

# Potential Factor that Determines Taxpayer Compliance:

## The Development of Theory of Reason Action

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**Abstract**—Tax compliance is the agreement of taxpayers to fulfil and carry out tax obligations in accordance with the provisions of tax legislation without having to go through tax audit, warnings or threats and tax laws both law and tax administration. This study aims to analyse the effect of tax audits and tax rates on tax compliance. The population in this study is the taxpayer in Kuningan, Indonesia, and obtained 100 respondents. The data analysis method used in this study is to utilize Partial Least Square (PLS) using SmartPls 3.0. The results of this research analysis show that tax audits affect tax compliance and tax rates affect tax compliance. The increase in tax audit and Tax rates will increase taxpayer compliance, because taxpayers feel that if the tax audit is carried out on the taxpayer can lead to administrative sanctions and tax penalties that will harm the taxpayers themselves.

**Keywords:** tax audits, tax law, tax payers, tax rates, tax compliance, theory of reason action

### I. INTRODUCTION

In this modernization era, taxation is an existence for the Republic of Indonesia. Because the source of funds derived from taxes is state revenue used by the government directed at infrastructure, poverty and social inequality, security and defence, state apparatus and public services equally, reliable leading sectors and democracy for all levels of society. To maximize the tax revenue, an active role of all Indonesian people, especially the taxpayers, is needed because the government cannot rely solely on the Directorate General of Taxes (DGT) as a whole [1]. Taxes come from people who have income in accordance with the provisions of the applicable tax regulations, taxes are also carried out by taxpayers (the people) and who will enjoy the reciprocity of the tax even though indirectly the people themselves. The greater the social impact, the desire for someone intending to do something [2,3].

The government has other ways to optimize the sources of state funds including starting from lowering tax rates, and carrying out checks on taxpayers who embezzled their excess assets and did not report them in the Notification Letter. With the act of embezzlement of assets carried out by the taxpayer, the government immediately made a program on taxation to

attract taxpayers to be obedient and honest in reporting their assets. The government program is a tax amnesty is a relief to taxpayers in the payment of taxes that are not associated with the cost of fines and tax administration in effect from 2016 to 2017 by providing opportunities for taxpayers within a period of three consecutive periods. The tax amnesty program carried out by the government aims to bring the mindset of awareness of the level of tax compliance for taxpayers.

TABLE I. DEVELOPMENT OF TAXPAYER COMPLIANCE RATIO

Years	Total tax payers registered	Total Tax Payers are required tax return	Compliance Ratio (%)
2016	36 Million	16,6 Million	65,66
2017	38,6 Million	17,65 Million	62,96
2018	42 Million	18,3 Million	69,30

Source: Data processed 2019

Based on Table 1, the development of the number of registered taxpayers and the number of taxpayers registered with taxpayers is increasing every year from 2016-2018, but the tax compliance ratio according to the Directorate General of Taxes' Annual Report from 2013 to 2016 has fluctuated. In 2016 to 2017 the number of registered taxpayers for taxpayers increased by 1.05 million people and in 2017 to 2018 the number of registered taxpayers for taxpayers increased by 0.65 million people. In 2016 to 2017 the ratio of taxpayer compliance decreased by 2.7 percent, but in 2017 to 2018 the ratio of taxpayer compliance increased by 6.34 percent.

This is in line with the development of the taxpayer compliance ratio that occurred at the Kuningan Tax Service Office in 2016 to 2018, as follows:

TABLE II. DEVELOPMENT OF TAXPAYER COMPLIANCE RATIO

Years	Total tax payers registered	Total Tax Payers are required tax return	Compliance Ratio (%)
2016	185.699	115.925	47
2017	212.440	87.716	57
2018	236.540	97.950	53

Source: Data processed 2019

Based on Table 2, the number of registered taxpayers, the number of registered taxpayers for taxpayers and the tax compliance ratio of taxpayers at Kuningan KPP from 2016 to 2018 experienced a fluctuating percentage. This can be seen from the difference in the number of registered taxpayers and the number of registered taxpayers for SPT in 2016 as many as 69,774 taxpayers with a compliance ratio of 47%, then the difference in the number of registered taxpayers and the number of registered taxpayers for taxpayers in 2017 is as much as taxpayers with a compliance ratio of 57%.

