# The Effect of Taxation System and Tax Audit on Tax Evasion

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**ABSTRACT**
This study was conducted to determine the effect of the taxation system and tax audits on tax evasion. Tax evasion is an act against tax law in Indonesia, so it needs to be controlled in various ways. This study obtained data by distributing questionnaires to 100 respondents with SPSS as the analysis tool. The results showed that the tax system and tax audit can reduce tax evasion
**Keywords:** Taxation system; Tax audits; Tax evasion

**INTRODUCTION**

Indonesia aims to become a developed country with the slogan 'Indonesia Emas 2045'. This means that Indonesia will be 100 years old in 2045, thus forming 'Indonesia Emas 2045'. The Indonesian government wants to become a sovereign, developed, just and prosperous country in 2045. The mission undertaken by the government is certainly very much in order to achieve this vision. Various policies and programmes will be made by the government to achieve the Golden Indonesia 2045. This certainly requires large state revenues. A country's income is broadly divided into two, namely internal income and external income. Indonesia itself depends on external income through foreign loans. This will certainly be burdensome in the long run because the country is obliged to repay the loan. To overcome the burden of these loans, the government must optimise one of the internal revenues, namely from taxes.

Data from the Ministry of Finance of the Republic of Indonesia (MoF) shows a fluctuating percentage of tax revenue target and realisation. The 2021 tax revenue target is 1,546.1 trillion, but the realisation is 1,547.8 trillion (107.15%). The target for 2022 is 1,485 trillion, but the realisation is 1,716.8 trillion (114%). The 2023 target was 1,718 trillion, but the realisation was 1,869.2 trillion (102.8%). Overall, the tax revenue target has been exceeded. However, the fluctuating level of input tax realisation raises various issues, one of which is whether there are events that violate the law so that the state is harmed by not receiving the proper tax.

Tax-related law violation cases do occur. Examples of some cases revealed, 1) In 2024, the criminal offence of tax evasion was committed by the initials MJ by not paying VAT and submitting an incorrect Annual Tax Return. The state loss was estimated at IDR 217 million (detik.com); 2) In 2023, a corporate taxpayer registered at the Wates Tax Office committed a criminal act of tax evasion by cheating on the value of corporate income tax and VAT periodic tax return. The state loss is estimated at IDR 8.34 billion (harianjogja.com); 3) A bribery case was committed by a tax official to the Director of Audit and Collection of the DGT, Angin Prayitno, related to a tax evasion case against three companies by adjusting the amount of tax paid according to the WP's wishes. The state loss is estimated at Rp 150 billion (national.kompas.com).

Cases related to tax evasion that occur can trigger potential violators in the field of taxation. It can be interpreted that other taxpayers will feel encouraged to commit similar crimes to reduce their burden. Apart

from that, the public will have the view that the taxes they have paid are misused or not on target seeing from the tax evasion efforts made. Tax evasion is an active action carried out by taxpayers such as manipulation of tax data, eliminating components and reducing the nominal tax debt or all efforts to be free from the obligation to pay taxes owed according to statutory regulations (Afifka, 2024). This is due to a number of variables that will be discussed in the independent variables, namely the taxation system and tax audits.

According to Ardian (2015), justice must be the basis of a taxation system. The certainty of the amount of tax payable in the tax system is the right of the taxpayer. Failure of the tax collector can be prevented through a transparent system. Fraud committed by taxpayers can increase if the existing system is unfair and not transparent. Previous research that agrees with this, namely Bajri (2024); Sari et al (2021); Andrayuga et al (2017); Dewi and Merkusiwati (2017); Andito (2016); Sariani et al (2016); Paramita and Budiasih (2016); Dewi N. K (2016); Pulungan (2015); and Wicaksono (2014) states that the tax system can reduce tax evasion. Previous research that disagrees is stated by Syamsiah et al (2024); Saragih and Rusdi (2022); Maharani et al (2021); Yulia & Munifah (2021); Kamil (2021); Monica (2018); Prisantama (2017); Indriyani et al (2016); Abidin (2016); Ardian (2015); Tanaja (2015); and Ardyaksa (2014) mention that the tax system contributes positively to tax evasion. This means that even though the tax system is good, they cannot prevent tax evasion so that tighter supervision is needed on the part of taxpayers and tax collectors while maintaining fairness in the tax system.

