

Unlocking the Taxpayer Compliance Enigma: The Moderating Impact of Ownership Profiles

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Abstract

This research aims to analyze the factors that influence MSME tax compliance in Indonesia. Even though MSMEs make a significant contribution to the economy, their level of tax compliance is still low. Several factors that influence MSME tax compliance include the quality of tax services, tax knowledge, and business ownership characteristics. Previous research results show that there is a gap between potential and actual tax revenue from MSMEs. Apart from that, factors such as dissatisfaction with public services, infrastructure inequality and corruption also pose challenges in increasing tax compliance. This research concludes that improving the quality of tax services, increasing tax knowledge, and improving the overall tax administration system can increase MSME tax compliance.

Keywords: *Tax compliance behavior, Tax service quality, Tax knowledge, Trust, Ownership Characteristic.*

Introduction

Taxes are the main source of state revenue which is used to fund government expenditure and development programs. Tax contributions are very important for the economic development of a country in addition to other income such as natural resources, profits from state-owned enterprises, levies, and other sources of income (Oladipupo et al. 2016). The Directorate General of Taxes as a government institution under the Ministry of Finance as the manager of the taxation system in Indonesia continues to strive to increase tax revenues by carrying out reforms to implement a more modern taxation system.

The combination of small tax revenues and exponential entrepreneurial expansion is ironic. Every year, the expansion of entrepreneurship, especially Small and Medium Enterprises (SMEs), continues to increase. The rapid growth of small and medium enterprises (SMEs) provides opportunities to generate tax revenues and increase state revenues. However, there are still gaps in tax collection in Indonesia. Economic growth supported by Micro, Small and Medium Enterprises (MSMEs) has not been directly proportional to the increase in tax revenues in Indonesia. Research (Mustikasari, 2007) shows that there is a significant gap between potential and actual tax revenues, known as the gap in tax collection.

Although the government has made efforts to increase tax revenues and tax compliance, the main obstacles are dissatisfaction with public services, infrastructure inequality and corruption (Febriani & Kusmuriyanto, 2015). Apart from that, what is of concern is that the dominance of tax compliance is still low (Rahayu, 2013). To overcome low taxpayer compliance, more comprehensive efforts are needed. Apart from improving the quality of public services, improving infrastructure, eradicating corruption, and implementing effective sanctions (Gunarso, 2016), it is also necessary to pay attention to the condition of the tax administration system. Devano & Rahayu (2006) stated that taxpayer compliance is influenced by various factors, including services to taxpayers, tax law enforcement, tax audits, and tax rates. By improving all these aspects, it is hoped that taxpayer compliance can be significantly improved.

The importance of tax knowledge in increasing taxpayer compliance cannot be denied. Research shows that the higher a person's knowledge, the greater their awareness of tax obligations (Hertati, 2021; Kartikasari

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& Yadnyana, 2020). However, the influence of tax knowledge on compliance is still a debated topic. Some studies found a positive correlation, while others showed negative results. However, one thing that is certain is that without adequate knowledge, taxpayers tend not to comply with tax regulations (McKerchar, 1995; Saad, 2009).

Apart from tax knowledge, service quality is also a significant factor that influences taxpayer compliance. Good service, as indicated by the ability of tax officials to provide satisfactory, responsive, polite and trustworthy service, can increase the comfort of taxpayers and encourage them to be more compliant. When the quality of service received meets or even exceeds expectations, taxpayers tend to feel satisfied and are more motivated to fulfill their tax obligations

Literature Review

Tax compliance behavior

Tax compliance refers to a situation where taxpayers fully implement their tax rights and obligations (Ariani & Biettant, 2019). Nkwe (2013) adds that this compliance also reflects the extent to which individuals comply with tax provisions and related laws. In general, tax compliance can be divided into two types: forced compliance, which involves preventive measures and law enforcement, and voluntary compliance, which is influenced by factors such as beliefs, perceptions, and social norms (Mendoza, et. al., 2017). Ideal compliance is when taxpayers voluntarily fulfill their tax obligations without the need for intervention from the tax authority (Muturi & Kiarie, 2015). According to Tahar & Rachman (2014), tax compliance is a form of obedience to applicable laws. Awareness of compliance can be influenced by various factors, both internal, such as personal motivation, and external, such as socialization from the government. Modernization of the tax system, such as e-filing, aims to make it easier for taxpayers to fulfill their obligations and is in line with compliance theory which emphasizes the importance of ease in implementing tax obligations.

