







“The effect of government budget on tax compliance: An empirical mediation analysis”

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THE EFFECT OF GOVERNMENT BUDGET ON TAX COMPLIANCE: AN EMPIRICAL MEDIATION ANALYSIS

Abstract

This study aims to analyze the effect of government budget on tax compliance, with tax fairness and public trust as mediating variables. This study used a sample size of 200 respondents, based on the minimum sample size criteria for partial least squares (PLS-SEM), inverse square root, and gamma-exponential methods. To strengthen the robustness of results, a bootstrapping method with a subsample of 5,000 was used in hypothesis testing. The survey was conducted with 200 individual taxpayers. The results show that the government budget has a positive effect on tax compliance with a coefficient of 0.233. Tax fairness has a positive effect on tax compliance, with a coefficient of 0.573. The results show that government budget expenditure positively affects tax fairness and has a positive indirect effect on tax compliance through tax fairness at the 10% level. The results also show that the relationship between budget expenditure and public trust is negative and statistically significant ($\beta = -0.170$, $p = 0.036$). Government budget positively affects tax fairness and has a positive indirect effect on tax compliance through tax fairness, marginally significant at the 10% level. The IPMA analysis results indicate that tax fairness has the highest importance and performance, while the government budget ranks the lowest. The practical value of this research is that the government must implement a fair taxation system, as it is the primary determinant of tax compliance.

Keywords government budget, tax compliance, tax fairness, public trust, taxation systems

JEL Classification H61, H71, H72

INTRODUCTION

The primary source of sustainable development for developing countries is tax revenue. However, tax revenue in developing countries such as Indonesia remains suboptimal. Tax revenues have increased significantly in Indonesia recently. Nevertheless, Indonesia's tax-to-gross domestic product (GDP) ratio remains low compared to other nations of similar size. Indonesia reported a decrease in the tax ratio from 10.39% in 2022 to 10.21% in 2023 (Ministry of Finance, 2024). When tax revenue rises while the tax ratio falls, GDP growth is faster than the tax ratio. This indicates that the government's capacity to gather taxes does not increase consistently with GDP growth.

Tax revenue is one of the primary ways for governments to raise funds for programs that benefit the public. Benefits to taxpayers include infrastructure development, the provision of public services (such as healthcare and education), and increased government accountability and transparency regarding budget allocations, particularly regarding tax revenues. Governments must strive to ensure taxpayers' trust that the taxes they pay are allocated appropriately.

The problem of suboptimal government tax revenue in developing countries poses a serious challenge during the current geopolitical crisis. Governments are struggling to fund their activities because tax revenues are falling short of targets. Previous empirical research has developed tax compliance models, particularly for individual taxpayers. However, the empirical evidence from these previous studies has been inconsistent, partly because they are based solely on economic variables such as sanctions and audits. This results in incomprehensive models, as they only encourage compliance through enforcement mechanisms.

Previous research has been very limited in analyzing voluntary tax compliance, trust, and fairness models with the government budget as the primary instrument. Therefore, further research is needed to assess a voluntary tax compliance model using the government budget as the primary determinant.

1. LITERATURE REVIEW AND HYPOTHESES

The new public service paradigm presents an ideal public service that must be responsive to the diverse values of the citizens it serves. This paradigm also prioritizes equal rights among citizens to receive public services (Falsetta et al., 2024; Abdu & Adem, 2023; Ntiamoah, 2026; Santos et al., 2026). Furthermore, accountability to the law and to the values and regulations that develop in society are also characteristics of the ideal public service in the new public service (Mohdali et al., 2015; Lorato et al., 2024). In a taxation context, the implementation of new public services is considered capable of achieving good tax governance (Falsetta et al., 2024). The implementation of the new public service should address factors influencing taxpayer compliance, namely transparency and accountability in tax payments. This implementation can then build public trust, according to the slippery slope theory, thereby fostering voluntary tax compliance (Kogler et al., 2013; Ntiamoah, 2026).

Kirchler et al. (2008) suggested that public trust creates a synergistic relationship between taxpayers and the government as the authority that makes tax policy. This makes the government perceived as part of the community, serving the public, so that the public tends to comply with their tax obligations (Tefuttor et al., 2025). The tendency resulting from the implementation of this new public service is explained in Ajzen's (1991) theory of planned behavior as a behavioral belief where the public acts, in this case, obediently paying taxes, because they believe in the benefits they will receive.

