

The Effectiveness of Tax Administration Digitalization to Reduce Compliance Cost Taxpayers of Micro Small, and Medium Enterprises

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Abstract

At this time, digitizing tax administration is one of the activities that can be an answer and development. The reason is that digitalization affects the role of the digital economy so that each country improves services, especially in tax administration. Indonesia is digitizing tax administration by implementing several technologies, especially in reducing taxpayer compliance costs for MSMEs. It is known that the number of SMEs in Indonesia continues to grow from 2015 to 2021, reaching 59 million business actors, so there is a need for more roles from the government to continue to improve taxpayer compliance for MSMEs. This research method uses qualitative descriptive and explanative. The data used is primary data collected through observation and survey distribution to SMEs. The results of this study show that knowledge, mediation, and tax satisfaction/perceived tax fairness variables affect the level of MSME taxpayer compliance in digitizing tax administration. Then, MSME taxpayers in meeting tax compliance costs, such as in tax services, the tax system is still not efficient and effective, as well as tax rates and sanctions that still tend to be burdensome for MSME taxpayers.

Keywords

tax knowledge; tax administration digitization; mediation; perceived tax fairness



I. Introduction

Digitalization within the scope of tax administration is part of the digital transformation of the economy, which is a priority for the G7, OECD, G20, and European Union global agendas to achieve inclusive and sustainable growth (OECD, 2016). This is based on digital transformation in 2016, where digitalization is seen as the key to a better future, and all governments are developing policies that will facilitate the digital transformation process, one of which is in the scope of taxation (OECD, 2017). The digital economy is becoming a complex and dynamic interconnected field where the data obtained has a significant impact on innovation, global value, and the world economy. The digital age is changing the way the economy works and bringing changes in almost everything (economy, society and education, public administration, regional development, science, research, and innovation). Associated with efficient administration being part of efficient public administration, so that tax administration can be a modern software solution, online platform, and allow tax administration to operate more efficiently in collecting revenue.

The new technology trend is known as Ambient Intelligence, Machine Learning, Internet of Things, Cloud and Edge computing, which is a major challenge for the reform of effective tax administration services (Gerger, 2019). The digitization of tax administration means the change in the function of tax administration under the influence of the use of modern technology and smart devices, the Internet, and the development of eGovernment. This digital introduction is an improvement in services for people who want

to pay taxes by maintaining economic efficiency services and reducing the burden on taxpayers in fulfilling their tax obligations. The effect of globalization is of course in the new information technology that affects tax administration function. For example, governments implement artificial intelligence in their operations and in the provision of public services to make their work easier.

This can be seen from countries with strong economies, with good governance, such as Singapore. Singapore is the only country in AI readiness, with the remaining 20 dominated by Western European governments, as well as Canada, Australia, New Zealand and four other Asian economies - Japan, India, United Arab Emirates and China. No Latin American or African country is in the top 20 (Oxford, 2019).

Globally, more and more countries are developing and using artificial intelligence/AI technology and one of them is Indonesia. Indonesia is one of the countries that implement digitalization of tax administration. This is indicated by the statement of the Governor of Bank Indonesia who stated that the Indonesian economy in the last three years tended to improve. domestic economic growth in 2015 was 4.88%, while in 2016 it was 5.02%, and in 2017 it reached 5.05% (Bapennas, 2019). Economic growth is closely related to government revenue from the tax sector. State revenue from taxes has become an important element in supporting economic activities, thus moving the government and helping to provide public facilities. Targeting tax revenue increases that demand taxes to optimize revenue.

With the rapid development of technology, of course the demand for AI in the field of taxation is also growing. For multinational companies, integrating data through AI will maximize their ability to collect and analyze data and adapt to policy changes in the tax compliance process. In addition, this digitization will significantly increase the transparency of tax data, help multinational companies meet government requirements for accurate and real-time tax administration, as well as improve the development of government regulations (Huang, 2018). This makes people have to adapt to changes related to digitalization. Because people have to adapt to the developments and trends of the digital global era. The concept of digitizing tax administration begins with the following uses (Furman, 2019):

1. The existence of development and innovation so that the community must take advantage of the economic and social development of innovation and supporting policies.
2. Jobs and skills that refer to the digital economy. It aims to benefit from the new, constantly evolving labor market and new jobs in the digital age, enhancing the qualifications and skills of the digital workforce. Greater use of digital technology increases the demand for new skills.
3. There is global connectivity that influences the development of the Internet of Things and provides a framework for the Internet of Things in the future.
4. Bringing change for the better in the digital economy. This certainly has a good change, as most data is used and managed to protect consumers and manage their privacy and security risks. Consumer confidence is a key element in supporting the growth of the digital economy. Digital security and privacy risks need to be managed for economic and social well-being.

