



## Determining taxpayer compliance using tax knowledge as moderating variables

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### ABSTRACT

*This research is intended to determine the impact of the transformation of MSME tax rates as well as the modernization on the tax administration system on the complying to taxpayer with tax knowledge which is usually in the form of moderation variations. This research implements a quantitative approach and data collection techniques by distributing questionnaires to a number of samples that are 64 respondents with a convenience sampling method. Partial least squares (PLS) analysis was assisted by the Smart-PLS application which was used to support the research analysis, in addition to using regression analysis using the bootstrapping procedure. The results showed that changes in MSME tax rates and the modernization of the tax administration system played a significant role in taxpayer compliance. Tax understanding moderates the transformations in MSME tax rates and modernizes the tax administration system for taxpayer compliance.*



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## INTRODUCTION

The monetary movement of the Indonesian state is supported by the development of micro, small and medium enterprises (MSMEs). Meanwhile, MSMEs provide job opportunities, MSMEs also have a role in encouraging financial growth after the financial crisis and in difficult times for large companies to develop its business. The number of MSMEs in Indonesia covers 64 million businesses and 98.8% is dominated by MSMEs, but based on the records of the Directorate General of Taxes (DGT) of Indonesia, there are around one and a half million who are obedient to paying taxes with a contribution of less than two and a half percent of the total income from income taxes from the taxpayers ([www.depkop.go.id](http://www.depkop.go.id)). Because of Indonesia's large number of MSMEs, the tax incomes from the MSMEs segment should rise with time. In spite of this, the tax authorities have a limited ability to collect taxes due to the limitations in the administration of taxes and tax rates ((Walsh, 2012); (Waluyo, 2017)).

The tax rate is the basis for the imposition of taxes applied in the context of determining the amount of tax owed on a tax object (Mustofa, 2016). Tax rates can motivate taxpayers to plan taxes in an effort to avoid the imposition of high tax rates (Mangoting & Sadjiarto, 2013). Tariffs that are deliberately lowered by the government based on Government Regulation No. 23 of 2018 which has been enforced since July 1, 2018 are expected to increase taxpayer compliance in reporting their taxes. In addition, this rate reduction can be used as a momentum for MSMEs to immediately develop their businesses and improve their welfare. This is a simplified tax rate in the form of a final tax rate from one percent to half a percent. Tax authorities improve organizational capacity, strengthen information technology, strengthen organizations, enhance budgets and business processes, and use tax data from other parties. They also collect and analyze tax data from other sources. The MSME sector is a potential growth area for achieving the tax revenue objective. This is due to the fact that MSMEs play a significant role in Indonesia's economy (Rekarti & Doktoralina, 2017).

The DGT has obtained an increase in tax revenue as the number of taxpayers increases. As the number of taxpayers increases, the practice must be accompanied by an increase in taxpayers for MSME entrepreneurs. The problem of compliance has an essential role which is generally caused by non-payment of taxes so that state treasury income from the tax segment decreases. If the accuracy of tax calculation is correct, the deposit is on time, and the more precise the filling of the tax return, the greater the expectation of an increase in taxpayer compliance in fulfilling the responsibility for paying taxes. In the theory of justice, taxpayers whether can be satisfied or no, depending on the existence of an

equality system, one of which is about tax rates. When different tax rates are given based on the diversity of business activities and changes in tax rates towards improvement, of course it can be an increase in taxpayer compliance.

Government Regulation (PP) Number 23 Year 2018 is a state effort to foster taxpayer compliance and explore income from the tax sector, which describes if each public activity whose turnover is below 4.8 billion rupiahs can be subject to a large final revenue of the tax that will be half percent (Pemerintah, 2018). A reduction in the tax rate to half a percent from the previous 1% can make a fairly powerful incentive for MSME entrepreneurs because the nominal decline is quite significant (Saputri, 2018). Knowledge related to tax regulations is obtained from both formal and non-formal learning which can give a positive impression on the awareness of taxpayers in the context of paying taxes, by increasing the quality of knowledge it can provide insight in fulfilling obligations correctly through the existing tax system and is considered fair. Estimation that knowledge related to taxation can be used as a moderator related to taxpayer compliance is considered appropriate only if the taxpayer has a sufficient level of knowledge about taxes and an understanding of how to understand various kinds of tax rates. This will be an incentive for taxpayers to fulfill their tax-related responsibilities