In the slippery slope theory, there are two forms of tax compliance: voluntary and involuntary (Kirchler et al., 2008). The slippery slope theory assumes that economic determinants of tax behavior, such as the probability of audits and fines, represent authoritarian forces in shaping tax compliance (Andreoni et al., 1998). Meanwhile, psychological determinants of tax behavior, such as the perception of the benefits of paying taxes, shape trust in the government, which then increases voluntary tax compliance (Casal et al., 2016; Cyan et al., 2016; Lorato et al., 2024; Ntiamoah, 2026).

Kirchler et al. (2008) argue that authoritarian power and trust in the government are determinants of tax compliance, creating contrasting characteristics in the relationship between the government and taxpayers. According to the slippery slope theory, authoritarian power tends to create an adversarial relationship, similar to that of a police officer and a thief. Therefore, tax compliance achieved through this approach is considered forced (Kogler et al., 2013; Kirchler et al., 2008). Unlike authoritarian rule, public trust in government fosters a synergistic relationship, akin to that between a service provider and its client. According to Kirchler et al. (2008), this approach views the government as part of the community serving the public. They also emphasized that implementing this approach requires the government to be accountable, transparent, and fair to taxpayers in line with the new public management paradigm.

Taxes are a primary source of government revenue, used to raise funds for public programs that benefit the public. Taxpayers will continually monitor how the government budget is spent, in accor-

dance with the new public management paradigm. Gilligan and Richardson (2005) show that government budgets influence public tax compliance, along with the quality of public services and effective governance. The government should utilize budget expenditures that optimize public services so that they can trust that their taxes are allocated appropriately. Falsetta et al. (2024) provide empirical evidence that appropriate government spending can improve tax compliance.

Public trust in the government can be conceptualized as a reciprocal and mutually beneficial relationship between the people and the government. When people see and perceive that the government acts in a way that improves their well-being, they begin to trust the government. The interaction between the government serving the people in their efforts to achieve well-being will foster public trust. Torres (2005) emphasized that initiatives must come from the government, including budgets that are more in favor of the public interest. Public trust in the government will be influenced by how the public sector operates and serves the population. A confident and effective government can only be built when the people trust the government and the government trusts the people (Yıldırım et al., 2016). The emergence of trust in the government will exist if the budget is effective; conversely, if the government performs poorly, the public will begin to distrust it. Public trust in the government will increase perceived fairness, ultimately increasing tax compliance.

Empirical evidence from Widuri and Irawan (2019) demonstrates the importance of trust in the government for taxpayers to comply with tax regulations. This study demonstrates how taxpayers' willingness to comply with tax regulations is significantly influenced by their level of trust in the government. Tax compliance increases with public trust in the performance of the government. Perceptions of tax fairness strengthen this relationship, with taxpayers demonstrating higher levels of compliance when they believe the tax system is fair. The government can improve tax compliance by prioritizing public trust initiatives (Prasetyo et al., 2020). This can be achieved in various ways, including improving tax service standards, establishing simple tax payment methods, and adjusting tax rate laws to ensure fairness. The

study's findings highlight the role of trust-building initiatives in driving increased taxpayer compliance and offer potential directions for policymakers to pursue in their efforts to improve tax revenue collection.

Taing and Chang (2021) provide empirical evidence that the intention to comply with tax laws is influenced by perceptions of tax fairness and public trust in the government. This study emphasizes the importance of the government understanding tax compliance behavior and offers feasible solutions to improve compliance, such as improving taxpayer morale and simplifying the tax process.

Saddaf et al. (2022) show that tax compliance is strongly influenced by beliefs about tax fairness. Citizens are more likely to voluntarily obey the tax regulations when they believe the tax system is fair. Improving tax compliance requires trust between the public and the government. This trust can be developed by implementing fair tax distribution policies, making tax policies transparent, making tax procedures more accessible, investing tax revenues in public services, and implementing strong law enforcement measures to prevent tax evasion. The perception of a fair and equitable tax system should be a top priority for the government to improve taxpayer compliance.

Hassan et al. (2021) found that government budget expenditures influence individuals' voluntary tax compliance behavior in Pakistan. Specifically, taxpayers' opinions about the effectiveness and fairness of public spending are shaped by their perceptions of government spending, which has a substantial impact on tax compliance. Faisal and Yulianto (2019) show that increased transparency and accountability in government spending can boost taxpayer trust, resulting in higher tax compliance. Güzel et al. (2019) proved that trust in the government increases taxpayers' perceptions of fairness and, consequently, positively impacts tax compliance. Tarmidi and Nurlita (2018) demonstrated that taxpayers' perceptions of fair government practices will increase taxpayer trust, which in turn can improve tax compliance.

Lorato et al. (2024) provided empirical evidence that taxpayers who view the government as legitimate are more likely to comply with taxes.

