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ScienceDirect

Procedia - Social and Behavioral Sciences 211 (2015) 163 – 169

Procedia
Social and Behavioral Sciences

2nd Global Conference on Business and Social Science-2015, GCBSS-2015, 17-18 September
2015, Bali, Indonesia

The Effect of Tax Socialization, Tax Knowledge, Expediency of Tax ID Number and Service Quality on Taxpayers Compliance With Taxpayers Awareness as Mediating Variables

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Abstract

The purpose of this study is to examine the mediating role of taxpayers awareness of the relationship among tax socialization, tax knowledge, expediency of tax id number, service quality and taxpayers compliance. A survey was conducted on 100 taxpayers registered in the Pekanbaru-Senapelan tax office. Data analysis was using path analysis. The result shows that taxpayers awareness has a full mediating role in the relationship between expediency of tax id number, service quality, and taxpayers compliance. Conversely, taxpayers awareness has no mediating role in the relationship between tax socialization, tax knowledge, and taxpayers compliance. Implication of these findings will be discussed.

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Peer-review under responsibility of the Organizing Committee of the 2nd GCBSS-2015

Keywords: Expediency of tax ID number; service quality; tax socialization; tax knowledge; taxpayers awareness; taxpayers compliance.

1. Introduction

Indonesia is a country that is guided by the Act of 1945 which regulates on the implementation of national development aimed at the welfare of the society. Development can only be achieved if there is cooperation between government and society, and it is expected that the development goes in accordance with the wishes of the Indonesian citizen. On the other side, developing countries demand an enormous amount of money and it is extremely important to have a reliable source of funds. One of the greatest sources of funds is from taxes. It is evidently shown by State

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Budget (APBN), that the taxes sector provided the largest contribution to the state revenue. Directorate General for Taxation as a government agency under the Ministry of Finance tried to increase tax revenues through the expansion and intensification of taxpayers. Reaching out to the new taxpayers is one of ways of expanding the subject and object of taxation. In order to increase and maximizing tax revenues need to increase taxpayers awareness to pay their tax liability. Application of the *Self Assessment System* that replaces the *Official Assessment System* in Indonesia, has given full trust to the taxpayers to exercise their rights and obligation of tax. The weakness of *Self Assessment System* is highly dependent on the honesty and obedience of the taxpayers which often lead to disappointment and even misused intentionally. There are many taxpayers still not understanding how to calculate their tax liability and some of them intentionally violate tax rules (Kusumawati, 2006).

Taxpayers compliance has always been a classic issue, as disobedience of taxpayers often lead to tax evasion. A survey conducted by Directorate General for Taxation in 2014, stating that tax compliance either individual, corporation, and value added tax does not achieve 80%. According to data from Ministry of Finance reveals the income tax ratio from individual taxpayers are only 0,04% from total tax revenue in 2013 (Ortax.org).

Taxpayers try to minimize tax liability through legal and illegal means. At the same time tax authorities attempt to improve compliance, detect tax evasion, enforce tax rules, and close unintended loopholes for legal tax avoidance (Slemrod and Yitzhaki, 2002). A growing literature emphasizes tax awareness as an explanation as to why some taxpayers engage in legal tax avoidance activities while others do not. Taxpayer awareness of tax rules depends on the salience of taxes (Chetty, Looney, and Kroft, 2009; Finkelstein, 2009).

Nugroho (2012) argues if taxpayers understand how to calculate, pay and report their tax liability according to tax regulation, certainly increase taxpayers awareness. Taxpayers awareness and taxpayers compliance were influenced by several factors such as tax socialization, tax knowledge, expediency of tax id number, and service quality of tax officers. Taxpayers compliance and willingness to pay their tax liability is needed to boost up tax revenues, therefore, tax socialization will enhance taxpayers' knowledge of taxation. In turn, a better knowledge of taxation will lead to better tax compliance. Taxpayers who understand the tax rules would encourage the successful implementation of the *Self Assessment System* (Rohmawati, *et.al.*, 2013).

Expediency of tax id number is also a factor increasing tax compliance. Previous research by Putri (2012) revealed that the expediency of tax id number affects taxpayers compliance to their tax liability. If a person has registered as a taxpayers to have a tax id number, it will awaken him to pay his tax liability to the state.

Best Service Quality of tax authorities to taxpayers related to tax compliance. Quality of service of tax officers can be seen on the seriousness in providing consulting assistance to taxpayers who do not understand the tax rules so that taxpayers understand their rights and obligations in terms of taxation.

Supadmi (2009) argues that one of the efforts to improve tax compliance is to provide good services to taxpayers. The purpose of this study is to examine the mediating role of taxpayers awareness on the relationship among tax socialization, tax knowledge, expediency of tax id number, service quality and taxpayers compliance.

2. Literature Review and Hypotheses

2.1. Attribution Theory

Attribution theory considers the individual as an amateur psychologist who tries to understand the reasons for events that occurred in the face. Attribution theory to try to find what is causing what, or what motivates anyone to do anything. Response that we give to an event depends on our interpretation of the event (Harold Kelley, 1973).

