

The Moderating Effect of Artificial Intelligence and ICT Adoption on Tax Evasion

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Abstract: The primary purpose is to provide a relationship between corruption and tax evasion and explain the use of AI and electronic devices as a means of connection based on today's technological advances. The method of data collection type of questionnaire used is the Likert scale. Data analysis used SEM-PLS because it has a high level of flexibility. The main findings are that tax evasion cases always occur in any country and vary in nominality. Tax regulations and corruption cases have an impact on reducing tax compliance. Theory and practical implications Through this research, the insights of parties regarding tax evasion will be broader for all parties who report taxes to increase the value of tax compliance. In addition, the government will understand the relationship of problems in the country. The level of tax evasion has results similar to those of most other studies that have a strict relationship with a country's tax regulations.

Keywords: Tax Evasion; Corruption; Public Policies; Artificial Intelligence; ICT Adoption.

Abstrak: Tujuan utama untuk memberikan pengetahuan mengenai hubungan antara korupsi dengan Tax Evasion, serta menjelaskan berdasarkan kemajuan teknologi zaman sekarang yang sudah menggunakan AI dan perangkat elektronik sebagai sarana penghubung. Metode pengumpulan data jenis kuesioner yang digunakan adalah skala likert. Metode analisa data yang digunakan SEM-PLS karena memiliki tingkat fleksibilitas yang tinggi. Temuan utama kasus tax evasion selalu terjadi di negara mana pun yang bervariasi nominalnya. Peraturan pajak negara dan kasus korupsi yang dilakukan oleh pejabat berdampak terhadap penurunan kepatuhan pajak negara. Implikasi teori dan kebijakan melalui penelitian ini wawasan berbagai pihak mengenai tax evasion akan semakin luas, dari segala pihak yang melaporkan pajak untuk meningkatkan nilai kepatuhan pajak negara. Selain itu bagian pemerintah akan lebih mengerti mengenai hubungan masalah dalam negara. Kebaruan penelitian tingkat tax evasion memiliki hasil yang sama dari mayoritas penelitian lain yang memiliki hubungan ketat dengan peraturan pajak sebuah negara.

Kata Kunci: Penghindaran Pajak; Korupsi; Kebijakan Publik; Kecerdasan Buatan; Adopsi TIK.

INTRODUCTION

The adoption of Information and Communication Technology (ICT) significantly reduces the level of corruption by improving control and transparency in governance. In ASEAN countries such as Indonesia, implementing ICT can enhance corruption control by integrating institutional policies and education. Additionally, the role of ICT extends to fostering a more transparent environment where citizens and organisations have greater access to information, thus reducing opportunities for corrupt practices.

However, the impact of ICT on reducing corruption is not automatic. It can be limited if not complemented by other critical factors, such as enhanced transparency, stronger regulatory frameworks, and the active involvement of the public in governance processes



(Darussalam *et al.*, 2021). For ICT to indeed be effective in curbing corruption, it must be part of a broader strategy that includes increasing transparency in government operations and decision-making and promoting public participation. When citizens are well-informed and able to engage with governance actively, it creates a culture of accountability that makes corrupt activities harder to conceal. Therefore, public support and engagement are crucial to this process, as they ensure that technological advancements translate into real-world improvements in governance quality.

Furthermore, Artificial Intelligence (AI) has become increasingly important in combating corruption, especially when detecting and analysing large datasets. AI technologies, equipped with sophisticated algorithms, can process vast amounts of data at unprecedented speeds, making it easier to identify irregularities or anomalies in financial transactions and governmental processes that may point to corrupt activities. AI systems can uncover patterns that humans might miss, providing a powerful tool for law enforcement agencies and anti-corruption bodies in their fight against fraud and embezzlement. However, much like ICT, the effectiveness of AI in preventing corruption also depends on external factors.

Tax revenue is one of the most crucial sources of income for any government, as it funds essential public services and infrastructure such as healthcare, education, transportation, and social welfare programs. However, the ability of governments to effectively collect tax revenue is often undermined by widespread tax evasion, a significant issue faced by many countries around the world (Islam *et al.*, 2020) and (Khalil & Sidani, 2020). Tax evasion refers to the illegal act of deliberately avoiding paying the taxes owed by either underreporting income or exaggerating deductions and expenses in financial statements, thereby reducing the amount of tax that should be legally paid. In some cases, individuals or corporations may go as far as not paying their taxes, even after they are due.

This behaviour constitutes a direct violation of government tax regulations and has severe consequences for the state and its citizens (Christian, 2022). The reduced available resources put financial strain on the state and shift the burden onto compliant taxpayers, who are forced to bear a heavier load to compensate for the lost revenue. Furthermore, tax evasion disrupts the proper allocation of resources, contributes to social inequality, and undermines trust in government institutions. Those who engage in evasion often receive unfair financial advantages compared to law-abiding taxpayers, creating a sense of injustice. This impacts the economy and erodes society's moral fabric, encouraging others to engage in similar dishonest behaviour.

