The Effect of Tax Incentives, Modernization of Tax Administration and Tax Sanctions on MSME Tax Payer Compliance (Case Study at KPP Pratama Badung Utara)

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Abstract. *Tax revenue have an important role for Indonesian's development. The ratio of taxpayer compliance and tax revenue in Indonesia has increased, but in some areas the ratio of taxpayer compliance, especially for MSME has decreased as at KPP Pratama Badung Utara. In an effort to maintain taxpayer compliance, mainly due to the Covid-19 pandemic, the government has implemented several policies by providing tax incentives, modernizing the tax administration system and imposing tax sanctions on businesses that are directly affected, especially for MSME. The purpose of this study is to examine the effect of tax incentives, modernization of the tax administration system and tax sanctions on MSME taxpayer compliance. For the type of data are used primary data that obtained through from distribution of questionnaires and secondary data from documentation. The sample of this research is based on purposive sampling method with total sample 99 MSME taxpayers register at the KPP Pratama Badung Utara. Statistical testing is using Partial Least Square (PLS) with SmartPLS 3.3.9. The study finds that (a)tax incentives have a positive and significant effect on MSME taxpayer compliance, (b) modernization of tax administration system has a positive and significant effect on MSME taxpayer compliance, (c) tax sanctions have a positive and significant effect on MSME taxpayer compliance.*

Keywords: *Tax Incentives, Modernization of Tax Administration, Tax Sanctions, and Tax Compliance.*

1. Introduction

Revenue from taxation is Indonesia's largest income. Tax revenue plays a very important role in state expenditure activities, especially to improve development and welfare services to the community. Indonesia uses the Self-Assessment System (SAS) tax system, which the government gives trust to taxpayers for calculate, pay and report the amount of tax that is actually owed and has followed the rules of the tax law. The importance of tax revenue and the taxation system implemented in Indonesia requires a positive contribution between the government and taxpayers. According to data from the Ministry of Finance in 2022, Indonesia will experience a decrease in tax revenues due to the implementation of fiscal policy in the form of tax incentives [1]. That statement is proven by the amount of tax revenue for

MSME at the KPP Pratama Badung Utara. In 2019 the total tax revenue was Rp. 141,559,018,963 while in 2020 it decreased to Rp. 90,748,313,771.

The 2021 Tax Performance Report states that the government has achieved the target of tax revenue realization. At the beginning of 2021, the government targets Rp. 1,229.58T and the realization of tax revenues in 2021 is Rp. 1,277.53T. Taxpayer compliance also increased, in 2020 the realization of taxpayer compliance was 97% and in 2021 it increased to 99.60% [2]. Indonesia has experienced an increase in taxpayer compliance, but the fact is not always in line with each region. For example, at KPP Pratama Badung Utara the number of taxpayer compliance in the MSME sector has decreased, while the number of MSME taxpayers at KPP Pratama Badung Utara has increased. Compliance ratio of MSME in 2020 is 69,15% and decreased to 38,86% in 2021. Meanwhile the number of MSME in 2020 is 6949 and in 2021 increased to 7063.

The number of taxpayers is not match by increasing compliance ratio of MSME taxpayer at KPP Pratama Badung Utara. In addition, based on previous research, the results were inconsistent. Research that examines the effect of tax incentives on taxpayer compliance which results in a positive effect conclusion [3][4], while the others obtained an insignificant conclusion [5]. Research that examines the modernization of the tax administration system on tax payer compliance which has a positive effect conclusion [6] [7], while the others obtained an negative conclusion [8]. Research that examines the effect of tax sanctions on taxpayer compliance which results in a positive effect conclusion [9] [10], while the others obtained an negative conclusion [11]. Based on thit explanation, this research was conducted with the aim to knowing whether the effect of tax incentives, modernization of the tax administration system and tax sanctions can affect MSME taxpayer compliance.

2. Theoretical Review

2.1. Theory of Planned Behavior (TPB)

This theory states that human action is directed by three belief factors, which is behavioural beliefs, normative beliefs and control beliefs [12].

2.2. Theory Technology Acceptance Model (TAM)

The concept of this theory is that system users tend to use application systems that are easy to use and also useful for user. This theory explains that a person's intention to use a new technology is influenced by two factors, which is perceived usefulness and perceived ease of use [13].

2.3. Tax incentives

According to the Directorate General of Taxes, tax incentives are one of the instruments often issued by developing countries to attract investment to their country, one of which is Indonesia [14]. Tax incentives for MSMEs issued by the government are Government Regulation No. 23 of 2018 concerning income tax on income from businesses received or obtained by taxpayers who have a certain gross turnover. PMK 23 of 2020 concerning Tax Incentives for Taxpayers Affected by the Covid-19 Outbreak. PMK No. 9/PMK.03/2021 regarding tax incentives for taxpayers affected by the 2019 coronavirus disease pandemic. PMK No.82/PMK.03/2021 regarding amendments to PMK No.9/PMK.03/2021. Another incentive is the Law of the Republic of Indonesia Number 7 of 2021 concerning the harmonization of tax regulations.

