

# Tax compliance: Respectful treatment and institutional image

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## ARTICLE INFO

### Article history

Received 9 february 2021

Revised 17 June 2021

Accepted 18 June 2021

### JEL Classification:

M40

### Key words:

Tax compliance, respectful treatment, institutional image.

### DOI:

10.14414/tiar.v11i2.2471

## ABSTRACT

This study aims to analyze the effect of respectful treatment and institutional image on tax compliance. This study used a survey method of individual non-employee taxpayers at the Primary Tax Office (KPP) in the Regional Office of the DJP I, East Java, totaling 304 respondents. The data were analyzed using Structural Equation Modeling (SEM). The research findings showed that the strength of Crowding Theory and Trust Theory, and that the extrinsic intervention in the form of reward and punishment cannot always increase taxpayer compliance. Instead, a respectful approach and goodwill, ability and integrity of tax authorities in solving tax problems of taxpayers can increase tax compliance. This is supported by the results of the study that: 1) respectful treatment can improve institutional image; 2) respectful treatment can increase tax compliance; 3) institutional image can increase tax compliance. The implication of research results, respectful treatment of tax officers can be used to improve the image of the DJP and taxpayer compliance.

## ABSTRAK

Penelitian ini bertujuan untuk membuktikan pengaruh respectful treatment dan institusional image terhadap kepatuhan pajak. Penelitian ini menggunakan metode survei terhadap wajib pajak orang pribadi non-pegawai di Kantor Pelayanan Pajak (KPP) Pratama di Kantor Wilayah DJP I Jawa Timur sebanyak 304 responden. Datanya dianalisis dengan menggunakan Structural Equation Modeling (SEM). Temuan penelitian membuktikan kekuatan Crowding Theory dan Trust Theory, bahwa intervensi ekstrinsik berupa reward dan punishment tidak selamanya dapat meningkatkan kepatuhan wajib pajak, namun justru pendekatan respectful serta niat baik, kemampuan dan integritas otoritas pajak dalam memecahkan masalah perpajakan wajib pajak dapat meningkatkan kepatuhan pajak. Hal ini terdukung dengan hasil penelitian bahwa: 1) respectful treatment dapat meningkatkan institusional image; 2) respectful treatment dapat meningkatkan kepatuhan pajak; 3) institusional image dapat meningkatkan kepatuhan pajak. Implikasi hasil penelitian, respectful treatment petugas pajak dapat digunakan untuk dapat meningkatkan image DJP dan kepatuhan wajib pajak.

## 1. INTRODUCTION

A lot of studies on tax compliance have been done so far due to the fact that taxes are considered the largest source of revenue for most countries in the world. In this case, understanding the tax compliance factor is very important as a basis for developing an appropriate tax system. In addition, tax

compliance is also the key to a successful self-assessment system collection. Compliance is a form of behavior that is manifested by the willingness of taxpayers to meet tax obligations both formally and materially. As referred to the Theory of Planned Behavior that behavior is based on intention (Novianti & Uswati Dewi, 2017) however, tax compliance is

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a complex behavior. It is stated that intention alone is not sufficient to predict compliance behavior. Adherence also depends on the external intervention received (Prastiwi, et al, 2019). Thus, intention and adherence should be linked to external factors.

Based on a traditional approach that focuses on the economic crime approach, taxpayer compliance is influenced by risk considerations or detection probability by the tax authorities and the level of penalties associated with behavior that is contrary to tax law (Luttmer & Singhal, 2014). This approach is considered too narrow for understanding tax compliance (Dulleck, et., Al, 2015). A group of social psychologists have identified that under certain conditions, external intervention in the form of monetary incentives or punishment has a negative impact on tax compliance (Gangl, et al, 2014; Battiston & Gamba, 2016). This is supported by Crowding Theory (Frey & Jegen, 2001) that under certain conditions, it is not recommended to use reward and punishment mechanisms to improve performance and must rely on a different type of incentive, namely intrinsic motivation. S. Bruno & Lars (2002) found that the authoritarian approach of tax officials crowds out tax morale is stronger when taxpayers have a high level of compliance while the respectful or friendly treatment or responsive regulation approach, strengthens (crow in) tax morale when taxpayers have a high level of compliance. Taxpayers have a high level of compliance (Braithwaite, et al, 2007); the use of threats and coercion can actually lead to behavior that is opposite than expected (Braithwaite, 2002).

