The Effect of Tax Penalty, Perceptions of Fairness, And Tax Knowledge on Tax Compliance on MSME Taxpayers in Agricultural Sector

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Abstract: The study of tax compliance has become an interesting research area over the last few years. How is the behavior of agricultural MSME in Lampung in responding and making decisions regarding the obligation to pay taxes is relatively limited. The research was conducted to determine the effect of tax sanctions, perceptions of fairness, and knowledge of taxation on taxpayer compliance of agricultural MSME in Bandar Lampung. These determinants have been proven and become arguments that affect taxpayer compliance. Several studies have tested these factors and found inconsistent results. This research was conducted to re-examine the effect of tax sanctions, perceptions of fairness, and knowledge of taxation on taxpayer compliance in agricultural sector MSME taxpayers. Respondents in this study were 64 MSME taxpayers in the agricultural sector in Bandar Lampung. The questionnaire was designed to measure research variables and was analyzed using multiple regression models. The results of the study indicate that there is a significant influence between tax sanctions, perceptions of fairness, and knowledge of taxation on taxpayer compliance.
Keywords: Compliance Perception; MSE Taxpayer; Agriculture

1. Introduction

The impacts of Covid-19 affect massively across the world including Indonesia. The World Bank in its Global Economic Prospects publication estimates that the global economy in 2020 has contracted to 4.3 percent from the previous 2 percent in the same crisis in 2009. [1] The agricultural sector in Lampung Province contracted due to the Covid-19 pandemic, declining by 0.4% in 2021. The agricultural sector is the main sector in Lampung's economic structure. The growth of the agricultural sector in 2017-2021 averaged 0.639% year. As the main sector, agriculture sector serve as the main driver in output industries production as raw material based, labor absorption, and foreign exchange contributor. [2] Furthermore, this sector lead as the main contributors to regional economic growth. Raw material as output of agricultural sector is the main input for the agro-industrial sector and also drives other services sectors in the national economy. [3]

Agriculture sector broadly also involved the forestry and fisheries provide the largest contribution to regional domestic product in 2021 on the basis of current prices, reaching IDR 105.59 trillion or 28.39 percent. Sub-sector Agriculture, Livestock, Hunting and Agricultural Services are the main contributors reached 79.50 percent for total agriculture sector's contribution (Central Bureau of Statistics of Lampung Province, 2022). [4] The number of agricultural households in Lampung Province based on the results of the 2018 Intercensus Agricultural Survey was 1,340,285 unit. An agrarian housholds is characterized as a family that at the slightest one family part embraces an agrarian action pointing to be (incompletely or entirely) sold or traded. The agrarian movement might be attempted or overseen by the proprietor itself, or by administrator on shared with proprietor premise, and or paid by proprietor, this too incorporates in agrarian administrations action (Central Bureau of Statistics of Lampung Province, 2018). Figure 1 displaid the profil of agricultural sector based on the main source incomes. [5]
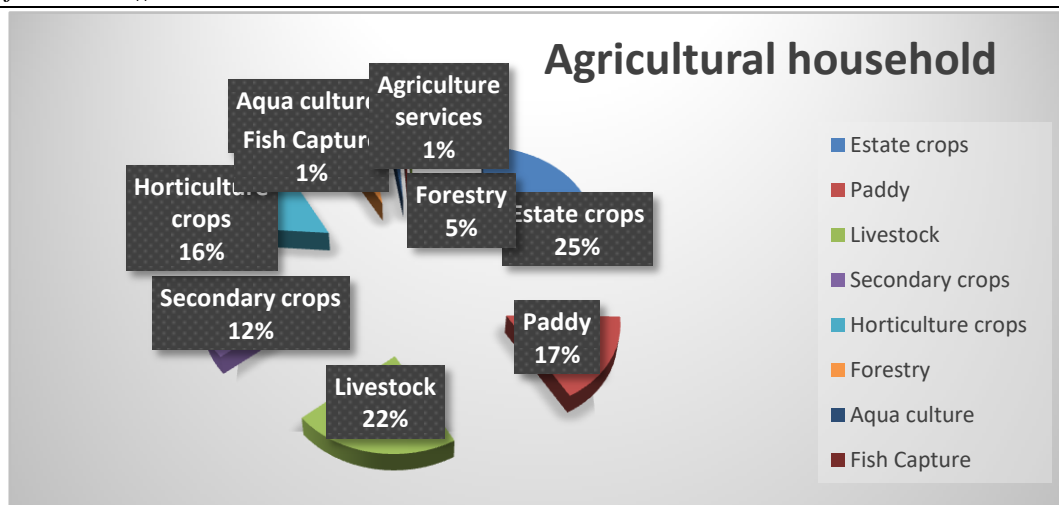
Figure 1 Agricultural Households Based On The Main Source Incomes

