

CHAPTER I INTRODUCTION

A. Background

The rapid development of globalization changes today makes economic development in a region important in supporting community activities to realize prosperity. Therefore, economic growth is expected to increase the country's revenues. In the second quarter of 2020, Indonesia experienced a decrease of -5.3% due to the Covid-19 pandemic in Indonesia (www.djkn.kemenkeu.go.id). To restore the economy the government needs to get support to be able to drive development in order to make a fair and prosperous society, especially the support of funds derived from domestic income. Tax is one of the sources of income of each country from the contribution of the community to the government to carry out the development of economy that has 2 main functions, namely the budgetary function and regulatory function. Tax as a function of budgetary is the main income for the state, while taxes as regulatory function is a tool to implement policies, especially in the economic and social fields. "Tax revenue is the largest part of the funds used by the government to finance public expenditures" (Gobena & Van Dijke, 2017). According to data obtained by the Ministry of Finance, in 2018 the realization of tax receipts reached Rp1.315,9 trillion or grew by 14,3% from 2017 (Latifah, *et al.*, 2020). Thus, the largest state revenues are sourced from the tax sector. "Development in a country will be affected by the amount of tax collected such as the construction of public facilities, the construction of facilities and infrastructure, as well as the payment

of state employees” (Gusti, *et al.*, 2019). Thus, the state needs continuous funding support to carry out sustainable economic development.

The Micro, Small and Medium Enterprises sector or commonly referred to as SMEs is one the drivers of the country’s economic growth because it has a large number and growth. This also makes the SME sector a sector that is considered by the government as a tax supplier (Permatasari *et al.*, 2021). “SMEs in connection with taxation have become an attraction that has increased in the last decade in developing and developed countries” (Alshira'h and Abdul-Jabbar, 2019; Paus and Abdul-Jabbar, 2008). “SMEs are proven to play an important role in the tax system”(Christensen *et al.*, 2001). SMEs are an economic sector that is expected to increase state revenues. This sector can provide opportunities to a quite large workforce and able to grow to compete with companies that have already used considerable capital. This is evident in the submission of the Deputy for Macro economics and Finance of the Coordinating Ministry for Economic Affairs, Iskandar Simongkir, that SMEs have contributed 60,34% to Indonesia's GDP, so that the role of tax receipts from SMEs is important for taxation (Suparna and Aghnia, 2020). For this reason, SME taxpayers have a high level of tax compliance (Permatasari *et al.*, 2021). The issuance of Government Regulation No. 23 of 2018 concerning income tax on income from businesses received or obtained by taxpayers who have a certain gross circulation in lieu of Government Regulation No. 46 of 2013 make changes to existing regulations, focused on changing the regulation on the imposition of the income tax rate from 1% to 0.5%. Government

Regulation No. 23 of 2018 replacing Government Regulation No. 46 of 2013 aims to overhaul a number of deficiencies that violate the principle of tax justice because the object of tax is directly charged to its turnover regardless of the profit margin obtained by taxpayers that raises pros and cons (Aneswari, *et al.*, 2015) and make adjustments to the condition of the Indonesian economy so that the existence of SMEs can survive and develop well. According to Law No. 20 of 2008 concerning SMEs mentions that SMEs are small companies owned and managed by a person or owned by a small group of people with a certain amount of wealth and income, thus if the imposition of SMEs tax is the same as large companies will have a burdensome impact and hinder the growth of SMEs in Indonesia.

According to data owned by the Directorate General of Taxation (DGT) donations of tax receipts of the SME sector only 0,7% of the source of tax receipts entirely. The low level of tax compliance that occurs becomes a challenge faced by the government, if the compliance rate pays low taxes then tax receipts will also be low. This is a discussion about factors that can affect the compliance of SME taxpayers.

The command to obey in paying taxes has also been conveyed in the Qur'an surah At-Taubah verse 29 which reads:

قَاتِلُوا الَّذِينَ لَا يُؤْمِنُونَ بِاللَّهِ وَلَا بِالْيَوْمِ آخِرٍ وَلَا يُحَرِّمُونَ مَا حَرَّمَ اللَّهُ وَرَسُولُهُ وَلَا يَدِينُونَ دِينَ الْحَقِّ مِنَ الَّذِينَ أُوتُوا الْكِتَابَ حَتَّى يُعْطُوا الْجِزْيَةَ عَن يَدٍ وَهُمْ صَاغِرُونَ

Meaning: “Fight against those who do not believe in Allah SWT and later, those who do not forbid what Allah SWT and His Messenger have forbidden and those who do not believe in the true religion (the religion of Allah SWT), (those who are) given the Book, until they pay *jizyah* (taxes) while they are in submission”.

