Analysis about the Influences of Good Public Governance, Trust toward Tax Compliance on Public Companies that Listed in Indonesian Stock Exchange

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Abstract: This study aimed to examine the influence of good public governance on tax compliance with trust as intervening in the non financial companies listed in Indonesian Stock Exchange (IDX). The data used was obtained using SEM-PLS of 87 years observation of non financial companies for the period 2014. Tax Fairness was evaluated using questionnaires based on Saad (2009); Tax transparency was evaluated using questionnaires based on Rawlins (2008); Trust was evaluated using questionnaires based on Mayer et al (1995) and Benk and Budak (2012); and Tax compliance was evaluated using questionnaires based on Jackson et al (1986). Model analysis of the data testing was performed by structural equation modeling with approach partial least squares (SEM-PLS) that supported by SmartPLS 3.0 as statistic tool.

The results showed a significant and positive relationship between two dimensions of good public governance (tax fairness, tax authority reputation and tax transparency) and trust. Then, this result also showed that a significant and positive influences of tax fairness, and trust to tax compliance. And, this result showed that a significant and positive indirect influences of tax fairness and tax transparency to tax compliance with trust as mediating variable.

Keyword: Good public governance, trust, tax compliance

Introduction

In 6 years, the amount of tax revenue continues to increase over time, which in 2010 amounted to 723 trillion; in 2011 amounted to 873 trillion; in 2012 amounted to 980 trillion; in 2013 amounted to 1,077 trillion; in 2014 amounted to 1,246 trillion and 2015 planned amounted to 1,379 trillion (Memorandum Finance and Budget 2015). This is according to a statement Jones (2002) which states that the payment of taxes as supporting the government's expense. This has led to the acceptance of the state of the tax sector plays a central role in the state budget. However, level of tax compliance will be reduced in the conditions of economic growth is declining in which Indonesia's economic growth in 2015 of 4.79% lower than in 2014 amounted to 5.02%. This economic growth conditions will encourage actions tax payers opportunistic in taking measures such as tax non-compliance of tax avoidance or tax evasion. This is evidenced by the low tax revenues in 2015 amounting to Rp 1,055 trillion or 81.5 percent of the 2015 Revised State Budget target of Rp 1294.25 trillion (Liputan6, 2016).

Tax compliance by some of the tax authority is defined as the ability and willingness and awareness tax payers to obey. Submissive and obedient in terms of meeting their tax obligations in accordance with tax rules, actual earnings are reported each year, and pay taxes on time in the right amount (Tax Info 2010; IRS 2009; ATO, 2009; IRB, 2009). According Siahaan (2012), Trust is one of the factors that influence level of tax compliance. This was reinforced by Wiranu (2013) expressed their distrust of taxpayers against the State, especially in the distribution of development due to the unfolding of the various cases of tax irregularities committed by unscrupulous tax authority. Trust is the assessment of one's relationship with others who will do certain transactions according to the expectations of its belief in an environment full of uncertainties (Bad and Pavlou, 2002). In other words, trust is formed from the individual's perception of certain personal or organization.

Public trust in government is closely related to good governance (Choi and Kim, 2012). The higher public confidence refers to the reduction in the level of administrative costs and increasing public compliance with laws

and regulations (Levi, 1998; Tyler 1998; Fard and Rostamy, 2007). Good governance means that power is based on the legislation in force. All measures taken must be transparent and accountable to the public (NCG 2008). In particular, the tax agency can apply good public governance in order to achieve transparency, a culture of justice and public accountability. According Corporate Governance Committee (2008), there are five principles of good public governance: transparency, accountability, equity (fairness), adherence to the rule of law and a strong commitment.

Literature Review

Agency theory is a theory that is rooted in the synergy of economic theory, sociology and organizational theory. The main principle of this theory assert their working relationship between the parties authorizing (principal) and the entity receiving authority (agency). Principals are the ones who bear the risk of the end of an activity, while the agent is authorized parties or be assigned to do the job of principal. Lane (2003) suggested that the agency theory can be applied in public organizations where the modern democratic state based on a series of principal-agent relationship. According Mahmudi (2005), government relations and public relations are described as accountability, which the government (agencies) should be accountable for the activities and performance to the public (the principal) which has provided funds to the government. This is because the main task of the government as the public sector is to create a welfare society, where public welfare is not only a physical form of material prosperity alone, but including non-physical well-being immaterial. Public sector organizations are organizations that deal with the general interest to the public goods or services paid for by taxes that are regulated by laws. The main focus of public sector organizations is the maximization of public services. In this study, researchers wanted to analyze the relationship between the tax authorities as an agent and taxpayer as the principal.

