

THE EFFECT OF TAX KNOWLEDGE, TAXATION SYSTEM MODERNIZATION ON MSME TAXPAYER COMPLIANCE IN BANDUNG CITY

Riyang Mardini*)

Universitas Islam Bandung, Accounting Study Program

Email: riyangmardini30@gmail.com*)

*)Corresponding Author

Article Info

Article History

Received : 11/01/2024
Reviewed : 17/02/2024
Accepted : 04/03/2024
Published : 31/03/2024

Volume : 25
No. : 1
Month : March
Year : 2024
Page : 54-62

Abstract

One of the main challenges for the government in managing state finances today is the low state revenue from the tax sector. This study aims to develop a conceptual framework of tax knowledge and modernization of the taxation system that can be used to analyze and discuss it as a factor that affects tax compliance. This study uses a purposive sampling technique based on the population of MSMEs in the food and beverage sector in Bandung, Indonesia. The analytical method used is multiple linear regression with SPSS 24. The results show that knowledge of taxation and modernization of the taxation system has a significant effect either, partially or simultaneously.

Keywords : *Knowledge of taxation, Modernization of the taxation system, taxpayer compliance.*

1. INTRODUCTION

The potential for MSME taxpayers in Indonesia is very large, the total number if MSME sis recorded at more then 64 million MSMEs or equivalent to 90 percent of the population of business actors in Indonesia, which contributes to GDP of 61.7 percent. Although the number of taxpayers continues to increase, the contribution of MSME taxes is still low. Data from the Directorate General of Taxes, Ministry of Finance, shows that the final PPH contribution for SMEs is only IDR 7.5 trillion or just 1.1 percent of the total IDR 711.2 of total income tax revenue in Indonesia (Kemenkeu, 2022).

Badan Pendapatan Daerah (Bapenda) of Bandung City revealed that the realization of tax revenues in the City of Bandung has increased, recorded in 2020 amounting to IDR 597 billion, increasing in 2021 to IDR 631 billion, although it is still far from the target of tax revenues of IDR 2.7 trillion in 2018. 2021 (Bapenda, 2022). The MSME sector in the food and beverage sector is the largest sector that has saved the post-pandemic crisis. The government must be firm with large entrepreneur taxpayers who need to comply with their tax obligations. Tax revenue for the state is used to fund social and economic programs and public services. MSMEs are a 'critical engine' for the economy in Indonesia. Thus, there is a need to encourage compliance among MSME actors in paying taxes, especially income tax (PPh Final UMKM) in the city of Bandung.

The level of compliance of the Indonesian people in paying taxes is still very low; only about 30 % of the Indonesian people are willing to pay taxes, 78 percent of which include taxpayers who are reluctant to pay taxes (CNBC Indonesia, 2014). The low level of public compliance with taxation is due to the fact that public

knowledge of taxes is still needs to be improved. The existence of good quality tax knowledge will provide the correct fulfillment of tax obligations and will affect the increase in tax revenue (Asrinada, 2018). Tax knowledge, especially for small business owners, is a relevant factor for tax compliance, tax knowledge is based on three elements, general tax knowledge, procedural and tax law (Bornman & Ramutumbu, 2019).

The self-assessment system tax collection imposed on income tax as it is today requires a tax system that is more easily understood by taxpayers. Modernization of the tax system is expected to provide optimal services and convenience for taxpayers (Chandra et al, 2020). The strategy adopted in providing excellent service is carried out by utilizing a reliable and up-to-date information technology system, adjustments to the organizational structure, and changes in business processes (Farouq, 2018:88). To improve tax compliance, the government must be more aggressive in disseminating the latest tax regulations and modernizing the tax system to make it easier for taxpayers to fulfill their tax payments (Nurlis & Ariani, 2020).

Previous research stated that the modern tax administration system improves tax compliance, as indicated by a significant increase in tax revenue in Nigeria as a whole (Rotimi, et al, 2020). Tax knowledge and modernization of the tax administration system have a significant effect on tax compliance as a stimulus for taxpayers to comply with their tax obligations (Nurlis & Ariani, 2020). In line with the research of Chandra et al (2020) knowledge of taxpayers and the tax administration system is an experience felt by taxpayers, and has a positive impact on taxpayer compliance.

