Determination of Taxpayer Compliance In Micro Small and Medium Enterprise (MSME) Center Batik

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Abstract

Tax is the core element in supporting state revenue. Therefore, taxpayer compliance in taxation greatly determines the State Revenue and Expenditure Budget implementation. Many factors affect tax compliance. This research will discuss the factors of awareness and knowledge of taxation on taxpayer compliance. In addition to this research, we likewise want to know whether information technology can mediate the relationship between tax awareness and tax knowledge of taxpayer compliance. This research is a case study for all taxpayers who do batik business in the Kampung Batik Giriloyo area, Imogiri District, Yogyakarta. The total sample in this research was 91 taxpayers. The data used in this study is primary data by distributing questionnaires and direct interviews with respondents. This research used data analysis with Partial Least Square (PLS). The results showed that tax awareness and information technology affected taxpayer compliance. Tax awareness and tax knowledge do not affect information technology. Tax knowledge does not affect tax compliance. Furthermore, information technology can not mediate the relationship between tax awareness and tax knowledge with tax compliance. The implications of this research for the government are to make policies that are more supportive of MSME actors, not burdensome in paying and reporting taxes, especially in areas that are difficult to signal, and more massive socialization of tax technology so that people are aware.

Keywords: Tax awareness, tax knowledge, information technology, tax compliance..

1. Introduction

Tax is one of the main sources in the State Budget in Indonesia. Taxpayer non-compliance is certainly an obstacle for the government in maximizing state revenue from the tax sector. So far, taxes are the most dominant source of income. The compliance ratio of taxpayers' annual SPT submissions is shown in Table 1.

Table 1. 2018-2020 Compliance Ratio

Description	2018	2019	2020
	69%	73%	55%
a.Corporate	58,86%	65,47%	60,16 %
b.Individual	74,28%	75,93%	52,44 %

From the data on the ratio of annual corporate and individual income tax returns submission, most of them are dominated by the Micro, Small, and Medium Enterprises (MSME) sector. The development of MSME in the Special Region of Yogyakarta has not been in line with the taxpayer's contribution from the MSME sector. According to the Small and Medium Enterprises Cooperatives Department of Bantul Regency (Koperasi Usaha Kecil Menengah/KUKM, 2020), of the hundreds of thousands of MSME actors, only 25% have a TIN (Tax Identification Number). This condition shows that MSME actors who have not complied with paying and are not aware of taxes are most high. UMKM in Bantul Regency is the object of

this research. There are a lot of MSME actors, but the number of MSME actors is inversely related to the number of MSME actors who are already permitted. Only 23 thousand of the 49 thousand registered MSME actors have permits. The low number of business actors who have a permit is directly proportional to the number of MSME players who have a TIN. It shows that the level of compliance of entrepreneurs who pay taxes is also low.

This fact indicates that the awareness level of taxpayers is still low. In addition, tax knowledge is a factor causing low taxpayer compliance [1]. The results of interviews with several MSME actors in the field show that the more someone understands the tax rules, the tendency to commit fraud also increases. It is caused the taxpayer feels that he understands the rules very well, so he is negligent and indifferent to the obligation to pay taxes [2]. In addition, the inability to use information systems during the pandemic has resulted in difficulties for MSME actors in paying and reporting taxes. The contribution of this research will be to see whether information technology can mediate the relationship between awareness and knowledge of taxpayers on taxpayer compliance [3].

The relevance of the Theory of Planned Behavior (TPB) [4] in this study is that the obedient or non-compliant behavior of taxpayers in fulfilling their tax obligations is influenced by their intentions. If the

taxpayer has the intention to comply with his tax obligations, there will be tax compliance behavior (tax compliance) [5]. The use of the TPB model in this study is to determine the behavioral intentions of MSME taxpayer compliance behavior, especially in Kampung Batik Giriloyo, in paying income tax. Attitudes, subjective standards, and perceived behavioral control are the three elements that influence whether or not a taxpayer will comply [6].

