Tax compliance: between intrinsic religiosity and extrinsic religiosity

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A R T I C L E I N F O

A B S T R A C T

This study examined the correlation between intention on tax compliance and tax compliance behavior with the moderating variable of religiosity orientation both intrinsic religiosity and extrinsic religiosity. The religiosity orientation in this study used religiosity orientation commitment, which better illustrates the commitment on religiosity orientation in everyday life rather than to the presence of individuals in a place of worship as in previous studies. The population in this study is individual taxpayer in Central Java; the sample is taken using multi-stage sampling technique. By using PLS, this study showed that there was an influence of the intention to comply on tax compliance. External religiosity orientation was proved to strengthen the influence of the intention to comply on tax compliance while intrinsic religiosity orientation was not. Tax authorities can utilize the finding by conducting a collaboration with religious leaders to provide insight for taxpayers that religious considerations should affect business considerations that religious teaching is the most important thing in the daily lives and there should be a balance between religious teaching and physical life.

A B S T R A K

Penelitian ini menguji pengaruh antara niat untuk patuh terhadap kepatuhan pajak dengan variabel moderasi orientasi religiusitas baik religiusitas intrinsik dan religiusitas ekstrinsik. Orientasi religiusitas dalam penelitian ini menggunakan orientasi orientasi religiusitas yang lebih menggambarkan komitmen orientasi religiusitas dalam kehidupan sehari-hari daripada kehadiran individu di tempat ibadah seperti pada penelitian sebelumnya. Populasi dalam penelitian ini adalah wajib pajak individu di Jawa Tengah, sampel diambil dengan teknik multi stage sampling. Dengan menggunakan alat analisis PLS, penelitian ini menunjukkan bahwa ada pengaruh antara niat untuk patuh terhadap kepatuhan pajak. Orientasi religiusitas eksternal terbukti memperkuat pengaruh niat terhadap kepatuhan pajak sedangkan orientasi religiusitas intrinsik tidak. Temuan ini dapat dimanfaatkan oleh otoritas pajak dengan melakukan kolaborasi dengan para pemuka agama untuk memberikan wawasan bagi pembayar pajak bahwa pertimbangan keagamaan harus mempengaruhi pertimbangan bisnis, bahwa pengajaran agama adalah hal yang paling penting dalam kehidupan sehari-hari dan harus ada keseimbangan antara pengajaran agama dan kehidupan fisik

1. INTRODUCTION

The self-assessment system used in the taxation system in Indonesia claims greater responsibility for the taxpayer compared to the tax officers (James and Alley, 2002). It is on the contrary to the official assessment system that it provides authority for the tax officer to calculate the tax while the taxpayer is only obliged to pay tax from the calculation of the tax officer (Supramono and Damayanti, 2009). Self-assessment system has been running for three decades in Indonesia, but in fact, the taxpayer compliance has not shown encouraging results. Low tax compliance was also shown on the Indonesian tax ratio which had a lower rate compared to neighboring countries (WorldBank, 2014). The low tax ratio reflects the low tax compliance and demonstrates low effort in levying tax. Carolina, Meythi and Martau (2012) even mention the existing tax non-

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compliance of Indonesia as an overview of the Indonesian Tax Culture.

In the Theory of Planned Behavior it is stated that behavior is determined by one's intention to behave (Ajzen, 1991). In the context of taxation, Theory of planned behavior indicates that tax compliance behavior will be influenced by the intention to comply. However, Achmat (2013) criticized that this theory had a high gap between intention and the behavior. Ajzen (2005) as the originator of the theory of planned behavior also revealed that the intention would be consistent with behavior when the environment provided motivation and opportunity. Therefore, it takes a contributing factor to explain the link between behavioral intention and behavior. Kouthouris and Spontis (2005) suggest the existence of interrupter factors that explain the link between intention and behavior.

