

The Effect of a Risk-Based Audit Approach on Tax Compliance Intention: The Moderating Role of Procedural Justice

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ABSTRACT

Tax compliance remains a strategic challenge in self-assessment tax systems, particularly among individual taxpayers and micro, small, and medium enterprises (MSMEs), where compliance levels tend to fluctuate. In response to this challenge, the Indonesian tax authority has increasingly adopted a Risk-Based Audit (RBA) approach, which prioritizes audit activities based on taxpayers' risk profiles to improve enforcement efficiency and effectiveness. However, the impact of RBA on taxpayers' compliance intention is not solely determined by enforcement mechanisms, but also by taxpayers' perceptions of procedural justice applied by tax authorities. This study aims to examine the effect of Risk-Based Audit on tax compliance intention and to analyze the moderating role of procedural justice in this relationship. The research employs a quantitative approach using survey data collected from individual taxpayers and MSMEs registered in Medan City. Data were obtained through structured questionnaires and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. The analysis includes evaluation of the measurement model through validity and reliability testing, as well as structural model assessment to test the proposed hypotheses. The findings are expected to demonstrate that Risk-Based Audit has a positive effect on tax compliance intention, and that procedural justice strengthens this relationship. This study contributes theoretically by integrating deterrence theory, procedural justice, and behavioral intention perspectives within a single moderation model in the tax compliance literature. Practically, the results provide policy-relevant insights for tax authorities in designing risk-based audit strategies that are not only effective in enforcement, but also perceived as fair and legitimate, thereby fostering sustainable voluntary tax compliance.

Introduction

Taxes are the main source of financing for national development. However, tax compliance challenges are still persistent, especially in the segment of non-employee Individual Taxpayers (WP OP) and MSME actors. In this study, compliance is understood

in two important dimensions: formal compliance (timeliness of tax return reporting and administrative completeness) and material compliance (correctness of tax calculation and payment according to the provisions). This difference is crucial, because increased formal compliance is not necessarily followed by material compliance, especially in taxpayers with diverse transactions and unstructured records.

Empirically, the Annual Tax Return compliance data for the 2017–2021 period shows that the national compliance ratio in aggregate tends to improve, from 72.58% (2017) to 84.07% (2021). However, these achievements are not evenly distributed among taxpayer segments. The Employee OP group achieved a very high compliance ratio in 2021, which was 98.73%, while Non-Employee OP Taxpayers were actually at a low level, namely 45.53% (2021) and experienced a sharp decline after 2019 (75.93% in 2019 → 52.44% in 2020 → 45.53% in 2021). At the same time, the base of Non-employee OP taxpayers who are required to file tax returns increased significantly from 1,964,331 (2017) to 4,070,690 (2021), while the number of tax returns reported did not grow proportionally (1,208,723 in 2017 to 1,853,472 in 2021). This pattern indicates a real formal compliance gap in the non-employee segment, a segment that in practice includes many MSME actors and independent professions, thus requiring a more adaptive approach to supervision and coaching.

The gap is relevant to the regional context, especially the city of Medan as the economic center of North Sumatra. Medan is supported by the trade, services, culinary, and logistics sectors which have heterogeneous transaction patterns and high economic mobility. This condition creates a large potential for revenue, but also increases the complexity of tax administration, especially for MSMEs and independent workers who tend to face obstacles in recording, documentation, and reporting discipline. Field indications that often appear include delays in reporting, incomplete transaction evidence/archives, to tax calculation or credit errors—which ultimately suppress the effectiveness of revenue and increase compliance *costs* for both taxpayers and authorities.

In recent years, the Directorate General of Taxes (DGT) has encouraged administrative modernization through the strengthening of digital services and the renewal of core systems (transformation towards coretax). Digitalization increases opportunities for ease of reporting/payment (e.g. e-filing/e-billing), strengthens data footprints, and opens up analytics-based oversight spaces. However, the digital transition also brings challenges for taxpayers, such as variations in tax literacy and digital literacy, access stability, and adjustments to internal reporting processes. Thus, compliance is determined not only by the "technically capable" aspect, but also the "willing or not" aspect of the psychological aspect, including the perception of the process, treatment, and legitimacy of the supervisory policy.