Taxpayer awareness is a condition in which a taxpayer knows, respects, and obeys the applicable tax regulations to pay taxes [7]. Internal parties influence taxpayers' degree of awareness, causing them to make attempts to realize and comprehend their tax obligations. Personal awareness of the importance of obeying tax rules encourages tax compliance. Research conducted [8] states that taxpayer awareness of tax compliance has a positive influence.

Tax knowledge can be interpreted as basic information used by taxpayers to act, make decisions, and understand strategies for fulfilling their tax rights and obligations [9]. Based on the research results, [10] it is stated that tax knowledge on tax compliance has a positive effect. The more the taxpayer understands and has knowledge of taxes, the more likely they are to comply with their tax duties. It will be easier if taxpayers have a thorough understanding of fundamental tax legislation and processes, knowledge of the Indonesian tax system, and taxing functions for taxpayers to complete their tax duties [11]. Understanding the general rules and taxation procedures will reduce taxpayers' mistakes in filling out and reporting tax returns, calculating the amount of tax payable, and filing taxes [12].

Information technology is the utilization of electronic equipment, especially computers, to store, analyze, and distribute any kind of information, including words, numbers, and pictures [13]. During this pandemic, due to activity restrictions, information technology is needed to strengthen taxpayer compliance [14]. Because services to taxpayers during the pandemic are limited, the government publishes all regulations online [15]. The model framework is presented in Figure 1.
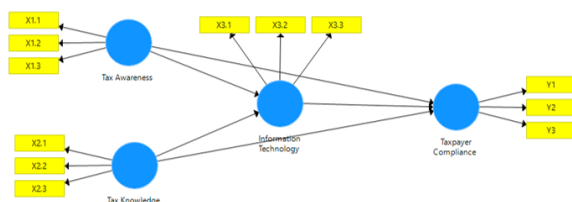

Figure 1. Models in This Research

2. Research Method

Quantitative research is the type of research conducted in this thesis. The populations in this study were all batik business actors in the Kampung Batik Giriloyo area, Imogiri District, Yogyakarta, who have a TIN. Researchers determine the criteria for the targeted sample, namely MSME actors or batik craftsmen in Giriloyo Batik Village who already have a TIN. The determination of the number of representative samples Joseph F. Hair, Hult, Ringle, & Sarstedt, (2014) depends on the number of indicators multiplied by 5 to 10. The data used in this study were primary data collected directly by researchers through the distribution of questionnaires and direct interviews. The data analysis is with PLS.

3. Result and Discussion

This research was conducted in Giriloyo Batik Village, Imogiri District, Bantul Regency, namely the perpetrators of Micro, Small, and Medium Enterprises (MSME) sector or Batik Craftsmen, who have a TIN. The sample received a questionnaire which consisted of taxpayers who chance to encounter researchers at the location. In this study, there are four variables and twelve statements. The statement consists of three statements for tax compliance, three statements for tax awareness, three statements for tax knowledge, and three statements for information technology. There were 91 research questionnaires distributed with the calculation of the number of 12 indicators multiplied by 5% at least 60 samples to the entrepreneurs of the Giriloyo Batik village. The researchers conduct research after obtaining permission from the management.

Data Analysis

The data processing technique used a method based on Smart Partial Least Square (Smart PLS 3.0). According to Ghozali (2014), it takes two stages to be able to assess the Fit Model of a study. Before testing the variable data with the hypothesis on Smart PLS 3.0, it is necessary to test Validity and Reliability with a total data of 30 business actors outside the data of 91 respondents of MSME actors.

Validity and Reliability Test

Table 2. Item Validity Test Results

Indicator	r_{count}	r_{tabel}	Information
$X_{1.1}$	0.820	0.367	Valid
$X_{1.2}$	0.739	0.367	Valid
$X_{1.3}$	0.778	0.367	Valid
$X_{2.1}$	0.831	0.367	Valid
$X_{2.2}$	0.724	0.367	Valid
$X_{2.3}$	0.662	0.367	Valid
$X_{3.1}$	0.501	0.367	Valid
$X_{3.2}$	0.532	0.367	Valid
$X_{.3.3}$	0.519	0.367	Valid
$Y_{.1.1}$	0.770	0.367	Valid
$Y_{1.2}$	0.618	0.367	Valid
$Y_{1.3}$	0.690	0.367	Valid

Based on the table above, it can be concluded that all items for the tax knowledge variable are declared valid. In each item the calculated r value is greater than 0.367 r table.