2.2. Theory of Planned Behaviour

In the theory of planned behaviour explained that the behaviour generated by the individual arises because of the intention to behave. While the emergence of an intention to behave is determined by three factors (Fishbein, M & Ajzen, I, 1975), namely: a. behaviour beliefs. b. normative beliefs. c. control beliefs.

2.3. Social Learning Theory

According to social learning theory, a person can learn through observation and direct experience (Bandura, 1977), the process of social learning includes: the process of attention, retention, motoric reproduction process and the process of reinforcement.

2.4. Taxpayers Awareness

Taxpayers awareness can be explained as a condition when taxpayers understand how to calculate and pay their tax liability. Generally, awareness of the taxpayer to pay taxes will create taxation morality of society. People who have a higher morality would feel to pay tax is the who duty of every citizen must be met because the tax is needed to sustain government spending (Siahaan, 2010). Positive assessment of taxpayers to the implementation of state functions by the government will mobilize the taxpayers to meet their tax obligations by paying taxes (Nurmantu, 2010).

According to Suryadi (2006) there are four indicators that will enhance taxpayers awareness:

- Build a positive perception about tax obligation,
- Learn about taxpayers characters,
- Improve taxpayers knowledge about tax regulations, and
- Periodic tax socialization

2.5. Taxpayers Compliances

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirement even though 'tax law are not always precise' (James and Alley, 2004:29). The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard, and Feinstein (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economic equilibrium of a country. There are two types of compliance, namely: a. formal compliance. b. material compliance.

2.6. Tax Socialization

Tax socialization is an effort of the General Directorate of Taxation to provide understanding, information and guidance for all taxpayers. In order to achieve its objectives, the tax socialization activities are divided into three focused, namely: a. socialization activities for prospective taxpayers, b. socialization activities for a new taxpayers, and c. socialization activities for registered taxpayers (Herryanto, 2013). Tax socialization can be done in two ways as follows: a. directly, and b. indirectly.

2.7. Tax Knowledge

Harris (1989) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. Eriksen and Fallan (1996:387) claimed that knowledge about tax law is assumed to be important for preferences and attitudes towards taxation.

2.8. Expediency of tax id number

Tax id number (TIN) is the number given to the taxpayer as a means of tax administration that is used as an identity of the taxpayer in carrying out the rights and obligation of taxes (Mardiasmo, 2009). There are several benefits that can be acquired by a taxpayer on the ownership TIN, namely: a. the taxpayer can pay taxes and report in an orderly manner, b. tax authorities can oversee the fulfillment of tax obligations of each taxpayer. The TIN is a system generated reference index number issued and assigned by the tax authorities to each and every person registered in its

database. This reference index number is required to be indicated in all business and/or personal transaction of registered person whether these are with government offices or otherwise. The TIN contains key information necessary for computer processing and information generation. The introduction of TIN was in preparation for the overall integrated computerization of tax collection and administration.

2.9. Service Quality

If tax compliance is like a product, the tax compliance level became the main focus of the attainment of tax office organizations'. Service quality may not be achieved without process quality. Hence, it needs an organization. Tax authorities are expected to have competence in terms of skill, knowledge and experience in terms of tax policy, tax administration and laws. In addition, the tax authorities must also have a high motivation as a public servant. There are five dimensions of evaluation of the quality of service as follows: a. tangible, b. empathy, c. responsiveness, d. reliability, e. assurance.

2.10. Taxpayer awareness as a mediating variable

Tax socialization aims to improve the understanding of taxpayers against the prevailing tax regulations, awareness and compliance of taxpayer in paying their tax obligations. Rohmawati, et.al (2013) in their research revealed that the tax socialization may affect the taxpayer's awareness and will have an impact on taxpayer compliance. Self assessment system requires taxpayers better understand the tax regulations in order to carry out the tax obligations well. Tax socialization be structured, will help taxpayers understand the tax laws that in turn will bring to taxpayers that paying taxes is the responsibility of every citizen must be carried out by obedient.

Someone who has had a tax id number means it has been registered as a taxpayer who is ready to fulfill their tax obligations. TIN provides many benefits both individuals and business entities, for instance, as a prerequisite for opening a bank account, apply for a credit proposal, conduct business transactions and others. Realizing the benefits of ownership of TIN, the taxpayer aware of the obligation and obey to pay taxes.

Tax authorities will continue to increase taxpayer compliance in paying taxes by simplifying tax administration, in order to provide convenience to the taxpayer. Simplification of the tax administration will not succeed if it is not supported by quality service tax authorities. Taxpayers like consumers on quality service, then this must be considered by the tax authorities to raise awareness and taxpayer compliance. Suryadi (2006) emphasizes the importance of the quality of the tax authorities in providing services to taxpayers. Good service quality can increase awareness and taxpayer compliance.

