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The Effect of Taxpayers Willingness and Banking Companies Financial Performances on Taxpayers Compliance Behavior Mediated by Optimal Tax Reporting (A Study from the Taxpayers of Banking Companies in Indonesia Stock Exchange for the Period of 2013-2015)

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Abstract
The objective of this study was to examine the effect of taxpayers willingness and financial performances of the banking companies on compliance behavior of corporate taxpayers mediated by optimal tax reporting, by referring to stakeholder theory, cognitive behavior theory, ability to pay theory, willingness to pay theory, and performance benchmarking method. The population was 42 active banking companies listed on the Indonesia Stock Exchange during the period of 2013-2015. A total of 33 samples of the banking companies was collected using the purposive sampling method. The analysis method used was Partial Least Square (PLS). Data were collected by using the technique of documentation taken from the audited banking companies' financial statements of 2013-2015 and from the summary of financial statement listed on the Indonesian Capital Market Directory. The results of the study found a significant effect that the optimal tax reporting mediated the effect of taxpayers willingness and banking companies' financial performance on the compliance behavior of the corporate taxpayers (extending the theory of willingness to pay). But, the financial performances of the banking companies did not have a significant effect on the compliance behavior of the corporate taxpayers (rejecting the theory of ability to pay).
Keywords: Willingness, Banking, Financial Performances, Tax Reporting, Compliance Behavior, Indonesia Stock Exchange.

1. Introduction

Tax is a source of state revenue to finance all public spending for the purpose of national development and other routine financing expenditures. Some authors explained that a robust tax system has three important roles in national development, namely: generating revenue, decreasing inequality, and promoting good governance (Cobham 2005). Indonesia's tax revenue in 2015 (Ministry of Finance of the Republic of Indonesia 2015) contributed 74% benefit of total state revenue. Tax ratio and tax gap in Indonesia were under the Asean countries rate. In 2009, according to the Organization for Economic Co-operation Development or OECD (2012), Indonesia's tax ratio was 11%, while Malaysia's tax ratio was 15.5%, Singapore's tax ratio was 13%, South Korea's tax ratio was 26.8%, and Japan's tax ratio was 27.4%. It means that the level of tax compliance in Indonesia is still low; the amount of collected tax is relatively lower than its tax base. Therefore, it is a challenge for the Directorate General of Taxation in Indonesia to increase tax revenues through the relevant policy making and increasing the compliance behavior of the taxpayers. According to the data from the Directorate General of Taxation (2016), up to 2015, the level of corporate taxpayer compliance had reached 57.09% of the total 1,184,816 corporate taxpayers. But,only 375,569 corporate taxpayers who paid the tax which means that only 375.569 corporate taxpayers reported the naught annual tax report. This amount was very small compared with the amount of 3 million companies operating in Indonesia.

Referring to stakeholder theory (Freeman, 2010), when we discuss about taxpayer compliance, the manager's job is to manage the interests of its stakeholders, both in short and long term. But, Freeman's stakeholder theory is considered inconsistent when associated with the tax compliance. For instance, a result of a study by Lanis & Richardson (2011), regarding to the stakeholders and focusing on the influence of the composition of the board of directors on corporate tax aggressiveness, showed that the composition of the board of directors has a negative effect on the aggressiveness of corporate tax. This means that the higher the composition proportion of the members outside the members of the board of directors, the lower the possibility of doing tax fraud (tax aggressiveness). On the other hand, a study by Hoi et al., (2013) found that companies with the excessive and unaccountable Corporate Social Responsibility (CSR) activities have higher propensity of performing tax evasion.

Tax compliance attitude is influenced by two factors; the ability and the willingness of the taxpayer (Umar et al. 2012). Taxpayer ability is measured by the company's financial performance that shows a company's ability to report the actual taxable income. The ability to pay theory developed by Musgrave (1985) explains that the taxpayer compliance in paying taxes is influenced by their ability. The willingness to pay theory explains that the tax compliance of the taxpayers in paying taxes is influenced by the their willingness(Kahneman et al. 1990).

