

# PERCEIVED PRESSURE, OPPORTUNITY AND RATIONALIZATION OF TAXPAYERS (Theoretical and Empirical Review)

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## ABSTRACT

Speaking about tax evasion issues it can not be separated from the tax collection system in Indonesia. In tax collection it was known the self assessment system; that is a tax collection system that authorizes the taxpayers to determine for themselves the amount of tax payable. With the authority of self-accounting, if there is no strict supervision then the practice of tax evasion is easy to do. Tax evasion is a resistance to taxes that impede tax collection so it will reduce state cash receipts. Resistance to the tax consists of active resistance and passive resistance. Passive resistance to taxes is a resistance that is not initiative of the taxpayer itself but occurs due to circumstances surrounding the taxpayer, such as economic conditions, intellectual (Lumbantoruan, 1996: 489). Active resistance is a resistance which initiative comes from taxpayer itself consisting of tax evasion that is tax evasion by utilizing regulation gap, and tax evasion that is avoid tax to pay less tax by violating taxation or also called fraud or tax evasion.

Keyword: pressure, opportunity, rationalization

## INTRODUCTION

The role of tax in Indonesia's State Budget (APBN) continues to increase against all state receipts. In State Budget, the target of tax receipts from year to year tends to increase. Increased state budget receipts from taxes are planned to continue until the State Budget becomes an independent state budget. Domestic receipts data including tax receipts can be seen in table 1.1.

Based on table 1 regard the development of tax receipts from 2005 to 2008 always experienced a significant growth. Tax receipts in 2005 amounted to Rp347 (trillion), increased up to 2008 to Rp558 (trillion). From the tax receipts, the largest receipt is Income Tax of Rp 327.5 (trillion) for 2008.

The government's efforts to increase tax receipts began with a comprehensive tax reform in 1983, and since then Indonesia has adopted a self-assessment system. The implementation of self assessment system will be effective if voluntary compliance condition in society has been formed (Darmayanti, 2004). The fact in Indonesia that shows low level of compliance, this can be seen from not optimal of tax receipts reflected from tax gap and tax ratio.

Table 1  
Development of Domestic Receipts, 2005 – 2008  
(Trillion Rupiah)

Description	2005	2006	2007	2008
Domestic Receipts	493,9	636,2	706,1	979,3
1. Tax Receipts	347,0	409,2	491,0	658,7
a. Domestic tax	331,8	396,0	470,1	622,4
i. Income tax	175,5	208,8	238,4	327,5
1. Oil and Gas	35,1	43,2	44,0	77,0
2. Non Oil and Gas	140,4	165,6	194,4	250,5
ii. Value added tax	101,3	123,0	154,5	209,6
iii. Land and Building Tax	16,2	20,9	23,7	25,4
iv. BPHTB	3,4	3,2	6,0	5,6
v. Excise	33,3	37,8	44,7	51,3
vi. Other tax	2,1	2,3	2,7	3,0
b. International Trade Tax	15,2	13,2	20,9	36,3
i. Import duties	14,9	12,1	16,7	22,8

ii. Export duties	0,3	1,1	4,2	13,6
2. Non-Tax State Receipts	146,9	227,0	215,1	320,6
a. Natural Resources Receipts	110,5	167,5	132,9	224,5
i. Oil and Gas	103,8	158,1	124,8	211,6
ii. Non Oil and Gas	6,7	9,4	8,1	12,8
b. Earnings Share of SOEs	12,8	21,5	23,2	29,1
c. Other Non-Tax State Receipts	23,6	38,0	56,9	63,3
d. Public Service Board Receipts	-	-	2,1	3,7

Source: Financial Note and Draft of State Budget 2010

Accurate data on the amount of Indonesian tax gap is not yet available. But in his inaugural speech as professor of Faculty of Economics, University of Indonesia, Gunadi cited the results of the Supreme Audit Agency (BPKP) report on the performance audit of Directorate General of Taxes that Indonesia experienced a significant tax gap. On the other hand, Indonesia's tax ratio is the lowest in the ASEAN region, which is only average of 12.3 - 12.5% for 2005-2007, while for 2008 the tax ratio is 13.3% (Financial Note and Draft of State Budget 2010). Meanwhile, the tax ratio of ASEAN countries is: Malaysia (20.17%), Singapore (21.4%), Brunei (18.8%) and Thailand (17.28%). The significant tax gap and low tax ratio indicate the low tax effort of Indonesian (Gunadi, 2004). When referring to the average tax ratio of neighboring countries, the Indonesian tax gap is about 4-7% of GDP. Based on this matter there is an indication that there are neither a lot of potential taxes that have not been excavated nor the existence of taxpayers who have not paid taxes.

Data on the number of taxpayers in Indonesia was not announced by the government, but by the end of 2008 the number of taxpayers reached more than 10 million (internal sources of the Directorate General of Taxes). Taxpayers in the tax system in Indonesia consist of personal and agency taxpayers. Comparison of the number of Taxpayers is shown in table 2 as follows:

Table 2  
Amount of Taxpayers as of December 31, 2008

No	Type	Amount (thousands)	Percentage
1	Agency Taxpayer	1,439	13.81%
2.	Personal taxpayer		
	a. Employee / non-entrepreneur	7,464	71.64%
	b. Entrepreneur	1,516	14.55%
	Amount of Personal taxpayer	8,980	86.19%
	Total	10,419	100%

Source: Financial Note and Draft of State Budget 2010, DGT

Based on the number of Taxpayers in table 2 above, it is seen that the largest amount is personal taxpayer employee or non entrepreneur that is 62.04% of the total taxpayer, it followed by the personal taxpayer entrepreneur of 24.15%, and the last of the agency taxpayer amounted to 13.81%.

Comparison data of paid income tax receipts can be seen in table 3. Based on table 3, it shows that the smallest receipt is the receipts of the personal taxpayer entrepreneurs who only 2.2% (in 2008) of total income tax receipts, whereas the amount of personal taxpayers entrepreneurs reached to 24.15%. It shows that there is still a lot of tax potential from uninvent of personal taxpayer entrepreneur and still many of entrepreneurs who avoid from tax payments.

Table 3  
Income Tax Receipts (in trillion rupiah)

Taxpayer Type	2005		2006		2007		2008	
	Amount	%	Amount	%	Amount	%	Amount	%
Agency *)	51,4	63,9%	65,1	66,1%	80,8	66,3%	106,4	65,8%
Personal Employees **)	27,4	34,1%	31,6	32,1%	39,4	32,3%	51,7	32,0%
Personal Entrepreneurs ***)	1,6	2,0%	1,8	1,8%	1,6	1,3%	3,6	2,2%
Amount	80,4	100,0%	98,5	100,0%	121,8	100%	161,7	100%

Source: Financial Note and Draft of State Budget 2010

\*) Data of Income Tax Article 25/29 Agency, \*\*) Data of Income Tax Article 21,

\*\*\*) Data of Income Tax Article 25/29 Personal

Regarding the comparison of special tax receipts data of personal entrepreneurs income tax in the big city such as Jakarta and Surabaya it can be seen in table 4. While the comparison of receipts of personal entrepreneur in 2008 for Jakarta and Surabaya can be seen in table 5.

