

UDC 332

THE EFFECT OF TAX SANCTIONS, SERVICE QUALITY, AND WILLINGNESS TO PAY TAXES ON INDIVIDUAL TAXPAYER COMPLIANCE IN MALANG CITY, INDONESIA

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ABSTRACT

This research aimed to analyze the effect of tax sanctions, service quality, and willingness to pay taxes on the compliance of individual taxpayers in Malang City. The researchers used primary data collected by distributing questionnaires to the research objects, namely individual taxpayers (employees) in Malang City in 2015-2019. Samples were selected using a purposive sampling technique, consisting of 150 employee taxpayers in Malang City. The data were then analyzed using path analysis (SPSS) with a significance level of 0.05. The analysis results indicated that tax sanctions did not affect taxpayer compliance, service quality affected taxpayer compliance, and willingness to pay taxes affected taxpayer compliance.

KEY WORDS

Taxpayer compliance, tax sanction, service quality, willingness to pay taxes.

The largest financing source in developing a country comes from tax revenues. Taxes primarily function as the largest source of tax revenue to finance government expenditures (budgetary function). The government intensifies tax regulations (intensification) and extends tax objects (extensification) in the tax sector to make the budgetary function effective. The other function of taxes is the regulatory function (regulating social and economic policies).

The government always strives to improve the tax system in Indonesia, one of which is implementing a collection system authorizing taxpayers to calculate, pay, and report their payable taxes (Self-Assessment System) to increase taxpayer compliance and increase state revenues. The proportion of tax subsidies to the State Budget for the last three years (2017-2019) ranges from 60%-75%. However, it does not describe the must-received real tax potential.

The realization of tax revenues increased during 2017-2018, reaching 89.40% in 2017 and 92% in 2018 but decreased in 2019, reaching 84.40% (Kemenkeu, 2019). The decreased tax revenue is due to tax avoidance and the low level of taxpayer compliance in tax payment.

The government also seeks to improve taxpayer compliance by socializing tax regulations, especially tax sanctions, and upgrading the service quality of tax officers to taxpayers. Tax sanctions are a preventive tool for taxpayers not to violate tax regulations. Tax sanctions guarantee that the provisions of tax regulations will be obeyed and provide a deterrent effect encouraging taxpayers to comply with tax norms (Mardiasmo, 2018).

In addition to tax sanctions, taxpayer compliance is also determined by the service quality of tax officers to taxpayers in carrying out tax obligations, both in the payment process and Annual Tax Return reporting. Service quality greatly affects taxpayer compliance (Halimi & Waluyo, 2019). Many taxpayers perceive that tax officers do not provide optimal service, and this is added to the fact that the government frequently changes tax regulations to perfect tax laws.

Furthermore, willingness to pay taxes also determines taxpayer compliance. Such willingness arising from within the taxpayers themselves plays a significant role in measuring taxpayer compliance with tax regulations (Setyonugroho & Sardjono, 2013). Another factor improving taxpayer compliance is tax officers' effective socialization of changes in tax regulation to taxpayers on an ongoing basis. According to Cyan *et al.* (2017), timely mass media campaigns can increase taxpayer compliance.

This research is important since problems related to taxpayer compliance often occur due to several factors, including taxpayers' knowledge, taxpayers' awareness of paying taxes, tax avoidance, tax sanctions, service quality, willingness to pay taxes, and socialization of changes in less effective tax laws. Sularso (2016), in his study conducted in Indonesia, confirms that taxpayer compliance is determined by the willingness to pay taxes and corporate financial performance mediated by optimal tax reporting.

The idea to implement this research begins from the gap between Wahl and Kirchler (2010) and Faizal *et al.* (2017). Wahl and Kirchler (2010) have found that the taxpayers' high trust in tax officers (quality of service) can increase tax compliance. Meanwhile, Faizal *et al.* (2017) suggested that good and fair service by tax officers (service quality) in tax activities and procedures and the provision of fair tax punishment (sanctions) can increase taxpayer compliance. On the other side, Sawitri *et al.* (2019) reveal that tax sanctions do not affect taxpayer compliance through motivation. Asbar *et al.* (2014) have found that tax sanctions do not affect taxpayer compliance.

Many studies related to taxpayer compliance have been conducted domestically and overseas. Differently, this research was intended to examine taxpayer compliance by not only using the determinants of tax sanctions and service quality but also using another variable, namely willingness to pay taxes. This is supported by the theory of tax resistance, which determines taxpayer compliance.

Given the various opinions about the roles of tax sanctions, service quality, and willingness to pay taxes, this research focused on testing hypotheses about the effects of tax sanctions, service quality, and willingness to pay taxes on taxpayer compliance. This research used primary data and is expected to help the government improve taxpayer compliance so that tax revenues can also increase.

