

## Tax Payer Perception of Taxation and Tax Rules and the Impact toward Tax Compliance with Tax Management as Intervening Variable: A Research of Medium Size Enterprises (MSE)

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**Abstract:** Realization of government spending which raised over last couple years, has encouraged the Government to find more revenue sources especially from taxation. Financial report of the National Government (LKPP) indicates significant increases in tax income from 73% (2012) to be 80% (2019). This phenomenon is interesting to note because involving role and contribution of business community/tax payer which is classified into four groups namely microbusiness, small size businesses, medium size and big one. Several sources indicate that contribution of tax revenue from medium size enterprise (MSE) is relatively the lowest among the business groups as well as in terms of the number of MSE tax payers. The research of analyzing the problem of tax compliance of MSE is still very minimal and limited. This raises the question of why such situation occur, how the impact of MSE tax payer's perception of related tax rules towards MSE compliance. The research which uses PLS-SEM concludes the perception of MSE of corporate income tax rules can affect tax management. While perception of MSE of VAT tax rules can influence respectively tax management and tax compliance. Likewise, perception of MSE tax payer of local government tax rules can give impact towards tax compliance. However, tax management as intervening variable cannot assist respectively perception of MSE of taxation and various tax rules to affect tax compliance.

**Keywords:** Perceptions, Medium Size Enterprise (MSE), Income Tax, Tax Management, Compliance

### 1. INTRODUCTION

Government effort to boost more revenue sources from taxation gets serious over last couple years. This is following the facts that it needs more significant amount of fund to finance government programs across the sectoral various project. The realization of total national government budget had been increasing from Rp. 1,491 trillion (2012) to become Rp. 2,309 trillion in 2019, or grew by around 8% per year (LKPP, Laporan Keuangan Pemerintah Pusat, Central Government Financial Report, 2019). The audited report shows that the majority of government spending has been supported by tax revenue of Rp. 1,546 trillion or 67% of the total budget. Looking at more detail from the revenue side in 2012 tax revenue still reached up to the level of Rp. 980 trillion or 73% of the total government revenue of Rp. 1,338 trillion, while in 2019 raised to become Rp. 1,546 trillion or around 80% of the total Rp. 1,961 trillion.

The above phenomenon on one side indicates the fact of the government success and good performance in mobilizing the income sources from taxation, while on the other side has created challenge to the people and tax payers to be more aware of the taxation issues. Perception of the people toward taxation needs to be encouraged to shift positively that it would bring in benefit for the prosperity of the nation. It demands tax payers to be more serious and deeply learn the tax rules and regulations. These hopefully influence the tax payers to be more complied with the obligation to report the tax return punctually and to carry out the tax payment correctly and accurately according to the prevailing tax rules. Darussalam et.al. (2018) found out that in 2016 out of the 131 million labor force only 38 million or 29% are registered as tax payers, and out of them only about 18 million submitted the taxreturn, commonly known as SPT. However, the tax authority revealed that there had been an increase in tax compliance rate from 56.2% in 2013 to become 72.5% in 2019 (Laporan Kinerja Direktorat Jenderal Pajak – Performance Report by Tax Office, 2016 and 2019). In fact, this achievement was most likely attributed

to the implementation of tax amnesty program by the government in 2016 and 2017, and more representing formality compliance rather than materially compliance which concerns with accuracy and correctness of the tax paid amount. This interesting phenomenon has come to the notice of the researcher concerning the potential revenue income which may have led disadvantages to the government revenue for the welfare of the people. Significant attention has been paid to the potential tax revenue sources derives from the micro, small and medium size enterprises, locally known as UMKM (*usaha mikro, kecil dan menengah*) particularly the latter group of businesses. From the literature and data show that research on the compliance issue of this medium size enterprises (MSE) of business is very limited and not available yet to obtain, moreover, where the tax management is designed to be as variable intervening in the research model. By law businesses with annual sales between Rp. 2.5 billion up to Rp. 50 billion (US\$ 175,000 – US\$ 3,500,000) or with net assets range from Rp. 500 million to Rp. 10 billion are classified into this medium size enterprises (Undang-undang Usaha Mikro, Kecil dan Menengah, 2008 -Indonesia Micro, Small and Medium Size Law).

Looking at the data of the Ministry of Cooperative and Small Medium Size Enterprises Report (Kementerian Koperasi dan UKM, 2015; 2016; 2017) gross domestic product (GDP) of MSE which could indicate the maximum income of medium size group of businesses, the potential of tax income counted with the final tax tariff of 1% of GDP, over the period of 2015 - 2017 had actually tended to grow up from Rp. 14 trillion to be Rp. 17.6 trillion. However, the real tax revenue from medium size enterprises during those years was in fact only stagnant at around Rp. 1.5 to 1.6 trillion per year and even the ratio toward potential of tax income tended to decrease from 10.7% in 2015; to be 9.1% in 2017. The potential tax revenue is using the income tax tariff of 1% of total annual revenue applicable to micro, small and medium size enterprises (Peraturan Pemerintah, number 46/ 2013 - Government Decree).