However, their study did not empirically analyze the government budget and tax fairness. Santos et al. (2026) examined the influence of public trust on tax behavior in Portugal, but did not examine the role of the government budget and tax fairness. Supriyati et al. (2004) provide empirical evidence that perceived fairness and trust in the government have a positive effect on tax morale, which in turn can increase taxpayer compliance. However, they did not empirically test the role of government budgets in increasing tax compliance. Furthermore, their study did not examine the direct influence of tax fairness and public trust on tax compliance.

Alm et al. (2019) provide empirical evidence that a tax system implemented fairly by the government increases taxpayer compliance. This emphasizes the importance of taxpayers understanding the applicable tax system, as compliance has a positive correlation with a fair and efficient system. Other previous research findings have also confirmed a positive correlation between tax fairness and compliance (Güzel et al., 2019; Casal et al., 2016; Tefuttor et al., 2025; Ntiamoah, 2026; Santos et al., 2026).

Several previous studies in various countries have shown that perceptions of tax fairness are highly correlated with fair government activities, leading to increased taxpayer trust, which in turn can improve tax compliance (Kirchler et al., 2008; Kogler et al., 2013; Roberts & Hite, 1994; Tarmidi & Nurlita, 2018; Tefuttor et al., 2025; Santos et al., 2026; Ntiamoah, 2026). This finding supports the argument that public trust in the government is a function of fairness in the tax system (Jimenez & Iyer, 2016; Kirchler et al., 2008; Kogler et al., 2013; Roberts & Hite, 1994; Wenzel, 2002). Taxpayers' perceptions of tax fairness and trust in government performance play a significant role in tax compliance. Thus, it can be argued that the relationship between perceptions of fairness and tax compliance is mediated by public trust in the government.

Taxpayers view government budget expenditure as a right they must receive in return for the taxes they pay (Falsetta et al., 2024). Taxpayers will be satisfied with appropriate government budget expenditures for the public in the form of improved public services, thus motivating them to

meet their tax obligations. Taxpayers' perceptions of government expenditures influence the level of tax compliance. The government can use budget instruments to increase tax fairness and public trust, ultimately aiming to increase tax compliance (Falsetta et al., 2024).

The literature review suggests that unresolved issues remain regarding the role of government budget expenditure in improving tax compliance. There are contradictory findings from previous research, which show both positive and negative effects of government budget expenditure. Therefore, further studies in this area, specifically the relationship between government budget expenditure and tax compliance, are needed. This study explains the contradictions in previous research using a mediation model of tax fairness and public trust.

This study aims to analyze the role of government budget expenditure in increasing tax compliance with tax fairness and public trust as mediating variables. This study proposes the following hypotheses:

- H1: *Government budget expenditure positively affects tax compliance.*
- H2: *Government budget expenditure positively affects tax fairness.*
- H3: *Government budget expenditure positively affects public trust.*
- H4: *Tax fairness positively affects public trust.*
- H5: *Tax fairness positively affects tax compliance.*
- H6: *Public trust positively affects tax compliance.*
- H7: *Government budget expenditure has a positive indirect effect on tax compliance through tax fairness.*
- H8: *Government budget expenditure has a positive indirect effect on tax compliance through public trust.*
- H9: *Tax fairness has a positive indirect effect on tax compliance through public trust.*

2. METHOD

The population consisted of individual taxpayers from Semarang City, Indonesia. Semarang City was chosen as the sampling location due to its relatively low level of tax compliance, indicated by inadequate reporting of individual tax returns. The size of the sample was assigned using the inverse square root method developed by Kock and Hadaya (2018). This method tends to be conservative and robust for complex research models because it considers statistical power and significance levels (Hair et al., 2022). This study also uses the gamma exponential method recommended by Kock and Hadaya (2018). With a minimum target path coefficient of 0.200, a significance level of 0.05, and a power level of 0.800, the minimum sample sizes based on the inverse square root method and the gamma exponential method are 155 and 142, respectively. Based on the minimum sample size reference for both methods, this study uses a sample size of 200 taxpayer respondents who have exceeded the minimum threshold for sample size in partial least squares structural equation modeling (PLS-SEM). The survey was conducted with 200 individual taxpayers registered with the government tax office. Respondents were selected based on the criterion of taxpayers who had actively made payments in the past three years. This criterion aims to ensure that the taxpayers are relevant respondents who can provide answers that assess the fairness of the tax system and government budget. Furthermore, to ensure sample adequacy, this study employed a bootstrapping method with a subsample of 5,000 used in hypothesis testing. Of the 200 questionnaires sent, all were answered completely and used in the analysis. These results indicate a usable response rate of 100%, so non-response bias is not an issue in this research. PLS-SEM can operate efficiently even with relatively small sample sizes and complex models (Hair et al., 2022). When assessing the significance of structural model relationships, a 10% significance level threshold is used. As suggested by Hair et al. (2022), when a study is exploratory or involves smaller sample sizes, researchers can assume a 10% significance level.

