

# Compliance behaviour from the holistic human nature perspective

Compliance  
behaviour

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## Abstract

**Purpose** – Previous studies on tax compliance have not internally failed to consider why individuals avoid tax payments. The purpose of this paper is to explore the compliance behaviour of Indonesian taxpayers from holistic human nature perspectives including their rational, social and spiritual values.

**Design/methodology/approach** – This paper adopts the tabayyun approach, an interpretive conceptualised methodology using Islamic knowledge to explore taxpayers' rational, social and spiritual realities.

**Findings** – Tax compliance is influenced by holistic factors: personal economic rational, social consensus and spiritual beliefs. Rational taxpayers distrust tax authority and see tax payments as an economic decision (i.e. costs and benefits) that reduces/increases wealth. So, they tend to avoid or reconfigure payments. Opposite to economic rationally is the societal pressure upon taxpayers to converge to being an acceptable citizen with legitimate businesses. Under this view, no mistrust against tax authority exists. As for the spiritual factor, tax payments are seen as religious duties like zakat that ought to be paid for achieving spiritual alleviation.

**Research limitations/implications** – Due to the research approach, this study results may lack generalisation. Future research can expand broader understanding of religious belief in corporation with compliance behaviour.

**Practical implications** – In the tax policy context, this study recommends to take into consideration religious levy being included in the tax system. This study also argues substituting tax with zakat. In Indonesia, religious levy takes more essential roles in the spiritual domain rather than economical domain.

**Social implications** – It is difficult to expect tax compliance to be an internal compliance because the source of the command is of an external origin. It is considered as a new concept of wealth distribution that comes from an internal attribute. For states that have religious population as Indonesia, religious values become communal bonds that more dominantly form self-identity at both physical and mental levels. Hence, it is very essential for the state to consider the inclusion of religious values or teachings to the regulation, if the state wants such regulation to be adhered significantly by people. The collection instrument whose bonds originated in religious moral/spiritual values can raise the awareness and compliance voluntarily because the command source is internal and autonomous.

**Originality/value** – This study fills the gaps in the taxation literature by incorporating a spiritual perspective, instead of rational and social domains.

**Keywords** Compliance, Holistic, Human nature, Internal compliance, Religious view

**Paper type** Research paper

## Introduction

Tax non-compliance has been a continual and global problem (McKerchar and Evans, 2009). This phenomenon is characterised as a continuous effort to introduce tax reforms to increase tax revenues due to the underachievement of tax target. In some countries, the success of tax revenues obviously relies on the accomplishment of law enforcement complied by the tax authority (Nerre, 2008). However, the success may not happen in other countries, including Indonesia where law enforcement failed to increase tax revenues as expected. This was indicated as an essential problem in tax collection (Kemenkeu, 2016; Keliat *et al.*, 2016, p. 79; Winnicki, 2013).

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Currently, a study of tax compliance has been an important issue. However, previous studies focus more on the Western philosophy that view compliance from rational perspectives, but lack social, cultural and religious values. In fact, communities in Eastern countries highly convinced to cultural and religious philosophy, than embracing an identity of “Indonesia” (Elson, 2008). Otherwise, religious and cultural spirits inclusively lead Indonesians’ internal motivation to obey religion regulations that are collectively agreed and preserved (Fidiana, 2014). Therefore, such attributes allow for voluntary and substantial compliances, not compulsion. In contrast, a public policy that is not generated from social values affects compliance behaviour that cannot be instilled morally.

Furthermore, a study on tax compliance is only a partial compliance study that is generally limited to rational compliance. Besides, other studies on tax compliance are in relation to the cost-and-benefit aspect. Models of deterrence or economic crime (Allingham and Sandmo, 1972), for example, are stark examples of tax compliance studies from a partial economic perspective. The models are from the rational or cognitive perspective only. Therefore, mind is positioned predominantly as the sole deciding factor as to whether an individual will comply with or reject taxes, whereas the psychological, social and spiritual aspects are neglected because of the assumption that they play no role in shaping tax compliance behaviour.

This study aims to understand complexities of tax compliance behaviour of individual taxpayers through Islamic values. The present study was developed by juxtaposing individual behaviours in response to religious obligation equivalent to tax, the *zakat*.

### Literature review

In the cognitive model, individuals decide to comply with or evade taxes for the reason of rational utility. Tax compliance is considered to be a trade-off between the possibility of gains and losses (Christie and Holzner, 2006). If tax evasion logically can improve welfare, individuals will decide to evade taxes. Conversely, if tax evasion has adverse impacts, individuals will prefer to comply with taxes.