Meanwhile, the data shows that the potential of tax income (1% of GDP) of UMKM (micro, small and medium size enterprises) reached to the level of Rp. 62.3 trillion in 2015 with real revenue was at the amount of Rp. 3.5 trillion or around 5.6%. This real revenue amount tended to increase to Rp. 4.3 trillion in 2016 (6.1%) and Rp. 5.8 trillion in 2017 (7.4%).

Further, the data of the Ministry of Cooperative and UMKM (2018) and Tax Office year 2018 reveal that the number of unit medium size enterprises (MSE) was only around 58,627 units and only 43,281 were registered as tax payers. While the number of micro, small and medium size enterprises reached to the tune of 62.92 million units and totally registered tax payers is about 1.5 million.

In fact, these figures give the indication that great number of UMKM tax payers may prefer to register under the status of micro and small-scale enterprises which could enjoy smaller income tax tariff of 1% and even recently since 2018 reduced to be 0.5% (Peraturan Pemerintah, number 23/ 2018 - Government Decree) rather than as medium size enterprises with relatively more complex tax calculation with high tariff of 25%.

## **2. LITERATURE REVIEW**

### **2.1. Compliance Theory**

The development of compliance theory links to the organization carried out by Etzioni (1964), is oriented toward its performance, organization objective and to ensure the enforcement of the compliance supported by power structure of the organization. In the event when organization members do not commit to the compliance issues, the power structure become play important role to be enforced. Further Etzioni (1964) cited in Dieder, N.R (2009) and Lunenburg, F.C. (2012) that there are 3 (three) important elements for compliance to be respected in organization namely coercive, calculative and normative. In the context of taxation, the good and proper tax management would minimize the tax payable amount while still keeps in compliance with the prevailing tax rules enforced by the government (calculative element).

Further Etienne, J., (2010) defines compliance as the behavior of how people whether should act or not under certain circumstances. It is complex behavior mechanism of somebody with a lot of uneasy reasons and factors to explain. Regular habit and attitude would lead to the spontaneous compliance, while planned compliance behavior commonly occur due to the certain objective in fulfilling the obligation or

sanction that may be imposed by authority. The latter type of compliance behavior seems to be more relevant than the former one to the taxation issues as the mandatory of citizens to comply otherwise sanction or punishment would apply. Tax compliance behavior model (Langham, et. all, 2012) which refers to the theory of planned behavior (Ajzen, 1991) defines those 2 (two) factors namely, intention to do tax report correctly and simple effectiveness administration report, would lead tax payers' attitude to undertake the tax report properly and settle the tax payable amount accurately. With reference to the compliance theory developed by Etzioni (1964) in the context of taxation, power structure in the form of coercive toward tax payers with the enforcement of sanction or penalty and in the form of calculating benefit return through tax management, these enable tax payers to minimize tax payable amount and would hopefully bring into compliance behavior of the tax payers.

## **2.2. Perception**

In principle perception constitutes cognitive process of people to understand and interpret information occur in their surrounding using through their five senses such as hearing, sight vision and feeling (Daito, A. 2018). Further David Hume (1711-1776) in the Daito, A. (2018) cited that perception also contains the sense of impression and idea. Lindsay and Norman (1977) in Pickens, J. (2005) stated that perception is closely related to the attitude of human beings which have tendency to act with particular way in response to their mind or matters that they experience. Hence perception is the individual process of people to interpret and organize their sensation which in turn produces meaningful experience (Pickens, J. 2005). Because of these then it makes sense that Oberholzer, R. and Stack, E.M. (2014) conclude inaccurate information received by the public concerning the usage and allocation of tax revenue would create negative perception about taxation and the function of tax as the primary source of government income. Widespread news and information in the society on the issue of improper utilization of public fund and unproductive investment of government spending would mislead the public in understanding the benefit of taxation program enforced by the government.

Perception of medium size tax payers on tax rules is also analyzed in this research. Several tax regulations classified as central and local government taxes are applied and imposed to medium size enterprises (MSE), such as central taxations of corporate income tax article 17 and 31E; income tax final tariff article 4 point 2; government regulation (PP) of income tax final tariff number 46/2013 and 23/2018; value added tax; as well as some local government taxations of advertisement tax; restaurant tax; hotel tax; entertainment tax; property tax and vehicle tax. The perception of these various types of taxes are going to be tested and examined their influence toward the compliance of tax payers. Analysis is also carried out on how the MSE perception on these tax rules effect the compliance by using tax management as the intervening variable. The intervening variable that theoretically according to Sugiyono (2015) has an effect on the indirect relationship between independent and dependent variables and cannot be measured and seen.