The principles of good governance both include governance are forward-looking, is open, responsive, accountable based on the professionalism and competence by using the structure and resources efficiently and effectively, decentralized, democratic and consensus oriented, encourage community participation, encourage partnerships with private and public, to uphold the rule of law, a commitment to the environment. Build good public governance can be achieved by creating a professional government bureaucracy. Professional government bureaucracy is to have an efficient performance in the use of resources and effective in achieving the targets and goals of the various policies and programs aimed at the interests, welfare and prosperity of society. As already mentioned in Corporate Governance Committee (2008), that there are five main characteristics or principles of good public governance that must be met by a professional civil service, namely: transparency, accountability, equity (fairness), obedience and commitment. From five dimensions. we analyze dimension transparency and fairness because they have relationship with tax.

Relationship between Good Public Governance and Tax compliance

Each individual can use different criteria in making ethical decisions in which one of the criteria is fairness (Robbins, 2001). Fairness is a human right that is fundamental in the organization of social, economic and academic. Fairness is a perception (Reuben and van Winden 2010). Due to a perception can influences individual, so fairness has an influence on personal behavior (Henridon, 1992).

When a taxpayer receives an unfairness then they will react with not paying taxes. Etzioni (1986) states that if the public felt the tax unfairly distributed, it will increase the reluctance in paying taxes. This was confirmed also by the research Bradley (1994) which found that tax evasion increased due to increase in the percentage of taxpayers who feel injustice taxes. In addition, the fair treatment on the taxpayer and the tax authorities honesty will be the factors that encourage voluntary tax compliance (Kirchler and Hoetzl, 2006). If regulators act equitably, then people will believe the motives of the tax authorities thus have the effect voluntarily comply (Siahaan, 2012).

Government and community relations describe the relationship of accountability, which the government (agencies) should be responsibility on activity and performance to people who have provided funds to the government (Mahmudi, 2005). In the agency theory, there is one obstacle that is the information asymmetry between principal and agent where one party in a transaction has information about the quality of the input, output or other aspects of the economy that is not shared by the other parties involved (or the information is too expensive to be accessed by others) (Burki and Perry, 2001).

According to Transparency International (2009), transparency is a condition in which governments, companies, organizations and individuals are open in terms of clear communication on various information, rules, plans, processes and actions. According to the law No. 14 of 2008 RI Article 9 (2) said that public information includes information relating to public bodies, financial reports, as well as the activities and performance of the public.

Transparency of information on taxpayers is also a driving force in improving voluntary tax compliance and attract new taxpayers (Siahaan, 2013). Heightened transparency of taxation then the taxpayer will be assured that the amount of tax charged correctly and used appropriately targeted so that impact on improving voluntary tax compliance (Siahaan, 2013).

H1a; Tax Fairness influences positively on Tax Compliance
H1b; Tax Transparency influences positively on Tax Compliance

Relationship between Good Public Governance and Trust

Fairness is a comparative assessments arising from actual or imaginative alone or more than one (Van den Bos et al, 2006; Folger and Cropanzano, 2001). Tax fairness is one of the factors of social behavior related to tax compliance (Maroney et al, 1998). Mayer et al (1995) describe three dimensions of trust that ability, benevolence and integrity. Dimensions integrity has been linked with justice where integrity is a vital component of trust (Castaldo et al, 2010). An authority (trustee) can not receive high integrity if it is unfair. Due to justice is a part of integrity, the perception of fairness trustee (in this case the tax authority) will increase the level of confidence (Jimenez, 2013). Homans (1958) concluded that the fair treatment will increase trust and ensure their social reciprocity between the parties. In the study Siahaan (2012), found that the tax justice has a positive and significant impact on the trust. This is also confirmed by DeConnick (2010) found that perceptions of procedural justice employees on the company's future with regard to their level of confidence to be placed in the organization. History and experience of injustice will create an atmosphere of distrust (Tenbrunsel, 1999).