The variables or constructs measured in this research are as follows. The government budget expenditure variable is the perception of taxpay-

ers about how the government uses tax revenue, whether it is being used effectively and efficiently for societal welfare (Alabede et al., 2011). There are six indicators for measuring the government budget variable (as in Appendix A), as outlined by Alabede et al. (2011). The perception of tax fairness variable is measured using six indicators, while public trust is measured using three indicators, with all of these mediating variable indicators adapted from Güzel et al. (2019) as in Appendix A. The tax compliance variable is measured using seven indicators adapted from Bobek et al. (2013), which have been proven to be valid and reliable in previous research. To increase internal validity, this study also uses gender as a control variable, which, based on empirical evidence from Twesige et al. (2024), influences tax compliance levels.

3. RESULTS

This study used PLS-SEM analysis, which includes two stages: the outer model and the inner model (Hair et al., 2022). In the outer model stage, construct validity and reliability were tested, with the results shown in Table 1. The results in Table 1 indicate that construct reliability has been met, with composite reliability and Cronbach's alpha exceeding 0.70 (Hair et al., 2022; Kock, 2020). The next stage was validity testing, which included convergent and discriminant validity. Convergent validity was met, with all AVE values in Table 1 exceeding 0.50 (Hair et al., 2022). Furthermore, convergent validity was also met, with factor loadings for all indicators exceeding 0.70.

Discriminant validity indicates the extent to which a construct is truly dissimilar from other constructs, as demonstrated by the empirical research. Adequate discriminant validity implies that a latent variable is truly unique and can capture phenomena not represented by other constructs in the model. This study follows the recommendations of Hair et al. (2022), namely using the heterotrait-monotrait (HTM) ratio and the Fornell-Larcker criterion to assess the discriminant validity of indicators.

Table 2 reports the heterotrait-monotrait ratio (HTMT) analysis to examine the discriminant validity between latent variables in the empirical

Table 1. Reliability and validity

Variables	Composite Reliability	Cronbach's Alpha	Average Variance Extracted (AVE)	Factor Loading Range
Government Budget	0.882	0.842	0.557	0.717–0.804
Public Trust	0.910	0.851	0.771	0.849–0.931
Tax Compliance	0.920	0.898	0.621	0.753–0.861
Tax Fairness	0.924	0.901	0.670	0.743–0.874

Table 2. Heterotrait-monotrait analysis

Relationship	Original sample (O)	CI 5.0%	CI 95.0%
Public Trust ↔ Government Budget	0.156	0.097	0.295
Tax Compliance ↔ Government Budget	0.349	0.234	0.467
Tax Compliance ↔ Public Trust	0.262	0.153	0.393
Tax Fairness ↔ Government Budget	0.146	0.116	0.272
Tax Fairness ↔ Public Trust	0.242	0.120	0.373
Tax Fairness ↔ Tax Compliance	0.702	0.578	0.812

Table 3. Fornell-Larcker criterion

Variables	Government Budget	Public Trust	Tax Compliance	Tax Fairness
Government Budget	0.746			
Public Trust	0.138	0.878		
Tax Compliance	−0.310	0.230	0.788	
Tax Fairness	−0.135	0.216	0.634	0.819

model. All HTMT values are below the tolerance limit of 0.90, including confidence interval 5% and 95%, according to the criteria of Hair et al. (2022), indicating that discriminant validity is met.

The Fornell-Larcker criterion compares the square root of the AVE with the correlation between latent variables/constructs. Specifically, the square root of each latent variable's AVE should be higher than its correlation with other latent variables. The results in Table 3 show that this criterion has been achieved, with the square root of the AVE in the diagonal column being greater than the correlation between constructs in the same column. Overall, the results of the reliability and construct validity tests on the outer model have met the cri-

teria, allowing hypothesis testing to proceed with the structural model.

Table 4 reports the hypothesis testing employing PLS-SEM, and Figure 1 summarizes the structural model results from PLS-SEM.

