

Tax Moral Obligations and Compliance Costs on SMEs Tax Compliance (Study at Department of Cooperatives and Small- Medium Enterprises of Bandung)

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Abstract- Research on taxpayer compliance is always interesting to be used as material for research studies, because it can be studied from various factors that influence it. Likewise, this research was carried out aimed at finding out how the effect of tax moral obligations and compliance costs on the compliance of SME taxpayers at Department of Cooperatives and Small-Medium Enterprises of Bandung. The factors tested in this study are moral obligation and the cost of compliance as independent variables. Meanwhile, taxpayer compliance is the dependent variable. The research method used in this research is explanatory method. The population in this study were 6,401 SMEs taxpayers registered in Bandung. The sampling technique used in this study is a non-probability sampling technique with convenience sampling techniques, and the number of samples in this study amounted to 100 SMEs at Department of Cooperatives and Small-Medium Enterprises of Bandung. In analyzing the data, first doing classic assumption testing, validity and reliability tests. The analytical method used in this research is multiple linear regression analysis and in testing the hypothesis using the t test and F test. The results of the research descriptively describe the results of the respondents for each variable which are stated to be good and the results of the partial research show that tax moral obligations have an effect on mandatory compliance and compliance costs have an effect on tax compliance.

Keywords: *Tax Moral Obligation, Compliance Costs, Taxpayer Compliance.*

1. Introduction

Several researches on tax compliance have been carried out by researchers, both domestic researchers and in several countries, where taxes are still a polemic as a source of state revenue. Similar to the condition in Indonesia, tax revenue is still a mainstay of state revenue, tax revenue in Indonesia in the 2015 State Budget was 82.2%, 2016 was 83.1%, 2017 was 78.7%, in 2018 it was 81%, and in 2019 it is 80%, also the projection of 2020 tax revenue is 83.8% of total state revenue (www.pajak.go.id).

On the one hand, tax has become a mainstay in state revenue, but on the other hand, the realization of tax revenue during the last three years has not been able to achieve the target expected by the government. Over the last three years the achievement of tax revenue in 2017 was 89.4%, in 2018 it was 92% and in 2019 it produced 84.4% (DDTC <https://news.ddtc.co.id/>). The results of the achievement of revenue are still lower than expected, so taxpayer compliance is still a problem that continues to be explored and provided for guidance on taxpayers.

The low tax revenue indicates that taxpayers are not fully compliant in paying and reporting their tax obligations.

The number of SMEs taxpayers in the city of Bandung reaches 6,401 SMEs, the number of MSMEs demands that SMEs can fulfill their tax obligations properly. In 2018 SMEs only contributed 6 trillion in taxes from the total state revenue of 1,300 trillion, tax revenues were still very small compared to the large number of SMEs, this indicates that not all taxpayers have done their tax obligations well. The low tax revenue is due to the fact that taxpayers are not fully compliant in paying and reporting their tax obligations.

The cause of the low level of taxpayer compliance is influenced by the morality of the taxpayer. Tax moral obligation is an individual norm that is owned by someone, but may not be owned by others. In carrying out an action, individuals usually pay attention to the values they believe in themselves. This is because paying taxes is an activity that cannot be separated from the condition of the taxpayer's behavior itself. Taxpayer compliance is strongly influenced by the morality of tax payments, because paying taxes is an activity that cannot be separated from the condition of the taxpayer itself (Dyah Purnama Sari, 2018). The moral aspect of taxation concerns two things: (1) the taxpayer's moral obligation in carrying out his taxation obligations as a good citizen and (2) concerning the taxpayer's moral awareness of the allocation of tax revenue by the government. This study has found empirical evidence regarding a significant relationship between taxpayer morality and taxpayer compliance.

Taxpayers who have good moral awareness as citizens in carrying out their tax obligations are different from citizens who do not have moral awareness. Thus it is expected that from the aspect of taxpayer morality it will increase the tendency of taxpayers in Indonesia to fulfill their tax obligations. If the taxpayer feels that court tax has been applied to all taxpayers without differentiating the treatment between corporate and individual taxpayers, large taxpayers and small taxpayers, in the sense that all taxpayers are treated fairly, any taxpayer is likely to have tax liabilities running. in other words, it leads to taxpayer compliance.