Table 3. Item Reliability Test Results

Variable	Cronbach'h Alpha	Information
Taxpayer Compliance (Y_1)	0.718	Reliabel
Tax Awareness (X_1)	0.951	Reliabel
Tax Knowledge (X_2)	0.877	Reliabel
Information Technology (X_3)	0.715	Reliabel

The variables employed already have a value over 0.7, indicating that the questionnaire is consistent as a measuring tool, according to the findings of the reliability test.

Evaluation of the Measurement Model (Outer Model)

a. Convergent Validity

Table 4. Outer Loadings (Measurement model)

	Tax Compliance	Tax Awareness	Tax Knowledge	Information Technology
$X_{1.1}$		0.941		
$X_{1.2}$		0.935		
$X_{1.3}$		0.924		
$X_{2.1}$			0.913	
$X_{2.2}$			0.936	
$X_{2.3}$			0.927	
$X_{3.1}$				0.807
$X_{3.2}$				0.879
$X_{.3.3}$				0.769
$Y_{.1.1}$	0.861			
$Y_{1.2}$	0.774			
$Y_{1.3}$	0.901			

Table 4 demonstrates that the majority of the loading factors had values more than 0.70, indicating that the indicators utilized in this study have convergent validity. Convergent validity means that a set of indicators represents one latent variable and that underlies the latent variable. This can be seen from the unidimensionality, namely the average value of the extracted variance (Average Variance Extracted / AVE). AVE value >0.5. This value meets the requirements of convergent validity, which means that one latent variable can explain more than half of the variance of its indicators in the average AVE value in the model. It is shown in table 5 below.

Table 5. Average Variance Extracted

Variable	AVE
Tax Compliance	0.871
Tax Awarness	0.856
Tax Knowledge	0.672
Infromation Technology	0.718

The outer loading and AVE of this research data have met the conditions of convergent validity, as shown in the table above.

b. Discriminant Validity

Table 6. Test Output Cross Loadings

	Tax Compliance	Tax Awarness	Tax Knowledge	Information Technology
$X_{1.1}$	0.577	0.941	0.689	0.305
$X_{1.2}$	0.573	0.935	0.813	0.274
$X_{1.3}$	0.563	0.924	0.778	0.232
$X_{2.1}$	0.485	0.712	0.913	0.246
$X_{2.2}$	0.503	0.848	0.936	0.253
$X_{2.3}$	0.602	0.708	0.927	0.337
$X_{3.1}$	0.359	0.298	0.261	0.807
$X_{3.2}$	0.499	0.243	0.299	0.879
$X_{.3.3}$	0.439	0.178	0.185	0.769
$Y_{.1.1}$	0.862	0.464	0.495	0.530
$Y_{1.2}$	0.774	0.471	0.417	0.360
$Y_{1.3}$	0.901	0.611	0.547	0.454

In addition, the Fornell-Larcker criteria discriminant validity test is used to determine the evidence of discriminant validity of two or more factors/constructs.

Table 7. Fornell-Lacker Criterion

	Tax Com.	Tax Awar.	Tax Know.	Infor. Tech
Tax Com.	0.933			
Tax Awar.	0.814	0.925		
Tax Know.	0.291	0.306	0.820	
Infor. Tech.	0.612	0.578	0.532	0.847

c. Construct Reliability Test

Table 8. Composite Reability Output

	Cronbach's Alpha	Composite Reliability
Tax Compliance	0.926	0.953
Tax Awarness	0.917	0.947
Tax Knowledge	0.755	0.860
Information Technology	0.802	0.884

A construct is declared reliable if it has a composite reliability above 0.7 and above the Croncbach's alpha value, which is 0.6. Because all of the constructs in the table above meet the standard value, so it can be concluded that the construct has a fairly good reliability.