According to Mardiasmo (2011: 34) argues that tax audit is a series of actions to comply with tax laws and regulations by searching, collecting and analysing data and / or other information and evaluating tax obligations to meet tax obligations. Low compliance by taxpayers results in the realisation of non-optimal tax revenue and directly tax audits are not carried out in accordance with applicable regulations. Previous researchers whose results are in line with this include Yuliana et al (2023); Anthony (2023); Avisenna (2016); Dewi (2016); Ardian (2015); and Saraswati (2013) mention that tax evasion is significantly negatively affected by tax audits, but there are two other opinions expressed by previous researchers, namely Ervana (2019); Prisantama (2017); Mira (2016); and Cahyonowati (2013) show tax audits do not contribute to tax evasion and other researchers namely Liyanda (2022); Ngadiman (2022); Reswina and Zulvia (2018); Lambey and Walandouw (2017); Dharmayanti (2017) and Rahman (2013) show tax audits can increase tax evasion.

## LITERATURE REVIEW

### The Effect of Taxation System on Tax Evasion

Related to prevention theory, the increase in tax evasion is due to the lack of compliance of taxpayers to implement applicable tax regulations. This can be anticipated by DGT by providing tax legal sanctions for taxpayers who are proven to have committed unlawful acts. Tax legal sanctions are present to be a deterrent effect and control for all taxpayers to comply with applicable laws. Previous studies by Bajri (2024); Sari et al (2021); Andrayuga et al (2017); Dewi and Merkusiwati (2017); Andito (2016); Sariani et al (2016); Paramita and Budiasih (2016); Dewi N. K (2016); Pulungan (2015); and Wicaksono (2014) mention the tax system can reduce tax evasion, the high tax evasion carried out by taxpayers is due to an inadequate tax system in terms of administration, recording and calculating taxes payable by taxpayers.

H1: The Taxation System can reduce Tax Evasion

**The Effect of Tax Audit on Tax Evasion**

Related to prevention theory, taxpayer compliance to comply with tax regulations can be prevented by conducting tax audits. Taxpayers who want to carry out these unethical actions will undo their intentions because of the high risk of being detected by the DGT. Tax legal sanctions are present to be a deterrent effect and control for all taxpayers to follow tax laws. Previous studies by Yuliana et al (2023); Anthony (2023); Avisenna (2016); Dewi (2016); Ardian (2015); and Saraswati (2013) state that tax evasion is significantly negatively affected by tax audits, meaning that taxpayers will avoid tax evasion practices because the tax authorities carry out strict tax audits so that they risk receiving tax law sanctions when detected.

H2: Tax Audit can reduce Tax Evasion

**RESEARCH METHOD**

The purpose of this study is to provide an explanation and examination of theories and hypotheses about how variables in the tax system and tax audits correlate with tax evasion. The population of this study is all corporate taxpayers located in Pelaihari, South Kalimantan. This study uses a convenience sampling technique by submitting a question sheet to respondents with a Likert scale.

**Table 1**. Variable and Indicators

| No. | Variables | Indicators | Measurement |
|---|---|---|---|
| 1 | **Dependent :** Tax Evasion | • Tax evasion behaviour<br>• Benefits received by taxpayers<br>• Clear law | Likert scale with 3 question items measured with 5 points, namely the value:<br>1 = Strongly Agree<br>2 = Agree<br>3 = Neutral<br>4 = Disagree<br>5 = Strongly Disagree |
| 2 | **Independent :** Tax System | • Perception of an unfair tax system<br>• Perceived inability to enforce the law<br>• Perception of weak controls<br>• Implementation of supervision | Likert scale with 4 question items measured with 5 points, namely the value:<br>1 = Strongly Agree<br>2 = Agree<br>3 = Neutral<br>4 = Disagree<br>5 = Strongly Disagree |

| 3 | Tax Audit | • Periodic check-ups<br>• Inspection intensity<br>• Acceptance result is not appropriate<br>• Perception of inspection implementation | Likert scale with 4 question items measured with 5 points, namely the value:<br>1 = Strongly Agree<br>2 = Agree<br>3 = Neutral<br>4 = Disagree<br>5 = Strongly Disagree |

## RESULT AND DISCUSSION

This study took 5 weeks to obtain the necessary data. A total of 125 questionnaires were distributed, but not all questionnaires were returned to the researchers, the following explanation:

**Table 2**. Sample

| Questionnaire | Total |
|---|---|
| Questionnaire Distributed | 125 |
| Questionnaires Not Returned | 25 |
| Questionnaire Used | 100 |
| Response Rate | 80 % |

Source: data processed

**Table 3**. Statistic Descriptif

| | N | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|---|
| Tax System | 100 | 4 | 19 | 9.48 | 3.686 |
| Tax Audit | 100 | 4 | 17 | 9.32 | 3.287 |
| Tax evasion | 100 | 8 | 15 | 12.27 | 1.669 |

Source: data processed

The results of the descriptive statistical test above can be seen that there are 100 respondents in this study. According to the calculation on the Taxation System, the minimum value is 4 and the maximum value is 19. The average value of the respondents' answers is 9.48 and the standard deviation is 3.686. According to the calculation on Tax Audit, the minimum value is 4 and the maximum value is 17. The average value of the respondents' answers is 9.32 and the standard deviation is 3.287. According to the calculation on Tax Evasion, the minimum value is 8 and the maximum value is 15. The average value of the respondents' answers is 12.27 and the standard deviation is 1.669.

**Table 4**. Coefficient of Determination (*Adjusted $R^2$*)

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0,865[a] | 0,749 | 0,735 | 0,858 |

Source: data processed

The table above shows that the Taxation System and Tax Audit variables are simultaneously able to explain the Tax Evasion variable by 73.5%. The 26.5% that can explain the Tax Evasion variable is not contained in this study.

**Table 5**. Hypothesis testing

| Variables | Coefficient | Std. Error | t-stat | Prob |
|---|---|---|---|---|
| Constant | 13,659 | 1,036 | 13,190 | 0,000 |
| Tax System | -0,122 | 0,040 | -3,080 | 0,003 |
| Tax Audit | -0,100 | 0,038 | -2,662 | 0,009 |

Source: data processed

**Effect of Taxation System on Tax Evasion**

The hypothesis test table shows the coefficient value is -0.122 with a probability value of 0.003 <0.05. This shows that the tax system can reduce tax evasion so that the increase in the existing tax system can reduce tax evasion events. Therefore, it can be said that hypothesis 1, namely the tax system can reduce tax evasion, is accepted. The results of this test are in line with the explanation of the theory used, namely Deterrence Theory. There are indications that a decrease in taxpayer compliance will increase tax evasion events. DGT is expected to implement the applicable rules and apply appropriate sanctions from violations committed by taxpayers to create a deterrent effect. These results support the research of Bajri (2024); Sari et al (2021); Andrayuga et al (2017); Dewi and Merkusiwati (2017); Andito (2016); Sariani et al (2016); Paramita and Budiasih (2016); Dewi N. K (2016); Pulungan (2015); and Wicaksono (2014) showing the tax system can reduce tax evasion, the high tax evasion carried out by taxpayers is due to an inadequate tax system in terms of administration, recording and calculating taxes payable by taxpayers.

**The Effect of Tax Audit on Tax Evasion**

The hypothesis test table shows the coefficient value is -0.100 with a probability value of 0.009 <0.05. This shows that tax audits can reduce tax evasion so that the stricter the tax audit is carried out, the incidence of tax evasion will decrease. Therefore, it can be said that hypothesis 2 is accepted. The results of this test are in line with the explanation of the theory used, namely Deterrence Theory. There are indications that a decrease in taxpayer compliance will increase tax evasion events. DGT is expected to implement the applicable rules and apply appropriate sanctions from violations committed by taxpayers to create a deterrent effect. These results support the research of Yuliana et al (2023); Anthony (2023); Avisenna (2016); Dewi (2016); Ardian (2015); and Saraswati (2013) which states that tax evasion is significantly negatively affected by tax audits, meaning that taxpayers will avoid implementing tax evasion because the tax authorities carry out strict tax audits so that they risk receiving tax legal sanctions when detected.

**CONCLUSIONS**

This study proves the existing hypothesis in line with deterrence theory, where a person will avoid all losses from the actions taken. The tax system and tax audit have the same negative direction of influence on tax evasion. This study has limitations where the time in collecting data for 5 weeks is due to researchers waiting for all questionnaires distributed back to researchers so that it takes a long time to complete this research.

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