From the statement above, it can be concluded that tax knowledge and modernization of the taxation system are essential for taxpayer compliance, especially for MSMEs, therefore this study aims to determine: (1) Does knowledge of taxation affect MSME taxpayer compliance in Bandung City?; (2) Does the modernization of the tax system affect the compliance of MSME taxpayers in the city of Bandung?

2. LITERATURE REVIEW

2.1 Social Learning Theory

Social learning theory is an explanation of how a person can learn directly through observation and experience. (Chandra et al, 2021) This theory explains that human behavior is not caused by reflexes or stimuli but rather by reactions that arise from interactions between the environment and human cognition (Bandura, 1977). This theory is in line with this research because experience can provide information for taxpayers in order to understand taxation.

2.2 Technology Acceptance Model Theory (TAM)

The modernization of the taxation system is based on the use of TAM theory (Technology Acceptance Model) (Davis, 1989), that the individual's belief in the use of the new system is the perceived ease of use (PEOU) while when the system is used it is the usefulness of the system in improving performance (PU). This theory is relevant in this study because it helps to understand the behavior of individual taxpayers in receiving e-taxation.

2.3 Tax Knowledge

Tax knowledge is the ability of a taxpayer to know the tax law, the role of taxes, and the tax benefits that will be felt on taxes paid to the government (Obongo, 2015). Tax knowledge refers to the level of fiscal knowledge, general educational attainment, or knowledge of tax law (Devos, 2016). Tax knowledge is defined as the capability of a taxpayer to understand general, legal, and procedural tax regulations (Bornman & Ramutumbu, 2019). Tax knowledge is the basis for taxpayers to act, make decisions and take certain directions or strategies based on tax information sources in relation to the implementation of their rights and obligations in the field of taxation.

2.4 Tax System Modernization

The modernization of the taxation system includes the use of technology and communication, the improvement of human resources, and the application of Good Governance (Chandra et al, 2021). Tax reform is marked by an increase in information and communication technology (Lubis & Hidayat, 2019). Tax administration reforms carried out by the Directorate General of Taxes include e-registration, e-filing, and e-billing. The modernization of the taxation system is a system development program in taxation, especially in the field of administration, carried out by the relevant agencies in order to maximize tax revenues in the country.

2.5 Taxpayer Compliance

Compliance is a regulation that regulates that taxpayers can exercise their tax rights and obligations (Chandra, 2021) Taxpayer compliance is defined as an awareness in fulfilling tax obligations, this is reflected in situations where taxpayers understand or try to understand all the provisions of tax laws and regulations (Avianto et al, 2016). Taxpayer compliance represents how big the level of responsiveness of taxpayers to their tax obligations (Rotimi et al (2020)).

2.6 Framework and Hypotheses

Tax knowledge is a person's ability to know and understand taxation in general, legal, and procedural. Tax knowledge is obtained through one's experience and learning. The more a person learns and observes about taxation, the more knowledge he has so that he can improve tax compliance (Chandra et al (2020). Knowledge of tax rights and obligations and awareness of sanctions are the strongest determinants of tax compliance (Twum et al, 2020). However, Tehulu's research (2016) states that knowledge of violations and sanctions is not a determinant of a person's compliance with taxation. Understanding of tax regulations does not affect willingness to pay taxes (Wijayanti, 2020).

The acceptance of the latest technology and systems has an impact on the users of the technology or the system itself. Reform of a tax administration system plays an important role in increasing taxpayer satisfaction, if the existing system provides satisfaction to taxpayers, taxpayers will be more obedient in carrying out their tax obligations (Chandra et al). The modernization of the taxation system is an external factor driving taxpayers to comply due to certain circumstances (Nurlis & Ariani 2020). The more modern and easier system provided by taxation will increase the desire to fulfill tax obligations. However, there are differences with previous research Damayanti & Amah (2018) state that socially, the modernization of the tax administration system has no effect on taxpayer compliance.

So the review of empirical studies above leads to the following hypothesis:

H1: Knowledge of taxation affects the compliance of MSME taxpayers in the city of Bandung.

H2: Modernization of the taxation system affects the compliance of MSME taxpayers in the city of Bandung.