Structural Model Evaluation (Inner Model)

Table 9. R-square Output

	R Square	R Square Adjusted
Information Technology	0.099	0.078
Tax Compliance	0.520	0.503

R2 = 1-(1-0,099)(1-0,520)

= 1-(901)(0,480)

= 1-0.432

= 0.567

The model can describe 56.7%, the remaining 4. 3.3% may be influenced by other factors that are not used to influence the endogenous variables in this study.

Hypothesis test

Table 10. Bootsrapping Output

	Original Sampel	Standard Deviation	T Statistics	P Values

	Original Sampel	Standard Deviation	T Statistics	P Values
Tax Awar. > Infor. Tech.	0.124	0.181	0.683	0.495
Tax Awar.> Tax Com.	0.371	0.151	2.456	0.014
Tax Know. > Infor. Tech	0.205	0.190	1.081	0.280
Tax Know. > Tax Com.	0.162	0.162	0.999	0.318
Infor. Tech. > Tax Com.	0.375	0.094	4.000	0.000

The hypothesis testing looks at the value of the Path Coefficient calculation on the inner model test. If the T statistic value is higher than T table 1.97, with a significance of 0.5 (á 5%), the hypothesis is accepted. If the T statistic value of each hypothesis is higher than the T table, then it can be declared accepted (the theory is proven). Based on the table above, there is no significant effect between tax awareness and tax knowledge on information technology, so the hypothesis is rejected. There is no significant effect between tax knowledge and compliance, so the hypothesis is rejected. While the variables of tax awareness and information technology have a significant positive effect on tax compliance, so the hypothesis is accepted.

Table 11. Indirect Effect

	Original Sampel	Standard Deviation	T Statistics	P Values
Tax Know > Infor Tech > Tax Comp	0.077	0.077	0.999	0.318
Taz Awar > Infro Tech-> Tax Comp	0.046	0.070	0.667	0.505

According to the table above, tax awareness and knowledge have no significant effect on taxpayer compliance via information technology, indicating that the theory is rejected.

The effect of taxpayer awareness on information technology

Based on the research results, taxpayer awareness does not affect information technology. The payment of the paid tax must be calculated by the taxpayer himself. The income tax deduction system uses a self-assessment system where taxpayers calculate, pay, and report their taxes. Because Giriloyo is roughly 10 kilometers from Tax Office (KPP Pratama), taxpayers oppose traveling to KPP because it is so far away. The government already offers an app for paying and reporting taxes electronically, but Giriloyo craftsmen find it difficult to use it due to the sluggish network signal.

The COVID-19 epidemic has aggravated the situation, causing economic conditions to deteriorate, so they prefer to prioritize the necessities of life over meeting the needs of information technology. In addition, some craftsmen still have difficulty applying laptops and mobile phone applications, because most of the respondents are over 50 years old. Craftsmen prefer to come directly or ask for help from third parties in paying and reporting taxes rather than having to be busy and learn about the use of information technology.

The effect of taxpayer awareness on taxpayer compliance

Taxpayer awareness is that taxpayers know taxes. Taxpayer awareness is essential for every taxpayer. If the taxpayer knows the tax payment, taxpayer compliance will be fulfilled. Taxpayer awareness, as well as taxpayer compliance, stems from a comprehension of the requirements of tax laws and regulations, allowing taxpayers to register, calculate, and pay taxes based on their knowledge. A high level of awareness of taxpayers will make taxpayers aware of their tax obligations. Awareness of taxpayer compliance is based on understanding, which makes taxpayers obedient in carrying out tax obligations. A high level of morality and awareness can make it easier for taxpayers to take advantage of tax facilities that have been provided by the government.