Moreover, self-interest patterns cannot be separated from liberal philosophy. Nozick (1974), as a libertarian, explained through the anarchy concept, that state entities are considered to limit individual rights. The libertarian tradition considers tax as an unauthorised levy that violates the individual’s ownership rights. Instead, tax collection leads to the reduction of capital resources, thus eliminating economic incentives in the form of opportunities to finance production in the long term (Nozick, 1974; Rady, 2015; Rahman, 2011). In other words, state intervention through taxes will decrease aggregate welfare. Moreover, according to Nozick (1974), the taxation system is similar to forced labour, as it forces individuals to sacrifice their spare time to work longer and then the outcomes are handed over to another party.

In the psychological research scheme, the rational level offers a satisfactory service as a determinant of tax compliance. The ease of tax system (Muslichah and Ramadania, 2014; Owsiak, 2007), the efficiency of the tax agency and the fairness (Uslaner, 2007) and quality of the tax system (Cummings *et al.*, 2005; Slemrod, 2015) constitute concrete manifestations of satisfactory service to improve tax compliance. In contrast, the instability of the tax and tariff system is predicted to reduce tax compliance (Slemrod, 2001).

Furthermore, the study of tax compliance is identical to understanding human behaviour. Human behaviour is holistic, rather than a decision split into reason and conscience, as well as other non-rational considerations. The present study attempted to appreciate how an individual responds to tax liability in their holistic self as a rational, emotional, social and spiritual being. The term “holistic” appears only rarely in tax behaviour literature, although, as argued here, it plays an important role in understanding tax compliance.

## Research methodology

Studies on compliance can be conducted using a quantitative or qualitative approach. Studies concerning compliance tend to use the quantitative approach with religious place (the church) attendance as a measure for religiosity (Stack and Kposowa, 2006). However, this variable is irrelevant for Muslims where attendance of Mosques is very high and hence the quantitative approach and attendance variable are not appropriate measures for this study and as such the *tabayyun* approach has been adopted. *Tabayyun* is identical to Western interpretive methodology. In Islamic terminology, *tabayyun* intends to obtain a clear and coherent understanding of a particular phenomenon from the truth (*ilm*) to the level of doubtless (*yaqin*). The methodology of *tabayyun* is preferred in this research because the investigated phenomenon is a socio-religious phenomenon with a rooted textual heritage (Fidiana, 2012).

The first explored data were from selected informants empirically, whereas the textual data were generated from the holy texts of Al-Qur'an and *hadith* so that a high level of religious interpretation was required, instead of rational interpretation. Moreover, the data were also analysed by a researcher who is also the instrument of this study. In the *tabayyun* perspective, the researcher has awareness that transcends the visible knowledge to reach broader knowledge in the spiritual or religious domain (Fidiana, 2014). With *tabayyun*, clarification (triangulation) of the truth from the participants can be in line with textual clarification. Moreover, *tabayyun* can delineate dichotomy between the rational truth and the spiritual truth (Muhadjir, 2000) of participants in constructing compliance behaviour on tax and zakat.

Qualitative studies require familiarity and closeness to the subjects of the study so that validity of research findings can be constructed properly. The same ethnicity and religious sect can be an emotional closeness to the informants. Yet, familiarity can be a strength as well as a weaknesses because of its subjectivity. Referring to Morse (1994), the familiarity between researchers and their research participants or research setting encounter sensitivity on most significant finding at the first meeting. Hence, this situation can be dismissed because the researcher had not met directly with either informant prior to the interview.

Because there are many Islamic sects in Indonesia, the informants were selected with the consideration that the *ahlussunnah wal jamaah* sect is the only one that carries out religious instruction based on the teachings of Al-Qur'an and *hadith*. They were characterised as religious leaders who were both individual taxpayers and *zakat* payers. The first was assigned as taxpayers who had performed tax obligations independently, without being helped by tax consultants or tax experts, whereas *zakat* payers represent a religious entity.

Moreover, the research participants were assigned pseudonyms, namely, Safir and Latif, to ensure their confidentiality. They are Arabic Indonesians who are recognised to be very clear, straightforward and frank in speaking so the researcher had no difficulty in understanding their expressions. According to Neuman (2013), the reliability of the tool relates to the conformity with something to be measured so that the results represent the actual measurement dimensions. This conformity is required so that research results can be accounted for Herdiansyah (2010). Therefore, *Tabayyun* is the most appropriate tool for understanding the phenomenon being studied because it is related to the contextual and textual phenomena of spiritual or religious reality.