As a citizen, a person has vertical and horizontal obligations. Horizontal obligation refers to one's duties towards each other and the State, which is realized by paying taxes. Meanwhile, vertical obligation refers to one's duties to God who is often referred to as religiosity. Conceptually, according to Tittle and Welch (1983) there is a correlation between the vertical and horizontal obligations. For that reason, the correlation is also expected between the horizontal obligation, which is realized by paying taxes and vertical obligation or someone's religiosity. Barro and McCleary (2003) argue that the orientation of religiosity serves to encourage certain behaviors. Religiosity according to Pope and Mohdali (2010) is a condition of a person's belief on a power that can control human behavior. TitleThornton and Donald (1989) see religion as a predictor of behavior, but not as dependent and independent variables, but as behavior creator. For that reason, the elements of religiosity orientation are expected to strengthen the link between intentions and behavior in explaining the behavior of tax compliance.

In the context of tax compliance, religiosity orientation will control a person to comply the tax in accordance with the values in his religious beliefs. Therefore, a person's level of religiosity orientation will strengthen the compliance intention towards the rules of taxation and is performed in behavior, i.e. the compliance itself. Grasmick, Bursik and Cochran (1991) proved empirically that strong religious beliefs were expected to prevent the illegal behavior, especially in cases of tax evasion. Stack and Kposowa (2006) also proved empirically that that someone who had no religious affiliation was more likely to commit tax fraud. In the

study conducted by Lau, Choe, and Tan (2013) which used the participants of students in Malaysia, it was empirically proven that the religiosity orientation was a good moderator to explain the behavior of tax evasion. In Indonesia, there is still limited research that examines the influence of religiosity on tax compliance so that this study aims to examine how the influence of religiosity on tax compliance.

A person who has a high religiosity will obey his or her religious norms well including the doctrine to pay taxes. The previous studies used individual attendance to the place of worship as an indicator of religiosity orientation variable (Grasmick, Bursik and Cochran, 1991; Tittle and Welch, 1983). The presence of individuals to the place of worship is a part of an religiosity affiliation. Religiosity affiliation refers to a particular religious groups which are adhered to by individuals such as Islam, Christian, Catholic, Buddha, and Hinduism (Pope and Mohdali, 2010). However, Bergan and McConatha (2001) showed that was not enough to rely on the presence of religion as a measure of religiosity because it caused an inaccurate assessment. An individual might go to a mosque or a church for other reasons, like to please others or to avoid social isolation (Pope and Mohdali, 2010). Thus, the use of presence to the place of worship as an indicator of religiosity orientation will lead to inaccurate measurements (Lau, Choe and Tan, 2013). Therefore, this study used the religiosity orientation commitment, which better illustrated the commitment on the religiosity orientation in everyday life. Based on limitation of Theory Planned Behavior and the importance of religiosity in fostering tax compliance, this study examined the correlation between intention on tax compliance and tax compliance behavior with moderating variable of orientation religiosity both intrinsic religiosity and extrinsic religiosity.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Ajzen (1991) describes the intention as the extent to which an individual is willing to strive to do the behavior, or a planned effort to mobilize action to implement behavior. This means, in general, people act in accordance with the intention or tendency and in accordance with the abilities, they believe. Individual intention on a behavior will affect the behavior displayed.

Trivedi and Shehata (2005) in his research that used the participants of taxpayers in Canada proved empirically that the intention to comply

had a positive influence on tax compliance. Langham, Paulsen and Härtel (2012) in his study of the taxpayers in Australia also proved empirically a positive influence of the intention to comply towards tax compliance behavior. Additionally, Blanthorne and Cynthia (2000) and Hanno and Violette (1996) proved empirically that the intention had a positive influence on tax noncompliance. In Indonesia, the studies on tax compliance have also proved empirically that the intention to comply would affect the behavior of compliance or otherwise intention to disobey would affect the behavior of tax noncompliance (Mustikasari, 2007). Based on the above presentation, the research hypothesis is formulated as follows:

H1: Intention to comply had a positive influence on tax compliance behavior.

Until today, the study on tax compliance or tax evasion related to religiosity is still very limited. Pope and Mohdali (2010) identified that the results of TitleThornton and Donald (1989) is the earliest study on tax compliance and religiosity. TitleThornton and Donald (1989) explored the individual's perception of the relationship between religiosity and deviant actions, and one of which was tax evasion. The study results by Tittle and Welch (1983) showed that individual religiosity affected the deviant behavior in the future. Furthermore, TitleThornton and Donald (1989) stated that many people relied on religious values as a source of morality to shape their attitudes and behavior.

