

## The Socialization of Tax as a Moderation Variable Towards the Taxpayer Compliance of Industrial Performer in Kudus Regency

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### Abstract

The objectives of this study are to analyze the effect of understanding tax rules and awareness of taxpayer compliance as well as analyze the influence of understanding tax rules and awareness of taxpayer compliance after it is moderated by tax socialization. This study was quantitative research and used deductive approach as well as causal studies. The location in this study was in Kudus Regency and the population was a medium and large industry performer, they were 174 industry performers. The determination of the sample in this study was by using saturated sampling or census method which means the number of samples equal to the number of population. This study used regression analysis for the moderation variables. The results of this study is the understanding of tax and awareness have a positive and significant effect on taxpayer compliance. The tax socialization affects and strengthens the relationship between understanding tax rules on taxpayer compliance but fails to affect the relationship between taxpayer awareness and compliance. In this study, tax socialization runs two types of moderation: pseudo-moderation and moderation of predictors.

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## INTRODUCTION

A very important source of a state revenue is taxes. Even the contribution of revenues from the oil and gas sector as a source of development funds is surpassed by revenue from the tax sector. Therefore, the tax sector is a top priority in Indonesia as a source of development funding in various fields. One type of tax that becomes obligation as ataxpayer of person who conduct business activity is Income Tax.

Industry, whether they are small, medium and large industries are the majority of business performers in Indonesia. The medium and large industry is one of the taxpayers who have the obligation to calculate, deposit and report taxes to the tax office. Small, medium and large industries have a very important role in the Indonesian economy. One of the reason is it is more labor-intensive than capital-intensive. This means that the industry becomes provider of the number of employment due to the number of manpower needed. In its effort to encourage the fulfillment of voluntary tax compliance as well as to encourage the contribution of state revenues from small, medium and large industries, the Government has issued Government Regulation Number 46 of 2013 regarding Income Tax on Income from Business Received or Obtained by Taxpayers Who Have Certain Gross Distribution (Government regulation 46/2013).

Total revenues in 2016 Kudus Regency is able to exceed the target of up to 400% revenue and become the best in Central Java in 2016. The tax revenue is added from all tax revenue which is one of them is income tax. The highest contributory income tax on total tax revenue is from personal income taxes in the form of salaries or wages related to employment or occupation (Income Tax Article 21), income tax from trading businesses engaged in exports and imports (Income Tax Article 22), and income tax from capital or over delivery of services (Income Tax Article 23). It indicates that the tax submission of Article 4 paragraph 2 or commonly referred to as Final Tax is still low. The income tax Article 4, paragraph 2, it is income tax imposed on a business performer on certain gross circulation of

business performers which have the gross turnover of not more than 4.8 billion.

This study proposes the understanding of tax and awareness rules as independent variables and taxpayer compliance as a dependent variable. The understanding of the tax regulation is the process of taxpayers to understand about the rules and laws and taxation procedures and apply them to conduct tax activities, they are paying taxes, reporting Annual Tax Return, and so forth. While the awareness here in question is the consciousness of taxpayers which means the circumstances of a person who must pay taxes to know or understand the tax problem. The compliance means submission or obedience to doctrine or rules. This can be interpreted in taxation is obedience, submission and obedience and implement the provisions of taxation. So taxpayers compliance are obedient taxpayers and fulfill and perform their tax obligations in accordance with the provisions of the regulations and tax laws.

Shanti (2016) in her research, states that the understanding of tax laws have a significant positive effect on taxpayer compliance with a significance value of 0.000. However, Hardiningsih (2011) in her research, states something different. In her research, it is described the result of the study that the understanding of tax regulations do not significantly and positively affect taxpayer compliance. This is indicated by the significance value of tax regulatory comprehension toward taxpayer compliance of 0.110, it is higher than 0.05 which means that the variable does not affect taxpayer compliance.