## **2.3. Tax Management**

Tax payers use tax management to minimize the tax payable amount which has to be paid to the tax office or central and local governments with remain keep complying to the prevailing tax laws and rules and without bring in any disadvantages to the government revenue sources (Ikatan Akuntan Indonesia, 2015). Further Mariusz Nyk (2016) stated that by optimizing the tax payment obligation, the business enterprises would gain good financial performance and raise the corporate assets. Company efforts to optimize the tax amount motivate the micro size entities to opt which types of taxes would bring in more benefit and advantage to the corporation. It is relevant to discuss and learn about tax management considering to the fact that many tax payers regard tax liability is burden or expense of the businessman or private sectors to the government which lead to the reduction in the purchasing power (Santoso, I. and Rahayu, N., 2019). Tax compliance behavior model by Langham, et. all, (2012) that based on behavior theory by Ajzen (1991), stated that the intention of tax payers to perform proper tax reporting and effective administration reporting would affect their attitude to do good tax compliance and correct tax payment. These factors constitute part of well tax management process. Under proper and effective tax management the tax payers could keep paying the minimum tax amount in the event of tax audit by the authority. Likewise efficient tax management effort would potentially create efficient fund utilization and do not lead to the financial burden in the future, and even cause to punctual payment compliance. Consequently, these would not reduce the purchasing power of corporation and encourage tax payers to perform voluntary compliance (Santoso, I. and Rahayu, N., 2019).

Ikatan Akuntan Indonesia (2015) and Santoso, I. and Rahayu, N., (2019) described that there are 4 (four) elements, or as indicator formatives, to form tax management which consist of tax planning; tax organizing; tax implementation and tax control/audit. Tax planning constitutes the first step and most critical part of the whole process of tax management. Tax planning strategy according to Kieso, D.E. et.al. (2014) is a corporate action that meets particular criteria in which the enterprises carry out to realize tax benefit for an operating loss or tax carry forward prior to it expires. Enterprises commonly consider to do tax planning strategy when assessing whether to recognize deferred tax asset. In order to generate tax saving several concepts are included in the tax planning process such as utilization of tax exemptions; lowering tax tariff; maximizing tax deductible expenses so that minimizing taxable income; accelerating company expenses; and restructuring company transactions which are not liable to tax. Furthermore, as stated by Ikatan Akuntan Indonesia (2015) other than the above concepts tax payers could do deferred tax liability (DTL) which is basically included in the tax planning activity.

### **3. RESEARCH METHODOLOGY**

With reference to the previous theories and studies, the tax payer's perception of taxation and tax rules which is the belief through cognitive process owned by medium size tax payers is then determined as the independent or exogen variable of this research. They would then be analyzed and tested their impact toward compliance behavior of the MSE. Tax management is defined as the intervening variable to influence the perception toward the tax compliance behavior. This research is carried out on empirical testing of model building developed with reference to those previous research, theories and studies. It is a causal relationship analysis which then is expected to analyze specifically the tax compliance behavior of medium size tax payers (MSE) which up to now the study is still very limited and even not available in the literature list.

#### **3.1. Sample and Data Collection**

The data used in this research is primary data collected from medium size enterprises (MSE) located in Jakarta and Depok districts of Indonesia. The total number of 50 (fifty) MSE were physically visited or contacted to ensure that those tax payers' businesses are exist and available as well as willing to fill in the questionnaires. The determination of respondents as the samples is on the basis of those medium size tax payers with annual sales between Rp. (Rupiah) 2.5 billion up to Rp. 50 billion (around US\$ 175,000 – US\$ 3,500,000) or with net assets range from Rp. 500 million to Rp. 10 billion as stipulated in the Indonesia Micro, Small and Medium Size Law No. 20/2008 (Undang-undang Usaha Mikro, Kecil dan Menengah 20/2008). The samples selected from the population are regarded as proper representatives of medium size enterprises engaged in various types of businesses background in those 2 (two) regions. The research uses sampling design type of purposes sampling which specifically is judgement sampling type. Sekaran, U., and Bougie, R., (2009) define that judgement sampling involves the selection of subjects who are in the best position to provide information needed. It then is utilized when the classification or number of people which have the information required is limited. The samples could be expected to have expertise and knowledge through the experience that might be able to provide information and good data to the researcher.