Table 4  
Receipt of Income Tax of Personal Entrepreneur by Region  
(In billion rupiah)

Year	Tax Receipts and Percentage			
	National	Jakarta	Surabaya	Others
2007	1.608,16	899,54	93,01	615,61
	100%	56%	5,8%	38,3%
2008	3.603,04	1.921,16	261,74	1.420,14
	100%	53%	7,3%	39,4%

Source: Financial Note and Draft of State Budget 2010, Internal of DGT

Table 5  
Average Receipt of Income Tax of Personal Entrepreneur per Taxpayer in 2008  
(in thousands)

Description	National	Jakarta	Surabaya	Others
Tax Receipts (Rp.)	3.603.040.000	1.921.160.000	261.740.000	1.420.140.000
Personal Taxpayer of Entrepreneur	1.516.2	251	41,7	1.223,5
Average per Taxpayer (Rp.)	2.376	7.654	6.277	1.161

Source: Financial Note and Draft of State Budget 2010, Department of Finance RI

Based on the data of tax receipts (table 4) shows that above 50% tax receipts of personal entrepreneurs are in Jakarta, while in Surabaya is only 5.8% for 2007 and 7.3% for 2008, it is extremely far from Jakarta city receipts, whereas the number of Personal taxpayers for Surabaya reaches 41,700 Personal entrepreneurs (table 5). According to table 5 it can be seen that the average income per taxpayer for Surabaya is still bigger than other cities and nationally, this is possible because other areas are mostly scattered throughout Indonesia whose economic activity is lower than Surabaya and Jakarta. However, when compared to Jakarta, the income per Taxpayer of Surabaya is smaller than Jakarta, therefore, there is still an indication that Personal taxpayer of entrepreneurs in Surabaya is still not optimal in other words there is still practice of tax evasion.

Speaking about tax evasion issues it can not be separated from the tax collection system in Indonesia. In tax collection it was known the self assessment system; that is a tax collection system that authorizes the taxpayers to determine for themselves the amount of tax payable. With the authority of self-accounting, if there is no strict supervision then the practice of tax evasion is easy to do.

Tax evasion is a resistance to taxes that impede tax collection so it will reduce state cash receipts. Resistance to the tax consists of active resistance and passive resistance. Passive resistance to taxes is a resistance that is not initiative of the Taxpayer itself but occurs due to circumstances surrounding the Taxpayer, such as economic conditions, intellectual (Lumbantoruan, 1996: 489). Active resistance is a resistance which initiative comes from Taxpayer itself consisting of tax evasion that is tax evasion by utilizing regulation gap, and tax evasion that is avoid tax to pay less tax by violating taxation or also called fraud or tax evasion.

Smaller taxpayers are likely to do tax evasion because they are unable to find the gap in tax regulations (Wikipedia Indonesia). It is also because small companies including private businesses that are not go public companies then their income, or assets can not be known by the people so that even if they do tax evasion it is unlikely to know the tax authorities if not done good supervision and examination. Wage earners such as company workers, employees, SOEs or LOEs have no weapons or ability to make tax evasion because their employee or the company is obliged to notify the wages paid to the tax authorities (Brotodihardjo, 2003:18). Large companies usually will actually lose whenever there is a willingness to conduct tax evasion. Generally the large companies prefer to take action by using the best opportunity because of the void or the vagueness of the law (Brotodihardjo, 2003:18).

Based on social exchange theory illustrates that people behave or act consider the sacrifices and benefits to be received fairly, in this case the fair treatment of the government. Taxpayers who feel unfairly treated by the government will tend to fraud or behave non-compliance.

Based on Theory of Planned Behavior (TPB), the behavior displayed by the personal arises because of the intention to behave. While the appearance of behavioral intention is determined by three determinants: (1) behavioral beliefs, that is personal beliefs about the outcome of a behavior and evaluation of the results (beliefs strength and outcome evaluation), (2) normative beliefs, that is beliefs about normative expectations of people and motivation to comply those expectations (normative beliefs and motivation to comply), and (3) control beliefs, that is beliefs about the existence of things that support or hinder the behavior that will be displayed (control beliefs) and the perception of how strong things which supports and inhibits the behavior (perceived power). Barriers that may arise when the behavior is displayed can come from within the self or from the environment. In sequence, behavioral beliefs produce attitudes toward positive or negative behaviors, normative beliefs produce perceived social pressure or subjective norms and control beliefs lead to perceived behavioral control (Ajzen, 2002:2).

More specifically about the practice of illegal tax evasion is one form of fraud. While the occurrence of fraud is caused by three things known as The Fraud Triangle as proposed by Donald Cressey (W. Steve Albert et al., 2009:34 and Joseph T. Well, 2004:6), who suggested that Fraud occurs because:

1. Perceived Pressure/incentive (pressure) is the motive that causes a person to do fraud. Pressure can be social approval such as the approval of friends, relationships, family and also the pressure of financial conditions such as bills that accumulate, luxurious lifestyle, drug dependence. While the pressure to avoid taxes can be due to the pressure of financial condition at the time of having to pay taxes, the pressure of business relations, other parties such as family or tax consultants to avoid evasion of tax payments.
2. Perceived Opportunity is an opportunity that allows the fraud to occur. It is usually due to internal control of a weak organization, lack of supervision, and / or abuse of authority. The opportunity for tax evasion by the taxpayer is possible because the taxpayer calculates the tax by using a self-assessment system (self-calculating, self-paying and self-reporting the indebted tax). In this tax system, adequate supervision is required. In the absence of adequate oversight by the tax authorities, it will create a perception of open opportunities for tax evasion.
3. Rationalization is a person's tendency to justify their actions. In general, the perpetrators of fraud believe or feel that their actions are not the fraud but it is something that is indeed his right and sometimes the perpetrator feels it has been meritorious for having done much for his organization.

Rationalization is also called personal integrity or moral condition of a person (Joseph T. Well, 2004:17). Togler (2007:15), argued that a person's tendency to justify their actions in taxation is known as tax morale (Taxpayer morale).

Research related to tax compliance and tax evasion have been done, such as Etzioni (1986), examined the problem of fairness perception on tax evasion which stated that perception on tax justice has effect on tax evasion.