Tax service quality

Good quality tax services are the key to increasing taxpayer compliance. Services that meet or even exceed taxpayers' expectations will make them feel satisfied and more motivated to fulfill their tax obligations. The quality of tax services covers various aspects, starting from the availability of facilities, the friendliness of the officers, to the ease of accessing tax services. By providing quality services, tax authorities can not only increase taxpayer compliance, but also build trust and positive relationships with taxpayers. This is in line with the view that taxpayers are customers who need to be served well (Gangl et al., 2013). Previous studies, such as those conducted by Kamil (2015), Supadmi (2009), Oktaviani (2016), Suyanto (2016), and Pranadatta (2014), have consistently shown a positive relationship between tax service quality and taxpayer compliance.

Trust

Trust is the foundation for creating a healthy tax climate. When taxpayers believe that the taxes they pay are used effectively and transparently for the public interest, they will be more motivated to fulfill their tax obligations. Conversely, a lack of trust can trigger skepticism and resistance towards tax policies. Research shows that trust is key in building positive relationships between taxpayers and tax authorities. When taxpayers trust the tax authorities, they are more likely to comply with tax regulations and support the government's fiscal policies. Conversely, a lack of trust can erode tax compliance and trigger tax avoidance. Some studies, such as those conducted by Cirman et al. (2021), Guzel et al. (2019), Hofmann et al. (2008), Canale & Liotti (2019), Batrancea et al. (2019), Rudolph (2009), Jimenez and Iyer (2016), and Torgler (2007), consistently show that trust is a very significant factor in influencing tax compliance

Tax knowledge

Tax knowledge can be assumed to be the most basic attitude that individual taxpayers must have Asrinanda (2018). Tax knowledge is the foundation for taxpayer compliance. By understanding tax regulations,

taxpayers can fill out tax returns correctly, calculate taxes accurately, and pay taxes on time (Carolina and Simanjuntak, 2011). Adequate knowledge enables taxpayers to carry out good bookkeeping and produce accurate financial reports, which ultimately supports voluntary compliance. To achieve this, there needs to be continuous efforts to increase public tax literacy (Berhane, 2011). Tax knowledge is not only limited to information, but also becomes the basis for real actions by taxpayers. With sufficient knowledge, taxpayers are able to fulfill their tax obligations independently, starting from understanding the regulations, filling out tax returns, to paying taxes on time. The higher a person's tax knowledge, the more likely they are to comply with tax regulations (Hayati & Supriyati, 2013). Therefore, increasing tax knowledge is the key to building a good tax climate.

Ownership Characteristic

Apart from the factors that have been discussed, previous research also looked at the influence of factors such as age, education, gender and employment on tax compliance. The results show that older and more educated people tend to be more compliant. Previous research, such as that conducted by Al-Mamun et al. (2014), Jackson and Milliron (1986), Tittle (1980), Chan, Troutman, and O'Bryan (2000), as well as Aitken and Bonneville (1980), have identified several factors that can influence tax compliance. . These studies show that factors such as age, education, gender, ethnicity, and employment status can significantly influence taxpayer behavior in fulfilling their tax obligations.

Research Method

This study was done with the support of the Medan City Cooperative and the UKM Service in small and medium-sized creative businesses. The sample for this study is made up of 130 SMEs in the creative industry. The Loading Factor and Average Variance Extracted (AVE) are used to test the model's validity and fit. The Structural Equation Model (SEM) method was used to look at the data and test the hypotheses in this study.

Result

Measurement Model

The measurement model was put to the test to see if the constructs (convergent and discriminant) and measurements used in this study were valid and reliable.

Table 1. Measurement Model

Construct	Measurement Items	Loading Factor	AVE	CR	CA
Tax Service Quality	TSQ1	0.969	0.931	0.988	0.985
	TSQ2	0.961			
	TSQ3	0.974			
	TSQ4	0.970			
	TSQ5	0.961			
	TSQ6	0.954			
Trust	T1	0.921	0.831	0.967	0.959
	T2	0.961			
	T3	0.949			
	T4	0.950			
	T5	0.819			
	T6	0.860			
Tax Knowledge	TK1	1.00	1.000	1.000	1.000
Tax Compliance Behavior	TCB1	0.821	0.748	0.947	0.932
	TCB2	0.909			

