The Improvement Strategy of Tax Compliance from MSME Sector in Indonesia

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ABSTRACT: According to the Organization for Economic Co-operation and Development (OECD), the Indonesia Tax ratio in 2017 was the lowest compared to other countries in Asia-Pacific. Meanwhile, the tax ratio in 2018 was 11.6% lower than the middle-income country for 17.7%. This indicates that the level of tax compliance in Indonesia is still low and needs improvement. One of the tax compliance sectors is MSME taxpayers that hold a portion up to 65% from business actors, but from the number of active taxpayers, it only reached 1.8 million MSMEs. This research aims to analyze the improvement strategy of tax compliance from the taxpayer as MSMEs actors in Semarang, Indonesia. The results showed the awareness of paying tax, the knowledge, and understanding of tax regulation and the effectiveness of the taxation system have a significant positive influence on tax compliance.

Keywords: tax ratio, tax compliance, taxpayer

1 INTRODUCTION

The government financial report in the last four years showed that the realization of tax revenue was only 83.29% in 2015, 83.48% (2016), 91.23% (2017), and 93.86% (2018). The taxation issue in Indonesia has been observed by OECD (Organization for Economic Cooperation and Development). They revealed that the tax ratio towards GDP (Gross Domestic Product) in Indonesia is low. The low tax ratio from various sectors in Indonesia forces the government to dig up tax revenues from other potential sectors. One of the sectors is the MSME sector, as the number of MSMEs in Indonesia is growing, it can be a significant potential for tax revenues. According to Indonesia Statistics in 2015, the actors of MSME in Indonesia are 3.4 million from various industries. The MSMEs' economic activity can contribute about 60% to GDP in Indonesia. This number can be utilized maximally by the Tax Directorate General of the Republic of Indonesia to obtain tax revenues.

Tax is the dues of society to the state treasury based on the law (which can be imposed) by not receiving any direct reciprocity and is used for the public interest (Mardiasmo, 2009). This condition makes tax plays an essential role for country development. In the process of collecting tax revenues, it needs the effort to motivate the taxpayers to pay tax. One of the efforts carried out by the Tax Directorate general to maximize tax revenue is through tax census. Tax revolution from the official assessment system into the self-assessment system which aims to give full trust to the taxpayer to self-calculate its tax.

This step is conducted to foster the awareness and/or willingness of taxpayers to pay their tax. The willingness of taxpayers is to pay the tax regularly and never cheating on its taxation activities (Maulida, 2011). Collecting tax is not an easy job. It does not only need an active role from the tax officers but also a willingness from the taxpayer itself. There are some reasons for the lack of willingness to tax payment. One of the reasons is that the result of tax payment is not directly manifested for the public interest. It happens because the public never knows the concrete form of the money incurred to pay tax. On the other hand, the threat, punishment, or sanction of the law are clear about the taxpayers who ignore the tax obligations.
tation of the Self Assessment System leads to tax payment that depends on the honesty of the taxpayer in reporting their tax liability.

Information obtained from the Tax Office, the number of entrepreneurs gives an effect on the tax revenue. When the number of entrepreneurs decreased, the country income in the form of tax revenue of some cities such as Semarang in 2015-2017 also decreased. The decrease in the tax revenue was 21.12%. Research by Hardiningisih & Yulianawati (2011) proved that tax awareness and service quality have a significant impact on tax payment willingness. Whereas, tax knowledge, tax regulations understanding, and the perception of an effective taxation system do not give any impact on tax willingness. Ilkham & Haryanto (2017) proved that tax knowledge, tax regulations understanding, and the perception of an effective taxation system affect tax willingness.

Rachmawati & Aprilana (2017) stated that education and MSME actors’ understanding have a positive and significant influence on tax compliance. Meanwhile, age, business circulation, and duration of business do not give any impact on tax compliance of MSME actors. This phenomenon is interesting to be observed related to the factors of tax compliance as the strategy to increase the tax ratio in Indonesia through MSMEs actors in Semarang.