One study states that the understanding of tax laws has an effect on taxpayer compliance to pay taxes. The taxpayer compliance tends to experience a lack of knowledge of taxation as well as an understanding of tax laws so they tend to choose not to comply with taxation. Another reason, they see more taxes as a burden that could have made them lose (Kamleitner et al., 2012). The phenomenon that occurs in Kudus Regency is the existence of help desk facility in Small Taxpayers Office of Kudus. Where the facility is held to provide knowledge and understanding to the people in Kudus especially

the registered taxpayers. However, the facility is underutilized by the public and taxpayers. In addition, the help desk is passive in this case. In other hand, both informants and information should be active so that it can be reached by the wider community especially the taxpayers in Kudus Regency.

The awareness must be owned by all people to do something or we can say when we do something definitely it requires self-awareness. This is also true in terms of tax payments. It takes awareness of the taxpayer to deposit his/her tax obligations to the state. In other studies conducted in China, the taxpayer awareness in China is classified as low because Chinese society has a different legalism from other citizens where Chinese people still adhere to the ethical values of their ancestors. In this study, the efforts to encourage the level of awareness of Chinese society must be attractive and should contain elements of the importance of taxes as a contribution of public funds to their families and the welfare of their society (their-self) (Young et al., 2016).

Mintje (2016) also states the same thing that the awareness of taxpayers have a positive effect on taxpayer compliance with a significance value of 0.001. The different result is shown in the Puspita's research (2014) that there is a positive influence between taxpayer awareness of taxpayer compliance but in the research mentioned that the level of significance of its influence is small that is only 0.024.

The socialization becomes an important activity in all aspects to educate wide community. Also in taxes, the socialization is felt necessary by various parties so that the wide community know about tax. The socialization is divided into two forms, they are direct socialization and indirect socialization. The direct socialization in the form of direct interaction to the community without intermediary tools such as holding seminars and bringing the community directly into the seminar while the indirect socialization is conducted through an intermediary such as through newspapers and other media tools.

The Kudus Communities still do not maximize the use of the Help Desk facility as described above, hence, it makes the awareness of

the Kudus people continuing to decline over the years. In addition to providing these services in the office, Small Taxpayers Office of Kudus also routinely conduct socialization. Both direct socialization and indirect socialization. Hopefully, with routine socialization, the people of Kudus know what it should be known about taxes and give awareness to the taxpayers to perform their tax obligations.

The purpose of this research is to analyze the influence of the understanding of tax regulation on taxpayer compliance of industrial owners in Kudus Regency, to analyze the influence of taxpayers' awareness on taxpayer compliance of industrial owners in Kudus Regency, to analyze the influence of understanding tax regulation on taxpayer compliance of industry performers in Kudus Regency with moderation of tax socialization, and analyze the influence of awareness to taxpayer compliance of industry performers in Kudus Regency with moderation of tax socialization.

## METHODS

This research used a deductive approach with a quantitative design. This research used a causal study, it was a study that examined whether one variable can cause other variables to change or not. The location in this study was Kudus Regency with the population was the taxpayer of industry players in Kudus Regency. This location was taken based on several scales, they are the number of industries that located in Kudus Regency, but the tax revenue from the industry was still not maximal and the level of awareness was declining from year to year.

The population in this research was industry performers in Kudus Regency which will be concentrated to medium and large industries. The reason for the selection of medium and large industries was based on research conducted by Alstadseter and Jacob (2013) on industrial owners in Sweden who took medium and large industries as population because medium and large industrial owners tend to have non-compliant attitudes toward taxes due to the high amounts to be paid. This study would test the same thing

then the population in this study as many as 174 medium and large industry performers.

The determination of sample size in this study was by using saturated sampling or census method which means all members of the population become sample in this study (Sugiyono, 2011: 85). The reason of this research use saturated sampling because this research wants to make generalization by minimizing the error of research. So, the number of samples used in this study were 174 respondents.

The method of data collection in this study was by using questionnaire and measured by Likert scale with 5 points of strongly disagree or not very good to very agree or very good. The test in this research used classical assumption test to test the data in the research that was multicollinearity test, heteroscedasticity test and normality test. While the hypothesis testing was by using the regression analysis for moderating variables or commonly called hierarchy regression analysis.

