

CHAPTER I

INTRODUCTION

A. Research Background

Tax is a form of contribution from a person or entity that is coercive or an obligation to the state by not directly receiving a reward but the contribution is used for the purposes of the state with the purpose of the interests of the people themselves to achieve the prosperity of the people. The primary function of the tax system is to generate enough revenue to finance the vital costs of public provision (Arif and Rawat, 2018). Tax receipts are utilized in the form of providing various means, such as the construction of public facilities such as; roads, bridges, schools, health facilities, up to the cost of maintaining such facilities. So, the more taxes collected or the more obedient Taxpayers pay taxes, the more facilities and infrastructure are built with totality. According to Rodriguez-Justicia and Theilen (2018) Taxpayers expect that the government provides goods and services in return for paying taxes. As a result, higher (lower) tax compliance is directly proportional to the condition when citizens are satisfied (not satisfied) with the indirect benefits they receive through the quality and quantity of public provision.

Indonesian Finance Minister Sri Mulyani Indrawati reported the realization of tax receipts in 2020 amounting to Rp 1,070 trillion. While

tax receipts in 2019 reached Rp 1,332.7 trillion. This means there is a contraction of 19.7% (Money.kompas.com)

The government is actively making reforms for tax system (discussions on tax administration, compliance, and law enforcement (Slemrod, 2019) such as the creation and formulation of legislation and improving it with the aim of being able to optimize tax receipts. From the Decree of the Minister of Finance Number KMK-885/KMK.03/2016 concerning the Establishment of a Tax Reform Team, there is a Tax Amnesty Law aimed at encouraging tax reform towards a more equitable tax system, as well as the expansion of more valid comprehensive, integrated data in order to increase sustainable short- and long-term tax receipts (DJP Website).

In 2018, the government issued a regulation PP number 23 of 2018 concerning Income Tax on Income from Businesses Received or Obtained by Taxpayers with Certain Gross Circulation with the aim of a replacement for PP No. 46 of 2013 which previously set a Final PPh rate of 1 percent for MSMEs (Micro Small and Medium Enterprises). The 0.5 percent tariff is imposed on taxpayers whose gross turnover is up to 4.8 billion Rupiah in one year. The period of imposition of this tariff is 7 years for Individual Taxpayers, while for Corporate Taxpayers in the form of Cooperatives, Limited Partnerships or Firms for 4 years, and for Corporate Taxpayers in the form of Limited Liability Companies for 3 years.

As written in the Law of General Provisions and Procedures of Taxation No. 28 Year 2007 on general provisions and procedures of taxation that every Taxpayer as an entrepreneur must report his business to the office of the Directorate General of Taxation whose work area including residence or place of business is carried out to be confirmed as a Taxable Entrepreneur.

Narrated by Imam Al-Tirmidzî:

الزكاة سوى لحد فالمال في نإ

"Indeed, in every property there is a right other than zakat."
(Ahmad ibn Ali Muhammad al-Kanâniy al-Asyqalânî, al-Talkhîsh al-Habîr, Beirut: Muassasah Qur'bah, 1995: Juzz 2:313)

The verse above explains that in order to realize the benefit of the people, because the government funds will not be sufficient to finance the "expenditure", and if the "expenditure" can not be paid, there will be harm. Seeing the importance of the tax function of the Islamic view, as a people who obey and obey the teachings of religion and also as citizens who comply with the applicable law, the obligation to pay taxes is a necessity with the aim of realizing the benefit of the people.

Small and Medium Micro Enterprises have an important role in the Indonesian economy or can also be referred to as the backbone of future tax receipts. According to data from the Ministry of Cooperatives and Small Businesses, it has contributed to Gross Domestic Product (GDP) of 57-60% and the absorption rate of labor is about 97% of the entire

national workforce (Profil Bisnis UMKM-LPPI dan BI, 2015). With the increasing number of SMEs each year is expected to be directly proportional to the contribution in one of the state revenues, namely tax receipts. The results of the study from Okpeyo et al. (2019) show that larger SMEs are more likely to comply with their tax obligations than smaller SMEs because their visibility makes it difficult for them to evade taxes without being noticed.

One of the many obstacles to the ineffectiveness of tax collection is the compliance of the Taxpayer itself. Tax compliance refers to a person's willingness to act in accordance with the 'will' and 'statements' of tax law and administration without the sanctions activities imposition (Saad, 2014). But somehow, from Gangl et al. (2015) it shows that some taxpayers are motivated to pay taxes due to heavy audits and sanctions.

"The issue of tax compliance has become an important issue in Indonesia because if Taxpayers do not comply then it can lead to the desire to commit acts of evasion, evasion and tax evasion that will ultimately harm the country, namely reduced tax receipts" (Mangoting et al., 2019). It is understood that the level of taxpayer compliance can also be affected by the taxpayer's social environment. Such moral obligations and perceptions of such individuals related to corruption.

Tax morale is an important context in the tax system in Indonesia, where a Taxpayer willingly voluntarily adheres to the existing tax rules.

