

# Four Factors Based on Government Regulation Number 23 of 2018 Affecting the Compliance with Taxation Small and Medium Enterprises

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**Abstract**—The government has issued a new provision on income tax on micro, small and medium enterprises, namely income tax on income from businesses that are received or obtained by taxpayers who have certain gross circulation. Where points are set out in the government regulation there is a reduction in tariffs, with a certain time limit, to create justice, certainty and usefulness of the law. This is to encourage the public to participate in formal activities by providing convenience and being more equitable to taxpayers who have a certain gross circulation for a certain period of time. This study aims to examine whether the reduction in income tax rates, the dimensions of justice, the simplicity of calculations and the level of tax corruption affect the taxpayer compliance of micro small and medium businesses. This study uses an associative type of research with a quantitative approach. Method Sampling was carried out using a purposive sampling method. As many as 100 respondents. The data used in this study are primary data by distributing questionnaires and measuring variables with a Likert scale taken from taxpayers of micro, small and medium businesses registered at the Pulogadung Pratama tax office. Analysis method using Structural Equation Modeling (SEM) with the help of SmartPLS 3.0 software. Then the results of the analysis will be presented in tabular form and will be analyzed. The results of this study indicate that the reduction in final income tax rates has a significant effect on tax compliance of micro small and medium businesses, justice dimensions have a significant effect on tax compliance of micro small and medium businesses, the simplicity of calculation has a significant effect on tax compliance of micro small and medium businesses and the level of tax corruption has a significant influence on the compliance of taxpayers of micro small and medium businesses).

**Keywords:** *decrease in final income tax rates, dimensions of justice, simplicity of calculation, tax corruption level, taxpayer compliance micro small and medium businesses*

## I. INTRODUCTION

The turmoil in Indonesia's economic growth in the 2018 period grew 5.17%. While in the fourth quarter of 2018, Indonesia's economic growth reached 5.18%. Economic growth that was still stable this year was supported by stability in household consumption growth, government consumption, and increased investment. The projected economic growth in

2018 to 2019 has been revised experiencing a slowdown, commodity prices experienced uncertainty, and even tended to weaken in the last quarter. The rupiah exchange rate until December 31, 2018 was Rp. 14.481 per US dollar, so that it would affect the weakening of the rupiah and the availability of funds.

According to the Directorate General of Taxes up to 2018 the tax ratio is still around 11% which means that revenue from the tax sector is still unable to cover the needs of the State Budget. This is due to the low level of compliance of taxpayers to meet their tax obligations compared to the level of business growth in Indonesia. The increasing number of Micro, Small and Medium Enterprises, which will be further called UMKM, is not only caused by the government's encouragement to business people but also to reduce the number of unemployed. Therefore, currently the Government is eyeing UMKM that have enormous potential for tax revenue. Micro, Small and Medium Enterprises UMKM turnover and profits are indeed much smaller compared to companies that have higher incomes. The purpose of this study is to find out the subsequent reduction in income tax rates will be called the final (PPh), the dimensions of justice, simplicity of calculation and tax corruption based on Government Regulations will henceforth be called PP No. 23 of 2018 has a significant positive effect on the compliance of taxpayers of UMKM.

## II. THEORETICAL FRAMEWORK

### A. Based Theory

The tax rate is 0.5% final and is subject to income from businesses that are received or obtained by domestic taxpayers who have a certain gross circulation. Included in this category are individual taxpayers and corporate taxpayers in the form of cooperatives, limited partnership, firms, or limited liability companies. The tax reduction rules to 0.5% are very beneficial for UMKM.

Some of the benefits include:

UMKM can pay taxes easily and simply. Because of the Final Income Tax, the tax calculation for UMKM both

offline and online is simply adding up the gross circulation in a month, then multiplying the tariff.

- It can reduce the tax burden of UMKM. With cheap rates, the remaining net turnover after tax deduction can be used by entrepreneurs to develop their businesses.
- Low tax rates can stimulate people to enter as an entrepreneur. So no need to worry about being charged high taxes.
- With special rates it is expected to encourage UMKM compliance in paying taxes and increasing the taxpayer bases.

Ustice is one of the things that must be considered in the application of tax in a country. This is because psychologically the community considers that tax is a burden, therefore naturally the community needs a certainty that they get a fair treatment in the imposition and collection of taxes by the State [1].

