

## 1 Introduction

Many studies have identified a wide range of behavioural factors, but very little analytic attention has been paid to the impact of perceptions of corruption. Specifically, what is not yet clear is the impact of perceptions of corruption upon intentional non-compliance behaviour.

## 2 Why Indonesia?

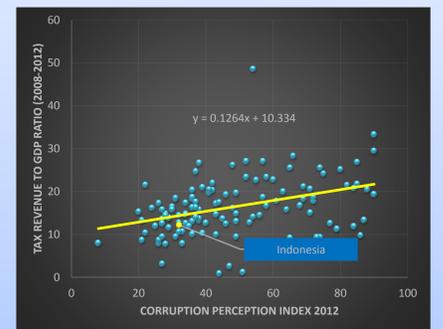
Indonesia is considered appropriate for this study for two reasons. First, Indonesia is a major developing countries with continual tax compliance issues. Second, Indonesia has been classified as one of the most corrupt of major countries in Asia-Pacific.

Corruption Perceptions Index 2012 among major selected Asia-Pacific countries



Source: Transparency International, 2013

Correlation between share of tax revenue in GDP and perceived level of corruption



Source: Author's calculation on 119 countries data of the CPI 2012 data (Transparency International, 2013a) and the World Bank data of tax revenue as percentage of GDP (World Bank, 2013d).

## 3 Why is it important?

No country is immune from corruption and any tax system inevitably suffers tax evasion. While there is no single tax compliance theory that has been widely accepted, it is becoming increasingly difficult to ignore the role of social and psychological factors in dealing with tax (non)compliance issues.

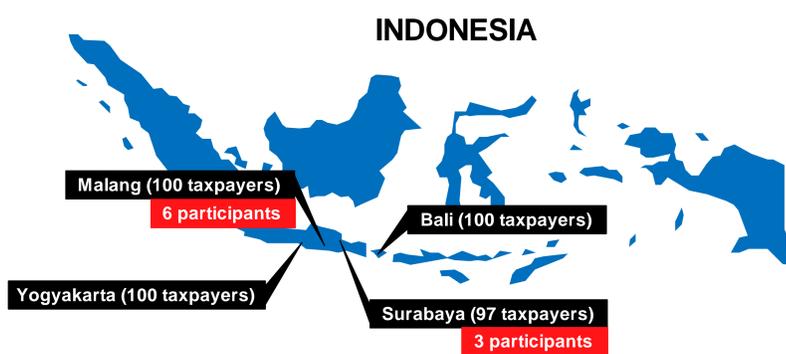
## 4 Primary research questions:

- To what extent do the perceptions of corruption affect taxpayers' intentional tax underreporting behaviour?
- In what ways do the perceptions of corruption affect taxpayers' intentional tax underreporting behaviour?

## 5 Research design

A sequential mixed-methods of "qual→QUANT" has been adopted.  
**Phase 1** : In-depth interviews with 3 tax agents, 3 taxpayers and 3 tax officers  
**Phase 2** : Mixed-modes survey questionnaire to collect 397 respondents

Locations of the survey

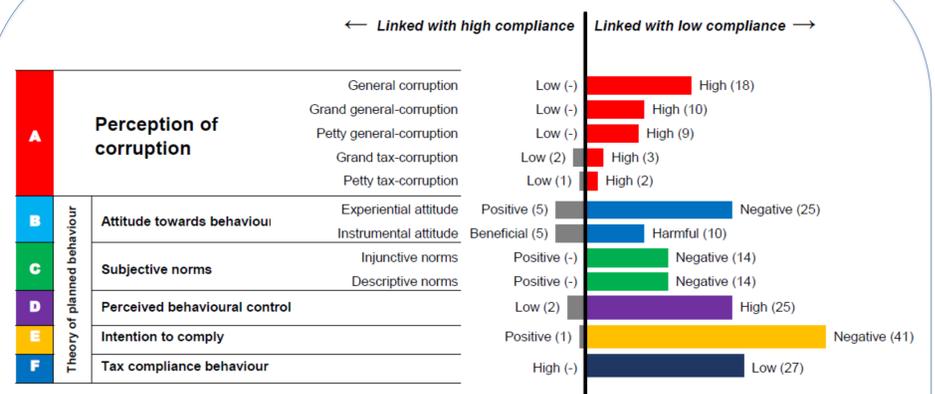


The survey was conducted in 12 tax offices across four regions in Indonesia and took almost four months to complete. It was conducted with assistance from two research intermediaries from Tax Center Faculty of Administrative Science University of Brawijaya, Indonesia