The theory of interest pays attention to the tax burden of people. This tax burden is divided based on the people’s interest in the government duties (which is beneficial for the people), including the protection of his soul and possessions. As such, it is normal if the expenses incurred by the country for the people are charged to them in the form of tax payment (Brotodihardjo, 2003). The higher the interest of a person towards the country, the higher the chance of tax is paid. This theory emphasizes that the division of tax burden must be based on the interests of each individual.

Donald J. Boague stated that demography is a science that studies statistics and mathematics about the composition and distribution of population and change. In this study, demographic variables are divided into four factors; they are gender, age, education, and effort.

Gender is one of the factors, which also related to tax payment willingness. Some research results showed that women would comply with tax payment because of their conscience. They also tend to have a guilty feeling if they do not pay the tax in accordance with the amount. Meanwhile, men are more likely to emphasize the fear of the sanctions imposed (Debbianita and Carolina, 2013).

Not only gender, but age also becomes one of the factors that influence tax payment willingness (Widodo, 2010). A person with higher mental age will also have more mature behavior than others. Based on research by Kohlberg (1984) in Maftuh and Maftuhin (2006), age influences moral development as the age-added will make a person have better values and more likely to obey the rules.

The other demographic factor is the level of education. The level of education influences a person’s attitudes and behaviors. A person with a higher level of education will absorb information easier and implement it in everyday behaviors and lifestyles. A person with a higher level of education will also think broader; therefore, he will know the indirect benefits of paying tax for state financing.

The longer the person tries to change his characteristics, the higher the behavior control, and a new outlook of something will be formed. The length of a business can influence the level of income. The length of a business actor in pursuing his business will influence the productivity (skills/expertise), so that it can increase efficiency and ability to make the cost of production smaller than the results of the sale. The longer the person pursues his business, the higher the person knows the taste or behavior of consumers. A research conducted by Dewinta and Syafrudin (2012) stated that the length of business has a positive impact on tax compliance.

H1a : Gender influences tax payment willingness
H1b : Age influences tax payment willingness
H1c : Level of education influences tax payment willingness
H1d : The length of a business influences tax payment willingness

Tax payment awareness will increase when there is a positive perception of tax in society. The low tax compliance can be seen by the very small number of those who have a taxpayer identification number (NPWP) and those who report their annual notification letter (SPT). The lower the awareness of society in paying tax, the lower the willingness to pay tax.

Based on the research results of Pramusinthra (2015), it is suggested that the increasing awareness of tax payment will influence the willingness to pay tax. The result is in line with
the research by (Ilkham & Haryanto, 2017), who expressed that the awareness of tax payment has a positive influence on the willingness to pay tax.

H2: Tax payment awareness influence the tax payment willingness

Tax knowledge is the process of attitude changing and a taxpayer or taxpayer group through public tax regulation through formal and non-formal education will positively affect the willingness to pay tax.

According to Mulya (2012), tax knowledge is tax information that can be used by taxpayers as a basis to act, make decisions, and pursue specific directions or strategies in its rights and obligations of tax. A research by (Ilkham & Haryanto, 2017) showed that when a person has a broad knowledge and understanding about the importance of tax used by the state to finance his household and for public investment, thus there will be a great motivation of a person to pay taxes.

H3: Knowledge and understanding of tax regulations influence the tax payment willingness

Perception can be expressed as an organizing process, interpreting toward stimulus by the organization or individual so that it becomes a meaningful and integrated activity for the individual. Meanwhile, effectiveness means a measurement that states how far the target (quality, quantity, and time) has been achieved. The good perception of taxpayers on the taxation system's effectiveness will give trust to the public to be willing to pay tax.

The research results Ilkham & Haryanto (2017) stated that the perception of taxation system effectiveness with the online system provides the convenience of taxpayers to pay tax. It has a positive impact on tax payment willingness. The existence of the E-SPT system will be able to recover and accelerate tax reporting; so that any SPT can be done at any time and anywhere, and therefore the tax payment willingness will increase.

