The Tax Audit, Simplification of The Tax Return, Perception of Government Spending and Tax Payer Compliance

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THE TAX AUDIT, SIMPLIFICATION OF THE TAX RETURN, PERCEPTION OF GOVERNMENT SPENDING AND TAX PAYER COMPLIANCE

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Abstract

The main problem of Indonesia Tax Office to speed up the tax revenue is how to increase the tax payer voluntary compliance. This research aims to examine the influence of the tax audit, the simplification of tax return and the perception of government spending to the tax payer compliance in Jakarta, Indonesia. This study was analyzes the questionnaire of primary data from 100 tax payers as respondents. The result showed that: (1) The tax audit has positive influence and significance to the tax compliance; (2) The simplification of tax return has positive influence and significance to the tax compliance; and (3) The perception of government spending has positive influence and significance to the tax compliance. This finding can be contributes to the government as an alternative method to apply the tax policy in cultivating the tax payer compliance. It can be concluded that the tax compliance is influenced by the tax audit, the simplification of tax return and the perception of government spending.

Keywords: tax audit, simplification of tax return, perception of government spending, tax payer compliance

1. Introduction

The tax payer compliance still low is a problem faced by Indonesia since the reversal of the tax system of official became self assessment in 1983. This is according to data from the Ministry of Finance (Kompas, May 22, 2013) which says that tax revenues actually still have a greater potential. But because of the lack of it causes a potential tax data in a number of sectors that have not netted the fullest. Of the approximately 60 million of people who earn income above taxable income is only about 25 million new tax payer paying taxes. Meanwhile, from about 5 million of tax payer profit entity that has a new, approximately only 520 thousand business entities that pay taxes.

There is a huge problem that must be sought of Indonesian government to minimize the gap of unpaid people and tax payer that paid tax to the state. It is importance to disenchant all people doing itself voluntary their tax obligation to the country. There is many opportunity to the tax office practicing new method to dig up the potential tax revenue in around the business climate.

Tax payer voluntary compliance is a critical success factor for taxation. Andreoni, et al (1998) indicates that the non-compliance of society to pay taxes is a major problem in the self-assessment tax system. It takes law enforcement (tax enforcement) with the imposition of taxation lawful by the government to detect non-compliance can cause multiple effects so that people will obey voluntarily.

Research conducted by Palil and Mustapha (2011) in Malaysia indicate that the tax payer knowledge against the Tax Act is a major determinant influencing the compliance of the tax payer. The Internal Revenue Service (IRS) in 2009 defines compliance tax payer is the ability and willingness to pay tax voluntarily adhere to law, according to the income actually reported every year and paid taxes on time.

The research conducted by Palil and Mustapha (2011) to 588 female and 483 male respondents over the tax payer in Malaysia on factors of the independent variables that affect to the tax compliance, namely:

1. Probability audited by the tax authorities (significantly and positively affect compliance tax payer)

2. Perception of government spending (significant and positive impact on compliance tax payer)

3. Financial limitations of the tax payer (significantly and negatively affect compliance tax payer)

4. The influence of the group determinant / referent group (significantly and positively influence compliance tax payer)
5. The perception of fairness and fairness
6. Imposition of fines and the level of enforcement
7. Changes to current government policy ⎫ not significant
8. Government authority on tax policy
9. Factors tax knowledge

The importance step that must doing as soon as posible to people tax voluntary compliance is performing intensive of tax audit, simplification of the tax return and cultivate good perception of people about government spending of tax revenue allocation. This study try to make research by doing survey to the people so that can be enalized these variables by statistical approach and theoritical method.

In accordance with the conditions and the relevance of the implementation of the tax system is based on self-assessment in Indonesia, this study emphasizes the influence of tax audits, the simplification of the tax return, and the perception of government spending to tax payer compliance. The formulation of the research problem in the framework of the research is as follows:

1) Is the tax audit effect on tax payer compliance.
2) Is the simplification of the tax return effect on tax payer compliance.
3) Is the perception of government spending effect on tax payer compliance.

Based on the formulation of the problem, the purposes of this study were:

1. To know the effect of tax audits to tax payer compliance
2. To know the effect of the simplification of the tax return to tax payer compliance.
3. To know the influence of the perception of government spending on tax payer compliance.

The urgency of doing this research is to increase voluntary and self compliance in implementing tax obligations based on self-assessment tax systems, so that people more easily to understand the rights and obligations of taxation as a consequences as contribution to the state. The result of this research is expected to be one of the inputs to the Government in making and implementing tax policy that is easy and simple for tax payer.

