

# The Tax Audit, Discrimination, and Machiavellianism in Indonesian

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## Article History:

Received on 07 June 2025

1st Revision 11 June 2025

2nd Revision 18 June 2025

3rd Revision 28 June 2025

Accepted on 14 July 2025

## Abstract

**Purpose:** This study investigates the impact of tax audits and tax discrimination on tax evasion among MSMEs in Indonesia, with a particular focus on the moderating role of Machiavellianism.

**Methodology/approach:** A quantitative survey was conducted with 170 MSME actors in Tangerang using structured questionnaires. Data were analyzed using CB-SEM with Mplus 8.0. A quantitative survey was conducted with 170 MSME actors in Tangerang using structured questionnaires. Respondents were selected purposively, and data were analyzed using CB-SEM with Mplus 8.0 to examine the influence of tax audits, tax discrimination, and Machiavellianism on tax evasion.

**Results/findings:** Tax audits and tax discrimination significantly increase tax evasion, especially among individuals with high Machiavellian traits. These findings highlight the importance of fairness, ethical awareness, and psychological considerations in designing effective tax compliance strategies.

**Conclusion:** Tax audits and discrimination can backfire and raise evasion risks among Machiavellian individuals, indicating the need for psychologically informed tax strategies.

**Limitations:** The study's use of convenience sampling in a single location limits generalizability. Future research should explore broader regions. Practical implications include risk-based audits, ethics education, and improved tax official professionalism.

**Contribution:** Theoretically, the study integrates psychological factors into MSME tax compliance. Practically, it promotes fair policies and ethical approaches to reduce evasion and strengthen trust in the tax system.

**Keywords:** *Machiavellianism, Tax Audit, Tax Discrimination, Tax Evasion.*

**How to Cite:** Michael, M. (2025), The Tax Audit, Discrimination, and Machiavellianism in Indonesian, *Studi Akuntansi, Keuangan, dan Manajemen* (5) 1 231-242.

## 1. Introduction

Indonesia's micro, small, and medium enterprises (MSMEs) play a strategic role in the national economy. Based on data from the Ministry of Cooperatives and SMEs, MSMEs contribute more than 60% to the Gross Domestic Product (GDP) and absorb more than 90% of the workforce in Indonesia. However, the sector's contribution to the country's tax revenue is still relatively low compared to other sectors. One of the leading causes is the high level of tax evasion among MSME players. Business actors often do not report their income fully or even avoid tax obligations altogether (Hartati et al., 2024; Leoh et al., 2023; Rana & Choudhary, 2006). This phenomenon is further complicated by the practice of tax discrimination and the uneven implementation of tax audits. Some MSME players complain of unfair treatment, such as setting higher tax rates than large businesses or inconsistent application of tax policies (Dewi et al., 2021). On the other hand, intensive tax audits are important to improve tax compliance, but their implementation often creates resistance and motivates businesses to avoid taxes (Inasius, 2019; Sidauruk & Putri, 2022).

In addition, Machiavellian behavior shown by some MSME actors can exacerbate tax evasion practices. This behavior reflects the tendency of individuals to act manipulatively and opportunistically and not hesitate to break the rules for personal gain. When tax discrimination is felt by business actors who have a Machiavellian nature, they will likely use all means to avoid tax obligations (Collymore, 2020; Pratiwi et al., 2024). Machiavellian behavior encourages MSME actors to view tax audits as challenges that can be “conquered” through document manipulation or regulatory loopholes for personal gain. This pragmatic character adds to the complexity of fiscal enforcement, so that taxation policies must also address psychological aspects, not just rules. Research on the effect of tax audits and tax discrimination on tax evasion is still limited in Indonesia, especially in the context of MSMEs. Most previous studies focus more on economic factors and macro policies in encouraging tax compliance. For example, previous studies have shown that tax incentive policies can significantly increase taxpayer compliance (Leoh et al., 2023; Peprah et al., 2020; Sidauruk & Putri, 2022). However, behavioral aspects, such as the role of Machiavellian behavior in moderating the relationship between tax discrimination and tax evasion, have not been studied in depth (Kirchler et al., 2014).

