TAX COMPLIANCE WITH TAXPAYER AWARENESS AS AN INTERVENING VARIABLE

Arifin Idrus¹, Annas Lalo², Mariana Tenreng³, Syamsiah Badruddin⁴

¹Lecturer in Management Science of STIEM Bongaya Makassar, Indonesia, ²Lecturer in Accounting Science of STIEM Bongaya Makassar, Indonesia, ³Professor in Management Science of Esa Unggul University Jakarta, Indonesia, ⁴Professor in Social Science Universitas Nasional Jakarta, Indonesia.

Email: ¹arifinidrus18@gmail.com, ²annasmappiiasse@gmail.com, ³Mariana.t@esaunggul.ac.id, ⁴chiah_jurnal2006@yahoo.com

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Abstract

**Purpose of the study:** This research explores the role of taxpayer awareness as an intervening variable in analyzing the effect of tax penalties and tax audits on taxpayer compliance.

**Methodology:** The Research to use a purposive sampling method with the type of sample selection based on consideration the judgment sampling.

**Main Findings:** The results of the SmartPLS Version 3.0 test provide evidence that tax penalties and tax audits carried out by professional auditors proved to be able to increase taxpayer compliance in paying their taxes in a timely manner.

**Applications of this study:** The population of this study is individual taxpayers who carry out free work recorded at Tax Offices (KPP) Pratama Makassar (KPP Pratama Makassar Utara, KPP Pratama Selatan, and KPP Pratama Makassar Barat). whose status is still active, until January 2017 there were 234,104 effective taxpayers.

**Novelty/Originality of this study:** The nationalism of the people as citizens and as high taxpayers creates a high sense of tax awareness that has an impact on their high compliance in paying taxes.

**Keywords:** Taxpayer, Tax Audits, Intervening Variable, Awareness, Tax Compliance.

INTRODUCTION

The development cannot be implemented if the government does not have the availability of funds. The implications of non-implementation of development are that efforts to realize people's welfare are hampered. This shows that the availability of funds for the government is so important to facilitate the development process. One source of funding for the government comes from taxes. The Directorate General of Taxes of the Republic of Indonesia in 2016 noted that the global economic slowdown that occurred in 2015 did not prevent Indonesia from recording economic growth of 4.7%. The 2015 achievement is the foundation in setting the 2016 state budget. In 2016 the government set an ambitious budget target of Rp1,822 trillion, around 75% or Rp1,360 trillion derived from tax revenues. This figure has increased by 30% compared to the realization in 2015 (Pajak, 2016).

Related to the tax system, Indonesia applies a self-assessment system, which is a system that gives responsibility to each taxpayer to register, calculate, pay and report their tax amount to the government itself. Thus, the amount of taxable income of personal income is highly dependent on the level of compliance and awareness of taxpayers (Arum, 2012). On the other hand, a number of studies have found that the tendency to behave disobediently and dishonestly in behavior differs significantly across countries, non-compliance of taxpayers is a serious problem in many countries and most non-compliant taxpayers are associated with taxable income tax and delivery of tax reporting (Ariely, Kamenica, & Prelec, 2008; Choi, 2015; Kasper, Kogler, & Kirchler, 2015; Mazar, Amir, & Ariely, 2008; Slemrod, 2007).

The low level of taxpayer compliance can be seen from the return rate associated with the delivery of the Notice. The following is a table that explains the level of taxpayer compliance at the Pratama Makassar Tax Office from 2013 to 2016.

| Years | Number of Taxpayers (a) | Annual Notification Letter (SPT) (b) | Compliance (b / ax 100%) |
|-------|------------------------|-----------------------------------|--------------------------|
| 2013  | 187.533                | 110.623                           | 58%                      |
| 2014  | 200.486                | 113.708                           | 56%                      |
| 2015  | 211.617                | 108.974                           | 51%                      |
| 2016  | 223.194                | 110.079                           | 49%                      |
| 2017  | 234.104                | 108.781                           | 46%                      |

Source: Tax Offices (KPP) (Pajak, 2017)
Based on Table 1, above, it can be seen that from 2013 to 2017, the level of compliance of Individual Taxpayers at Makassar KPP Pratama declined. This certainly requires a study so that it does not occur protractedly. Therefore, these conditions provide motivation for conducting research on several factors that influence the level of taxpayer compliance at KPP Pratama Makassar.

