

THE INFLUENCE OF TAX MORALE AND TAX AUTHORITY'S SERVICE QUALITY TO TAX COMPLIANCE

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ABSTRACT

Tax compliance still a concern for every country in the world, because it affects how high the income tax rate in the country. There are still a lot of arguments regarding factors than could influence tax compliance, and among of them related to taxpayer themselves and how tax authority treat them. Tax morale is Intrinsic motivation to comply and pay taxes so as to contribute voluntarily. Therefore tax morale related to tax compliance in every country, since it is come from taxpayer's conscience. Taxpayers always interacting with tax authority regarding their tax necessities, thus authority's service quality could affect the compliance of taxpayers. It is necessary to understand if tax morale and tax authority's service really affecting tax compliance. This papers aims to 1) determine the affect of tax morale to tax compliance ; 2) determine the affect of tax authority's service quality to tax compliance ; 3) determine the affect of tax morale and tax compliance together to tax compliance. The research method used is descriptive analysis using regression. Based on the analysis founded empirically tax compliance highly affected by tax morale and tax authority's service quality

Keywords: Tax compliance, Tax morale, Tax Service Quality

INTRODUCTION

The compliance of taxpayers is needed to get higher income tax rate. In this era, taxpayers are trying to minimize their tax by using any methods necessary. Currently in Indonesia the tax rate is not achieving goal, 62.3% of tax payers pay their taxes (Bank Indonesia 2016), the decrease of tax income rate could be related to tax authority's corruption and how bad they treat tax payers in Indonesia .

Until 2016, Indonesia occupy rank 90 from 196 countries related to the corruptions according to International Transparency Agency. Sociologist from Universitas Indonesia (UI) said that corruption related to bad moral or bad individual character.

How bad the Indonesian tax authority's quality could be seen from how much complaints tax payers made, data from tax monitoring committee shows that in 2016 there are 196 complaints and 93% of it complaining about how bad Indonesian tax authority treat them.

Poor service quality will cause negative impact on tax compliance since tax payers feel they does not appreciated by tax authority, and it will affect their tax morale in long term.

These corruption and poor quality service in Indonesia makes tax payer's in Indonesia lazy to pay their taxes said Ken Dwijugasteadi as Director General of Taxes (2017), this show that the morale of Indonesians' falls, hence Indonesian government is not able to achieve their tax revenue goal. So it could be summarize that if Indonesia want to achieve their tax revenue goal, the government need to increase their tax morale.

Based on past research there are still a lot of debate around tax morale and tax authority's service quality, some result show that both variabel will be affecting tax compliance and some result show that both variabel does not affect tax compliance

According to empirical study by Troutman (1993) show that morality highly related to tax compliance, this research supported by Nur Cahyonowati (2011), but research result from Hardika (2006) and KR Salman (2008) show that morality does not related to compliance.

This paper driven by concern for the tax compliance and to clarify whether tax morale and authority's service quality really affecting tax compliance in Indonesia or there will be another factors more affecting tax compliance in Indonesia, since according to Nur Cahyonowati (2011) there are many factors still unknown which could lead to tax compliance in Indonesia.

Literature Review

Tax Compliance

According to Norman D Nowak in Moh. Zain (2004), Tax compliance means a circumstances where compliance and awareness shown at this kind of situations

1. Tax Payer understand or trying to understand tax regulations
2. Tax Payer fill the tax form clearly
3. Tax Payer calculate the tax need to pay correctly
4. Tax Payer paid tax on time

According to Safri Nurmantu (2006) there are two kinds of tax compliance, formal and material. This two kinds of tax compliance regulated under Indonesia Constitution Law number 28 act 17C(2) Where compliance needed to be paid on time and paid correctly.

There are a lot of factors could affect tax compliance according to Hobson (2002) these factors grouped into individual factor, politic, economic and social.

There are two theories that could explain two big factors affecting tax compliance (Mukhlis, Simanjuntak, 2012)

1. Risk Aversion Theory

Introduced by Allingham and Sandmo (1972), according to their research, no one really want to pay their tax willingly, tax payer will always against it.

This theory formulated:

$$D = D(I, t, p, f)$$

where:

D = *declared income*

I = *income*

t = *tax rate*

p = *probabilty being audited*

f = *penalty rate*

This theory developed by Cowell and Gordon (1988) into new formula, since there will be goverment expenditure.

$$D = D(I, t, p, f, G)$$

where G reflected goverment expenditure.

