The Effect of Tax Incentives and Tax Socialization on MSME Taxpayer Compliance with Financial Conditions as Moderating Variables (Case Study at KPP Pratama Gianyar)

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Abstract: The weakening financial condition of MSME due to the Covid-19 pandemic has led to a decrease in the obedient behavior of taxpayers in fulfilling their tax obligations. In response to this situation, the government issued a policy of providing tax incentives for MSMEs taxpayers affected by the Covid-19 pandemic with the aim to reduce the tax expense, so as to improve taxpayer compliance. To be able to convey the update information regarding policies, regulations, and other information about taxation, it is necessary to carry out tax socialization activities by the tax authorities and other relevant agencies, so that taxpayers will always comply with their tax obligations.

This research aims to examine the effect of tax incentives and tax socialization on MSMEs taxpayer compliance with financial conditions as a moderating variable. This research was conducted at KPP Pratama Gianyar, with uses primary data sources in the form of questionnaires distributed to 100 MSMEs taxpayers listed at KPP Pratama Gianyar. Testing the variables of this research using the Structural Evaluation Model – Partial Least Square (SEM PLS) method with the SmartPLS 3.0 application.

The results of this research indicate that: (1) tax incentives has a positive and significant effect on MSME taxpayer compliance, (2) tax socialization has a positive and significant effect on MSME taxpayer compliance, (3) financial conditions can moderate the nature of weakening the effect of tax incentives on MSME taxpayer compliance.

Keywords: tax incentives, tax socialization, MSME taxpayer compliance, financial conditions

Introduction

Since its appearance, the Covid-19 pandemic has caused the economy to be in an unstable condition and led to an economic recession (Utama & Irawan, 2022). Of course this has an impact on the decline in income in tax revenues. In fact, taxes are one of the main pillars of the state economy, the State Budget (APBN) can run smoothly supported by the state treasury, where taxes are the main source which will support state expenditures (Jaya, 2019). As we know, the tax ratio in Indonesia is still relatively low and tends to decrease in the last 5 years (Junawan & Adiman, 2021) . The low value of the tax ratio is one of the impacts of the low level of taxpayer compliance to fulfill their tax obligations or tend to ignore and avoid all things related to taxation so that it will have an impact on causing losses to the state (Handayani & Woro Damayanti, 2018). The MSME sector is one sector that has great potential as a supporter of the community's economy, so that it will have a major impact on tax revenue (Walidain, 2021). However, it is unfortunate that the level of MSME contribution to taxation is still relatively low, contrary to the growth of this sector, where the MSME sector only contributes 1.1% or 7.5 trillion rupiah of the total 2019 income tax (Agustina et al., 2021). Reporting from data from the Bali Province Cooperatives and SMEs Office, it was found that Gianyar Regency is the district with the highest number of MSMEs in Bali (Suariedewi et al., 2021). This increase in the number of MSMEs should be reflected in an increase in state revenues. However, the fact is that the increase in MSMEs in Gianyar Regency is not in line with the increase in MSME taxpayers' tax revenue at the Gianyar KPP Pratama. The decline in tax revenue

that occurs reflects the level of awareness of taxpayer compliance in the MSME sector in Gianyar Regency is still low and needs to be optimized.

One of the important factors that influence taxpayer compliance is the financial condition of the taxpayers themselves (Hendrawati et al., 2021). The Covid-19 pandemic has resulted in the financial condition of many MSMEs experiencing a slowdown and even experiencing a significant decline. It can be seen from the number of business actors in the MSME sector who experienced a decrease in sales turnover, difficulties in accessing raw materials and termination of employment (PHK). So that many MSME taxpayers are trying to avoid tax obligations to reduce their financial expenses. Seeing this problem and to revive the economic sector, especially the taxation sector, the government issued a policy of providing tax incentives to taxpayers affected by the pandemic. Previous research has been conducted by (Lalisu, 2021) and (Jaya, 2019) describing the use of tax incentives provide a positive influence and significant results in terms of helping increase taxpayer compliance. However, different results were found in research conducted by (Saputra W, 2021).

