

Tax Socialization For Corporate Taxpayers, Is It Important?

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Abstract: Improving tax revenues remains a significant challenge for many countries, especially in growing the economy after the COVID-19 pandemic. A substantial contribution to increasing tax revenue, among others, is obtained from corporate taxpayers. This study aims to give empirical evidence regarding the effect of tax knowledge, perceptions of reduced tax rates, and perceptions of modernization of tax administration on tax compliance among corporate taxpayers. The research method in this study uses quantitative methods with a survey approach. This research intends to study 100 corporate clients from international tax professional consultants. The sampling technique uses convenience sampling. The study finds that tax knowledge, perceptions of reduced tax rates, and perceptions of modernization of tax administration significantly affect tax compliance. The results of this study implicate that tax socialization and education are critical for corporate taxpayers to boost corporate tax compliance.

Keywords: Tax Knowledge; Perceptions of Reduced Tax Rates; Perceptions of Modernization of Tax Administration; Tax Compliance; Corporate Taxpayers.

Abstrak: Meningkatkan penerimaan pajak masih menjadi tantangan besar bagi banyak negara, terutama dalam pertumbuhan ekonomi pasca pandemi COVID-19. Kontribusi yang cukup besar dalam peningkatan penerimaan pajak antara lain diperoleh dari wajib pajak badan. Penelitian ini bertujuan untuk memberikan bukti empiris mengenai pengaruh pengetahuan perpajakan, persepsi penurunan tarif pajak, dan persepsi modernisasi administrasi perpajakan terhadap kepatuhan pada wajib pajak badan. Metode penelitian dalam penelitian ini menggunakan metode kuantitatif dengan pendekatan survei. Penelitian ini bertujuan untuk mempelajari 100 klien korporasi dari konsultan profesional pajak internasional. Teknik pengambilan sampel menggunakan *convenience sampling*. Hasil penelitian menemukan bahwa pengetahuan perpajakan, persepsi penurunan tarif pajak, dan persepsi modernisasi administrasi perpajakan berpengaruh signifikan terhadap kepatuhan wajib pajak. Hasil penelitian ini menunjukkan bahwa sosialisasi dan edukasi perpajakan sangat penting bagi wajib pajak badan untuk meningkatkan kepatuhan wajib pajak badan.

Kata Kunci: Pengetahuan Pajak; Persepsi tentang Pengurangan Tarif Pajak; Persepsi Modernisasi Administrasi Perpajakan; Kepatuhan Pajak; Wajib Pajak Badan.

INTRODUCTION

Corporate tax revenue is one tax that is believed to impact economic growth. Tax corporations can stimulate higher investment in a country, encourage private innovation, and increase tax revenues for productive public spending (Kate and Milionis, 2019; Ohrn, 2018). Practitioners and researchers reaffirm the importance of the tax sector in funding economic development, particularly in developing countries (Babatunde et al., 2017; Gaspar et al., 2016; Takumah and Lyke, 2017). Moreover, reforms in the taxation sector are claimed to be able to rescue fragile and conflict-affected countries from the trap of



economic damage, as experienced by Liberia, Malawi, Nepal, and the Solomon Islands (Akitoby et al., 2020).

In Indonesia, the taxation sector is a top priority for development funding sources (Juhandi et al., 2019; Pitaloka et al., 2018). The government must carefully manage tax-funded systems and financial resources (Egbunike et al., 2018). Since 1983, the Indonesian government has implemented a Self-Assessment System (SAS) to improve the tax administration system, making it more organized, user-friendly, and convenient (Stephani and Martok, 2022). This system allows taxpayers to calculate, deposit confidently, and report tax obligations (Hutauruk et al., 2019). Consequently, the success of this system is contingent upon the tax officer's cooperation and the integrity of the taxpayer (Seralurin and Ermawati, 2019).

During the pandemic, Indonesian economic activity was hampered, and tax revenue decreased by about 17 per cent from 2019 to 2020. In response to the impact of the pandemic, the Indonesian council implemented a program to reduce the initial 25 per cent corporate income tax rate to 22 per cent, effective in 2021 (Wijoyo, 2020). According to data from the Indonesian Central Bureau of Statistics in **Figure 1**, the government could return tax revenues from 1,546,141 (IDR Billion) in 2019 downward to 1,285,136 (IDR Billion) in 2020 and increased again in 2021 with almost the same value as before the pandemic of 1,547,841 (IDR Billion). The government continues to focus on improving the tax system regarding total revenue and administrative efficiency (Gunadi, 2022), including increasing taxpayer awareness and compliance with tax regulations (Susyanti and Askandar, 2019). However, tax compliance is still problematic for all countries worldwide (Erdiansyah and Khoirunurrofik, 2021).