Some studies also show that tax audits can increase tax compliance in the short term but are ineffective in the long term if not balanced with increased taxpayer confidence in the tax system. This study aims to fill the gap by examining how tax audits and tax discrimination affect tax evasion practices and how Machiavellian behavior can moderate the relationship (Benkraiem et al., 2021; Hasanah et al., 2023; Lee, 2018; Snow & Warren, 2007). This research is important given the high need for the government to increase tax revenue to support national development. By improving tax compliance among MSMEs, it is expected that the contribution of this sector to state revenue can increase significantly. Examining the role of tax audits and tax discrimination in influencing tax evasion and understanding the impact of Machiavellian behavior can provide important insights for policymakers and tax authorities. In the long run, the results of this study are expected to provide a foundation for formulating fairer and more effective tax policies. In addition, the findings of this study can be used to design a more humanist and behavior-based tax education program, which in turn can increase tax compliance sustainably.

## **2. Literature Review and Hypothesis Development**

### ***2.1 Economic Rationality Theory***

Economic rationality theory explains that individuals act rationally to maximize personal benefits and reduce costs or losses. In the context of this research, MSMEs can be seen as rational actors who will assess the costs and benefits of their actions related to tax obligations (Fuentes-Contreras et al., 2020). Stricter tax audits reduce the costs or risks associated with tax evasion, such as potential fines or criminal penalties. Therefore, the stricter the tax supervision and audit, the lower the likelihood of MSMEs engaging in tax evasion, as they calculate that the benefits of avoiding taxes are less than the risks they face (Kenyon, 2008). Conversely, tax discrimination creates inequity that can lower compliance as MSMEs feel that tax avoidance is a way to reduce the perceived unfair burden (Novikasari et al., 2021). In this case, tax avoidance becomes rational because they feel the existing tax system mistreats them.

### ***2.2 Tax Audit and Tax Evasion***

Tax audits are important in reducing tax evasion practices among Indonesia's Micro, Small, and Medium Enterprises (MSMEs). Through effective audits, tax authorities can detect and prevent tax evasion efforts, thereby increasing taxpayer compliance (Widuri et al., 2019). Research shows that tax audits have a significant impact on reducing the level of tax evasion. The more intensive the audit, the higher taxpayers' compliance in fulfilling their tax obligations. This is due to the increased taxpayer perception of the possibility of detecting violations, which encourages them to be more compliant (Debacker et al., 2018; Widuri et al., 2019). Tax audits also function as a supervisory tool in the self-assessment system. With audits, taxpayers become more aware of their obligations and tend to avoid evasion. Studies show that tax audits are quite effective in increasing taxpayer compliance, although

their effectiveness as tax revenue support still needs to be improved (Fauziyyah et al., 2020; Mazzolini et al., 2017). Taxpayers' perception of the perceived probability of audit also affects their behavior. The higher the perception of the possibility of being audited, the lower the tendency to commit tax evasion. Therefore, increasing the transparency and frequency of audits can effectively prevent tax evasion among MSMEs (Alm & McKee, 2006; Benkraiem et al., 2021; Hasanah et al., 2023). Tax audits are vital in reducing tax evasion in Indonesia's MSME sector. By increasing the frequency and quality of audits and improving taxpayers' perceptions of the likelihood of being audited, tax compliance is expected to increase, which will ultimately contribute positively to state revenue.

H1: Tax audits have a significant effect on tax evasion.

