

Achieving Taxpayer Compliance : The Effect of Tax Socialization, Tax Understanding, and Tax Sanctions

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ABSTRACT

This research aims to examine the influence of tax socialization, tax understanding, and tax sanctions on the compliance of Small Micro Business (SMB) taxpayers in the city of Dili, Timor-Leste. The population in this study consists of individual taxpayers registered with the Public Business Registration and Verification Office in Dili, Timor – Leste, totaling 2,672 taxpayers. Data for this study were obtained from questionnaires (primary) with a sample of 348 respondents. The data analysis technique used multiple linear regression analysis. The research results show that tax socialization, tax understanding, and tax sanctions have a positive influence on the compliance of SMB taxpayers because the significant value is less than 0.05. This research can contribute to the Public Business Registration and Verification Office in Timor – Leste as well as the Directorate General of Taxes to consider the consistency of tax socialization activities to SMBs in Dili and contribute to SMBs to improve compliance of individual taxpayers by increasing understanding of taxation and tax sanctions.

KEYWORDS: tax socialization, tax understanding, tax sanctions, taxpayer compliance, SMB.

I. INTRODUCTION

A. Attribution Theory

Fundamentally, the attribution theory proposed by Harold (1972), which is an extension of the attribution theory introduced by Fritz (1958), explains that taxpayers' understanding of tax regulations is an internal cause that can influence taxpayers' perceptions in making decisions regarding their compliance behavior in fulfilling tax obligations. Internal causes are behaviors believed to be under the control of the individual, while external behaviors are influenced from outside, meaning individuals behave due to coercion from the situation or environment. The determination of internal and external factors, according to Jatmiko (2006), depends on three factors:

1) Uniqueness (distinctiveness)

Uniqueness means that an individual will perceive the behavior of others differently in different situations. Another individual acting as an observer will attribute external factors to the behavior if someone's actions are considered unusual. Conversely, if it is deemed ordinary, it will be evaluated as an internal attribution.

2) Consensus

Consensus means that in the same situation, individuals have similar views in responding to behavior. If the consensus is high, it is considered an external attribution. Conversely, if the consensus is low, it is considered an internal attribution.

3) Consistency

Consistency means that if someone consistently evaluates the behaviors of others with the same response over time. The more consistent the behavior, people will associate it with internal causes, and vice versa.

The reason for choosing this theory is the taxpayer's compliance with tax obligations related to the taxpayer's perception in assessing the tax itself. An individual's perception to make judgments about something is greatly influenced by their internal and external conditions. Therefore, attribution theory is highly relevant to explain this purpose.

B. Definition of Tax

Tax is a crucial source of state revenue to support domestic development financing. Tax laws in Timor-Leste were established in an effort to alleviate the burden of taxes that have proven inadequate and excessive given the country's reality. The magnitude of taxes will determine the state budget's capacity to finance state expenditures, both for development financing and routine budget financing.

1) Taxpayer Compliance

Taxpayer compliance is the taxpayer's action in fulfilling their tax obligations. Nurmantu (2005:148) defines tax compliance as the fulfillment of all tax obligations and rights. A taxpayer is considered compliant if the reported income is accurate, the Annual Tax Return (SPT) is filed, and the amount of tax owed is paid on time.

2) Socialization Tax

According to Savitri & Musfialdy (2016), tax socialization is an effort by the Directorate General of Taxes to provide information, understanding, and guidance to the public, especially taxpayers, about tax laws. The Directorate General of Taxes provides several points related to socialization indicators, hoping to raise awareness and concern for taxes through modified tax service program development (Winerungan, 2013): a) Counseling, b) Direct discussions with taxpayers and community leaders, c) Information directly from tax officials to taxpayers, d) Billboards installation, and e) Directorate General of Taxes website.

3) Tax Understanding

Understanding taxation includes correctly filling out the Annual Tax Return (SPT), which requires understanding related to SPT completion. The amount of tax owed can be calculated according to tax regulations,

payments or deposits made on time, and reporting the amount of tax owed at the location where the taxpayer is registered, Ekawati et al., (2008:2).

4) Tax Sanction

The definition of tax sanctions according to Mardiasmo (2011) is the assurance that tax regulations (tax norms) will be followed and obeyed. Sanctions in taxation are crucial because the government has chosen to implement a self-assessment system for tax collection. The government has established guidelines in tax laws to ensure orderly and target-compliant tax collection. If tax obligations are not fulfilled, there are legal consequences that can occur due to the coercive nature of taxes. These consequences manifest in the imposition of tax sanctions.

C. Micro Small Businesses (MSB)

Micro Small Businesses are business units managed by community groups or families, predominantly comprising business actors in Timor-Leste. MSBs significantly contribute to job creation and the establishment of new work units that utilize new labor, supporting household income.

Since January 1, 2003, a new system for collecting Income Tax Installments was introduced in Timor-Leste. All companies (individual and non-individual) are obligated to pay Income Tax Installments every month or every three months (quarterly).

For the period from January 1, 2003, to June 30, 2008, Income Tax Installments were calculated as 1% of the total monthly or quarterly income based on UNTAET Regulation No. 18/2000. Income Tax Installments were then calculated at 0.5% of the total monthly or quarterly income of a company starting from July 1, 2008, by the Minister of Finance of Timor-Leste.

This government regulation covers trade and service businesses such as clothing/electronic stores, workshops, tailors, small eateries, salons, and other businesses.

