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Fraud in Tax Evasion Decision: Effect on Financial Pressure, Tax Investigation and the Perceived Probability of Audit

Meinarni Asnawi[1]

Abstract

Purpose – This research aims to investigate the effects of financial pressure, the perceived probability of audit, and tax investigation on the decision to carry out tax evasion.

Design/methodology/approach – The Study is a quantitative research approach that uses online-based data collection methods (e_ questionnaire) combined with interviews with certain taxpayers to get their views on fraud in tax evasion decisions. The sample in this study was 98 individual taxpayers in Indonesia.

Findings – This research shows that financial pressures have a dominant effect on tax avoidance. This finding proves that financial pressure is one of the reasons for committing tax evasion fraud as stated in the fraud triangle theory. This research also shows that the perceived probability of audit and tax investigation does not affect reducing the tendency to tax evasion, this research indicates that tax investigation does not have a deterrent effect on taxpayers in committing tax evasion. Taxpayers understand that the government is spending considerable time and money to prove an alleged tax evasion case. Several tax policies in Indonesia such as the sunset policy, tax amnesty, and voluntary tax reporting can provide space for tax evaders to get certain tax collections and tax deductions when making tax payments.

Research limitations/implications – Although this research has explored taxpayers in Indonesia with several different occupational backgrounds, it is still necessary to test tax evasion on corporate taxpayers other than personal taxpayers.

Practical implications – This research critically analyzes the impact of psychological factors in tax non-compliance decisions through tax evasion fraud.

Social implications – The behavioral approach and consideration of psychological factors in every tax decision are expected to help realign and harmonize law enforcement practices in Indonesia to reduce the occurrence of tax evasion in Indonesia.

Originality/value – Examines the implementation of fraud triangle theory in tax evasion decisions. This research combines behavioral and psychological approaches to test the occurrence of tax evasion fraud in the perspective of taxpayers in Indonesia.

Keywords: *Fraud, Tax Evasion, Financial Pressure, Perceived Probability of Audit, Tax Investigation.*

Introduction

The assumptions of bounded rationality and opportunistic behavior put forward by (Williamson, 2000) are not without reason. The self-assessment system applied in Indonesia in determining the amount of taxable income triggers asymmetric information between taxpayers and principals (state, in this case, represented by the Directorate General of Taxation) thus triggering the occurrence of moral hazard and adverse selection that

[1] Associate Professor at; Economics and Business Faculty, Accounting Department Cenderawasih University, email:meiasnawi91@gmail.com

impacts tax evasion. Tax Justice Network reports that due to tax evasion, Indonesia is estimated to suffer losses of up to 4.86 billion US dollars per year. The figure is equivalent to Rp 68.7 trillion, which is the result of corporate tax embezzlement and the remaining 78.83 million US dollars or about Rp 1.1 trillion comes from private taxpayers (Tax Justice Network , 2020).

Tax evasion is illegal in many countries, including Indonesia. Tax evasion occurs when an individual or company deliberately fails to report income or assets to avoid paying taxes or reduces the amount of tax they owe. Tax evasion is a serious crime and can result in significant financial penalties, including fines and imprisonment. (Karlinsky, Hughlene, & Blanthorne., 2005) In Indonesia, tax evasion is punishable under the country's Income Tax Law. If a company evades tax, it could face imprisonment and a penalty of ninety percent of the income tax on the undisclosed assets discovered. It is crucial for companies to comply with the tax laws of the country in which they operate and pay the appropriate taxes to avoid legal and financial repercussions.

Is tax evasion part of fraud? The answer can be found through the fraud triangle theory which explains that the opportunity to determine the amount of tax paid with a self-assessment system allows taxpayers to commit fraud, dishonesty, or violations in their tax reporting and allows taxpayers to have an intuitive way of thinking. the criminology of tax embezzlement (Lederman., 2021). ((Karlinsky, Hughlene, & Blanthorne., 2005), (Serkan & Budak, 2015). Tax evasion considerably limits the incomes and, implicitly, the possibility of the governments to ensure economic and social policy (Di Gioacchino & Fichera, 2020).

