Motivation Postures and Tax Incentive Towards Tax Compliance of SME in Surabaya During the Pandemic

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ABSTRACT

The economy in Indonesia is affected by pandemic COVID-19, resulting in a 5.32% decline in the 2nd quartal of 2020. The government issued tax incentives during this pandemic. This study aims to understand motivation postures (commitment, capitulation, resistance, game playing and disengagement) towards tax compliance in 2019 and perception of tax compliance in 2020. Respondents in this research are SME taxpayers in Surabaya. The results show that resistance and game-playing affect tax compliance in 2019; commitment affects perception of tax compliance in 2020; and tax incentive is moderating commitment towards perception of tax compliance in 2020.

Keywords: COVID-19 pandemic, Motivational postures, Tax compliance, Tax incentive

1. INTRODUCTION

In early 2020, the plague from the coronavirus (2019-Ncor) was initially found in China [1]. Not long after China formally reported the Coronavirus, WHO stated the COVID-19 as a Global Health Emergency following 82 confirmed cases throughout China [2]. The solution to suppress the spread of this virus is with lockdown or infamously known as large scale social restriction in Indonesia. The repercussion of this lockdown is the halt of various global economic activities that brought businesses to their knees and in turn causes global recession.

The halt of the global economy greatly affects the trades in Indonesia. The economic growth of Indonesia up to the second quarter of 2020 experienced a decline of 5.32% [3]. According to Statistic Indonesia (BPS), 48.6% of the total of 64.2 million units of SME closed their business [4]. Most of said SMEs closed due to a drastic decline in the number of sales while they hold a vital position in the economic condition in Indonesia.

The Indonesian government did not stay still; they enacted the PMK 86/PMK.03/2020 regarding Tax Incentives for Taxpayers affected by the Corona Virus Disease 2019 Pandemic. With the incentive in place, a taxpayer's motivational postures are expected to be positive (commitment or capitulation) in carrying out his tax duties, and realize that the authorities still care about their people. Reference [5] states that motivational posture itself consists of commitment, capitulation, resistance, game playing and disengagement. Therefore, this study aims to see the effect of motivational postures towards tax compliance 2019 and 2020 by adding incentive as a moderating variable.

2. STYLE PALETTE

2.1. Attribution Theory

Fritz Heider explains that humans are basically scientists who try to find the cause of a person's behaviour [6]. This theory also explains that a person's behaviour can be explained by 2 factors which are external and internal. External attribution (situational attribution) refers to a person's behaviour which is caused by situations where the person is in, while internal attribution (dispositional attribution) refers to the process of internal causes such as motivations that arise from within. Tax compliance is also affected by internal and external factors which means taxpayers are aware of their tax compliance, or otherwise known as voluntary compliance. Intrinsic motivation is the motivation that comes from within, and this compliance is a voluntary compliance that can positively impact the growth of tax income, while extrinsic motivation comes from outside of the individual, such as the urge from tax authorities to increase tax awareness.

One of the ways in which the government attempts this is by modernizing the tax administration system by

overhauling the service towards taxpayers through services based on e-registration, e-filing, and e-billing. This is done so that taxpayers can register, submit an annual tax return, calculate and pay taxes online with ease and speed. Aside from that, during the COVID-19 pandemic, the government has also given various leniencies regarding tax in the form of tax incentives meant to alleviate the burden of taxpayers and to keep taxpayers' compliance in paying their taxes.

2.2. Motivational Postures

Motivational postures are social signals sent by individuals to tax authorities as a social communication tool to measure the social distance between taxpayer and tax authority. The social distance is caused by the existence of fiscus evaluation regarding the performance or alignments given by individuals. In giving said evaluation, the individual or group chooses whether they will be closer, supportive, and in line with the fiscus or to stray, avoiding the fiscus. The distance that occurs will in time affects their belief and rationalization that finally the combination of belief, attitude, interests, and feelings will affect the individual to behave towards the government in a certain way, defining a motivation posture. Simply, it can be said that social distance will determine a taxpayer's level of acceptance and rejection towards a tax system and in turn affect their compliance behaviour.

Reference [5] and [7] states that motivation postures consist of 5 postures and is a vital component in tax compliance, those postures are divided into 2 parts, the first is postures that show a positive orientation which are commitment and capitulation, and the second are resistance, disengagement, and game-playing which show a negative orientation or in clash towards the existing tax system.

