ABSTRACT

Background: Taxation is an important source of revenue for a country. Research in many developing countries has recently demonstrated that tax can play a significant role in the development of power of state and society. This is seen on two principles, namely the imposition of a tax as a negotiation process based on social contract (revenue-bargaining policy) and taxes for institutional development to strengthen the capacity of the state to perform its functions. Unfortunately, countries with tax systems still have problems with tax compliance because of low tax morale and low tax sanction enforcement.

Purpose: The study’s purpose was to conduct research related to the effect of tax sanction by combining reward and punishment against tax morale to increase tax compliance.

Theoretical reference: Tax morale is the intrinsic motivation and willingness of individuals and businesses to comply with tax obligations voluntarily. Rewards can be framed as gains, leveraging prospect theory to enhance the perceived benefits of tax compliance. Punishments function as deterrents to non-compliance by increasing the perceived costs of evasion. Rewards and punishments can be balanced to create an optimal incentive structure. The perceived fairness in the distribution of rewards and punishments contributes to tax morale.

Method: Research is undertaken through online surveys. In this study, besides conducting descriptive analysis to see the characteristics of respondents and the mean and frequency of each variable, data is also analyzed by Partial Least Square (PLS) analysis. In the implementation, descriptive analysis is realized by Qualtrics Software and verification analysis, consisting of assessing outer model and assessing inner model.

Results and Conclusion: The study highlighted the respondent’s agreement toward reward and punishment mechanism in the tax sanction and this mechanism can enhance tax morale. The findings emphasize the significant impact the tax sanction via reward and punishment on tax morale.

Implications of research: The implementation of tax sanctions, as a part of tax law, in the form of easiness (reward) and uneasiness (punishment) in obtaining public services. It is considered more humane than imprisonment sanction to people, who have contributed to the country by taxes paid and smoother to increase tax morale, so that the green economy and sustainable developments in the tax sector can be realized.

a Abdul Rahman, b Yesi Hendriani Supartoyo, c Ricky Adi Putranto

a Doctor in Innovation and Governance Studies, Polytechnic of STIA LAN Bandung, Indonesia, E-mail: rnoke@gmail.com, Orcid: https://orcid.org/0000-0002-2346-8015

b Doctor in Regional and Rural Development Planning and Sciences, National Research and Innovation Agency, Jakarta, Indonesia, E-mail: yesi001@brin.go.id, Orcid: https://orcid.org/0000-0002-6631-469X

c Master’s in human resources management, Polytechnic of STIA LAN Bandung, Indonesia, Polytechnic of STIA LAN Bandung, Indonesia, E-mail: wowricky76@gmail.com
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SANÇÃO FISCAL POR MECANISMO DE RECOMPENSA E PUNIÇÃO COMO PARTE DA LEI FISCAL NO AUMENTO DA MORAL FISCAL

RESUMO

Antecedentes: A tributação é uma importante fonte de receitas para um país. A investigação em muitos países em desenvolvimento demonstrou recentemente que a fiscalidade pode desempenhar um papel significativo no desenvolvimento do poder do Estado e da sociedade. Isso se vê em dois princípios, a imposição de um imposto como um processo de negociação baseado em contrato social (política de negociação de receita) e impostos para o desenvolvimento institucional para fortalecer a capacidade do Estado de desempenhar suas funções. Infelizmente, os países com sistemas fiscais ainda têm problemas com o cumprimento das obrigações fiscais devido ao baixo moral fiscal e à aplicação de sanções fiscais baixas.

Objetivo: O objetivo do estudo era realizar pesquisas relacionadas ao efeito da sanção fiscal, combinando recompensa e punição contra o moral fiscal para aumentar o cumprimento das obrigações fiscais.

Referência teórica: A moral fiscal é a motivação intrínseca e a vontade dos indivíduos e das empresas de cumprir as obrigações fiscais voluntariamente. As recompensas podem ser estruturadas como ganhos, utilizando a teoria de prospecção para aprimorar os benefícios percebidos da conformidade fiscal. As punições funcionam como dissuasores para o não cumprimento, aumentando os custos percebidos da evasão. Recompensas e punições podem ser equilibradas para criar uma estrutura de incentivo ideal. A percepção de justiça na distribuição de recompensas e punições contribui para o moral fiscal.

Método: A pesquisa é realizada através de pesquisas online. Neste estudo, além de realizar análise descritiva para ver as características dos entrevistados e a média e frequência de cada variável, os dados também são analisados por análise Parcial Least Square (PLS). Na implementação, a análise descritiva é realizada pela Qualtrics Software e a análise de verificação, consistindo em avaliar o modelo externo e avaliar o modelo interno.