The government also seeks to carry out educational activities in the form of effective counseling for taxpayers, including MSME taxpayers. Through this socialization, it is hoped that it can provide a good, precise, and correct understanding to taxpayers, so that they will get accurate knowledge and information about how important taxes are in supporting the country's economy, which taxes also aim to provide comfort for citizens through the provision of public facilities. When taxpayers understand carefully the importance of taxes, then obedient behavior to complete their obligations in taxation will grow and can be implemented. Based on the phenomena and research gaps that have been described in the previous paragraph, in this research, researchers are interested in conducting research regarding the compliance of MSME taxpayers which raises the research title, "The Effect of Tax Incentives and Tax Socialization on MSME Taxpayer Compliance with Financial Conditions As a Moderating Variable (Case Study at KPP Pratama Gianyar)."

Method

The quantitative data is used in this research. The data obtained are primary data collected using a questionnaire that has been tested for validity and reliability. Questionnaires were created and distributed to respondents through google forms. The questionnaire in this study is closed, because in the answer selection column, the respondent can only choose an answer from the options that have been provided.

Table 1
Variables and Indicators

Variables	Indicators	Scale
Tax Incentives (X1)	1. Justice	Likert
	2. Utilization	
	3. Impact	
Tax Socialization (X2)	1. Implementation	Likert
	2. Media	
	3. Benefit	
Financial Conditions (Z)	1. Profit before tax	Likert
	2. Cash flow conditions	
Taxpayers Compliance (Y)	1. Registering	Likert
	2. Calculating	
	3. Paying	
	4. Reporting	

The location of the research was carried out at KPP Pratama Gianyar. The population was MSME taxpayers, with a research sample were determined using the SLovin formula of 100 MSME taxpayers, with purposive sampling as a sampling technique. The criteria / characteristics of the sample are as follows: 1) MSME individual taxpayers, 2) Taxpayers registered at KPP Pratama Gianyar, 3) Taxpayers who have commerce, service, or manufacturing businesses, 4) Taxpayers use final tax rates in accordance with what is stipulated in PP 23 of 2018.

The data that have been collected, then processed and described using the SEM-PLS technique, with the software used namely SmartPLS 3.0. The analysis steps are as follows:
1. Draw the path diagram
2. Evaluating the measurement model
3. Evaluating the structural model
4. Hypothesis test

Result and Discussion

This research aims to determine the effect of tax incentives and tax socialization variables on MSME taxpayer compliance with financial conditions as a moderating variable. The data analysis used is Structural Equation Modeling (SEM) based on Partial Least Square (PLS) using the bootstrapping method as a data resampling method.
1. Evaluation of The Measurement Model (Outer Model)
   a. Convergent Validity
      Convergent validity is used to determine the suitability and correlation between indicators and latent variables. The value of convergent validity can be seen from the value of the loading factor of the latent variable with its indicators. A loading factor with a value of 0.50 to 0.60 is considered sufficient or acceptable (Ghozali & Latan, 2015). Figure 1 shows the loading factor of each indicator used in this research. The results in the figure show that the entire value of the outer loading indicator for each variable has a value greater than 0.60, so that each indicator is valid.
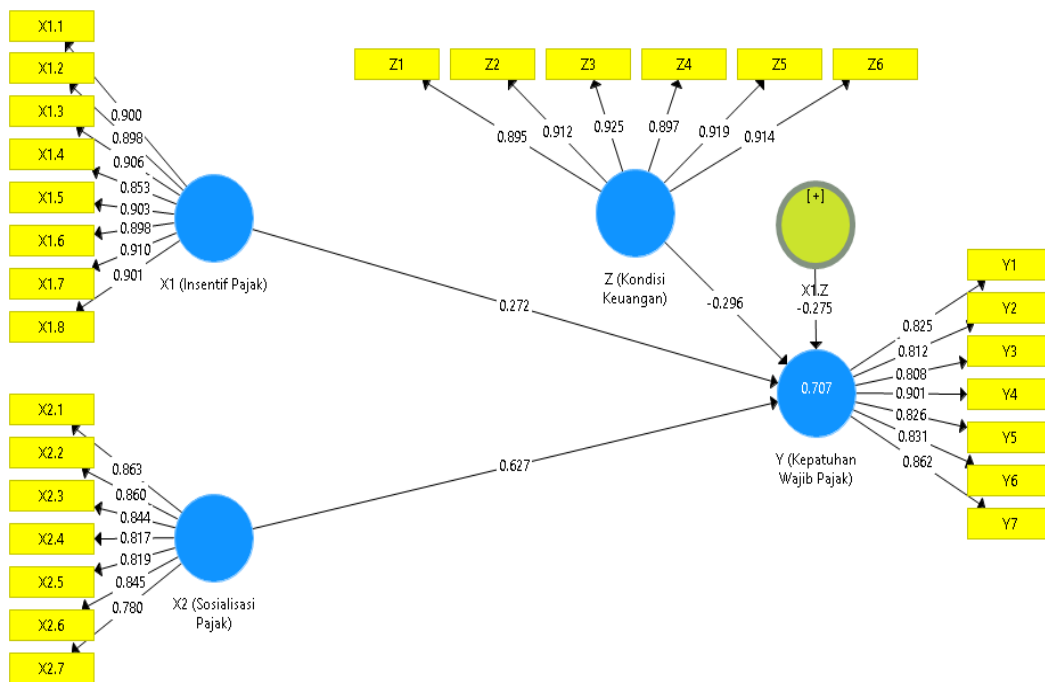
Source: Primary data processed, 2022
Figure 1. Loading Factor Setiap Indikator