## **LITERATURE REVIEW**

As in the field of other sciences with regard to behavioral aspects, the tax is also not separated from the behavior aspects, theories related to behavioral aspects in taxation are Social Exchange Theory as a grand theory, and supporting theories such as Attribution Theory and Theory of Planned Behavior (TPB), and as a theory that specifically concerns on tax evasion is the fraud triangle which suggests that fraud occurs because of three things: pressure, opportunity, and rationalization (actor's moral).

### **Social Exchange Theory**

The Social Exchange Theory is expressed by Thibaut & Kelley (1959) and Peter Blau (1964), who argue that in social relations there are elements of rewards, sacrifices, and mutual benefits. This theory explains how humans perceive our relationship with others in accordance with the human self-assumption of the balance between what is given into the relationship and what is obtained from that relationship, the kind of conducted relationships, the chance of having a better relationship with others.

In general, social relations are made up of society, so we and other societies are seen to have interrelated behaviors in those relationships, which contain elements of reward, sacrifice and benefit. Reward is all that is gained through sacrifice, when sacrifice is all that is avoided, and benefit is reward subtracted by sacrifice. So the social behavior consists of the least exchange between the two peoples

based on the profit and loss calculations. For example, behavioral patterns in the workplace, romance, marriage, and friendship.

The analogy of it, at some time you feel that every friend of yours in a class is always trying to get something from you. At that time you always give what your friends need from you, but the opposite actually happens when you need something from your friends. Every person makes friends of course have a purpose to pay attention to each other. Persons are certainly expected to do something for others, help each other if needed, and support each other when sad. However, maintaining a friendly relationship also requires certain costs, such as loss of time and energy and other activities that are not so implemented. Although these costs are not seen as expensive or burdensome when viewed from the point of rewards earned from the friendship, but they should be considered if we objectively analyze the relationships of transactions in friendship. If the costs incurred appear to be inconsistent with the rewards, what is happening is the unhappy feeling on the party who feels that the reward received is too low compared to the cost or sacrifice has already given.

An analysis of the social relationships that occur according to cost and reward is one of the characteristics of exchange theory. This exchange theory focuses on the level of micro analysis, especially on the level of interpersonal social reality. In this discussion will be emphasized on the thought of exchange theory by Homans and Blau. Homans in his analysis adheres to the necessity to using personal psychological principles to explain social behavior rather than simply describe it. But Blau, on the other hand, is trying to move away from the level of interpersonal exchange at the micro level, to a more macro level of social structure. It seeks to show how the larger social structure arises from basic exchange processes.

This process of social exchange has also been expressed by classical socialists. As expressed in classical economic theory of 18<sup>th</sup> and 19<sup>th</sup> centuries. The economists such as Adam Smith have analyzed the economic market as a result of thorough collection of a number of personal economic transactions which the unrecognized amounts (<http://id.wikipedia.org/wiki/teoripertukaransosial>). He assumes that exchange transactions will take place only when both parties can gain benefit from such exchanges, and the society welfare in general can be perfectly guaranteed if persons are left to pursue their own interests through privately negotiated exchanges.

Application of social exchange theory in taxation is about the relationship between the Taxpayer with the Directorate General of Taxes. Tax evasion can be generated from both relationships. If taxpayers feel unfairly treated then they will trigger tax evasion, but if taxpayers feel treated fairly and feel that their obligations are always supervised by tax officers then less taxpayers who conduct tax evasion.

### **Attribution theory**

Attribution theory is a theory that explains about one's behavior. Whether the behavior is caused by a dispositional factor that is internal factors, such as traits, characteristics, attitudes, etc., or it is caused by external circumstances, such as the pressure of a situation or circumstance that forces a person to do a particular act (Robins 1996:125). Every person is basically a pseudo scientist who trying to find out why someone does a certain way.

The initiator of the attribution theory is Fritz Heider (1958), in his *Psychology of Interpersonal Relations*, explaining that human behavior can be caused by internal factors (called internal attributions) and can also be caused by external factors (external attributions). Heider also states that one organizes their thoughts within the framework of cause and effect. In order to continue their activities and match it with the people around them, one interprets information to decide the cause of his behavior and others. Heider introduces the concept of "causal attribution" which is the explaining process of the behavior causality. In everyday life, the behavior causality is differentiated in two types, namely internal and external. Internal causality is an attribute attached to attitudes and personal qualities, and external causality are existing in environment or situation.

### **Theory of Planned Behavior (TPB)**

Theory of planned behavior (TPB) is a theory that connects attitude and behavior. This theory is proposed by Ajzen (1988) which is the development of Theory of Reason Action (TRA) proposed by Ajzen (1975).

In Theory of Reason Action (TRA) mentioned that human behavior is affected by intention to behave, whereas intention is affected by two things, which are attitude and subjective norm. While in Theory of the planned behavior (TPB) added one more that affect the intention to behave that is perceived behavior control.

Behavior based on the theory of planned behavior (Ajzen, 1991) states that human action is caused by 3 (three) things, which are beliefs about the possible outcomes and evaluation of those behavior (behavioral beliefs), beliefs about expected norms and motivation to meet those expectations (normative beliefs), and beliefs about the existence of factors that can support or hinder behavior and awareness of the power of these factors (control beliefs). Behavioral beliefs generate an attitude of likes or dislikes based on the personal's behavior (attitude). Normative beliefs generate an awareness of the pressure of the social environment or subjective norms, while control beliefs lead to perceived behavior control. In combination, the three factors are attitude, subjective norm, and perceived behavior control generate intention to behave, while intention will generate behavior. In general, if attitude and subjective norm pointing towards the positive way and it has the stronger controls, then the greater the likelihood that a person will tend to do those behavior.

### The Fraud Triangle

In general, fraud itself is an unlawful act perpetrated by persons from inside and/or outside of the organization, with the intent to obtaining personal and/or groups gain which directly harm the other. Ordinary people often assume narrowly that fraud is a crime or corruption. According to the Association of Certified Fraud Examiners (ACFE), which is a professional organization engaged in the inspection of fraud based in the United States, classifies fraud in several classifications, and known as "Fraud Three" that are:

#### 1) Asset Misappropriation

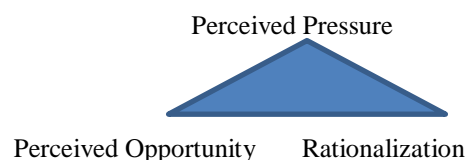
Asset misappropriation involves the misuse or theft of assets or property of a company or other party. This is the most easily detectable form of fraud because it is tangible or can be measured or computed (defined value).

#### 2) Corruption

This type of fraud is the most difficult to detect because it involves cooperation with other parties such as bribery and corruption, which it is the most common type in developing countries where the law enforcement is weak and lack of awareness of good governance so that the integrity factor is still questionable. This type of fraud is often undetectable because the collaborating parties are enjoying the benefits (mutualism symbiotic). These include abuse of authority/conflict of interest, bribery, illegal gratuities, and economic extortion,

#### 3) Fraudulent Statement;

Fraudulent statements include actions taken to cover the actual financial condition by doing financial engineering in the presentation of its financial statements to gain profit.