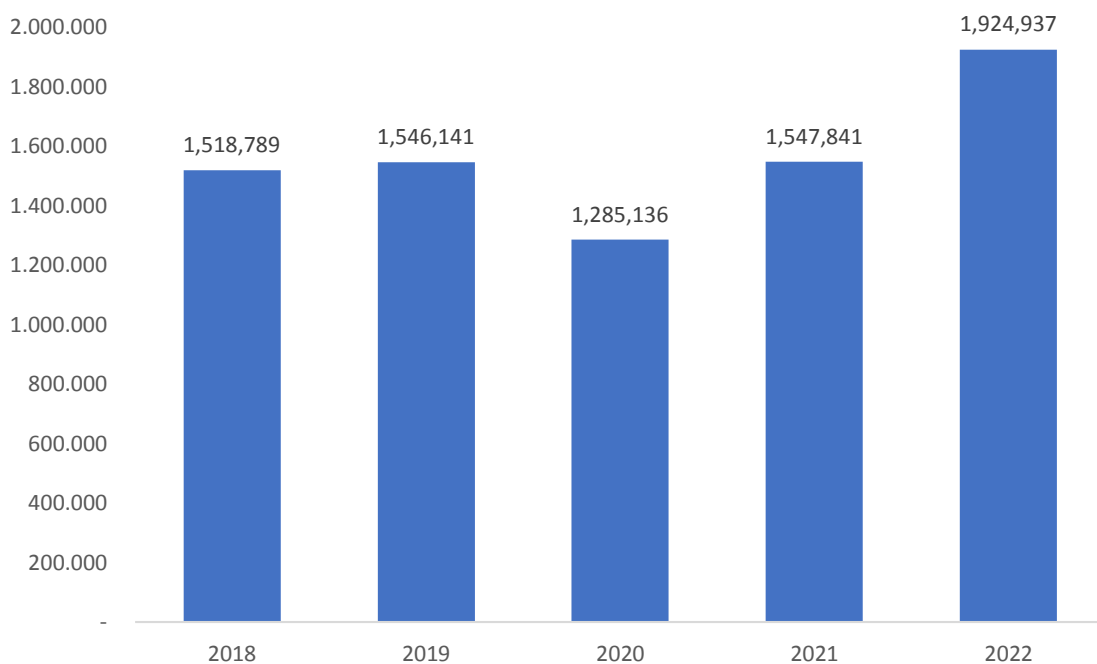


Figure 1. Indonesian Tax Revenue Realization 2018 to 2022 (IDR Billion)

Source: www.bps.go.id

Previous studies have shown that numerous factors affect taxpayer compliance; for instance: applicable tax policies (Okoye, 2019), socialization and knowledge of tax procedures (Lestari and Daito, 2020; Nugroho and Sulistyawati, 2019), taxpayer awareness (Idrus et al., 2020), and implementation of e-filing (Oktaviani et al., 2019). No one has, however, examined the influence of tax knowledge and taxpayer perceptions simultaneously in Indonesia. Therefore, this research was conducted to fill the gap in previous studies by identifying the impact of tax knowledge factors, taxpayer perceptions of reduced tax rates, and the efficiency of modernization of tax administration on corporate taxpayer compliance.

THEORETICAL REVIEW

There is no debate between previous researchers about the definition of tax compliance. Comply is obeying the rule. In taxation, compliance refers to the behaviour of taxpayers who willingly or are compelled to fulfil their tax obligations (Tarmidi et al., 2017). Thus, the public's trust in the tax authority is crucial. Taxpayers will be more likely to comply with their tax obligations if the government functions well as a state apparatus (Nahumury et al., 2018).