Welch, Tittle and Petee (1991) who used data collected from Catholics showed that that tax evasion was negatively related to an individual's personal religiosity. Strong religious beliefs were expected to prevent the illegal behavior. Torgler (2003) conducted extensive research on the role of religiosity and revealed that the spirit of the tax was positively depended on religiosity. In 2006, Togler developed a study by using more than 30 countries and confirmed similar findings (Torgler, 2006). His study found a strong influence of religiosity on tax morale in Germany, the European countries, except Spain, United States and Turkey.

Stack and Kposowa (2006) found that a person who had no religious affiliation was more likely to commit tax fraud. The same thing has been proven by Grasmick, Bursik, and Cochran (1991), who proved empirically that strong religious beliefs could prevent the illegal behavior, especially in cases of tax evasion. By using a larger sample size that was 47 countries, Richardson (2008) confirmed the negative relationship between the individual religiosity level and tax evasion.

Glover (1997) divided religiosity orientation commitment into two, intrinsic religiosity and extrinsic religiosity. Intrinsic religiosity is a strong internal assurance with religion as a part of one's daily life while extrinsic religiosity is the exterior role of religion to support social relationships or even individual satisfaction. In other words, intrinsic religiosity is an indication that someone has religious commitment and connection to the religion teachings and for spiritual purposes, namely to use faith to find ways to serve others. Thornton and Donald (1989) considered that religiosity orientation was a predictor of behavior. Therefore, it was not appropriate to be placed as a dependent or independent variable but as a thing that could strengthen or weaken the behavior. Lau, Choe, and Tan (2013) proved empirically that religiosity orientation was a moderating variable in the influence on tax evasion. Additionally, Palil, Akir and Ahmad (2013) proved empirically that religiosity was a good moderator on tax compliance. Based on the above explanation, the research hypothesis is formulated as follows:

H2: Intrinsic religiosity orientation strengthens the influence of intention to comply towards tax compliance behavior.

Extrinsic religiosity extrinsic is more related to the support on self-business interests and find ways that religion can function for the individual benefit. Salsman, Brown, Brechting, and Carlson (2005) revealed that intrinsic religiosity had a higher influence on the religiosity commitment than extrinsic religiosity.

Empirical testing of the behavior and tax compliance was also conducted by Lau, Choe, and Tan (2013) and Johnson and Morris (2008). In his research, Lau, Choe, and Tan (2013) and Johnson and Morris (2008) showed that the religiosity was a moderating variable that could strengthen the effect. Palil, Akir, and Ahmad (2013) also proved empirically that religiosity was a good moderator on tax compliance. Based on the above explanation, the research hypothesis is formulated as follows:

H3: Extrinsic religiosity orientation strengthens the influence of intention to comply towards tax compliance behavior.

3. RESEARCH METHOD

The research design was a survey with an individual taxpayer in Central Java as population. The sampling technique in this study used a multi-stage sampling that was stratified random sampling and convenience sampling. Stratified random sampling was used to determine the city or district in which

the Tax Office was selected as the basis for sampling. Strata division basis used a basic tax ratio of each city or district in Central Java. Based on the tax ratio, the city or district where the tax office was presented was divided into three, namely the city or district that had a high tax ratio, city or district that had a moderate tax ratio, and city or district that had a low tax ratio. Based on the stratification, Rembang Regency, Wonosobo Regency, Semarang City, Pekalongan City, Temanggung Regency, Demak Regency, Sragen Regency, Boyolali Regency, Surakarta City, Klaten Regency and Salatiga City were selected as research sites. The total cities or districts used as research sites are 11 cities or districts. Based on the 11 selected cities or districts above, an individual taxpayer is determined as a sample of the study. Due to the limitations of non-possession of Individual Taxpayer data, the sample selection uses convenience sampling. Convenience sampling is done by visiting the trading area in each research location and distributing questionnaires to the individual taxpayers who can be found.

This study used a questionnaire, which was largely adopted and developed from instruments that have been used in previous studies. The variables in this study are intention to comply, tax compliance, internal religiosity and external religiosity The construct of intention to comply used the indicators of (1) The tendency to adhere to the tax provisions (2) The decision to comply with tax regulations, and (3) desire for the consistency of tax compliance.