Efforts to improve taxpayer compliance must lead to trust, awareness and socialization efforts with various programs, and not only can rely on the role of the Directorate General of Taxes and tax officials, but also the active role of the taxpayers themselves. The tax system reform has been carried out by the government, the taxation system from the official assessment system becomes a self-assessment system which is a tax collection system that raises issues relating to competence, honesty, trust, awareness, ability, and readiness of taxpayers to accept the burden to calculate the tax amount payable and submit tax reports accurately (Palil, Akir, & Ahmad, 2013). The relationship between taxpayer compliance and awareness in fulfilling tax obligations has been analyzed by several scholars (Saad, 2014; Sapiei & Kasipillai, 2012). The role of sanctions and examinations in increasing tax compliance shows a positive influence (Alm, Bruner, & McKee, 2016), but it is different from the results of other undergraduate studies that tax audits have not made a big impact on private tax in Nigeria (Anyaduba, Eragbhe, & Kennedy, 2014).

Other researchers examined taxpayer compliance, their findings provide evidence that fines, tax services (Fiscus) and tax awareness have a significant positive effect on tax compliance (Jatmiko, 2006; Muliari & Setiawan, 2011). Tax audit, service quality, and tax sanctions have a positive effect on taxpayer compliance, while service quality and tax sanctions do not affect taxpayer compliance (Masruroh, 2013). Tax law and tax sanctions have a major influence on tax compliance (Marvina, 2015).

Studies that rely on legal science perspectives are carried out by other researchers with the assumption that either through the threat of fear it is possible to be examined or then subject to taxation sanctions will force the taxpayer to comply with their obligations (Allingham & Sandmo, 1972). The effectiveness of this collaboration is also influenced by the calculation of profit and loss, both on the taxpayer's side and the tax authority. Therefore, persuasive efforts must be balanced with consistent law enforcement actions. Some other scholars examine the relationship between awareness and trust with the government (Doerrenberg, 2015; Hartl, Hofmann, Gangl, Hartner-Tiefenthaler, & Kirchler, 2015; Mas’ud, Manaf, & Saad, 2014; Wahl, Kastlunger, & Kirchler, 2010). The influence of personal norms such as awareness is positively related to tax compliance (Christian & Alm, 2014; Coricelli, Joffily, Montmarquette, & Villeval, 2010).

The discourse of the various research results has made it difficult to draw definite conclusions about how these factors affect taxpayer compliance. An objective method is needed to deduce various research results that may be saturated, but with inconsistent results. The research method using a survey is a useful alternative to conclude various studies with inconsistent results.

This research has added value in the form of a more comprehensive study compared to previous tax compliance studies, the factors that determine the level of tax compliance in Indonesia from various different points of view. This study also tries to describe the factors that have more influence on taxpayer compliance in Indonesia than other factors.

In general, the problems to which the answers are sought are important factors that cause the existence of several taxpayers who obediently pay taxes, but on the other hand, there are also taxpayers who do not comply with paying taxes. One explanation of compliance with paying taxes is explained in a model called the slippery slope framework (Kirchler et al., 2008; Prinz et al., 2014) as illustrated below:

**Figure 1: Slippery Slope Framework**

*Source: Kirchler, 2008*

The framework it is explained that the willingness of people to pay taxes is because they consider that the cost (risk) of non-compliance will be very high (enforced tax compliance) or because of the awareness that paying taxes is indeed duty as a citizen (voluntary tax compliance). Enforced tax compliance is affected by the power of authorities, mainly...
because of the government's ability to enforce tax rules through aspects of inspection and tax sanctions. Voluntary tax compliance is influenced by the level of government service to taxpayers.