Another factor that can affect tax compliance is the cost of compliance. Compliance costs are costs incurred by taxpayers in meeting tax requirements, these compliance costs can affect the level of taxpayer compliance. Compliance costs, including direct money costs in the form of costs incurred such as paying for employees who handle taxes, travel costs to the tax office. It can also be in the form of time cost where taxpayers have to wait too long due to lack of KPP personnel, and psychological cost is a sense of anxiety and curiosity that arises while waiting for the results of the examination (Sanford, 1989). These costs are incurred by taxpayers in realizing tax compliance. Taxpayers do not expect large costs, thus burdening taxpayers. When the compliance costs incurred are large, taxpayers are less likely to meet tax compliance.

This research refers to research (Cahyonowati, 2011), (Aryandini, 2016) which states that tax morale has an influence on individual taxpayers and (Ni Made Arum Sucahyani, 2017), (Jeff Pope, 2008) which proves that compliance costs have influence on taxpayer compliance. Therefore, the purpose of this study is to determine how the effect of taxation moral obligations on taxpayer compliance and compliance costs on compliance costs.

2. Literature Review

Tax Compliance

A situation where the taxpayer fulfills all of its tax obligations is called Taxpayer Compliance (Nurmantu, 2000). Tax compliance consists of formal compliance and material compliance. Formal compliance is described in which a taxpayer obeys the formal tax laws, while material compliance, where the taxpayer substantially

complies with tax regulations, namely the content of taxation regulations in detail (Nurmantu, 2000).

Sapriadi (2013) measures taxpayer compliance with several indicators including taxpayer compliance in registering, compliance in calculating and paying tax deductions, never being sentenced for committing criminal acts in taxation. Meanwhile, Handayani (2009) measures compliance by assessing including taxpayers filling out the SPT form correctly, completely, and clearly, taxpayers doing calculations correctly, taxpayers making payments on time, taxpayers reporting on time.

Tax Moral Obligation on Tax Compliance

Tax moral obligation is an individual norm that is owned by someone, but may not be owned by others. This individual's moral is not explicitly included in the Theory of Planned Behavior (TPB) model (Azen, 1991 in Elia Mustikasari, 2007). Tax morale is seen as an intrinsic motivation in obeying and paying taxes so that it contributes voluntarily to the provision of public goods (Torgler, 2007). Tax morale is a key determinant that can explain why people are honest in tax matters (Cahyonowati, 2011).

The theory that is considered closely related to taxpayer morale is the theory of moral reasoning. Theory of moral reasoning in the context of tax compliance states that moral decisions are mainly influenced by the treatment of sanctions at a low level of moral reasoning, expectations of fairness at a moderate level, and issues of justice at the highest level. Taxpayers who use morals more in making tax payment decisions will be more obedient than other taxpayers. Taxpayers with the same moral level but having different perceptions will have different reactions to tax compliance (Jayanto, 2011).

Community morals will affect tax collection by the tax authorities (Siti Kurnia, 2017). High community integrity will reflect better fulfillment of tax obligations. Taxpayer compliance will be better if the morale of the population is good. Taxpayers will experience feelings of guilt if they do not comply with tax regulations properly and are anxious if they are related to an audit. The desire to escape to get away from both illegal and legal taxes will be more motivated, with the low moral condition of society. Poor community morals will hinder tax collection; non-compliance will dominate the taxpayer's tax obligations.

Based on this description, taxpayers who have good moral awareness as citizens in carrying out their tax obligations, are different from citizens who do not have moral awareness tend not to carry out tax obligations properly. Thus, it is hoped that the morality aspect of the taxpayer in fulfilling their tax obligations is expected. This research is motivated by research (Ahmad Sani, 2017), (Tri Astuti, 2018), (Jap, 2018) and (Artha, 2016) which reveal that taxpayer morale has a positive and significant effect on taxpayer compliance. And also supported by research from (Aryandini, 2016) which states that taxpayer moral obligations have a significant effect on taxpayer compliance (Now, 2017).