Tax evasion is a criminal offense that occurs when an individual or business intentionally avoids paying taxes that they owe to the government. This can be done in various ways, such as underreporting income, claiming false deductions, hiding assets, or failing to file tax returns. The latest case in Indonesia (May 2021) shows that a tax evader (SCB) was arrested for committing tax evasion by using the mode of issuing tax invoices and embezzling tax payments. This taxation crime caused a loss of state revenue of Rp207.8 million, and this is certainly part of the act of fraud (fraud) committed by the Taxpayer . Another case carried out by SY as the director of PT CJW allegedly did not submit the SPT correctly and completely from January 2016 to November 2019 for PPh and PPN. Losses arising from tax evasion by SY are estimated to reach Rp1.33 billion .

(Kahneman & Tversky., 1979) Prospect theory suggests that individuals' decisions are influenced by the perceived value of potential gains and losses, rather than by the absolute level of gains and losses. This means that people tend to be more sensitive to losses than to gains of the same magnitude and that their decisions may be influenced by how the potential outcomes are presented or framed, this opinion is reaffirmed by (Williamson, 2000) This can have important implications for tax compliance. For example, if a taxpayer receives information that emphasizes the penalties or risks associated with non-compliance, they may be more likely to report their taxes accurately and timely. On the other hand, if the information emphasizes the potential benefits of non-compliance or downplays the risks, they may be more likely to engage in tax evasion. Overall, understanding how individuals process information and make decisions can be useful in designing effective tax policies and compliance strategies.

This research could provide valuable insights into how Indonesian taxpayers perceive tax evasion and the reasons why they engage in this behavior. This information could be useful for policymakers and tax authorities in developing more effective strategies to combat tax evasion and promote tax compliance. This research will also analyze whether there is a link between financial pressure, tax investigation, and perceived probability of audit with the tendency to tax evasion.

Literature Review and Hypothesis Development

Agency theory typically involves studying the relationships between principals (e.g., shareholders) and agents (e.g., managers) and the conflicts of interest that can arise between them. Moral hazard refers to situations where one party has the incentive to take risks that are not in the best interest of the other party, while asymmetric information occurs when one party has more information than the other. In the context of tax evasion, conflicts of interest may arise between taxpayers and tax authorities, as taxpayers may have the incentive to underreport their income or overstate their deductions to minimize their tax liability. Behavioral theories such as the fraud triangle theory suggest that individuals may be more likely to engage in tax evasion if they perceive opportunities to do so, have the desire to avoid taxes, and face financial pressures that make tax evasion seem more attractive. The results of this research are expected to contribute to tax policy in Indonesia to take the right approach to reduce tax evasion and provide a more persuasive approach to raising taxpayer awareness to reduce the tendency to cheat in tax decisions.

Other theories that explain tax non-compliance are linked to the traditional economic approach (deterrence factor) which is based on agency theory and utility theory. Early research related to tax evasion examined (Becker, 1968) was more based on criminal economic theory. Research has shown that increasing the probability of detection and the severity of legal penalties can act as deterrents to potential tax evaders, as they will perceive the costs of engaging in illegal behavior to outweigh the benefits. The perceived likelihood of getting caught, as well as the severity of the penalties, may act as deterrents to potential embezzlers. (Allingham & Sandmo, 1972) developed the findings (Becker, 1968) by assuming that taxpayers constantly optimize their rationality stating that their reported income is as small as possible because it is influenced by tax rates, the likelihood of being detected by tax authorities, and the level of sanctions.

The sociological model approach (Kinsey, 1985) emphasizes the perception of sanctions, informal sanctions, tax attitudes, and sometimes, personality variables (Psychology factor). (Hessing & Elffers, 1985), examined two groups of carefully audited individuals; one group makes accurate tax reports, and the other group does the reporting by avoiding taxes. The results show that personality factors predict the existence of documented tax evasion while subjective attitudes and norms correlate with tax evasion reported by taxpayers themselves. (Hessing & Elffers, 1985) emphasized the importance of personality variables as predictors of tax evasion and questioned the use of self-assessment systems in tax evasion research.

