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# ARTIFICIAL INTELLIGENCE IN TAX ENFORCEMENT: THE ROLE OF PERCEIVED AI CAPABILITY IN SHAPING TAX EVASION INTENTION

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**ABSTRACT**

This study examines the effect of perceived artificial intelligence (AI) capability on tax evasion intention among corporate taxpayers in Indonesia. As digitalization and the adoption of AI in tax administration continue to expand, understanding how taxpayers cognitively respond to advanced technological surveillance has become increasingly important, particularly in developing country contexts. Using a quantitative explanatory design, data were collected through an online structured questionnaire administered to corporate tax decision-makers, yielding 278 valid responses. Hypotheses were tested using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with SmartPLS.

The empirical results indicate that perceived AI capability has a positive and significant effect on tax evasion intention, suggesting that the hypothesized negative relationship is not empirically supported. This finding implies that higher perceptions of AI-based surveillance capability do not automatically deter tax evasion intentions. Instead, they may encourage more adaptive and strategic responses in corporate tax planning. Corporate taxpayers appear to respond to sophisticated monitoring technologies by engaging in more complex risk evaluations rather than uniformly increasing compliance.

The study contributes to the tax behavior literature by integrating perceived AI capability as a technology-based psychological factor within the behavioral intention framework. From a practical perspective, the findings suggest that the implementation of AI in tax administration should be accompanied by policies emphasizing transparency, legal certainty, and clear risk communication to prevent strategic behavioral adaptation by corporate taxpayers.

**KEYWORDS**

Perceived AI Capability, Tax Evasion Intention, Artificial Intelligence, Tax Compliance, PLS-SEM

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## Introduction

The World Bank estimates that Indonesia lost up to IDR 944 trillion in potential tax revenue over the past five years (2016–2021) due to policy gaps and tax non-compliance, particularly in value-added tax (VAT) and corporate income tax (Qian & Poniatowski, 2025). Similarly, a mid-2024 report by the Tax Justice Network (TJN) reveals that Indonesia is estimated to lose approximately USD 2.7365 billion (around IDR 44 trillion) annually due to corporate tax evasion, as well as USD 69.8 million (around IDR 1 trillion) resulting from offshore asset concealment (Faradina, 2024). These figures underscore that tax evasion remains a substantial source of revenue loss across jurisdictions, especially in developing countries, despite intensified efforts to digitalize tax administration.

Tax evasion refers to illegal actions undertaken by taxpayers to reduce their tax liabilities through misreporting, transaction concealment, or manipulation of financial information, thereby directly eroding government revenue and weakening fiscal capacity (Nurferyanto & Takahashi, 2024). In the Indonesian context, tax evasion among corporate taxpayers presents more complex challenges, as it involves strategic organizational decision-making, exploitation of regulatory loopholes, and relatively sophisticated tax planning capabilities (Oktaviani et al., 2023). Although the Directorate General of Taxes has continuously pursued administrative reforms through system digitalization and data-driven enforcement, tax evasion practices remain difficult to detect comprehensively due to their concealed and adaptive nature in response to regulatory changes (Ningsih et al., 2025).

Globally, governments have increasingly leveraged artificial intelligence (AI) to detect tax evasion through mechanisms such as risk scoring, anomaly detection, and transaction network mapping (Nuryani et al., 2024; Olawale Olowu et al., 2024). Prior studies suggest that AI holds significant potential to curb tax evasion by enabling large-scale data processing and identifying abnormal behavioral patterns (Raikov, 2021). Countries such as India have begun integrating intelligent algorithms into tax data analytics to enhance the accuracy of evasion detection (Rakkini & Sudhanan, 2024). In Indonesia, however, the adoption of AI in tax administration remains at an early stage of development and implementation (Nugraha, 2023). To date, AI has not functioned as a fully autonomous enforcement system but is primarily employed as a decision-support tool for risk analysis, data matching, and taxpayer selection based on risk profiling by the tax authority (Fadhilah et al., 2025; OECD, 2025; Pramesti & Emalia, 2024).