In line with this modernization direction, the Risk-Based Audit (RBA) paradigm is increasingly prominent as a supervisory approach that focuses resources on taxpayers/segments with a higher risk of non-compliance through risk profiling, data

analysis, and proportionate interventions. Theoretically, the RBA has the potential to increase compliance intentions through two main pathways: (1) the deterrence effect, which increases the perception of the probability of detection and consequences for taxpayers at risk, and (2) targeted assistance/education effect, which is more targeted guidance for medium-low risk taxpayers to be able to improve administration and reporting. However, the effectiveness of the RBA is not always uniform because it depends heavily on how the taxpayer interprets the risk selection process and the experience of interaction with the authorities.

This is where procedural justice becomes a determining factor. Procedural fairness refers to the taxpayer's perception that the supervision and service process is carried out fairly—characterized by the transparency of criteria, consistency in the application of rules, the opportunity to submit explanations/objections (voice), and courteous, professional, and unbiased treatment. The literature on compliance behavior shows that when procedures are perceived as fair and predictable, trust in authority increases and compliance intent tends to strengthen, even in the context of strict oversight. Conversely, if the RBA is perceived as "unclear" or "selective cut-down", then the deterrent effect can weaken and trigger resistance, declining tax morale, or minimal compliance.

From an academic perspective, research that simultaneously examines the influence of Risk-Based Audit on tax compliance intentions by placing procedural fairness as a moderator variable, especially in the context of large cities outside Java such as Medan City, is still limited. Many studies examine deterrence, service quality, tax literacy, or partial digitalization; Relatively few have modeled the interaction between the intensity of risk-based supervision and the perception of process fairness as a determinant of the strength and weakness of compliance intentions.

The novelty of this research is as follows: this study offers a model that combines the Theory of Planned Behavior (TPB) (intention as a predictor of behavior), Economic Deterrence (probability of detection/consequences), and Procedural Justice (fairness of the process) in the context of implementing Risk-Based Audit, as well as testing it on MSME taxpayers in Medan City. Practically, the results of the study are expected to provide recommendations for the DGT/KPP in Medan to: (1) improve communication and transparency of RBA implementation so that it is easy for taxpayers to understand, (2) strengthen risk-segmentation-based coaching, especially for non-employee OP taxpayers/MSMEs, and (3) standardize procedures and service behavior to be consistent and fair, so that risk-based supervision policies are not only fiscally effective but also legitimate and sustainable in terms of compliance.

Based on the background and problem formulation, the objectives to be achieved in this study are:

- a. Analyze and test the influence of Risk-Based Audit on tax compliance intentions.
- b. Analyze and test the influence of procedural fairness on tax compliance intentions.
- c. Analyze and test the role of procedural fairness as a moderation variable in the relationship between Risk-Based Audit and tax compliance intent (Y), i.e. whether

procedural fairness strengthens or weakens the influence of Risk-Based Audit on compliance intent.

Research Method

This study uses a quantitative approach because it focuses on hypothesis testing to see the influence of Risk-Based Audit (RBA) on Tax Compliance Intentions, as well as testing whether Procedural Fairness can strengthen or weaken the relationship. The research location is set in the city of Medan, North Sumatra, with the time of implementation of the research starting from November to December 2025. The population in this study is Individual Taxpayers (WP OP/UMKM) in Medan City as many as 281,607. Due to time and cost limitations, sample withdrawal was carried out by accidental sampling/convenience sampling with a target of 50 WP OP/MSME respondents.

Data collection was carried out through questionnaires as primary data, using a Likert scale of 1–5 (1 = strongly disagree to 5 = strongly agree) to measure respondents' perception of the research construct. Johannes' proposal. In addition, secondary data is obtained from related documents/agencies, journals, news, and literature studies. The research variables consisted of RBA (X), Tax Compliance Intention (Y), and Procedural Fairness (Z). Variable operationalization refers to indicators that have been defined in the proposal, e.g. RBA is measured through the clarity of audit indicators, the use of cross-source analytics, compliance history for audit priorities, and risk profile updates; while Tax Compliance Intention is measured through the intention to report/pay on time and maintain the honesty of reporting; and Procedural Justice is measured through procedural consistency, opportunity to present evidence, transparency of reasons for decisions, and polite and respectful treatment.