LITERATURE REVIEW

Expected Utility Theory

Expected Utility Theory (EUT) is a theory of decision making in situations of uncertainty (Moscati, 2016). This theory states that when there are several alternative possibilities of a risky event or uncertain outcome, one will make a decision based on the highest expected utility (EU). This EU value is the sum of the weighted utility rates calculated by summing the utility values of each choice after multiplying by the probability or probability of occurrence (Mongin, 1997; Moscati, 2016). Other theories used in building this research model refer to the Theory of planned behavior that explains that a person's behavior is planned based on the information he receives or their perceptions of existing conditions or possibilities that will occur (Ajzen, 1991).

Tax Penalties

Penalties or sanctions are actions in the form of punishment given to people who violate the rules. Sanctions are deemed necessary so that rules and regulations are not violated (Allingham & Sandmo 1972; Keller 1997; Arum, 2012). Indicators used in measuring tax sanctions use measurement of tax sanctions, namely: (a) Giving sanctions that are reasonable, (b) Imposing sanctions to educate taxpayers, (c) Tax sanctions to non-tolerant violators, (d) Imposing sanctions on taxes can be negotiated (Purnamasari et al., 2016; Muliari & Setiawan, 2011).

Tax Audit

Tax audit is a series of activities, namely collecting and processing data, data or evidence information carried out objectively and professionally in accordance with the standard compliance tax audit examination aimed at implementing the provisions contained in applicable tax laws (Muehlbacher et al., 2012; Dulleck et al., 2016). Tax audits are measured by (a) taxpayer accounting checks, (b) examination of records and documents, (c) interviews and physical testing, (d) cross-testing with third parties, (e) promising something with the examiner's decision (Suhendra, 2010)

Taxpayer awareness

Taxpayer awareness is the behavior or attitude of an object which involves assumptions and feelings and a tendency to act on the object (Li et al., 2018). Thus it can be said that the awareness of taxpayers in paying taxes is a result of the government's ability to enforce tax rules through aspects of inspection and tax sanctions. Because of the government's ability to enforce tax rules through aspects of inspection and tax sanctions, the awareness of taxpayers in paying taxes is a result of their perceptions of existing conditions or possibilities that will occur (Ajzen, 1991).

Taxpayer compliance

Taxpayer compliance is the awareness of the public to fulfill their tax obligations (McKee et al., 2018), namely registering themselves to obtain the taxpayer's ID number (NPWP), submits a notification letter (SPT) with complete and correct calculation of all tax objects, paying taxes based on the actual amount and on time. Taxpayer compliance indicators, namely compliance with paying taxes, compliance making financial statements according to actual conditions and compliance with reporting Notification Letter (SPT). Indicators about taxpayer compliance are (a) calculation of tax rates, (b) timely payments, (c) tax reporting, (d) obtaining a tax ID number (NPWP). These measurements develop measurements of taxpayer compliance (Siahaan, 2012).

H1: Tax penalties effect on the taxpayer’s compliance

The perspective of the law or the enforcement approach, Allingham & Sandmo (1972) begins by assuming that the threat of sanctions, both through the threat of fear of the possibility of being examined and then subject to taxation sanctions, will force the taxpayer to comply with their obligations.

H2: Tax audit effects on the taxpayer’s compliance

Enforced tax compliance is affected by the power of authorities, mainly because of the government's ability to enforce tax rules through aspects of a tax audit. In general, the role of inspection in increasing tax compliance shows a positive influence, as shown in some previous studies (Kasper et al., 2015; Alm et al., 2016).

H3: Taxpayer awareness affects the taxpayer’s compliance

Based on the belief subjective norm concept in planned behavior theory (TPB), the behavior of a taxpayer whether to comply or not in fulfilling his tax obligations is influenced by the norms he believes in. These norms originate from the
environment in which the taxpayer is located or originates which is often referred to as social norms (Ajzen, 1985).

**H4:** Tax penalties effects on the taxpayer's Awareness

The use of social contract theory (SCT) and the slippery slope framework explains that besides enforced tax compliance, voluntary tax compliance also plays an important role in the success of tax collection (Benk et al., 2012; Gangl et al., 2015). Moreover, if the system used is a system self-assessment, where the WP is given the trust to calculate, calculate, pay and then report the tax owed. Conclusions that are not much different also appear in various other studies (Kastlunger et al., 2013; Kogler et al., 2013; Damayanti et al., 2015).