Furthermore, the tax compliance ratio decreased in 2017 to 2018, while there was an increase in the number of registered taxpayers for taxpayers in 2017 which was 87,716 taxpayers and in 2018 as many as 97,950 taxpayers.

Judging from the efforts that have been made by the government, the government is very concerned about the importance of taxes for state funding sources, one of which is the State Budget. If the state revenue obtained is in accordance with the target set in the previous year, funding for plans for the next government program will be realized. Thus, the government is the full authority in taxation and the taxpayer believes that the government will use the tax funds in accordance with what is needed by the general public.

This has the aim so that taxpayers are aware that the government determined tax legislation, especially at tax rates is something that is reasonable and in accordance with regulations, intended to improve taxpayer compliance in complying with taxation and paying taxes on time. If the taxpayer is obedient and timely in reporting the tax owed then pays the tax due then there will be no tax audit of the taxpayer, and vice versa. If the taxpayer is not compliant and does not report the tax owed and does not even pay the tax debt, a tax audit will occur against the taxpayer.

From the explanation above it can be concluded that there are various factors that affect taxpayer compliance, and the first factor is tax audit. In general, tax audit is an activity carried out by the tax office or experts who have the authority of the tax office, whose task is to examine taxpayers regarding the tax owed. Tax audits can be said to have an influence on taxpayer compliance, the statement is in accordance with other research [4-8] that tax audits affect mandatory compliance tax.

The second factor is the tax rate, meaning the tax rate itself is the basis for taxation relating to the value of certain assessments that have been determined according to the regulations of the Directorate General of Taxes. The higher the tax base, the more taxes will be paid by the taxpayer. This can allow taxpayers not to report taxpayers who are owed to avoid high tax payments, so that tax rates affect taxpayer compliance.

**II. METHOD**

All data presentation and analysis used in this study using assistance from the SmartPLS version 3.0 PLS (Partial Least Square) program is Structural Equation Modelling (SEM) equation analysis based on components or variants that can simultaneously conduct measurement model testing and structural model testing, because This research was conducted to measure and show the direction of the relationship between

the level of influence of tax audits and tax rates on tax compliance.

The population in this study are all individual taxpayers registered at the Kuningan Primary Tax Service Office, Indonesia. The population in this study is 34,448 individual taxpayers. The sampling technique used in this study is nonprobability sampling where the sampling system does not provide equal opportunities or opportunities for all members of the population to be selected as samples. The sample in this study was selected using the incidental sampling method which is a technique for determining samples based on coincidences, i.e. where the sample is anyone who accidentally meets the researcher is called incidental, and the person is suitable as a respondent for research [9].

Based on the population of 34,448 individual taxpayers, the researchers determined the number of samples using the Slovin formula. After calculating using the formula, the samples taken in this study is 100 individual taxpayer respondents.

**III. RESULTS**

*A. Evaluation of Measurement Model (Outer Model)*

Evaluation of measurement models is an evaluation of the relationship between constructs and indicators. Data analysis was performed by entering all respondents' data and testing convergent validity, discriminant validity and significance tests. The evaluation model of PLS measurement is based on predictive measurements that have non-parametric properties. Measurement models or outer models with reflexive indicators are evaluated with composite reliability and, discriminant validity of each indicator in the variable.