Simplicity, namely in providing convenience to be understood, simplicity to be carried out by officials and fulfilment of obligations by taxpayers [2]. Some simplicity of calculations in PP No. 23 of 2018, namely:

- For income from businesses that are received or obtained by domestic taxpayers who have a certain gross circulation, they will be subject to final income tax within a certain period.
- Final income tax rate of 0.5%, with the following calculation formula.

UMKM Final Income Tax is reported only once per year through an individual or entity Annual Income Tax Return. According to PP 23, that the payment of PPh 0.5% is twofold:

- Self-paid, no later than the 15th of the following month after the relevant Tax Period ends.
- Cut or collected by cutters or collectors.

Corruption is an act that is against the law, by enriching oneself and harming other parties, and causing losses to the state treasury. Corruption is divided into 3 levels, namely:

- The most basic level is called Betrayal of trust.
- The middle level is also called the Abuse of power.
- The top level is called Material benefits.

In its relationship in the field of taxation, tax corruption means unlawful acts committed by tax officials, by embezzling tax money or abuse of authority, which aims to enrich themselves, and harm other parties and the state treasury.

Compliance is the motivation of a person, group or organization to do or not do according to established rules. In tax, the applicable rule is the Taxation Law. So, tax compliance is someone's compliance, in this case a taxpayer, to tax regulations or laws.

The types of Compulsory compliance are [3]: Formal compliance is a condition where taxpayers fulfil obligations

formally in accordance with the provisions in the Taxation Law. Material compliance is a condition where the taxpayer substantively fulfils all material provisions of taxation that is according to the content and spirit of the Tax Law. Material compliance can also include formal compliance.

UMKM have the following criteria:

- Micro Business, namely productive businesses owned by individuals or business entities owned by individuals who meet the criteria for Micro Business.
- Small-scale businesses, namely independent productive economic ventures carried out by individuals or business entities that are not subsidiaries or non-branch companies that are owned, controlled or become a part either directly or indirectly of medium-sized businesses or large businesses that fulfil Small Business criteria.
- Medium-sized Business, that is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly with small businesses or large businesses with total net worth or annual sales results.

The relationship between the variable reductions in final pph tariffs, the dimensions of fairness, the simplicity of calculations, and the level of tax corruption have a positive effect on the level of tax compliance of UMKM. So based on the existing theoretical basis and the results of previous studies, in this study obtained a mechanism of variable relationships, namely:

A reduction in the final pph rate can increase tax compliance for umkm because of the low tariff. The existence of justice dimension can provide a sense of fairness towards taxpayers so that there will be compulsory compliance of UMKM. Holding the simplicity of the calculation will cause taxpayers to have more compliance with the taxpayers of umkm because they easily carry out their tax obligations. If the level of corruption decreases, it can cause an increase in tax compliance of UMKM.

### B. Development of Hypotheses

Effect of Declining Final PPh Tariff Based on PP No. 23 of 2018 on the Compliance of Tax Payers of UMKM. Government Regulation Number 23 of 2018 basically regulates the imposition of Final Income Tax Article 4 Paragraph (2) for taxpayers who have a gross turnover of up to 4.8 billion Rupiah in one tax year. With this tariff reduction, of course the government hopes that taxpayers who have objected to the 1% tariff can be more honest in expressing the true turnover of the business they have. The reduction of the UMKM Final PPh rate to 0.5% is a second chance for Taxpayers after Tax Amnesty to calculate, pay, and report their income according to the actual situation. Tax rates affect the compliance of UMKM taxpayers [4].

Effect of Justice Dimensions Based on PP No. 23 of 2018 on the Compliance of Tax Payers of UMKM. Justice is tax collection carried out fairly in the regulations and the

realization of its implementation. In accordance with the legal objectives, namely achieving justice, the law and the implementation of collection must be fair [5]. Public perception of the fairness of the taxation system in force in a country greatly influences the implementation of good taxation in that country. This public perception will influence the behaviour of tax compliance and tax evasion. People will tend to be disobedient and avoid tax obligations if they feel that the current tax system is unfair. Tax justice affects taxpayer compliance [6].

