GENERAL MANAGEMENT

Investigations of Readiness Tax Compliance dynamics: studies on MSME of creative economics actors in Indonesia

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Abstract

This study examines the dynamics of tax compliance readiness: Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The purpose of this study is to use the partial least square approach to experimentally assess the dynamics of tax compliance readiness through public trust in the tax authority and knowledge of taxpayers. This study uses quantitative methods with a sample of 100 respondents. This research focuses on the creative economy of SMEs, especially fashion. Data analysis shows that there is a positive effect of knowledge on tax compliance, meaning that an increase in tax knowledge can lead to an increase in tax compliance. Interestingly, this work describes these dynamics with fairly good knowledge but will reduce tax compliance. Meanwhile, trust in taxpayers is inversely proportional to taxpayer compliance, because there is an obligation to trust taxpayers. Therefore, the implication is that taxes do not only socialize tax rules and convey the importance of paying taxes for development, but also need to provide services on how to improve business, especially for SMEs through a business development system.

Keywords: Readiness Tax Compliance; creative economics actors; dynamics; MSME; fashion sector

Introduction

During the last five years, research related to tax compliance has been carried out by many experts in various fields. In general, these studies examine many aspects that affect tax compliance including other communities or reference groups (Yong & Freudenberg, 2020), tax knowledge and perceptions of fairness and equity (Inasius, 2019; Manual & Xin, 2016; Newman et al., 2018; Timothy & Abbas, 2021), tax education through willingness and ability to comply, tax system justice, and moral reasoning (Aladejebi, 2018; Kwok & Yip, 2018; Neve & Imbert, 2019), religiosity (Bruno, 2019; Dabor et al., 2021), tax policy for the growth needs of SMEs (Alashe & olawore, 2021; Obafemi et al., 2021), taxpayers' trust in the government (Ann et al., 2021; Mangoting et al., 2019).

In many countries, especially developing countries, the majority of all businesses operating in several developing countries were MSMEs (Chundu, 2020; Sultan & Sultan, 2020). (Ameyaw et al., 2016) explained that MSMEs in developing countries such as Ghana play an important role in economic development. (Chundu, 2020) explained that MSMEs in Zimbabwe are key players in the country's economy, and the broader ecosystem of enterprises is divided into four main sectors, namely Agriculture, Wholesale, and Retail, Manufacturing and Others. It is expected to become one of the main revenue for government through the payment of local taxes and levies. In keeping with the expansion of the Indonesian economy, tax income grew by an average of 6.4% year from 2016 to 2019. However, the Covid-19 epidemic is predicted to cause tax revenue to decline by 9.2% in 2020. Tax revenue is expected to reach Rp. 1,444, 5 T in 2021, up 2.9% in line with rising economic activity (Ministry of Finance, 2021). In Indonesia, obligation to pay taxes is also imposed to MSMEs run by individuals and entities, where individual taxpayers who report a notification letter (SPT) are 11.46 million as of March 31, 2022 (https://www.cnnindonesia.com). According to the self-analysis system, taxpayers can choose to use PP 23/2018 calculations or rates according to Law 36/2008 as recently amended by Law No.11 of 2020 concerning Job Creation to pay their obligations. However, the high number of MSMEs do not add much to tax payments, due to ignorance, intentional, system difficulties (Ameyaw et al., 2016; Parlaungan, 2017; Tandilino et al., 2016). In terms of tax administration, the increase number of SMEs in the country's economy reveal the number of taxpayers who were difficult to tax (Newman & Nokhu, 2018).

Research so far has been more related to tax compliance, even though it is necessary to include readiness to comply as a taxpayer, however research related to tax compliance readiness of taxpayers as far as the author knows has not been carried out. Governments around the world have the main goal of reducing the "tax gap", this depends on increasing taxpayer understanding as a driver of tax compliance and the effectiveness of compliance costs (Kwarto & Yunaenah, 2019; Neve & Imbert, 2019). So far, tax compliance has been a hope in various countries for that preparation of tax compliance must be done early by providing tax information to all citizens, tax information is one of the drivers of tax compliance (Vincent, 2021), trust in tax authorities (Batrancea et al., 2019; Gobena & Van Dijke, 2016; Kogler et al., 2013), and education

(Cechovsky, 2018; Newman & Nokhu, 2018; Susyanti & Askandar, 2019).