Resultados e Conclusão: O estudo destacou o acordo do respondente em relação ao mecanismo de recompensa e punição na sanção fiscal e esse mecanismo pode melhorar o moral fiscal. As conclusões enfatizam o impacto significativo da sanção fiscal através de recompensa e punição no moral fiscal.

Implicações da pesquisa: A implementação de sanções fiscais, como parte da legislação tributária, na forma de facilidade (recompensa) e inquietação (punição) na obtenção de serviços públicos. É considerada mais humana do que a pena de prisão para as pessoas, que contribuíram para o país através de impostos pagos e mais suave para aumentar a moral fiscal, de modo que a economia verde e o desenvolvimento sustentável no setor fiscal possam ser realizados.

Originalidade/valor: mecanismo de recompensa e punição no aumento da moral fiscal.

Palavras-chave: cumprimento de impostos, moral tributária, sanção tributária, recompensa, punição.
1 INTRODUCTION

Tax grows as a foundation for the government income and becomes the main tool for development and reducing dependence on debt (OECD Economic Outlook 2011). Its important role for the revenue state makes up more than 94 percent of the countries in the world impose taxes for their citizens. Research in many developing countries has recently demonstrated that tax can play a central role in the development of power of state and society (B. Nerrè, 2001). This is seen on two principles, namely the imposition of a tax as a negotiation process based on social contract (revenue-bargaining policy) and taxes for institutional development to strengthen the capacity of the state to perform its functions (D. A. Bräutigam et al, 2008)

Therefore, the government conducted improvements in all sectors of taxation, known as tax reform. In general, the tax reforms in Indonesia are undertaken by the spirit in enhancing the Indonesian tax system competitiveness, simplifying procedures, providing legal certainty, and improving tax fairness. representative from Rahman, 2017 tried to assess the government as general strategy to increase tax compliance in Indonesia by focusing on public officials as represent of government. As a result, the study indicates the tax sanction and tax morale as the lowest assessment and lowest effect to tax compliance.

Therefore, the research objective is formulated as follows: To understand the effect of tax sanction (with reward and punishment as dimensions) on tax morale (by tax knowledge, understanding of rules, tax expectation as dimensions) including clarifying these dimensions as factors constructing the variables.

According to the aim, this study develops an instrument to explore the perception and to measure the effect of perception to answer research questions, namely: a) what are the perceptions of taxpayers regarding reward and punishment as dimensions of tax sanction and tax knowledge, understanding of rules, & tax expectation as dimensions of tax morale?; b) how do the dimensions of both tax sanction and tax morale construct these variables?; c) how do the perceptions of taxpayers regarding tax sanction affect tax morale?

To answer these questions, the study comprises fourth parts. In the second part, the study describes the research method consisting of object of research, population and sampling, technique of data collection, data analysis technique, and instrument development. In the third part, the study presents the result and discussion. Finally, the
study highlights the conclusion of the study and proposes the potential avenues as recommendation including references.

2 THEORETICAL FRAMEWORK

2.1 TAX MORALE

Tax morale is the intrinsic motivation and willingness of individuals and businesses to comply with tax obligations voluntarily. High tax morale is associated with increased tax compliance, while low tax morale may lead to tax evasion and non-compliance (Vieira et al, 2023; Dung et al, 2023; Feld & Frey, 2007; R.G. Cummings et al, 2006; Kahneman & Tversky, 1979).

2.2 THE ROLE OF REWARDS

Drawing on behavioral economics, tax incentives act as positive reinforcements, encouraging taxpayers to engage in compliant behavior. Rewards can be framed as gains, leveraging prospect theory to enhance the perceived benefits of tax compliance. Rewards trigger positive reinforcement mechanisms in individuals, strengthening the connection between compliant behavior and positive outcomes. Tailoring rewards to align with taxpayers' intrinsic motivations, such as financial gains or societal recognition. Examples of reward mechanisms namely, 1) tax credits for eco-friendly practices; 2) recognition programs for consistent and timely tax payments; and financial incentives for voluntary disclosure and compliance (B. Torgler and F. Schneider, 2005; Deci et al, 1999).

