

The Effect of Tax Knowledge and Awareness in Paying Taxes on Noncompliance in Paying Taxes

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Abstract-This study aims to determine and analyze the effect of tax knowledge and awareness in paying taxes on non-compliance in paying taxes on MSME taxpayers registered at KPP Pratama Balikpapan Timur. This type of research is quantitative using primary and secondary data. The number of samples used in this research is 100 respondents of MSME taxpayers registered at KPP Pratama Balikpapan Timur. This research is a data analysis tool conducted with Partial Least Square (PLS) version 4.0. The results of this study indicate that tax knowledge and awareness in paying taxes have a negative and significant effect on non-compliance in paying taxes.

Keywords- tax awareness; tax non-compliance; tax knowledge; MSMEs

I. INTRODUCTION

One of the main sources of income for a country is tax, which includes all types of taxes including taxes for Micro, Small and Medium Enterprises (MSMEs), which are collected and used to improve people's welfare and increase economic development. In Indonesia alone, taxes account for more than 70% of state revenue, and the remaining 70% comes from customs and excise, PNBP, or Non-Tax State Revenue, as well as sources of state revenue other than legal taxes, this shows that taxes continue to be a major source in the social and economic development of society in every aspect and sector (Prameswari, 2019).

MSMEs are one of the taxpayers who contribute to tax revenue. The existence of MSMEs has a significant role in the economy in Indonesia. In 2021, the Ministry of Cooperatives and MSMEs recorded 67 million MSMEs spread throughout Indonesia. However, only 2.3 million of these MSMEs have NPWP, and even those who have NPWP do not always fulfill their obligations to pay taxes (Nurhidayah, 2021).

Balikpapan City is one of the cities that has a fairly developed MSME business, the growth in the number of MSMEs in Balikpapan City in 2021 is 47,054 MSMEs with a percentage of 70.84% and has increased in 2022 by 60,959 MSMEs with a percentage of 29.55% which are divided into several sectors, namely the service sector, industrial sector and trade sector. However, the development of MSMEs is not in line with the level of community compliance in paying taxes, the level of compliance implemented by the community shows that it is still not optimal.

Based on the data registered at KPP Pratama Balikpapan Timur, the number of MSME taxpayers has increased, in 2021 there were 4,610 MSME taxpayers who reported and paid their tax obligations. Meanwhile, the data on the number of MSME taxpayers registered at the KPP reached 29,051. This shows that

the level of taxpayer compliance is still low when compared to the number of MSMEs registered at the Balikpapan City Tax Office. The growth of tax revenue in 2021 is lower than in 2019 while state expenditure continues to increase.

| Year | Number of taxpayers MSME Taxpayers | Total tax payment | Taxpayers Routine payment |
|------|------------------------------------|--------------------|---------------------------|
| 2019 | 15.066 | Rp.147,908,649,787 | 5.316 |
| 2020 | 26.301 | Rp.128,641,472,013 | 4.919 |
| 2021 | 29.051 | Rp.139,537,736,290 | 4.610 |

Source: KPP Pratama Balikpapan Timur

This phenomenon indicates that there is a decrease in the aspect of taxpayer compliance in that year, with the growth in the number of MSMEs increasing, but in reality it is not in line with the amount of tax revenue in the MSME sector which is still relatively low (Pratiwi & Susanti, 2020). This can affect the level of taxpayer compliance, with the lower the knowledge possessed, the higher the level of taxpayer non-compliance in paying taxes. (Kaunang & Pinatik, 2016).

The importance of awareness possessed within individual taxpayers greatly affects taxpayer compliance in paying taxes. If taxpayers have low awareness, taxpayer compliance in paying taxes is also low. *Theory of Planned Behaviour* developed by Ajzen, in 1991 explained that the behavior that a person does to commit non-compliance with tax provisions is caused by the *intention* to behave non-compliant.

II. METHOD AND MATERIALS

The population in this study is MSME taxpayers registered at KPP Pratama Balikpapan Timur, especially the number of MSME taxpayers located in South Balikpapan sub-district. With a sample size of 100 MSME taxpayers.

The sampling method used in this study is *purposive* sampling, namely by selecting samples with certain criteria and objectives.

1. MSME taxpayers who are registered at KPP Pratama Balikpapan Timur.
2. taxpayers who have turnover >500 million -4.8 billion per year.

Data collection is done by distributing questionnaires. The questionnaire contains statements or questions written by the researcher to be filled in by the respondent. The distribution of questionnaires in this study to MSME taxpayers registered at the East Balikpapan Tax Office. It is focused on those in South Balikpapan sub-district.

