



How is the Role of Tax Understanding on Tax Compliance of Local Public Official?

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Abstract. Compliance of taxpayer, usually, works well because it is based on tax understanding. The study explores the role of tax understanding of local public officials toward their tax compliance. By using quantitative method with Pearson correlation test, ANOVA, t test, and F test, this study highlighted the strong role of tax understanding from local public officials on their tax compliance. This is according with the result of descriptive and verificative analysis, in which tax understanding has positive and strong correlation including having significant effect and contribution toward tax compliance. The model of role is formulated as novelty of the research.

Keywords: Tax Understanding · Tax Compliance · Model of Role · Local Public Official

1 Introduction

Increasing government income from the tax sector is currently to be the focus of developing or developed countries that levy taxes on their citizens. In this scope, the success of countries in the implementation of taxation depends on the compliance of their taxpayers. Tax compliance can be problematic for a country because tax compliance reflects a taxpayer's desire to meet tax obligations under applicable regulations. In this context, tax compliance is influenced by vertical relationships - the taxpayer and the government in the context of tax paid and the use of tax, as well as horizontal relationships - the relationship between taxpayers, especially from the side of justice. Disharmony in these two relationships has a negative impact on tax compliance. Although this conditions, generally, happen for all countries, in fact, the problem is felt in developing countries with complex tax systems, high compliance costs, tax loopholes, tax exclusions, and corruption characterize the implementation of a public financial system. These conditions make the tax compliance becomes difficult [1–7].

As part of a developing country, Indonesia relies on government revenue, almost 80 percent, from tax sectors. This means that most development and government operations are financed by citizens through taxes. Unfortunately, currently, Indonesia still has a

problem with tax compliance in. This is because there is a “gap” between taxpayers’ expectations on public goods and the reality of public goods provided by the government. This situation is exacerbated by cases of tax corruption involving taxpayers and tax officials. As a result, taxpayers’ trust on the government and the tax system as a whole decrease significantly, so that influences tax compliance. This is reflected in the low ability of the government in collecting taxes or tax ratio. Until 2021, tax ratio in Indonesia is at around 9.11 percent. It means that only 9.11 percent of the tax is collected from the turnover of the gross domestic product. The government’s efforts to improve tax compliance are reflected in tax reforms by modernizing tax administration, by increasing tax morale, and by more effective tax sanctions. Unfortunately, these reforms did not solve the problem of tax compliance.

We hypothesize that one source of compliance problems is the lack of role models from public officials in fulfilling tax obligations, especially in local government. This is because, currently, local public officials are still a ‘father figure’ and agent of change for community. So that all perceptions, all behavior, and all actions related to taxation become an exemplary for community. Therefore, in this study, we attempt to measure the role of tax understanding on their tax compliance. In this context, we focus on regional government officials who are role models for the community related to their activities by the question, as a problem statement, what is the role of tax understanding in local tax compliance?

To answer the problem statement, the objectives of this study are: 1) knowing how the local public officials perceive their tax understanding; 2) knowing how local public officials perceive their compliance, and 3) measuring the influence of tax understanding on tax compliance.

2 Literature Review

2.1 Tax Understanding

Concept of Tax Understanding. In the Great Indonesian Dictionary, understanding means a process, an action, a way of understanding or comprehending. Meanwhile, according to Dimas Ramadiansah [8, 9], understanding is the ability to capture the meaning and significance of the material being studied. Knowledge and understanding of tax laws is the process by which taxpayers learn about taxation and apply that knowledge to pay taxes. Understanding tax laws is the process by which taxpayers understand and are aware of the rules, laws and tax procedures and apply them to carry out tax activities such as paying taxes, filing tax returns, etc. If someone understands taxation, taxpayer compliance will increase [10, 11].

