

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Tax

a. Definition of Tax

Discussing taxation is inseparable from the definition of tax, according to PJA Andriani in Waluyo (2009), tax is a community contribution to the state (which is imposed) which must pay according to general regulations (the law) by not getting back achievements that can be directly appointed and the point is to finance general expenses due to the duty of the State to organize the government. From the two definitions above there are similarities in views or principles regarding of tax.

Whereas according to Soemitro, as cited in Mardiasmo (2011), tax is a people's contribution to the State treasury based on the Law (which can be imposed) by not receiving lead services (counter Achievements) which can be directly shown and used to pay public expenses.

From the two definitions above there are similar views or principles regarding tax. Both have a similar definition. Both opinions have the following elements:

- 1) Taxes are collected under the Law.
- 2) There is no direct service in tax (counterpart).

- 3) Tax can be forced.
- 4) Tax result is to finance development.

Therefore, it can be concluded that taxes are contributions to the state (which can be imposed) which are owed by those who are obliged to pay according to regulations and do not get back direct reward that can be directly appointed.

b. Tax Function

- 1) The receipt function (*budgetair*) Tax is as a source of funds for the government to finance government expenditures. Example of the inclusion of taxes in the state budget revenue is domestic revenues.
- 2) The function regulates (*rutinend*) Tax is as a tool to regulate or implement government policies in the social or economic field. For example, high taxes are imposed on liquor to reduce consumption of liquor, and high taxes are imposed on luxury goods to reduce consumptive lifestyles and tax rates for exports of 0% to encourage Indonesian exports to the world.

c. Tax grouping and collecting system

- 1) According to the group
 - a) *Direct tax* is tax that must be borne by the tax authorities themselves and cannot be charged or delegated to others.
 - b) *Indirect tax* is tax which can eventually be charged or delegated to others.

- 2) According to the nature
 - a) *Subjective of Tax* is a tax that originates or is based on the subject, in the sense of paying attention to the condition of the taxpayer.
 - b) *Objective of tax* is a tax based on the object, regardless of the taxpayer's state.
- 3) According to the collection agency
 - a) *Central tax* is a tax levied by the central government and used to finance state households.
 - b) *Regional taxes* is a tax collected by the regional government and used to finance regional households.

2. Micro Small Medium Enterprise (MSME)

The understanding of MSME in Indonesia is regulated in the Law of the Republic of Indonesia No.20 of 2008 concerning MSMEs. Article 1 of the Law states that micro-enterprises are productive businesses owned by individuals and/or individual business entities that have the criteria for micro-enterprises as stipulated in the Act. Small business is a stand-alone productive economic enterprise, carried out by individuals or business entities that are open subsidiaries or non-subsidiaries that are owned, or controlled, or become part, either directly or indirectly, of medium-sized businesses or large businesses that fulfill criteria for small businesses as referred in the Act.

Whereas micro-enterprises are productive economic enterprises that are independent which are carried out by individuals or business entities that are not subsidiaries or not branches of companies. MSMEs are owned, controlled, or become part of either directly or indirectly, from micro-enterprises, small businesses or large businesses that fulfill criteria for micro-enterprises as referred to in the Act.

In the Law, the criteria used to define MSMEs as listed in Article 6 are the value of net assets or the value of assets excluding land and buildings of business premises, or the results of annual sales. These should follow these criteria:

- a. Micro business is a business unit that has assets of at most Rp.50 million excluding land and buildings where businesses have the largest annual sales of Rp.300 million.
- b. MSME is categorized as small businesses with asset values of more than Rp 50 million up to a maximum of Rp 500 million excluding land and buildings where businesses have annual sales of more than Rp 300 million to a maximum of Rp 2.500,000, and.
- c. MSME is categorized as medium businesses are companies with a net worth of more than Rp 500 million to a maximum of Rp 100 billion resulting from annual sales of Rp 2.5 billion to a maximum of Rp 50 billion (Tambunan, 2015).

3. Tariff

The definition of tariffs is often interpreted as a list of prices (rent, costs etc) so that it can be concluded that the tariff is equal to the price. The following will be explained by the meaning of tariffs.

The tax rate is a percentage to calculate the amount of tax payable (tax to be paid). According to motivation theory by Hilgard and Atkinson (1979), they stated that taxpayers motivate their own tax rates. Compliance of taxpayers to fulfill their tax obligations can be classified into technical compliance which includes calculating the amount of tax that must be paid by the taxpayer to the country.