Table 4 shows that the government budget expenditure variable has a significant positive effect on tax compliance ($\beta = 0.233$, p -value = 0.000, significant at the 5% alpha level), so hypothesis 1 is accepted. Likewise, hypothesis 2 is supported by the government budget variable positively affecting tax fairness ($\beta = 0.134$, p -value = 0.056, significant at 10% alpha). Conversely, hypothesis 3 is not supported by the path coefficient for government

Table 4. Path coefficients and p-values

Hypothesized paths	Path Coefficient	p-value	Conclusion
Government budget → Tax compliance	0.233	0.000	H1 is accepted
Government budget → Tax fairness	0.134	0.056	H2 is accepted
Government budget → Public trust	−0.170	0.036	H3 is rejected
Tax fairness → Public trust	0.239	0.001	H4 is accepted
Tax fairness → Tax compliance	0.573	0.000	H5 is accepted
Public trust → Tax compliance	0.149	0.012	H6 is accepted
Government budget → Tax fairness → Tax compliance	0.077	0.066	H7 is accepted
Government budget → Public trust → Tax compliance	−0.025	0.128	H8 is rejected
Tax fairness → Public trust → Tax compliance	0.036	0.036	H9 is accepted

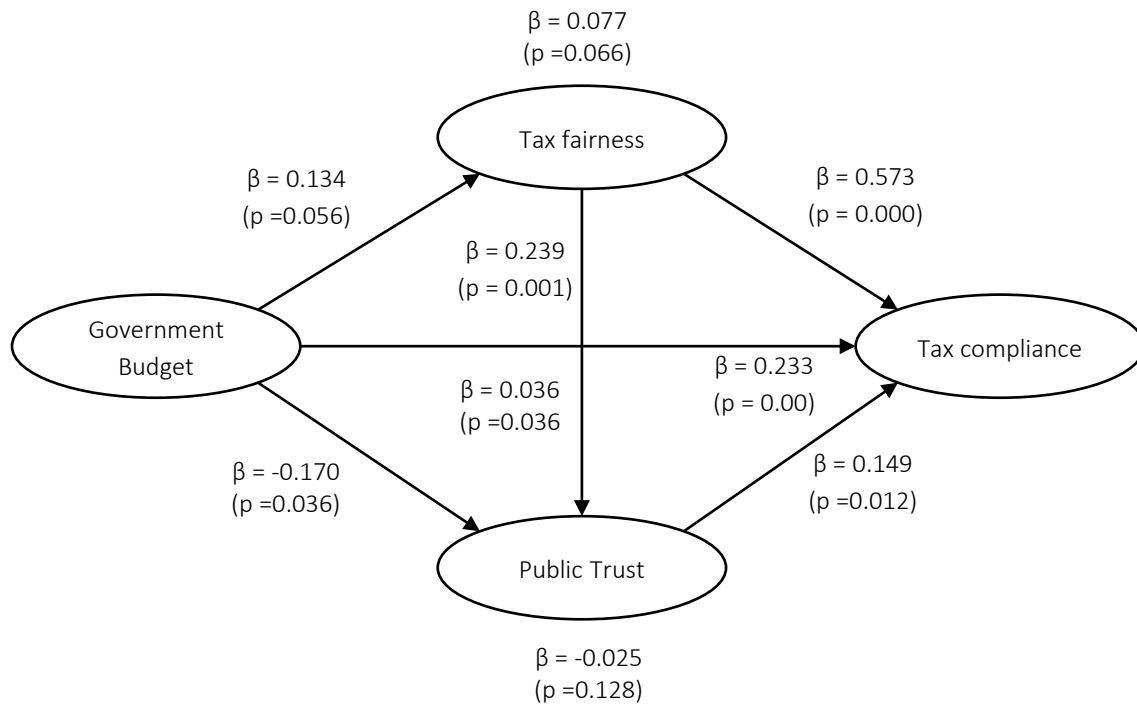


Figure 1. Structural model

budget on public trust, $\beta = -0.170$, p -value = 0.036. The PLS-SEM test indicates that tax fairness can increase public trust, supporting hypothesis 4 ($\beta = 0.239$, p -value = 0.001; significant at the 1% alpha level). The results of this study also provide empirical evidence that tax fairness positively affects tax compliance, with a path coefficient of 0.573 and a p -value of 0.000. The structural model test also provides empirical evidence that public trust can increase tax compliance ($\beta = 0.149$, p -value = 0.012, significant at the 5% alpha level).

The results of testing hypothesis 7, concerning the mediation relationship with the specific indirect effect, indicate that the government budget can improve tax compliance through tax fairness ($\beta = 0.077$, p -value = 0.066), which is not significant at the 10% alpha level. Conversely, hypothesis 8, which states that the government budget can improve tax compliance through public trust, is not supported. The PLS-SEM test results for hypothesis 9 indicate that tax fairness can increase public trust, which in turn has a positive effect on tax compliance ($\beta = 0.036$, p -value = 0.036, or significant at 5% alpha).