H4: The perception of taxation system effectiveness influences the tax payment willingness.

2. RESEARCH METHODS

The type of research used in this research was explanatory research. The data collection used primary data by spreading questionnaires. The population in this research were taxpayers of MSME in Semarang. The sampling method was performed using Convenience sampling.

The equation of multiple regression analysis is as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \] .........(1)

Note:

Y : Tax payment willingness
X1 : Tax payment awareness
X2 : Knowledge and Understanding about Taxation regulations
X3 : Taxation system effectiveness
E : error term

3. RESULT AND DISCUSSION

The results of data processing by using SPSS about the influence of tax payment awareness; knowledge and understanding of tax regulations; and the effectiveness of taxation systems on tax payment willingness are as follows:

Table 1: Dummy Regression Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstd. Coef. β</th>
<th>Std. Coef. β</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>10.510</td>
<td>1.677</td>
<td></td>
<td>.097</td>
</tr>
<tr>
<td>Female</td>
<td>-0.905</td>
<td>-0.066</td>
<td>-.750</td>
<td>.456</td>
</tr>
<tr>
<td>U &lt; 20 yo</td>
<td>-0.711</td>
<td>-0.013</td>
<td>-.153</td>
<td>.879</td>
</tr>
<tr>
<td>21-35 yo</td>
<td>1.210</td>
<td>-0.107</td>
<td>1.099</td>
<td>.275</td>
</tr>
<tr>
<td>&gt; 50 yo</td>
<td>1.252</td>
<td>0.073</td>
<td>.737</td>
<td>.463</td>
</tr>
<tr>
<td>High School</td>
<td>3.461</td>
<td>-0.306</td>
<td>-.744</td>
<td>.459</td>
</tr>
<tr>
<td>Diploma 3</td>
<td>4.146</td>
<td>-0.272</td>
<td>-.867</td>
<td>.388</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>3.375</td>
<td>-0.287</td>
<td>-.718</td>
<td>.475</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>2.417</td>
<td>-0.074</td>
<td>-.457</td>
<td>.649</td>
</tr>
<tr>
<td>Others</td>
<td>3.452</td>
<td>-0.121</td>
<td>-.677</td>
<td>.500</td>
</tr>
<tr>
<td>&lt; 1 yo</td>
<td>-0.374</td>
<td>-0.020</td>
<td>-.242</td>
<td>.809</td>
</tr>
<tr>
<td>5-10 yo</td>
<td>0.172</td>
<td>0.012</td>
<td>.137</td>
<td>.892</td>
</tr>
<tr>
<td>&gt; 10 yo</td>
<td>0.742</td>
<td>0.040</td>
<td>.383</td>
<td>.703</td>
</tr>
<tr>
<td>X1</td>
<td>0.571</td>
<td>0.224</td>
<td>2.177</td>
<td>.032</td>
</tr>
<tr>
<td>X2</td>
<td>0.261</td>
<td>0.170</td>
<td>1.652</td>
<td>.102</td>
</tr>
<tr>
<td>X3</td>
<td>0.657</td>
<td>0.383</td>
<td>3.221</td>
<td>.002</td>
</tr>
</tbody>
</table>

Source processed primary data

Based on table 1, the regression equity can be elaborated as follows:

\[ Y = 10.510 + 0.571X_1 + 0.261X_2 + 0.6574X_3 + \varepsilon \]

The results in table 1 show that the value of the regression coefficient for the demographic factor variable (gender) is -0.905, and the significance value is 0.456. This result indicates that gender does not influence tax payment willingness. Gender differences do not influence people to pay off tax debts.

