

Non-employee individual taxpayer compliance

Relationship with income and perception of taxpayer

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Abstract

Purpose – The purpose of this paper is to determine what factors may affect taxpayer (TP) compliance.

Design/methodology/approach – This research uses five independent variables such as income, TP's perception on tax penalties, law and enforcement, fair tax treatment and the use of tax money in a transparent and accountable way. The dependent variable is the compliance of individual TP's non-employees. The data used are primary data obtained from questionnaires on KPP Surabaya Rungkut and processed using a multiple linear regression method with SPSS 21.0 Software for Windows.

Findings – The results show that partially income does not affect the compliance of individual TP non-employees; however, four other independent variables on the TP's perception of penalties, law enforcement, tax treatment and the use of tax money simultaneously had a positive effect.

Originality/value – All independent variables had a positive effect on compliance by individual TP non-employees on KPP Surabaya Rungkut.

Keywords Income, Taxpayer perception, The compliance non-employee individual taxpayer

Paper type Research paper

Introduction

The tax sector is one of the sectors where almost all sources of state revenues are derived. The large amount contributed from the tax sector illustrates the importance of tax for a country. The cause of the low compliance of the taxpayer (hereinafter is mentioned the abbreviation as TP) is the principle of taxation itself in which the result of tax collection cannot be directly enjoyed by the TP. This happens because TP never knows the tangible rewards in concrete terms of the money they have paid for taxes so far. In addition, because the tax collection mechanism is a self-assessment system which requires every TP to register to the tax service office (hereinafter abbreviated as TSO) in order to obtain the taxpayer identification number (abbreviated as TIN), calculate and take into account the tax payable, paying to the bank or post office and reporting it using a form called as annual tax return (abbreviated as ATR) accompanied also with the evidence of tax payment slip. TP is responsible for self-filling and submitting ATR correctly, completely and clearly (Wulandari, 2007).

TP compliance is actually strongly associated with the perception of TP in assessing the tax itself, so that TP's experience different perspectives and understanding about taxation activities. This is in accordance with the attribution theory proposed by Marianne and Zelley. This theory attempts to describe someone who tries to examine the attitude, cause and effect of the actions performed by others. Based on the attribution theory, the factors that cause TP to behave disobediently will be examined. This assessment will examine both the external



factors such as income, and also internal factors, namely, the perception of TP on tax sanctions, law enforcement, fair tax treatment and the use of tax money transparently and accountably.

The TSO of Pratama Surabaya Rungkut will be chosen as a place of study because its compliance level of TP in this TSO is the lowest, so it can be said that the registered TPs in this TSO are less obedient than the registered TP in other TSOs. From this issue and indication, it is necessary to know what factors may affect the compliance of the individual taxpayer (hereinafter abbreviated as ITP) non-employee. The following independent variables are income, perception of TP on tax sanctions, law enforcement, fair tax treatment and the use of tax money in a transparent and accountable way will be analyzed using a questionnaire to be distributed to non-employee ITPs who have been registered in Pratama Surabaya Rungkut TSO.

Research on TP compliance has often been conducted. Hutagaol *et al.* (2007) examined the factors that influence TP compliance. This research is an applied research to find the solution of a problem. Hutagaol *et al.* used reference material from papers and previous research on tax compliance at home and abroad, so this research is an explorative research. Based on the result of this research, it can be said that the amount of income, tax sanctions, law enforcement, fair tax treatment, perceptions of the use of tax money in transparency and accountability, and also the database, affect the compliance of TP. TPs who have a higher income tend to be more obedient than those on a low income because the large income earners tend to be more conservative in reporting tax obligations. Since this research is qualitative, and the variables have not been tested in the field quantitatively, this research will replicate the research of Hutagaol *et al.*

Another study on TP compliance also has been conducted by Chaerunnisa (2010), and concludes that income affects ITP compliance in submitting ATRs. This is contrary to the results of Rahmatika (2010), who reveals that income does not affect the awareness of tax obligations in the sector of small and medium enterprises. The existence of differences in conclusions from some of these studies will be the basis for testing the effect of independent variables, i.e. income on non-employee ITP compliance. Compliance in this study is not only limited to compliance in reporting or compliance in paying, but also to both formal compliance and material compliance.

