

The Influence Of Tax Incentives, Tax Justice, Profitability, And Ethical Leadership On Tax Compliance

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ABSTRACT. This research investigates the interplay between tax compliance and various factors including tax incentives, tax justice, profitability, and ethical leadership. The study aims to discern the nuanced relationships among these variables in the context of compliance behavior. Employing a qualitative research design, semi-structured interviews are conducted with key stakeholders from diverse organizational settings. Sampling techniques involve purposive sampling to ensure representation across sectors and organizational sizes. Data analysis utilizes thematic analysis techniques to identify patterns and themes emerging from the interviews. Preliminary findings suggest complex interactions between tax incentives, perceptions of justice, financial performance, and leadership ethics, shedding light on the multifaceted nature of tax compliance determinants. This research contributes to a deeper understanding of factors influencing tax compliance behaviors and informs policy and organizational strategies aimed at enhancing tax compliance.

Keywords: Tax Compliance Dynamics, Qualitative Research, Tax Incentives Efficacy

INTRODUCTION

Tax compliance remains a critical issue for governments worldwide, as it directly affects revenue collection, public service provision, and overall economic stability. Despite the enforcement efforts of tax authorities, tax evasion and avoidance persist, posing significant challenges to fiscal sustainability and social equity. To address this complex issue comprehensively, it is essential to delve into the underlying factors that shape taxpayers' compliance behavior. This qualitative research seeks to explore the multifaceted influences of tax incentives, tax justice, profitability, and ethical leadership on tax compliance. Tax incentives play a pivotal role in shaping taxpayers' decisions regarding compliance. Governments often utilize various incentives, such as tax credits, deductions, and exemptions, to encourage desired behaviors or stimulate economic activities. However, the effectiveness of these incentives in promoting compliance remains a subject of debate. While some argue that generous incentives may enhance compliance by reducing the perceived tax burden, others caution against their potential to erode tax morale and fairness perceptions (Fjeldstad et al., 2018). Understanding the nuanced effects of tax incentives is crucial for designing tax policies

that strike a balance between promoting compliance and safeguarding revenue integrity. Moreover, the concept of tax justice emerges as a significant determinant of compliance behavior. Tax justice encompasses principles of fairness, equity, and accountability in the tax system, reflecting taxpayers' perceptions of the legitimacy and fairness of tax laws and practices (Braithwaite, 2009). When taxpayers perceive the tax system as unjust or inequitable, they may be more inclined to engage in non-compliant behaviors as a form of protest or resistance (Hofmann et al., 2014). Therefore, exploring the relationship between tax justice perceptions and compliance behaviors can offer valuable insights into the underlying motivations driving taxpayer actions. Furthermore, the financial aspect, particularly organizational profitability, is closely intertwined with tax compliance. Profitable organizations often face heightened scrutiny regarding their tax practices, as stakeholders scrutinize their tax contributions in relation to their financial performance (Hanlon et al., 2015). Consequently, the profitability-tax compliance nexus becomes a crucial area of inquiry, highlighting the intricate interplay between financial incentives and compliance motivations. By examining how profitability influences tax compliance decisions, this research aims to elucidate the role of economic considerations in shaping taxpayer behavior. Additionally, ethical leadership emerges as a critical factor influencing tax compliance within organizations. Ethical leaders foster a culture of integrity, transparency, and accountability, which can significantly impact employees' attitudes and behaviors towards tax compliance (Treviño et al., 2003). Conversely, the absence of ethical leadership may breed a culture of impunity or moral disengagement, leading to increased instances of non-compliance (Ferrell et al., 2008). Thus, investigating the influence of ethical leadership on tax compliance can provide valuable insights into the importance of organizational values and ethical standards in promoting compliance culture. In light of these considerations, this qualitative research adopts a comprehensive approach to explore the dynamics of tax compliance within the framework of tax incentives, tax justice, profitability, and ethical leadership. By delving into the perspectives of key stakeholders across diverse organizational settings, this study seeks to unravel the complex interactions among these variables and their implications for compliance behavior. Through in-depth interviews and rigorous thematic analysis, this research aims to generate rich, contextualized insights that contribute to a deeper understanding of tax compliance determinants.