Source: W. Steve Albert, 2009: 34 and Joseph T. Well, 2004 L 6  
Figure 1. The Fraud Triangle

The occurrences of frauds are caused by three things known as The Fraud Triangle proposed by Donald Cressey (W. Steve Albert et al., 2009: 34 and Joseph T. Well, 2004: 6).

In Figure 2.1. It appears that fraud occurs due to three things:

1. Perceived Pressure / incentive (pressure) is the motives that cause a person to do fraud. Pressure can be social approval such as the approval of friends, relations, family and also the pressure of financial conditions such as bills that accumulate, luxurious lifestyle, drug dependence. While the pressure to do taxes evasion can be due to the pressure of financial condition at the time of must to pay taxes, the pressure of business relations, other parties such as family or tax consultants to do evasion of tax payments.
2. Perceived Opportunity is an opportunity that allows the evasion to occur. It is usually due to internal control of weak organization, lack of supervision, and/or abuse of authority. The opportunity for tax evasion by the Taxpayer is possible because the Taxpayer calculates the tax by using a self-assessment system (self-calculating, self-paying and self-reporting the indebted tax). In this tax system, adequate supervision is required. In the absence of adequate supervision by the tax authorities, it will create a perception of open opportunities for tax evasion.

3. Rationalization or is a person's tendency to justify his actions. In general, the perpetrators of fraud believe or feel that their action are not a fraud but it is something that are his right and indeed sometimes the perpetrators are feels they has been meritorious for having done much for their organization. Rationalization is also called personal integrity or moral condition of a person (Joseph T. Well, 2004: 17). Togler (2007: 15), argued that a person's tendency to justify their actions in taxation is known as tax morale (taxpayer's morale).

### **Perceived Pressure / Incentive**

Perception can be defined as a process by which personals organize and interpret their sense impression to give meaning to their environment (Robbins, 1996:124). People can act in accordance with the perception they means. In interpreting environmental stimuli, it is not necessarily everyone has the same with their perceptions, although in the same environment and conditions, because they have different processes and senses.

Perceived Pressure/incentive (pressure) is a person's perception of a motive that causes a person to do a fraud. Pressure can be social approval such as the approval of friends, relations, family and also the pressure of financial conditions such as accumulated bills, luxurious lifestyle, and drugs dependence. Perceived pressure is divided into four important sections: financial pressures, vices, work-related pressures and other pressures (Albert et al., 2009:35). Broadly speaking the pressure or drive to commit fraud or bad behavior consists of pressure due to financial and non-financial conditions. The non-financial pressures, for example, because of the approval of relationships and not commendable customs (drunk, gambling, and others).

Some researchers use this variable in conducting research on behavior in taxation, such as Trivedi et.al (2004) by using Theory of Planned Behavior (TPB) to examine the problem of perception of pressure with subjective norm variable with six indicators, that are:

1. Approval of friends
2. Approval of Tax Preparer,
3. Approval of peers,
4. Approval of spouse,
5. Approval of employee,
6. Approval of family.

Bobek and Hatfield (2003) in their research entitled: An investigation of the Theory of Planned Behavior and the role of moral obligation in tax compliance, using variables of pressure with the name of social norm that measured by one indicator that is the approval of almost everyone (Most people I know would approve of me engaging in the cheating behavior).

Blanthome and Kaplan's (2008) using pressure variables with the name of social norm that measured by three indicators:

1. Effects of the subject's family,
2. Effects of spouse, and
3. Effect of tax preparer/assistant (tax return preparer).

Mustikasari (2006) conducted a study of noncompliance tax problem by using pressure variable or non financial motives to behave noncompliance with variable of subjective norm with four indicators that are:

1. Effect or approval of friends,
2. Effect or approval of consultants,
3. Effect or approval of the tax officer and
4. Effect or approval of company leaders.

Siahaan (2006) used a variable of financial pressure to examine the tax compliance behavior of manufacturing firms in Surabaya with the professional tax as research subjects, the indicators that used to measure the variables of financial pressure are:

1. Company's profitability
2. Conditions of company's cash flow
3. Conditions of company's net income

To measure the pressure variables to do tax evasion in this study, the researchers combined some of the above research indicators that are tailored to the conditions of the research object and elements in the fraud triangle. The research indicators used in this research are:

1. Financial pressures, that is cash conditions at the time must to pay taxes,
2. Relations pressures, including partners and consumers,
3. Other party pressures, that is including consultant, tax officer, or family

### **Perceived Opportunity**

Perceived opportunity is an opportunity that allows the fraud to occur. It is usually due to internal control of a weak organization, lack of supervision, and/or abuse of authority. The opportunity for tax evasion by the taxpayer is possible because the taxpayer calculates the tax by using a self-assessment system (self-calculating, self-paying and self-reporting the indebted tax). Perceived opportunity is the second factor that causes fraud to occur (Albert et al., 2009:38).

According to Albert et. al. (2009:38), there is six elements or indicators of this perception on opportunity, that are:

1. Lack of controls that prevent and or detect fraudulent behavior,
2. Inability to judge the quality of performance,
3. Inability to understand the type of business perpetrator (failure to discipline fraud perpetrator),
4. Lack of access to information,
5. Ignorance, apathy, and incapacity, and
6. Lack of an audit trail.

Many researchers in their research use this variables of opportunity, such as Bobek and Hatfield (2003), using Theory of Planned Behavior (TPB) to examine the perception of opportunities by the variable name of Perceived Behavioral Control, to measure these variables, they use two indicators:

1. If I engaged in the cheating behavior, I think my tax return would be audited.
2. If my tax return were audited, I think the IRS would discover that I had engaged in the cheating behavior.

Trivedi et.al (2004) also by using Theory of Planned Behavior (TPB) examines the perceived opportunity with variable name of Perceived Behavioral Control with four indicators, that are:

1. Possibility of penalties (e.g. fines or jail time),
2. Possibility seems awkward among the relations (making my friends feel awkward),
3. Possibility third party reporting (e.g. employees or banks), and
4. Possibility of tax audit.

Torgler (2005), conducted a research on tax moral by using variables of opportunity with the name of Perceived probability of being caught or possibility detected by the tax authorities, indicating that there is no significant effect of possibility detected by tax authorities with taxpayer rationalization (tax moral).