Tax moral are closely linked to "taxpay erethics" (Alm and Torgler, 2006). Not only in Indonesia, tax morale has become an important part of the tax system, namely in the context of recent reforms in many Sub-Saharan African countries, especially when they want to increase their fiscal capacity (Jahnke and Weisser, 2019). The concept of tax morale evolved from economic analysis of tax avoidance. Tax morals can be defined as voluntary compliance with tax laws and creating social compliance norms for such individuals. This moral obligation can be possessed by a person, but there is a possibility that no one else has.

Tax morale is when taxpayers are aware that they are charged with moral costs because they feel guilty or ashamed, which forms an intrinsic motivation in them to comply in paying taxes (Jahnke and Weisser, 2019). Which is another word of the individual's willingness to pay the tax (Torgler, 2004).

"The theory of tax morality is developed in two directions, namely the first as a function of Taxpayer compliance, and the second he looks specifically at the heterogeneous nature of the Taxpayers and is grouped in moral reference groups" (Bruno, 2019). Bruno (2019) shows how tax morale varies from socio-demographic characteristics. Finally there is a paper by (Antonio Filippin, Carlo Fiorio, 2013) linking tax enforcement, tax morale, and tax compliance, the results of which show how some literature has ignored the indirect effects of tax enforcement on compliance through tax morals.

Taxpayer morality can affect the level of compliance of Taxpayers, because paying taxes is a form of activity that means complying and requires basic behavior from the Taxpayer itself. "In the context of poor institutional quality, reducing uncertainty (policy) is not efficient enough" (Bruno, 2019). Therefore, Bruno (2019) represents the situation experienced by transitional countries at a relatively advanced convergence stage but lacks effective property rights protections leading to tax enforcement, tax compliance, and low tax morale. "The accountability of a broad democracy has to do with the high awareness of taxpayer morality. Stronger moral obligations from Taxpayers will be able to increase their compliance levels" (Frey and Torgler, 2007).

It is also in line with Lago-Peñas (2010) tax compliance is more implemented among individuals who tend to think in terms of morality and ethics. According to Allison (2014), when the moral ethics of taxes of a taxpayer are destroyed, voluntary compliance can no longer be guaranteed.

Tax compliance is not only formed by intrinsic motivation but also from extrinsic factors, the perceived fairness of Taxpayers from the tax system in the country influences the taxpayer's motivation to comply. The criteria for compliance of a Taxpayer include the submission of SPT on time, calculating taxes owed correctly and honestly as well as other criteria contained in the tax legislation (Tahar and Sandy, 2012).

The willingness of taxpayers to comply with the provisions of tax legislation is inseparable from the belief in the tax system as a whole, which means there is an important role of tax officials so that tax officials must have high quality and morality (Hanifah and Yudianto, 2019).

Speaking of governments that have the power to regulate tax revenues to meet state spending and regulation to avoid inequality and achieve fairness. The power can also be exercised by the government, which is a case of corruption and tax evasion (Tahar and Rachman, 2014). Le et al. (2020) states that the relationship between corruption in the form of bribery to government officials and tax compliance is an important matter discussed. This form of bribery can affect the willingness of citizens to pay taxes.

The indicators used to identify and assess corruption are based on subjective measurements, commonly known as 'perceptions of corruption'. This perception of corruption negatively impacts the way taxpayers behave (Rosid et al., 2018). The statement is in line with Melgar et al. (2010) a high level of perception of corruption can have a devastating effect rather than the corruption itself; This results in a culture of distrust of some institutions and can create bad cultural traditions.

According to Rachmania et al. (2016) the perception of corruption tax is the interpretation and view of Taxpayers in interpreting unlawful acts committed by tax officials, which aims to enrich themselves and

harm others. Corruption in the sphere of taxation is a very unfortunate thing, how institutions that are supposed to hold the trust of the people instead use the opportunity for personal interests and self-satisfaction. The perception of corruption of a person affects compliance in making payments from Taxpayers, the more corrupt officials and governments, the higher the distrust of Taxpayers towards their own taxes (Wibisono and Kusuma N, 2017). Some scholars point out that corruption has a significant negative impact on the level of tax revenue collected in a country.

This is in line with the research of (Hanifah and Yudianto, 2019). It shows that the perception of Taxpayers about the news of tax corruption in the media has a significant influence to the taxpayer compliance. Research from Rosid et al., (2018) also shows that perceptions of corruption can adversely affect tax compliance. Jahnke and Weisser (2019) even attributed how corruption can damage tax morale, namely as a reaction to perceived injustices in fiscal exchanges.

Reported from (nasional.kompas.com, 2021) Angin Prayitno Aji who had served as Director of Inspection and Billing at the Directorate General of Taxation in 2016-2019 added to the list of tax officials sitting in the patient's chair. Angin was named as a suspect in the alleged bribery of gifts or promises related to tax inspections in 2016 and 2017 at the Directorate General of Taxation.

In addition to Angin, Corruption Eradication Commission (CEC) set five other suspects, namely the Head of The Subdirectory of Cooperation and Inspection Support at the Directorate General of Taxes Dadan Ramdani (nasional.kompas.com, 2021).