Indicators of Tax Understanding. According To Rahayu [12, 13], There Are Several Indicators Of Taxpayers’ Knowledge And Understanding Of Tax Laws, Namely:

Knowledge of the tax regulations. The tax regulations are governed by the law of the Republic of Indonesia no. 6 of 1983, which has since been amended or improved several times, resulting in the adoption of law no. 16 of 2009 on the establishment of a government regulation provision to replace law no. 5 of 2008 on the fourth amendment. To law no. 6 of 1983 on general provisions and tax procedures, which should become law. It

is necessary to reform the current tax system with a system that gives tax subjects the confidence to fulfill their duties and exercise their rights in the field of taxation to realize the expansion and raising of awareness of tax obligations and equalize people's rights. Income. The content of the general provisions and tax procedures includes, among other things, the rights and obligations of taxpayers, the annual tax return, the tax identification number, the procedure for paying taxes, and tax collection and reporting.

Knowledge of the Tax System. Indonesia currently follows a self-assessment system in tax collection. This means that taxpayers are free to register, to calculate, to pay, and to report their taxes on tax.go.id. According to Sri and Aji [14] the self-assessment system is a tax collection system that gives taxpayers full authority to calculate and report the amount of assets and taxes owed to the tax office and make their own tax payments to the state treasury. The main purpose of the existence of the self-assessment system is the voluntary consent of taxpayers to honestly report on their activities.

Knowledge of the Tax Function. There are two tax functions, namely: a) budget function. In this context, tax is the source of funds intended to finance government spending. Balance of revenues and expenditures of the budget, b) regulation function. In this aspect, tax has function as a tool for regulating or implementing policies in the social and economic spheres [15]. This function implies that taxes can be used as tools to achieve certain goals.

2.2 Tax Compliance

Tax compliance can be defined as the state in which a taxpayer fulfills all tax obligations and exercises its tax rights [16]. This identification will be an indicator in the taxpayer matching variable. According to Nasucha [17], taxpayer eligibility can be determined by: a) compliance with the rules of the taxpayer during registration; b) compliance in reporting a letter of notification; c) compliance with the rules for calculating and paying taxes.

Another view on mandatory compliance is also expressed by Novak [18], who argues that the climate of compliance by taxpayers is: 1) taxpayers understand and attempt to understand Tax Laws; 2) fill out tax forms correctly 3) calculate the amount of tax correctly; 4) pay taxes on time. According to Sofyan [19], tax compliance is defined as the condition under which taxpayers fulfill all tax obligations and exercise their tax rights. There are two types of compliance, namely formal-compliance and material-compliance [19].

Formal compliance is the condition under which a taxpayer formally fulfills its tax obligations in accordance with the provisions of the tax law. For example, the provisions on the limit of the annual income tax return before the deadline, it can be said that the taxpayer has complied with the formal provisions, but the content does not necessarily comply with the essential provisions. Substantial compliance is the condition under which the taxpayer essentially fulfills all the essential provisions of taxation, namely, in accordance with the content and spirit of the tax legislation. Taxpayers who qualify for Substantial Compliance are taxpayers who honestly, completely, and correctly complete their annual tax return in accordance with the provisions and submit it to tax office before the deadline.

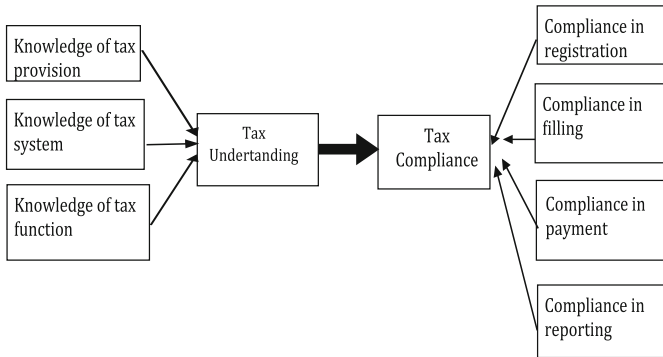


Fig. 1. Framework of study.

Few studies have been conducted on taxpayer compliance due to the difficulty of obtaining respondents. Intuitively, one can assume that no one likes to pay taxes, dislike of paying taxes will be caused by non-compliance with tax laws, especially the amount of taxes paid. Taxpayers have a natural tendency to hide information about their non-compliance with the rules and try to cover up tax crimes committed by anyone.

From the various explanations that have been given above, it can be concluded that tax compliance is compliance of taxpayers with all tax laws and regulations including compliance in registering, in fulfilling tax forms, in paying taxes, and in reporting annual tax report.

