TAX COMPLIANCE AND PROCEDURAL FAIRNESS IN SME

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Abstract

Although SME’s is one sector that contributes greatly to GDP, the low level of tax compliance makes the amount of tax revenues from this sector still low. This study aims to analyse the interaction power of authority and trust in authority in affecting tax compliance with procedural fairness approach, based on slippery slope framework (SSF). The primary data is collected from 100 respondents after questionnaires distribution to small medium enterprises (SME) in Jakarta and its surrounding areas. The questionnaire consists of open and closed questions. Power of authority, trust in authority, and tax compliance are measured by using a Likert scale, and confirmatory factor analysis is developed to test whether the data fit a hypothesised measurement model. This study shows that the power of authority, trust in authority, and the interaction of both affect the level of tax compliance. The result indicated that taxpayer compliance index is high, but the fact that tax revenue from the SME sector is still low. Respondents felt the tax rate to be high and not treated fairly, and tax dissemination by tax authorities to SME is minimal. Hence, in making policy of fines, tax rates, and tax audit, tax authority should consider the perceived fairness and the taxpayer's ability to pay. The tax authority ignore the procedural fairness. This study provides a new understanding about tax compliance, the results showed that the level of compliance SMEs is high, but not followed by compliance to pay taxes.

Keywords: SSF, power of authority, trust in authority, tax compliance.

Introduction

Tax revenue comes mainly from the real sector economy, and most of Indonesian real economic activity are performed by small and medium enterprises (SME) (Handayani and Noviari, 2015). Their revenue are smaller than other large-scale businesses like limited company, state-owned enterprise, or conglomerate, but they are so many. Their existence are widespread in all over the regions. The total contribution of SMEs to Gross Domestic Product (GDP) rare eached 57% (Central Bank of Indonesia, 2015). On the other hand, tax revenue comes from SME is still low (Norsain and Yasid, 2014). The growing number of SME that is in line with national economic growth caused government to target SME as potential tax subjects. In this sense government issued Government Regulation no. 46/2013 regarding the income tax levied on SME. However, it should be noted that to achieve the tax revenue target, compliance is very important (Mustofa, Kertahadi, and Maulinarhadi, 2016). According to Slippery Slope Framework concept, tax compliance is influenced by the power of authority and trust in authority (Kirchler, Hoelzl, and Wahl, 2008). In the explanation of SSF, power of authority uses economic approach while trus in authority using psychology approach (Gangl, Hofmann, and Kirchler, 2015; Benk and Budak, 2012).

Interaction of the two variables will result in the certain level of tax compliance. There are two different ways for the tax authority to ensure the benefit from the interaction between tax authority and taxpayers. First, the threat of punishment from tax authority to the taxpayers to make them comply, though not always effective (Lisi, 2014; Kirchler, Hoelzl, and Wahl, 2008). Second, asked the taxpayers to have a competency in determining the tax to be paid (Kirchler, Hoelzl, and Wahl, 2008). This competency can activate them in assisting tax authority to accomplish the duty. Helhel and Ahmed (2014) states the level of compliance is influenced by the behavior and attention of the taxpayer. The results of his research indicate that high tax rates, unfair system of taxation are two factors that cause high tax avoidance. Furthermore, it is
mentioned that inadequate tax inspection, low effect of fines, and tax amnesty are often done to influence the taxpayer compliance consideration.

The problem in the research is whether the SME entrepreneurs understand that the power of authority and trust in authority have an impact on taxpayer compliance and how the interaction between power of authority and trust in authority to be effective. This study aims to measure and describe the interaction of the power of authority and trust in authority and influence of that interaction toward the tax compliance of SME, based on slippery slope framework.

**Literature review**

**Slippery Slope Framework**

Tax compliance is an important factor in achieving tax revenue target. Theoretically, taxpayer compliance influenced by the probability for audit, penalty, tax rates, tax knowledge, attitudes and behaviour of the taxpayer, social norms, and sense of justice. In the slippery slope framework, those are seven dimensions of power authority and trust in authority variables. Both variables interact (Lisi, 2014; Gangl, Hofmann, and Kirchler, 2015) each other in determining the degree of tax compliance. If government emphasises on the use of power, the result is enforced compliance. Additionally, if government policies can induce public confidence, it will produce voluntary compliance. Tax authority is based on two measures of power and trust. Power relates to the authority used to enforce the rules for taxpayers to be obedient, both legitimate and coercive. While trust is a way to generate taxpayer trust to the tax authorities, which is done by cognitive rational process or automatic affective process (Kirchler, Hoelzl, and Wahl, 2008; Gangl, Hofmann, and Kirchler, 2015).