The data analysis technique used in this research is the *Structural Equation Model* (SEM) approach using *partial least square* (PLS) software. The test conducted in this research uses

outer model and inner model. Outer model to determine and evaluate the strength between latent variables and other indicators through validity and reliability tests. And the inner model to test the effect of the relationship between latent variables.

III. RESULTS AND DISCUSSION

The research model contained in this study contains three constructs, namely, tax knowledge, awareness of paying taxes, and non-compliance in paying taxes. To determine whether a research instrument is valid or not, this study conducted tests using the outer model and inner model.

I. outer model

1. Validity test

1.) Convergent validity test

TABLE 1. reliability and validity

| | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho_c) | Average variance extracted (AVE) |
|------------------------------|------------------|-------------------------------|-------------------------------|----------------------------------|
| Tax Understanding | 0.949 | 0.955 | 0.967 | 0.823 |
| Tax Paying Awareness | 0.886 | 0.865 | 0.876 | 0.579 |
| Non-compliance in paying tax | 0.956 | 0.931 | 0.967 | 0.904 |

Based on the table above, the AVE value shows results of more than 0.5 that these results are in accordance with the requirements for testing the level of *convergent validity* of a construct and can be used for further analysis.

For the next parameter using the *loading factor* value, the indicator can be said to be good if the *outer loading* value is more than 0.7 for each variable. Can be seen in the table below:

TABLE 2. outer loading

| | (X1) Tax Knowledge | (X2) Awareness of paying Tax | (Y) Tax non-compliance |
|-------------------|--------------------|------------------------------|------------------------|
| X(1) ₁ | 0.836 | | |
| X(1) ₂ | 0.841 | | |
| X(1) ₃ | 0.975 | | |
| X(1) ₄ | 0.964 | | |
| X(1) ₅ | 0.863 | | |
| X(2) ₁ | | 0.704 | |
| X(2) ₂ | | 0.972 | |
| X(2) ₃ | | 0.746 | |
| X(2) ₄ | | 0.886 | |
| X(2) ₅ | | 0.798 | |
| Y(1) ₁ | | | 0.963 |
| Y(1) ₂ | | | 0.982 |
| Y(1) | | | 0.965 |

| | | | |
|----|--|--|--|
| .3 | | | |
|----|--|--|--|

2.) discriminant validity test

Discriminant validity test based on the *cross loading* value, where the value is required to be higher than the loading value with other construct values. The *cross loading* value can be seen in the table below:

TABLE 3. cross loading

| | (X1) Tax Knowledge | (X2) Awareness of Paying Taxes | (Y) Non-compliance with paying taxes |
|-------------------|--------------------|--------------------------------|--------------------------------------|
| X(1) ₁ | 0.886 | 0.398 | -0.397 |
| X(1) ₂ | 0.871 | 0.352 | -0.364 |
| X(1) ₃ | 0.935 | 0.434 | -0.476 |
| X(1) ₄ | 0.914 | 0.408 | -0.397 |
| X(1) ₅ | 0.873 | 0.532 | -0.288 |
| X(2) ₁ | 0.478 | 0.704 | -0.289 |
| X(2) ₂ | 0.403 | 0.782 | -0.277 |
| X(2) ₃ | 0.356 | 0.766 | -0.504 |
| X(2) ₄ | 0.369 | 0.816 | -0.501 |
| X(2) ₅ | 0.315 | 0.798 | -0.943 |
| .5 | -0.424 | -0.445 | 0.952 |
| Y(1) | -0.458 | -0.504 | 0.961 |
| .1 | -0.465 | -0.499 | 0.965 |

2. Reliability Test

In table 1, the *Cronbach's alpha* and *composite reliability* values are greater than 0.7. So, it can be concluded that this value meets the reliability requirements. So it can be seen that all construct indicators are reliable for measuring all variables.

II. inner model

Inner model is a stage to evaluate the relationship between one variable and another. Testing the inner model by looking at the R-square value, significance and correlation between variables from the research model. The value of R² tax non-compliance is 0.348. This shows that the tax non-compliance variable can be explained by 34% through the variables of tax knowledge, awareness in paying taxes. While the remaining 68% is explained through other variables outside the research model that are not explained in this study.

TABLE 4. R-Square Value

| | R-square | R-square adjusted |
|-----------------------|----------|-------------------|
| (Y) Tax Noncompliance | 0.348 | 0.324 |

Hypothesis testing

Hypothesis testing parameters use a comparison of the *t table* value using *two tailed* hypothesis testing with the *rule of thumb*, namely if the *t statistic* value > from *t table* (1.96) or p value < 0.05, it can be declared accepted and significant.

