Effect of Economic and Non-Economic Factors on Tax Compliance with Trust as a Moderating Variable in SME

(Case Study SME In Bekasi, Indonesia)

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Abstract:- The level of tax compliance will affect the amount of a country's tax revenue. The amount of tax revenue will have an impact on financing economic activities and moving the wheels of government and assisting in providing public facilities. Participation from various business actors is required in fulfilling tax obligations so that the tax revenue target is achieved. The purpose of this study was to examine the influence of economic factors and non-economic factors, using the factor *trust* as a moderating variable on SME tax compliance in Bekasi Regency. Sampling method is by using *purposive sampling method*. The respondent's criteria are individual SME, SME participating in the non-digital economy, and having a maximum turnover of Rp. 4.8 billion. Research with a quantitative approach and using primary data obtained from the results of the questionnaire and has been distributed to 100 respondents. This research method uses the *outer model* and *inner model*, *path coefficient* and hypothesis testing. This study shows the results that the *income level,* tax compliance costs, and tax morale have an effect on SME taxpayer compliance. Meanwhile, the tax justice factor has no effect on SME taxpayer compliance. And the factor is *trust* not able to moderate *income level*, tax compliance costs, and tax justice. However, *trust is* able to moderate tax morale on SME taxpayer compliance.

Keywords:- Tax Compliance, Income Level, Tax Compliance Costs, Tax Fairness, Tax Morale, Trust.

I. INTRODUCTION

Indonesia's largest source of income from tax revenues. As stated by Waluyo (2017), taxes function as revenue (budgeters), which means that taxes finance government spending, and taxes function to regulate (regular) social and economic policies. Maximizing state revenue through improving taxpayer tax compliance is an important task for the government and tax authorities because the income is useful for supporting economic activities and moving the wheels of government and assisting in providing public facilities. The realization of tax revenues from 2015 to 2020 tends to not reach the target. The following is a table of tax achievement targets, and the realization of tax revenues for 2015-2020:

Table 1: Targets, and Realization of Tax Revenues for 2015-2020

Year	Tax Target (trillion IDR)	Tax Revenue (trillion IDR)	Tax Target (%)
2015	1,294.25	1,060.86	81.97%
2016	1,355.20	1,105.81	81.60%
2017	1,283.57	1,151.13	89.68%
2018	1,424.00	1,315.90	92.41%
2019	1,577.60	1,332.10	84.40%
2020	1,198.82	1,069.97	89.25%

(Source: Annual Report, 2020)

Low tax compliance can be an obstacle to achieving tax revenue targets. Tax compliance is a problem related to how to enter and report all information in a timely manner, fill in the correct amount of tax, and pay taxes in a timely manner without coercion (OECD, 2010). In the OECD report "Revenue Statistics in Asian and Pacific Economies 2020 ─ Indonesia", Indonesia is a country that has the lowest tax ratio of 11.9% among Asian and Pacific countries in 2018 such as Thailand, Cambodia, Singapore, Malaysia and the Philippines. The Ministry of Finance noted that the tax compliance ratio for 2015-2020 was 60.4%, 60.8%, 72.6%, 71.1%, 73%, 78%. In 2020, in the midst of the COVID-19 disaster that was experienced by various countries, to optimize tax compliance, the government provided various tax incentives such as Pph21 incentives, Tax 22 imports, Tax 25 installments, VAT refunds and Government-borne taxes for SME taxpayers. The government targets tax compliance in 2020 to be 80%, but the realization of tax compliance achieved is 78%. Not achieving the tax compliance target is a big task for the government and tax authorities (Directorate General of Taxes) in increasing taxpayer awareness to fulfill their tax obligations, from recording economic transactions to paying taxes.

One area that has the potential to achieve tax revenue targets and can be developed is SMEs (Rekarti & Doktoralina, 2017). SMEs are the biggest contributor in providing employment and making a major contribution to national and global economic growth (OECD, 2018). The number of SMEs in 2015-2019 is 57.9 million SMEs, 59.2 million SMEs, 61.6 million SMEs, 62.9 million SMEs, 64.1 million SMEs, and 65.4 million SMEs. SMEs control more than 90% of business