In case to restore confidence, the survey Golin-Harris results (2003) reported that people want the company to be more open and honest in its business practices, communicate more clearly, effectively and directly, and demonstrate attention to stakeholders namely employees and consumers (Golin, 2004). Public relations trade magazine states that ethical standards and transparency in all aspects of corporate communications will affect the restoration of confidence (Savage, 2005). Transparency is closely related to trust and both are positively correlated. (Siahaan, 2013). Transparency requires trust as to be transparent, then you accept the risk harmed. You do not know how people can use the information that is used (Rawlins, 2008). This is consistent with research Rawlins (2008) which states that when the employee perception on the transparency of the organization increases, the trust also increased at the same time. In the study Kang and Hustvedt (2014) states that the consumer perception on the company's desire to be more transparent in terms of production and employment as well as more social responsibility has menpengaruhi direct and positive impact on consumer confidence and their attitude towards the company.
Today, taxpayers need more information through the transparency of the tax which the government will inform openly about the taxes they pay (Siahaan, 2013). In general, transparency is the disclosure of information that is accessed (Holzner and Holzner, 2006; Piotrowski, 2007). Transparency taxes shows that the extent of access to information about the taxes that can be accessed by the taxpayer (Siahaan, 2013). Transparent measures will create feelings of trust between the taxpayer.

H2a; Tax Fairness influences positively on Trust
H2b; Tax Transparency influences positively on Trust

Relationship between Trust and Tax compliance

Trust-as-heuristic theory explains the association of trust towards individual support of government policies. This theory also explains that the individual will determine the pattern of the decision to vote in favor of government activities (Hetherington, 2005). This means that when people consider the government to be believed, then they will support the activities of the government and vice versa. Confidence in the government also has a positive consequence of which one was an increase taxpayer confidence. Torgler (2007) states that the relationship between the taxpayer and the government may be formed by the government trust which will have an impact on voluntary tax compliance. This is supported by Jackson et al (1986) and Levi (1998) stated that the government trust has a significant influence on tax compliance. In other words, trust is the key to success for the tax agency to achieve tax compliance. Trust will encourage positive attitudes towards the tax authorities that affect the voluntary tax compliance (Siahaan, 2012).
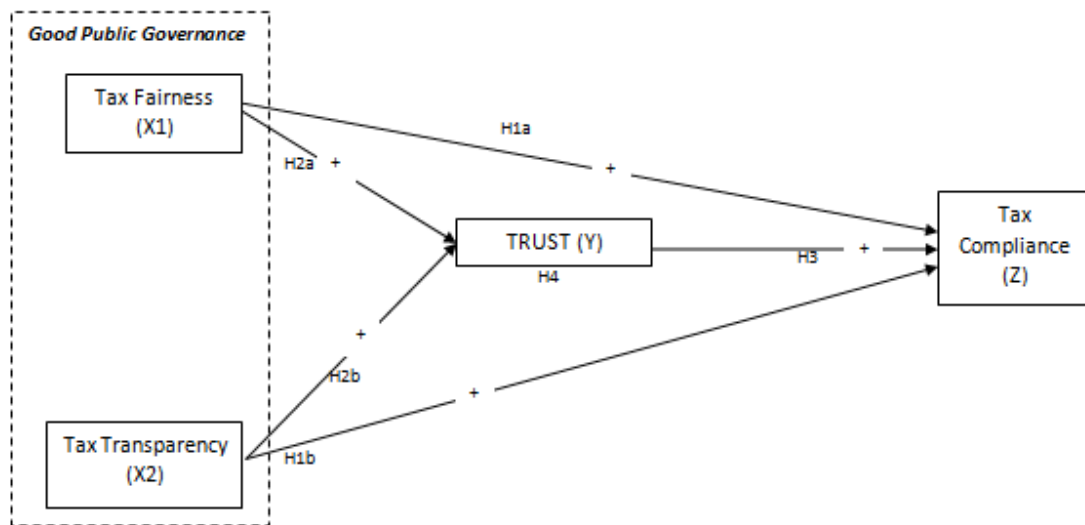
H3; Trust influences positively on Tax Compliance