The level of taxpayer compliance can be increased by modernizing the administrative system in this area. Thus, according to (Triwigati & Rusydi, 2012) "a modern tax administration system is defined as a tax administration system that is undergoing improvements and/or improvements to improve services to taxpayers by utilizing information technology so as to improve taxpayer compliance and tax revenue". One of the steps is through e-filing, namely an effort to notify via digital or online in real time, either through the DGT website ([www.pajak.go.id](http://www.pajak.go.id)), Application Service Providers and Application Service Providers (ASP). The implementation of this system is a factor that has an influence on taxpayer compliance. This observation agrees with (Susmita & Supadmi, 2016) who explain that the application of e-filing has a confident impact on taxpayer compliance. According to (Candra et al., 2013) argue that there is a means from the government in order to growth taxpayer compliance, namely in the form of modernizing the tax administration system. The government has succeeded in growing income from the tax segment. This is mainly due to the growing compliance of taxpayers. However, in order to sustain the growth of compliance, it is necessary to implement real government efforts, in the form of coaching and counseling related to the tax sector.

The phenomenon that occurs in MSME taxpayers or individual business owners in the Jakarta region is the lack of tax compliance, such as there are still taxpayers who do not want to have a taxpayer identification number (NPWP), and do not want their income to decrease because they have to pay taxes. Taxpayers are dissatisfied with public services. The entrepreneurs have a tendency to be disobedient when compared to other regions. Jakarta is the heart of Indonesia and the center of the circulation of money, where every beat plays a role in the growth and development of the nation's economy. This gives the rise to compete in the procurement of both products and services as well as residents who seek livelihoods there. Conversely, labor-intensive economic governance in order to empower Jakarta residents to advance economically and increase welfare will give residents hope for business development, especially MSMEs. The realization of the Special Capital Region of Jakarta provincial tax revenue is still far from the target. In mid-2020, it only managed to collect taxes of 30% of the set target, with a tax ratio of only 1.48% in 2019.

Research conducted by (Ulfa & Ratnawati, 2015) states that taxpayer awareness does not significantly influence taxpayer compliance. Taxpayer knowledge has a significant impact on taxpayer compliance. The public's attitude toward paying taxes has shifted significantly toward taxpayer compliance. Subsequent research conducted by (Caroko et al., 2015) showed that the variables of knowledge, service quality, and tax sanctions had an effect on individual taxpayers' motivation to pay taxes. While partial test results or individual tax returns demonstrate knowledge, the quality of tax services and tax penalties have a significant impact on individual taxpayer motivation to pay taxes. In addition, the research conducted by (Putri & Suandy, 2015) stated that knowledge taxation has a positive and significant influence on the compliance of the taxpayer of the Jasmine Hotel in Yogyakarta City. So based on the description above, the researcher wants to conduct research with the goal of being able to analyze the significant effect of changes in MSME tax rates and modernization of the tax administration system on taxpayer compliance moderated by knowledge of taxation.

## RESEARCH METHOD

This study uses quantitative approach to examine the hypothesis that have been proposed in this study (Sugiyono, 2019). The population used in this observation is an individual MSME taxpayer in Jakarta. The sampling technique used is convenience sampling. Respondents as informants in this research were 64 respondents. Primary data was collected through an instrument in the form of a questionnaire. The causality method is used through the Partial Least Square (PLS) approach, which is a multivariate statistical approach with a variance basis designed in order to make multiple regression solutions for specific problems on the data as if the number of samples is small, and there will be missing data (missing value), and multicollinearity. The analysis methods include: Convergent Validity, Discriminant Validity, Composite Reliability, Structural Model (Inner Model) which is evaluated by using R-Square as the dependent construct and t test and the significance of the coefficients of the structural path parameters. Regression analysis was performed through a bootstrapping procedure.

