


The role of perceived fairness, trust, and motivation on tax compliance



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ABSTRACT

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This article aims to analyze the influence of perceptions of procedural, distributive, and retributive fairness, cognitive-based trust, and motivation based on a commitment to voluntary compliance of small and medium enterprise (SME) taxpayers in Surabaya, East Java, Indonesia. The theoretical basis of this study is the theory of motivation and the Slippery Slope Structure. This article uses convenience sampling and a survey approach by distributing questionnaires with digital instruments, and the total number of responses from SME taxpayers is 117. Concrete evidence from the analysis shows that perceptions of fairness (distributive and retributive) and trust (cognitive) increase voluntary tax compliance of SME taxpayers. Motivation (commitment) plays an important role in mediating the perception of (procedural) fairness because the perception of procedural fairness is related to the taxation system: calculating, paying, and reporting, and including if there are things that do not comply with applicable regulations (being inspected and punished), so taxpayers need to convince themselves of their obligations as taxpayers and believe that the system is fair. This study provides a framework for analyzing tax compliance models, which consider perceptions of fairness, taxpayer trust in tax authorities, and commitment to play a major role in voluntary tax compliance, especially among SME taxpayers.

Contribution/ Originality: Motivation based on commitment as a mediator of the perception of justice. This study provides a framework for analyzing tax compliance models, which consider perceptions of fairness, taxpayer trust, and commitment.

1. INTRODUCTION

The issue of tax compliance remains a "big problem" for developing countries. Taxpayers' perceptions are essential to compliance (Braithwaite, 2003; Taing & Chang, 2021). Taxpayers in developing countries often try to avoid taxes because they consider them a burden (Mangoting, 1999; Yenni Mangoting & Sukoharsono, 2015; Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, & Nakabuye, 2017). The low number of tax authorities and the complexity of the existing taxation system create loopholes for taxpayers in developing countries to evade tax obligations (Alm, 2019; Carsamer & Abbam, 2023; Darmayasa, Sudarma, Achsin, & Mulawarman, 2018; Helhel & Ahmed, 2014; Musimenta, 2020). The consequences of tax compliance issues are significant, affecting the ongoing

concern of state financing (Alshira'h, Alsqour, Lutfi, Alsyounf, & Alshirah, 2020; Saragih, Reyhani, Setyowati, & Hendrawan, 2023). Tax revenue is crucial for all state financing, so taxation issues, especially tax compliance, are very significant for the ongoing concern of both developing and developed countries (Abdu & Adem, 2023; Hassan, Naeem, & Gulzar, 2021; Taing & Chang, 2021).

The economic foundations of developing countries are dominated by the Small and Medium Enterprises (SME) sector. Indonesia is part of Southeast Asia, with 99% of its economic foundation coming from SMEs (Jaswadi, Iqbal, & Sumiadji, 2015; Utama, Yusfiarto, Pertiwi, & Khoirunnisa, 2024). SMEs in Indonesia have contributed significantly to the Gross Domestic Product and employment (Kurniawan & Iskandar, 2023; Nursini, 2020; Nuryanah, Mahabbatussalma, & Satrio, 2023). Although SMEs make a significant economic contribution, the issue of SME tax compliance in Indonesia is still not optimal because there is a need for deeper awareness in fulfilling tax administration obligations (Fajriana, 2021; Inasius, 2019). Based on the General Provisions and Tax Procedures Law that applies after the Indonesian Taxation Regulation Harmonization Law, the tax administration process plays an important role as key data for the tax authorities in assessing the tax potential that Indonesia can receive. The impact of non-compliance in carrying out tax administration can reduce the potential for state revenue (Aulia, Rosdiana, & Inayati, 2022). The low potential for tax revenue has an impact on state financing.

This study examined the influence of perceptions of fairness, commitment, and cognitive trust on voluntary taxpayer compliance in Indonesia. Voluntary compliance is Indonesia's main objective of tax system reform (Darussalam & Septriadi, 2022; Saragih et al., 2023). The tax system reform developed in Indonesia prioritizes the development of a cooperative relationship between taxpayers and tax authorities and aims to reduce tax disputes (Darussalam, Septriadi, Kristiaji, & Vissaro, 2019). Tax reform is needed to change, renew, and improve the current tax system (Dom, Custers, Davenport, & Prichard, 2019). Taxpayers' perceptions and views of taxes and the performance of the tax authorities are important factors for stimulating taxpayers to voluntarily comply with tax obligations (Nguyen, 2022). This study builds upon the research of Faizal, Palil, Maelah, and Ramli (2017) which examined the effect of fairness (procedural, distributive, and retributive) on taxpayer compliance.