The Effect of Simplicity on Calculations Based on PP No. 28 of 2018 on the Compliance of MSME Taxpayers. Simplicity is a mindset and lifestyle that is proportional, not excessive and able to prioritize something more needed. The ability to be more sincere in accepting what is already there, trying to be fair and grateful for every provision given so that it continues to use it on things that are useful and meaningful. These abilities provide benefits and become energy in our lives. Tax simplicity has a significant positive effect on taxpayer compliance [7].

Corruption is an action with the aim of enriching oneself, harming other parties committed both individuals and corporations [8]. Corruption means an act that is associated with an action that is detrimental to the state treasury, in the form of bribery or manipulation [9]. Tax corruption has a significant positive effect on taxpayer compliance [10].

### III. METHODS

#### A. Data Source

The data used in this study are primary data obtained by disseminating information to taxpayers registered at the Gadung Island tax service office which is included in the category of Micro, Small and Medium Enterprises (UMKM).

#### B. Research Variables

The research variables used consisted of four exogenous latent variables (reduction in final PPh tariffs, justice dimensions, simplicity and the level of tax corruption based on PP no.23 of 2018) and one endogenous latent variable (obedience of umkm taxpayer compliance) with a sample of 100 respondent actors UMKM registered with the KPP Pulogadung.

#### C. Analysis Step

The analysis steps carried out in this study are as follows:

- Getting the concept-based model and theory to design structural models.
- Designing a measurement model.
- Make a path diagram (path diagram).
- Convert the path diagram to the equation.
- Estimating parameters, which consists of weight estimates, path coefficient estimates, and average estimates.

- Evaluate the SmarPLS model.
- Conduct hypothesis testing.
- Draw conclusions.

### IV. RESULTS AND DISCUSSION

In this data analysis and discussion chapter, the SmarPLS analysis method is used to find out the structural relationship between the variable reduction in final PPh rates, the dimensions of Justice, simplicity of calculation, tax corruption and the taxpayer's unity of taxpayers based on PP No. 23 of 2018 in the Tax Office Pulau Gadung. From the results of data processing shows that the type of business respondents in this study were the culinary sector as much as 35%, Fashion as much as 24%, Others as much as 14%, Agribusiness as much as 12%, Automotive as much as 10% and Crafts as much as 5%.

#### A. Descriptive Statistics

The following is the descriptive analysis results table:

TABLE I. DESCRIPTIVE ANALYSIS RESULTS

Variable	N	Min	Max	Mean	Median	Standard Deviasi
<i>Compliance of UMKM Taxpayers</i>	100	3.000	4.000	3.860	4.000	0.367
<i>Decrease in Final PPh Rates</i>	100	3.000	4.000	3.490	3.000	0.500
<i>Dimensions of Justice</i>	100	3.000	4.000	3.460	3.000	0.498
<i>Simplicity of Tax Calculation</i>	100	3.000	4.000	3.470	3.000	0.497
<i>Tax Corruption Level</i>	100	2.000	4.000	3.510	4.000	0.572

Based on table 1 it can be seen that the tax compliance variable of UMKM (Y) participants answers the lowest value of 3.000 and the highest value of 4.000 so that the average respondent answers are obtained on a scale of 3.860. This shows that the majority of respondents already have a good understanding in terms of tax compliance. The lowest answer value for the variable reduction in final pph is 3.000 and the highest value is 4.000 so that the average value of respondents' answers is 3.490. This shows that the reduction in the final pph rate has been well given to taxpayers. The lowest value for the justice dimension variable answers the lowest value is 3.000 and the highest answer is 4.000 so an average respondent's answer is obtained on a scale of 3.460. This shows that the majority of respondents felt the justice dimension was very fair. Therefore, it can be stated that the justice dimension in taxation can improve tax compliance. The lowest answer value for the calculation simplicity variable is 3.000 and the highest value is 4.000 so that the respondent's average value is 3.470. This shows that the simplicity of the calculation has been implemented well. The variable level of tax corruption has the lowest answer value of 2.000 and the answer value.

The highest was 4.000 so that the average value of respondents' answers was 3.510. This right shows that the level

of tax corruption is very influential for taxpayers in carrying out their tax obligations.