According to literature review, the framework of study formulated is shown in Fig. 1.

3 Methods

In this study, the research approach used is a quantitative approach by conducting correlation and regression analysis of related variables. The population as well as the sample in this study were 83 persons of regional civil servants in the local government Inspectorate in Cianjur.

The data were collected by a survey method using a questionnaire as a tool. An interview process was also carried out to confirm the data. The scale used in the instrument, in this case the questionnaire, is a Likert scale, as follows: 1) strongly disagree (scale of 1); 2) disagree (scale of 2); 3) neutral (scale of 3); 4) agree (scale of 4); and 5) strongly agree (scale of 5).

Data obtained from the distribution of questionnaires, then obtained to obtain information about the characteristics of the respondents and the perceptions of the respondents about the understanding of taxation and tax compliance. Processed using the SPSS ver.16. The results were then analyzed both descriptive and verificative analysis.

Descriptive analysis was performed using the SPSS application through frequency measurements. The results of these frequencies are then plotted as percentages to provide a picture of perceived agreement/disagreement with the measures of the tax understanding variable and the tax compliance variable.

Verificative analysis was conducted to see the impact of tax understanding on tax compliance, with the hypothesis: "Tax understanding has a significant impact on tax compliance". Verification analysis steps are namely: 1) correlation test with Pearson correlation; 2) simple regression analysis with ANOVA; 3) Hypothesis testing with t-test; 4) Deterministic analysis with F. Test. By these analyses are expected to clarify the role of tax understanding toward tax compliance.

4 Results and Discussion

4.1 Characteristics of Respondents

In general, the respondents get source of tax information from the Internet (40.5 percent). Then sources of income outside of salary are come from structural or functional allowances and fees from internal activities (97.4 percent).

4.2 Descriptive Analysis

Analysis in the Aspect of Tax Understanding. The results of the following analysis describe the respondents' understanding of taxation issues. This percentage represents the percentage of respondents agreeing with the measure of tax understanding. As a result, respondents are descriptively 1) understand tax sanction provisions (89.2 percent); 2) understand tax service regulations (89.1 percent); 3) understand the modern system of tax administration in Indonesia (77.1 percent). 4) understanding self-assessment as a tax collection system in indonesia (90.4 percent); 5) understanding official assessment as part of the tax collection system (89.2 percent); 6) select official assessment as tax collection system in indonesia (82 percent); 7) understanding to report all income in the annual tax return (92.8 percent); 8) understanding as a role model for fulfilling all tax obligations (67.4 percent).

Analysis in the Aspect of Tax Compliance. The Results of the Following Analysis Characterize the Tax Compliance of the Respondents, Which is the Percentage of Respondents' Approval of the Indicators of Compliance of Taxpayers. In the Side of Tax Compliance, This Study Highlighted that Respondents: Have Registered Voluntarily in Getting Taxpayer Identification Number (90.3 Percent); Have Registered Taxpayer Refers to Working as a Role Model for the Community (80.7 Percent); Have Recorded All Transactions and Retained All Evidences (72.3 Percent); Have Made Bookkeeping for All Income (60.2 Percent); Have Fulfilled the Annual Tax Return Forms (90.4 Percent); Have Fulfilled the Monthly Tax Return Forms (69.8 Percent); Have Fulfilled Completely and Correctly the Tax Forms (86.8 Percent); Have Calculated All Incomes for Tax Purposes (83.2 Percent); Have Reported Honestly Incomes in Paying Taxes (86.8 Percent); Have Used the Correct Tax Tariff When Calculating Taxable Income (91.6 Percent); Have Reported All Incomes Both Internal and External (85.5 Percent); Including Have Involved Incomes that Have not Been Deducted by Tax in the Tax Report (77.2 Percent).