*Tabayyun* is a way of seeking or developing knowledge in Islam that is realised by integrating the functions of mind, ethical functions and spiritual functions as one unit. All of these attributes are assimilated in developing true knowledge. This is in harmony so that Islam is generated as a unit of knowledge. That is called *al-ilm*. In other words, *tabayyun* presupposes subjective, intuitive and revelation knowledge. The study by Polanyi (1966)

was based on the nature of tacit knowledge based on intuition and insight. So, *tabayyun* empowers all knowledge tools in mankind.

Islam is a religion of knowledge. Gaining knowledge is a part of worship. This refers to knowing God and creation. We need to explain the relationship between God and all creations in the universe. As a result, we must strive to reach knowledge so that we become God-fearing slaves.

Islam rejects the mind as the only and the most powerful organ to gain knowledge. The main knowledge from an Islamic perspective comes from the oneness of God in His Divine revelation (Salam and McLean, 2014). Divine revelation will guide us to attain the true knowledge and will also be a path to certainty. The true knowledge is always certainly related with true faith. It will be eternal and a principle (value) in a Muslim's daily life and his personality including to build knowledge. Islam places the supremacy of divine revelation as the basis of all knowledge. We know that human knowledge is always limited; we must recognise our inability to deal with the sacred world.

On the other hand, as a representative in the world, Islam does not negate the human mind to play an important role in affirming the truth of Divine revelation and in developing human knowledge. There cannot be a contradiction between the truth of revelation and the exterior of human knowledge. Humans are created and equipped with vision, hearing and wisdom as a tool to acquire and develop knowledge. With the Qur'an (text revelation), humans are instructed to use reason (mind) to understand, know, think, reflect and contemplate (Hasan, 2011). Because true knowledge will lead to the right fight (Hasan, 2011), it will guide to the right way of thinking so that we achieve a deep scientific or materialistic knowledge that is endowed with certainty.

Islam also commands to read the universe. This means that Islamic philosophy accommodates knowledge from social life or reality. As a social phenomenon, it is assumed that reality is based on human interaction so that knowledge can be built from a social context. From experiences in the community such as continuing to communicate, interact and learn, we receive knowledge from each other through interaction in the social environment and then become tradition and institutionalised.

Religious communities will form religious individuals. Because individuals who are endowed with true knowledge will fear Allah, it will urge us to act in obedience to religious commands. It means that individuals who are faced with religious norms (sharia) and non-religious norms in the same domain like tax and zakat, for example, will be brought to a dualistic and dichotomous thinking pattern. As a rational economic human, this obligation will be evaluated in the welfare consideration scheme. Considering self-centred wealth will enable religious people to prioritise religion obligation. This is an agreed tax in preference. The implication is that taxes will be handed over according to the economic capacity received, after fulfilling the *zakat* obligation. So, the tax is not in the actual calculation.

From the domain of norms, taxes come from the government (political) rule. Individuals are forced to obey the norms whose ties are outside themselves, something external, so compliance with this norm is referred to as external obedience. Individuals forced to comply with taxes are not born from instinctive impulses or personal values that are believed but because they are afraid of legal consequences. Independence to obey is not achieved, but is forced.

Individuals who have met the norms (sharia) are referred to as individuals with normative compliance because their compliance is intended to comply with legal norms. This compulsion drives individuals to mathematical awareness. Individual compliance is arranged according to what is required by formal law. So, individual behaviour will be very formal in the context of taxes, not coming from the spiritual logic.

Economic logic awareness encourages the understanding that each party will maximise its utility. In the tax context, authorities are assumed to apply maximum utility through a tariff scheme. With high tariffs, the tax authority can collect a lot of wealth for the country. Through the high state revenues from this tax, the achievements of the tax authorities are measured and determined. All parties know that achieving state revenue is a measure of the performance of the tax authority. This means that the collection of taxes is not the need of the state, but the need of authority's achievements.

The utility principle of authority is responded by taxpayers with a reverse scheme. Taxpayers apply the principle of utility with a minimum tax strategy. Taxpayers do not have the power to fight tariffs. They can only arrange taxes at a minimum level. This scheme presupposes the distrust of the taxpayer to the tax authority or tax system. The *tabayyun* model can be expressed as follows:

$$\text{Tabayyun} = (\text{religious texts}) \\ + (\text{social} \times \text{economic realities} \times \text{political/government [institutional]}).$$

## Results and discussion

This study investigated the compliance behaviour of Indonesians in accounting and paying taxes. This also explored taxpayers' rational, social and spiritual understandings in response to their liability for taxable wealth. Moreover, the researcher who was also the instrument of this study could explain the phenomenon through the dimensions of mind, conscience and spirituality. A researcher is said to have abilities to capture propositional and tacit knowledge, to feel personal and social or environmental entities and to comprehend human existence (Lave and Kvale, 1995). Accordingly, the *tabayyun* approach, an interpretive method to analyse data with Islamic perspectives, was considered applicable to understand how Indonesians constructed compliance behaviour in calculating and considering the amount of tax rationally, socially and spiritually.

