# CHAPTER I

INTRODUCTION

1.1   Background of study

Indonesia is categorized as a country which has low tax ratio level. In 2014, Indonesia tax ratio compared to its gross domestic product approximately 12.8 % and then, 2015 decrease to 12.32 %. Comparing with the other countries, Indonesia tax ratio remains below such as Philippines is 14%, Malaysia is 16 % and Singapore is 22%. Having low tax ratio level, it means low tax revenue collected by Indonesia government (www.kemenkeu.go.id, 2016).

Tax revenue is the main revenue for covering the government expenditures. So the government always do the great efforts to increase tax revenue by increasing the tax compliance. Various programs were implemented by the government to raise the awareness in paying taxes. The Directorate General of Taxation had issued *Sunset Policy* program in 2008, the year of *Tax Amnesty* in 2014, and the recently program is *Tax Amnesty* policy.

Sunset Policy is regulated by Act 28 year 2007, conformity with article 37 of statutes which stand for the existence of *Sunset Policy*. Actually, *Sunset Policy* is not a new program as *Sunset Policy* considered to be the lowest *Tax Amnesty* which was implemented in 1984.   *Sunset Policy* is a program of sanction amnesty for the taxpayers who report their income honestly and pay the rest of the tax before 21st March 2009. If taxpayers used this program, they would get two benefits. Firstly, they got reduction or removal of administrative sanction such as

interest of annual tax return before the end of 2007. Secondly, reduction or removal of administrative sanction for unpaid tax and lower tax payment either organizational or individual. This is also open for the individual taxpayers who register themselves voluntarily to have taxpayer's identity.

It is undeniable that after expiration of *Sunset Policy*, the level of tax compliance decreased. The lower tax revenue collection is from Individual taxpayers. Actually, corporation has a better compliance than Individual taxpayers (http://ekonomi.metrotvnews.com). It is proved by revenue from tax sector which never reached the target which set by the government since 2009 until 2015. In conclusion, the potential long-run revenue gains from *Sunset Policy* are relatively small. The comparison between target and realisation of tax revenue is illustrated by chart below (billion).
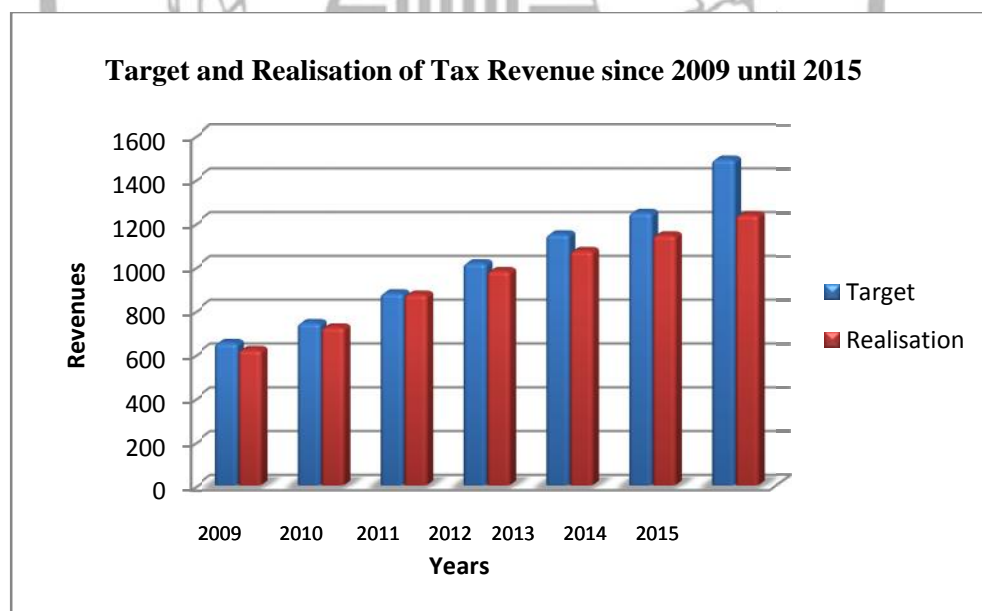
Source: tax council website, processed

Figure 1.1
Difference of Target and Realisation of Tax Revenue since 2009 until 2015

The next implemented program was the year of amnesty for taxpayer in 2015, hopefully it would increase public awareness to pay taxes and to report their annual tax return correctly. The year of amnesty for taxpayer is a chance from government before implementing *Tax Amnesty* in 2016 which had many advantages; incentives gave to all kind of taxes, taxpayers who did not report amount tax correctly and report tax. Beside, the taxpayers who were late to report the tax in 2015 would not be fined or pay the rest of tax. If the taxpayer increases, the revenue from tax will increase. Surprisingly, in 2015 tax ratio decreased from 11.32% to around 11% from the previous year. So, the year of amnesty for taxpayer program did not success enough (http://www.tribunnews.com, 2016).