LITERATURE REVIEW

Definition of Tax

According to the Tax Law Number 16 of 2009, tax is a mandatory, payable contribution to the state revenue of individuals or entities, which is coercive under the law, without any direct return and shall be utilized to fulfill the need of the state for the greatest prosperity of the people. The definition above concludes that taxes are public obligations to the government levied based on the law, which can be enforced without getting direct compensation (direct reciprocal services) and used to finance public expenditures of the government. The tax collection systems applied in Indonesia consist of three, namely (1) self-assessment system (self-calculated), (2) official assessment system (tax calculation by the tax officers), and (3) withholding system (tax calculation by other parties).

Definition of Taxpayer Compliance

Taxpayer compliance is a condition where a taxpayer is obedient in carrying out tax obligations or does not deviate from the applicable tax regulations. According to Rahmat Saleh (2004), compliance theory is significantly studied from social science, especially in psychology and sociology, emphasizing the importance of the socialization process in influencing individual compliance behavior.

Internal factors and external factors can influence taxpayer compliance. Internal factors originate from the taxpayers themselves and relate to individual characteristics that trigger tax obligations. External factors come from outside of the taxpayers, such as the situation and circumstances surrounding the taxpayers.

Definition of Tax Sanction

Tax sanctions guarantee that the provisions of tax law will be obeyed. Tax sanctions are a preventive tool for taxpayers not to violate tax regulations (Mardiasmo, 2018). Based on the tax law, there are 2 (two) types of sanctions, namely administrative sanctions and criminal sanctions. Administrative sanctions are payments of losses to the state, especially in the form of interest penalties and fines. Meanwhile, criminal sanctions in the form of

imprisonment or confinement are given to taxpayers indicated to have committed a tax crime. Tax officers apply these sanctions to encourage taxpayer compliance with the tax regulations or norms.

Definition of Service Quality

Kotler (2012) explains that service quality must start from customer needs and desires and end with customer perceptions. Furthermore, Booms (2013) defines service quality as a measure of to which extent the level of service provided can meet customer expectations. The definitions above conclude that high service quality can be realized by fulfilling customer needs and desires and the compatibility between the service delivered and customer expectations. Services provided by tax officers to taxpayers consist of: managing taxpayer-identification numbers, taking Annual Tax Return, providing tax consultation, and filing tax objection letters.

Definition of Willingness to Pay Taxes

Willingness to pay taxes is taxpayers' willingness to pay taxes voluntarily. Several factors influence the willingness to pay taxes, including the condition of a country's tax administration system, services to taxpayers, enforcement of tax regulations, and tax rates (Devano & Rahayu 2010). The indicators of willingness to pay taxes used in this research include 1) knowing the existence of tax laws and provisions (taxpayer knowledge), 2) understanding that tax obligations must be carried out under applicable regulations (taxpayer understanding), and 3) volunteering in paying taxes (taxpayer volunteering).

METHODS OF RESEARCH

This research used a quantitative approach with structured stages to draw conclusions based on the analysis results using the parametric statistical tool (Chandarin, 2017). The main problem raised in this research is related to taxpayer compliance, and the problem-solving begins with tax sanctions, service quality, willingness to pay taxes, and taxpayer compliance. This research was conducted on individual taxpayers in Malang City registered at *KPP Pratama Malang Utara* (Small Tax Office), *KPP Malang Selatan* (Large Tax Office), and *KPP Madya Malang* (Medium Tax Office).

The population in this research was individual taxpayers registered at *KPPs* (Tax Offices) in Malang City, whose size is very large and uncertainly known (infinite population). Under this condition, the sample size was determined by the analytical technique used in this research. With the large population, we determined the sample size by multiplying the number of indicators of the 4 variables by 5-10 (Ferdinant, 2006). Based on this provision, the sample size in this research can be calculated as follows: $30 \times 5 = 150$ respondents.

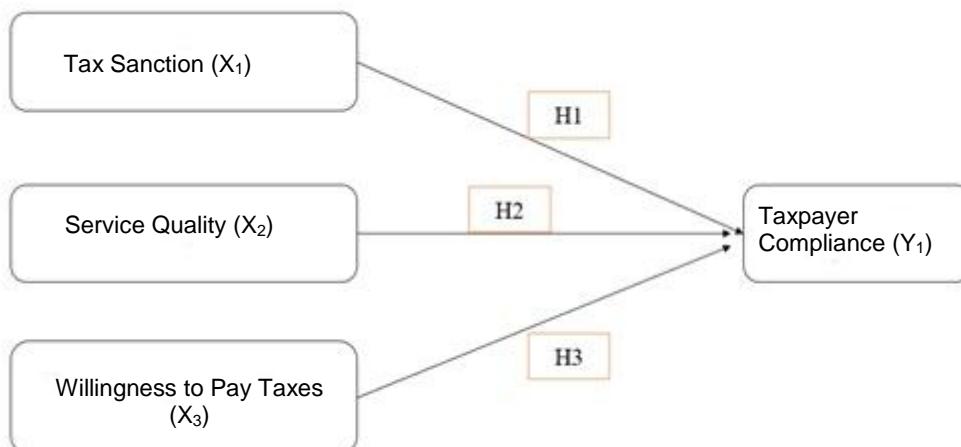


Figure 1 – Research Model

Sampling was conducted using a purposive sampling technique with the following criteria:

- Employee taxpayers registered at Malang City Tax Offices;
- Employee taxpayers having a Taxpayer Identification Number;
- Employee taxpayers reporting Annual Tax Return.

Based on the research model above, the researchers then formulated the following hypotheses:

- H₁: Tax sanctions have a significant effect on taxpayer compliance;
H₂: Service quality has a significant effect on taxpayer compliance;
H₃: Willingness to pay taxes has a significant effect on taxpayer compliance.

RESULTS AND DISCUSSION

The results of the multiple linear regression test indicate that:

1. Tax sanctions affect taxpayer compliance, as shown by a regression coefficient of 0.052 with an error probability of 0.289 (> 5%). Thus, the H₁ stating that tax sanctions significantly affect taxpayer compliance is rejected. In other words, tax sanctions have no significant effect on taxpayer compliance;
2. Service quality affects taxpayer compliance, as shown by a regression coefficient of 0.172 with an error probability of 0.003 (<5%). Thus, the H₂ stating that service quality significantly affects taxpayer compliance is proven and accepted;
3. Willingness to pay taxes affects taxpayer compliance, as shown by a regression coefficient of 0.704 with an error probability of 0.000 (< 5%). Thus, the H₃ stating that willingness to pay taxes significantly affects taxpayer compliance is proven and accepted.

Tabel 1 – Results of Regression Analysis Model

Variable	Coefficient	Probability
Tax Sanctions	0.052	0.289
Service Quality	0.172	0.003
Willingness to Pay Taxes	0.704	0.000
Dependent Variable: Taxpayer Compliance		
R ² : 0.704		
Prob.: 0.000		

DISCUSSION OF RESULTS

The effect of tax sanctions on taxpayer compliance

Tax sanctions guarantee that tax law provisions will be obeyed and used as a preventive tool for taxpayers not to violate tax norms. Tax sanctions are threats set by the government to taxpayers who do not carry out their tax obligations. The sanctions are categorized into two, namely administrative sanctions and criminal sanctions. Meanwhile, taxpayer compliance is a condition where taxpayers are compelled and are aware of fulfilling their tax obligations properly following the applicable regulations without the need of being first inspected, warned, or threatened (in the form of sanctions). In other words, taxpayer compliance is a condition where a taxpayer is obedient in carrying out his tax obligation or does not deviate from the applicable tax regulations.

This research reveals that tax sanctions are needed and must be implemented strictly so that taxpayers comply with calculating their taxes honestly and correctly based on the income earned, paying estimated taxes accurately, and reporting Annual Tax Return on time. The facts showed that applying strict tax sanctions could improve taxpayer compliance in paying taxes and reporting Annual Tax Return on time. However, taxpayers are still relatively reluctant to pay tax penalties, either due to failure to pay a tax when due, failure to report Annual Tax Return on time, or failure to report Annual Tax Return correctly according to the specified amount. In addition, the taxpayers' trust level on the proper utilization of tax for the state development is still low.

Consistent with the results of this research, Sawitri *et al.* (2019) show that tax sanctions have no significant effect on taxpayer compliance. In contrast, Tulenan *et al.* (2017) confirm that taxpayer awareness, tax officers' service quality, and tax sanctions significantly affect taxpayer compliance. On the other side, Guerra and Harrington (2018) suggest that taxpayer compliance is determined by gender and risk aversion (tax sanctions), while Nkundabayangga *et al.* (2017) discover that taxpayer compliance is influenced by tax sanctions and tax treatment (service quality). The results of this research also do not support Halimi and Waluyo (2019), stating that tax sanctions have a positive and significant effect on taxpayer compliance.