In 2017, Zimbabwe experienced a significant decline in tax revenue, primarily due to a sharp decrease in taxpayer compliance. This downturn was triggered by the government's decision to impose a 2 per cent tax increase on all electronic bank transactions, a measure intended to enhance state income. However, this policy had unintended consequences, as many businesses and individuals shifted to cash-based transactions to avoid the additional financial burden. The move to cash payments bypassed electronic monitoring systems and created ample opportunities for tax evasion. In such cases, businesses and individuals conducting cash transactions are less likely to report their actual income to tax authorities, making it difficult for the government to assess and collect taxes owed accurately.

According to a study by the World Bank, a staggering 54 per cent of companies in developing nations fail to fully report their taxable income to the relevant tax authorities, either through underreporting or completely concealing earnings (Kurauone *et al.*, 2021).



This widespread tax evasion undermines efforts to boost tax revenue and hinders the government's ability to provide essential public services.

Another case was in 2007 when PT Asian Agri Group (AAG) and its 14 subsidiaries were found to have committed tax evasion worth 1.259 trillion Rupiah over four years of operation (Ariyanto, 2020). This case demonstrated how large-scale corporations could exploit loopholes and change their financial situation to avoid paying taxes, thereby depriving the government of revenue.

According to (Hendi & Sitorus, 2023), periodic audits were introduced as part of a broader effort to improve oversight and ensure that businesses remain compliant with their tax obligations. As the commissioner's representative, the audit department is critical in monitoring companies' operations and assessing whether their financial practices align with legal standards (Yopie & Erika, 2021). By conducting thorough and regular audits, governments aim to close the gaps that allow for tax evasion and improve the transparency and accountability of corporate entities.

High levels of corruption reduce the ability of tax authorities to enforce tax regulations and punish tax evasion perpetrators, thus creating opportunities for increased tax evasion. In contrast, a low-corruption environment supporting transparency will create a favourable environment opposing tax evasion (Khlif & Amara, 2019). E-government, which provides information technology services from the government, indicates government efficiency and improves transparency and administrative credibility, thereby significantly reducing corruption levels (Uyar *et al.*, 2021). The economy of a country is reflected in its tax structure. Competency, infrastructure, and technology are institutions that encourage compliance with the taxation system. Therefore, technological development, such as AI, has been added to benefit companies (Cukov, 2021). This research provides a deeper understanding of taxation in Indonesia, which has loopholes in its regulations that allow taxpayers to have lower tax liabilities. As a result, officials or business people can exploit these loopholes to gain greater profits. This article contributes to the public paying high taxes but not receiving appropriate services because some individuals or entities engage in tax avoidance. As a result, the tax revenue that the government should receive is reduced.

This study provides deeper insights into tax evasion cases related to tax regulations and corruption in Indonesia. The growth follows the current development in the technology sector. Artificial Intelligence and ICT are evidence of technological progress in society today. This has also entered Indonesia with the emergence of E-SPT, E-Billing, E-Invoice, etc. With this, the possibility of corruption will decrease due to increased financial transparency, and the reduction in corruption levels will lead to a decrease in tax evasion. The efficiency of government tax fund allocation also impacts tax evasion rates (Yamen *et al.*, 2018).

Based on previous research and existing issues, this study focuses on controlling corruption through tax evasion. It identifies a specific approach for ASEAN countries, particularly Indonesia, by integrating institutional policies and regulations. This study emphasises the importance of utilising information and communication technology (ICT) and artificial intelligence (AI) to advance current society technologies. The research incorporates variables such as public policies, public and political corruption, and control of corruption, with artificial intelligence and ICT adoption acting as moderating factors for tax evasion. This study provides insights for various stakeholders about tax evasion, including perspectives from taxpayers and companies reporting taxes, to enhance tax



compliance in the country. Additionally, it aims to help the government better understand the relationships and challenges within the nation.

THEORETICAL REVIEW

The Theory of Planned Behavior suggests that the behaviour of individuals or groups closest to them influences an individual's attitude. Behavioural intention is considered an individual's behaviour as a predictor (Ajzen, 1991). For instance, a taxpayer who becomes aware that officials are engaging in tax evasion may experience a decline in their level of tax compliance. This highlights how unethical actions by authorities can negatively impact individual behaviour (Abu Bakar et al., 2023).

The government plays a crucial role in controlling corruption, which can decrease tax compliance. This situation affects the public, who feel that state revenue from taxes is not being appropriately distributed (Kurauone et al., 2021). The likelihood of companies complying with tax regulations diminishes when unfair regulations are implemented. High tax rates increase tax evasion up to a certain point (Islam et al., 2020). With higher taxes imposed on taxpayers with larger incomes compared to those with smaller incomes, tax compliance decreases as these higher-income taxpayers become less willing to fulfil their tax obligations (Ariyanto, 2020).

According to research by (Islam et al., 2020), the level of tax evasion increases as a country's tax regulations become more strict. Meanwhile, (Aruoba, 2021) argues that tax evasion decreases when tax rates or penalties are lowered. Improving tax revenue collection with a fair distribution of taxes aligned with the public facilities provided to taxpayers can enhance trust and reduce tax evasion within a country. Efficient allocation of tax funds will incentivise taxpayers (Yamen et al., 2018). When the legal system is inefficient, the screening process becomes more complicated, increasing tax evasion. As a result, the information banks need to provide credit to companies becomes limited, mitigating the negative impact on corporate credit (Giombini et al., 2018).