The current application of AI in Indonesian tax administration is largely confined to large-scale data processing and preliminary anomaly detection, while its scope, transparency, and sophistication are not yet fully understood by taxpayers (Corly et al., 2025; Fadhilah et al., 2025). This condition indicates that AI in Indonesian taxation constitutes an emerging technology in terms of institutional readiness, regulatory frameworks, and user interaction experience. Consequently, taxpayers' perceptions of AI capability are more likely shaped by expectations and partial information rather than by established empirical experience (Aslett, 2024; Nurchoiriyah et al., 2025; OECD, 2025). Although digital technologies have begun to support risk analysis and data-driven audits in Indonesia, academic empirical evidence examining their behavioral implications remains limited (Kurnia Rahayu, 2021).

This trend suggests that AI is no longer merely a technical instrument but has become an integral component of modern surveillance infrastructure that may shape taxpayers' perceptions of detection probability (Okunogbe & Pouliquen, 2022; Raikov, 2021). While digitalization is designed to reduce compliance costs and minimize corruption-prone interactions, empirical evidence indicates that automation does not necessarily lead to a linear increase in tax compliance (Okunogbe & Pouliquen, 2022). Despite growing technological adoption, scholarly investigations into its behavioral effects on taxpayers remain scarce, underscoring the importance of understanding how perceptions of AI capability influence tax compliance decisions (Kurnia Rahayu, 2021).

Tax literature further demonstrates that tax evasion is not solely determined by economic factors and legal sanctions but is also shaped by psychological and cognitive considerations of decision-makers (Bruns et al., 2025; Noral Hidayah Alwi et al., 2022). Behavioral approaches, such as the Theory of Planned Behavior (Ajzen, 1991), posit that intentions to engage in tax evasion are formed through subjective evaluations of risk, perceived behavioral control, and perceptions of enforcement effectiveness. Prior tax compliance research has predominantly relied on classical psychological frameworks, emphasizing the roles of attitudes, subjective norms, and perceived behavioral control in shaping behavioral intentions (Ajzen, 1991). Empirical studies reveal that moral values and psychological traits significantly influence tax evasion intentions (Owusu et al., 2022), while perceived fairness of the tax system also plays a crucial role (Alleyne & Harris, 2017; Karlina et al., 2021). Other frameworks, such as the Slippery Slope Framework, suggest that compliance arises from a

combination of trust in tax authorities and enforcement power, and may be further affected by experiences of discrimination or perceived unfair treatment (Wardani & Kusumastuti, 2023).

Nevertheless, these approaches have rarely incorporated technological factors as psychological determinants in the formation of tax-related behavioral intentions. In parallel, literature on human–AI interaction indicates that perceptions of algorithmic accuracy, competence, and reliability substantially shape users' behavioral responses (Logg et al., 2019; Shin, 2022). One emerging concept in this domain is perceived AI capability, which reflects individuals' beliefs regarding an AI system's ability to produce accurate, relevant, and reliable outputs (Shin, 2022). Prior research demonstrates that individuals tend to rely more on algorithmic recommendations when AI is perceived as competent (algorithm appreciation) (Logg et al., 2019), yet may exhibit resistance when systems are perceived to err (algorithm aversion) (Dietvorst et al., 2015). Perceptions of reliability and transparency in automated processes further shape trust in AI systems (Lee & See, 2004).

Although perceived AI capability has been extensively examined in decision-making and fraud detection contexts (Kokina & Davenport, 2017; Olawale Olowu et al., 2024), its application in understanding taxpayer behavior remains highly limited. When AI-based systems are perceived as accurate and consistent, the likelihood of undetected misreporting is perceived to diminish (Logg et al., 2019; Shin, 2022). Such perceptions of technical capability may influence risk evaluations and behavioral intentions, aligning with the Theory of Planned Behavior, which emphasizes the role of perceived behavioral control in intention formation (Ajzen, 1991). Empirical evidence further suggests that digitalization and automated detection systems enhance oversight and constrain evasion practices, particularly among high-risk taxpayer groups (Kamil et al., 2023; Okunogbe & Pouliquen, 2022).

Despite extensive research on moral, fairness-related, and psychological determinants of tax evasion, empirical studies integrating technological dimensions (particularly perceived AI capability) into the formation of tax evasion intention remain scarce. This gap becomes increasingly critical as AI adoption in tax administration expands, potentially reshaping how taxpayers assess detection risk and respond to fiscal surveillance. In Indonesia, where AI implementation in taxation is still nascent and taxpayers' perceptions of its capabilities are not yet firmly established, understanding the behavioral implications of such perceptions is especially important. Accordingly, this study aims to analyze the effect of perceived AI capability on tax evasion intention among corporate taxpayers in Indonesia, thereby providing empirical evidence that enriches intention-based tax compliance literature in the era of tax administration modernization.