Power of authority is manifested in the form of audit taxpayers, imposing penalties for those who are not or late paying taxes, and determining tax rates. The power is used to measure the level of authority exercised by the tax authorities, using probability audit, fine, and tax rate terms. Trust in authority is a form of public trust to the tax authorities identified through tax knowledge, attitude, social norm, and fairness (Kirchler, Hoelzl, and Wahl, 2008; Kogler, et al., 2013; Gangl, Hofmann, and Kirchler, 2015).

Taxpayers who are knowledgeable that tax revenue comes from fines, and underpayment taxes (as a result of tax audit), will have a higher level of tax compliance. Likewise taxpayers who realize that the obligation of citizens is to pay taxes, they are more willing to pay fines, and tax underpayment. While social norms are attitudes or behaviors that are shaped because of examples from others. So if in the environment most obedient to the tax rules will affect the people around him to be obedient. Fair treatment for the taxpayer if his tax burden is in accordance with his income and respected by the tax authorities.

The interaction of power of authority and trust in authority begins with the interaction of the tax authorities with the taxpayer. Tax authorities have the power to force taxpayers to pay taxes. Power is realized in the form of punishment of fines or criminal. The punishment is to make taxpayers comply with tax or deterrence provisions to repeat non-compliance. Operationally, interactions can occur when the tax authority checks. If the examination is done without any clear and arbitrary procedure, it will cause the taxpayers' distrust to the tax authorities (Lisi, 2014; Gangl, Hofmann, and Kirchler, 2015). Furthermore, distrust may lead to taxpayers not receiving reports of examination results, including findings of tax evasion. Next comes the taxpayer's unwillingness in settling the tax. Especially with regard to taxes that have not been paid or
underpaid. For SME, the imposition of high tax rates and penalties will affect their attitudes and compliance. They are reluctant to pay taxes, especially when they feel the government is incapable of providing transportation and infrastructure, health, education and other public goods (Gangl, Hofmann, and Kirchler, 2015).

**Procedural Fairness**

In addition to the enforcement of compliance through economic approaches (fines, tax rates), interaction between taxpayer and tax authorities can occur with a psychology approach, namely procedural fairness. This procedure refers to a procedure that is considered fair used for decision making (Dijke and Verboon, 2009). Exemplary when the public is allowed to express opinions in decision of tax authority then the decision are more appropriate and ignore their own interests. Furthermore public feel respected and trigger taxpayer voluntarily to comply with the decisions made by the tax authorities (Kogler, et al., 2013). The emergence of voluntary compliance can be explained by reference to thinking, the public has assurances that the resulting policy is fair, and enhances the government's desire to build public facilities (Dijke and Verboon, 2009). Furthermore, the fairness procedure conducted by the tax authority gets appreciated and respected from the taxpayer.

**Power of Authority**

Power of authority is the perception of the taxpayer toward the tax authority capability to determine, collect and audit tax. In slippery slope framework, the power of authority described by the probability of tax evasion, detection the amount of penalty and the tax rate (Kirchler, Hoelzl, and Wahl, 2008).

Probability of detection and awareness of offences and penalties are the two factors related to tax compliance (Modugu and Anyaduba, 2014). Previous study revealed that the taxpayer will declare their exact income if the income statement audit probability is quite high (Palil and Mustapha, 2011). The higher the probability of detection, the higher taxpayer compliance (Kalangi, 2014).

