

Tax Amnesty as a Contribution to the Improvement of Taxpayers' Compliance

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Abstract—The largest component revenue of Indonesia is taxes, which currently account for over 80% of total domestic revenues. Therefore, the government puts effort on encouraging the raise of tax revenue by increasing compliance of taxpayer. In fact, the current tax ratio of Indonesia is low, which means that tax revenue is still low compared to the Gross Domestic Product (GDP). However, there is still a big chance for the government to increase tax revenues. One of the efforts of government is to make a policy of tax amnesty, in which the government hopes that the taxpayers experience the ease to report all the assets. The ease of reporting comes from the elimination of any sanctions related to previously unreported assets by reporting the assets owned with a certain fixed amount of redemption. This research was conducted in Bekasi, Indonesia to find out how big the influence of tax amnesty policy on compliance of taxpayer is. This research is a descriptive and verification one which captures variables of tax amnesty program and compliance of taxpayer. This research was done through surveying samples and questionnaire to collect main data. To determine the effect of tax amnesty program on compliance of taxpayer, SEM (Structural Equation Modeling) was used. The result showed that tax amnesty policy gave positive contribution to the improvement compliance of taxpayer.

Keywords—tax amnesty; tax ratio; compliance of taxpayer; tax revenue; tax sanctions

I. INTRODUCTION

Tax revenue is a major component of domestic revenues for a proportion of no less than 80% [1]. To keep providing for the planned infrastructure development, the government continues to call on all citizens to contribute in fundraising by investing their funds domestically. The government reminds that investment in infrastructure will bring long-term effects. The benefits will continue to be sustainable. Therefore, the presence of investors in infrastructure development should get support.

The government of Indonesia has implemented tax amnesty policy for three times in 1964, 1984, and 2016. The law on tax amnesty has been issued since July 16, 2016 [2]. In the tax amnesty law, there are opportunities for investors who invest their money abroad to immediately withdraw and invest it in the country. For that, they are exempted from criminal law and released from the examination by the tax authorities on the source of their wealth except the wealth derived from terrorist, drug and human trafficking, although this also raises the pros and cons of some circles.

Tax compliance is defined as the ideal condition that the taxpayer fulfils the tax regulations and reports his/her earnings accurately and honestly. Such ideal conditions can create tax compliance, which is defined as a state of the taxpayer that meets all tax obligations and exercises its taxation rights in the form of formal and material compliance. The above concept of tax compliance is in accordance with the opinion which states that the level of voluntary taxation compliance has three aspects: formality, honesty, and reporting [3].

This study was conducted in Bekasi, Indonesia, with the aim of obtaining empirical evidence on how much tax amnesty policy contributes to taxpayers' compliance.

This study is based on the theory of compliance, in which there are two approaches to the theory of compliance, namely the approach of economic theory and the approach of psychological theory [4]. The theoretical approaches of economics emphasizes incentives, whereas psychology-based theory emphasizes attitudes.

This compliance theory approach is supported by Guidance Note Organization for Economic Cooperation and Development (OECD) [5], which explains that Taxpayer compliance are affected by economic factors and behavioral factors. Economic factors consist of financial burden, cost of compliance, disincentives, and incentives. While behavioral factors can be influenced by individual factors, differences in perception, consideration for practice of tax avoidance or tax evasion with the risk of being caught through the tax examination.

The pioneer of study on Taxpayer compliance is Allingham and Sandmo. Allingham and Sandmo use the concept of expected utility to explain the taxpayer's compliance behavior [6]. On the other hand, the non-economic factors affecting the taxpayer non-compliance behavior is the level of knowledge and understanding of the Taxpayer against the applicable taxation provisions [7].

Tax compliance can be defined as a condition in which the Taxpayer fulfills all tax obligations and exercises its taxation rights. Tax compliance includes formal compliance and material compliance [8]. Owens and Hamilton argue that taxation matters should be handled by people with small-scale businesses, without the need for the help of an association of tax accountants or lawyers. Therefore, the tax authorities should be able to create a good and simple system so that the

small entrepreneurs can make their own taxes. It will definitely improve the level of tax compliance [9].