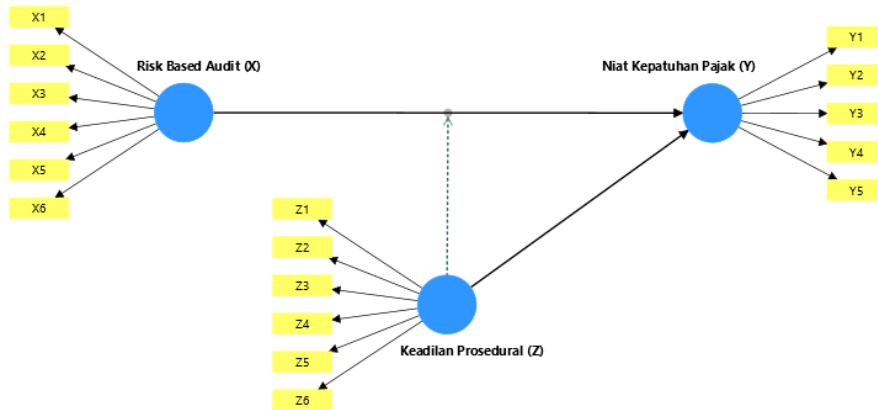
Data analysis was carried out using SEM-PLS with the help of SmartPLS, which included measurement models (outer model) and structural models (inner model). The quality of the instrument was evaluated through validity and reliability tests: the indicator was declared valid if the outer loading > was 0.7 and AVE was > 0.5, and the construct was declared reliable if the Composite Reliability > 0.7. Furthermore, hypothesis testing was carried out by bootstrapping to assess the significance of the relationship between variables through path coefficient, t-statistic, and p-value, with the hypothesis acceptance criteria when the significance value < 0.05 (and t-count met the test requirements).

Results and Discussion

This study aims to analyze the influence of the Risk-Based Audit (RBA) approach on tax compliance intentions, as well as to examine the role of procedural justice as a moderation variable in Individual Taxpayers (especially non-employees/MSMEs) in Medan City. The research data was obtained through the distribution of a Likert scale questionnaire to respondents who met the research criteria. A quantitative approach is used to test the relationships between variables empirically.

Data analysis was carried out using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with the help of SmartPLS software. This method allows testing of measurement models (outer models) to assess the validity and reliability of indicators, as well as structural models (inner models) to test the direction, strength, and significance of

influences between latent constructs, including testing the effect of moderation of procedural fairness on the relationship between Risk-Based Audit and tax compliance intentions. The variable models analyzed in this study include Risk-Based Audit as an independent variable, Tax Compliance Intention as a dependent variable, and Procedural Fairness as a moderator variable. The model of variables analyzed is as follows:



A. Testing Measurement Model (Outer Model)

1. Convergent Validity Test

a. Loading Factor Stage 1

The construct validity test in this study was carried out by evaluating the loading factor value of each indicator against the latent construct it measured. An indicator is declared to be valid convergently if it has a loading factor value of ≥ 0.70 , which indicates that the indicator is able to adequately represent the construct in the SEM-PLS measurement model.

Based on the results of the first phase of loading factor testing, the majority of indicators in the variables Risk-Based Audit (X), Tax Compliance Intention (Y), and Procedural Fairness (M) have met the validity criteria. The indicators in the Risk-Based Audit (X) variable, namely X3 (0.827), X4 (0.929), X5 (0.953), and X6 (0.886), show a loading factor value above 0.70, so that it is declared valid and able to reflect the Risk-Based Audit construct well.

In the Procedural Fairness (Z) variable, all indicators (Z1–Z6) had a loading factor value of >0.70 , which ranged from 0.911 to 0.969. These results indicate that the indicators of procedural fairness have a very strong representative power of the latent construct measured, and reflect the consistency of respondents' perceptions regarding the fairness of tax procedures.

Meanwhile, in the variable Tax Compliance Intention (Y), most of the indicators have met the validity criteria, namely Y1 (0.747), Y2 (0.753), Y4 (0.774), and Y5 (0.822). However, there is still one indicator that has not met the validity criteria, namely Y3 with a loading factor value of 0.670, which is below the minimum limit of 0.70. The relatively low value of the Y3 loading factor indicates that the indicator has not been able to optimally represent the construct of Tax Compliance Intention compared to other

indicators. Based on these results, the Y3 indicator was declared invalid in the first stage, so it was necessary to eliminate it before proceeding to the next stage of testing the model.