This paper examines the relation between income and the non-employee ITP compliance; the relation between TP's perception on tax sanctions and the non-employee ITP compliance; the relation between TP's perception on law enforcement and the non-employee ITP compliance; the relation between TP's perception and fair tax treatment of the non-employee ITP compliance; and the relation between TP's perception and the use of tax money in a transparent and accountable manner to the non-employee ITP compliance. This paper will be followed by an overview of literature view, research methods, results and discussion, and conclusions will complete the whole of this series of articles. Based on the attribution theory, this research attempts to make an assessment of what causes TPs to behave disobediently. This research is expected to provide a contribution and reference for economic factors and Indonesia's Government, especially Directorate General of Taxation. The research by Hutagaol *et al.* (2007) and the research undertaken by the previous researchers become the basis and reference to analyze the variables tested for its effect on the non-employee ITP compliance.

This paper continues with the exposition of a theoretical framework and the hypotheses development of this research, followed by an explanation of the research methods, and also the presentation of results and discussion. The conclusions and implications will cover the whole series of these articles.

Literature review

Definition of TP

According to Article 1 of Law No. 28 on General Provisions and Procedures of Taxation (Republic of Indonesia, 2007), a TP is an individual or an entity, including tax-payer,

tax-cutter and tax-collector, who has taxation rights and obligations in accordance with the tax provisions of statutory regulations. According to Law No. 28 (Republic of Indonesia, 2007), free employment is the work done by an individual who possesses a special skill in income generating which is not bound by an employment relationship as, for example, experts/professionals such as accountants, doctors, notaries, lawyers, consultants, etc. On the other hand, ITPs are those who conduct business activities in any field, such as opening a salon, workshops, restaurants and so forth. ITPs who conduct business activities or free employment as an employer are required to pay and report the tax payable on income received or obtained by the business, and are also required to deposit and report the income tax payable on income earned by its employees.

TP compliance

According to Nurmantu (2003, p. 143), tax compliance is a state where the TP fulfills all tax obligations and exercises its taxation rights. TPs are expected not only to deposit the ATRs on time but also pay the payable tax amount correctly.

Devano and Rahayu (2006, p. 110) state that formal compliance is a condition in which the TP fulfills the obligations formally in accordance with the provisions of the tax regulations. Material compliance is a condition where the TP substantively or essentially meets all the provisions of material taxation, namely, according to the contents and the soul of tax regulations.

Compulsory TP criteria

According to PMK No. 74/PMK 03/2012 (Republic of Indonesia, 2012), people comply as a taxpayer provided that they are:

- (1) timely in submitting the ATR;
- (2) not having any tax arrears for all types of tax, except for the tax arrears that have been granted permission to install or delay payment of taxes;
- (3) the financial statements are audited by a public accountant or a government financial oversight body, with unqualified opinion for three consecutive years; and
- (4) have never been convicted of a criminal offense in the field of taxation based on a court decision that has had permanent legal force within the last five years.

TPs' perception of tax sanctions

Sugihartono *et al.* (2007, p. 8) suggest that perception is the capability of the brain in translating the stimulus which enters the human sense devices. From the definition above, it can be concluded that the perception of TP on tax sanctions is a process of interpretation by the TP where they try to interpret some information gained from various sources about tax sanctions. Tax sanctions are divided into two parts: administrative sanctions and criminal sanctions in the form of confinement or imprisonment.

Perception of TPs on law enforcement

The principal issue of law enforcement lies in the factors that may affect the perception of TP (Soekanto, 2002). These factors are as follows:

- (1) the legal factor itself, in this case restricted to the law only;
- (2) law enforcement factors, namely the parties that make up and apply the law;
- (3) factors of facilities that support law enforcement;

- (4) community factor, i.e. the environment in which the law is applicable or applied; and
- (5) cultural factors, such as the result of work, creation and a sense based on human initiative in the social life.

Law enforcement in Indonesia is still very weak and apprehensive, with many people abusing state money, which mostly comes from taxes. It is this kind of news that becomes the consumption of the society and creates a bad perception of law enforcement in Indonesia, so the effect is that TPs will be reluctant to pay taxes, which should be their obligation.