TABLE 5. path coefficient

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | Tstatistics ((O/STDEV)) | P values |
|--|---------------------|-----------------|----------------------------|-------------------------|----------|
| Tax Knowledge-> Non-compliance to pay tax | -0.279 | -0.267 | 0.094 | 3.145 | 0.002 |
| Awareness of paying taxes-> Non-compliance with paying taxes | -0.369 | -0.382 | 0.075 | 4.236 | 0.000 |

Based on the bootstrapping test results in table 5, it can be concluded as follows;

H₁ is accepted, tax knowledge has a negative and significant effect on non-compliance in paying taxes. This is indicated by the negative *original sample* value of -0.279 with *t-statistics* 3.145 > 1.96 and a *p-value* of 0.002 < 0.5.

H₂ is accepted, awareness of paying taxes has a negative and significant effect on non-compliance in paying taxes. This is indicated by the negative *original sample* value of -0.369 with *t-statistics* 4.236 > 1.96 and a *p-value* of 0.000 < 0.5.

Discussion

Based on the results of hypothesis testing, it can be seen that the tax knowledge variable has a negative and significant effect on non-compliance in paying taxes. These negative results are shown from the *original sample* value of -0.299, meaning that tax knowledge affects non-compliance in paying taxes. The low knowledge possessed by taxpayers can influence taxpayers in making decisions to behave non-compliant in carrying out their tax obligations. This happens because taxpayers do not understand the function and benefits of taxes for state development, as well as the sanctions that will be given if they violate and also the amount of MSME tax rates. Tax individuals only see taxes as a burden and not as a contribution to society. So they tend to be reluctant to pay taxes.

Low knowledge of the function of taxes and sanctions for violating tax regulations as well as procedures for paying taxes and reporting tax returns, this will be a factor that causes taxpayers to be non-compliant in fulfilling their tax obligations. Taxpayers are more likely to break tax rules if they have less information.

Theory of planned behavior explains that how the level of individual taxpayer confidence in performing a non-compliant behavior in fulfilling their tax obligations. In the *theory of planned behavior* through *behavioral beliefs*, it indicates that if taxpayers do not have knowledge of taxation and the risks that will be accepted if they do not fulfill their obligations to pay taxes, taxpayers will behave non-compliant. The results of this study are supported by research conducted by Mahfiyah (2020) regarding tax knowledge on taxpayer non-compliance which states that tax knowledge has a negative effect on non-compliance in paying taxes and research conducted by Rachmawati (2015) provides results that tax knowledge has a negative effect on taxpayer non-compliance in Rungkut sub-district, Surabaya.

In the tests that have been carried out, it can be seen that the tax awareness variable has a negative and significant effect on non-compliance with paying taxes with an original sample value of -0.369 so that the second hypothesis is accepted. The

results of this study prove that the higher the level of public awareness in paying, the lower the level of non-compliance in paying taxes.

Awareness of paying taxes is an intention that arises from within individual taxpayers due to the influence of other people and the surrounding environment that supports non-compliant behavior towards their obligations to pay taxes. This situation will grow when individual taxpayers perform or carry out their obligations to pay taxes. However, taxpayers become non-compliant because they are influenced by the surrounding environment, making taxpayers less aware of the importance of paying taxes.

The results of this study are in line with the *theory of planned behavior* in the *normative belief* section owned by individual taxpayers influenced by the environment around the taxpayer who are considered important such as family, friends colleagues and so on. If the people around the taxpayer who are considered important have a positive attitude towards tax compliance, then the taxpayer will obey in paying taxes and vice versa if the social pressure around has a negative attitude towards tax compliance, then the taxpayer's individual intention tends to be non-compliant.

Taxpayers see the surrounding environment that should have an obedient attitude in paying taxes, but the environment motivates individual taxpayers to tend to behave non-compliant. So that taxpayers will be influenced to carry out behavior to disobey tax regulations. This results in lower taxpayer awareness, the level of non-obedience in paying taxes is increasing.

The results of this study are in line with previous research conducted by Haskar (2022) which states that awareness of paying taxes has a negative and significant effect on non-compliance in paying taxes. And the results of research from Putra *et al.*, (2022) found that awareness has a negative effect on taxpayer non-compliance.

IV. CONCLUSION

This study examines the effect of tax knowledge and awareness of paying taxes on non-compliance in paying taxes. By using *Theory of planned behavior*.

Based on the result of analysis, tax knowledge has a negative and significant influence on non-compliance to pay taxes on MSME taxpayers in Balikpapan city, this shows that the knowledge possessed by taxpayers is still relatively low so as to increase taxpayers' non-compliance in paying taxes.

Awareness of paying taxes has a negative influence on non-compliance with paying taxes for MSME taxpayers in Balikpapan city. Taxpayers are still not aware of the importance of paying taxes. This shows that the lower the level of awareness, the higher the level of non-compliance.

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