Fraud is a deliberate and intentional deception for personal gain or to cause harm to another person. In the context of law, fraud involves making false representations or statements to deceive someone else. The false representation can be in the form of words, actions, or even the concealment of information. Typically, Evasion in the income tax context refers to any attempt to avoid or reduce the amount of tax owed to the government by illegal means. This can include omitting income from a tax return, falsely claiming deductions or exemptions, failing to report income earned from illegal activities, and hiding assets or income in offshore accounts.

Tax fraud is a deliberate act of falsifying information on a tax return with the intention of reducing tax liability or completely avoiding taxes owed. It can take many forms, including underreporting income, claiming false deductions, and hiding assets. Tax fraud is illegal and can result in severe penalties, including fines and imprisonment. It is important to report any suspected cases of tax fraud to the appropriate authorities. Tax evasion, or illegally avoiding payment of taxes owed, may be construed as an example of tax fraud.

Financial Pressure, Perceived Probability of Audit, and Tax Evasion

(Gupta, 2008) Tax evasion and financial repression are two interconnected phenomena that can have a significant impact on an economy. Tax evasion refers to the illegal avoidance or non-payment of taxes, while financial repression refers to government policies that restrict

the free flow of capital and regulate interest rates to reduce the government's borrowing costs. The fraud triangle has three prongs. The first prong, ‘incentive or pressure’, refers to the motivation or pressure that drives someone to commit fraud. It could be financial gain, the need to avoid financial loss, the desire to retain one's job or position, or other factors that create pressure or temptation to engage in fraudulent activity. The second prong, 'perceived opportunity', refers to the conditions or circumstances that allow someone to commit fraud. It could be weaknesses in internal controls or oversight, lack of supervision, or other factors that make it easier for someone to carry out fraudulent activity without being detected. The third and final prong, ‘rationalization, refers to the mental process that someone goes through to justify their fraudulent behavior to themselves. They may convince themselves that what they are doing is not really wrong or that they have a valid reason for doing it. (Lederman., 2021)

(Asnawi, 2016) in his experimental research found that taxpayers at a time when the level of audit observations is high tend to avoid tax non-compliance and prefer to do tax compliance when making tax reports. (Spicer & Thomas, 1982) found increasing audit activities may be an effective way to reduce instances of tax evasion, it is important to consider the potential impact on the overall tax base and economy. Tax authorities may need to consider other strategies, such as simplifying the tax system, providing incentives for compliance, or educating taxpayers on their obligations, to increase tax revenue in the long run. This suggests that the pressure to provide a high level of audit can be an opportunity for tax authorities to improve taxpayer compliance and vice versa for taxpayers to be an opportunity to reduce tax fraud or embezzlement. Tax audits can be an effective tool for reducing tax evasion, increasing compliance, and raising government revenue. However, the effectiveness of tax audits depends on various factors, such as the audit rate, the resources available to tax authorities, and the willingness of taxpayers to comply with tax laws. (Olaoye & Ekundayo, 2019); (Enofe, Embele, & Obazee., 2019); (Olaoye & Ogundipe, 2018).

H1: Effect of Financial pressure on Tax Evasion

H2: Effect of Financial pressure on Perceived Probability of audit

H3: Effect of Financial, Pressure, and Perceived Probability of audit on Tax evasion

Financial Pressure, Tax Investigation, and Tax Evasion

Experiments conducted by (Mc.Keea, Siladke, & Vossler, 2012) also show that the accuracy of the information will reduce the uncertainty of the amount of tax paid and tax evasion. (Dale, 2022) recommends that the issue of tax evasion and fraud in the U.S. market is a complex and multifaceted one that requires a nuanced and coordinated response from multiple stakeholders. While law enforcement has a critical role to play in investigating and prosecuting these crimes. Tax fraud occurs when an individual or organization intentionally and willfully fails to report or underreports income, assets, or other financial information to the government for the purpose of reducing their tax liability. This can include falsifying documents, claiming false deductions, hiding assets or income, and other illegal activities. (Weisberg, 2018).