	PROCEDURAL JUSTICE (M)	TAX COMPLIANCE INTENT (Y)	RISK BASED AUDIT (X)	REMARKS
X3			0.827	Valid
X4			0.929	Valid
X5			0.953	Valid
X6			0.886	Valid
Y1		0.747		Valid
Y2		0.753		Valid
Y3		0.670		Invalid
Y4		0.774		Valid
Y5		0.822		Valid
Z1	0.969			Valid
Z2	0.917			Valid
Z3	0.956			Valid
Z4	0.946			Valid
Z5	0.955			Valid
Z6	0.911			Valid

b. Loading Factor Stage 2

After the elimination of the Y3 indicator on the Tax Compliance Intention variable (Y) because it did not meet the validity criteria in the first stage, the second stage of loading factor testing showed that all remaining indicators had met the convergent validity criteria. This is indicated by the loading factor value of each indicator which is above the minimum limit of 0.70. Thus, the results of the second phase of the loading factor test confirm that the measurement model has met the criteria for convergent validity, so that all indicators used in this study are worthy of being maintained and the analysis can be continued to the next stage, namely the construct reliability test and the structural model (inner model) test.

	PROCEDURAL JUSTICE (Z)	TAX COMPLIANCE INTENT (Y)	RISK BASED AUDIT (X)	REMARKS
X2			0.893	Valid
X3			0.838	Valid
X4			0.934	Valid
X5			0.944	Valid
X6			0.895	Valid
Y1		0.763		Valid
Y2		0.735		Valid
Y4		0.769		Valid
Y5		0.839		Valid
Z1	0.969			Valid
Z2	0.916			Valid
Z3	0.956			Valid
Z4	0.946			Valid
Z5	0.955			Valid
Z6	0.911			Valid

c. Average Variance Extracted (AVE)

The Average Variance Extracted (AVE) test was performed to assess the convergent validity of each latent construct in the research model. A construct is declared to have good convergent validity if the AVE value is greater than 0.50, which means that the construct is able to explain more than 50% of the variance of its constituent indicators.

	AVERAGE VARIANCE EXTRACTED (AVE)	REMARKS
PROCEDURAL JUSTICE (M)	0.888	Valid
TAX COMPLIANCE INTENT (Y)	0.604	Valid
RISK BASED AUDIT (X)	0.820	Valid

Based on the test results, the Procedural Justice (M) variable obtained an AVE value of 0.888, which indicates that 88.8% of the variance of the indicator can be explained by the procedural justice construct. The variable Tax Compliance Intention (Y) has an AVE value of 0.604, which means that 60.4% of the indicator's variance can be explained by the tax compliance intention construct. Furthermore, the Risk-Based Audit (X) variable showed an AVE value of 0.820, which indicates that 82.0% of the variance of the indicator can be explained by the risk-based audit construct.

Overall, the results of the AVE test show that all latent constructs in this study have an AVE value above 0.50, so it can be concluded that the measurement model has met the criteria of convergent validity. With the fulfillment of this convergent validity, the research model is declared feasible to proceed to the next stage of testing, namely discriminant validity and structural model evaluation (inner model).

2. Discriminant Validity

The discriminant validity test aims to ensure that each latent construct in the research model has adequate distinctiveness and is completely different from other constructs. In other words, this test is used to assess the extent to which an indicator is better able to represent the construct it is measuring compared to other constructs in the model. One of the commonly used approaches in SEM-PLS to assess discriminant validity is cross loading, where the loading value of an indicator on the original construct must be higher than the loading on other constructs.

a. Cross Loading

The results of the Cross Loading test in this study showed that all indicators had the highest loading value in the construct they measured, so it can be concluded that the research model has met the criteria of discriminant validity. With the fulfillment of this discriminant validity, each construct in the model is declared conceptually different from each other and is suitable for further analysis to the testing stage of the structural model (inner model). The test table can be seen as follows:

	RISK BASED AUDIT (X)	TAX COMPLIANCE INTENT (Y)	PROCEDURAL JUSTICE (M)	REMARKS
X1	0.924	0.063	0.257	Valid
X2	0.893	0.014	0.263	Valid
X3	0.838	-0.029	0.285	Valid
X4	0.934	0.113	0.277	Valid
X5	0.944	0.110	0.288	Valid
X6	0.895	0.026	0.230	Valid
Y1	0.161	0.763	-0.182	Valid
Y2	0.008	0.735	-0.150	Valid
Y4	-0.017	0.769	-0.310	Valid
Y5	0.146	0.839	-0.288	Valid
Z1	0.262	-0.276	0.969	Valid
Z2	0.285	-0.214	0.916	Valid
Z3	0.285	-0.346	0.956	Valid
Z4	0.260	-0.292	0.946	Valid
Z5	0.244	-0.369	0.955	Valid
Z6	0.320	-0.223	0.911	Valid

3. Construct Reliability Test

Construct Reliability Test is carried out to assess the extent to which indicators in a construct have internal consistency in representing latent variables in the research model. In the SEM-PLS analysis, the reliability of the construct is generally checked through Cronbach's Alpha, Composite Reliability (ρ_c), and Composite Reliability ρ_a (ρ_a) values. A construct is declared reliable if Cronbach's Alpha and Composite Reliability values are above the threshold of 0.70. (Hair et al., 2019).

a. Cronbach's alpha

The results of the reliability test based on Cronbach's Alpha in this study can be seen as follows.