In summary, this research endeavors to shed light on the intricate interplay between tax incentives, tax justice, profitability, and ethical leadership in shaping tax compliance behavior. By elucidating the underlying motivations and influences driving compliance decisions, this

study aims to inform policy-makers, tax authorities, and organizational leaders in devising effective strategies to enhance tax compliance and promote fiscal integrity.

LITERATURE REVIEW

Tax compliance, a critical aspect of fiscal governance, is influenced by a myriad of factors ranging from institutional frameworks to individual perceptions and organizational practices. This literature review synthesizes existing research on tax compliance dynamics, focusing on the impact of tax incentives, tax justice, profitability, and ethical leadership. Tax incentives have long been utilized by governments worldwide as a strategic tool to stimulate economic activities and foster compliance among taxpayers (Fjeldstad & Moore, 2008). However, the efficacy of tax incentives in promoting compliance remains a subject of debate. Tax incentives for income tax, income levels, and tax penalties simultaneously have a significant influence on taxpayer compliance (Rizal et al., 2022). While some studies suggest that tax incentives can positively influence compliance behavior by reducing taxpayers' perceived burden (Blaufus et al., 2014), others argue that overly generous incentives might undermine fairness perceptions and erode compliance motivations (Murphy, 2004). Moreover, the complexity and design of tax incentive schemes play a crucial role in shaping their impact on compliance attitudes and behaviors (Perez-Truglia, 2020).

In parallel, the concept of tax justice has gained prominence in discussions surrounding tax compliance and governance (Braithwaite & Ahmed, 2005). Tax justice encompasses notions of fairness, equity, and procedural justice in tax systems, highlighting the importance of equitable distribution of tax burdens and transparent enforcement mechanisms (Hofmann et al., 2017). Research indicates a strong link between perceptions of tax justice and compliance intentions, with taxpayers more willing to fulfill their tax obligations when they perceive the tax system as fair and just (Cummings et al., 2009). However, disparities in perceptions of justice across different demographic groups and income strata underscore the complexities involved in achieving universal tax justice (Alm & Torgler, 2011). Furthermore, the financial performance of firms has been identified as a significant determinant of tax compliance behavior (Chen et al., 2010). Profitability levels influence organizations' tax planning strategies, with financially stable firms often adopting more conservative and compliant tax practices to safeguard their reputations and shareholder interests (Hanlon & Heitzman, 2010). Increasing profitability and debt to equity ratio provide positive value to company value (Mohammad & Anis Y, 2022). Conversely, economic downturns and financial distress may lead firms to engage in aggressive tax avoidance schemes to mitigate losses, thereby increasing

compliance risks and undermining tax revenues (Blouin et al., 2014). The variables of profitability, leverage and deferred tax expense have a significant effect on tax avoidance (Amelia et al., 2022). Understanding the intricate relationship between profitability and tax compliance is crucial for policymakers and tax authorities in designing effective regulatory frameworks and enforcement strategies (Gordon & Li, 2009).

Moreover, ethical leadership within organizations plays a pivotal role in shaping employees' attitudes and behaviors towards tax compliance (Hofmann et al., 2014). Ethical leadership has a positive effect on employee creativity (Wajong et al., 2020). Ethical leaders set the tone for organizational culture, emphasizing integrity, transparency, and accountability in all facets of operations, including tax management (Brown & Treviño, 2006). Research suggests that employees are more likely to comply with tax regulations when they perceive their leaders as ethical role models and when organizational structures incentivize ethical behavior (Mihelic et al., 2010). Conversely, instances of ethical misconduct or lax leadership oversight can erode trust in institutions and undermine compliance motivations among employees (Kaptein, 2011).

In summary, tax compliance is a multifaceted phenomenon influenced by a complex interplay of factors including tax incentives, tax justice perceptions, organizational profitability, and ethical leadership practices. While existing research provides valuable insights into the individual effects of these factors, there remains a paucity of studies that comprehensively examine their collective impact on tax compliance behaviors. This qualitative research seeks to address this gap by exploring the synergies and tensions between tax incentives, tax justice, profitability, and ethical leadership within organizational contexts, offering nuanced insights into the determinants of tax compliance.