2. Theoretical Framework and Hypothesis Development

The tax payer compliance is already a problem that arises from the presence of the tax laws. Andreoni, et al (1998) suppres the need for interaction patterns between the tax payer and the tax authorities. As bearers of power, seeking maximizes the tax authorities that the tax payer shoulds pay tax according to the reporting and tax collection by the government properly. Consequently the tax payers are expected to comply voluntarily in fulfillment of tax obligations.

The self-assessment tax system requires that the compliance efforts for tax payer where tax payer is to understand the tax system and the tax procedures, the ability of tax payer to understand the tax system itself, aware of the tax obligations that must be followed.

The grand theory underlying this study is the theory of motivation. The compliance behavior of people to doing or not of the activities in accordance with the applicables rules of law. While compliance to the tax regulations in implemention of the self-assessment systems is the behavior of tax payer in meeting their tax obligations in accordance with the tax law.

Treatment tax payer is strongly influenced by the taxpayer motivation to encourage and to induce the direct of the peoples behavior it self. The relationship between motivation and the tax payer behavior of the provision of the Tax Law can be reviewed independently by the studying structure of content theory and the assessment process theory.

The formulation of factors affecting tax compliance by Kirchler (2007) consists of 4 main categories:

1. Economic factors, namely:
   a) Tax rate
   b) Tax audit
   c) Perceptions of government expenditures
2. Institutional factors, namely:
   a) Policy setting by the tax authorities of a country
   b) The simplification of the tax return
   c) Possible detected by the tax administration
3. Social factors, namely:
   a) Ethics and behavior
   b) The perception of fairness and fairness

c) The effect of the allocation of political and government policy changes

d) Effect of interested parties (referent groups)

4. Individual factors, namely:

    a) the financial ability of the individual / society tax payer

    b) Awareness of the violation and penalty taxes

According to the content theory approach, as proposed by Cherrington (1995:132-134), the self compliance of people is determined by factors such as interests or needs inherent in a person. These capable factors are directing, maintaining and stopping the behavior. The amount of tax to be paid voluntarily is that not violate the provisions of the tax law and not burdensome economic impact the tax payer.

While the process theory approach explains that a person's behavior in paying taxes is influenced by the regulations set by the government that can make people to be accommodated. On one side there is a climate that allows the tax payer motivated to comply with their tax obligations. On the other hand the government made a provision of taxation rules that apply sanctions in accordance with the principles of justice and the objectives to be achieved by tax policy.

Togler (2002) findings from experiments on tax payer compliance, it turns out the existence of a more intensive level of audit performed by the tax authorities will increase the tax payer compliance.

According to research conducted by Beron, et al (1988) concluded that the tax audit can improve the tax payer compliance becomes higher. Indirect effect of tax audits more measured in payment of withholding tax of employee who has income at the secondary level. Enforcement of rules to follow-up the results of the examination by the tax authorities can significantly improve tax payer compliance.

According to Mitton (2009) explained that the government's strategy to improve adherence tax payer compliance based on the findings and the imposition of sanctions, only a starting point and not the final destination. Improved tax payer requires approaches from various aspects that can motivate the tax payer behavioral to perform and reponsible to tax obligations.

Some of the strategies that can be taken by the government for the success of tax payer compliance are:

a. Give confidence to the public and emphasized to avoid actions that lead to non-compliance tax payer.

b. To simplify the form of individual income tax returns, especially returns so as to enhance adherence tax payer compliance independently.

c. To stir up public education to promote voluntary compliance with the continuously.

The tax payer compliance is critical of the results of a study conducted by Palil and Mustapha (2011), in promoting voluntary of the tax payer compliance. Emphasized that tax audit is to test the determinant factor that is based on self-assessment tax system is doing well. The research conducted by Yulianto (2009) to the individual tax payer in Lampung indicates that the maximum confidence given by the Government for the tax payer has not yet to improve compliance in paying taxes. Should be intensified optimization organization, the systems and values and attached to tax payer.

Research on the corporate tax compliance conducted by Mustikasari (2007) show that the tax professionals who are staff of the company, has a strong moral stance and affect the adherence to the implementation of the Tax Law. Persuasive action is required of the Government as to the tax payer obedient award, in the business of licensing facilities so as to improve the voluntary compliance of the tax payer. It was concluded that the government in this case the tax authority must reduce direct contact to the tax payer and implementing computer-based tax system, as well as an increase in the role of tax consultants to assist the tax payers in implementing the Tax Law.

