

The Effect of Tax Knowledge, Tax Awareness and Fiscal Service on Taxpayer Compliance (A Study of MSMEs in the Special Region of Yogyakarta)

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The Effect of Tax Knowledge, Tax Awareness and Fiscal Service on Taxpayer Compliance

(A Study of MSMEs in the Special Region of Yogyakarta)

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Abstract - This study aims to empirically determine the Effect of Tax Knowledge, Tax Awareness and Fiscal Services on Tax Compliance among Micro, Small and Medium Enterprises (MSMEs) in the Special Region of Yogyakarta. In this quantitative research, we employed a survey method. As for data collection, we use questionnaire as the research instrument. The results of this study lead to the following conclusions: tax knowledge was found to have no effect on taxpayer compliance, tax awareness was found to have an effect on taxpayer compliance, and fiscal service was found to have no effect on taxpayer compliance.

Keywords – Tax Knowledge, Tax Awareness, Fiscal, Taxpayer, Compliance

1. Background

Tax is one of the biggest sources of revenue for the State of Indonesia. Tax has indeed become the lifeblood of the nation and state to fund the national development. It is almost certain that the decrease in taxation revenue will disrupt the country's development. Among taxpayers who contribute to the taxation revenue are Micro, Small and Medium Enterprises (MSMEs). In Indonesia, MSMEs have proven to be able to play a role as a safety valve for the national economic recovery during a crisis, and to contribute to a dynamic post-crisis economic growth. However, the magnitude of potential tax revenue is not directly proportional to that of the actual one; this is due to non-compliance behavior among MSME taxpayers.

There are several possible causes for the non-compliance behavior of MSMEs Taxpayers to their tax reporting obligations. First, adequate knowledge of taxation is one of the conditions that must be met by the MSME Taxpayers. Those who lack of taxation knowledge will surely less aware of their obligations as taxpayers. However, as their knowledge of tax regulations increases, taxpayers will be more encouraged to meet their tax obligations [1].

The second cause is tax awareness. This is important because tax reporting and paying in this country adopted a self-assessment system. The

implementation of self-assessment system—where taxpayers are given the trust to register, calculate, pay and report their tax rates—makes their awareness a key to successful tax collection. Things that raise taxpayer awareness to comply with their tax obligations are, among others: (1) the understanding of the benefits of paying taxes; (2) the assumption that the tax is a form of participation in supporting development of the country; (3) the hope that paying taxes will help propel their business progress. The higher the taxpayers' awareness, the higher their tax compliance will be [2].

The third is fiscal service. According [3], among the causes of low tax compliance is the poor quality of service on the part of tax officers. The implementation of self-assessment system in Indonesia is fully entrusted the tax registration, calculation, payment, and reporting to the taxpayers. In order to implement the self-assessment system properly, the government, as represented by the Directorate General of Taxation, serves one of its function; i.e., to provide taxation-related services. A good fiscal service is expected to enhance tax compliance among taxpayers. [4] argued that to increase taxpayers' compliance to their tax obligations, the quality of services provided by tax officers needs to be improved. Good fiscal services will provide comfort for taxpayers. Hospitality of the tax officers and ease in the tax information system are parts of taxation service. A study by [5] found that fiscal services have a significant and positive effect on tax compliance.

MSME entrepreneurs still consider taxation as a frightening specter that slowing down their business progress. In fact, by owning Tax Identification Number, their business will be more likely to grow faster. To work with them, not a few of the MSME partners require Tax Identification Number (TIN or NPWP). MSME entrepreneurs still admit being reluctant to be bothered with tax matters when they already own NPWPs. They are reluctant when it comes to preparing tax report until sanctions are imposed against them for their delayed reporting. Rather than being involved in bothersome tax report and sanctions, many of them prefer not apply for NPWP. With the new regulation concerning MSME tax that have been reduced to only 0.5 percent, the directorate general of taxation hopes that more and more MSMEs will be more compliance to the tax rules and regulations. Because the previous tax payment rules for MSMEs by 1 percent of their turnover were considered quite burdensome for some MSMEs (krjogja.com).