The commitment posture describes the level when a taxpayer voluntarily feels involved with the mission of tax authorities as the regulator. The capitulation posture describes an individual who accepts various regulations from tax authorities without the feeling of having to be involved with the mission of the tax authorities. Meanwhile, the resistance posture is an opposition to the tax authorities. For the disengagement posture, individuals show a psychological disassociation from tax authorities and game-playing represents a more imaginative behaviour and practice to evade regulations by "playing the rules".

2.3. Tax Compliance

Tax compliance can be defined as the ability and willingness of taxpayers to obey tax laws, reveal their real sum and source of yearly income, and pay their taxes accurately and on time [8]. Tax compliance is differentiated into formal compliance (administrative)

and material compliance (technical). Formal compliance is the situation where taxpayers fulfil their obligations formally according to the requirements stated in the tax law. Material compliance is the condition where taxpayers substantially fulfil all material requirements of tax that is according to the tax law. Material compliance can also include formal compliance.

The criteria of a compliant taxpayer according to PMK 192/PMK.03/2007 is reporting his tax returns for all form of taxes in the last 2 years on time, have no arrears on all form of taxes unless with permission to delay or pay taxes in instalments, having a Public Accountant or government financial institute to audit income reports with a result of unqualified opinion for 3 consecutive years, has never been convicted of tax crime in the last 10 years, and in the last 2 tax years said taxpayer maintained bookkeeping according to the regulation, and if an inspection was conducted, any corrections towards each tax category cannot exceed 5%.

2.4. Tax Incentive

Tax incentive PMK-86/PMK.03/2020 aimed for taxpayers affected by corona virus, including tax incentive for SME. The gross revenue that taxpayers gain from their businesses with the sum of up to 4.8 billion rupiah which are previously subjected to final income tax of 0.5%, paid by personal deposit by the taxpayer, or deducted/collected by the appointed tax authority, is now carried by the government and exempted from income tax. The final income tax incentive borne by the government was granted for the tax period from April 2020 to September 2020.

Final income tax incentive borne by the government is given based on the Realization Report submitted by the taxpayer as long as the taxpayer has already owned a Letter of Statement before the report is submitted. Final income tax realization report borne by the government which is attached with a Tax Payment Letter or a printed billing code can be submitted no later than the 20th of the following month after the tax period ends. PMK 86/PMK.03/2020 has already been updated into the PMK 110/PMK.010/2020, but there is no change in the regulations and explanations of the final income tax borne by the government.

2.5. Hypothesis

Taxes are the largest source of income that can be used for the welfare of the people. Reference [9] states that divided tax compliance into two major factors namely economic factors and non-economic factors. Economic factors include the level of actual income, tax rates, tax benefits, penalties, tax audits, fines, and audit probability. While non-economic factors include attitude toward taxes, personal, social and national

norms, and perceived fairness of the tax system. However, the most vital part of participating in activities of taxes comes from a taxpayer's internal factors that can be measured through motivational postures. In this era of the COVID-19 pandemic, tax incentive regulations are put into effect to alleviate and increase tax compliance.

Reference [5] stated that they used motivation postures indicator to gauge the level of tax compliance. Commitment showed that taxpayers voluntarily participate in the tax authority's mission as a regulator. In this instance, taxpayers feel that it is their obligation to participate in taxes prior to the Corona pandemic. Incentive is expected to moderate commitment toward tax compliance.

H1: Commitment affects tax compliance in 2019.

H2: Commitment affects perception of tax compliance in 2020.

Secondly, capitulation (submission) showed that a taxpayer accepts the current regulation even when said regulation is not in accordance with his priorities, but ultimately still feels that the right thing is for the regulation to be in place. Taxpayer wants to be more engaged in national taxes. The higher a taxpayer's capitulation, the more compliant he is. Although the economy suffered, taxpayer with a high capitulation will still feel urged to take part in helping to mend the city's economy. Although a taxpayer is already at ease with the final income tax for SMEs incentive in place, a taxpayer will not be bothered if it is removed, although he realizes that it is not in accordance with his will. This is because a taxpayer feels that whatever is placed by the fiscus is rightly so.

