

REVIEW OF TAX COMPLIANCE: A STUDY IN INDONESIA'S TAX REFORM DURING COVID-19 PANDEMIC

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ABSTRACT: This study investigated the impact of the Indonesian strategy and normative tax reform on tax compliance. In order to investigate any possible relationship between many important aspects of tax reform on tax compliance, we are exploring about the whistleblowing system possibility affect of tax reform on tax compliance. We used 216 questionnaire from manufacture manager on listed company in Indonesia Stock Exchange during 2020, and applied multiple regression. The significance of this study is developing a new measurement of whistleblowing on tax reform for company level in Indonesia. Our results suggest that the implementation tax reform agenda in Indonesia would be associated with tax compliance. The results also show that strategy, normative and whistleblowing have a positive effect on firm's tax compliance, The findings identify several areas for improvements and suggest several policy implications. This applies both in direct relation to each variable or simultaneously. This study important for managers, it is necessary to prioritize this reform agenda into something tax-beneficial, for the company. And for Directorate General of Tax (DGT), the strategic, normative and whistleblowing system aspects should be adopted in the formulation of long-term tax reforms.

Keywords: Tax Compliance, Covid-19, Tax Strategic, Tax Normative and Whistleblowing Sytem

I. INTRODUCTION

The level of tax compliance is often associated with the performance of the tax sector, in the form of the size of the state tax revenues growth and also the level of SPT reporting. If we trace back, state revenue in the tax sector always increases or decreases. Total tax revenues in 2017 was recorded increase Rp.165,968.9 billion (growing by 12.9%) compared to the realization of tax revenues in 2016 which was amounted to Rp. 1,284,970.1 billion. P 2016 amounting to Rp1,539,166.2 billion or only able to meet 83% of the set target even though the Directorate General of Taxes (DGT) stated that it had made extra effort (Kurniawati, 2017); (Pahlavi, 2018); (Financial Memorandum of the State Budget, 2017). The comparison of the previous 5 years is shown in Figure 1.

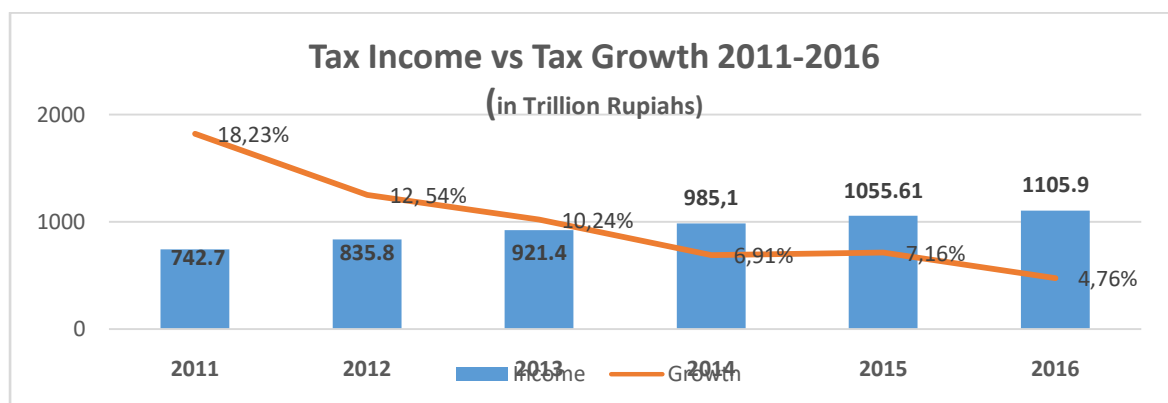


Figure 1. Indonesia Tax Income vs Tax Growth During 2011-2016

II. LITERATUR REVIEW

The predisposition of tax reform in one country is not necessarily applicable to solve problems in other countries. However, the knowledge of tax system in other countries is crucial. This is because the interaction between tax systems is increasingly unavoidable in the context of globalization. However, tax reform must be understood as a way to bring to the most ideal and balanced policy as close as possible (second best policy). The question arises on how the right steps for tax reform, especially in the optimization of human resources to reduce tax fraud as was done by Gayus in 2010 with a sentence of 29 years in prison for four of his crimes, and three cases of which were criminal acts of corruption.