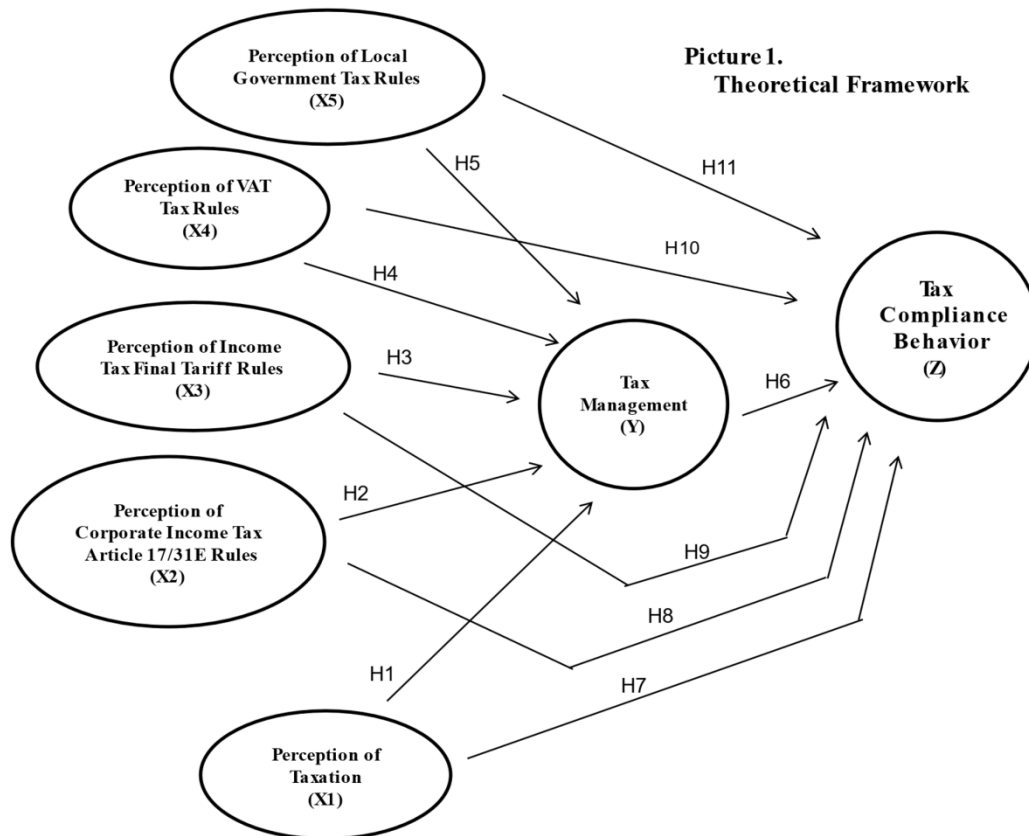
In determining the sample size of 50 (fifty) respondents, uses the method of Cochran (1977) which is presented by Sarmah, H.K. and Hazarika, B.B. (2012) in order to fulfill the minimum criteria number of samples required. For finite number of populations, the formula to count the sample involves precision level; confidence level and total number of medium size enterprise as the targeted total population. Further, Ghazali, I., (2015) cited in the event of such restricted and limited number of sample Smart SEM-PLS is regarded the most suitable statistical or analytical technique to be used in research. Also, Wijaya, A. (2019) reveals that research of using such structural equation model-partial least square fit in with the situation where the samples available are limited and able to represent the population as long as they are relevant to the research problem.

As mentioned earlier that this research uses the primary data and collected directly from the MSE respondents through the mechanism of filling in the distributed questionnaires. In order to measure the perception of the MSE respondents, it is used Likert Scale which is designed to examine how strongly the respondents agree or disagree with the statements on a four-point scale. Apart from the questionnaires which are distributed to the respondents, interviews with 5 (five) appointed resource persons were also carried out involving tax consultants, lecturer in taxation and government officers of the Indonesian tax office.

The researcher developed the following research model on the basis of identified research problem, previous studies and theoretical development that indicates the relationship between exogen variables, endogen variable as well as intervening variables that that has been explained earlier.

**3.2. Research Framework**

With reference to the research problem and phenomena that have been identified earlier and having examined several different kinds of variables and how the relationships among these variables can be established, researcher then developed the theoretical framework for the research. It describes the theory underlying the relationship between independent or exogen variables of perception on taxation and perception of various tax rules imposed on medium size enterprises (MSE), and dependent or endogen variable of tax compliance behavior which tax management is as intervening variable.



From the theory on which conceptual model is based and the relationship among the variables stated above, the following 16 (sixteen) hypotheses are developed. By testing these hypotheses and verifying as well as analyzing the relationships, it is hoped that solution and recommendations would be found to encounter and deal with the identified problems above.