The investigations carried out include: how was trust in authority directly affect readiness tax compliance?; how was knowledge of taxation directly influence readiness tax compliance?; and how was the influence of tax trust and knowledge on readiness tax compliance?. The purpose of this study was to empirically investigate of readiness tax compliance dynamics through public trust in taxation authority and knowledge on taxpayers. Therefore, it is necessary to continue to grow tax compliance readiness for all citizens so that when they earn, they comply in fulfilling their tax obligations in accordance with applicable regulations. (Ajzen, 1991) theory of planned behavior as a model of behavioral theory can explain tax compliance readiness, where attitudes towards behavior, subjective norms, and perceived behavioral control can affect obedient behavior. (Newman & Nokhu, 2018; Susyanti & Askandar, 2019) MSMEs have basic knowledge of taxation but lack understanding, which affects their non-compliance behavior.

Theoretical Framework And Hypotheses Development

The Dynamics of Trust in Authorities

Slippery slope model theory (Kastlunger et al., 2013; Kirchler et al., 2008) states that social psychology and deterrence variables determine the extent of tax compliance. Psychological variables generally tend to affect tax compliance, even deterrence variables have a tendency to affect compliance based on enforced tax compliance

A study conducted by (Kirchler & Wahl, 2010; Mohd et al., 2017) explains that taxpayer trust in authority can affect tax compliance, such as (Kastlunger et al., 2013) found that high trust in tax authorities can increase tax compliance (Batrancea et al., 2019; Kastlunger et al., 2013; Seddig & Amhemed, 2015) in all countries, trust and power are identified as having an important role for tax compliance. (Muehlbacher et al., 2011) conducted a study on taxpayers from Austria, England, and the Czech Republic, the results show that voluntary compliance mainly depends on the taxpayer's trust in authority, whereas forced compliance is a function of power associated with the authority of authority. (Benk & Budak, 2012) shows that power encourages the enforcement of tax compliance and trust leads to voluntary tax compliance. Trust in the tax authority is low if there is unfair treatment received by taxpayers, but through the support of taxpayers on political commitment, social, cultural, and economic conditions can create national taxation success (Murphy, 2009; Susyanti et al., 2021). Procedural justice affects public trust in tax authorities (Zemiyanti, 2016). So that there is a correlation between fair treatment received by taxpayers and taxpayer trust in tax authorities.

The Dynamics of Tax Knowledge

Tax knowledge is recognized as one of the important elements influencing tax compliance behavior (Newman et al., 2018; Olatunji Olaoye, 2017). XXXThe ability to understand taxation regulations by taxpayers is called tax knowledge (Ayuba et al., 2016). (Pratama, 2018) explains that knowledge of taxation is knowledge of tax regulations and financial knowledge. Research by (Saad, 2010, 2012) on tax knowledge

and tax complexity has an impact on justice, while perceptions of justice have a role in tax justice. (Newman & Nokhu, 2018) research on SMEs in Zimbabwe shows that SMEs have basic knowledge of taxation but lack understanding of taxes, therefore it is necessary to evaluate taxes and handle corruption in increasing tax taxes. Research (Oktaviani et al., 2019) explains knowledge and understanding, service quality, tax awareness that affects individual taxpayers. Research conducted by (Manual & Xin, 2016; Newman et al., 2018) found that an increase in tax knowledge level lead to tax rate increment. (Cechovsky, 2018) found that knowledge is positively related with tax attitudes and negatively related with tax avoidance. This shows that tax knowledge is an important factor for fulfilling tax obligations.

Based on the phenomena and the previous studies that is discussed above, the research hypotheses are;

H 1: The trust in the authority has a direct effect on readiness tax compliance.

H 2: Tax Knowledge has a direct effect on readiness tax compliance.

H 3: Trust in the authority and tax knowledge influenced readiness tax compliance

Research Method

The explanatory pattern was applied in this research, in addition to explaining the position of the variables studied and the relationship between the two variables.

The research was conducted in Malang City, Malang Regency, Batu City, Kediri City, Kediri Regency, East Java, Indonesia by taking the population of MSMEs creative economy actors, especially the fashion industry. Selection of research subjects for SMEs creative economy actors in the fashion sub-sector and East Java as research locations because these cities and districts have experienced good growth and have contributed to the tourism sector and creative economy in East Java significantly, as many as 100 fashion owners and managers in this study.