In this research, two participants, Safir and Latif, constructed their embedded holistic nature to address tax compliance based on their rational, social and spiritual values. The first value was described in relation to cost benefit, economy burden, cost principle and benefit principle. The social value was in regard with tax compliance because of citizenship regulations and regulative or normative awareness for tax payment. The last, spiritual value, was referred to religious activities, internal awareness on paying *zakat* and spiritual benefits.

### *Accounting for taxes and zakat*

In this research, accounting refers to the recording technique of individual asset management rather than financial reporting as used in a company. However, tax compliance is associated with accounting to accomplish a taxpayer's rational, social and spiritual goals. Accounting is indeed considered as a tool (Suwardjono, 2002) for calculating and recording taxpayers' wealth. In this study, two participants distinguished between financial records for taxes and *zakat* that, in turn, lead for a difference in the treatment of *zakat* and taxes payment.

This research found that accounting has been used by participants to calculate their tax and *zakat* liabilities. Both research participants used different accounting bases to pay tax and *zakat*. Indeed, Safir and Latif considered accounting as not necessarily identical to the balance sheet in the modern concept. They linked the role of accounting to the tradition of

*zakat* in Islam. Latif perceived that accounting is a tool to determine the rate for his taxable wealth, whereas Safir considered accounting as a means to calculate the actual wealth owned by the taxpayer. Similarly, Suwardjono (2002) specified the word “accounting” closer with a literal meaning to “take into account” or “to account for”. Etymologically, this definition juxtaposes the Islamic definition of accounting as *nisab* (counting). In brief, this study argues that the definition of accounting is equivalent to Islamic law, especially in *zakat* regulation.

Accountancy is indeed applied differently in tax and *zakat*. Bookkeeping for *zakat* was carried out in detail and actual transactions. As for taxes, it was honestly admitted that the informants did not use accounting records, but based on the previous amounts of tax. In brief, this study argued that the accounting system was applied by participants only for calculating *zakat* payment, but not for taxes.

Furthermore, Safir’s understanding of how to determine his taxable wealth entailed two consequences. First, Safir considered that having wealth is identical to controlling the source of wealth. Second, he believed that taxable wealth had to be excluded from current liabilities or debts. In the *zakat* domain, this principle is in line with the terminology of *nisab* (Mannan, 1993) as the minimum annual surplus of wealth subject to *zakat*. Additionally, Safir and Latif argued that debts should also be excluded in calculating the assets obligatorily subject to *zakat*. Moreover, Latif asserted that debts should be repaid first before paying *zakat*. Their understandings could be represented as the adaptation of the economical principle that *zakat* had to be imposed from others’ wealth (Qardawi, 2010; Mufraimi, 2006).

This study concluded that Safir’s expressions were not merely the result of cognitive exploration *per se*, but emanated from his spiritual awareness. His understanding was characterised by how he comprehended wealth and how he determined the liabilities on his wealth. According to the traditions of Sufis, such an attainment is marked by the obtainment of the proper knowledge (Chodjim, 2013). What Safir expressed was as a spiritual attainment that can be reflected from his statement: “*zakat* is good for the soul”. This is an ontological expression emanating from the spiritual qualities. On another occasion, Safir expressed this concept with a different term, “the rewards for the soul” (Session 1, minute 21:28). Indeed, knowledge of the soul usually manifests itself in the form of being honest, humble and generous (Nasr, 1966). Being honest means to say things as they are, and by applying this value, one precisely obtains valuable knowledge.

Safir explained that the end-of-period assets as the basis of computation was applied because of the difficulties in reconciling the exact number of items of goods with the physical number. In Islamic principle, such activity is exactly the same as the concept of *haul* (one period of time in *zakat*). The principle was in line with an argument where the fluctuation of asset value during the current period (*haul*) is not taken into consideration in *zakat* liability, as the value of assets at the end of the period is the most important (Mufraimi, 2006).