According to the findings of the literature reviews, the factors influencing taxpayer compliance are very diverse. (Meidawati and Azmi, 2019) States that increase taxpayer awareness will boost taxpayer compliance. Meanwhile, (Vousinas, 2017), on the other hand, demonstrates that the perpetrators of tax evasion are the public or taxpayers with a good knowledge and understanding of taxes and applicable rules and regulations.

Tax Knowledge. Knowledge is an abstract concept with no clear definition (Bolisani and Bratianu, 2018). According to (Bolisani and Bratianu, 2018), knowledge has adequate criteria to know something that occurred; that is, what is said is known to be accurate, someone is sure of it, and someone has the authority to confirm it. Regarding taxation, (Hantono, 2021) defines *tax knowledge* as a taxpayer's ability to understand tax regulations, including the tax rates paid under the law and tax benefits for citizens. Previous studies have proven that tax knowledge influences taxpayer compliance (Triandani and Apollo, 2020), mainly when using a self-assessment system (Asrinanda and Diantimala, 2018). The government is recommended to boost tax compliance among its residents by improving their awareness of taxation (Al-Ttaffi et al., 2020). Other research, on the other hand, shows that tax knowledge does not affect individual or corporate taxpayer compliance (Lestari and Daito, 2020; Meidawati and Azmi, 2019). Based on these studies, the authors developed the following hypothesis:

H1: Knowledge of taxation affects corporate taxpayer compliance.

Taxpayer Perceptions on Tax Rate Policy. Perception, as defined by Kotler (2008) and cited by (Tiara and Amrizal, 2019), is a person's selecting, organizing, and interpreting information to generate a meaningful overall image. In taxation, perception is critical for taxpayers to complete their tax obligations correctly (Mitu, 2018). The more positive taxpayer perceptions of government spending on tax revenue, the fewer people avoid paying taxes (Assfaw and Sebhat, 2019; Ogungbade et al., 2021). Taxpayer perceptions of tax benefits (Sidik et al., 2019), perceptions of fairness (Widuri and Irawan, 2019), and

taxpayer perceptions of tax rates (Ma'ruf and Supatminingsih, 2020) are all factors that improve taxpayer compliance in paying taxes. The Effective Tax Rate (ETR) is the company's tax rate percentage. The company's financial information determines or analyzes effective tax rates (Abdiansyah, 2018). Previous studies have shown that tax rate changes significantly impact personal (Putra and Waluyo, 2020) and corporate taxpayer compliance (Doke and Mulya, 2021). In contrast, research by (Helcmanovská and Andrejovská, 2021) concluded that the average effective tax rate does not affect corporate tax revenue. The authors formulated a research hypothesis based on these studies:

H2: Taxpayer perceptions of tax rate changes affect taxpayer compliance.

Taxpayer Perceptions on Tax Administration Modernization. Modernization is the reform or improvement in equipment and technology that advances society through innovation (Batukova et al., 2019). *Modernization* is a process that reflects intellectual, political, economic, and technological developments (Mazi-Mbah and Ojukwu, 2019). (Purnamasari and Hindria, 2018) the study identified modernization through four variables: organizational structure, organizational procedures, organizational strategy, and organizational culture. In Indonesia, tax administration modernization takes the form of an electronic system that includes e-registration, e-filing, and e-payment that taxpayers can use independently, also known as a self-assessment system. According to (Olii et al., 2019), the tax administration modernization system improved the quality of government services and taxpayer satisfaction. Several previous studies agreed that the ease of technology that resulted in tax modernization had an impact on taxpayer compliance (Jaya and Apollo, 2018; Khulsum and Waluyo, 2019; Nurlis and Ariani, 2020; Pratiwi et al., 2020; Sitorus, 2018). Based on these preceding studies, the following hypothesis is developed:

H3: Taxpayer perceptions of tax administration modernization affect taxpayer compliance.

The abovementioned literature review forms a basis for formulating this study's hypothesis. The hypothesis is the researcher's idea or prediction regarding the relationship between the research variables (Anupama, 2018), then described in **Figure 2** as a research framework.