The construct of tax compliance was measured by using four indicators in the Statement of Standards for Tax Services (SSTS), which includes compliance on the burden that can be deducted in the calculation of income tax, tax estimation, tax error, tax treatment but by modifying tax regulations in Indonesia. Tax regulations in Indonesia applies a tax rate of 1% of turnover which entered into force in July 2013, therefore, the criteria first of SSTR, that is the compliance on the burden that can be deducted in the calculation of income tax is not used in this study. In addition, this study added the criteria of tax compliance as required according to KMK 235/KMK.03/2003. The criteria of taxpayer compliance in Decision of the Minister of Finance (KMK) Number 235/KMK.03/2003 consists of the compliance for period SPT (Annual Tax Return) submission, the compliance for annual SPT (Annual Tax Return) submission and payment compliance.

The construct of religiosity orientation was measured by modifying the religiosity orientation indicators developed by Allport and Ross (1967), which later was developed by Khodadady and Bagheri (2012). Allport and Ross (1967) divide religiosity orientation into two, namely intrinsic religiosity and extrinsic religiosity. The indicators of religiosity intrinsic are (1) Religion and other dealings in life (2) Thought on religious and meditation (3) Religion and life approach (4) Religion and the meaning of life while religiosity extrinsic consists of (1) Religion and my everyday life (2) Adjustment of the religious belief (3) Priority of life and (4) religion and life balance.

The hypothesis testing in this study used Partial Least Square (PLS). PLS was used in this study because the main purpose of this study is to develop a model on tax compliance. Research aims to develop a theory should use a prediction model. Meanwhile, the focus of PLS is to predict not to estimate (Hair *et al.*, 2010).

There are two stages of data analysis done by using PLS. First, develop the specification model, namely the line analysis model of all latent variables consisting of three sets of inner model relationship that specifies the relationship between the latent variables (structural model). The outer model that specifies the relationship between the latent variables and the manifest variables (measurement model), and weight estimation in which the case value of the latent variables can be estimated. Second, evaluate the measurement model and the structural model. Limitation to reject and accept the significance of the parameters to be estimated is above 1.645 for p <0.05.

4. DATA ANALYSIS AND DISCUSSION

Respondents in this study were personal taxpayers in Central Java. Characteristics of the 220 respondents are shown in Table.1 Most of the samples had high school education as many as 116 respondents (52.73%), while the rest were educated under Senior High School, as many as 44 respondents (20%), respondents with bachelor education were as many as 50 (22.73%) and master education were as many as 10 (4, 55%).

Table 1
Respondent Profile

	Description	N	%
	Under Senior High School	44	20,00%
	High School	116	52,73%
Education	Bachelor	50	22,73%
	Master	10	4,55%
	Doctoral	0	0,00%
	Under Rp 2.000.000	50	22,73%
Income	Rp 2.000.000- Rp 400.000.000	170	77,27%
	Above Rp 400.000.000	0	0,00%
	Tax Payer	165	75,00%
Tax Calculation	Tax Consultant	28	12,73%
	Tax officer	27	12,27%

In this study, all respondents for tax purposes used Government Regulation No. 46 Year 2013 for all the respondents had incomes under 4.8 billion rupiah or below 400 million rupiah per month. The composition of the respondent's income was that 50 respondents (22.73%) had income under Rp. 2.000.000,- per month, 170 respondents (77.27%) had income between Rp. 2.000.000,- until Rp. 400.000.000,- per month and none of them had income above Rp. 400.000.000,- per month.

The average respondent made their own tax calculation, as many as 165 respondents (75%), while 28 respondents (12.73%) presented the tax calculation to tax consultants and 27 respondents (12.27%) presented the tax calculation to the tax authorities. Thus, most of the respondents carried out tax obligations by themselves.

Descriptive statistics provide a description of the data that observed from a minimum value. The construct of intention to comply demonstrated the minimum score value of 3 and maximum score value of 7. The average value for the perceived intention to comply was 6.012 with a standard deviation of 0.703. The statistic results illustrate that the respondents had a high tendency or a decision to perform tax compliance behavior.

