THE EFFECT OF TAX INCENTIVES, TRUST IN TAX AUTHORITIES, TAX MORALE, AND TAX SOCIALIZATION ON INDIVIDUAL TAXPAYER COMPLIANCE

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Abstract

This study aims to find out the problems that occur such as micro, small, and medium enterprises (MSME) taxation, trust in the tax authorities, tax morale, and tax socialization on MSME individual taxpayer compliance in the Bandung Regency area since the contribution of tax revenue from the MSME sector is still relatively small. The research method used is quantitative descriptive. The data used in this study were in the form of a questionnaire distributed to individual MSME taxpayers, based on the Slovin formula, to as many as 98 respondents. Data analysis used the partial least square (PLS) analysis technique through SmartPLS software. The results showed that MSME tax incentives had a positive and insignificant effect on MSME individual taxpayer compliance, trust in tax authorities, and tax morale had a positive effect on MSME personal tax compliance, and tax socialization had a positive and insignificant effect on MSME taxpayer compliance. With the results of hypothesis testing, it can be concluded that in the MSME area, Bandung Regency requires tax socialization, especially taxes for taxpayer compliance.

Keywords: Tax Incentives, Trust in Tax Authorities, Tax Morale, Tax Socialization, Taxpayer Compliance

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1. INTRODUCTION

Taxes received by the state will be used for the state and the welfare and prosperity of the Indonesian people. Micro, small, and medium enterprises (MSMEs) have an important role in the country's economy, the growth of MSMEs taxpayers has increased since the enactment of Government Regulation (*Peraturan Pemerintah* — PP) Number 23 of 2018 concerning Income Tax on Income from Businesses Received or Obtained by Taxpayers with Certain Gross Circulation (Lestary et al., 2021). Cooperatives and small and medium-sized enterprises (SMEs) stated that the number of MSMEs reached 64.2 million units or 99.9% of the population of business actors with a contribution to gross domestic product (GDP) of 61.7% (Catriana, 2021). The contribution of MSMEs to the 2021 tax is still very small, only 2 trillion even though the GDP contribution is 60% (Sobat Pajak, n.d.-b). The Head of the Regional Office of the Directorate General of Taxes (DGT) in West Java stated that the level of

awareness and tax compliance in West Java is still low (Jamil, 2019). According to data from the Department of Cooperatives and Small Businesses, the number of SMEs in Bandung Regency has increased from year to year. However, according to the head of the small business community in Bandung Regency, the tax contribution from MSMEs is still not maximized.

The COVID-19 pandemic has had an impact on the Indonesian economy, especially MSMEs, the government has set several special policies for MSMEs to help them during this pandemic (Sobat Pajak, n.d.-b). To anticipate the impact of COVID-19 in stabilizing the economy and maintaining MSME taxpayer compliance in the midst of a pandemic, the Directorate General of Taxes provides tax incentives for taxpayers during the COVID-19 pandemic. This tax incentive is the presence of final income tax (*Pajak Penghasilan* — PPh) for MSMEs borne by the Government, business actors with a gross income of not more than IDR4.8 billion a year, do not need to pay final PPh (0.5% turnover). Taxpayers only need to submit a realization report every month in order to receive taxes or tax taxes at that time. According to a study, the use of tax incentives has a positive effect on the sustainability of MSME businesses and appreciates tax policy by utilizing these tax incentives and continuing to improve tax compliance (Budiman et al., 2020).

In the framework of the slippery slope, the tax authority can improve tax compliance by increasing trust in tax authorities and tax authorities (Kircher et al., 2008). The results of a study show that trust in tax officials has a positive effect on MSME taxpayer compliance because if the image of the tax apparatus in the eyes of taxpayers is good, then trust in tax officials will also increase and ultimately increase taxpayer compliance in paying (Rikawati, 2015).

Taxpayer compliance can be influenced by factors other than trust in the tax authorities, such as the morality of the taxpayer. This is because paying taxes is an activity that cannot be separated from the condition of individual taxpayers. The research conducted shows that taxpayer morale affects MSME taxpayer compliance, where taxpayers have a positive motivation to pay their tax obligations, so they have to fulfill their tax obligations compared to the consequences of late payments (Astuti & Panjaitan, 2018).

Tax socialization is a way for DGT to educate taxpayers so that they can fulfill taxpayers' understanding and understanding of taxpayers, namely through regular socialization by the DGT. Tax socialization for MSMEs has also begun to be intensively carried out. The results of a study stated that tax socialization had a positive effect on SME taxpayer compliance (Putri & Nurhasanah, 2019). Then, other research results show that tax socialization has an effect on MSME taxpayer compliance (Noorlita, 2018; Ariani, 2017).

Based on the explanation above, there are still many Indonesian people, especially MSME actors who do not understand taxation, so they do not comply with the imposition of tax payments. This is done by not reporting and paying taxes honestly. Compliance for every taxpayer is not easy to realize because people tend to cover it up by doing everything in order to avoid taxes, even though in essence it has become the obligation of taxpayers to pay taxes in accordance with regulations.

Based on the background of the problems above, the issues that become the topic of discussion that will be examined are:

RQ1: Do MSME tax incentives affect the level of individual taxpayer compliance for micro and small businesses?

RQ2: Does trust in the tax authorities affect the level of compliance of individual taxpayers for micro and small businesses?

RQ3: Does tax morale affect the level of individual taxpayer compliance for micro and small businesses?

RQ4: Does tax socialization affect the level of individual taxpayer compliance for micro and small businesses?

The purpose of this research is to find out more about the problems that occur in the inhibiting factors in individual taxpayer compliance. In accordance with the identification of the problems contained in this study, it aims to:

1. Find out whether MSME tax incentives affect the level of compliance of individual taxpayers of micro and small businesses.

2. Find out whether trust in the tax authorities affects the level of compliance of individual taxpayers of micro and small businesses.