Actually, the tax reform efforts to suppress the abuse of authority have been carried out by the Ministry of Finance since 2011 in response to the Gayus case which is considered to have tarnished the good name of the Directorate General of Taxes (DGT). The fraud in the tax institution erodes public confidence which leads to tax disobedience. The tax reform efforts in the HR sector are carried out to prevent and carry out early detection of violations that may occur within the DGT environment by increasing the active participation of employees and the public to become whistleblowers.

Therefore, DGT has issued Regulation of the Director General of Taxes Number PER-22/PJ/2011 dated August 19, 2011 concerning Obligations to Report Violations and Handling of Reports of Violations (Whistleblowing) within the Directorate General of Taxes (Perdirjen Number PER22/PJ/2011). An understanding of the Whistleblowing System of the Directorate General of Taxes is expected to prevent and reduce violations that occur with the participation of the public as taxpayers, which in turn increases tax compliance and increases tax revenues by achieving more optimal tax revenue targets.

Actually, tax reform in Indonesia has a long history. The agenda for volumes 1 to three underwent very significant changes. The seriousness of tax reform in Indonesia was even strengthened by the Decree of the Minister of Finance Number 885/KMK.03/2016 dated December 9, 2016 concerning the Establishment of the Tax Reform Team. The causes of tax irregularities can be seen from two sides, namely the taxpayer and the tax officer (tax officer). The first disclosure of cases of abuse of authority by the tax authorities in 2010 tarnished the good name of the DGT, reducing public tax compliance. The Ministry of Finance then released the Whistleblowing System (WiSe), an application provided by the Ministry of Finance for people who have information and want to report an act indicating a violation occurring within the Ministry of Finance of the Republic of Indonesia.

Literature on tax reform is quite diverse. Kim and Kim's (2018) study conducted in Uganda states that your strategic normative aspect greatly influences tax performance in developing countries. Angkoso (2010) conducted a study in Indonesia on tax reform, knowledge and awareness of taxes affect tax compliance. Tax reform will lead to better (increasing) tax compliance in Chile and Argentina (Marcelo, 2003).

Tax Compliance on Pandemi Covid-19

In the midst of the current COVID-19 pandemic, which cannot be ascertained when it will end, it certainly affects the realization of tax revenues in 2020. Unstable economic conditions affect many aspects. The social and psychological aspects of corporate decision makers are thought to also influence the decision to calculate taxes correctly, pay taxes with taxes owed and report them on time. Especially for the Indonesian manufacturing industry which still relies on human labor in its production process. As a result, production declines and the company's performance is no longer stable. It is interesting to examine the level of compliance of managers in this sector in the difficult times of the covid-19 pandemic.

For large-scale manufacturing companies, striving for efficiency in all things becomes very important. The same applies to efforts to comply with the law, including tax provisions. This study refers to the measurement of the OECD (2011) which is considered relevant to represent this aspect of corporate tax compliance. Prevention of tax non-compliance is seen in terms of the company's ability to conduct audits, mapping the risks that will be experienced and the severity of sanctions borne for non-compliance with taxes. Opportunity aspects are also examined, whether there are opportunities for tax avoidance, the size of the compliance costs and the complexity of the rules and systems. Likewise, with Personal Norms and Social Norms, Taxpayer Optimism, Business linkages and tax fees and services.

The difference between this study and the previous one is the use of religiosity and social identity factors as an indicator of measuring tax compliance. The concept of religiosity refers to something that is considered something formal and institutional because it reflects a commitment to beliefs and practices according to certain (religious) traditions, while spirituality is associated with personal and functional experiences, reflecting the individual's efforts to obtain purpose and meaning in life (Zinnbauer & Pargament, 2005). This personal aspect of spirituality makes it more accepted in a positive light by Western societies that value individual freedom in making life choices (Zinnbauer, Pargament, & Scott, 1999; Hill et.al., 2000; Zinnbauer & Pargament, 2005). When looking at the definition of religiosity, the different approaches

(epistemology) used make each expert have certain emphases in making the definition (Nelson, 2009; Zinnbauer & Pergament, 2005).