Safir used to determine that *zakat* liability was not the final measure. Safir worried that the value did not accurately represent the actual amount of wealth. Thus, Safir consistently paid *zakat* above the supposed actual rate. Similarly, Latif preferred to pay *zakat* at a rate above the normative estimate. Latif believed that Allah has provided him with excessive income; thus, it was reasonable that he paid *zakat* above the supposed rate as a form of gratitude. Therefore, this study implied that when confronted with a divine (Allah’s) command, with regard to liability on wealth, the participants tend to respond by striving to fulfil it at a rate that exceeds the normative liability. Safir’s and Latif’s responses can be classified as a method sourced from conscience, as indicated by their willingness to pay

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*zakat* at a rate above the supposed one (exceeding the rate required by sharia). Furthermore, Safir and Latif both suggested that the true *zakat* requires a correct accounting process.

The previous parts have discussed about how to calculate *zakat* as well as to pay it based on the religious value. However, other behaviour was conducted differently based on normative regulation or coercive compliance as discussed below.

### *Coercive compliance*

The government lays down taxes as formal charges and treats *zakat* as an individual liability. This scheme seems to be responded to by taxpayers with a reverse pattern, treating *zakat* as a religious activity and considering taxes to be in the business domain. This reverse pattern elucidates the discrepancies between the intentions and motivations of taxpayers and those of the authority. Safir explained that tax liability starts once an individual has a taxpayer identification number (TIN), meaning that his *zakat* liability is implemented earlier than TIN. In general, a TIN is required for individuals who register as entrepreneurs. This phenomenon can be indicated that the obligation to fulfil taxes is not based on personal initiatives but is required by regulation. In other words, tax awareness does not arise autonomously but is due to a systemic liability.

Compliance beginning with entrapment or being forced, rather than an intrinsic impulse, is known as normative compliance. Vardi and Weitz (2004) classify this as self-compliance. Self-compliance takes consequences into account highly. Because the behavioural intention is aimed at personal welfare, individuals will anticipate any loss and inconvenience that may arise from paying taxes. Individuals without a TIN cannot realise their business activities, eliminating their opportunities to receive benefits. On the other hand, having a TIN means accepting a reduction of income. Thus, the decision to have a TIN is based on a calculative-instrumental process. As such, the decision to pay taxes is made because of being regulatory coerced, not an internal intention like *zakat*. Meanwhile, Torgler (2003) classifies such compliance as a type of social taxpaying. Social taxpayers pay taxes because they are forced to meet social (regulative/sharia) norms, not due to personal will. Such compliance generally arises to satisfy conditions; thus, it is more appropriately classified as a type of normative/regulative compliance. So, taxpaying behaviour is actually a natural response to tax regulations. The coercive nature of regulation systemically leads to forced awareness as a consequence of being a citizen.

The fulfilment of tax liability is not voluntary but is due to the pressure of rules that systemically require individuals who will establish a business to pay taxes. Thus, the power of the tax to be met and complied with is due to the coercive nature of laws. This system affects the pattern of tax internalisation on the orientation of rational awareness. Apparently, Safir and Latif were highly cognizant of the operative purposes of tax.

The various types of operative purposes represent an integral part of the efforts to achieve a target. Taxpayers respond to this assumption by setting up a novel tactic wherein they do not state the actual income in the tax mechanism. In general, the taxable portion of income, under the norm, is calculated on a 20 per cent basis. This percentage is considered too high and unrealistic where profit margins very rarely exceed 20 per cent:

So, in order to determine the taxable portion, the direct norm of 20% applies, whereas for those who seriously do business, how can them gain profits of 20%? Of course, they cannot do it [...] can they? [Session 3, minute 03:24]

The amount of tax liability and the discordance with the general business conditions encourage individuals to arrange the payment of their taxes to look accurate. Individuals attempt to evade taxes by adopting a procedurally safe technique. This technique is

impersonally and imperatively internalised into the taxpayers' consciousness. The presence of imperative reality, with regard to individual consciousness, shapes a confrontational attitude, which is no less imperative, "To prepare (tax) return, it's important that the line taken is that [...] the payments should increase" [Session 3, minute 03:02].

This study indicated that the amount of tax paid by Indonesian taxpayers was due to rational consciousness to meet the target of tax authority; however, the taxpayers found their compliance as an economic hardship. The pattern of tax target achievement from the tax authority's side has an effect on the taxpayers' psychology. When the tax authority applies a target scheme, taxpayers try to respond to it with an increasing tax payment pattern. Taxpayers perceive the pattern of an increasing tax target as an indication that the tax burden is determined by an increase in the need for state spending and is not based on taxpayers' ability. Congruent with the pattern of an increasing tax target, individuals respond by setting up a tax-saving strategy through tax planning. Thus, the process of tax planning is initially not a means to avoid taxes but a means to declare that the taxes they have to pay are too large.