According to Alm and McKee (2006), an increase in the number of the examined of tax payer will correlate directly to the voluntary compliance in meeting their tax obligations. The government efforts to educate of tax payer have submitted examined probability, it will respond with a more perfect obedience.

Based on the conceptual of framework developed from the identification of problems and adapted to the purpose of the study, herewith the hypothesis developing or answer obtained while following:

H1: *tax audit has positive effect on tax payer compliance*

Empirical studies conducted by Yaniv (1998) on the relationship between tax compliance and payment system / prepaid tax installments throughout the system indicates that if prepaid tax installments guarantee that taxpayers get a refund, when it claimed at the tax return, then this may reduce the incidence of potential non-compliance tax payer. Researchers suggest that the system of payment of advance tax is an effective strategy to enforce rules that result in increased compliance in filling tax return of tax payer. This system also gives certainty to increase honesty to tax payer

thereby can reduce the cost of allocation in detecting tax evasion committed by taxpayer.

The simplifying of the tax return can increase the rate of delivery and report of voluntary tax on tax compliance correlated. Laury and Wallace (2005) concluded that the presence of online submission of tax return are confidential and can inspire of tax payer to comply with and meet their tax obligations correctly.

Based on the conceptual of framework developed from the identification of problems and adapted to the purpose of the study, herewith the hypothesis developing or answer obtained while following:

H2: *simplification of tax return has positive effect on tax payer compliance.*

According to Palil and Mustapha (2011) tax payer who pay large amounts of tax would be more sensitive to government expenditure that comes from the taxes paid. Tax payer will avoid pay taxes if the government does not use the budget in accordance with the perceptions and interests of the community. If the government allocates budget wisely, primarily used for healthcare facilities, security and education as well as public transport then the tax payer voluntary compliance will increase and vice versa if the government spending more inclined to use for what is beneficial to the community, voluntary compliance of tax payer will decrease.

Based on the conceptual of framework developed from the identification of problems and adapted to the purpose of the study, herewith the hypothesis developing or answer obtained while following:

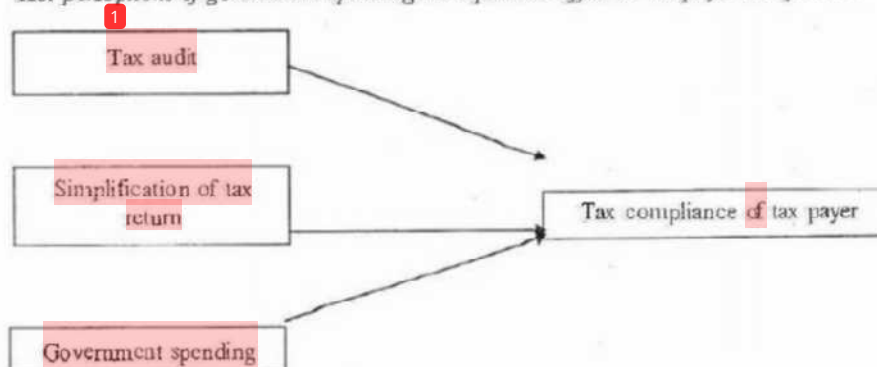H3: *perceptions of government spending have positive effect on tax payer compliance.*

Figure 2.1 The Conceptual framework of research

Source: past research paradigm and adapted to the conditions in Indonesia.

3. Research Method

The method used in this study is a survey method with the causal approach (Sandjojo, 2011: 64). In connection with the study of the relationship between several causal dependent variables on the independent variables model were analyzed using with regression analysis with helping of a software program SPSS 18.0. Testing adapted to the nature of the data, especially primary data that is a reflection of the condition of the relevant circumstances in Indonesia.

The population is individual as staff or tax professional manager at company in North Jakarta. The act of determining of sampling based on consideration of the ease of implementation of the primary data collection using purposive sampling method.

Criterion adjusted for sample size testing techniques and data analysis using primary data, as well as multiple regression approach by Ferdinand (2005:331) the sample is adjusted for the number of independent variables is 10-25 times pursued alternative variable is ranged between 40-100 samples. Based on operational considerations questionnaire research that has been deployed as many as 100 and 100 questionnaires were returned by the respondents. After fulfilling the criteria of validity and reliability of the questionnaire is as much as 100 questionnaires meet the criteria.