Table 2
Descriptive Statistics

Construct	N	Min	Max	Average	Std. Dev.
Intention To Comply	220	3	7	6,012	0,703
Tax Compliance	220	2	7	5,931	0,892
Religiosity	220	2	7	5,830	0,904
Intrinsic Religiosity	220	2	7	5.752	0.901
Extrinsic Religiosity	220	2	7	5.890	0.902

The construct of tax compliance showed a minimum score value of 2 and maximum score value of 7. The average value for the construct of tax compliance was 5.931 with a standard deviation of 0.892. The statistic results illustrate that the respondents had a high adherence to fulfill their functions, i.e. calculate, pay, and report. The similar results were shown from the construct of religiosity orientation. The construct of religiosity orientation showed a minimum score value of 2 and maximum score value of 7. The average value for the construct of religiosity orientation was 5.830 with a standard deviation of 0.904. The statistic results illustrate that the respondents had a high level of religiosity orientation.

Table 3
Algorithm Iterations

Construct	AVE	Composite Reliability	R Square	Cronbach's Alpha	Communality	Redundancy
Tax Compliance	0,696931	0,940641	0,608764	0,923792	0,696931	0,047054
Intention To Comply	0,885977	0,958857		0,935534	0,885977	
Religiosity	0,526307	0,891620		0,882772	0,526307	

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Evaluation Model
Measurement model testing was used for validation of the research model built in this study. Two main parameters built here were construct validity test (convergent validity and discriminant validity) and construct reliability test. Here is the table of algorithm iterations output.

The construct validity consists of convergent validity and discriminant validity. First, convergent validity relates to the principle that the measure of a construct is highly correlated. Convergent validity occurs when the scores obtained from two different instruments that measure the same construct have a high correlation. If the loading value is between 0.50 and 0.70, the researcher should not delete the indicator with that loading score as long as the Average Variance Extracted (AVE) value and Communality indicator were >0.50 (Hartono, 2009). Convergent validity test results is the value of outer loading factor of the entire constructs used of >0.70 (Appendix 7), AVE of the entire constructs used was > 0.5 (Table 5.5) and Communality of the entire constructs used was> 0.5 (Table 4).

Second, discriminant validity relates to the principle that the measures for different constructs should not highly correlated. Discriminant validity occurs when two different instruments that measure the two constructs are predicted not correlated to produce values that are not correlated. Discrimi-

nant validity test result based on the value of cross loading showed that each construct indicator had a higher value or gathered in a predetermined construct. Thus, we can conclude that the instrument used in this study was valid.

Reliability indicates the accuracy, consistency, and exactness of a measuring instrument in providing measurement. Reliability test results (Table 5.5) showed that the value of Cronbach's alpha was > 0.60 and reliability composite value was > 0.70 for all constructs used here. Thus, we can conclude that the instrument used in this research was reliable.

Goodness of fit is a measure that indicates the overall model predictions or measure that shows how much the overall model is able to explain the variance in the data. R-square of tax compliance behavior (Y2) was amounted to 0.608764.

Hypothesis Testing
Hypothesis 1 (H_1) stated that the intention to comply had a positive influence on tax compliance behavior. The test results in Table 4 showed the t statistic value of 3.037868 (>1.645), so that it can be concluded that H1 was supported. The coefficient value of .169236 showed that the intention to comply had a positive influence on tax compliance behavior.

Hypothesis 2 (H_2) stated that intrinsic religiosity orientation strengthened the influence of the intention to comply towards tax compliance behavior. The test results in Table 4 showed the t statistical value of 0.521 (<1.645), it can be concluded that H2 was not supported. Hypothesis 3 (H_3) stated that extrinsic religiosity orientation strengthened the influence of the intention to comply towards tax compliance behavior. The test results in Table 4 showed the t statistic value of 1.803 (>1.645), it can be concluded that H_3 was supported. The coefficient value of 0.125 indicated that the extrinsic religiosity strengthened the influence of the intention to comply towards tax compliance behavior. Summary results of hypothesis testing can be seen in Table 4.

