

The Effect of Modernization....

by Dian Indri Purnamasari

Submission date: 28-Aug-2018 10:22AM (UTC+0700)

Submission ID: 994002475

File name: The_Effect_of_Modernization.....pdf (201.66K)

Word count: 3188

Character count: 18256



The Effect of Modernization of Indonesia's Tax Administration System on Tax Compliance: A Study of Small Medium Enterprises (SMEs) Taxpayers

Dian Indri Purnamasari¹ and Ratna Hindria DPS²

^{1,2} Faculty of Economics and Business, Universitas Pembangunan Nasional "Veteran" Yogyakarta

¹indri_mtc@yahoo.com

ABSTRACT

Currently, the government continues to modernize tax administration. By tax administration modernization we mean the process of modernizing the tax administration system to change the mindset and behavior of the tax apparatus and the value of their organization so that the Directorate General of Taxation (DGT) can improve its reputation as a professional institution. Tax administration modernization is expected to increase the level of compliance of taxpayers. In this study, modernization is represented by 4 independent variables: organizational structure, organizational procedure, organizational strategy, and organizational culture. Our results indicate that organizational structure does not affect the tax compliance level of taxpayers. However, the other three independent variables—organizational procedure, organizational strategy, and organizational culture—do affect the compliance level of taxpayers. This indicates that the modernization of tax administration directly relevant to taxpayers does affect the compliance level of the taxpayers.

Keywords: *Modernization, Taxation, Compliance, Organization, Government.*

1 INTRODUCTION

The government modernizes the tax administration system on a continual basis these days. Tax administration modernization, conceptually, the process of modernizing the tax administration system to change the mindset and behavior of the tax apparatus and the value of their organization so that the Directorate General of Taxes (DGT) can improve its reputation as a professional institution in the eyes of the public [1].

The tax administration reform program has been manifested in the application of the modern tax administration system which has special characteristics, such as the organizational structure designed by function and service improvement for each taxpayer through the establishment of an account representative and compliance center to address any objections by the taxpayers [2]. Modern tax administration systems also adapt technological advances in e-system based services, such as *e-SPT*, *e-Filing*, *e-Billing*, and *e-Registration* which hopefully will make the control mechanism more effective.

Various studies have been conducted to examine the effect of modernization of the tax

administration system on tax compliance. The effect of modernization of the tax administration system on the tax compliance level of employers using four measuring instruments [1]. Organizational structure, organizational procedures, organizational strategy, and organizational culture have a significant effect on compliance.

The effect of modernization of the tax administration system on the compliance using four measuring instruments [3]. Organizational structure and service quality have a positive effect on the compliance level. Contrary to [1] the results of the present study indicate that information service and technology have had no effect on the compliance. This has also been corroborated by [2], stating that modern tax administration system has no significant effect on the tax compliance of taxpayers. This, to a large extent, has been due to a lack of use of internet technology among taxpayers.

The study is very important because DGT is currently modernizing its tax administration system. Unfortunately, however, in the middle of such modernization efforts it turns out that most of the taxpayers were not ready for the reform. In fact, there is a gap in the implementation of tax modernization between DGT and the taxpayers.

The latter weren't ready for utilizing advanced information technology continually developed by DGT. In the meantime DGT continues to implement program changes for more effective control.

Micro, Small and Medium Enterprises (MSMEs) are chosen for the study because this sector is growing very rapidly in Indonesia today. Law No. 20 of 2008 on Micro, Small and Medium Enterprises stipulates that those with a turnover of less than IDR 50 million per annum are categorized as MSMEs. On the other hand, the Minister of Finance Regulation No. 197/PMK.03/2013 on the threshold of small entrepreneurs for Value Added Tax (VAT) stipulates that a small entrepreneur must register to be a VAT-taxable entrepreneur and is required to carry out VAT obligations if within a given month in an accounting year his or her amount of gross receipts exceeds IDR 4.8 billion. The government policy requires SMEs to participate in the tax administration modernization promoted by DGT. The e-filing implementation policy in 2016 requires SMEs to file their tax liability reports electronically.

2 LITERATURE REVIEW

As stipulated under Law No. 28 of 2007, the General Provision and Taxation Procedure, Article 1 paragraph (1), tax means the payable mandatory contribution to the state of the individual or entity, which is coercive under the Law, without any direct return and shall be utilized for the need of the state for the greatest prosperity of the people.

SMEs are obliged to fulfil the following requirements as taxpayers.

1. Register to obtain Taxpayer Identification Number (NPWP)
2. Calculate and pay their taxes correctly.
3. Correctly fill in the Annual Tax Return (SPT) and submit it within the specified time limit.
4. Ensure proper accounting records
5. Collect Value Added Tax.