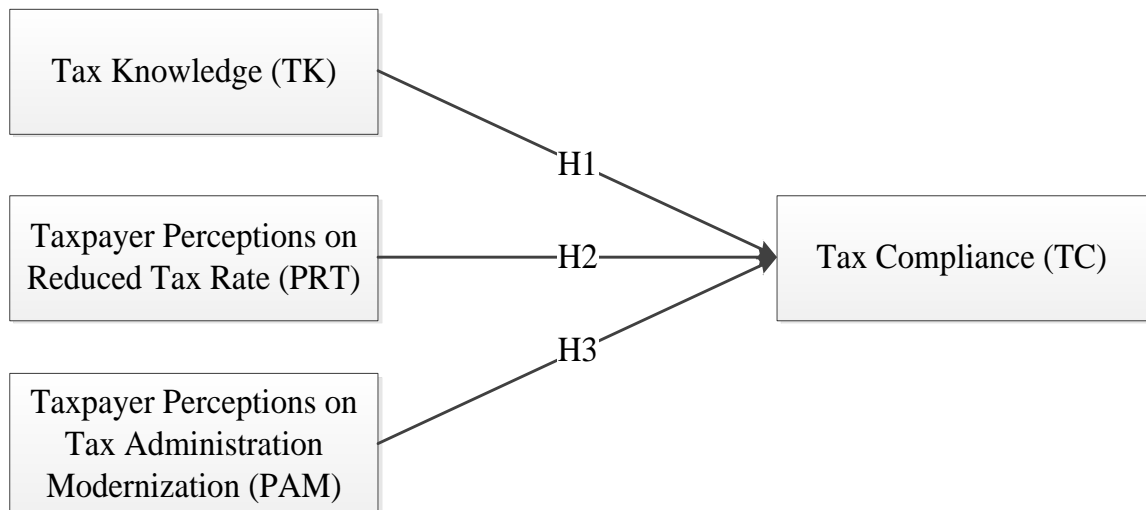


Figure 2. Research Model
 Source: Data Proceed by Authors

METHODS

Research design is the strategy adopted to combine various research components in a logical and coherent approach to address research problems (Thakur, 2021). This research was conducted using a cross-sectional survey research design. This research design aims to provide a numerical description of a population's attitudes, opinions, or tendencies by analyzing samples from that population at one or more time points (Asenahabi, 2019). This research employed a quantitative methodology, which focuses on collecting new data pertinent to the researched population problem (Rahi, 2017).

The research was conducted at an international tax consulting firm, a global consulting and accounting auditing service provider with over 40,400 network specialists in 91 countries. The sampling technique used in this research was purposive sampling. One hundred samples of corporate taxpayers were collected using the method of convenience sampling, and all of these samples met the following criteria: 1) Clients who have cooperated with the company for at least two years (2019 to 2020); 2) Clients who have assets worth more than 4.800 IDR billion; and 3) Clients who are willing to participate as respondents.

A questionnaire survey with a checklist instrument was used to collect data. For each answer to the question, a scale of 1 to 5 is given, where 5 indicating "Strongly Agree," 4 "Agree," 3 "Neutral," 2 "Disagree," and 1 "Strongly Disagree." In addition to primary data, this study also collects secondary data by studying documents, books, journals, literature, and reports related to research. The collected preliminary data were then processed using SmartPLS 3.2 software to explain the effect of tax knowledge (TK), taxpayer perceptions of tax rate reduction (PRT), and taxpayer perceptions of tax administration modernization (PAM) on tax compliance (TC).

Descriptive statistics are performed to organize units of analysis by describing the relationship between variables in a sample or population (Kaur et al., 2018). The average value of the respondents' answers is grouped in a specific interval according to the research

variables. This study refers to (Sugiyono, 2022) 's book to determine the interval by calculating the average score using the following formula:

$$\text{Average score} = \frac{\text{Frequency} \times \text{Weight}}{\text{Sample} (n)} \dots\dots\dots (1)$$

After calculating the average score, an interval scale is constructed to classify the tendency of respondents' responses using the following formula:

$$I = \frac{\text{Max. Score} - \text{Min. Score}}{\text{Class}} \dots\dots\dots (2)$$

Where *I* refer to Intervals; *Max. Score* means the highest score of the respondent's answer (5); *Min. Score* means the lowest score of the respondent's response (1), and *Class* indicates the number of selected objects.

The above formula (2) yields an interval value of 0.800. From this interval, a value range (**Table 1**) was made for the respondent's answers classification used in descriptive analysis.