Continuation of study in this area is also recommended by Riahi and Belkaoui (2004) to explore religiosity and fully understand tax compliance issues. Extensive study on religiosity in tax morals has been initiated by Torgler (2003), and also large surveys such as the World Value Survey (WVS) and the European Values Study (EVS) are still used in studies linking religiosity and tax compliance (Pope and Mohdali, 2010). Similar studies were conducted in a number of countries such as in Canada (Torgler, 2003), in Germany (Feld and Torgler, 2007), Asian countries (Torgler, 2004), most European countries (Torgler and Schneider, 2007), Turkey (Torgler and Schneider, 2007). et al, 2008), the United States (Torgler, 2012) and includes 30 other countries (Torgler, 2006). So that this research is considered relevant to refer to the theory of religiosity in measuring tax compliance.

Normative and Strategic Tax Reform

Social factors and the commitment to provide broad benefits for the common welfare on a national scale by every taxpayer is the goal of tax reform. This is included in the normative criteria (Kim and Kim, 2018). Often taxpayers consider other aspects in deciding whether to comply with taxes or not, namely being strategic. Together, these two aspects play an important role in the choice. Taxpayers also normatively consider social factors related to tax payments and potential benefits in return (Levi 1988; Bräutigam 2008). Managers can increase compliance by influencing social factors such as perceptions of fairness, trust in the tax system and a sense of moral obligation.

Indonesian Whistleblowing System (Wise)

The intention to become a Whistleblower is not enough, the taxpayer does not understand how to report the alleged intervention by the tax authorities to the taxpayer. Obedient taxpayers should participate in the success of the Tax Reform program carried out by the DGT, including bureaucratic reform to show that the company has a culture of honesty and high integrity. This will give a signal to stakeholders that the company is tax compliant. This can be started by understanding the reporting as a Whistleblower correctly, so that the report can be accepted by the DGT.

The existence of special attention related to resources in tax institutions on the tax reform agenda in Indonesia encourages researchers to measure tax reform from the side of tax administration as in Kim and Kim's (2018) research and then add the taxpayer's skill factor to the reporting rules on WiSe belonging to the Ministry of Finance of the Republic of Indonesia. In Indonesia, optimizing the system in the reform agenda, one of which is the creation of the wise.go.id channel with the aim of reforming DGT's internal resources.

With this channel, the public can report suspected tax crimes they know about. So researching the understanding and knowledge of taxpayers is very important for the wise system performance assessment that has been made by the DGT. This study was conducted on manufacturing companies listed on the Indonesia Stock Exchange which can represent relevant sources of information from the industry with the largest tax contributor in Indonesia.

III. HYPOTHESIS DEVELOPMENT.

Strategic Tax Reform on Tax Compliance

Indonesia's tax administration reform strategy aims to improve three important components: taxpayer compliance, public trust, and tax officer productivity (DGT, 2007). To achieve this goal, tax administration reform must be designed comprehensively. The comprehensive strategy includes four basic reforms in organizational structure, business processes, human resource management, and good governance (DGT, 2007).

In the organizational structure, DGT optimizes three types of operational tax offices (Tax Service Office, Land and Building Tax Service Office, and Tax Investigation and Investigation Office) into one tax office and adopts a functional tax-type organizational structure consisting of service functions, supervisory functions and consulting, audit function, collection function, and data processing function (DGT, 2007). In business processes, DGT inaugurated the Standard Operating Procedure and simplification of rules and procedures (Rizal, 2011; DGT, 2007). Therefore the hypothesis proposed in this study:

H1: The aspect of tax reform strategy has a positive effect on tax compliance.

Normative Tax Reform on Tax Compliance.

Tyler and Bies (1990) state that there are two perspectives in the sociological literature on law compliance, which are instrumental and normative. Tax compliance is a description of the work of company management in relation to the suitability of calculating and reporting tax payables submitted to the state, with the Law on General Provisions and Tax Administration (KUP).

The normative aspect of tax compliance is important to note for the success of Indonesia's tax reform. The results of the Eka Study (2019) found that the decision to comply was based solely on a cost-benefit analysis in which people rationally weigh the benefits of non-compliance against the costs of detection and

punishment. Recent literature reveals, however, that the decision to comply is not purely rational. On the other hand, personal values, social norms, and non-rational cognitive processes also greatly influence decisions (Eka, 2019).