Tax rate means a provision in the form of a percentage (%) or amount in the currency of a country that must be paid by the tax liability owner based on tax or tax entities (Sudirman & Amirudin, 2012). An important role of the State in setting policies is determining tariffs (Soemitro, 2004).

4. Socialization

Socialization is a process of planting or transferring habits, or values and rules from one generation to another in a group or society. A number of sociologies refer to socialization as a theory about the role (role theory) because in the process of socialization the roles that must be carried out by individuals are taught. Types of socialization are categorized in groups as intermediaries for primary socialization. Based on the type, socialization is

divided into two, namely primary socialization and secondary socialization.

a. Primary socialization.

Peter L. Berger and Luckmann defined primary socialization as the first socialization of individuals during childhood by learning to be family or community members. Primary socialization takes place when child get to know family members and the family environment, gradually they begin to be able to distinguish themselves from other people around their family. The role of the people closest to the child becomes very important, because a child does a limited pattern of interaction in it. Child's personality will be largely determined by interactions that occur between children and their immediate family members.

b. Secondary socialization

Secondary socialization is the process of further socialization of primary socialization, introducing individuals into certain groups in the community in the form of resocialization and desocialization. The process of resocialization is the giving of a new self-identity to someone whereas in the process of desocialization, a person experiences the removal of an old self-identity.

According to Goffman, both processes take place in total institutions, namely the place of residence and place of work. In both institutions, there are a number of individuals in the same situation,

separated from the wider community within a certain period of time, together living a life that is supported, and formally arranged.

5. Control

According to the Directorate General of Tax, control by government has a meaning. In this level the control function more or less implies the taxpayer's compliance in implementing the applicable tax provisions. The implementation of control or supervisory has functions, among others in the form of examination, collection and tax justice.

Directorate General of Tax's Decree No. KEP-322/PJ/2002 concerning the supervision system for the implementation of tax audit explains:

- a. That tax audit activities are one of the supervisory tools in order to test taxpayer's compliance in fulfilling tax obligations.
- b. That in order to increase the professionalism and performance of the tax audit apparatus, there should be a system that can monitor tax audit activities systematically.
- c. That based on previous definition, it is necessary to stipulate a Decree of the Directorate General of Tax concerning the supervision system of tax audit performance.

Various obstacles faced in efforts to enforce the tax sector in the country include:

The External Factors:

- a. The government has not been able to escape the crisis of trust that has been caused the country, especially the crisis of confidence in the government bureaucrats.
- b. The average being of all sector law enforcement is still very weak.
- c. There is a view that legal sanctions apply to common people, without ethics and morals consideration.
- d. The frequent enforcement of laws is written in the legislation, ignoring the sense of justice of the community.
- e. The factors of low authority of the government in the community is very general.

The Internal Factors:

In this case, there is a tendency to simply examine, without guidance to the taxpayer. Such indications, among others, appear in the following matters:

- a. There is still a taxpayer who is tested within a period of several years.
- b. Corrections that occur are relatively the same as the year with the period/previous year. It is ironic if the corrected posts range from that too.
- c. Examination of business activities are still going on for several years, whose inspection has been carried out when the ability has been decreasing so much that the product of the underpayments is very high and only increases tax arrears.

- d. There are still office assignments for several years ago, then inspection process is carried out when the tax position is not found so that the product of the underpayment cannot be followed up by billing.
- e. In some case the taxpayers still complain about the attitude of the investigator's arrogance.

6. Understanding of Taxation

Knowledge and understanding of tax regulations is the process by which taxpayers know about taxation and apply that knowledge to pay taxes. Hardiningsih (2008) stated that increasing knowledge of both formal and non-taxation will have a positive impact on taxpayer awareness in paying taxes. Therefore, it found that the low compliance of taxpayers was caused by knowledge of taxpayers as well as perceptions of taxes and tax officers who were still low. Some taxpayers obtain tax knowledge from tax officials, in addition there are those who get from information media, tax consultants, seminars and tax training. Based on the concept of knowledge and understanding of taxes according to Rahayu (2010), there are several taxpayer indicators to know and to understand tax regulations, namely:

- a. Knowledge of general provisions and tax procedures.