2.4. Modernization of the tax administration system.

The modernization of the tax administration system is a program to change the tax administration system to improve the services of the Directorate General of Taxes and can be increase tax revenues and increase the ratio of taxpayer compliance [15]. To realize the modernization of the tax administration system, it is necessary to make reforms such as organizational structure, technology and communication business processes, human resource management and implementation of good governance [16].

2.5. Tax penalty.

Tax sanctions are a mediating tool so that taxpayers do not violate tax norms. There are two kinds of sanctions in the tax law, namely administrative sanctions and criminal sanctions [17].

2.6. Taxpayer compliance.

Compulsory compliance is a condition of obedient and obedient taxpayers in fulfilling their tax obligations [16]. There are 2 indicators of tax compliance, namely filling out the SPT honestly in accordance with applicable regulations and submitting it to the KPP before the due date ends [16]. Taxpayer compliance can be interpreted as a taxpayer's obedient attitude in fulfilling tax obligations in accordance with the provisions of the applicable legislation [15].

2.7. Relevant research studies.

There are two which have similarities to the variables studied, namely examining the effect of tax incentives on taxpayer compliance. First stated that tax incentives have a significant effect on taxpayer compliance [4]. Meanwhile, the second states that tax incentives have no partial effect on taxpayer compliance [5].

Another research focus on the variables studied, namely examining the effect of modernization of the tax administration system on taxpayer compliance. A research found that the modernization of the tax administration system has a positive effect on taxpayer compliance[6], but the other concluded that the modernization of the tax system has no significant effect on taxpayer compliance[8].

Another research examines the variables of the effect of tax sanctions on taxpayer compliance. A research concluded that tax sanctions have no effect on taxpayer compliance[11], but another concluded that tax sanctions have a positive effect on taxpayer compliance [9].

3. Research Method

This research was conducted at KPP Pratama Badung Utara which is located at Jl. Ahmad Yani No. 100, Dauh Puri Kaja, North Denpasar District, Denpasar City. It was carried out for 6 months starting from making the proposal, distributing questionnaires, processing data, until the conclusion of the research was obtained. The da-ta used by two type data. First data is primary data that was collected by distributing questionnaires. The second data is secondary data that obtained by documentation technique by collecting various information from books, archives, files, writings and pictures [18] The population of MSME taxpayers registered at KPP Pratama Badung Utara until 30 April 2022 is 7.063 taxpayers. The sample in this study was calculated using the Slovin formula with a margin error is 10% and get 99 samples. This study consists of 3 independent variables, namely tax incentives, modernization of the tax administration system and tax sanctions and 1 dependent variable, namely taxpayer compliance. After getting the data, the researcher processed data by using descriptive analysis techniques and Partial Least Square (PLS). Descriptive analysis techniques are carried out to find out and describe the information contained in the collected data so that they can explain the data obtained. After that, it was tested using SEM-PLS. The analysis technique using SEM PLS consists of 2 parts, first part is measurement model and second part is structural model. The data analyst with the measurement model uses 2 testing techniques, namely:

   1) Validity Test.
      a) Convergent Validity.
         The indicator is valid if it has a correlation value above 0.7 and the AVE value of each construct has a value > 0.5 [19].
      b) Discriminant Validity.
         The indicators are said to be valid if the value of loadings on each indicator is greater than the correlation value of other construct items and the value of the square root of AVE is higher than the correlation value between variables [19].

2) Reliability Test.

The reliability level of a questionnaire is said to be reliable if the composite reliability value and Cornbach's alpha > 0.7 [19].

After conducting the analysis with the measurement model, it was continued with the structural model analysis and hypothesis testing. Structural analysis of the model is seen from the r-square value. The model is said to be strong if r-square value is greater than 0.75. The hypothesis is accepted if the value of t-statistic > 1.96. The model is said to have a significant effect if the probability value e 0.05 (alpha 5%). The model leads to a positive direction if the path coefficients > 0 [19]

4. Results and discussion.

It is shown in Figure 1 and Table 1 that the indicator in the model is accepted because the loading factor value has exceeded 0.7 and AVE value is above 0.5.
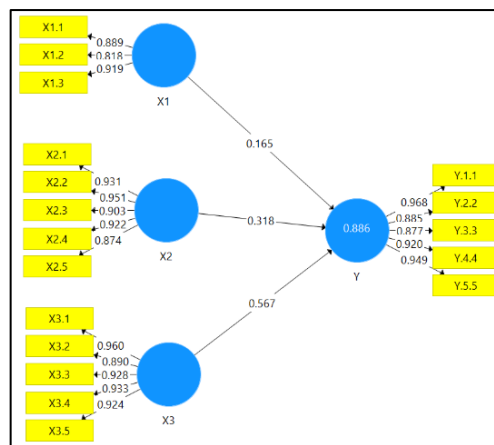