	TCB3	0.944			
	TCB4	0.895			
Ownership Characteristic	OC1	0.896	0.798	0.940	0.915
	OC2	0.823			
	OC3	0.757			
	OC4	0.875			
	OC5	0.895			
	OC6	0.932			

As shown in Table 4.1, all item factor loading scores and mean extraction variance scores (AVE) were above 0.50 for all constructs, ensuring convergent validity. Research (Fornell & Larcker, 1981). This study's scale is reliable because Cronbach's alpha and composite reliability (CR) for all constructs exceed 0.70 (Fornell and Larcker, 1981). The Fornell-Larcker method tested discriminant validity. Table 4.2 shows discriminant validity results.

Bootstrapping

Table 4.3 presents the results of the bootstrapping test.

Table 2. Bootstrapping

	T Statistics (O/STDEV)	P Values
Direct Effect		
Tax Service Quality -> Tax Compliance Behavior	2.239	0.026
Trust -> Tax Compliance Behavior	3.392	0.001
Tax Knowledge -> Tax Compliance Behavior	2.823	0.005
Moderating Effect		
Moderating Effect 1 -> Tax Compliance Behavior	1.995	0.047
Moderating Effect 2 -> Tax Compliance Behavior	1.965	0.050
Moderating Effect 3 -> Tax Compliance Behavior	0.647	0.518

Based on the results in Table 4.3, the results are:

1. Tax Service Quality increases Tax Compliance Behavior, with a P-Value of 0.026 <0.05.
2. Trust increases Tax Compliance Behavior, with a P-Value of 0.001 <0.05.
3. Tax Knowledge increases Tax Compliance Behavior, with a P-Value of 0.005 <0.05.
4. Ownership Characteristic significantly moderates (strengthens) the effect of Tax Service Quality on Tax Compliance Behavior, with P-Values of 0.047 <0.05.
5. Ownership Characteristic significantly moderates (strengthens) the effect of Truston Tax Compliance Behavior, with P-Values of 0.050 <0.05.
6. Ownership Characteristic not significantly moderates (weakness) the effect of Tax Knowledge on Tax Compliance Behavior, with P-Values of 0.518 > 0.05.

R Square

Table 4.4 presents each endogenous variable's r-square value (coefficient of determination).

Table 3. R Square

	R Square	R Square Adjusted
Tax Compliance Behavior	0.886	0.883

Based on the results in Table 3:

1. It is known that the value of the coefficient of determination (r-square) of Tax Compliance Behavior is 0.886. This value can be interpreted that the effect of Tax Service Quality, Trust, Tax Knowledge on Tax Compliance Behavior is 88.6%.

Discussion

Tax Service Quality has a good and big influence on tax compliance behavior. The level of taxpayer compliance in fulfilling their tax payment obligations is strongly correlated with the high quality of service provided by tax officials to taxpayers (Kamil, 2015). Quality of tax services refers to providing satisfactory services to taxpayers while adhering to accountable service standards and maintaining consistently high motivation (Supadmi, 2009). Tax service quality refers to the state in which tax products and services meet taxpayers' expectations. Quality tax services play an important role in increasing taxpayer compliance. Efficient and taxpayer-oriented services that meet expectations have the potential to provide incentives to taxpayers to be more willing to fulfill their tax obligations. Well-defined service benchmarks and a dedication to improving service excellence are critical. The Circular Letter from the Director General of Taxes, as you conveyed, shows the government's efforts to improve tax service standards and meet taxpayers' expectations. Quality tax services have the ability to build taxpayer trust in tax institutions. Trust plays an important role in encouraging voluntary compliance. If the services provided by tax officers do not meet or exceed taxpayers' expectations, then the quality of the services provided is not good. Providing quality services will ensure taxpayer satisfaction, thereby increasing their willingness to comply with their tax obligations in the future. The above statement is strengthened by the empirical findings of Oktaviani's research (2016), Suyanto's research (2016), and Pranadata's research (2014) which state that service quality has a good and substantial influence on taxpayer compliance.