Rule enforcement efforts are a way to reduce the occurrence of tax evasion (Badele & Ivan, 2021). Using artificial intelligence for detecting fraudulent behavior together with robotization of tax audits and evaluating taxpayers' risk could increase the rate of discovering tax fraud (Faúndez-Ugalde, Mellado-Silva, & Aldunate-Lizana, 2020). At the same time, using various forms of artificial intelligence like blockchain technology could offer potential leverage to Tax Authority in preventing and combating non-compliant behavior. This in turn could shape the role of the State and its institutions in dealing with tax evasion or avoidance, building a powerful architecture based on public needs and values (Ølnes.S, Ubacht, & Janssen., 2017)

Based on previous research, shows that tax evasion cases in Indonesia began to show serious things and began to get attention when the emergence of the most phenomenal tax employee bribery case was carried out by GT who was convicted (in 2011) of a tax employee who was convicted in 2011 on suspicion of manipulating taxes, bribing judges, and LP officers to create fake passports, was a significant event in Indonesia's fight against tax evasion. This research is expected to provide information related to the tendency of tax evasion which indicates the context of fraud from tax evasion cases.

According to (Oyedokun, 2016), Tax investigations are typically initiated by tax authorities when they suspect that a taxpayer has not paid the correct amount of tax or has engaged in other forms of tax evasion or fraud. The investigation process involves a thorough review of the taxpayer's financial records, including bank statements, tax returns, invoices, and other relevant documents, to determine whether there is evidence of wrongdoing. Nevertheless, tax authorities may choose to pursue taxpayers civilly, rather than criminally, in certain situations. This may be because civil proceedings are often quicker and less costly than criminal proceedings. Additionally, it may be more difficult for tax authorities to prove that a taxpayer intentionally evaded taxes, which is necessary for a criminal conviction. However, it is important to note that tax evasion is a serious offense and can result in severe penalties, including fines and imprisonment if a taxpayer is found guilty.

The studies show that there is a strong relationship between corruption, tax evasion, and public duty. In this sense, a study belonging (Halkos & Papageorgiou, 2020) is relevant, which shows that evasion, in a sequential manner, is directly proportional to corruption by limiting the government's ability to collect income by embezzling for individual benefits, between the two there is an interaction in both directions of causality (Cooray, Dzhumashev, & Schneider, 2017). (Pitu, Ciocanea., & Petrascu, 2021) stated the need for a sound tax system and a clear and firm Law to avoid tax evasion.

H4: Effect of Financial pressure on Tax Investigation

H5: Effect of Tax Investigation on Tax Evasion

H6: Effect of Financial Pressure and Tax Investigation on Tax Evasion

Perceived Probability of Audit, Tax Investigation, and Tax Evasion

(Hessing & Elffers, 1985), who investigated two carefully audited groups of individuals, thus stressed the importance of personality variables as predictors of tax evasion and cast doubt on the use of self-report measures in tax evasion research. This suggests that some individuals or entities have a high propensity to evade taxes regardless of changes in contextual variables such as changes in tax laws or changes in audit probability. For these individuals or entities, their past behavior of tax evasion is likely to be a good predictor of their future behavior, even if the context changes, but deterrence variables are a fundamental aspect of tax compliance and are likely to influence the decision-making process of taxpayers. Research has shown that increases in audit probability and penalty rates can lead to higher levels of tax compliance.

(Enofe., Embele., & Obazee., 2019) Based on the findings of this study, it appears that tax audits can be an effective tool in reducing tax evasion. Specifically, the study found that desk audits, field audits, and back-duty audits all had a significant negative impact on tax evasion. Additionally, the explanatory power of tax investigations was found to be a significant deterrent to tax evasion. Tax audit and investigation are commonly used by tax authorities at both the state and federal levels as a means of controlling the level of tax evasion and increasing government revenue. Tax audits typically involve a review of a taxpayer's financial records and tax returns to ensure that they have accurately reported their income and deductions and paid the correct amount of taxes owed. In some cases, tax authorities may also conduct investigations to identify and prosecute cases of deliberate tax fraud or evasion. (Onoja & Iwarere, 2015); (Olaoye, Ogunleye, & Solanke, 2018).

