

Examining the Impact of PP 23/2018 policy through the Tax Compliance Factor of Tanah Abang Traders

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ABSTRACT

This study aims to examine the factors that can affect tax compliance at Tanah Abang Market traders, which are the tax rate, perceived opportunity to evade, legal certainty, and group influence. This study uses a quantitative method with a positivism approach which examines social phenomena and captures the perceptions of MSEs actors on the determinants of tax compliance. The sample in this study were 154 MSEs respondents in Tanah Abang Market that were scope into Central Jakarta Regional Tax Office, both private individuals and corporate taxpayers. The results of the study revealed that the tax rate, perceived opportunity to evade, legal certainty, and group influence have a positive effect on tax compliance at Tanah Abang Market traders, but not significant only in the tax rate variable. This is very useful for the DGT authority and the Fiscal Policy Agency as policymakers that the reduction in tax rates does not affect the compliance behaviour of MSEs traders and increase monitoring of compliance with MSEs taxpayers through derivative regulations on the implementation of supervision of MSEs taxpayers.

Keywords: Tax Compliance; PP 23/2018; Tanah Abang; tax rate

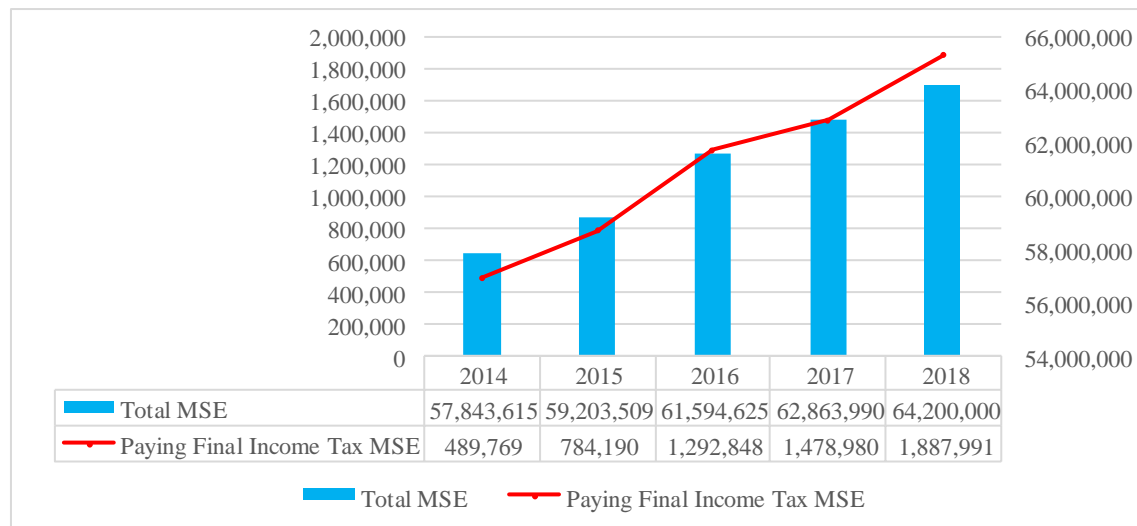
INTRODUCTION

Micro and small-sized enterprises (MSEs) can be described as businesses that are run by individuals, households, or small enterprises. MSEs are the cornerstones of people's efforts that support the Indonesian economy, with developments in 2018, the number of MSEs players was 64.2 million or almost touching 100% of the total business according to data from the Central Statistics Agency in 2018. Meanwhile, the contribution of MSEs to the national economy (GDP) was 61.1%, and the remaining 38.9% was contributed by large business actors whose total was only 5,550 or 0.01% of the total business actors (Ministry of SME Indonesia, 2018).

In line with the government's focus, MSEs are also given a package of economic policies to encourage the activation of business wheels and provide convenience for doing business. Directorate General of Taxes (DGT) as a tax administrator in Indonesia has implemented a policy of simplifying the calculation and reporting of taxes for small enterprises according to Government Regulation Number 46 of 2013, later amended to Government Regulation Number 23 of 2018 (PP 23/2018) with reference to "Income Taxes on Income from Businesses Received or Earned Taxpayers with Certain Gross Turnover." When juxtaposed between the old regulations and PP 23/2018, there will be a reduction in the tax rate to 0.5% of gross turnover with a maximum limit of 4.8 billion per year. Through these two regulations, DGT provides convenience in calculating and paying taxes by only multiplying one rate (0.5%) of the gross turnover.