## RESULT AND DISCUSSION

After obtaining the data from the research setting, then, it is conducted the data analysis by using SPSS. Here is an analysis of the results of data processing and answer the formulation of existing problems:

### The Effect of Understanding Tax Regulation Towards Taxpayer Compliance

Understanding is the process, deeds, and ways of understanding. The understanding of the tax regulation is the process of taxpayers to understand about the rules and laws and taxation procedures and apply them to conduct tax activities, they are paying taxes, reporting annual tax returns, and so forth. If someone has understood the tax then there will be an improvement in taxpayer compliance.

The regression results indicate that the variable of understanding of tax regulations on taxpayer compliance has a coefficient of 1.278 with significance level is 0.011 <0.05. This indicates that the understanding of tax rules have a positive and significant impact on taxpayer compliance. Therefore, H1 which states that there

is a direct effect of the understanding of tax regulation on taxpayer compliance of industry performers in Kudus Regency, accepted in this research.

The results of this study are also in line with the results of research conducted by As'ari and Erawati (2018). The results of the study mention that the understanding of tax rules have a positive and significant effect on taxpayer compliance. Although the results of significance are different, although, it has used the same significant level, where the results of As'ari and Erawati's research is 0.003 <0.05, whereas the significance level in this study is 0.006 <0.05.

Industry performers in Kudus Regency have already understood the tax rules well, it is seen from the many respondents who fill the choice on the "good" column in almost every question about the understanding of tax rules. The respondents have also understood his/her rights and obligations as a taxpayer as required in presenting the document which became the basis of the bookkeeping as well as the right of the taxpayer to appeal against the tax already incriminated. An indication of the level of understanding of good tax rules is also proved in the sidebar of the tax sanction indicator in which industry performers have understood the various sanctions to be faced if they do not pay taxes or late in paying them.

### The Effect of Awareness on Taxpayer Compliance

The awareness is the state of knowing, the state of understanding and feeling. The awareness in this research is the awareness of the taxpayer in carrying out his/her tax obligations. That is the attitude of understanding of the taxpayer in understanding the meaning, function, and purpose of tax payment. In today's modern tax system, the awareness is considered an important role in terms of tax payments and reporting. Thus, the awareness is considered to affect the level of taxpayer compliance.

The regression result shows that the awareness variable of taxpayer compliance has a coefficient of 4.779 with significance level is 0,000 <0,05. This indicates that awareness has a positive and significant effect on taxpayer

compliance. Therefore, H2 which states that there is a direct effect of awareness on taxpayer compliance of industry performers in Kudus Regency is accepted in this research.

The results of this study are supported by the results of research presented by Al-Maghrebi et al. (2016) where the results of their research also revealed that the awareness of taxes affects taxpayer compliance. It is said in their research that the obedient individual or who will obey is an individual who has awareness about taxation. Having the awareness that paying taxes is mandatory and can finance the state.

The awareness in terms of taxation of industry performers in Kudus Regency is good if it has a high significance value. It can be seen that the respondent's answer on the question item for the indicator "do not expect a reward" that reads paying tax before due because there are the tax breaks. The respondents give a disagreeable answer and strongly disagree with this question. So it can be interpreted that the industry performers are aware to pay taxes before due because it is their obligatory, not because of expecting gifts. Also, they realize that their tax payments will not be instantly felt right now, hence, they still pay taxes. Depositing the right data to the tax office and not manipulating is also the reason for the high awareness of taxation of industry players in Kudus Regency.

### **The Effect of Understanding Tax Regulation Towards Taxpayer Compliance with Moderation of the Taxes Socialization**

The socialization becomes inseparable in an effort to improve the number of taxpayers. The socialization is one of the efforts of the Directorate General of Taxation to provide information, understanding, and guidance to the community, especially to taxpayers about taxes, laws and regulations. Being one of the efforts in disseminating information to the public, this research makes the socialization of tax as a moderating variable as an effort to improve the understanding of tax rules, especially taxpayers in order to improve taxpayer compliance.

The second regression result is conducted by adding the moderation variable that is tax socialization to moderate the independent

variable that is understanding of tax regulation and awareness toward the dependent variable of taxpayer compliance that produce regression model where the variable of understanding tax regulation that has moderated the tax socialization which have coefficient equal to 0/844 with significance level of 0.043 < 0.05 which means the interaction between understanding tax regulation and tax socialization affect to taxpayer compliance. Then H3 which states that the socialization of tax affects the size of the role of understanding the tax regulation of taxpayer compliance is received in this study.