Penalty is the sentence imposed for the failure to conduct in accordance with tax regulations, such as not submit a report timely or give inaccurate information (Oladipupo and Obazee, 2016). Previous studies about the influence of penalty toward taxpayer compliance did not show the consistent result (Kirchler, Hoelzl, and Wahl, 2008). On the other hand, penalty is effectively prevent the potential tax violation (Devos, 2014). The threat of tax penalties is not effective for the taxpayer who has intention to obey. However, the threat can be used to decrease taxpayers’ non-compliance attitudes (Mohdali, Isa, and Yusoff, 2014; Oladipupo and Obazee, 2016) mentioned that tax knowledge has higher influence toward tax compliance than tax penalty.

Tax rate positively influence tax compliance, although change in the tax rate doesn’t result in change in tax compliance (Kalangi, 2014; Mas’ud, Aliyu, and Gambo, 2014) also stated that the influence of tax rate toward tax compliance showed inconsistent result. It means that, first, there is no relation between tax rate and tax compliance. Second, tax rate positively influence tax avoidance, but negatively influence tax compliance. Therefore, the study of this relationship still needed.

H1: Power of authority influence taxpayer compliance
Trust in Authority

Trust in authority can be described as the trust of the public towards the tax authority that the authority is supportive and respectful in performing the duty (Kogler, et al., 2013). Trust in authority is related to the tax-related knowledge, behaviour and attitude, subjective norm, and the feeling of being treated fairly.

Tax knowledge relates positively to the compliance level. For those who have higher education are supposed to have better knowledge and information in taxation, regardless of their education background. Consequently, they will have more understanding and believe toward tax provision. Therefore, it can be assumed that for the higher education, they tend to be more compliance.

Behaviour and attitude represent the evaluation of the individual value. Attitude is assumed to encourage individual to behave in accordance with the expectation. The positive attitude of taxpayer toward tax evasion shows non-compliance. On the other hand, the negative attitude of taxpayer toward tax evasion shows compliance either. In slippery slope framework, attitudes are important factors in both power and trust dimensions (Jimenez and Iyer, 2016). A favourable attitude will contribute to a trust in authority which will strengthen voluntary tax compliance. On the other hand, the attitude that leads to authority becomes relevant to interpret the use of power as virtue or evil (Kirchler, Hoelzl, and Wahl, 2008).

Social norms are the antecedents of behaviour. Social norms can be explained by the tax avoidance attitudes by the certain groups that are considered as reference. If the taxpayer believes that non-compliance is a behaviour that is disseminated and approved within their reference group, then they will follow the non-compliance behaviour as exemplified (Jimenez and Iyer, 2016).

H2: The level of trust in authority to tax authorities influence taxpayer compliance

Power of Authority and Trust in Authority Interactions

The relationship between tax compliance, authorities of power and authorities in trust can be explained using slippery slope framework (Kirchler, Hoelzl, and Wahl, 2008; Kogler, et al., 2013). When the conditions of trust in authority and power of authority are weak, taxpayers tend to be non-compliance or avoid taxes. The movement of power of authority to the left side by applying tax audit or penalty, enforce taxpayer compliance. Conversely, if the trust in authority moves to the right side caused by attitudes and behaviour of compliance taxpayers of the principle, then voluntary compliance increases. Simultaneous movement by both the power of authority and the trust in authority will simultaneously produce a high level of compliance. Moderate movements between two variables will produce a level of compliance whose value lies in the webs.

H3: Interaction of power of authority and trust in authority influence taxpayer compliance
Methodology and measurement

Data collection and the sample

This is a hypothesis testing research, using tax compliance as dependent variable, whereas power of authority and trust in authority are independent variables. Power of authority is formed based on 3 latent variables namely penalties, tax audit, and tax rate. And trust in authority is formed based on the level of tax knowledge, attitude and behaviour, social norm, and sense of justice (perceived of fairness). Data were collected in March 2017, using questionnaires distributed to 100 SME in Jakarta and surrounding areas. The questionnaire consists of closed questions and open questions. Especially for open questions asked directly by field researchers who have been trained. Samples are taken proportionally in six areas of Jakarta and surrounding areas. Open questions are asked to the respondent to know the opinion of the taxpayer's trust to the tax authority.

