Tax Compliance: The Impact of Moderation of Awareness Tax

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Abstract: The purpose of this study is to analyze the role of tax awareness to moderate the influence of tax knowledge on compliance of Land and Rural Land and Urban Tax (PBB-P2). Taxpayer of PBB-P2 Batu City as respondent. The results showed that taxpayer's awareness is able to improve the relationship of tax knowledge to tax compliance. The results also show that a high level of awareness of a person can have a positive impact on tax knowledge on tax compliance.

Key words: Tax knowledge, awareness, tax compliance, positive impact, rural land, moderate

INTRODUCTION

Taxpayer compliance is an interesting issue to examine why are there many non-compliant taxpayers? and tax collection can not reach the target? Fundamental changes in the role and effectiveness of public services can influence taxpayer's attitudes while dynamic change can offer a good opportunity to examine citizen's attitudes toward the taxpayers as they are. Martinez-Vazquez (2003) reported on his research that in 1994 there were 6% of citizens who filed by replacing income statements and in 1996 there were only 16% of taxpayers paying on time, and 34% did not pay taxes at all. Torgler (2003) the growing recognition that there are important differences between countries in their tax compliance level and low economic model, taxpayer compliance can not explain these differences. Rahayu et al. (2017) some of these researchers suggest that the intrinsic motivation for individual taxpayers to pay different taxes in each country and this difference is what distinguishes the tax morality of states that can explain many observed differences in compliance behavior.

Factors influencing the attitudes of taxpayers have an important role as paying taxes. Social norms and citizen perceptions of government institutions and performance play an important role, besides the attitudes of citizens as taxpayers depends on factors such as demographic abilities consisting of education, employment. Rahayu et al. (2017) found evidence of taxpayer compliance is influenced by knowledge, understanding taxation and awareness of taxpayers in the research community awareness is good but on the implementation of payment constrained with economic and social background such as family income. Compliance of citizens to pay taxes is inseparable the government's important role in preparing service quality to provide taxpayer ease in the process of carrying out tax obligations such as tax reform in the form of legal improvements, use of information technology for payment, reporting and complaints.

Rapidly changing technological changes have a significant positive or negative impact, directly and indirectly on tax compliance. Technology that uses telecommunication and computerized systems will be able to improve the tax process substantially because it can save time and cost. But at the same time can provide better service. On the other hand, humans are influenced by technological change in different ways by making work more important for some people while pose a threat to others (Indah, 2017).

Knowledge and understanding of taxation has a role that is not less important in implementing taxation obligations. Every taxpayer who has a better quality of knowledge and understanding of taxation on taxation rules ranging from calculating, paying, reporting tax payable, knowing the limits of payment and reporting, sanctions or fines. If the taxpayer has a basic knowledge and understanding above which is the foundation of taxpayer compliance awakening it will provide the attitude of fulfilling obligations correctly through the tax system (Kurnia, 2010).

The model theory of planned behavior of behavior shows that compliance behavior provides a significant explanation that attitude variables, subjective norms and behavioral controls have an effect on non-adherence behaviors (Benk et al., 2011). Different results are also found in research Ebimobowei and Elizabeth (2016) that the variable understanding of taxation can affect taxpayer
compliance. However, these results are inconsistent with other researchers, finding there is a positive relationship in their research because taxpayers who already understand taxation think that it is better to pay taxes than to get tax sanctions.

Theoretically, taxpayer compliance may be influenced by tax knowledge (Akintoye et al., 2017; Saad, 2014) and taxpayer awareness (Geetha and Sekar, 2012; Chawla et al., 2013). From the knowledge and understanding aspect of taxation regulation, taxpayer compliance is influenced by tax knowledge sources as well as rights and obligations (Olaoye et al., 2017; Muhlis et al., 2015). The basic theoretical model to be established is the relationship between taxation knowledge with the consciousness of the taxpayer can improve taxpayer compliance. Taxpayer compliance can be built on the knowledge of the government’s continuously socialized tax regulation. In addition, taxpayer compliance can be increased by building taxpayer awareness about the importance of paying taxes for economic development.

**Literature review:** One of the efforts of the government to secure state revenues by building awareness and compliance through the willingness to pay taxes, tax targets will be achieved, if citizens have a high awareness of the importance of paying taxes for the development of the country. Non-compliance raises major international concerns for tax authorities and policy makers because serious tax evasion can threaten the capacity of governments to increase public revenues (Das-Gupta and Gang, 2000). The willingness of the residents to pay taxes is attributed to the attitude of the taxpayer indicating at a certain point on the other side and the other on the tax side (Savitri, 2015). Kirchler et al. (2008) found to assess compliance and non-tax compliance to provide an explanation on the compliance side of the tax and on the other hand the constraints in methods narrow and scope to explain compliance behavior.