Tax amnesty is an opportunity of limited time given for a particular group of taxpayers to pay a certain amount within a certain period of a tax liability's amnesty (including interest and penalties) regarding to a previous taxable period or period without fear of a criminal penalty. The policy of tax forgiveness was actually applied by Indonesia for the first time in 1984, but at that time it could be said to be less successful [2].

The simplest definition of the tax amnesty is the annulment of taxes for taxpayers who deposit their funds abroad and within the country, and do not fulfill their obligations in paying taxes in exchange for depositing taxes at a lower rate. With this tax amnesty, entrepreneurs who deposit their funds abroad are expected to transfer their funds in Indonesia and comply tax policy in order to increase state tax revenue [1].

The percentage of underground economy in developed countries possibly reach 14 – 16% of the Gross Domestic Product (GDP), meanwhile developing countries can reach 35 – 44% of their GDP for underground economy. Underground economy activities have never been reported as income on Annual Tax Return of Income Tax.

Tax evasion burdens honest taxpayers by causing them to pay more amount of tax and this results in high inequality. Both high level of underground economic activities and tax evasion bring huge drawbacks to the nation as it means the loss of tax revenue that is required to fund education, health and other poverty alleviation programs. Therefore, the idea arises to re-impose the unpaid tax from the underground economic activities through a special program namely tax amnesty [10].

The long-term effect that is expected by the Government is the incurrance of taxpayer awareness of its obligations in taxation [11]. After following the tax amnesty, taxpayers are estimated to become relieved and have no worries of being examined by the tax officer until the fiscal year 2015. For that psychological effect, taxpayers will keep that kind of "relief". Therefore, they will try to become obedient taxpayers who always fulfill their tax obligations by paying and reporting taxes as they are supposed to [2].

In the state of Michigan, two-thirds of the new Taxpayers, and nine out of ten old taxpayers who have implemented tax amnesty programs, will keep on tax reporting and make payments as they should. This fact shows that tax amnesty programs will have an effect on tax compliance [12].

II. METHOD

This research is a descriptive and verification research, which aims to provide an overview of the research variables. The description that will be obtained in this study is a description of the tax amnesty policy variables, and taxpayers' compliance. This study uses a survey method approach, which takes a sample from a population and uses a questionnaire as the main data collection tool [13]. Furthermore, to examine the effect of the tax amnesty program on taxpayer compliance, a

structural equation model of Structural Equation Modeling (SEM) was used.

The steps taken in using SEM are as follows:

A. Building a Theory-based Model

Structural equation modeling is based on a causal relationship, where changes that occur in a variable are thought to be caused by changes in other variables. At this stage the theoretical model is developed in accordance with the model that will be observed, which is reflected in the frame of mind described.

B. Building a Causal Relationship Diagram

SEM describes the relationship between variables in a path diagram that can specifically help in describing a series of causal relationships between constructions of theoretical models that have been built in the first stage [14].

Based on previous studies, this study proposes hypothesis: The policy of tax amnesty has contributed to the compliance of taxpayers in Bekasi.

III. RESULTS AND DISCUSSION

In accordance with the purpose of the research, which is to examine the effect of tax amnesty (X) program implementation on taxpayer's compliance (Y), the data analysis method used in this research is structural equation modeling. Complete diagram of full model line in this study can be seen in figure 1 below:

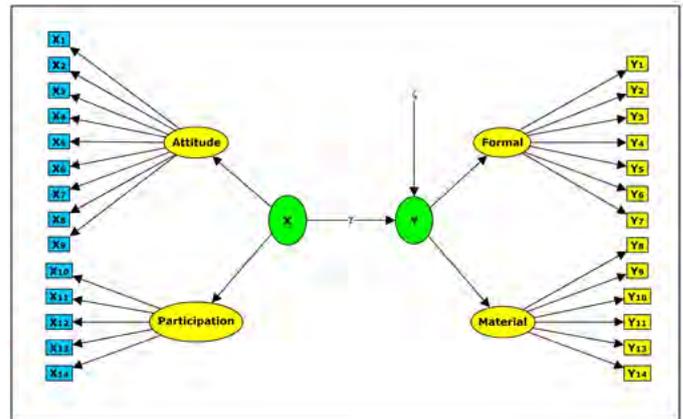


Fig. 1. Overall analysis structure research variables.