### ***2.3 Tax Discrimination and Tax Evasion***

Tax discrimination significantly impacts tax evasion in Indonesia's micro, small, and medium enterprises (MSMEs) sector. This discriminatory practice occurs when tax treatment of taxpayers is uneven, for example, by providing more significant fiscal benefits to large companies than MSMEs or inconsistent law enforcement in various regions (Irawan & Khoirunurrofik, 2021a; Leoh et al., 2023). This situation can lead to perceived injustice by MSME actors, which ultimately affects their level of tax compliance. Such unfairness encourages the perception that the tax system is unfair or non-transparent, increasing the motivation to evade taxes or even commit fraud (Aladejebi, 2018; Peprah et al., 2020). Furthermore, tax discrimination can create an unfavorable business climate for MSME players facing various operational and financial challenges. Some MSMEs may feel they do not directly benefit from paying taxes and are reluctant to report their income. Research shows that taxpayers tend to be more compliant when they feel they are treated fairly and when the tax system provides equal treatment and transparency in auditing and enforcement processes (Doerrenberg & Peichl, 2022; Falsetta et al., 2024). In addition, high perceptions of discrimination are often exacerbated by MSME players' low understanding of the complex and ever-changing tax rules. If not adequately addressed, this could exacerbate the shadow economy phenomenon, where MSMEs choose not to be registered and operate outside the formal system to avoid tax obligations (Dewi et al., 2021; Rana & Choudhary, 2006). Therefore, reforms in the tax system that prioritize fairness, transparency, and adequate education for MSME players are important steps in reducing tax evasion practices and increasing tax compliance in Indonesia.

H2: Tax discrimination has a significant effect on tax evasion.

### ***2.4 Machiavellian as a Moderating Variable***

An effective audit can detect tax reporting discrepancies, provide sanctions, and increase tax compliance. However, the influence of this tax audit does not stand alone and can be influenced by the individual characteristics of business actors, one of which is Machiavellian behavior (Irawan & Khoirunurrofik, 2021a; Mazzolini et al., 2017). Individuals with Machiavellian characteristics tend to have manipulative traits, focus on personal interests, and often do not hesitate to take unethical steps, including tax avoidance or evasion, as long as it benefits them (Aprillia & Maharani, 2020). When a tax audit is conducted, MSME actors with Machiavellian behavior may respond differently than those without such traits. Instead of complying with regulations after the audit, they may try to find legal loopholes or other manipulative strategies to avoid tax obligations (Mittone et al., 2021; Mohamad et al., 2016). In some cases, Machiavellian actors may develop more sophisticated evasion mechanisms, such as falsifying financial documents or using shadow transactions that are difficult to detect (Bridges, 1996).

However, consistent and transparent tax audits can moderate the impact of Machiavellian behavior by reducing the opportunities and benefits of tax evasion. When business actors realize that audits are carried out strictly and the risk of being caught is high, even actors with Machiavellian traits will be more likely to comply with tax rules due to unavoidable consequences (Çule & Fulton, 2009). Thus, the effectiveness of tax audits in preventing evasion in MSMEs relies heavily on strict law enforcement

and a deep understanding of the psychological characteristics of business actors. Intensive education and communication efforts regarding the risks and benefits of tax compliance can also help reduce the negative impact of Machiavellian behavior on tax compliance (Shafer & Simmons, 2008). In the context of tax discrimination, individuals with Machiavellian behavior will more quickly decide to evade taxes in response to perceived injustice. They may seek to take advantage of imperfections in the tax system to hide income, falsify financial statements, or even find ways to avoid detection by tax authorities (Doerrenberg & Peichl, 2022). Tax discrimination may justify them to continue such behavior, assuming their actions are a form of resistance to the system's injustice (Helmy et al., 2021).

However, implementing transparent and fair tax audits can reduce the negative influence of tax discrimination, although Machiavellian behavior is challenging to eliminate. A more humanistic approach to tax education and increased fairness and consistency in tax policy can help reduce tax evasion. In addition, instilling business ethics values and increasing risk-based supervision can reduce the impetus for MSME actors to take advantage of system imbalances for personal gain. Within a rational economic framework, Machiavellian MSME actors will compare the benefits of tax avoidance with the risk of sanctions. Transparent and consistent audits increase the potential cost of punishment, so that rationally they choose to comply. Conversely, uncertainty and discrimination reduce the perception of risk, triggering manipulation for personal gain. Therefore, strict law enforcement and risk-based audits shift incentives from evasion to compliance.

