SOCIAL SCIENCES & HUMANITIES

Law Enforcement, Taxation Socialisation, and Motivation on Taxpayer Compliance with Taxation Knowledge as Moderating Variable

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ABSTRACT

This research examines the effect of law enforcement, taxation socialisation, and motivation on taxpayer compliance with taxation knowledge as moderating variable. The sample is 98 taxpayers and data obtained from the respondents was analysed using Structural Equation Model. The results of the study showed that: (1) law enforcement had a significant effect on taxpayer compliance; (2) tax socialisation had significant effect on taxpayer compliance; (3) taxpayer motivation had significant effect on taxpayer compliance; (4) law enforcement, taxation socialization, and taxpayer motivation simultaneously had significant effect on taxpayer compliance; and (5) taxation knowledge did not strengthen law enforcement, tax socialisation, and taxpayer motivation in influencing taxpayer compliance. The findings of this research support the compliance theory used in taxation.

Keywords: Law enforcement, motivation, taxation socialisation, taxpayer compliance

INTRODUCTION

In managing economic resources efficiently, effectively and economically, two important aspects must be considered, namely management of economic resources related to the receipt of funds and those related to their use. Economic sources related to state revenues include oil and gas, non-oil and gas, and tax. According to State Budget (APBN), the largest source of revenue is tax. Data from Ministry of Finance showed tax revenues compared with total budget for the last five years were 62.46% in 2012,

64.04% in 2013, 63.53% in 2014, 73.47% in 2015, and 74.63% in 2016. Tax revenue has increased every year, except in 2014. The average of tax contribution per year is 67.63%, meaning that more than 50% of the state financing or expenditure depends on tax revenue. The percentages of tax revenue realisation from 2012 to 2016 are as follows: 90.02% in 2012, 90.37% in 2013, 91.16% in 2014, 96.17% in 2015, and 96.95% in 2016. The largest increase was in 2015 at 5.01%. The percentage of realisation of average tax revenue during this five-year period is 92.93%.

Puspitasari and Meiranto (2014) focused on motivational posturers and tax compliance decisions while Savitri and Musfialdy (2016) studied the effect of taxpayer awareness, tax socialisation, tax penalties, compliance cost at taxpayer compliance with service quality as mediating variable. Tarjo (2009) examined complexity and socialisation of taxation rule in affecting the taxpayer accounting behaviour in Indonesia while James and Alley (2002) analysed tax compliance, self-assessment and administration in New Zealand. Riahi-Belkaoui (2004) studied the relationship between tax compliance internationally and the selected determinants of tax morale. Gopalakrishnan (1994) studied corporate tax rate relationship using the inventory valuation method while Frankel, Micah and Trezervant (1994) examined the relationship between inventory valuation method and tax reform act (TRA). The findings of Puspitasari and Meiranto (2014) showed motivational posture does not influence tax

compliance decisions while Gopalakrishnan (1994) showed tax rates were negatively related to the choice of accounting methods. When tax rates increased, the management chose an inventory valuation method to reduce the company's earnings, resulting in lower profits and lower taxes paid. Frankel et al. (1994) found that the companies using LIFO methods were motivated to buy extra inventory at the end of the year to lower the rate of return in order to save taxes and shifted those profits to the following year when the 1986 Tax Reform Act (TRA) was enacted. This indicates that the company's management is trying to minimise the amount of tax to be paid. There are differences in research results and taxpayer compliance levels that need to be improved. Thus, it motivates us to do re-research on taxpayer compliance.

LITERATURE REVIEW

Tax

Tax is a public obligation (person or entity) to the state to finance the government's operations in serving the community. Eshag (2011) argued the amount of tax revenue generated by the government for expenditure programmes depended on the willingness of the taxpayer to comply with the state's tax law. This willingness could be attributed to the attitude that taxpayers demonstrated at any given poit in time on the one hand and the purpose of the tax on the other hand (Noami & Joel, 2009). Tax, as state revenue, has two functions: (1) budgeter function which is a source to finance expenditures; and (2) regulatory

function which is a tool to regulate or implement government policies in the social and economic fields (Mardiasmo, 2009). For individuals and companies, the tax is considered as a deduction from income received. Thus, the taxpayer can do tax planning to minimise the tax debt in the future. The purpose of tax planning is supported by Crumbley, Friedman and Anders (1994) who stated that tax planning is a systematic analysis of different tax options to minimise current tax liabilities and the subsequent tax period. Taxes paid by the taxpayer to the state is analogous to the theory of insurance stating that the duty of the state is to protect its citizen and all their interests.