This study also illustrates the fact that a taxpayer's deeper knowledge of taxes and the tax system is considered as burdensome because it drives them to restructure their taxes at a regulatory appropriate rate. This means that causing tax compliance to take the form of voluntary compliance with intrinsic motivation is likely to be difficult to achieve because the response of individuals to taxes is not on the level of intrinsic consciousness but the rational one. In other words, the intrinsic consciousness of paying taxes will never be realised; in fact, consciousness tends to be oriented to tax non-compliance or will only be realised at the level of rational or normative (sharia) compliance.

In contrary to the positive (modern) concept that relates tax knowledge to improved tax compliance (Choong and Khin, 2011; Palil *et al.*, 2013; Djawadi and Fahr, 2013; Oladipupo and Obazee, 2016), this study argues that the better the taxpayers' tax knowledge, the better the ability to arrange their taxes. This relationship is corroborated by Hasseldine *et al.* (2011) who argued that tax knowledge is often used in tax planning efforts. The working pattern of reason is related to the cost-and-benefit principle (Fidiana, 2014); so, tax compliance leads to the principle of exchange. Furthermore, the discussion of obedience is highly relevant to compliance with regulations or norms that are discussed below.

#### *Normative (regulative) compliance*

In this study, tax compliance is referred to four regulations. They include timelines in delivering the notice, having no tax arrears, audited financial statements with unqualified opinions and having no tax criminal acts for the period of five years. However, the third criterion is only relevant for corporate taxpayers, not for individual taxpayers. Based on these criteria, the participants felt that they already met the requirements and fully complied with tax rules. This was evidenced by the fact that neither Safir nor Latif had ever been late in reporting their annual taxes, had tax arrears or been convicted for taxation affairs. Thus, they had already fulfilled the criteria of formal compliance. However, if the expected compliance comes with the condition of reporting income (material compliance), then such compliance has not been achieved, despite the adherence to the procedures and the principle of tax regulations. Then, this study assumed that the individuals have met only one of the rules of formal compliance, but they failed to meet the principle of material compliance. In short, obedience with one of the principles is highly relevant to normative/sharia compliance.

In this study, taxpayers were identified more familiar with zakat rather than tax. Thus, they had different levels of motivation in paying zakat and tax. In particular, paying *zakat* arises from the motivation to worship, whereas paying taxes is related to business activities.

The informants were aware of *zakat* liability since their childhood and because of a belief that it has a value of worship. Besides, *zakat* has been ingrained in the faith of Muslims, which is internal in nature. On the other hand, Safir and Latif have been aware of taxes only since they became entrepreneurs; therefore, they are quite unfamiliar with taxes. Thus, the different approaches used to comply with tax and *zakat* liability are due to differences in motivation, where *zakat* arises from the motivation to worship, whereas taxes are related to business activities. Because business scope is identical to costs and benefits, the method used to comply with taxes is also related to the concept of profits and losses. Such a phenomenon reflects a dualistic behaviour, discriminating tax and *zakat* treatment. Thus, this study generates an understanding that *zakat* arises from faith (internal) consciousness, whereas taxes are born of business (rational) consciousness.

Moreover, the taxpayers admitted not to refrain from taxes. Such confessions should be appreciated because they indicate the intention to improve themselves in the future; “Well, maybe next step could be paying taxes in accordance with the rules” [Session 1, minute 04:40]. These confessions dismissed the notion that non-compliance is intentional, as argued by the theory of planned behaviour. Latif’s statement demonstrates precisely that his non-compliance was unintentional, implying a hope and desire to treat *zakat* the same as taxes, with certain conditions. The current non-achievement of the ideal condition was due to taxpayers’ internal consciousness.

#### *Manifestation of logical and mathematical principles*

A decision to pay taxes represents an economic decision, instead of rational consciousness. A previous research indicates that tax compliance based on the business consciousness implies that taxpaying behaviour originates from a number of rational considerations (Beck *et al.*, 1991); this study, otherwise, adds an understanding that tax compliance behaviour is certainly derived from an understanding of a rational economic whereby someone with self-interest consciousness is constantly motivated to maximise their personal welfare. Because taxes are burdens, playing a wealth-reducing role, individuals rationally seek to minimise them to maintain their welfare. The research participants argued that individuals would find it difficult to make a decent living if they were to comply with all of the tax provisions. The proximity of taxes to economic realities encourages both the tax authority and taxpayers to treat taxes according to the cost–benefit principle. The tax authority seeks achievements through attaining the increasing targets, whereas taxpayers demand benefits (utility) and guarantees.