The optimal and fair tax reporting would increase the tax compliance. The theory of optimal tax reporting or theory of equity of the tax system (Adams 1963) explains that the financial performance and the willingness to pay tax have an indirect effect on the tax compliance behavior because it is mediated by the optimal tax reporting (Chau & Leung 2009; Chen et al. 2007; Fischer et al. 1992; Sapiei et al. 2014). The measurement of company's optimal tax reporting is implemented by employing a performance benchmarking method developed by Syed & Kalirajan (2000). This method is used for measuring the optimal tax reporting for the banking companies and also to test the taxpayer compliance behavior. Regarding to the measurement of optimal tax reporting, some researchers have different perceptions, mainly about the equity of the tax system (Alm et al. 1992; Saad 2010) and the ratio of the tax expense among the taxpayers (Spicer & Becker 1980).

Referring to previous explanation, five objectives of this study were to analyze: (1) the effect of the taxpaying willingness of banking companies on the optimal tax reporting, (2) the effect of financial performances of the banking companies on optimal tax reporting, (3) the effect of the taxpaying willingness of banking companies on the tax compliance behavior, (4) the effect of the financial performances of the banking companies on the tax compliance behavior, and (5) the effect of optimal tax reporting of banking companies on tax compliance behavior.

2. Literature Review

2.1 Financial Performance

The financial performance in an organization or a company reflects financial condition and the ability of the company in managing its current and future finance. This indicates that the larger the scale of the company, the more efficient the company's financial performance, and it will raise the tendency to increase the revenue that finally increase the ability to pay taxes (Amornkitvikai & Harvie 2011; Dawkins et al. 2007; Syed & Kalirajan 2000). The ability to pay theory developed by Musgrave (1985) explains that the ability of taxpayers to pay the tax will affect their compliance behavior. The financial performance of the big company should directly influence the taxpayers compliance, which means that a good financial performance will be in line with the optimal tax reporting. But, in fact, a good financial performance does not positively affect high tax compliance as supported by the benchmarking of company's profitability performance. Some researchers used different variables with different results. A study by Tahir et al., (2010) used an accounting-based and stochastic cost ratio applied to domestic banks in Malaysia and the results showed that the profitability of the companies was affected by the overhead costs. Another study on different banking companies such as a study by Ho & Wu (2006) found that the operational performance of the bank affects the benchmarking. The benchmarking method used was behavioral benchmarking model which measured the financial performance by comparing the annual tax report of corporate taxpayers with the average annual tax report of the banking industry.

2.2 Taxpayers Willingnes

Ajzen & Fishbein (1980) in consumer behavior theory stated that environmental factors influence behavior through perception, attitude, and willingness to pay taxes. Kirchler (2007) explained that profitability performance is influenced by the willingness to pay taxes. Theory of willingness to pay (Kahneman et al. 1990) also explained that the willingness to pay taxes is influenced by self-motivation and social awareness. Meanwhile, Sanjaya (2008) proposed that the measurements of the willingness to pay taxes are awareness motivation in paying taxes, insight and knowledge about taxes, attitude and compliance behavior of the taxpayers, and the ease of the tax system. According to Allingham & Sandmo (1972) and Becker (1968), the compliance of the taxpayers in paying taxes is affected by the higher tax benefit than the risk of tax audits. While Fischer et al., (1992) stated that the model of the tax system affects the willingness and compliance behavior of the taxpayer.

2.3 Optimal Tax Reporting

Referring to the provisions of article number 28 of the Law Number 28/2007 on General Provisions and Tax Procedures, the corporate taxpayer is required to have an accounting system so that the companies can calculate the taxable income correctly and accurately. Optimal tax (Alm et al. 1992) is the design and implementation of the tax system that can generate the amount of revenue to finance government spending. Optimal tax reporting is influenced by the company's financial performance and the willingness of taxpayers.