Table 1. Value Range for Descriptive Analysis

No	Range	Category
1	1.000 to 1.800	Very poor
2	1.810 to 2.600	Poor
3	2.610 to 3.400	Moderate
4	3.410 to 4.200	High
5	4.210 to 5.000	Very high

Source: (Sugiyono, 2022)

After that, the position of the criteria based on the scores obtained from the score recapitulation was determined using the data obtained from the respondents' responses. The following stages of a criterion scale are required to determine the criteria for the position of all dimensions on all study variables: **First**, determine the maximum and minimum scores. The maximum score is calculated by multiplying the highest score by the number of items multiplied by the number of respondents. The minimal score is derived by multiplying the lowest score by the number of items multiplied by the number of respondents. **Second**, determine the class interval and the interval length. The class interval is calculated by subtracting the maximum and minimum scores. Divide the class interval by the number of class intervals to get the interval length.

A range of values for the tendency of respondents to agree on the research questionnaire was calculated using the interval above. After determining the range of values and categories of each respondent's response, the average value of the study variable is calculated. The table presented shows the average value of research variables and their categorization. For example, each respondent's answer's average tax knowledge table is then matched to the value range table.

Furthermore, the continuum line can be figured as follows:





Figure 3. Continuum Line

Source: (Sugiyono, 2022)

For the position criterion, the authors modified the statements for each indicator. Hence, the very low to very high measures will not always be applied to all continuum lines created when the recapitulation of respondent responses has been completed.

RESULTS

The object of this research is 100 corporate taxpayers who are clients of the tax consultant for Company X. Corporate taxpayers are the entities that have obligations as taxpayers, tax collectors, classified as permanent business establishments, and contractors in the oil and gas industry.

Respondent Profiles. Before proceeding with further analysis, the authors investigated the characteristics of the respondents. An analysis of the respondent's characteristics was used to describe whether respondents with varied profiles had the same opinion. The respondents in this study were classified based on gender, age, and education level. Regarding gender, a marginally greater number of female respondents (53 total) became contributors than male respondents (47 total). Respondents are key personnel from the target companies who are accountable for paying taxes on behalf of the company. **Figure 3** depicts the gender-based characteristics of the respondents.

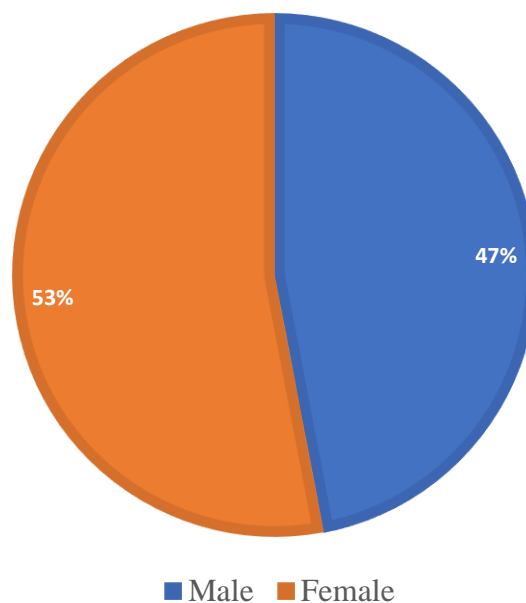


Figure 3. Pie Chart of Respondent's Gender

Source: Data Proceed by Authors, 2022

Figure 4 displays the distribution of the respondent's companies around the Jabodetabek area. Most respondents are located-74 in total-in Jakarta. Following Tangerang with 15 respondents, Bekasi had 6, Bogor had 4, and Depok had one. This characteristic is a sufficient representation of the client profiles that Company X serves, which are more widely dispersed in Jakarta, Bogor, Depok, Tangerang, and Bekasi.