Giving questionnaires to respondents was carried out in primary data techniques, while verification of documents such as business records, profiles, and types of business were techniques and secondary data in this study.

This research is using quantitative approach with smart PLS3 software in predicting the effect of each variable.

The element of taxpayer trust in the fiscus was developed from research (Mayer et al., 1995) which was modified and adapted to the Indonesian situation, while the element of tax compliance readiness was developed from the Tax Compliance instrument from the research of Onu & Oats, 2015). The survey used in this study consisted of statements to measure each variable. Variables measured by respondents' perceptions of tax compliance readiness: taxpayer confidence in the tax authorities, and knowledge. Respondents' perceptions were measured using a 5-point Likert scale, and agreement with statements that: 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree).

PLS analysis was carried out in three stages, namely analyzing the outer model, analyzing the inner model, then Hypothesis Testing was carried out. Measurement Model (Outer Model) used to assess the test validity and reliability models. Structural Model (Inner Model) in PLS Using R^2 and path coefficient
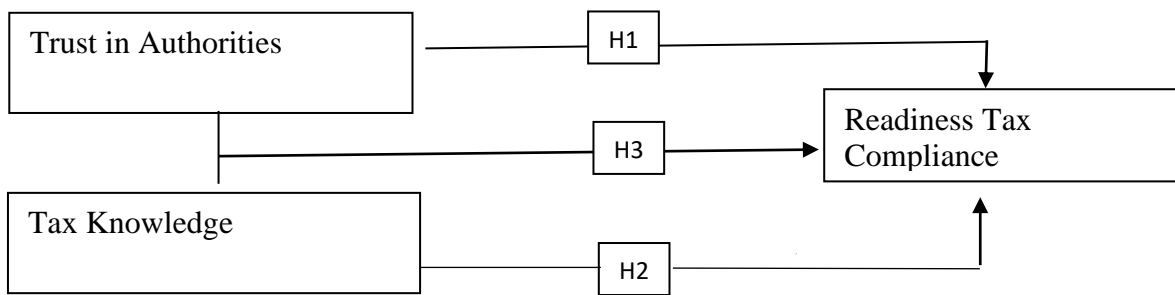
Figure 1: Research Framework

Research Result And Analysis

Descriptive Analysis

The Fashion owners who service business were 54% while Fashion owners that have their owned unique product was 42%. Respondents in this study were mostly women (55%), women dominated 80% of the population composition when the demographic bonus occurred since 2020 (Zahairini, 2016). With majority of it own by people under 45 years of age. The majority of creative economy actors who are respondents receive an annual income of between Rp. 300 million to 2.5 billion, so it can be said that the fashion sub-sector is a future force to boost the total creative economy revenue, which in turn can increase state revenue through increased tax payments. Considering that the fashion sub-sector is mostly driven by young people, this makes research on tax compliance readiness interesting to discuss, because of the great potential of young people through increasing creative economy business income which is always renewable, through ideas, culture and knowledge of human resources as a factor of production. the main.

The Fashion business categorization can be found in table 1, the categorization is created and used in the previous studies as well (Helmalia & Afrinawati, 2018; Kannapadang & S., 2018; Yazfinedi, 2018).

No	Total Revenue	Total Owner	Percentage
1	< IDR 300.000.000	34	34%
2	IDR 300.000.001 -2.500.000.000	58	58%
3	IDR 2.500.000.001 -50.000.000	8	8%
	Total	100	100%

Table 1: Total Revenue of Fashion Business
Source: Primary Data Processed, 2020

Validity and Reliability

The test result of questionnaire validity can be found in Table 2.