Alm and Martinez-Vazquez (2003) concluded that there are many factors influencing tax compliance behavior and suggesting to use behavioral theories by psychologists, sociologists and anthropologists. This is consistent with findings by Chau and Leung (2009) related tax compliance influenced by various factors including economic, psychological, sociological and political. In addition, their results indicate that there will be a higher level of tax compliance when taxpayers perceive some of the public benefits of goods financed by taxes. However, they did not find that there was a strong relationship between the level of punishment and tax compliance. Chau and Leung (2009) proposed a taxpayer compliance model with four dimensions. The first is the demographic dimension that includes the age and sex of the taxpayer. The second dimension is the opportunity for non-compliance that captures education, income levels, income sources and taxpayer work. The third is the attitudes and dimensions of perception that include the moral development of taxpayers and their attitudes toward the justice system of taxation. The final dimension is the tax system or structure which deals with the complexities of the tax system, contacts with tax authorities, sanctions, probability detection and tax rates. This model has been tested empirically by Chan et al. (2000) used a structural equation approach with sample data collected from taxpayers in Hong Kong and the United States of America. They conclude that income, age and gender levels are not directly related to adherence. However, their results indicate that higher levels of education are associated with lower adherence levels. From the perspective of cultural differences, they found significant results: Hong Kong (US) taxpayers with collectivism use lower stages of moral reasoning favorable attitudes toward the tax system and less compliant. Gilligan and Richardson (2005) conducted a cross-cultural study to test the perceptions of tax justice and behavioral tax compliance in Australia and Hong Kong. The main findings are as follows. First, there are significant disagreements in Australia and Hong Kong on general justice, special provisions, the structure of tax rates and personal interests. Second, the extent to which taxpayers perceive citizen’s awareness may influence attitudes to pay taxes. Labea et al. (2011) explains the taxpayer motives that demonstrate the belief that the tax system can evaluate the fairness and objectivity of a system while the attitudes of the taxpayer are motivated by the benefits derived from the system, so as to imply a fair tax system.

Regardless of the personal taxpayer’s perception of the reasonableness of the tax system affects taxpayer compliance. Decree of the Minister of Finance No. 192/KMK.03/2003 which stipulates the compliant taxpayer is if the taxpayer does not have any tax payable unless it has obtained permission to repay. The duty as a citizen, the hope is that citizens can abide by the laws and regulations. Labea et al. (2011) gives citizens reasons to show varying levels of compliance due to factors such as lack of knowledge and understanding of tax laws; improper bookkeeping and apathy towards the government. Longdong (2015) argue that the complexity of the tax system has been regarded as a possible reason for citizen disobedience. Longdong (2015) explains to build compliance citizens pay tax rules should be simple and clear allowing taxpayers first to read and understand the terms and rules easily and quickly.

The taxpayer’s expectation is that the tax paid can be accounted for by the state state (Longdong, 2015) this is
reinforced by Savitri (2016) argues that taxpayers must comply with their obligations as part of bargaining while the government is expected to secure state revenues and can provide legal certainty for taxpayers.

MATERIALS AND METHODS

Hypothesis 1: Tax knowledge significantly affects tax compliance. Some previous studies of Machogu and Amayi (2013), Park and Hyun (2003), Richardson (2006), Kirchler et al. (2008). This study finds empirical evidence that many individual taxpayers do not comply with paying taxes because of the low knowledge of tax laws.

Hypothesis 2: Tax awareness can significantly strengthen the relationship of tax knowledge to taxpayer compliance. Previous studies Chawla (2013), low awareness, overly complex rules and tax owed activities are manipulated to avoid taxes, perceptions that risk is caught lower and there is a culture of corruption from the tax. Geetha and Sekar (2012) have found empirical results of an increase quality of services using Information Technology (IT) in the form of e-Filing facilities, e-Billing, e-Registration, e-SPT, existing evidence revealed that some of the existing users are satisfied with facilities. Based on the above description, the frame of thought underlying this research is presented in Fig. 1.

Research design and methods: A survey was used to collect individual taxpayer opinion of Batu city, Indonesia questionnaire as instrument containing item with Likert scale 1-5 from opinion of Batu city taxpayer and building book category 1 is with the determination of the tax of Rp 000.00.000.00.