Taxpayer Compliance

Tax compliance is a taxpayer's willingness to meet his tax obligations. Taxpayers are obligated to obey and comply with and carry out taxation obligations in accordance with the provisions of the taxation legislation. This view is shared by Ogundele (1999) show stated tax compliance is an act of submission to the tax law either voluntarily or with inducement or coercion. The simplest concept of tax compliance is the extent to which taxpayers comply with tax law (James & Alley, 2002). The Organization for Economic Cooperation and Development (OECD, 2001) stated that tax compliance was concerned with reporting all information on time and filling out the correct tax amount and taxes paid on time. Thus, tax compliance is awareness for the fulfilment tax obligations reflected

in the following situations: (1) the taxpayer understands or endeavours to understand all provisions of the tax laws and regulations; (2) completes the tax form completely and clearly; (3) calculates the amount of tax payable correctly, and (4) pays taxes on time. Gerald and Leung (2009) suggest that there is a concern for tax authorities and policymakers about tax evasion that could threaten the government's ability to increase its revenue. This is supported by GIZ (2010) who found developing countries are vulnerable to tax evasion and tax evasion activities by individuals and corporations. This contributes to reduced state revenue. Braithwaite and Braithwaite (2001) reported that the tax office evaluates t and influences taxpayer compliance. Taxpayer compliance level is influenced by internal factors and external factors. Internal factors are ethics (moral), knowledge of taxation, awareness of taxpayers, and willingness (motivation). External factors are law enforcement, tax dissemination, taxation environment, and economic conditions.

Taxation Knowledge

Taxation knowledge is everything that is known related to the taxation obtained from the learning process influenced by motivation and external factors in the form of available information and socio-cultural circumstances. Society's knowledge of the tax laws, either obtained through formal or non-formal education, will have a positive impact on taxpayers' awareness to pay taxes. James and Alley (2002) stated that tax knowledge was an essential element

for taxpayers in the voluntary tax system. Other studies conducted in Malaysia (Loo, 2006; Loo, Mckerchar, & Handsford, 2008; 2009) suggested that tax knowledge was the most influential factor in determining taxpayer compliance behavior under a self-assessment system. Thus, a taxpayer who has knowledge of taxation will be more compliant in paying taxes.

Law Enforcement

Law enforcement in the field of taxation is an action performed by the relevant officials to ensure that taxpayers and prospective taxpayers comply with the provisions of tax laws, such as filling and submitting the Annual Tax Return (SPT) correctly, bookkeeping, and other relevant information, and paying taxes on time. Riahi-Belkaoui (2014) stated that the level of tax compliance was still low due to the impact of a social contract. This implicit social contract between an individual and a state ensuring an effective competition law is hypothesised to have a positive impact on tax compliance. Law enforcement is therefore important in improving compliance of taxpayers, both individuals, and agencies/companies.

Taxation Socialisation

The socialization of taxation is the effort of the Directorate General of Taxation to provide information, understanding, and knowledge to the public, especially taxpayers on taxation and legislation. Socialisation is expected to motivate people to understand so as to improve taxpayer compliance.

Taxation socialisation by the Directorate General of Taxation includes consultation, discussion, delivery of information from tax officials, and website creation (Savitri & Musfialdy, 2016). Tarjo (2009) stated that the lack socialisation of taxation by tax office would result in taxpayers having difficulty in understanding the new tax laws or even cause them to be ignorant of regulations. With the socialisation of taxation, taxpayers obtain information more clearly and detailed so their knowledge increases. Eventually, the compliance rate for paying taxes increases.

Tax Motivation and Compliance

Intention is a motivating factor that affects behavior that is under control of the will of an individual (Ajzen, 1991). Control of the will is where the individual can decide upon the will to do or not to do. Theories of hope in motivation argue that the drive for an action depends on the expectation that action will be followed by the results. Although the tax is a legal product to be obeyed and a decision to obey, the taxpayer is motivated to pay taxes based on the deterrent effect of audits and fines (Kirchler, 2007; Kirchler, Hoelzl, & Wahl, 2008). If the taxpayers are motivated to pay taxes when they are afraid of being audited and fined, the motivation relates to the concept of extrinsic motivation (Ryan & Deci, 2000). Taxpayers are motivated or feel a considerable social distance between them and the tax authorities and the state (Braithwaite, 2009). As a result, taxpayers tend to be motivated to have negative attitudes and feelings in

paying taxes (Kirchler, 2007). They may even condemn the state collecting taxes as thieves (Sloterdijk, 2010). State and tax authorities are regarded as taking money in terms of taxes from taxpayers with the help of coercion and force of law (Kirchler et al., 2008). Braithwaite, Murphy and Reinhart (2007); Kirchler et al. (2008) propose that the motivational qualities of taxpayers differ with assumptions when they are correlated with different types of tax compliance. This explanation proves that the variable of motivation for the taxpayers becomes important in encouraging and directing them to obey paying taxes which is their obligation.