3. Find out whether tax morale affects the level of compliance of individual taxpayers of micro and small businesses.

4. Find out whether socialization affects the level of compliance of individual taxpayers of micro and small businesses.

The remainder of this paper is structured as follows. Section 2 reviews the relevant literature and presents hypothesis development. Section 3 analyses the methodology that has been used to conduct empirical research on the effect of corporate governance, audit quality, and external pressure on the integrity of financial statements. Section 4 provides data analysis, results, and discussion. Section 5 discusses the findings. Section 6 presents research implications and limitations and concludes the paper.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Literature review

The current pandemic has caused many economic difficulties, especially for MSME traders. The government provides relief to MSME actors in the form of tax incentive assistance in the hope that taxpayers can be more obedient to report their taxes without having to pay taxes because they have been released by the government. With assistance from the government, it can generate intention and motivation for taxpayers to make it easier to fulfill their tax obligations in accordance with the theory of planned behavior.

The results of a study show that the tax incentive variable has a positive and significant effect on MSME taxpayer compliance (Walidain, 2021). From this statement, it can be seen that the better the tax incentive offer is given to the community, the higher the efforts of MSME taxpayers in complying with their tax obligations. Several other studies also show that incentive policies affect taxpayer compliance (Rachmawati & Ramayanti, 2016;

Jawa et al., 2021; Widodo, 2019). The tax incentive variable uses two indicators, fairness in providing incentives where incentives are already fair for all sectors/businesses and the benefits obtained by the community, in the form of ease of calculating, depositing, and reporting income tax payable (Latief et al., 2020). So, based on this, it can be formulated the hypothesis that MSME tax incentives have an effect on MSME individual taxpayer compliance.

The number of cases related to the misuse of tax funds involving tax officials causes the level of public trust in tax officials to decrease. They assume that in the future the tax money that will be paid will only be used for the personal interests of the tax officials themselves and only very little tax money will be used for state development, so it is better for them to avoid taxes by not registering themselves as taxpayers. In a study, it was shown that when taxpayer compliance is high, the amount of taxpayer trust generated by a country is also high (Andyarini et al., 2019). The slippery slope theory assumes that trust in tax authorities and power affects tax compliance (Kircher et al., 2008). In this study, it is explained that the tax authority can improve one's taxpayer compliance supported by increased trust in the tax authority and the power of the tax authority.

A study shows that the variable of trust in tax officials has a positive effect on MSME taxpayer compliance in Jember Regency because if the image of the tax apparatus in the eyes of taxpayers is good, then trust in tax officials will also increase and ultimately will increase taxpayer compliance in paying taxes (Rikawati, 2015). Likewise, other studies found that there is a significant influence between trust in the authorities on tax compliance (Octaviany et al., 2021). The results of other studies also show that trust in the government has a positive effect on taxpayer compliance (Latief et al., 2020; Damayanti & Suyanto, 2022).

Tax morale is an intrinsic motivation to comply with and pay taxes so as to contribute voluntarily to the provision of public goods (Torgler, 2007). The motivation that comes from within himself will encourage someone to realize the importance of taxes and fulfill their obligations as taxpayers because they think it is important and will not feel burdened, can increase compliance with taxes in accordance with the theory of planned behavior with the intention in themselves will obedient behavior occurs.

Tax morale shows a positive and significant effect on individual taxpayers' tax compliance in the Special Region of Yogyakarta, this shows that a person's tax morale can increase compliance in carrying out tax obligations (Sriniyati, 2020). Several studies have found that there is a positive moral influence on tax compliance (Purnamasari & Sudaryo, 2019; Lesmana & Setyadi, 2020). So that taxpayers feel happy to pay tax obligations rather than having to suffer losses for late paying taxes (Astuti & Panjaitan, 2018).

The moral obligation possessed in the form of belief and awareness to contribute to the state by paying taxes will lead to an honest nature towards taxes, therefore taxation morals are an important determinant that can explain why people are honest about tax issues (Cahyonowati, 2011).

Tax socialization is a way for the Directorate General of Taxes to taxpayers to educate and assist taxpayers in fulfilling their obligations so that they can generate intentions and motivation in accordance with the theory of planned behavior. The more often the tax socialization activities are carried out, the more taxpayers will know or understand the rules and sanctions of taxation. The results of the research show that tax socialization has a positive effect on taxpayer compliance with SMEs (Putri & Nurhasanah, 2019). Then, based on the results of other studies, it is known that tax socialization has an effect on MSME taxpayer compliance (Octaviany et al., 2021; Ariani, 2017). The higher the socialization of taxes provided by the tax authorities to MSME taxpayers, the higher the compliance of MSME taxpayers to pay income tax. Tax socialization can also be an alternative communication between the government and taxpayers to consult issues regarding the obligation to pay and report taxes so as to encourage the growth of trust to manage the taxes they pay and report to the government (Devi & Purba, 2019). Taxpayers, especially MSME actors, really need guidance and counseling to improve their tax compliance. High moral obligations accompanied by good taxation socialization from tax officers will be able to increase taxpayer knowledge about taxation and can increase awareness, thereby increasing taxpayer compliance to pay taxes.

2.2. Hypothesis development

2.2.1. The effect of MSME tax incentives on individual taxpayer compliance for micro and small enterprises

The COVID-19 pandemic has caused many parties to experience economic difficulties, especially micro and small business traders. The government provides relief to MSMEs in the form of tax incentives in the hope that taxpayers can be more obedient in reporting their taxes without having to pay taxes because they have been exempted by the government. According to the theory of planned behavior, encouragement in the form of assistance from the government that can make it easier for taxpayers will lead to perceptions of intention to influence a person's behavior to behave obediently in fulfilling their obligations to taxes.

Judging from the results of Walidain's (2021) research, tax incentives have a positive influence on MSME taxpayer compliance. From this statement, it can be seen that the better the provision of tax incentives offered to the public, the higher the efforts of MSME taxpayers to comply with their tax obligations.

Latief et al. (2020) and Rachmawati and Ramayanti (2016) show that incentive policies affect taxpayer compliance. According to Jawa et al. (2021), tax incentives provided by the government can provide motivation and awareness of taxpayers regarding their compliance in fulfilling tax obligations. Then, based on the results of Widodo's (2019) research, the policy of reducing PPh rates can increase tax compliance for MSMEs. So, based on this, the hypothesis can be formulated as follows:

H1: MSME tax incentives affect the compliance of individual taxpayers of micro and small businesses.