2.3 THE ROLE OF PUNISHMENTS

Drawing from deterrence theory, penalties act as deterrents to non-compliance by increasing the perceived costs of evasion. The clarity and certainty of penalties contribute to their effectiveness. Penalties leverage the fear of loss, tapping into psychological motivations to avoid negative consequences. Publicizing penalties and consequences to create a sense of social disapproval for non-compliance. Examples of punishment mechanisms, namely 1) fines for late payments and non-compliance; 2) legal consequences for deliberate tax evasion; and 3) public disclosure of non-compliant entities (M.M. Ali et al, 2021; Cialdini et al, 1990).
2.4 INTERACTION BETWEEN REWARDS AND PUNISHMENTS

Theoretical consideration of how rewards and punishments can be balanced to create an optimal incentive structure. Exploring the potential synergies and trade-offs between positive and negative reinforcements. The perceived fairness in the distribution of rewards and punishments contributes to tax morale. Striking a balance to avoid disproportionate or unjust consequences (Duhigg, 2012; Tyler, 2006; Hofstede, 2001; Thibaut & Walker, 1975).

3 METHODOLOGY

This study has the typology of causality, which means that the study will carry out testing of causality in the research by using quantitative research to explain how the independent variables affect the dependent variable (J. W. Creswell and J. D. Creswell, 2017). Therefore, this study only emphasizes exploring the causality of variables that have been formulated within the framework, in which primary data arcollections by a survey method. In addition, a survey is conducted to see the condition of each variable and to determine the relationship between the independent variables and dependent variables. In general, the stages of survey consist of 1) formulating the research problem and determining the purpose of survey; 2) defining the concepts and hypotheses including exploring the literature; 3) sampling; 4) developing a questionnaire; 5) conducting field work and collecting data; 6) processing data; and 7) analyzing and reporting data (M. Singarimbun, 1989).

In the implementation, applying the quantitative method is translated into an online survey. To test the measurement model and to analyze the effect of relationship and dimensions constructing variables, we utilized PLS analysis which is well suited for theory building and prediction (C. M. Ringle, et al, 2012). SmartPLS version 2.0 (M3) was used to run the PLS analysis (C. M. Ringle, et al, 2005).

3.1 OBJECT OF RESEARCH

In this study, objects of research consist of two variables, which are as follows: 1) tax sanction (X) and 2) tax morale (Y). Furthermore, this study has two types of research variables, namely exogenous and endogenous variables. The exogenous variable in this study is tax sanction and the endogenous variable is tax morale. This study also classifies the variable research into latent variables and observed variables. Latent variables are not
to be measured directly but are to be formed through several dimensions. In this context, latent variables consist of tax sanction and tax morale. On the other hand, observed variables are dimensions measured, in which their data will be found through a survey instrument. In this study, observed variables involve reward, punishment, tax knowledge, understanding of rules, and tax expectation.

3.2 POPULATION AND SAMPLING

The population in this study is the individual taxpayer for the personal income tax in Indonesia. The sample constitutes a part of the population, as a source of data and can represent the whole population (S. Arikunto, 2006). In this study, sample is attained by the purposive sampling technique, with the following criteria: 1) the individual taxpayer as an employee in the public sector consisting of government and state enterprise employees, and 2) the individual taxpayer as an employee in the private sector. The data required in this research is the primary data. Respondents for the online survey consist of government employees, state enterprise employees, and private sector employees.

3.3 TECHNIQUE OF DATA COLLECTION

Nazir, 2003 says that the data collection technique is a tool required in collecting data of both numbers, written information, oral information, and various facts related to the research focus. This study used online surveys as the main techniques of data collection. In addition, a survey is conducted to see the condition of each variable and to determine the relationship between the independent variables and dependent variables. The study created a questionnaire, and distributed it to respondents consisting of government, state enterprise, and private workers by online with the special site. In general, online surveys cover questions related to identity of respondent, tax morale, reward, and punishment.

3.4 DATA ANALYSIS TECHNIQUE

Data analysis is a series of activities performed after the data from all respondents and other sources collected to determine the relationship between variables (variables X and Y), so that it can be concluded whether the hypothesis is accepted or rejected. In general, the process of data analysis covers coding, editing, data processing, and data analyzing. In this study, besides conducting descriptive analysis to see the characteristics
of respondents and the mean and frequency of each variable, data is also analyzed by Partial Least Square (PLS) analysis. In the implementation, descriptive analysis is realized by Qualtrics Software and verification analysis, consisting of assessing outer model and assessing inner model.

3.5 INSTRUMENT DEVELOPMENT

The survey was conducted online using a questionnaire containing a list of questions related to the research objectives. Measurement of all variables was developed by using a Likert scale ranging from a scale of 1 (Strongly Disagree) to 5 (Strongly Agree). To create the questionnaire, The study used Qualtrics, an online survey software.