Government has done many efforts to increase tax compliance such as tax incentive above. However, there is not significant effect on tax compliance. The failure of above fiscal program as the part of tax incentives is not consistent with the finding of Feld and Frey, that giving tax incentive will be followed by increasing of tax revenue. Besides, the failure of tax incentive proves that not only incentives such as rewards or punishment need to be provided, but loyalties and emotion must be considered in increasing tax compliance.

The condition was not supported by some studies about *Tax Amnesties* which proved that *Tax Amnesty* could increase compliance. James et al (1990) claimed that *Tax Amnesty* was amazing grace to enforce compliance. That study showed that the revenue increased after implementing *Tax Amnesty* but not for the year after. Previous research which has been done by Ngadiman and Daniel (2015) test relationship between tax incentives; those are *Sunset Policy, Tax*

Amnesty, and tax compliance. From the result of the research showed that *Sunset Policy, Tax Amnesty* had effect in tax compliance, parallel with the finding of study by James et al (1990), both of them prove that *Tax Amnesty* always affects tax compliance.

Another research which conducted by Widi and Bambang (2015) showed different result. Their finding is *Tax Amnesty* as a form of low level *Tax Amnesty* did not effect on tax compliance. Koch (2015) indicated that *Tax Amnesty* the average of compliance generally fell after an amnesty was given and this decline is most likely due to taxpayer expectation of the future on *Tax Amnesty.* By this, the implementations of fiscal program in Indonesia need to be evaluated to reach the aim.

Low of public awareness to pay tax reduces tax compliance and it has become the main problem of the state from tax aspect. Commonly, small acceptance to pay tax voluntary happens in developing countries, including Indonesia, it seems not only is encouraged by the low of ratio level of taxpayer and the number of people but also other dominant factors such as the high number of tax avoidance practices, institutional trust, capacity to implement, tax evasion, administration complexity, tax compliance, and tax morality.

Tax morality is the most complex behavioural issue within government and education environment, especially for the researcher. These obligations between taxpayers and the state represent the core of individual tax morale, which should positively affect the tax compliance. By absence of a significant response from taxpayer related to that program provided by tax authorities shows that there

is other factors influence tax compliance that is tax morale (James et al, 2009). It relates to the matters of norm, ethics, attitude, value, culture, ethnic, morale, and religion.

Revealed by Bobek et al (2007) that social norm mostly influences taxpayers to fulfil their debt. It is also supported by Wenzel (2004) that personal ethics which is based on religion and cultural norm may have impact on the free tax compliance behaviour of the fiscal exchange between taxpayers and government. Theoretically, factor have been identified in tax compliance tax knowing as *Theory of Planned Behaviour* developed by Ajzen (1991) which extend the attitude, social norm, and perceived behavioural control create a person's intention to perform or not to perform and behaviour is the most important factors immediately determinant of personal action.

Some previous study done by Bobek and Hatfield (2003) examined the noncompliance of taxpayers by using *Theory of Planned Behaviour* which is developed by Ajzen (1991). In their' research framework, tax compliance was formed by three factors; they are the attitude toward the behaviour, subjective norms, and perceived control by adding moral obligation as a moderating variable. The results were attitude toward compliance and subjective norms affected behavioural intention. Similar result was also reported in Bobek et al (2007). On occupation the study of Elia (2007) proved that not only attitude, subjective norms, and perceived behavioural control influenced on tax compliance but also financial, facilities, and organization environment.

However, the inconsistency of findings on the relationship between compliance and some of its determinant (Widi and Argo, 2010), they failed to prove all assertion. Koch et al (2015) reported that attitude might make less compliant, otherwise it significantly related to compliance after moderating by financial condition. Wenzel (2004) offered an analysis of norm process in tax compliance, which social norm referred to the perceived injunctive norms seemed to reduce tax compliance and no longer significant influence.