	CRONBACH'S ALPHA	REMARKS
Procedural Justice (Z)	0.975	Reliable
Tax Compliance Intent (Y)	0.789	Reliable
Risk Based Audit (X)	0.966	Reliable

The test results showed that all constructs in the research model had a Cronbach's Alpha value on each of the variables of Procedural Fairness 0.975, Tax Compliance Intention 0.789, and Risk Base Audit 0.966, and all were above the threshold of 0.70. These findings show that each construct has good internal consistency, so that the constituent indicators correlate with each other and stably measure the same concept. Thus, the research instrument was declared reliable and suitable for further analysis on structural models.

b. Composite reliability

The Composite Reliability (CR) test is carried out to assess the internal consistency of indicators in measuring a latent construct. In contrast to Cronbach's Alpha which assumes the same indicator weight, Composite Reliability provides a more accurate estimate of reliability in

the context of SEM-PLS because it considers the contribution of each indicator. A construct is declared reliable if it has a Composite Reliability value greater than 0.70. The results of the reliability test based on Composite reliability in this study can be seen as follows.

	CRONBACH'S ALPHA	COMPOSITE RELIABILITY	REMARKS
Procedural Justice (Z)	0.975	0.979	Reliable
Tax Compliance Intent (Y)	0.789	0.859	Reliable
Risk Based Audit (X)	0.966	0.965	Reliable

Based on the test results, the Procedural Justice variable (Z) showed a Composite Reliability value of 0.979, This result indicates that the procedural justice indicators have a very strong internal consistency in measuring the construct. The variable of Tax Compliance Intention (Y) has a Composite Reliability value of 0.859, this value has exceeded the required minimum limit, so it can be concluded that the indicators of tax compliance intention are reliable and able to measure constructs consistently. Furthermore, the Risk-Based Audit (X) variable also shows a Composite Reliability value of 0.965. These results confirm that the indicators used in the Risk-Based Audit construct have excellent and stable consistency in representing the application of risk-based supervision. Overall, the results of the Composite Reliability test show that all latent constructs in this study have a CR value above 0.70, so it can be concluded that the measurement model has met the reliability criteria. With the fulfillment of this internal consistency, the research indicators are declared reliable and suitable for further analysis on the structural model (inner model).

B. Validate the Fit Model

The evaluation of the fit model is used as a supporting measure to assess the extent to which the model built as a whole is feasible and able to represent the research data well. Through this test, it can be found whether the compatibility between the theoretical model and the empirical data is sufficient, so that the model can be used for further analysis. The results of the Model Fit test in this study are presented as follows.

	SATURATED MODEL	ESTIMATED MODEL
SRMR	0.067	0.067
D_ULS	0.616	0.617
D_G	0.714	0.714
CHI-SQUARE	164.345	164.348
NFI	0.831	0.831

Based on the output of the fit model, the SRMR value in this study was 0.067, which indicates that the model has a good fit level because it is below the general limit of 0.10. Furthermore, the NFI value = 0.831 indicates a moderate/adequate model fit rate, because in general $NFI \geq 0.90$ is considered good on the classical SEM approach. The NFI value that is not high in SEM-PLS can be influenced by the characteristics of the model, such as the relatively large number of indicators, the complexity of the relationship between constructs, and the small sample size (in this study $n = 50$). Overall, the global fit index in this model shows that the fit of the model is at a sufficient to good level (SRMR has met the limit, while NFI is in the moderate category)..

C. Structural Model Testing (Inner Model)

Structural model testing (inner model) aims to assess the causal relationships between latent constructs that have been identified in the research model. The test was carried out on 3 aspects, namely the R Square Value, the significance of the relationship (hypothesis testing, and and the F Square/ *Effect Size*.

1. R Square (R2)

R-squared is used to measure the extent to which independent variables in a model can explain dependent variables. A higher R^2 value indicates that the model is better at explaining variations in dependent variables. The results of the R Square test in this study are as follows.