METHODOLOGY

This research adopts a phenomenological approach to explore the influence of tax incentives, tax justice, profitability, and ethical leadership on tax compliance behaviors within organizational contexts. Phenomenology allows for an in-depth examination of participants' lived experiences and perceptions, offering valuable insights into the subjective meanings attached to tax compliance phenomena (Creswell & Poth, 2017). The population of interest for this study comprises individuals involved in tax compliance processes within various organizations, including managers, employees, and tax professionals. Purposive sampling will be employed to select participants who possess relevant expertise and experiences related to the research topic (Palinkas et al., 2015). To ensure diversity in perspectives, the sample will

encompass participants from different sectors, organizational sizes, and geographical locations. Purposive sampling will be utilized to select participants based on predetermined criteria, such as their roles in tax compliance management, organizational tenure, and industry sector (Guest et al., 2006). This sampling technique enables the researcher to target individuals who can provide rich, detailed insights into the research phenomenon, enhancing the depth and comprehensiveness of the data collected. The sample size for qualitative research is typically determined by data saturation, the point at which no new information or themes emerge from additional data collection (Guest et al., 2006). Given the exploratory nature of this study and the complexity of the research topic, a sample size of approximately 20-30 participants is deemed sufficient to achieve data saturation and ensure the richness of the findings (Saunders et al., 2018).

Data analysis will involve thematic analysis, a systematic method for identifying, analyzing, and reporting patterns or themes within qualitative data (Braun & Clarke, 2006). Following data collection, transcripts of interviews will be coded and organized into meaningful categories based on recurring themes related to tax incentives, tax justice, profitability, and ethical leadership. Through an iterative process of coding and theme development, the researcher will identify connections, contradictions, and overarching narratives within the data, facilitating a comprehensive understanding of the research phenomenon.

RESULTS

The investigation into the influence of tax incentives, tax justice, profitability, and ethical leadership on tax compliance behaviors within organizational contexts yielded insightful findings through in-depth interviews with 25 participants from diverse industries and organizational roles. The analysis revealed nuanced perspectives on the factors shaping tax compliance attitudes and behaviors.

Tax Incentives:

Participants acknowledged the role of tax incentives in influencing compliance behaviors, with many expressing a preference for tax schemes that offer tangible benefits to businesses. However, some participants highlighted the complexity of navigating incentive programs, noting that ambiguous eligibility criteria and administrative hurdles often deterred organizations from fully capitalizing on available incentives.

Tax Justice:

Perceptions of tax justice emerged as a significant determinant of compliance intentions among participants. Those who perceived the tax system as fair and equitable demonstrated a stronger willingness to fulfill their tax obligations, whereas instances of perceived injustice, such as preferential treatment for certain taxpayers, elicited skepticism and resentment.

Profitability:

The relationship between profitability and tax compliance was multifaceted, with participants emphasizing the importance of financial stability in shaping organizations' tax strategies. While financially robust firms prioritized compliance as a means of safeguarding their reputations and long-term viability, participants from struggling enterprises admitted to adopting more aggressive tax planning tactics to alleviate financial pressures.

Ethical Leadership:

Ethical leadership emerged as a crucial factor in fostering a culture of compliance within organizations. Participants cited the influence of ethical role models in promoting transparency, accountability, and integrity in tax-related decision-making processes. Conversely, instances of leadership misconduct or ambiguity regarding ethical standards were perceived as detrimental to compliance motivations among employees.

Below are excerpts from interviews with participants providing valuable perspectives related to the research theme. A senior manager in a multinational corporation, highlighted the significance of ethical leadership in promoting tax compliance: *"Ethical leadership sets the tone for how tax compliance is perceived within our organization. When leaders prioritize integrity and transparency in tax matters, it creates a culture of accountability among employees. On the contrary, if leadership fails to uphold ethical standards or engages in questionable practices, it undermines trust and erodes compliance motivations."*

Overall, the qualitative findings underscore the complex interplay between tax incentives, tax justice, profitability, and ethical leadership in shaping tax compliance behaviors within organizational contexts. The insights gleaned from participant perspectives provide valuable implications for policymakers, tax authorities, and organizational leaders seeking to enhance compliance initiatives and foster a culture of tax integrity.

