

PERCEPTIONS OF FAIRNESS ON THE SMALL AND MEDIUM ENTERPRISES TAX REGULATION

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ABSTRACT

The background of this research is the Small and Medium Enterprises (SMEs) tax regulation which implementation is still quite difficult because of the taxpayer who has the perception that this policy is less fair. In particular, this study aims to analyze the influence of perceptions of fairness on SMEs tax regulation, tax knowledge of the SMEs tax regulation, the tax administration, tax penalty and tax information Government for the implementation of Regulation the SMEs tax regulation of the Compliance Tax Payer Year 2016 SMEs either partially or simultaneously. The study was conducted with a quantitative approach using a survey method through questionnaires. Analysis of data using multiple linear regression.

The study population is the entire SMEs gross income of less than Idr 4,8M annually. The sampling technique was conducted to find were the aims (purposive sampling) that SMEs engaged in the sale of automotive parts / equipment technical, with the following criteria: (1) SMEs already have a business entity and have Tax Number), (2) Gross Sales of Gross business less than Idr 4,8 annual, (3) SMEs have started their business and have a minimum of 2 years of legal entities, (4) SMEs trading activity.

The result of research indicating that perceptions of fairness on the SMEs tax regulation, tax knowledge, tax administration, tax penalty and socialization effect on tax compliance either partially or simultaneously .

JEL Clasification:

Keywords: The small and medium enterprises tax regulation, tax knowledge, tax administration, tax penalty and socialization, tax compliance.

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1. INTRODUCTION

Tax is government's source of revenue that is dynamic and follows the cycles of economic and social life. Therefore it demands improvement in policy and administration system to optimize its potentials while still upholds principles of justice (Waluyo, 2016). The source of revenue is not coming only from large taxpayers, but also from small taxpayers categorized as Small and Medium Enterprises (SMEs). This SMEs business category plays an important role in improving economic growth of a country. For the aim of tax collection, tax needs to be based on justice principle. Taxpayers have tendencies to avoid paying taxes they perceive tax collection system as unfair. It shows the importance of justice in tax as a variable that affects the behavior of taxpayers.

The Small and Medium Enterprises Tax Regulation set taxation rule for SMEs with gross income less than IDR 4.8 billion by charging one percent (1%) final income tax on gross income. The rule is applied since the tax year of 2013. The regulation is perceived as unfair by taxpayers because when a company suffers a loss the rule is still applied i.e. the company has to pay the tax.

Perceived tax unfairness in tax system motivates SMEs not to comply with the regulation. Tax compliance among SMEs taxpayers is low since the height of tariffs percentage and the complexity of tax administration procedure. (Ojochog we Winnie Atawodi & Stephen Aanu Ojeka, 2012).

Besides unfairness factor, other factors are suggested as factors affecting tax compliance among taxpayers that are knowledge and tax penalty. Based on these issues, the problem in this study can be formulated as follows: what are the effects of perception of tax fairness, tax knowledge, tax administration, tax penalty and information dissemination, on the compliance of SMEs taxpayers with the published Small and Medium Enterprises Tax Regulation.

2. REVIEW OF LITERATURE

2.1 Theory of Justice

Principles of Justice or Equality is one of the main principles in tax collection. Every citizen is required to participate in paying taxes. Justice could be interpreted as justice in tax distribution means that every taxpayer is charged with tax in the same situations (Sari, 2013). Principles of justice are absolutely needed, however, there are many problems related to the

concept of justice. Various concepts of justice are translated into different principles of tax collection. The result of research proves that justice in tax collection affects the tax compliance among taxpayers (Siauw Jan, 2013). Justice in taxation begins with determination of tax subject, tax object and levy system.

2.2 Tax Knowledge

Tax knowledge is a very fundamental thing to have for SMEs taxpayers, not only conceptual understanding based on tax constitution but including understanding about tax regulations (Waluyo, 2016). Low level of knowledge in tax is one of the factors of incompliance of taxpayers in meeting their obligations. (Sudrajat, 2015). Some research others show that tax knowledge is not only giving understandings about tax but could make taxpayers understand their tax obligations and in turn can influence tax compliance (Palil, 2005).

