THE DIRECT AND INDIRECT EFFECT TAX PAYER UNDERSTANDING ON TAX PAYER COMPLIANCE BY TAX COMPLIANCE COST

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ABSTRACT

The purpose of this research is to test Taxpayer understanding and Tax Compliance Costs regarding Taxpayer Compliance. Even though payments always increase every year, if we look back at the number of Indonesian people who are supposed to fulfil their tax obligations or Indonesian people who are still running away from their responsibility to fulfil their tax obligations, it is still relatively high. This shows that the level of taxpayer compliance is still a major problem for all tax authorities, especially in Indonesia. Research that links taxpayer understanding and tax compliance has been widely conducted, but research that links indirectly between compliance costs to tax compliance is still not widely conducted, especially in Indonesia. This research will be carried out to connect directly between taxpayer understanding and tax compliance and indirectly through tax compliance costs. This type of research is quantitative research. The data used is primary data and the data source was obtained from the One Stop Integrated Services Investment and Manpower Service of Mojokerto City. This research will used Path Analysis. This research is important to conduct to see the role of compliance costs in increasing tax compliance. The results of the study are tax payers understanding has a significant effect on tax compliance and tax payers understanding also has a significant effect on compliance costs. Meanwhile, the indirect influence between tax payers understanding and tax compliance through compliance costs also has a significant effect. But based on the results, the coefficient is still greater for that direct influence. The limitation of this study is that respondents may not be objective in filling out the questionnaire.

Keywords:
Tax payers understanding, Tax Compliance Costs, Tax Compliance, MSMEs

INTRODUCTION

The phenomenon regarding the level of compliance of Indonesian citizens in reporting Annual Tax Returns (SPT) and paying taxes has tended to increase in the last five years from 2017, with the peak taxpayer compliance ratio in reporting Annual SPT reaching 84.07% in 2021 with the reported SPT as many as 15.9 million reports from 19 million taxpayers. This shows that annual tax return receipts have met the target of more than 80%. However, in reality, to this day, there are still many Indonesian people who are still running away from their responsibility to fulfill their tax obligations which are still relatively high (Dihni, 2022). This shows that the level of taxpayer compliance is still a major problem for all tax authorities, especially in Indonesia.

Deterrence theory is the basis for this research. Based on this theory, there are several factors that can determine tax compliance. Among them are understanding taxpayers, complexity of taxpayers, and tax compliance costs (Musimenta, 2020).

Taxpayer understanding of tax regulations is a process where taxpayers become aware of certain laws and other types of taxes (Hasseldine at. Al, 2009).

Research on tax payers understanding of tax compliance still experiences inconsistent results. There is research that has a positive effect on tax compliance (Andriani and Herianti, 2015; Ananda, Kumadji and Husaini, 2015) and there are results that have no effect (Widyanti, Erlansyah, Butar, and Maulidya, 2021).

Research that directly links tax payers understanding and tax compliance has been widely conducted, but research that indirectly links compliance costs to tax compliance has never been conducted, especially in Indonesia. This research is a replication of research examining the relationship between tax knowledge and tax compliance by Musimenta (2021) in Uganda which concluded that there was no significant relationship between tax knowledge and tax compliance, which was also a limitation of previous research. Therefore, based on deterrence theory, this research will test the indirect relationship between tax payers understanding/knowledge and tax compliance through tax compliance costs using different theories, places and tax subjects.

The aim of this research is to see the direct and indirect influence of tax payers understanding on tax compliance. This research is important to conduct to see the role of compliance costs in increasing tax compliance. Remembering that tax compliance costs are divided into 2 types, namely internal and external compliance costs. Internal compliance costs arise from time costs when staff spend maintaining and preparing information for professional advisors, completing tax reports, and dealing with tax authorities on matters relating to questions, objections, and appeals (Loh et al., 1997). Meanwhile, external compliance costs arise from payments to obtain services from lawyers, accountants and investment advisors from external companies (Loh et al., 1997).

Deterrence Theory (Deterrence Theory)

This theory is based on the idea that taxpayers are moral profit seekers and their actions are driven by considerations of calculating the costs and benefits obtained. This deterrence economics approach emphasizes that taxpayers consider a cost-benefit analysis when deciding on compliance outcomes and rely on the implementation of compliance to work (Yong, 2006).