Agricultural household heads are dominantly engaged in food crop farming, reaching 45% (paddy 17%, horticulture 16%, and secondary crop 12%). People's plantation businesses account for 25% of all agricultural households. Furthermore, the RTP of livestock business reached 22%. Forest product businesses reach 5%, while aquaculture and capture fisheries, as well as agricultural services are each in the range of 1% (Figure 1) (BPS Propinsi Lampung, 2018). The key to increasing the output value of the agricultural sector is the ability to create high value added through agro-industry activities. The agricultural product processing industry is the main trigger for multiplying the income of the agricultural community. Based on the 2018 inter-census survey records, it was noted that the households of agro-industry actors were dominantly engaged in fisheries, food crop processing and horticulture. Figure 2 presented the agro-industry actors by the main source incomes.
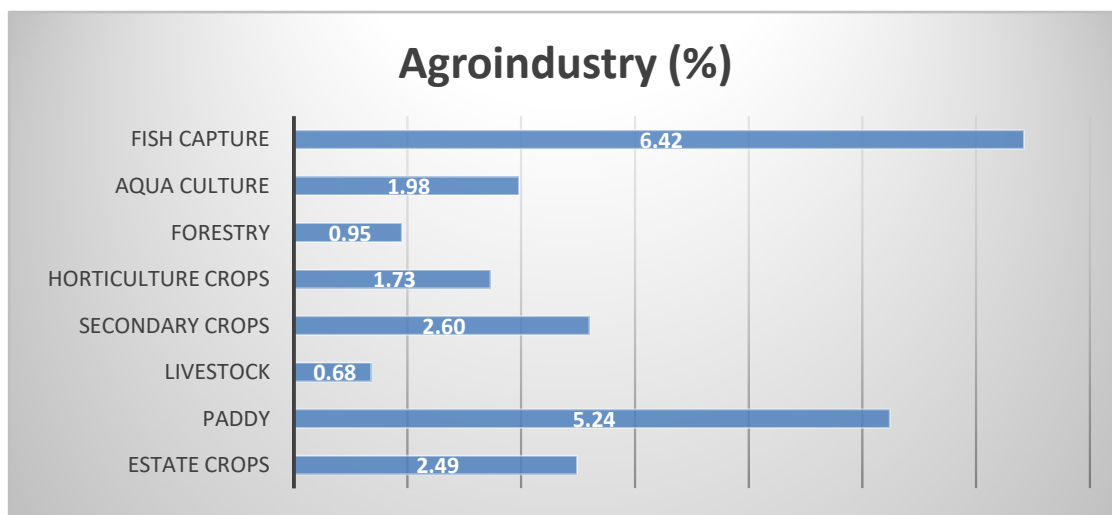

Figure 2 Agroindustry households based on the main source incomes

An agroindustrial business downstream are generally carried out on a micro and small scale capacity. The farmer's households that carried out an agroindustrial business reached by 294,863 units or equal with 22% of the total provincial farmer's households. The highest agroindustry is in sub-category fish capture (6.42%), paddy (5.24%), estate crops (2.46%) and secondary crops (2.60%). Otherwise, there were 15,119 unit (1.12%) agribusiness are engaged in agricultural services. Then small medium entrprises (SMEs') in agricultural sector arraound 309.982 unit. Farmer's household who have actively recorded financial records only reached 3.28%. Most of them do not have financial records (Central Bureau of Statistics of Lampung Province). The agricultural business sector is facing pressure from the COVID-19 pandemic, which contracted to minus 0.4% even though it was recorded as a relatively resilient sector compared to other economic sectors, which fell by 5-6%. The company's size, financial leverage, and intellectual capital affected the performance entreprises. There is

established a strong link between performance and ability to management risk. The decline in the rate of business development of SMEs in the agricultural sector has an effect on awareness of paying taxes.