Clearly, Safir and Latif demanded benefits after paying taxes. They expect tax payments to serve as something like an insurance policy capable of ensuring future survival when they have no income. When taxpayers do not benefit as expected, this will cause people to be reluctant to pay taxes. To this extent, this study argued that dissatisfaction with the tax authority will discourage transactional mind sets, whereby people pay taxes improperly. Such situation might be one of the causes of low tax collection in Indonesia because of citizens’ antipathy on the tax authority injustice.

Moreover, the rational economic mind set of profit maximisation and cost minimisation is insignificantly that not all taxpayers evade taxes for the purpose of enriching themselves. In this context, the participants expect for “rewards” for their sacrifices on tax payment in the future when their business may be economically unproductive.

In addition, Safir and Latif described that only the wealthy people were capable of paying taxes. Hence, every entrepreneur has to maintain their business in a profitable position because they are tax-levied by the state. For taxpayers, the high tax rates would reduce their welfare, leading them to arrange their current taxes, potentially lowering the

tax amounts in subsequent periods. Meanwhile, the tax that must be paid by rich people is always demanded at a higher rate with a progressive scheme. According to entitlement theory, if the taxes collected are higher, this is the same as forcing the taxpayers to work longer to enable themselves to pay the tax, meaning that their right to spare time is violated (Nozick, 1974).

*Distrust in the tax authority*

Respectively, mistrust in the tax authority plays a major role of tax avoidance (Scholz and Lubell, 1998; Slemrod, 2015; Wintrobe, 2001; Torgler, 2003). For example, Safir's and Latif's distrust in the tax authority was not merely an allegation but was based on their experiences. Each had experience of the tax authority's frequent misuse of their authority to scare, to threaten confiscation and to intimidate taxpayers. Such interactions often resulted in new considerations for tax payment.

The issue of fraud is not the only reason for the distrust in the tax authority. Yet, the poverty and other social problems have not been satisfactorily achieved by citizens, even though the income tax rate in Indonesia is very high. As a result, individuals are not satisfied with taxes they have paid. Safir said: "10 per cent were not a little, you know [session 3, minute 17:50]"; indeed, his tax is fairly high.

In brief, the underachievement of tax in its function to alleviate poverty represents clear evidence of tax failure. In conclusion, Safir and Latif had an assumption that *zakat* is more able to resolve the economic problems of the people because, in addition to having a lower rate and a simpler application, *zakat* bestows blessings that cannot be provided by tax systems.

*Tax performance and mechanic solidarity*

The tax authority must achieve good performance as measured in relation to their targets as well as to improve tax performance. When a tax target is not reached, a new policy will be made so that the target is realised. The increasing target pattern on the side of the tax authority is responded to by taxpayers with a similar pattern of increased tax payments. Tax optimisation strategies indirectly stimulate taxpayers to save their current taxes for future tax growth. When the tax authority increases the tax target (benefit principle), taxpayers respond by saving taxes or cost principles (Fidiana, 2014).

Obviously, the rational consciousness to pay taxes is actually an "agreement" between the tax authority and taxpayers under the cost-benefit principle. It is at this point that a common definition is formed by the tax authority and taxpayers, in turn, to generate a rational and mechanistic compliance construction. Rationality also allows participants to divide the status with the tax authority as collectors and taxpayers as an administrative community. Such scheme is characterised by Berger[cited in Samuel (2012)] as mechanical solidarity in which individuals cannot relate to each other personally and familiarly but are limited to occupational affairs. Unsymmetrical position derived the emergence of administrative consciousness that precisely concerns to create harmony between the tax authority and taxpayers in a symmetric relationship. Taxpayers are actually conscious that they have not paid the correct amounts of tax. This consciousness is not intended to violate regulations because the tax collection method is more beneficial for the tax authority but alleviating economic burden for taxpayers.

*Do not harm the state, do not burden the taxpayer*

Berger and Luckmann (1966) describe humans' inability to completely capture and view realities. People are only capable of comprehending the perceived reality, the construction of

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social reality based on personal perception. Respectively, the participants interpret taxes due to their experience that raises their subjective knowledge.

Thus, this research indicated that such a calculation method is midline to comply with taxes appropriately according to tax regulations. Taxes, as the wealth of a government, are gained from citizens. Otherwise, the government is a party that legally obtains people's trust to ensure community living and welfare (Keliat *et al.*, 2016, p. 60). It is realistic that citizens expect tax for public investment, social welfare and other basic needs. So, the taxpayers' willingness to pay tax to the government reflects an individual's social awareness. Indeed, social awareness has been acquired in Islamic knowledge. The participants also insisted that Islam laws to obey the government as well as to avoid taxes. In other words, not paying tax means not obeying the government (regulation) and Islam has prohibited this irresponsible action.

