

**Tax Awareness Moderates Knowledge and Modernization of
Tax Administration on Tax Compliance,
Survey on MSME taxpayers in South Tangerang City, Indonesia**

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Abstract: One of the main challenges of the government in managing state finances today is the collection of state revenue from taxes. The low Tax Ratio shows that the government still has to work hard to improve the ability to collect state revenues through improving the administrative system, increasing tax compliance, and formulating appropriate policies. This study aims to determine and analyze the effect of Knowledge and Modernization of Tax Administration on Tax Compliance with Tax Awareness as a Moderation Variable. The data analysis technique used in this study is path analysis with Partial Least Square (PLS) -SEM. The PLS evaluation model is carried out by assessing the outer model and inner model.

The results of this study prove that tax knowledge and modernization of tax administration have a significant effect on tax compliance and tax awareness strengthens the effect of tax knowledge on tax compliance. Tax compliance will increase if the knowledge of taxation is supported by the awareness of being tax-compliant citizens

Keywords: tax compliance, tax knowledge, administration modernization and tax awareness

1. Introduction

Self Assessment System is a tax determination system which imposes the determination of the amount of tax that must be independently paid by the tax. It is said that taxes are parties who play an active role in calculating, paying, and reporting the amount of tax to the Tax Service Office or through an online administration system created by the government. Tax compliance is a compliance with tax regulations and the indicator is the order and accuracy in calculating, paying, and reporting tax obligations carried out by taxes (Juanda&Wahyudi, 2015).

The Directorate General of Taxes (DGT) said that the number of Micro, Small and Medium Enterprises (MSME) actors reached around 60 million and contributed 60% to the Gross Domestic Product (GDP). However, only 1.5 million were registered as taxes with a contribution of 2.2% to the total income tax revenue paid by the tax. The Directorate General of Taxes hopes that MSME tax compliance will increase after the government reduces the MSME tax rate starting July 2018. Therefore, tax socialization and training will be intensified. With the decrease in the final income tax rate for MSME actors to 0.5%, the Government hopes that more and more MSME actors will become compliant taxes. (Katadata.co.id, 2018).

DGT, in collaboration with 21 State-Owned Enterprises (BUMN), organizes a Business Development Service (BDS) program which activity has been carried out since 2015 by providing training and guidance aimed at encouraging the development of MSMEs in Indonesia. In line with that, the government through this BDS also improves the understanding of MSME actors regarding the obligation to have a Tax Identification Number for entrepreneurs and their tax rights and obligations. It is hoped that with this BDS program, MSME actors will grow more rapidly and become more competitive with awareness and high tax compliance. (Pajak.go.id, 2019)

Tax compliance is a positive impact obtained from increasing the knowledge of taxes regarding tax regulations, tax rights and obligations. In line with taxation knowledge, the simpler modernization of tax administration has encouraged taxes to be active in fulfilling their tax obligations related to their tax reporting activities. The two things mentioned above can increase tax awareness of the fulfillment of their tax obligations. Raising public

awareness to keep paying taxes is considered to be an important point in the emergency situation of the corona virus (covid-19), which until now has not shown any signs of abating. It is believed that the response to tax instruments will continue for some time to come, especially relaxation of an administrative nature. DDTC Research Coordinator Denny Vissaro said that optimal tax performance is still needed amidst the need for various relaxations. Because, the loss of tax revenue due to various tax breaks for affected communities needs to be balanced with the awareness of taxes (medcom.id, 2020)

Based on the research conducted by Indrawan&Binekas(2018), it is stated that tax knowledge has a positive and significant effect on increasing tax compliance. Research conducted by (Kanbiroorkaidodeyganto& Lecturer, 2018) also shows significant and positive results using binary logistic regression analysis that tax compliance is influenced by the level of tax knowledge. The following research supports that tax knowledge has a significant and positive effect on tax compliance carried out by (Rahayu, 2017), (Samadiartha&Darma, 2017), (Khasanah, 2016), (Ernawati&Afifi, 2018), (A. Nugroho ,Andini, &Raharjo, 2016), (Setiyani, Andini, &Oemar, 2018) and (Hamza&Mulugeta, 2019). Meanwhile, according to (Wulandari, 2015) and (Nurlis, Kamil, I, 2015), the relationship between the influence of tax knowledge on tax compliance is not significant.