2.2.2. The effect of fiscal trust on individual taxpayer compliance for micro and small enterprises

The number of cases related to the misuse of tax funds involving tax officials has caused the level of public trust in tax officials to decrease. They think that later the tax money that will be paid will only be used for the personal interests of the tax officials themselves and very little tax money is used for the development of the country, so it is better for them to avoid taxes by not registering themselves as taxpayers. Andyarini et al. (2019) show that when taxpayer compliance is high, the amount of taxpayer trust generated by a country is also high. Like the slippery slope theory, which assumes that trust in tax authorities and power affects tax compliance (Kircher et al., 2008).

The results of Rikawati's (2015) research show that the variable trust in tax officials has a positive effect on MSME taxpayer compliance in Jember Regency because if the image of tax officials in the eyes of taxpayers is good, then trust in tax officials will also increase and ultimately will also increase taxpayer compliance in paying taxes. Similar to the results of the research by Octaviany et al. (2021), there is a significant influence between trust in officials on tax compliance.

The results of the research by Latief et al. (2020) and Damayanti and Martono (2018) show that trust in the government has a positive effect on taxpayer compliance. So, based on this, the hypothesis can be formulated as follows:

H2: Trust in the tax authorities affects the compliance of individual taxpayers of micro and small businesses.

2.2.3. The influence of tax morale on individual taxpayer compliance for micro and small enterprises

Tax morale can be defined as an intrinsic motivation to obey and pay taxes so that they contribute voluntarily to the provision of public goods (Torgler, 2007). This motivation can arise from within the belief and willingness to contribute to the state by paying taxes. In accordance with the theory of planned behavior where morals have a conscious attitude and believe in the importance of taxes so want to comply voluntarily it creates intention and behavior to comply with taxes.

According to Sriniyati's (2020) research, one's tax morale can increase compliance in carrying out tax obligations because of motivation and awareness that comes from within themselves that the taxes they pay are their contribution to the state to provide public goods.

Purnamasari and Sudaryo (2019) and Lesmana and Setyadi (2020) found that there is a positive moral influence on tax compliance. Then, the research results of Astuti and Panjaitan (2018) show that taxpayers have positive morale in paying their tax obligations which can affect MSME taxpayer compliance. So that taxpayers feel happy paying tax obligations rather than having to experience losses due to late paying taxes. Honest taxpayers will not try to avoid it, while taxpayers who have low tax morale will tend to avoid paying taxes (Hardika & Mahailni, 2021). So, based on this, the hypothesis can be formulated as follows:

H3: Tax morale affects the compliance of individual taxpayers of micro and small businesses.

2.2.4. Effect of tax socialization on individual taxpayer compliance for micro and small enterprises

Tax socialization is a way for the Directorate General of Taxes to educate and assist taxpayers in fulfilling taxpayer obligations so that it can generate intentions and motivations formed from other people according to the theory of planned behavior. The more frequently the tax socialization activities are carried out, the more taxpayers will know or understand the rules and tax sanctions. In addition, the results of Putri and Nurhasanah's (2019) research showed that tax socialization has a positive effect on SME taxpayer compliance. Then, based on the research results of Noorlita (2018) and Ariani (2017), it is known that tax socialization affects MSME taxpayer compliance. The higher the socialization of taxes given by the tax authorities to taxpayers of MSMEs, the greater the compliance of MSME taxpayers to pay income tax. Tax socialization can also be an alternative communication between the government and taxpayers to consult issues regarding the obligation to pay and report their taxes so as to encourage the growth of trust to manage the taxes they pay and report them to the government (Devi & Purba, 2019).

Taxpayers, especially MSME actors, really need guidance and counseling to improve their tax compliance. High moral obligation accompanied by good tax socialization from tax officials will be able to increase taxpayer knowledge about taxation and can increase awareness, thereby increasing taxpayer compliance to pay taxes. So, based on this, the hypothesis can be formulated as follows:

H4: Tax socialization affects the compliance of individual taxpayers of micro and small businesses.

Figure 1. Hypothesis development
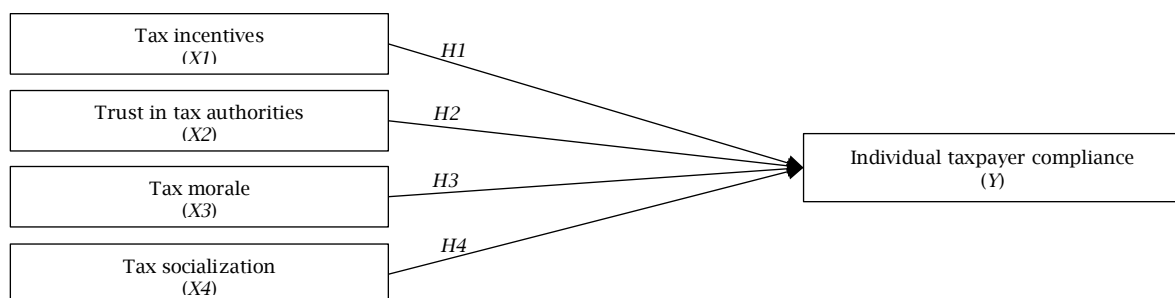
3. RESEARCH METHODOLOGY

3.1. Research design

3.1.1. Data types and sources

This study uses a type of quantitative data which is defined as a research method for examining certain populations, as well as collecting data using research instruments in statistical data analysis to test the hypotheses that have been put forward (Sugiyono, 2016).

Sources of data used in this study are primary data and secondary data. The data obtained are the results obtained directly by researchers and respondents. Primary data in this study is the result of a questionnaire obtained by giving questionnaires to micro and small business actors in Bandung Regency and secondary data in the form of data from the Ministry of Cooperatives and Small and Medium Enterprises.