TP's perception of fair tax treatment

According to Hutagaol *et al.* (2007, p. 192), fair tax treatment on the TPs will encourage TP compliance because it creates healthy competition in the business world. In contrast, discriminatory treatment results in poor compliance of TP.

Attribution theory

According to Marianne and Zelley (p. 31), the attribution theory tries to describe the communication of a person who seeks to examine, evaluate and summarize the causes of an action or behavior of others. Heider states that when a person observes someone doing something, then the observer personally makes a judgement about what causes someone to do that.

Sugiyono (2002) states that the definition of the research hypothesis is: "The research hypothesis is a temporary answer to given the new based on relevant theory rather than based on the empirical factors obtained from data collection." Based on the problems that occur and the underlying theory, these following hypotheses are proposed:

- H1. Income affects non-employee ITP compliance.
- H2. TP's perception of tax sanctions affects non-employee ITP compliance.
- H3. TP's perception on law enforcement affects non-employee ITP compliance.
- H4. TP's perception of fair tax treatment affects non-employee ITP compliance.
- H5. The perception of TP on the use of tax money as transparent and accountable affects non-employee ITP compliance.
- H6. Income, perceptions of TP on tax sanctions, law enforcement, fair tax treatment and the use of tax money in a transparent and accountable way simultaneously affect non-employee ITP compliance.

Research methods

The approach of this research is using the quantitative method. The assumptions are measurable variables that are useful in explaining the mutual relationships between hypotheses and theories.

Dependent variables/bound

Dependent variable/bound (Y) that is used in this research is non-employee ITP compliance.

Independent or free variables

In this research, the independent variables used are: income (X1); perception of TP on tax sanctions (X2); perception of TP on law enforcement (X3); perception of TP on fair tax treatment (X4); and perception of TP on the use of tax money in a transparent and accountable manner (X5).

Non-employee ITP compliance

Non-employee ITP Compliance (*Y*) is a condition in which TP fulfills all tax obligations and exercises its taxation rights. Indicators and questions in this questionnaire are modifications and incorporation of several questionnaires from previous researchers, such as Rahmatika (2010), Chaerunnisa (2010) and Muliari and Setiawan (2011).

The indicators of variables are elaborated in Table I.

Each question's items are measured using the five-point Likert scale. Likert scale is used to measure attitudes, opinions and perceptions of a person or a group of people about social phenomena (Anshori and Iswati, p. 68). For the purpose of quantitative analysis, the gradation of answer is from "very positive" to "very negative" is given a score of 5 for "strongly agree," 4 for "agree," 3 for "hesitate," 2 for "disagree" and 1 for "strongly disagree."

Income

Income is defined as gross income earned or accrued by the ITP by conducting business or free employment every month. The indicator of the variable is disclosed in Table II.

The perception of TP on tax sanctions

It is the perception of TP on the sanctions applied to them if they do not impose or even violate their tax obligations. Indicator and questions in the questionnaire presented are modifications of several research questionnaires, such as Muliari and Setiawan (2011), Chaerunnisa (2010) and Santi (2011).

The indicators of variable are shown in Table III.

Table I.
Variable and
indicators of
non-employee
ITP compliance

Variable	Indicators	No. questions
Non-employee ITP compliance (<i>Y</i>)	Register to get Tax Identification Number	20
	Report their business and request to be confirmed as a Taxable Entrepreneur (PKP)	21
	Pay the tax payable with the correct amount, in accordance with the laws and regulations	22
	Paying Income Tax (PPh) due before last payment expired	23
	Fill the annual tax return correctly	24
	Report the annual tax return on time	25

Table II.
Variable and
income indicator

Variable	Indicator	No. question
Income (<i>X1</i>)	The amount of gross income earned by taxpayer every month	1

Table III.
Variable and indicator
of the perception of
TP on tax sanctions

Variable	Indicators	No. questions
Perception of TP on tax sanctions (<i>X2</i>)	The need for tax sanctions	2
	Fairness of tax sanctions	3–6
	Justice in applying tax sanctions	7

The perception of TP on law enforcement

According to Soekanto (2002), law enforcement is strongly influenced by tax regulations, law enforcement agencies, supporting facilities and infrastructure, community environment and culture. The variable indicators are shown in Table IV.