### B. Measurement Model

Before testing the hypothesis to predict the relationship between latent variables in the structural model, an evaluation of the measurement model is first performed to verify the indicators and latent variables that can be tested further. Indicator reliability shows how much the indicator variance can be explained by latent variables. In the reliability indicator, a reflective indicator must be eliminated (eliminated) from the measurement model when the loading value is smaller than 0.7 [11]. Then proceed with testing the value of composite reliability and AVE a series of measurement models in this table:

TABLE II. COMPOSITE RELIABILITY VALUE AND AVE MODEL

Variable	composite reliability Value	AVE
Dimensions of justice	0.982	0.901
UMKM taxpayer compliance	0.987	0.928
Simplicity of Calculation	0.938	0.754
Decrease in Final PPh Rates	0.979	0.884
Tax Corruption Level	0.906	0.661

Based on the composite reliability values presented in Table 2, it shows that the five latent variables have composite reliability values above 0.6. That is, the established indicators have been able to measure each latent variable (construct) well or it can be said that the five measurement models have been reliable. The better value of Convergent validity is indicated by the higher correlation between indicators that compose a construct. The AVE value shown in Table 2 shows that the five latent variables have an AVE value above the minimum criterion, that is 0.5 so that the convergent validity size is good or can be said if it meets the convergent validity criteria. The next criterion is discriminant validity, by comparing correlations between construct with the roots of AVE as follows:

TABLE III. CORRELATION BETWEEN LATIN VARIABLES

Variable	X1	Y	X2	X3	X4
<i>Dimensions of justice (X1)</i>	1.000	0.988	-0.202	0.976	0.224
<i>UMKM taxpayer compliance (Y)</i>	0.988	1.000	-0.241	0.986	0.241
<i>Simplicity of Calculation (X2)</i>	-	-	1.000	-	0.330
<i>Decrease in Final PPh Rates (X2)</i>	0.202	0.241	0.204	1.000	0.223
<i>Tax Corruption Level (X3)</i>	0.224	0.241	-0.330	0.223	1.000

Furthermore, the correlation value will be compared with the root value of AVE as follows:

TABLE IV. AVE ROOT VALUE AND DISCRIMINANT VALIDITY FOR EACH LATENT VARIABLE

Variable	Root AVE	Discriminant Validity
<i>Dimensions of justice</i>	0.949	Fulfill
<i>UMKM taxpayer compliance</i>	0.963	Fulfill
<i>Simplicity of Calculation</i>	0.868	Fulfill
<i>Decrease in Final PPh Rates</i>	0.940	Fulfill
<i>Tax Corruption Level</i>	0.813	Fulfill

In addition to the four criteria, the feasibility of a measurement model can also be seen from the t-statistic loading results, with the condition that the t-statistic must be greater than the critical value of t of 1.65 (2-tailed) at a significance level of 10%. The loading results along with the t-statistic value obtained from the bootstrapping process by using a sampling of 100 and repetition as much as 5000 times as follows:

TABLE V. T-STATISTIC LOADING MODEL

	Standard Error	T-Statistic	P-value
<i>Decrease in final PPh Rates</i>			
X1.1	0.025	41.298	0.000
X1.2	0.012	83.078	0.000
X1.3	0.021	45.655	0.000
X1.4	0.022	42.207	0.000
X1.5	0.025	37.607	0.000
X1.6	0.022	42.887	0.000
<i>Dimensions of justice</i>			
X2.1	0.009	105.648	0.000
X2.2	0.009	111.785	0.000
X2.3	0.017	56.913	0.000
X2.4	0.025	37.598	0.000
X2.5	0.039	22.802	0.000
X2.6	0.022	42.232	0.000
<i>Simplicity of calculation</i>			
X3.1	0.079	12.066	0.000
X3.2	0.163	4.455	0.000
X3.3	0.084	11.110	0.000
X3.4	0.151	5.041	0.000
X3.6	0.078	12.006	0.000
<i>Tax corruption level</i>			
X4.1	0.132	6.573	0.000
X4.2			0.000
X4.3	0.194	3.781	0.000
X4.4	0.128	6.982	0.000
X4.5	0.194	4.088	0.000
X4.6	0.147	5.205	0.000
<i>UMKM taxpayer compliance</i>			
Y1	0.014	68.618	0.000
Y2	0.006	152.475	0.000
Y3	0.015	65.933	0.000
Y4	0.016	61.844	0.000
Y5	0.032	28.553	0.000
Y6	0.014	71.377	0.000

### C. Goodness of Fit Test

Based on data processing that has been done using the smartPLS 3.0 program, the values of R-Square and R-square adjusted are as follows:

TABLE VI. VALUES OF R. SQUARE DAN R. SQUARE ADJUSTED

Variable	R-Square	R-Square Adjusted
UMKM taxpayer compliance	0.987	0.986

Based on the calculation above, the R-square adjusted value of 0.986 is obtained. This shows the amount of diversity of research data that can be explained by the research model is 98.6%. While the remaining 1.4% is explained by other factors that are outside this research model. Thus, from these results the research model can be stated to have good *goodness of fit* [12].