Table 4.
Hypothesis Testing

	Coefficient	T-value
Intention to Comply -> Tax compliance	1,138377	3,037868
Intention to Comply *Religiosity -> Tax Compliance	1,511159	2,205669
Intention to Comply *Intrinsic Religiosity -> Tax Compliance	0,038493	0,521193
Intention to Comply * Extrinsic Religiosity -> Tax Compliance	0,129429	1,803013

Discussion of Hypotheses Test Results

The test results obtained empirical evidence that H1 was supported by a positive coefficient. This means that the higher the intention to comply, the greater the behavior of tax compliance. The results are consistent with the results of the study conducted by Trivedi, Shehata and Mastelman (2005) who used the participants of taxpayers in Canada. In this research Trivedi, Shehata and Mastelman (2005) proved empirically that the intention to comply had positive influence on tax compliance. In addition, this result is also consistent with the results of the study conducted by Langham, Paulsen and Härtel (2012) in Australia who proved empirically a positive influence of the intention to comply towards tax compliance behavior. Additionally, Blanthorne and Cynthia (2000) and Hanno and Violette (1996), has proved empirically that the intention had positive influence on tax noncompliance.

In addition, the study result is also consistent with the results of a study conducted by Mustikasari (2007), who conducted a study in Indonesia and empirically demonstrated that the intention to comply affected the behavior of compliance or otherwise the intention to disobey would affect the behavior of tax noncompliance. Thus, the Theory of Planned Behavior can be applied in the field of taxation, especially for personal taxpayers in Central Java.

This empirical evidence implies that taxpayers who have higher intention to comply will have a greater tax compliance behavior too. Ajzen (1991) describes the intention as the extent to which an individual is willing to strive to do the behavior, or a planned effort to mobilize action to implement behavior. For that reason, it can be concluded that the intention to comply is a determinant factor of tax compliance behavior.

The test results also provided empirical evidence that external religiosity orientation could strengthen the influence of the intention to comply towards tax compliance but not so with intrinsic religiosity orientation. Intrinsic religiosity is a strong internal assurance with religion as a part of one's daily life while extrinsic religiosity is the exterior role of religion to support social relationships or even individual satisfaction. Or in other words, intrinsic religiosity is an indication that someone has religious commitment and connection to the religion teachings and for spiritual purposes, namely to use faith to find ways to serve others while religiosity extrinsic is more related to the support on self-business interests and find ways that religion can function for the individual benefit.

This is presumably due to differences between the one's views of vertical and horizontal obligations. Tax obligation is considered as horizontal obligation reflected in extrinsic religiosity. This is consistent with the statement expressed by Barbour (2002) that there is a separation between religion and human knowledge. Both are running in each rail, but in some cases, there is a unification between them.

This phenomenon is consistent with what happened in Indonesia. Ancok and Suroso (2001) suggest that basically self-merging into religious group is due to intrinsic religiosity. However, affiliation into a religious group is not due to intrinsic religiosity, but even more to the extrinsic religiosity. This empirical evidence implied that taxpayers with greater extrinsic religiosity would further strengthen the influence of the intention to obey and tax compliance behavior. Therefore, in order to improve tax compliance, tax authorities need to conduct collaboration with religious leaders to provide insight for taxpayers that religious considerations should affect business considerations, which the religion teaching is the most important thing in the daily lives and there should be a balance between religious teaching and physical life.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS
Empirical evidence showed that taxpayers who had the higher intention to comply would have a greater tax compliance behavior too. Taxpayers with

high level of extrinsic religiosity orientation could strengthen their intention and behavior related to tax compliance. But, this study shows that the intrinsic religiosity not able to strengthen the influence of intention to comply with tax compliance

The finding shows that the religiosity orientation especially extrinsic religiosity became a moderating variable for influence of the intention to comply towards tax compliance behavior. Tax authorities can utilize this by conducting a collaboration with religious leaders to provide insight for taxpayers that religious considerations should affect business considerations. This religious teaching is the most important thing in the daily lives and there should be a balance between religious teaching and physical life. This insight should be more emphasized than how taxpayers carry out religious rituals that are indicators of intrinsic religiosity in order to provide an understanding of the importance of tax compliance

Limitation and Recommendation for Future Study

The samples selection in this study was not randomized, due to the unavailability of personal taxpayer data in Central Java. To minimize the limitation of the inability to use a random method to select samples, researchers used a random method to determine the location of the study. Inability to use random sampling method caused poor generalization power in the study compared to a random method. In order to enhance the generalization of study in the field of tax compliance, it is expected that further study can continuously replicate a research on tax compliance. Thus research in the field of tax compliance will be wider and has a higher generalization power.

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