



**THE INFLUENCE OF TAX SYSTEM AND TAX FAIRNESS
ON TAX EVASION**

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Abstract

Tax evasion is an illegal act carried out by taxpayers to avoid the obligation to pay taxes in full or at all, by hiding income, manipulating financial reports, or avoiding tax obligations through fraudulent means. This study aims to analyze the influence of the tax system and tax fairness on tax evasion. This study uses a quantitative approach with a causality research type. The population and sample in this study were 70 Taxpayers in the City of Surabaya. The analysis in this study uses Partial Least Square (PLS) analysis. The results of this study show that: (1) The Taxation System has a significant negative effect on Tax Evasion, and (2) Tax Justice has a significant negative effect on Tax Evasion.

Keywords: Taxation System, Tax Justice, Tax Evasion

INTRODUCTION

Tax is the main source of government revenue and is used to fund expenditures in the state, tax classification by tax collectors consists of central tax and local tax council tax . Tax is one of the main sources of state revenue which is used to finance various public needs. , such as infrastructure development, health services, education, and others. Therefore, optimal tax revenue is very important for the stability of the country's economy. However, ineffective and unfair management of the tax system can trigger various problems, one of which is tax evasion.

According to Izza & Hamzah in Mentari & Halimatusyadiah (2024) , tax evasion *is* an act that violates the Tax Law, for example, submitting in the Annual Tax Return (SPT) an amount of income that is lower than the actual amount (*understatement of income*) on the one hand and/or reporting a larger portion than the actual amount (*overstatement of the deductions*) on the other hand. The form of *tax evasion* is when the Taxpayer does not report their income at all (*non-reporting of income*). Tax evasion is an illegal act carried out by taxpayers to avoid

the obligation to pay taxes in full or at all, by hiding income, manipulating financial reports, or avoiding tax obligations through fraudulent means. This phenomenon is often a major challenge for many countries, including Indonesia, which are trying to increase state revenues through the taxation sector.

One of the main factors that influence the level of tax evasion is the government's taxation system. A complicated, non-transparent, or inefficient taxation system can create loopholes for tax evasion. Conversely, a simple, clear, and easy-to-understand system can reduce the potential for tax evasion, because taxpayers find it easier to fulfill their tax obligations and supervision becomes more effective. The taxation system in Indonesia uses a *Self-Assessment System* where taxpayers participate and are fully responsible for carrying out their tax obligations starting from registering themselves as taxpayers, calculating, and reporting the amount of tax owed in the tax return (SPT) within a certain period of time and then submitting their tax obligations. Meanwhile, the tax authorities are tasked with



supervising and fostering taxpayers who carry out their taxes. With this ease of access, taxpayers can minimize their tax burden (Sucipto, 2024) . According to the research results of Mirayani & Rengganis (2023), the results show that the taxation system influences the perception of tax evasion.

In addition, tax justice also plays an important role in creating trust between the government and taxpayers. Tax justice is the amount of tax calculated for taxpayers must be proportional to their ability to pay taxes (*ability to pay*) and in accordance with the benefits received (Ngadiman, 2022) . Injustice in the tax system, such as inequality in the tax burden imposed on taxpayers with different economic capabilities, can reduce the level of tax compliance. When taxpayers feel treated unfairly, they are more likely to commit tax evasion as a form of protest or to benefit from the injustice. Tax justice is also seen when taxpayers receive benefits from the taxes they have paid. The increasing lack of fairness in taxation can reduce the level of taxpayer compliance, which means that it will increase tax evasion and can also lead them to unconsciously consider evasion to be a common thing to do (Sudiro *et al* ., 2020) . According to the results of research by Widayanti *et al* ., (2023) showed that tax justice had no effect on tax evasion.

High tax evasion not only harms the state in terms of tax revenue, but can also create economic inequality, damage public trust in the government, and disrupt overall economic stability. Therefore, it is important to understand the influence of the tax system and tax fairness on the level of tax evasion, so that more appropriate policies can be formulated to address this problem. Based on the background description above, this study is entitled " **The Influence Of The Tax System And Tax Fairness On Tax Evacuation**".