H1: Tax Moral Obligations affects Compliance Costs

Compliance Costs on Tax Compliance

Compliance costs are costs incurred by corporate / individual taxpayers in carrying out various tax activities in the framework of tax payment and reporting. Taxpayers will make financial sacrifices, tools / assets and human resources in order to achieve tax compliance and taxpayers will feel disadvantaged if the compliance costs incurred are high enough.

One of the biggest factors in non-compliance with taxpayers is the compliance cost, which includes costs sacrificed in fulfilling tax obligations. The Directorate General of Taxes continues to improve the quality of

services to boost revenue. According to the directorate general of service tax that can minimize compliance costs. Minimizing compliance costs means reducing three things, namely direct money costs such as buying books or those related to taxation, paying employees who handle taxes, travel expenses, paperwork, hiring a tax consultant. Time costs such as the time taken to read the SPT form and its manual, time to consult a tax consultant, time to deposit taxes. Psychological costs such as anxiety and curiosity that arise while waiting for the results of the examination. This creates a significant cost for tax officials. The amount of costs that must be incurred by taxpayers in carrying out tax obligations, also determines the level of tax compliance. One of the factors that causes tax revenue not in accordance with the target is the cost of compliance (Sanford, 1898). OECD (2004) revealed that the greater the compliance cost incurred by the taxpayer, the taxpayer will tend to take tax non-compliance actions such as tax evasion or tax avoidance.

This research refers to research conducted by (Arabella Oentari, 2013) to test the service quality of tax officers, tax sanctions, tax compliance costs and SMEs taxpayer compliance. In this study, it is found that there is a positive influence between the service quality of tax officers, tax sanctions, tax compliance costs on SMEs taxpayer compliance. As well as research (Indriyani, 2018) states that there is an influence between the cost of tax compliance and taxpayer compliance.

H2: Compliance Costs affects Tax Compliance

3. Methodology

Type of research is an explanatory research, where the research is carried out by collecting, analyzing and interpreting data using a survey approach. The data used in this research is primary data resulting from distributing questionnaires in the form of google form to SMEs players. The object of the research was carried out on SMEs in Bandung city under the guidance of Bandung City Cooperatives and SMEs Service, with the number of SMEs players as a population of 6,401 SMEs. The size of the research sample that can be carried out ranges from 30-500 samples (Sekaran, 2017). In this research, 100 questionnaires were collected and used from SMEs.

The questionnaire measurement scale uses a Likert scale. Validity and reliability testing is carried out on all number of samples and the results are declared valid and reliable. Classical assumption testing includes normality test, multicollinearity test, and heteroscedasticity test. The results of the normality test using the Cronbach alpha value produce a value of 0.966 and greater than 0.70, thus indicating that the data held is normal, with the respondents' answers appear to be answering questions consistently. The multicollinearity test results with tolerance values were 0.854 and <0.10, and the VIF value was 1.171, indicating VIF > 10. Tolerance and VIF values meet the requirements so that it proves that there is no multicollinearity. The heteroscedasticity test shows that the point graph spreads above and below the number 0, this indicates that heteroscedasticity does not occur.

Table 1. Multicolienarity Test Results

	Tolerance	VIF
Tax Moral Obligation	0,854	1,171
Tax Compliance Cost	0,854	1,171

Source: processed 2020

The author also uses the t test to partially test the effect of each variable by measuring the t and sig (significant) values on the coefficients table. The F test is used to see whether this research model is feasible or not. And the assessment of the coefficient of determination to see the magnitude of the overall influence of the independent variables on the dependent variable.