According to the tax circular Number SE-40/PJ/2012, Directorate General of Taxation (DGT) has developed a benchmarking methodology through a Benchmark Behavioral Model (BBM) in order to improve the efficiency, effectiveness, guidance, and supervision of tax compliance (Directorate General of Taxation 2012). Before the BBM implementation, DGT applied a total benchmarking ratio and its utilization as stated in tax circular No. SE-96/PJ/2009 (Directorate General of Taxation 2009). Moreover, DGT explained that there are three measurement variables of optimal tax reporting, i.e., operational profit benchmarking, gross profit benchmarking, and net profit benchmarking. A study by Syed & Kalirajan (2000), regarding the use of benchmarking to measure the risk of reporting company's revenue in service industries in Australia in 1996-1997, showed that the variable of account firm-specific, particularly governance characteristics, significantly affects the profitability of the company.

2.4 Taxpayer Compliance

Compliance to tax is about reporting the revenue based on tax regulations, submitting an annual tax return, and paying the taxes on time (Franzoni 1999). Purnama (2014) stated that the benchmarking as a measurement of taxpayer performance is an effective and efficient method in evaluating the compliance of the taxpayers. Benchmarking method was used by Syed & Kalirajan (2000) to measure the level of taxpayer compliance for the corporate level by using the indicators of earning tax ratio, corporate tax to turnover ratio, overdue tax, and penalties.
The following five hypotheses are formulated in this study :
H1 : Taxpaying willingness positively affects optimal tax reporting.
H2 : Financial performances positively affects optimal tax reporting.
H3 : Taxpaying willingness positively affects tax compliance behavior.
H4 : Financial performances positively affects tax compliance behavior.
H5 : Optimal tax reporting positively affects tax compliance behavior.

3. Methodology

This research is an explanatory research that describes the effect between two or more variables that is symmetrical, causal, and reciprocal. The population was 42 banking companies listed on and are still active in Indonesia Stock Exchange during the period of 2013 to 2015. Samples were taken by employing a purposive sampling method and the criteria was the banking companies that published their annual reports respectively during the period 2013 to 2015. Referring to that criteria, there were 33 samples of banking companies. To collect data, the researcher used a documentation technique to document audited financial statements of the banking companies from 2013 to 2015 and also the summary of financial statement listed on Indonesian Capital Market Directory.

This research aimed to analyze the effect of exogenous variables on endogenous variables. Exogenous variables consisted of taxpayers willingness (X_1) and financial performance of the banking companies (X_2), while the intervening endogenous variable was optimal tax reporting (Y_1) and the dependent endogenous variable was tax compliance behavior (Y_2). Data were analyzed using Partial Least Square (PLS). The reason of using PLS is due to the possibility to perform structural equation modeling with the adjusted sample size and it does not require the assumption of normal multivariate. PLS is a powerful analysis method because it can be applied to all scales of the data. PLS analysis was performed by a first order method to avoid losing information when getting a factor score or a component score for the second order. The mediating variable was tested using the Sobel test to examine the significance of the path coefficients for the indirect effect. This study used $\alpha = 0.05$. The calculation process was performed by using ADSTAT software. The independent variable was denoted by X_1 and X_2, mediating variable was denoted by Y_1, and the dependent variable was denoted by Y_2.