The characteristics of tax modernization include all administrative tasks performed under an administrative system that employs the latest technology [1]. Taxpayers are required to pay their tax at the office of tax and revenue via an online system; they are also required to report their tax obligations using computer technology (*e-SPT*).

The Annual Report of the 2007 Directorate General of Tax outlines that the tax reform will be conducted in the following two fields:

1. Policy

The tax policy reform constitutes the refinement of tax administration to establish a healthy and comprehensive taxation system to promote investment in Indonesia, to seek a balance of rights and obligations between taxpayers and tax authorities, to facilitate taxpayers in their fulfilment of tax obligations, and to provide them with justice and legal certainty.

2. Administration

The tax administration reform is implemented through a program for tax administration modernization. The idea is to change the mindset and behavior of the tax apparatus and the value of their organization so that the Directorate General of Taxation (DGT) can improve its reputation as a professional institution.

The concept of taxation modernization includes excellent service and incentive control with good governance implemented to improve compliance and trustworthiness of the taxation system, as well as to boost the productivity of the tax administration staff. The characteristics of the modern tax administration system are as follows:

- a. All administrative activities are carried out through an administrative system that operates on the latest information technology.
- b. All taxpayers are required to pay their tax at the office of tax and revenue via an online system.
- c. All taxpayers are required to report their tax obligations using computer technology (*e-SPT*).
- d. Monitoring of taxpayers' compliance is carried out intensively based on their profit level.
- e. Taxpayers registered at Medium Tax Office are limited to a certain number; approximately 500 taxpayers.

There are four dimensions of tax administration reforms [2]:

1. Organizational Structure

Organizational structure is an element that consists of predetermined roles and their relationship, activities allocated to separate sub-units, authority distribution to administrative positions, and formal communication networks.

2. Organizational Procedure

Organizational procedure is related to the processes of communication, decision making, determining the achievement, socialization and career. Discussion and understanding of organizational procedures rests on the activities of the organization carried out regularly.

3. Organizational Strategy

Organizational strategy is seen as a tactic, perspective and action that aims to utilize all existing circumstances, factors, opportunities, and resources in such a way that the goals of the organization can be achieved successfully and safely. A strategy evolves over time as a meaningful pattern of decision-making flows.

4. Organizational Culture

Organizational culture is defined as a system of spreading trust and values that develops within the organization and directs the behavior of its members. It represents a common perception of the members of an organization.

Tax compliance as a condition of fulfilment of all tax obligations and rights. A taxpayer is declared compliant if his or her income was properly reported, the annual tax report was submitted, and the amount of tax payable was paid on time.

Criteria for tax-compliant entrepreneurs according to the Decree of the Minister of Finance Number 231/KMK.03/2001 are as follows:

1. Timely filling in the annual Tax Return (SPT) for all types of taxes in the last two years;
2. No arrears of a certain tax or any type of tax, unless he or she has obtained permission to repay or delay tax payments.
3. Free of any penalty for tax related crimes for the last 10 years;
4. In the last 2 years of bookkeeping and in case the taxpayer has been examined, any correction of the last examination for each type of tax payable must be at most 5%; and
5. Taxpayers whose financial statements for the last 2 years are audited by a public accountant with an unqualified opinion, or with a qualified opinion provided that it does not affect the fiscal profit.

Hypothesis Development

Numerous studies have been conducted to examine the effect of the modernization of tax administration system on tax compliance.

The effect of modernizing the tax administration system on the tax compliance level of employers using four measuring instruments [1]. Organizational structure, organizational procedures, organizational strategy, and organizational culture have a significant effect on compliance.

The effect of modernizing the tax administration system on the tax compliance level using four measuring instruments [3]. Organizational structure and service quality have a positive effect on the compliance level. Contrary to [1], the results of the present study indicate that information service and technology have had no effect on compliance. This has also been corroborated by [2], stating that the modern tax administration system has no significant effect on the tax compliance of taxpayers. This, to a large extent, has been due to a lack of use of internet technology among taxpayers.

Specifically studied MSME taxpayer compliance, factors employed include tax socialization, tax rates, and understanding of taxation [4]. The results showed that the socialization of taxation, tax rates, and understanding of taxation affect the compliance of MSME taxpayers.

Hakim *et al.*, (2015) studied the implications of the implementation of Government Regulation No. 46 of 2013 on the UMKM Income Tax for the growth of taxpayers. The results showed that after the implementation of Government Regulation No. 46 of 2013 MSME taxpayers have not been aware of their tax obligations. The results of the study also show that the government's objective to facilitate and simplify the tax rules, educate the public for the orderly administration, to educate the public to be transparent, and to give the community the opportunity to contribute to the implementation of the state regulations has not been successfully achieved.