This economic policy package is formulated with its implementing regulations so that the MSE enterprises feel the ease and relief in paying taxes to provide economic space for MSE players and also achieve tax revenue targets. If you look at the figures below concerning on the Comparison of the Number of Small Enterprises Taxpayers Paying Final Income Tax and the Number of MSEs in Indonesia, it can be seen that there are huge gaps between those numbers. Indeed, there is an increase in the number of MSEs who register as taxpayers, but this is still very far from MSEs tax awareness by providing the reality of significant disproportion. The potential of this large MSEs is not directly proportional to the income tax that can be obtained. MSE taxpayers deliberately do not pay and report taxes that should be their obligation so that the income tax revenue target cannot be realized. This is certainly a big homework for DGT as a policymaker to overcome this problem.

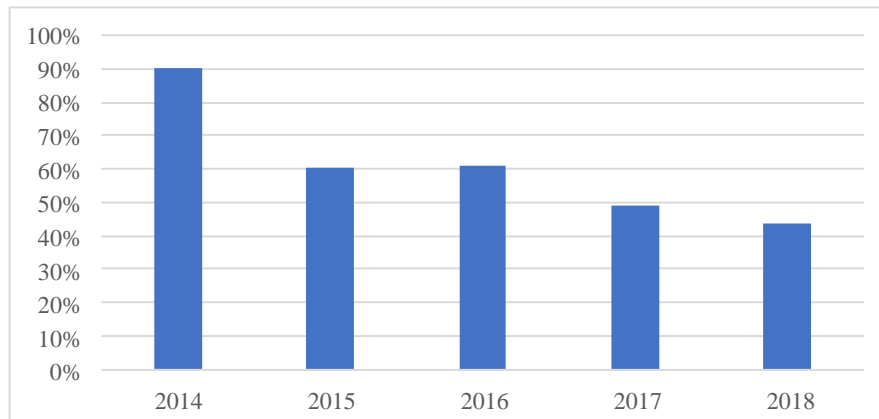
Figure 1
Comparison of Number Paying Final Income Tax MSEs and Total MSEs in Indonesia



Source: Directorate General of Taxes, 2019

If we look further regarding the compliance of tax reporting from MSE traders who are registered as taxpayers, the graph below explains the compliance of Annual Tax Return by MSE traders for 5 years.

Figure 2 MSE Taxpayer's Annual Tax Return Submission Compliance



Source: Directorate General of Taxes, 2019

Based on Graph 2, there has been a continuous sharp decline in compliance of MSE Taxpayers from 2014 to 2018, where compliance with SPT submission is only 44% in 2018. This should be a big problem for DGT as the tax authority why this continues to happen. If only from the perspective of the revenue contribution generated by the MSE taxpayers, it is certainly the wrong way. The large number of MSE taxpayers who are representatives of populist businesses can form a negative group environmental stigma which in turn can have an effect on tax non-compliance on other taxpayers.

Taxpayer compliance arises from several factors that can influence it. The tax authority (DGT) has simplified the calculation and payment of taxes and implemented the smallest tax rate which is only 0.5% of gross turnover, but all these actions have not been able to increase the awareness and compliance of taxpayers. This raises critical questions about the steps that have been taken by the DGT as the tax authority. The first question is whether the already reduced tax rate is not attractive to MSE taxpayers. Though Jackson and Milliron discovered that tax rates which is one of the 14 variables that make up tax compliance (Deb & Chakraborty 2017) play an important role in the world of taxation because they become a magnet for taxpayers so that tax rates must be clearly determined.

The second question is whether tax administration is too difficult, time-consuming, or even sterile in conducting supervision and audit to MSE taxpayers. The audit implementation cannot be separated from the Audit Coverage Ratio number which means the amount of audit coverage calculated based on the comparison between the audited Taxpayers and the number of Taxpayers who are required to submit SPT. Based on the Audit Coverage Ratio (ACR) data that has been carried out by DGT according to the DGT Performance Report (2018), ACR for Individual Taxpayers is only 0.62% of the number of Taxpayers audited from a base of 1.9 million total Individual Taxpayers for ACR, Corporate Taxpayers only reached 3.23% of the 1.18 million base of Corporate Taxpayers.