Based on operational considerations questionnaire research has been deployed as many as 100 sheets and it was returned by 100 respondents to a response rate of 100%.

The instrument primary data collection was a closed questionnaire. In each question the alternative answers to each question are provided as many as seven weighting score that can be measured according to the Likert scale adapted to the ordinal scale as proposed by Ferdinand (2005:214) proposed that the technique can be used to measure the ordinal data that based on the weighted scale. Seven of the Likert scale used in this study to show the number one (1) to answer 'un extreemely right' and seven (7) for 'very extreemely right'.

After that the data can be analyzed statistically the ordinal data must be transformed into interval data using the method of successive intervals (MSI). After the data is transformed, the scale has become an interval scale, meaning that data can be used in the regression analysis model.

Operationalization of the research variables are as follows:

No	Variable	The concept of variable	Indicator	Scale
		INDEPENDENT		
1	Tax audit (TAud) Dubin, 2004	The tax law enforcement action to verify the level of tax payer compliance.	• The efforts to increase the tax payer voluntary compliance. • The intensity of tax audits. • The efforts to change negative behavior into positive of tax payer in the payments of the tax. • The obligation of accounting and book keeping correctly.	Ordinal
2	The simplification of tax return (SPT) Palil and Mustapha, 2011	The form used by the tax payer to report of the tax object or not and payment of tax, or assets and liabilities in accordance with the provisions of the tax law	• Education and knowledge in submiting of the tax return. • Easy and simplification in filling tax return. • The subsequent of tax elucidation and socialization of the tax officials.	Ordinal
3	The perception of government spending (GovSpend) Palil dan Mustapha, 2011	Government budget allocations derived from tax revenue.	• Transparency of government expenditures. • Ease of Government services to the public. • Budget allocation to improve the welfare of the community and provide jobs.	Ordinal
		DEPENDENT		
	Tax payer compliance (TCompl) Palil and Mustapha, 2011	The ability and willingness of the tax payers to report, to pay all kinds of taxes voluntarily to comply with tax law.	• Understanding the self assessment of tax law. • Comply with, report and pay taxes voluntarily. • Ability to accurately calculate, pay tax and report the tax to the tax office. • The requirement to pay taxes in accordance with the provisions of the tax law.	Ordinal

This research model can be formulated as follows:

$TCompl_i = \alpha + \beta_1 TAud_i + \beta_2 SPT_i + \beta_3 GovSpend_i + \varepsilon_i$

where:

TCompl = compliance of tax payer; TAud = tax audit; SPT = simplification of the tax return; GovSpend = perception of government speding; α = constants; β = regression coefficients of each independent variable; Ɛ = error or regression residual value.

Hypothesis testing is performed in accordance with the exogenous and endogenous indicators that have been identified. The steps are as described in Gujarati (2003) and Ferdinand (2005:81) is:

The test of model assumptions as follow:

- To test the reliability of each question of the variables have data interval scales, namely: tax audit, the simplification of tax return, government spending and tax payer compliance, with a Cronbach's Alpha technique is measured based Alpha 0 to 5. If the value of Cronbach's Alpha > 0.6 then the item stated questions test can be done reliably and going further of the research.

- To test the validity of each of the questions that have scale interval variables, namely: tax audit, the simplification of tax return, government spending and tax payer compliance by way of correlation score of item questionnaire with a total score. The correlation of each item with the total value of each variable is done by using the Pearson Product Moment Correlation to determine which variables are valid or not. The results of the correlation compared with the correlation table for degree of freedom (df) = n-k-1. Decision-making is done by comparing the value of r count with r table. Item statement as valid if the value is greater than the count r with r table.

- To test the normality of the data, because the non-normal data can make the data be biased (Ghozali, 2009:110). The test of the normality data can be done through the statistic test with kurtosis or skewness value. The criteria are the data is not normally distributed if the value of Z count is greater than Z table.

- Perform the multicollinearity test to determine whether there is a relationship (correlation) perfect or near perfect between the independent variables included in the model, namely a high correlation coefficient, or even one (Algifari, 2000: 84). To determine the presence or absence of symptoms of multicollinearity done by looking at the tolerance value and VIF. If the tolerance value above 0.1 and VIF value under 10, then the regression model is free of multicollinearity (Ghozali, 2009:28).

Testing of estimation model consists of:

Regression analysis models:

- Test the coefficient of determination. According to Gujarati (2003:217) the coefficient of determination ranges between 0 and 1. The larger close to 1 means that the relationship between independent and dependent variables come to close.This means that the independent variables can explain the dependent variable according to result of the statistical coefficient of determination.

