# Analysis of MSMEs' Taxpayer Compliance: Impact of E-Filling Implementation, Tax Incentive Policy, and Quality of Tax Service

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| Article Info: | Abstract |
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| | *This study aims to analyze the influence of E-Filing Implementation, Tax Incentive Policies and Quality of Fiscal Services on MSME Taxpayer Compliance. The population in this study are SMEs (Micro, Small and Medium Enterprises) who are domiciled and run their businesses in the Keroncong sub-district, Jatiuwung sub-district, Tangerang City. With Non-Probability Sampling Technique, the sample used in this study was 100 MSME respondents. Using a questionnaire in the collection data and uses a Likert scale, this study also uses causal research to test the hypothesis. Smart 4 software used in the descriptive analysis and all of statistic test to hypothesis analysis, with outer model and inner model analysis. The results of the study show that the implementation of E-Filing and quality of tax services have the significant effect on taxpayer compliance, while Tax Incentive Policies have no significant effect on taxpayer compliance. These results can be input for the directorate general of taxes in increasing MSME tax compliance by improving tax services and also e-Filling operations.* |

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## INTRODUCTION

Tax is a source of state tax revenue as well as a potential sector in the context of successful state management (Indah & Setiawan, 2020). Reporting from OCBC NISP, taxes contribute around 80% of total state income, and the remainder is contributed by Non-Tax State Income (PNBP), and grants. It contains several types of taxes, such as Land and Building Tax (PBB), Value Added Tax (VAT), and especially Income Tax (PPh). According to 2018 KUKM ministry data, the number of MSMEs reached 64.2 million or 99.99% of the number of business actors in Indonesia. And of the 99.99%, 98.68% are micro businesses with a labor absorption capacity of up to 97% from 117 million workers while contributing to GDP of 61.1% (djkn.kemenkeu.go.id). This means that MSMEs have a very large participation in ensuring the running of the national economy.

Figure 1. MSME Amount and MSMEs' Tax Reporting in KPP Pratama Tangerang Barat
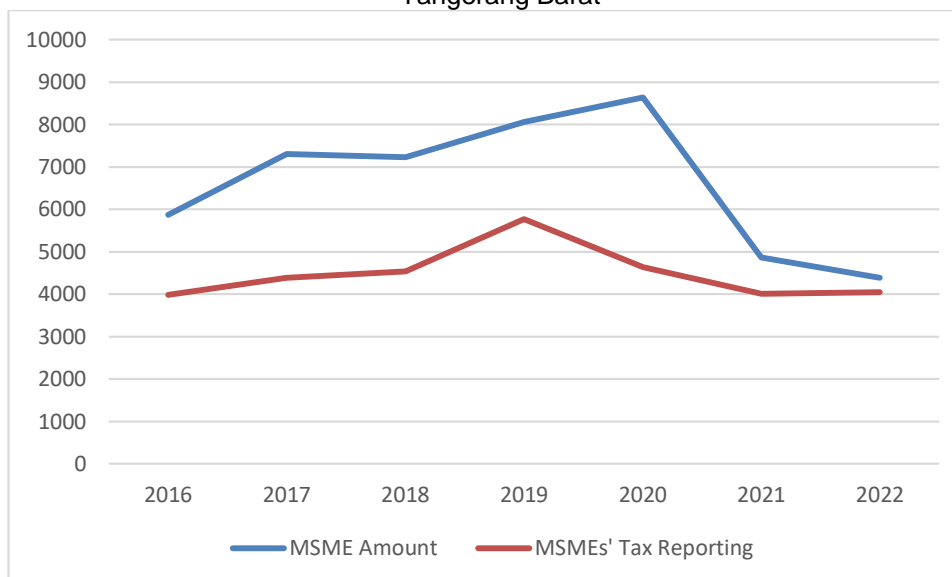


Based on the figure 1, it is known that there has been an increase in the number of MSME taxpayers reporting their SPT in the 2016-2019 period. However, it appears that this trend has decreased in 2020. Reporting from Beritatangerang.id, the outbreak of Covid-19 in 2020 resulted in hundreds of MSMEs being threatened with bankruptcy. This is exacerbated by the decreasing number of MSMEs paying taxes starting from 2021-2022, due to the decline in their turnover. The pandemic has become a national disaster, and therefore there is a need to adjust policies and collaborate with all parties to overcome this problem.