By looking at the ACR data for 2018, the number of taxpayers who were audited was very small compared to the total taxpayers who submitted their tax returns. This concludes that there is a gap level between the audited Taxpayers and the total Taxpayers' population, even

though the research initiated by Witte and Woodbury found that tax audits have a significant effect on tax compliance (Alshira'h et al., 2020). Furthermore, the existence of legal certainty in taxation occurs when there is an underlying tax law including a legal basis for acts of fraud in taxes in the form of audits and the imposition of penalties, fines, and arrears (Demin, 2020). With a small audit ratio gap, this makes taxpayers feel safe by not fulfilling their tax obligations such as paying to report their taxes. This situation forms the perceived opportunity to evade tax experienced by taxpayers.

Fischer model concluded that it is possible for taxpayers to have the desire to cheat, the existence of fraud will not occur if the taxpayer does not have the opportunity to do so (Puspita et al, 2016). Study results which also support the findings researched by Lempert (1992) found that opportunities are obtained by taxpayers from the tax system itself. Opportunities theory is also supported by Webley (2004) which is one of the determinants of tax compliance. Perceived opportunity to evade is the most important factor why taxpayers do not comply (Alink and Kommer, 2016; Webley, 2004). This situation then forms a public opinion that is captured by the taxpayer that many taxpayers are following the flow of disobedience because they see an opportunity to avoid taxes and followed with similar actions from colleagues, friends, and family of taxpayers who also ignore the payment of their tax obligations. The influence of referral group turns out to be very decisive in whether or not the taxpayers will fulfill their tax obligations (Allingham and Sandmo, 1972; Alasfour, Samy and Bampton, 2016). A study conducted by Inasius (2018) found that group influence has a significant impact on tax non-compliance behavior.

Therefore, a study of tax compliance is important to understand the behavior of MSE taxpayers in Tanah Abang Market. This study uses Planned Behavior Theory which looks at individual behavior which is influenced by individual intentions to perform certain behaviors (Ajzen, 1991; Wahyuni et al, 2019). The aim of this research is to examine the relationship between tax compliance and the four variables of perception of the tax rate, perceived opportunity to evade, legal certainty, and group influences. In this study, researchers focused more on taxpayer compliance and solutions in terms of PP 23/2018 policies, different from previous research which only focused on the influence between variables.

METODOLOGY

This study uses a positivism approach. Positivism relies on empirical evidence, which is an event or fact that can be directly examined and observed in a measured manner and culminates in statistical data processing (Alakwe, 2017). Therefore, all phenomena or facts can be measured positively or surely so that they can be quantified. In line with the positive approach, this study uses a quantitative approach because the quantitative paradigm holds that the source of knowledge must originate from the rational thinking of empirical data and the theory used is generally in the form of cause and effect and deductive, analysis is carried out with statistics, tables, diagrams, and processed statistically (Lipowski, Pastuszak & Bondos 2018).

Quantitative methods are used in research because they look at social phenomena and capture the perceptions of MSEs actors on the determinants of tax compliance. This research was also conducted by using an in-depth interview method to get more detailed reasons and problem points as well as solutions to cases of MSE taxpayer behavior. This study used a

questionnaire as an instrument to collect data. Each variable in questionnaire uses questions from several sources and measures respondents' opinions using a Likert scale or an interval scale of 1 to 6, Score 1 = "Strongly Disagree (SD)", Score 2 = "Disagree (D)", Score 3 = "Slightly Disagree (LD)", Score 4 = "Slightly Agree (LA)", Score 5 = "Agree (A)", Score 6 = "Strongly Agree (SA)".

The population in this study were MSEs in Tanah Abang Market that are scope into Central Jakarta Regional Tax Office, both private individuals and corporate taxpayers. Based on data from the Trade Policy Research and Development Agency Report, the number of Tanah Abang traders in 2017 reached 28.000 people. The number of samples determined using Slovin theory amounted to 160 respondents. This number is considered sufficient to represent the population. However, in practice, researchers experienced difficulties in questionnaires. Many shops are filled by workers who are not shop owners so that many traders who fill out the questionnaire with various reasons of rejections. Of the 160 respondents who were targeted, only 158 were willing, but 4 questionnaires were issued from the total respondents because they were filled carelessly so that 154 respondents were obtained.