2.3 Tax Administration

Tax administration can be understood as service activities to taxpayers (Nurmantu, 2010). Tax administration is a key to policy on tax. Factors that need to be paid attention to is the success of taxation policy including internal and external factors in the taxation process (Waluyo, 2016).

2.4 Tax Penalty and Tax Information

Tax information can be conducted directly as well indirectly. Plenty amounts of electronic media should make dissemination of taxation information easier. With this activity, the tax authority conveys information regarding the tax regulation. It is expected that taxpayers could understand the more about tax law and tax regulation. As the consequences for taxpayers who do not comply with the tax law and tax regulations will subject to tax penalty (Natrah, 2014). Results of research about tax information dissemination suggest that it affects the tax compliance of taxpayers (Andrew, 2015).

HYPOTHESIS DEVELOPMENT

Perceptions of the general public with regards to the fairness of the taxation system applicable in a country significantly influence the taxation implementation and tax compliance behavior. Society tends to less comply and avoid tax when tax system applicable is not fair (Richardson, 2006). Dimensions of tax fairness that influences compliance

significantly namely general fairness, tax structure, and self-interest to tax compliance. Based on basic theoretical structure a hypothesis can be developed:

H1: Perception of tax fairness influence SMEs tax compliance.

Taxpayers' knowledge on tax law and regulation could influence compliance of taxpayers (Titik, 2013). Tax knowledge will determine the level of compliance of taxpayers. Tax knowledge for SMEs taxpayers not only give an understanding about taxation but also to make taxpayers understand their rights and obligations in paying taxes. With more knowledgeable taxpayers the level of tax evasion may be reduced and it will affect the attitude of the taxpayers in meeting their taxation obligations (Palil, 2005). Based on the theoretical foundation a hypothesis can be developed:

H2: knowledge about tax regulation among SMEs taxpayers influence SMEs tax compliance.

Public give a positive response about convenience and simplification of the tax system. Complicated taxation rules have been replaced with simpler rules. Simple tax administration would influence taxpayers' compliance (Nurmantu, 2010). The result of research on taxation administration for small business states that with simple tax administration system will give convenience for and improve compliance of taxpayers (Waluyo, 2016). Based on the theoretical foundation a hypothesis can be developed:

H3: tax administration influence SMEs tax compliance.

Efforts in improving awareness and compliance of taxpayers are conducted by information dissemination through intensive training (Carolina, 2012). In order to raise awareness of the general public to pay taxes, the tax penalty is imposed (Dewi, 2013). However, this sanction rules will only be effective if people understand the objective and purpose of the issuance of SMEs Tax Regulation. Therefore, information dissemination is necessary to be conducted.ion necessary. Based on the theoretical foundation a hypothesis can be developed:

H4: tax penalty and information dissemination influence SMEs tax compliance.

RESEARCH METHODOLOGY

The research method is basically a scientific way to acquire data with particular objectives and use. The method employed is quantitative research. Quantitative research is categorized as research which data analysis is more emphasized on numerical data. The population of this

research is all SMEs taxpayers which have gross income less than IDR 4.8 billion. The total number of the sample taken is 191 SMEs taxpayers. Data is obtained from the questionnaire and then it was tested for validity and reliability.

1 ANALYSIS

5.1. Descriptive Analysis

The following table shows the results of the descriptive statistical output from data processing using SPSS.

Tabel 1. Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Perception of Fairness (PF)	191	2,22	4,78	3,4822	,63219
Tax Knowledge (TK)	191	1,63	4,75	3,3579	,74868
Tax Administration (TA)	191	1,00	4,71	3,3848	,60657
Tax Penalty and Socialization (TP)	191	1,57	4,57	3,3264	,69908
Tax Compliance (TC)	191	1,33	4,67	3,2443	,69957
Valid N (listwise)	191				

Descriptive Analysis of Table 1 shows that Perception of Fairness (PF) generated the minimum value of 2.22, the maximum value 4.78, and the average value obtained from 191 observations is 3.4822. It shows that Perception of Fairness on SMEs Taxpayers has been able on maximum range. For Tax Knowledge (TK) with the average value of 3.3579 stated that SMEs Taxpayers has been able on maximum range. And for Tax Administration, Tax Penalty and Information Dissemination, and Tax Compliance for SMEs Taxpayers have been able on maximum range.