Tax is a long-term and recurring contractual relationship between taxpayers and tax authorities, and therefore, a psychological contract is needed (Feld & Frey, 2007). The psychological tax contract requires that the taxpayer and the tax authorities treat each other like partners who respect each other and value honesty. Eichfelder & Kegels (2014) found that the behavior of the tax authorities has an effect on taxpayer compliance. If the tax authority treats taxpayers with respect, provides services and approaches respectful treatment behavior in reminding tax obligations and reducing tax avoidance, it can increase taxpayer confidence in reporting the real amount of tax owed and can increase taxpayer compliance (Alm. & Torgler, 2011); too strong emphasis on prevention efforts causes distrust of taxpayers, instead respectful or friendly treatment has a positive

impact on increasing tax morale (Feld & Frey, 2007); cooperation of the parties involved in the taxation system affects taxpayer compliance (Eichfelder & Kegels, 2014; Battiston & Gamba, 2016).

Efforts to manage taxpayer attitudes are not only personal through direct interaction between taxpayers and tax authorities, but also through organizational interactions. Institutional image is a holistic impression that is held by certain individuals or groups of an organization as a result of group senses and impressions created and projected and communicated by the organization (Liou & Chuang; 2009). Again, institutional positive image of the Directorate General of Taxes was formed when they were able to help solve tax problems for taxpayers. It was due to being unable to deny that tax calculation is not a simple problem. The frequency of changes in the rules and legal language causes taxpayers to interpret the rules differently. This condition has been understood by the Directorate General of Taxes, as evidenced by the existence of bureaucratic reform and tax reform.

In order to improve services, the Directorate General of Taxation has issued a tax digitization reform policy. In this policy, DGT provides: 1) simplification of digital tax return reporting obligations; 2) simplification and services of SPT; 3) provide services through DJPonline; 4) online SSP validation; 5) host to host e-invoice for BUMN. Technology modernization is believed to be one of the important pillars of tax reform in increasing tax revenue. As for the implementation of duties, a new Core Tax System has been established. The Core Tax System provides support for DGT duties implementation including automated business processes, inspection, billing, processing of other tax documents. By utilizing this technology, it is hoped that it can provide the service faster.

On the contrary, several incidents involving tax officers have a negative impact on institutional image. This can be identified by such as the phenomenon of cases of alleged corruption involving tax officials that have occurred in recent years eroding trust and having an impact on tax compliance. This phenomenon occurred several periods ago, which was stirred by several cases of alleged tax corruption committed by tax officials. Those tax officials are such as: Gayus Tambunan who was found guilty of accepting bribes worth Rp925 million from Roberto Santonius,

consultant of PT Metropolitan Retailmart regarding the management of the company's tax objection; Bahasyim Assifie was proven to have committed corruption by accepting a bribe from taxpayer Kartini Mulyadi worth Rp1 billion when he became head of the office in February 2005; etc.

In relation to institutional image, it can be referred to Weiwei (2007) who stated that the institutional image of the company is an effective means of predicting the results of the service production process and as a sign of the ability of service entities to satisfy customer desires and various studies have proven the positive effect of institutional image on loyalty (Giovanis et al., 2014). Apart from relating to the performance of tax officers, the institutional image of the Directorate General of Taxes does not only depend on the quality of results, but also depends on how the Directorate General of Taxes delivers services to the public. Based on this background, this study aims to: 1) identify whether a tax authority respectful approach can improve institutional image; 2) whether institutional image can increase tax compliance; 3) tax authority respectful approach can increase tax compliance.

## 2. THEORITICAL FRAMEWORK AND HYPOTHESIS

### Crowding Theory

A group of social psychologists oppose the view of economic crime (Becker, 1968) because, under certain conditions, external interventions in the form of monetary incentives and punishment harm tax compliance (Carter, Ph,

& Health, 2011; Feld & Larsen, 2012; Gangl et al., 2014; Battiston & Gamba, 2016; Filippin et al., 2002). It is called the crowd-out effect. Feld & Frey, (2007) generalize the conditions in crowding theory stating that: (1) all types of external interventions can hurt intrinsic motivation, not only in the form of gifts but also orders, rules and penalties. Therefore, the efforts can damage the intrinsic willingness of individuals to comply with tax laws; (2) external interventions influence intrinsic motivation; (3) external interventions can weaken intrinsic motivation when considered to be disturbing (crowding-out effect).