The row over corruption that ensnares tax officials raises a bad perception that they fear could trigger a bad view from Taxpayers of the true benefits of the taxes they pay. In Papua New Guinea, corruption is described as the cause of severe law and order damage (Walton, 2013). According to Christiano and Suyanto (2014) the existence of tax corruption cases is the trigger for non-compliance of Taxpayers. This widespread corruption has resulted in a decline in social capital, mutual distrust between citizens and the government (Litina and Palivos, 2016). This opinion is in line with research from Rachmania et al., (2016) which also revealed that the perception of tax corruption has a significant influence on taxpayer compliance. If a country is characterized by less corruption, tax compliance may increase as well as the willingness to pay taxes, which always means that, high levels of corruption can affect tax compliance and willingness to pay taxes negatively (Ayuba et al., 2015).

Tax evasion arises not only from lack of knowledge someone understands taxes, but also other factors such as trust in government (Angelina and Mangoting, 2014). They suggest that there will be great reluctance from taxpayers to pay taxes if the government takes advantage of taxes which he had paid to enrich himself. Instead of being thrown

away useless (corrupted by the government) then they think it's better the tax was evaded.

Trust in government according to Kirchler et al. (2008) is the general opinion held by individuals and social groups that the tax authorities work for the good of society. Social trust reflects the individual's acceptance of an authority. Trust in the government system and applicable law also encourages the willingness of taxpayers to pay their taxes when taxpayers have high confidence in the government system and strict laws in carrying out all applicable rules.

This means that the tendency to do tax avoidance will be higher, because some people feel that the existing tax system is not good enough to accommodate all their interests. If the Taxpayer feels that the existing tax system is reliable, reliable and accurate, then the taxpayer will have a positive view of being aware of paying taxes (Suyono, 2016).

Reported from halmaherapost.com that the tax receipts of the city of Ternate, North Maluku reached Rp 1,260 trillion or 101.94% of the target tax receipts of 1,236 trillion. This means that Taxpayers in the city of Ternate have successfully carried out their tax obligations well. KPP Pratama Ternate also invites all Taxpayers and all parties in the taxation sphere to continue to synergize to realize the target of high tax receipts in 2021 to help the country overcome the pandemic and accelerate economic recovery.

This provides motivation for researchers to conduct research on factors of obligation, perception of corruption, and patriotism can affect the compliance of SME Taxpayers in the city of Ternate. From several previous studies, researchers used two factors that affect the compliance of SME Taxpayers, namely moral obligations and perceptions of corruption and one variable moderation namely trust in government.

Based on the results of the background description, the researcher is interested in make a compilation research from (Chrissanjaya, 2018) and (Wibisono and Kusuma N, 2017) with the title "**The Effect of Tax Morale and Perception of Corruption on Compliance of SMEs Taxpayers with Trust in Government as Moderation Variable** (*Empirical Study on SMEs Taxpayers at Ternate Tax Service Office*)".

This study uses tax morale and perceptions of corruption as independent variable and trust in government variable as moderating variable to the compliance of SME Taxpayers as dependent variable. This research was conducted in Ternate City, North Maluku.

B. Research Problem

Based on the background that has been explained, the problem formulation in the study is as follows:

1. Does tax morale have a positive effect on the compliance of SME Taxpayers?

2. Does the perception of corruption have a negative effect on the compliance of SME Taxpayers?
3. Does the existence of trust in government strengthen the influence of moral obligations on the compliance of SME Taxpayers?
4. Does the existence of trust in government strengthen the influence of perception of corruption on the compliance of SME Taxpayers?

C. Research Objectives

Based on the formulation of the problem that has been presented, the purpose of this study is:

1. To obtain empirical evidence whether tax morale positively affects the compliance of SME Taxpayers.
2. To obtain empirical evidence whether perception of corruption negatively affects the compliance of SME Taxpayers.
3. To test and obtain empirical evidence of the existence of trust in government strengthens the influence of tax moral on the compliance of SME Taxpayers.
4. To test and obtain empirical evidence whether the existence of trust in government strengthen the influence of perception on the compliance of SME Taxpayers.

D. Benefits of Research

From this research, it is expected to provide benefits and contributions theoretically and practically for various parties. The benefits of this research are as follows:

1. Theoretical Benefits

This research is expected to provide knowledge and insight in the field of taxation related to factors that affect the compliance of SME Taxpayers. In addition, this research can be a literature and reference for further research on the compliance of SME Taxpayers.

2. Practical Benefits

- a. For the government

This research is expected to be a material input, evaluation, and motivation for the government so that it becomes a consideration for the government to strive for the fulfillment of tax revenue targets, especially for SMEs.

- b. For the community

This research is expected to provide information to the public about paying taxes for every business actor who has become a SME Taxpayer and can understand aspects of taxation so that the public does not neglect in the obligation to pay taxes.

- c. Education

This research is expected to provide references to further research in the field of taxation so that it can be a reference for research on

compliance of SMEs Taxpayers in the City of Ternate, North Maluku Province.

d. For Researchers

With this research, it is expected to enrich knowledge and insights to researchers about several factors that affect the compliance of SME Taxpayers.