Population and sample size: The sampling technique used purposeful because the assessment of land tax and urban buildings classified into books 1-5, then the sample is selected according to book category 1 and tax object is only used for residential homes not for the benefit of others. By requesting responses from respondents on understanding, awareness, and tax compliance, questionnaires were given to 138 taxpayers, a number of analyzes indicated the mean of each group rankings with significant \( \alpha = 0.05 \) considered to represent significant differences, interviews were used to add more depth of information continue.

Measures: The questionnaire is divided into 2 parts, part A consists of the respondent’s demographic details and part B consists of all the collisions. Respondents were asked to show approval or disapproval of some questions on a Likert scale of 1 to strongly disagree to 5 to strongly agree that used to measure compliance adopted from Rahayu et al. (2017), the tax understanding adopted from Chawla (2013), tax awareness adopted from Rahayu et al. (2017).

Data analysis: WarpPLS is used to analyze the questionnaire data. Solaiman (2010) testing the validity and reliability of the questionnaire by using convergent validity and composite reliability. To determine the effect and fit model offered by using fit and quality indices model whereas coefficient and p-values path is used to measure the effect of moderation of tax awareness on the hypothesized model. The effect of moderation is the level of relationship between the independent variable and the dependent variable that will change if another variable exists in the relationship (Machogu and Amayi, 2013). Interaction results are seen when the relationship with the dependent variable is significant.

RESULTS AND DISCUSSION

The findings of this study are set out in three main sections: profile of respondents, respondents who filled in questionnaires by majority can be described as follows: from 138 samples with 68 respondents (68.68%) male profile; age 40-50 years there are 57 respondents (57.57%); high school education 73 respondents (73.73%); the classification of land and building tax book 1 of 81 respondents (81.81%); employment as self-employed 94 respondents (94.94%); sources of tax knowledge obtained from electronic media by 49 respondents (49.49%); the accuracy of 1 year from 2 years paid the tax of 52 respondents (52.52%), the reason for the funds have been prepared in paying taxes of 49 respondents (49.49%) and never get a fine of 47 respondents (47.47%). Respondent’s responses on tax knowledge show actual score of 67.17% (enough), tax awareness indicates actual score of 97.15% (good) and tax compliance indicates actual score of 81.12% (good). Summary of the test results are presented in Table 1.
Table 1: Analysis of cross-loadings

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Knowledge tax (X1)</th>
<th>Awareness (X2)</th>
<th>Compliance (Y)</th>
<th>X2*X1</th>
<th>p-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject and object of taxation (X1.1)</td>
<td>0.832</td>
<td>(0.076)</td>
<td>(0.057)</td>
<td>0.113</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Sanctions or fines (X1.2)</td>
<td>0.880</td>
<td>0.088</td>
<td>0.066</td>
<td>0.130</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Source of revenue (X2.1)</td>
<td>0.881</td>
<td>0.197</td>
<td>0.053</td>
<td>0.327</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Liabilities citizens (X2.2)</td>
<td>0.648</td>
<td>0.696</td>
<td>0.589</td>
<td>(0.145)</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Compliance formal (Y1.1)</td>
<td>(0.016)</td>
<td>(0.000)</td>
<td>1.000</td>
<td>0.006</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Material compliance (Y1.2)</td>
<td>0.016</td>
<td>0.000</td>
<td>1.000</td>
<td>0.748</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

Table 2: Analysis of the general result

<table>
<thead>
<tr>
<th>General results</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Path Coefficient (APC)</td>
<td>0.344</td>
</tr>
<tr>
<td>Average R-Squares (ARS)</td>
<td>0.088</td>
</tr>
<tr>
<td>Average Adjusted R-squared (AARs)</td>
<td>0.075</td>
</tr>
<tr>
<td>Average block VIF (AVIF)</td>
<td>1.028</td>
</tr>
<tr>
<td>Average Full collinearity VIF (AFVIF)</td>
<td>1.370</td>
</tr>
<tr>
<td>Tenenhaus GoF (GoF)</td>
<td>0.247</td>
</tr>
<tr>
<td>Simpson’s Paradox Ratio (SPR)</td>
<td>0.550</td>
</tr>
<tr>
<td>R-Squared Contribution ratio (RSCR)</td>
<td>0.656</td>
</tr>
<tr>
<td>Statistical Suppression Ratio (SSR)</td>
<td>1.000</td>
</tr>
<tr>
<td>Nonlinear Bivariate Causality Direction Ratio (NLBCDR)</td>
<td>0.750</td>
</tr>
</tbody>
</table>