The variables used in this research, both the dependent and independent variables, use measurement indicators as follows:

Table 2. Measurement Variable

Variable	Symbol	Indicator
Tax Compliance	TC	a. fill out the SPT form correctly, completely, and clearly, b. calculate taxes correctly, c. timely payment, d. timely reporting
Tax Compliance Cost	TCC	a. Direct money cost b. Time cost c. Psychic or psychological cost
Tax Moral Obligation	TMO	a. Breaking ethics b. Guilt

Source: Sandford et al. in Siti Kurnia Rahayu, 2017, (Handayani, 2009)

4. Results and Discussion

4.1. Results

Table 3. Descriptive Statistics

	N	Mean	Std. Deviation
Tax Compliance	100	3,3700	1,26011
Tax Moral Obligation	100	3,5988	0,96159
Tax Compliance Cost	100	3,5809	1,01322

Source: processed 2020

Each item in the questionnaire was given a score of 1-5 which stated from strongly disagree to strongly agree. Tax compliance which is measured by filling out the SPT form, calculating taxes correctly, paying on time and reporting on time shows the average value of answering questions of 3.37, this proves that SMEs taxpayers in Bandung are generally declared compliant. However, there are several assessments of tax compliance indicators whose value is still low, such as timely tax reporting. This is because personnel are limited to SMEs because they are more focused on SMEs operations, so they are late in carrying out tax reporting.

The acquisition of a mean value of 3.59 in the tax moral obligations variable is stated to be quite good. Some taxpayers do not feel guilty when violating ethics and disobeying, this is because not all taxpayers know the tax regulations, so that when they violate and do not feel guilty, taxpayers do not understand the sanctions that will be given. In general, taxpayers do not feel guilty when they do not carry out year-end reporting. However, taxpayers also feel anxious if they do not

report the Annual Tax Return and are anxious in facing tax audits.

The average tax compliance cost is 3.58, indicating that the taxpayer agrees that the compliance costs incurred by taxpayers is not large. However, the cost of photocopying documents and internet costs related to reporting e-filing and e-billing that must be done by taxpayers is still relatively high, so it is necessary to do efficiency in this regard. In the time cost indicator, taxpayers think that studying tax laws and conducting tax consultations is still time consuming. In the psychological cost aspect, most taxpayers are still anxious when the tax audit is conducted.

Table 4. Coefficient

	Unstandardizes B	Coefficients Std. Error	Unstandardizes Coefficients Beta	t	Sig.
Constant	3,154	0,565		5.585	0,000
Tax Moral Obligation	0,602	0,96	0,459	6,270	0,000
Tax Compliance Cost	-0,544	0,091	-0,438	-5,977	0,000
R Square					0,556
Adjusted R Square					0,547
Std. error of the Estimate					0,848

Source: processed 2020

From the table above, a multiple regression equation can be made as follows:

$$Y = 3,145 + 0,602TMO - 0,544TCC + \square$$

The regression illustrates that when the other variable is declared 0, the compliance variable constant will be worth 3.145, and will increase by one unit.

In knowing whether there is the influence of each independent variable partially on the dependent variable, it can be seen at the significance level of 0.05. If the probability t value <0.05, then Ha is accepted and Ho is rejected (Ghazali, 2011). In this study, the results of the t test obtained on the variable tax compliance costs were 0.000 and below the significance level of 0.05, this proves that the cost of tax compliance has an effect on tax compliance. Likewise, the tax moral obligation has a t value of 0.000 and is below 0.05, so the tax moral obligation has an effect on tax compliance.

The results of the R Square test were obtained at 0.556, interpreting the two variables of tax compliance costs and tax moral obligations in explaining the tax compliance variable on the SME taxpayer of 55.6% and the remaining 44.4% explained by other variables.

Table 5. Anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	87,384	2	43,692	60,705	,000 ^b

Residual	69,815	97	0,720		
Total	157,199	99			

Source: processed 2020

Testing of the structural model used is carried out by looking at the value of the F test, which is a good-fitness model test. The F value obtained is 60,705 with a significance of 0,000 and <0.05 , then the F test is declared eligible. The regression model used to predict the moral tax liability and the cost of compliance with tax compliance is declared feasible.