	TCOM	TKNOW	TRU
TCOM	0,902		
TKNOW	0,873	0,940	
TRU	0,411	0,586	0,869

Table 2. Discriminant Validity
Source: Data Processed, 2020

Statistically the validity test tests individual scores with the total, if the correlation is above 0.5% then the indicator is valid. Based on the above model, it can be seen that each indicator has an outer loading value above 0.5%, so the statements in the indicator questionnaire are valid (valid) explaining the variable trust (TRU), tax knowledge (TKNOW) and tax compliance (TCOM)
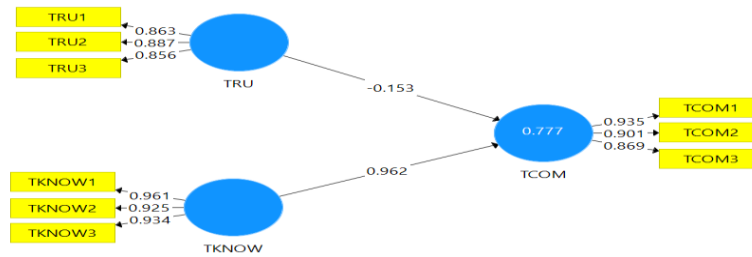
Figure 2. Path Coefficients

The reliability test shows the consistency test whether the respondent answered consistently / not based on the table above the indicator explaining the variables of trust variables (TRU), tax knowledge (TKNOW), and tax compliance (TCOM), with Cronbach's Alpha, rho_A, Composite Reliability above 0.7 , while AVE is above 0.5 so that the statements in the indicator questionnaire are reliable, explaining the variable trust (TRU), tax knowledge (TKNOW) and tax compliance (TCOM).

	Cronbach's Alpha	Rho_A	Composite Reliability	Average Variance Extracted (AVE)
TCOM	0,885	0,890	0,929	0,814
TKNOW	0,934	0,936	0,958	0,884
TRU	0,840	0,862	0,902	0,754

Table 3. Construct Reliability
Source: Data Processed, 2020

Research Analysis

The path coefficients can explain the coefficient value of the influence of the trust variable (TRU), tax knowledge (TKNOW) on tax compliance (TCOM), as follows:

TCOM = 0.962 TKNOW -0.153 TRU

If the variable tax knowledge (TKNOW) increases by 1 unit, the tax compliance variable (TCOM) increases by 0.962, so that the increase in tax knowledge Taxpayers can increase tax compliance taxpayers. However, the trust variable (TRU) on the contrary the increase in trust actually reduces tax compliance taxpayers by 0.153
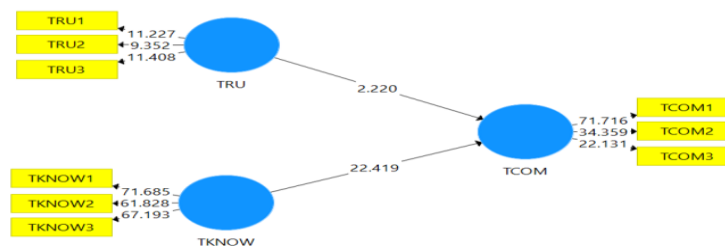

Figure 3. Regression Model

From the regression analysis, it can be seen the trust in authorities and the tax knowledge have a significant effect partially on tax compliance because of their significant value, greater than t table at 1.98. Trust in authorities and tax knowledge simultaneously has significant effect on tax compliance because their significant value are greater than t table at 1.98. The value of the adjusted R square (R2) of 0,773 or 77,3% which can be interpreted that tax compliance is explained by trust in authorities and tax knowledge with the value of 77,3%. This shows that the influence of trust in authorities and tax knowledge in tax compliance is quite large, whereas other variables not tested in the research model explain that influence tax compliance is less than 50%.

Research Discussion

(Besley & Persson, 2014) In developing countries the problem of all taxes are almost the same age as the tax itself, as well as in Indonesia. Tax avoidance remains a major problem among governments around the world (Alshira'h et al., 2020). The results of this study were different from previous studies regarding the relationship between trust in authority and taxpayers (Kirchler & Wahl, 2010; Mohd et al., 2017), where the higher the trust of taxpayers towards the authorities, the higher the taxpayer compliance (Batrancea et al., 2019; Kastlunger et al., 2013; Seddig & Amhemed, 2015). Research findings that trust does not affect tax compliance readiness. The reversal of trust in the tax authorities by taxpayers shows the distrust that the tax authorities are fair in carrying out the rules and; Disbelief that tax payments are the same for taxpayers with the same income and obligations. In addition to distrust of the tax authorities' policies, this can happen because creative economy taxpayers have more confidence in the media reporting unreliable tax authorities. The willingness to participate in socialization was still low, including a lack of concern that taxes make the nation independent and advanced.

