

## **Analysis of the Effect of Tax Rates and Understanding of Taxation on MSME Taxpayer Compliance in Lamongan Regency**

**Rizka Dibi Arryanti Saputri<sup>1</sup>, Farhani Kautsar Nugraha<sup>2</sup>**

<sup>1,2</sup> Institute of Technology and Business Tuban

E-mail: rizkadibi10@gmail.com, farhanikn@itbtuban.ac.id

### **Abstract**

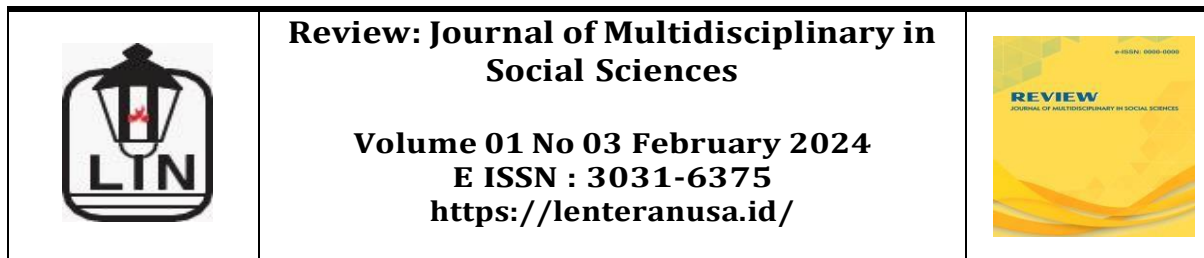
MSMEs are one sector that has the potential to contribute to state tax revenues. This research aimed to examine the influence of tax rates and tax understanding on the level of taxpayer compliance in Micro, Small and Medium Enterprises (MSMEs) in the Lamongan Regency. Through a survey approach using a questionnaire, primary data was got from MSME owners as a research sample of 94 respondents. The results could provide a deeper understanding of the factors that influence tax compliance among MSMEs, especially in the Lamongan Regency. Regression analysis was used to test the relationship between tax rate variables, tax understanding, and the level of tax compliance. The results could provide a deeper understanding of the factors that influence tax compliance among MSMEs simultaneously or partially, especially in the Lamongan Regency. The implication of these findings was the importance of managing proportional tax rates and effective tax counseling to encourage MSME taxpayer compliance in the Lamongan Regency. This research contributed to further understanding of tax factors that could form a better tax environment for MSME growth and Regional Tax revenues.

**Keywords:** Tax Rates, Understanding Taxation, Taxpayer Compliance, MSMEs.

### **Introduction**

Taxes have a fundamental role in funding development programs, public services, and other government activities. As one of the powerful economic instruments, taxes contribute to economic stability as well as encourage a fairer distribution of income to support a country's economic and social development. The major source of revenue for the government, taxes fund welfare programs, public services, and essential infrastructure. One sector that has an important contribution in tax revenue is Micro, Small and Medium Enterprises (MSMEs). In Indonesia, the Micro, Small and Medium Enterprises (MSMEs) sector has a central role in the national economy. MSMEs contribute significantly to job creation, increased local economic growth, and reduced economic disparities.

A phenomenon that often arises is the often low level of compliance of MSME taxpayers. Tax compliance is a crucial element in maintaining the smooth and sustainable state revenue and implementation of development programs. Low compliance can disrupt fiscal stability, as well as



hinder the government from financing various development projects. In overcoming this problem, understanding the factors that affect tax compliance among MSMEs is crucial.