Indicators use for tax compliance are: Tax payer pay it on time, and pay it correctly, and whether tax payer need to pay tax's fine or not. (Indonesian Constitutional Law Number 28 act 17C(2))

2. Tax Morale Theory

According to Frey (1997) Factors that could affect compliance are:

- a. perception of honesty
- b. attitude of helping or serving of the authorities
- c. trust in government agencies
- d. appreciation or respect from the tax authorities
- e. a number of other individual traits

Tax Morale

According to Hurlock (1990) morale means how people interact with tradition, customs in social environment. According to Benno Torgler (2007) morale means Intrinsic motivation to comply and pay taxes so as to contribute exclusively to the provision of public goods, so if a country want to increase their tax revenue by improving people their compliance first of all they need to improve their people's morale, only by then people will be willing to pay their taxes.

According to Frey and Feld (2003), explain that tax payer will have high morale to pay taxes if tax authority treat them well, so if country want to increase their tax revenue, they need to treat tax payers well, and not treating them like a criminals but treat them like a clients.

According research by Nur Cahyonowati (2011) there are still factors that could affect tax payer's morale, for examples : tax fine, and other social pressure, because not only intrinsic factors that could affect people tax morale, but it also can be affected by external factors, but the most important thing to increase tax compliance is how to improve people's morale to pay taxes.

Based on research by Andreoni, Erard and Feinstein (1998) tax morale indicated by : Tax payer participation, tax payer trust to government, regional autonomy, desentralisation, pride, demografic, economic condition, tax avoidance and tax systems. In every country in the world, tax morale affected by how people feels about their government actions. People will not be comply if they could not trust their government, because they are not sure what and how the government use their tax money for.

Indictors use for tax morale are: tax payer participation, tax payer trust to government, economic condition, national pride, tax system.

Authority's Service Quality

According to Indonesia Decree of the State Minister for Administrative Reform, public service means all kind of services carried out by government in form of service or goods in the framework of efforts fulfillment of the needs of the community and in the implementation of the regulation legislation.

According James dan Nobes (1997:7), tax compliance will not be achieved if there is no cooperation between tax authority with tax payers, and it only can be achieved if tax authority want to improve their service's quality by taking feedback from tax payers.

According to Zeithaml V, Parasuraman and Berry (2012) there are 5 dimensions for public services: Reliability, Assurance, Responsiveness, Empathy and Tangibles. These dimensions are needed by a service company or government services to increase their service quality.

It is supported by Code of Conducts for Tax Authority, set in regulation by Minister of Finance number 1/PM.3/2007, that aim to :

1. Improve tax employees discipline
2. Ensures the order
3. ensure the smooth implementation of duties and conducive working climate;
4. Create and maintain professional working conditions and behavior;
5. improve the image and performance of employees

and Employees have duty to:

1. respecting the religion, beliefs, culture, and customs of others
2. work professionally, transparently, and accountably
3. to secure data and or information owned by the Directorate General of Taxes;
4. provide services to taxpayers, fellow employees, or other parties in the implementation of the tasks as well as possible;
5. obey the official orders
6. Responsible for the use of the goods owned by the Directorate General of Taxation

7. Comply with the provisions of office hours and office order;
8. be a good role model for the community in fulfilling the tax obligations;
9. Act politely.

And Tax employees forbidden to:

1. being discriminatory in performing the task;
2. being an active member or sympathizer of a political party;
3. misusing direct and indirect authority of the office;
4. misusing office facilities;
5. Accepting any grant of any kind, directly or indirectly, of the Taxpayer, fellow Employee, or any other party, causing the receiving Officer to be suspected of having a duty relating to his position or occupation;
6. misusing data and / or tax information;
7. perform any alleged conduct which may cause disturbance, damage and or change of data in the information system owned by Directorate General of Taxes;
8. committing unlawful acts contrary to the norms of decency and may damage the image and dignity of the Directorate General of Taxation.

For tax authority's service, indicators use are: Reliability, assurance, responsiveness empathy, tangibles.

Research Methods

Population and Samples

The population of the study consist of the tax payer listed on Tegallega Tax Office, Bandung, Indonesia. There are 7320 tax payer listed and use as population.