If the tax authority treats taxpayers with respect and provides services-with the respectful treatment behaviour approach in reminding tax obligations and reducing tax avoidance-it can increase the taxpayer's confidence to report the amount of real tax payable. Besides that, it can also increase tax compliance (Alm & Torgler, 2011; Kirchler et al., 2008). An overly strong emphasis on prevention efforts causes distrust of taxpayers. Instead, respectful and friendly treatment positively impacts tax morale (Feld & Frey, 2007).

### Trust Theory

According to psychological theory, trust is defined as the willingness of one party to be vulnerable to the actions of the other party based on the expectation that the other party will take important specific actions to the creditor, regardless of the ability to monitor them, or controlling others (Mayer et al. 1995).

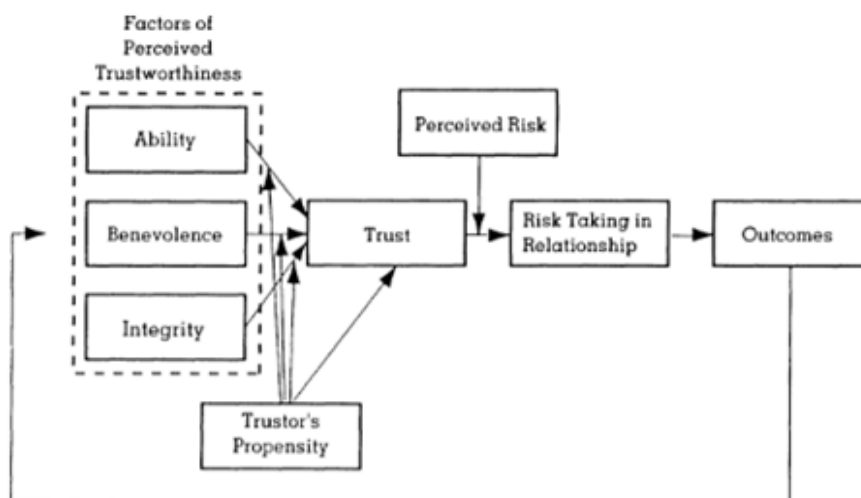


Figure 1  
Trust Model

Source: Mayer et al. (1995)

According to Mayer, Davis, & Schoorman (1995), three factors influence trust, namely (1) Ability; (2) Virtue (good intentions); (3) Integrity. Three trust-forming variables as illustrated in Figure 1

Someone believes in other people because they have abilities in several technical fields to be trusted to carry out related tasks. Goodwill is the extent to which a trusted person is believed to want to do something good for the trustor, other than because of a selfish profit motive. Integrity is related to the consistency of past actions, credible communication from other parties and the belief that the actions of those who are trusted are following their words. Many empirical studies have been conducted to test trust in taxpayer compliance. Several studies by Torgler (2003), Putong, (2017), Benno Torgler & Schneider (2009), M. Bergman (2002), and Fjeldstad (2003) show that tax authorities' trust has a positive effect on taxpayer compliance. However, a study by M. S. Bergman (2003) provides evidence that there is a negative relationship between trust and taxpayer compliance.

### **Respectful Treatment and Institutional Image**

The Directorate General of Taxes' institutional image as a public body provides services to the public to fulfil its tax obligations. This depends on achieving revenue targets and how the Directorate General of Taxes provides services. Calculating tax obligations is not easy and it cannot be done straightforward. There are some interpretations that are caused by changes in taxation rules, subjects, tax objects, and excluded, deductible and non-deductible costs, permissible and non-disclosed tax credits. Often tax reporting is identified as a form of tax avoidance or tax evasion. It may only be the taxpayers' misunderstanding in interpreting the rules. Taxpayers need help from tax authorities to correctly interpret the rules to provide the correct SPT in cases like this.

In line with belief theory, three factors influence trust, namely (1) ability, (2) benevolence (good intentions), (3) integrity. The Directorate General of Taxes' ability in solving taxation problems in the tax collection process with a respectful approach can create a positive perception by the taxpayers from time to time as a basis for developing an institutional image (Muhadjir & Qurani, 2011). A positive institutional image encourages taxpayers to forge strong ties with institutions.