Koch et al (2015); Bobek and hatfield (2003) has encouraged suggestion that the relationship between tax compliance and its determinant may be moderated by certain variables (Bobek et al, 2007). External intervention undermines intrinsic motivation when they perceived a support; beside it reward may persuade strategic behaviour by the taxpayers for responding to the reduction of tax evasion (Feld and Frey, 2007). Thus external intervention can moderate tax compliance.

According to Ajzen (2005: 42) there are three broad categories of factors that interact with attitudes or personality traits. They are situational circumstances surrounding performance of the behaviour, characteristic of the individual and secondary characteristics of the disposition. First, situational factor is the different condition in some situation but consistent with each other such as regulation and policy. Hence, *Tax Amnesty* as one of recently fiscal policy of government can classified as situational factors which may moderate tax noncompliance and its determinant factors.

Second, characteristic of the individual relates with individual difference in various conditions. Individual difference is considered as moderator is based on the assumption that consistency may be expected for some individuals but not for others such as self-monitoring, private self-consciousness, need for cognition. Third, secondary characteristics of the disposition may influence the relationship between general attitude and specific behaviour for example internal structure, reflection, accessibility, vested interest, involvement, importance, confidence, direct experience. So, the most suitable moderator between behaviour and it determinant factor is situational factor.

Based on the inconsistency result of previous study and phenomenon, the researcher is going to examine noncompliant behaviour toward taxpayers. In this present study extends this prior tax compliance research in two ways. First, this study use factor determinants of noncompliance as suggested by *Theory of Planned Behaviour*. Second, it focus on situational factors, *Tax Amnesty*, as moderation variable will interact with construct toward behaviour intention; specific behaviour (attitudes), social pressures an individual feels to perform (subjective norms), the amount of control an individual perceived to engage in that behaviour (perceived behaviour control).

1.2   Research Problem

From the background of the study, the research problems are formulated as follow:

1.   Does attitude significantly influence noncompliant intention?

2.   Do subjective norms significantly influence noncompliant intention?

3. Does perceived behavioural control significantly influence noncompliant intention?

4. Does perceived behavioural control significantly influence tax noncompliance?

5. Does noncompliant intention influence tax noncompliance?

6. Will *Tax Amnesty* moderate relationship between attitude and noncompliant intention?

7. Will *Tax Amnesty* moderate relationship between subjective norms and noncompliant intention?

8. Will *Tax Amnesty* moderate relationship between perceived behavioural control and noncompliant intention?

1.3   The objective of the Study

In relation with the research question stated above, the objectives of this study are:

1. First, is to find out if there is a significant influence between attitude, subjective norms, and perceived behavioural control toward noncompliant intention.

2. Second, is to find out if there is a directly effect of perceived behavioural control toward tax noncompliance.

3. Third, is to examine if *Tax Amnesty* will moderate relationship between attitude, subjective norms, and perceived behavioural control toward noncompliant intention.

1.4 Benefit of the Research

The results of this study are expected to provide benefits for:

1. Theory

   First, explain the *Theory of Planned Behaviour* with the recent case and provide evidence that *Tax Amnesty* as a form of government tax incentive will affect the tax behaviour intention to behave obey or disobey to pay tax. Second, prove that there are relationship between tax compliance and its factor determinant. Third, the result of this study can complete the previous study and used as reference in the next research.

2. Practice

   First, provide information on criteria about ideal taxpayer that can be used as reference to evaluate and improve tax compliance practice over the years.

3. Policy

   Give Information for government and the Directorate General of Taxation regarding the impact of the tax incentive program that has been implemented, whether the strategy succeeded in increasing tax compliance or there are other factors that influence tax compliance. So, this study is going to provide an overview for decision making which related to tax facilities.

1.5 Systematic of Writing

This research was written according to the systematic that consist of three chapters and explained as follows:

CHAPTER I: INTRODUCTION

This chapter describes the current issues which underlying the study, problem formulation, research objective and benefit, and systematic of proposal writing.

CHAPTER II: LITERATURE REVIEW

This chapter elaborates about previous study, basis theory that underlying the problem, research framework, and hypothesis.

CHAPTER III : RESEARCH METHOD

This chapter elaborates design of the study, limitation of the study, identification variables, operational definition and measurement of variables, population, sample and sampling technique, data and data collection method, and data analysis technique.

CHAPTER IV: DESCRIPTION OF RESEARCH SUBJECT AND DATA ANALYSIS

This chapter describes the result of the research and discusses the result by the correlating with previous study and related theory.

CHAPTER V: CONCLUSION

This chapter concludes the result of study, informs the study limitation, and gives recommendation based on result.