

CHAPTER I

INTRODUCTION

A. Background

State revenue is income earned by the state to finance and run government programs for the continuity of the country's life to run well; of course, the state needs a lot of funds as an absolute requirement for the country's development to be successful. Law No. 17 of 2003 Article 11 concerning the Preparation and Determination of the State Budget states that state revenue originates from tax revenue, non-tax state revenue, and receipt of domestically and abroad grants. State revenue from the tax sector is the most significant and primary contributor of all state revenues used to meet state spending needs in the context of national development and people's prosperity.

Taxes are essential to the Indonesian economy because they are one of the largest state revenue sources. According to Pertiwi et al. (2014), taxes are state revenues used to improve people's welfare with the basic principle of raising funds from and for the community through a mechanism that refers to laws and regulations. Meanwhile, according to the Law of the Republic of Indonesia Number 28 of 2007 concerning General Provisions and Procedures for Taxation, taxes are mandatory contributions for coercive individuals or entities. Income in this large taxation sector in the support and cooperation of the community and the government to achieve tax collection results that are in accordance with the target, namely by fulfilling their tax

obligations. The level of tax revenue in the APBN always increases every year. This increase indeed cannot be separated from the support and cooperation of the community and government to achieve tax collection results that are in accordance with the target, namely by fulfilling their tax obligations.

In Indonesia, Micro, Small, and Medium Enterprises (MSMEs) are productive economic business units owned by individuals or business entities and run by individuals, households, or small business entities. Based on the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, MSMEs are productive businesses carried out by individuals and/or business entities. The number of MSMEs in 2019 was 65.47 million in Indonesia (Kementrian Koperasi dan UMKM, 2019). MSMEs help the economy in Indonesia by donating taxes every year.

The role of MSMEs in the Indonesian economy is crucial. MSMEs support a country's economic growth by participating in tax compliance. During the Covid-19 Pandemic, the development of MSMEs grew rapidly. It helped the economy to keep going when many large-scale businesses went out of business and laid off their employees working relationships. However, many MSME actors are still tax compliant and do not pay their obligations. For MSMEs, taxes are still seen as a burden, which should be avoided as much as possible (Maula, 2019). Even though MSMEs make a large contribution to the Gross Domestic Product (GDP), in 2018, MSMEs contributed 61.07%, and in 2019 contributed 60.51% of the total National GDP (Kementrian

Koperasi dan UMKM, 2019). Lesmana & Setyadi (2020) explain that income from GDP will be related to the amount of potential tax that will be received by the state when MSME actors are aware of complying with tax regulations in Indonesia.

Table 1.1 Table 1. 1 MSME Data for Cilacap District Period 2020-2022

No	Data Description	Unit	Year		
			2020	2021	2022
1	Number of MSMEs	Unit	19.780	20.371	20.672
2	Income	Rp Milyar	203.188.563.271	221.337.109.179	637.932.415.387

Source : serayunews.com

Based on the data above, tax revenue in Cilacap Regency has continued to increase dramatically since 2020. This increase in revenue is also supported by the increasing number of MSMEs in Cilacap. The development of MSMEs in various sectors overgrew during the pandemic and had great potential to increase taxation. Tax revenue in 2022 in Cilacap Regency has exceeded the revenue target of 108.49 percent. This acceptance is the best achievement in the last eight years at KPP Pratama Cilacap and made KPP Pratama Cilacap the Pratama Tax Service Office, which has exceeded the tax revenue target of 100 percent in the Regional Office of the Directorate General of Taxes Central Java II (jateng.antaraneews.com).

Tax awareness is the behavior of taxpayers in the form of views or perceptions that involve beliefs, knowledge, and reasoning, as well as a tendency to act with the stimuli provided by the taxation system and regulations (Tanggu et al., 2021). Taxpayer

awareness is one of the important factors in achieving the target of tax revenue each year. Taxpayer awareness can be seen from how taxpayers know, understand, and implement tax provisions correctly and voluntarily. The higher the level of awareness possessed by the taxpayer, the higher the tax revenue will be. Meanwhile, if the level of awareness is getting lower, tax revenue will also decrease so that it is far from the expected target. Increasing taxpayer awareness, of course, cannot be separated from the role of the Directorate General of Taxes (DGT). Awareness of taxpayers to comply with taxes will continue to increase from time to time if the taxpayer himself already has a sense of trust in the tax authorities or tax administration, which is getting better (Tanggu et al., 2021).

Taxpayer compliance is fulfilling the taxpayer's obligation to pay in connection with state development assistance, which is expected to be voluntary and provide accurate and complete annual notifications (Milleniasofianti & Wahyu, 2022). According to Nurmantu, tax compliance can be defined as a condition in which taxpayers fulfill all tax obligations and carry out their tax matters (Merliyana & Saefurahman, 2017). Tiraada (2013) explains that compliance is essential to meet the requirements of taxpayers, considering that the Indonesian tax system adheres to a self-assessment system that instills absolute trust in taxpayers (Milleniasofianti & Wahyu, 2022). The Self Assessment System gives confidence to taxpayers to assess, determine and pay their tax obligations, which can lead to fraud in tax reporting. The obligation to pay taxes is explained in the verse of Al-Qur'an surah At-Taubah: 29, which reads:

اللَّهُ حَرَّمَ مَا يُحَرِّمُونَ وَلَا آخِرَ بِأَلْيَوْمٍ وَلَا بِاللَّهِ يُؤْمِنُونَ لَا الَّذِينَ قَتَلُوا
 عَنِ الْجِزْيَةِ يُعْطُوا حَتَّىٰ الْكُتُبِ أُوتُوا الَّذِينَ مِنَ الْحَقِّ دِينَ يَدِينُونَ وَلَا وَرَسُولُهُ
 صُغِرُونَ وَهُمْ يَدِ

Meaning:

“Fight against those who do not believe in Allāh or in the Last Day and who do not consider unlawful what Allāh and His Messenger have made unlawful and who do not adopt the religion of truth [i.e., Islām] from those who were given the Scripture - [fight] until they give the jizyah¹ willingly while they are humble.”