4.2. Discussion

The Influence of Compliance Costs on Tax Compliance

The t test results obtained a significance of 0.00 and <0.05 , indicating that the cost of compliance has a significant effect on the compliance of SME taxpayers at Department of Cooperatives and Small-Medium Enterprises of Bandung. Meanwhile, the magnitude of the effect of the cost of compliance in contributing to the effect of taxpayer compliance was 43.8%.

The research results refer to the theoretical basis in the previous discussion which states that one of the factors in non-compliance with taxpayers is the compliance cost, namely the costs sacrificed in an effort to fulfill tax obligations. The Directorate General of Taxes continues to improve the quality of services to boost revenue. According to the directorate general of service tax that can minimize compliance costs. Minimizing compliance costs means reducing three things, namely direct money costs such as costs that are directly related to documents, hiring employees who are tax experts or hiring tax consultants. Time costs such as time spent reading the SPT form, understanding tax regulations and manuals, time for consulting with a tax consultant, time for consultation at the tax office, time for filing taxes. Psychological costs such as anxiety and curiosity that arise while waiting for the results of the examination. The amount of costs that must be incurred by taxpayers in carrying out tax obligations, also determines the level of tax compliance. One of the factors that causes tax revenue not in accordance with the target is the cost of compliance (Sanford, 1898). Therefore, to be able to comply with taxpayers, the compliance costs incurred will be high.

The results of this study are in line with research (Indriyani, 2018) (Arabella Oentari, 2013) which describes the cost of compliance has an effect on taxpayer compliance.

The Influence of Tax Moral Obligation on Tax Compliance

The result of the hypothesis test interprets a significance value of 0.00 and <0.05 , it proves that tax moral obligation has an effect on tax compliance. Meanwhile, the magnitude of the influence of moral obligation in contributing to the influence of tax compliance is 45.9%. The results of this study refer to the theory that moral obligations are individual norms that are owned by someone, but may not be owned by others. This individual's moral is not explicitly included in the Theory of Planned Behavior (TPB) model (Mustikasari, 2007). Community morals will affect tax collection by the tax authorities. With high integrity, of course, the fulfillment of tax obligations will be better. Taxpayer compliance will be better if the morale of the population is good. The desire to escape to get away from both illegal and legal taxes will be more motivated, with the low moral condition of society. Bad community morals will hinder tax collection, non-compliance will dominate the tax obligations of taxpayers (Rahayu, 2010). Taxpayers who have good moral awareness as citizens in carrying

out their tax obligations are different from citizens who do not have moral awareness.

Taxpayers will always understand the applicable tax regulations and taxpayers will feel guilty if they do not pay and report their Tax Return (SPT) to the Directorate General of Taxes. In general, taxpayers will feel anxious if they report their taxes incorrectly, and will also feel anxious when a tax audit will be carried out by a tax auditor. When taxpayers feel guilty if they violate taxation regulations and feel anxious when a tax audit will be carried out, the taxpayer tries to comply with taxation provisions. Because the better compliance with tax obligations, the taxpayer will comply.

The results of this study are in line with previous research (Ahmad Sani, 2017) (Tri Astuti, 2018) which shows that tax moral obligations have an effect on taxpayer compliance.

5. Conclusion

The study, which was conducted on 100 SMEs taxpayer respondents, illustrates that tax moral obligations have been implemented properly. The results of the respondent's answer about the cost of compliance, the respondent agrees that the cost of compliance is not burdensome to taxpayers, and tax compliance has been implemented properly by taxpayers. The results of the hypothesis test show that there is an influence between tax moral obligations on tax compliance and compliance costs have an effect on taxpayer compliance.

In some cases, respondents still feel that internet costs and personal costs who are experts in the field of taxation are burdensome for SME taxpayers, so they are expected to provide free access to reporting and payment of taxes and simplifying understanding of tax regulations so that they are easier to understand. Tax regulations should be well understood so that they can be implemented properly and avoid reporting errors.

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