Tax knowledge has a positive and significant effect on taxpayer compliance. Good tax knowledge is a key factor in encouraging taxpayer compliance. A deep understanding of tax regulations allows taxpayers to make rational decisions regarding their tax obligations. The better taxpayers understand, the more likely they are to comply with applicable tax regulations. Previous research, such as that conducted by Dewantara (2016), Ardiasa (2013), Driciyani (2016), Oktaviani (2016), Mustofa (2016), Ananda (2015), Suyanto (2016), and Mir'atusholihah et al. (2014), consistently shows that there is a positive relationship between understanding taxation and taxpayer compliance. Taxpayers who have a good understanding tend to understand the importance of taxes, know reporting procedures, and voluntarily fulfill their tax obligations.

Trust has a significant effect on taxpayer compliance. MSME taxpayers' trust in the tax authority plays an important role in encouraging tax compliance. According to the Theory of Planned Behavior, these beliefs can influence an individual's perception of the ease or difficulty of complying with regulations. However, the results of Rokib's (2019) research provide a different perspective. This shows that other factors also need to be considered in understanding MSME tax compliance. Based on the Theory of Planned Behavior (TPB), MSME taxpayers' trust in the tax authority can influence their compliance. The higher the trust, the more likely taxpayers are to comply with tax regulations. This is in line with research findings by Mahadianto and Astuti (2017), Mahadianto et al. (2017), and Syakura et al. (2014) trust has a significant effect on taxpayer compliance.

Based on the results obtained, the ownership characteristic moderation of tax service quality on tax compliance behavior is $0.047 > 0.05$. This value shows that ownership characteristics as a moderating variable on the influence of tax service quality on tax compliance are significant. These findings indicate that ownership characteristics have a significant role as a moderating variable in the relationship between tax service quality and tax compliance. This means that the influence of tax service quality on tax compliance is not the same for all types of ownership. This indicates that the ownership characteristics of a company can strengthen the impact of tax service quality on tax compliance behavior. However, good quality tax services are not necessarily effective in increasing tax compliance if they are not adjusted to the company's ownership characteristics. Therefore, tax authorities need to develop more specific and targeted service strategies for each type of ownership.

Based on the results, the ownership characteristic of trust moderation on tax compliance behavior is $0.050 > 0.05$. This value shows that ownership characteristics as a moderating variable on the influence of trust on tax compliance are significant. These findings indicate that ownership characteristics have a significant role, factors such as age, gender and education also influence tax compliance. Previous research shows that older, female and educated taxpayers tend to be more compliant. However, these findings show that the level of compliance is also influenced by the level of taxpayer trust in the tax authority, which is influenced by the characteristics of company ownership. Therefore, in building trust, it is necessary to take a more personal approach and involve various stakeholders. Apart from service quality, factors such as transparency, accountability and fairness also need to be considered.

Based on the results obtained, the ownership characteristic moderation of tax knowledge on tax compliance behavior is $0.518 > 0.05$. The research results show that ownership characteristics do not significantly moderate the effect of tax knowledge on tax compliance. This indicates that although tax knowledge is important, other factors such as ownership characteristics may have a more complex role in influencing compliance behavior. Apart from that, low levels of compliance can also be caused by a lack of clarity in tax regulations, a lack of policy outreach, and the perception that tax policies benefit state management bodies more than taxpayers. As a result, taxpayers' awareness and attitudes towards tax compliance are less than optimal. Thus, the low level of tax compliance in general is still a problem. This can be caused by several factors, such as a lack of clarity in tax regulations, a lack of policy outreach, and the perception that tax policies benefit state management bodies more than taxpayers. As a result, taxpayers' awareness and attitudes towards tax compliance are less than optimal. This condition is exacerbated by the fact that taxpayers often commit violations unintentionally due to a lack of understanding of complex and constantly changing regulations.

Conclusion

The research findings indicate that tax service quality, tax knowledge, and trust are crucial factors influencing taxpayer compliance. High-quality tax services, delivered efficiently and effectively, can significantly enhance taxpayer satisfaction and encourage voluntary compliance. Taxpayers with a strong understanding of tax regulations are more likely to fulfill their obligations accurately and timely. Trust in the tax authority is a key driver of compliance, as it fosters a positive relationship between taxpayers and the tax administration.

However, the impact of these factors can be moderated by ownership characteristics. While service quality and trust may have a stronger influence on certain types of businesses, tax knowledge appears to be a more universal driver of compliance. To further improve tax compliance, it is essential to address underlying issues such as complex regulations, inadequate outreach, and perceptions of unfairness. By focusing on these areas, tax authorities can create a more conducive environment for taxpayer compliance and ultimately contribute to sustainable revenue generation.

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