Then proceed with the second examination which is to see the value of composite reliability and Cronbach's alpha. Based on the calculation results obtained by composite reliability is as follows:

TABLE III. COMPOSITE RELIABILITY

	<b>Composite Reliability</b>
Tax audit (X1)	0.887
Tax Rates (X2)	0.875
Tax Compliance (Y)	0.885

Source: SmartPLS 2019

Table 3 composite reliability values for all exogenous and endogenous constructs have values above 0.70 [10,11] so it can be said that the Tax Examination, Tax Rates and Taxpayer Compliance have good validity and reliability. Furthermore, based on the calculation results obtained Cronbach's alpha is as follows:

TABLE IV. CRONBHACS ALPHA

	<b>Cronbach's Alpha</b>
Tax audit (X1)	0.835
Tax Rates (X2)	0.811
Tax Compliance (Y)	0.830

Source: SmartPLS 2019

From the Cronbach's alpha value for all exogenous and endogenous constructs, all are very reliable because the values above 0.70 are the same as before. Tax and Compliance Must have good validity and reliability. The conclusion from the calculation of calculate PLS algorithm for the outer model shows the results that the composite reliability values in Table 3 and Cronbach's alpha in Table 4 for each construct above show very good values, i.e. above 0.80 [10,11].

TABLE V. AVERAGE VARIANCE EXTRACTED

	<b>Average Variance Extracted</b>
Tax audit (X1)	0.665
Tax Rates (X2)	0.642
Tax Compliance (Y)	0.659

Source: SmartPls 2019

The third check is the value of Average Variance Extracted (AVE). The validity in Table 8 of each construct value can be tested with average variance extracted (AVE). A construct with good validity requires the AVE value to be above 0.50 [10,11]. This means that all of these variables are valid

**B. Evaluation of Structural Model (Inner Model)**

The inner model shows the relationship between constructs and the significance value and structural model measurements can be assessed from the R-Square. Following is the calculation table for R-Square results, as follows:

TABLE VI. R SQUARE

	<b>R-Square</b>
Tax Compliance (Y)	0.211

Source: SmartPls 2019

Table 6 show R-Square value of 0.211. Its means that the variability of the Taxpayer Compliance construct that can be explained by the Tax Examination construct and the Interaction Tax rate construct of 21% for endogenous latent variables in the structural model identifies that the model is weak. While 79% is explained by other variables not found in this study. After testing the R-Square next is to see the Effect Size  $f^2$ . Following is the result of the calculation of Effect Size  $f^2$ :

TABLE VII. EFFECT SIZE  $f^2$

	<b>Effect Size <math>f^2</math></b>
Tax audit (X1)	0,086
Tax Rate (X2)	0,091

Source: SmartPls 2019

From the calculation of calculate PLS algorithm in Table 7 it can be seen that the results of  $f^2$  show  $> 0.02$  and  $< 0.15$  it means that the magnitude of influence between exogenous latent variables has little effect. After seeing the calculation of  $f^2$  then see the value of  $Q^2$ . The following is the calculation result of calculate blindfolding in Construct Cross validated Communalities:

TABLE VIII. CROSS-VALIDATED COMMUNALITY ( $Q^2$ )

	<b><math>Q^2 (=1-SSE/SSO)</math></b>
Tax audit (X1)	0,431
Tax Rates (X2)	0,412
Tax Compliance (Y)	0,415

Source: SmartPls 2019

From the calculation of calculate PLS algorithm in Table 8 it can be seen that the results of  $f^2$  show  $> 0.02$  and  $< 0.15$  it means that the magnitude of influence between exogenous latent variables has little effect. After seeing the calculation of  $Q^2$  value predictive relevance is a value that serves to validate the model. In Table 8, exogen latent variables and endogenous latent variables show the  $Q^2$  value  $> 0$  where the results have predictive relevance, meaning the model is valid for research. Next is the calculation of Goodness of fit.