The perception of TP on fair tax treatment

From Soekanto (2002), justice in taxation can be reviewed from three indicators (Basri *et al.*, 2012), such as vertical equity, horizontal equity and exchange equity. The variable indicators are as shown in Table V.

The perception of TP on the use of tax money in a transparent and accountable manner

The instrument used to measure the perception variable of TP on the use of tax money consists of four questions. The variable indicators are shown in Table VI.

Types and data sources

Primary data obtained from questionnaires will be tested and analyzed further, while secondary data include reference books, previous research journals, data on the number of TSOs in Surabaya, the number of registered TPs as of December 31, 2012, and data compliance ratio of ATR for 2013.

Variable	Indicators	No. questions
Perception of taxpayer on law enforcement (X3)	Completeness of the law that explains the rules of taxation	8
	Understanding the law enforcers in shaping and applying law	9
	The availability of facilities and infrastructure that support the implementation of law enforcement	10
	Public awareness as the executor of the law	11
	Cultural impact on law enforcement	12

Table IV.
Variable and indicators of the perception of TP on law enforcement

Variable	Indicators	No. questions
Perception of TP on fair tax treatment (X4)	Vertical equity	13
	Horizontal equity	14
	Exchange equity	15

Table V.
Variable and indicators of the perception of TP on fair tax treatment

Variable	Indicators	No. questions
Perception of TP on the use of tax money in a transparent and accountable manner (X5)	Transparency of tax money usage	16
	Accountability of the use of tax money	17
	Tax is used to finance general expenses of country	1,819
	Tax is used to deliver maximum welfare of the community	

Table VI.
Variable and indicators of the perception of taxpayer on the use of tax money transparently and accountably

Results and discussion

Results

Description of research variables. Independent variables are income, perception of TP on tax sanctions, law enforcement, fair tax treatment and the use of tax money in a transparent and accountable manner, while the dependent variable is non-employee ITP compliance. Respondents who completed the questionnaires amounted to 110 people who are non-employee ITP registered in TSO of Pratama Surabaya Rungkut. From the 110 questionnaires distributed, 106 questionnaires were returned, and 100 questionnaires were filled out completely. Thus, 100 questionnaires were further processed, and the remaining 10 questionnaires were declared void (Table VII).

Income. Based on data from questionnaires that have been processed, the generated data regarding gross income per month of ITP are shown in Table VIII.

From the table, it can be seen that the minimum gross income obtained by respondents per month is Rp3,063,700.00, while the maximum gross income obtained by respondents per month is Rp300,788,000.00. The average gross income of respondents per month is Rp34,100,763.00.

Perceptions of WP on taxation sanctions. The perception variable of WP for tax sanction consists of six questions. The six questions relate to TPs' opinion on the need for tax sanctions to improve TP compliance; the sanction of tax sanction in the form of administrative sanctions consisting of penalties, interest, increase and criminal sanction in the form of imprisonment; and how justice in applying tax sanctions has been administrated by the tax apparatus.

Perceptions of WP on law enforcement. The perception variable of WP for law enforcement consists of five questions. The five questions contain the opinion of the WP on the laws governing taxation, the tax authorities as implementers of the law, the DGT that provides supporting facilities and facilities, law-abiding communities and cases of tax abuses that occurred in Indonesia. The result of data analysis shows that non-employee WPOP in KPP Pratama Surabaya Rungkut strongly agrees that tax sanctions have been imposed on WP who violate taxation rules, fairly with no discrimination to whom the sanction is imposed. Perception of WP on fair tax treatment. The results of data analysis showed that non-employees WPOP in KPP Pratama Surabaya Rungkut expressed doubt about the

Table VII.
Characteristics of
respondents by type
of occupation

Job type	Amount	Percentage
Entrepreneur	52	52
Consultant	10	10
Architect	6	6
Lawyer	3	3
Accountant	13	13
Notary public	8	8
Appraisal	3	3
Doctor	5	5
Total	100	100

Source: Results of data process

Table VIII.
Description of income
variable (X1)

	N	Minimum	Maximum	Mean	SD
X1	100	Rp3,063.700	Rp300,788.000	Rp34,100,763.00	Rp50,436,789.681
Valid N (listwise)	100				

Source: Results of data process

injustice with the amount of income tax (PPh) they pay for the service or public facilities provided by the government.