H1: Perception of medium size tax payers (MSE) of taxation affects the tax management of the MSE

H2: Perception of medium size tax payers of corporate income tax rules with the general tax tariff of (PPh) article 17 and 31E affect tax management of MSE tax payers

H3: Perception of medium size tax payers of income tax final tariff rules affect MSE tax management

H4: Perception of medium size tax payers of VAT tax rules affect tax management of MSE tax payers

H5: Perception of medium size tax payers of local government tax rules affect MSE tax management

H6: Tax management of medium size enterprise (MSE) affect tax compliance behavior

H7: Perception of medium size tax payers (MSE) of taxation affects tax compliance behavior of MSE

H8: Perception of medium size tax payers of corporate income tax rules with the general tax tariff of (PPh) article 17 and 31E affect tax compliance behavior

H9: Perception of medium size tax payers of income tax final tariff rules affect MSE tax compliance

H10: Perception of medium size tax payers of VAT tax rules affect tax compliance behavior

H11: Perception of medium size tax payers of local government tax rules affects compliance behavior,

H12: Perception of medium size tax payers of taxation affects the compliance behavior, which tax management is as intervening variable

H13: Perception of medium size tax payers of corporate income tax rules (PPh) article 17 and 31E affects the compliance behavior, which tax management is as intervening variable

H14: Perception of medium size tax payers of income tax rules with final tax tariff affects the compliance behavior, which tax management is as intervening variable

H15: Perception of medium size tax payers of value added tax rules (VAT) affects the compliance behavior, which tax management is as intervening variable

H16: Perception of medium size tax payers of local government tax rules affects the compliance behavior, which tax management is as intervening variable

#### **4. ANALYSIS AND DISCUSSION**

##### **4.1. Descriptive Statistics**

The following Table 1 shows the descriptive statistics of our set data; the perception of medium size tax payers (MSE) of taxation is at the level of 3.25 with majority respondents agree and very agree with taxation. Likewise, the perception of medium size tax payers mostly agrees and very agree of tax rules imposed on them including rules of corporate income tax with general tariff of article 17 & 31E, income tax with final tariff, Value Added Tax and local governments tax.

**Table1.** Descriptive Statistic

<b>Variable</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>% Very Disagree</b>	<b>% Disagree</b>	<b>% Agree</b>	<b>% Very Agree</b>
Tax Payers' Perception of of taxation	1	4	3.25	0.70	1%	11%	49%	39%
Tax Payers Perception of corporate income tax with general tariff 17/31E rules	1	4	3.07	0.64	0%	16%	59%	24%
Tax Payers Perception of income tax final tariff rules	1	4	3.10	0.67	1%	16%	56%	27%
Tax Payers Perception of VAT tax rules	1	4	3.14	0.63	0%	12%	60%	28%
Tax Payers Perception of Local Government Tax rules	2	4	3.33	0.58	0%	6%	56%	39%
Tax Management	1	4	3.17	0.64	0%	13%	57%	30%
Tax Compliance	1	4	3.24	0.63	1%	9%	56%	35%

##### **4.2. Results Analysis**

Statistical method of PLS-SEM does not require particular assumptions of distribution to estimate parametric, so that the method carries out the model evaluation on the basis of prediction orientation of non-parametric with 2 (two) assessment ways of outer model and inner model.

*4.2.1. Validity Testing Measurement Model and Reliability Testing Model (Outer Model) and Validity Testing with AVE Parameter*

According to Hair, J.F. et. all. (2017) connections of latent variables with its reflective indicators are classified valid if having value of loading factor(LF) of more than 0.5 and value of t-count significant or over 1.645. Under validity convergent testing with parameter LF and t-count, if it is found any latent variables own reflective indicators less than those values must be then eliminated from the research model. Based on the validity convergent testing, this research found 5 (five) exogen variables connection with 8 (eight) reflective indicators are invalid and were eliminated from this research model.

Meanwhile for the latent variables which are formed by formative indicators, they must be having value of t-count over 1.645 otherwise are eliminated from the research model (Ghozali, I and Latan, H. 2015). In this research PLS-SEM testing found that 3 (three) latent variables were formed by 4 (four) formative indicators with t-count value less than 1.645, so that were eliminated from the research model.

From the reliability testing model, the research shows that all composite reliability values indicate higher than 0.7, so that can be concluded that all indicators used are having good reliability and able to measure the related latent variables. Further it can be confirmed that theresult of thoroughly evaluation model fit in with the data, so that the result of the research is regarded to be valid and reliable.

Under validity convergent testing with AVE parameter or average variant extracted, Ghozali, I and Latan, H. (2015) stated that for the type of explanatory research and confirmatory research, the value of AVE is acceptable if higher than 0.5, so that confirming that all indicators of the variables indicate valid to measure the latent variables. From the PLS-SEM testing, it is found that all indicators of latent variables indicate value of AVE over 0.5 and fulfill the requirements. However, only 1 (one) latent variable shows AVE value 0.447, yet with composite reliability value over 0.701, so that is still at acceptable level. This refers to Huang, C.C. (2013) explained that if variable with AVE value less than 0.5 but still over 0.4, are still regarded valid provided that having composite reliability over 0.6

*4.2.2. Evaluation of Structural Model (Inner Model)*

The statistical and analytical technique of PLS-SEM also evaluates structural model by looking at the result of R-square value of the endogen latent variables namely tax management and tax compliance behavior. From the testing, the R-square data of tax management is at 0.69 meaning that the variable diversity of tax management variable can be explained by all exogen variables of X1; X2; X3; X4 and X5 to the 69%, while the remaining portion of 31% can be explained by other variables outside the model.