Based on the above review, we formulate the following hypothesis:

H₁: The modernization of the Tax Administration System has an effect on the tax compliance of MSME taxpayers.

3 RESEARCH METHOD

The objects of the present study are MSME taxpayers in Yogyakarta and Central Java. This choice is based upon the following considerations:

1. MSMEs are among the taxpayers that make a significant contribution to the nation's

GDP, yet their contribution to the country's tax revenue remains small.

2. The government policy on MSMEs requires them to file an annual tax return.
3. Our study populations are taxpayers all over Yogyakarta and Central Java. The sampling in this study was conducted using convenience sampling technique. Convenience sampling is conducted by a random selection of members of the population who happen to be available at the time to provide basic information quickly and efficiently (Sekaran, 2006).

Operational Definition of Variables

All variables in this study used 14-point Likert scale, starting from the highest scale: Strongly Agree (SA), Agree (A), Neutral (NT), Disagree (D), Strongly Disagree (SD). This has been done by the author upon such consideration as to avoid undecided responses so that the respondents could focus their attention on more definite answers and base them on the results of the study.

Tax modernization includes all administration activities implemented under an administrative system that employs the latest technology [1]. Tax modernization is measured using four variables: organizational structure, service implementation for Taxable Entrepreneurs, organizational strategy that adopts the latest information technology, and organizational culture.

Tax modernization is represented by 4 independent variables:

1. Organizational Structure

Organizational structure is an element that consists of predetermined roles and their relationship, activities allocated to separate sub-units, authority distribution to administrative positions, and formal communication networks.

2. Organizational Procedure

Organizational procedure is related to the processes of communication, decision making, determining the achievement, socialization and career. Discussion and understanding of organizational procedures rests on the activities of the organization carried out regularly.

3. Organizational Strategy

Organizational strategy is seen as a tactic, perspective and action that aims to utilize all existing circumstances, factors, opportunities, and resources in such a way that the goals of the organization can be achieved successfully and

safely. A strategy evolves over time as a meaningful pattern of decision-making flows.

4. Organizational Culture

Organizational culture is defined as a system of spreading trust and values that develops within the organization and directs the behavior of its members. It represents a common perception of the members of an organization.

Tax compliance is a condition of fulfillment of all tax obligations and rights. A taxpayer is declared compliant if his or her income was properly reported [6].

4 ANALYSIS AND DISCUSSION

Hypothesis testing is performed to find empirical evidence to determine whether the independent variables in this study, i.e., organizational structure, organizational procedures, organizational strategy, and organizational culture, affect taxpayer compliance. The results of hypothesis testing are as follows:

Table 1. Results of Hypothesis Test

Variable	t	Sig.
Organizational Structure	1.552	0.128
Organizational Procedure	-3.963	0.000
Organizational Strategy	10.125	0.000
Organizational Culture	2.394	0.021

The modernization of tax administration is presented by 4 independent variables: organizational structure, organizational procedure, organizational strategy, and organizational culture.

The organizational structure is not statistically significant with a significance level greater than 0.05, which means that it does not affect the taxpayers' compliance behavior. This is highly likely because the organizational structure of a certain tax administration belongs to the absolute authority of the government under the authority of the Ministry of Finance and Directorate General of Tax. As any change and modernization of taxation constitutes the authority of the government, the issue really boils down to whether taxpayers will be willing to be compliant or not. Therefore, the organizational structure does not affect the taxpayer's compliance behavior. If they choose to be compliant, they will be free from any tax fraud charges, but if they choose to be non-compliant they will be subjected to fine or criminal sanctions, according to the applicable rules.

Organizational procedure is statistically significant at a significance level of less than 0.05, which means that organizational procedures have a negative effect on the tax compliance of the taxpayers. Taxpayers' compliance will be encouraged if the organizational procedures make it easier for them. Organizational procedures are focused more on how the taxation service is made easier through various programs and applications. For that reason, taxpayers feel facilitated in fulfilling their tax obligations and this will maintain their compliance. The more complex the procedure, the lower the tax compliance will be. This is especially true if taxpayers find it difficult to pay their taxes either offline or online. On the contrary, the less complex the procedure, the simpler the tax payment will be. This will encourage the taxpayers' compliance because they find it easier to pay their taxes.

Organizational strategy is statistically significant at a significance level of less than 0.05, which means that it positively affects the taxpayers' compliance behavior. Tax administration should have good organizational strategies as represented in, among others, the enforcement of rules for taxpayers and tax apparatus so that the tax auditing process runs fairly and improves the taxpayers' compliance. Tax organization strategy is currently providing a closer service to taxpayers through a modernization program that is capable of improving the taxpayers' compliance. Taxpayers no longer feel worried or scared of an account representative at the tax office, a synergistic strategy developed for tax administration has made them feel comfortable and they no longer think of taxes as a burden or as something to fear.

