptions of grand corruption, grand tax corruption and general corruption appeared to be influential on

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World Bank 2015

APPENDIX

1. Model A -full (modified)

2. Model B -full (modified)

3. Model C -full (modified)

4. Model A -partial (modified)

5. Model B -partial (modified)

6. Model C (modified)