**H5:** Tax audit affects on the taxpayer's Awareness

Expected Utility Theory (EUT) is a theory of decision making in uncertain situations (Moscati, 2016). This theory states that when there are several alternative possibilities of a risky event or uncertain outcome, one will make a decision based on the expected utility (EU) highest. The examination is the obedience or awareness of taxpayers in carrying out system self-assessment that is filling, calculating, calculating, collecting, cutting, and reporting all tax obligations in accordance with applicable tax law regulations (Marvina, 2015).

**H6:** Tax penalties effect on taxpayer’s compliance: Taxpayer awareness as an intervening variable

Tax penalties or tax sanctions also encourage people to be more obedient, then using expected utility theory, the number of tax sanctions that will be imposed on tax evaders will also prevent taxpayers from disobedient behavior. Some researchers confirm a positive relationship between the number of sanctions and compliance behavior of taxpayers. Doran (2009) based on a study of tax behavior in America concluded that tax sanctions not only encourage tax compliance, but also tax sanctions determine the standard of behavior that the law is enforced against taxpayers.

**H7:** Tax audits effect on taxpayer’s compliance: Taxpayer awareness as an intervening variable

Theoretically, as explained by the expected utility theory, the possibility that someone will be examined will cause concern for him. Therefore, the higher a person's concern is to be examined, the lower his desire to do tax evasion. According to Alm et al. (2012), individual taxpayers often seem to be too worried about the possibility of being examined, even though data from various countries show that the examination coverage ratio on average is low. Several other studies are also in line with the theory, where examinations will reduce the desire of taxpayers to embezzle taxes (Alm et al., 2012; Kastlunger et al., 2013; Muehlbacher et al., 2012).

Based on the description above, the conceptual framework of the research can be illustrated in the following figure:

![Research Framework](image)

**Figure 2:** Research Framework

Source: Siahaan, 2012

**METHODS**

This study uses a scientific approach, which uses theoretical structures to form hypotheses and use facts or empirical data to test hypotheses and draw conclusions. The population of this study is individual taxpayers who carry out free
work recorded at Tax Offices (KPP) Pratama Makassar (KPP Pratama Makassar Utara, KPP Pratama Selatan, and KPP Pratama Makassar Barat), whose status is still active, until January 2017 there were 234,104 effective taxpayers.

The determination of which individual taxpayer sample to choose is to use a purposive sampling method with the type of sample selection based on consideration the judgment sampling, which is a type of sample selection that is not random whose information is obtained using certain considerations generally adjusted to the objectives or research problems (Indriantoro & Supomo, 2013). The criteria of the sample used in this study refer to Hair, which states that the minimum number of samples that must be taken is 15 to 20 times the number of variables used. The number of variables used in this study is 5 variables so that the minimum number of samples that must be taken is 5 X 20 = 100.

RESULTS AND DISCUSSION

Descriptive Statistics

In this study, all constructs will be measured by at least four indicators with question items. Some of the criteria used to measure the reliability of a construct are the coefficient of Alpha Cronbach’s reliability, the coefficient of composite reliability and the proportion of extracted variance. Unidimensionalitas as a tool of reliability analysis and construct validity (Anderson & Gerbing, 1988). A construct will be considered reliable if the value is Cronbach Alpha coefficient at least 0.6. Unidimensionality can also be measured by the convergent validity and reliability of the Bentler-Bonnet delta.

Descriptive statistics provide a description or descriptive of data that is seen from the minimum, maximum, average, and standard deviation values as follows:

| Table 2: Descriptive Statistics |
|---------------------------------|
| N    | Minimum | Maximum | Mean  | Std. Deviation |
|------|---------|---------|-------|----------------|
| Tpenlt | 100     | 16.00   | 25.00 | 21.28          | 2.256 |
| Taud   | 100     | 12.00   | 20.00 | 16.98          | 2.127 |
| Tawars  | 100    | 15.00   | 20.00 | 17.70          | 1.772 |
| Tcompl  | 100    | 13.00   | 20.00 | 17.12          | 1.976 |

Constructs of tax sanctions show a minimum score of 16, and a maximum score of 25. The average value for the tax sanction construct is 21.28> standard deviation of 2.256, this result illustrates that respondents have a high awareness of tax sanctions, whether individuals or groups agree with tax compliance. In addition, this statistical value illustrates that respondents are motivated to adjust to compliance with tax obligations.