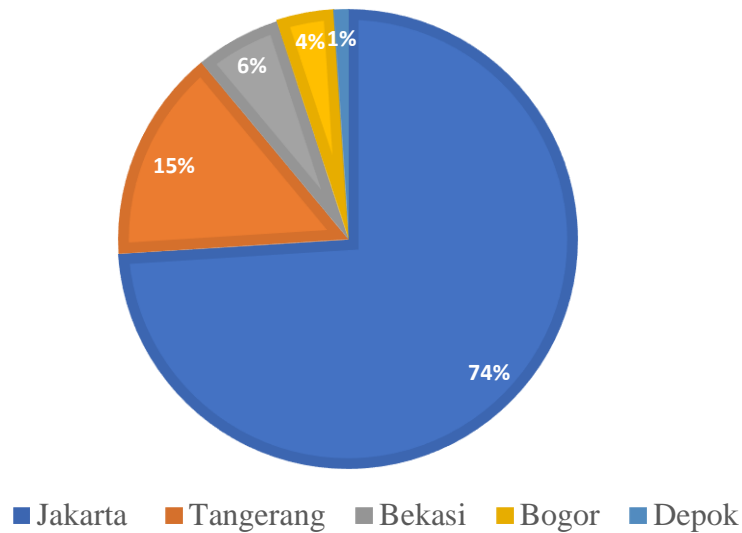


Figure 4. Pie Chart of Respondents' Location
 Source: Data Proceed by Authors, 2022

Regardless of the type of business, nearly half of the respondents (49 firms) are classified as service companies. The remaining 27 are manufacturing industries, 23 are trade businesses, and 1 is an extractive firm. **Figure 5** depicts the distribution of respondents by business entity type.

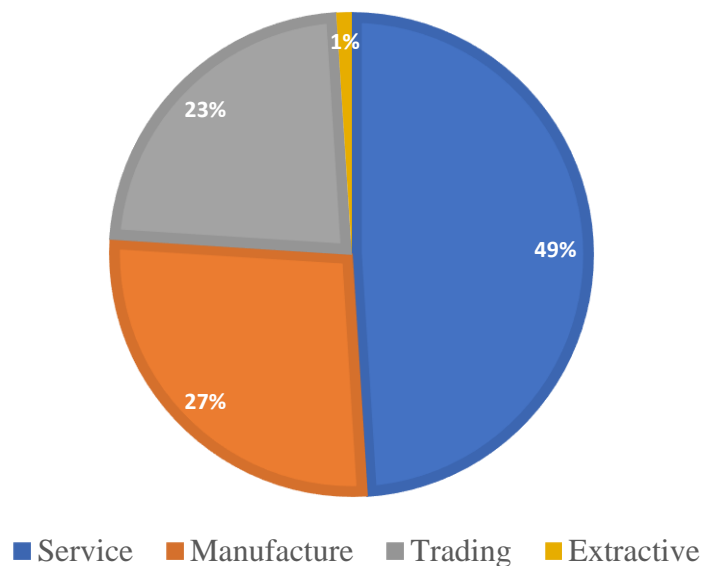


Figure 5. Pie Chart of Business Entity Type
 Source: Data Proceed by Authors, 2022

Descriptive Analysis. Descriptive statistical analysis was performed to describe the data without generalizing conclusions. The tax knowledge variable is measured using tax deduction and collection (5 indicators) and tax rights and obligations (2 indicators). On the dimensions of tax deduction and collection, the indicator with the highest score, 3.520 (high category), is knowledge of the object of Article 21 Income Tax, while understanding Article 4(2) objects has the lowest score (score 3.350, moderate category). Regarding tax rights and obligations, indicators regarding the taxpayer's request to get benefits from paying taxes (score 3.380) and the taxpayer's obligations in calculating, depositing, and reporting their taxes (score 3.370) are moderate.

Regarding tax knowledge, some indicators, such as "understanding of the object of Articles 21 and 62 of the Internal Revenue Code," were rated highly. However, most of the indicators (5) are rated moderate. This indicates that even though the government's performance in tax management was relatively good, there is still some improvement. As a result, the Directorate General of Taxes must carry out extensive education activities to ensure taxpayers pay their taxes and know the regulations governing taxes. Furthermore, socializing is necessary to inform taxpayers about the benefits of paying their taxes. The descriptive data for the tax knowledge variable are presented in **Table 2**.