Instrument development

Tax Compliance Index is a value that shows the pattern of Tax Compliance in Indonesia that determined by Power of Authority and Trust in authority. The magnitude of the index lies between 0 to 5. The Tax Compliance Index is calculated based on the score and weight of each attributes and variables that form the Tax Compliance pattern on the second-order confirmatory factor analysis model. Below are the steps to calculate the Tax Compliance Index:

1. Calculate the average score of each attribute. In this case, the average score of a attribute is a value that indicates the magnitude of the score index of each attribute forming the variables of power of authority and trust in authority.

2. Calculate Power of Authority and Trust in Authority Score with the following formula:

\[ D_j = \sum_{ij} \left( \frac{X_{ij} \gamma_{ij}'}{\gamma_{ij}'} \right) \]

\[ D_j = \text{Variable Score} \]

\[ \gamma_{ij}' = \text{Wighted Attribute ding} \]

\[ X_{ij} = \text{Attribute Score} \]

3. Calculate the Tax Compliance Index with the following formula:

\[ TCI = \frac{D_1 \beta_1 + D_2 \beta_2 + \ldots + D_n \beta_n}{\beta_1 + \beta_2 + \ldots + \beta_n} \]

\[ D_j = \text{Variable Score} \]

\[ \gamma_j = \text{Wighted Variable} \]

4. Determine the criteria of Tax Compliance Index based on Likert Scale, with the following criteria:
### Tabel 1

**Tax Compliance Index Criteria**

<table>
<thead>
<tr>
<th>No</th>
<th>Index</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0,00 – 1,00</td>
<td>Very Low</td>
</tr>
<tr>
<td>2</td>
<td>1,01 – 2,00</td>
<td>Low</td>
</tr>
<tr>
<td>3</td>
<td>2,01 – 3,00</td>
<td>Average</td>
</tr>
<tr>
<td>4</td>
<td>3,01 – 4,00</td>
<td>High</td>
</tr>
<tr>
<td>5</td>
<td>4,01 – 5,00</td>
<td>Very High</td>
</tr>
</tbody>
</table>

Source: data processing

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**Structural equation model**

The Structural Equation Model is a set of statistical techniques that enable the testing of a relatively complex set of relationships simultaneously (Ferdinand, 2014). The complex relationship is built between one or several dependent variables with one or more independent variables. Each dependent and independent variable can take the form of a factor (or construct, constructed from several indicator variables). While the indicator variable can be a single variable that is observed or measured directly in a research process. The Structural Equation Model is a system of equations which states that each element of the population matrix is the function of the model parameter.

Based on Figure 1. Structural Equation Model describes the relationship between Power of Authority variable, Trust in Authority and its interaction as an exogenous latent variable affecting endogenous latent variable Tax Compliance. Power of Authority variables are measured by using three attributes namely Fine, Tax Audit, and Rate. While the Trust in Authority variable is measured by using four attributes of Knowledge Level, Attitude, Social Norm, and Fairness. Interaction variables are measured by the multiplication of each attribute that measures the Power of Authority and Trust in Authority variables.
Figure 1
Research Model

Notes:

FN : Fine
TA : Tax Audit
TR : Tax Rate
KL : Knowledge Level
AT : Attitude
SN : Social Norm
FA : Fairness
FN*KL : Interaction between fine and knowledge level
FN*AT : Interaction between fine and attitude
FN*SN : Interaction between fine and social norm
FN*FA : Interaction between fine and fairness
Ta*KL : Interaction between tax audit and knowledge level
Ta*AT : Interaction between tax audit and attitude
Ta*SN : Interaction between tax audit and social norm
Ta*FA : Interaction between tax audit and fairness
TR*KL : Interaction between tax rate and knowledge level
TR*AT : Interaction between tax rate and attitude
TR*SN : Interaction between tax rate and social norm
TR*FA : Interaction between tax rate and fairness
PoA : Power of Authority
ToC : Tax of Compliance
TiA : Trust in Authority
Empirical result

Based on statistical test, it is found that power of authority and trust in authority influence tax compliance. The influence is higher if there is interaction between power and trust of authority. The descriptive statistics, parameter estimation, t-test results are presented.