4. Results and Discussion

4.1 Results of Linearity Assumption Test

In structural equation modeling with PLS method, the linear assumption test of the relationship between variables is required. SPSS software was used to test the linear assumption with the significant linearity criteria at p 0.05 and/or the deviation is not significant at $p > 0.05$. Results of the linearity assumption test are presented in Table 1 below:

Table 1. Results of Linearity Assumption Test

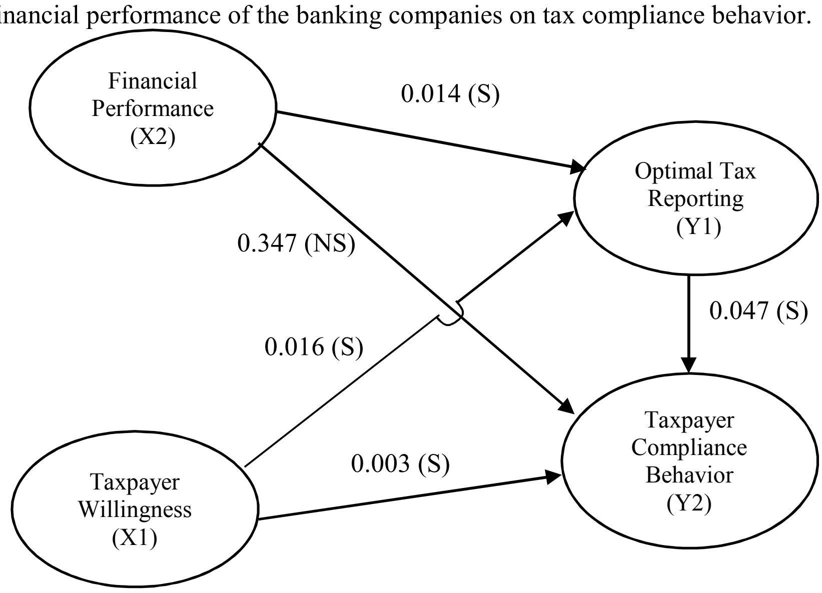
No.	Relationship between Variables		Linearity (p-value)	Deviation (p-value)	Remarks
1	Taxpayer Willingness (X_1)	Optimal Tax Reporting (Y_1)	0.000	0.194	Linear
2	Financial Performance (X_2)	Optimal Tax Reporting (Y_1)	0.010	0.154	Linear
3	Taxpayer Willingness (X_1)	Taxpayer Compliance Behavior (Y_2)	0.004	0.532	Linear
4	Financial Performance (X_2)	Taxpayer Compliance Behavior (Y_2)	0.000	0.077	Linear
5	Optimal Tax Reporting (Y_1)	Taxpayer Compliance Behavior (Y_2)	0.000	0.087	Linear

Source: results of analysis

The results of the linearity assumption test showed that all relationships between variables was linear, so the assumption of linearity for PLS was achieved.

4.2 Analysis Results of Partial Least Square

PLS analysis was tested using the t test by applying the bootstrap resampling method. Results of hypothesis testing are presented in Figure 1 which shows that the optimal tax reporting is mediating the effect of taxpayer willingness and financial performance of the banking companies on tax compliance behavior.



Remarks: S = Significant
NS = Not Significant

Figure 1. Analysis Results of Partial Least Square

The direct effect relationship occurs between the exogenous variables of taxpayer willingness and financial performance and the intervening endogenous variable, which is the optimal tax reporting, and dependent endogenous variable, which is taxpayer compliance behavior, as can be seen in Table 2.

The testing of optimal tax reporting variable as the mediating variable was performed by using the Sobel test. The calculation process was run by using ADSTAT software. The results are presented in Table 3 showing that the optimal tax reporting mediates the effect of taxpayer willingness on taxpayer compliance behavior and the effect of financial performance of banking companies on tax compliance behavior.