## Hypothesis

**H1** : Changes in MSME tax rates affect taxpayer compliance

**H2** : Modernization of the tax administration system affects taxpayer compliance

**H3** : Tax knowledge moderates changes in MSME tax rates that affect taxpayer compliance

**H4** : Tax knowledge moderates the modernization of the tax administration system and affects taxpayer compliance

## RESULTS AND DISCUSSION

### Results

Table 1 indicates the descriptive statistics obtained through the distribution of questionnaires delivered to 64 respondents. The questionnaire describes a description of the identity of the respondents, which includes gender, age, education level, years of being a taxpayer and annual turnover.

**Table 1 Respondents Descriptive Statistics**

Information		Number of Respondents	Percentage (%)
<b>Gender</b>	Male	51	80
	Female	13	20
	<b>Total</b>	<b>64</b>	<b>100</b>
<b>Age</b>	20 - 30	7	11
	31 - 40	14	22
	41 - 50	27	42
	bigger than 50	16	25
	<b>Total</b>	<b>64</b>	<b>100</b>
<b>Education Level</b>	SMA	18	28
	D3	6	9
	S1	36	57
	S2	4	6
	<b>Total</b>	<b>64</b>	<b>100</b>
<b>Length as Taxpayer</b>	<1 year	4	6
	1–10 years	25	39
	10–20 years	23	36
	>20 years	12	19
	<b>Total</b>	<b>64</b>	<b>100</b>
<b>Annual Turnover</b>	<1 billion	12	19
	1–2 billions	15	23
	2–3 billions	10	16
	3–4.8 billions	27	42
	<b>Total</b>	<b>64</b>	<b>100</b>

Source: Processed data (2020)

Figure 2 shows the validity and reliability assessments. Construct validity is implemented as a validity assessment. The construct validity assessment can be applied to observe the strength of the relationship between the construct and the constructor's indicators, as well as its weak correlation with other constructs. The validity test shows the Average Variance Extract (AVE) value which is above half. This means that there is no discriminant validity problem. The reliability assessment shows the value of composite reliability and Cronbach's alpha above seven tenths. This means that the value of each instrument is stated to have sufficient reliability or can be used as a construct measure.