MSMEs are the most vulnerable group when compared to other forms of business. Apart from that, MSMEs are also the choice of people who want to start opening a business for the first time. The reason the researcher chose the location in Keroncong sub-district was because it was closer to where he lived, easy access, cheap costs, lack of research and studies regarding the development and condition of MSMEs in this location and wanted to know the level of concern of the community, especially MSMEs, in their views. and implementing taxes in its business.

Jatiuwung subdistrict was the result of the expansion of Curug sub-district in 1981 and is in the westernmost part of Tangerang City. Jatiuwung sub-district has 6 sub-districts in it, one of which is Keroncong sub-district. The population of this sub-district is 21,199 people (https://kec-jatiuwung.tangerangkota.go.id). Based on information from related agencies, data was obtained from 98 MSMEs recorded in the Keroncong sub-district. From 10 years ago until now regarding the location of this research, researchers found a study related to taxes with the title "Effectiveness of the Implementation of Land and Building Tax Collection in Keroncong Village, Jatiuwung District, Tangerang", by Desy Simanjuntak (2013). These findings suggest that there is no recent research that describes the situation of MSMEs in Keroncong sub-district.

Many factors affect the compliance of MSME taxpayers, with limited human resources and other resources, MSMEs need direction and analysis so that the level of tax compliance can be increased. Some literature finds the effect of e-filling

implementation, tax incentive policy, and quality of tax service on taxpayer compliance.

E-Filing is a service for filling out and sending taxpayers' tax returns in real-time based on an online system to the Directorate General of Taxes via the internet on the DJP website or through the Service Provider Application that has been appointed by the DJP (Purba, 2020). Literature show that taxpayer can be comply to tax regulation especially tax reporting when implement e-filling ((Darmayasa et al., 2020); Indah & Setiawan, 2020; Marfito et al., 2023), however, other literature did not find anything similar (N. R. Dewi & Asalam, 2021).

Tax incentives are positive motivations so that generally taxpayers will be happy to receive them, this motivation encourages taxpayers to then comply more with tax regulations. These in line with the research results of that tax incentive policies have a positive effect on taxpayer compliance ((Latief et al., 2020); (Regita et al., 2022); Tohari et al., 2021), while other literature did not find the same results ((Wahyudi, 2021); (S. Dewi et al., 2020))

Another factor that influences taxpayer compliance is tax service. Quality tax services are actions to convince taxpayers that they will act in compliance or non-compliance with their taxes because they believe in the usefulness and ease of the tax system in fulfilling their tax obligations. These in line with literature that a good tax service can be taxpayer happy and comply with tax regulation ((Juardi & Hatimah, 2021); (Lora Pranciska, 2022); (Kurniawan & Daito, 2021)), although other studies have not found the effect of service quality on tax compliance ((Safitri & Silalahi, 2020); (Akbar, 2020); (Leviana et al., 2022)).

The implementation of E-Filing is an excellent breakthrough in creating a taxation system that is more efficient and easier to implement (Tarmidi et al., 2017). With the presence of tax incentives, it is hoped that it can help taxpayers to maintain consistency and increase their compliance with taxes. As well as being supported by the quality of fiscus service, in convincing taxpayers to fulfill their tax obligations. With phenomena and research gap above, this study aim to analyse the Influence of the implementation of e-Filing, tax incentive policy, and the quality of tax services on MSME Taxpayer Compliance.

Attribution theory studies the process of how a person interprets an event, the reasons, motives, or causes of behavior that that person performs. Attribution theory was introduced by Fritz Heider in 1958. This theory is aimed at evaluating how a person views the behavior of themselves and others. An individual's behavior is determined by internal attribution, namely behavior that is believed to be under the individual's own personal control (nature, character, and attitude), and/or external attribution, namely behavior that is influenced from outside or is forced to behave in this way due to situations, circumstances, or conditions (Darmayasa et al., 2020).

The e-filing system reflects the development of the taxation system in Indonesia. MSMEs are business units that continue to increase their participation in taxes, especially through the e-filing system. The prolonged Covid-19 pandemic can be a stepping stone in maximising the e-filing system as a form of transformation of the tax system in Indonesia to become more effective so that tax compliance can continue to increase. There in line with research conducted by (Darmayasa et al., 2020) and (Purba, 2020) which states that the application of e-filing has a positive and significant effect on taxpayer compliance. The more taxpayers who apply e-filing, the more their understanding of taxes increases (Paulus & Tarmidi, 2023).