   b. Discriminant Validity
      Discriminant validity shows that different construct indicators should not be highly correlated. Average Variance Extracted (AVE) is the method used to test discriminant validity. A valid construct declared if the AVE value is not less than 0.50 (Ghozali & Latan, 2015). Table 2 shows value of AVE in this research. The results obtained can be said to be good, which in each indicator value is above 0.50 (met the criteria).

Table 2
Value of Average Variance Extracted (AVE)

	AVE	AVE Requirement	Description
Tax Incentives (X1)	0.803	>0,500	Valid
X1.Z	1.000	>0,500	Valid
Tax Socialization (X2)	0.694	>0,500	Valid
Taxpayers Compliance (Y)	0.703	>0,500	Valid
Financial Conditions (Z)	0.829	>0,500	Valid

Source: Primary data processed, 2022

c. Data Realibility Test

Reability test is intended to determine whether the results of the measurements from the research can be trusted and reliable, in which the data must be consistent even though measurements have been made repeatedly. Composite reliability and cronbach's alpha are the methods used in this research. Measurement data who have a cronbach's alpha more than 0.70 can be said reliable (Ghozali & Latan, 2015). The value of composite reliability and cronbach's alpha of tax incentives, tax socialization, financial condition, and taxpayer compliance of this research are more than 0.70 (shows on Table 3). With the results shown, it can be said that in this research the variables used have good reliability.

Table 3
Value of Composite Reliability and Cronbach's Alpha

	Cronbach's Alpha	Composite Reliability	Description
X1 (Tax Incentives)	0.965	0.970	Reliabel
X1.Z	1.000	1.000	Reliabel
X2 (Tax Socialization)	0.926	0.941	Reliabel
Y (Taxpayers Compliance)	0.930	0.943	Reliabel
Z (Financial Conditions)	0.959	0.967	Reliabel

Source: Primary data processed, 2022

2. Evaluation of The Strucutral Model (Inner Model)

When the data obtained successfully passes the outer model, the next step to do is processing the research variable data. The structural model describes the relationship between latent variables evaluated using the path coefficient, R-Square and GoF.

Table 4
Value of R-Square dan GoF

	R-Square	R-Square Adjusted	GoF
Y (Taxpayer Compliance)	0,707	0,694	0,755

Source: Primary data processed, 2022

The effect of tax incentives (X1), tax socialization (X2), financial condition (Z), X1.Z interaction on taxpayer compliance giving an R-square value of 0.707 which can be interpreted that the variability of the taxpayer compliance variable can be explained by the variability of the tax incentive variable (X1), tax socialization (X2), financial condition (Z) X1.Z interaction, with an interaction of 70.7 percent, while 29.3 percent is explained by the other variables outside of this research. While the GoF value of 0.755 indicates a strong GoF value or the model used in this study has a high suitability for the research model.