3.1.2. Determination of the number of samples

The sample is part of the number and characteristics possessed by the population. The population in this study are individual taxpayers who are MSME domiciled in the Bandung Regency area. According to data from the Ministry of Cooperatives and Small and Medium Enterprises, the number of MSMEs in the Bandung Regency is 4,412. With these data, the following is Slovin's formula for calculating the minimum number of samples taken in this study:

$$n = N/(1 + Ne^2) \qquad (1)$$

where,
n = Number of sample members;
N = Number of members of the population;
e = Number of fault tolerance.

The error tolerance in this study is 10% (0.1), so based on this formula the calculation of the number of samples in this study is:

$$n = 4.412/(1 + 4.412(0.1^2))$$
$$n = 97,78 \qquad (2)$$

To obtain the right object for research, the number of samples to be taken is 98 respondents according to the sampling criteria.

3.2. Population and sample

The criteria needed to determine the sample in this study are 1) having a taxpayer identification number; 2) being an individual taxpayer running MSMEs; 3) having been running their business for at least 2 years; 4) being domiciled in the district of Bandung. The sample used in this study amounted to 98 respondents from the calculation of Slovin's formula.

3.3. Data collection method

The method of presenting data in this study is in the form of tables and text. The presentation of data in tabular form is intended to facilitate classification in data grouping. Then the data attached to the table will be explained again in narrative form so that the readers in this study can understand what the authors want to convey.

3.4. Survey instruments design

This questionnaire was designed using Google Forms and distributed to MSME actors in Bandung Regency according to the criteria. The questionnaire consists of three parts. The first part focuses on the demographic factors of MSME actors as respondents, such as gender, age, final education, type of business, length of business, and one-year turnover. The second part focuses on a series of questions related to perceptions of tax incentives, trust in the tax authorities, tax morale, tax socialization, and compliance in carrying out the role of taxpayers. In the question section, the Likert scale is used as a measuring tool where the scale is from 1, which represents "Strongly disagree", to 5, which represents "Strongly agree".

3.5. Measurement of variables

This study has independent variables, *MSME tax incentives, Trust in the tax authorities, Tax morale,* and *Tax socialization*. The dependent variable in this study is *MSME individual taxpayer compliance*. Respondents were asked to answer 23 questions related to the independent and dependent variables.

3.6. Sample collection method

The sample collection method in this study used non-probability sampling with a purposive sampling technique. Purposive sampling is a sampling technique, which determines certain criteria in selecting sample members to participate in representing the population.

This study uses a Likert scale. According to Sarjono and Julianita (2019), the Likert scale is a scale used to measure attitudes, opinions, and perceptions of a person or group of people towards an event or social situation, where the measured variables are translated into variable indicators then these indicators are used as a starting point to arrange question items.

3.7. Data analysis method

3.7.1. Descriptive analysis

In this study, the analysis used is descriptive statistics. Descriptive analysis is intended to provide an overview or description of the data from the dependent variable in the form of individual taxpayer compliance and the independent variables in the form of MSME tax incentives, trust in tax authorities, tax morale, and tax socialization. From the data that has been collected, the presentation of research data will be in the form of tables and figures that will explain more specifically the various outputs of the data that have been tested.

3.7.2. Partial least squares (PLS)

Partial least square (PLS) is an alternative structural equation modeling (SEM) method that can predict theory, and deal with complex variables, and small data sample sizes (sample < 100). PLS is used to

explain whether or not there is a relationship between two or more latent (predictive) variables. PLS is also known as soft modeling because it eliminates ordinal least square (OLS) assumptions such as requiring normal data distribution (Latan & Ghozali, 2015). In this study, data processing uses SmartPLS version 3.0 software. The statistical tests that will be carried out are testing the measurement model (outer model), structural model (inner model), and testing the hypothesis.

3.7.3. Measurement model (Outer model)

The outer model is often referred to as the outer relation or measurement model which can show how the manifest or observed variables represent the latent variables to be measured. In addition, it is also defined as each indicator block related to its latent variable (Ghozali & Latan, 2015). Tests carried out using a measurement model (outer model), namely:

1. *Convergent validity:* Convergent validity testing measures the correlation between latent variables and their indicators. This convergent validity measurement can be seen from the loading factor value for each construct indicator and the average variance extracted (AVE). If the correlation factor loading value is > 0.7 it can be said to be valid and ideal for confirmatory research and a correlation value of 0.6 to 0.7 for exploratory research. For average variance inflation factor (VIF) values > 0.5, data will still be acceptable.

2. *Discriminant validity:* Discriminant validity testing is used to measure indicators of a construct that do not have a high correlation with indicators of other constructs. Discriminant validity measurement uses a reflective model, namely a test that shows a causal relationship between latent variables to indicators. The way to test discriminant validity is with reflective indicators, namely by looking at the cross-loading value which is > 0.7, and comparing the AVE square root value to the correlation value between constructs.

3. *Reliability test (Composite reliability):* Reliability testing is used to measure the accuracy, consistency and accuracy of the instrument and the results are more conservative. Composite reliability measures internal consistency. The interpretation of composite reliability is the same as Cronbach's alpha where a value > 0.7 is acceptable.

3.7.4. Structural model (Inner model)

The inner model or structural model can be defined as predicting the relationship between latent variables based on substantive theory. Tests carried out using a measurement model (inner model), namely:

1. *Coefficient determinants*: Testing the value of the coefficient of determination (R^2) is the result of a test to assess each endogenous latent variable where the value describes the predictive power of the structural model. The results of the R^2 values of 0.67, 0.33, and 0.19 indicate the strength of the model as strong, moderate, and weak (Latan & Ghozali, 2015).

2. *Predictive relevance:* The Q^2 measurement is used to measure a test that is carried out how well the observed value is generated by looking at the Q^2 value. If the Q^2 value > 0, it can be said to have a good observation value, whereas if the Q^2 value < 0, it can be said that the observation value is not good.

3. *Path coefficients:* Measurement of path coefficients is done to see the significance and strength of the relationship between variables and to test the hypothesis. Path coefficient values range from -1 to +1. If the value is getting closer to +1, it indicates that the relationship between the two constructs is getting stronger, but if on the contrary, the value is close to -1, it indicates that the relationship is negative.