H3: Capitulation affects tax compliance in 2019

H4: Capitulation affects perception of tax compliance in 2020

Resistance showed taxpayers' concern regarding the fiscus's performance. Taxpayers assessed that the fiscus is more interested in mistakes made by the taxpayers. This means that the fiscus holds a great role in determining the taxpayers' behaviour. If the taxpayers deem the fiscus to be illegitimate, then the taxpayers' resistance in motivation postures will increase, causing them to be incompliant. During the corona pandemic, taxpayers will perceive the fiscus to be scrutinizing towards SMEs, to increase the state tax revenue. Without incentive on the final income tax of SMEs, taxpayers will show doubts about the fiscus and the performance. Taxpayers will deem the fiscus to no longer care

H5: Resistance affects tax compliance in 2019

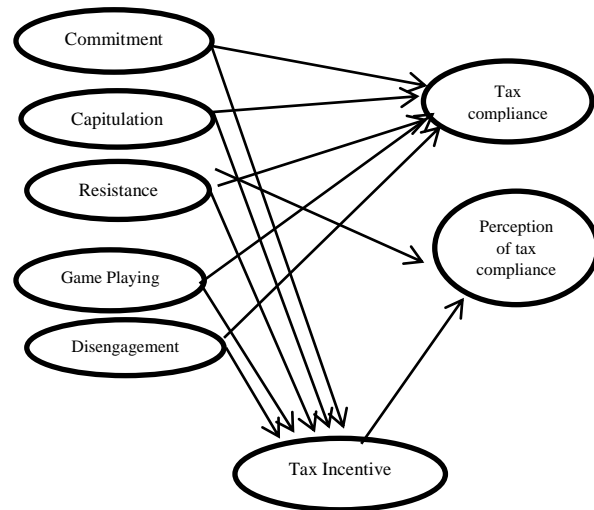H6: Resistance affects perception of tax compliance in 2020

Figure 1 Research Model

Taxpayers tend to look for ways to avoid taxes by "working the regulations". Taxpaying-SMEs will tend to look for ways to pay as little tax as they can in the yearly income tax. The higher the game-playing done by taxpayers, the more incompliant they will be. The provision of giving tax incentive is intended as government effort to reduce game playing motivation because the amount of tax paid is already lower.

H7: Game-playing affects tax compliance in 2019

H8: Game-playing affects perception of tax compliance in 2020

Disengagement is another form of resistance that is deeper. With the poor economic situation, the fiscus acted too harshly towards taxpayers. This causes taxpayers to choose to be uncooperative. Taxpayers are psychologically separated from the fiscus. The higher the level of disengagement of taxpayers, the more taxpayers are incompliant. With the availability of tax incentives, disengagement motivation won't affect taxpayer compliance because their suspicion about tax authorities will act tougher cannot be proven.

H9: Disengagement affects tax compliance in 2019

H10: Disengagement affects perception of tax compliance in 2020

3. METHODS

3.1. Sampling and Data Collection Method

This research used questionnaire as the research instrument. The respondents were 72 SME taxpayers living in Surabaya. The questionnaire was given to taxpaying-SMEs with a requirement of 1) NPWP (taxpayer identification number), 2) gross income of less than 4,8 billion rupiah, and 3) established before 2020.

3.2. Measurement of variable

This research uses partial least square with SmartPLS software to examine the posture motivation effects to tax compliance. To measure all the latent variables in this research, a 5-point Likert scale questionnaire is applied as the main research instrument. Each question will be scored in the following method: a) 1 for strongly disagree, b) 2 for disagree, c) 3 for rather disagree, d) 4 for agree, and e) 5 for strongly agree.

3.3. Variable Definition

3.3.1. Independent Variable

The independent variable in this study is the motivation postures itself which are commitment, capitulation, resistance, game playing and disengagement. The statement related to motivational postures are taken from [10], commitment with 5 (five) statements about taxpayer's voluntary behaviour to willing to participate as responsibility as citizens. Capitulation in 4 (four) statements regarding taxpayer's acceptance to the regulation without the feeling of to be involved with the tax authorities. Resistance with 6 (six) statements that states about tax authority's response to what taxpayers do. Game playing with 4 (four) statements regarding taxpayer behaviour looking for loopholes in tax regulation. And lastly, disengagement with 4 (four) statements about taxpayer's uncooperative behaviour.

3.3.2. Dependent Variable

Dependent variables in this study are linked with compliance in 2019 (Y1) and perception of compliance in 2020 (Y2). Compliance itself will be related to 6 questions regarding paying taxes on time, the sum of the tax paid, on-time report, no fine sanctions, never investigated, and no tax arrears.

3.3.3. Moderating Variable

The moderating variable in this study is related to PMK86/PMK.03/2020 that discusses the tax incentive for taxpayers affected by the coronavirus disease in 2019. This variable is translated into two questions about taxpayer's consistency of paying and reporting their taxes without the availability of tax incentive.