H<sub>3a</sub>: Machiavellian significantly moderates the effect of tax audit on tax evasion

H<sub>3b</sub>: Machiavellian significantly moderates the effect of tax discrimination on tax evasion

### 3. Research Method

This study uses a quantitative approach to examine the relationship between tax audits, tax discrimination, and tax evasion with Machiavellianism as a moderating variable on MSME actors in Indonesia. The survey method is used, and primary data is collected directly from respondents using a questionnaire instrument. This study applies a non-probability sampling method with a convenience sampling technique, namely selecting respondents based on their accessibility and participation availability. The research subjects were MSME players in the Tangerang area, and 170 respondents were involved in filling out the questionnaire. The selection of this region was based on the significant growth and dynamics of MSMEs in the area and the ease of access to collect relevant data.

The research instrument is a closed questionnaire designed to measure tax audit variables, tax discrimination, tax avoidance, and Machiavellianism. Each item in the questionnaire uses a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree," to capture respondents' perceptions and attitudes toward the measured research variables. Before distribution, the questionnaire was tested for validity and reliability to ensure the reliability of the measuring instrument. The data analysis stages in this study follow the SEM (Structural Equation Modeling) flow, beginning with testing the measurement model to assess the validity and reliability of the constructs. At this stage, each indicator is tested through loadings, composite reliability, and Average Variance Extracted (AVE) to prove that it measures latent variables according to theory. After the constructs are verified, the analysis moves to the structural model, where the relationships between variables are tested to see the strength and direction of direct effects and moderation of Machiavellianism. Finally, fit indices such as CFI, TLI, RMSEA, and SRMR are evaluated to ensure the overall fit of the model; index values that meet the cut-off criteria indicate that the empirical model is consistent with the data and can be used to draw conclusions (Wang & Wang, 2019).

**Table 1. Variable Measurement**

Variable	Indicator	Item	Source
Tax audit	1. Taxpayer compliance test conducted 2. Prevent fraud in tax payments 3. Regular inspection for tax supervision 4. Special inspection for suspected violations 5. Taxpayer coaching prior to audit 6. Audit encourages honest tax payment	6	(Saad, 2014)
Tax discriminant	1. Culture, race, religion, and social status are discriminated against. 2. Various things that become a tax benefit become a discrimination.	4	(Silaen, 2015)
Machiavellianism	1. Transparency 2. Honesty 3. Morality 4. Award	8	(Ananda & Marlius, 2021)
Tax Evasion	1. Not submitting tax returns and submitting tax returns incorrectly 2. Not registering or misusing the NPWP or the confirmation of PKP. 3. You are not depositing taxes that have been collected or withheld. 4. Trying to bribe the tax authorities and not understanding the tax payment on time.	7	(Michael; Michael & Widjaja, 2024; Sutrisno & Konde, 2022)

Source: data processed (2024)

The collected data were analyzed using Covariance Based - Structural Equation Modeling (CB-SEM) technique with the help of Mplus software version 8.0. The CB-SEM method was chosen because of its ability to handle complex variable relationship models, including moderating variables. The analysis process includes measurement model evaluation to test construct validity and reliability and structural model evaluation to test the influence between variables. With the methods and analytical techniques applied, this research is expected to provide accurate and statistically significant results regarding the effect of tax audits and tax discrimination on tax avoidance in MSMEs and the moderating role of Machiavellian traits in the relationship.