Several studies explain how company services can satisfy and meet customer needs affecting corporate image (institutional) (Weiwei, 2007; Liou & Chuang, 2009). It is supported by Alm et al. (2010), which states that the rules and treatment of kinder and friendlier can improve the image of authority. A humane, friendly approach and tries to use the taxpayer's needs and desires to solve problems forming positive taxpayer perceptions. The delivery of positive services from time to time forms a positive image of the company or agency (Hu et al., 2009). Based on the above opinions, the hypothesis is formulated as follows:

H1: A respectful approach to tax authorities can improve the Institutional Image of the Directorate General of Taxes

### **Respectful Treatment and Tax Compliance**

There are some factors that can affect taxpayer' compliance. For example, Kirchler et al. (2008) states that the tax climate is also a factor that can affect taxpayers' compliance. In a hostile climate, taxpayers and tax authorities work against one another. As a result, there is greater social distancing, little respect, and little positive feeling towards tax authorities. Voluntary compliance is challenging to realize, and individuals tend to make rational judgments about tax avoidance costs and benefits. The traditional tax administration paradigm that views taxpayers as potential criminals and emphasizes eradicating illegal behavior through audits and penalties is now inappropriate.

On the contrary, the service paradigm that recognizes law enforcement's role and emphasizes tax administration as a facilitator and service provider to taxpayers is the main issue. Strategies to improve compliance must be based on more than just law enforcement. Instead, what is needed is a multi-faceted policy approach that emphasizes enforcement that emphasizes other administrative policies, such as quality of service (Alm et al., 2010).

Crowding Theory (Frey & Jegen, 2001) does not suggest using reward and punishment mechanisms to improve performance. The improvement must rely on a different type of incentive, namely intrinsic motivation under certain conditions. S. Bruno & Lars (2002) found that the tax officer's authoritarian approach erodes tax morale more strongly when the taxpayer has a high level of compliance. In contrast, a respectful, friendly, and responsive regulatory approach strengthens morale when



taxpayers already have a high compliance level (Braithwaite et al., 2007). The use of threats and coercion can lead to behaviour, contrary to expected (Braithwaite, 2002).

Taxpayers need better customer service because taxpayers are prone to dissatisfaction. It is because paying taxes does not have direct compensation. Eichfelder & Kegels (2014) find that the behavior of tax authorities affects taxpayer compliance. When the tax authorities treat taxpayers with respect, it will increase morale. Conversely, when the pure taxpayer is treated as a subject which must be forced to pay taxes, the taxpayer tends to respond by avoiding taxes (Bruno & Lars, 2002). The same thing was stated by Feld & Frey (2002) that the psychological contract between taxpayers and tax authorities affects the moral level, which helps solve the problem of tax non-compliance. Referring to Crowding Theory, S. Bruno & Lars (2002) found that the tax official's authoritarian approach erodes tax morale more strongly when the taxpayer has a high compliance level. On the other hand, respectful, friendly, and responsive regulatory approaches strengthen morale when taxpayers already have a high compliance level. Based on the above opinions, the hypothesis is formulated as follows:

H2: A respectful approach to tax authorities can improve taxpayer compliance

#### **Institutional Image and Tax Compliance**

Image is considered to have the ability to influence customer perceptions of the goods and services offered to them (Zeithaml and Bitner, 1996). Image, therefore, can affect customer buying behavior. More importantly, image is considered capable of influencing customers' minds through the combined effects of advertising, physical image, public relations, word of mouth, and their experience with goods and services (Normann, 1991). Various studies have proven the positive effect of institutional or corporate image on loyalty (Ladhari et al., 2011; Giovanis et al., 2014; Weiwei, 2007). Loyalty is a firmly held commitment to repeat activities consistently in the future, regardless of situational influences that have the potential to cause behavior change (Kasiri et al., 2017).

Taxpayers' compliance is one form of taxpayer loyalty. Compliance is a taxpayer's commitment to consistently meeting tax obligations from time to time and is not affected by changes in circumstances and conditions,

both for taxpayers and the government. In this respect, the institutional image can be a useful tool for predicting the outcome of a service rendered process and as the most reliable signal indicating an organization's ability to satisfy taxpayers' desires. The Directorate General of Taxes' institutional image is a portrait of the organization and the level of trust (or distrust) in the minds of taxpayers on the DGT's ability to fulfil the services expected by taxpayers (Weiwei, 2007). The institutional image is believed to function to increase loyalty (Giovanis et al., 2014). Based on this, the hypothesis is formulated as follows:

H3: Institutional image The Directorate General of Taxes can improve taxpayer compliance

### **3. RESEARCH METHOD**

The research is based on explanatory research, namely research that aims to test and explain the relationships, differences, and effects of one variable on another one. This study uses a survey method to gather information from or about people to describe, explain, or compare their experiences, attitudes, and behaviors. Survey methods are used in explorative, descriptive, and causal research to collect data about people, events, or situations (Sekaran & Bougie, 2017).