Framework of thinking

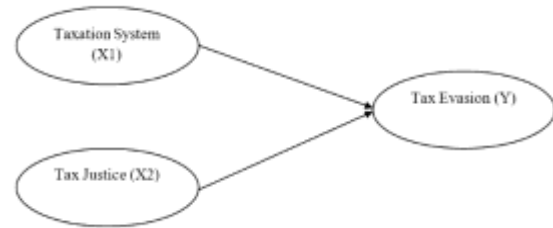


Figure 1. Thinking Framework

Hypothesis

Based on the formulation of the problem and description of the literature review, the author proposes the following research hypothesis :

- H₁ : The tax system has a significant effect on tax evasion.
 H₂ : Tax Justice has a significant effect on Tax Evasion

METHODS

Research Design

This type of research is causality with a quantitative approach. Sekaran & Bougie (2019) stated that causality research aims to analyze the cause and effect between variables. This method is used to conduct research on a group of individuals or objects that are selected randomly. The data obtained is collected through the use of research instruments that have been created, and then analyzed using statistical techniques. The main purpose of this method is to test previously formulated hypotheses (Sekaran & Bougie, 2019) .

Population and Sample

Population

Based on the opinion of Sekaran & Bougie (2019) , generally, a region involves certain subjects or objects with special characteristics that are studied in a study to draw conclusions. The population involved in this study is Taxpayers in the City of Surabaya.

Sample

Sample refers to a portion of the elements and properties present in a population (Sekaran & Bougie, 2019) . According to Hair *et al* ., (2010) the minimum sample size ranges



from 100-200 depending on the number of questions from the estimated indicators, the question items on the research indicators are multiplied by 5-10. In this study there are 14 question items from both dependent and independent indicators, so the number of samples taken is $14 \times 5 = 70$ Taxpayer respondents in Surabaya City.

Operational Definition of Variables

Taxation System (X₁)

Measurement indicators of the Tax System referring to Nickerson in Mirayani & Rengganis (2023) , namely:

1. Fairness is an assessment of the implementation of the taxation system which is seen from the imposition of tax contributions evenly and adjusted to the taxpayer's ability.
2. Tariffs are an assessment of the application of a taxation system which is seen from the amount of tax contributions that will be imposed on taxpayers.
3. The usage procedure is an assessment of the application of the tax system as seen from the tax procedures related to calculations, payments and reporting in accordance with tax provisions.
4. Tax money management is an assessment of the implementation of the taxation system as seen from the government's accountability for tax contributions that have been paid by the community.
5. Socialization is an assessment of the implementation of the tax system seen from tax outreach activities that can increase public awareness to comply with taxes and understand the moral message of the importance of taxes for the sustainability of the state.

Tax Justice (X₂)

Tax Justice Measurement Indicators referring to Paramita & Budiasih in Mentari & Halimatusyadiah (2024) , namely:

1. The principle of benefits and use of money sourced from taxes

2. Horizontal justice and vertical justice in tax collection
3. Fairness in the drafting of tax laws
4. Fairness in the application of tax provisions

Tax Evasion (Y)

Tax Evasion measurement indicators referring to Fagbemi in Mirayani & Rengganis (2023) , among others:

1. Tax rates are an assessment of tax evasion behavior based on the percentage of tax contributions that must be paid by taxpayers in terms of fulfilling their tax obligations.
2. Fairness is an assessment of tax evasion behavior based on the amount of tax owed according to the taxpayer's condition.
3. Discrimination is an assessment of tax evasion behavior based on tax exemptions that are considered to only benefit certain groups.
4. The benefits of taxes paid are an assessment of tax evasion behavior based on the benefits felt by the community from the state facilities available where the funds come from taxes.
5. Tax money management is an assessment of tax evasion behavior based on the accuracy of allocating funds originating from tax money.

Method of collecting data

This research collects data using a survey method through the distribution of questionnaires. According to Sekaran & Bougie (2019) , a questionnaire is a method of collecting information in which respondents or participants answer statements completely and then return them to the researcher. This method is carried out by collecting responses from respondents who have been selected through the delivery of questionnaires.

Data Analysis Techniques

The analysis technique to test the research hypothesis uses SEM PLS analysis. According to Ghozali (2018) , calculations can be done by utilizing supporting tools, namely PLS. This is



because the method used in this calculation is multi-path.

RESULTS AND DISCUSSION

Outer Model Evaluation

Convergent Validity

The method of determining validity using convergent procedures is carried out through the correlation between item scores and construct scores to calculate *the loading factor*. *Convergent validity testing* is stated to meet the criteria if *the loading factor value* is > 0.70 . However, for early-stage research, a *loading factor value* > 0.5 or 0.6 can be considered adequate (Ghozali, 2018). The results of the *outer loading* test are shown in the table below:

Table 1. Convergent Validity

Variables	Item	Loading Factor	P-Values
Taxation System (X1)	X1.1	0.762	0.000
	X1.2	0.773	0.000
	X1.3	0.847	0.000
	X1.4	0.839	0.000
	X1.5	0.882	0.000
Tax Justice (X2)	X2.1	0.858	0.000
	X2.2	0.849	0.000
	X2.3	0.865	0.000
	X2.4	0.840	0.000
Tax Evasion (Y)	Y.1	0.792	0.000
	Y.2	0.849	0.000
	Y.3	0.836	0.000
	Y.4	0.922	0.000
	Y.5	0.891	0.000

Based on the results in Table 1 above, the results obtained were that all statement items in each construct can be considered valid for measuring the construct, because all of them have *loading factor values* exceeding 0.7.