Based on Table 1 analysis of subject cross loadings and cross-loadings tax object of 0.832; sanction or a tax penalty of 0.0800 is a dimension of the tax knowledge that is <0.7 or >0.6 that the taxable knowledge dimension is acceptable. Analysis of cross-loadings of sources of state income and obligations of citizens of 0.881 and 0.48 is the dimension of taxpayer consciousness acceptable. While the tax compliance cross loadings analysis formed from formal compliance dimensions and material compliance is acceptable that is obtained by 1,000 eligible >0.7 or >0.6. Analysis of general result are presented in Table 2.

Table 2 describes the effect and model offered fit according to the criteria, general result model has a good fit, where p-value for Average Path Coefficient (APC) and Average R-Squares (ARS) <0.001 while the Average block VIF (AVIF), Average Full collinearity VIF (AFVIF) generated <3.3 there is no multicollinearity problem between indicators and between exogenous variables. GoF value obtained 0.247<0.25 which means small model. The SPR and RSCR index yields a value of 0.50<0.7 which means it is not accepted, the RSCR index yields 0.656<0.9 which means the index is not accepted. Statistical Suppression Ratio (SSR) generated 1.000<0.7 which means no model relationship problem. The value of NLBCDR is 0.750<0.7 which means the linear relationship is good. Analysis of path coefficient and p-values are presented in Table 3.

The coefficient output and p-value explain the result of the path coefficient estimate and p-value shows 0.408 and significant value <0.001 the direct influence of tax knowledge on tax compliance. The interaction shown by the taxpayer awareness moderator influences the tax knowledge on tax compliance with the value of p-value <0.001 and the coefficient of path is 0.280.

Table 3: Analysis of path coefficients and p-values

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Knowledge (X1)</th>
<th>Awareness (X2)</th>
<th>Compliance (Y)</th>
<th>X2*X1</th>
<th>p-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance (Y)</td>
<td>0.408</td>
<td>-</td>
<td>-</td>
<td>0.280</td>
<td>p&lt;0.001; Highly significant</td>
</tr>
</tbody>
</table>

A in the literature review, tax compliance can be analyzed using psychological, sociological and economic compliance theory. This study looks at the effect of tax knowledge on tax compliance as well as explores the role of moderation of taxation awareness relationships and tax collection systems. Based on data collected from taxpayers of Earth and buildings in Malang. The results show that there is a positive relationship between tax knowledge and tax compliance. Taxpayer awareness as a moderator can increase the influence of tax knowledge on tax compliance. Respondents place the tax knowledge in calculating the area of land and buildings owned, knowing how to make a reconciliation of the provisions but so far, there are still respondents have never filed a correction of the tax return and the respondent is afraid to get a fine if forgot to pay taxes. Taxpayers recognize that paying taxes is a liability of every citizen and the result of tax collection is used for the repair of public facilities and is used to finance government expenditure in relation to public services and the development of economists in order to improve living standards. Taxpayers place top priority and are motivated to make land and building tax payments for fear of obtaining sanctions or tax penalties. This consistent research conducted by one has a significant impact on compliance behavior because existing users are satisfied with the e-Filling facility but most of the taxpayers are individual taxpayers unconscious will e-Filling and electronic payment procedures, so that, enough steps are needed to create more tax awareness.

The results also show that a high level of awareness of a person can have a positive impact on tax knowledge on tax compliance. Taxpayers with high tax awareness react more to behave in compliance. Individuals with consciousness are more likely to see tax compliance as a form of community responsibility to participate in the development of the country and want a change of public services to be received.
CONCLUSION

This research will be useful for future researchers to further, explore other variables that have more potential to increase the effect of tax knowledge on voluntary compliance. This study contributes to the literature on consumer behavior studies that emphasizes taxpayer compliance. Furthermore, this research also attempts to find the role of taxpayer awareness as moderation in the proposed relationship, so that, it will become additional and hence, the awareness contribution is increasingly clear.

LIMITATIONS

The first limitation of this study used cross-sectional that each study subject was observed only once and the measurements were made on the status of characters or subject variables. The second limitation, the sample consists of the taxpayers of the Earth and the building of the book category 1, thus, the results can not be generalized to taxpayers of the Earth and building categories of books 2 through 5. This will be useful for future researchers to conduct further studies. A third limitation, this study is limited to testing tax knowledge and awareness on tax compliance.

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