Tax Compliance

The definition of Tax Compliance is obedience, submission and obedience to the provisions of tax law (source). In the sense that a compliant taxpayer is a taxpayer who obeys and fulfills and implements the provisions of tax laws and regulations. Taxpayer compliance can include 2 types, namely Formal Tax Compliance and Material Tax Compliance (source).

Formal Tax Compliance

Formal tax compliance is the taxpayer's obedience in fulfilling formal provisions including:

- Be punctual in registering to obtain a NPWP or to be determined to obtain an NPPKP.
- Be punctual in depositing taxes owed
- Be punctual in reporting taxes that have been paid and reporting tax calculations.

2. Material Tax Compliance

Material Tax Compliance is the taxpayer's compliance in fulfilling material tax provisions. Material provisions consist of:

- Be precise in calculating the tax owed according to tax calculations

- Be precise in calculating the tax payable in accordance with tax regulations
- Appropriate in withholding and collecting tax (taxpayer as a third party)

Tax Understanding

Tax Understanding is the Taxpayer's understanding of tax regulations is the taxpayer's way of knowing and understanding tax regulations. According to (Julianti, 2014:30) Taxpayers will tend not to comply when they do not understand tax regulations. Understanding taxation includes filling out the Tax Return (SPT) properly and correctly, in this case there must be an understanding regarding filling out the SPT, the amount of tax owed being able to be calculated in accordance with tax provisions, payment or deposit on time, and reporting the amount of tax owed on the spot. Registered Taxpayer (Ekawati, 2008:2).

Tax Compliance Costs

Tax Compliance Costs are costs incurred by taxpayers, or for business-oriented third parties Eichfelder & Schorn (2012).

Tax compliance costs are divided into 2 types, namely internal and external compliance costs:

- Internal compliance costs arise from time costs when staff spend maintaining and preparing information for professional advisors, completing tax reports, and dealing with tax authorities on matters relating to questions, objections, and appeals (Loh et al., 1997).
- External compliance costs arise from payments to obtain services from lawyers, accountants and investment advisors originating from outside the Company (loh et al., 1997).

The Influence of Taxpayer Understanding on Tax Compliance

Understanding Tax istaxpayers' understanding of the existing tax collection system in Indonesia and all kinds of applicable tax regulations. The tax collection system in Indonesia is a self-assessment system which is a system that fully entrusts taxpayers to calculate, pay and report the amount of tax owed themselves. In order to achieve the success of this system, taxpayers are consciously asked to understand the steps independently in relation to the implementation of the system. For this reason, taxpayers must understand tax regulations. Based on Deterence theory (Devos, 2007) if a taxpayer can understand tax law then it can be said to be compliant, especially understanding how to calculate the amount of tax owed, deposit and report tax on time. In this case, taxpayers are also said to understand the legal consequences if they do not comply, including knowing the sanctions and fines they will receive, so that taxpayers choose not to violate the law because they do not want to be caught or prosecuted by tax authorities. So based on theory and previous research the following hypothesis can be formulated:

H1: Taxpayer Understanding has a positive effect on Taxpayer Compliance.

The Effect of Taxpayer Understanding on Tax Compliance Costs

Taxpayer understanding is the taxpayer's ability to define, formulate and interpret tax regulations, as well as being able to see the consequences or implications of the possibilities arising from this understanding (Rahayu, 2020). Based on deterrence theory (Devos, 2007), the ability of taxpayers to understand tax laws means that taxpayers are able to interpret tax regulations, and are even able to connect all parts of tax regulations or understand them as a whole, seeing the impact and consequences of tax regulations that are known in full. , so as to broaden your view of taxation. When taxpayers' understanding increases, it is based

on Detterence theory which emphasizes the assumption that taxpayers will always consider the costs and benefits. When taxpayer understanding increases, compliance costs will decrease, because taxpayers already have a good understanding of tax regulations so they no longer need to consider further assistance from external parties. This causes tax compliance costs to decrease. Based on theory and previous research, the following hypothesis can be formulated: H2: Understanding Tax has a negative effect on Tax Compliance Costs.