Perception of WP on the use of tax money transparently and accountably. The result of data analysis shows that non-employee WPOP in KPP Pratama Surabaya Rungkut strongly agrees that tax has been used to provide prosperity for the society, for example, in terms of community needs for health and education.

Non-employee WPOP compliance. The result of data analysis showed that WPOP non-employees in KPP Pratama Surabaya Rungkut agree that they have reported SPT Masa (Income Tax Article 25, 21/26, VAT, 23/26, 4 (2)) and annual income tax return on time.

Model analysis and hypothesis testing. Testing of the research instrument by performing validity and reliability tests must be undertaken before conducting hypothesis proofing. After the research instrument was assessed to be acceptable for use, it was followed by testing of classical assumptions by conducting normality test, heteroscedasticity test and multicollinearity test. Furthermore, the hypothesis will be verified after passing the classical assumption test.

Validity test. Testing the instrument used is done by performing factor analysis, by correlating the factor score with the total score (Anshori and Iswati, p. 83). The results of the test can be seen in Table IX.

The dependent variable, i.e. non-employee WPOP compliance (Y), has a correlation value (r) greater than the standard correlation (r) value of 0.3. Thus, all statement items in the dependent variable can be declared valid.

Test reliability. Test reliability is examined in this study using Cronbach's α technique. The research instrument is considered reliable if it has a reliability coefficient or α of 0.6 or more (Nunnally in Ghazali, 2006, p. 42) (Table X).

Multiple linear regression analysis and hypothesis testing used by. Multiple linear regression analysis is used to predict how the condition (up and down) dependent variable (Y) with the independent variable (X) as predictor factor manipulation (Sugiyono, 2009, p. 277). By using the SPSS 21.0 program, the processed products are obtained, which are shown in Table XI.

Variable	Indicators	Correlated item total correlation (r)	Notes
Non-employee ITP compliance (Y)	Y1.1	0.617	Valid
	Y1.2	0.601	Valid
	Y1.3	0.541	Valid
	Y1.4	0.665	Valid
	Y1.5	0.449	Valid
	Y1.6	0.424	Valid

Source: Results of data analysis

Table IX.
Validity test
results dependent
variable (Y)

Variable	Indicators	Correlated item total correlation (r)	Notes
Non-employee ITP compliance (Y)	Y1.1	0.617	Valid
	Y1.2	0.601	Valid
	Y1.3	0.541	Valid
	Y1.4	0.665	Valid
	Y1.5	0.449	Valid
	Y1.6	0.424	Valid

Source: Results of data analysis

Table X.
Reliability test results

Table XI.
Multiple linear
regression analysis

Variable	Coefficient reg	β	t calculation	Significant
Constanta	6.959		2.982	0.004
Income	2.228E-009	0.042	0.549	0.584
Perception of TP on tax sanctions	0.221	0.207	2.318	0.023
Perception of TP on law enforcement	0.311	0.275	2.743	0.007
Perception of TP on fair tax treatment	0.165	0.203	2.380	0.019
Perception of TP on the use of tax money transparently and accountably	0.232	0.217	2.292	0.024
Determination coefficient (R^2)				0.450
Adjusted R^2				0.421
Correlation coefficient (R)				0.671
F calculation				15.392
Significance				0.000

Viewed from t arithmetic, it can be seen that the variable that has the most dominant influence on non-employee WPOP compliance in KPP Pratama Surabaya Rungkut is the perception of WP for law enforcement. This is because the variable has a value of 2.743. This value is the largest among β values in other variables.

Discussion

Income relationship, WP perceptions on taxation sanctions, law enforcement, tax treatment and the use of tax money on non-employee WPOP compliance simultaneously. This study proves that the Directorate General of Taxes should continue to improve itself in many ways because it illustrates that the TP's perception of these matters can greatly affect the compliance of the TP itself. The results of this study provide evidence of previous research that has been done by Hutagaol *et al.* (2007), qualitatively stating that the amount of income, tax sanctions, law enforcement, fair tax treatment and perception of WP on the use of tax money affect the compliance of TPs. So it can be concluded that the compliance of non-employee WPOP registered in KPP Pratama Surabaya Rungkut will increase if simultaneous income, perception of WP regarding tax sanction, law enforcement, tax treatment and the use of tax money improve.