3.8. Hypothesis testing

Hypothesis testing is done by the bootstrapping method. The application of the resampling method allows the data to be distributed free, does not require normal distribution assumptions, and does not require a large sample. In this study, for probability values, the p-value with an alpha of 10% is less than 0.1. The t-table value for 10% alpha is 1.65. So that testing the hypothesis is seen from the t-statistics value which has provisions if the value is above 1.65 and the p-value is below 0.1 it is said to be significant whereas if the t-statistics value is below 1.65 and the p-value is above 0.1 it is said not significant.

3.9. Variable operationalization

3.9.1. Independent variables

According to Sugiyono (2016), the independent variable is the variable that influences or causes the change or the emergence of the dependent (bound) variable. The independent variable can affect the dependent variable, whether it has a positive or negative effect. In this research, the independent variables are *Tax incentives, Trust in tax authorities, Tax morale,* and *Tax socialization.* The following is a description of the instruments for measuring each independent variable as follows:

1. *Tax incentives (X1):* According to Latief et al. (2020), the tax incentive policy is the attitude of the government taking sides with taxpayers with the aim of serving the national interest. In this study, according to Latief et al. (2020) and Trihastuti and Rachmawati (2021), variable *Tax incentives* can be seen in the indicators: a) justice in the provision of tax incentives; b) community benefits; c) ease arising from tax incentives.

2. *Trust in tax authorities (X2):* Trust in the tax authorities is defined as the general opinion that the tax authority shows good behavior and works for the common good. Kircher et al. (2008) define trust as a group or individual who feels that the tax authority is doing its job well for the common good. Trust can be explained as a special quality in the relationship or interaction between authorities and their partners in which they view each other positively and are motivated to maintain the relationship (Rudolph et al., 2014). According to Octaviany et al. (2021), the variable of trust can be seen in the indicators: a) quality; b) reliability; c) openness; d) integrity; e) apparatus capability.

3. *Tax morale (X3):* Tax morale can be defined as an intrinsic motivation to obey and pay taxes so as to contribute voluntarily to the provision of public goods (Torgler & Schneider, 2009). Tax morale is a key determinant that can explain why people are honest in tax matters. The higher the individual's intrinsic motivation and moral awareness about the importance of paying taxes, the greater the individual's tendency to comply with applicable tax regulations. According to Sani and Habibie (2017), the following are indicators of tax morale: a) violating ethics; b) guilt; c) principles of life; d) violating procedures.

4. *Tax socialization (X4):* Tax socialization, according to Saragih (2013), is an attempt by the DGT to provide understanding, information, and guidance to the public in general and taxpayers in particular regarding everything related to taxation and tax laws. According to Winerungan (2013), indicators of tax socialization are as follows: a) counseling; b) discussing directly with taxpayers and community leaders; c) direct information from tax authorities to taxpayers; d) installation of billboards (banners, posters, billboards, etc.; e) Directorate General of Taxes website.

3.9.2. Dependent variable

According to Sugiyono (2016), the dependent variable is the variable that is affected or is the result because of the independent variables.

In this study, the dependent variable is *Individual taxpayer compliance.*

Taxpayer compliance is a situation where taxpayers can fulfill all tax obligations and exercise their tax rights accompanied by self-awareness so that they can act in accordance with established tax regulations (Wardani & Asis, 2017). According to Wijaya et al. (2020), there are four indicators for the taxpayer compliance variable, namely: a) taxpayer compliance in registering; b) taxpayer compliance to resubmit tax returns (Annual Notification Letter); c) compliance in the calculation and payment of tax payable; d) compliance in payment of arrears and interest.

4. DATA ANALYSIS AND FINDINGS

4.1. Statistical descriptive analysis

In this study, the analysis used is descriptive statistics. Descriptive analysis is intended to provide a description of the data from the dependent variable in the form of individual taxpayer compliance and the independent variable in the form of MSME tax incentives, trust in the tax authorities, tax morale, and tax socialization. From the data that has been collected, the presentation of research data will be in the form of tables and figures which will explain the various outputs of the data that has been tested more specifically.

Table 1. Descriptive statistics

Indicator	No.	Mean	Median	Min	Max	Standard deviation
TI1	1	3.592	4	2	5	0.780
TI2	2	3.602	4	1	5	0.866
TI3	3	3.622	4	1	5	0.851
TA1	4	3.622	4	1	5	0.931
TA2	5	3.643	4	1	5	0.906
TA3	6	3.357	3	1	5	0.939
TA4	7	3.378	3	1	5	0.863
TA5	8	3.633	4	2	5	0.813
TM1	9	3.990	4	2	5	0.763
TM2	10	3.918	4	2	5	0.853
TM3	11	3.847	4	1	5	0.861
TM4	12	3.908	4	2	5	0.784
TC1	13	3.847	4	1	5	0.800
TC2	14	3.959	4	3	5	0.713
TC3	15	4.214	4	2	5	0.773
TC4	16	3.969	4	2	5	0.749
TS1	17	3.714	4	1	5	0.821
TS2	18	3.724	4	2	5	0.739
TS3	19	3.704	4	2	5	0.836
TS4	20	3.796	4	2	5	0.795
SP5	21	3.837	4	1	5	0.817
SP6	22	3.929	4	2	5	0.786
SP7	23	3.929	4	2	5	0.786

Note: TI: Tax incentives; TA: Trust in tax authorities; TM: Tax morale; TS: Tax socialization; TC: Individual taxpayer compliance.

Table 1 shows the results of descriptive statistical analysis of the data obtained and there are 5 variables in this study. The results of the analysis of the *Tax incentives* variable consist of 3 indicators. Based on these data, which has a minimum value of 1 and a maximum value of 5, the mean (average) value of *TI1* is 3.592, *TI2* is 3.602, *TI3* is 3.622 and the median value is 4 which can be concluded that not all respondents agree with the statements contained in the questionnaire. In addition, the standard deviation value determines how close the data spread is to the average value of the *Tax incentive* variable of 0.780 to 0.866.