### **ANALYSIS OF VARIABLE RELATIONSHIPS**

Perceived Pressure/incentive (pressure) is the motive that causes a person to do fraud. Pressure can be social approval such as the approval of friends, relationships, family and also the pressure of financial conditions such as accumulated bills, luxurious lifestyle, and drug dependence. Perceived pressure is divided into four important sections: financial pressures, vices, work-related pressures and other pressures (Albert et al., 2009:35).

Broadly speaking the pressure or motives to commit fraud or bad behavior consists of pressure due to financial and non-financial conditions. Non-financial pressures, for example, due to the approval of relationships and not commendable customs (drunk, gambling, and others).

Trivedi et.al (2004) using Theory of Planned Behavior (PPB) examines the perceived pressure with subjective norms variabel with six indicators, that are approval of friend, approval of tax preparer, approval of peers, approval of spouse, approval of employee and approval of family. The results showed that subjective norms affect to the intention to avoid income reporting (intent to report income). Mustikasari (2006) examines the problem of non-financial pressure or motive to behave noncompliance with subjective norms with four indicators, that are effect of friends, consultants, tax officers and effect of company leaders. The results of his research prove that subjective norms have a significant effect on professional tax intentions to behave noncompliance.

Mustikasari (2006) also proved that perceptions of financial condition affect to the taxpayer's non-compliance behavior. Siahaan (2005), proves that financial pressures have an effect on tax professional compliance behavior. His second research object is the Tax Professional which is a company employee who has tasked to take care of the taxation problem.

Bobek and Hatfield (2003) also proved that pressure or motive with variable of subjective norm has effect on tax evasion.

However, research by Blanthome and Kaplan's (2008) can not prove the direct effect of subjective norms on two variables of tax evasion, that are past underreporting and underreporting intention.



Based on the theories associated with some previous research, the researchers argue that there is an effect between perceived pressures on tax evasion.

### **The Effect of Opportunity on Tax evasion**

Perceived opportunity is an opportunity that allows fraud to occur. It is usually due to internal control of a weak organization, lack of supervision, and/or abuse of authority. The opportunity for tax evasion by the taxpayer is possible because the taxpayer calculates the tax by using a self-assessment system (self-calculating, self-paying and self-reporting the indebted tax). Perceived opportunity is the second factor that causes fraud to occur (Albert et al., 2009:38).

According to Albert et.al. (2009:38), there are six elements or indicators of opportunity that are possibility to be detected (lack of control that prevent and or detect fraudulent behavior), inability to judge the quality of performance, possibility of inability to understand the type of business perpetrator (failure to discipline fraud perpetrator), lack of access to information, ignorance, apathy, and incapacity, and possibility lack of an audit trail.

Trivedi et.al (2004) using Theory of Planned Behavior (TPB) examines the perceived opportunity by the variable name of Perceived Behavioral Control with four indicators that are possibility to be subject to sanctions, possibility appearing awkward among relations (making my friends feel awkward), possibility reported by third parties, and possibly of tax audited. The results showed that Perceived Behavioral Control has effect on tax evasion.

Mustikasari (2006) conducted a research on this perceived opportunity by using behavior control variables with three indicators that are possibility to be examined by the tax authorities, possibility of penalties, and possibility of third party reporting. The results of research prove that the behavioral control has effect on tax professional non-compliance.

Torgler (2005), conducted a study with variable of perceived probability of being caught or possibility detected by tax authorities, it indicating that there is no significant effect of possibility detected by tax authorities on taxpayer rationalization.

However, Blanthome's (2000) study found that there was no significant effect of perceived behavioral controls on tax non-compliance. Similarly, Bobek and Hatfield (2003), showed there is no significant effect of opportunity (perceived behavior control) on tax evasion (intention).

Based on the theory associated with the above research, the researcher can conclude that there is a significant effect of opportunity on tax evasion.

### **The Effect of Rationalization on Tax evasion**

Rationalization or is a person's tendency to justify his actions. In general, the perpetrators of fraud believe or feel that their action are not a fraud but it is something that are his right and indeed sometimes the perpetrators are feels they has been meritorious for having done much for their organization. Rationalization is also called personal integrity or moral condition of a person (Joseph T. Well, 2004:17). Togler (2008), argued that a person's attitude to justify his actions in tax fraud or intrinsic motivation is known as tax morale (taxpayer's moral).

Donald Cressey (Joseph T. Well, 2004:6) suggests that rationalization has an effect on fraudulent behavior. Albert et.al., (2009:50) suggests that fraudulent behavior is caused by the rationalization of the perpetrator.

Some researchers conducted research on the effect of rationalization on tax compliance and tax evasion. Bobek, Donna D.; Hatfield, Richard C (2003), Trivedi et. al. (2004) proves that attitudes have effect on tax non-compliance of taxpayers. Hardika (2006) proves that the morale of taxpayers has effect on the compliance of taxpayers. Likewise with Benno Torgler et. al. (2008), proves that the taxpayer's moral has effect on tax evasion.

Mustikasari (2006) indirectly proves the attitude of the taxpayer on tax non-compliance through variable of intentions. Blanthome and Kaplan's (2008), also proves that attitude has a significant effect on tax evasion.

Based on the theory and research, the researcher concludes that there is significant effect of rationalization on tax evasion.

### **Effect of Perceived Pressure on Rationalization**

It has been described in the discussion above that Perceived Pressure/incentive (pressure) is the motives that causes a person to do fraud. Pressure can be social approval such as the approval of friends, relationships, family and also the pressure of financial conditions such as accumulated bills, luxurious

lifestyle, and drug dependence. The fraud triangle reveals that cheating behavior is caused by perceived pressure or approval.

The research that correlates the effect of pressure and rationalization is done by Blanthome and Kaplan's (2008) by using variable of subjective norm with three indicators: effect of the subject's family, effect of spouse, and effect of tax preparer/consultant. The results of the research explain that subjective norms have no significant effect on rationalization (attitude/ ethics).

Based on the theory and research above, the researcher concluded that there is a significant effect of the perceived pressure on rationalization.

### The Effect of Opportunities on Rationalization

Perceived opportunity is an opportunity that allows fraud to occur. It is usually due to internal control of a weak organization, lack of supervision, and/or abuse of authority. Based on the fraud triangle it is known that fraud arises from pressure, opportunity and rationalization.

Torgler (2005) conducted a research on tax morale using variable of opportunity named Perceived probability of being caught or possibility detected by the tax authorities, indicating that there is no significant effect of possibility detected by the tax authorities on taxpayer rationalization (tax moral).

Blanthome and Kaplan's (2008), in using variable of opportunity with two conditions of taxpayer, that are low-opportunity conditions and high-opportunity conditions. The so-called low-opportunity is the parties whose income are related or reported by a third party, while the high opportunity is the parties who receive free income and no reporting from third parties. The results of the research mentioned that there is a significant effect of opportunities on rationalization.

Based on the above research and theory, the researcher concludes that there is significant effect of perceived opportunity on rationalization.