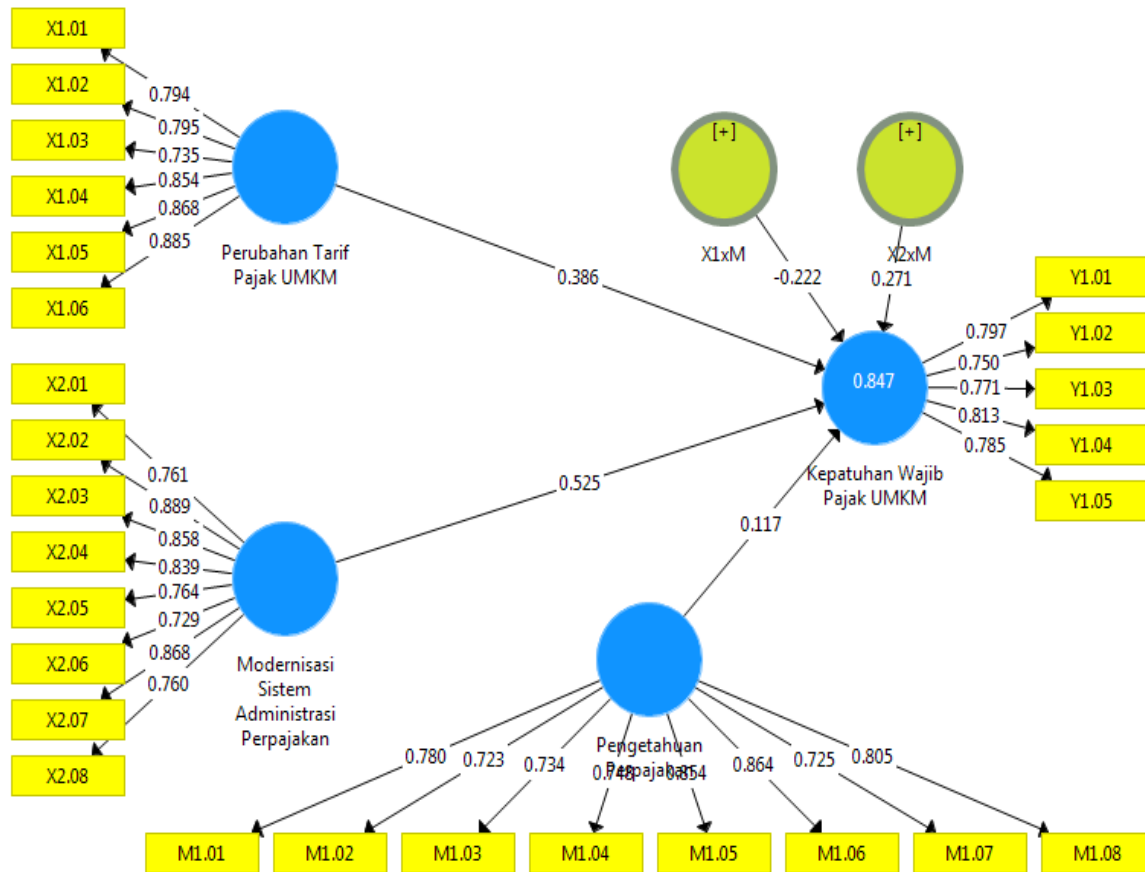


Figure 2 Construct Model

Table 2 presents the results of the validity and reliability tests.

Table 2 Validity and Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability	AVE
Changes in MSME Tax Rates	0.905	0.927	0.679
Modernization of the Tax Administration System	0.924	0.938	0.657
Tax Knowledge	0.909	0.926	0.610
Taxpayer Compliance	0.843	0.888	0.614

Source: Processed data (2020)

Table 3 is an evaluation of the structural model (an inner model), which includes testing the path coefficient and R-Square (R<sup>2</sup>). This is obtained after evaluating the modeling and it is found that each construct has implemented the requirements of convergent validity, discriminant validity, and composite reliability. If the R-Square value increases, it can increase the capability of the independent

latent variable that is able to explain the dependent latent variable. The R-Square results of 0.67, 0.33, and 0.19 respectively indicate that the model is "strong", "moderate", and "weak" (Ghozali, 2014).

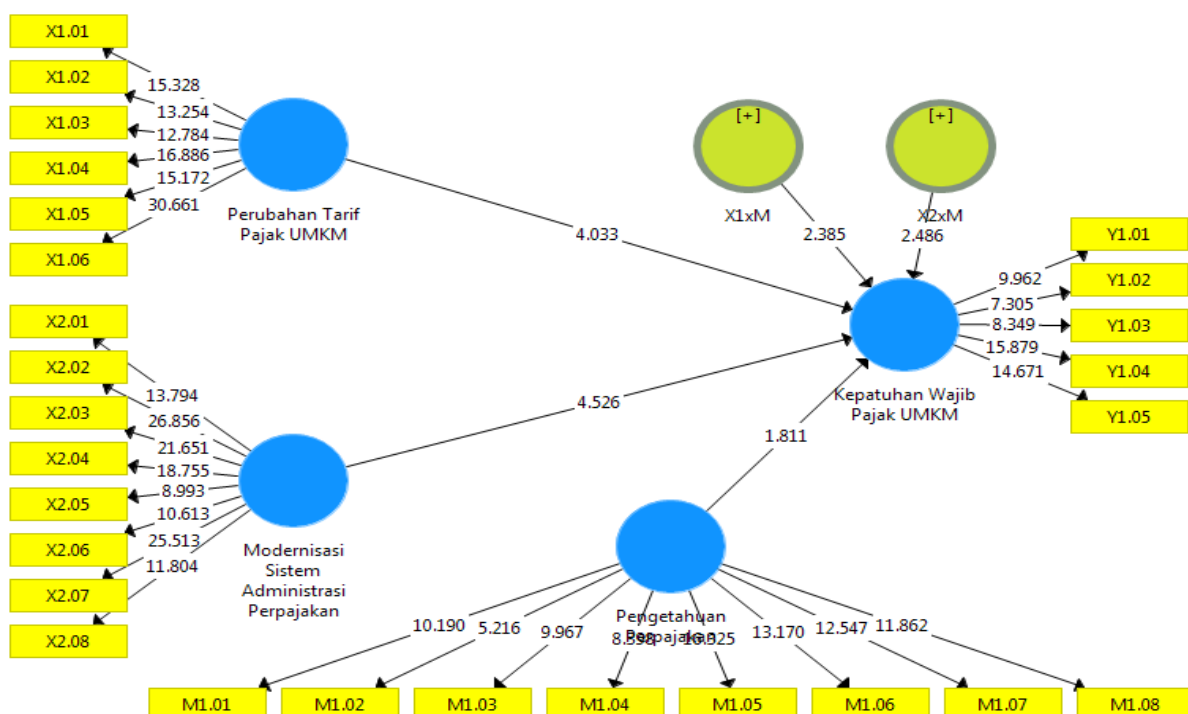
Based on Table 3, the R-Square value for the taxpayer compliance variable is 0.847. This means that 84.7% of variations or changes in taxpayer compliance are affected by changes in MSME tax rates, modernization of the tax administration system and tax knowledge, while the remaining 15.3% is explained by other reasons.