The effect of service quality on taxpayer compliance

Quality tax service can provide taxpayers with satisfaction within the limits of accountable service standards and must be carried out on an ongoing basis. The quality of service can be determined by comparing the expectation of customers (taxpayers) with the service provided. Meanwhile, taxpayer compliance is a condition where taxpayers are compelled and aware of fulfilling their tax obligations properly, following the applicable regulations without the need of being first inspected, warned, or threatened (in the form of sanctions). In other words, taxpayer compliance is a condition where a taxpayer is obedient in carrying out tax obligations or does not deviate from the applicable tax regulations

This research indicates that the service quality of tax officers influences taxpayer compliance in calculating taxes honestly and correctly based on the income earned, paying estimated taxes accurately, and reporting Annual Tax Return on time. The facts show that the quality of service provided to taxpayers in the form of adequate service quality and competent tax officers encourages taxpayers to pay taxes and report Annual Tax Return on time. The service quality provided by tax officers matching the expectation of taxpayers will ultimately create taxpayers' compliance behavior in paying taxes accurately according to the amount of payable taxes and the income earned, reporting all income honestly, and calculating taxes correctly. This research also reveals that the quality of services provided in socializing tax regulations, enforcement of services, and service schedules need to be improved to encourage taxpayer compliance.

The results of this research support Tulenan *et al.* (2017) that taxpayer awareness, tax officers' service quality, and tax sanctions affect taxpayer compliance but contradict Guerra and Harrington (2018), revealing that taxpayer compliance is determined by gender and risk aversion (tax sanctions). Furthermore, the results of this research are also in line with Nkundabayangga *et al.* (2017) and Paramaduhita and Elia (2018), discovering that taxpayer compliance is influenced by tax sanctions and tax treatment (service quality).

The effect of willingness to pay taxes on taxpayer compliance

Willingness to pay taxes is a value voluntarily contributed by a person (determined by regulations) to finance public state expenditures without getting direct compensation (direct reciprocal services). That is, willingness to pay taxes is awareness or sincerity of taxpayers to pay taxes and report Annual Tax Return. Meanwhile, taxpayer compliance is a condition where taxpayers are compelled and aware of fulfilling their tax obligations properly, following the applicable regulations without the need of being first inspected, warned, or threatened (in the form of sanctions). Thus, taxpayer compliance is a condition where a taxpayer is obedient in carrying out tax obligations or does not deviate from the applicable tax regulations

This research proves that willingness to pay taxes comes from the taxpayers' intention to carry out honestly their tax obligations, including reporting all income honestly for tax calculation, paying taxes accurately and on time according to the amount of payable taxes and the income earned, and reporting Annual Tax Return on time. It indicates that taxpayer compliance is determined by intentions (willingness to pay taxes).

The facts show that willingness to pay taxes is determined by the intention of taxpayers to report all incomes earned, calculate taxes, pay taxes and report Annual Tax Return honestly, accurately and on time. Likewise, if taxpayers fail to pay taxes or report Annual Tax

Return on time and correctly, they are willing to pay specified tax penalties according to the amount determined by the tax officers.

In line with the results of this research, Enachescu *et al.* (2019) have found that taxpayer compliance is determined by the willingness of taxpayers to pay taxes and service quality, and Dulleck *et al.* (2015) suggested that taxpayer compliance is determined by the level of psychological stress and tax morale (willingness to pay taxes). In contrast, Kiconco *et al.* (2019) revealed that willingness to pay taxes has a negative effect on taxpayer compliance.

CONCLUSION

Based on the analysis and discussion, it can be concluded that:

1. Taxpayer compliance in Malang City is determined by strict tax sanctions, service quality, and willingness to pay taxes. Taxpayers mostly agree to strict tax sanctions, service quality prioritizing tangibles, reliability, responsiveness, assurance and empathy, and willingness to pay taxes honestly and on time;
2. Tax sanctions do not affect taxpayer compliance. Individual taxpayer compliance in Malang City should be improved, one of which is applying strict sanctions to taxpayers who do not complete their tax obligations. However, the application of tax sanctions in the form of tax penalties has not been significantly able to increase taxpayer compliance;
3. Service quality affects taxpayer compliance. That is, taxpayer compliance will increase if the quality of service provided meets the taxpayer's expectations;
4. Willingness to pay taxes has a positive and significant effect on taxpayer compliance. That is, willingness to pay taxes is determined by the sincere intention of taxpayers in paying taxes and reporting Annual Tax Return honestly, accurately, and on time, ultimately encouraging taxpayer compliance.

SUGGESTIONS

Based on the conclusions above, we provide the following suggestions:

1. For Policy Makers:

Concerning the implementation of tax laws, the government (policymakers) should be more firm in enforcing tax regulations, especially applying strict and fair tax sanctions and improving the quality of services of tax officers to taxpayers.

2. For Future Academics and Researchers:

This research can be a basis for understanding and explaining taxpayer compliance. The concept of taxpayer compliance can be developed by adding variables related to tax knowledge by socializing tax regulations to taxpayers comprehensively.

3. For the Development of Science:

The results of this research are hoped to enrich the literature on improving taxpayer compliance by using variables of tax sanctions, service quality, and willingness to pay taxes. The results of previous studies have revealed that taxpayer compliance can be improved by applying strict tax sanctions to taxpayers and providing excellent service quality by tax officers.

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