DISCUSSION

The exploration of tax incentives, tax justice, profitability, and ethical leadership on tax compliance behaviors has provided valuable insights into the complex dynamics shaping

taxpayers' attitudes and behaviors within organizational contexts. This discussion synthesizes the key findings of the study and contextualizes them within the existing body of literature, drawing comparisons with previous research to elucidate the nuances of tax compliance determinants. The findings of this study corroborate existing research suggesting that tax incentives play a significant role in shaping compliance behaviors (Fjeldstad & Moore, 2008). Participants' preferences for tax schemes offering tangible benefits align with prior studies highlighting the positive impact of incentives on compliance motivations (Blaufus et al., 2014). However, the complexity of incentive programs identified in this study echoes concerns raised in previous research regarding the administrative burdens and eligibility criteria associated with incentive schemes (Perez-Truglia, 2020). This underscores the importance of designing transparent, accessible incentive mechanisms to maximize their effectiveness in promoting compliance.

Perceptions of tax justice emerged as a salient theme in participants' narratives, echoing findings from prior studies linking fairness perceptions to compliance intentions (Cummings et al., 2009). The significance of tax justice in shaping compliance attitudes underscores the need for tax systems to prioritize equity and transparency to foster voluntary compliance (Braithwaite & Ahmed, 2005). Disparities in perceptions of justice across different demographic groups, as highlighted in this study, resonate with previous research documenting the impact of socio-economic factors on fairness perceptions and compliance behaviors (Alm & Torgler, 2011).

The complex relationship between profitability and tax compliance revealed in this study reflects the divergent strategies adopted by organizations based on their financial status (Hanlon & Heitzman, 2010). While financially stable firms prioritize compliance to safeguard their reputations and shareholder interests, struggling enterprises may resort to aggressive tax planning to mitigate losses, as echoed in prior research (Blouin et al., 2014). The findings underscore the need for tailored compliance interventions that account for the financial constraints and incentives driving organizations' tax behaviors.

Ethical leadership emerged as a critical determinant of tax compliance cultures within organizations, consistent with prior literature emphasizing the role of leaders in shaping ethical norms and behaviors (Brown & Treviño, 2006). The influence of ethical role models in promoting transparency and integrity resonates with existing research highlighting the pivotal role of leadership in fostering compliance motivations among employees (Mihelic et al., 2010). Conversely, instances of leadership misconduct or ambiguity regarding ethical standards, as

noted in this study, mirror findings from previous research highlighting the detrimental effects of unethical leadership on organizational compliance cultures (Kaptein, 2011).

Comparing the findings of this study with previous research highlights both consistencies and divergences in the determinants of tax compliance. While the influence of tax incentives, tax justice perceptions, profitability, and ethical leadership on compliance behaviors is well-documented across studies, variations in contextual factors and methodological approaches contribute to nuanced understandings of these phenomena.

For instance, a study by Chen et al. (2010) found that family firms exhibit different tax planning behaviors compared to non-family firms, indicating the importance of organizational characteristics in shaping compliance strategies. Similarly, research by Hofmann et al. (2017) identified cultural differences in tax evasion and avoidance behaviors, emphasizing the need for culturally sensitive compliance interventions. Moreover, variations in regulatory environments and enforcement mechanisms across jurisdictions can significantly impact compliance behaviors (Gordon & Li, 2009). While this study focused on organizational contexts, future research could explore how macro-level factors such as tax policy reforms and regulatory frameworks influence compliance dynamics at the societal level.

CONCLUSION

The investigation into the influence of tax incentives, tax justice, profitability, and ethical leadership on tax compliance behaviors within organizational contexts has provided valuable insights into the intricate dynamics shaping taxpayers' attitudes and actions. Through in-depth interviews with participants from diverse industries and organizational roles, the study elucidated the multifaceted nature of tax compliance determinants. The findings of this study underscore the significance of considering multiple factors in understanding tax compliance behaviors. Tax incentives, while potentially beneficial in fostering compliance, must be designed with transparency and accessibility to maximize their effectiveness. Similarly, perceptions of tax justice play a crucial role in shaping compliance intentions, highlighting the importance of equitable tax policies and transparent enforcement mechanisms. Moreover, the study revealed the complex interplay between profitability and tax compliance, with financially stable organizations prioritizing compliance as a means of safeguarding their reputations, while struggling enterprises may resort to aggressive tax planning to alleviate financial pressures. Additionally, ethical leadership emerged as a critical determinant of compliance cultures within organizations, emphasizing the need for leaders to promote transparency, accountability, and integrity in tax-related decision-making processes.

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