	R-SQUARE	R-SQUARE ADJUSTED
Tax Compliance Intent (Y)	0.144	0.088

The R^2 value of 0.144 indicates that 14.4% variation in the potential Tax Compliance Intention (Y) can be explained by independent variables in the model, namely Risk-Based Audit ((X1), and Procedural Fairness (Z), whereas, there are still around 85.6% variations that cannot be explained by the variables in this study model.

2. Hypothesis Testing (Significance Test)

The hypothesis test in this study aims to test the significance of causal relationships between variables in structural models, which includes the relationship between independent variables and dependent variables. In SEM-PLS, hypothesis testing is carried out using bootstrapping, which is a statistical technique used to measure t-statistic and p-value of each path in the model.

The following are the results of the bootstrapping test for direct influence in this study.

	ORIGINAL SAMPLE (O)	T STATISTICS (O/STDEV)	P VALUES	REMARKS
Risk Based Audit (X) -> Tax Compliance Intent (Y)	0.227	0.918	0.179	Hypothesis Rejected
Procedural Fairness (Z) -> Tax Compliance Intent (Y)	-0.378	2.533	0.006	Accepted Hypothesis
Procedural Fairness (M) X Risk Based Audit (X) -> Tax Compliance Intent (Y)	-0.022	0.141	0.444	Hypothesis Rejected

The results of the bootstrapping test for the direct influence and the influence of Moderation in this study show that;

- 1) The effect of Risk Base Audit (X) on Tax Compliance Intention (Y) has a t-statistic value = 0.918 and p-value = 0.179 > 0.05, which indicates an insignificant influence, and means that the hypothesis is rejected. These results show that the Risk Base Audit does not have a significant influence on Tax Compliance Intentions.
- 2) The Influence of Procedural Fairness (Z) on Tax Compliance Intent (Y) has a t-statistic value = 2.533 and p-value = 0.006 < 0.05, which indicates a significant positive influence, and means that the hypothesis is accepted. These results show that Procedural Justice has a significant positive influence on Tax Compliance Intentions.
- 3) The effect of moderation/Procedural Justice Interaction (M) X Risk Based Audit (X) on Tax Compliance Intention (Y) has a p-value = 0.444 > 0.05, which shows that the effect

of moderation is not significant, and the hypothesis is rejected. This means that Procedural Justice is not able to strengthen Risk Based Audit on the Quality of Financial Statements.

Conclusion

Based on the results of the bootstrapping test, it can be concluded that Risk-Based Audit does not have a significant effect on tax compliance intentions. This indicates that the intensity or existence of risk-based supervision alone is not enough to encourage the intention of taxpayers in fulfilling their tax obligations. On the contrary, procedural fairness has been shown to have a positive and significant effect on tax compliance intentions, which shows that taxpayers' perceptions of fairness, transparency, and consistency of procedures have an important role in shaping compliance intentions. In addition, procedural fairness has not been shown to moderate the relationship between Risk-Based Audit and tax compliance intentions, thus being unable to strengthen the influence of risk-based supervision on compliance intention.

The finding that Risk-Based Audit does not have a significant effect on tax compliance intentions can be explained through the Theory of Planned Behavior (TPB) and Economic Deterrence Theory. Within the framework of the SDGs, the intention to obey is more influenced by attitudes, subjective norms, and perceptions of behavior control, rather than solely by the threat or probability of scrutiny. Meanwhile, from a deterrence perspective, the effectiveness of risk-based supervision is highly dependent on the extent to which taxpayers are aware of and understand the mechanisms and consequences. If RBA is perceived as unclear or rarely felt directly, then its deterrent effect is weak. In contrast, the positive and significant influence of procedural fairness on tax compliance intentions is in line with Procedural Justice Theory, which emphasizes that voluntary compliance arises when taxpayers feel they are treated fairly, transparently, and consistently by tax authorities. The perception of fairness increases trust in authority, which in turn reinforces the intention to obey.

The insignificance of the role of procedural fairness moderation suggests that procedural fairness functions more as a direct independent factor than as a reinforcer of deterrence mechanisms in Risk-Based Audits. This means that while procedural fairness is important for increasing compliance intent, that perception of fairness does not necessarily reinforce the effects of risk-based supervision. These findings imply that tax compliance improvement strategies should not only emphasize risk-based supervision, but also independently strengthen the quality of procedures and the interaction of tax authorities with taxpayers.

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