On this basis, of course, one of the goals and targets in tax revenue is the SME sector. This is because SMEs play an important role in the Indonesian economy (Rekarti & Doctoralina, 2017). SMEs represent 99.99% of the total number of entrepreneurs in Indonesia or 56.54 million units. The number of SMEs in Indonesia continues to grow from 2015 to 2021 (Ministry of Cooperatives and SMEs of the Republic of Indonesia,

2021). The number of SMEs in Indonesia covers 59 million business actors. Due to the number of SMEs in Indonesia, tax revenues from the SME sector must be able to grow such as Gojek, Tokopedia, Grab, Shopee and so on. However, the potential for tax extraction from taxes is still low due to constraints in tax administration and tax rates.

The 2013 tax policy states that the taxpayer rate for SMEs is 1%, provided that the taxpayer has a maximum gross turnover of IDR 4.8 billion (Waluyo, 20106). From the survey, it was concluded that the community's compliance in carrying out their obligations was good, including compliance with the SPT. Because this is seen from taxpayer compliance by using application-based tax administration. The following data shows the level of compliance in filing an SPT.

Table 1. Taxpayer Compliance in Indonesia 2015 – 2019

Description/ Year	2015	2016	2017	2018	2019
Percentage	60,42%	60,75%	72,58%	71,10%	72,87%

Source: www.pajak.go.id

This means that the digitalization of tax administration based on artificial intelligence/AI, enabling to provide better services to taxable persons, reducing costs and increasing tax compliance efficiency, is currently playing a key or major role. Thus, the digitization of tax administration is a determining factor for the successful implementation of SME tax policies as regulated (PP) in Taxation Regulation No. 46/2013. Tax administration plays an important role in the taxation system because an effective tax system will be able to increase tax revenue. This is in accordance with Government Regulation no. 46 of 2013 digitalization of tax administration aims to facilitate SME taxpayers in fulfilling their tax obligations. The 1% tax is on gross income, which should be no more than IDR 4.8 billion per year. Several factors that are considered important for the successful implementation of PP. 46 of 2013. Thus, this study will explain and analyze the effectiveness of digitizing tax administration in reducing the compliance costs of micro, small and medium business taxpayers.

II. Review of Literature

2.1 Digitalization of Tax Administration

Tax can be defined as the implementation of paying the obligations and rights of the taxpayer, which is carried out at the tax office. In this system there are documents that must be recorded such as recording, managing (classifying), and storing the tax data (Walsh, 2012). Digitizing tax administration is one way in which they pay their taxes to the government with a digitized system such as using smart devices/applications. This is aimed at satisfying the assessment, so that taxpayer compliance with tax laws and regulations can be monitored easily by taxation agencies.

Understanding taxes and the views of experts in the field provide various definitions of different taxes, but basically, these definitions have the same purpose. For more details and to understand the meaning of what is meant by tax, several tax definitions are put forward as follows: Taxes are one source of government funds for development, both the central and regional governments. Tax collection can be forced because it is carried out according to the law (Siregar et al, 2019). Tax is a public contribution to the State treasury (transfer of private sector wealth to the law) based on the Act (can be forced) with no reciprocal services (tegen prestatie) which can be directly demonstrated and used to finance public expenditure (publieke uitgaven) (Marpaung, 2020).

The digitization of tax administration plays an important role in the government tax system, and the government can successfully achieve the expected goal of generating optimal tax revenue if the tax administration is able to implement the tax system effectively (Makori et al., 2013). Digitizing tax administration certainly seeks to realize tax regulations and tax revenues and determine how to solve tax problems effectively so that this method is adapted to the times and following existing trends will certainly facilitate the activities and activities of the community in paying taxes.

2.2 Taxpayer Compliance / Compliance Cost

Taxation requires the role of the community in carrying out taxation. This involves a high level of taxpayer compliance, namely compliance in fulfilling tax obligations (Kotnal, 2017). This compliance is certainly related to the self-assessment system, where taxpayers are responsible for self-determination of tax obligations and then pay and report taxes accurately and on time.