The government continues to strive to increase the contribution of various economic sectors including the agricultural sector in increasing tax revenues. The obligation to pay taxes for business actors, including agricultural SMEs, in the midst of downward pressure on economic activity has caused a paradox and trade off for the resilience of agribusiness actors. How to develop awareness to continue to contribute to tax obligations is a challenge in achieving the government's tax target. For tax authorities, the impact of the pandemic is visible. The contraction of the economy as a tax base and limited operational activities due to the implementation of social restrictions are the main challenges that must be faced. On the other hand, the role of tax revenues is becoming increasingly important in supporting counter cyclical fiscal policy, in addition to being an administrator in providing tax incentives to maintain national economic stability (Figure 3).
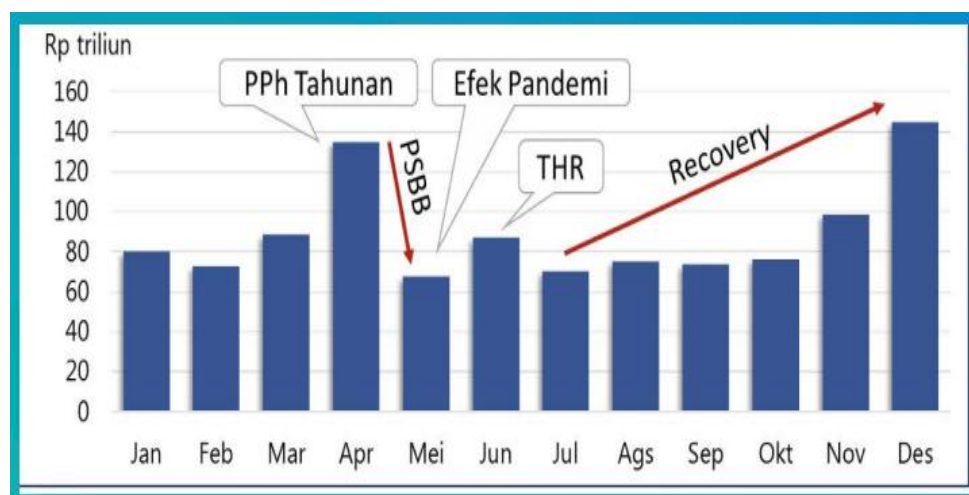

Figure 3 Graph of Tax Revenue in 2020

Figure 3 showed the conditions that have gradually improved after the government took efforts to overcome the Covid-19 impacts. Indonesia is getting into a new normal phase and national economic recovery. It is reflected on the realization of tax revenue which continues to show an improving trend, in line with the economic recovery, although it is still limited during Q3 and Q4 2020 (Ministry of Finance of the Republic of Indonesia, 2021). The posture of APBN 2020 shows that tax revenue as a source of state revenue occupies a position of 83.54% of the budget. This indicates the large role of taxes in financing state administration. Tax revenue of IDR 1,865.7 trillion was obtained from many sectors including the micro, small and medium enterprises (MSME) sector. Tax revenue from the MSME sector is so important because this sector has a share of up to 60% in Gross Domestic Product (GDP). The increase in tax revenue from the MSME sector will certainly improve the budget portion for the agricultural sector which then has an impact on the contribution of the agricultural sector to GDP. Agricultural Indicators for 2020 released by BPS show that agricultural sector has contributed 13,70% to GDP.