4. RESULTS AND DISCUSSION

4.1. Demographic Profile of Respondents

Research respondents' demographic distribution

Table 1. Research respondents' demographic distribution

Information	Gender Male	Female	Total	Percentage
Age				
18 – 25	18	16	34	47%
26 – 35	6	3	9	12.5%
36 – 45	2	1	3	4%
46 – 55	13	4	17	24%
>55	9	0	9	12.5%
Business Entity				
Individual Proprietorship (UD)	33	22	55	76%
CV, Firma	9	0	9	13%
PT	6	2	8	11%
Year of operation				
<2018	45	21	67	93%
2019	2	3	5	7%

Table 1 shows the age of respondents, form of SME and when SME was established. The table shows that respondents' age are at ranging from 18 to 25 years (47%), 76% are individual companies, most of the SME years of operation are prior to 2018.
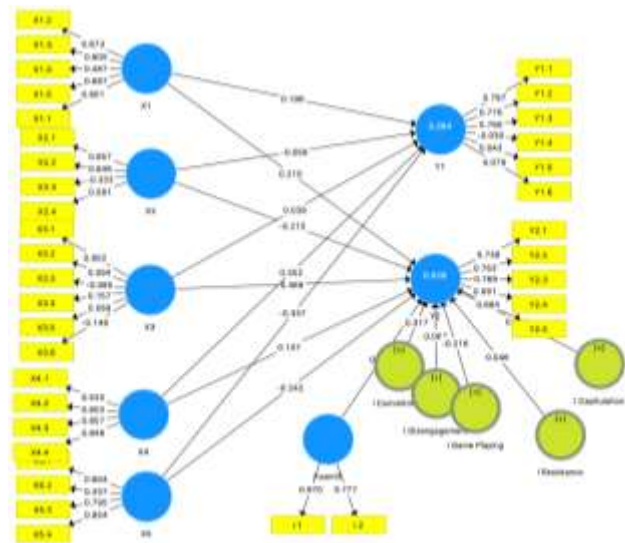

Figure 2 Factor Loading Indicator

4.2. Descriptive Data, Validity and Reliability Test

Some of the indicators are not use due to not valid loading factor value (< 0.6) shown in figure 2. Table 2 show the mean for each motivational posture: commitment (3.806 – 4.403), capitulation (3.653 – 3.903), resistance (3.417 – 3.944), game playing (3.361 – 3.861) and disengagement (3.056 – 3.097).

It can also be concluded that respondents tend to have acceptance postures (commitment and capitulation) rather than rejecting postures (resistance, disengagement and game playing).

Table 2. Summary of Descriptive Data

Variable	Indicator	Mean	Std. Deviation	Min	Max
Commitment	X1.1	4.403	0.758	1	5
	X1.2	4.111	0.921	2	5
	X1.3	3.806	1.049	1	5
	X1.5	4.111	0.792	2	5
Capitulation	X2.1	3.653	0.945	2	5
	X2.2	3.903	1.056	1	5
Resistance	X3.3	3.542	1.053	1	5
	X3.4	3.944	0.911	1	5
	X3.6	3.417	0.982	1	5
Game Playing	X4.2	3.361	1.084	1	5
	X4.3	3.861	1.004	1	5
	X4.4	3.847	0.892	1	5
Disengagement	X5.1	3.056	1.257	1	5
	X5.3	3.097	1.157	1	5
	X5.4	3.056	1.189	1	5
Tax Compliance 2019	Y1.1	4.528	0.577	3	5
	Y1.2	4.472	0.645	3	5
	Y1.3	4.333	0.687	3	5
Tax Compliance Perception 2020	Y2.1	4.097	0.819	2	5
	Y2.2	3.986	0.874	2	4
	Y2.3	4.444	0.797	2	5
	Y2.5	4.694	0.461	4	5
Tax Incentive	I.1	3.750	1.090	1	4
	I.2	3.722	1.083	1	5

4.3. Construct Validity Test

In this stage, there will be two score criteria that will be evaluated which are loading factor and average inflation factor (AVE). Table 3 shows that loading factor value of each construct is greater than 0,6. The least value is 0,603 for the indicator X3.4. Based on Table 4, AVE value for each construct is above 0.5. The lowest AVE value is 0.564 on the construct of precepted tax compliance 2020. Therefore, all research constructs are categorized as valid.