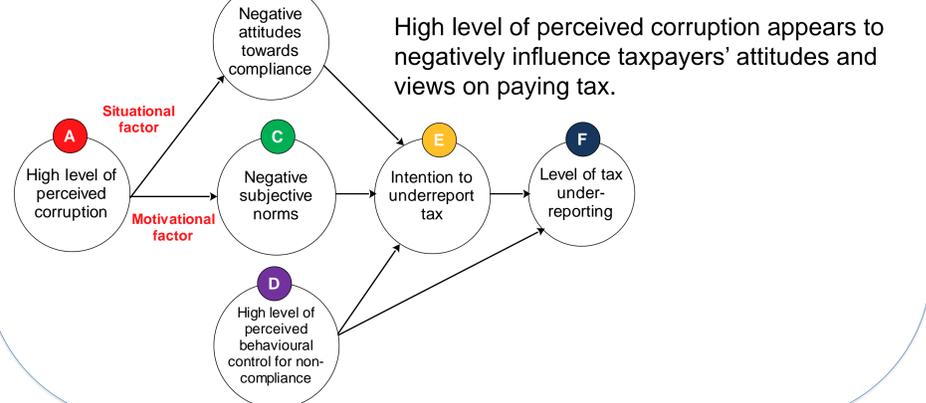
## 6 Data and preliminary findings from qualitative phase

- A total of 432 minutes of interview data was converted into a verbatim format and analysed with CDC EZ-Text 4.0 by using deductive thematic analysis.
- 28 categories and 272 assigned codes were identified from the data.
- Diagrammatic interpretation of the findings and hypothetical relationships among variables were then developed (see **Figures A** and **B** below).

A. Diagrammatic interpretation of qualitative findings



B. Hypothetical relationships of qualitative findings



## 7 Data and preliminary findings from the quantitative phase (as the core method)

- 397 survey responses comprising 196 self-employed and 201 employed taxpayers were analysed using IBM SPSS Amos v.21.
- 12 structural models has been proposed to scrutinise the impact of five types of perceptions of corruption (refer to **Figure A**).
- So far, the data suggest while intention to underreport (ITC) is a good predictor of underreporting behaviour (TCB), attitudes (ATB) and situation towards underreporting (PBC) appear influential to intention to underreport (see **Table C**).
- Perceptions of corruption generally affect both attitudes and views on underreporting tax, but with mixed results. As shown in **Figure D**, while perceived grand corruption (GCO) tends to affect attitude towards

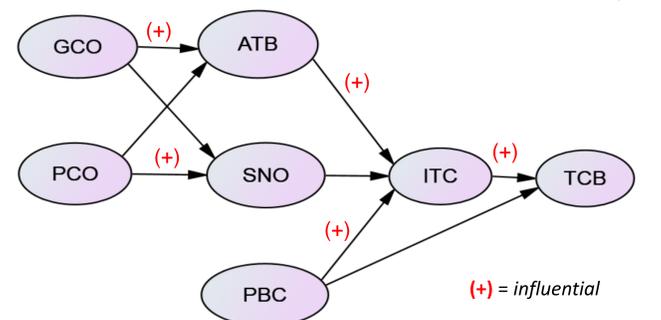
underreporting (ATB), perceived petty corruption (PCO) seems more influential to views on underreporting (SNO).

C. SEM Output: Path coefficients

	Total effects	Intervening variables			Endogenous variables
		ATB	SNO	ITC	TCB
Exogenous variables	GCO	.317**	.036	-.131	-.073
	PCO	-.041	.331**	-.027	-.015
	PBC			-.165**	.011
Intervening variables	ATB			-.400**	-.223
	SNO			-.130*	-.073
	ITC				.559**

\*\* significant at  $p = .05$   
 \* significant at  $p = .10$

D. One of theoretical-based structural models in the study



GCO = Perceptions of grand corruption  
 PCO = Perceptions of petty corruption  
 ATB = Attitudes toward tax underreporting  
 SNO = Views on tax underreporting  
 PBC = Situations toward tax underreporting  
 ITC = Intention to underreport  
 TCB = level of underreported tax