The variable *Trust in tax authorities* consists of 5 statement indicators, the mean (average) value of *TA1* is 3.622, *TA2* is 3.643, *TA3* is 3.357, *TA4* is 3.378, *TA5* is 3.633 and the median value is 3 to 4, which can be concluded that not all respondents agree with the statements contained in the questionnaire. In addition, the standard deviation value that determines how close the data spread is to the average value of the variable *Trust in tax authorities* is 0.813 to 0.939.

The *Tax morale* variable consists of 4 statement indicators, the mean (average) value of *TM1* is 3.990, *TM2* is 3.918, *TM3* is 3.847, *TM4* is 3.908 and

the median value is 4, which can be concluded that not all respondents agree with the statements contained in the questionnaire. In addition, the value of the standard deviation that determines how close the data spread is to the average value of the *Tax morale* variable is 0.763 to 0.861.

The *Tax socialization* variable consists of 7 statement indicators, the mean (average) value of *TS1* is 3.714, *TS2* is 3.724, *TS3* is 3.704, *TS4* is 3.704, *SP5* is 3.837, *SP6* is 3.929, *SP7* is 3.929, and the median value is 4, which can be concluded that not all respondents agreed with the statements contained in the questionnaire. In addition, the standard deviation value determines how close the data spread is to the average value of the *Tax socialization* variable of 0.739 to 0.836.

The *Individual taxpayer compliance* variable consists of 4 statement indicators, namely *TC1, TC2,*

TC3, TC4, which have a minimum value of 1 and a maximum value of 5, the mean (average) value of *TC1* is 3.847, *TC2* is 3.959, *TC3* is 4.214, *TC4* is 3.969 and a median value of 4, which can be concluded that not all respondents agree with the statements contained in the questionnaire. In addition, the value of the standard deviation that determines how close the data spread is to the average value of the *Individual taxpayer compliance* variable is 0.813 to 0.939.

4.2. Validity and reliability analysis

Validity test to measure or test how well the data is used in the study, validity is determined by the loading factor value with a minimum value of 0.70 (Latan & Ghozali, 2015).

Table 2. Outer loading

Indicator	Outer loading					Information
	IP	KF	MP	SP	KP	
IP1	0.891					Valid
IP2	0.823					Valid
IP3	0.773					Valid
KF2		0.833				Valid
KF3		0.803				Valid
KF4		0.814				Valid
MP1			0.807			Valid
MP2			0.865			Valid
MP3			0.796			Valid
MP4			0.852			Valid
SP1				0.727		Valid
SP2				0.855		Valid
SP3				0.747		Valid
SP4				0.806		Valid
SP6				0.804		Valid
SP7				0.849		Valid
KP1					0.805	Valid
KP2					0.867	Valid
KP4					0.853	Valid

Note: IP = Tax incentives; KF = Trust in tax authorities; MP = Tax morale; SP = Tax socialization; KP = Taxpayer compliance.

Table 3 shows construct reliability and validity which consists of Cronbach's alpha, composite reliability (CR) values, and AVE. Based on Table 2, the variables *IP, KF, SP,* and *KP* have reliable

Cronbach's alpha of ≥ 0.70; composite reliability of ≥ 0.70; and AVE of ≥ 0 (Latan & Ghozali, 2015), so it can be said to be reliable.

Table 3. Construct reliability and validity

Variable	Cronbach's alpha	Composite reliability	AVE	Information
IP	0.775	0.869	0.690	Reliable
KF	0.759	0.857	0.667	Reliable
MP	0.850	0.899	0.690	Reliable
SP	0.887	0.914	0.639	Reliable
KP	0.795	0.880	0.709	Reliable

Note: IP = Tax incentives; KF = Trust in tax authorities; MP = Tax morale; SP = Tax socialization; KP = Taxpayer compliance.

4.3. Demographic information

Table 4 shows the demographic data of the respondent's profile in the form of gender, age of the respondent, final education, type of business, length of business, and one-year turnover of the business being run. A total of 98 MSME actors consisting of 31 men (31.6%) and 68 women (68.4%) participated in this study. Regarding the age of the respondents, it shows that of the total respondents, the largest age range is the age of 41 years old to 50 years old as many as 36 years old (36.7%), and the least age, namely the age of less than 20 years old as many as 2 respondents (2%). For

the latest education, it shows that most MSME taxpayers in Bandung Regency have the latest high school education level of as many as 62 respondents (63.3%), tertiary institutions as many as 31 respondents (31.6%) and the lowest is junior high school of as many as 5 respondents (5.1%).

This type of business that is run in Bandung Regency is a culinary business of as many as 71 respondents (72.4%), a business in the service sector of as many as 10 respondents (10.2%), a business in the fashion sector of as many as 9 respondents (9.2%), and a handicraft business of as many as 8 respondents (8.2%). The length of business that has been run by respondents is quite

diverse, most of them have run their business for 2 years to 5 years as many as 61 respondents (62.2%), from 6 years to 10 years as many as 29 respondents (29.6%), from 11 years to 15 years as many as 7 respondents (7.1%), and the length of business of more than 15 years as many as 1 respondent (1%). The average business turnover obtained in one year is micro business actors with a turnover of less than 300 million as many as 84 respondents (85.7%), and the turnover obtained is 300 million to 2.5 billion in one year as many as 14 respondents (14.3%).

Table 4. Demographic information

Response category	Frequency	Percentage
Gender		
Male	31	31.6%
Female	68	68.4%
Age		
< 20 years old	2	2%
21–30 years old	14	14.3%
31–40 years old	24	24.5%
41–50 years old	36	36.7%
> 50 years old	22	22.4%
Last education		
SD	0	0%
SMP	5	5.1%
SMA	62	63.3%
College	31	31.6%
Type of business		
Culinary	71	72.4%
Craft	8	8.2%
Service	10	10.2%
Fashion	9	9.2%
Long running business		
2–5 years	61	62.2%
6–10 years	29	29.6%
11–15 years	7	7.1%
> 15 years	1	1%
Turnover per year		
≤ 300 million	84	85.7%
300 million–2,5 billion	14	14.3%
2,5 billion–4,8 billion	0	0%

4.4. Hypothesis testing

Table 5 shows the results of the structural model with R^2 0.444 which means that the individual taxpayer compliance variable is influenced by 44% by the independent variable, then the remaining 56% is influenced by other factors outside of this study. The value of Q^2 obtained through the blindfolding procedure is 0.283 (> 0) which means the model has predictive relevance (Latan & Ghozali, 2015).