General provisions on taxation and taxation procedures are stipulated in Law No. 16 of 2009 which principle applies to material tax laws. The aim is to improve the professionalism of the tax apparatus, improve the openness of tax administration and improve

voluntary compliance of taxpayers. The contents of the general provisions and procedures for taxation include the rights and obligations of taxpayers, annual tax return, tax registration number, and payment procedures, collection and tax reporting.

b. Knowledge of the taxation system in Indonesia.

The current taxation system in Indonesia is self assessment system, namely tax collection that gives authority, trust, responsibility to taxpayers to calculate, deposit, and report on the amount of tax to be paid.

7. Tax Compliance

Compliance theory is a theory that explains a condition where a person obeys orders or rules given. According to Tahar and Rachman (2014) compliance regarding taxation is a responsibility to God, for the government and the people as taxpayers to fulfill all tax obligations and carry out their taxation rights. Taxpayer compliance is a behavior based on the awareness of a taxpayer on his tax obligations while remaining based on established legislation.

Awareness itself is part of intrinsic motivation, such as motivation that comes in the individual itself and extrinsic motivation, motivation that comes from outside the individual like encouragement from the tax authorities to improve tax compliance. One of the ways by the DGT government is to reform the tax administration system modernization in

the form of improving services for taxpayers through based services *e-system* such as e-registration, e-filing, *e-SPT*, and e-billing.

This is done so that taxpayers can register themselves, carry out annual tax revenue deposits, calculate and pay taxes easily and quickly online. This is consistent with *Compliance Theory*.

8. Agency Theory

Agency theory will emerge when the principal and agent have interests that are not aligned, assuming that each individual is as if motivated by his own interests and then creates a conflict of interest between the principal and agent (Jensen and Meckling, 1976). In agency theory, authority is given to agents in order to take action regarding owner ownership. This agency theory also provides a design for measuring performance and rewards given so that managers behave positively and benefit the company as a whole.

The logic of the agency theory thought used in this study, the principal as a shareholder is the people who want to know the state of the country's use of the tax organization accurately. The agent, that is, the parties who organize the tax fund. In theory agency also assumes all individuals can act in their own interests. This can lead to information asymmetry because the principal wants the tax fund that organize by the countries have been trusted with their preparation to the state government to be full of transparency and accuracy.

B. Hypothesis Development

1. Tariff and taxpayer compliance

Based on the journal of research conducted by Julianto (2017), the definition of tariffs is often interpreted as a list of prices (rent, costs etc.) so that it can be concluded that the tariff is equal to the price. Pranoto (1997) defined tariffs as follows: tariffs are also called duties or duty, a type of tax collected on goods that cross-national borders. Charges imposed on the import of goods are called import duties (import tariffs) and fees charged to exports are called export duties, while duties imposed on goods that pass through the customs area of the collecting country are called transitory fees or transit duty.

Whereas according to Hamdy (2004), tariffs are levies on import duties imposed on imported goods that enter to be used/consumed up in the country. Understanding of tariffs is also stated by Sobri (1997), which is a charge for goods that cross the customs area. Customs area is a geographical area, where goods are free to move without being subject to excise (customs duties). Tax rate means a provision in the form of a percentage (%) or amount in the currency of a country that must be paid by the tax liability owner based on tax or tax entities (Sudirman & Amirudin, 2012). An important role of the State in setting policies is determining tariffs (Soemitro, 2004).

From the opinions above, it can be concluded that tariffs are levies imposed on all goods that crossed national borders both for goods entering

and leaving. Tariff is one of the government policies in overcoming domestic trade and is one of the country's foreign exchange.

H₁: Government's tariff has a positive influence on the compliance of MSME taxpayers.

2. Socialization and taxpayer compliance

Based on the journal of research conducted by Pamuji (2014), socialization can be divided into 4 parts, namely counseling in the form of accuracy in the implementation of counseling carried out by the tax office, organizing in the form of intensity of the time of the Socialization, ways of Socialization such as exposure to the material described in accordance with the needs of the Taxpayer, and the media used in the form of the use of print and electronic media in providing socialization.