The Effect of Tax Compliance Costs on Tax Compliance

Tax compliance costs are costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements imposed on them in complying with a given structure and tax rate. Compliance costs refer to all the costs a company incurs to comply with industry regulations. Compliance costs in this research select External Compliance costs as costs incurred in order to fulfill or comply with tax regulations. According toLoh et al., 1997 external compliance costs arise from payments to obtain services from lawyers, accountants and investment advisors from external companies. Based on deterrence theory, when taxpayers decide to comply with taxes, they will carry out a cost-benefit analysis by comparing salary costs for paying lawyers, accountants, tax consultants and investment advisors with the benefits obtained. If these costs support the level of tax compliance, then the taxpayer chooses to incur tax compliance costs with the aim of achieving tax compliance. Based on theory and previous research, the following hypothesis can be formulated: H3: Tax Compliance Costs have a positive effect on Tax Compliance

METHOD

The approach used in this research is quantitative with explanatory methods. The discussion that will be examined is the extent of the relationship between Tax Understanding and the dependent variable, namely Tax Compliance with Tax Compliance Costs as an intervening variable. The theoretical design model can be described as follows:
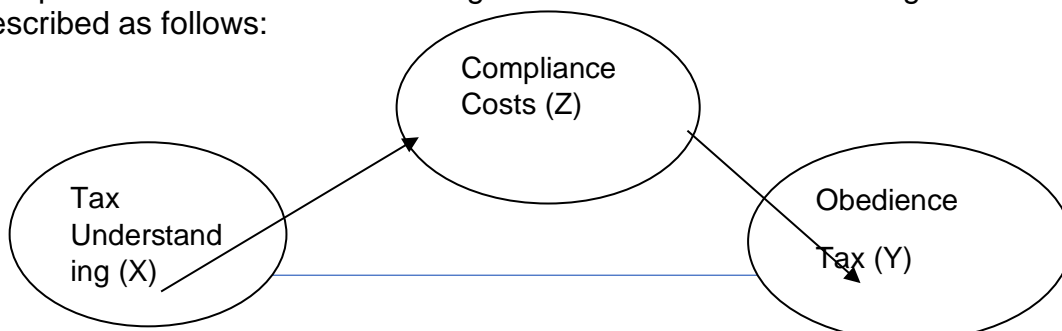

Figure 1 Research Design Operational Definition and Variable Measurement

Taxpayer Compliance is the obedience of Taxpayers nature of implementing applicable tax provisions (Rahayu, 2020). This variable is measured with 4 appropriate indicators, namely, timely reporting of tax returns, no tax arrears, reports audited by accountants and consultants, and never being convicted within 10 years. The measurement of the tax compliance variable will be measured byusing a Likert scale, each with a score of 1-5

Taxpayer knowledge is the taxpayer's ability to define, formulate and interpret tax regulations, as well as being able to see the consequences or implications of the possibilities arising from this understanding (Rahayu, 2020). This variable is measured by 5 indicators, namely understanding, awareness, socialization,

competence and tax sanctions.The measurement of the tax compliance variable will be measured byusing a Likert scale, each with a score of 1-5.

Tax Compliance Costs (X2) are costs incurred by taxpayers, or for third parties oriented Eichfelder & Schorn (2012).This variable is measured by 5 indicators, namely lawyer fees, tax consulting fees, investment consulting fees, and company external costs. This variable is measured usingLikert scale, each with a score of 1-5.

Population and sample

The population in this study were all MSME taxpayers registered with the One Stop Integrated Services Investment and Labor Service of Mojokerto City, East Java.The population of MSMEs is 500. The taxpayers who will be studied are taxpayers who operate as MSMEs with an average annual turnover or income of between 10 million Rupiah to 1 billion Rupiah. Determination of the sample in this study was taken using a purposive sampling method with the criteria (1) the selected MSMEs were those that at least had a clear address and telephone/cellphone number (2) the selected MSME Taxpayers were taxpayers who continued their business during before and after the Covid Pandemic -19, and (3) when MSMEs handle their tax affairs, they are handled either internally or externally. Internally, this means that tax matters are handled by yourself, whereas externally, tax matters are handed over to external parties such as a Tax Consultant Office or Public Accounting Firm.