One of the factors that influence the increase of tax revenue realization is taxpayer compliance. Taxpayer compliance is a taxpayer who obeys and complies with tax obligations in accordance with the laws that have been determined. The compliance ratio in 2020 has increased. Whereas in this era the government is actively optimizing the use of information technology in the use of teleworking such as VPN, teleconference, remote desktop, and so on. The number of Annual Income Tax Returns (SPT) received in 2020 was 14.76 million SPT, or 78 percent of the taxpayers who are required to submit an SPT, increasing from 73 percent in 2019 (Figure 4) (Ministry of Finance of the Republic of Indonesia, 2021).
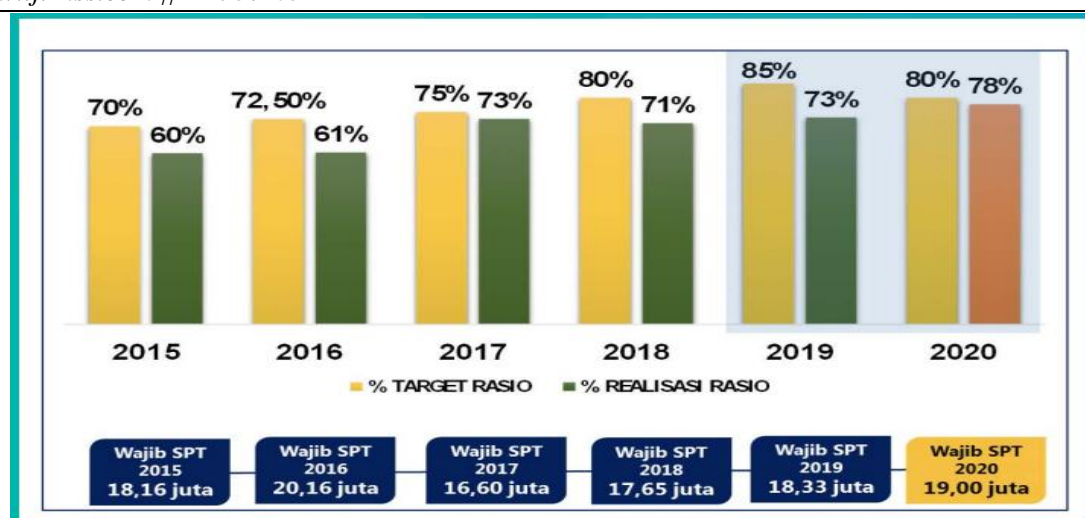
Figure 4 Taxpayer Compliance Ratio (Ministry of Finance of the Republic of Indonesia, 2021)

Another factor that affects taxpayer compliance is tax knowledge. Studies on the relationship between the effect of knowledge on compliance have been carried out using various methods and yielded various conclusions. Eriksen and Fallan (1996) conducted a quasi-experimental research and concluded that tax knowledge is correlated with attitudes towards taxation and tax behavior can be improved by better understanding of tax regulations. The research is in line with previous research conducted by. Tax knowledge is related to the concept of taxation, types of taxes, tax subjects, tax objects, tax rates, calculation of tax payable, recording of taxes payable, and tax reporting. Tax evasion and tax avoidance are some efforts of tax planning which aim to reduce the amount of tax payments. This form of tax violation will cause a penalty according to the laws and regulations. It is assumed that tax penalty will be a guarantee for taxpayers to obey the provisions of tax laws and regulations (tax norms). In other words, tax penalty is a preventive way to influence taxpayers not violate the tax norms

A fair law enforcement by the tax authorities is needed for taxpayers who are negligent in paying taxes, so it is expected that it will be able to encourage taxpayers' motivation in paying taxes. Therefore, the strict rule is needed so that public awareness in paying taxes will be increasing. Research conducted by, show that the firmness of tax penalty has a positive and significant effect on taxpayer compliance. However, it shows different result in. Their studies show that tax penalty have no effect on taxpayer compliance. Information on how the behavior of agricultural SMEs in Lampung in responding and making decisions regarding the obligation to pay taxes is relatively limited. Therefore, a study of the factors that influence agricultural SMEs in responding to tax payment obligations needs to be explored more deeply.Then, this study aims to find the effect of tax penalty, perceptions of fairness, and tax knowledge on tax compliance of agricultural SMEs taxpayers in Bandar Lampung.