Table 4 indicates that the government budget and tax fairness have a direct positive effect on tax

compliance. On the other hand, the government budget can also have an indirect positive effect on tax compliance through tax fairness. Similarly, tax fairness has an indirect positive effect on tax compliance through public trust. These test results indicate partial complementary mediation, suggesting that other mediating variables beyond tax fairness can be explored in future research.

Additional analysis was conducted using the importance-performance map analysis (IPMA) technique, an extension of the standard PLS-SEM technique. IPMA aims to analyze the following two aspects (Hair et al., 2018, 2022):

- 1) the importance of determinant or precursor constructs in predicting a specific/endogenous target variable. The important aspect is evaluated by analyzing the total effect of a determinant variable; and
- 2) the performance of determinant or precursor constructs. Performance is evaluated by analyzing the average latent-variable scores for a determinant variable.

IPMA contrasts the total effect (which represents the importance aspect) with the average latent

Table 5. Analysis of the importance–performance matrix (IPMA)

Determinants	Importance (Total Effect)	Performance (Average Latent Variable Scores)
Government Budget	−0.310	38.535
Public Trust	0.278	63.478
Tax Fairness	0.569	66.516

variable score (which represents the performance aspect). IPMA analysis provides important input for policy and practice recommendations to help the government improve tax compliance. The IPMA results are presented in Table 5.

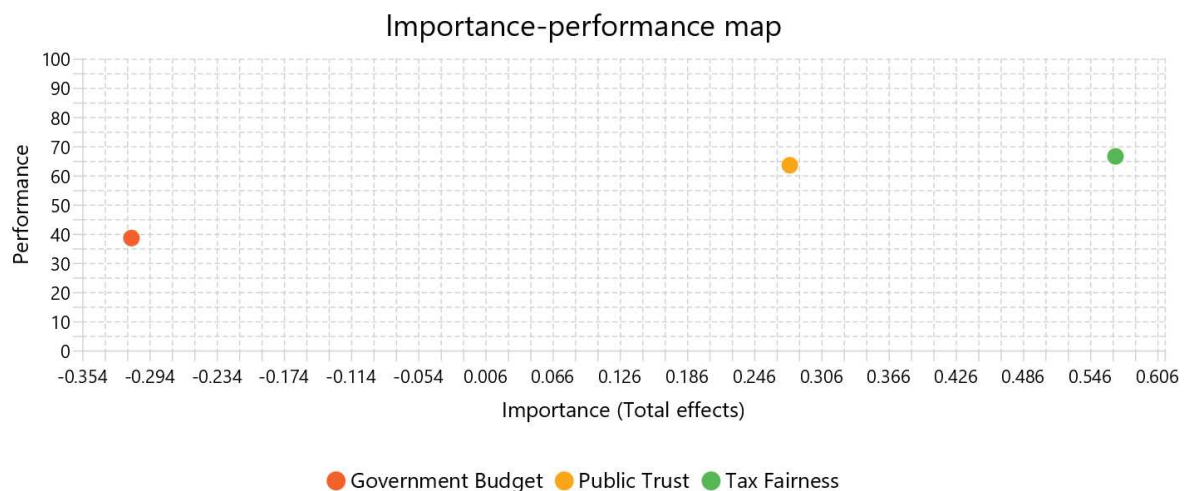
The IPMA analysis shows that the tax fairness variable has the highest importance and performance values, at 0.569 and 66.516, respectively. Therefore, efforts to enhance tax compliance should prioritize the tax fairness variable, followed by the other two determinant variables. Based on the recommendations of Hair et al. (2018, 2022), the results of this additional analysis are presented as an IPMA map, shown in Figure 2.

The IPMA map results in Figure 2 show that tax fairness ranks highest in both importance and performance, while public trust is in the middle of the map. Government budget expenditure ranks lowest in both importance and performance.

4. DISCUSSION

PLS-SEM results show that government budget expenditure has a positive effect on tax compliance with a significant coefficient of 0.233. This finding

suggests that appropriate government budget expenditure, as perceived by respondents, can improve individual taxpayer compliance. The results demonstrate the important role of government budget expenditure instruments in positively impacting tax compliance. This empirical evidence supports the study by Falsetta et al. (2024), which finds that public perception of how the government spends its social welfare budget influences tax compliance. This study implies that the government must not misuse funds received from taxpayers. It must also ensure that public facilities are provided using tax revenues. The empirical evidence supports the arguments of previous research that the government must demonstrate accountability in public finance from tax revenues to enhance tax fairness, thereby continuously improving tax compliance (Alabede et al., 2011; Kostritsa & Sittler, 2017; Lorato et al., 2024; Ntiamoah, 2026). This evidence supports the slippery slope theory, which underscores the importance of the government paying attention to the determinants of voluntary tax compliance, including through the use of budgetary instruments. Empirical evidence from this study indicates that those in authority tend not to misuse public funds, thus preventing the perception that the taxes paid by the public do not benefit them.