## 4. Result and Discussion

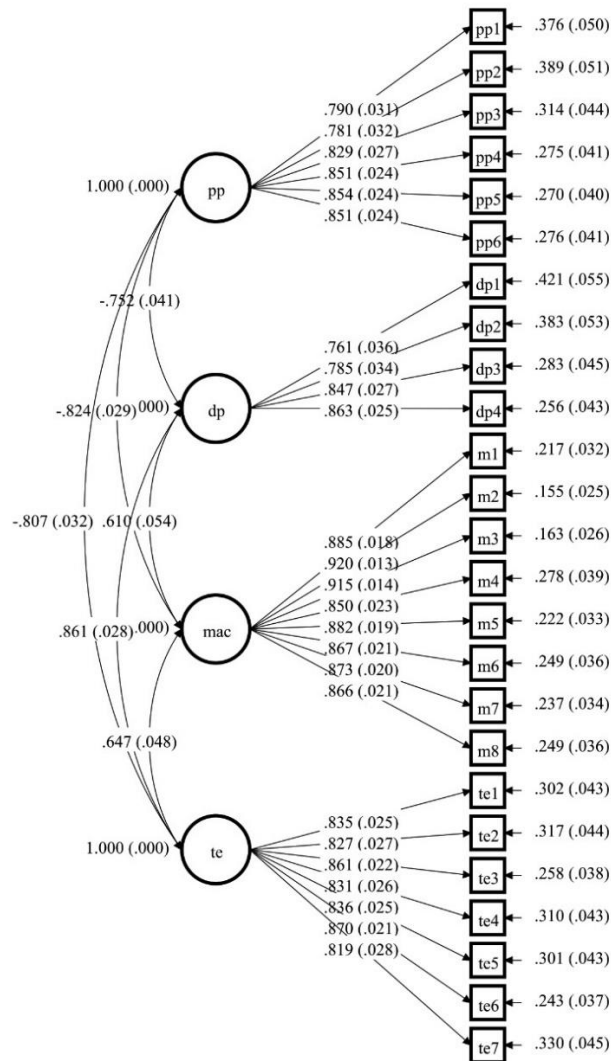
### 4.1 Outer Model

Table 2 and Figure 1 show that the measurement instrument has met the validity and reliability criteria. It can be seen that the loading factor value of each item has a value greater than 0.7, the AVE value is more significant than 0.5, and the composite reliability (CR) is more significant than 0.7, so it can be concluded that the instrument used can accurately and consistently measure the construct.

**Table 2. Validity and Reliability Test**

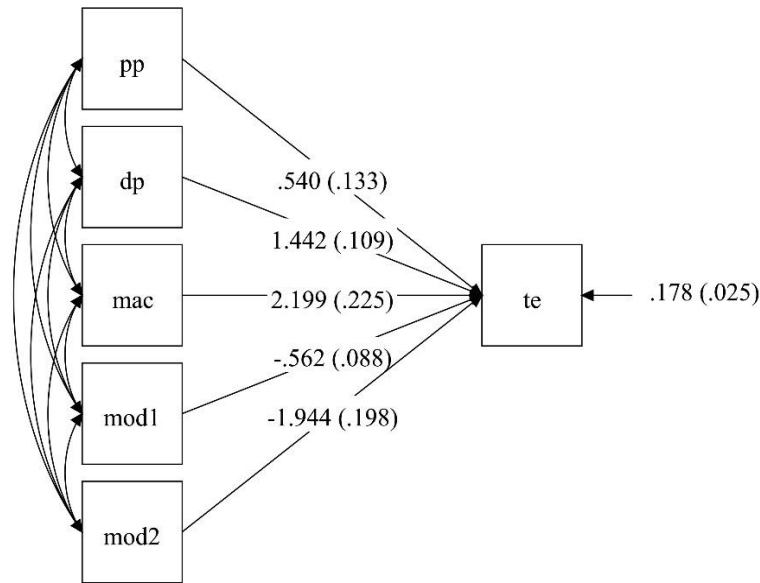
	LF	ERROR	LF <sup>2</sup>	AVE	CR
PP1	0.790	0.376	0.624	0.783	0.928
PP2	0.781	0.389	0.610		
PP3	0.829	0.314	0.687		
PP4	0.851	0.275	0.724		
PP5	0.854	0.270	0.729		
PP6	0.851	0.276	0.724		
DP1	0.761	0.421	0.579	0.774	0.888
DP2	0.785	0.383	0.616		
DP3	0.847	0.283	0.717		
DP4	0.863	0.256	0.745		
M1	0.885	0.217	0.783	0.833	0.966
M2	0.920	0.155	0.846		
M3	0.915	0.163	0.837		
M4	0.850	0.278	0.723		
M5	0.882	0.222	0.778		
M6	0.867	0.249	0.752		
M7	0.873	0.237	0.762		
M8	0.866	0.249	0.750		
TE1	0.835	0.302	0.697	0.794	0.944
TE2	0.827	0.317	0.684		
TE3	0.861	0.258	0.741		
TE4	0.831	0.310	0.691		
TE5	0.836	0.301	0.699		
TE6	0.870	0.243	0.757		
TE7	0.819	0.330	0.671		

Source: data processed (2024)



**Figure 1. Confirmatory Factor Analysis**  
**Source: output MPLUS**

Table 3 shows that the research model has met the goodness-of-fit criteria through four parameters, namely RMSEA, CFI, TLI, and SRMR. In addition, this model can be categorized as a strong model to predict endogenous variables. It can be seen that the adjusted R-squared value is 82.2%, so only 17.8% is influenced by other variables outside the model.