Organizational culture is statistically significant at a significance level of less than 0.05, which means that it positively affects the taxpayer's compliance. For that reason, public perceptions of tax apparatus have started to improve and the level of public confidence in the credibility and accountability of the tax apparatus has also increased. This also affects the level of public compliance, as the taxpayers, to perform their obligations because they believe that the taxes they have paid to the state through the tax apparatus can be accounted for.

5 CONCLUSION

Overall, the system modernization that has been conducted by the Directorate General of Tax (DGT) provides a positive result in terms of the compliance level of the taxpayers in fulfilling their tax obligation to the state. The reforms made by the

DGT in terms of organizational procedures, organizational strategies, or improving the reputation of the tax apparatus through organizational culture, have been able to restore the level of public confidence. Organizational procedures and strategy formulated by DGT have provided facilitation and clear regulations for taxpayers. In addition, the public as the taxpayers are no longer reluctant to make tax payments to the state through the tax apparatus.

6 REFERENCES

- [1] Fasmi, et.al, 2014. Pengaruh Modernisasi Sistem Administrasi Perpajakan Terhadap Tingkat Kepatuhan Pengusaha Kena Pajak di Kantor Pelayanan Pajak (KPP) Pratama Padang. *Jurnal Akuntansi Multiparadigma JAMAL*. Vol 5 (1), hlm 76-87.
- [2] Rahayu, et.al. 2009. Pengaruh Modernisasi Sistem Administrasi Perpajakan Terhadap Kepatuhan Wajib Pajak. *Jurnal Akuntansi* Vol. 1 (2), hlm 119-138.
- [3] Candra, et.al. 2013. Modernisasi Sistem Administrasi Perpajakan dan Kepatuhan Wajib Pajak. *Jurnal Riset Manajemen dan Akuntansi*. Vol 1 (1), hlm 40-48.
- [4] Ananda, et.al. 2015. Pengaruh Sosialisasi Perpajakan, Tarif Pajak, dan Pemahaman Perpajakan terhadap Kepatuhan Wajib Pajak. *Jurnal Perpajakan* Vol. 6(2), hlm 1-9.
- [5] Hakim, et.al., 2015. Analisis Penerapan PP.46 Tahun 2013 Tentang Pajak Penghasilan UMKM terhadap Tingkat Pertumbuhan Wajib Pajak dan Penerimaan PPh Pasal 4 ayat (2) pada KPP Pratama Manado. *Jurnal EMBA*. Vol. 3 (1), hlm 787-795.
- [6] Nurmatu, Gil, D. 2009. Management Information System and Strategic Performances: The Role of Top Team Composition. *International Journal of Information Management*. 29, 104-110. and *Advanced Engineering* 2.3 (2012): 356-359.

The Effect of Modernization....

ORIGINALITY REPORT

21%

SIMILARITY INDEX

18%

INTERNET SOURCES

3%

PUBLICATIONS

5%

STUDENT PAPERS

PRIMARY SOURCES

1

repository.uinjkt.ac.id

Internet Source

10%

2

www.eprints.upnyk.ac.id

Internet Source

2%

3

Submitted to iGroup

Student Paper

1%

4

Submitted to Universitas Diponegoro

Student Paper

1%

5

Submitted to Trisakti University

Student Paper

1%

6

docplayer.net

Internet Source

1%

7

studentsrepo.um.edu.my

Internet Source

1%

8

repository.unhas.ac.id

Internet Source

1%

9

Suyanto Suyanto, Endah Trisnawati. "THE INFLUENCE OF TAX AWARENESS TOWARD

1%

TAX COMPLIANCE OF ENTREPRENEURIAL
TAXPAYERS AND CELENGAN PADJEG
PROGRAM AS A MODERATING VARIABLE: A
Case Study At The Pratama Tax Office Of
Wonosari Town", INFERENSI, 2016

Publication

10

media.neliti.com

Internet Source

1 %

11

Ngesti Rahayu Yayuk, Setiawan Margono,
Afnan Troena Eka, Sudjatno. "The role of
taxpayer awareness, tax regulation and
understanding in taxpayer compliance", Journal
of Accounting and Taxation, 2017

Publication

1 %

12

jurnal.unai.edu

Internet Source

1 %

13

opusbest.com

Internet Source

<1 %

14

Submitted to University of Northumbria at
Newcastle

Student Paper

<1 %

15

www.neliti.com

Internet Source

<1 %

16

"Digital Transformation and Global Society",
Springer Nature, 2016

Publication

<1 %

Exclude quotes Off

Exclude bibliography On

Exclude matches

< 8 words