Meanwhile the R-square value of endogen variable of tax compliance behavior is at the level of 0.665. This indicates to the fact that the diversity of compliance variable can be explained 66.5% by the exogen variables of X1; X2; X3; X4; and X5, while the rest portion of 33.5% is explained by variables outside the model.

*4.2.3. Hypothesis Testing and Analysis*

The implementation of PLS-SEM testing of the hypothesis gives the following results as presented in Table 2. Among 16 (sixteen) hypotheses that have been developed there are 4 (four) hypotheses significantly having an effect on or giving influence. Those hypotheses are:

H2: Perception of medium size tax payers of corporate income tax rules with the general tax tariff of (PPh) article 17 and 31E affect tax management of MSE tax payers

H4: Perception of medium size tax payers of VAT tax rules affect tax management of MSE tax payers

H10: Perception of medium size tax payers of VAT tax rules affect tax compliance behavior

H11: Perception of medium size tax payers of local government tax rules affects compliance behavior

**Tabel2. Testing Result of Hypotheses**

Causal Relationship	PathCoefficient	T- count	Conclusion Result
(H1) X1 → Y	0.005	0.060	Not Significant
(H2) X2 → Y	0.155	2.316	Significant
(H3) X3 → Y	0.051	0.576	Not Significant
(H4) X4 → Y	0.680	8.150	Significant

(H5) X5 → Y	0.027	0.234	Not Significant
(H7) X1 → Z	-0.069	0.426	Not Significant
(H8) X2 → Z	0.031	0.249	Not Significant
(H9) X3 → Z	0.022	1.384	Not Significant
(H10) X4 → Z	0.554	4.208	Significant
(H11) X5 → Z	0.525	13.880	Significant
(H6) Y → Z	-0.197	1.403	Not Significant
(H12) X1 → Y → Z	-0.001	0.049	Not Significant
(H13) X2 → Y → Z	-0.031	1.126	Not Significant
(H14) X3 → Y → Z	-0.010	0.445	Not Significant
(H15) X4 → Y → Z	-0.134	1.373	Not Significant
(H16) X5 → Y → Z	-0.005	0.189	Not Significant

**Note:** if T-count higher than  $> 1.645$ , the causal relationship is classified as significant and if less than and equal to  $\leq 1.645$  not significant.

As it can be seen from the above Table 2 (data processed), the causal relationships are concluded significant if the T-count value more than 1.645, meaning that the exogen latent variables having effect on the endogen or dependent variable. If less than and equal to 1.645 then the causal relationship between variables is classified as insignificant (Ghozali, I and Latan, H., 2015).

**Perception of Corporate Income Tax Rules Articles 17/31E and Tax Management**

As cited earlier that based on the PLS-SEM testing the perception of medium size enterprise (MSE) of corporate income tax rules with the general tax tariff (PPH) article 17 and 31E applied to MSE, have an effect on tax management of tax payers. This finding explains that the tax payers have positive perception of corporate income tax rules article 17 and 31E which are relatively complex and involving uneasy calculations, so that requires tax payers to make efforts to minimize their tax payments obligation. Even though the rules give a discount tax tariff of 50% for the first gross income amounting to Rp. 4.8 billion (around US\$ 330,000), this may have led MSE to study carefully the related rules. It involves fiscal reconciliation process of the corporate commercial financial report as well as the administration matters in order to prepare the corporate fiscal report for the tax office. Because of these, the research discloses that the requirement of tax consultants for assisting the tax payers is very important and essential.

The role of tax consultants or tax experts to minimize the tax amount to be paid and fulfill the tax report administration is very needed in this regard. There is great effort to do tax management by the medium size tax payers (MSE) particularly in the event that the business activities get slowed down or facing some cash flow troubles. However, there are potential of tax avoidance utilizing or to make use of self-assessment tax method stipulated by the rules as well as taxloophole or ambiguity in the law and rules. Great temptation of MSE to take the opportunity of very low-income group between Rp. 2.5 billion to Rp. 4.8 billion with cheap tax final tariff of 1%, which then reduced to be 0.5% in 2018 imposed on micro, small and part of medium business enterprises (UMKM), seems potentially occur in this situation. This may could answer the phenomena raised earlier where huge number of UMKM or micro, small medium size enterprises are more desirable classified in the category of micro and small businesses with low final tariff of 0.5% rather than medium size enterprises. In line with the finding of Bobek and Hatfield (2008) that tax payers seem to have preference to disobey the rules rather than shouldering tax penalty as consequences. This mainly occur where the tax law enforcement has not yet been strictly implemented.