## Literature Review

In tax behavior research, tax evasion intention is conceptualized as a cognitive state reflecting an individual's willingness to plan and engage in tax evasion behavior. This conception aligns with (Ajzen, 1991), who defines intention as an indicator of the strength of an individual's motivation to perform a given behavior. The Theory of Planned Behavior (TPB) posits that behavioral intention is shaped by three core determinants: attitude toward the behavior, subjective norms, and perceived behavioral control. Extensive empirical evidence confirms that these components jointly predict behavioral intentions with high explanatory power (Ajzen, 1991).

Prior empirical findings indicate that unfavorable attitudes toward tax evasion significantly reduce the intention to engage in such behavior, while the influence of subjective norms appears more mixed across contexts. In contrast, perceived behavioral control has consistently emerged as a significant predictor, as it reflects individuals' beliefs regarding their capability to perform the behavior in question (Alleyne & Harris, 2017). Beyond these components, moral considerations and individual characteristics (such as tax morale) also play an important role in restraining opportunistic tax behavior (Owusu et al., 2022). Although previous studies have extensively examined moral factors, attitudes, and psychological traits as determinants of tax evasion intention, empirical research integrating perceptions of technological capability (particularly perceived AI capability) into the TPB framework remains absent. This omission constitutes a theoretical gap in the existing literature (Ajzen, 1991; Alleyne & Harris, 2017; Owusu et al., 2022).

Perceived AI capability refers to individuals' subjective assessments of the extent to which an artificial intelligence system is perceived to possess reliable cognitive abilities, particularly in terms of intelligence, accuracy, and adaptability in processing information and generating relevant outputs (Shin, 2022). Importantly, such assessments are not grounded in technical knowledge of algorithmic mechanisms but are instead based on users' cognitive evaluations of the credibility and competence of AI systems within human–algorithm interactions. As such, perceived AI capability represents a form of perceived competence constructed through users' perceptions and heuristics rather than objective system characteristics (Shin, 2022).

The literature suggests that perceived AI capability is a multidimensional construct, whereby users evaluate AI systems based on output accuracy, sophistication of information processing, and the system's ability to adapt responses to contextual demands and user needs (Shin, 2022). These perceptions are closely associated with trust and acceptance of algorithmic recommendations, as individuals tend to rely more heavily on AI-generated advice when systems are perceived as more competent than human judgment, even in the absence of understanding the internal workings of the algorithms (Logg et al., 2019). Previous studies further demonstrate that perceptions of algorithmic competence influence how individuals make decisions, evaluate information, and assess personal risk across various technology-mediated decision-making contexts (Castelo et al., 2019; Logg et al., 2019).

Despite the growing body of research on perceived AI capability in decision-making and technology adoption contexts, no prior studies have explicitly linked this construct to tax evasion intention within a taxpayer psychology framework. Existing research has predominantly focused on trust in AI, technology adoption, or general decision evaluation, rather than on behavioral intentions related to tax compliance and evasion (Logg et al., 2019; Shin, 2022). This absence highlights a clear gap in the literature, particularly regarding the positioning of perceived AI capability as a psychological antecedent that may explain variations in taxpayers' behavioral intentions in compliance and evasion contexts.

Within the Theory of Planned Behavior, behavioral intention is determined by individuals' cognitive beliefs about the decision context rather than by objective conditions alone (Ajzen, 1991). Perceived AI capability (reflecting subjective judgments about the intelligence, accuracy, and adaptability of AI-based systems) constitutes such a belief ((Shin, 2022). Technology research consistently shows that individuals are more likely to trust and follow algorithmic recommendations when AI systems are perceived as competent, even without technical understanding of their internal mechanisms (Logg et al., 2019). In the tax context, TPB-based studies emphasize that tax evasion intention is shaped by psychological evaluations and individuals' perceptions of the decision environment (Alleyne & Harris, 2017; Owusu et al., 2022). Accordingly, the following hypothesis is proposed:

H1: Perceived AI capability has a negative effect on tax evasion intention.