Taxation information is an effort made by the Director General of Taxation to provide knowledge to the public. Based on previous research conducted in replication journals, the effect of socialization is influential because the level of intensity of the socialization carried out by the tax office can illustrate the level of compliance of taxpayers registered at the local tax office. Taxation information is the term for taxpayers to know about all matters regarding taxation both regulations and methods of taxation through the right method (Susanto, 2012).

Increasing taxpayers' awareness and compliance is carried out with tax dissemination in various forms or ways of socialization. According to Sudrajat (2015), taxation socialization means an effort made to provide

information about taxation that aims for a person or group to understand taxation so that tax compliance will increase. If the taxpayer is given a good and correct understanding through socialization, the taxpayer will have knowledge about the importance of paying taxes. This is supported by Jannah's research (2016) that found intensive tax socialization can increase taxpayers' knowledge about all matters relating to taxation. However, socialization activities must be carried out effectively and carried out with other media that are better known to the public, because if there is no support from the government, government can't accomplish the target for tax revenue. This is in line with Lianty's research (2017) that stated that the higher or better taxation socialization conducted by tax officials, it does not affect the tax compliance of her research, because the lack of ability of tax officials to share about information and policy about taxes. It is also stated that tax socialization is the delivery of information from the directorate general of taxes in the form of new regulations to taxpayers using seminars, conveying through banners or electronic media including tax information (Simpem, 2019). Socialization process take place in total institutions, namely the place of residence and place of work. In both institutions, there are a number of individuals in the same situation, separated from the wider community within a certain period of time, together living a life that is supported, and formally arranged.

The active role of the government here is needed to make people aware of the existence of taxes through counseling or routine socialization

or in the form of intensive training, so that public awareness to pay taxes can increase or taxation policies can be used as a tool to stimulate or stimulate taxpayers to implement and/or improve awareness of paying taxes. Socialization is inseparable in an effort to increase the number of taxpayers. The existence of a conscious national and tax care movement launched by the government, where the movement involves high-ranking state officials, ministers, members of the DPR, MPR, big businessmen, the public, the media, and so on. This movement is accompanied by reforming the certainty of law enforcement. Tax related laws must be enforced. Various tax socialization continues to be carried out by the Director General of Taxes to encourage Taxpayer Compliance, one of which is the form of counseling advertisements in print and social media. Therefore, the most intensively carried out by the director general of taxation, one of which is in the tax director general's official account social media that educates the public about the importance of paying taxes.

H₂: Government socialization have a positive influence on the compliance of MSME taxpayer.

3. Control and taxpayer compliance

Based on the Journal of Research conducted by Pamuji (2014), control carried out by tax officials has a significant effect on the level of compliance of taxpayers. The more frequent the supervision carried out by the tax authorities, the higher the level of obedience possessed by the Taxpayer in fulfilling his tax obligations.

According to Presidential Decree No.74 of 2001 concerning Procedures for Control of Regional Government Operations, it states that: Control (Supervision) of regional government implementation is a process of activities aimed at ensuring that regional government running with the plan and provisions of the applicable statutory provisions.

Understanding of supervision according to Syafiie in Gundari (2013), Supervision is one of the functions in management to ensure that the implementation of work goes according to the standards set in planning. According to Handoko (2013), supervision is the discovery and application of means and equipment to ensure that the plan has been carried out in accordance with what has been determined. Examination of supervision system in the decree of the Directorate General of Taxes is a system of supervision of the implementation of tax audit activities using integrated information technology equipment.

Supervision in the tax context consists of intensification and extensification. Intensification is maximizing what already exists which means an effort to increase tax revenue without adding tax objects. While extensification is to add tax objects which means an effort to increase tax revenue by adding tax objects that does not exist before (Djuanda, 2012).

From several opinions above regarding control or supervision in taxation it can be concluded that control is an activity carried out by the Directorate General of Tax to find out whether activities related to payment and tax reporting are in the desired condition or not. Therefore, control or supervision is one of the activities in tax reporting that

emphasizes not looking for who is wrong in tax activities, but what is wrong and how to justify it. control function more or less implies the taxpayer's compliance in implementing the applicable tax provisions. The implementation of control or supervisory has functions, among others in the form of examination, collection and tax justice.

H₃: Control have a positive influence on the compliance of MSME taxpayer.