Based on some of the results of previous studies, this study aims to empirically determine the Effect of Tax Knowledge, Tax Awareness and Fiscal Services on Tax Compliance among MSMEs in the Special Region of Yogyakarta.

2. Hypothesis Development Tax

Law no 28 of 2007 concerning General Rules and concerning general stipulates that tax means 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.

According to [6], tax has several elements that include: (1) Contributions from the people to the State, in which the latter is the only authority entitled to collect taxes in the form of money (not goods); (2) By this, it is intended that taxes are levied based on or under the legal power of Constitution and its implementing regulations; (3) Without any counter-prestation from the State's side that can be presented directly, therefore the government provides no individual counter-prestation for his or her tax payment; and (4) they are used to finance government spending which includes expenditures that are beneficial to the people or society at large.

The Effect of Tax Knowledge on Taxpayer Compliance

Based on Theory of Reasoned Action (TRA), knowledge is a reason for taxpayers to comply with taxation rules—good knowledge will lead to their compliance behavior because they know consequences of their actions. Knowledge of tax regulations represents the process in which taxpayers attempt to gain knowledge of taxation and implement it in their

obligation to pay taxes, and to find out the General Provisions and Procedures of Taxation which includes how to make tax payments, place of payment, due date for the payment of fines and annual notification letter (SPT) submission [7].

Tax knowledge represents the ability of taxpayers in understanding the taxation regulations, either concerning the tax rates they have to pay or the benefit from paying taxes for their life. The knowledge of taxation-related matters will help improve taxpayers' compliance to fulfilling their tax obligations. An understanding of the meaning and benefits of taxes can increase awareness among taxpayers. Without knowledge of taxes and their benefits, it is impossible for people to sincerely pay taxes [8].

A research by [9] shows that tax knowledge has an effect on taxpayer compliance. From earlier description it can be concluded that knowledge of taxation can help taxpayers fulfill their tax obligations, thus we consider the following hypothesis in this study: H1: Tax knowledge has an effect on taxpayer compliance.

The Effect of Tax Awareness on Taxpayer Compliance

Based on the Theory of Reasoned Action (TRA), tax compliance awareness can be said to represent a positive behavior. Taxpayers believe that such a behavior can lead to positive outcomes. This refers to the Theory of Planned Behavior (TPB) where control beliefs relate to individual's intention; if taxpayers have stronger control beliefs in tax paying, the motivation to comply with tax regulations will also be stronger. Tax awareness is a condition where a person knows, admits, appreciates, and complies with the applicable tax regulations and has seriousness and desire to fulfill his or her tax obligations [10].

Taxpayer awareness is a condition where taxpayers have seriousness and willingness to pay their tax on the assumption that taxes are a form of obligation to be met. A theory that supports the notion of taxpayer awareness is the theory of service which states that taxpayers need to rise awareness that every member of society has an obligation to support his or her country and government that is entrusted with increasing the welfare of society. Awareness in paying taxes represents the community service as part of a country. The higher the level of taxpayer awareness, the better the fulfillment of tax obligations and, thus, tax compliance will be [10]. As taxpayers' awareness develops, obedience, compliance and discipline will follow [11]. Taxpayers who are aware that taxes constitute obligation that must be met will develop tax compliance behavior.

[9] revealed that tax awareness has an effect on taxpayer compliance. From earlier description it can be concluded that tax awareness can help taxpayers

fulfill their tax obligations, thus our hypothesis would be as follows:

H1: Tax awareness has an effect on taxpayer compliance.

The Effect of Fiscal Service on Taxpayer Compliance

Based on the Theory of Reasoned Action (TRA), subjective norm give rise to a belief that others can either support or impede behavior. Motivation or support that arises from outside an individual may affect the behavior of the individual or, in this case, a taxpayer. Service, in itself, is a process of helping others in certain ways that requires sensitiveness and interpersonal relation to achieve satisfaction and success [8]. A relationship exists between the qualities of fiscal service provided by tax officer on taxpayer behavior. Great services delivered by tax officer will positively affecting and motivating taxpayers to exhibit compliance behavior.