The approach examined was the psychological perspective regarding the perception of justice, trust, and commitment. The perception of fairness tested was the perception of procedural, distributive, and retributive fairness because it aligns with the current reform of the taxation system in Indonesia, namely to build an adaptive taxation system and improve cooperative relations between taxpayers and the tax authorities (Darussalam & Septriadi, 2022; Darussalam et al., 2019; Saragih et al., 2023; Wenzel, 2003). Trust can support synergistic relationships between taxpayers and the tax authorities in promoting voluntary compliance (Agusti & Rahman, 2023; Nasution, Santi, Husaini, Fadli, & Pirzada, 2020). Trust, in this case, is cognitive trust because it is considered more accountable and aligns with demonstrable tax compliance principles (Gobena & Van Dijke, 2016). The motivation of the taxpayer being tested is the taxpayer's commitment because commitment is a motivation that comes from within the taxpayer that is intrinsic and plays an important role in building voluntary compliance (Braithwaite, 2003; Santoro, 2021; Wenzel, 2005). Intrinsic motivation strongly influences taxpayers to comply because intrinsically motivated actions do not depend on any outcome that can be separated from the behavior (Legault, 2020; Rahmawati & Dwijayanto, 2021).

Commitment is a significant point in this study, as it plays a role in maintaining a synergistic relationship between taxpayers and tax authorities (Mangoting, Christopher, Kriwangko, & Adriyani, 2020). Taxpayer commitment also impacts long-term decision-making and compliance (Koessler, Torgler, Feld, & Frey, 2019; Mittone & Saredi, 2016). This study examines the role of taxpayer commitment in intervening between perceptions of fairness and trust in voluntary compliance. Trawule, Gadzo, Kportorgbi, and Sam-Quarm (2022) reveal that tax knowledge plays an important role in increasing taxpayer commitment to compliance, but it must be assessed alongside other aspects that may influence taxpayer commitment to voluntary compliance. This study also constructs a conceptual framework that explains taxpayer behavior in fulfilling tax obligations. The perception of tax fairness and trust in the tax

authority is part of the extrinsic factors, while commitment is part of the intrinsic factors that explain taxpayer behavior.

2. HYPOTHESIS DEVELOPMENT

2.1. Motivation Theory

Commitment in psychology is motivation that comes from the individual. Commitment is closely related to personal identity and behavior (Burke & Reitzes, 1991). Commitment as identity is defined as a person's meaning in carrying out a role, for example, as a student, auditor, and so on (Foote, 1951). Commitment as personal behavior is a form of action that shows a person's role in a system or organization (Becker, 1960, 1964). Commitment is a form of personal motivation to contribute and play a role in a specific group.

Taxpayer commitment represents an internal motivation to positively impact the state. A taxpayer's identity demonstrates the pivotal role that taxpayers play in the country's development through tax payments and reporting. Behavior as a taxpayer is inseparable from tax morale, which significantly impacts taxpayers' motivation to commit to being more compliant in carrying out their tax obligations. (Gangl & Torgler, 2020; Iqbal & Sholihin, 2019) According to Braithwaite (2003) and Kirchler (2021), dedication influences taxpayers to be more compliant rather than trying to avoid taxes.

2.2. The Slippery Slope Structure

The Slippery Slope Structure is a psychological framework that outlines the reactions of taxpayers to tax obligations. The main focus of The Slippery Slope Structure is the relationship between taxpayers and the tax authorities (Batrancea et al., 2022; Mas'ud, Abd Manaf, & Saad, 2019). The more dominant the taxpayer's trust in the tax authority, the more likely the taxpayer will be to voluntarily fulfill tax obligations, and a synergistic tax climate is formed (Cahyonowati, Ratmono, & Juliarto, 2023; Chong, Yusri, Selamat, & Ong, 2019; Iqbal & Sholihin, 2019; Kirchler, Hoelzl, & Wahl, 2008; Kumi, Bannor, Oppong-Kyeremeh, & Adalety, 2023). In contrast, the more dominant the power of the tax authorities in taxation, the more taxpayers are encouraged to fulfill their tax obligations, and the relationship that is built between taxpayers and the tax authorities tends to be separate (Chong et al., 2019; Iqbal & Sholihin, 2019; Kirchler et al., 2008).