- Goodnest of fit of the model using the F test of significance. If the number of research results < 0.05 then H0 is rejected and Ha accepted.

- Test the hypotheses partially by using the t test. To test the hypothesis by comparing the magnitude of the p-value and level of significant $\alpha = 0.05$. Decision-making basis is as follows:
    - ✓ If the p-value $> \alpha = 0.05$ then H0 is accepted and Ha is rejected.
    - ✓ If the p-value $< \alpha = 0.05$ then H0 is rejected and Ha accepted.

4. Results

The reliability testing of the research variables was done by using Cronbach's Alpha. The level of reliability with Cronbach's Alpha method was measured by alpha scale of 0 to 5. So the value of Cronbach's Alpha said to be reliable if the magnitude is greater than 0,600. Reliability test is done to the questions that have been declared invalid according to the results of testing the validity of the test. The test results show that all of the questions are reliable. The Cronbach's Alpha coefficient values ranged from 0.747 to 0.893 indicates that the question on all four variables of the tax audit, the simplification of tax return, government spending and the tax payer compliance are reliable and give enough result to be used in testing of the research instrument.

Table 1

The results of reliability analysis

Variable	Count	Table	Discription
tax audit	0.848	0.600	reliable
the simplification of tax return	0.820	0.600	reliable
government spending	0.747	0.600	reliable
tax payer compliance	0.893	0.600	reliable

Source: Results of output of SPSS 18.0

To test the validity of the questions used in the questionnaire research was conducted using analysis in SPSS 18.0.

Table 2

The results of the validity test in interval scale variable

Variable	item	R pearson product moment	R table	Discription
tax audit	1	0.758	0.195	Valid
	2	0.760		Valid
	3	0.583		Valid
	4	0.688		Valid
	5	0.622		Valid
	6	0.768		Valid
	7	0.793		Valid
	8	0.787		Valid
	9	0.521		Valid
	10	0.316		Valid
the simplification of tax return	1	0.636	0.195	Valid
	2	0.656		Valid
	3	0.630		Valid
	4	0.605		Valid
	5	0.420		Valid
	6	0.659		Valid
	7	0.662		Valid
	8	0.686		Valid
	9	0.405		Valid
	10	0.640		Valid
	11	0.657		Valid
The perception of government spending	1	0.347	0.195	Valid
	2	0.561		Valid
	3	0.604		Valid
	4	0.700		Valid
	5	0.697		Valid
	6	0.578		Valid
	7	0.495		Valid
	8	0.579		Valid
	9	0.515		Valid
	10	0.609		Valid
Tax payer compliance	1	0.446	0.195	Valid
	2	0.695		Valid
	3	0.703		Valid
	4	0.778		Valid
	5	0.521		Valid
	6	0.715		Valid
	7	0.723		Valid
	8	0.392		Valid
	9	0.661		Valid
	10	0.679		Valid

Variable	Item	Rpearson product moment	R table	Discription
	11	0.679		Valid
	12	0.718		Valid
	13	0.528		Valid
	14	0.232		Valid
	15	0.659		Valid
	16	0.696		Valid
	17	0.630		Valid
	18	0.603		Valid

Source: Results of output of SPSS 18.0

In accordance with the testing performed, herewith result of classical assumption. Normality test results using statistical tests based on the value of kurtosis or skewness. This indicates that no data has abnormal distribution in the annex which is an SPSS output for testing the normality of the data. Based on the descriptive statistics table can be seen that the value of kurtosis or skewness respectively 0.325 and 0.087. Because the value of kurtosis or skewness is smaller than the value of the Z table 1.645. Then this indicates that the data follow a normal distribution pattern.

Tests ouput of multicollinearity results in attachment there is no multicollinearity among the independent variables. So that the data used in the studies are feasible for hypothesis testing because tolerance value were above 0.1 and VIF values were under 10. This indicates that there is no multicollinearity on independent variables.

Tabel 3

The result of multicollinearity

Variable	Tolerance	VIF
tax audit	0.693	1.443
the simplification of tax return	0.494	2.024
the perception of government spending	0.551	1.816

Source: Results of output of SPSS 18.0

Table 4 presents the regression results of the research model. R-square value of the model equations of this study was 60.2%. This means that the degree of taxpayer compliance influenced by tax audits, tax returns and simplicity of Government expenditure amounted to 60.2%, while the remaining 39.8% influenced by other variables outside the model.