Figure 1
Conceptual Framework

Method

The population are companies in the non-financial sector (the exception of companies in the financial sector, insurance and banking), which has been listed on the Indonesia Stock Exchange (BEI). The unit of analysis used in this study were respondents representing organizations, namely the issuer company. Respondents include financial managers, tax managers, and corporate secretary. Samples were all companies that go public are selected based on purposive sampling method. Samples were selected based on suitability to the characteristics of the sample criteria specified such as companies listed in Indonesia Stock Exchange in 2014 and the company does not categorize as public company. Total sample is about 87 listed companies with 87 observation years in 2014. Tax Fairness was evaluated using questionnaires based on Saad (2009); Tax transparency was evaluated using questionnaires based on Rawlins (2008); Trust was evaluated using questionnaires based on Mayer et al (1995) and Benk and Budak (2012); and Tax compliance was evaluated using questionnaires based on Jackson et al (1986). Model analysis of the data testing was performed by structural equation modeling with approach partial least squares (SEM-PLS) that supported by SmartPLS 3.0 as statistic tool.

Results

This study used 87 observation years of non financial companies listed in Indonesian Stock Exchange (IDX). In descriptive statistics, it shows that tax compliance and trust are the highest mean between all variables (see table 1).

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax fairness	87	1.83	4.17	3.4057	.39037
Tax transparency	87	1.90	4.80	3.3529	.50066
Trust	87	2.00	4.42	3.4569	.49204
Tax compliance	87	2.00	5.00	4.0506	.52846
Valid N (listwise)	87				

By using SEM-PLS, this study will use validity and reliability tests to check whether the questionnaires that used is valid and reliable. Based on rule of thumb, variables states valid if average variance (AVE) is more than 0.5 (Chin, 1995).(*See table 2*)

Table 2
Validity Tests

Variables	AVE	Test Results
Tax Fairness	0.506	Valid
Tax Transparency	0.573	Valid
Trust	0.580	Valid
Tax Compliance	0.814	Valid

Based on the rule of thumb, variables states reliable if composite reliability is more than 0.7 (Salinsbury, Chin, Gopal, *and* Newsteed, 2002) and *Cronbach's Alpha* is more than 0.6 (Chin,1998; Chin, 2010b; Hair *et al*, 2011 and Hair *et al*, 2012). (*See table 3*)

Table 3
Reliability Tests

Variables	Composite Reliability	Cronbach's Alpha	Test Results
Tax Fairness	0.877	0.835	Reliable
Tax Transparency	0.935	0.921	Reliable
Trust	0.938	0.926	Reliable
Tax Compliance	0.956	0.943	Reliable

For structural modeling test, the results show that trust has 0.647 as R-square value and tax compliance has 0.550 as R-square value. Based on the rule of thumb, this research model categorized as moderate model and accepted if R-square is between 0.50 and 0.75 (Hair *et al*, 2011).

One-tailed hypothesis test is done by looking at the value of t at 95% confidence level (significance level of 0.5%) and the path coefficient (Beta) on each of the hypothesized relationship between the variables. Based on the rule of thumb, hypothesis are tested significantly if t-value is more than 1.64 (Hair et al, 2008) and p-value more than 0.025.

Below is a table of test results of the calculation output relationship between variables that are used to test the hypothesis:

Table 4
Hypothesis Tests

Hypothesis	t-value	p-value	Test Results
H1a :tax fairness→tax compliance	2.914	0.002	Significant
H1b: tax transparency →tax compliance	1.196	0.116	No significant
H2a :tax fairness→trust	2.511	0.006	Significant
H2b :tax transparency→trust	2.923	0.002	Significant
H3 : trust→tax compliance	2.841	0.002	Significant

*one tailed, α = 5%

The results showed a significant and positive relationship between two dimensions of good public governance (tax fairness and tax transparency) and trust. Then, this result also showed that a significant and positive influences of tax fairness, and trust to tax compliance. Besides that, this result also showed that a significant and positive indirect influences of tax fairness and tax transparency to tax compliance with trust as mediating variable.

Conclusions

This study aimed to examine the effect of good public governance (tax fairness and transparency of tax) on trust and tax compliance. The results show that good public governance gives a positive influences to trust in government. It means that taxpayers can give more trust if government starts to make tax rule more fair and give more tax information so it can be accessed and known by taxpayers. This trust can motivate taxpayers to comply in tax paying. It supported by this empirical results that states trust influences positively on tax compliance. But from all good public governance, just tax fairness that has direct influences to tax compliance. It means this issue is take more concern from the taxpayers. For future studies may add a dimension of good public governance is a moral tax and tax complexity.

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