#### **Population and Sample**

The population consists of non-employee individual taxpayers at the Regional Office of the Directorate General of Taxes in East Java 1. Based on the data from the East Java 1 Tax Directorate Regional Office, there are 635,856 individual registered taxpayers, consisting of 508,414 individual employee taxpayers and 127,442 private taxpayers. These data were collected using a research questionnaire sent directly to respondents with a simple random sampling method. It means that every non-employee taxpayer registered at the Regional Office of the DJP 1 East Java has the same opportunity to be sampled. The sample size calculation uses the data on the number of individual non-employee taxpayers required to submit SPT. It is because taxpayers have both subjective and objective obligations to submit SPT to explore their effects further. The research variable is about tax compliance. The number of samples, referring to Slovin, amounted to 304.

**Table 1**  
**Description of Respondents**

Category	Description	Amount	Percentage
Gender	Male	224	73.68%
	Female	80	26.32%
Age	< 20 years	2	0.66%
	20-35 years	94	30.92%
	36-50 years	132	43.42%
	51-65 years	66	21.71%
	Above 65 years	10	3.29%
	Level of education	Primary School / Junior high school	5
Senior High School		73	24.01%
Master		194	63.82%
Magister		32	10.53%
Doctor		0	0%
Marital status	Married	239	78.62%
	Single/ not married	52	17.11%
	Divorced	13	4.28%
Income Received	Individual taxpayers who solely receive income from the business	195	64.14%
	Individual taxpayers who solely receive other income that is not final (in connection with capital).	1	0.33%
	Individual taxpayers who solely receive final income.	13	4.28%
	Individual taxpayers who solely receive income that is not a tax object.	48	15.79%
	Individual taxpayers who solely receive income from abroad.	2	0.66%
	Individual taxpayers who receive income from various sources.	45	14.80%
Regional Tax Office	Sukomanunggal	15	5%
	Krempangan	29	10%
	Gubeng	20	7%
	Tegalsari	12	4%
	Wonocolo	39	13%
	Genteng	16	5%
	Pabeancantikan	28	9%
	Sawahan	31	10%
	Rungkut	15	5%
	Simokerto	46	15%
	Karangpilang	11	4%
Mulyorejo	42	14%	

Source: Processed Data

### Variable Measurement

The tax authority's respectful approach is the tax authority approach in treating taxpayers by reminding tax obligations and reducing tax evasion by taxpayers. The variable is measured by seven indicators adopted from Braithwaite (2001a), Feld & Frey (2002) and Torgler (2003). The institutional image is the taxpayer's impression of the Directorate General of Taxes on the relationship or transaction that has been carried out. It is measured by ten indicators adopted from Liou & Chuang (2009), Jo Hatch & Schultz (1997), Semuel & Wijaya (2007), Gobena & Van Dijke (2016), Jimenez & Iyer (2016), and (Braithwaite, 2001b). Tax compliance is the taxpayers' willingness to comply with applicable tax regulations, both formal and material compliance. The variable is measured by four questions taken from OECD Fiscal Affairs Committee, (1999); PMK Number 74 / PMK.03 / 2012 (2012)

### Data Analysis Techniques

The data were analyzed using SEM with PLS assisted by WarpPLS. The validity test is a test of how well an instrument is developed to measure certain concepts to be measured (Sekaran & Bougie, 2017). A questionnaire is said to be valid if it can reveal something measured by it. It is indicated by the value of each indicator's correlation coefficient to the total significant indicator, and the value of the item is significant. The total correlation for each item is greater than 0.30 (Ghozali & Latan, 2015). Reliability to measure the questionnaire is an indicator of a variable or construct.

A questionnaire is reliable if a person's answer to a statement is consistent or stable over time. Reliability testing was done using the alpha model, and the confidence level was 95%. A construct is said to be reliable if the Cronbach alpha coefficient is > 0.70 (Ghozali, 2016), where the value of 0.60-0.70 is still acceptable for exploratory research (Hair, Risher, Sarstedt, & Ringle, 2018). The PLS-SEM model's evaluation is carried out in two stages: the evaluation of the structural model (inner model) and the measurement model (outer model). The structural model evaluation aims to predict the relationship between latent variables by seeing how much variance can be explained and determine the P-value's significance. Simultaneously, the measurement model's evaluation is carried out to assess the latent construct forming indicators' reliability and validity.