H5: Effect of Perceived Probability of Audit on Tax Investigation

H6: Effect of Perceived Probability of Audit, Tax Investigation, and Tax Evasion

H7: Effect of Perceived Probability of Audit on Tax Evasion

Research Method

The field survey quantitative research design approach used in the study involved collecting data from a sample of respondents using a structured questionnaire. The questionnaire was designed using a five-point Likert scale, with responses ranging from strongly agree (5) to strongly disagree (1). The use of a Likert scale allowed the respondents to express their level of agreement or disagreement with the statements in the questionnaire on a continuum, rather than being limited to a binary response of yes or no. The questionnaire was adopted from (Lederman., 2021), (Fatoki, 2014) and developed and adapted to tax rules and policies in Indonesia. This questionnaire has tested the validity and reliability of the instrument so that it is valid and reliable to use. The sample in this study was Taxpayers in several provinces in Indonesia with a total of 98 respondents. Data collection using online questionnaires with the snowball sampling method. Respondents include 53% female and 47% male participants with an average age of 30-40 years old with an average level of education is a Master's. This questionnaire has tested the validity and reliability of the instrument so that it is valid and reliable to use.

Result and Discussion

To assess the measurement model in SmartPLS, researchers typically use confirmatory factor analysis (CFA) to test the fit of the indicators to the theoretical constructs. This involves examining various statistical measures such as factor loadings, average variance extracted (AVE), and composite reliability (CR) to determine whether the measurement model is valid and reliable. Table 1 presents significant levels of factor loadings to indicate whether the factor loading is statistically significant or not. In other words, it indicates whether the relationship between the indicator and construct is likely to be a true effect or simply due to chance. Significance levels are typically reported as p-values, with $p < 0.05$ indicating a statistically significant relationship.

Table 1 Average value and Outer Loading Every Indicator

Construct	Items	Loading	T statistic	P-value
Financial Pressure (FP)	FP1	0.873	25.059	0.0000
	FP2	0.838	14.163	0.0000
	FP3	0.943	83.491	0.0000
	FP4	0.859	17.807	0.0000
	FP5	0.927	55.066	0.0000
Perceived Probability of Audit (PPA)	PPA1	0.742	17.743	0.0000
	PPA2	0.709	12.170	0.0000
	PPA3	0.693	10.000	0.0000
	PPA4	0.860	35.027	0.0000
	PPA5	0.879	41.395	0.0000
	PPA6	0.716	10.942	0.0000
	PPA7	0.547	9.644	0.0000
Tax Investigation (TI)	TI1	0.669	6.568	0.0000
	TI2	0.848	20.977	0.0000

	TI3	0.807	16.907	0.0000
	TI4	0.807	10.728	0.0000
	TI5	0.650	9.349	0.0000
	TI7	0.773	15.916	0.0000
Tax Evasion (TE)	TE1	0.779	15.625	0.0000
	TE 2	0.833	15.064	0.0000
	TE 3	0.880	41.625	0.0000
	TE 4	0.793	12.454	0.0000
	TE 5	0.531	5.171	0.0000
	TE 7	0.631	6.915	0.0000
	TE 8	0.860	29.218	0.0000
	TE 9	0.908	53.272	0.0000

The discriminant validity test (table 2) is said to be valid if the value of the cross-loading variable tested is greater than 0.70 (Abdillah & Hartono, 2015), and Collinearity statistics show a value of < 5 so that it can be concluded that there is no collinearity between constructs in this study.