2. Research Methods
A. Sample and Population
The population in this study are the MSME taxpayers in the agricultural sector in Bandar Lampung with turnover criteria below IDR4.8 billion. Samples were collected based on questionnaires distributed directly by field research technicians and also through mail surveys. The rate of return of the questionnaire can be seen in the following table.

Table 1 Sample and Rate of Return

Number of Samples	120
Offline Questionnaire	70
Online Questionnaire	50
Returning Questionnaire	95
Eligible Questionnaire	64
Response rate	95/120*100 = 79%
Usable Response Rate	64/120*100 = 53%

B. Variable Operations

The dependent variable in this study is the tax compliance variable which is measured based on the aspect of tax distribution (3 statement items) adopting the research of (Zulma, 2020) which is measured using 5 Likert scales starting from the answer strongly disagree (STS) to Strongly Agree (SS). In addition, there are 3 independent variables, namely the variable of tax penalty (tax penalty), perception of fairness, and tax knowledge (tax education) each measured by 3 questions.

C. Data Analysis Method

The research hypotheses were tested using a data processing application, namely IBM SPSS Statistic 22 with a regression model that has fulfilled a series of classical assumption tests such as validity and reliability tests for both the question items of the questionnaire for the independent and dependent variables. Then, data normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test which refers to Ghozali (2011). The regression equation model, as follows:

$$Y = a + b1X1 + b2X2 + b3X3 + e$$

3. Results and Discussion

Explained the quality of the data generated from the implementation of research instruments using reliability and validity testing. The reliability test in this study used the Guttman Split-Half Coefficient method. Based on Table 5, it is known that the Cronbach alpha value of each instrument used in this study is above 0.60, which indicates that the data collected using these instruments can be trusted.

Table 2 Data Reliability Test Results

Variable	*Cronbach alpha*	Information
Tax Compliance	0.9621	Reliable
Tax Penalties	0.9277	Reliable
Perception of Fairness	0.9385	Reliable
Tax Knowledge	0.9611	Reliable

Based on the results of the validity test, all variables, both taxpayer compliance, tax penalties, fairness perceptions, and tax knowledge are valid, because they show the value of r count is more than table (0.468).

A. Hypothesis Testing Results

Prior to testing the hypothesis with the multiple regression model, it was confirmed that the model had met the classical assumptions required in statistical tests such as normality, multicollinearity, heteroscedasticity and autocorrelation tests. The results of data processing using IBM SPSS Statistics 22 are summarized in the following table.

Table 3 Results of Regression Analysis

Variable	Coefficient	Standard Error	T count	Sig
(Constant)	17,754	3,169	5,604	0.000
X1 Tax Penalties	0.606	0.411	4,630	0.000
X2 Perception of Fairness	0.468	0.137	3,417	0.001
X3 Tax Knowledge	0.597	0.115	5.181	0.000
Adjusted R Square = 50.9 ; F = 30.006 ; Sig. F = 0.000, F table = 2.70, T table = 1.664				

Source: Processed Data

B. Hypothesis 1 (H1): Tax Penalties Have A Significant Positive Effect On Tax Compliance.

The test results in Hypothesis 1 show that the relationship between Tax Penalties and Tax Compliance has a significant positive effect with a direction coefficient value of 0.6 and a significance level of 5%. The positive direction states that if tax penalties increase, taxpayer compliance will be increased. The results of the current study support the findings of (Swistak, 2016) and Zulma (2020) who found that tax penalties can increase taxpayer compliance and can also reduce taxpayer compliance, depending on the taxpayer's perception. One of the motivations of taxpayers to pay taxes is because of the penalties imposed by the government. A regulation set by the government can be said to be ideal in terms of fairness for each party if the threat of penalties is binding on all interested parties.