The Slippery Slope Structure has established a foundation of trust that continues to grow. Gobena and Van Dijke (2016) developed cognitive and affective-based trust to explain more comprehensively how trust psychologically affects taxpayers' actions. Cognitive trust is considered more rational than affective trust in decision-making because it has an accountable track record. (Fajriana, Irianto, & Andayani, 2023; Gobena & Van Dijke, 2016) A track record of good performance from the tax authorities certainly increases taxpayer confidence, enabling taxpayers to comply without coercion. (Fajriana et al., 2023) Based on the description above, the hypothesis developed is:

H_i: Cognitive trust can enhance voluntary tax compliance.

Commitment is an individual's intrinsic belief in acting and behaving. Taxpayer commitment instills trust in the actions and conduct of taxpayers in fulfilling their tax obligations. A track record of successful performance by the tax authorities undoubtedly increases taxpayer confidence, leading to a greater commitment to voluntary tax compliance (Fajriana et al., 2023; Gangl, Hofmann, Hartl, & Berkics, 2020; Mangoting, Junfandi, & Vania, 2021). Based on the description above, the hypothesis developed is:

H_s: Commitment intervenes between cognitive trust and voluntary tax compliance.

The Slippery Slope Structure also explains that other factors significantly contribute to shaping taxpayer compliance. Crucial factors that shape compliance, especially voluntary compliance, are the perception of fairness and taxpayer motivation (Kim & Wan, 2022; Kirchler et al., 2008). Psychological justice refers to a person's perception of the justice they receive (Güzel, Özer, & Özcan, 2019; Van den Bos, Maas, Waldring, & Semin, 2003). Perceptions of justice influence a person's behavior. Someone who feels injustice tends to behave defiantly and commit violations

H₅: Perceptions of retributive fairness can enhance voluntary tax compliance.

H₈: Commitment intervenes between the perception of retributive fairness and voluntary compliance.

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graph LR
    A[Cognitive trust] -- H1 --> F[Voluntary compliance]
    B[Perception of procedural fairness] -- H3 --> F
    C[Perception of distributive fairness] -- H4 --> F
    D[Perception of retributive fairness] -- H5 --> F
    A --> E[Commitment]
    B --> E
    C --> E
    D --> E
    E -- "H2; H6; H7; H8" --> F
  
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3. RESEARCH METHOD

The population in this study consisted of small and medium-sized business taxpayers in Surabaya. This study used convenience sampling to obtain data through an online questionnaire. The questionnaire was developed and distributed using Google Forms. The questionnaire developed in this study refers to [Murphy \(2003\)](#) for the perception of procedural justice, [Verboon and Van Dijke \(2007\)](#) for the perception of distributive justice, [Saad \(2016\)](#) for the perception of retributive justice, [Gobena and Van Dijke \(2016\)](#) for cognitive trust, [Olsen, Kasper, Kogler, Muehlbacher, and Kirchler \(2019\)](#) for taxpayer commitment, and [Kirchler and Wahl \(2010\)](#) for voluntary taxpayer compliance. The collected data was classified based on the criteria of [Law Number \(2021\)](#) concerning the Harmonization of Tax Regulations, namely the type of Small and Medium Enterprises that are in the form of a private individual business, have a Taxpayer Identification Number, have a gross circulation between 500 million rupiahs and 4.8 billion rupiahs in one year, and keep financial records. The data that can be processed after classification is 117 respondents.

The variables in this article were abbreviated to facilitate mention in the research results: cognitive trust (CT), perception of procedural fairness (PPF), perception of distributive fairness (PDF), perception of retributive fairness (PRF), commitment (CO), and voluntary compliance (VC). Before proceeding with the hypothesis testing method, the data that passed the classification were tested for validity and reliability to ensure accuracy. The results of the convergent validity test showed that the loading factor on several indicators of the constructs of procedural justice perception (PPF), commitment (CO), and voluntary compliance (VC) showed values below 0.7, so these indicators must be excluded ([Chin, 1995](#)). The indicators with values below 0.7 include PPF5, PPF6, PPF7, PPF8, CO3, CO4, VC4, and VC6 - reflecting the outcomes of the validity and reliability test after removing indicators with values below 0.7.