An environment with weak tax law enforcement can increase the likelihood of corruption and encourage individuals and businesses to engage in tax evasion. A study of 5,000 companies operating in 22 former Soviet countries showed high levels of corruption, resulting in low tax compliance (Yamen et al., 2018). Control of corruption is essential as a preventive measure, as a corrupt environment encourages officials to seek additional income through corrupt practices. This often occurs through cash payments to bypass tax oversight (Ozili, 2020).

Public and Political Corruption generally misuses public sources for personal gain (Maguchu, 2018). Between 2009 and 2013, Zimbabwe's President, Robert Mugabe, claimed that the country suffered losses amounting to US\$15 billion due to Public and Political Corruption, which significantly impacted the nation's finances during that period (Kurauone, Kong, Mago, et al., 2021). Based on their view of an unstable government, taxpayers may seek to protect their wealth through tax evasion by concealing their actual income (Yamen et al., 2018).

High levels of Public and Political Corruption lead to a reduced ability of authorities to enforce tax regulations and punish those involved in tax evasion. Research by (Khlif & Amara, 2019) and (Amoh & Ali-Nakyea, 2019) highlights a significant positive relationship between Public and Political Corruption and tax evasion. In addition to political entities, Indonesia, which has many large companies, also faces corruption cases within some of



these corporations (Anita & Amalia, 2021). One of the drivers of tax evasion activities is the presence of Public and Political Corruption.

Artificial Intelligence refers to all machines or devices that can function like humans but possess greater capacities than an ordinary human because they have data and algorithms to operate (Dhamija & Bag, 2020). AI can minimise form-filling errors by retrieving relevant information from a database and automatically populating form fields. However, the main issues are fairness, security, certification, privacy, workforce displacement, and taxation (Raikov, 2021).

The digitalisation of government provides an opportunity to implement ICTs, which helps reduce the burden of tax reporting by simplifying procedures and data sharing. According to (Uyar et al., 2021), countries that build strong ICT systems will transform the entire public reporting process. Although adapting ICT requires significant funding, the tax revenue increase from tax evasion reduction will balance the costs. The development of information technology through ICT will significantly negatively impact corruption (Adam, 2020). The analysis of the impact of e-government on corruption issues in Africa, using ICT adoption as a moderating factor, shows a significant positive impact of ICT use in the implementation of e-government initiatives and tax evasion reduction.

METHODS

This study uses primary data collected through a survey or questionnaire using Google Forms as the data collection tool (Ariyanto, 2020). The respondents are taxpayers located in the Batam area, as tax evasion can only be carried out when a person has a tax obligation (Khalil & Sidani, 2020). The measurement used in this analysis is the Likert scale, a questionnaire with five options ranging from strongly disagree to agree (Douven, 2018). This scale is an evaluation tool to generate quantitative data on a subject (South *et al.*, 2022).

This study uses multivariate analysis, so the sample size must be ten times larger than the number of variables analysed (Roscoe, 1975). Therefore, the minimum sample size is 60, based on the total dependent variable (Tax Evasion), independent variables (Public Policies, Control of Corruption, Public and Political Corruption), and moderation variables (Artificial Intelligence, ICT Adoption).

The determination of respondents' quantity uses Roscoe's formula. However, because Smart PLS requires more data than Roscoe's formula suggests, the final sample consists of 105 respondents selected through random sampling over two weeks starting on August 8, 2023.

Data analysis uses Structural Equation Modelling (SEM), which has been chosen over other techniques due to its high flexibility, offering interactions between theory and data (Amoh & Ali-Nakyeya, 2019). The analysis is carried out through SmartPLS to clarify the relationships between the variables of Tax Evasion, Control of Corruption, Public and Political Corruption, Public Policies, AI, and ICT Adoption. Partial Least Square (PLS) is advantageous because it has fewer limitations regarding sample measurement scales and does not assume variable independence, leading to more reliable results (Adam, 2020).



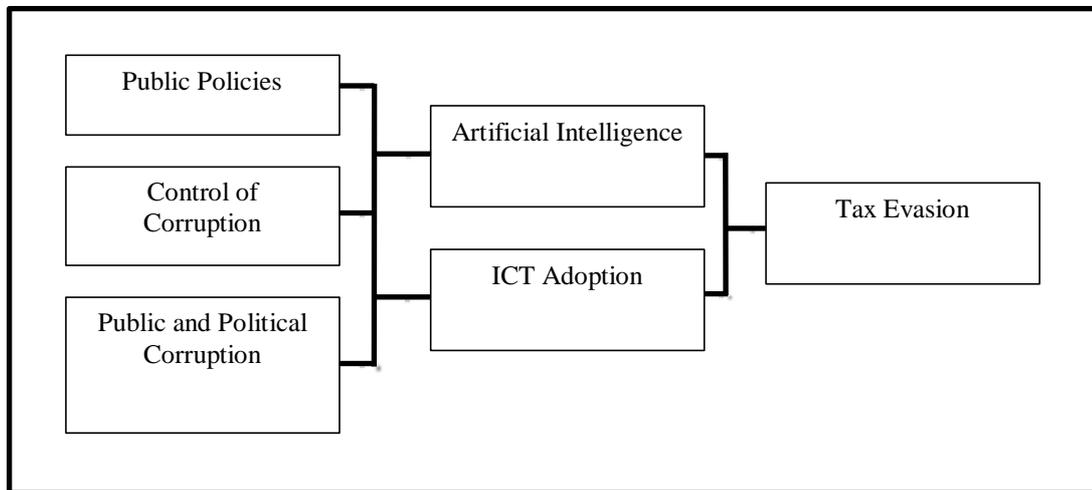


Figure 1. Research Model

Research Hypothesis:

H1: Public Policies have a significant positive effect on the level of Tax Evasion.