In this verse, *jizyah* can be interpreted as a tax. At the time of the Prophet, *jizyah* was discontinued for non-Muslims except for people of the book who were paid temporarily and could be stopped when the need was met, in contrast to the concept of taxation in Indonesia, which is more directed at *dhoribah*, namely a mandatory and continuous tax collection system carried out by the government to assist the development of a country.

The government has carried out various ways to increase taxpayer awareness and compliance. One of them is to improve the performance and quality of tax services. Many tax cases were found, which caused a decrease in taxpayers' trust level in the tax authorities. There was a case of corruption in the Tax Intensive Profit Sharing Fund committed by the former Cilacap Regent from 2004-2008. This, of course, can affect public trust in the tax authority to decrease, so it has an impact on taxpayer compliance in fulfilling their tax obligations. The higher the level of tax corruption practices that

occur, the greater the distrust of taxpayers toward tax officials. This is because taxpayers feel worried that officials misuse the tax contributions paid to enrich themselves by committing acts of tax corruption (Ariani & Kautsar, 2016). To increase the trust and compliance of taxpayers in Cilacap, the government needs to work hard to improve the discipline of the tax officials.

One of the theories related to taxpayer compliance is the Slippery Slope theory. This theory explains that an increase in the level of public trust and authority of the tax authorities can affect taxpayer compliance. The relationship between changes in the level of public trust and the power of the tax authorities shows different results at various levels. The relationship framework between these dimensions is depicted in an interconnected three-dimensional graphic (Mangoting et al., 2019).

Previous research on taxpayer compliance conducted by Rinanto et al., (2022) reveals that the tax authorities have a positive effect, and taxpayer awareness has a negative impact, so it cannot be a moderating variable. Surya (2018) argues that the authority's power does not affect voluntary tax compliance. This is because when the tax authority prefers to use power to encourage compliance, taxpayers tend to be forced to pay for fear of being penalized rather than self-awareness. Betu dan Mulyani (2020) argue that voluntary tax compliance can be increased by giving complete trust to taxpayers and the power of the tax authorities to eliminate behavior that violates and is not by tax regulations. Nur (2018) revealed that if the awareness of the taxpayer is higher, the level of taxpayer compliance will increase and will increase acceptance at

the Primary Tax Service Office. Amalia (2021) argues in her research that the motivation for paying taxes is based on the power of the government or because of trust in the government. Ardiani (2022) reveals that even though the level of trust of taxpayers is lacking, taxpayers still pay taxes based on the wishes of the taxpayers themselves because of the motivation to be able to do business comfortably without any tax problems. Based on some of the results of previous studies still shows conflicting information, so further research is needed.

Based on the background above, the researcher is interested in conducting research with the title "The Effect of Tax Authority Power and Trust in Public Authorities on Tax Compliance with Awareness as a Moderating Variable (Case Study of MSME Taxpayers in Cilacap Regency)."

This research replicates the research of Betu & Mulyani (2020). The difference between this research and previous research lies in the location of the research; the previous research was conducted in the DKI Jakarta area, while this research was conducted in the Cilacap Regency, Central Java. In addition, the novelty in this study is that the researchers add tax awareness as a moderating variable to strengthen the relationship between taxpayer trust and the power of the tax authorities on tax compliance.

The reason for adding the tax awareness variable in this research is based on recommendations from previous research by Betu and Mulyani (2020) to add other moderating variables to strengthen the relationship between tax authorities and trust in

public authorities in building tax compliance. Another reason researchers added one variable, awareness, as a moderating variable. The aim was to find out whether tax authority power and trust in public authorities could be increased with tax awareness to increase MSME taxpayer compliance after the implementation of PP No. 23 of 2018.

B. Formulation of Problem

Based on this background, the formulation of the problem in this study is as follows:

1. Does the tax authority power affect the tax compliance of MSME taxpayers?
2. Does trust in public authority affect the tax compliance of MSME taxpayers?
3. Does awareness strengthen the effect of tax authority power on the tax compliance of MSME taxpayers?
4. Does awareness strengthen the effect of trust in public authorities on tax compliance of MSME taxpayers?

C. Research Purposes

From the formulation of the problem above, it can be seen that the research objectives are as follows:

1. To test and find empirical evidence that tax authority power influences the tax compliance of MSME taxpayers
2. To test and find empirical evidence that trusts in public authorities has an effect on the tax compliance of MSME taxpayers
3. To test and find empirical evidence that awareness strengthens the effect of tax authority power on tax compliance of MSME taxpayers

4. To test and find empirical evidence that awareness strengthens the influence of trust in public authorities on tax compliance of MSME taxpayers

D. Benefits Of Research

1. Theoretical Benefits

This research is expected to be another reference and contribution of knowledge and findings from research results for the development and enrichment of theoretical and conceptual studies in the accounting field and regarding taxation in particular.

2. Practical Benefits

- a. For KPP Pratama Cilacap, it is hoped that it can be used to determine the factors that affect compliance and awareness of MSME taxpayers to help improve services so that compliance and awareness of taxpayers increase.
- b. For MSME taxpayers, this research is expected to provide information to taxpayers about compliance and awareness of the importance of paying taxes.
- c. For researchers to obtain additional knowledge, insight, and understanding, especially regarding the influence of tax authority power and public authorities' trust in awareness and fulfillment of taxes on MSME taxpayers in Cilacap.