The data analysis test consisted of data quality test and classical assumption test. In testing data quality, this study conducted data validity tests and data reliability tests. Then proceed with the classical assumption test consisting of normality test, multicollinearity test, heteroscedasticity test. The normality test was tested by the Kolmogorov-Smirnov test, the multicollinearity test was seen from the tolerance value (tolerant) and the Variant Inflation Factor (VIF). The Heteroscedasticity test in this study used the Spearman rank test. The method of testing the hypothesis in this study uses multiple linear regression by carrying out the R^2 test for testing the determinant coefficient and showing how far the research model is. Hypothesis testing, testing the F test to determine the effect of all independent variables on the dependent variable and Individual Parameter Significance Test t) to determine how strong the influence of each independent variable factor on tax compliance as the dependent variable. The data analysis technique uses simple linear regression analysis processed with the SPSS version 26.

RESULTS AND DISCUSSION

Respondent Characteristics

Respondents selected in this study were Tanah Abang market traders, selected as samples in this study amounted to 154 traders from 28.000 traders. The characteristics of respondents based on age showed that most respondents were > 40 years old as many as 79 people (51.3%). The majority of respondents were male as many as 79 people (51.3%), while female respondents were 75 people (48.7%). The majority of educational backgrounds are high school/equivalent as many as 83 people (53.9%), respondents with the highest education Diploma/Bachelor's degree with a total of 62 people (40.3%). Many respondents' business types were individual businesses, which was 116 people (75.3%), while the type of business in the form of business entities (CV/PT/Fa) was 38 people (24.7%).

Table 1 Respondent Characteristics

Category	Frequency	Percentage %
Age		
<20 years	2	1,3%
20-30 years	7	4,5%
30-40 years	66	42,9%
>40 years	79	51,3%
Gender		
Male	79	51,3%
Female	75	48,7%
Business Entity		
Individual business	116	75,3%
Group Business (CV, PT, Fa)	38	24,7%
Education Level		
Elementary School	0	0,0%
Junior High School	9	5,8%
Senior High School	83	53,9%
College/Graduate	62	40,3%

Source: Primary Data (2021)

Data Quality Test

The results of the validity test and validity test show that all items in this research variable have a value of r count greater than the value of r table = 0,1572, meaning that all items on the tax rate variable factors, perceived opportunity to evade, legal certainty, group influence, and tax compliance variables are valid and able to reveal the variables being measured. The results of the reliability test obtained that the Cronbach alpha value of all research variables showed more than 0,60 so that the answers from the respondents of each research variable were reliable so that they could be used for further research.

Classical Assumption Test Results

The normality test shows the regression model of the independent variable and the dependent variable in this study or both of them have a normal distribution, where the significant Kolmonogorov-Smirnov value is 0,2 greater than the Sig. 0,05. The multicollinearity test results show the regression model found a correlation between independent variables where the tolerance value of each independent variable is more than 0,10, namely the Tax Rate (X1) of 0,512, Perceived Opportunity to Evade (X2) of 0,632, and Legal Certainty (X3) of 0,376. and Group Influence (X4) of 0,361. The results of the Heteroscedasticity Test with the Spearman rank test show a significance level of > 0.05 , namely the Tax Rate (X1), the significance value of 0,877, then the Perceived Opportunity to Evade (X2) the significance value of 0,387, the Legal Certainty (X3) the significance value of 0,714, and Group Influence. (X4) the significance value is 0,808.

Hypothesis Testing Results

Multiple linear regression test consists of 3 parts, which are the coefficient of determination (adjusted R²), the significance test (F-test), and the individual parameter significance test (t-test). The results of Adjusted R² show that it is 0,474 or 47,4%. This means that the Tax Rate, Perceived Opportunity to Evade, Legal Certainty, and Group Influence variables have a contribution effect of 55% on the tax compliance variable while the remaining 43,8% can be explained by other factors not examined in this study. The results of the F test show a significance value of 0,000 less than 0,05. Thus, it can be concluded that the Tax Rate, Perceived Opportunity to Evade, Legal Certainty, and Group Influence variables simultaneously or together have an effect on Tax Compliance, or it can be interpreted that the model is suitable for use.

The individual parameter significance test (t-test) between the independent variable and the dependent variable, it can be seen by comparing t-count with t-table and seeing the significance value (Sig.).

Table 2 Statistical T-Test Results

Model	Unstandardized Coefficients B	t	Sig.
(Constant)	4,832	3,207	0,002
Tax Rate	0,062	1,059	0,291
Opportunity to Evade	0,393	4,561	0,000
Legal Certainty	0,153	4,041	0,000
Group Influence	0,150	1,978	0,050

Source: Results of the questionnaire data that has been reprocessed through SPSS

According to Table 2, the Tax Rate variable has a positive but insignificant effect on tax compliance, marked by the t-count value of 1,059, smaller than the t table of 1,9760 and a significance value (Sig.) of 0,291, greater than 0,05. Meanwhile, other independent variables such as Perceived Opportunity to Evade, Legal Certainty, and Group Influence have a positive and significant effect on the tax compliance variable, marked by the calculated t value of each is greater than the t-table value of 1,9760 and the significance value is smaller or equal to 0,05.