One of the responsibilities of people and government to God is the compliance to pay taxes, where people and government have an instrument of tax compliance that is the right and obligation to be carried out. “Taxes have a very important role as the main source of state finances, the provision of public services, and infrastructure improvements, which in essence can spur economic growth for both developing and developed countries, has been made quite clear” (Gangl *et al.*, 2014; Miskam *et al.*, 2013; Alm and Torgler, 2006) make tax compliance a significant concern for countries around the world (Khlif *et al.*, 2016; Alon and Hageman, 2013; Torgler *et al.*, 2010; Torgler and Schneider, 2007; Andreoni *et al.*, 1998). However, tax compliance is not always 100%, even in developed countries (Ahmad & Hijjatulah, 2019). “Thus, tax non-compliance can have severe consequences, especially as the linkage between costs around the world and taxpayer’s non-compliance is very upsetting” (Farrar *et al.*, 2017). More specifically, on a global scale, tax non-compliance is estimated to have exceeded US\$ 3,1 trillion in 2011 (Murphy, 2011). “Non-compliance can lead to economic growth to be backward, because the capacity of each country to provide appropriate facilities and infrastructure, human resource development and infrastructure are hampered” (Johnson *et al.*, 2000). “Compliance with tax regulations can be influenced by various factors that exist in the field, and their implementation can be influenced by various existing social practices” (Onu *et al.*, 2019).

Subjective norms are one of the factors that cause taxpayers compliance. Law-abiding behavior shown by subjective norms will lead to punishment as a

substitute for factors in directing people to obey the law, including tax regulations (Górecki & Letki, 2020). The role of subjective norms is very important in encouraging and motivating to comply in paying taxes. Taxpayers decide whether or not to comply with tax regulations will consider the influence of the environment and other groups. “Subjective norms is a person's perception of social pressure to engage in or not to conduct on that can affect the individual” (Ajzen, 1988). “Subjective norms in taxation can be measured through friends of the profession and tax officials” (Dida, *et al.*, 2020). The results of research conducted by Sitti, *et al.*, (2020) concluded that subjective norms, moral obligations and understanding of taxpayers jointly affect taxpayer compliance. The results of previous studies also stated that subjective norms have a significant effect on the intention to pay taxes (Bobek, *et al.*, 2003). Meanwhile, Ernawati (2010), found that subjective norms had no effect on taxpayer compliance.

In addition to subjective norms, taxpayer compliance is also influenced by moral obligations. Moral obligation in question is morality or real awareness which becomes an aspect in paying taxes. It is because in paying taxes is an activity that cannot be separated from the behavior of the Taxpayer himself. The public is expected to be able to realize the importance of taxes as a source of state financing. Thus, each individual can increase their moral obligation in order to fulfil the obligation in paying taxes. According to Bobek & Hatfield (2003), moral obligation is a feeling that is owned by someone but not necessarily owned by others. Moral obligations carried out by each individual

are based on the prevailing taste values in the community. As well as in paying taxes, taxpayers will make tax payments in accordance with applicable tax regulations. Thus, if the Taxpayer has a great moral obligation, then the compliance of obligations in taxation is also large.

If the intrinsic motivation of each Taxpayer has not grown well, they will pay taxes because of external factors, such as the magnitude of the tax penalty rate. As Ruky *et al.*, (2018) claim, "The greater the tax penalty it will reduce a person's intrinsic motivation to pay taxes, but nevertheless the taxpayer remains motivated to pay taxes because they feel heavy to pay tax penalties". Thus, the moral level in Indonesia is still very low. Based on the data obtained from the Directorate General of Taxes (DGT), as many as 238 million people in Indonesia, only 7 million people have the awareness to comply in making tax payments.

Unlike Indonesia, Switzerland has a high moral obligation in taxation. In January 2020, 120 celebrities and wealthy businessmen from 8 countries signed an open letter prosecuting them for the imposition of a larger tax on them in order to address inequality in the amount of tax rates imposed. This suggests that morality can persuade one's consciousness to play more of a role through taxation. From this perspective, taxes are no longer seen as mandatory contributions imposed under existing law. However, taxes as a mandatory contribution on the basis of law and moral obligations are used for the benefit of the wider community (Darussalam, 2020). Therefore, Indonesian Taxpayers are expected to increase moral obligations to tax compliance aimed at the

common good. Research conducted by Semaraputri & Rini (2019) provided results that moral obligations have a positive effect on taxpayer compliance. Similar to Semaraputri & Rini (2019), the results of research by Rositayani (2021) showed that moral obligations significantly have a positive effect on Taxpayer compliance. In addition, the results of the study by Sista (2019) and Kaukab *et al.*, (2020) concluded that state that moral obligations have no effect on taxpayer compliance.