Based on data from 100 company listed Indonesia Stock Exchange, below is a descriptive statistic:

<table>
<thead>
<tr>
<th>Variabel</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fine</td>
<td>100</td>
<td>2.00</td>
<td>5.00</td>
<td>3.8675</td>
<td>0.63011</td>
</tr>
<tr>
<td>Tax Audit</td>
<td>100</td>
<td>1.80</td>
<td>4.80</td>
<td>3.8280</td>
<td>0.65998</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>100</td>
<td>1.80</td>
<td>5.00</td>
<td>3.8320</td>
<td>0.55974</td>
</tr>
<tr>
<td>Knowledge Level</td>
<td>100</td>
<td>2.75</td>
<td>5.00</td>
<td>3.9300</td>
<td>0.45793</td>
</tr>
<tr>
<td>Attitude</td>
<td>100</td>
<td>2.00</td>
<td>5.00</td>
<td>3.7575</td>
<td>0.58189</td>
</tr>
<tr>
<td>Social Norm</td>
<td>100</td>
<td>2.00</td>
<td>5.00</td>
<td>3.5467</td>
<td>0.67763</td>
</tr>
<tr>
<td>Fairness</td>
<td>100</td>
<td>2.67</td>
<td>5.00</td>
<td>4.1230</td>
<td>0.50720</td>
</tr>
<tr>
<td>Tax Compliance</td>
<td>100</td>
<td>2.00</td>
<td>5.00</td>
<td>4.1151</td>
<td>0.51767</td>
</tr>
</tbody>
</table>

Table 2 is a statistical description of each variable. It appears that each variable has almost the same average indicated by the lowest average value of 3.5467 and the highest 4.1230. The average value of all variables is close to 4, indicating that nearly in each statement in the questionnaire, respondents preferred to chose the agree and strongly agree.

Parameter estimation

Based on the loading and parameter values, it appears that the latent variable interaction, using attributes that are broken down based on indicators of latent variable power of authority and trust in authority. The effect of interaction on high tax compliance indicates that power of authority and trust in authority will be stronger influence on tax compliance when they interact each other.
Based on t value calculation, the measurement for the latent variable power of authority, trust in authority and interaction of both, significant with t value greater than 1.96 (significance level 5%). While the influence of power of authority, trust in authority and interaction are also significant to TC with t value greater than 1.96 (significance level 5%). Thus, all hypothesis are accepted.

Hypothesis 1 mentions that tax audit affects tax compliance, in line with Ebimobowei & Peter’s (2013) research in Nigeria. Their study reveals that people tend to avoid paying taxes by using various ways. In hypothesis 2, the influence of fairness toward tax compliance is in line with Faizal & Palil’s (2015) study in Malaysian context. They showed that fairness has a significant positive relationship to tax compliance. The difference is that in this study other attributes also have an effect hypothesis 3 is align with Lisi’s (2014) finding. He said that in a society where the tax authority respects the taxpayers and applies transparent and fair procedures, trust and tax compliance are higher, tax evasion is lower, and thus the level of taxation can be reduced. However in this case there is a lack of trust, therefore, tax evasion is still high.
Table 3 explains that the power of authority score that determined by fines, tax inspection, and tax rate is 3,844. Additionally, trust in authority score is 3,824; it is formed from attribute level of knowledge, attitude/behaviour, social norm, and perceived of fairness. Furthermore, interaction variables formed from power of authority and trust in authority score 3,841. These three variables determined the taxpayer compliance level with the score of 3.835. Overall, as shown in figure 3, by using those indices, level of compliance is categorised high.

**Table 3**

<table>
<thead>
<tr>
<th>NO</th>
<th>Attribute</th>
<th>Weighted Attribute</th>
<th>Score Attribute</th>
<th>Weighted Variable Index</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FN</td>
<td>0.38</td>
<td>3.87</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>TA</td>
<td>0.44</td>
<td>3.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>TR</td>
<td>0.18</td>
<td>3.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>KL</td>
<td>0.20</td>
<td>3.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>AT</td>
<td>0.27</td>
<td>3.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>SN</td>
<td>0.28</td>
<td>3.55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>FA</td>
<td>0.24</td>
<td>4.12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PoA**

0.250, 3.835

**TiA**

0.356, 3.824

Chi-Square=42.42, df=38, P-value=0.28616, RMSEA=0.034
Table 3 shows that the Tax Compliance Index is determined by three variables: Power of Authority, Trust in Authority, and interactions between PoA and TiA. The weights and attribute scores form a variable score. Furthermore, the score and weight of variables form the Tax Compliance Index. Weighted attribute is the amount of contribution from each attribute in determining variable score. Based on Table 3, Tax Audit attribute has the greatest contribution to Power of Authority variable compared with other attribute with weight equal to 0.44. The Fine attribute has the second largest contribution to the Power of Authority variable with a weight of 0.38, while the Tax Rate attribute has a weight of 0.18.