### D. Research Hypothesis

Based on the data processing that has been done, the results can be used to answer the hypothesis in this study. Hypothesis testing in this study was conducted by looking at the T-Statistics value and the P-Values value. The research hypothesis can be accepted if the P-Values value <0.057. The following is the hypothesis test results obtained in this study through the inner model:

TABLE VII. T-STATISTICS AND P-VALUES

	Variable	T-Statistic	P-value	Results
H1	Dimensions of justice => Y	3.221	0.001	Accepted
H2	Simplicity of calculation =>Y	2.658	0.008	Accepted
H3	Decrease in final PPh Rates =>Y	2.655	0.008	Accepted
H4	Tax corruption level =>Y	1.224	0.221	Rejected

Based on the data presentation in table 7 above, it can be seen that from the four hypotheses proposed in this study, three hypotheses were accepted namely the dimensions of fairness, simplicity, reduction in final PPh rates for each effect shown to have a P-Values value <0.05 only the tax Corruption rate hypothesis is rejected.

### E. Results

Effect of Declining Final PPh Tariff Based on PP No. 23 of 2018 on the Compliance of Tax Payers of UMKM.

Test results on the first hypothesis in this study indicate that the reduction in final pph tariffs based on PP No. 23 of 2018 has a positive effect on tax compliance of UMKM, which means that the H1 proposed in this study is accepted. The results of this study indicate that the smaller the final pph rate, the higher the taxpayer compliance because they are able to carry out tax obligations.

The reduction of the UMKM Final PPh rate to 0.5% is a second chance for Taxpayers after Tax Amnesty to calculate, pay, and report their income according to the actual situation.

Effect of Justice Dimensions Based on PP No. 23 of 2018 on the Compliance of Tax Payers of UMKM.

The results of testing on the second hypothesis in this study indicate that the dimension of justice is based on PP No. 23 of 2018 has a positive effect on tax compliance of UMKM, which means H2 proposed in this study is accepted. The results of this study indicate that the higher the sense of justice, the higher the compliance of taxpayers because they feel that tax collection has been fairly carried out.

People will tend to be disobedient and avoid tax obligations if they feel that the current tax system is unfair. The Effect of Simplicity on Calculations Based on PP No. 23 of 2018 on the Compliance of Tax Payers of UMKM.

The results of testing on the third hypothesis in this study indicate that the simplicity of calculations based on PP No. 23 of 2018 has a positive effect on tax compliance of UMKM, which means that the H3 submitted in this study is accepted. The results of this study indicate that the easier and better understood tax calculation, the higher the tax compliance of UMKM.

The Effect of Tax Corruption Level Based on PP No. 23 of 2018 on the Compliance of Tax Payers of UMKM.

The results of testing on the third hypothesis in this study indicate that the level of tax corruption based on PP No. 23 of 2018 has a positive effect on tax compliance of UMKM, which means that the H4 submitted in this study is accepted. The results of this study indicate that the more government officials carry out tax corruption, the more taxpayers do not carry out their tax obligations.

### V. CONCLUSION

Tax rate reduction based on PP No. 23 of 2018 significantly has a positive effect on tax compliance of UMKM. The smaller the final pph rate, it will increase taxpayer compliance. Dimensions of justice based on PP No. 23 of 2018 significantly has a positive effect on tax compliance of UMKM. The higher the level of justice, the more taxpayer compliance will be, because they feel the tax collection has been carried out fairly. Implicity of tax calculation based on PP No. 23 of 2018 significantly has a positive effect on tax compliance of UMKM. The easier and more understood tax calculation, it will increase taxpayer compliance. The level of tax corruption based on PP No. 23 of 2018 does not have a positive effect on tax compliance of UMKM.

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