External models with reflective indicators are evaluated through convergent and discriminant validity of latent construct indicators (Ghozali & Latan, 2015). Convergent validity aims to test the correlation between indicators or items to measure the construct. Discriminant validity aims to test indicators or items of the two constructs that should not be highly correlated. External models with reflective indicators are evaluated through convergent and discriminant validity of the indicators that form latent constructs (Ghozali & Latan, 2015). Convergent validity aims to test the correlation between indicators or items to measure constructs. In contrast, discriminant validity aims to test indicators or items from two constructs that should not be highly correlated. The rule of thumb that is commonly used to see the value of construct reliability is the Cronbach Alpha value and composite reliability of at least 0.7, where the value from 0.60 to 0.70 is still acceptable for explanatory research (Hair et al., 2018).

## 4. DATA ANALYSIS AND DISCUSSION

### Model Evaluation

The research uses Structural Equation Model (SEM) analysis technique with the help of PLS Warp. Evaluation of the PLS-SEM model was carried out through two stages: the evaluation of the measurement model (outer model) and the structural model's evaluation (inner model). The evaluation of the measurement model or outer model was done to assess the indicators forming latent constructs' reliability and validity. In comparison, the structural model or inner model's evaluation aims to predict the relationship between latent variables by looking at how large the variance can be explained and to determine the significance of the P-value.

### Evaluation of Measurement Model (Outer Model)

An external model with reflective indicators was evaluated through convergent and discriminant validity of latent construct indicators (Ghozali & Latan, 2015). Convergent validity aims to test the correlation between items or indicators to measure the construct. Meanwhile, discriminative validity aims to test items or indicators of the two constructs which should not be highly correlated. A model has convergent validity if the loading factor value is > 0.7 and Average Variance Extracted (AVE) > 0.5 (Hair, Risher, Sarstedt, & Ringle,

2018). However, the measurement model with a loading factor value of 0.6-0.7 is still acceptable for exploratory research (Ghozali & Latan, 2015).

The external model test results show that the loading factor's value for the respectful treatment ranges from 0.658 to 0.877. The institutional image ranges from 0.633-0.891, and tax compliance ranges from 0.835-0.882. The analysis results show that all the items in question have a loading factor above 0.60 and have the highest value among other item loading factors. In addition to fulfilling the loading factor's adequacy, the AVE value also needs to be considered to meet convergent validity (Hair et al., 2018).

Apart from fulfilling the validity aspect, an instrument is also expected to show the accuracy, consistency and accuracy of a measuring instrument in making measurements. The questionnaire is reliable if a person's answer to the statement is consistent or stable over time. A construct is reliable if the

Cronbach's alpha coefficient and the composite reliability are greater than 0.70 (Hair et al., 2018). AVE values, composite reliability, and Cronbach's alpha are shown in Table 2.

**Evaluation of Structural Model (Inner Model)**

The evaluation of structural models or inner models with PLS was started by looking at the percentage variance. It is explained by looking at the value of R-Squares or Adjusted R2, effect size, Q2 predictive relevance, and q2 predictive relevance. R-Squares can be used to predict the strength of structural models (Ghozali & Latan, 2015). Changes in the value of R-Squares explain the effect of certain exogenous latent variables on whether endogenous latent variables have substantive effects. But besides looking at R-Squares, it is also advisable to look at the value of Adjusted R2 (Ghozali & Latan, 2014). The higher the value of R-Squares, the better the prediction model from the proposed model.

**Table 2**  
**Results of Variable Construction Validity**

Variable	AVE	Composite Reliability	Cronbach's Alpha	Status
Respectful	0.669	0.933	0.915	Reliable
Institutional Image	0.730	0.964	0.958	Reliable
Tax Compliance	0.623	0.866	0.789	Reliable