*H1. E-Filling implementation impact on tax compliance*

Tax incentive policies are policies issued by the government in certain situations such as during the Covid-19 pandemic, in the form of eliminating tax burdens or reducing rates on taxes. The type of incentive is income tax, especially profits from business activities. MSMEs are business units that are severely affected

by the Covid-19 pandemic. It is hoped that this tax incentive can ease taxpayers in fulfilling their tax obligations. These in line with research conducted by (Latief et al., 2020) and (Regita et al., 2022) stated that the tax incentive policy has a positive and significant effect on taxpayer compliance. The higher the taxpayer applies the incentive, the more targeted this policy is made.

*H2. Tax incentive policy impact on tax compliance*

Tax staffs have a very important role because they are the source of public knowledge in understanding the science of taxation directly. Therefore, the tax authorities are responsible for the dissemination of this information to the general public, especially to MSMEs. These in line with research conducted by (Juardi & Hatimah, 2021) and (Maqsudi et al., 2021) state that tax service quality has a direct and significant effect on taxpayer compliance. The more qualified the tax authorities' services, the more comfortable, understanding, and voluntary taxpayers are in fulfilling their tax obligations.

*H3. Tax service quality impact on tax compliance*

## RESEARCH METHODS

The type of research used in this research is causal research. This research is causal in nature, with the aim of finding out the relationship between the independent variable and the dependent variable (Sugiyono, 2016). The data source used is primary data through research questionnaires which will be filled in by respondents at the selected research locations.

The population in this research is Micro, Small and Medium Enterprises (MSMEs) in the Keroncong Village area, Jatiuwung District, Tangerang City. The sampling technique used is a non-probability sampling technique, namely accidental sampling. Sampling was taken using the Cochran formula with an unknown population (Sugiyono, 2016). Based on the calculation results, the resulting sample size was 96.04 respondents and rounded up to 100 respondents. The number of respondents that will be used in this research is 100 MSME respondents in Keroncong Village.

The data collection technique carried out by researchers relating to the type of data in this research was carried out by means of field research. For the measurement method, namely using quantitative methods, with data collection techniques through research questionnaires. The distribution of this questionnaire is aimed at MSMEs who live in the Keroncong Subdistrict area, using a survey method via a questionnaire distributed to respondents using Google Form.

The data analysis method used in this research is descriptive statistics. Data analysis is needed to test hypotheses, so that the influence of the implementation of E-Filing, Tax Incentive Policies, and the Quality of Fiscus Services on MSME Taxpayer Compliance can be determined. All data presentation and analysis used uses the Smart PLS Version 4 program..

## RESULT

In terms of age demographics, the majority of respondents are 41-55 years old, and in terms of gender there are 54% female respondents in this study, 66% have a culinary business by majority, and 88% have been doing business for more than 1 year, and 77% do not have Tax ID Number. As for the education demographics, the majority of respondents are high school graduates as much as 56%.

Based on the validity test, all indicators are declared valid with an AVE value> 0.50 and a discriminant validity value> 0.70. While in the reliability test, all

variables have a composite reliability value> 0.70 as well as a Cronbach alpha value> 0.70. That the research data is declared valid and reliable and can be continued for further analysis.

The R-Square test is intended to provide an explanation regarding the influence of certain exogenous latent variables on endogenous latent variables, whether they have a substantive influence. R-Squares values of 0.75, 0.50 and 0.25 can be concluded that the model is strong, moderate, and weak (Ghozali, 2021). In this study, amount of the R-Square ($R^2$) is 0.353, it can be interpreted that the variables Implementation of E-Filing, Tax Incentive Policy, and Quality of Tax Services are able to explain Taxpayer Compliance of 35.3%. With F-Square amount is 0.002 shown that this study is fit.

Table 2. Result

| Variabel | Original Sample Estimate | t-Stat | P Values |
|---|---|---|---|
| E-Filling Impl. > Tax Compliance | 0.302 | 2,160 | 0,031*** |
| Incentive > Tax Compliance | 0,042 | 0,325 | 0,745 |
| Tax Service > Tax Compliance | 0.324 | 2,242 | 0.025** |
| Total | : 100 | | |
| $R^2$ | : 0,353 | | |
| $R^2$ adj | : 0,333 | | |
| F-Square | : 0.002 | | |

*** significant level 0,001, ** significant level 0,05

Based on table 2, it explains that the implementation of e-filling affects MSME tax compliance, so hypothesis 1 is accepted, as well as the quality of tax services has a positive effect which indicates that hypothesis 3 is accepted, while tax incentives do not and hypothesis 2 is rejected.