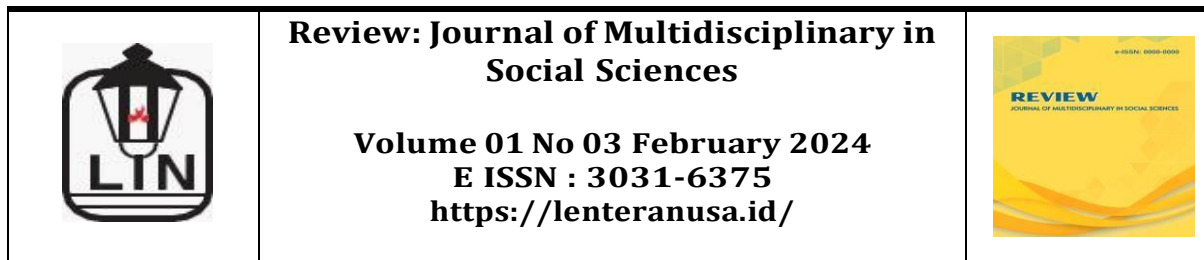
Smith (2017) revealed that tax rates have a significant influence on taxpayer compliance. This research shows that higher tax rates reduce taxpayers' motivation to comply with tax obligations, because of the high tax burden to be paid. However, another study by Johnson et al. (2019) showed that imposing fair and rational tax rates can increase taxpayers' positive perceptions of the tax system, encouraging compliance. Indonesia as one of the developing countries with a population of 270 million in 2020 and has a current number of Micro, Small and Medium Enterprises (MSMEs) recorded at over 65 million spread across Indonesia. The number continues to increase from 2016 recorded at 61.7 million, 2017 recorded at 62.9 million, 2018 recorded 64.2 million, and it is predicted that in 2019, 2020, 2021, 2022 to 2023 the number will continue to increase. Currently, the phenomenon that occurs is that there are still many taxpayers who do not understand about taxes that apply in Indonesia (Adiasa, 2013). The problem of the level of taxpayer compliance is a persistent problem in taxation, especially MSME actors.

Taxes play a significant role in development efforts in Indonesia, becoming the main source of state revenue. The government has issued various regulations in hopes of increasing the country's tax revenue. To increase tax revenue, an innovative approach is needed to optimize tax potential, both in quantitative and qualitative aspects. Quantitatively, it is important to continue to encourage growth in the number of taxpayers. Meanwhile, from a qualitative point of view, it is necessary to supervise registered taxpayers, ensuring that the income report submitted reflects actual income. This becomes relevant considering that there are taxpayers who report Annual Returns with zero income. Widodo et al. (2017) argue that the self-assessment system is not a voluntary system (a tax system that relies on citizens to report their income freely and voluntarily, calculate their tax obligations correctly and file tax returns on time), where it is assumed that taxpayers will voluntarily comply even if it is economically detrimental to them.

Currently, the phenomenon that occurs is that there are still many taxpayers who do not understand about the applicable taxes in Indonesia. The problem of the level of taxpayer compliance is a persistent problem in the field of taxation, especially MSME actors.

There are many things that affect taxpayer compliance in paying their tax obligations, including MSME tax rate factors (Fitria and Supriyono, 2019). The new regulation on income tax rates issued by President Joko Widodo is a final tax for MSME actors. This provision is contained in Government Regulation Number 23 of 2018 concerning Income Tax (PPh) on business income received by MSMEs with an annual turnover of up to \$4.8 billion. The tax rate has been adjusted from the previous 1% to 0.5%. The regulation was issued as a substitute for Government Regulation No. 46 of 2013 at a rate of 1% of operating income. The new MSME tax rate of 0.5% is intended to ease MSME actors so as to increase MSME compliance in depositing taxes (Ariyanti, 2018).

The results of research by Achmad, Kertahadi, and Maulinarhadi (2016) show that the dimension of justice simultaneously affects taxpayer compliance. Research conducted by Musimenta and Korutaro, Muhwezi, Brenda, and Irene (2017) concluded that tax justice, isomorphic forces, and strategic responses have a positive effect on MSME tax compliance.



Research that shows the same thing is research conducted by Wulandari (2017) which concluded that tax justice has a positive effect on taxpayer compliance. On the other hand, Raihan's (2018) research proves that tax fairness has no effect on taxpayer compliance.

Although many studies have been conducted at the national and international levels, research that focuses on tax compliance factors among MSMEs at the local level, such as Lamongan Regency, is still limited. The unique social, economic, and cultural realities in Lamongan Regency can provide different results when it comes to tax compliance. Therefore, this study aims to fill this knowledge gap by analyzing the effect of tax rates and tax understanding on the compliance of MSME taxpayers in Lamongan Regency.

## **Method**

This research will be conducted using a quantitative approach through survey methods. The survey method will be used to collect primary data through questionnaires that will be distributed to MSME owners in Lamongan Regency. This sampling technique resulted in 94 MSME Taxpayers in Lamongan Regency. The data analysis method uses the SPSS method.