Discriminant Validity

Discriminant validity test aims to test the validity of the indicator block using the cross loading value test tool. In this case, the item is declared fulfilled when the *cross loading value* of the indicator on the variable is higher than on other variables.

Table 2 Cross Loading

	Taxation System (X1)	Tax Justice (X2)	Tax Evasion (Y)
X1.1	0.762	0.689	-0.742
X1.2	0.773	0.627	-0.680
X1.3	0.847	0.580	-0.675
X1.4	0.839	0.684	-0.751
X1.5	0.882	0.594	-0.699
X2.1	0.696	0.858	-0.756
X2.2	0.672	0.849	-0.687
X2.3	0.625	0.865	-0.683
X2.4	0.652	0.840	-0.651
Y.1	-0.724	-0.752	0.792
Y.2	-0.726	-0.635	0.849
Y.3	-0.805	-0.676	0.836
Y.4	-0.733	-0.763	0.922
Y.5	-0.728	-0.669	0.891

The test results in the table presented, show the results where each indicator has a greater *cross-loading value on its variable compared to other variables*. So that it meets the criteria that all indicators have good discriminant values.

Determination of discriminant validity can also be done by considering the AVE value. The AVE value is stated to meet the criteria if the AVE value is > 0.5 so that the variable is said to have high discriminant. The following are the results of the AVE test in this study:

Table 3 AVE Value

	Average Variance Extracted (AVE)
Taxation System (X ₁)	0.675
Tax Justice (X ₂)	0.728
Tax Evasion (Y)	0.738

A good level of discriminant validity can be confirmed through an AVE value that exceeds 0.5 for the indicator block that measures the construct. This indicates that each construct variable is said to have good discriminant validity.

Composite Reliability

Composite reliability that is considered good is reaching or exceeding the number 0.7.



In this study, we analyzed the composite reliability value of each variable used with the results below:

Table 4. Composite Reliability

	Composite Reliability
Taxation System (X ₁)	0.912
Tax Justice (X ₂)	0.914
Tax Evasion (Y)	0.934

Based on the data presented in Table 4, it can be concluded that all are reliable because they have a composite value > 0.60. These results indicate that all constructs are good for measuring the latent constructs being measured.

Inner Model Test

Based on the analysis of the extent to which the structural model has been compiled, it is concluded that the model as a whole has been "related" in explaining the variables studied and their impact on each of these variables. According to Ghozali (2018), in the structural model, if the endogenous latent variable has an R² of 0.67, then the model is classified as "good", R² of 0.33, then the model is classified as "moderate", and if R² is only 0.19, then the model is in the "weak" category. Meanwhile, the PLS results as explained below:

Table 5. R-Square Value

	R-Square
Taxation System (X ₁)	
Tax Justice (X ₂)	
Tax Evasion (Y)	0.803

The table above shows that the Taxation System and Tax Justice which influences Tax Evasion of 0.803 which also shows that this model falls into the "Good" category.

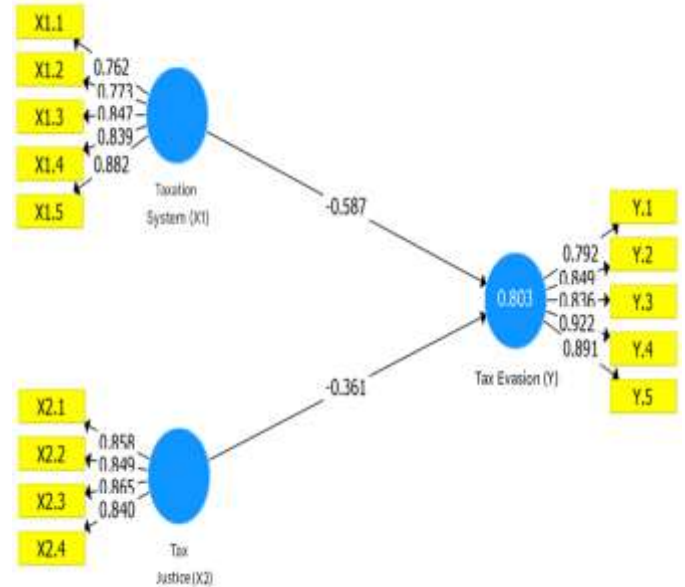


Figure 1. Inner PLS Model

From the Inner PLS model depicted above, the results obtained are that there are exogenous variables being studied in this model, namely the Taxation System and Tax Justice while there are endogenous variables being studied in this model, namely Tax Evasion. The following structural equation is obtained based on the results of the inner weight value in Figure 1 above:

$$Y = -0.587 X_1 - 0.361 X_2$$

Hypothesis Testing

Table 6. T-Statistic Test

	T-Statistics	p-value
Tax System (X ₁) -> Tax Evasion (Y)	5.909	0.000
Tax Justice (X ₂) -> Tax Evasion (Y)	4.038	0.000

Based on the results of the hypothesis testing above, the results obtained were that the first hypothesis (H1) was declared accepted because the Taxation System has a significant impact on Tax Evasion with a T-Statistic value > 1.96, which is **5.909**. The second hypothesis (H2) Tax Justice has a significant effect on Tax Evasion with a T-statistic value > 1.96, which is 4.038.



DISCUSSION

The Influence of the Tax System on Tax Evasion

The Taxation System has a significant effect on Tax Evasion, considering the T-statistic value reaching 5,909, which means it exceeds 1.96. Referring to the test results, the taxation system has an important role in influencing tax evasion with a tendency towards a negative effect, which means that the better the taxation system, the lower the tax evasion behavior will be. Thus, the first hypothesis in this study, which states " The Taxation System has a significant effect on Tax Evasion", is declared to be true.

This finding shows that the better and more effective the tax system implemented, the less likely tax evasion is. This can be interpreted as a tax system that is transparent, simple, and easy to understand by taxpayers will encourage compliance in paying taxes. In addition, with stricter supervision and the use of technology in tax reporting, taxpayers will feel more monitored and avoid the intention to evade taxes. On the other hand, a complicated or inefficient tax system actually opens up loopholes for tax evasion because it creates confusion and uncertainty for taxpayers. Therefore, it is important for the government to continue to improve the tax system to make it friendlier to taxpayers, while strengthening supervision and law enforcement to reduce tax evasion practices. The findings in this study are in line with the findings of research conducted by Mirayani & Rengganis (2023) which showed that the tax system affects the perception of tax evasion. The results of this study are not in line with the findings of research conducted by Sucipto (2024) , where partially the tax system variable does not have a significant effect on the tax evasion variable.

The Influence of Tax Justice on Tax Evasion

Tax Justice has a significant effect on Tax Evasion , considering the T-statistic value reaching 4,038, which means it exceeds 1.96. Referring to the test results, tax justice has an

important role in influencing tax evasion with a tendency for negative influence, which means that the better the tax justice in the government, the lower the possibility of tax evasion. Thus, the second hypothesis in this study, which states " Tax Justice has a significant effect on Tax Evasion", is declared to be true.

Tax justice is one of the reasons that can influence a taxpayer's perception of the ethics of tax evasion. Justice here means a condition where every taxpayer feels that there is an action from the government to make taxpayers compliant. If you want to make them compliant, there needs to be justice, it is considered fair if the tax imposition is in accordance with the limits of the taxpayer's economy. Tax justice is also seen if the taxpayer gets benefits from the taxes he has paid (Widayanti *et al* ., 2023) . Furthermore, the results of the study by Widayanti *et al* ., (2023) showed that tax justice had no effect on tax evasion so that this finding is not in line with the results of this study.

CONCLUSION

Referring to the research findings above, the conclusion drawn from this research is that:

1. Taxation System has a significant impact on Tax Evasion
2. Tax Justice has a significant influence on Tax Evasion

SUGGESTION

Based on the conclusions of the results of this study, the researcher formulated several suggestions, including:

1. It is recommended that the government simplify the existing taxation system. This can be done by clarifying and simplifying tax procedures so that they are easier for taxpayers to understand. In addition, the application of information technology in the taxation system can speed up and simplify the reporting process and increase the efficiency of supervision. With a more transparent and



easily accessible system, it is hoped that tax evasion can be minimized.

2. It is recommended that the government pay more attention to the principle of justice in the tax system, both horizontally and vertically. The government needs to ensure that taxation is carried out proportionally based on the economic capacity of taxpayers, as well as paying attention to the needs of disadvantaged groups in society. By creating a fairer tax system, it is hoped that taxpayers can feel more satisfied and more compliant with their tax obligations.
3. It is hoped that future researchers who intend to conduct similar research will consider using other variables outside of this study, in order to produce higher-quality research.

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