**Perception of VAT Tax Rules and Tax Management**

The second significant finding (Hypothesis-4) reveals that medium size tax payer’s perception of value added tax rules has influence towards tax management. The research survey indicates that almost all respondents have good perception of this particular type of tax, especially for those MSE that have annual gross sales or revenue beyond Rp. 4.8 billion (about US\$ 330,000) and shall have to issue tax sales-invoice as VAT-output evidence. Such MSE is then categorized as VAT taxable enterprises, locally known as PKP. The tax payers including the medium size enterprises seemingly realize the advantage of doing tax management as they could enjoy several benefits of tax saving by allowing to credit the VAT-input which is charged when buying goods against VAT-output (Ikatan Akuntan Indonesia, 2015). Also, being a PKP or VAT taxable enterprises, the medium size enterprises are permitted to join and involve in



the various big government projects and procurements as well as state own companies and well-known private corporation projects. However, this tax management efforts of VAT shall require a lot of relatively complex administration works and must be supported by dedicated staff to deal with VAT monthly reporting, tax invoice issuance and payment settlement. The latter may need comprehensive review including the high 10% VAT tariff by the government in order to encourage more MSE willing to register as PKP or VAT taxable enterprises. Being a PKP would enable the government particularly the tax office to gain better data-base of taxation and empowering them to monitor the progress of tax payers activities in line with development of the business scale and see their potential tax capacity in future.

### **Perception of VAT Tax Rules and Compliance Behavior**

The PLS-SEM testing also conclude that medium size tax payer's perception of VAT tax rules has an effect the tax compliance behavior of tax payers. This finding basically supports the previous explanation that medium size tax payers would gain some benefit of this VAT transactions. By being a complied tax payer with the tax rules and fulfill the tax administration requirements, the MSE have great opportunities to join not only central government but also local governments as well as state-owned companies such as procurement of uniforms and many other products and services of the state-owned electricity enterprise, medical laboratory & others. Further the VAT tax rules also impose significant amount of penalty for those tax payers who do the violation, and relatively easier to be identified and found out by the tax office accordingly. The introduction and implementation of electronic tax invoice application system or locally known as *e-faktur* since the last 5 (five) years has led to the improvement and better arrangement of VAT administration process. Also, as a matter-of-fact detection toward those tax payers who violate the VAT rule is getting easier, so that bring tendency to do better compliance behavior.

Further the issuance of deputy head of tax office rules number 15/PJ/2018 (2018) that stipulates the regulation on tax refund or tax restitution has led to better benefit to the tax payers and encourage the compliance behavior. To those tax payers with particular criteria or low risk category of VAT taxable enterprises (PKP) shall enjoy quicker tax administrative process of tax refund, so that would minimize the financial burden and the tight cash-flow of their business. This occurs to tax payers who have VAT-input much bigger than VAT-output, so that have the right to claim back their VAT overpayment to the tax office. Under the prevailing tax rules when government purchase items or services from their vendors including MSE, the government treasury shall act as fund collector of VAT-output, so that lead to the VAT overpayment of the vendors.

### **Perception of Local Government Taxes Rules and Compliance**

The testing result also concluded that the medium size tax payer's perception of local government tax rules influences the tax compliance behavior. Majority of the tax payers or respondents revealed that they agree and understand the existence of various types local government taxes in accordance with their line of businesses and the need of tax for financing government spendings, such as taxes of restaurant, tax of hotel, tax of advertisement, tax entertainment, tax of street light, tax of property or land and building tax, tax of vehicle, tax of parking and tax of ground water. Moreover, it is admitted by MSE that those taxes are relatively more simple calculation and easier to be monitored their compliance by local government tax officer due to the closer distance with the business premises, but off course create company financial burden. It is suggested that better improvement in the implementation of tax collection system is strongly required as well as in the aspect of integrity, fairness and transparency. Online collection system is urgently needed so that would create time and cost efficiency in many aspects as well as minimize direct physical contact between parties involved. More transparent in the utilization of collected tax fund and disclosure of the tax benefit to the public, would hopefully raise the voluntary tax compliance level.

### **Results of PLS-SEM Testing Which Have Insignificant Affect**

As mentioned earlier perceptions of medium size tax payers of taxation; corporate income tax rules articles 17/31E; income tax final tariff rules; and local government tax rules respectively does not have an effect significantly toward tax management. Likewise, the effect of those respective exogenous variables towards compliance behavior (the endogenous variable) is insignificant. Also, tax management as intervening variable cannot assist respectively perception of MSE of taxation; corporate income tax rules; income tax final tariff rules; VAT tax rules and local government tax rules to affect tax compliance behavior. These all due to the fact that the PLS-SEM testing finds out that the causal relationship between them is less than t-count 1.645.