3. Hypothesis Test

Table 5
Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistics (|O/STDEV|)	P Values
X1 (Tax Incentives) -> Y (Taxpayers Compliance)	0.272	0.276	0.084	3.239	0.001
X1.Z -> Y (Taxpayers Compliance)	-0.275	-0.273	0.084	3.272	0.001
X2 (Tax Socialization) -> Y (Taxpayers Compliance)	0.627	0.628	0.074	8.524	0.000

Source: Primary data processed, 2022

a. The Effect Of Tax Incentives (X1) on MSME Taxpayer Compliance (Y).
   Hypothesis testing of the effect of tax incentives on taxpayer compliance shown in Table 5. The magnitude of the coefficient value of 0.272 describes the positive effect of tax incentives on taxpayer compliance. T-statistics value greater than 1.96 indicates a significant effect. Thus, it can be concluded that hypothesis 1 (H1) is accepted, tax incentives has a significant effect on MSME taxpayer compliance with a positive relationship direction. The purpose of providing tax incentives is to lighten the tax expense borne by taxpayers affected by the Covid-19 pandemic, so that taxpayers does not feel burdened to pay the tax obligation, because the tax obligation will be borne by the government. So, based on this, taxpayers will have a tendency to behave obediently to their tax obligations during Covid-19 pandemic.

b. The Effect Of Tax Socialization (X2) on MSME Taxpayer Compliance (Y).
   Hypothesis testing on the effect of tax socialization on taxpayer compliance resulted can be seen in Table 5. The correlation coefficient value of 0.627 describes the positive effect of tax socialization on taxpayer compliance. The t-statistics value which is greater than 1.96 indicates a significant effect. Thus, it can be concluded that tax socialization has a significant effect on MSME taxpayer compliance with a positive relationship direction, so the hypothesis 2 (H2) is also accepted. This shows that the tax socialization provided by the officers has been carried out well because it can add information and knowledge of taxpayers regarding all matters relating to taxation, policies, regulations, and taxation procedures, so that taxpayers are encouraged to carry out their tax obligations in accordance with the provisions of the applicable tax regulations.

c. Financial Condition Moderates The Effect of Tax Incentives (X1) on MSME Taxpayer Compliance (Y).
   Hypothesis testing on the effect of the interaction variable between tax incentives and financial conditions (X1.Z) on taxpayer compliance produces a correlation coefficient value of -0.275, t-statistics value of 3.272 (>t-critical 1.96), and p-value of 0.001 <0.050, then the effect of the interaction variable of tax incentives on financial condition (X1.Z) on taxpayer compliance shows significant results. Testing the moderating effect using the moderating regression equation which shows that the value of β_1 is significant positive and β_3 is negative significant, it can be concluded that the financial condition variable as quasi moderation with debilitating properties (Solimun et al., 2017).
   This is because the provision of tax incentives for MSME taxpayers according to PMK No.9/PMK.2021 is in the form of government-borne tax incentives (DTP), where income taxes that should be payable and borne by taxpayers will be borne by the government. The calculation of tax payable for MSME taxpayers in accordance with PP. 23 of 2018 is to multiply the 0.5% rate by the gross turnover or gross income earned each month. When viewed from the situation of the Covid-19 pandemic, most of the taxpayers experienced a drastic decrease in income, not even a few MSME taxpayers who did not earn any income at all. Of course, this will have an impact on the taxes payable, where MSME taxpayers may

not have taxes payable. So that taxpayers won't tend to take advantage of these tax incentives, because they are deemed unnecessary, as a result the provision of tax incentives by the government cannot increase taxpayer compliance due to the weak financial condition of taxpayers during the Covid-19 pandemic.

Conclusion

The conclusions that can be obtained after testing and analysis are: 1) Tax incentives have a positive and significant effect on MSME taxpayer compliance, 2) Tax socialization has a positive and significant effect on MSME taxpayer compliance, 3) Financial conditions can moderate the nature of weakening the influence relationship tax incentives on MSME individual taxpayer compliance.

Acknowledgment

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