The examination construct shows a minimum score of 12 and a maximum score of 20. The average value for the inspection construct is 16.98> standard deviation of 2.127. These statistical results illustrate that respondents have a strong level of awareness in tax audit behavior. The construct of awareness and tax compliance shows a minimum score of 15 and 13, and a maximum awareness of 20, and compliance 20. The average value for the construct of awareness and compliance is 17.70> standard deviation is 1.772 and 17.12> standard deviation is 1.976. These statistical results illustrate that respondents have high compliance in fulfilling their functions, namely calculating, paying, and reporting the amount of tax owed.

Evaluation Model

This research model uses five constructs, namely tax service (Taxation services (Fiscus)), tax sanctions, tax audit, taxpayer awareness, and tax compliance. Evaluation of the SmartPLS model is done by evaluating the measurement model (outer model) and the structural model (inner model).

Convergent Validity Test

Rule of thumb is commonly used to assess convergent validity, namely, the value of loading factor> 0.7 for studies confirmatory and the value of loading factors between 0.6-0.7 for studies exploratory and the value of AVE must be greater than 0.5 (Sholihin & Ratmono, 2013). Even for the initial research stage the value of the loading factor of 0.5 - 0.6 is considered sufficient (Ghozali & Latan, 2015).

Test of Discriminant Validity

Measurement of discriminant validity by looking at the value of loading indicators to the measured construct is greater than loading other constructs (Sholihin & Ratmono, 2013).

Testing the Structural Model (Inner Model)

Testing the structural model (inner model) is done to measure the level of variation in changes in exogenous constructs towards endogenous constructs (Jogiyanto, 2011). The structural model in PLS was evaluated using R-square (R²) for endogenous variables.
The nationalism of the people as citizens and as high taxpayers creates a high sense of awareness that has an impact on their high compliance in paying taxes.

**CONCLUSIONS**

Tax services (Fiscus) that have been done very well have proven unable to increase taxpayer compliance in paying their taxes in a timely manner. The provision of tax penalties has a significant positive effect on tax compliance of taxpayers, this condition is caused by the provision of sanctions will continue to legal problems if the taxpayer does not complete their tax obligations. Tax audits conducted by professional auditors are proven to be able to increase taxpayer compliance in paying their taxes in a timely manner. The nationalism of the people as citizens and as high taxpayers creates a high sense of awareness that has an impact on their high compliance in paying taxes.

**Table 3: R-Square**

| Construct          | R-Square | R-Square Adjusted |
|--------------------|----------|-------------------|
| Taxpayer awareness | 0.223    | 0.199             |
| Taxpayer compliance| 0.266    | 0.235             |

**Direct Effect**

The direct effect is the influence that is directly measured from one variable to another. There are seven direct influences that can be tested in this study which are shown in the following table.

**Table 4: Hypothesis testing (direct effect)**

| Hypothesis               | Original Sample | T-Statistics | P-Values | Decision |
|--------------------------|-----------------|--------------|----------|----------|
| H1 Tpenlt ➞ Tcompl       | 0.212           | 2.161        | 0.031    | Accepted |
| H2 Taud ➞ Tcompl         | 0.215           | 2.254        | 0.025    | Accepted |
| H3 Tawars ➞ Tcompl       | 0.244           | 2.481        | 0.013    | Accepted |
| H4 Tpenlt ➞ Tawars       | 0.378           | 4.407        | 0.000    | Accepted |
| H5 Taud ➞ Tawars         | 0.228           | 2.424        | 0.016    | Accepted |

Table 4 shows the results of tests using the data processing program SmartPLS. There are seven hypotheses of direct influence tested in this study. As shown in the table, there are two hypotheses of the direct effect of rejecting (H1 & H5) t-statistical value (t <1.96) at an alpha level of 5% with positive coefficient values of 0.076 and 0.011.