Types, Sources and Techniques for Collecting Research Data Types and Sources of Data

The type of data in this research is primary data. Primary data in this research was obtained through distributing questionnaires that had been prepared related to the variables to be studied and then filled in by respondents. Questionnaires were distributed to MSME respondents with target respondents as determined. The data source for the population in this study was obtained fromOne-Stop Integrated Services Investment and Labor Service of Mojokerto City, East Java.. Who is the chairman of the UMKM Association. Meanwhile, the research location is Mojokerto Regency. In obtaining respondents, researchers used a questionnaire distributed to MSME business actors.

Tax compliance costs are costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements imposed on them in complying with a given structure and tax rate. Compliance costs refer to all the costs a company incurs to comply with industry regulations. Compliance costs in this research select External Compliance costs as costs incurred in order to fulfill or comply with tax regulations. According toLoh et al., 1997 external compliance costs arise from payments to obtain services from lawyers, accountants and investment advisors from external companies. Based on deterrence theory, when taxpayers decide to comply with taxes, they will carry out a cost-benefit analysis by comparing salary costs for paying lawyers, accountants, tax consultants and investment advisors with the benefits obtained. If these costs support the level of tax compliance, then the taxpayer chooses to incur tax compliance costs with the aim of achieving tax compliance. Based on theory and previous research, the following hypothesis can be formulated:

H3: Tax Compliance Costs have a positive effect on Tax Compliance
Research methodology

The design of this research is explanatory research, which aims to test the relationship between hypothesized variables. This research is quantitative research, where the aim of research using quantitative methods is to develop and use mathematical research models, as well as theories or hypotheses related to phenomena that can be understood more deeply by researchers. Data Collection Techniques

The data collection technique in this research uses a questionnaire distributed to MSME entrepreneurs which is measured using a Likert scale. The questionnaire used can be in the form of questions or statements given to respondents directly or online. In this research, questionnaires were distributed containing statements based on indicators and theories that are relevant to the research variables that have been determined.

Research instruments are tools used to measure the phenomenon to be observed. Specifically, this phenomenon is usually called a research variable. The instrument in this research is using a questionnaire. Meanwhile, the scale used to measure each statement item in the questionnaire uses a Likert scale, each of which has a score of 1-5, as shown in table 1.

Table 1. Research instrument answer scores

Statement	Score
Strongly Disagree	1
Don't agree	2
Neutral	3
Agree	4
Strongly agree	5

<h2 align="center">**Table** 2. Research Instruments Grid</h2>

| No.	Variable	Indicator		Measurement	Number of Statement Points in the Questionnaire
1	Taxpayer Knowledge (X1) is Taxpayer's ability to define, formulate and interpret tax regulations, as well as being able to see the consequences or implications of the possibilities arising from this understanding (Rahayu, 2020).	Understanding	1. Understand filling out the Notification Letter (SPT) properly and correctly	Likert Scale	2
			2. The amount of tax payable can be calculated in accordance with tax provisions	Likert Scale	2
			3. Able to calculate and calculate the amount of tax owed.	Likert Scale	2
			4. Able to pay and deposit on time	Likert Scale	2
		Awareness	• Accuracy in tax payments	Likert Scale	1
			• Voluntarily set aside a small portion for tax payments	Likert Scale	1
			• Don't wait for the tax payment period to expire	Likert Scale	1
			• Rarely receive sanctions	Likert Scale	1
		Socialization (Winerungan 2013, 2013)	1. Counseling		1
			2. Two-way communication		1
			1. Direct information		1
			A. Installation of Billboards		1
			B. Website		
		Ability	5. Able to report the Notification Letter correctly.	Likert Scale	1
		Tax Sanctions	6. Understand the legal consequences in the	Likert Scale	2

RESULTS AND DISCUSSION

Population and Sample

MSMEs are the population of this research whose data was obtained fromOne-Stop Integrated Services Investment and Labor Service of Mojokerto City, East Java. A research sample of 30 MSMEs was obtained. The purposive sampling method is a technique used as a benchmark for the data that has been considered. Number of samples: This research has sample criteria, namely as follows:

Table 3. Sampling Sample of MSMEs that filled out the questionnaire were 30 MSMEs

No	Criteria	Number of Companies
1	**Population** MSMEs registered with the One Stop Integrated Services Investment and Manpower Service, Mojokerto City.	500 MSMEs
1	MSMEshas an unclear address and telephone/cellphone number	(208 MSMEs)
2	MSMEs that have gone bankrupt and changed businesses and are not registered.	(242 MSMEs)
3	MSMEs that do not return the questionnaire	(20 MSMEs)