In addition, this study also found that respondents have compliance in calculating tax payable (77.1 percent); in paying taxes in accordance with applicable regulations (92.8

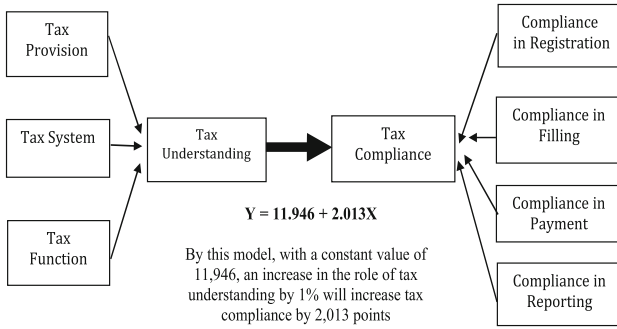


Fig. 2. Model of role of tax understanding on tax compliance.

percent); in paying taxes on incomes that have not been deducted by tax (84.4 percent); in paying taxes without cheat (89.2 percent); in submitting the annual tax return (95.2 percent); in delivering the annual tax returns individually via e-filing (88 percent), and in conveying on time the annual tax returns (92.8 percent).

4.3 Verification Analysis

Referring to the results of the descriptive analysis and then testing the data with a validation analysis to see if the “Tax Understanding” variable as the independent variable plays a role in the “Tax Compliance” variable as the dependent variable, with the following results:

Correlation Test. By using the pearson correlation test, the result is 0.826. This means that there is a strong relationship or correlation between tax understanding and tax compliance.

Simple Regression Analysis. Through the ANOVA test, these two variables, namely tax understanding and tax compliance, were found to be positively correlated. This means that increasing tax awareness will increase tax compliance, according to the equation $y = 11,946 + 2,013x$.

Test of Hypothesis. When using a t-test, a significance of sig 0.016, < 0.05 means that the hypothesis is accepted, namely: “understanding taxes has a significant impact on tax compliance.”

Analysis of Determination. When using the F-test, the r-squared result is 0.678, which means that the contribution of tax understanding to tax compliance is 67.8 percent.

According to the results of descriptive analysis and verification analysis, we than formulated a model of role as shown in Fig. 2.

5 Conclusions and Recommendations

According to the results of the study, both descriptive and verificative analyses, this study concludes: 1) understanding local public officials as a role model in fulfilling tax obligations is the weakest factor. Although the ratio rate is over 50 percent, this aspect needs

attention to improve tax compliance; 2) making bookkeeping for all incomes received in the context of taxation activities also has highlighted as the weakest factor. Even though the point is more than 50 percent, this aspect must be concerned because of as one of important factors in meeting tax obligations; 3) there is agreement toward understanding about tax regulations; tax system; and tax function (average for all indicators are 84.65 percent); 4) there is agreement regarding with compliance in register, compliance in fulfilling tax forms, compliance in paying taxes, and compliance in reporting annual tax return (average for all indicators are 83.91percent). Finally, this study has succeeded in revealing the role of tax understanding toward tax compliance because of strong correlation; positive correlation, significant effect; and the contribution of the tax understanding variable to the tax compliance variable.

As recommendation, this study proposes that: 1) it is needed increasing tax understanding about local public officials are the role model in fulfilling tax obligation. Improved understanding can be achieved through intense socialization both online and offline and a reward for local public officials who are honest in their tax reporting and become role models in the community. Importantly, it is required a strong commitment for local public officials, especially in relation to meeting tax obligations.

2) It is necessary to increase the understanding that the regional public officials should prepare bookkeeping for all incomes received to avoid errors in the fulfilling tax obligations. This aspect can be achieved by training how to do simple financial bookkeeping related to taxation in which it can take place both in and outside location. Most importantly, there is a reward for participants who are serious in study and can apply the knowledge. Afterward, the study also recommended that 3) in improving tax compliance, it is required the strong understanding related to taxation, mainly understanding according to the role of local public officials as the role model of community in fulfilling tax obligation and understanding about the importance of making bookkeeping for all incomes received; 4) strong commitment is needed to implement local public officials as a role model for society. If awareness of taxes increases, then tax compliance will increase, resulting in increased government tax revenues and, ultimately, increased development and welfare of society. Finally, 5) the need to implement the model of tax understanding role on tax compliance. This is because based on the model formulated, the effort of 1 percent to increase the tax understanding will increase the tax compliance.

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