Tax compliance is a condition in which the taxpayer fulfills all tax obligations and exercises his taxation rights. According to the Regulation of the Minister of Finance of the Republic of Indonesia Number 74/PMK 03/2012, taxpayers who meet certain criteria. These criteria include being on time in submitting SPT, not having tax arrears, and having a public accountant who checks financial statements. In addition, evaluation of the level of compliance of corporate taxpayers is carried out to assess the level of compliance of a group of people or entities according to the provisions of tax laws and regulations.

2.3 Perceived Tax Fairness

This theory suggests that people will feel satisfied or dissatisfied depending on the presence or absence of equality in a system, especially the work system so that there is a mediating factor in this (Spiegel, 2017). This is certainly related to the digitalization of tax administration which will link with customer or community satisfaction, so there is a need for mediation in providing an understanding of tax compliance based on the digitalization of tax administration. Public perception of the applicable tax system can significantly affect the implementation of good taxation in the country. Perception is a view that is preceded by sensing of objects (objects, humans, ideas, symptoms and events) through the five senses so that it immediately gives meaning and value to an object by highlighting the nature typical of an object and the results of perception can be in the form of responses or judgments that are different from individuals (Ismail et al, 2020). One of these risks is that people can change their behavior tax compliance and tax avoidance behavior because they feel the tax system is unfair. Therefore, justice is an important component in the taxation system because it can lead to the trust of taxpayers so that the digitization of tax administration has an important role in its success.

2.4 Conceptual Framework

The theoretical framework that examines H1, H2, H3 related to SME taxpayer compliance is presented as follows.

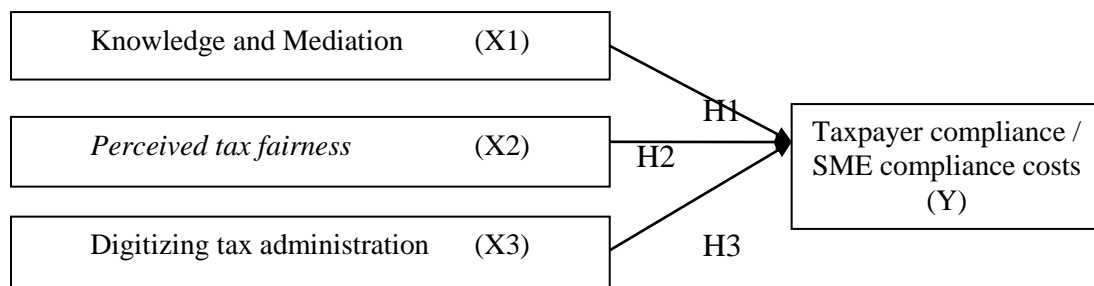


Figure 1. Conceptual Framework

2.5 Research Hypothesis

Based on the theory and arguemntasi above, the hypothesis proposed in this study is as follows:

H1: Knowledge and tax mediation affect compliance SME Compliance Cost taxpayers.

H2: Perceived tax fairness has an effect on taxpayer compliance / SME Compliance Costs.

H3 : Digitalization of tax administration has an effect on mandatory compliance SME tax.

III. Research Methods

This study uses a quantitative approach with descriptive and explanative research methods (Ghozali, 2016). This study aims to examine the effect of independent variables, namely knowledge and mediation (X1), Perceived tax fairness (X2), and digitalization of tax administration (X3) on the dependent variable, namely taxpayer compliance / SME compliance cost (Y). The data used is primary data collected through observation and survey distribution to SMEs. The primary data in this study came from a survey of 100 respondents conducted in Jakarta. The data collection method in this study was carried out in two ways, namely survey and observation. The reason for distributing the survey is related to the role of the informant. They are considered important in research because they can provide information about the research subject, and they can develop access to related resources. The second data collection method is direct observation and non-participant observation, namely by observing the interaction between SMEs related to taxation. Observations are made through dialogue and mediation access to SMEs.

IV. Results and Discussion

4.1 Descriptive Analysis

The following table shows the results of descriptive statistics output from data processing.