The strategy pursued to provide excellent service (public service function) as well as intensive supervision to taxes is carried out by making improvements and renewals from the administrative side through modernizing the tax administration service system by utilizing a reliable and up-to-date information technology system, making adjustment on organizational structure, and changes in business processes. (M. Farouq, Kencana, 2018: 88). In terms of apparatus resources, it is carried out by implementing a good governance system so that tax administration services and supervision can run in a transparent and accountable manner. Efforts to improve other compliance control functions in order to increase compliance with taxes are carried out by implementing a supervisory system through the *knowing the tax profile* mechanism and analysis by updating tax data and information of each tax and their profile in fulfilling their tax rights and obligations. (M. Farouq, Kencana, 2018: 89).

Based on the research conducted by Zuhdi, Suryadi, &Yuniati (2019), it proves that the effect of taxation modernization on tax compliance is positive and significant, as evidenced by the modernization of tax administration to make it easier for taxes to fulfill their tax payment and reporting obligations as to increase tax compliance levels. The following are the supporting researches by:, (Khasanah, 2016), (Astana &Merkusiwati, 2017), (Zuhdi et al., 2019), (Arismayani, Yuniarta, &Yasa, 2017), (Aryati&Putritanti, 2017), (Astana &Merkusiwati, 2017) and (Scarcella, 2019).

Awareness is the act of realizing something. Direct awareness is given to the subject with no veil or curtain that separates the subject from reality. Awareness cannot be imagined without something being aware of. (Farid, 2018: 29). Tax awareness is the awareness, sincerity, and desire of taxes to fulfill their tax obligations. (Juanda&Wahyudi, 2015: 237).

Building tax awareness is not the only responsibility of tax agencies. Citizens also have an important role to increase awareness of paying taxes. This role can be carried out by educational institutions and society in general. The content of tax awareness education includes the delivery of general tax policy information, general tax management, management and transparency of the use of taxes for development which leads to increasing awareness of paying taxes (Directorate General of Taxes, 2016: 83). The important role of government and society in increasing tax awareness is in line with the statement of the Organization of Economic Cooperation and Development (OECD) that civil society also has a role in promoting tax awareness education so that the understanding of tax policy in general, management of incentives and tax disclosure is built (Directorate General of Taxes, 2016: 84). Based on the research conducted by Hartana&Merkusiwati (2018), it is stated that tax awareness strengthens the influence of tax knowledge on tax compliance in a positive and significant manner. This research is in line with the research conducted by Budhiartama&Jati, (2016) and Anam, Andini, & Hartono, (2018) and Nurlis&Kamil (2015).

Based on the description above, this study aims to determine the effect of knowledge and modernization of tax administration on tax compliance with tax awareness as a moderating variable for MSME taxes in South Tangerang City. This research is expected to be a useful input for the government to improve competence in terms of socialization, services and administrative systems to achieve state revenue targets and increase public knowledge and awareness in the field of taxation so that they are more obedient and become a proud society of paying taxes.

2. Review of the Literature, Framework of Thinking, and Hypothesis

One of the studies in the field of psychology regarding the factors that influence tax compliance behavior is the Theory of Planned Behavior (Ajzen, 1991). According to Ajzen (1991), attitudes towards behavior, subjective norms with respect to behavior and perceived behavior control are usually used to predict behavioral intentions with a high degree of accuracy. Three determinants of behavioral intention are: 1) behavioral beliefs; individual beliefs about the results of a behavior and evaluation of these results (beliefs strength and outcome evaluation), 2) normative beliefs; beliefs about other people's normative expectations and motivation to fulfill them (normative beliefs and motivation to comply), and 3) control beliefs; beliefs about the existence of things that support or inhibit the behavior to be displayed (control beliefs) and their perceptions about how strong the things that support and inhibit their behavior (perceived power).

Subjective norms in this study are the point of view of other people or other groups that can influence a taxto decide whether or not to comply with tax regulations. The inner strength to face other people will influence the tax on the influence of other individuals to take an action. In tax compliance, referents can come from friends, tax consultants, tax officials and print and electronic media (Karolina &Noviari, 2019).