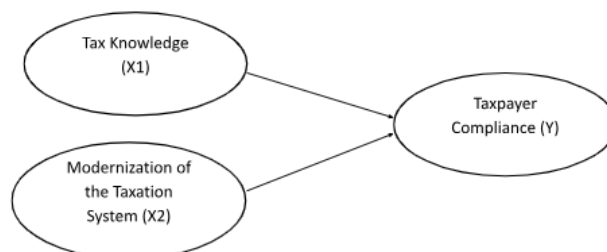


Figure 1. Framework

The following are the dimensions carried out in this study:

**Table 1
Variable Operations**

Variable	Dimension
Tax Knowledge (X1)	General (Need to understand government fiscal awareness)
	Procedural (Need to understand tax compliance procedures)
	Legal (Need to understand tax regulations)
Modernization of the Taxation System (X2)	Organization and human resources
	Laws and regulations
	Business process
	Information Technology
	Database

Tax Compliance (Y)	Compliance in registering NPWP
	Compliance in returning SPT
	Compliance in calculating, paying taxes owed.
	Compliance in reporting and payment of arrears

3. RESEARCH METHODS

Research Approach

This research is a quantitative research that tries to reveal the correlation or causal relationship (causal) between the dependent variable and the independent variable by using multiple linear regression analysis, which is expressed in a mathematical relationship that is about the effect of tax knowledge and accounting system modernization on MSME tax compliance in Bandung City.

3.2 Data Collection Technique

Data was collected by means of a questionnaire given to the respondents to obtain primary data. The completed questionnaire was returned and then processed using the SPSS 24 program.

3.3 Population and Sample

The population in this research sample is MSMEs in the food and beverage sector in the city of Bandung, based on sampling carried out by probability sampling. Table 2

The Sample Data

Information	Questionnaire
Number of questionnaires distributed to food and beverage sector taxpayers	200
Completed Questionnaire	121
Taxpayers who have not reported their SPT	(40)
Taxpayers who have never received tax socialization	(36)
Total sample used	45

4. RESULT AND DISCUSSION

Descriptive Statistics

The characteristics of respondents in this sample are dominated by individual taxpayers who are male as many as 33 respondents (73.3%) and female as many as 12 respondents (26.7%). The age range of respondents is dominated by private taxpayers aged 20 to 35 years (80%) while respondents aged 36 to 50 years are 9 people (20%). Respondents based on education are known to be dominated by high school education as many as 17 people (37.8%) then junior high school education as many as 13 people (28.8%), diploma education as many as 8 people (17.8%) and undergraduate education as many as 7 people (15, 6%). Furthermore, the respondent's working period, respondents who have a working period of 1 to 10 years are 42 people (93.3%) and with a working period of 11 to 20 years are 3 people (93%).

4.2 Data Quality Test

4.2.1 Validity test

Table 3
Validity Test Results with Bivariate Correlation Analysis

No	Variable	Number of Items	Number of Items Taken	Bivariate Correlation
1	Tax Knowledge	6	6	0.784-0.877
2	Tax System Modernization	10	10	0.425-0.828
3	Tax Compliance	8	8	0.466-0.849
Total Questions		24	24	

Source: processed by the author with SPSS 24

Based on the table, namely the results of the validity test using bivariate correlation, of the 24 question items tested, it turned out that all of the question items were valid, because they had a correlation range above 0.30. It can be concluded that this research has items with a high level of validity.

4.2.2 Reliability Test

Table 4
Reliability Test Results

Variable	Number of Question Items	Cronbach's Alpha	rstandard
Tax Knowledge	6	0.787	0.60
Tax System Modernization	10	0.889	0.60
Taxpayer Compliance	8	0.807	0.60

Source: processed by the author with SPSS 24

Based on the results of the reliability test data processing with 24 statement items, which consist of the transfer of taxation, modernization of the taxation system, and taxpayer compliance, where for tax knowledge, the value of Cronbach's alpha is 0.787, then for the variable of modernization of the taxation system, the value of Cronbach's alpha is 0.889 and for the variable taxpayer compliance with Cronbach's alpha value of 0.807. It can be concluded that all question items have a level of reliability used in this study.