Table 5. Structural model result

Variable	R^2	Q^2
IP	–	–
KF	–	–
MP	–	–
SP	–	–
KP	0.444	0.283

Structural model testing is done through a bootstrapping procedure to see the significance of the relationship between variables using path coefficients. The rules used in this research are t-statistic > 1.96 and p-value < 0. Table 6 shows the results of this research relationship that the t-statistic values of the *KF* and *MP* variables in *KP* are 2.021 and 2.516 (> 1.96) and the p-values of the *KF* and *MP* variables in *KP* are 0.044 and 0.012, respectively (< 0.05), so it can be concluded that the belief in the tax authorities and tax morale on tax compliance is hypothesized to be accepted or affect the compliance of individual MSME taxpayers in Bandung Regency. The results of the research relationship show that the t-statistic values of the *IP* and *SP* variables on the *KP* are 0.788 and 1.833 (< 1.96) and the p-values of the *IP* and *SP* variables on the *KP* are 0.431 and 0.067 (> 0.05), so it can be concluded that the application of *IP* and *SP* on tax compliance was hypothesized to be rejected or had no effect on the compliance of MSME individual taxpayers in Bandung Regency.

Table 6. Hypothesis testing

Structural path	Original sample	T-statistic	P-values	Result
IP → KP	0.077	0.788	0.431	Not accepted
KF → KP	0.203	2.021	0.044	Accepted
MP → KP	0.293	2.516	0.012	Accepted
SP → KP	0.276	1.833	0.067	Not accepted

5. DISCUSSION

5.1. The effect of MSME tax incentives on MSME individual taxpayer compliance

The results showed that the *Tax incentives* variable had no effect on the *Individual taxpayer compliance* variable. The results of this study are in accordance with several previous studies which also found no effect between tax incentives and taxpayer compliance (Saputro & Meivira, 2020; Damayanti & Martono, 2018). From this research, it is known that due to declining income during the pandemic, MSMEs are reluctant to report their taxes and do not take advantage of tax incentives. Therefore, tax incentives during the COVID-19 pandemic do not guarantee compliance because taxpayers have different perceptions of each individual. Other studies also show that the provision of tax incentives has no effect on taxpayer compliance during the pandemic, due to the lack of socialization about the tax incentives themselves (Dewi et al., 2020; Kusuma & Wulandari, 2021).

In this study, there is no influence between the two variables because, first, it can be seen from the aspect of the age of the respondents, the majority are between 41 and 50 years old. Old-age taxpayers tend to be disobedient in carrying out their tax obligations (Mulyani et al., 2020). Furthermore, for the level of education, most of the respondents are high school graduates and the level of education can measure the intellectual level of the respondents. The higher education of taxpayers can affect tax compliance to be more obedient (Mulyani et al., 2020). In addition, another thing that also has an influence on taxpayer compliance is that the turnover obtained by most of the respondents is in the category of micro-enterprises which is less than 300 million so the respondents think that their business does not need to be taxed.

Another factor is the length of the business that has been run, most of them are still under 5 years. This causes respondents to assume that the time the business is being run is still in the pioneering stage and has not experienced effective success and progress so they feel no need to report taxes even though the government has provided relief in the form of MSME tax incentives.

In addition, it could be due to the lack of dissemination of information on how to work to get the MSME incentive program which causes a lack of understanding and interest of taxpayers, because there are still respondents who have difficulty understanding it. Other factors are also different perceptions that can be influenced by individual needs, personality, and other subjective things.

This is not in accordance with the theory of planned behavior where the assistance in the form of policies from the government can lead to intention and motivation for taxpayers to make it easier to fulfill their tax obligations. Thus, the greater the incentives provided do not affect the level of compliance of individual MSME taxpayers in Bandung Regency in fulfilling their obligations.

5.2. The effect of trust in tax authorities on MSME individual taxpayer compliance

The results showed that *Trust in tax authorities* had a positive effect on *Individual taxpayer compliance* in Bandung Regency. The higher the level of trust in the tax authorities, the more tax compliance will increase. The same results were found in previous studies showing that the variable trust in tax officials has a positive effect on taxpayer compliance, trust in the apparatus will increase tax revenues through contributions paid by taxpayers (Octaviany et al., 2021; Rikawati, 2015). In addition, this study is also in line with other studies that show that trust in the government has a positive effect on taxpayer compliance (Latief et al., 2020; Damayanti & Martono, 2018). Taxpayer compliance is high and the number of taxpayer trust generated by a country is also high (Andyarini et al., 2019).

Based on the results of the questionnaire distribution, the average value of the answers from respondents for the variable of trust in the tax authorities was 3.526. From these results it can be said that respondents or MSME actors in Bandung Regency have a high level of trust that is good in the quality of service of the tax authorities who are fast and responsive, transparent in spending for state needs, believe in the honesty of the tax authorities and believe in detecting any tax evasion in allocating tax funds deposited by the public.

From the average value of trust, it can be interpreted that, although there are many cases related to the misuse of tax funds used for the personal interests of the tax officials themselves, taxpayers still have high trust in the apparatus in carrying out their duties and responsibilities (Octaviany et al., 2021).

This research is in accordance with the slippery slope theory or the slippery slope framework which assumes that trust in tax authorities affects tax compliance (Kircher et al., 2008). As trust increases, tax compliance is likely to increase as well.

5.3. The effect of tax morale on MSME individual taxpayer compliance

The results of this study indicate that *Tax morale* has a positive effect on *Individual taxpayer compliance* in Bandung Regency. The higher the level of a person's tax morale, the more taxpayer's compliance will increase. The same results were found in previous studies that there is a positive moral influence on tax compliance, one's tax morale can increase compliance in carrying out tax obligations (Purnamasari & Sudaryo, 2019; Lesmana & Setyadi, 2020; Sriniyati, 2020). Then, other research results show that taxpayer morale has a significant positive effect on MSME taxpayer compliance, so taxpayers feel happy to pay tax obligations rather than having to suffer losses for late paying taxes (Astuti & Panjaitan, 2018). In addition, the moral obligation that is owned in the form of belief and awareness to contribute to the state by paying the tax will lead to an honest nature toward taxes (Cahyonowati, 2011).