**Figure 2. Inner Model**  
Source: output MPLUS

**Table 3. Goodness-of-fit**

Parameter	Value	Cut-off	Decision
RMSEA	0.047	<0.08	Fit
CFI	0.976	>0.90	Fit
TLI	0.973	>0.90	Fit
SRMR	0.034	<0.08	Fit
Adjusted R-squared	0.822	0 - 1	Strong

Source: data processed (2024)

After testing the instrument, the inner model is fulfilled. Next is to do hypothesis testing. Table 4 shows that the tax audit variable has a significant positive effect on tax evasion. It can be seen in the coefficient value of the tax audit variable of 0.604 and a significance value of  $0.000 < 0.05$ , so it can be concluded that  $H_1$  is accepted. Furthermore, tax discrimination has a significant positive effect on tax evasion. It can be seen in the coefficient value of the tax audit variable of 2.522 and a significance value of  $0.000 < 0.05$ , so it can be concluded that  $H_2$  is accepted. Table 4 also shows that Machiavellian significantly moderates the effect of tax audits on tax evasion. It can be seen that the interaction coefficient value of the tax audit variable with Machiavellian has a significance value of  $0.000 < 0.05$ , so it can be concluded that  $H_{3a}$  is accepted. Likewise, Machiavellian significantly moderates the effect of tax audits on tax evasion. It can be seen that the interaction coefficient value of the tax audit variable with Machiavellian has a significance value of  $0.000 < 0.05$ , so it can be concluded that  $H_{3b}$  is accepted.

**Table 4. Hypothesis Test**

	Estimate	S.E.	Est./S.E.	P-Value
PP	0.604	0.148	4.084	0.000
DP	2.522	0.186	13.556	0.000
MOD1	-0.039	0.006	-6.877	0.000
MOD2	-0.069	0.007	-10.216	0.000

Source: data processed (2024)

#### 4.2 Tax Audit and Tax Evasion

Tax audits that significantly positively affect tax evasion in MSMEs in Indonesia can occur due to various factors that influence the perception and behavior of business actors towards tax obligations.



One of the main factors is distrust of tax authorities. Many MSMEs view tax audits as unfair or repressive, aimed more at suppressing small businesses than supporting their growth (Ng et al., 2020). Lack of transparency in the tax audit process also fuels negative perceptions, especially if there is potential for illegal levies or abuse of authority by tax officials. This condition encourages MSME players to hide their income or manipulate financial data to avoid a higher tax burden (Muslim, 2022; Ogembo, 2020). In addition, the high administrative burden of intensive audits can disrupt the business operations of MSMEs that often have limited resources in financial management.

This triggers efforts by businesses to avoid subsequent audits by not fully reporting their tax obligations (Peprah et al., 2020). The perception that there are no real incentives for tax compliance also exacerbates the situation, as MSMEs feel that honestly reporting taxes does not provide benefits equivalent to the risk of incurring fines or additional administrative burdens (Ng et al., 2020). An intimidating or stressful audit approach can reinforce this defensive attitude, making businesses feel threatened and even more reluctant to comply with tax rules (Beer et al., 2019). Therefore, without a professional, transparent, and educative approach to tax audits, the government's efforts to improve tax compliance may increase tax evasion among MSMEs. To overcome this, reforms in the audit process that focus more on education, fairness, and building positive relationships between tax authorities and MSME players are needed.