4.3 Multiple Linear Regression Analysis

To test the effect of tax knowledge (X1) and modernization of the taxation system (X2) on taxpayer compliance, the following multiple regression equation is used:

Table 5
Results of the Regression Equation on Tax Knowledge and Modernization of the Taxation System on Taxpayer Compliance.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.Error	Beta		
(Constant)	7.212	3.165		2.278	.027
Tax Knowledge	.392	.184	.240	2.116	.040
Tax System Modernization	.260	.051	.578	5.092	.000

Source: processed by the author with SPSS 24

Based on the table above, which is the result of processing SPSS version 24 data, it can be presented with multiple regression equations as follows:

$$Y = 7.212 + 0.392X1 + 0.260X2$$

In the following, an explanation of the multiple regression equation will be presented which can be described as follows:

1. The coefficient constant (bo) is 7.212, which means that without Tax Knowledge and Modernization of the Taxation System, taxpayer compliance is 7.211%.
2. Knowledge of Taxation (b1) of 0.392, which means that Knowledge of Taxation has a positive effect on Taxpayer Compliance, which means that the higher Knowledge of Taxation will be able to increase Taxpayer Compliance.
3. Modernization of the Taxation System (b2) of 0.260, which means that every increase in the Modernization of the Taxation System can be followed by an increase in Taxpayer Compliance. Thus it can be said that the Modernization of the Taxation System has a positive effect on MSME Taxpayer Compliance in the City of Bandung. In relation to the regression coefficient equation as described above, it can be concluded that Tax Knowledge is the dominant variable affecting Taxpayer Compliance on MSMEs in Bandung City.

4.3.1 Coefficient of Determination

Table 6
Model Summary

R	R Square	Adjusted R Square	Std. Error Of The Estimate
.627a	.394	.368	2,542

Source: processed by the author with SPSS 24

Then the value of $R = 0.627$ indicates that the correlation value (R) of 62.7% indicates that tax knowledge and modernization of the taxation system have a strong and positive relationship to taxpayer compliance. While the value of R^2 (determinant) (Adjusted R square) = 0.368 or 36.8%, indicating that the variation of taxpayer compliance can be explained by variations in tax knowledge and modernization of the taxation system, while the remaining 63.2% is explained by other reasons not studied.

4.3.2 Hypothesis test

Hypothesis testing can be done in 2 ways, namely simultaneous testing (F test) and partial testing (t test). To test simultaneously or jointly between knowledge of taxation and modernization of the taxation system on taxpayer compliance, it can be done by comparing the value of sig. with the standard value (0.05). If the sig value is smaller than the standard value, it means that it has a simultaneous effect. And vice versa if the sig value is greater than the standard value, it means that it does not have a simultaneous effect. Simultaneous test results can be presented in the following table:

Table 7
F -Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	197,993	2	98.9996	15.307	.000b
Residual	303.927	42	6.467		
Total	501,920	44			

a. Dependent Variable : Taxpayer Compliance

b. Predictors: (Constant), Tax Knowledge, Tax System Modernization

Source: processed by the author with SPSS 24

Based on the table of simultaneous test results, the Fcount value is 15.307 using 95% confidence and a significant level of 0.05 $df = 44$ ($nk-1$) or $(45-2-1) = 44$, then Ftable is 3.195 (see attachment) . Because the value of Fcount (15.307) > Ftable (3.21) then H_0 is rejected, meaning that knowledge of taxation and modernization of the taxation system together affect tax compliance on MSMEs in Bandung. Then the t-test is intended to determine the significant effect of each variable of tax knowledge and modernization of the taxation system on taxpayer compliance which can be seen through the table, then the results of hypothesis testing are as follows:

1. The effect of tax knowledge on taxpayer compliance. The regression coefficient is 0.392 with a sig value of 0.040. This shows that there is a positive influence between the effect of tax knowledge and taxpayer compliance, while seen from the value of sig $0.04 < 0.05$, it means that there is a significant effect between tax knowledge and taxpayer compliance, thus the hypothesis that has been stated previously proven.
2. The effect of modernization of the taxation system on taxpayer compliance. The regression coefficient is 0.260 with a sig value of 0.000. This means that the modernization of the taxation system with taxpayer compliance has a positive effect. Meanwhile, with a sig value of $0.000 < 0.05$, it means that the modernization of the taxation system has a positive and significant effect on taxpayer compliance. Thus, this research is in line with the hypothesis that has been stated previously.