Figure 1. Validity and Reliability Test Results

Table 1. AVE Result

Indicator	(AVE)	Terms.	Desc.
Tax incentives	0,768	>0,5	Valid
Modernization of the tax administration	0,840	>0,5	Valid
Tax sanctions	0,860	>0,5	Valid
Taxpayer compliance	0,847	>0,5	Valid

Source: Processed primary data, year 2022

Based on tables 2 and 3 the cross loading and the square root AVE for each construct to other constructs have been more, so this test has been fulfilled.

Table 2. Cross Loading Value

Indicator	Tax incentives (X1)	Modernization of the tax administration (X2)	Tax sanctions (X3)	Taxpayer compliance (Y)
X1.1	**0,889**	0,607	0,573	0,663
X1.2	**0,818**	0,642	0,430	0,590
X1.3	**0,919**	0,616	0,517	0,635
X2.1	0,667	**0,931**	0,630	0,771
X2.2	0,707	**0,951**	0,651	0,815

X2.3	0,607	**0,903**	0,577	0,705
X2.4	0,636	**0,922**	0,535	0,710
X2.5	0,620	**0,874**	0,816	0,807
X3.1	0,598	0,726	**0,960**	0,886
X3.2	0,449	0,532	**0,890**	0,734
X3.3	0,552	0,681	**0,928**	0,827
X3.4	0,594	0,723	**0,933**	0,865
X3.5	0,485	0,588	**0,924**	0,785
Y1.1	0,678	0,775	0,870	**0,968**
Y2.2	0,672	0,702	0,761	**0,885**
Y3.3	0,644	0,848	0,798	**0,877**
Y4.4	0,642	0,729	0,822	**0,920**
Y5.5	0,675	0,780	0,825	**0,949**

Source: Processed primary data, year 2022

Table 4 show Cornbach's alpha and composite reliability is greater than 0.7. So, all variables have met the requirements of the reliability test.

Table 4. Cornbach's Alpha and Composite Reliability Value

Indicator	Cornbach's Alpha	Composite Reliability	Terms.	Desc.
X1	0,848	0,908	>0,7	Reliable
X2	0,952	0,963	>0,7	Reliable
X3	0,959	0,968	>0,7	Reliable
Y	0,955	0,965	>0,7	Reliable

Source: Processed primary data, year 2022

Table 5 shows an R-square value of 0.886, which means that the model is a strong model.

Table 5. R-Square Value

	R Square
Y	0,886

Source: Processed primary data, year 2022

Table 6 shows value of each independent variable on the dependent variable has a path coefficient value> 0 which indicates a positive direction. Each independent variable is accepted because produces a t-statistic value> 1.96 (t-table for alpha 5%). In addition, probability value is upper than 0.05 (alpha 5%) which means the data is significant.

Table 6. Bootstrapping Result

	Path Coefficients	T Statistics	P Value
X1 -> Y	0,165	2,266	0,024
X2 -> Y	0,318	2,540	0,011
X3 ->Y	0,567	5,720	0,000

Source: Processed primary data, year 2022

Hypothesis 1 is acceptable. This can be seen from the path coefficients value is 0.165, T-statistic value is 2.266 and the P Value is 0.024. The test results have been supported by Theory of Planned

Behavior on the belief that MSME taxpayers can influence their interest to fulfilling tax compliance by utilizing the applicable tax incentives. The results of this study are also supported and in accordance with other research [3] [20] [4].

Hypothesis 2 is acceptable. This can be seen from the path coefficients value is 0.318, T-statistic value is 2.540 and the P Value is 0.011. The test results are supported by the Technology Acceptance Model theory on the benefits and ease of use of technology systems perceived by taxpayers and can be seen in terms of perceived ease of use and perceived usefulness. The results of this study are also supported and in accordance with other research [7] [21] [22].

Hypothesis 3 is acceptable. This can be seen from the path coefficients value is 0.567, T-statistic value is 5.720 and P Value is 0.000. The results of testing this hypothesis are related to the Theory of Planned Behavior on the belief of MSME taxpayers on the sanctions imposed by the government can affect MSME taxpayer compliance. The results of this study are also supported and in accordance with other research [23] [10] [9].

5. Conclusion
From the result of this study, it can be concluded that tax incentives, modernization of the tax administration system and tax sanctions have a positive and significant effect on MSME taxpayer compliance.

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