H2: Control of Corruption has a significant positive effect on the level of Tax Evasion.

H3: Public and Political Corruption has a significant positive effect on the level of Tax Evasion.

H4: AI, as a moderating factor, can strengthen the relationship between public policies, the control of corruption, and public and political corruption at the level of tax evasion.

H5: ICT adoption as a moderating factor can strengthen the relationship between public policies, control of corruption, and public and political corruption at the level of tax evasion.

Data collection was done using a Likert scale. **Table 1** is the measurement based on the variables discussed.

Table 1. Variable Measurement

Variable	Measurement	Source
Tax Evasion (TE)	Transactions for goods or services with friends or neighbours must be reported in the tax form. Gains from investments or interest need to be reported in the tax form. Report income in full detail without any omissions in the tax form. Report income according to existing tax regulations. Report all income, including side income.	(Sebele-Mpofu, 2020)
Public Policies (PP)	The amount of income tax has been reasonably determined. I feel guilty when I do not pay taxes correctly. I have benefited from the taxes I pay (public infrastructure). People with high incomes should pay higher taxes. The tax system in Indonesia is functioning correctly and fairly.	(Ariyanto, 2020)
Control of Corruption (CoC)	In Indonesia, there are rare cases of embezzlement of public funds. In Indonesia, all companies comply with existing tax regulations. In Indonesia, the government is neutral and does not favour certain companies or individuals. In Indonesia, there are rare cases of illegal levies or extortion.	(Amoh & Ali-Nakyea, 2019)



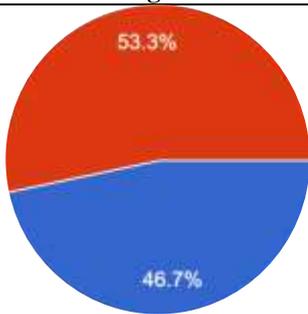
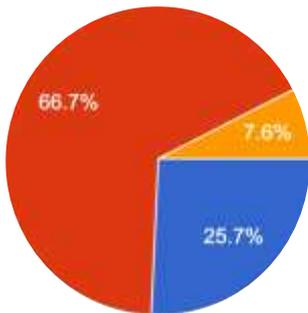
Variable	Measurement	Source
Public and Political Corruption (PPC)	In Indonesia, there are rare cases of bribery that benefit certain parties.	(John E. Anderson, 2020)
	I am satisfied with how the government manages taxes now.	
	I have respect for all government regulations.	
	The government has punished all corruption cases.	
Artificial Intelligence (AI)	Institutions managing public funds can be trusted.	(Ismailova & Inal, 2018)
	Nowadays, people do not take things that do not belong to them.	
	I find the DJP (Indonesian Tax Office) system easy to use.	
	The DJP system has complete features related to taxation.	
ICT Adoption (ICT)	The layout of the DJP system is strategic.	(Mulyana et al., 2019)
	It is getting easier to report taxes through the DJP system.	
	The DJP system simplifies my tax obligations.	
	The DJP system strictly protects personal data.	
	There are clear guidelines for reporting in the DJP system.	
	There is an email for all my tax-related information from the DJP system.	
	The DJP system provides clear instructions for reporting taxes.	
	The registration process in the DJP system is easy.	

Source: Processed Data (2024)

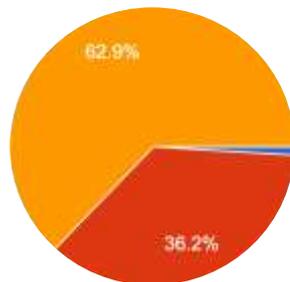
RESULTS

In this study, the SmartPLS application was used to analyse the results of the previously distributed questionnaire. The measurement was carried out by running outer and inner loadings, which assess the levels of convergent validity, discriminant validity, reliability, and significance concerning the existing hypotheses.

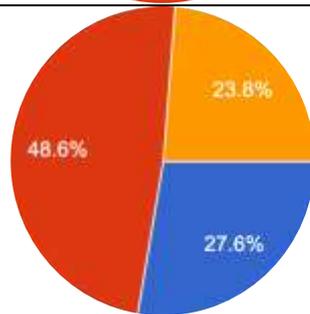
Table 2. Descriptive Statistics.