Table 2. Descriptive Analysis of Tax Knowledge Variable

Variable	Dimension	Indicator	Score	Criteria
Tax Knowledge (TK)	Tax withholding and collection	Knowledge of the object of Article 23 Income Tax	3.360	Moderate
		Understanding of the object of Article 21 Income Tax	3.520	High
	Tax Knowledge (TK)	Knowledge of the object Article 4(2)	3.350	Moderate
		Knowledge of the object Article 26 Income Tax	3.420	High
		Understanding of Value-Added Tax	3.370	Moderate
	Tax rights and obligations	Taxpayers are responsible for calculating, depositing, and reporting their taxes.	3.370	Moderate
		Taxpayers benefit indirectly from their contributions	3.380	Moderate

Source: Data Proceed by Authors, 2022

The descriptive statistics for perceptions of tax rates by taxpayers are displayed in **Table 3**. Three indicators represent the variable of taxpayer perception of tax rates policy: perceptions of fair tax rates (score 3.450), which are considered high, the amount of tax is fit to the benefits received (score 3.350), and tax rates policy motivate timely tax payments (score 3.320), which are considered moderate. The perception that "a reduction in tax rates from 25 per cent to 22 per cent motivates people to make on-time tax payments" reveals that the results are at a moderate level or not yet optimal. Taxpayers do not engage in self-directed learning or have never received tax-related education. The Director General of Taxes should continue to increase the quality of the socialization process so that all taxpayers can comprehend the taxation rules and techniques.

Table 3. Descriptive Analysis of Taxpayer Perceptions on Tax Rates Policy Variable

Variable	Dimension	Indicator	Score	Criteria
Taxpayer Perceptions on tax rates policy (PRT)	Tax rates	Tax rate reductions from 25 per cent to 22 per cent encourage taxpayers to make timely tax payments	3.320	Moderate
		Public perception of fair tax rates	3.450	High
		The amount of tax paid is equivalent to the benefit received	3.350	Moderate

Source: Data Proceed by Authors, 2022

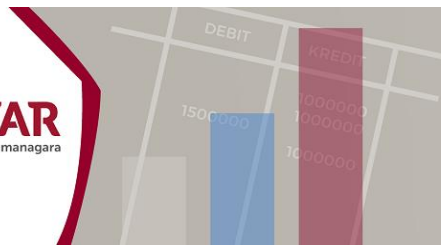
Likewise, most variables in the perceptions of tax administration modernization got an average score. Only indicators of the tax reporting system (score of 3.450) are rated highly. In contrast, socialization of regulations (score of 3.370), administrative procedure simplification (score of 3.350), and the tax payment system (score of 3.320) are categorized as moderate. Although the government has modernized the tax reporting system, taxpayers must be aware that the taxation system has been simplified to make reporting taxes easier. The effectiveness of public service advertisements can be evaluated and enhanced so that the public perceives that tax reporting is simple and easy to implement. Taxpayer perceptions on the tax administration modernization variable are summarized in **Table 4**.

Table 4. Descriptive Analysis of Taxpayer Perceptions on Tax Administration Modernization Variable

Variable	Dimension	Indicator	Score	Criteria
Taxpayer Perceptions on tax administration modernization (PAM)	Modernization of organizational procedures and tax applications	System of Tax Payment	3.320	Moderate
		System of Tax Reporting	3.450	High
	socialization	Simplification of administrative procedures, time service improvement, service quality, and tax audits	3.350	Moderate
		Regulation of socialization	3.370	Moderate

Source: Data Proceed by Authors, 2022

The variable of taxpayer compliance is evaluated using two dimensions: compliance with interim and annual obligations (3 indicators) and compliance with material and formal legal taxation provisions (3 indicators). The highest score on the indicator of taxpayers reporting under regulatory provisions is 3.420 (high category), while the lowest is 3.210 (moderate) on the indicator of active taxpayers calculating taxes through the self-assessment system. In addition to socializing to raise taxpayer awareness and compliance, it is recommended that the Directorate General of Taxation review corporate tax reports in detail every month to minimize the tax payable. The descriptive statistics of the taxpayer compliance variable are presented in **Table 5**.


Table 5. Descriptive Analysis of Taxpayer Compliance Variable

Variable	Dimension	Indicator	Score	Criteria
Taxpayer compliance (TC)	Comply with interim and annual obligations.	Taxpayers pay their monthly tax instalments on time	3.320	Moderate
		Taxpayers use a self-assessment system to calculate their taxes actively	3.210	Moderate
		Taxpayers have no tax arrears	3.310	Moderate
		Taxpayers report their tax obligations according to regulations	3.420	High
	Comply with interim and annual obligations	Taxpayers make timely tax debt payments to the state treasury	3.370	Moderate
		Taxpayers calculate their tax debt adequately based on the reality	3.380	Moderate

Source: Data Proceed by Authors, 2022

Outer Model (Instrument Testing). Measurement model analysis ensures that the indicators used to measure latent constructs are valid and reliable before proceeding to the structural model analysis stage. Three exogenous constructs are connected with one endogenous construct to generate the measurement model. Before moving to the structural model analysis stage, measurement model analysis ensures that the indicators used to measure latent constructs are valid and reliable. This study estimates and calculates the measurement model using the PLS algorithm to determine the setting value.

