



CIREBON INTERNATIONAL CONFERENCE ON EDUCATION AND ECONOMICS (CICEE)

THE EFFECT OF UNDERSTANDING TAXATION, TAXPAYER AWARENESS, AND TAX SANCTIONS ON COMPLIANCE OF MSME TAXPAYERS IN CIREBON CITY

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Abstract

Due to the fact that many MSME participants fail to pay taxes, tax income has decreased. The government has to educate the public on the value of paying taxes in order to promote tax compliance. Using taxation counseling in Indonesia to give socialization to the community in the form of guidance, comprehension, and methods is a successful first step. Therefore, the goal of this study is to evaluate and analyze the impact that tax penalties, taxpayer knowledge, and taxpayer comprehension of taxes have on taxpayer compliance in Cirebon City's micro, small, and medium-sized businesses (MSMEs). The study's findings suggest that comprehension of taxes influences taxpayer compliance, as does the impact of tax penalties and taxpayer awareness. This study can be used by the Directorate General of Taxes to promote a more robust tax policy and awareness, particularly among micro, small, and medium-sized businesses (MSMEs) in the city of Cirebon.

Keywords: Tax Compliance; Tax Understanding, Taxpayer Awareness, Tax Sanctions

INTRODUCTION

Governments frequently struggle with tax compliance, also known as tax law compliance. Tax compliance is the act of a taxpayer exercising their rights and paying all of their taxes. There has been a drop in the number of people who must pay taxes in recent years, according to data gathered from the Directorate General of Taxes (DGT) website. The way taxpayers—individuals as well as businesses—fulfill all of their tax duties and make use of their tax rights is referred to as tax compliance.

Tax compliance is essential to ensure that the government has a major source of funding to finance government and public needs, such as public services summarized in national development to improve people's welfare. Taxes are also used to improve public services and facilities, education, health, and others. Providing socialization in the form of instruction, understanding, and approach to the community through taxation counseling in Indonesia is an effective step.

Indicators of MSME tax compliance, according to Hantono & Sianturi (2021), include filing tax returns for all forms of taxes in a single year, not having any tax arrears, never having a tax crime conviction, and operating bookkeeping and taxpayers in the audit reports from the preceding two years.

According to the Directorate General of Taxes website, the government has implemented a tax policy of 0.5% of monthly turnover in 2018 to encourage the growth of MSMEs.

However, starting in 2022, the Taxation Harmonization and Regulation Law will exempt taxation for MSMEs with a turnover of up to IDR 500 million per year. Therefore, MSMEs that have revenue below the limit will not have to pay the 0.5% final income tax, but if the revenue exceeds the limit, the rate will be charged. This policy helps MSMEs fulfill their tax obligations to the state and allows them to expand their businesses and investments.

The Office of Cooperatives and SMEs reports that as of 2021, there were 64.2 million MSMEs in Indonesia, committing to a 61.07% GDP, or IDR 8,573.89 trillion, and having the capacity to raise up to 60.4% of total capital (<https://komwasjak.kemenkeu.go.id/in/post/pajak>). By the end of June 2023, the realization of tax income had achieved Rp1,105.63 trillion (54.70 percent of the 2023 APBN objective), having reached Rp2,034.5 trillion by the end of December 2022 (114.0 percent of the APBN target of Perpres 98/2022). (<https://www.kemenkeu.go.id/>).

Cirebon City has 19,391 individual MSME taxpayer, with an ineffective individual taxpayer status of 1,416 and an ineffective individual taxpayer status of 17,975, according to data from the Cirebon One Primary Tax Office. In Cirebon City, MSME tax income in 2021 was Rp. 11,049,307,621, and in 2022 it was Rp. 9,889,939,650.

This study aims to assess directly the impact of taxpayer awareness, tax penalties, and tax understanding on MSME tax compliance in Cirebon City. The findings demonstrated that a large number of MSME taxpayers fail to make tax payments, suggesting a lack of comprehension and a decreased awareness of the significance of meeting tax responsibilities.