Source: Data Analysis Results

**Table 3**  
**Test Fit Models**

Criteria	Value	Criteria	Status
Average path coefficient (APC)	0.474, P<0.001	P<0.001	Acceptable
Average R-squared (ARS)	0.483, P<0.001	P<0.001	Acceptable
Average adjusted R-squared (AARS)	0.481, P<0.001	P<0.001	Acceptable
Average block VIF (AVIF)	2.335	acceptable if <= 5, ideally <= 3.3	Acceptable
Average full Collinearity VIF (AFVIF)	2.239	acceptable if <= 5, ideally <= 3.3	Acceptable
Tenenhaus GoF (GoF)	0.571	small >= 0.1, medium >= 0.25, large >= 0.36	Large
Simpson's paradox ratio (SPR)	1.000	, acceptable if >= 0.7, ideally = 1	Acceptable
R-squared contribution ratio (RSCR)	1.000	acceptable if >= 0.9, ideally = 1	Acceptable
Statistical suppression ratio (SSR)	1.000,	acceptable if >= 0.7	Acceptable
Nonlinear bivariate causality direction ratio (NLBCDR)	1.000	acceptable if >= 0.7	Acceptable

Source: Hair et al., (2018); Ghozali & Latan, (2014)



Furthermore, the proportion of certain exogenous variables to endogenous variables can be calculated using the effect size. The value can be interpreted as the latent variable predictors' size at the endogenous variables' structural level. The results of the structural model evaluation (inner model) are presented in Table 4.

Each variable's effect contribution is explained in Table 5, where respectful treatment strongly influences the formation of an institutional image with an effect size value of 0.756. The respectful treatment has a more substantial influence on tax compliance with an effect size value of 0.564 than an institutional image with an effect size value of 0.424.

#### Path Coefficient Analysis Results

The path coefficient shows the relationship between variables. Based on the results of the path coefficient analysis results are obtained as shown in Table 6.

#### Hypothesis Test

Hypothesis testing was done to test the effect of the variables tested with the WarpPLS tool. The study uses three hypotheses namely (H1) testing the relationship of respectful treatment with institutional images; (H2) examine the relationship of respectful treatment with tax compliance; (H3) examines the relationship of institutional images with tax compliance. The

results of hypothesis testing are summarized in Table 7.

Hypothesis testing results indicate that of the three hypotheses offered, all are accepted. The following section discusses the results of research per the hypotheses that have been developed.

#### Respectful Treatment Enhances Institutional Image

The results show that respectful treatment can improve the institutional image. The results of this first hypothesis test prove the power of Trust Theory, where three factors, namely 1 form trust) ability, (2) benevolence (good intentions), and (3) integrity. Tax compliance in fulfilling formal and material obligations is not easy for taxpayers because it requires a deep understanding of tax regulations. The complexity of rules and legal language in tax regulations can create multiple perceptions for taxpayers. Apart from the rules' complexity, the frequency of regulatory changes is also an obstacle for taxpayers to fulfil their tax obligations. Therefore, taxpayers need help from tax authorities.

The ability, goodwill, and integrity of Directorate General of Taxes employees in solving taxpayers' tax problems in the tax collection process and the respectful attitude of tax officials form positive perceptions from time to time. The positive perception is the basis

**Table 4**  
**R-Squares, Adjusted R<sup>2</sup> and Q<sup>2</sup> Values are Predictive Relevance**

No	Variable	R-Squares	Adjusted R <sup>2</sup>	Q <sup>2</sup> predictive relevance
1	Institutional Image	0.572	0.570	0.569
2	Tax Compliance	0.395	0.391	0.394

Source: Data Analysis Results

**Table 5**  
**Value of Effect Size**

	R	II
II	0.756	
TC	0.564	0.424

Source: Data Analysis Results

**Table 6**  
**Inner Model Coefficient Values**

No	Relationship Between Variables		Path coefficient
1	Respectful	Institutional Image	0.760
2	Respectful	Tax Compliance	0.240
3	Institutional Image	Tax Compliance	0.420

Source: Data Analysis Results

for building an institutional image (Muhadjir & Qurani, 2011). A positive institutional image encourages taxpayers to forge strong ties with institutions. The study results support the research results of Weiwei, 2007; Liou & Chuang, 2009 that explain how company services can satisfy and meet customer needs affect the company's image (institutional). Alm et al. (2010) also state that the rules and treatment of kinder and friendlier could improve the authority's image. The human approach, friendly, and trying to use taxpayers' needs and desires to solve problems forming positive taxpayer perceptions. The delivery of positive services from time to time forms a positive image of the company or agency (Hu et al., 2009).

**Respectful Treatment Increases Tax Compliance.**

The result shows that respectful treatment could improve tax compliance. The results of this study support the Crowding Theory (Frey & Jegen, 2001), which states that it is not recommended to use a reward and punishment mechanism to improve performance under certain conditions. The increase must rely on various types of incentives, namely intrinsic motivation. Under certain conditions, external interventions in the form of monetary incentives and sanctions harm tax compliance (Carter, Ph, & Health, 2011; Feld & Larsen, 2012; Gangl et al., 2014; Battiston & Gamba, 2016; Filippin et al., 2002). When tax authorities increase tax compliance through threats and sanctions, it decreases voluntary compliance and increases dishonesty because the developing environment is mutual suspicion.