Using Isaac and Michael formula

$$S = \frac{x^2 \cdot N \cdot P \cdot Q}{d^2 \cdot (N - 1) + x^2 \cdot P \cdot Q}$$

Where :

S= Minimal Sample; N: Population; P: 0.5; Q: P-1 ; d: error probability; x^2 = level of significance.

Hence, the minimal sample is 332, They are needed as respondend to answer some questions according to variable's indicators.

The research will be made by using questioners as research intruments, it is consist of 20 questions, 7 questions about tax compliance, 8 questions about tax authority's service quality, 5 questions about tax morale.

The questioners will be made using Likert scale where:

Code	Scale
1	Completely Disagree
2	Disagree
3	Neutral
4	Agree

5	Completely Agree
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Questions about tax compliance consist of: Whether people paying their tax according to tax law or not, when they pay it and reported their tax, whether they need to pay tax fine or not.

Questions about tax authority's service quality consist of: Does tax authority ready to give service, how they react to tax payer's complains, can tax payer trust them or not, and whether tax payer feel safe with their tax information in the hand of tax authority, and the willingness of tax authority to accept gratification from tax payers.

Questions about tax morale consist of: how willing tax payer want to pay their taxes, and why they want to pay their taxes.

Before doing a regression with questioners result, researcher need to make sure the result will be normally distributed, free from Multicolonierity and Heterocidasitisty as requirement to do a regression, the regression will be made using SPSS 20

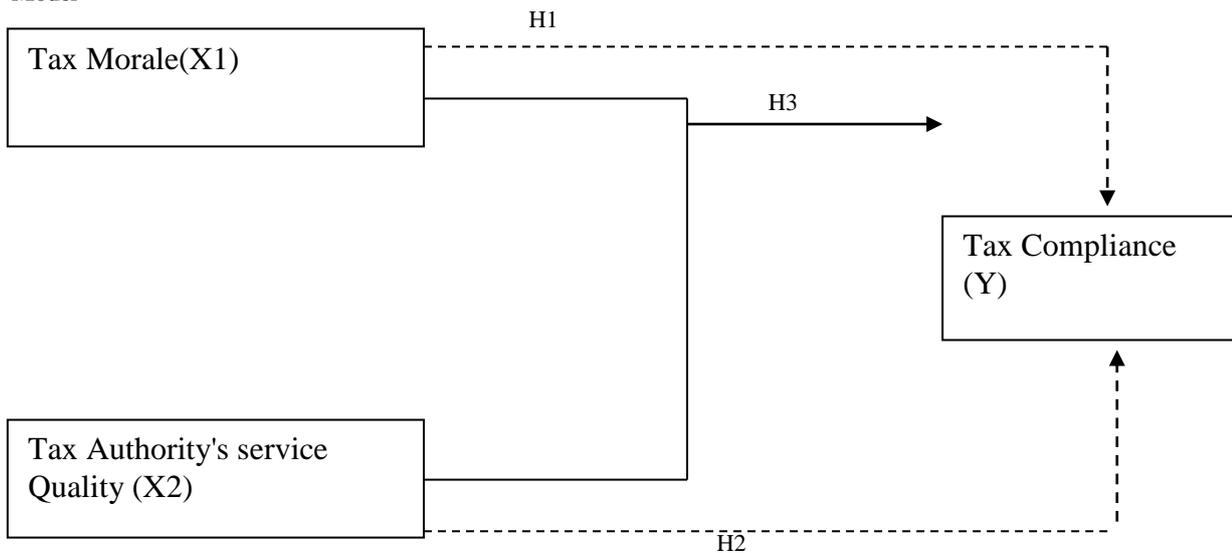
The regression model:

$$Y = a + bX_1 + bX_2 + e$$

Where:

- a = constants
- X₁ = Tax morale
- X₂ = Tax authority's service quality
- b = regression coefficient
- Y = Tax compliance as dependent variable

Model



According to Frey and Feld (2003), people who have good tax morale will be comply to pay their taxes, and according to James and Nobes (1997:17), tax authority's service quality could affect tax payer's compliance, and according to Troutman (1993) tax morale closely related with service quality, if the service quality is good, then the tax morale also will increase, hence hypotheses could be made:

1. H1: Tax morale affected tax compliance in Indonesia.
2. H2: Tax authority's service quality affected tax compliance in Indonesia.
3. H3: Tax morale and tax authority's service quality together affected tax compliance in Indonesia.