The population used in this study is all MSMEs registered with the Micro, Small and Medium Enterprises Cooperative Office in Lamongan, The total population in this study is 1,672 MSMEs.

The simple random sampling method is used to determine this test sample by applying the slovin formula. The respondents selected in this study are individual taxpayers (WP OP) from Micro, Small and Medium Enterprises (MSMEs) who are registered at the Pratama Lamongan Tax Service Office (KPP) and have a turnover that meets certain criteria.

The data collection method is carried out through the distribution of questionnaires to respondents in the field. The analytical methods used include descriptive tests, validity and reliability tests, and classical assumption tests. Next, multiple linear regression analysis, model suitability evaluation, determination coefficient calculation, and hypothesis test are performed.

## **Results and Discussion**

Respondents who participated in KPP Pratama Lamongan had various characteristics or identities in completing the questionnaire. A total of 94 questionnaires were given to respondents, the number of samples that have been determined is 94, Regarding the characteristics of respondents, the information will be explained at a later stage. Of the 94 questionnaires distributed, 94 were re-received. From the questionnaire that returns, the data obtained will later be obtained to test the hypothesis.

## Validity Test

**Table 1. Validity Test Results**

Variable	Question Item	r calculate	r table	Information
MSME Taxpayer Compliance	Y1	0,728	0,203	Valid
	Y2	0,856	0,203	Valid
	Y3	0,780	0,203	Valid
	Y4	0,900	0,203	Valid
	Y5	0,701	0,203	Valid
	Y6	0,904	0,203	Valid
Tax Rate	X2.1	0,568	0,203	Valid
	X2.2	0,677	0,203	Valid
	X2.3	0,874	0,203	Valid
	X2.4	0,892	0,203	Valid
	X2.5	0,856	0,203	Valid
Taxation Knowledge	X1.1	0,786	0,203	Valid
	X1.2	0,845	0,203	Valid
	X1.3	0,652	0,203	Valid
	X1.4	0,652	0,203	Valid
	X1.5	0,792	0,203	Valid
	X1.6	0,841	0,203	Valid
	X1.7	0,677	0,203	Valid

Source: Output SPSS, (2023)

Based on the table above, it can be seen that all statements for the variables MSME Taxpayer Compliance, Tax Rate, Taxation Understanding have a valid status, because the r value is calculated  $>$  r table.

## Reability Test

**Table 2. Reliability Test Results**

Variable	Cronbach's Alpha	Cut Off	N of Item	Information
Y	0,801	0,60	7	Reliable
X1	0,800	0,60	7	Reliable
X2	0,785	0,60	8	Reliable

Source: Output SPSS, (2023)

Based on the table above, it can be concluded that the entire value of Cronbach's Alpha is greater than 0.60. This shows that the data tested in the study were reliable or consistent.

### Normality Test

**Table 3. Normality Test Results**

		Unstandardized Residual
N		94
	Mean	,0000000
Normal Parameters(a,b)	Std. Deviation	2,20122211
Most Extreme Differences	Absolute	,094
	Positive	,062
	Negative	-,094
Kolmogorov-Smirnov Z		,914
Asymp. Sig. (2-tailed)		,373

Source: Output SPSS, (2023)

Based on the table above, it can be seen that the significance value of Asymp. 2 tailed is 0.373. Because of the significance value  $> 0.05$ , the data is normally distributed.

### Multicollinearity Test

**Table 4. Multicollinearity Test Result**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-2,027	2,444		-,830	,409		
Tarif Pajak	,561	,137	,456	4,094	,000	,410	2,441
Pemahaman Perpajakan	,278	,125	,253	2,222	,029	,390	2,562

Source: Output SPSS, (2023)

Based on the table above, it can be seen that the three independent variables have a tolerance value of  $> 0.1$  and a VIF of  $< 10$ . Thus, it can be concluded that the regression model does not occur multicollinearity problems, and this regression model is workable to be used in research.

### Heteroscedasticity Test

**Table 5 Heteroscedasticity Test Results**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1,194	1,465		-,815	,417
Tarif Pajak	-,089	,082	-,171	-1,085	,281
Pemahaman Perpajakan	,165	,075	,356	2,199	,030

Source: Output SPSS, (2023)

Based on the table above shows that the significance value is  $> 0.05$ . So it can be concluded that the regression model used does not occur heteroscedasticity or variance from residual observations from one observation to another.