Diagram	Conclusion
	<p>Gender: The research findings indicate that of the 105 respondents in this questionnaire, 53.300 per cent or 56 individuals, were female, while 46.700 per cent or 49 individuals, were male. From this, it can be concluded that the minimal gender disparity demonstrates a balance in gender representation within the workforce in Batam. This is because Batam, a region with high living costs, requires most residents to seek employment. Additionally, Batam is an industrial area with numerous job opportunities supporting this balance.</p>
	<p>Age: The research findings indicate that of the 105 respondents in this questionnaire, 66.700 per cent, or 70 individuals, were aged 26 to 35, 25.700 per cent, or 27 individuals, were aged 18 to 25, and 7.600 per cent, or eight individuals, were over 35. This is because the productive working age typically falls between 26 and 35, contributing to the number of taxpayers. Meanwhile, those aged 18 to 25 are just beginning their careers and earning monthly wages.</p>





Employment Status: The research findings show that out of 105 respondents in this questionnaire, 62.900 per cent, or 66 individuals, work full-time, 36.200 per cent, or 38 individuals, work part-time, and 1 per cent, or one individual, is a student who works full-time. Tax reporting is mandatory for employees who earn a monthly wage, as reflected in the employment status statistics of taxpayers, which full-time workers dominate.



Monthly Income: The research findings indicate that out of the 105 respondents in this questionnaire, 48.600 per cent, or 51 individuals, have a monthly income between 4,550,000 and 7,000,000, 27.600 per cent, or 29 individuals, earn below 4,550,000, and 23.800 per cent, or 25 individuals, have an income between 7,000,000 and 10,000,000. The dominant income range of 4,550,000-7,000,000 is mainly because most active workers start with wages around the regional minimum wage (UMR) in that area.

Source: Processed Data (2024)

Table 2 shows that the statistics reveal a balanced gender representation in Batam's workforce, driven by high living costs and industrial job opportunities. Most respondents are 26 to 35 years old, reflecting the productive working age, while younger individuals, 18 to 25, are just starting their careers. Full-time workers dominate employment due to mandatory tax reporting. The most common income range is between 4,550,000 to 7,000,000, aligning with the regional minimum wage. This highlights Batam's economic landscape, with full-time workers of a productive age and mid-range incomes prevalent.

Table 3. Convergent Validity and Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
AI	0.212	0.211	0.192	0.050
CoC	0.940	1.276	0.880	0.687
ICT	0.299	0.484	0.358	0.142
Moderating AI > CoC	1.000	0.270	1.000	1.000
Moderating AI > PP	1.000	0.101	1.000	1.000
Moderating AI > PPC	1.000	0.212	1.000	1.000
Moderating ICT > CoC	1.000	0.618	1.000	1.000
Moderating ICT > PP	1.000	0.231	1.000	1.000
Moderating ICT > PPC	1.000	0.486	1.000	1.000
PP	0.255	0.476	0.395	0.145
PPC	0.938	1.005	0.926	0.735
TE	0.743	0.782	0.756	0.392

Source: Processed Data (2024)

The SEM PLS questionnaire data calculations results are examined using the AVE value to check for convergent validity, ensuring the variables meet the required criteria. Cronbach's Alpha and Composite Reliability values are used to check the reliability of the



questionnaire data. This study uses the Average Variance Extracted method presented in **Table 3** to measure convergent validity. Only the AVE values for public and political corruption and all moderating variables are used in this study. Tax Evasion will not stray far from Public and Political Corruption due to their close relationship (Yamen et al., 2018). In **Table 3**, except for the variables Artificial Intelligence, ICT Adoption, and Public Policies, all other variables exceed 0.700. According to (Sarstedt et al., 2023), CA and CR values should be greater than 0.700. Thus, several variables already meet the criteria. The results of the HTMT method to measure relationships between variables show values above 0.090, observed from the horizontally descending values.

The results of the SEM-PLS (Structural Equation Modeling-Partial Least Squares) questionnaire data analysis are thoroughly examined using several key statistical metrics to ensure the validity and reliability of the model. One of the primary methods used to assess convergent validity is through the Average Variance Extracted (AVE) value, which helps confirm that the observed variables are adequately explained by their corresponding latent constructs. Convergent validity is essential as it demonstrates that the indicators of a specific construct correlate highly, meaning they truly represent the underlying variable they are intended to measure.

To further verify the reliability of the data collected through the questionnaire, Cronbach's Alpha (CA) and Composite Reliability (CR) values are calculated. These metrics serve as indicators of internal consistency, with higher values suggesting that the items used in the questionnaire reliably measure the same construct. Typically, CA and CR values should be greater than 0.700 to indicate acceptable reliability, according to the guidelines suggested by (Sarstedt et al., 2023). Suppose a variable's CA or CR value is lower than 0.700. In that case, it may imply issues with the questionnaire items, calling for a review or revision of the survey instrument to improve its internal consistency.

In this study, the AVE values for most variables, such as public and political corruption and moderating variables, meet the required threshold for convergent validity. This indicates that the constructs are well-defined and that the observed data effectively represent the theoretical concepts being investigated. Public and Political Corruption, in particular, plays a significant role in this study, with a strong relationship to the dependent variable, Tax Evasion.