For the calculation results, the t-count of each variable is 1.059 for the Tax Rate variable (X1), 4.561 for the Perceived Opportunity to Evade (X2) variable, 4.041 for the Legal Certainty (X3) variable, and 1.978 for the Group Influence (X4) variable. Referring to the results of t-count of each independent variable in this study, the dominant influence on the dependent variable is Perceived Opportunity to Evade and the second place of the dominant influence, which is Legal Certainty variable. It means that the Perceived Opportunity to Evade (X2) variable and followed by the Legal Certainty variable, which are the most important in determining tax compliance on Tanah Abang Market.

Based on the statistical analysis in this study, it was found that the first hypothesis (H1), which is the tax rate has a positive but not significant effect on tax compliance. It can be said that changes in tax rates do not significantly affect the increase in Tax Compliance. The results of this study are in line with the theory put forward by Darmawan and Pusposari, (2019) showing that there will be no significant impacts from tax rate to tax compliance. The results of

this study are also the same as previous research from Inasius (2018) which proves that tax rates do not have a positive effect on tax compliance. The second hypothesis of this study is accepted, stating that Perceived Opportunity to Evade has a positive and significant effect on tax compliance. This result is different from the results of research conducted by Awaliyah, Khikmah and Evi (2018) discovered that the perception of an opportunity to avoid taxes has a negative effect on tax compliance in the residential sector in Kenya. The results of this study are not in accordance with previous research, according to researchers because the basis for tax imposition on PP 23 of 2018 is still imposed on gross income that must be reported to the tax authorities.

The perception of Legal Certainty through tax penalties and fines has a positive and significant effect on the Tanah Abang market traders. The heavier the tax sanctions, the better the tax compliance of Tanah Abang Market traders will be. The results of this study are in accordance with the theory by Allingham and Sandmo (1972) which also suggests that the authorities need to use deterrent factors such as audits and fines as the only strategies to make individual taxpayers obey. The results of this study are in line with the results of previous research from Putra, Kusuma, and Dewi (2019) which state that tax sanctions and penalties have a positive and significant effect on MSME tax compliance in Jambi City. The fourth hypothesis in this study states that the Group Influence variable has a positive and significant effect on tax compliance of Tanah Abang Market traders. This indicates that the role of the surrounding environment (friends, acquaintances, tax officials, or the family) forms an opinion to comply or not comply with tax obligations. These results are in line with the theory presented by Allingham and Sandmo (1972) agree with other studies that one of the triggers for tax avoidance is decisions that are sometimes influenced by friends, group organizations, and family members.

CONCLUSION

This study aims to examine the factors that can affect tax compliance at Tanah Abang Market traders, which are the Tax Rate, Perceived Opportunity to Evade, Legal Certainty, and Group Influence with 154 respondents, so the conclusion is the Tax Rate, Perceived Opportunity to Evade, Legal Certainty, and Group Influence have a positive effect on Tax Compliance at Tanah Abang Market traders, but not significant only in the Tax Rate variable. Based on the above conclusions, in this study the suggestions that need to be considered for the tax authorities as policymakers and implementing regulations for PP 23/2018. It turns out that the tax rate does not have a significant impact on the compliance behaviour of taxpayers. This is very useful for the DGT authority and the Fiscal Policy Agency as policymakers that the reduction in tax rates does not affect the compliance behavior of MSEs traders. Thus, the discussion of tax rates should not be debated again if there are changes to regulations in the future.

Examining the results of research that prove that the Opportunity to Evade and Legal Certainty perception are the most dominant influence on the tax compliance of Tanah Abang Market traders, the DGT Authority and its operational units must increase monitoring of compliance with MSEs taxpayers through derivative regulations on the implementation of supervision of MSEs taxpayers by recording, direct observation in the field, imposing tax fines on MSEs, and also create an integrated application to make it easier for both parties, DGT and

taxpayers to pay and report tax. Based on the results of the research which proves that there is a group influence on the compliance behavior of the Tanah Abang Market Trader Taxpayer, DGT must aggressively and massively make attractive appeals and invitations to pay and report taxes.

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