### Auto Correlation Test

**Table 6. Auto Correlation Test Result**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson (DW)
1	,737(a)	,543	,527	2,238	2,216

Source: Output SPSS, (2023)

Based on the predetermined values, namely  $du < dw < 3-du$  ( $1.7295 < 2.216 < 2.2705$ ), it can be concluded that there is no autocorrelation so that the autocorrelation test is fulfilled.

### Multiple Linear Regression Test

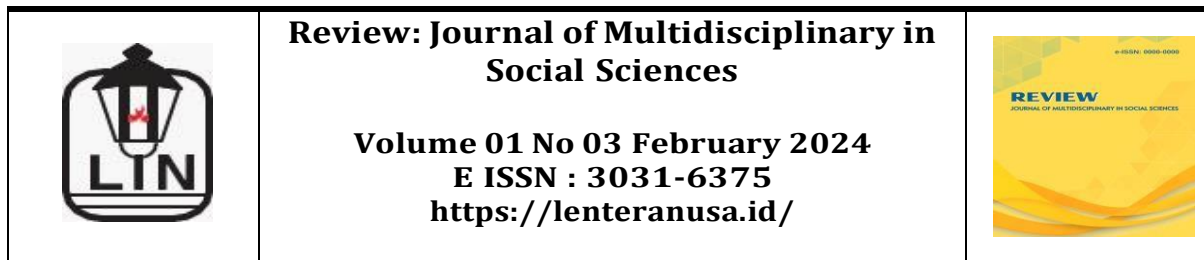
**Table 7. Multiple Linear Regression Test Result**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2,027	2,444		-,830	,409
Tarif Pajak	,561	,137	,456	4,094	,000
Pemahaman Perpajakan	,278	,125	,253	2,222	,029

Source: Output SPSS, (2023)

Based on the results of data processing in the table above, it shows Taxpayer Compliance got if the variables Tax Knowledge, Tax Rate and Tax Sanctions are 0. Therefore, the compliance of MSME taxpayers in the Lamongan Regency is -2,027. The regression coefficient value for the



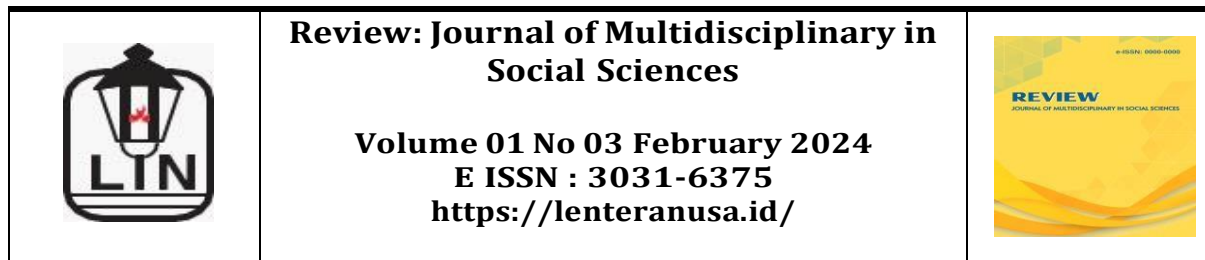


Tax Rate is 0.561. This shows that the Tax Rate variable has a positive effect on taxpayer compliance. This means that if the Tax Rate variable increases by 1 unit, then MSME taxpayer compliance will increase by 0.561, assuming the other variables are constant. The regression coefficient value for Understanding Taxation is 0.278. This shows that the Taxation Knowledge variable positively affects taxpayer compliance. This means that if the Tax Understanding variable increases by 1 unit, then the compliance of MSME taxpayers will increase by 0.278, assuming the other variables are constant.