**Table 3 R-square coefficients**

	R Square
Taxpayer Compliance	0.847

Source: Processed data (2020)

Testing of each relationship (regression analysis) was carried out by implementing a simulation based on the bootstrapping approach to the sample. The test is intended to minimize the problem of abnormality during observation. Figure 3 shows the test results through the bootstrapping method of PLS.



**Figure 3 Diagram Path**

The calculation results can be observed based on the direct effect in table 4 below. It is stated that there is a direct impact if the Tstatistics value is greater than 1.96 and it is stated that there is no direct effect if Tstatistics smaller than 1.96. Variable changes in MSME tax rates have a significant effect on taxpayer compliance with a Tstatistics value of 4.033 which means bigger than 1.96. The variable of modernization of the tax administration system has a significant effect on taxpayer compliance with a Tstatistics value of 4.526 which means bigger than 1.96. Tax knowledge moderates the effect between changes in MSME tax rates and taxpayer compliance variables with a Tstatistics value of 2.385 which means bigger than 1.96. Knowledge of taxation moderates the effect between the modernization of the tax administration system, and the taxpayer compliance variable with a Tstatistics value of 2.486 which means bigger than 1.96.

**Table 4 Path Coefficients**

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>TStatistics ( O/STDEV )</b>	<b>P Values</b>
Changes in MSME Tax Rates → Taxpayer Compliance	0.386	0.397	0.096	4.033	0.000
Modernization of Tax Administration System → Taxpayer Compliance	0.525	0.515	0.116	4.526	0.000
X1xM → Taxpayer Compliance	-0.222	-0.229	0.093	2.385	0.017
X2xM → Taxpayer Compliance	0.271	0.265	0.109	2.486	0.013

Source: Processed data (2020)

## Discussion

### **Changes in MSME tax rates have a significant impact on taxpayer compliance.**

The theory of justice is an important element in the tax system because it can create taxpayer confidence. Tax equity happens when different rates are given based on the variety of business activities. Government Regulation Number 23 Year 2018 basically regulates the imposition of final revenue tax article 4 paragraph (2) for taxpayers who have a gross turnover of up to 4.8 billion Rupiahs in one tax year. The main changes include a reduction in the final income tax rate on certain gross income from the original 1% to 0.5% of turnover. The study's finding is in line with (Ardian & Pratomo, 2015) that the more unjust a tax system appears to be to a taxpayer, the lower the compliance rate will be, which implies that tax evasion will be more common subsequently taxpayers believe that the current tax system does not adequately protect their interests. However, the findings of this study are opposing with (Yusro & Kiswanto, 2014) and (Mir'atusholihah, 2013) statements that tax rates had no influence to taxpayer compliance.