Where:

X = tax amnesty program

Y = taxpayer compliance

γ = the coefficient of influence of exogenous latent variable on endogenous latent

ζ = other affecting factors

In structural equation modeling there are two types of models that are formed, namely measurement model and structural model. The measurement model describes the

variance of each manifest variable (indicator) that can be passed by the latent variable. Measurement model will indicate dominant indicators in reflecting the latent variables. Once the model measures each of the latent variables described here in after will be described a structural model that will examine the effect of the latent independent variable (exogenous latent variable) on the latent variable dependent (endogenous latent variable) [14].

Measurement model is a model that connects latent variables with manifest variables. In this study, there are 6 latent variables with the number of manifest variables as many as 26. The latent variable of tax amnesty program consists of 14 manifest variables and the latent variable of Taxpayer's answer also consists of 12 manifest variables. personality variables that have a loading factor value of ± 0.50 or greater are practically significant [15].

In the data processing, there are 3 indicators that have a loading factor smaller than 0.5, the indicator X5 and X9 on the latent variable X (tax amnesty program) as well as Y6 on the latent variable Y (taxpayers' answers). Since the scores of indicators' loading factor are less than 0.5, those indicators are removed from the model [16]. The new path diagram that excludes factors whose score are less than 0.5 is shown in the following figure 2:

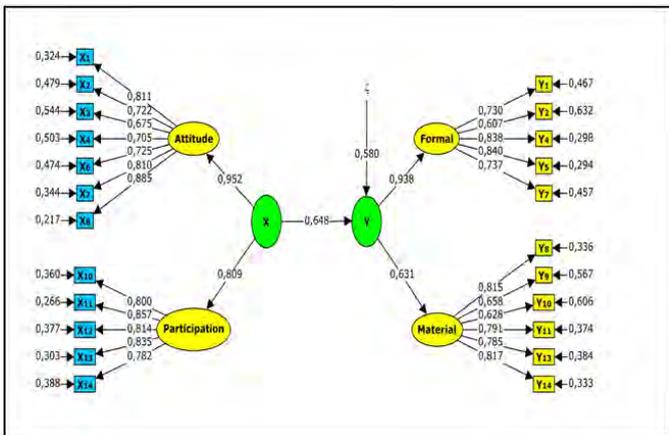


Fig. 2. Final path model's diagram.

As we can see from figure 2, the results of loading factor testing of each indicator or dimension on each latent variable tax amnesty program and taxpayer compliance are:

A. Variable Measurement Model for Implementation of Tax Amnesty Program

The attitude dimension's average variance extracted (AVE) value of 0.585 indicates that on average each indicator is able to reflect the attitude dimension of 58.5%. Furthermore, the largest loading factor on the dimensions of attitudes is owned by indicator X8, which means that the indicator X8 (Participating in the tax amnesty release the fear of reporting tax obligations) strongly reflects the attitude of the Taxpayer the most. The average variance extracted (AVE) of participation dimension of 0.669 indicates that on average each indicator is able to reflect the participation dimension by 66.9%. Furthermore, the largest loading factor in the

participation dimension is X11 indicator, showing that the indicator X11 (A tax officer can influence a person to participate in the tax amnesty program) is strongest factor in representing participation.

In the second order, it can be seen that loading factors of each dimension are greater than 0.50. This information shows that both dimensions are valid in measuring the latent variable of the implementation of tax amnesty program. The attitude dimension has the greatest loading factor, meaning the attitude is stronger in reflecting the implementation of the tax amnesty program than participation is. The average variance extracted value of 0.780 indicates that on average 78.0% of the information contained in each dimension can be reflected through the tax amnesty program variable. In addition, the value of construct reliability of 0.876 is still greater than the recommended value that is 0.70.