units in Indonesia, and provide opportunities for workers. In 2019, SMEs contributed to the Gross Domestic Product as much as 61.07%. The large contribution of SMEs to Gross Domestic Product, and the large number of SME actors, is an opportunity for the country to increase income through tax revenue. However, there is a discontinuity between the number of tax actors and the amount of tax compliance. SMEs that met tax compliance in 2018-2019 were only 1.8 million taxpayers and 2.31 million taxpayers. And the contribution of SME tax to the national tax is only 1.1%, while in contrast to the previous year, SME tax compliance in 2020 has changed. The government stipulates that the SME tax which was originally 0.5% in accordance with Government Regulation 23 of 2018, is now borne by the government on the condition that SME taxpayers report transaction activities every month and report SPT. In 2020, of the 2.3 million SMEs that have a TIN, only 248,275 SME taxpayers have taken advantage of this incentive. Tax compliance needs to be improved so that the tax revenue target can be achieved.

The low tax compliance of SMEs is caused by various factors. Therefore, it is necessary to research intensively on the factors that can influence SME tax compliance. Economic factors in the form of *income level* play an important role in influencing taxpayer compliance in general (Bărbuţă-Mişu, 2011; David KIpkoech & Joel, 2016). Olowookere & Fasina (2013), revealed that taxpayers have the motivation to earn maximum income with minimum expenditure. High tax compliance costs are considered a burden for taxpayers which will reduce the profits obtained, so that tax compliance costs are a factor that can influence tax compliance (Chisumpa et al., 2020). The factor of tax justice is very important and can affect the attitude of taxpayers towards tax compliance (Al-Zaqeba & Al-Rashdan, 2020). Luttmer & Singhal (2014) found significant increases in tax morale boost tax compliance for moral taxes regarded as motivation owned by the taxpayer in the form of non-cash and taxes that are beyond the expected. McCulloch et al.,(2021) suggest that trust in tax authorities and low corruption have a relationship with taxpayers' positive attitude towards tax payments.

II. THEORITICAL REVIEW

A. Income Level
Fulfilling the obligation to pay taxes, cannot be separated from the size of the income earned by the taxpayer. Ntiamoah et al., (2019) in their research revealed that higher income levels attract greater tax compliance. Meanwhile, individuals with low income levels are more willing to take risks, because they prioritize meeting the necessities of life rather than paying taxes (Siwi et al., 2020). Idson et al.,(2000) applied prospect theory in their research and revealed that taxpayers consider taxes withheld from their sources of income not to be an advantage, they view it as a loss. If the individual is in a profit situation, he will tend to obey the rules, but if the individual is in a loss situation, the individual will dare to violate the rules. Through different income levels, it can describe the level of compliance of SME taxpayers. The results of research by David KIpkoech & Joel (2016) and Putri & Daito (2021) show that income levels have a positive but very small effect on tax

compliance. Siwi et al., (2020) in their research prove that income has a positive and significant influence on tax compliance.

B. Tax Compliance Cost
Tax compliance costs are in the form of time and money sacrificed by taxpayers. Tax compliance costs are often a burden for small and medium-sized businesses, resulting in not achieving tax compliance. The Allingham and Sandmo Theory (AS Theory) states taxpayers decide unlawful tax and avoid tax obligations when feeling fees or fines to avoid low and high tax compliance costs. Ng'ang'a & Muturi (2015) argue that high tax compliance costs have a negative impact on taxpayer compliance. Meanwhile, Adhiambo & Theuri (2019) revealed that the cost of compliance in fulfilling tax obligations has a positive and significant impact on tax compliance.

C. Tax Fairness
Tax fairness is the main determinants of tax compliance, tax infairness and dissatisfaction with the reciprocal results felt by taxpayers are the main reasons for decreasing tax compliance. M. P. Siahaan (2010) mentions four principles of approach in tax fairness, namely the principle of benefit, ability to pay, and horizontal and vertical fairness, as well as exchange equity. Tax fairness consists of three dimensions that affect compliance, the SME tax, namely the general fairness dimension, the tax rate structure dimension, and the personal interest dimension (Pertiwi et al.,2020).Equity theory according to Adams (1963) is when someone feels they are being treated fairly or favorably, they tend to be motivated to obey the rules. Tax fairness is a condition of the ability to pay individual taxpayers, which means that the tax burden imposed is proportional to the ability of the taxpayer to pay taxes (Waluyo,2011). Waluyo (2018), Inasius (2019), Setiawan & Harnovinsah (2019) and Obaid et al., (2020) prove in their research that tax fairness has a positive impact on SME tax compliance. The results of this study are different from the results of research conducted by Saad (2010), namely that tax fairness has no effect on taxpayer compliance.