Table 2. Results of Hypothesis Testing for Direct Effect

No.	Relationship between Variables		Path Coefficient	CR	p-value	Remarks
1	Taxpayer Willingness (X_1)	Optimal Tax Reporting (Y_1)	0.589	2.407	0.016	Significant
2	Financial Performance (X_2)	Optimal Tax Reporting (Y_1)	0.523	2.457	0.014	Significant
3	Taxpayer Willingness (X_1)	Taxpayer Compliance Behavior (Y_2)	0.368	1.988	0.003	Significant
4	Financial Performance (X_2)	Taxpayer Compliance Behavior (Y_2)	0.153	0.940	0.347	Not Significant
5	Optimal Tax Reporting (Y_1)	Taxpayer Compliance Behavior (Y_2)	0.294	2.970	0.047	Significant

Source: results of analysis Sig. $\alpha = 5\%$

Table 3. Results of Testing Mediating Variable: Indirect Effect Coefficient with Sobel Test

No.	Independent Variable	Mediating Variable	Dependent Variable	Coefficient	p-value	Remarks
1	Taxpayer Willingness (X_1)	Optimal Tax Reporting (Y_1)	Taxpayer Compliance Behavior (Y_2)	0.2575	0.000*	Mediating
2	Financial Performance (X_2)	Optimal Tax Reporting (Y_1)	Taxpayer Compliance Behavior (Y_2)	0.1656	0.010*	Mediating

Source: results of analysis *Significant

Based on Table 2 and Table 3, as well as Figure 1, the results of the analysis are explained in detail in the following discussion:

1. The effect of taxpayer willingness (X1) on optimal tax reporting (Y1) had a positive path 0.589 with the C.R value 2.407 and the probability (p-value) 0.016. This study found that the effect of taxpayer willingness on optimal tax reporting is significant. Results of the study were in line with the cognitive behavioral perspective theory of Ajzen and Fishbein (1980). Increasing the taxpayer willingness by using formal suggestion and audit could provide an external stimulus to change the attitude and the pressure on the taxpayers to report the actual taxes.
   The findings of this study support studies of Alm & McKee (2006), Vossler & McKee (2013), and Anyaduba et al., (2012) regarding to the theory of cognitive behavioral perspective in predicting the taxpayer compliance behavior. The similarity of the findings was due to the condition that all this time, the audit and formal suggestion activities were performed by big companies with high potential of payable tax income and non-compliant behavior.
   Samples in this study were the banking companies listed on Indonesia Stock Exchange for the period of 2013 to 2015. The availability of financial information was very adequate and those companies would not perform such manipulation in their profit reporting. That is the reason why the examination and formal appeal activities had a significant affect on optimal tax reporting.
   Risk management implemented by the DGT, as mentioned in the tax circulars No. SE-40/PJ/2012 issued by Directorate General of Taxation, was in the form of Benchmark Behavioral Method (BBM), which was the development of total benchmarking ratio method in the form of mapping the risk of the non-compliant behavior of the tax payer listed on Directorate General of Taxation, based on the notification letter of the corporate taxpayer (Directorate General of Taxation 2012). The implication of the study results is for the development of BBM method and development of the theory of perspective cognitive behavioral in predicting the taxpayer compliance.
2. The effect of the banking companies financial performance (X_2) on optimal tax reporting (Y_1) had a positive path 0.523 with C.R value 2.457 and the probability (p) of 0.014. Results of this study found that the effect of financial performance of the banking companies on optimal tax reporting is significant. These results support stakeholder theory proposed by Freeman (2010) explaining that financial performance of the banking companies has a significant effect on optimal tax reporting. It could be concluded that the better the financial performance of the banking companies as the taxpayers, the more optimal their tax reporting.
   The results of this study also support previous research by Bastari (2016), Hanlon & Slemrod (2009), Hoi et al., (2013), and Lanis & Richardson (2011) related to stakeholder theory which explains that the company will improve optimal tax reporting in order to improve trust from of its stakeholders. However, other studies such as Davis et al., (2013), Hidayanti & Lalsito (2013), and Kurniasih & Ratna Sari (2013) found that regarding to the tax cases, the director or the leader of the company tend to not reporting the company's optimal profit for the reasons of tax savings.
3. The effect of taxpayers willingnes (X_1) on tax compliance beahvior (Y_2) had a positive path 0.368 with CR value 1.988 and probability (p) 0.003, meaning that taxpayers willingness (X_1) significantly affects tax compliance behavior (Y_2). This result supports researches of Anyaduba et al., (2012), Ortega et al., (2016), Sapiei et al., (2014), and Zhang et al., (2016) regarding the theory of willingness to pay.
   The results of this study showed that the higher the taxpayers willingness to pay the tax, the higher the tax compliance behavior. According to the tax laws, taxpayers willingness to pay taxes supported by the tax audit and formal suggestion will give external motivation to change attitudes, perceptions and pressure on taxpayers to comply with their tax obligations. Tax audit and formal suggestion will give an understanding, but also forcing and encouraging taxpayers to obey the tax payment system.
4. The effect of the financial performance of the banking companies (X_2) on the tax compliance behavior (Y_2) had a positive path of 0.143 with CR value 0.940 and probability (p) 0.347, meaning that the financial performance of banking companies (X_2) had no significant effect on taxpayer compliance behavior (Y_2). This result was different from the theory of ability to pay proposed by Atawodi & Ojeka (2012) and Vossler &