Result

Multicolonierity Test and Heterocidasitisty as regression requirement
Where MP: Morale ; KPF:Service Quality; KWP: Compliance

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	10,553	1,033		10,218	,000		
	TOTAL_MP	,038	,051	,042	,755	,045	1,000	1,000
	TOTAL_KPF	,015	,059	,014	,252	,002	1,000	1,000

Tolerance value higher than 0.1 and Variance Inflation Factor (VIF) higher than 10 , hence there is no multicolonierity.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,140	,534		-,262	,793
	TOTAL_MP	,040	,026	,084	1,532	,127
	TOTAL_KPF	,049	,030	,089	1,620	,106

The Sig value higher than 0.05, hence there is no heterocidasitisy

Coefficient of Determination

Coefficient of Determination is used to measure how far the model's ability to explain variations of independent variables.

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	,892 ^a	,796	,755		1,22052

The adjusted R Square shows that 75.5% variation of tax payer compliance change can be explained by morale and tax authority's service quality.

Regression

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10,553	1,033		10,218	,000
	TOTAL_MP	,038	,051	,042	,755	,045
	TOTAL_KPF	,015	,059	,014	,252	,002

a. Dependent Variable: TOTAL_KWP

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10,345	,618		16,746	,000
	TOTAL_MP	,038	,051	,042	,757	,021

a. Dependent Variable: TOTAL_KWP

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,021	,826		13,344	,000
	TOTAL_KPF	,015	,059	,014	,256	,007

a. Dependent Variable: TOTAL_KWP

Regression Equation:

$$KWP_i = \alpha_0 + \beta_1 M_i + \beta_2 KPF_i + \epsilon_i \dots \dots \dots (1)$$

$$KWP_i = \alpha_1 + \beta_3 M_i + \epsilon_i \dots \dots \dots (2)$$

$$KWP_i = \alpha_2 + \beta_4 KPF_i + \epsilon_i \dots \dots \dots (3)$$

Di mana:

KWP_i = Compliance
M_i = Morale
KPF_i = Tax Authority's service quality
 $\alpha_0 - \alpha_2$ = constants
 $\beta_1 - \beta_4$ = coefficient
 ϵ_i = confounding variable

Based on the analysis the equation are:

$$\begin{aligned} \text{KWP}_i &= 10,553 + 0,038 M_i + 0,015 \text{KPF}_i + \epsilon_i \dots\dots\dots (1) \\ \text{KWP}_i &= 10,345 + 0,038 M_i + \epsilon_i \dots\dots\dots (2) \\ \text{KWP}_i &= 11,021 + 0,015 \text{KPF}_i + \epsilon_i \dots\dots\dots (3) \end{aligned}$$

The Influence of Tax Morale and Tax Authority's Service Quality to Compliance

The result show that Tax morale and tax authority's service quality highly related to compliance, but there are 24.5% another factors that could influence compliance.

Discussion and Conclusion

This result show that if tax payer's have good morale they will be comply to tax law and will pay their tax on time. This result is consistent with Nur Cahyonowati (2011) who found that tax payer's morale affecting tax compliance in Indonesia because the internal factors have more affect than external factor, but this result contradicting with (2006) and KR Salman (2008) since their result show that morale will not give any influence to tax payer's compliance, since tax payers forced to comply by tax law, social pressure, and tax's fine, this could be happen because the responded feel more social pressure from external factors such as fine, and their company policy where they work since company have to follow tax rule to get good grade when being audited and it will be affecting company's public image, the company will pressure their employee to be more obidient for paying their taxes.

The result show that tax authority's service highly affecting tax payer's compliance since if tax authority treat tax payers with respect and cooperative to help them with their tax problem, and keep tax payer's data secure, tax payer will be comply to fullfill their tax duty by paying it on time and with pay correct amount of tax, this result consistent with research's result by Lars P. Feld & Bruno S. Frey (2003) supported by Katharina Gangl, *et al* (2013), in their result show that tax payer's will be more comfortable to pay tax if they treated well by tax authority, this might be happen since tax payer feel treated as a client by tax authority rather than treated as a crimininal who need to be found guilty, hence they are more willing to pay their taxes obidiently.

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