Table 1. Cross loading.

Indicator	Loading factor >0.7
Cognitive trust (ct1)	0.894
Cognitive trust (ct2)	0.889
Cognitive trust (ct3)	0.919
Cognitive trust (ct4)	0.893
Cognitive trust (ct5)	0.901
Cognitive trust (ct6)	0.922
Perception of procedural fairness (PPF1)	0.959
Perception of procedural fairness (PPF2)	0.914
Perception of procedural fairness (PPF3)	0.949
Perception of procedural fairness (PPF4)	0.936
Perception of procedural fairness (PPF9)	0.919
Perception of procedural fairness (PPF10)	0.939
Perception of procedural fairness (PPF11)	0.950
Perception of distributive fairness (PDF1)	0.929
Perception of distributive fairness (PDF2)	0.960
Perception of distributive fairness (PDF3)	0.878
Perception of distributive fairness (PDF4)	0.921
Perception of distributive fairness (PDF5)	0.899
Perception of retributive fairness (PRF1)	0.954
Perception of retributive fairness (PRF2)	0.966
Perception of retributive fairness (PRF3)	0.953
Commitment (CO1)	0.926
Commitment (CO2)	0.934
Commitment (CO5)	0.896
Commitment (CO6)	0.910
Commitment (CO7)	0.947
Commitment (CO8)	0.952
Voluntary compliance (vc1)	0.786

Indicator	Loading factor >0.7
Voluntary compliance (vc2)	0.882
Voluntary compliance (vc3)	0.904
Voluntary compliance (vc5)	0.820
Voluntary compliance (vc7)	0.803
Voluntary compliance (vc8)	0.830
Voluntary compliance (vc9)	0.843
Voluntary compliance (vc10)	0.806

Note: The value of the loading factor must be more than 0.7.

Source: Results of the research.

Table 1 summarizes the results of cross-loading data processing. It shows that the indicators of each variable construct have passed the threshold of 0.7, so the data is declared to be not related to each other. The loading factor results of each indicator are the results after removing the indicators PPF5, PPF6, PPF7, PPF8, CO3, CO4, VC4, and VC6.

Table 2. Test of discriminant validity.

Indicator	$\sqrt{\text{AVE}}$	Perception of procedural fairness	Perception of distributive fairness	Perception of retributive fairness	Cognitive trust	Commitment	Voluntary compliance
Cognitive trust	0.902	0.268	0.081	0.290	1.000	0.200	0.413
Perception of procedural fairness	0.938	1.000	0.277	0.205	0.268	0.416	0.367
Perception of distributive fairness	0.917	0.277	1.000	0.167	0.081	0.198	0.412
Perception of retributive fairness	0.957	0.205	0.167	1.000	0.290	0.200	0.418
Commitment	0.927	0.416	0.198	0.200	0.200	1.000	0.475
Voluntary compliance	0.834	0.367	0.412	0.418	0.413	0.475	1.000

Note: The root of the average variance extracted (AVE) must be greater than the correlation between constructs.

Source: Results of the research.

Table 2 summarizes the results of the discriminant validity data test. It shows that the root of the Average Variance Extracted (AVE) in each construct is greater than the correlation between one construct and another, so the data is declared to have passed the discriminant validity test. The results of the discriminant validity test of each construct are the results after removing the indicators PPF5, PPF6, PPF7, PPF8, CO3, CO4, VC4, and VC6.

Table 3. Test of validity and reliability.

Indicator	Cronbach's alpha	Composite reliability	Average variance extracted (AVE)
Rules	> 0.7	> 0.7	>0.5
Cognitive trust	0.955	0.964	0.815
Perception of procedural fairness	0.977	0.981	0.881
Perception of distributive fairness	0.953	0.964	0.842
Perception of retributive fairness	0.955	0.971	0.917
Commitment	0.968	0.974	0.861
Voluntary compliance	0.938	0.948	0.697

Note: The value of Cronbach's Alpha and the composite reliability must be more than 0.7, and the value of average variance extracted (AVE) must be more than 0.5.

Source: Results of the research.