Table 2 Discriminant Validity Result

Variable	FP	PPA	TE	TI
FP	**0.889**			
PPA	0,689	**0.833**		
TE	0,866	0,606	**0.787**	
TI	0,577	0,664	0,677	**0.763**
Collinearity statistics Inner Model (VIF)	**1.828**	**2.068**		**1709**

Cronbach's alpha in table 3 measures the degree to which the items in a scale are interrelated or correlated with each other. In other words, it assesses the extent to which the items in a scale are measuring the same construct or concept. (Hair, Black, Babin, & Anderson, 2010) recommended that Cronbach's alpha value of 0.7 or higher as an acceptable level of internal consistency for a research instrument. If the value of Cronbach's alpha is lower than 0.7, it may indicate that some of the items in the scale are not contributing to the overall measurement of the construct or that there may be issues with the reliability of the scale. Table 3 the result of a Cronbach Alpha statistic coefficient of above .70., and AVE > 0.5 Based on these results, it can be concluded that all factors have met the standards of validity and reliability.

Table 3 Cronbach Alpha and AVE Result

	Composite Reliability	**Cronbach's α**	**AVE**
Financial Pressure (FP)	0.938	0.938	0.790
Tax Investigation (TI)	0.867	0.867	0.582
Perceived Probability of Audit (PPA)	0.881	0.892	0.568
Tax Evasion (TE)	0.924	0.924	0.619

To show the results of the inner model assessment, it will be used: (i) endogenous constructs' coefficient of determination (R2), (ii) effect size (f2), and (iii) path coefficients and their significance (significance levels, t-values, and p-values). The results of the analysis are summarized in Table 4.

Table 4 Output Path Coefficients Model Direct Effect and Indirect Effect

Variable	Path coefficients	T value	p-value	Conclusion
Direct effect				
FP → TE (H1)	0.724	8.869	0.000	supported
FP → PPA (H2)	0.630	11.146	0.000	supported
FP → TI (H4)	0.251	2.249	0.025	supported
TI→ TE (H5)	0.149	1.652	0.094	rejected
PPA → TE (H7)	0.054	0.767	0.443	rejected
PPA → TI (H8)	0.467	4.566	0.000	supported
Indirect effect				
FP → PPA→ TE (H3)	0.034	0.758	0.448	rejected
FP→ TI→ TE (H6)	0.037	1.017	0.309	rejected
PPA → TI → TE (H9)	0.070	1.701	0.089	rejected
FP → PPA → TI (10)	0.294	4.672	0.000	supported
R^2 Perceived Probability of Audit: 0.397 **R^2 Tax Investigation: 0.430** **R^2 Tax Evasion: 0.725**				

Based on Table 4, there is a significant direct and indirect effect between financial pressure, the perceived probability of audit, and tax investigation on tax evasion. It should be noted that if the significance values are greater than 1.96, the path significance of the relationships is confirmed. On this basis, hypotheses number 1,2,4,8, and 10 are confirmed in the level p<0.005 and hypothesis number 3,5,6,7,9 is rejected. These results indicate that financial pressure significantly affects the perceived probability of audit (r.3.97), and financial pressure and perceived probability of audit significantly affect tax investigation (r.430) and Tax Evasion (r.725).

The Effects of Financial Pressure and Perceived Probability of Audit on Tax Evasion

The results of the direct effect showed that there was a positive and significant influence of financial pressure on tax evasion (.72, p<.000). The results show that there is a strong influence of tax evasion caused by taxpayer financial pressure. Further findings suggest that taxpayers have a feeling that they will be audited by tax auditors at the time of experiencing financial pressure, this can be seen from research finding showing that there is an influence of financial pressure on the perceived probability of audit (r.63, p<0.000).

The findings of this research are in line with the fraud triangle theory. Overall, the fraud triangle theory provides a useful framework for understanding tax evasion, as it highlights the importance of financial incentives, opportunity, and rationalization in motivating individuals to engage in fraudulent behavior. By recognizing these factors, tax authorities can develop more effective strategies for detecting and deterring tax evasion, such as increasing penalties, improving audit rates, and simplifying tax systems to reduce opportunities for evasion. (Lederman, TTPI Network, 2021)(Becker, 1968) (Singh, 2014)

The results of the indirect effect show that tax evasion is not influenced by financial pressure through the perceived probability of audit, this shows that taxpayers in determining the decision to do tax evasion are not based on feelings of fear or worry about being audited but rather viewed the financial condition or pressure experienced (Gupta, 2008) (Dale, 2022). This result also indicates that the self-assessment system rules in taxation in Indonesia allow taxpayers to determine the taxable income that has no consequences for auditing and is the cause of tax evasion not influenced by the possibility of being audited (Asnawi, 2016),(Ardian & Pratomo, 2013), (Enofe., Embele., & Obazee., 2019).