McKee (2013) explaining that taxpayer compliance behavior is much influenced by the willingness than the ability of the taxpayer to pay taxes. Zhang et al., (2016), Ortega et al., (2016), and Anyaduba et al., (2012) found that the willingness of the taxpayer is more important than the ability of taxpayers in influencing the taxpayer compliance. The financial performance of the banking companies does not only describe company's financial capability, as explained in the theory of ability to pay, but it is also influenced by the ability of the banking companies in managing resources to achieve corporate objectives.

The profile of 33 banking companies was varied as seen from the vision, mission, organizational structure, and operational activities. The selection of the banking companies was partly based on their achievement on Good Corporate Governance (GCG) Award in 2015. Some examples of the 33 banking companies applying best GCG were Bank Tabungan Negara, Bank Mandiri, Bank OCBC NISP, Bank Rakyat Indonesia, Bank Negara Indonesia, Bank DKI, Bank Permata, Bank Central Asia, and Bank Ekonomi Raharja

5. The effect of optimal tax reporting (Y_1) on taxpayer compliance behavior (Y_2) had a positive path of 0.294 with CR value 2.970 and probability (p) 0.047, meaning that optimal tax reporting (Y_1) significantly affects taxpayer compliance behavior (Y_2). Results of this study found that optimal tax reporting has a significant effect on tax compliance. Related to tax compliance, these results clarified the theory of justice (Adams 1963) explaining that distributive justice, procedural justice, and retributive justice received by an individual will affect their compliance behavior.

   Theory of willingness to pay and theory of ability to pay indirectly affect compliance behavior of the taxpayer through optimal tax reporting. That is, if the taxpayer bears the tax heavier than any other taxpayers, there will be a decrease in the ratio of taxpayer compliance. This study developed the studies of Bastari (2016), Alm et al., (1992), and Spicer & Becker (1980) who found that optimal tax reporting has a significant effect on tax compliance behavior. However, a different study conducted by Saad (2010) found that optimal tax reporting did not significantly affect taxpayer compliance behavior.

5. Conclusion

Results of the study found a significant effect of optimal tax reporting in mediating the effect of taxpayer willingness and corporate banks financial performance (listed on Indonesia Stock Exchange for the period of 2013-2015) on taxpayer compliance behavior (extending the theory of willingness to pay). But, the financial performance of the corporate banks did not have significant effect on the compliance behavior of the taxpayer (rejecting the theory of ability to pay). The results of this study showed that the optimal tax reporting variable as a full mediating in seeing the indirect effect of the financial performance variable to behavior taxpayer compliance variable.

This study also shows that the taxpayer willingness significantly influence the optimal tax reporting and taxpayer compliance behavior. These results indicate that the optimal tax reporting only a half mediating from variable willingness taxpayer to taxpayer compliance behavior.

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