D. Tax Morale
Tax morale is a motivation that arises and is owned by taxpayers to fulfil tax obligations. Tax morale is able to measure how much taxpayer compliance in tax compliance is in accordance with the applied tax. And tax compliance cannot be achieved if the tax morale of each individual is low. The dimensions of the moral tax used in this study are the dimensions of sociological and behavioral factors, psychological factors and political factors (Sá et al., 2016). Theory of reasoned action focuses on two groups of variables, namely attitudes defined as positive or negative feelings in relation to the achievement of a goal, and subjective norms which are representations of individual perceptions in relation to the ability to achieve goals (Fishbein & Ajzen, 1975). Intrinsic motivation that arises in taxpayers to be involved in contributing to comply with tax obligations by paying taxes to the state is referred to as tax morals (Torgler,2003). Research by Alm & McClellan (2012) concluded that tax morale has a significant and positive impact on tax reporting which is a form of tax compliance.

E. Trust

Trust in authority is the perception that taxpayers have of the actions of tax authorities who are able to manage state tax revenues correctly and in accordance with applicable laws or regulations in the public interest. Ya'u et al.,(2019) stated that trust in tax authorities can moderate the costs of tax compliance and tax compliance. In his research, Vythelingum et al., (2017) stated that trust in the government and tax authorities is a determinant that shapes tax morale. Research conducted by Ya'u & Saad (2019) in their research proves that trust in tax authorities is able to moderate tax fairness and tax compliance. Robbins (2016) reveals five dimensions of trust in tax authorities as moderating variables, namely: integrity, competency, consistency, loyalty and openness. The slippery slope theory is a theory of the main concepts, namely cooperation between tax authorities by taxpayers, with cooperation in the form of power and trust. Kirchler et al.,(2008) argues that an important factor is to be able to form compliance, namely trust, because most taxpayers evaluate whether the authorities (trustees) pursue goals that are important to them (Gangl et al., 2015).

F. Framework of Thinking

Based on the description above, can be simplified in the following framework of thinking:
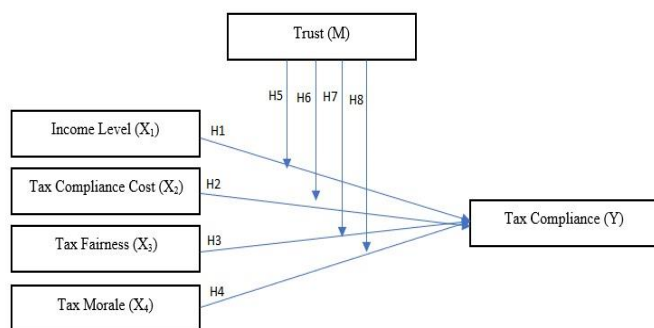
III. RESEARCH DESIGN

This research is explanation research using a quantitative approach. The source of data used in this study is the primary data source, which comes from filling out questionnaires by respondents. Respondents in this study were SME Taxpayers in Bekasi. In this research, using purposive sampling method. Purposive sampling is a sampling technique with certain considerations. The considerations used in taking the sample in this research are:

- SME taxpayers are Individual Taxpayers (WPOP)
- for non-digital economy SMEs.
- The turnover obtained does not exceed Rp. 4.8 billion

So that the sample used is 370. Data management in this study uses SmartPLS version 3. Software.

IV. RESULT AND DISCUSSION

A. Descriptive Analysis

The results of this research questionnaire consisted of 52 male respondents and 48 female respondents. The majority of respondents have a senior high school education, namely 54 respondents (54%). Then respondents with the latest education D3 owned 23 respondents (23%). Respondents with an undergraduate education background are 15 respondents (15%), and respondents with the latest education background in junior high school consist of 8 respondents (8%). The type of business of the respondents in this study consisted of plastic shops, food sellers, coconut ice fruit agents, clothing sales, photocopies, stationary, basic necessities, refill water depots, steel shops, electronics stores, plastic furniture, coffee shops, food shops, spices, vegetables, pastry shop, clock shop, frozen food, electronics store. The income of the respondents is dominated by respondents with an income of Rp. 50,000,001–Rp. 250,000,000 per year, a total of 48 respondents (48%). Respondent income <Rp. 50,000,000 consisting of 43 respondents (43%). While the other 9 respondents (9%) earned an income of Rp.250,000,001–Rp.500,000,000. The following table shows the results of descriptive statistical analysis X_1, X_2, X_3, X_4, M, and Y.