4.4 Discussion of Research Results

The discussion in this study is emphasized on testing knowledge of taxation and modernization of the taxation system on taxpayer compliance, the sample used in this study amounted to 45 research samples. The results of the discussion can be described as follows:

4.4.1 The effect of tax knowledge on taxpayer compliance

Knowledge of taxation on taxpayer compliance has a positive effect on taxpayer compliance in MSMEs in Bandung, meaning that the higher the knowledge of taxpayers' taxation, it will have an impact on increasing taxpayer compliance. This is influenced by the taxpayer's knowledge of the government's fiscal, procedures, and applicable laws regarding taxation. Tax knowledge can be increased by internalizing education about tax rights and responsibilities in general and MSME owners should be given guidance on sanctions that can be applied in tax non-compliance (Twum et al, 2020).

Asrinanda's research (2018) states that tax knowledge affects taxpayer compliance in Banda Aceh City, the higher tax knowledge, the higher taxpayer compliance. Tax knowledge is a relevant factor in influencing tax compliance of small business owners (Bornman & Ramutumbu, 2019). MSME taxpayer compliance is influenced by tax knowledge (Inasius, 2018). Tax knowledge for taxpayers, one of which is in order to comply with the tax law (Al Zaqeba et al, 2018). Taxpayer knowledge affects taxpayer compliance simultaneously or partially (Chandra et al, 2020).

4.4.2 The Effect of Taxation System Modernization on Taxpayer Compliance

The modernization of the taxation system on taxpayer compliance has a positive effect on taxpayer compliance in MSMEs in Bandung City, this can mean that any increase in the modernization of the taxation system can increase taxpayer compliance. This is influenced by human resources, regulations, business processes, information technology and database factors.

This research is in line with the research conducted by Wijayanti et al (2020) that the effectiveness of the taxation system affects the willingness to pay taxes. The higher the administrative system and tax facilities, the higher the taxpayer compliance (Nurlis & Ariani, 2020). The application of a modern tax administration system will facilitate tax services and facilitate taxpayers in the tax compliance process (Chandra et.al, 2020). Modern administrative systems such as e-tax make tax payments, tax filings and assessments easier and more flexible in order to increase robust operations (Rotimi et al, 2020).

4.4.3 The Effect of Tax Knowledge and Taxation System Modernization on Taxpayer Compliance

Knowledge of taxation and the modernization of the taxation system simultaneously have a significant effect on taxpayer compliance with MSMEs in the city of Bandung, this means that the higher tax knowledge and the more modern a taxation system, it will increase taxpayer compliance in paying taxes so that it will increase tax revenue. The research of Chandra et al (2020) states that taxpayer awareness, tax knowledge, and the application of a modern tax administration system have a positive and significant effect on taxpayer compliance, both partially and simultaneously.

5. CONCLUSION

Based on the hypothesis testing, it can be concluded that the knowledge of taxation has a positive and significant effect on taxpayer compliance in MSMEs in Bandung City. It can be concluded that the higher knowledge of taxation owned by taxpayers will increase their compliance with paying taxes. The modernization of the taxation system has an effect on taxpayer compliance. This means that the more modern the tax administration system it will increase taxpayer compliance in paying taxes so as to increase tax revenue. Simultaneously, knowledge of taxation and modernization of the taxation system have a significant effect on tax compliance,

This research is limited to the research object used, thus allowing for differences in results, discussions and conclusions. For further researchers, the number of research objects is expected to increase. Measurement of taxpayer compliance would be better if adding another object of research.