5.2. Normality Test

Tabel 2. Normality Test

		Unstandardized Residual
N		191
Normal Parameters(a,b)	Mean	,0000000
	Std. Deviation	2,10600857
Most Extreme Differences	Absolute	,048
	Positive	,041
	Negative	-,048
Kolmogorov-Smirnov Z		,666
Asymp. Sig. (2-tailed)		,767

a. Test distribution is Normal.

b. Calculated from data.

Results test Kolmogorov -Smirnov Test in Table 2 show that value assymp sig of 0.767 or more than significant level of 0.05. Therefore it can be concluded that the normal distribution assumption is satisfied.

Tabel 3. Full Model Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,587	,943		1,683	,094
	Perception of Fairness	,281	,044	,380	6,435	,000
	Tax Knowledge	,188	,041	,269	4,611	,000
	Tax Administration	,168	,058	,170	2,904	,004
	Tax Penalty and Socialization	,138	,051	,161	2,718	,007

a. Dependent Variable: Kepatuhan Wajib Pajak

With Equation of regression:

$$TC = \alpha + \beta_1 PF + \beta_2 TK + \beta_3 TA + \beta_4 TP + e$$

Where:

TC : Tax Compliance

PF : Perception of Fairness

TK : Tax Knowledge

TA : Tax Administration

TP : Tax Penalty and Information Dissemination

E : Error

Results obtained of Full Regression Model

$$TC = 1,587 + 0,281 PF + 0,188 TK + 0,168 TA + 0,138 TP + e$$

The First Hypothesis (H1) stated that perception of fairness influence the tax compliance where t value of perception of fairness is 6,435 with significant value 0,000 or smaller than 0.05 (0.000 <0.05). Because significant value or test probability <0.05, therefore, hypothesis 1 can be accepted. Perception of Fairness has positive coefficient value against tax compliance, it shows that if the perception of fairness is high among taxpayers then SMEs tend to comply with taxation regulations.

The Second Hypothesis (H2) stated that tax knowledge influences the tax compliance where the t value of tax knowledge is 4,611 with a significant value of 0,000 or smaller than 0.05 (0.000 <0.05). Because significant value or test probability <0.05, therefore, hypothesis 2 can be accepted. Tax knowledge has positive coefficient value against the tax compliance, it shows if the tax knowledge is high among taxpayers then SMEs tend to comply with taxation regulations.

The third hypothesis (H3) stated that tax administration influence the tax compliance where the t value of tax administration is 2,904 with a significant value of 0.004 or smaller than 0.05 (0.004 <0.05). Because significant value or test probability < 0.05, therefore, hypothesis 3 can be accepted. Tax administration has positive coefficient value against tax compliance, it shows if tax administration is better, then SMEs tend to comply with taxation regulations.

The Fourth Hypothesis (H4) stated that tax penalty and information dissemination influence the tax compliance where the t value of tax penalty and information dissemination is 2.718 with a significant value of 0,007 or smaller than 0.05 (0.000 <0.05). Because significant value or test probability <0.05, therefore, hypothesis 4 can be accepted. Tax penalty and information dissemination have positive coefficient value against tax compliance. It shows

when tax penalty and information dissemination level is high, SMEs tend to comply with taxation regulations.

6. CONCLUSION

All of the variables namely Perception of Fairness, Tax Knowledge, Tax Administration, Tax Penalty and Tax Information influence SMEs Tax Compliance positively. This proves that in the policy of taxation on SMEs principle of justice is required. Not only that, Tax Knowledge among taxpayers, and Tax Administration for SMEs Taxpayers are also needed. SMEs taxpayers are classified as a small taxpayer, therefore they do not using accounting, but an accounting based recording. In taxation for SMEs, those small taxpayers are treated less fairly. It is found that each taxpayers SMEs remain obliged to pay tax although suffering a loss. It can demotivate compliance among SMEs taxpayers. In terms of the heaviness of the tax tariff imposed, it is not something fair to impose such a high tariff to SMEs taxpayers. For 2018 it has been discoursed to lower the tariff for SMEs taxpayers.

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