Table 2: Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev
Income level	100	3	15	8.05	3.971
Tax compliance cost	100	9	35	24.86	6.946
Tax Fairness	100	3	15	12.33	3.045
Tax Morale	100	11	35	25.35	6.212
Trust	100	7	25	18.47	4.848
Tax compliance	100	4	20	13.84	6.822
Valid N	100				

Table 2 shows the minimum value of the income level is 3, and the maximum value is 15, with the value mean obtained from 100 respondents, namely 8.05. This shows that the income level is below the maximum level, it can be interpreted that the average respondent answered neutral. The minimum value of tax compliance costs is 9, and the maximum value is 35, with a value of mean 24.86, this indicates that the tax compliance costs are still in the range of the maximum value, which means that the average respondents answered agree. The tax fairness variable obtained a minimum value of 3 with a maximum value of 15, and the mean value of 12.33, this means that tax fairness is still in the range of the maximum value, meaning that the average respondent answered agree. Tax morale shows a minimum number of 11 with a maximum value of 35, and an average value of 25.35, this shows that tax fairness is still in the range of the maximum value, meaning that the average respondent answered agree. Trust has a minimum value of 7 and a maximum value of 25, with a mean value of 18.47, this means that the trust is still in the range of the maximum value, meaning that the average respondent answers agree. The minimum value of tax compliance is 4,

with a maximum value of 20, and a mean value of 13.84, this means that tax compliance is still in the range of the maximum value, meaning that the average respondent answered agree

B. Outer Model

Validity tests can be interpreted to measure whether or not the research questionnaire is valid. The minimum value criterion for *convergent validity* is 0.5. The following are the results of the outer model data processing with SmartPLS:

Table 3: Outer Model

Indicator	X1	X2	X3	X4	M	Y
X1.1	0,748					
X1.2	0,896					
X1.3	0,734					
X2.1		0,738				
X2.2		0,751				
X2.3		0,777				
X2.4		0,762				
X2.5		0,731				
X2.6		0,737				
X2.7		0,641				
X3.1			0,888			
X3.2			0,921			
X3.3			0,731			
X4.1				0,722		
X4.2				0,659		
X4.3				0,723		
X4.4				0,747		
X4.5				0,747		
X4.6				0,804		
X4.7				0,606		
M1.1					0,719	
M1.2					0,781	
M1.3					0,884	
M1.4					0,797	
M1.5					0,852	
Y1.1						0,985
Y1.2						0,984
Y1.3						0,721
Y1.4						0,982

Based on table 3, all indicators obtained a value of > 0.5, this means that each indicator is said to be valid because it has met the minimum *convergent validity* value of 0.5. So that all indicators of each variable are said to be valid.

C. Cronbach's Alpha & Average Variance Extracted (AVE)

Each variable from a study is said to be reliable if it meets Cronbach's alpha > 0.70 and the AVE value is > 0.50

Table 4: Cronbach's Alpha and AVE. Reliability Test Results

	Cronbach's Alpha	AVE
Moderation > X1	1.000	1.000
Moderation > X2	1.000	1.000
Moderation > X3	1.000	1.000
Moderation > X4	1.000	1.000
X1	0.707	0.634
X2	0.858	0.540
X3	0.838	0.724
X4	0.841	0.516
M	0.866	0.654
Y	0.940	0.855

From table 4, the results of the reliability test of Cronbach's Alpha and AVE have met the requirements, namely Cronbach's Alpha >0.70, and the AVE value >0.50. So that each variable is said to be reliable.

D. Composite Reliability

Determines composite reliability, by using a composite reliability value > 0.60.

Table 5. Results of Measurement *Reliability Composite*

Variable	Composite reliability
X1	0,838
X2	0,891
X3	0,886
X4	0,881
M	0,904
Y	0,959

Table 5 shows that the composite reliability test results exceed 0.60, these results indicate that all constructs are reliable and have the potential to be tested further.