### **The modernization of the tax administration system significantly affects compliance of taxpayer.**

Compliance theory relates to taxpayer behavior in carrying out their tax responsibilities in accordance with applicable regulations; if carrying out their tax obligations is convenient, each taxpayer is more likely to complete them on time, resulting in increased taxpayer compliance; on the other hand, every action taken is mandatory. The tax benefits must outweigh the costs incurred. The modernization of the tax administration system in the method of improving services for taxpayers through e-system-based services such as e-filing, e-billing, e-SPT, and e-registration relieves the burden of taxpayer administration and is indeed needed by all people, especially taxpayers because With the application, especially e-filing, it is expected that it will create it simpler for taxpayers to report their taxes anywhere and anytime. The existence of regulations that require taxpayers to report taxes online through an e-filing application can encourage taxpayers to get used to reporting their taxes on time in accordance with established regulations. This research is in line with investigation conducted by (Sofiyana, 2014) the modernization of the tax administration system has a significant effect on tax compliance because it provides convenience and comfort to taxpayers in carrying out the tax compliance. However, unlike observation conducted by (Suherman et al., 2015) who found the result that the implementation of e-filing had no influence on taxpayer compliance.

### **Knowledge of taxation moderates the tax administration system has a significant effect on taxpayer compliance.**

The theory of justice explains the correlation between the attitude of the taxpayer and taxpayer compliance, if the taxpayer views his rights and obligations as comparable in the sense that if the balance between responsibilities as a taxpayer and the rights that can be obtained, taxpayers have a tendency to be more obedient. Types of official taxes in Indonesia, from the subject, object, and tax rates, the estimation of tax payable, taxation payable record, and filling of tax reports. If the knowledge and understanding of taxpayers increases, it will result in them being able to make better decisions and

comply with tax-related regulations, but when the taxpayers is not having a basic knowledge on taxation regulations and processes, they are unable to make decisions regarding appropriate attitudes. Observations of (Ulfa & Ratnawati, 2015) conclude that tax knowledge has a positive influence on taxpayer compliance.

### **Knowledge of taxation moderates the tax administration system has a significant influence on taxpayer compliance.**

Compliance theory is related to the modernization of the system, namely if person complies with available requirements or regulations. A good and adequate tax administration system will result in taxpayers having confidence, motivation and determining tax-abiding behavior. Effective monitoring and service, the effectiveness of the administrative process, the friendliness of tax personnel and the convenience of the tax payment process are intended to motivate taxpayers to be loyal in paying and fulfilling their tax-related responsibilities. Understanding related to taxes can be a product of one's thinking from learning so that they can find out what is obtained through observations and observations related to an object and its relation to the taxation process, whether it is related to tariffs, ways of taxation, innovation in the tax sector and the benefits of revenue if the taxpayer has carried out his responsibilities. Responsible for their taxes so that taxpayers have information on tax administration procedures in accordance with the provisions of the Tax Act. The outcomes of research agree with the opinion of (Waluyo, 2018) regarding perceptions of tax justice, taxpayer's knowledge and tax administration affecting SMEs' tax compliance. However, contrary to the observation by (Nurhayati & Halimatusadiah, 2015) test results show that the service excellence of tax officers takes a significant influence on taxpayer compliance, but tax knowledge is not necessarily having a significant influence on taxpayer compliance.

### **CONCLUSION**

Based on the results and discussion of study, it can be concluded that changes in MSME tax rates have a significant imply on taxpayer compliance. This is because the better changes in tax rates made by the government, the more motivated taxpayers to pay taxes, this is estimated to encourage taxpayers to accomplish their tax responsibilities, thereby increasing the level of taxpayer compliance. By modernizing the tax administration system, it has a significant impact on taxpayer compliance. This is because the modernization of the tax administration system (e-filing) is able to provide time efficiency for MSME taxpayers and provide convenience to carry out their tax responsibilities consequently that there is an increase in taxpayer compliance. Knowledge of taxation moderates to the changes in MSME tax rates that have a significant impact on taxpayer compliance. It is due to the policy of reducing tax rates issued by the government and adequate tax knowledge can rise taxpayer to comply their tax responsibilities. Knowledge of taxation moderates the modernization of the tax administration system has a significant effect on taxpayer compliance. This is because there is adequate knowledge of MSME taxpayers related to taxes so that they are able to implement taxation well as well.

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