## DISCUSSION

Based on the results of hypothesis testing, the implementation of e-filing has a significant effect on taxpayer compliance. With most respondents not having a NPWP and not being tax compliant, respondents felt that tax reporting was quite difficult so it was important to provide socialization or assistance in the use of e-filing so that MSME actors became tax compliant as the results of this research where MSME actors believed implementing e-filing could increase taxpayer compliance. Referring to attribution theory, MSME players believe that the e-filing system is a positive breakthrough from the government for the community to facilitate tax reporting in terms of time, cost, and energy efficiency. However, due to unfavorable conditions, they are less familiar and informed about this innovation. Therefore, it is necessary to have a community support figure, in this case the government, to implement e-filing effectively. Thus, this research shows that the implementation of e-filing can influence MSME actors who live and run their businesses in the Keroncong Subdistrict area as the research sample in their tax compliance. The results of this research are in accordance with the literature which states that the implementation of e-filing influences taxpayer compliance ((Darmayasa et al., 2020); (Fadhilah & Tarmidi, 2023)).

Based on the results of hypothesis testing, tax incentive policies do not have a significant effect on taxpayer compliance. Referring to attribution theory, the attitude of MSME actors towards the tax incentive policies made by the government is not given much attention. This is due to conditional factors in the form of income they obtain from business income, apart from that because most respondents do not

have a NPWP and are classified as non-compliant, so they do not get tax incentives from the government which are specifically for taxpayers who already have a Tax ID Number. Therefore, counseling is needed from related parties to distribute education to the public, especially MSMEs regarding the tax incentive policies created by the government so that this information can be distributed properly. Thus, this research shows that the tax incentive policy cannot influence MSME actors who live and run their businesses in the Keroncong Subdistrict area as the research sample in their compliance with taxes. The results of this research are in accordance with literature which states that tax incentive policies have no effect on taxpayer compliance ((Wahyudi, 2021); (Fattakh & Tarmidi, 2023)).

Based on the results of hypothesis testing, the quality of tax services has a significant effect on taxpayer compliance. Referring to attribution theory, the role of tax authorities is very necessary to encourage public interest and awareness in complying with taxes. MSME players feel that they are very open to all programs created by the government, but inadequate situations and procedures that are not well understood are obstacles for them. On the other hand, the majority of respondents who do not yet have a Tax ID Number and are classified as non-compliant still feel that tax authorities' services are less than optimal and MSMEs tend to be afraid to interact with tax authorities, thus preventing MSMEs from asking and communicating with tax authorities to obtain tax services to encourage them to become compliant taxpayers. As a result of this, the government, through the tax apparatus, is required to be at the forefront of always accommodating public complaints regarding taxes through quality tax services in order to realize the proper functioning of the tax system. Thus, this research shows that the quality of fiscus services can influence MSMEs who live and run their businesses in the Keroncong Subdistrict area as the research sample in their compliance with taxes. The results of this research are in accordance with the results of research conducted by (Juardi & Hatimah, 2021) which stated that the quality of fiscus services influences taxpayer compliance.

## CONCLUSION

Based on the research results and discussion explained in the previous chapter, the conclusions of this research are as follows: 1) The implementation of e-filing has an effect the compliance of MSME taxpayers who live and run their businesses in the Keroncong Village area. This indicates that e-filing has become a sufficient driver of awareness in determining their compliance with taxes, because it can provide convenience in the future, 2). The tax incentive policy has no effect on the compliance of MSME taxpayers who live and run their businesses in the Keroncong Village area. This indicates that tax incentive policies cannot provide motivation to MSMEs in determining their compliance with taxes, because they consider that adjustments to tax rates are not necessary at this time, 3) quality of tax services has an effect the compliance of MSME taxpayers who live and run their businesses in the Keroncong Subdistrict area. This indicates that the tax apparatus has been an adequate companion for them in determining their compliance with current taxes and can provide convenience in implementing taxes in the future.

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