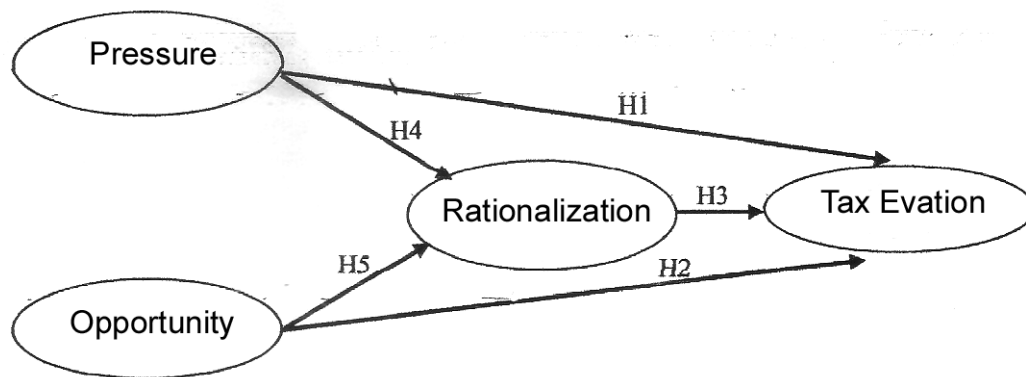


Figure 2. Conceptual Framework

## RESEARCH METHODS

### Types of Research and Description of Research Population (Object)

This type of research according to data analysis is included in quantitative research with causal comparative research method. The method of collecting primary data from the respondents is done by survey. Population taken in this research is taxpayer in Surabaya.

The sample is part of the total and characteristics possessed by the population (Sugiono, 2005: 91). The sampling in this study is based on the sampling by random sampling. This method is used because the collection of sample members from the population is done randomly regardless of the strata in the population (Sugiono, 2005:93). Whereas to determine the number of samples is using the formula developed by Isaac and Michael (Sugiono, 2005: 98), as follows:

$$S = \frac{\lambda^2 N \cdot P \cdot Q}{d^2(N-1) + \lambda^2 \cdot P \cdot Q}$$

Where:

S = number of samples

$\lambda^2$  = with df = 1,

d = 0.05

P = Q = 0.5

By using the formula then by the population about 40,000 then the minimum sample is 345 taxpayers, and to avoid errors in sampling then the sample in this study set as many as 380 taxpayers.

### **Technique of Data Collection**

The type of data that used in this study is subject data (self-report data). In this study population is taxpayers in Surabaya. The data used is the primary data in the form of questionnaires.

### **Operational Definitions of Variables and Measurement of Variables**

#### ***Dependent Variable***

Tax evasion is an attempt to reduce or even eliminate the tax debt payable by not violating existing laws. The indicators of tax evasion are:

1. If examined by tax officers there are still taxes that I have not paid
2. If re-examined there are still wealth that I have not reported
3. If re-examined there are still income that I have not reported
4. If re-examined there are still taxes that I have not paid

#### ***Independent Variable***

1. Perceived Pressure

Perceived pressure is a perception of a person to the approval that causes a person to cheat. The indicators of pressure are:

- a) Financial pressures, that are cash conditions at the time of having to pay taxes,
- b) Relationship pressures, including partners and consumers,
- c) Other parties pressures, including consultants, tax officials, or families

2. Perceived Opportunity

Perceived opportunity is a perception of a person to the opportunity that allows fraud to occur. The indicators of the opportunity are:

- a) Lack of control that prevent and or detect fraudulent behavior
- b) Inability to judge the quality of performance,
- c) Possibility of inability to understand the type of business perpetrator (failure to discipline fraud perpetrator)
- d) Lack of access to information),
- e) Ignorance, apathy, and incapacity, and
- f) Lack of an audit trail.

3. Rationalization

Rationalization is a person's attitude to justify his actions. The indicators of rationalization are:

- a) We can not blame taxpayers who evade taxes
- b) I pay taxes as required by the State
- c) Evade taxes slightly are understandable
- d) I will pay less tax if I know not to be sanctioned

The overall variables in this study were measured by Likert scale model. This scale uses ordinal size. Ordinal size is a given number in which the numbers use the notion of level. This measure does not contain absolute values to the objects, but only gives the size (rank) answers of respondents who were given a particular score. This scale model as seen as follows:

1. Strongly agree = weighted 5
2. Agree = weighted 4
3. Simply agree = weighted 3
4. Disagree = weighted 2
5. Strongly disagree = weighted 1

### **Hypothesis testing**

Hypothesis testing is performed to determine the effect of pressure, opportunity, and rationalization on tax evasion and the effect of pressure and opportunity on rationalization. In this study it is used multiple linear regression analysis techniques.

$$\text{Rationalization} = a + \beta_1 \text{ Tek} + \beta_2 \text{ Kes} + \varepsilon \quad (1)$$

$$\text{Tax evasion} = a + \beta_1 \text{ Tek} + \beta_2 \text{ Kes} + \beta_3 \text{ Ras} + \varepsilon \quad (2)$$

## DATA ANALYSIS AND DISCUSSION

The model fit test shows the test index concludes the conceptual model has been able to explain the empirical condition under study. Chi Square index shows the result of 1.976 with the probability to reject  $H_0$  above 5% which means the empirical model with the conceptual model tested shows no different. RMSEA index has been below the cut off value of 0.8 (0.051), AGFI above of 0.8 (0.974), GFI above of 0.9 (0.997) as well as TLI (0.964) and CFI (0.994) has exceeded the critical limit of 0.95 so the model is stated fit.

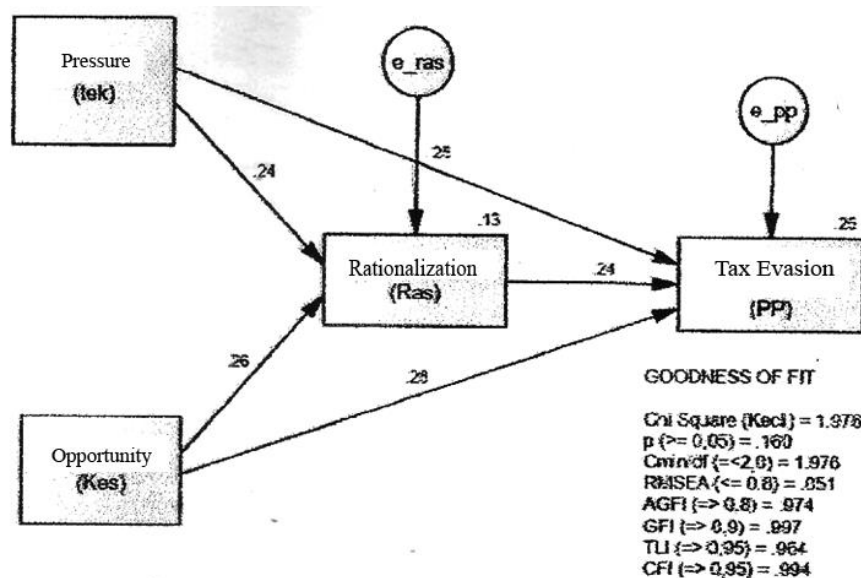


Figure 3: Results of Path Coefficient Analysis

Based on the results of path coefficient analysis it is obtained two models of this research equation, that is:

Equation I : Ras (Rationalization) = 0.242 tek + 0.272 kes + e; ras ( $R^2 = 0.13$ )

Equation II : PP (Tax evasion) = 0.236 ras + 0.252 tek + 0.258 kes + e; pp ( $R^2 = 0.25$ )

The first equation of the analysis results provides an explanation of the relationship between the variables of pressure and opportunity on the tendency of taxpayer rationalization attitude to do tax evasion. The attitude of the taxpayer rationalization tendency is positively affected by perceived pressure as 0.242 and the opportunity as 0.272. Increased perceived pressure are experienced by taxpayers either from the financial condition, relationships or other parties will lead to an increase in taxpayer rationalization attitude to justify his actions, as well as the creation of an opportunity increment to evade tax then the attitude of rationalization will also increase by those path coefficient. R Square coefficient of the first equation model shows the value of 0.13, this explains that two variables of opportunity able to explain the attitude of rationalization of taxpayers reach to 13%.

The result of the second equation describes the direct effect of rationalization of the taxpayer attitudes, as well as the direct and indirect effect of the variables of perceived pressure and opportunity on the tax evasion behavior by the taxpayer. The occurrence of an increase in rationalization attitude of 1 standard deviation will affect the increase of tax evasion attitude by taxpayers of 0.236 and vice versa when there is a decrease in the variable will be followed by a direct change. While the direct effect of the variable of perceived pressure shows the coefficient value of 0.252 and the variable of opportunity of 0.258. While the indirect effect or mediation of rationalization between the variable of pressure and tax evasion is 0.062 so that the total effects of the variable of pressure is 0.320. Direct effect of the variable of opportunity to tax evasion behavior reach to 0.252 with effect of mediation through rationalization is 0.057 so that the total effects of the variable of opportunity to tax evasion by taxpayer reach to 0.309. The ability of the three variables in the second equation model in explaining each change symptom of tax evasion attitude by the taxpayer reached to 0.246 or 24.6%.

Table 6  
Results of hypothesis testing

No.	Path	Path coefficient	Critical ratio	p-value	Ho
H1	PP ← Tek	0.252	5.462	0.000	Rejected
H2	PP ← Kes	0.258	5.468	0.000	Rejected
H3	PP ← Ras	0.236	4.948	0.000	Rejected
H4	Ras ← Tek	0.242	5.045	0.000	Rejected
H5	Ras ← Kes	0.263	5.480	0.000	Rejected

The first hypothesis (H1) that tested the significance of the direct effect between the perceived pressures of the taxpayer on the behavior of tax evasion shows a conclusion of significant effect. The value of C.R for the path of direct effect of the pressure variable to tax evasion reaches to 5.462 with the probability to receiving Ho is very small, this means the direct effect of the tested path of 0.252 indicates a very significant effect.

The second hypothesis (H2) that tested the direct effect of path of the variable opportunity to tax evasion is also concluded significant or proven. Test of C.R got the value of statistical distribution of 5.468 with the probability of accepting Ho by 0,000 thus the positive effect of 0.258 proved to have a direct effect significantly on tax evasion attitude of taxpayer.

The third hypothesis (H3) concluded that the rationalization of taxpayers proved to have a significant effect on the attitude of tax evasion. The value of C.R test results obtained value of 4.948 with the possibility of receiving Ho by 0,000, so Ho stated rejected. This means a hypothesis stating rationalization has no effect on tax evasion is rejected.

Fourth hypothesis (H4) shows that the perceived pressure on the taxpayer is a determinant that has effect on the taxpayer rationalization attitude. The C.R test shows a value of 5.045 for the direct effect of the pressure on rationalization, with the probability of receiving Ho is very small. This means the path coefficient of 0.242 proved to be a significant effect.

The fifth hypothesis (H5) also concludes that the opportunity is also an important factor that proved directly affect to the attitude of rationalization of taxpayer behavior. Tests conducted on the path coefficient by 0.263 which shows the direct effect of opportunity variables on rationalization got the value of C.R by 5.480 which means proved to have a significant effect.

The result of hypothesis test above also explains that the mediation ability of rationalization variable of taxpayer attitude is partially mediated. Both the pressure and opportunity variables are proved directly has effect on tax evasion, while indirect effect through the rationalization path also proved significant. The conclusion of this result indicates that the effects of pressure and opportunity are not always provide rationalization of taxpayer attitudes to cause evasion behavior, but these two factors can directly provide a direct role to the behavior of taxpayers to perform tax evasion measures.

## DISCUSSION

### a. The effect of perceived pressure on tax evasion

The results showed that perceived pressure has effect on tax evasion. Perceived pressure in the form of financial pressure, relations pressure, and others party pressure can give effect on tax evasion. According to Donald Cressey (W. Steve Albert et al., 2009:34 and Joseph T. Well, 2004:6), perceived pressure/incentive (pressure) is one of the triggers of fraud. Perceived pressure is the motives that cause a person to do fraud. Pressure can be social approval such as the approval of friends, relations, family and also the pressure of financial conditions such as accumulated bills, luxurious lifestyle, and drug dependence. While the pressure to do tax evasion can be due to the pressure of financial condition at the time of having to pay taxes, the pressure of business relations, other parties such as family or tax consultants to evade of tax payments.

The results of this study support the results of Trivedi et.al (2004) research in which subjective norms include approval of friend, approval of tax preparer, approval of peers, approval of spouse, approval of employee, and approval of family have significant effect on tax professional intention to behave non-compliance. Mustikasari (2006) in her research also proved that subjective norms that include the effect of friends, consultants, tax officers and the effect of corporate leaders have significant effect on tax professional intention to behave non-compliance. The same is also proven by Bobek and Hatfield (2003) that pressure or approval with variable of subjective norm has effect on tax evasion. It is in line

with Siahaan's (2005) research which proves that financial pressure has an effect on Tax Professional compliance behavior.

#### **b. The effect of perceived opportunity on tax evasion**

The results showed that the perceived opportunity has effect on tax evasion. Perceived opportunities in the form of lack of controls, inability to judge the quality of performance, inability to understand the types of business perpetrator, lack of access to information, ignorance, apathy, and incapacity, and lack of an audit trail able to have an effect on tax evasion. Albert et. al. (2009:38) reveals that Perceived Opportunity is the second factor that causes fraud to be occurred.