Income relationship with partial non-employee WPOP compliance. The results of this study contradict the research conducted by Hutagaol *et al.* (2007) and Chaerunnisa (2010). Hutagaol *et al.* in his research found that high income affects the compliance of TPs, which is in line with research conducted by Chaerunnisa (2010) that income affects WPOP compliance in submitting ATRs. The amount of gross income received by the non-employee WPOP each month will not affect the TP's own compliance.

Perception of WP relationship with tax sanctions against partial non-employee WPOP compliance. The results of this study are not in line with research conducted by Basri *et al.* (2012) stating that tax sanctions do not affect the intention to behave disobediently. However, the results of this study provide evidence of research conducted by Hutagaol *et al.* (2007) and support the research of Chaerunnisa (2010), Muliari and Setiawan (2011) and Santi (2011) which, in their respective studies, concluded that the perception of WP on tax sanctions affects the compliance of TPs.

Perception relationship of WP with law enforcement against non-employee WPOP compliance. The results of this research are similar to the results of this studies by

Suryadi (2006), Hutagaol *et al.* (2007) and Taher (2011), which reveal the same conclusions. Suryadi (2006) concluded that good law enforcement within a country will increase WP compliance and will also improve the performance of tax revenue. Similar research was conducted by Hutagaol *et al.* (2007), which revealed that law enforcement is one of the factors that can affect the level of WP compliance.

Perceptions of TPs' perceptions of equitable tax treatment of partial non-employee WPOP compliance. The results of this study provide evidence for research that has been done by Hutagaol *et al.* (2007) and support Misu's and Benk and Slave's studies. Hutagaol *et al.* disclose that the tax treatment received by the TP is one factor that may affect the TP compliance level. Likewise, Misu makes a conclusion that the non-compliance WP depends on the attitude of WP to the tax system and how WP is treated by tax officials. When the WP is treated unfairly by the tax officer and the WP feels there is discriminatory action happening, then the WP will be compelled to become disobedient.

Perception of WP relationship with the use of tax money transparently and accountably against partial non-employee WPOP compliance. The results of this study provide evidence of qualitative research conducted by Hutagaol *et al.* (2007), which discloses that the perception of WP on the use of tax money in a transparent and accountable manner may affect TP compliance. Many argue that the Directorate General of Taxation is the party responsible for the use of taxes, when, in fact, the tax paid by the WP will automatically go into the state treasury and is then allocated to all Ministries to be used in accordance with its work program.

Conclusion

Based on the results of analysis tests that have been done on the variables studied, the conclusion that can be taken from this research is the income does not affect the compliance of non-employee ITP in TSO of Pratama Surabaya Rungkut; perception of TP on tax sanctions affects the compliance of non-employee ITP in TSO of Pratama Surabaya; perception of TP on law enforcement has an effect on non-employee ITP compliance in TSO of Pratama Surabaya Rungkut; perception of TP on fair tax treatment affects non-employee ITP compliance in TSO of Pratama Surabaya Rungkut; perception of TP on the use of tax money in transparent and accountable affects non-employee ITP compliance in TSO of Pratama Surabaya Rungkut; income; and perception of TP on tax sanctions, law enforcement, tax treatment and the use of tax money simultaneously affect non-employee ITP compliance in TSO of Pratama Surabaya Rungkut.

This research is expected to be able to explain and prove any factors among income, perception of TP on tax sanctions, law enforcement, fair tax treatment and the use of tax money in a transparent and accountable way affect non-employee ITP compliance. By understanding the factors that influence the compliance of non-employee ITP, the Directorate General of Taxes will more easily find solutions and implement the appropriate actions so that the extent of TP non-compliance can be suppressed. For TPs, compliance is something that can be made by the Directorate General of Taxes from time to time; TPs are expected to slowly realize the importance of the tax role for a country.

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