The type of data used in this research is primary data originating from the DepartmentInvestment in One Stop Integrated Services and Mojokerto City Workers.. This research uses path analysis which aims to prove the existence of indirect and/or direct influences (Riduwan & Kuncoro, 2008: 2).
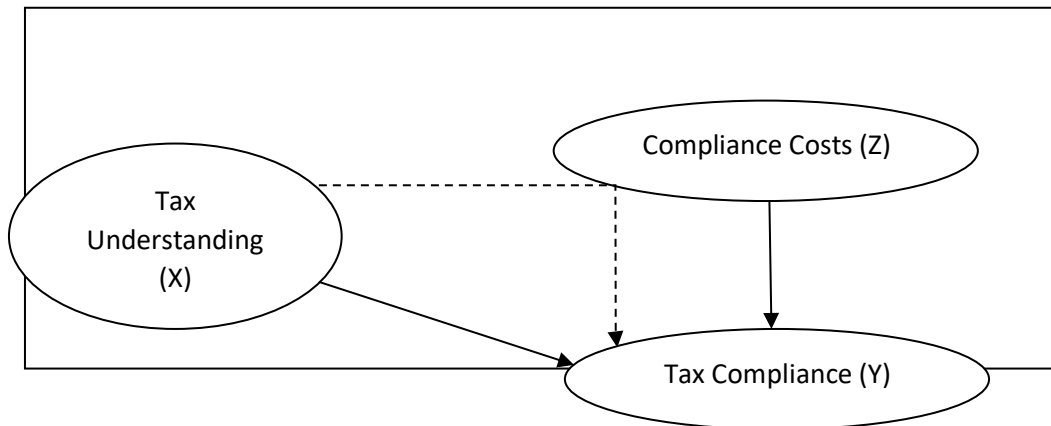
Furthermore, the image above can also be expressed in the form of an equation
as follows:

$$Y = \beta 1 X1 + \varepsilon 2 \cdots\cdots (1)$$
$$Z = \beta 1 X1 + \varepsilon 1 \cdots\cdots (2)$$
$$Y = \beta 1 Z + \varepsilon 2 \cdots\cdots (3)$$

Model 1: Effect of Tax Understanding Variable (X) on Tax Compliance (Y)

$$Y = \beta 1X1 + \varepsilon 2 \cdots\cdots\cdots (1)$$

Table 4. Output of Tax Understanding on Tax Compliance

Model	Standardized Coefficient Beta		t	Sig.
1	Tax Understanding	0.652	4,551	0,000

Dependent Variable: Tax Compliance
Tax Understanding Output on Tax Compliance

Model 2: Effect of Tax Understanding Variable (X) on Costs Tax Compliance (Z)

$$Z = \beta 1X1 + \varepsilon 1 \cdots\cdots\cdots(2)$$

Dependent Variable: Tax Compliance Costs

Model 3: Effect of Tax Compliance Cost Variables (Z) on Tax Compliance (Y)

$$Y = \beta 1Z + \varepsilon 2 \cdots\cdots\cdots(3)$$

Table 5. Output of Tax Understanding on Tax Compliance Costs
Coefficients

Model	Standardized Coefficient Beta		t	Sig.
1	Tax Understanding	0.479	3,293	0.001

Table 6. Tax Compliance Costs on Tax Compliance

Coefficients

Model	Standardized Coefficient Beta		t	Sig.
1	Tax Compliance Costs	0.456	3, 416	0.02