4 RESULT AND DISCUSSION

4.1 RESULTS

4.1.1 characteristics of respondents

Online surveys were undertaken by email, Facebook, and other social media such as WhatsApp and messenger with specific sites to access. In that period, this study captures 244 respondents. Furthermore, the conducted verification to check the completeness of answers for each question. As a result, there are 189 respondents with the complete answer identified. Specifically, the study resulted that almost 70 percent of respondents are male; around 46 percent of respondents have master’s degree as the last education; almost 60 percent of respondent come from the civil servants of both central and local government; and respondents of this study come from 15 provinces of both as province of institution and domicile.

4.1.2 descriptive analysis

In the aspect of dimension of tax morale, this study highlighted that a) respondents agree with the knowledge regarding with taxation (average 3.9 from 5); b) respondents stand in the neutral position and tend to agree about understanding of tax rules (average 3.4 to 5); c) respondents agree with expectations toward the implementation of taxation (average 3.6 to 5). Overall, this study concluded that respondents agree that they have good tax morale (3.6) in the side of tax knowledge, understanding of tax rules, and tax expectations.
On the other hand, for dimension of tax sanction, this study found that respondents agree with applying rewards in taxation (by average 3.6 to 5) and respondents stand in the neutral position and tend to agree with applying punishment in taxation (by average 3.3 to 5). According to the averages, the study highlighted that respondents tend to agree (3.5) toward applying tax sanction in the side of reward and punishment.

4.1.3 verification analysis

SmartPLS ver.2.0 is used to obtain the general effect of tax sanction on the tax morale. This study employed the result of online survey because data represent all taxpayers in Indonesia both taxpayers employed private and public sectors. In detail, the result can be shown as follows:

a) Assessing outer model (measurement of model)

The measurement of model or outer model is evaluated by convergent validity, discriminant validity, and composite reliability of dimensions.

b) Convergent validity

Convergent validity is assessed based on the correlation between item scores/component scores to construct scores were calculated by the PLS. The validity of dimension as constructing a variable is high when the level of correlation (loading factor) is more than 0.70. However, if the value of correlation is between 0.50 to 0.60, it is considered sufficient for the research development.

The test result of outer model can be seen in figure and table below:

Figure 1. the result of Algorithm PLS.

Source: Output of SmartPLS analysis
Figure 1 and table 1 present that all dimensions have factor loading of more than 0.50 so it can be said that all dimensions have convergent validity.

c) **Discriminant validity**

Test of discriminant validity is conducted by comparing the value of loading factor of dimensions of variable focused with the value of loading factor of these dimensions within the other variable.

Table 2 shows that the value of loading factor of dimensions of tax morale is higher than the value of loading factor of dimensions of tax morale within tax sanction and vice versa. It means that dimensions of both tax morale and tax sanction have the discriminant validity.

d) **Composite reliability**

A variable can be said to be reliable if the value is more than 0.60. The result of reliability test presents that the variable of tax morale and tax sanction have the reliability because the internal consistency is greater than 0.60 (see table).

Referring to the result of testing outer model, in which each dimension has convergent validity, discriminant validity, and reliability, this study identified that
dimension of reward and punishment constructs the variable of tax sanction. On the other side, tax knowledge, understanding of rules, and tax expectation also construct the variable of tax morale.

e) Assessing inner model (structural model)

The test of inner model is conducted to examine the relationship between tax sanction (dependent variable) and tax morale (independent variable). By using SmartPLS ver.2.0, we obtain t-statistics that can be presented in the following figure and table:

![Figure 2. The result of algorithm PLS](source: Output of SmartPLS analysis)

**Table 4. Value of t-table and t-statistics**

<table>
<thead>
<tr>
<th></th>
<th>t-table (critical point)</th>
<th>t-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punishment -&gt; Tax Sanction</td>
<td>1.97273</td>
<td>2.600</td>
</tr>
<tr>
<td>Reward -&gt; Tax Sanction</td>
<td>1.97273</td>
<td>2.009</td>
</tr>
<tr>
<td>Tax Sanction -&gt; Tax Morale</td>
<td>1.97273</td>
<td>2.013</td>
</tr>
<tr>
<td>Expectation -&gt; Tax Morale</td>
<td>1.97273</td>
<td>2.084</td>
</tr>
<tr>
<td>Knowledge -&gt; Tax Morale</td>
<td>1.97273</td>
<td>2.858</td>
</tr>
<tr>
<td>Understanding -&gt; Tax Morale</td>
<td>1.97273</td>
<td>2.120</td>
</tr>
</tbody>
</table>

Source: Output of SmartPLS analysis

Figure 2 and table 4 indicate that the value of t-statistics for relationship between tax sanction and tax morale is 2.013. This value is higher than the value of t table at 1.972. This result clarifies that tax sanction by dimension of reward and punishment is positively associated with tax morale by dimension of tax knowledge, understanding of rules, and tax expectation.