**Research Methodology**

This study adopts a quantitative approach with an explanatory research design to examine the causal relationship between perceived AI capability and tax evasion intention in the context of corporate taxpayers. This approach is widely applied in tax behavior research grounded in behavioral intention frameworks, as it captures decision-making processes at the organizational level (Alleyne & Harris, 2017). Data were collected through a structured online questionnaire administered to corporate tax decision-makers. A total of 278 valid responses were obtained, meeting the minimum sample size requirements for Partial Least Squares–Structural Equation Modeling (PLS-SEM) analysis (Hair et al., 2019).

Data analysis was conducted using Structural Equation Modeling based on the Partial Least Squares approach (PLS-SEM) with the assistance of SmartPLS software. PLS-SEM was selected due to its predictive orientation, minimal distributional assumptions, and suitability for analyzing latent constructs in behavioral and tax research contexts (Hair et al., 2019; Vinzi & Henseler, 2010). Model evaluation followed a two-stage procedure, consisting of the assessment of the measurement model (outer model) and the structural model (inner model) (Hair et al., 2019).

In the measurement model evaluation, construct reliability was assessed using Composite Reliability, with values exceeding the recommended threshold of 0.70. Convergent validity was evaluated based on the Average Variance Extracted (AVE), with a minimum acceptable value of 0.50, as well as indicator outer loadings, which were expected to exceed 0.50 (Hair et al., 2019). In addition, potential multicollinearity among constructs was examined using the Variance Inflation Factor (VIF) as a supplementary diagnostic test, with VIF values below 5 indicating acceptable levels (Hair et al., 2019; Kumar et al., 2025).

The structural model was evaluated by examining path coefficients, the coefficient of determination ($R^2$), and the significance of relationships between constructs using a bootstrapping procedure. Statistical significance was assessed based on t-statistics and p-values at a 5% significance level, in accordance with established PLS-SEM guidelines (Hair et al., 2019; Henseler et al., 2015). As an additional analysis, this study optionally employed Multi-Group Analysis (MGA) based on firms' industry sectors to identify potential differences in structural relationships across business contexts (Sarstedt et al., 2020; Tefuttor et al., 2025).

## Results and Discussion

### Results

### Measurement Model Evaluation

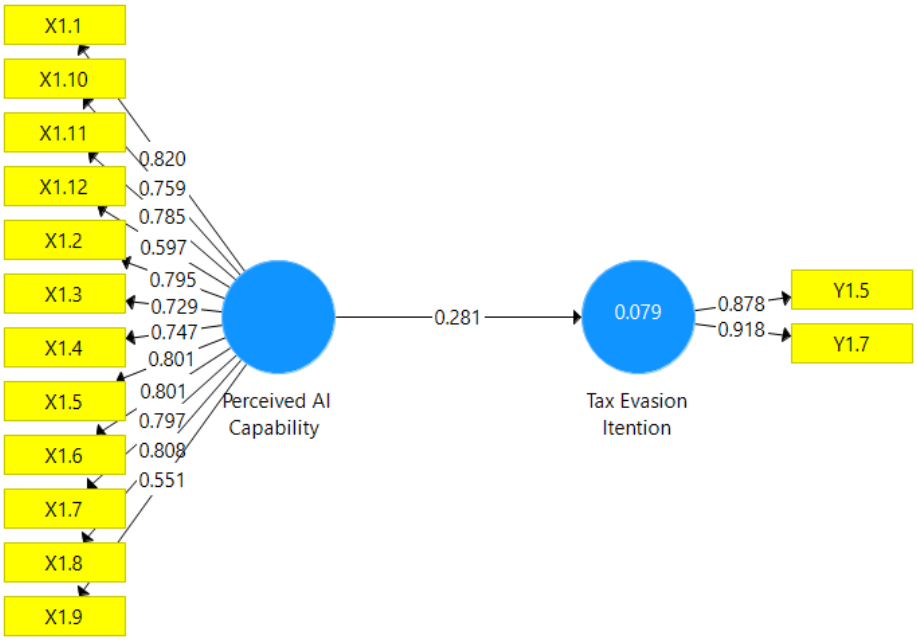


***Fig. 1.*** *Outer Loadings and Convergent Validity*

All measurement indicators exhibit outer loading values above the minimum threshold of 0.50. This indicates that each indicator adequately represents its corresponding latent construct, thereby confirming convergent validity. Accordingly, the measurement model is deemed suitable for further structural model analysis.