Table 4. HTMT Ratio

	AI	Coc	ICT	Moderating AI > CoC	Moderating AI > PP	Moderating AI > PPC	Moderating ICT > CoC	Moderating ICT > PP	Moderating ICT > PPC	PP	PPC	TE
AI												
CoC	1.026											
ICT	1.313	0.756										
Moderating AI > CoC	1.164	0.623	0.842									
Moderating AI > PP	0.582	0.628	0.474	0.475								
Moderating AI > PPC	1.096	0.746	0.897	0.905	0.562							
Moderating ICT > CoC	0.990	0.610	0.606	0.777	0.409	0.768						
Moderating ICT > PP	0.536	0.544	0.388	0.313	0.639	0.343	0.222					
Moderating ICT > PPC	1.184	0.716	0.646	0.847	0.493	0.878	0.885	0.263				
PP	1.195	0.482	0.970	0.787	0.369	0.834	0.700	0.509	0.788			
PPC	1.229	0.899	0.892	0.851	0.722	0.907	0.756	0.584	0.855	0.622		
TE	0.979	0.272	0.793	0.624	0.171	0.627	0.648	0.282	0.664	1.146	0.398	

Source: Processed Data (2024)



Additionally, to examine the relationships between variables, the study employs the Heterotrait-Monotrait Ratio (HTMT) method, which assesses discriminant validity by evaluating whether the constructs are distinct, which has recently become more popular than the Fornell and Larcker method. As shown in Table 4, the results from this method need values above 0.090, observed horizontally descendingly. This confirms that while strong relationships exist between particular variables, such as Public and Political Corruption and Tax Evasion, the constructs remain sufficiently distinct to ensure they are not measuring the same phenomenon.

Additionally, to examine the relationships between variables, the study employs the Heterotrait-Monotrait Ratio (HTMT) method, a more popular approach for assessing discriminant validity. The HTMT method has recently gained favour over the traditional Fornell and Larcker method, mainly due to its ability to detect issues with discriminant validity in specific models more accurately. This method evaluates whether the constructs in a study are sufficiently distinct, ensuring that each variable represents a unique concept rather than overlapping with other constructs.

In this study, the HTMT results, presented in **Table 4**, indicate that the values exceed the critical threshold of 0.090, showing a horizontally descending pattern. This is important because it suggests strong relationships between some variables. In other words, the HTMT results confirm that while these variables are closely related, they still capture different dimensions of the theoretical model.



Table 5. Hypothesis Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Significant Results (+/-)	Conclusion
AI -> TE	0.097	0.111	0.132	0.735	0.463	Not Significant	Not Acceptable
CoC -> TE	0.179	0.142	0.127	1.407	0.160	Not Significant	Not Acceptable
ICT -> TE	0.472	0.442	0.156	3.032	0.002	Significant Positive(+)	Acceptable
Moderating AI > CoC -> TE	0.032	-0.013	0.120	0.267	0.789	Not Significant	Not Acceptable
Moderating AI > PP -> TE	-0.134	-0.126	0.150	0.889	0.374	Not Significant	Not Acceptable
Moderating AI > PPC -> TE	-0.067	-0.014	0.220	0.306	0.760	Not Significant	Not Acceptable
Moderating ICT >CoC -> TE	-0.219	-0.172	0.133	1.645	0.100	Not Significant	Not Acceptable
Moderating ICT >PP -> TE	0.027	-0.012	0.098	0.279	0.781	Not Significant	Not Acceptable
Moderating ICT >PPC -> TE	-0.577	-0.505	0.289	1.994	0.046	Significant Positive(+)	Acceptable
PP -> TE	0.297	0.281	0.134	2.213	0.027	Significant Positive(+)	Acceptable
PPC -> TE	0.611	0.452	0.261	2.345	0.019	Significant Positive(+)	Acceptable

Source: Processed Data (2024)



The hypothesis test results are based on P Values, which must be below 0.050. Out of the five hypotheses, only H1, H3, and H5, which are Public and Political Corruption, are significantly associated with the level of Tax Evasion in Indonesia. The hypothesis test results are based on P Values, with a significance threshold set at 0.050. For a hypothesis to be accepted as statistically significant, its P-value must be below this threshold. It can be seen that (H1) Public Policies significantly positively affect the level of Tax Evasion, and (H3) Public and Political Corruption significantly affects the level of Tax Evasion. This is consistent with (Giombini et al., 2018), who states that societal regulations greatly influence the level of tax evasion. (H5) ICT Adoption can moderate the effects of Public Policies, Control of Corruption, and Public and Political Corruption on the level of Tax Evasion, but only through Public and Political Corruption. According to research by (Ozili, 2020), the level of corruption oversight can be avoided by using cash transactions to evade government scrutiny.

Additionally, (H4) is insignificant because Artificial Intelligence cannot connect the impacts of Public Policies, Control of Corruption, and Public and Political Corruption on Tax Evasion. While Artificial Intelligence assists humans in daily tasks such as Control of Corruption, it does not directly impact Tax Evasion (Dhamija & Bag, 2020). For (H5), ICT Adoption can moderate the effects of Public Policies, Control of Corruption, and Public and Political Corruption on the level of Tax Evasion, but only significantly for Public and Political Corruption. This relates to increased ICT, as technological advancement may negatively impact the country's corruption level (Adam, 2020).