Table 3. Loading Factor Value

Variable	Indicator	Factor Loading
Commitment	X1.1	0.793
	X1.2	0.667
	X1.3	0.824
	X1.5	0.902
Capitulation	X2.1	0.945
	X2.2	0.879
Resistance	X3.3	0.882
	X3.4	0.603
	X3.6	0.796
Game Playing	X4.2	0.768
	X4.3	0.864
	X4.4	0.872
Disengagement	X5.1	0.784
	X5.3	0.767
	X5.4	0.879
Tax Compliance 2019	Y1.1	0.838
	Y1.2	0.775
	Y1.3	0.808
Tax Compliance Perception 2020	Y2.1	0.812
	Y2.2	0.811
	Y2.3	0.750
	Y2.5	0.613
Tax Incentive	I.1	0.966
	I.2	0.786

Table 4. Outer loading analysis based on ave, √ave, Cronbach's alpha and composite reliability

	AVE	√AVE	Cronbach's Alpha	Composite Reliability
Tax compliance in 2019	0.652	0.807	0.741	0.849
Perception of tax compliance in 2020	0.564	0.750	0.740	0.836
Commitment	0.642	0.801	0.821	0.876
Capitulation	0.833	0.912	0.806	0.909
Resistance	0.592	0.769	0.701	0.809
Game Playing	0.698	0.835	0.802	0.874
Disengagement	0.659	0.811	0.771	0.852
Tax Incentive	0.776	0.880	0.750	0.873

Table 4 showed that the composite reliability above 0.7 for all constructs, then all constructs fulfil the criteria of discriminant validity. The lowest composite

reliability value is 0.809 on construct X3 (resistance). The value of Cronbach's Alpha for every construct is above 0.6, the lowest value is at 0.701 (X3). It can be concluded that every construct in the study has passed the reliability test. Based on the analysis results output, the R-square value for the variable of tax compliance in 2019 (Y1) is 0.190 and for the variable of perception of tax compliance in 2020 (Y2) is 0.310.

4.4. Hypothesis Testing

Based on the data processing in Table 5, it is shown that commitment, capitulation, and resistance do not affect tax compliance in 2019 as P values > 0,05 and t statistic < t table (1,666) so H1, H3, and H5 are rejected per the explanation above. On the other hand, game-playing and disengagement significantly affect tax compliance in 2019, which means H7 and H9 are accepted.

Reference [5] and [11] states that these 5 motivation postures are relatively distinct and every taxpayer has more than one motivation postures that correspond with how a respondent deals with a question given, and it can be seen which motivation postures he carries. For motivation postures of commitment and capitulation, they are usually level, so when they are existent, the other 3 postures are usually non-existent. This is because commitment and capitulation postures show a taxpayer's acceptance while disengagement, resistance, and game-playing show taxpayer's rejection.

Table 5. Path Coefficients, *t*-statistic and p-values direct and indirect relationship

Relation-ship		Path Coeffici ents	t-statist ics	P-values
Direct Effects	X1 → Y1	0.229	1.353	0.088
	X1 → Y2	0.394	2.345	0.010*
	X2 → Y1	-0.094	0.662	0.254
	X2 → Y2	-0.048	0.300	0.382
	X3 → Y1	-0.181	1.243	0.107
	X3 → Y2	0.082	0.561	0.288
	X4 → Y1	0.305	2.028	0.022*
	X4 → Y2	0.085	0.546	0.293
	X5 → Y1	-0.253	1.864	0.031*
	X5 → Y2	-0.239	1.641	0.051
	Tax Incentive → Y2	0.139	0.807	0.210
Indirect Effects	Incentive & Capitulation → Y2	-0.249	1.290	0.099
	Incentive & Commitment → Y2	0.566	2.262	0.012*
	Incentive & Disengagement → Y2	0.039	0.260	0.397
	Incentive & Game Playing → Y2	-0.114	0.629	0.265
	Incentive & Resistance → Y2	-0.022	0.134	0.447

Game playing affects tax compliance 2019 because taxpayers feel that the government concerns more on state tax revenues. Tax becomes the absolute rights of the government elite. Reference [9] also shows that game playing affects tax compliance. Tax avoidance is more likely to be known by people, since it is broadly discussed in mass media. While the country's economy is unstable, taxpayers might change their posture motivations to disengage when it comes to tax paying.

Based on the research, tax incentive moderates the relationship between commitment and the perception of tax compliance in 2020 and this relationship is defined as pure moderation. Reference [12] also shown that commitment affect tax compliance. SMEs taxpayer are more aware to pay tax because they feel that government are concern about economic situation during pandemic COVID-19. On the other hand, tax incentive did not moderate other posture motivation and this relationship is defined as potential moderation. This result shows that H4, H6, H8 and H10 are not significant and not moderated by tax incentive.

5. CONCLUSION

Tax incentive becomes a compatible policy instrument. Tax incentive advantages are to reduce taxpayers' expense and it might change posture motivation from rejecting postures to accepting postures. For further study, it is advised to research different population, such as: taxpayers as with gross income of more than 4,8 billion rupiah or employers who also act as with-holding agents.

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