Corporate income tax article 17 and 31E rules as stated earlier are relatively complicated and also imposing higher tax tariff of 25%, then reduced to 22% in 2020. Furthermore, the requirement of MSE to prepare fiscal booking-report which involves the fiscal reconciliation and fiscal corrections process, need particular efforts by the medium size tax payers to comply the rules. However, the assistance and role of tax consultants in this regard is very important in order to solely fulfill the formality compliance, rather than materially compliance which is related to the correctness and accuracy of the tax payable amount to be paid by medium size enterprise. Langham, J.A., Hartel, C. and Paulsen, N.,(2012) cited that simple taxation system would realize voluntary tax compliance behavior of tax payers. Similarly, research by Hanefah, H.M.M. (1996) stated that government should do every effort to improve perception of tax payer related to problems like complexity and tax tariff if they wish to enhance the level of voluntary tax compliance. Tax payers' perception of taxation should have to be encouraged and boosted through the intensive socialization process about the important role and benefit of taxation for the prosperity of the nations.

## **5. CONCLUSION AND SUGGESTIONS**

### **5.1. Conclusion**

On the basis of the result of PLS-SEM testing the conclusion of the research is as follows:

1. Perception of medium size tax payers of corporate income tax rules with the general tax tariff of (PPh) article 17 and 31E has impact on the tax management of MSE tax payers
2. Perception of medium size tax payers of VAT tax rules has effect tax management of MSE
3. Perception of medium size tax payers of VAT tax rules affect tax compliance behavior
4. Perception of medium size tax payers of local government tax rules have influence on compliance Behavior. However, the testing on the following hypotheses results insignificant effect:
  - 1: Perception of medium size tax payers (MSE) of taxation does not affect the tax management of MSE
  - 2: Perception of medium size tax payers of income tax final tariff rules does not affect tax management
  - 3: Perception of medium size tax payers of local government tax rules does not affect tax management
  - 4: Tax management of medium size enterprise (MSE) does not affect tax compliance behavior
  - 5: Perception of medium size tax payers (MSE) of taxation does not affect tax compliance behavior
  - 6: Perception of medium size tax payers of corporate income tax rules with the general tax tariff of (PPh) article 17 and 31E does not affect tax compliance behavior
  - 7: Perception of medium size tax payers of income tax final tariff rules does not affect tax compliance
  - 8: Perception of medium size tax payers of taxation does not affect the compliance behavior, which tax management is as intervening variable
  - 9: Perception of medium size tax payers of corporate income tax rules (PPh) article 17 and 31E does not affect the compliance behavior, which tax management is as intervening variable
  - 10: Perception of medium size tax payers of income tax rules with final tax tariff does not affect compliance behavior, which tax management is as intervening variable
  - 11: Perception of medium size tax payers of value added tax rules (VAT) does not affect the compliance behavior, which tax management is as intervening variable
  - 12: Perception of medium size tax payers of local government tax rules does not affect the compliance behavior, which tax management is as intervening variable

### **5.2. Suggestions**

With reference to fact that previous researches and literatures of taxation in the area medium size enterprises (MSE) in Indonesia is still very limited and not available, so that the researcher give the following advice:

1. As several scholars say that small and medium size enterprises are actually classified as hard to tax group, this situation should motivate the government to carry out more efforts to encourage people to be good tax payers. Positive perception of taxation that the money shall be used by the government for real prosperity of the people, should be established and seriously pursued. Also, as cited by Hanefah, H.M.M., (1996), in order to create positive perception of tax payers toward voluntary compliance behavior, several matters related to complexities of tax administration and

high tax tariff, should have to be reviewed and improved. Relatively high tax tariff of VAT 10% for MSE may should be lowered in order to encourage more tax payers to register as VAT taxable enterprises (PKP) which in turn would enable the government to have better data-base of taxation and gain potential tax revenue in the long run. Furthermore, tax rules and tax law enforcement shall have to be consistently upheld by tax office to those people including medium size tax payers who commit tax evasion, which could reduce the potential of government income.

2. By having the above research findings and judging from fact of the current MSE phenomena, it is expected that more study of taxation specifically in the area of medium size enterprises tax payers shall be conducted by the scholars in future to see the problems from different perspective and different regions, so that the tax contribution as well as the number of MSE tax payers would increase significantly bigger than the current level.
3. Socialization for tax awareness of MSE by the tax officers along with tax volunteers such lecturers and students of the universities as well as tax experts' community, should be consistently pursued and conducted in order to encourage positive perception of the people to comply with taxation.

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