MATERIALS AND METHODS

This is an associative research. The research unit is Tax Service Office (KPP) with the population of individual taxpayers at KPP Serpong, Tangerang, and Banten Province. The sample set is one hundred and fifty (150) respondents. The sample selection is based on the respondents who are willing to fill out the questionnaire. From 150 respondents who received the questionnaires, only 115 respondents (77%) returned the questionnaires and only 98 questionnaires could be further processed. This research uses Likert scale to measure responses of five research variables. The collected data are processed using structural equation model (SEM). Operational research variables can be explained as follows; (i) taxpayer compliance consists of five dimensions (filling, counting, paying, reporting and receiving warning letters) and

eight indicators; (ii) taxation knowledge consists of five dimensions (functions, rules, procedures, registration, and mechanism) and five indicators; (iii) law enforcement consists of three dimensions (ideas, concepts, and laws) and four indicators, (iv) taxation socialization consists of four dimensions (media, counselling, ways, and organisers) and six indicators, and (v) tax motivation consists of two dimensions (intrinsic and extrinsic) and fifteen indicators.

RESULTS AND DISCUSSION

Data was processed using Smart PLS 3.0 software.

The stages of processing are as follows: 1) Testing the data and research model with PLS Algorithm and Bootstrapping; 2) Testing Outer Model by observing the validity test and reliability test; 3) Testing the Inner Model with R Square; 4) Testing the hypothesis with t-statistic. Figure 1 and Figure 2 are PLS Algorithm and Bootstrapping respectively.

Based on Figures 1 and 2, it can be explained that the values of the indicator score to the construct are all above 0.5. This indicates that all data are eligible for further processing. According to Hartono (2012), before conducting the hypothesis testing to predict the relationships in the structural model, it was important to test the measurement model for the verification of indicators and latent variables.

The test of Convergent Validity is seen from the measurement model using a reflexive indicator which is assessed based on AVE (Average Variance Extracted)
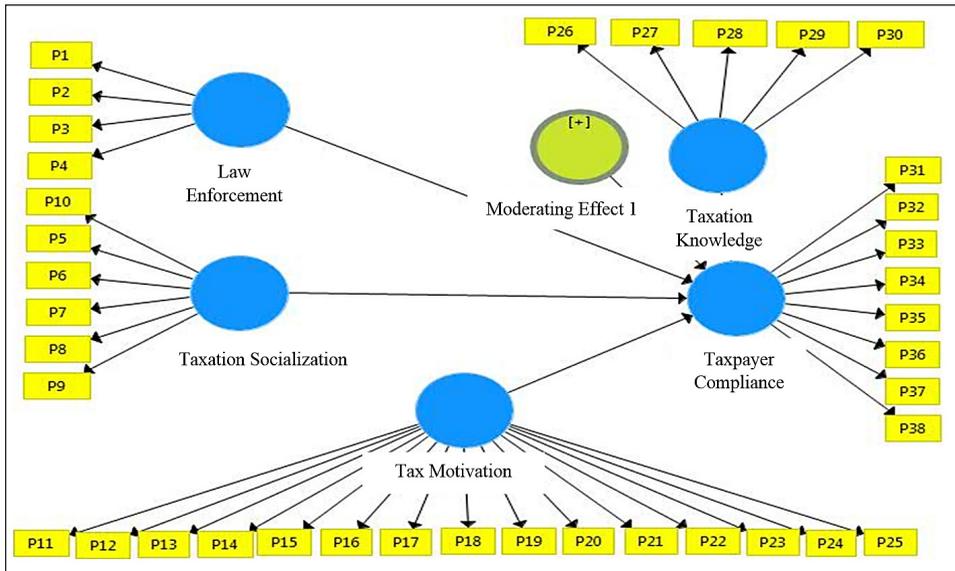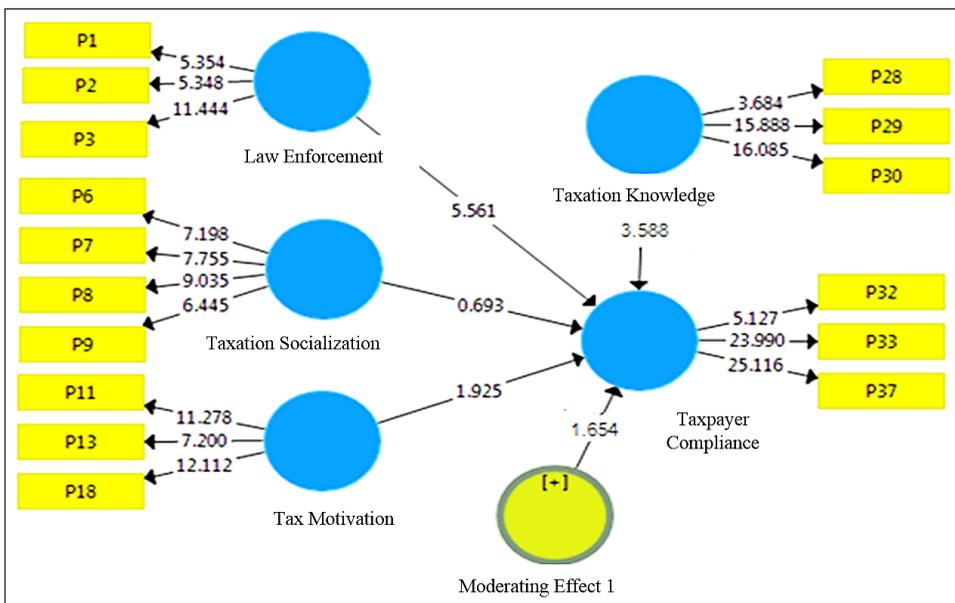
Figure 1. Measurement model