Source: SPSS data processing, 2022
Dependent Variable: Tax Compliance

The results of the equation above can be seen that (1) The value of ρ1 is 0.0479 and the t statistic shows 0.001, which means that tax understanding has an effect on tax compliance. (2) The value of ρ2 is 0.652 and the t statistic shows 4.551 with a significance level of 0.000, which means that Tax Understanding has an effect on Tax Compliance Costs. (3) The value of ρ3 is 0.456 and the t statistic shows 3.416, which means that Tax Compliance Costs have an effect on Tax Compliance.
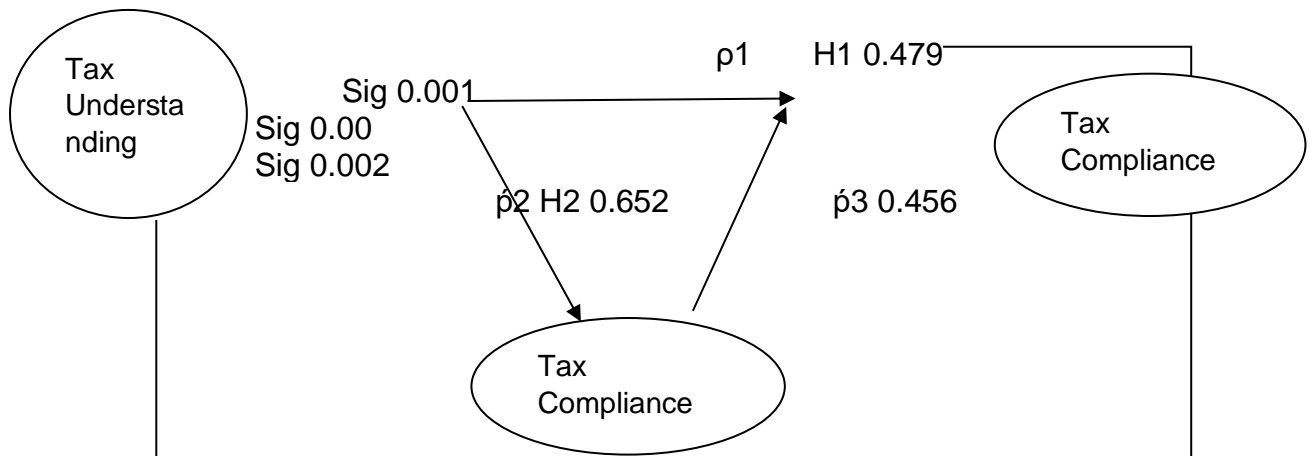
Figure 3 direct influence of tax understanding on tax compliance

Based on Figure 3 above, the direct influence of tax understanding on tax compliance is 0.479 and the indirect influence through compliance costs is (0.652) x (0.456) = 0.297. The results of the t statistical test were carried out using the Sobel test for an indirect effect of 0.297.

Based on the statistical results that have been carried out previously, they can be interpreted further as follows:

Discussion

The Influence of Tax Understanding on Tax Compliance

The test results of the first hypothesis in this research show that tax understanding has a significant positive effect on tax compliance. This is proven by a significant value of 0.001, which means less than 0.05 and a beta value of 0.479, a coefficient of determination value of 0.702, so the first hypothesis can be accepted. So it can be concluded that the influence of tax understanding on tax compliance is 70.2% and the remainder is influenced by other variables not explained in this research.

The results of this research are supported by(Palil, 2010; Machogu and Amayi, 2013; Andriani and Herianti, 2015; Ananda, Kumadji and Husaini, 2015) which states that tax understanding influences tax compliance or in other words, tax understanding has an essential influence on tax compliance.

Understanding Tax istaxpayers' understanding of the existing tax collection system in Indonesia and all kinds of applicable tax regulations. The tax collection system in Indonesia is a self-assessment system which is a system that fully entrusts taxpayers to calculate, pay and report the amount of tax owed themselves. In order to achieve the success of this system, taxpayers are consciously asked to understand the steps independently in relation to the implementation of the system. For this reason, taxpayers must understand tax regulations. The research results support the prevention theory (Devos, 2007) that if taxpayers can understand tax laws then they can be said to be compliant, especially understanding how to calculate the amount of tax owed, deposit and report taxes on time. Taxpayers in this case are also said to understand the legal consequences if they do not comply, including knowing the sanctions and fines they will receive, so that taxpayers choose not to violate the law because they do not want to be caught or prosecuted by tax authorities (Obaid, Gurama and Ibrahim, 2022) This can be proven based on

the results of the questionnaire that the taxpayer understanding item relating to sanctions obtained the highest average in meaningful scores thatWith the existence of regulations regarding sanctions if they do not fulfill their obligations, the respondent as a taxpayer becomes disciplined in fulfilling his tax obligations.