Table 6. Coefficient Test R²

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Tax Evasion	0.801	0.819	0.053	15.214	0.000

Source: Processed Data (2024)

The test results, as presented in **Table 6**, specifically highlight the Sample Mean (M) value, which is instrumental in understanding how much of the variance in the dependent variable can be explained by the independent variable. This is crucial in determining the strength of the relationship between these variables. In this study, the Sample Mean (M) value is 0.819, meaning that the independent variable explains 81.900 per cent of the variation in the dependent variable.

In addition to the Sample Mean (M), the R Square coefficient test further validates this relationship by quantifying the extent to which the independent variable accounts for the variance in the dependent variable. As shown in **Table 6**, the R Square value supports the finding that the independent variable explains 81.900 per cent of the variation in the dependent variable. According to (Ismailova & Inal, 2018), the R Square value is a critical metric in regression analysis, as it indicates how well the independent variables predict the dependent variable.

However, the satisfaction or acceptability of the R Square value can vary depending on the specific research context and objectives. In some fields, an R Square value above 0.700 may be considered very strong, while in others, even lower values may be acceptable depending on the model's complexity and the data's nature. In this study, an R Square value of 0.819 is considered acceptable, as it indicates that the model provides a solid explanation



of the relationship between the variables, with only a tiny percentage (18.100 per cent) of variance left unexplained by the independent variable. This substantial R Square value reinforces the reliability of the findings. The model used in this research is well-suited to capture the dynamics between the independent and dependent variables.

DISCUSSION

The analysis of this research strongly aligns with the Theory of Obedience and Planned Behavior, which posits that the actions and decisions of individuals or groups are heavily influenced by the behaviours and norms observed in their environment, particularly in response to government regulations. This is evident in the findings related to Public Policies, as demonstrated by Hypothesis 1 (H1), which indicates that Public Policies have a significant positive impact on the level of Tax Evasion. When individuals see others around them either complying with or evading taxes, they may be more likely to adopt similar behaviours, reinforcing the concepts outlined in Milgram's theory of obedience. The close connection between tax regulations and Tax Evasion behaviours underscores the importance of societal influence in shaping compliance with legal and governmental rules.

This research also echoes findings from previous studies, such as those by (Islam *et al.*, 2020) and (Aruoba, 2021), highlighting that complex, burdensome, and high tax regulations often increase Tax Evasion. When tax systems become overly complicated, individuals and businesses may feel justified in finding ways to circumvent these rules, mainly if they believe others are doing the same. This further emphasises the role of societal behaviour in tax compliance. On the other hand, this study's findings diverge from (Yamen *et al.*, 2018), who argued that when tax revenues provide clear and tangible benefits to the public, such as improved infrastructure, healthcare, or education, individuals are less likely to evade taxes. This contrast suggests that while the burden of tax regulations plays a significant role, the perceived effectiveness of tax distribution and the visibility of benefits can also influence taxpayer behaviour, creating a complex relationship between government policies, public perception, and tax compliance. The complexity of tax regulations and the public's perception of government efficacy can exacerbate or mitigate evasion behaviours.

Regarding Control of Corruption, the analysis reveals that it does not significantly impact the Tax Evasion (H2) level. This finding is reinforced by the research conducted by (Ozili, 2020), which suggests that while controlling corruption is essential for minimising the unethical behaviour of officials responsible for managing tax revenues collected from the public and corporate entities, it does not directly correlate with Tax Evasion itself. Tax Evasion refers to the actions of taxpayers or companies that deliberately violate tax regulations to evade their financial responsibilities. Therefore, while Control of Corruption is crucial in promoting accountability and transparency within tax administration, it does not directly influence the actions of taxpayers who seek to evade taxes.

Furthermore, the relationship between Control of Corruption and tax compliance is noteworthy. As highlighted by (Yamen *et al.*, 2018), high levels of corruption within a country's governance can lead to a decline in tax compliance. When taxpayers perceive rampant corruption, they may lose trust in the tax system and feel disillusioned about the government's ability to use their contributions effectively for public goods and services. This disconnection can result in lower voluntary compliance, as individuals and businesses may feel justified in evading taxes when they believe their payments will not benefit society. By ensuring a transparent and accountable governance framework, countries can foster an



environment that encourages taxpayers to fulfil their obligations, ultimately helping to mitigate the broader issue of Tax Evasion in the long run.

Next, regarding Public and Political Corruption, which encompasses a range of corrupt practices done by both government officials and the general public, this phenomenon was addressed explicitly in the hypothesis of this study: Public and Political Corruption has a significant positive effect on the level of Tax Evasion (H3). Corruption in this context refers to actions taken by individuals or entities for their benefit, often at the expense of ethical governance and societal welfare. The significant findings of this research align with the conclusions drawn by (Yamen et al., 2018); (Ali-Nakyea, 2019), which emphasise the impact of public perceptions regarding the allocation and utilisation of national tax revenues on tax compliance within a country.

When citizens perceive that tax revenues are mismanaged or redirected towards corrupt practices, they may become disillusioned with the tax system and its intended purposes. This disillusionment often leads to a mindset where individuals and businesses seek to protect their financial interests by engaging in Tax Evasion, thereby avoiding the government's grasp on their resources. Moreover, the relationship between public and political corruption and tax evasion is related as corruption levels rise, as is the propensity for taxpayers to evade taxes, which can exacerbate corruption by limiting the government's financial resources to combat it effectively. Thus, Public and Political Corruption influences tax compliance and significantly impacts the broader socio-economic landscape by undermining trust in public institutions and encouraging a culture of non-compliance. This highlights the urgent need for reforms to increase transparency and accountability in government practices, which could help restore public confidence and reduce the incentives for Tax Evasion.