Figure 2. Structural model
Source: Result PLS Algorithm

where each value must be above 0.50. This means that the probability of indicator in a construct going to another variable is lower (less 0.5) so that the probability of the indicator converging and entering the construct is greater than 50%. In this study, there are five constructs and between two and seven indicators. Based on the results of

the measurement model test in Figure 1 and the fact that all variables have AVE greater than 0.05, it can be said that all indicators are valid.

The test of Discriminant Validity is done by looking at cross loading measurement with its construct. From the calculation of cross loading, it is shown that the value of cross loading has a good discriminant validity because the correlation between the value of the indicator and the construct is higher than the correlation between the value of the indicator and other constructs. The test of Reliability is measured by the value of Cronbach' alpha and the value of composite reliability. In order to have a reliable construct, the value of Cronbach' alpha and composite reliability value must be more than 0.70. The calculation results show that all constructs have Cronbach' alpha value and the composite reliability value of more than 0.70.

Structural Model (Inner Model)

The inner model describes the relationship between latent variables based on substantive theory. The structural model is evaluated by using R-square for the dependent construct. The result of R-square described in the dependent variable should be above 0.10 so it can be stated that the dependent construct is good. The results of data processing show that R-square value of tax compliance constructs is 0.788. It can be said that 78.7% taxpayer's compliance is influenced by independent variables, namely law enforcement, motivation, taxation knowledge about the taxation and taxation socialisation. Thus, the research model meets the requirements.

Testing the Hypothesis

To test the hypothesis, the t-statistic (calculated t) value generated from the PLS output is compared with the t-table value. The PLS output is the estimation of the latent variable which is the linear aggregate of the indicator. The hypotheses of this research are developed as follows:

- If calculated t value > t table, calculated t value is more than 1.96, the hypothesis is accepted.

- If t calculated t value < t table, calculated t value is less than 1.96, the hypothesis is rejected.

Table 1 shows the results of data processing via smart PLS regarding the inner model.

Table 1
Inner Model T (Hypothesis testing)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (IO/ STDEVI)
Law Enforcement	0.806	0.787	0.082	9.842
Taxation Socialisation	0.848	0.833	0.050	16.814
Tax Motivation	0.883	0.876	0.041	21.536
Mod Effect	0.06	0.049	0.037	1.609

Law Enforcement Has an Effect on Taxpayer Compliance

Law Enforcement has a significant effect on taxpayer compliance. This indicates that the indicators of law enforcement, namely appeals and reprimands submitted by relevant and strict law enforcement, appropriate law, as well as strict legal sanctions affect taxpayer compliance. Law enforcement in relation to the tax must not discriminate taxpayers. Therefore, such indicators should be consistently implemented by the Directorate General of Taxation, Ministry of Finance. If taxpayers are law abiding by paying their taxes on time, state revenue will increase so the state has sufficient funds and does not resort to use of debt. The results of this study are consistent with Riahi-Belkaoui (2004) based on data from 30 countries, indicating that international tax compliance is positively correlated with the level of economic freedom, the level of equity market interest and the effectiveness of competition laws and high moral norms.