The Effects of Financial Pressure and Tax Investigation on Tax Evasion

The effect of financial pressure on tax investigation shows positive and significant results (r.201, p<0025), this result shows that taxpayers who experience financial pressure will manipulate their tax reporting or commit tax evasion/ evasion, this condition allows tax investigations to occur. Tax investigation is conducted by tax authorities when they suspect that a taxpayer has not paid the correct amount of tax or has committed other types of tax fraud. The purpose of a tax investigation is to gather evidence to support or refute allegations of tax evasion, and to ensure that taxpayers pay the correct amount of tax due to the government. (Enofe., Embele., & Obazee., 2019).

The results of this research are interesting because tax investigations have no impact on tax evasion, this can occur due to weak tax reporting administration such as tax audits and penalties that do not support tax compliance (Alm., 2022). This condition causes taxpayers to predict that tax inspections require a long time, costly and a limited number of tax auditors provide an opportunity for them to carry out tax evasion, in some cases, tax authorities may also offer tax amnesty or voluntary disclosure programs to encourage tax evaders to come forward and correct their tax reporting. These programs typically offer reduced penalties or other incentives to taxpayers who voluntarily disclose their non-compliance and pay any outstanding taxes owed. However, these programs usually have strict eligibility criteria and may not be available to all taxpayers, but on the other hand it can be an opportunity for taxpayers to defer their tax obligations.

The Effect of Perceived Probability of Audit and Tax Investigation on Tax Evasion

The results of the research indicate that Probability Audit does not show an effect on tax evasion, this result is different from the findings (Asnawi, 2016) which state that the audit probability felt by taxpayers can improve tax compliance meaning that with a high probability taxpayers will not commit tax evasion. The low audit probability allows taxpayers not to worry when committing tax evasion, this is in line with the results of research (Olaoye, Ogunleye, & Solanke, 2018) which states that tax investigation and field audit does not affect the control of tax fraud in the form of avoidance.

The results of indirect testing show that financial pressure affects tax investigation through the perceived probability of audit (r.294, p< 0.000) but does not affect tax evasion, this indicates that tax investigation does not trigger a decrease in tax avoidance because when a tax investigation is carried out there can be negotiations between the examiner and the taxpayer over the amount of certain taxes paid (Tax Justice Network, 2020). A complete administrative system related to taxpayers, legal certainty, and the ability of the government to enforce it are important in reducing tax evasion (Chiarini & Marzano, 2019).

Conclusion

This research shows that financial pressures have a dominant effect on tax evasion. This finding proves that financial pressure is one of the reasons for committing tax evasion fraud as stated in the fraud triangle theory. This research also shows that the perceived probability of audit and tax investigation does not influence reducing the tendency to tax evasion, this research indicates that tax investigation does not have a deterrent effect on taxpayers in committing tax evasion.

The effect of financial pressure on tax investigation shows positive and significant results, indicating that taxpayers under financial stress will manipulate their tax reporting or commit tax evasion, this condition allows tax investigations to occur. If evidence of tax evasion is found, the tax authorities may take legal action against the taxpayer, which could include penalties, fines, and even criminal charges in some cases. The goal of a tax investigation is to ensure that tax due to the government is not lost to evasion and to serve as a deterrent to others who may be considering similar actions.

This research still needs to be developed for the benefit of generalization, especially by adding a sample of corporate/institutional taxpayers. In addition, it can consider the addition of other fraud indicators such as rationalization. The opportunity indicators discussed in this research are only limited to tax investigation opportunities and still need to be added with other opportunities such as sanctions and penalties for tax evaders due to several tax policies in Indonesia such as sunset policy, tax amnesty, and voluntary tax reporting can provide space for tax evaders to get certain tax collections and tax deductions when making tax payments.

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