6. BIBLIOGRAPHY

- Al-Zaqeba, M.A.A., et al., 2018. Tax Compliance Of Individual Taxpayers: A Systematic Literature Review. *International Journal Of Management And Applied Science*. Volume-4:47-57.
- Asrinanda and Diantimala, Y. 2018. The Effect of Tax Knowledge, Self Assessment System, and Tax Awareness on Taxpayer Compliance. *International Journal of Academic Research in Business and Social Sciences*. 8(10): 539–550.
- Avianto, G. D., Rahayu, S. M., & Kaniskha, B. (2016). Analisa Peranan E-Filing dalam Rangka Meningkatkan Kepatuhan Pelaporan Surat Pemberitahuan Tahunan Wajib Pajak Orang Pribadi (Studi pada Kantor Pelayanan Pajak Pratama Malang Selatan). *Jurnal Perpajakan (JEJAK)*, 9(1): 1–8.
- Bandura, A. 1977. Self-efficacy: Toward a unifying theory of behavioral change. *Psychological Review*, 84.
- Bornman, M and Ramutumbu, P. 2019. A conceptual framework of tax knowledge. *Tax knowledge*, Vol. 27 No. 6:823-839.
- Budiarto, D.S., Yennisa, Y. and Widyaningrum, R. (2018), “Does religiosity improve tax compliance? An empirical research based from gender”, *Jurnal Dinamika Akuntansi*, Vol. 10 No. 1, pp. 82-90.
- Chandra, N., et al., 2020. The Effect of Tax Payer Awareness, Taxation Knowledge and the Implementation of Modern Tax Administration System on Taxpayer Compliance. *Advances in Economics, Business and Management Research, Proceedings of the International Conference on Strategic Issues of Economics, Business and, Education (ICoSIEBE 2020)*. volume 163:159-162.
- Damayanti, L.T., and Amah, Nik. 2018. Kepatuhan Wajib Pajak Orang Pribadi: Pengaruh Modernisasi Sistem Administrasi dan Pengampunan Pajak. *ASSETS Jurnal Akuntansi dan Pendidikan*. Vol 7 No 1: 57-71.
- Davis, F.D. 1989. “Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology”. *MIS Quarterly*. Vol. 13 No. 5: pp319-339.
- Devos, K. 2016. A Comparative Study of Compliant and Non-Compliant Individual Taxpayers in Australia. *Journal of Business and Policy Research*. Vol 2 No 2: 180-196.
- Farouq, M. (2018). *Hukum Pajak di Indonesia. Suatu Pengantar Ilmu Hukum Terapan di Bidang Perpajakan* (Cetakan ke; M. Farouq, Riefmanto, & Suwito, Eds.). Jakarta: Kencana.
- Inasius, F. 2018. Factors Influencing SME Tax Compliance: Evidence from Indonesia. *International Journal of Public Administration*. 1-13.
- Lubis, H Z & Hidayat, M A. 2019. Pengaruh Modernisasi Administrasi Perpajakan Terhadap Kepatuhan Wajib Pajak Orang Pribadi Dalam Pelaporan SPT. *Festival Riset Ilmiah Manajemen & Akuntansi. Prosiding Firma*. Vol 2. 65-73.
- Nurlis and Ariani, M. 2020. Tax Awareness Moderates Knowledge and Modernization of Tax Administration on Tax Compliance, Survey on MSME taxpayers in South Tangerang City, Indonesia. *International Journal of Management Studies and Social Science Research*. Volume 2: 250-259
- Obongo, M B. 2015. Influence of Tax Knowledge and Awareness on Tax Compliance Among Investors In The Export Processing Zones in Kenya. *International Journal of Scientific Research and Management (IJSRM)*. Vol 6.
- Rotimi, O., et al., 2020. E-Tax Administration and Tax Compliance among Corporate Taxpayers in Nigeria. *International Accounting and Taxation Research Group, Faculty of Management Sciences, University of Benin, Benin City, Nigeria*. 2635-2958: 93-101.
- Tehulu, T. A. (2016). Factors Influencing Tax Compliance Attitude in Ethiopia: A Multivariate Analysis. *Journal of Policy and Development Studies*, 289(3784), 1-14.
- Twum, K.K., et al., 2020. Tax Knowledge And Tax Compliance Of Small And Medium Enterprises In Ghana. *South East Asia Journal Of Contemporary Business, Economics And Law*, Vol. 21:222-231.
- Wijayanti, P., et al., 2020. The Improvement Strategy of Tax Compliance from MSME Sector in Indonesia. *Advances in Economics, Business and Management Research, 17th International Symposium on Management (INSYMA 2020)*. Volume 115:167-171.

Worthington, E. L., Wade, N. G., Hight, T. L., Ripley, J. S., McCullough, M. E., Berry, J. W. & O'Connor, L. (2003). The religious commitment inventory-10: Development, refinement, and validation of a brief scale for research and counselling. *Journal of Counselling Psychology*, 50(1), 84-96. Doi:10.1037//0022-0167.50.1.84.