Tax penalties should lie in preventive measures, an overview of the prevention of various efforts for tax avoidance. The draft Law on Harmonization of Tax Regulations (UU HPP) which was recently ratified by the government on October 7, 2021, provides a very real side, there is a decrease in penalties during examination and penalties in legal remedies. However, the government is also trying to provide legal certainty and fairness for the intentional non-compliance taxpayer. There are several provisions for sanctions in the HPP Law. First, the audit sanction and the taxpayer does not submit the Annual Tax Return (SPT), namely, underpaid income tax will be subject to interest per month in accordance with the prevailing interest in the market so that it does not become a very high fine, or interest per month is equal to the reference interest rate plus an uplift factor or an additional 20% fine with a maximum of 24 months. Meanwhile, the Law on General Provisions and Tax Procedures (KUP) is subject to a 50% sanction.

C. Hypothesis 2: Perception of Tax Fairness Significantly Positive Effect on Tax Compliance

The results of testing for hypothesis 2, indicate that the relationship between the constructs of Perception of Justice and Tax Compliance has a t value of 3,417 (t> 1,664) with a direction coefficient value of 0.468 and a significance level of 5%. Thus the perception of justice has a positive and significant effect on tax compliance. The results of testing the second hypothesis also mean that the higher the taxpayer's perception of tax justice, the higher the taxpayer's compliance, and vice versa, if the taxpayer feels there is an unfairness tax, the lower the tax compliance.

These results are in line with (Gilligan & Richardson, 2005) and (Wulandari, 2017), which show the perception of fairness has a significant effect on tax compliance. Therefore, the government must treat each taxpayer fairly, determine regulations that are in accordance with the taxpayer's condition, provide the same service for each taxpayer, and in the event of a violation, whether committed by the taxpayer or the government, must be subject to fair sanctions accordance with applicable tax regulations. The benefit principle states that a tax system is said to be fair if the contribution made by each taxpayer is in accordance with the benefits or services obtained from the government. These government services include various facilities provided by the government to improve people's welfare. Fairness in terms of ability to pay means that the taxpayer will pay the amount of tax owed in accordance with the conditions of the taxpayer. It means that taxpayers with the same income will have the same tax obligations. Horizontal equity is the perception of the fairness of taxes paid compared to other people who have the same amount of wealth. Exchange equity is the fairness of taxes paid compared to services or services provided by the government. Vertical equity is the fairness of taxes paid by taxpayers compared to other people who have more wealth. The principle of vertical fairness means that people who have greater ability must pay more taxes

D. Hypothesis 3: Tax Knowledge Has A Significant Positive Effect On Tax Compliance

The results of testing for hypothesis 3, show that the relationship between the constructs of Tax Knowledge and Taxpayer Compliance has a t value of 5.181 (t > 2.70). Thus, it can be concluded that Tax Knowledge has a positive and significant effect on Taxpayer Compliance, so that Hypothesis 3 is accepted. The results of testing the third hypothesis can be interpreted that tax knowledge is a variable that affects taxpayer compliance, this shows that the higher tax knowledge, the higher mandatory tax compliance, and vice versa. These results are in line with (Oktaviani et al., 2020), (Adelina & Nugrahanto, 2021), (Riskillah et al., 2022), and (Adelina & Nugrahanto, 2021). They show the tax knowledge has a significant positive effect on taxpayer compliance and taxpayer awareness. Tax education is an effort made by the Director General of Taxes to provide knowledge to the public and especially taxpayers so that they know about taxation, both regulations and tax procedures through appropriate methods. Counseling can be applied in practical activities in the field which are carried out on an ongoing basis with the aim of increasing the knowledge, skills, awareness and compliance of taxpayers in carrying out tax obligations.

4. Conclusion

The results of the current study provide empirical evidence regarding the effect of tax penalties, perceptions of fairness, and tax knowledge on tax compliance of MSME taxpayers in the agricultural sector. Partially, tax penalties have a positive effect on tax compliance with a significance of 0.000. Perception of fairness also has a significant positive effect on tax compliance with a significance of 0.001. Furthermore, tax knowledge has a significant positive effect on tax compliance with a significance of 0.000. The results of the current study confirm that the government's policy of indecisiveness in tax violation sanctions in the newly passed HPP Law needs to be re-evaluated, since the policy relieves for taxpayers who choose to take tax evasions/tax violations.

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