The next demographic factor is age. The test results in table 1 obtained a coefficient value...
for -0.711 and significance values for 0.879 for ages less than 20 years old, -1.210 and sig of 0.275 for ages 21-35 years old, and 1.252 and sig 0.463 for ages over 50 years old. These results indicate that age cannot significantly influence the tax payment willingness. This is because, regardless the age, taxpayers will not pay the tax if they have no awareness, and tax payment is not their priority (Rachmawati & Aprilana, 2017). However, younger people usually know more about taxation as they get tax education from school, so that they will tend to be more obedient to fulfill tax obligations.

The education level is the next demographic variable. Table 1 shows the coefficient value for -3.461 and the significance value for 0.456 in senior High School, -4.146 Sig 0, 388 for Diploma 3, -3.375 sig of 0.475 for undergraduate level, and -2.417 and Sig 0.649 for postgraduate. This indicates that the hypothesis 1c is rejected. Yuanita (2015) stated that partially, education level does not influence taxpayers. This is because someone with a higher educational background knows not only about tax regulations and fiscal policies, but also how to avoid tax and smuggle tax. Therefore a taxpayer with higher education level is not necessarily more willing to pay tax.

The last demographic factor is the length of the business. The results in Table 1 show a coefficient of -0.374 and a significance value of 0.809 for less than 1 year, 0.172 and sig value of 0.892 for 5-10 years of business, and 0.742 and Sig value of 0.703 for more than 10 years of business. So it can be concluded that the length of the business variable does not significantly influence the tax payment willingness. This is because there are many types of businesses that have long been established but do not want to comply the tax because they have the assumption that the existence of tax will be incriminating (Rachmawati & Aprilana, 2017).

The results in table 1 show that the value of the regression coefficient for the tax payment awareness variable is 0.571, and the significance value of 0.032 < 0.05. This signifies that the tax awareness variable has a significant impact on tax payment willingness. In other words, the level of respondents' perception about tax payment awareness significantly influences the tax payment willingness; thus, hypothesis 1 is accepted.

Tax payment awareness influences tax payment willingness. It indicates that the tax payment awareness will increase when a positive perception of tax in society emerges. The low tax compliance can be seen from the minimal number of people who have a taxpayer identification number (NPWP) and those who report their annual notification letter (SPT). The lower public awareness in tax payment, the lower the tax payment willingness will be.

The results in Table 1 show that the regression coefficient value is 0.261, and the significance value is 0.102> 0.05. This signifies that the knowledge variable and the tax regulation understanding have no significant effect on tax payment willingness/hypothesis 2 is then rejected. Knowledge and understanding of tax regulations do not influence the tax payment willingness. It indicates that knowledge of taxation regulations in the new taxation system has not been able to raise the taxpayer's motivation to pay the tax debt.

According to Table 1, the value of the regression coefficient for the taxation system effectiveness variable is 0.657 and the significance value is 0.002 < 0.05. This signifies that the taxation system effectiveness variable significantly affects the tax payment willingness, meaning hypothesis 4 is accepted.

The taxation system's effectiveness influences tax payment willingness. It indicates that effectiveness can be defined as a measurement that states how far the target (quality, quantity, and time) has been achieved. The good perception of taxpayers on the taxation system's effectiveness will give trust to the public to pay taxes.

These results support research by (Ilkham & Haryanto, 2017) that stated that the taxation system's effectiveness with the online system provides the convenience of taxpayers to pay tax. It has a positive impact on tax payment willingness. The existence of the E-SPT system will be able to recover and accelerate tax reporting so that any SPT can be done at any time and anywhere; therefore, the tax payment willingness will increase.

4. CONCLUSION

Based on the research results explained above, it can be concluded that tax payment awareness and taxation system effectiveness influenced the tax payment willingness. Knowledge and understanding of tax regulations did not influence the tax payment willing-
ness. Based on the research results, the suggestions for future research are; first, the future research can observe about tax compliance in MSMEs. Second, the government also needs to socialize the benefits and the challenges of tax to MSME. Last, it needs an application for the taxation system in order to increase the taxation system's effectiveness. One of the ways is by giving easiness to fill or access their tax data.

REFERENCES