The results of this study support the results of Trivedi et.al (2004) research where the perception of the opportunity or so-called Perceived Behavioral Control has effect on tax evasion. It is in line with Mustikasari (2006) which proves that the perception of the opportunity or the so-called behavioral control has effects on non-compliance tax professional. However, Blanthome's (2000) study found that there was no significant effect of perceived behavioral controls on tax non-compliance. Similarly, Bobek and Hatfield (2003), showed no significant effect of perceived behavior control on tax evasion (intention).

#### **c. The effect of rationalization on tax evasion**

The results show that rationalization has effect on tax evasion. A person's attitudes to justify his actions are able to giving effect on tax evasion. Albert et. al., (2009:50) suggests that fraudulent behavior is caused by the rationalization of the perpetrators. In general, the perpetrators of fraud believe or feel that their actions are not the fraud but it is something that is indeed his right and sometimes the perpetrator feels it has been meritorious for having done much for his organization.

The results of this study support the results of Donald Cressey's research (Joseph T. Well, 2004:6) which suggests that rationalization has effect on the fraudulent behavior. It also supports the research results of Benno Torgler et.al. (2008) which is the taxpayer morale has effects on tax evasion. While Hardika (2006) also proves that the morale of Taxpayers has effect on taxpayers' compliance.

#### **d. The effect of perceived pressure on rationalization**

The results showed that perceived pressure has effect on the rationalization. The existence of motive that causes a person to do fraud is able to give effect on the rationalization. Pressure can be social approval such as the approval of friends, relations, family and also the pressure of financial conditions such as accumulated bills, luxurious lifestyle, and drug dependence. The fraud triangle reveals that fraudulent behavior is caused by perceived pressure or approval.

The results of this study contrasted with Blanthome and Kaplan's (2008) research in which subjective norm that consisting of effects of the subject's family, effects of spouse, and effects of tax return preparer have no significant effect on rationalization (attitude/ethics).

#### **e. The effect of perceived opportunity on rationalization**

The results showed that perceived opportunity has effect on the rationalization. The existence of opportunities that allow fraud to occur can give effect on the rationalization. This can be due to an organization's weak internal control, lack of supervision, and/or abuse of authority. Based on the fraud triangle it is known that the fraud arises from pressure, opportunity and rationalization.

The results of this study do not support the results of Torgler' (2005) research where there is no significant effect of possibility detected by the tax authorities on rationalization (tax moral) of taxpayers. However, the results of this study are supported by Blanthome and Kaplan's (2008) research where opportunities have significant effect on rationalization.

### **CONCLUSIONS AND RECOMMENDATIONS**

Based on the results of data analysis and hypothesis testing that has been done then it can be drawn the conclusion as follows:

1. Perceived pressure has effect on tax evasion
2. Perceived opportunity has effect on tax evasion
3. Rationalization has effect on tax evasion
4. Perceived pressure has effect on the rationalization
5. Perceived opportunity has effect on the rationalization

From the test results it is proved that perceived pressure and perceived opportunity have significant effect on tax evasion, so for the regulators can make taxation policies to prevent tax evasion.

For further study, the researcher suggests to study other factors that have effect on tax evasion beyond of perceived pressure, perceived opportunity, and rationalization, so that this study and subsequent study can complement each other.

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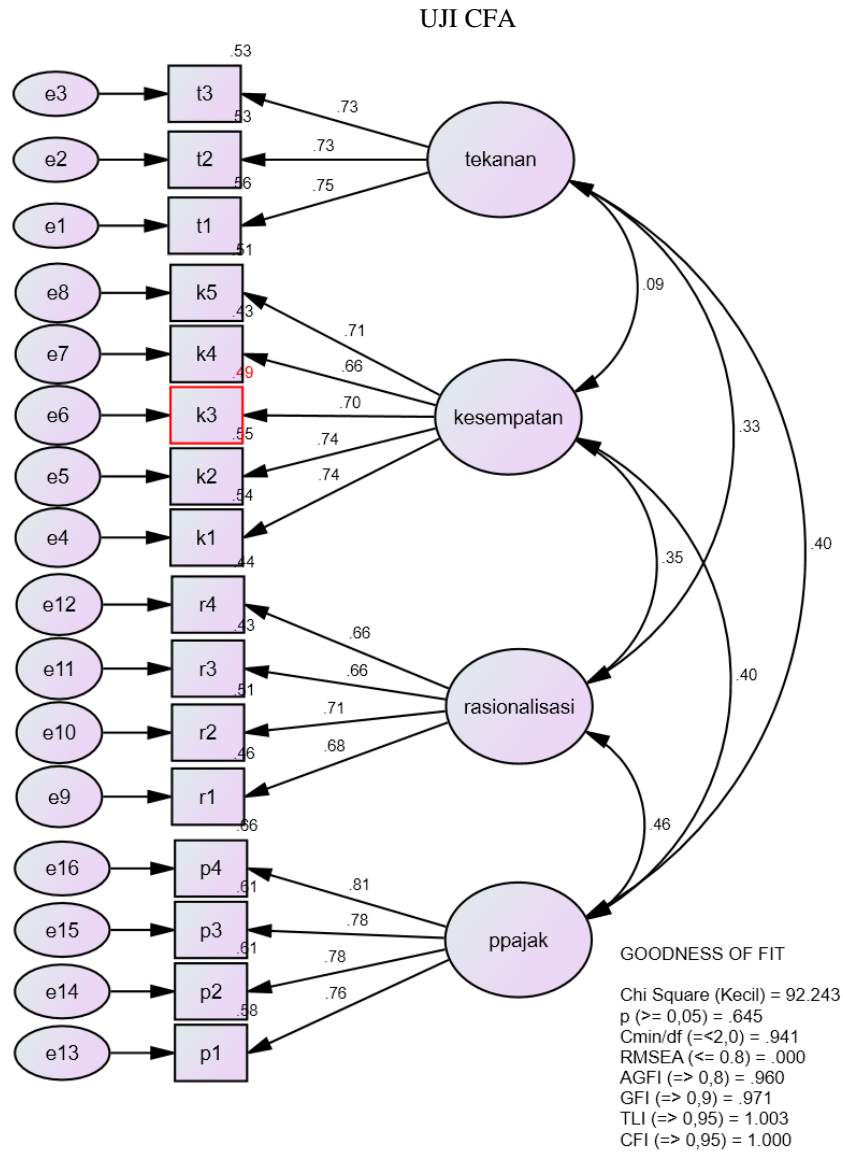
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APPENDIX :



**Figure 4 :**  
Model Specification : One Step Approach - Base Model

Sources : Data proceesed