Based on Theory of Planned Behavior, knowledge of taxation on tax compliance related to behavioral beliefs explains that individual attitudes will affect individual desires to act by knowing the results of the actions taken by that individual. This theory has an influence on the knowledge of taxes on their intention to comply with their tax obligations. The level of knowledge of the MSME tax on taxation can be assessed from the knowledge in calculating the tax owed, paying taxes, and reporting the tax owed. A high level of knowledge can encourage MSME taxes to comply with and carry out their tax obligations. The higher the tax knowledge possessed by the tax, the higher the compliance of the taxto pay taxes. The attitude towards tax compliance is how much positive or negative confidence the tax has on his evaluation of the results of behaving in compliance with tax obligations. If the tax's perceptions show a positive result on a behavior, the actions taken in relation to tax compliance will also be positive and vice versa (Karolina &Noviari, 2019).

The results of research conducted by Indrawan&Binekas, (2018) state that tax knowledge has a positive and significant effect on increasing tax compliance. The following are the researches that support it (Rahayu, 2017), (Samadiartha&Darma, 2017), (Khasanah, 2016), (Ernawati&Afifi, 2018), (A. Nugroho et al., 2016), and (Setiyani et al., 2018).

H1: Knowledge of Taxation affects Tax Compliance

The strategy pursued in an effort to provide excellent service (public service function) as well as intensive supervision to taxes is carried out by making improvements and renewals from the administrative side through modernizing the tax administration service system by utilizing a reliable and up-to-date information technology system, making organizational structure adjustments, and changes in business processes. (M. Farouq, Kencana, 2018: 88). In terms of apparatus resources, it is carried out by implementing a good governance system so that tax administration services and supervision can run in a transparent and accountable manner. Efforts to improve other compliance control functions to increase compliance with taxes are carried out by implementing a supervision system through the knowing the tax profile mechanism and analysis by updating tax data and information of each tax and their profile in fulfilling their tax rights and obligations. (M. Farouq, Kencana, 2018: 89).

The results of the research conducted by Zuhdi, Suryadi, &Yuniati (2019) prove that the effect of tax modernization on tax compliance is positive and significant, as evidenced by the modernization of tax administration to make it easier for taxes to fulfill their tax payment and reporting obligations so as to increase the level of taxcompliance. The following are the researchs that supports; (Khasanah, 2016), (Astana &Merkusiwati, 2017), (Zuhdi et al., 2019), (Arismayani, Yuniarta, &Yasa, 2017), (Aryati&Putritanti, 2017) and (Astana &Merkusiwati, 2017).

H2: Modernization of the Tax Administration System affects Tax Compliance

Tax knowledge possessed by taxes is directly proportional to the awareness of their tax obligations. The broader knowledge of tax rights and obligations owned by taxes and supported by tax awareness, the higher the compliance of thetax. The results of the research conducted by Hartana&Merkusiwati, (2018), state that tax awareness strengthens the influence of tax knowledge on tax compliance positively and significantly. This research is in line with the research conducted by Budhiartama&Jati, (2016) and Anam, Andini, & Hartono, (2018).

H3: Tax Awareness strengthens the influence of Taxation Knowledge on Tax Compliance

Based on the theoretical study and the results of previous research, the following is the proposed research conceptual model:

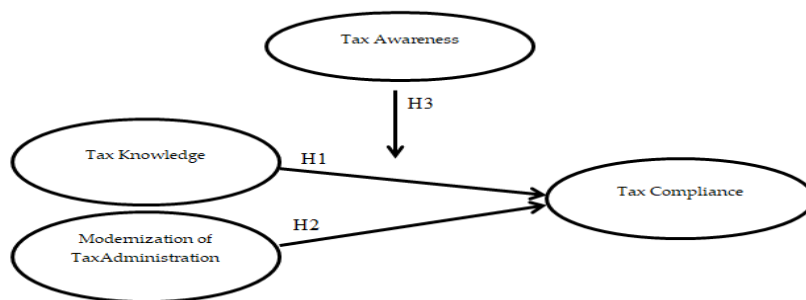


Figure 1 Research Conceptual Model

3. Research Methodology

The method used in this research is a causal method with a quantitative approach, to prove empirically the effect of knowing and analyzing the effect of knowledge and modernization of tax administration on tax compliance with tax awareness as a moderating variable. The variables in this study are measured by indicators as in table 1 below:

Table 1 Operationalization of Variables

Research Variables	Indicator
Tax Compliance	1. register as a Tax independently and self-consciously 2. calculate the amount of tax owed independently 3. pay the amount owed independently, self-consciously and on time 4. reporting independently, self-awareness and on time Source: (PMK Number 39 of 2018)
Tax Knowledge	1. Tax's knowledge of tax registration 2. Tax's knowledge of the tax function 3. Tax's knowledge of tax regulations 4. Tax's knowledge of tax rates 5. Tax's knowledge of tax payment procedures Source: (Government Regulation Number 5 Year 2008)
Modernization of Tax Administration	1. organisation, human resources 2. laws and regulations 3. business process 4. information technology 5. data base Source: (Presidential Regulation Number 40 of 2018)
Tax Awareness	1. Tax Perception 2. Level of knowledge in paying taxes 3. Tax Financial Condition Source: (Nurlis, 2015)

The population in this study is 750 MSMEs in PondokAren, with details of 250 registered units and 500 unregistered units but they have been doing business in PondokAren for the last 2 years. The samples taken in this study are MSME actors who have a tax ID number and have been doing business at least for the last 2 years. Determination of the sample using the analysis of the Structural Equation Model which has a minimum sample of 100 samples referring to the calculation of Hair et al, namely the number of research indicators multiplied by 5-10,thus, this study uses 100 samples as the basis for data processing. (Wati, 2018: 96). Data collection in this study is carried out by filling out a questionnaire addressed to respondents either by direct filling or using online media in the form of Google Forms. The data analysis technique used in this study is path analysis with Partial Least Square (PLS) -SEM. The PLS evaluation model is carried out by assessing the outer model and inner model

4. Data Analysis and Hypothesis Testing

4.1 Analysis of the Measurement Model (Outer Model)

In the loading factor, there are several invalid indicators since they have a loading factor of less than 0.5. The invalid indicator is Taxation Knowledge with indicator TK.1 (0.287), so the indicator must be removed from the model and this removal of indicators will be followed by modification. Modification for the evaluation of the measurement model is intended to re-check the validity of the loading factor of each indicator. If the validity test with outer loading has been fulfilled, the measurement model has the potential to be tested further. The modification results indicate that all indicators have good validity because they have a loading factor of more than 0.50. The form to present the outer loadings output after modification can be seen in the following figure:

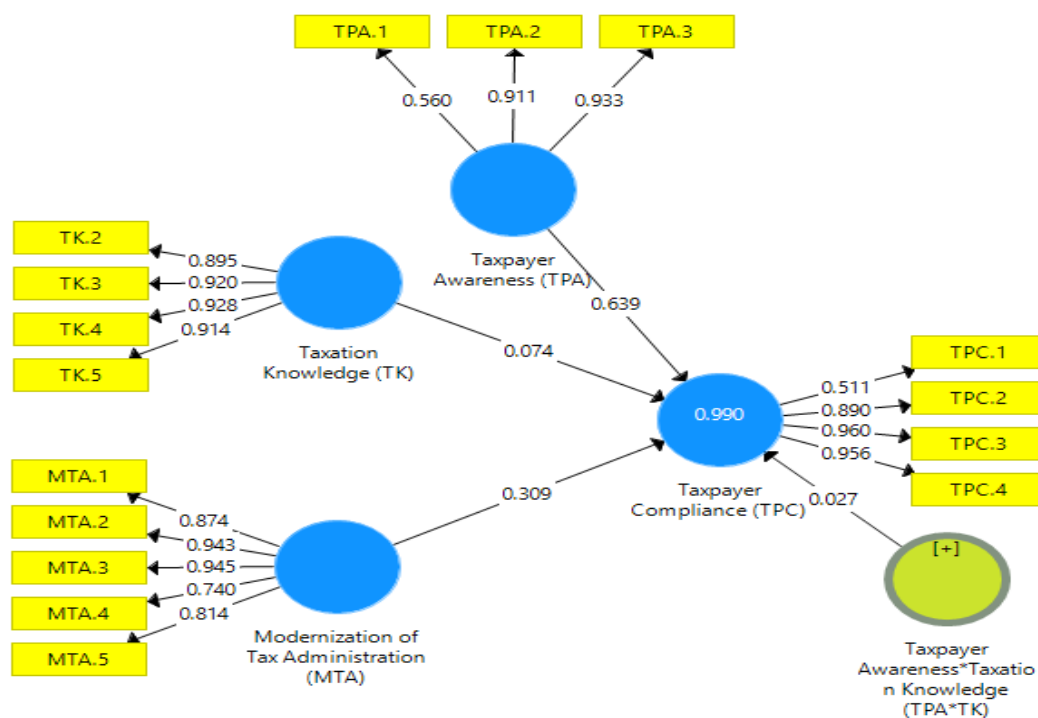


Figure 1 Measurement Model (Outer Model 2)

To test discriminant validity, see the square root of average variance extracted (AVE) value. The recommended value is above 0.5. The following are the AVE values in this study:

Table 2 Average Variance Extracted (AVE)

	AVE
Modernization of Tax Administration (MTA)	0,751
Tax Knowledge (TK)	0,836
Tax Awareness (TA)	0,671
Tax Awareness*Tax Knowledge (TA*TK)	1,000
Tax Compliance (TC)	0,723

Source: Data processing output for Smart PLS 3.3.2, 2020

The table above provides AVE values above 0.5 for all constructs contained in the research model.

Reliability test is done by looking at the composite reliability value and Cronbach's Alpha from the indicator block that measures the construct.

Table 3 Composite Reliability dan Cronbach's Alpha

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O /STDEV)	P Values
Modernization of Tax Administration (MTA) -> Tax Compliance (TC)	0,309	0,324	0,061	5,075	0,000
Tax Knowledge (TK) -> Tax Compliance (TC)	0,074	0,067	0,035	2,092	0,019
Tax Awareness (TA) -> Tax Compliance (TC)	0,639	0,628	0,055	11,690	0,000
Tax Awareness*Tax Knowledge (TA*TK) -> Tax Compliance (TC)	0,027	0,022	0,016	1,723	0,044

The table above shows that the value of composite reliability and Cronbach's Alpha for all constructs is above 0.7 which indicates that all the constructs in the estimated model meet the discriminant validity criteria.

4.2 Hypothesis Testing or Structural Model (Inner Model)

Table 4 Output Path Coefficient

The table above shows that the influence of the Tax Knowledge (TK) variable on Tax Compliance (TC) is significant with a T-statistic of 2.092 (more than 1.96). The original sample estimate value is positive, 0.074, which indicates that the direction of the relationship between the TK independent variable and the TC dependent variable is positive. The P-value is 0.019 (less than 0.05), thus, the H1 hypothesis in this study which states that Tax Knowledge (TK) affects Tax Compliance (TC) is accepted.

The effect of Modernization of Tax Administration on Tax Compliance (TC) is significant with the T-statistic of 5.075 (more than 1.96). The original sample estimate value is positive, 0.309, which indicates that the direction of the relationship between MTA and TC is positive. The P value is 0,000 (less than 0.05) which indicates that the H2 hypothesis in this study which states that Modernization of Tax Administration (MTA) affects Tax Compliance (TPC) is accepted.

Meanwhile, the influence of Tax Awareness (TA) which moderates Tax Knowledge (TK) on Tax Compliance (TC) is significant with a T-statistic of 1.723. The original sample estimate value is positive, 0.027, which indicates that the direction of the relationship between TA to strengthen TK and TC is positive. The P value is 0.003 (<0.05) which indicates that the H3 hypothesis in this study which states that Tax Awareness (TA) significantly strengthens the influence of the relationship between Tax Knowledge (TK) on Tax Compliance (TC) is accepted.

5. DISCUSSION

5.1 The Influence of Tax Knowledge on Tax Compliance

Based on the results of hypothesis testing that has been carried out, it proves that Tax Knowledge affects Tax Compliance. Tax knowledge possessed by taxes can affect tax compliance both individuals and entities in the PondokAren area. This is in line with the Theory of Planned Behavior stating that fulfilling one's tax obligations is influenced by several factors, one of which is the Behavioral Beliefs factor. Behavioral Beliefs factor, which is an individual's belief in the results of a behavior and an evaluation of these results, will be formed if the public receives positive information on taxes. Tax knowledge of taxation is obtained from seeking information independently through books and the internet as well as through socialization conducted by the Directorate General of Taxes. The more knowledgeable about taxation they have, the more likely it is that taxes are sure to be more tax compliant.