**Table 1.** Construct Reliability and Validity

| | Cronbach's Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| Perceived AI Capability | 0.930 | 0.936 | 0.940 | 0.568 |
| Tax Evasion Itention_ | 0.762 | 0.781 | 0.893 | 0.807 |

The values of Cronbach's Alpha and Composite Reliability for all constructs exceed the recommended threshold of 0.70, while the Average Variance Extracted (AVE) values are greater than 0.50. These results demonstrate satisfactory internal consistency and construct reliability, as well as an adequate proportion of variance explained by the indicators.

**Table 2.** Discriminant Validity (Fornell–Larcker Criterion)

| | Perceived AI Capability | Tax Evasion Itention_ |
|---|---|---|
| Perceived AI Capability | | |
| Tax Evasion Itention_ | 0.316 | |

The square roots of AVE for each construct are greater than the corresponding inter-construct correlations. This indicates that each construct is empirically distinct from the others, thereby satisfying discriminant validity based on the Fornell–Larcker criterion.

**Table 3.** Discriminant Validity – Heterotrait–Monotrait Ratio (HTMT)

| | Perceived AI Capability | Tax Evasion Itention_ |
|---|---|---|
| Perceived AI Capability | 0.754 | |
| Tax Evasion Itention_ | 0.281 | 0.898 |

All HTMT values are below the conservative threshold of 0.90. This finding further reinforces the discriminant validity results and indicates the absence of conceptual overlap among the constructs in the research model.

**Structural Model Evaluation**

**Table 4.** Path Coefficients and Hypothesis Testing

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|---|
| Perceived AI Capability -> Tax Evasion Itention_ | 0.281 | 0.292 | 0.062 | 4.551 | 0.000 |

The structural model results indicate that perceived AI capability has a positive and statistically significant effect on tax evasion intention (t-statistic = 4.551; p-value < 0.001). Empirically, this finding suggests that higher perceptions of AI capability are associated with an increase in tax evasion intention. Consequently, the research hypothesis proposing a negative relationship between perceived AI capability and tax evasion intention is not supported.

**Effect Size and Predictive Relevance**

**Table 5.** Effect Size ($f^2$)

| | Perceived AI Capability | Tax Evasion Itention_ |
|---|---|---|
| Perceived AI Capability | | 0.086 |
| Tax Evasion Itention_ | | |

The effect size ($f^2$) values indicate that perceived AI capability exerts a substantive influence on tax evasion intention. This suggests that the construct makes a meaningful contribution to explaining variance in corporate taxpayers' tax evasion intention, despite the direction of the relationship being inconsistent with the initial hypothesis.

**Table 6.** Predictive Relevance ($Q^2$)

| | SSO | SSE | $Q^2$ (=1-SSE/SSO) |
|---|---|---|---|
| Perceived AI Capability | 3336.000 | 3336.000 | |
| Tax Evasion Itention_ | 556.000 | 524.324 | 0.057 |

The ($Q^2$) value for the endogenous construct is positive (> 0), indicating that the model demonstrates predictive relevance. This implies that the research model possesses not only statistical significance but also predictive capability in explaining the phenomenon under investigation.

**Model Fit**

**Table 7.** Standardized Root Mean Square Residual (SRMR)

| | Saturated Model | Estimated Model |
|---|---|---|
| SRMR | 0.059 | 0.059 |
| d_ULS | 0.367 | 0.367 |
| d_G | 0.185 | 0.185 |
| Chi-Square | 300.020 | 300.020 |
| NFI | 0.866 | 0.866 |

The SRMR value falls below the recommended threshold of 0.08, indicating a good fit between the empirical covariance matrix and the covariance matrix predicted by the model. Overall, this result suggests that the structural model is appropriate for hypothesis testing.

**Discussion**

This study aims to examine the effect of perceived AI capability on tax evasion intention among corporate taxpayers. The empirical results demonstrate that perceived AI capability has a positive and significant effect on tax evasion intention. This finding indicates that increased perceptions of AI capability in tax surveillance do not reduce tax evasion intention as initially hypothesized; instead, they are associated with a higher intention to engage in tax evasion. Accordingly, the hypothesis proposing a negative effect is not empirically supported.