The Theory of Planned Behavior (Ajzen, 1991) can examine compliance behavior to pay taxes which is preceded by the taxpayer's trust in taxes. Behavioral intentions obtained from subjective norms can explain the trustworthiness of taxpayers originating from the opinions of other taxpayers, in the form of community opinions about trust in taxes that provide a sense of taxation in responding to taxpayer questions and serving complaints, then offering support in the form of mandatory information through tax socialization, education, as well as social media. This was interpreted as an affective-based trust that was perceived by taxpayers on the flexibility and ability of taxes to serve the needs of taxpayers.

A decrease in confidence will increase tax control, this is due to the tax authorities, which should be the moderator. (Tsikas, 2017) trust and power of tax authorities are positively correlated with higher taxes, trust and power are also moderate to each other: lower trust, the greater the impact of power that increases control. Research by (Mas'Ud et al., 2019; Saad, 2012) obtained the results of a strong interaction between trust and power over tax taxes. (Mahadianto & Astuti, 2017) examined trust in tax authorities and tax socialization did not affect tax authorities, while taxpayer prevalence affected taxpayers.

The TPB theory (Ajzen, 1991) can also explain the intentions obtained from attitudes towards behavior that explain the tax authorities who have competence in carrying out work. Based on individual beliefs that come from his experience of providing the same service for everyone, which can be interpreted as cognitive-based beliefs that are perceived by taxes on taxes. According to (Huiskers-Stoop & Gribnau, 2019) reciprocal transparency between tax officials and taxpayers is important in increasing cognitive trust. (Haniv, 2020) provides information and tax services for taxpayers to trust tax taxes.

The research findings show that there was an influence of knowledge on tax compliance readiness. This study supports research on the relationship between tax knowledge and tax compliance (Fallan, 1999; Kwok & Yip, 2018; Manual & Xin, 2016; Newman et al., 2018). An increase in the level of tax knowledge can lead to an increase in tax rates, where tax knowledge was related to tax avoidance (Cechovsky, 2018). In line with research (Newman & Nokhu, 2018) taxpayers have basic knowledge of taxation, but their understanding of taxes is still low. Research (Oktaviani et al., 2019) knowledge and understanding, service quality, tax awareness shows the existence of taxpayers. This explains that tax knowledge was an important factor for tax compliance readiness.

This study also found that creative economy actors, the category of MSMEs does not give any clarity to the tax payer starting with PP-23/2018 which stipulates a final-stage tax provision of 0.5% for SMEs with a turnover of not more than IDR 4.8 billion, then enforces it. Law No. 11 of 2020 concerning Job Creation and tax incentives for taxpayers affected by the 2019 Corona Virus pandemic according to PMK 44/2020. They only have general tax knowledge and lack trust in authority. Therefore, it is necessary to have tax education starting from the beginning, namely starting from school (Palil & Rusyidi, 2013). In addition to the need for the widest possible dissemination of information, (Susyanti et al., 2021) it is necessary to have oversight from Academics, Business, Community, Government, Media, and resources that need to be carried out continuously (continuously) in integrative model assistance. The hope is that if employees have good trust in tax authorities and knowledge of taxation, tax avoidance and unintentional non-compliance can be minimized.

Research Conclusion And Limitation

Conclusion

This study concludes that trust in authority was inversely proportional to the dynamics of taxpayer compliance readiness. Meanwhile, knowledge of taxation affects the dynamics of compliance readiness. This means that to increase tax rates, stakeholders must increase the knowledge of taxpayers. Interestingly, although this study was able to show the influence between variables, this study also shows that most MSME owners are still not clear about how to apply tax regulations, PP-23/2018 concerning the final tax rate for SMEs, Law No.11 of 2020 concerning Job Creation and there is a tax incentive during the pandemic in PMK 44/2020.

Limitation

This study only uses data based on questionnaires and was carried out during the Covid 19 pandemic so that in-depth interviews to find out the questionnaire could not be conducted. So that this research only deals with respondents' perceptions, does not describe the actual conditions, in the future it is necessary to develop indicators and research statements. Further research should be conducted on the type of business and other variables.

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