Latif and Safir also addressed that tax compliance is an economical compliance, not a religious compliance. They are faced with two levies that have the same function as a means of wealth distribution, but the sources of command are different. Tax is the form of economic responsibility to the state; *zakat* is a religious compliance (spiritual) to fulfil the command of Allah. It is clear that the religious bond is stronger and deeper than the economic pressure. It is proven that, even though the government does not enforce collecting *zakat*, the participants continue calculating and paying *zakat* independently and distributing *zakat* to poor people. In brief, this study concluded that the religious internal consciousness leads people to pay Islamic tax (*zakat*).

#### *Taxes and spiritual life*

For religious individuals, tax may or may not be considered to be a religious activity. When faith creates the perception that taxes are not in the domain of worship, it is logical that individuals consider taxes to be in the economic (calculative) cognition domain, "The question now is that whether or not paying taxes is worship" [Safir, session 4, minute 04:00]. Such a belief becomes a foundation that is internalised into to their cognitive consciousness, not easily subject to any external force, even the regulatory products. Rokeach (1973) argues that the human mind is a tool that concentrates more on belief rather than searching for facts, and the greater the belief, the more difficult it is for that belief to change.

According to economic logic, when a tax does not bring about a spiritual benefit, people will choose to pay minimal amounts. However, when individuals perceive taxes are not a form of worship, tax non-compliance has no impact on religious identity. However, as citizens, the participants still find they have an obligation to the state, "We would regard it as our practice of *muamalah* to the state, that's all what we can do" [Session 1, minute 24:35].

In this context, both participants tend to prioritise spiritual matters (*zakat*) and put a tax on residual ability. In Indonesia, taxes constitute the governmental formal charges. In other words, taxes are considered more superior than *zakat*. In reality, the command nature for *zakat* is more internal than tax, but it is considered to be inferior. Thus, this study argued that the phenomenon of dualism represents the Cartesian way of thinking that detaches the chains of social life from the God, the spirit of divinity, values and myths (Piliang, 1999). Putting taxes in the business domain means individuals find flexibility in paying taxes according to a midline that does not burden them but also does not harm the government. This sort of thinking is in line with the nature of *ihsan*, in the business context, which means to fulfil the rights of others and not to be despotic to them (Abdullah bin Salam, 2019). Individuals felt that they had fulfilled their obligation to the government well, as evidenced by the tax authority's satisfaction with their tax performance.

## Conclusion

In this research, the participants conveyed taxes as rational consciousness because of the cost–benefit aspect. Taxes were constructed as an economic burden or potentially wealth reducing. On the other hand, the participants intended to pay *zakat* exceeding the normative liability because of the divine Allah’s command and spiritual benefits. Therefore, this study assumed that the *zakat* compliance behaviour enforced participants’ internal consciousness arising from their faith as indicated by their willingness to pay more than they should. Thus, internal, autonomic and voluntarily consciousness arises in response to religious duties.

This study indicated that taxpayers decide to pay taxes at a rate that do not abuse themselves as well as the government. Islamic laws forbids Muslims to commit tax fraud. However, the participants confirmed that after paying *zakat*, they always feel peace of mind. In contrast, tax payment will not have any impact on their soul.

The compliance patterns above lead to several recommendations. First, the state needs to collect the wealth of its people to provide public facility services and other basic need services continuously. For states that have religious populations, as Indonesia, religious values become communal bonds that more dominantly form the self-identity at both physical and mental levels. As such, it is essential for the state to consider the inclusion of religious values or teachings in the regulation, if the state wants such regulation to be adhered to significantly by its people. Regarding the wealth/tax collection, the collection instrument whose bonds originated in religious or moral/spiritual values can raise the awareness and compliance among people voluntarily because the command source is internal and autonomous. Therefore, the state can take advantage of religious collection, such as *zakat* or tithe, in lieu of tax instruments because the nature of command is internal so it is able to form compliance internally rather than taking the form of a compulsion.

Second, the recognition of religious collection as a tax substitute means eliminating collection duality. A single collection on wealth can create full compliance, whereas collection duality will motivate individuals with the compliance dualism of superior and inferior patterns. As such, collection dualism may cause people to comply more with the “superior” collection and less with the “inferior” collection. Tax, as a collection that grows from rational economic awareness, will be complied with once the individual considers the costs and benefits.

Third, because the religious collection (e.g. *zakat*) can only be carried out by the Muslim authority, the Muslim community would surely not be subjected to *zakat* collection by the entity of non-Muslim authority. Under this condition, tax collection for the Muslim community would be more appropriate.

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