E. Inner Model

The value of *R-square* in the results of data processing using SmartPLS, is useful for evaluating the structural model. If the *R-square value* > 0 means that the structural model has *predictive relevance*, if *R-square* < 0, it means that the structural model has little *predictive relevance*. This study resulted in an R-Square 0.805 (80.5%). This means that the dependent variable (tax compliance) can be clarified by the independent variable and the moderating variable used in this study is 80.5%. So that 19.5% is still influenced by other variables outside the variables in this study. The adjusted *R-square* value has an interval value of 0 to 1. The more the adjusted *R-square value is* closer to 1, then the independent latent variable (X) explains the variation of the dependent variable (Y) the better. The adjusted *R-square value in this study is* 0.785 (78.5%). It can be concluded that 78.5% of the variation that occurs in the dependent variable (Y) can be explained by the independent variable, the remaining 21.5% is explained by variables outside this study.

F. Path Coefficient

The results of the *path coefficient* to determine the level of significance through the p-value, and determine whether the hypothesis is accepted or rejected through the value of t-statistics. If the p-value produces <0.05, this means that the effect of the variable is significant. Conversely, if the p-value produces > 0.05 then the effect of the variable is not significant. The hypothesis can be accepted if t-statistics > t-table (1.96), and the hypothesis will be rejected if t-statistics < t-table. The following are the results of the path coefficient in this study:

Table 6. Path Coefficient

Variable	Origin al, Sampl e (O)	Sample, Mean (M)	Stand ard, Deviat ion	T-Statis tic	P-Value
Moderati on > X1	-0.036	-0.050	0.075	0.480	0.316
Moderati on > X2	0.026	0.027	0.052	0.497	0.310
Moderati on > X3	-0.057	-0.053	0.052	1.089	0.138
Moderati on > X4	0.128	0.127	0.059	2.168	0.015
X1	0.291	0.292	0.069	4.224	0.000
X2	0.130	0.138	0.054	2.398	0.008
X3	-0.043	-0.040	0.052	0.836	0.202
X4	0.140	0.144	0.070	2.012	0.022
M	0.569	0.560	0.090	6.310	0.000

G. Hypothesis Testing

From table 6, the following hypotheses are obtained:

Hypothesis 1, *income level* has a t-statistic value of 4.224, with a significance value of 0.000. This means that the hypothesis *income level* (X1) has a positive and significant effect on SME taxpayer compliance, is accepted.

Hypothesis 2, the *tax compliance cost* produces a t-statistic value of 2,398, and a significance value of 0.008. This means that the hypothesis of *tax compliance costs* having a negative and significant effect on SME taxpayer compliance, is accepted.

Hypothesis 3, tax fairness has a t-statistic value of 0.836, with a significance value of 0.202. This means that the hypothesis of tax fairness has a positive and significant effect on SME taxpayer compliance, is rejected.

Hypothesis 4, tax morale has a t-statistical value of 2012 with a significance value of 0.022. This means that the tax moral hypothesis has a positive and significant effect on SME taxpayer compliance, is accepted.

Hypothesis 5, *trust* moderates *income level* has a t-statistic value of 0.480, with a significance value of 0.316. This means that the hypothesis is *trust* able to moderate the effect of *income level* on SME taxpayer compliance, is rejected.

Hypothesis 6, *trust* moderates *tax compliance cost* with a t-statistic of 0.497, and a significance value of 0.310. This means that the hypothesis is *trust* able to moderate the effect of tax compliance costs on SME taxpayer compliance, is rejected.

Hypothesis 7, *trust* moderates tax equity with a t-statistic of 1.089, and a significance value of 0.138. This means that the hypothesis is *trust* able to moderate the influence of tax morals on SME taxpayer compliance, is rejected.

Hypothesis 8, *trust* moderates tax morale has a t-statistic value of 2.168, with a significance value of 0.015. This means that the hypothesis is *trust* able to moderate the effect of tax fairness on SME taxpayer compliance, is accepted.

V. CONCLUSION

This study shows the results of the various factors studied, factors *Income level,* tax compliance costs, and tax morale have a significant effect on SME taxpayer compliance in Bekasi Regency. In contrast to the tax fairness factor, tax fairness does not affect SME taxpayer compliance. In this case, tax fairness includes the benefits obtained by SME taxpayers after contributing to paying taxes, fairness of tax rates, and fairness of the tax system. In the current situation, the SME tax burden borne by the government for some respondents is an in fairness, due to the different ability to pay taxes by each SME taxpayer but the regulation applies to all SMEs. It is the duty of the government to improve tax fairness in Indonesia. The factor of trust in tax authorities is able to strengthen tax morale in increasing tax compliance. However, *trust is* not able to moderate income level, tax compliance costs and tax fairness on SME taxpayer compliance.

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