In Goodness of fit or commonly abbreviated as GoF Index the calculation requires a formula, the results of the GoF Index are calculated from the square root of the average communalities index (AVE) and average R-Square values, the following are the results of the calculation:

$$\begin{aligned} \text{GoF} &= \sqrt{\text{AVE} \times \bar{R}^2} \\ \text{GoF} &= \sqrt{0.5 \times 0.211} \\ \text{GoF} &= 0,32 \end{aligned}$$

From these results it can be seen that the GoF value of 0.32 has a function in evaluating the measurement model and structural model included in the medium criteria. Next, the last calculation is, hypothesis testing. Hypothesis testing is done by comparing the value of T value with T table. The results of Table 9 Path Coefficients and significance tests are as follows:

TABLE IX. EFFECT SIZE  $f^2$

	<b>Original Sample (O)</b>	<b>T Statistic</b>	<b>P Values</b>
Tax audit -> Tax Compliance	0.277	3,059	0,001
Tax Rate -> Tax Compliance	0,285	3,017	0,001

Source: SmartPls 2019

The relationship test between constructs shows that the tax audit construct has a significant effect on taxpayer compliance with a significance of 10% (Tcount 3.059 > 1.654) and can be seen on P Values with results (P Values 0.001 < significant 10%). Furthermore, the construct of the tax rate shows the result that the tax rate has a significant effect on taxpayer compliance with a significance of 10% (T arithmetic 3.017 > 1.654) and can be seen on P Values with results (P Values 0.001 < significant 10%).

**IV. DISCUSSION**

**A. Effect of Tax Audit on Tax Compliance**

Based on the results of the analysis conducted using SmartPLS, this study found that tax audits have a significant effect on mandatory compliance, Where an increase in tax audits will increase taxpayer compliance, because taxpayers

feel that if a tax audit is performed on the taxpayer it can lead to administrative sanctions and tax penalties that will harm the taxpayers themselves.

If related to the theory of planned behaviour describes the actions to be taken by taxpayers based on behavioural beliefs that will shape character or attitude, so that a taxpayer prefers to obey taxation rather than having to pass the tax audit stage conducted by the tax inspector [12].

The data states that tax audits have a significant effect on taxpayer compliance. Thus, it can be concluded that the more tax audits carried out by tax auditors, the higher the level of taxpayer compliance in taxation. The results of this study are consistent and supported by previous studies states that tax audits have an effect on the behaviour of taxpayer compliance levels, due to the more thorough tax audits carried out by auditor's tax will increase taxpayer compliance in paying taxes [13].

### *B. Effect of Tax Rate on Tax Compliance*

Based on the results of the analysis conducted using SmartPLS, this study found that the tax rate had a significant effect on compulsory compliance. The fairer the tax rate for each taxpayer the taxpayer feels that the tax rate will not be a barrier for taxpayers to comply with taxation. If related to the theory of planned behaviour [12] which explains the greater the intention of someone to behave, the more likely the behaviour is achieved or implemented. So that any taxed tax rates will still be obeyed by the taxpayer, because the tax rates charged have been adjusted to the level of income received by the taxpayer and reasonable if the recipient of high income will be subject to tax proportionally compared to the recipient of low income.

Based on this, it can be concluded that the fairer the imposition of tariffs on taxpayers, the more taxpayer compliance will be in obeying tax regulations. The results of this study are consistent and supported by previous research that tax rates have a significant effect on compulsory compliance tax [14-17]. It's because the fairer the tax rate given to individual taxpayers; the more taxpayer obedience of individuals will increase in complying with tax legislation. In fact, other studies have confirmed this trend of conflicting finding [18].

## V. CONCLUSION

Based on the results of the study accompanied by analysis and supported by theories underlying and discussed in the previous chapters, related to the effect of tax audits and tax rates on the compliance of individual taxpayers in the Brass Primary Tax Office, it can be concluded that tax audit have a significant effect on tax compliance for individual taxpayers. Then, tax rates have a significant effect on tax compliance for individual taxpayers. Based on the limitations that have been explained previously related to this research, the researcher provides advice to other researchers who will continue research

in similar fields, it is expected that future researchers use more variables like Perceived Ease of use, Self-Efficacy and Subjective Norm.

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