Fiscal services which are considered to be complicated make taxpayers reluctant to pay taxes. The services provided to taxpayers must be fair, simple, efficient, and not lengthy and time-consuming so that they feel comfortable in paying their taxes. However, even with good fiscal services taxpayers compliance will not necessarily increased. Therefore, the quality of the services requires continuous improvement. A study by [12] revealed that fiscal services have an effect on taxpayer compliance. Thus, from the description presented earlier it can be concluded that fiscal services can help taxpayers meet their tax obligations, and our hypothesis in this study would be as follows:

H3: Fiscal services have an effect on taxpayer compliance.

Conceptual Framework

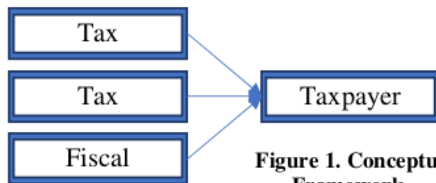


Figure 1. Conceptual Framework

3. Research Methodology

Population and Sample

To conduct the present research, we employ quantitative methods. According to [13] quantitative research method can be interpreted as one that lay its base on the philosophy of positivism. It is used to study certain populations or samples. The sampling is typically conducted on a random basis. Data were collected using research instrument and subsequently

analyzed quantitatively to test the hypotheses. The objects of the current research are MSME taxpayers in the Special Region of Yogyakarta. In this quantitative research, we employed a survey method. As for data collection, we use questionnaire as the research instrument.

Operational Variables

Taxpayer Compliance is defined as the Taxpayer's behavior which refers to his or her level of compliance to taxation regulations, whether in calculations, deposits, or reporting of outstanding taxes. The questionnaires used were data that we processed from those of [14].

Tax Knowledge represents ability in understanding taxation law based on the constitution and indicators of tax knowledge were adopted from those of [2].

Tax Awareness refers to taxpayers' views or perceptions that involve confidence, knowledge and reasoning and a tendency to act in accordance with the stimulus provided by the system and the applicable terms of the taxation [15]. The indicators of tax awareness employed in this study were adopted from those of [16].

Fiscal Service is the provision of services either by the government, private parties on behalf of the government, or private parties to the community, with or without payment to meet the needs and interests of the community. The indicators of fiscal services employed in this study were adopted from those of [16].

Validity and Reliability Testing

Research data will not be useful if the instruments used to collect data do not have reliability and validity. Reliability test is intended to determine the extent to which a scale produces consistent results. It is conducted by calculating the Cronbach's Alpha, by which an instrument is deemed reliable if the Cronbach's alpha value is greater than 0.5. Validity testing is conducted to determine the degree to which an instrument accurately measures what it intends to measure. This test is carried out using a correlation matrix to compare the instruments: the instruments are considered to be valid if each of them scores less than the 0.05 significance level [17].

4. Results and Discussion

Pilot Test

Before the questionnaires were distributed to the true respondents, we conducted a pilot test to determine the validity and reliability of the instrument and avoid ambiguous questions, different perceptions of the questions, and know the time needed to complete the questionnaire. Pilot test was conducted for 30 respondents which consists of post-graduate master of management students assumed to have occupation,

income, and TIN (or NPWP). The results of the pilot test are as follows:

Table 1. Results of Pilot Test

Variables	Cronbach Alpha	Degree
Tax Knowledge	0.821	Reliable
Tax Awareness	0.761	Reliable
Fiscal Service	0.904	Reliable
Taxpayer compliance	0.836	Reliable

The results of pilot test in Table 1 indicate that for 30 respondents which consist of post graduate students the items in the questionnaire are reliable. The four variables—tax knowledge, tax awareness, fiscal service, and taxpayer compliance—are reliable for all items in the questionnaire. Likewise, validity test indicates that all items for each variable are valid at a significance level of 5%.