The role of tax administration as a form of normative obedience in revenue collection is currently getting more attention. Several countries are implementing tax administration reforms, which are generally assisted by the International Monetary Fund (IMF). Argentina overhauled its tax administration in response to poor service and low compliance (Tanzi & Pellechio, 1995). In addition, many African countries are reforming their tax administrations to simplify tax systems and improve tax compliance (Silvani & Baer, 1997). Likewise in Indonesia, it is necessary to optimize the normative aspects of the tax reform agenda. So the hypothesis proposed in this study:

H2: Normative Aspects of Tax Reform have a positive effect on tax compliance.

Whistleblowing System on Tax Compliance

Whistleblowing is closely related to tax crimes. It is clear that the wise.go.id channel was created in the context of tax reform efforts to reduce the rate of tax corruption. Fraud is different from theft, the latter is done by physically forcing someone to give you what you want, but the trick used previously to get the victim's assets, from a tax avoidance perspective, is the state and the people (Albrecht et al, 2011).

Tax evasion is the crime of not disclosing income to the tax authorities who are entitled to know it and the crime of demanding expenses to be compensated with taxable income when knowing that the expenses should not be claimed for that purpose (Murphy, 2014). Associated with practice in Indonesia, understanding the use of this channel is important so that managers can contribute as whistleblowers. In this way, taxpayers' trust will be obtained, and they will become tax compliant.

Wise.go.id adopts the 5W1H principle in the process of collecting information needed for disclosure of indications of tax crimes. That is what was reported, when it happened, who did it, when it was done and how the indications of the tax crime occurred (Indonesian Ministry of Finance, 2017). The adoption of the skill aspect of the manager is one of the determinants of the success of tax compliance. Likewise, if all aspects of the strategy, normative and whistleblowing system are optimized, the willingness of taxpayers to comply will increase. Thus, the research hypothesis is continued with:

H3: Whistleblowing system has a positive effect on tax compliance.

H4: Simultaneously the strategic, normative and whistleblowing system aspects of tax reform have a positive effect on tax compliance.

IV. METHOD

Population and Sampling

This study uses the population of manufacture's firm listed on the Indonesia Stock Exchange (IDX) in 2020. The research sample was obtained using purposive sampling method. Respondents on samples were taken based on certain criteria, The companies where the respondents work are manufacturing company owning more than 500 employees, the respondents have worked at the company for more than 1 year, the respondents are at the top managerial or middle managerial level. Thus, they can contribute to decision making and has a work team under them. This is intended to make the respondents can actually represent the company and have sufficient capability to answer the questionnaire questions

Operationalization of Variables

Research variables are anything in the form of what is determined by researchers to be studied, so that information obtained about it is then drawn conclusions (Sugiyono, 2009). The type of variable used in this study is the independent variable and the dependent variable. This study uses OECD (2011) and adds the dimension of religiosity (Mohdali, 2017) and the identity of social Varkyuten (2006) which was adopted into the model Dwianika (2021), as a measure Dependent level of compliance of mandatory taxes. While Tax Reform as an independent view refers to Kim and Kim (2018) and the Ministry of Finance of the Republic of Indonesia (2017) which later adopted as Dwianika (2021) on a 1-5 linkert scale. Details can be seen in Table 2, refer to Research Framework on Figure 3.

Table 2. Summary of Operationalization Variables

Variable	Reference	Measurement
Dependen: Tax Compliance (TC)	(Mohdali, 2017, OECD (2011), Varkyuten (2006), Dwianika (2020).	Prevention, opportunities, norms, beliefs, economic factors, justice, religiosity and social identity
Independent: X1: Strategy of Tax Reform (STR)	Kim and Kim (2018)	Prevention and incentives
X2: Normative of Tax Reform (NOR)	Kim and Kim (2018)	Social Factors and Commitment to Providing Benefits

X3:Whistleblowing System (WBS)	Indonesian Ministry of Finance , (2017)	The function and purpose of the system, reporting of tax crimes, guarantees for reporting tax crimes
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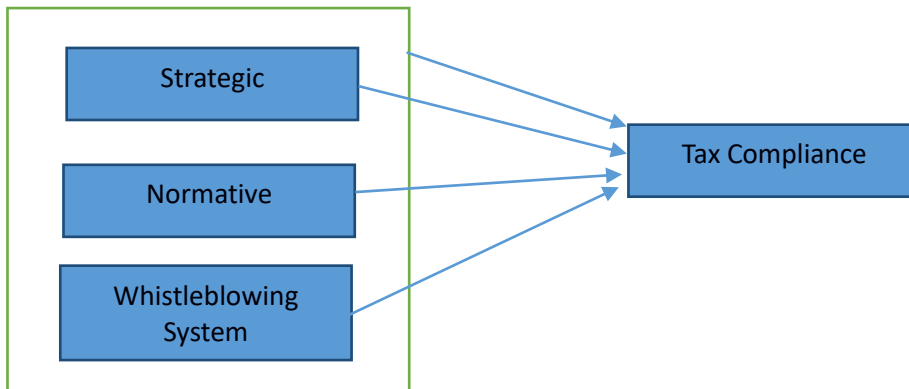