From a theoretical perspective, these findings challenge the classical deterrence assumption, which posits that enhanced detection and monitoring capabilities automatically suppress deviant behavior. In the corporate taxpayer context, heightened perceptions of AI sophistication may signal increased surveillance complexity, prompting organizations to respond strategically rather than by simply increasing compliance. Corporate decision-makers may adjust tax planning strategies to remain within regulatory gray areas that are more difficult for automated systems to detect.

These results are consistent with the Theory of Planned Behavior (Ajzen, 1991), which emphasizes that behavioral intention is shaped by cognitive evaluations of decision contexts rather than objective conditions alone. Perceived AI capability represents a subjective belief regarding the effectiveness of surveillance systems, influencing attitudes and risk assessments among decision-makers. When AI systems are perceived as increasingly advanced, corporate taxpayers with strong tax planning capabilities tend to engage in more systematic risk calculations rather than passively refraining from tax evasion.

Furthermore, the findings align with the tax digitalization literature, which suggests that technological surveillance does not necessarily lead to a linear reduction in tax evasion. (Okunogbe & Pouliquen, 2022) demonstrate that while digitalization enhances detection capacity, it may simultaneously induce behavioral adaptations, particularly among entities with sufficient resources and expertise. Human–AI interaction studies also reveal that trust in algorithmic capability can generate ambivalent responses, including attempts to strategically circumvent systems perceived as highly sophisticated (Dietvorst et al., 2015; Logg et al., 2019).

In the Indonesian context, these findings are particularly relevant given that AI adoption in tax administration remains at an early stage. Limited transparency regarding AI system operations and risk selection criteria may foster speculative perceptions among taxpayers. Such perceptions are not necessarily interpreted as deterrent threats but rather as strategic challenges that encourage behavioral adaptation.

Furthermore, the finding suggests that perceived AI capability may function as a double-edged mechanism within the deterrence framework. While stronger technological enforcement increases the salience of detection risk, it may simultaneously signal the operational logic of the surveillance system, thereby enabling strategic adaptation by knowledgeable taxpayers. In contexts where AI-based tax enforcement is still developing and not fully transparent, taxpayers' perceptions of AI capability may be shaped more by expectations and assumptions than by actual enforcement experience. As a result, heightened perceptions of AI sophistication may paradoxically embolden strategic behaviour rather than suppress tax evasion intention.

Overall, the rejection of the proposed negative relationship highlights the limitation of relying solely on technological deterrence to influence tax compliance behaviour. The findings underscore the importance of

complementing AI-based enforcement with clear regulatory boundaries, consistent legal consequences, and transparent communication regarding the scope and limitations of AI systems. Without such supporting institutional mechanisms, perceived AI capability alone may be insufficient and potentially counterproductive in reducing tax evasion intention.

**Conclusions**

This study investigates the effect of perceived AI capability on tax evasion intention among corporate taxpayers. Based on PLS-SEM analysis, the findings reveal that perceived AI capability has a positive and significant effect on tax evasion intention. Accordingly, the research hypothesis assuming a negative relationship is not empirically supported.

These results indicate that heightened perceptions of AI capability in tax surveillance do not automatically reduce tax evasion intention. Instead, perceived AI sophistication is associated with increased tax evasion intention, reflecting adaptive and strategic responses by corporate decision-makers facing increasingly complex monitoring systems.

Thus, this study underscores that the relationship between surveillance technology and tax compliance behavior is non-linear and strongly influenced by cognitive processes and organizational tax planning capacity.

**Research Implications**

Theoretically, this study contributes to the tax behavior literature by demonstrating that perceived AI capability constitutes a technology-based psychological factor that plays a significant role in shaping tax evasion intention at the organizational level. These findings challenge the core assumption of conventional deterrence approaches that prioritize enhanced detection capability as the primary mechanism for reducing tax evasion. Within the Theory of Planned Behavior framework, the study highlights that cognitive beliefs regarding AI-based surveillance systems may trigger strategic responses rather than passive compliance.

Practically, the findings imply that strengthening AI-based tax administration should be accompanied by policies emphasizing transparency, legal certainty, and clear risk communication. An AI implementation strategy focused solely on technical capability enhancement may inadvertently encourage more sophisticated tax avoidance strategies among corporate taxpayers. Therefore, tax authorities should position AI not only as a detection tool but also as an instrument for building trust, clarifying compliance boundaries, and reinforcing long-term compliance norms.

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