The positive association provides the effect of tax sanction on tax morale of respondent. The value of effect can be demonstrated in the following table.
Table 5. R Square

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Sanction</td>
<td></td>
</tr>
<tr>
<td>Tax Morale</td>
<td>0.0642</td>
</tr>
</tbody>
</table>

Source: Output of SmartPLS analysis

Table 5 demonstrates that the effect of tax sanction on tax morale is 0.0642, or 6.4 percent, while 93.6 percent is explained by other variables outside the model.

4.2 DISCUSSION

What are the perceptions of taxpayers regarding reward and punishment as dimensions of tax sanction, and tax knowledge, understanding of rules, & tax expectation as dimensions of tax?

The online survey explores that almost 70 percent of respondents are male, in which around 46 percent of respondents have master’s degree as the last education and almost 60 percent of respondent come from the civil servants of both central and local government and rest from state enterprise employees and private sector. It means the survey covers all kinds of taxpayers. Furthermore, respondents of this study come from 15 provinces of both as province of institution and domicile. Descriptively, this study highlights that respondents agree with the tax knowledge (average 3.9) and stand in the neutral position about understanding of tax rules (average 3.4). Furthermore, respondents also agree with tax expectations (average 3.6). Overall, this result indicates that respondents agree toward tax knowledge, understanding of tax rules and tax expectation as dimensions of tax morale (average 3.6). Moreover, this study underscores that respondents agree with applying rewards in taxation (average 3.6). Then respondents stand in the neutral position with applying punishment in taxation (average 3.3). Overall, this study clarifies that respondents agree (3.5) toward applying tax sanction in the side of reward and punishment.

How do the dimensions of both tax sanction and tax morale construct these variables?

In verification, this study presents that all dimensions of both tax sanction and tax morale have factor loading of more than 0.50. So, it can be said that all dimensions have convergent validity. This result is supported by the existence of discriminant validity assessed by looking at the cross loading between dimensions with their variables. In this context, this study reveals that the relationship of tax morale with its dimensions is higher
than relationship between dimensions of tax morale within the variable of tax sanction and vice versa. It means that dimension of both tax morale and tax sanction has the good discriminant validity. Moreover, based on the reliability test, in which a variable can be said to be reliable if the value is more than 0.60, the study shows that the variable of tax morale and tax sanction have the good reliability because the internal consistency is greater than 0.60. Referring to the result of testing outer model, in which each dimension has convergent validity, discriminant validity, and reliability, we identify that dimension of reward and punishment constructs the variable of tax sanction. Furthermore, the tax knowledge, understanding of rules and tax expectation also construct the variable of tax morale.

How do the perceptions of taxpayers regarding tax sanction affect tax morale to support a green economy and sustainable development in the tax sector?

This study explores the significant level of influence between dimensions & variable and then between variables. As a result, neither of each relationship has a t-value under the t-table or critical point. Overall, these relationships provide the effect of tax sanction on tax morale is 0.0642, or 6.4 percent, while 93.6 percent is explained by other variables outside the model. Hence, this study, at least, clarifies that perceptions of taxpayers regarding tax sanction through reward and punishment affect their tax morale. In this context, the existence of reward and punishment is to increase tax morale, so that tax compliance to be better. The improvement of tax compliance can increase the government income, so that the support of green economy and sustainable development in the tax sector to be achieved.

5 CONCLUSION

The online survey showed the agreement of respondents in the implementation of tax sanction in the form of reward and punishment. Besides that, respondents also agree that the existence of tax knowledge, understanding of rules, and tax expectation influence their motivation to fulfill tax obligations (tax morale). The test of verification proves that each dimension constructs the variable. It means that reward and punishment construct tax sanction. Then tax knowledge, understanding rules, and tax expectation construct tax morale. These results enrich our insight into factors affecting tax sanction and tax morale. Furthermore, this study also reveals the role of tax sanction via reward and punishment in influencing and increasing tax morale. This is because the result of the study shows the
existence of significant relationships and the effect from tax sanction on tax morale of taxpayers.

Referring to these conclusions, this study generated the reward and punishment as the key factors for improving tax compliance through the role of tax morale. As implication, the future innovations should be conducted by changing the concept of tax sanction in the form of reward and punishment approach. Reward and punishment are carried out by providing ease and unease for taxpayers in getting public services such as obtaining a business license, a passport, a permit to build the house, bank loan applications, and others. It is considered more humane than imprisonment sanction to people, who have contributed to the country by taxes paid and smoother to increase tax morale so that the green economy and sustainable development in the tax sector could be achieved.
REFERENCES