Figure 3. Research Framework

Data Analysis Method

The hypothesis in this study was tested by multiple linear regression tests. This interaction test is used to determine the extent of Tax Reform on Tax Compliance. The MRA equation model used:

$$TC = \beta_0 + \beta_1 STR + \beta_2 NOR + \beta_3 WBS + error$$

V. RESULT AND DISCUSSION

The sample used in this study based on purposive sampling is 217 respondents working more than 1 year on the Indonesian Stock Exchange in the manufacture sector during 2020 as many as 193 companies. The number of research observations is 216 data that meet the criteria can be used.

Details of the characteristics of the respondents in this study are as shown in Figure 4.2 which shows that most of them are in the 31-40 years old range of 43.8%, followed by the 41-50 year age range of 25.8%. Followed by 21.7% in the age range of 20-30 years, and finally 8.8% in the age range of 50-60 years. The status of the respondents was 74.7% married and 25.3% unmarried. As for the last education, the majority of respondents as much as 45.6% are Masters, followed by 40.6% are bachelor degree.

As for gender, the majority are women as much as 53.9%, while men are 46.1%. The working period is dominated by the 6-10 years working period of 31.8%; followed by a range of 11.15 years as much as 26.3%, then a range of 1-5 years as much as 19.4%, then more than 20 years as much as 9.2%. The job level is dominated by top managerial 47%, then supervisor 31.8% and finally operational 21.2%. This research has passed the validity and reliability test which shows the data can be used in this model. The descriptive statistics of the data are shown in Table 4.

Table 4. Descriptive Statistics

Variabel	N	Modus	Median	Std. Deviation	Range	Minimun	Maximum
TC (Y)	216	4.000	4.000	0.72713	3.844	1.000	5.000
STR (X1)	216	4.000	4.000	0.08721	3.728	1.000	5.000
NOR (X2)	216	3.000	4.000	0.07813	3.470	2.000	5.000
WBS (X3)	216	4.000	4.000	0.04549	3.950	1.000	5.000

Table 5. Results of Testing Equation Model

	Prediction	Original Sample	Sample Mean	STDEV	t Statistics (O/STDEV)	P Value	Status
STR -> TC	+	0.095	0.093	0.074	5.455	0.000**	H1 Accepted
NOR -> TC	+	0.098	0.096	0.062	3.575	0.015**	H2 Accepted
WBS -> TC	+	0.519	0.321	0.054	4.051	0.021**	H3 Accepted
STR*NOR*WBS -> TC	+	0.110	0.132	0.063	2.994	0.042**	H4 Accepted

Noted: Significant level at 5%

The results of the model test can be seen in Table 5, which is a regression test conducted to test Hypotheses 1 to 4. Every single independent variable has a directly positive significant effect on tax compliance. Likewise, simultaneously strategy, normative and whistleblowing system also have a positive effect. However, the regression result shows a same significant level, 5%. This finding shows that tax reform in the aspect of strategy, normative and whistleblowing system is able to improve tax compliance.

The tax strategy and normative reform variable used in this paper is principally the same with Kim and Kim (2018), they argued that the problem are 2 factors above. However, the Whistleblowing System was adopted from the Ministry of Finance of the Republic of Indonesia (2017), which is concerned about 5W1H.

Effect of Strategy Tax Reform on Tax Compliance.

The results of this study explain that strategy on tax reform has effected on tax compliance. This indicates that the role of the strategic aspects implemented by the DGT in the reform agenda has been responded positively by taxpayers. So as to improve their tax compliance. This finding supports the argument of Kim and Kim (2018) which states that the use of the right strategy in tax reform increases the opportunity for tax payers to pay taxes. The finding in this study, however, contradicts Brondolo's et al (2008) finding.