#### ***4.3 Tax Discrimination and Tax Evasion***

Tax discrimination significantly affects tax evasion in MSMEs in Indonesia because unfair treatment from tax authorities can reduce motivation for business compliance. When MSMEs feel discriminated against compared to large companies or other taxpayers, for example, through disproportionate tax burdens or unfair treatment during audits, they tend to feel that the tax system is not in their favor (Inasius, 2019). This triggers defensive attitudes, such as underreporting actual income or finding ways to avoid paying taxes illegally. This unfairness reinforces negative perceptions of the tax system, weakening businesses' commitment to tax compliance (Alasfour et al., 2016; Doerrenberg & Peichl, 2022). Another factor that amplifies the impact is MSMEs' limited access to legal support and professional tax consultants who can help them properly understand their tax rights and obligations (Irawan & Khoirunurrofik, 2021b; Leoh et al., 2023). As a result, tax discrimination creates an environment that encourages tax evasion as a form of resistance to a system perceived as unfair.

#### ***4.4 Machiavellian as a Moderating Variable***

Machiavellianism, which refers to being manipulative and pragmatic and tends not to pay attention to morality when making decisions, can significantly moderate the effect of tax audits and tax discrimination on tax evasion in MSMEs in Indonesia. MSMEs, often vulnerable concerning administrative uncertainty and tax regulations, may adopt a more cunning and strategic approach in the face of tax scrutiny if they have high Machiavellian traits (Helmy et al., 2021). When they face tax audits, individuals with Machiavellian tendencies are more likely to seek legal loopholes or hidden methods to avoid tax liabilities, using manipulative tactics to exploit weaknesses in the system (Shafer & Simmons, 2008). Likewise, tax discrimination, such as unfair treatment or imbalance in the taxation of specific sectors, can exacerbate this attitude, as individuals with Machiavellian traits feel compelled to seek personal gain, even at the state's expense (Kirchler et al., 2014). They may see tax discrimination as an opportunity to trick tax authorities or avoid their obligations more cleverly, increasing tax evasion (Helmy et al., 2021). Thus, Machiavellian traits play an important role in exacerbating responses to tax audits and discrimination, ultimately affecting the level of tax avoidance in MSMEs in Indonesia.

### **5. Conclusions**

The results show that tax audits significantly affect tax evasion in MSMEs in Indonesia, where increased supervision and stricter law enforcement encourage higher tax evasion. Furthermore, tax discrimination is also shown to have a significant positive influence on tax evasion, as unfair treatment decreases the motivation of MSME actors to comply with tax obligations. Moderate Machiavellian traits play an

important role in exacerbating the impact of audit and tax discrimination on tax evasion by increasing the tendency of MSMEs to evade taxes in more devious ways. Theoretically, these findings enrich the understanding of the dynamics of tax avoidance among MSMEs by emphasizing the important role of psychological factors, such as Machiavellianism, in moderating responses to tax policy.

This study adds to the literature on how individual psychological factors and external factors such as tax audits and discrimination affect the level of tax avoidance, which has previously been studied more in the context of individual behavior in the large corporate sector. The practical implications of this study indicate the need for tax authorities to increase transparency and professionalism in tax audits to foster a sense of fairness and reduce tax avoidance motivation. In addition, to reduce tax evasion, tax policies must avoid discrimination and ensure fair treatment of all business actors, including MSMEs. Given the important role of Machiavellianism, education and training programs on tax compliance that emphasize integrity and business ethics can be a solution to reduce tax evasion among MSME actors who have this trait.

### Limitations and Further Studies

This study has several limitations that need to be considered. First, the data used is cross-sectional and was collected only from a number of MSMEs in a specific region, so the results may not be representative of the entire MSME population in Indonesia. Second, the measurement of variables through self-report questionnaires has the potential to cause response bias, especially in reporting sensitive tax avoidance behavior. Third, the study focuses solely on Machiavellianism as a moderating variable, so the duration and intensity of other psychological factors—such as risk level or ethical orientation—have not been explored. For future studies, it is recommended to apply a longitudinal design or field experiment to monitor changes in tax behavior over time, add other psychosocial control variables, and expand the sample scope to various sectors and regions to improve the generalizability of the findings.

### Acknowledgments

The researchers would like to express their highest appreciation to Pradita University for providing the facilities and funding that enabled this research to be carried out smoothly. I would also like to thank all MSME partners who were willing to spare their time and resources to participate in the survey and share their practical experiences regarding tax compliance. The assistance and cooperation from both parties are the cornerstone of the success of this research.

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