B. Measurement Model of Taxpayer Compliance Variable

In the formal compliance dimension, the average variance extracted (AVE) value of 0,570 indicates that on average each indicator is able to reflect formal compliance dimension by 57.0%. Furthermore, the largest loading factor in the formal compliance dimension is Y5 indicator, indicating that the Y5 indicator (Always perform your tax reporting on time) is strongest in reflecting the formal compliance of the Taxpayer. In the material compliance dimension the average variance extracted (AVE) value of 0,567 shows that on average each indicator is able to reflect the material compliance dimension of 56.7%. Furthermore, the biggest loading factor in material compliance dimension is Y14 indicator, meaning that Y14 indicator (not having tax arrears) is strongest in reflecting compliance of taxpayer material.

In the second order, it can be seen that loading factor of each dimension which is greater than 0.50 indicates that the two dimensions are valid in measuring the latent variable taxpayers' compliance. The formal compliance dimension has the greatest loading factor, meaning that it more strongly reflects taxpayers' compliance than the material compliance does. The average variance extracted value of 0.639 indicates that on average 63.9% of the information contained in each dimension can be reflected through the taxpayer compliance variable. Then the value of construct reliability of 0.773 is still greater than the recommended value of 0.70.

The result of the absolute conformity test shows that the obtained model meets the criteria of goodness of fit on the size of RMSEA and RMR, then the incremental fit measures meet the criteria of goodness of fit on the size of CFI, RFI, IFI and NFI so it can be concluded that the estimation model is acceptable which means that the empirical model obtained is relevant with the theoretical model.

The structural model is a model that connects exogenous latent variables with endogenous latent variables. Based on the results of data processing, structural equations are obtained and going to be tested as presented in the table I.

TABLE I. STRUCTURAL EQUATIONS OF THE INFLUENCE OF TAX AMNESTY PROGRAM'S IMPLEMENTATION ON TAXPAYERS' COMPLIANCE

Endogenous Constructs	Exogenous Constructs	R-square
	X	
Y	0,648 (5,529)*	0,420

*The number in parentheses is a t-test statistic value.

Table I shows the value of R-square indicates that the implementation of tax amnesty program gives 42.0% effect on taxpayer compliance in Bekasi. While the rest of 58.0% is the influence of other factors. Furthermore, to prove whether the implementation of the tax amnesty program affects the compliance of taxpayers, that effect was tested by statistical hypothesis as follows.

$H_0 : \gamma_{1.1} = 0$ Implementation of tax amnesty program brings no effect on taxpayer compliance in Bekasi.

$H_a : \gamma_{1.1} \neq 0$ Implementation of tax amnesty program brings no effect on taxpayer compliance in Bekasi.

The summary of test results used to examine the effect of tax amnesty program implementation on Taxpayer compliance can be seen in the table II.

TABLE II. TEST RESULT OF THE INFLUENCE OF IMPLEMENTATION OF TAX AMNESTY PROGRAM ON TAXPAYER COMPLIANCE.

Path Coefficient	t _{statistic}	t _{critical}	H ₀
0,648	5,529	1,96	rejected

Table II shows the t_{statistic} value of tax amnesty program implementation variables (5,529) which is greater than t_{critical} (1.96). Due to this reason, the error rate of 5% rejects Ho and Ha was accepted. Based on the test results, it can be concluded that the implementation of the tax amnesty program affects the compliance of taxpayers in Bekasi. The results of this study provide empirical evidence that better implementation of the tax amnesty program will improve taxpayers' compliance. The value of path coefficient of 0.648 indicates that the implementation of the tax amnesty program gives a strong influence on taxpayer compliance in Bekasi.

IV. CONCLUSION

Based on the results of research and discussion that have been performed, it can be concluded that the implementation of the tax amnesty program affects the compliance of taxpayers in Bekasi. The results of this study provide empirical evidence

that better the implementation of the tax amnesty program will improve taxpayer compliance.

From the results of the research that has been discussed and concluded, a policy in the field of taxation such as tax amnesty or other taxation policy is highly suggested to be socialized widely and comprehensively to all taxpayers in order to inform them the benefits of it. With the knowledge of the expected benefits from the program on taxation policies, more taxpayers will participate in the program and taxpayers' compliance will improve.

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