Table 3 summarizes the results of the validity and reliability data tests. Table 3 shows that Cronbach's Alpha and Composite Reliability for each construct are more than the threshold of 0.7, and the Average Variance Extracted (AVE) for each construct is more than the threshold of 0.5, so the data is declared to have passed the validity and reliability test. The validity and reliability tests for each construct are the results after removing the indicators PPF5, PPF6, PPF7, PPF8, CO3, CO4, VC4, and VC6. The results of the data tests in Tables 1, 2, and 3 show that the existing indicators can explain the constructs that cover them.

4. RESULTS

This study examined the role of perceptions of justice based on psychology, namely procedural, distributive, and retributive justice. Based on the results of hypothesis testing (Table 4), it was shown that perceptions of justice (distributive and retributive) play a direct role in building the voluntary compliance of SMEs; hence, hypotheses 4 and 5 are accepted. This study investigated both perceptions of fairness and the influence of cognitive trust on voluntary compliance in SMEs. Based on the results of hypothesis testing (Table 4), cognitive trust was proven to play a role in building SME voluntary compliance. Thus, hypothesis 1 was accepted.

Table 4. Direct hypothesis testing.

Indicator	β	T statistic	Significant	Hypothesis
CT -> VC	0.241*	2.680	0.008	H1 accepted
PPF -> VC	0.055	0.613	0.540	H3 rejected
PDF -> VC	0.270*	3.390	0.001	H4 accepted
PRF -> VC	0.218*	2.741	0.006	H5 accepted

Note: *significant at 0.05; CT: Cognitive trust. PPF: Perception of procedural fairness; PDF: Perception of distributive fairness; PRF: Perception of retributive fairness; VC: Voluntary compliance.

Source: Results of the research.

This article also investigates the role of commitment as an intermediary variable between the dimensions of justice perception (procedural, distributive, and retributive) and cognitive trust. The results of testing the indirect hypothesis (Table 5) indicate that commitment fully intervenes between the views of procedural justice and the voluntary compliance of SMEs, and hypothesis 6 is accepted. The absence of evidence of a direct relationship between the perception of procedural justice and voluntary compliance proves that commitment fully intervenes.

Table 5. Indirect hypothesis testing.

Indicator	β	T statistics	Significant	Hypothesis
CT -> CO -> VC	0.021	0.629	0.530	H2 rejected
PPF -> CO -> VC	0.102*	2.350	0.019	H6 accepted
PDF -> CO -> VC	0.023	0.665	0.507	H7 rejected
PRF -> CO -> VC	0.027	0.872	0.384	H8 rejected

Note: *significant at 0.05; CT: Cognitive trust. PPF: Perception of procedural fairness; PDF: Perception of distributive fairness; PRF: Perception of retributive fairness; VC: Voluntary compliance.

Source: Results of the research.

The test results showed that perceptions of fairness, trust, and commitment played an important role in building voluntary compliance among SMEs. As the second largest city in Indonesia, Surabaya has a high tax potential for state revenue. The results reinforced the argument of Alm, Kirchler, Muehlbacher, et al. (2012) and Paleka and Vitezić (2023) that psychological aspects drive voluntary compliance rather than economic factors. The psychological elements of taxpayers are heavily influenced by the surrounding social environment involved in taxation, such as fellow taxpayers, tax authorities, government, and other social groups (Alm, Kirchler, & Muehlbacher, 2012). Figure 2 is the final model of this research.