Table 4

Resume of regression model

$TCompl_i = \alpha + \beta_1 TAud_i + \beta_2 SPT_i + \beta 3 GovSpend_i + \varepsilon_i$			
Variable	Regression Coefficient	t - statistic	sign-t
Constant	0.434	1.685	0.095
TAud	0.148	2.210*	0.030
SPT	0.446	4.950*	0.000
GovSpend	0.285	3.171*	0.002
F–statistic	48.342		
sign – F	0.000		
R Square	0.602		
Adj. R Square	0.589		
Variabel dependent: TCompl			
Note: * significance at level 5%			

Source: Results of output of SPSS 18.0

Based on the test results indicated that the goodness fit of the model by showing calculated F value of 48.342 is greater than the value of F table at 3.92 at $\alpha = 0.05$ and degrees of freedom = 3 db1 and db2 (nk-1) = 97. The results of this statistical test showed that the research model was fit.

Partial hypothesis testing shows the following results:

H1: tax audit has positive effect on tax payer compliance. The result of calculation shows that the value of the regression coefficient (β_1) of 0.148 with $t_{count} = 2.210$ and $t_{table} = 1.985$. Since the value of t_{count} (2.210)> t_{table} (1.985) means that H1 is accepted, it was concluded that tax audit has positive effect on tax payer compliance. It supports research of Toggler (2002) that the intensity of tax audit will increase compliance of the tax payer to meet their tax obligations.

By doing more tax audit coverage ratio may be intensify and increase the tax voluntary compliance in reporting their own tax obligation. The tax office can review its tax policy that suitable to the taxation of new and potential tax payer.

H2: simplification of tax return has positive effect on tax payer compliance. The result of calculation shows that the value of the regression coefficient ($\beta2$) of 0.446 with $t_{count} = 4.950$ and $t_{table} = 1985$. Since the value of t_{count} (4.950) > t_{table} (1.985) means that H2 is accepted, it was concluded that simplification of tax return has positive effect on tax payer compliance. It supports research of Palil and Mustapha (2011) that the simplification of tax return will increase compliance of the tax payer to meet their tax obligations.

The new hope that can be also increase the self tax complusary compliance is how effective of government to simplify the tax return from that should be applied of tax payer. It can decrease shortly the gap of reported and unreported of the tax payer.

H3: perceptions of government spending have positive effect on tax payer compliance. The result of calculation shows that the value of the regression coefficient (β_3) of 0.285 with t_{count} = 3.171 and t_{table} = 1.985. Since the value of t_{count} (3.171) > t_{table} (1.985) means that H3 is accepted, it was concluded that perceptions of government spending has positive effect on tax payer compliance. It supports to the research of Palil and Mustapha (2011) that the perception of government spending will increase compliance of the tax payer to meet their tax obligations.

If people have good unerstanding in flow of tax revenue and government expenditure circulation, may self compulsary compliance push the tax revenue. The tax office must promote that tax socialization to the all Indonesian citizen how importance of good perception of the government spending in welfare all the people.

5. Conclusion, Implication and Limitation

Regression models that were designed to test the effect of tax audits, simplification of the tax return and perception of Government Spending on tax payer compliance have met the eligibility of rule research model criteria. Among them have met the testing of classical assumption of normality testing and special multicolinearity of the primary data and have passed the testing of validity and reliability of each element of the questions of these variables.

Similarly, the results of hypothesis testing indicate that the taxpayer will tend to comply with the provisions of tax laws when audit enhanced by the tax authorities in order to test the level of of tax payer compliance. The much simple of tax return then the taxpayer will be easier to understand and comprehend the provisions of tax laws so that taxpayer compliance will be increasing. If the government more transparent and wise in allocating of budgets to the public interest (health, safety, education and public transportation) then taxpayer will be more obedient in implementing of the tax laws.

The results of this study are supporting to the research of Palil and Mustapha (2011) who concluded that the degree of taxpayer compliance can be raised through tax audit, simplification of tax return and perceptions of government expenditures. The restrictions on the variables that have been identified and are not included in this

research model as stated in the background of this research can made the results are less than optimal.

It is recommended for the next researchers in order to increase the number of research samples and populations of various cities in Indonesia. The extension of these samples can be able to explain the phenomenon of the relationship between the factors that affect the taxpayer compliance so it can enrich research in the literature review on the tax payer compliance in the frame of self-assessment system of taxation.

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