Data Analysis

Over the period of study, 163 respondents which consist of entrepreneurs or MSME taxpayers returned the questionnaires that were ready to be analyzed. All respondents meet the criteria of this study and ready to be analyzed; having TIN/ NPWP, MSME turnover, payment of final income tax by 1%, and domiciled in Yogyakarta. While this study was late in conducting the pilot test, reliability and validity testing was still performed when all questionnaires have been returned over the period of the study and are ready to be analyzed. This was done to obtain more stringent testing results and to implement the precautionary principle in further analysis.

Table 3. Results of Hypothesis Testing

Coefficients ^a				
Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	
1	(Constant)	14.849	1.811	
	Tax Knowledge	.108	.061	.161
	Tax Awareness	.023	.087	.025
	Fiscal Service	.108	.069	.133
a. Dependent Variable: Compliance				

The results of hypothesis testing indicate that tax knowledge has the p-value greater than 0.05, which means not significant and therefore the hypothesis is rejected. This also indicates that tax knowledge has no effect on taxpayer compliance. As for taxpayers' view of tax knowledge, it was revealed that tax knowledge has no effect on taxpayer compliance, and this runs counter to the previous studies. This is highly likely to happen for several reasons such as lack of deeper knowledge about taxation and the consequences, or, in fact, some of MSME entrepreneurs think that their turnovers fall

Reliability Testing

Reliability testing is conducted to determine the extent to which the instrument consistently measures what it is supposed to measure. It is conducted by calculating the Cronbach Alpha, i.e. an instrument is considered to be reliable if the Cronbach Alpha is higher than 0.5 (Hair et al., 1998). As for the results of reliability testing for all variables with 163 respondents, the Cronbach Alpha is greater than 0.5 which means that the variables are reliable as indicated in the table below:

Table 2. Results of Reliability Testing of Respondents

Variable	Cronbach Alpha	Degree
Tax Knowledge	0.654	Reliable
Tax Awareness	0.566	Reliable
Fiscal Service	0.681	Reliable
Taxpayer Compliance	0.586	Reliable

Validity Testing

Validity testing is intended to determine the extent to which a research instrument measures what it is supposed to measure. This test is carried out using a correlation matrix to compare the instruments: the instruments are considered to be valid if each of them scores less than the 0.05 significance level. The results, as detailed in the attachment, indicate that for all variables with 163 respondents, all items in the questionnaire are valid.

Hypothesis Testing and Discussion

under small category and, therefore, have no significant effect on the targeted state revenue from tax. Taxpayers might have only too small portion of tax knowledge to encourage their tax compliance.

The results of hypothesis testing show that the p-value for tax awareness is less than 0.05, which means significant or that the hypothesis is accepted. This indicates that tax awareness affects taxpayer compliance. The results are consistent with those of previous studies and indicate that when taxpayers are aware of the obligation to pay taxes, their tax

compliance will follow. Taxpayers are aware of their rights and obligations to pay taxes, even of the consequences of their non-compliance behavior, and, therefore, this encourages them to comply with taxation rules.

The results of hypothesis testing indicate that the p-value for fiscal service is greater than 0.05, which means not significant or that the hypothesis is rejected. This indicates that fiscal services have no effect on taxpayer compliance. The results run counter to those of previous studies. It is highly likely that the fiscal services have met the standard operating procedure of taxation of the Ministry of Finance and therefore this is not the factor affecting taxpayer compliance. Taxpayers need to be persuasively encouraged to come to tax offices and experience the changes in the fiscal services division.

5. Conclusion

The results of this study lead to the following conclusions:

1. Tax knowledge was found to have no effect on taxpayer compliance.
2. Tax awareness was found to have an effect on taxpayer compliance.
3. Fiscal service was found to have no effect on taxpayer compliance.

Limitation and Suggestion

Our study, however, had several limitations in terms of the number of respondents that lack representativeness of the MSME taxpayers in Yogyakarta and remain undivided into a number of KPP Pratama areas. Therefore, we suggest future researches to extend the research period of time and to collaborate with tax offices, especially with the help desk staff that interact more with taxpayers.

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