METHOD

This research uses a literature study approach, namely by analyzing various previous studies related to taxpayer compliance. The steps taken are to collect a number of 20 articles related to taxpayer compliance through google scholar, then analyze the phenomenon of previous research result and conclude the results of the analysis.

RESULTS AND DISCUSSIONS

The results of the analysis related to 20 articles on taxpayer compliance can be described in the following discussion:

According to Haryana (2018), taxpayer compliance is defined as when taxpayers fulfill tax-related obligations and exercise rights in a manner consistent with tax laws. Compliance is the act of obedient MSMEs that fulfill and carry out tax obligations by statutory regulations (Andaningsih Ratih, Murti Wahyu, 2022) and (Khodijah Siti, Barli Harry, 2021). Taxpayer compliance is the ability of taxpayers to satisfy all of their tax duties, including those related to filing reports and making payments in accordance with applicable tax regulations. The Directorate General of Taxation can boost compliance by giving MSME taxpayers better services.

The relationship between compliance and taxpayer understanding: Understanding tax laws, regulations, and processes will help taxpayers better comply with tax rules and be more aware of their responsibilities. Non-compliant taxpayers may need to understand the relevant tax regulations. Previous study: (Yunia, AMP, and Sudiartana, 2021), (Arlita Bhakti Faidani, Dwi Soegiarto, 2022). and (Permata Sari, Bayu Putra, Fitri, Ramadhanu, and Cahyani Putri, 2019) MSME actors' understanding of taxation affects how well they comply with tax regulations.

When people are aware of the need to pay their taxes and are able to comprehend, identify, value, and abide by the relevant tax laws, they are said to be taxpayers. (Yunia et al., 2021) Prior studies, (Abdi Pradnyani, Sari, & Suprpto, 2022) (Fatah & Oktaviani, 2021), (Setia Ningsih, Adhi Widayati, & Mardiana, 2021), (Sari, Putri, Arofah, & Suparlinah, 2021) discovered that taxpayer comprehension has a noteworthy and favorable impact on MSME taxpayer compliance. Research, however, indicates that taxpayer awareness has little bearing on compliance (Arlita Bhakti Faidani,

Dwi Soegiarto, 2022) (Lidya Rikayana et al., 2023). Risk preferences may enhance the correlation between taxpayer compliance and taxpayer awareness variables (Fatah & Oktaviani, 2021).

In other words, tax sanctions are tools to stop taxpayers from breaking tax norms. They act as a safety net to ensure that the judgments made by tax laws and regulations, also known as tax norms, are unquestionably followed, obeyed, and complied with. (Mandowally, Allolayuk, & Matani, 2020) The purpose of tax sanctions is to improve taxpayer compliance with regard to their tax obligations. The degree of compliance increases with the severity or amount of tax penalties. Some fines are presently employed to promote taxpayer compliance in fulfilling their tax duties as a result of the taxation system's evolution. Results by research (Afif & Yulianti, 2019), (Maghriby & Ramdani, 2020), and (Darmayasa, Utami, & Ramdani, 2020) corroborates the findings of this study. Tax penalties and taxpayer awareness are related (Darmayasa, Utami, & Mandia, 2021).

CONCLUSION

Future research should take into account a few of the study's shortcomings in order to enhance the findings. This study only focuses on taxpayers in Cirebon City. In addition, three endogenous components and one steering variable were used to measure taxpayer compliance. Future analysts are also expected to expand the test location and sample size to improve the results. Steering variables that can direct aspects that affect taxpayer compliance can be expanded to achieve this.

The results of this study indicate that tax penalties have a significant impact on MSME compliance. Therefore, the Directorate General of Taxes should encourage more aggressive tax policies, especially towards MSMEs. The Directorate General of Taxes may consider adjusting or expanding the application of this authority if the study conclusions show how important tax understanding is to encourage higher compliance.

The conclusion of this study shows that tax understanding, taxpayer awareness, and tax sanctions have a positive impact on MSME taxpayer compliance in Cirebon City. These three variables contribute significantly in increasing the level of tax compliance among MSMEs in Cirebon City.

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