Based on the results of the questionnaire distribution, the average value of the answers from respondents for the tax moral variable is 3,915 where these results can be interpreted that

respondents or SMEs in Bandung Regency have a high and good level of tax morale. The motivation that arises in themselves is high and they are aware of the importance of complying with tax obligations such as paying and reporting taxes. Thus, tax morale can affect a person's level of tax compliance.

This study is in accordance with the theory of planned behavior, where there is a relationship between attitudes, subjective norms, and perceptions that will affect a person's behavioral intention to take an action, with motivation and self-awareness of the importance of complying with tax obligations such as paying taxes. In addition, tax morale is influenced by the quality of services provided by the tax authorities to motivate taxpayers.

5.4. The effect of tax socialization on MSME individual taxpayer compliance

Based on the results of the hypothesis, it is stated that *Tax socialization* has no effect on the variable *Individual taxpayer compliance*. The given tax socialization does not affect the level of compliance of individual MSME taxpayers in Bandung Regency in fulfilling their obligations. The results of this study are in accordance with previous studies of tax socialization on taxpayer compliance cannot be supported or partially have no effect on individual taxpayer compliance (Siahaan & Halimatusyadiah, 2018; Winerungan, 2013). Then, indirect socialization activities are relatively short and the information conveyed is not detailed or not on target (Lianty, 2017).

Based on the results of the distribution of the researcher's questionnaire, respondents' answers to statements that represent the tax socialization variable have an average value of 3.805, or most of the respondents answered agree to statements related to tax socialization where it is classified as high so that respondents already think that there is tax socialization is good.

Judging from the demographic data, most of the MSME taxpayers are aged between 41 and 50 years old. Other factors are also different perceptions that can be influenced by individual needs, personality, and other things that are subjective.

In the results of the questionnaire, there are still many who choose to answer neutral and disagree, this is because there are obstacles in providing tax socialization to educate and assist in fulfilling the obligations of taxpayers from tax officers which are still less effective. In addition, one of the taxpayers said that the information and material presented was still unclear which caused the taxpayers to not understand the information presented so that the information could not be conveyed properly and caused the socialization provided to be less able to motivate taxpayers. Thus, tax socialization has no effect on the obligations of individual MSME taxpayers in Bandung Regency.

This study cannot prove the theory of planned behavior that the existence of tax socialization can encourage motivation for taxpayers to comply in fulfilling their obligations as taxpayers such as paying and reporting taxes. So, no matter how good the tax socialization is, it does not affect the compliance of MSME actors in the Bandung Regency.

6. CONCLUSION

Tax morale affects the compliance of individual MSME taxpayers in Bandung Regency. The higher the level of a person's tax morale, the more compliance of individual MSME taxpayers in Bandung Regency will increase. This is because SMEs in Bandung Regency already have a high and good level of tax morale. The motivation that arises in themselves is high and they are aware of the importance of complying with tax obligations such as paying and reporting taxes. Tax socialization has no effect on individual MSME taxpayer compliance in Bandung Regency. The higher the tax socialization carried out, it does not affect the level of compliance of individual MSME taxpayers in Bandung Regency in fulfilling their obligations. This is because the constraints in providing tax socialization are still less effective, therefore information cannot be conveyed properly and causes the socialization provided to be less able to motivate taxpayers, lack of understanding and interest in taxpayers, as well as the characteristics of respondents in this study which can affect not the effect of tax socialization on taxpayer compliance in Bandung Regency.

Based on the conclusions in the research that has been described previously, the authors provide several suggestions to improve individual taxpayer compliance, especially for MSME actors in the Bandung Regency area. Suggestions that the authors can give to the DGT and the Government are expected to help provide a good and adequate understanding of the regulations issued such as tax incentives to taxpayers. Increase the socialization of tax education as a whole to all taxpayers. Socialization with context: benefits, goals, modernization, latest policies, and obligations. The need for effective direct counseling to MSME taxpayers to make it easier to understand because most taxpayers are in the 40-year-old category and above, it is feared that this age category does not really understand the information provided if only through online media. Then for further researchers, it is hoped that they can develop additional independent variables such as the quality of tax service services, and fairness in tax rates, and can conduct research in other areas that have not been studied before by increasing the number of respondents.

Based on the conclusions from the research that has been described previously, the authors provide several suggestions for increasing individual taxpayer compliance, especially for micro and small businesses in the Bandung Regency area. The following are suggestions that the authors can give:

1. For the DGT and the Government, it is expected that:

• This can further increase trust in the tax authorities because in this study it is proven that trust in the tax authorities can affect taxpayer compliance such as continuing to improve integrity through service quality and accountable performance.

• For tax morale in Bandung Regency to affect the desire to pay taxes, the government must increase the moral awareness of the people so that they are tax compliant. Such as feedback that is even more beneficial for the public to feel so that taxpayers will have more confidence that the tax is used properly.

• Help provide a better understanding by increasing the socialization of tax education as a whole for all taxpayers. Socialization with context: benefits, goals, latest policies and obligations in paying taxes.

2. For future researchers, it is expected:

• It is hoped that future researchers will be able to develop additional independent variables such as the quality of tax office services, and fairness in tax rates.

• It is expected to be able to conduct research in other areas that have never been studied before by increasing the number of respondents.

In this study, there are several limitations that may affect the results of the study, including the following:

1. This study uses primary data collection methods in the form of a questionnaire so that answering the questionnaire can be subjective, from the perception according to the respondent it can cause problems if the respondent's perception differs from the actual situation and there is a possibility that the respondent does not fully understand the questions in the questionnaire.

2. This study used a sample of 98 respondents. It is hoped that further research can obtain more samples.

3. This research was only conducted in the Bandung Regency area, so the results in this study cannot be generalized to other regions in Indonesia as a whole.

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