Table 2. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Knowledge and mediation	100	17	26	21.1156	1.99875
Perceived tax fairness	100	21	32	27.2346	2.23121
Digitizing tax administration	100	18	28	23.5643	1.89762
SME taxpayer compliance	100	17	24	20.8412	1.89634
Valid N	100				

In Table 2, the descriptive analysis shows that the variable perception of the minimum value produced is 17, while the maximum value is 26, and the average value obtained from 100 respondents is 21.1156. This shows that the perception of knowledge and mediation is in the maximum range. The variable of tax satisfaction/ Perceived tax fairness with an average value of 27.2346 indicates that tax satisfaction/ Perceived tax fairness is also in the maximum range. The tax administration digitization variable tax, with an average value of 23, 5643, indicates that the digitization of tax administration is in the maximum range.

Table 3. T Test

<i>Coefficients^a</i>				
<i>Model</i>	<i>Unstandardised coefficients</i>		<i>Standardised coefficients</i>	
	β	Std. Error	β	<i>t</i>
(Constant)	2.253	2.195		1.026
Knowledge and mediation	0.600	0.068		8.846
Perceived tax fairness	0.193	0.090		2.134
Digitizing tax administration	0.634	0.191		3.316
				<i>Sig.</i>
				0.308
				0.000
				0.003
				0.001

a. Dependent variable: Taxpayer compliance/compliance cost for MSMEs

The regression equation is as follows.

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

The equation includes the following variables.

Y: Taxpayer Compliance/ Compliance Cost

X1: Knowledge and Mediation

X2: Perceived Tax Fairness

X3: Digitizing Tax Administration

E: Error

The following results were obtained from the full model regression.

$$Y = 2.253 + 0.600 X_1 + 0.193 X_2 + 0.634 X_3 + e$$

The first hypothesis (H1), knowledge and mediation (X1), has a value of 8.846 which indicates a positive relationship at a significance value of 0.000 or less than 0.05 ($0.000 < 0.05$). This means that knowledge and mediation (X1) have a significant effect on the dependent variable. We can therefore conclude that the hypotheses for perceived knowledge and mediation cannot be rejected. This is positively correlated and has a significant effect on taxpayer compliance (Y).

The second hypothesis (H2), tax satisfaction/perceived tax fairness (X2), has a value of 2.134 which shows a positive relationship at a significance value of 0.003 or less than 0.05 ($0.003 < 0.05$). This means that tax satisfaction/perceived tax fairness (X2) has a significant effect on the dependent variable, and the hypothesis of tax

satisfaction/perceived tax fairness (X2) is not accepted. This is positively correlated and has a significant effect on taxpayer compliance (Y).

The third hypothesis (H3), digitizing tax administration (X3), has a value of 3.316 which indicates a positive relationship at a significance value of 0.001 or less than 0.05 ($0.001 < 0.05$). This means that the digitization of tax administration (X3) has a significant effect on the dependent variable. The hypothesis of digitizing tax administration (X3) is accepted because it has a positive and significant relationship to taxpayer compliance (Y).

According to the results of the tests conducted, it states that the variables of knowledge, mediation, and tax satisfaction/perceived tax fairness affect the level of compliance of MSME taxpayers. However, this taxpayer will certainly have an effect on tax services, the tax system itself so that in this study it is felt that in the variables studied there are several variables that are still not effective so that they are felt to be a burden to the MSME actors themselves.

This happens because of the influence of costs in taxes for MSME actors so that in this case the perpetrators are reluctant to pay taxes. However, if the Indonesian government eases these MSMEs in tax management. So, it is possible that knowledge and mediation are one of the solutions to reduce compliance costs for MSME taxpayers. Thus, the digitalization of tax administration has a correlation in reducing compliance costs for MSMEs. This is certainly related to the application of technological trends in the economic sphere. Global technology trends are also reflected in eGovernment in Indonesia, which allows processes and decisions in public administration to be implemented much more efficiently and with lower risk.

V. Conclusion

The low level of tax knowledge and mediation in Indonesia causes the level of compliance to pay taxes is also low. The same case occurs in the digitalization of tax administration. It can be said that the weak digitalization of tax administration causes tax obligations that are not fulfilled by public satisfaction. SMEs need more guidance from the government. In addition, in compliance, such as with the mediation variable and community satisfaction, it is felt that the digitization of tax administration has received a good and positive response. This is evidenced in the digitization of tax administration (X3), which has a value of 3.316 which shows a positive relationship at a significance value of 0.001 or less than 0.05 ($0.001 < 0.05$). This means that the digitization of tax administration (X3) has a significant effect on the dependent variable.

Limitations in this study were due to Covid-19, so researchers had to conduct research more carefully and not implicitly.

Suggestions for further research can be seen other variables to be able to answer the problem.

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