**Figure 2.** Importance–performance map analysis (IPMA)

This study's findings indicate that government budget expenditure negatively impacts public trust. This finding is likely due to the public's perception of current controversial Indonesian government spending, such as free nutritious meals and the establishment of village cooperatives (Ariyanto & Saharuddin, 2026). Aziz et al. (2025) provide empirical evidence that there is negative public sentiment related to concerns about the implementation and transparency of government budget spending for free nutritious meals. Government spending on these programs has led to a decline in public trust. Conversely, this study's findings indicate that government budget expenditure has a positive effect on tax compliance. Empirical evidence also suggests that tax fairness is a mediating variable for the positive effect of government budget expenditure on tax compliance. This study shows that government budget expenditure in the form of programs to improve tax fairness can subsequently improve tax compliance. The Indonesian government has implemented regulatory reforms and digitalization in the tax system to improve tax fairness, thereby increasing tax compliance. This finding likely explains why government budget expenditure can improve tax compliance. On the other hand, the results of the PLS-SEM test show that public trust does not mediate the relationship between government budget expenditure and tax compliance. Furthermore, the IPMA test results show that the importance and performance scores of the public trust variable are lower than those of tax fairness. This provides additional empirical support for why budget expenditure negatively affects public trust. On the other hand, government budget expenditure that can improve tax fairness will improve tax compliance.

The empirical evidence from this study is also consistent with Mohdali et al. (2015), Güzel et al. (2019), Santos et al. (2026), and Ntiamoah (2026), who found that public trust in government positively and significantly influences taxpayer compliance. When taxpayers trust the government, they believe their taxes are being used effectively for public services, thereby improving their perceptions of the tax system's fairness. This study's evidence also supports the slippery slope theory, which suggests that a service-oriented government that responds to citizens' needs also enhances perceptions of tax fairness. This research evi-

dence also supports the new public management paradigm of a transparent and accountable government in managing public funds.

Furthermore, tax fairness has a positive effect on tax compliance with a significant coefficient of 0.573. This finding indicates that respondents' perceptions of better tax fairness in the tax system will improve individual tax compliance. The structural model results also provide evidence that public trust has a positive effect on tax compliance, with a significant coefficient of 0.149. This finding suggests that respondents' perceptions of public trust in the government can encourage individual tax compliance. This study found a positive and statistically significant relationship between public trust in government and perceptions of tax fairness, indicating that as trust in government increases, so does belief in the fairness of the tax system. This increased perception of tax fairness, in turn, leads to greater tax compliance (Prasetyo et al., 2020; Sanders et al., 2008; Shaharuddin et al., 2018; Twesige et al., 2024). These results support the arguments of Jimenez and Iyer (2016), Sari et al. (2020), Supriyati et al. (2024), Santos et al. (2026), and Ntiamoah (2026) that public trust in government plays a significant role in shaping individuals' perceptions of tax fairness. This fundamental trust positively influences their perceptions of tax fairness, as they assume the tax system will be applied fairly and equitably. This study highlights that trust in government significantly influences how fair individuals perceive the tax system. Higher levels of trust lead to greater perceptions of fairness. This perception is important for tax compliance because people who perceive the tax system as fair are more likely to comply voluntarily, viewing their tax payments as a fair exchange for public services and benefits. Thus, taxpayers' perceptions of tax fairness will increase public trust, thus encouraging higher levels of voluntary tax compliance.

The empirical evidence from this study also supports the slippery slope theory. When people trust the government, they develop positive attitudes toward paying taxes and feel a stronger social expectation to comply (Ntiamoah, 2026). This trust makes them more likely to view tax compliance as fair and just, leading to a greater intention to comply with tax laws. This theory emphasizes that

when people trust the government, they believe their taxes are being used fairly and competently. This trust strengthens their perceptions of tax fairness and makes them more likely to comply voluntarily (Hallsworth et al., 2017; Hikmah et al., 2021). The results indicate that public trust in the government can enhance taxpayer compliance. This finding is consistent with Güzel (2019) and Ntiamoah (2026), implying that the government must prioritize its citizens' interests and strive to serve the public. The use of tax revenues should bolster public confidence in the government's reliability.