Artificial Intelligence or AI refers to advanced systems designed to assist humans in performing their daily tasks more efficiently and effectively. In the context of this study, the hypothesis posited that AI, when utilised as a moderator, could strengthen the relationships between Public Policies, Control of Corruption, and Public and Political Corruption with the level of Tax Evasion. This expectation was based on the premise that AI could improve the accuracy and efficiency of tax administration, thus potentially reducing opportunities for tax evasion. However, upon further investigation, it was found that the application of AI to taxation in Indonesia is currently quite limited. As a result of the insignificant hypothesis that AI as a moderating factor can strengthen the relationship between Public Policies, Control of Corruption, and Public and Political Corruption on the level of Tax Evasion (H4). Specifically, AI's role is primarily confined to the input of tax data, which aids in accelerating the filing process and ensuring that taxpayers can complete their obligations more quickly. This functionality is significant but does not extend to addressing the complexities of the relationships between the aforementioned variables and Tax Evasion.

As noted (Raikov 2021), while AI has the potential to streamline administrative processes, its impact on behaviour regarding tax compliance and evasion is still underdeveloped in the Indonesian context. This finding highlights a critical gap in the integration of AI within the broader tax compliance framework in Indonesia. While AI can enhance operational efficiency, it may not yet possess the necessary capabilities to fundamentally alter taxpayer behaviour or effectively mitigate issues related to tax evasion, and it is needed to design more effective tax regulations and compliance strategies.

The moderating variable explored in this study is ICT Adoption, which refers to integrating information and communication technologies into government operations and



services. This digital transformation aims to streamline processes, enhance efficiency, and improve the overall effectiveness of governance. In line with the hypothesis posited in this study, ICT Adoption is anticipated to act as a moderator, strengthening the relationships between Public Policies, Control of Corruption, Public and Political Corruption, and the level of Tax Evasion (H5). The significant positive results observed in this study were primarily linked to Public and Political Corruption, indicating that robust ICT systems can effectively mitigate the negative impacts of corruption on tax compliance. This finding aligns with previous research (Adam, 2020), suggesting that adopting ICT could reduce corruption by enhancing transparency and accountability within government operations. Specifically, implementing digital platforms can facilitate better monitoring and reporting mechanisms, thus deterring corrupt practices by making it more difficult for individuals to engage in fraudulent activities.

Furthermore, according to the findings of (Uyar et al., 2021), the introduction of ICT not only helps to simplify tax reporting procedures but also significantly reduces the likelihood of errors in tax filings. By minimising these nominal tax errors, ICT systems play a crucial role in fostering greater compliance among taxpayers. As a result, integrating technology into tax administration can lead to a notable decrease in instances of Tax Evasion, highlighting the importance of embracing digital solutions in addressing tax-related challenges. Ultimately, this study underscores the potential of ICT Adoption to create a more efficient and transparent tax environment, which can contribute to increased government revenue and improved public trust in the tax system.

CONCLUSION

This study shows that tax evasion is significantly related to public policies and public and political corruption. This relationship arises because weak or inconsistent public policies often create loopholes that individuals and organisations exploit to evade their tax obligations. Meanwhile, public and political corruption results in a lack of transparency and accountability, fostering an environment conducive to tax evasion practices.

However, the study findings indicate that controlling corruption does not significantly affect tax evasion. This suggests that general anti-corruption policies are not yet effective in suppressing tax evasion, which more often occurs due to rational decisions made by high-income individuals or organisations aiming to maximise financial gains through illegal means.

The moderating effects of artificial intelligence (AI) and ICT adoption show differing results. AI faces limitations in detecting corruption involving cash-based transactions, whereas ICT adoption effectively strengthens the negative relationship between public and political corruption and tax evasion. Information and communication technology (ICT) performance improvements have been proven to enhance transparency, simplify financial transaction tracking, and increase government accountability.

As technology evolves, adopting ICT emerges as a promising solution to reduce corruption and improve tax compliance in Indonesia. The government must prioritise the progressive and systematic implementation of ICT in tax oversight to close legal loopholes often exploited for tax evasion. Stricter regulations and advanced technologies can create a more transparent, efficient, and accountable tax system.



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Inconsistent or unstable regulations create opportunities for Tax Evasion. Although several efforts have been made through the use of technology in tax supervision, the implementation of AI and ICT has been slow. Nevertheless, using AI and ICT presents opportunities to reduce corruption through more effective and transparent oversight and decrease the likelihood of Tax Evasion. More progressive government policies are needed to reduce the legal loopholes exploited in tax evasion and corrupt practices. Future research should focus on utilising AI and ICT technologies to enhance tax supervision in Indonesia. These technologies can be used to recognise patterns of Tax Evasion and uncover potential corruption at various levels. It is recommended that cross-country studies be involved to gain a broader perspective on how corruption and tax regulations impact tax evasion.