In the first interaction between understanding tax rules and tax socialization, the tax socialization becomes a pseudo-moderating or quasi-moderator variable. In this study socialization tax strengthens the effect of understanding tax regulations on taxpayer compliance, it is analyzed because the industry performers get the right material on the socialization held by the Small Taxpayers Office.

In the Vousinas' research (2017) it discusses the tax evasion in Greece. Where the results explain that the performer of tax evasion is the community or taxpayers who have good knowledge and understanding of taxes, laws, and regulations that have been applied. In addition, there has been an attempt by the local government to reduce the level of tax evasion by the people by socializing the importance of taxes for the sustainability of the state.

In this study, the tax socialization strengthens the effect of understanding tax regulations on taxpayer compliance, it is analyzed because industry performers get the right material on the socialization held by the Small Taxpayers Office. As it is known that the tax on industry performer is self-regulated in Article 4 paragraph 2 of SMEs about the final tax. In addition to getting the right materials at the time of socialization, the officers who provide socialization can also explain precisely to the industry performers and can answer questions clearly. This is what makes the tax socialization strengthens the understanding of tax regulations on taxpayer compliance of industry performers in Kudus Regency.

### **The Effect of Awareness on Taxpayer Compliance with Moderation of Tax Socialization**

The second regression result is conducted by adding the moderation variable that is tax socialization to moderate independent variable that is understanding of tax regulation and awareness towards the dependent variable of taxpayer compliance that produce regression model where the awareness variable that has moderated tax socialization have coefficient equal to -0.020 with significance level is  $0.959 > 0.05$ . This indicates that awareness has a negative and insignificant relationship to taxpayer compliance. Then H4 which states that the socialization of tax affects the size of the role of awareness of taxpayer compliance is rejected in this study.

In this interaction, the moderation variable of tax socialization becomes predictor moderator variable because the relationship between tax socialization variable to taxpayer compliance is significant but the interaction between awareness and tax socialization on taxpayer compliance is not significant.

According to the definition, the awareness is an element in the individual while socialization is an effort from outside the individual. Due to different factors, where one is from inside the individual while the other is a factor from outside the individual, it tends to be normal if tax socialization cannot improve the effect between awareness of taxpayer compliance. The socialization is considered as a supporter because it is a stimulus. If the stimulus from the outside is good but from the inside is not, then the taxpayer still will not obey his/her tax obligation. Conversely, if the stimulus from the outside is bad but there is awareness within the taxpayer, they will still carry out their tax obligations.

It is also clarified by research conducted by Andreas and Savitri (2015) which mentions the result that the effect of awareness of taxpayer compliance through tax socialization is unacceptable. Because both are different determinants. Where awareness is a factor within the self while socialization is an external factor.

### **CONCLUSIONS**

Based on the results of research that has been conducted, it can be concluded that the understanding of tax regulations have a positive relationship to taxpayer compliance and have significant effect on taxpayer compliance with a significance level of 0.006 and the value of coefficient of 0.315 which means that if the understanding of the tax law improves one unit then there will be an improvement of taxpayer compliance of 0.315. The awareness has a positive relationship to taxpayer compliance and significant effect on taxpayer compliance with 0.000 significance level and the coefficient value of 1.327 which means if awareness improves one unit then there will be an improvement of taxpayer compliance of 1.327. The tax socialization strengthens the role of understanding tax regulation on taxpayer compliance of 0.844 with a significance level of 0.43 which means that when the socialization of taxes improves one unit then the effect of understanding tax regulations on taxpayer compliance improves by 0.844. The interaction in the relationship between understanding tax rules and tax socialization makes tax socialization a quasi-moderator variable. The tax socialization cannot affect the size of the role of awareness of taxpayer compliance with a significance value of  $0.959 > 0.05$  then the role of the tax socialization here only as an independent variable to accompany the awareness variable. The interaction in the relationship between awareness and tax socialization makes the socialization of taxes as a predictor moderator variable.

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