Based on Theory of Planned Behavior, the knowledge of taxation on tax compliance related to behavioral beliefs explains that individual attitudes will affect individual desires to act by knowing the results of the actions taken by that individual. This theory has an influence on the knowledge of taxes on their intention to comply with their tax obligations. The level of knowledge of the MSME tax on taxation can be assessed from the knowledge in calculating the tax owed, paying taxes, and reporting the tax owed. This research is in accordance with the research conducted by Indrawan & Binekas, (2018) which states that taxation knowledge has a positive and significant effect on increasing tax compliance. The following are researches that are in the same line; Rahayu (2017), Samadjartha & Darma (2017), Khasanah (2016), Ernawati & Afifi (2018), A. Nugroho et al. (2016), and Setiyani et al. (2018).

5.2 The Influence of Tax Administration Modernization on Tax Compliance

Based on the results of the hypothesis testing done, it is concluded that the Modernization of Tax Administration affects Tax Compliance. This is in line with the Compliance Theory, which states that meeting tax obligations is affected by internal and external factors. Internal factors are the awareness of the tax itself. However, this awareness needs to be supported by external factors. External factors are factors that make taxes behave obediently due to the situation. Modernization of tax administration is a sign that the more modern and easier the system provided for taxes, the more compliant the tax is. This research is in accordance with the research conducted by Zuhdi, Suryadi, & Yuniati. (2019), Khasanah (2016), Astana & Merkusiwati (2017), Zuhdi et al. (2019), Arismayani, Yuniarta, & Yasa (2017), Aryati & Putritanti (2017) and Astana & Merkusiwati (2017).

5.3 The Influence of Taxation Knowledge moderated by Tax Awareness on Tax Compliance

Based on the results of hypothesis testing done, it is concluded that tax awareness strengthens the effect of tax knowledge on tax compliance. This is in line with the Compliance Theory which states that meeting tax obligations is affected by internal and external factors. Internal factors are the awareness of the tax itself. External factors are services provided for the convenience of taxes in terms of fulfilling their tax obligations including the knowledge possessed by the tax itself. With adequate knowledge of taxation and good tax awareness, it can increase tax compliance with their tax obligations.

This research is in accordance with the research conducted by Hartana & Merkusiwati (2018) which states that tax awareness strengthens the effect of tax knowledge on tax compliance in a positive and significant manner. This research is in line with the research conducted by Budhiartama & Jati, (2016) and Anam, Andini, & Hartono, (2018).

6. CONCLUSION

Based on the results of data analysis in this study, the results obtained are the conclusions of this study as follows:

1. Tax Knowledge significantly affects Tax Compliance. The higher the level of knowledge possessed by the tax, the greater the level of compliance in carrying out their tax obligations. Taxpayers must know the object taxed, how much tax must be paid and reported to the state treasury.
2. Modernization of Tax Administration affects Tax Compliance. Services provided by tax officers to taxpayers when consulting at the tax office are a sign that the tax administration has provided facilities and stimuli for taxpayers to become more compliant with their tax obligations.
3. Tax Awareness strengthens the influence of Tax Knowledge on Tax Compliance. Tax compliance will increase if the knowledge of taxation is supported by the awareness of being tax-compliant citizens.

The research conducted by researchers still has many limitations: This research is only conducted on registered taxpayers who carry out MSME business activities in the Pondok Aren area of South Tangerang, so this research only reflects one area and micro-scale taxes, the research only uses 2 independent variables, Tax Knowledge and Tax Administration Modernization, and Tax Awareness as a moderating variable of Tax Knowledge, thus enabling the results of the research to be less able to describe the effect on overall Tax Compliance.

To improve tax compliance, the government must be more aggressive in disseminating the latest tax regulations and applications created to make it easier for taxpayers to carry out their tax obligations to achieve the target tax ratio and state revenue that has been planned for the following year. The next researcher is expected to be able to add independent variables and expand the area for distributing questionnaires so consistent results can be obtained and can be generalized to a wider area.

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