In understanding the behavior of certain taxpayers, it is important to know the trust in the government regarding the tax system. Trust is a behavior that is expected from honesty and cooperative behavior due to the sharing the same norms and values. One of the factors driving taxpayers to carry out their obligations to tax regulations is having trust in the government, trust in the legal system, trust in politicians and trust in tax collection. The low level of taxpayer compliance is caused by the level of public trust that begins to decrease in trust in the Government. Cases of tax evasion, such as: the case of Gayus Tambunan raises the public perception that taxes paid by taxpayers have been only used by certain individuals (Prabowo, 2019). Therefore, in addition to groups and the environment, trust becomes the main thing for a person to make decisions on whether or not to comply with tax regulations sourced from within him. Thus, trust in the government has an impact on subjective norms. A research conducted by Stevanny & Prayudi (2021) shows that trust in the government has a positive effect on the compliance of SME Taxpayers.

Taxpayer compliance has a very close relationship with the attitude of taxpayers in making judgments and decisions against taxes themselves. In making judgments and decisions, each individual has a perception on others affected by the individual's external and internal circumstances. This has to do with the attribution theory. Attribution theory is an individual's perception on making judgments about others strongly influenced by internal and external consequences (Ramdhani et al., 2019).

Considering the results of different studies from several previous studies, these motivates the researcher to conduct relatively similar studies by adding trust in government as a moderation variable.

Based on the background outlined above, a study on the compliance of SMEs Taxpayers entitled "**The Influence of Subjective Norms and Moral Obligations on Compliance of SMEs Taxpayers with Trust in the Government as Moderating Variable**" is conducted.

This research is a compilation of Ramdhani *et al.*, (2019) and Sudirman *et al.*, (2020). The different aspect of this study can be located in the selection of independent variables, where the study only focused on examining subjective norm and moral obligation, the addition of trust in government as moderating variables, as well as the location of research. This research was conducted in several cities/regencies, namely Pekanbaru City, Ternate City, Yogyakarta City, Samarinda City, Mataram City, and Karimun Regency aiming to test if the trust

in the Government affects subjective norms and moral obligations to the compliance of SME Taxpayers.

B. Research Problem

Based on the background that has been outlined, the following formulation of the problem that will be discussed in this study are:

1. Does subjective norm have positive and significant effect on the compliance of SME taxpayers?
2. Does moral obligations have positive and significant effect on the compliance of SME taxpayers?
3. Does trust in government strengthen the effect in a positive and significant relationship between subjective norms on the compliance of SME taxpayers?
4. Does trust in government strengthen the effect in a positive and significant relationship between moral obligations on the compliance of SME taxpayers?

C. Research Objectives

Based on the formulation of the problems that have been established, the following objectives of this study are:

1. To find out if subjective norms have positive and significant effect on the compliance of SME taxpayers.
2. To find out if moral obligations have positive and significant effect on the compliance of SME taxpayers.

3. To find out if trust in government strengthens the effect in a positive and significant relationship between subjective norms on the compliance of SME taxpayers.
4. To find out if trust in government strengthens the effect in a positive and significant relationship between moral obligations on the compliance of SME taxpayers.

D. Benefits of Research

This research is expected to have theoretical and practical benefits for all parties. The benefits in doing this research are:

1. Theoretical Benefits

This research is expected to provide insight and knowledge in the horizon of broader thinking on tax compliance related to the factors that drive the level of compliance of SME taxpayers. In addition, this research can be a reference and literature for future research.

2. Practical Benefits

- a. For the government

The results of this study are expected to be useful to find out the factors that become the drivers and the inhibitions to taxpayer compliance for the government so that it can be a special input on the level of compliance of taxpayers so that the government can optimize the tax system.

b. For the community

This research is expected to inform the public about the importance of paying taxes as taxpayers for the community, especially in SME taxpayers.

c. For researcher

This study is expected to add insight to researchers in understanding the factors that affect the level of compliance of SME taxpayers.