Attributes that measure Trust of Authority variables each have almost equal contributions. Social Norm attribute has the greatest weight of 0.28, while Attitude attribute has the second largest contribution of 0.27. The Fainess and Knowledge Level attributes each have weights of 0.24 and 0.20.

Interaction variables are measured by the multiplication of each attribute score that measures the Power of Authority and Trust in Authority. Each attribute has an almost equal contribution to its variable. The interaction between Tax Audit attribute and Attitude attribute appears to have the greatest weight with a value of 0.10, while the interaction between Tax Rate attributes and Fairness attributes has the smallest weight with a value of 0.06.
Attribute Score is the average value of each attribute. The value indicates the magnitude of the score of each attribute. Power of Authority variable, the highest attribute score shown by Fine attribute with attribute score 3.87. This indicates that the average respondent agree or strongly agree to the statement on the attribute. Tax Audit and Tax Rate attributes each have an attribute score of 3.83.

In the Trust in Authority variable, the Fairness attribute has the highest attribute score with a value of 4.12. Next attribute Knowledge Level with attribute score 3.93. Attitude attributes and Social Forms each have attribute scores of 3.76 and 3.55.

Factor Center Point is a combination of attribute scores on each variable according to their respective weights. Based on Table 3 above, the variables score of each variable can be said almost the same. The highest variable score is shown by Power of Authority variable with score of 3,844. While the score of variables Interaction is 3.841 and Trust in Authority 3.824. The Tax Compliance Index is derived from the incorporation of the variable scores based on their respective weights. The highest weight is the Interaction variable with the weight of 0.394, then the Trust in Authority variable has the weight of 0.356 and the Power of Authority variable weighs 0.250. Based on the above table obtained Tax Compliance Index of 3.835.

**Interaction Trust in Authority with Power of Authority**

Power of authority as described above is measured by the amount of fines, tax audits, and tax rates. While trust in authority is formed with knowledge of tax, attitude and behavior, social norm, and fairness. Indicators that form the power of authority and trust in authority interact each other (Kirchler, Hoelzl, and Wahl, 2008).

Based on open questions about taxation conducted by tax authority, some SME’s feel treated unfairly. They said that the imposition of taxes that are based solely on sales rather than on income is unfair. As a result, SMEs with high sales and high costs are burdened with high taxes despite small profits. Tax rates which based on sales, only benefitted SME with low cost. Another opinions, they were hassles with tax administration. There is also concern that the tax paid will be distorted by tax officials. The lack of socialization causes them to be less responsible as citizens to pay taxes.

Response from open questions can be grouped into feelings of disappointment, and expectations of the tax authorities. First, some SME’s expressed their disappointment by saying that SMEs should not be taxed, because they untrust on how the authorities use the tax revenue. Second, some feels that the tax are too high so that SMEs can’t pay. Third, they have no willingness to pay taxes because tax revenue is diverted in unknown direction. Fourth, lack of socialization which make them not well informed. Fifth, they have high expectation to the tax authority to be honest and fair in levying taxes.

**Discussion**

The results of this study indicate that power of authority, trust in authority, and interaction of both have an effect on tax compliance level. In reality, although the tax compliance index based on perceptions of SME is categorised as high, tax revenue from the SME sector is still low (Norsain and Yasid, 2014). It means that even though the awareness of taxpayers in SME sector are high, obviously not followed by the desire to pay taxes. This is due to high tax rates
and is calculated from sales rather than profit. As a result many SMEs are unable to pay. This condition occurs because the community is not involved in decision-making by the authority. Conceptually there is a waiver to procedural fairness (Dijke and Verboon, 2009).