The effect of tax knowledge of taxpayers on information technology

Based on the results, the taxpayers' knowledge does not affect the use of information technology. The batik craftsmen in Giriloyo Village are still learning about product marketing through online applications, so they are less focused on using tax applications issued by the government. They have heard that the annual Tax Return (e-SPT application/Surat Pajak Tahunan) makes it easier for taxpayers to pay taxes because it has been calculated on a computer. However, they are still focusing on increasing online sales to survive the covid19 pandemic. They are not prepared to understand taxes and use software, and they are also hampered by difficult-to-receive signals, despite the presence of multiple wifi hotspots. According to one of the informants, Taxpayer awareness, as well as taxpayer compliance, stems from a comprehension of the requirements of tax laws and regulations, allowing taxpayers to register, calculate, and pay taxes based on their knowledge.

The effect of taxpayer knowledge on taxpayer compliance

The results stated that the knowledge of taxpayers' taxes had no significant effect on tax compliance. The findings of this study are consistent with those of previous research, which states that tax knowledge does not affect tax compliance. The higher taxpayer's understanding of taxation, the lower his compliance in paying taxes tends to be. That is because there are still many taxpayers who feel burdened by the existence of tax collections. After all, the understanding of taxation is still misinterpreted by taxpayers. It is also supported by the results of an interview, with several MSME

(micro, small and medium enterprises) taxpayers; that knew the importance of taxes and the applicable tax rules. But this is not affecting the respondents' intention to pay taxes because they had not fully felt the tangible evidence of development. Citizens are laden by the state's attitude toward their areas, such as village entrance amenities with holes, limited internet connectivity, and a lack of understanding of tax reporting technology.

The effect of information technology on taxpayer compliance

The Directorate General of Taxes strives to improve tax services and processes due to the rapid development of information technology systems. Improvements in the field of tax modernization to make it easier for taxpayers to carry out their tax obligations and increase taxpayer compliance are expected. Taxpayers who use information technology in the field of tax modernization will make it easier for taxpayers to carry out their tax obligations.

Taxpayers who have an adequate understanding of information technology, software, and hardware make taxation activities easier, making taxpayers more obedient to their tax obligations. The development of information technology in taxation makes it easier for taxpayers. During the COVID-19 pandemic, taxpayers no need longer come to the tax office and queue to carry out the taxation process. Now, taxpayers only need to take advantage of tax technology facilities that have been provided by the government to make it easier for taxpayers in the taxation process. Although there are signal problems and trouble understanding the contents of the application, craftsmen frequently enlist the assistance of other parties, such as relatives, to pay and report taxes.

The effect of taxpayer awareness on taxpayer compliance through information technology

The results on taxpayer compliance awareness using information technology have no effect. This means that information technology does not mediate the relationship between taxpayer awareness and compliance. The main contributing factor is that the internet signal network infrastructure is still limited, so they feel uncomfortable about the network constraints. They are more convenient to pay taxes directly. However, the issue of payment regulations and tax reporting through online applications, makes them difficult because of signal problems. They prefer to use third parties, such as asking others for help in paying and reporting taxes online. It can be said that information technology does not mediate the relationship between awareness and compliance.

The effect of taxpayer knowledge on taxpayer compliance through information technology

The results of taxpayer knowledge on mandatory compliance through information technology were rejected, meaning that information technology did not mediate the relationship between taxpayer knowledge and taxpayer compliance. The annual e-SPT reporting process is easier than the manual because it can be done online. The time required for taxpayers to report the Annual SPT is only about 15 minutes. However, the time became difficult because they were facing signal problems.

The lack of tax knowledge possessed by those who do not believe in the national tax system because of several corruption cases makes them not ready to study taxes. They are concentrating their efforts on raising batik sales turnover, which has dropped during COVID-19. They prefer online batik marketing training rather than studying taxes.

4. Conclusion

Taxpayer awareness and taxpayer knowledge do not affect information technology. Taxpayer knowledge does not affect compliance. Taxpayer awareness and Information technology have a positive effect on compliance. Information technology does not mediate taxpayer awareness of compliance, and information technology does not mediate taxpayer compliance knowledge.

The implications of this research for the government are to make policies that are more supportive of MSME actors, not burdensome in paying and reporting taxes, especially in areas that are difficult to signal, and more massive socialization of tax technology so that people are aware of this. Taxpayers would become more self-aware to fulfill their tax duties and become taxpayers.

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