Tax is a long-term and recurring contractual relationship between taxpayers and tax authorities (Feld & Frey, 2007), requiring a psychological bond. The psychological contract requires taxpayers and tax authorities to treat each other like partners who respect each other and value honesty. If the tax authorities treat the taxpayer as subordinates in a hierarchical

relationship, the psychological contract has been violated. The taxpayer has strong reasons for not holding contracts and avoiding taxes (Lars & Bruno, 2004). When taxpayers are treated as subjects who have to be forced to pay taxes, taxpayers tend to respond by avoiding taxes (Frey & Feld, 2002). This study's results support the results of research that have proven that the collaboration of parties involved in the taxation system affects taxpayer compliance (Eichfelder & Kegels, 2014; Lai, Yang, & Chang, 2003; Battiston & Gamba, 2016; Chung & Trivedi, 2003. Alm, Cherry, Jones, & Mckee, 2010; Gangl et al., 2013; Vossler & McKee, 2017; Blumenthal, et al, 2001; Feld & Frey, 2007; Castro & Scartascini, 2015; Mohdali, et al, 2014).

**The Institutional Image Increases Tax Compliance**

The result shows that the image of the institution could improve tax compliance. Faithful obedience is a form of taxpayer loyalty to the State so that trust (positive image) is the key to the sustainability of a relationship. Loyalty is a firmly held commitment to buy back or repeat an activity consistently in the future, regardless of situational influences that can cause behavior to change (Kasiri, Guan Cheng, Sambasivan, & Sidin, 2017). Compliance is a taxpayer's commitment to consistently meeting tax obligations from time to time and is not affected by changes in situations and conditions, both for taxpayers and the government. If the tax authority approach is based on the needs and desires of taxpayers and can provide more effective and efficient satisfaction, then this approach will build taxpayer trust so that loyalty will be built (Epetimehin, 2011).

A positive institutional image shows the level of trust of taxpayers to encourage strong ties with the entity. The institutional image is the primary driver of taxpayer loyalty (Giovanis et al., 2014). Weiwei (2007) states that the company image is an effective means of predicting the service production process

**Table 7**  
**Hypothesis Testing Results**

No	Relationship Variable	Path coefficient	Standard Errors	P-Value	Description
<b>Direct Relationship</b>					
1	Rà II	0.76	0.030	P<0.01	accepted
2	Rà TC	0.24	0.049	P<0.01	accepted
3	IIàTC	0.42	0.081	P<0.01	accepted

Source: Data Analysis Results

results and a sign of the service entity's ability to fulfil customer desires. The image can build consumer trust (Iva Nurdiana, 2016). When taxpayers have confidence in the Directorate General of Taxes' positive image, this can strengthen the intention to pay taxes voluntarily to become voluntary tax compliance. On the contrary, if the taxpayer has a negative image towards the Directorate General of Taxes, it is assumed that the taxpayer intends to withhold their contributions (Wahl, Kastlunger, & Kirchler, 2010a). The study's results support the research results that prove the positive effect of image on loyalty (Ladhari et al., 2011; Giovanis et al., 2014; Weiwei, 2007; Giovanis et al., 2014).

## 5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

### Conclusion

The study results prove the strength of Crowding Theory and Trust Theory which explain that extrinsic intervention in reward and punishment does not always increase taxpayer compliance. Approach to respect, goodwill, ability, and integrity of tax authorities in solving tax problems can improve tax compliance. It is supported by research results that 1) proper treatment can improve institutional image, 2) proper treatment can increase tax compliance, and 3) institutional image can increase tax compliance.

### Implication

It can be implied that in order to improve the DJP image and taxpayer's compliance, tax officials should be able to create their respectful treatment.

### Suggestion

It is better for making the efforts how to provide a proper treatment to the taxpayers so that it can increase tax compliance. Therefore, the psychological bond between taxpayers and tax authorities must be built by developing synergistic systems and procedures between taxpayers and tax authorities.

### Limitation

In this study, the institutional image of the Directorate General is limited only on the tax administration authority. Therefore, for the next study, the researchers can also include such as the intuitional image of tax managers as well.

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