Apparently, in Indonesia, tax payers still see the level of compliance that they will do as seriously as the government regulates how much incentives are given. It also considers how the sanctions will be given. The greater the incentives and sanctions, the more likely they are to want to take advantage of these incentives and are afraid of the tax costs they will incur if they are sanctioned.

Effect of Normative Tax Reform on Tax Compliance.

A problem with individual taxpayer administration in relation to human resource adequacy has been expressed by DGT's Director General since 2010 after the tax administration reform was completed (Jatmiko, 2014; Made, 2010). This is closely related to human factors that interact socially. This finding states that normative factors in tax reform also support tax compliance efforts. Like the social awareness that is owned by the tax payer.

For tax payers who do not care about social interests, they tend not to prioritize taxes as joint contributions for the sake of the national interest. However, it is different for tax payers with a high level of social awareness. Likewise with their commitment to contribute to the implementation of development.

A tax payer with a high commitment will not budge even when there are economic difficulties, such as this covid-19 pandemic. This is in line with the findings of Lovinhan (2014), that a person's awareness and commitment affect tax compliance decisions. So that the optimization of tax reform in the normative aspect still plays an important role and should be improved.

Effect of Whistleblowing System on Tax Compliance.

The whistleblowing behavior is, by and large, correctly anticipated by taxpayers. Only the increase in whistleblowing behavior due to the introduction of small monetary incentives is underestimated by subjects (Breur, 2016). Though there is no generally accepted definition of whistleblowing, it is usually described as the deliberate disclosure of information about illegal, immoral, or illegitimate practices by current or former organization members to persons or organizations that may be able to effect action (Near and Miceli, 1985).

Likewise in this study, whistleblowing in the 5W1H aspect which is completely presented in the channel created by the DGT, is able to make taxpayers obey the rules. So that taxpayers' understanding of the whistleblowing system in an effort to reform tax cannot be underestimated. With effective socialization, taxpayers get sufficient information, which in the end taxpayers can take advantage of the Wise channel as an alternative for the community to oversee the implementation of taxes from collection to use.

Simultant Effect of Strategy, Normative and Whistleblowing System on Tax Compliance.

Hypothesis 4 which investigates the positive effect of strategy, normative and whistleblowing in tax reform is proven to be accepted. Simultaneously, these three aspects need to be adopted in tax reform policies, so as to encourage tax payers to comply with taxes. In Indonesia itself, the main issue of tax disobedience is the trust factor. Therefore, fiscal policy is very necessary to build their confidence.

This has been marked by a decrease in tax rates and an increase in state spending. With the government's efforts that appear to be very persistent in maintaining economic stability, including tax relaxation during the pandemic, tax payers will realize the importance of contributing together to build the nation. Therefore, these three tax reform factors are the main keys to Indonesia's tax compliance.

VI. CONCLUSIONS

Based on the results and discussion conducted previously, the following conclusions can be drawn: first, tax reform strategy was very important to gain the tax compliance. The more serious the DGT's efforts to develop a system that makes it easy for obedient taxpayers and provides sanctions for absentee taxpayers (prevention), the level of compliance will increase. Likewise with social factors and normative tax payer commitments. The more aware taxpayers are of the tax needs that are very important for the national agenda, the more they will be compelled to carry out their tax obligations.

Meanwhile, the taxpayer's knowledge of wise functions and objectives, reporting the place of crime, the time of the crime and the guarantee of the confidentiality of the reporter also contributed to the taxpayer's confidence in the effectiveness of the tax reform agenda in Indonesia. Thus, there are no more people taking advantage on tax fraud opportunities in a declining economic condition. They will support the adoption of these factors in the DGT's tax reform agenda, with the hope of becoming more tax compliant.

VII. RESEARCH LIMITATIONS

The number of samples that met the criteria, and from questionnaire sendback was 217 from 1.193 distributed questionnaire. However, the results of this study cannot be generalized. In addition, this study focusing only on limited tax reform (strategy, normative and whistleblowing), with adjusted R square value 0,284. This means that this tax reform factors, only suggested 28,4% influenced to tax compliance. And the rest, from others factor. Further study have to explore more about good governance, leadership and culture on tax compliance. Similar study may extend by using larger area survey such as ASEAN countries.

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