Additionally, based on the factor loading values as discussed in Table 2, loading factor of interaction between power and trust in authority contributes to the tax compliance index higher than power of authority or trust in authority. This indicates that if the tax authority only focuses its power alone to increase tax revenues, or only to socialize the tax benefits for the construction of public facilities, then its impact on tax compliance levels will be higher if the power of authority and trust in authority interact with each other. This means that the study supports the assertion that if the tax authority has legitimate powers and treats the taxpayer as an equal partner, in fair procedures it can lead to a higher voluntary level of compliance (Dijke and Verboon, 2009). For example involving the taxpayer in the drafting of the tax regulation, then when the regulation is applied, the taxpayer feels treated fairly. And consequently, they likely will follow the rules (Kirchler, Hoelzl, and Wahl, 2008). Other studies (Mas'ud, Aliyu, and Gambo, 2014) also support the notion that power of authority and trust in authority affect tax compliance.

Furthermore, the highest level of compliance and the lowest level of avoidance occur when the trust in authority and power of authority are high (see Table 2). Even though, low trust in authority and power of authority indicate low in compliance and high in tax evasion (Kogler, et al., 2013). In a society where tax authorities appreciate taxpayers and impose fair transparency, tax confidence and compliance will be higher, and tax evasion will be low (List, 2014).

When answer closed question, respondents said that the fine, tax audit, and tax rate are the powers possessed by the tax authorities, so they must be obeyed. But when they were asked with an open question, they argue that the tax rate is imposed too high, some answered, SME should not be taxed. So it is not surprising that many SMEs have not complied with the provisions of taxation, in particular not yet have the awareness to pay taxes.

There are different conditions between normative opinions derived from closed questions with practical opinions derived from open questions. Normatively the respondent realizes that power of authority and trust in authority have an effect on tax compliance level. But practically they are not ready to comply with the provisions of taxation. Respondents also realized that trust to the government affected taxpayer compliance. However, there is fact that SMEs do not fully believe in the government. This is obtained from open questions, there are answers that express doubt on the use of funds derived from tax revenue.

Implication

This study proves that power of authority and trust in authority influence to the level of compliance, while the interaction of both affect the higher level of compliance. Thus procedural fairness which includes the level of knowledge, attitudes, social norms, and fairness of SME actors should be a significant factor in the process of drafting the provisions of taxation. This study proves that power of authority and trust in authority influence to the level of compliance, while the interaction of both affect the higher level of compliance. Thus procedural fairness which includes the level of knowledge, attitudes, social norms, and fairness of SME actors should be a significant factor in the process of drafting the provisions
of taxation. Procedural fairness must also be applied at the time of tax audit done to SME. Tax audit conducted in accordance with applicable procedures can make SME trust to the tax authorities for errors that have been done.

This study shows that SME taxpayer has high compliance level, however it is not followed by their willingness to pay taxes. The low willingness to pay taxes from SME will make tax revenues from the SME sector low. The ability to pay taxes and feelings of fair treatment should be the attention of tax authorities in formulating taxation policies.

Tax authorities need to examine the provisions of the tax rules for SME. First, whether the tax rate charged is too high or the fine is quite light. Second, disseminates the tax provisions for SME in a more effective and easily understood way by SME.

Limitation and direction for future research

This study has limitations on the presentation of closed and open questions in the questionnaire. From the results of closed questions obtained answers that the SME tax compliance level is high, while the open question obtained the conclusion that they are reluctant to pay taxes. To confirm the results of this study required further research that is qualitative. With qualitative research is expected to be explored more deeply about the level of compliance and SME reluctance to pay taxes.

Limitations in this study include the calculation of Tax Compliance index conducted with a limited number of samples that are Small and Medium Enterprises (SMEs) in the outskirts of DKI Jakarta Province, so the conclusions on the population is also limited only in the region. In addition, the sampling is done by random (judgment sampling), so the conclusion to the population parameter can not be determined how the margin of error. Suggestions for future research are samples of SMEs studied can be taken more widely and cover a wider area, even the Tax Compliance index obtained can be used as a Tax Compliance Index Indonesia. In addition, sampling can be done randomly so it can be ascertained how much margin of errornya in concluding parameter population.

References