**Indirect Effect**

Indirect effects (intervening) are a measured influence of one variable (X1, X2), on the taxpayer compliance variable (Y) through the mediator or intervening variable (Z), namely the awareness of the taxpayer. In testing the mediation effect, the output of significant test parameters is seen in the table of total effects. If the t-statistic value of the taxpayer awareness variable is <1.96, the taxpayer awareness (intervening variable) does not succeed in mediating the effect of the taxation services, tax penalties, and tax audit on the variable taxpayer compliance. In contrast, the value of t-statistic apabilah variable taxpayer awareness >1.96 then berhasil mediating variables mediate service variables influence the taxation services (Fiscus), tax penalties, and tax audit on taxpayer compliance. There are three indirect effects tested in this study, but research shows that H6 is rejected because statistically, the t-value of 0.106 is smaller than the t-value of statistics (t <1.96). Here is the total value of the indirect effect on the effect of the intervening variable in this study.

**Table 4: Hypothesis testing (Indirect effect)**

| Causality relationship | Original Sample | T-Statistics | P Values | Decision |
|------------------------|-----------------|--------------|----------|----------|
| H6 Tpenlt ➞ Tawars ➞ Tcompl | 0.092           | 1.988        | 0.047    | Accepted |
| H7 Taud ➞ Tawars ➞ Tcompl   | 0.056           | 2.160        | 0.031    | Accepted |

First, hypothesis 6 (H6) states that tax penalties have a positive effect on taxpayer compliance through taxpayer awareness. The test results show that the statistic t-value of the variable shows significant results, which is equal to 1.988, greater than (> 1.96). Based on table 5.13, it can be seen that the beta value (β) shows a positive value of 0.092. So, it can be concluded that tax penalties strengthen the positive influence of taxpayer awareness on taxpayer compliance, based on these results it can be concluded that the ninth hypothesis is accepted, which shows a statistical t value of 1.988 greater than the t-value (>1.96).

Second, hypothesis 7 (H7) states that tax audit has a positive effect on taxpayer compliance through taxpayer awareness. The test results show the statistic t-value of the variable shows a significant result, which is equal to 2.160, greater than (> 1.96). Based on table 5.13, it can be seen that the beta value (β) shows a positive value of 0.056. So, it can be concluded that the taxpayer's awareness reinforces the positive influence of tax audits on taxpayer compliance, and based on these statistical results it can be concluded that the tenth hypothesis is accepted, which shows a statistical t value of 2.160 greater than the value (> 1.96). This research in line with the research of Lisa, 2018; Dwi, 2017; Lalio, 2019; Situmorang, 2019; Al-Maghrebi et al., 2016.

CONCLUSIONS

The nationalism of the people as citizens and as high taxpayers creates a high sense of awareness that has an impact on their high compliance in paying taxes.
Tax services (Fiscus) services carried out by account representatives have proven unable to increase the awareness of taxpayers to immediately fulfill their tax obligations. Giving tax sanctions in the implementation proved to be able to increase taxpayer awareness. The tax audit process that is carried out carefully and thoroughly in its implementation is proven to be able to increase taxpayer awareness.

SUGGESTION

The role of taxpayer awareness mediation must be proven in explaining the effect of tax penalties and tax audits on mandatory taxpayer compliance, but this role cannot be used in examining the effect of tax services on tax compliance.

LIMITATION AND STUDY FORWARD

This research is limited to one case that occurred in Makassar Indonesia. Due to the lack of awareness that paying taxes is indeed duty as a citizen (voluntary tax compliance). The results of this study can be beneficial for the government and stakeholders. However, because high taxpayers create a high sense of tax awareness that has an impact on their high compliance in paying taxes.

IMPLICATION

Due to the lack of awareness that paying taxes is indeed duty as a citizen (voluntary tax compliance), the results of this study can be beneficial for government and stakeholders. This research will contribute to the knowledge of taxpayer awareness as an intervening variable in analyzing the effect of tax penalties and tax audits on taxpayer compliance.

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