D. Hypothesis

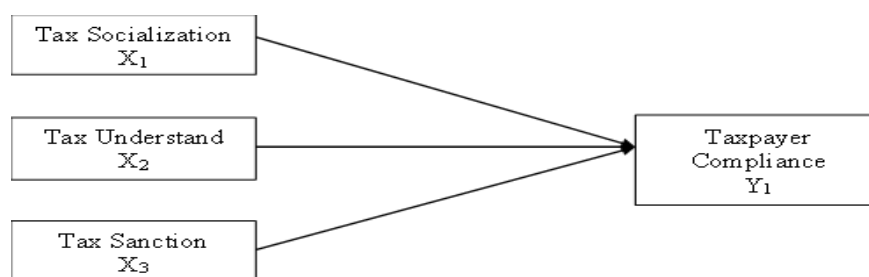


Figure 1. Hypothesis Model

Based on Figure 1, the hypotheses in this study are:

H1: Tax Socialization has a positive effect on MSE taxpayer compliance.

H2: Tax Understanding has a positive effect on MSE taxpayer compliance.

H3: Tax Sanctions have a positive effect on MSE taxpayer compliance.

II. RESEARCH METHOD

The type of research that will be used in this study is causal research. Umar (2008) states that causal designs are useful for analyzing how a variable affects another variable, and are also useful in experimental research where the independent variable is treated in a controlled manner by the researcher to see the impact on the dependent variable directly. In accordance with the scope of the research, the population used as objects in this study are all MSE taxpayers registered in 2021, at the Public Institution Office of the Business Registration and Verification Service (SERVE), totaling 2,672 taxpayers. The sampling technique in this study is a simple random sampling technique using the Slovin formula.

After the population is known, then look for the minimum sample size needed, namely:

$$n = \frac{N}{N \cdot d^2 + 1}$$

Noted:

n = Number of Sample

N = Total Population

D = Value 5%

By using the Slovin formula, the result obtained is $n=347.92$, rounded up to 348. Therefore, the sample size for this research will be 348 respondents. The researcher is confident in the adequacy of a sample size of 348. The type of data used in this research is quantitative data. The required data sources for this study include primary and secondary data. In this study, primary data is obtained from respondent answers or questionnaires sent, while the data source is from responses of Micro and Small Taxpayers (UMK). Secondary data in this study is obtained through UMK tax reports from the Ministry of Finance of Timor-Leste and data of Micro and Small Business owners registered at the Public Business Registration and Verification Service (SERVE). The data source originates from UMK tax reports and data related to this research.

The primary data collection technique employed in this study is the use of a questionnaire that has been prepared in a written, structured, and systematic manner. These questionnaires were then distributed directly to 350 Micro and Small Taxpayers (UMK) scattered in the city of Dili, with the target of obtaining a sample size matching the minimum required by the Slovin formula, which is 348 samples. Subsequently, the questionnaires were filled out and answered by UMK taxpayers and returned to the researcher on a later date.

The researcher spent approximately 4 months revisiting and collecting the questionnaires distributed by revisiting UMK practitioners who had received questionnaires from the researcher, with the hope of obtaining a

minimum of 348 properly filled samples according to the sample determination technique using the Slovin formula against the population of 2,672. The questionnaire consists of two parts: the first part contains statements about respondent data and personal information, and the second part contains statements that elaborate on the operational variables of Tax Socialization, Tax Understanding, Tax Sanctions, and Compliance of Micro and Small Taxpayers (UMK).

Researchers made Pilot Test efforts by distributing questionnaires to non-respondents to test how far non-respondents had understood the meaning of each statement item submitted by researchers.

The secondary data collection technique carried out in this study is using documentation which is data that will be obtained directly from the research site, such as tax payment reports and several documents obtained from the Office of the Public Institution of Registration and Verification Services (SERVE) and the Ministry of Finance of Timor-Leste (Ministério das Finanças).

III. CONCLUSION AND SUGGESTION

A. Conclusion

Based on the research findings and hypothesis testing, it can be concluded that Tax Socialization has a positive effect on the Compliance of Micro and Small Taxpayers (UMK). This means that the more the Directorate General of Taxes provides socialization to the public regarding tax payment procedures, tax laws, and tax sanctions, it will help the public realize the importance of tax payment. As a result, the public becomes compliant in paying taxes to the country, leading to an increase in national revenue.

Tax Understanding has a positive and significant effect on the Compliance of Micro and Small Taxpayers (UMK). This implies that as taxpayers' understanding of taxation increases, their intention to voluntarily report and fulfill their tax obligations also increases.

Tax Sanctions have a positive and significant effect on the Compliance of Micro and Small Taxpayers (UMK). This means that the more the Directorate General of Taxes provides education about sanctions to taxpayers who violate tax regulations, the public becomes aware of the consequences of non-compliance. As a result, taxpayers are more inclined to adhere to tax payment regulations set by the Directorate General of Taxes of Timor-Leste and the Ministry of Finance of Timor-Leste.

B. Suggestion

Based on the results of the study, the researcher provides the following suggestions / proposals:

1. The Directorate General of Taxes, Ministry of Finance of Timor-Leste, and the Public Registration and Business Verification Services Office of Timor-Leste should be more active and proactive in providing information to taxpayers through socialization.

2. To enhance taxpayer compliance, both the Directorate General of Taxes, the Ministry of Finance of Timor-Leste, and the Public Registration and Business Verification Services Office need to increase public understanding of the importance of taxes. This can be achieved by conducting more engaging, innovative, and flexible tax socialization efforts. This approach aims to make taxpayers more aware and concerned about fulfilling their tax obligations. Regular outreach activities in various locations should also be conducted to ensure that more people understand taxation, making them realize the importance of paying taxes.
3. For future research, it is recommended to consider adding or utilizing other variables that can broaden the scope of the study. Additionally, exploring different research methodologies such as qualitative research could provide valuable insights.
4. Subsequent research is advised to use a larger sample size and a broader research scope, such as including Corporate Taxpayers, to enable wider generalization of the study findings.

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