H₁: Taxpayers awareness mediates the relationship between tax socialization and tax compliance

H₂: Taxpayers awareness mediates the relationship between tax knowledge and tax compliance

H₃: Taxpayers awareness mediates the relationship between expediency of tax id number and tax compliance

H₄: Taxpayers awareness mediates the relationship between service quality and tax compliance

3. Methods

The study population consisted of individual taxpayers who registered at the tax office located in Pratama Senapelan-Pekanbaru as 83.149 persons. The study use an accidental sampling technique, and uses questionnaires as an instrument to collect data by spreading it to the taxpayers who come to the tax office. Therefore, the sample size with a margin of error of 10% is:

$$n = \frac{83.194}{(1 + 83,149)(0.1)^2}$$

$n = 99.87988$ rounded to 100

The object of this study is the tax socialization, tax knowledge, expediency of tax id number, service quality, tax awareness, and tax compliance which the taxpayers awareness mediates the relationship between tax socialization, tax knowledge, expediency of tax id number, service quality, and tax compliance. Variable measurement using a Likert scale with 5 scales choices are 1 (strongly disagree), 2 (disagree), 3 (doubtful), 4 (agree), 5 (strongly agree).

3.1. Validity and reliability test

Validity test used to measure whether or not a questionnaire valid. If the corrected item-total correlation $> r$ table means the data is valid (Ghozali, 2011). Reliability test is used to determine the measurement results remain consistent if it is done twice or more of the symptoms are the same as using the same measuring instrument. Constructs or variables said to be reliable if it gives the value of Cronbach Alpha $> 0,60$ (Ghozali, 2011).

3.1. Normality test and Classical assumption test

The normal distribution test in this study using *normal probability plot*. Classical assumption test for linear regression model is made to ensure that the model is free from multicollinearity, autocorrelation, and heteroscedasticity.

Multiple Linear Regression Analysis

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

$$Y_2 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 Y_1 + \varepsilon \quad (2)$$

where:

Y_1 = taxpayers awareness

Y_2 = taxpayers compliance

X_1 = tax socialization

X_2 = tax knowledge

X_3 = expediency of tax id number

X_4 = service quality

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = regression coefficients

ε = Error

Following that, using α 5% the hypothesis will be tested statistically, the t and F test using multiple regression.

4. Results and Discussions

4.1 Profile of respondents

Profile of respondents can be described as follows: 1. by sex: male 64 and female 34; 2. by age: 83% aged between

21-40 years; 3. by jobs: 47% entrepreneur, 37% private sector employees and others are government officials; 4. by education: 48% bachelor degree, 36% diploma degree and others are senior high school.

4.2 Descriptive Analysis

The result of descriptive statistical analysis show that the average value of respondents greater than the standard deviation means that the data has low variability.

4.3 The results of validity and reliability of data

Test validity of the data on all study variables produce a correlation coefficient greater than 0.196 means that the data is valid as well as the reliability test results obtained by Cronbach alpha > 0.6 which means that the data is reliable.

4.4 Normality and classical assumption test results

Using normal probability plot shows normal distribution pattern and classical assumption test results free of multicollinearity, autocorrelation, and heteroscedasticity.

4.5 Hypotheses testing

Hypothesis test results that the tax socialization, tax knowledge and quality of service were affecting the tax awareness while expediency of tax id number does not affect the tax awareness. Expediency of tax id number does not affect the tax awareness of taxpayers to pay their tax liability due to the possibility they have not felt the benefits of having a tax number and there may be a tendency they do not want to register to obtain a tax id number.

Tax socialization, tax knowledge were affecting the tax compliance while expediency of tax id number and service quality do not affect the tax compliance. Quality of service do not affect compliance of tax, it is probably they do not require the tax administration services. Furthermore, tax awareness affects the tax compliance.

The result also shows that taxpayers awareness has a full mediating role in the relationship between expediency tax id number, service quality, and taxpayers compliance. Conversely, taxpayers awareness has no mediating role in the relationship between tax socialization, tax knowledge, and taxpayers compliance. These findings reveal that the socialization of taxation will enhance the understanding of taxpayers against tax laws that apply in turn will improve taxpayer compliance in paying taxes.

5. Conclusions and implications

This paper presents the results of a study that investigates the effect of tax socialization, tax knowledge, expediency of tax id number, and service quality on taxpayer compliance with taxpayers awareness as mediating variables. The findings concluded that tax socialization, tax knowledge and quality of service were affecting the tax awareness while expediency of tax id number does not affect the tax awareness. Tax socialization, tax knowledge were affecting the tax compliance while expediency of tax id number and service quality do not affect the tax compliance. Furthermore, tax awareness affects the tax compliance. The result also shows that taxpayer awareness has a full mediating role in the relationship between expediency of tax id number, service quality, and taxpayer compliance. Conversely, taxpayers awareness has no mediating role in the relationship of tax socialization, tax knowledge, and taxpayers compliance.

The findings as mentioned above explains that in order to raise awareness of taxpayers in paying taxes, they need to get a better understanding of the tax regulations through socialization taxation. Another important factor is the quality of service from the tax authorities to encourage awareness and compliance of the taxpayer. Awareness of taxpayer is deemed to encourage tax compliance to various tax regulations.

Furthermore, to increase state revenues from the tax sector can be suggested to tax authorities to continuously by providing training and socialization of taxation with improved quality of service to encourage tax compliance.

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