Taxation Socialisation Has an Effect on Taxpayer Compliance

Taxation socialisation has a significant effect on taxpayer compliance. The results of this study showed that socialization conducted by the Tax Office contributes to influencing taxpayer compliance. This indicates that the indicators that shape socialisation are able to effect the taxpayers to comply with the rules of taxation. Nevertheless, the Tax Office is expected to continuously evaluate the indicators used in tax socialisation,

such as materials of socialisation, methods and media of socialisation, socialisation time, and mastery of the material for the implementation of socialisation. Thus, the socialization of taxation affects individual taxpayers as well as agencies. The results of this study are consistent with Savitri and Musfialdy (2016) who showed the relationship between socialization and tax compliance was not mediated by service. This indicates that socialization has an effect on tax compliance. In relation to the influence of taxation socialisation on taxpayer compliance, Tarjo (2009) stated that the intensity of taxation socialisation to taxpayers would suppress the willingness/ intention of taxpayers to avoid taxes by making artificial accounting, thereby increasing taxpayer compliance.

Tax Motivation Has an Effect on Taxpayer Compliance

This research has shown that motivation has a significant effect on taxpayer compliance. The results of this study showed that the indicators shaping the motivation perceived by taxpayers can influence them to comply with tax regulations. The higher the motivation of taxpayers, the greater their level of adherence. With the influence of motivation on taxpayer compliance, the Tax Office is expected to play a more important role in maintaining/ increasing taxpayer motivation by observing external motivation indicators. The external motivation indicators are service by tax authorities, good image of tax officials, rewards for taxpayers, increasing state

revenues, supporting development, an online system of Tax Office, and modernization of taxation. The results of this study are not supported by Puspitasari and Meirianto (2014) who showed t the posture of motivation as a factor of togetherness does not affect taxpayer compliance. However, findings of the current study are in line with Braithwaite et al. (2007) and Kirchler et al. (2008) who suggested that the motivational qualities of taxpayers differ if they are associated with different types of taxpayer compliance.

Law Enforcement, Taxation Socialisation, and Taxpayer Motivation Have an Effect on Taxpayer Compliance

Law enforcement, taxation socialisation, and taxpayer motivation simultaneously have a significant effect on taxpayer compliance. The results of this study are useful for the Tax Office (Tax Authority) in enhancing their service. If there are new tax rules or policies, these should be disseminated appropriately and immediately so they can be understood by the taxpayers quickly. A quick understanding by the taxpayers will motivate them to implement the rules or policies socialised. In addition, the Tax Service Office is expected to apply regulations firmly and fairly to all taxpayers. By optimising the three independent variables, namely Law enforcement, taxation socialisation, and taxpayer motivation, the taxpayer compliance will increase. Thus, it increases the state's tax revenue.

Taxation Knowledge Moderates Law Enforcement, Taxation Socialisation and Taxpayer Motivation on Taxpayer Compliance

Knowledge of taxation rules does not succeed in moderating the relationship between law enforcement, tax socialisation, and taxpayer motivation on taxpayer compliance. Therefore, knowledge about taxation rules weaken the relationship. When a taxpayer understands and knows more about taxation rules, he tends to act opportunistically in carrying out tax obligation by avoiding the tax amount to be paid. This will have implications on state tax revenues. This finding is consistent with James and Alley (2002) who found taxpayers' knowledge did not affect their compliance. Further, Loo et al. (2008) warned that a possible lack of tax knowledge could lead to unintentional behavior of non-compliance among taxpayers as witnessed in Australia and Malaysia.

CONCLUSION

The study concludes that (1) law enforcement has an effect on taxpayer compliance, (2) taxation socialisation has an effect on taxpayer compliance, (3) tax motivation has an effect on taxpayer compliance, (4) law enforcement, taxation socialisation, and taxpayers motivation has an effect on taxpayer compliance, and (5) knowledge on taxation rules does not moderate/strengthen the relationship between law enforcement, tax socialisation, and taxpayer motivation on taxpayer compliance. Therefore, the Tax Authority should optimise the three

independent variables for increasing taxpayer compliance, namely (a) services which are in accordance with standard operating procedures, (b) appropriate and prompt information delivery to the taxpayer; and (c) firm and fair law enforcement.

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