In the theory of planned behavior, taxpayers can learn attitudes towards a person's desire behavior in performing an action. By knowing how the results of their actions, whether the results of their actions will be beneficial or not, and from that comes a person's intention to perform an action. The more good the benefits, the more compliant taxpayers will be to carry out their obligations to pay taxes according to the tax rate imposed by the government. Rates are an influential factor on the level of compliance of taxpayers. The results are in line with the results of research by Lazuardini, et al. (2018) and also the results of research from Cahyani & Noviri (2019) which states that Tax Rates have a positive and significant effect on MSME Taxpayer Compliance. Tax rates are the factor that causes the level of compliance of taxpayers. The tax rate is the amount used to meet the tax obligations payable by the taxpayer. If the tax rate is unbalanced or does not match the rate, where the tax rate is high while the taxpayer's income is low or the tax rate is low while the taxpayer's income is high, it causes taxpayer compliance to decrease. Tax rates will become a serious problem if not considered properly. Taxpayers feel reluctant to pay taxes because of the high tax rate that makes taxpayers not want to pay taxes and even try to avoid taxes. This study shows that the variables of Tax Rate and Understanding of Taxation simultaneously have a positive and significant effect on MSME Taxpayer Compliance, the variables of Tax Rate and Understanding of Taxation simultaneously have a positive and significant effect on MSME Taxpayer Compliance, the variables of Tax Rate and Understanding of Taxation simultaneously have a positive and significant effect on MSME Taxpayer Compliance.

In 2018, the Government lowered the Final Income Tax (PPh) rate for micro, small and medium enterprises (MSMEs) from 1% to 0.5%, starting July 1, 2018. With this policy, it is expected to increase the compliance of MSME Taxpayers in paying taxes. The fairer the determination of the tax rate imposed on income, the more taxpayers will be obedient in fulfilling an obligation.

The results of this study are in line with the results of research conducted by Sulistiyowati & Fidiana (2020) entitled "Knowledge of Taxpayer Awareness, Tax Knowledge and Fiscus Services on Taxpayer Compliance". The results of the study stated that Understanding Taxation has a positive and significant effect on Taxpayer Compliance. The main factor affecting taxpayer compliance in paying taxes is taxpayers' knowledge and understanding of tax regulations. The existence of knowledge about the rights, obligations and importance of taxes to state revenues and also state development can raise awareness of MSME taxpayers in paying taxes. The wider knowledge of taxpayers on the provisions of the Tax Law and the importance of taxes and encourage an increase in state revenue where high state revenue will have an impact on public welfare. A taxpayer will tend to comply with tax regulations if he has knowledge about taxation.



Vice versa, a taxpayer tends not to comply with regulations if they do not have enough knowledge about taxation.

Tax knowledge is the ability of taxpayers to know tax regulations, both about the tax rate they will pay based on the law and tax benefits that will be useful for their lives (Mardiasmo, 2011: 57). If someone has understood and understood about taxation, there will be an increase in taxpayer compliance. In addition, the reduction in tax rates is expected to increase taxpayer compliance in paying taxes.

## Conclusion

Based on the results of the analysis and discussion that has been carried out, it can be concluded that the Tax Rate has a positive and significant effect on the Compliance of MSME Taxpayers in Lamongan Regency. Understanding Taxation has a positive and significant effect on MSME Taxpayer Compliance in Lamongan Regency. Tax Rate and Tax Understanding simultaneously have a positive and significant effect on Taxpayer Compliance in Lamongan Regency. So based on this research, it can be seen that tax rates, understanding of taxation can be improved by providing socialization and counseling for MSME actors.

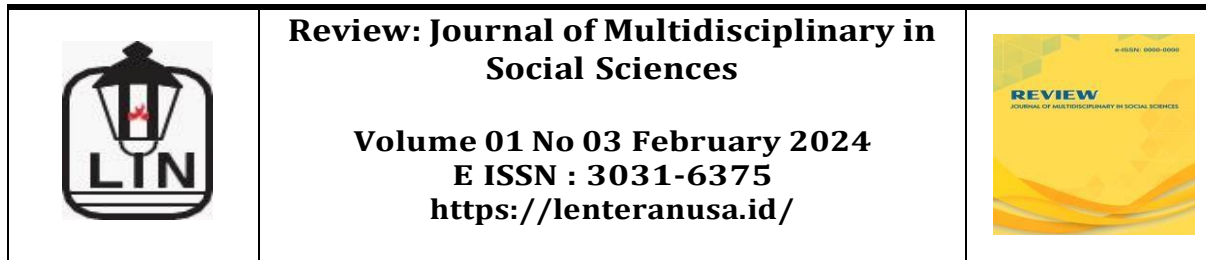
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