4. Understanding of Taxation

Based on the journal of research conducted by Pamuji (2014), the research showed that taxation understanding has a significant influence on the compliance of taxpayers MSME and the higher the level of taxation understanding, the higher the level of compliance possessed by taxpayers in fulfilling tax obligations. Knowledge of taxation is the ability of a taxpayer to know the tax regulations whether it is a tax rate based on the law to be paid, as well as tax benefits that will be useful for their live (Utomo, 2011). With the knowledge of taxation, it will help tax compliance in paying taxes so that the level of compliance will increase. Taxpayers who are knowledgeable about taxes, will consciously obey paying taxes. According to Fallan (1999) as cited again in Rahayu (2010), giving a study of the importance of aspects of tax knowledge for taxpayers greatly influences the attitude of taxpayers to fair taxation systems. Hardiningsih (2008) stated that increasing knowledge of both formal and non-taxation will have a positive impact on taxpayer awareness in paying

taxes. With the quality of knowledge, the better it will give an attitude of fulfilling obligations properly through the existence of a taxation system of a country, the higher that is considered fair. With the increasing knowledge of public taxation through both formal and non-formal tax education, it will have a positive impact on the understanding of taxpayers in paying taxes. With intensive and continuous tax counseling, it will improve the understanding of Taxpayers about paying taxes as a form of national mutual cooperation in raising funds for government financing and development purposes.

Knowledge of tax can be seen from knowledge regarding how to carry out tax obligations, who is charged, what is imposed, how much, and how to calculate it (Supramono & Damayanti, 2010). There is another definition of knowledge of tax that states knowledge of tax is the ability from taxpayers to know the tax regulations whether it is a tax rate that they will pay based on the law or the benefits of taxes, and will be useful for their lives (Mardiasmo, 2009).

There are individuals who always cheat and those who always comply, some who behave as if they maximize the expected utility of the tax evasion gamble, others who seem to overweight low probabilities, individuals who respond in different ways to changes in their tax burden, some who are at times cooperative and at other times free-riders, and many who seem to be guided by such things as social norms, moral sentiments, and equity. On “awareness”, taxpayers vary considerably in

their knowledge of tax requirements, their capacity to learn about their responsibilities, their perceptions of the consequences of not meeting those responsibilities, and their awareness of any services to assist them with their taxes (Alm, J. 2019).

Based on from opinion above, it can be concluded that taxation understanding is a process by which taxpayers understand and know about the rules and regulations, and the procedure for taxation and applying it to do the tax activities such as, paying taxes, reporting annual tax return and so. If someone has understood about taxation understanding there will be an increase in Taxpayer Compliance.

H₄: Taxation Understanding has a positive influence on the compliance of MSME taxpayer.

C. Research Model

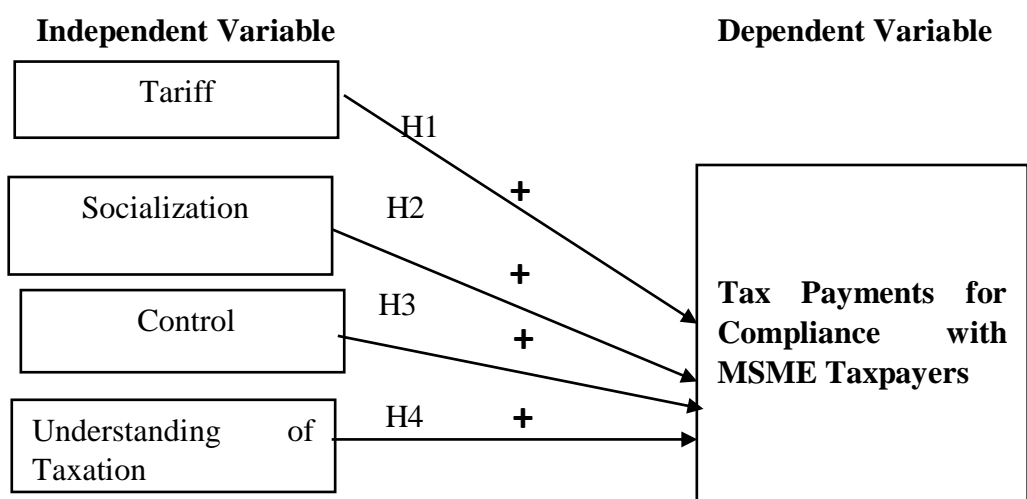


Figure 2. 1 Research Model