The results of the PLS-SEM test also indicate that tax fairness is an important variable that can directly influence tax compliance and can also mediate the relationship between the government budget and tax compliance. Furthermore, the importance-performance map analysis (IPMA) results indicate that tax fairness is the determinant variable with the highest importance value, making it a priority for the government to improve tax compliance. Some indicators of tax fairness that the government must prioritize in formulating policies are ensuring that citizens believe the tax

system is generally fair and that taxpayers bear a relatively equal tax burden according to their income and ability to pay.

The results also indicate that the government budget plays a significant role, with a direct positive effect on tax compliance and an indirect positive effect mediated by tax fairness. This finding has implications for the effectiveness of government budget management in programs and policies aimed at tax system fairness and tax compliance. Conversely, this study's findings indicate that government budget expenditures negatively impact public trust, resulting in a negative mediation relationship with tax compliance. Furthermore, the IPMA map results show that government budget expenditure has the lowest value and position in terms of importance and performance. This finding is likely due to the relatively low level of public trust in the efficiency and effectiveness of government budget allocations, particularly in developing countries like Indonesia. Therefore, transparency and accountability in government budget expenditures need to be optimized to increase public trust.

CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

This study aims to analyze the role of government budget expenditure in increasing tax compliance with tax fairness and public trust as mediating variables. The results show that government budget expenditure, tax fairness, and public trust positively affect tax compliance. This empirical evidence supports the slippery slope theory, which states that appropriate budget allocation can foster tax fairness, which in turn can improve tax compliance. The results indicate a complementary partial mediation model, meaning that there are mediating variables beyond tax fairness. Government budgets have a negative impact on public trust, most likely due to concerns about public transparency regarding government programs that result in significant expenditures. The results also indicate that tax fairness is the determinant variable with the highest importance and performance scores in improving tax compliance.

This study has several limitations, including the sample that was drawn from taxpayers active in the Semarang city government. This means the findings may not be fully generalizable to other local governments. Another limitation is the questionnaire-based survey method, which can introduce inherent bias. This study has implemented various mitigation measures to reduce this bias, including using reverse-phrased questions and guaranteeing respondent anonymity. The results of this study provide several opportunities for future research. Further studies could explore mediating variables other than tax fairness and public trust. Future research should collect a larger sample, including taxpayers from across the region, to increase the generalizability of the findings. In addition, future studies may use methods other than questionnaires, such as interviews or focus groups, to deepen understanding of tax compliance models.

The results of this study provide novelty to the literature on the role of government budgets in improving tax compliance. This topic has received very limited empirical testing in prior research, particularly

in the development of mediation models. The practical use of the study results is that transparent and accountable budgeting may be necessary to restore public trust because current perceptions of government budget expenditure are negatively associated with trust. The results show the strongest empirical finding that tax fairness has a positive effect on tax compliance ($\beta = 0.573, p < 0.001$). The practical contribution is that the government must reform the tax system so that citizens believe it is generally fair and that taxpayers pay taxes according to their ability to pay. A fair tax system is a key determinant of tax compliance and should be a public policy priority for the government.

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APPENDIX A. Questionnaire

Government Budget

- Government representatives misuse the funds allocated to them by taxpayers.
- Necessary public facilities are not provided using tax.
- The lack of government accountability undermines the tax system.
- The government uses tax money as a tool to exploit the public.
- Those in authority are unlikely to misuse public funds.
- The taxes paid by taxpayers to the government do not benefit them.

Tax Fairness

- I believe the tax system as a whole is fair.
- In general, taxes are allocated fairly.
- In my opinion, taxpayers bear a relatively equal tax burden.
- For the average taxpayer, I believe the tax system is reasonable.
- Every citizen in our country pays taxes at a rate that does not match their income.
- Every citizen in our country pays taxes that do not align with their ability to pay.

Public Trust

- I do not have trust in the government.
- In my opinion, the government is reliable.
- The government considers the interests of its constituents and strives to serve the public.

Tax Compliance

- The necessary documents for paying taxes must be prepared by the taxpayer.
- Taxpayers must learn where and how to file their taxes.
- Information about tax filing deadlines must be known by taxpayers.
- To pay taxes, taxpayers need to set aside some of their money.
- Taxpayers do not need to pay income taxes according to the schedule.
- Taxpayers do not need to file their tax returns on time.
- Taxpayers do not need to file their tax returns on time.

A Likert scale was used for respondents' answer choices, which were described using a scale consisting of numbers 1–5. The following is the weighting of the score on this questionnaire scores:

1. Strongly Disagree (SD)
2. Disagree (D)
3. Neutral (N)
4. Agree (A)
5. Strongly Agree (SA)