The Effect of Tax Understanding on Tax Compliance Costs

The test results for the second hypothesis in this research show that tax understanding has a significant positive effect on tax compliance costs. This can be proven by significant value of 0.000 which means less than 0.05 and beta value of 0.652 and coefficient of determination value of 0.425 which meansinfluenced by 42.5% by the variable Tax Understanding (X), while the remaining 57.5% is influenced by other variables outside the independent variable studied,so that the second hypothesis based on the hypothesis formulation is rejected because it is in the opposite direction to the existing hypothesis formulation. So it can be concluded that the influence of tax understanding on tax compliance costs is 40.5% and the remainder is influenced by other variables not explained in this research.

The results of this study do not support the theory*Deterence* which states thatWhen taxpayer understanding increases, compliance costs will decrease, because taxpayers already have a good understanding of tax regulations so they no longer need to consider assistance from external parties. However, empirically it produces the opposite direction to the second hypothesis, namely that tax understanding has a significant positive effect on tax compliance costs. In the sense that even though MSME Taxpayers understand tax law, they are still unable to have an impact on reducing compliance costs so they still need professional assistance from external parties. This is proven by the still high level of tax handlinginternally as shown from the results of filling out the questionnaireby MSMEs, tax matters are always handled internally, where the respondent routinely calculates taxes,at the respondent's place there is tax planning, there are other related activities and taxes, andat the respondent's place there is an allocation of costs for tax compliance. The results of this study support the findings of Abrie and Doussy (2006) that most MSMEs handle tax obligations themselves internally, but MSMEs do not have enough skills to overcome compliance issues and often have to incur additional costs involving external advisors to handle tax calculation costs.

The Effect of Tax Compliance Costs on Tax Compliance

The test results for the third hypothesis in this research show that tax compliance costs have a significant positive effect on tax compliance. This can be proven by a significant value of 0.002 which means less than 0.05 and a beta value of 0.456 and a coefficient of determination value of 0.425 which meansinfluenced by 42.5% by the Tax Compliance Cost variable (X), while the remaining 57.5% is influenced by other variables outside the independent variable studied,so that the third hypothesis based on the hypothesis formulation is accepted because it is in line with the existing hypothesis formulation.

The results of this research are supported by several previous studies from Omondi & Theuri, 2019; Moses, 2018; Sapiei & Abdullah, 2014which reveals that tax compliance costs influence tax compliance. On the other hand, the results of the study had no effectAbdul-Jabbar (2009) and Mahangila state that if the cost of tax compliance is reduced, voluntary tax compliance will increase.

Tax compliance costs are costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements imposed on them in complying with a

given structure and tax rate. Compliance costs refer to all costs a company incurs to comply with industry regulations.

The results of this study support the theory *Deterence* which states that When compliance costs increase, MSMEs are actually considering complying with industry requirements and tax laws. In the sense that MSMEs, based on the questionnaire that has been distributed to MSMEs in Mojokerto, state that all tax matters are always handled internally (Z1.1) with a proportion of 53.3% of MSMEs choosing to agree. Then the second (Z1.2) which states that where respondents routinely calculate taxes by proportion 50% of MSMEs chose to agree, the third (Z1.3) statement was about tax planning with a proportion of 56.7% choosing to agree, fourth (Z1.4) statement there are other activities related to Tax with a proportion of 56.7%, the fifth (Z1.5) statement about where we have allocated costs for Tax Compliance with a proportion of 40%. If these five statements are added up, the average questionnaire score is 3.26 which is means Good enough

The Effect of Tax Understanding on Tax Compliance through Tax Compliance Costs

The influence of tax understanding on tax compliance directly and indirectly through tax compliance costs is the aim of this research. Based on the results obtained in Figure 3, the direct test between the variable tax understanding and tax compliance produces coefficient results that are greater than the indirect test through compliance costs.

CONCLUSION

Based on the discussion, it can be concluded that the direct influence between tax payers understanding on tax compliance has a significant effect and tax payers understanding on tax compliance costs also has a significant effect. Meanwhile, the indirect influence between tax payers understanding and tax compliance also has a significant effect. However, based on the results, the coefficient is still greater for the direct effect. The conclusion from this research is that external compliance costs are still not acceptable to MSMEs because their owners already feel they understand tax law. The limitation of this study is that respondents may not be objective in filling out the questionnaire. The next research can be using more respondent.

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