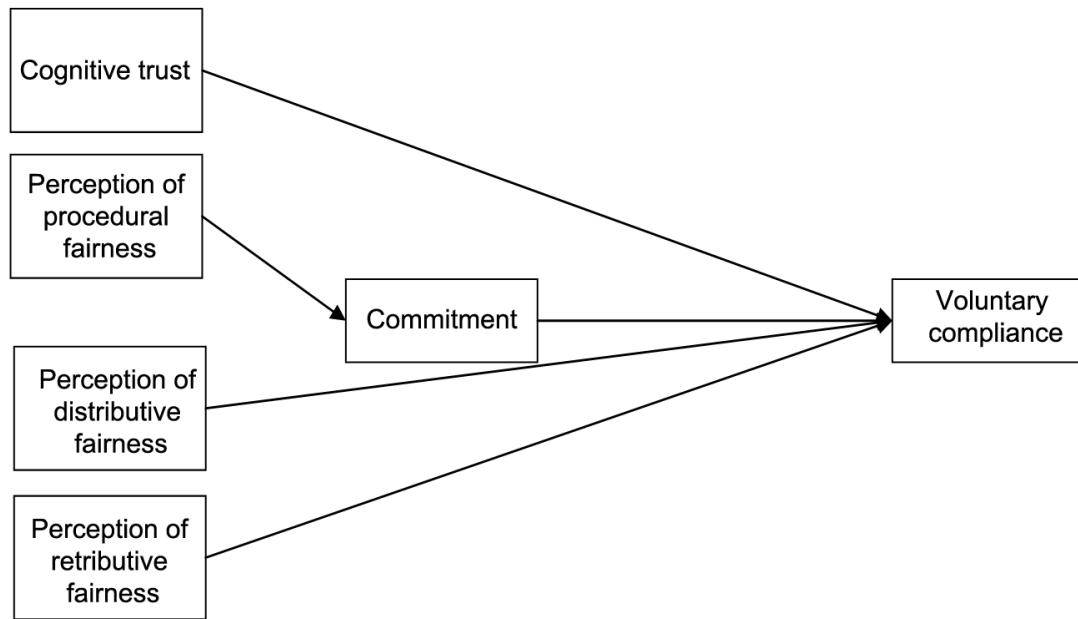


Figure 2. Final model.

Source: Results of the research.

5. DISCUSSION

The perception of psychological justice, as described through procedural, distributive, and retributive justice, is important in building voluntary compliance among SME taxpayers. Furthermore, cognitive-based trust and commitment from taxpayers are crucial factors in realizing voluntary compliance. Cognitive-based trust shows that taxpayers make decisions to carry out tax obligations with demonstrable confidence. The perception of distributive and retributive justice also shows that taxpayers decide to carry out tax obligations with tangible evidence that can be felt directly. Distributive justice refers to the distribution of tax funds (Okafor, 2023; Wenzel, 2003). Proper distribution of tax funds can convince SME taxpayers to voluntarily carry out tax obligations. Retributive justice refers to imposing sanctions for deviations in carrying out tax obligations (Chun, 2021; Wenzel, 2003). Tax reforms aimed at reducing tax dispute cases and increasing transparency in each tax dispute case can convince MSME taxpayers to be more voluntary in carrying out tax obligations and build synergies for taxpayers and the tax authorities (Darussalam et al., 2019; Hidayah, Suhariningsih, & Istislam, 2018).

The commitment of taxpayers intervenes in the relationship between the perception of procedural justice and voluntary compliance. Procedural justice refers to the procedures for carrying out tax obligations that influence taxpayers' decisions to comply with applicable regulations (Gobena, 2024; Hartner, Rechberger, Kirchler, & Schabmann, 2008). The perception of procedural justice can provide feedback and perceptions of the fairness of a prevailing system (Rottman, 2007). The taxation system is very complex because it involves revenue (economic), administration, and compliance (Carnahan, 2015). If taxpayers feel indications of unfairness from procedures in the taxation system, it is likely to affect their perception of the fairness of the prevailing tax system (Alm & Kasper, 2023). Therefore, tax reforms will continue to be carried out on an ongoing basis to improve and adapt the taxation system to achieve the primary objective of tax collection.

6. CONCLUSION

The psychological role of taxpayers is the key to building voluntary compliance. Perceptions of fairness, cognitive trust, and commitment are important in creating awareness among SME taxpayers in carrying out their tax obligations. The perception of distributive and retributive justice, as well as cognitive trust, can directly enhance voluntary compliance because of concrete evidence that can be seen and proven (distributive justice in the form of regional development, retributive justice in the form of sanctions for disobedience, and cognitive trust in the form of

a track record of performance from the tax authorities). The perception of procedural justice is a system-oriented principle, requiring the commitment of taxpayers to ensure that perceived procedural injustices do not equate to systemic injustices, thereby reinforcing the notion that taxpayers bear complete responsibility in fulfilling their tax obligations.

This article still has research limitations and requires updates for subsequent investigations. The primary limitation is the reliance on questionnaire instruments for data collection, which are susceptible to respondent bias. Future research should use methodologies beyond questionnaires to enhance empirical evidence regarding the significance of perceptions of fairness (procedural, distributive, retributive), cognitive trust, and commitment to fostering voluntary tax compliance.

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Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

Data Availability Statement: Upon a reasonable request, the supporting data of this study can be provided by the corresponding author.

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