Validity Test. The validity test used the SmartPLS software to estimate the factor loading shown in the model path diagram. Based on the results of this test, the overall indicator value is higher than 0.700 (**Table 6**). The data in this study are valid.

Table 6. Validity Test

Variable	Dimension	Indicator	Cross-loading	Note
Tax Knowledge (TK)	Tax withholding and collection	Knowledge of the object of Article 23 Income Tax	0.947	Valid
		Understanding of the object of Article 21 Income Tax	0.794	Valid
	Tax rights and obligations	Knowledge of the object Article 4(2)	0.948	Valid
		Knowledge of the object Article 26 Income Tax	0.885	Valid
		Understanding of Value-Added Tax	0.942	Valid
Taxpayer Perceptions on tax rates policy (PRT)	Tax rates	Taxpayers are responsible for calculating, depositing, and reporting their taxes.	0.924	Valid
		Taxpayers benefit indirectly from their contributions.	0.926	Valid
		Tax rate reductions from 25 per cent to 22 per cent encourage taxpayers to make timely tax payments	0.799	Valid
Taxpayer Perceptions on tax administration modernization (PAM)	Modernization of organizational procedures and tax	Public perception of fair tax rates	0.816	Valid
		The amount of tax paid is equivalent to the benefit received	0.921	Valid
		System of Tax Payment	0.736	Valid
		System of Tax Reporting	0.841	Valid
		Simplification of administrative procedures, time service improvement, service quality, and tax audits	0.925	Valid
		Regulation of socialization	0.917	Valid



Variable	Dimension	Indicator	Cross-loading	Note
Taxpayer compliance (TC)	Comply with interim and annual obligations.	applications socialization		
		Taxpayers pay their monthly tax instalments on time	0.781	Valid
		Taxpayers use a self-assessment system to calculate their taxes actively	0.823	Valid
		Taxpayers have no tax arrears	0.916	Valid
		Taxpayers report their tax obligations according to regulations	0.812	Valid
		Taxpayers make timely tax debt payments to the state treasury	0.939	Valid
		Taxpayers calculate their tax debt properly based on the reality	0.934	Valid

Source: Data Proceed by SmartPLS, 2022

Reliability Test. The reliability test demonstrated the instrument's accuracy, consistency, and precision in measuring constructs. In PLS-SEM, the reliability of a construct can be measured using reflexive indicators in two ways: Cross Loading 0.700 or AVE more than 0.500 and Cronbach's alpha 0.600 (Hair et al., 2019). Cronbach's alpha and Composite reliability are 0.700 in **Table 7**, indicating that all variables are considered reliable.

Table 7. Reliability Test

Latent Variables	Cronbach's Alpha	Composite Reliability	AVE	Note
Tax knowledge (TK)	0.965	0.971	0.829	Reliable
Taxpayer Perceptions on tax rates policy (PRT)	0.799	0.809	0.715	Reliable
Taxpayer Perceptions on tax administration modernization (PAM)	0.876	0.882	0.734	Reliable
Taxpayer compliance (TC)	0.933	0.940	0.752	Reliable

Source: Data Proceed by SmartPLS, 2022

Based on the results of the validity and reliability tests, all instruments for the measurement model are excellent data collection tools. It means that the data obtained from this study is valid and reliable for the following testing hypotheses or inner models.

The goodness of Fit Test. R-Square. R-Square is used to explain how exogenous variables influence endogenous latent variables. The R-Square value for the model can be classified as follows: more than 0.750 indicates strong, more than 0.500 indicates moderate, and more than 0.250 indicates weak. According to the data processing results, R-Square of 0.962 and R-Square Adjusted of 0.960 (96 per cent). These values explain that 96 per cent of exogenous variables can be explained by endogenous variables, with the remaining only 4 per cent explained by endogenous variables not formulated in this study.

Predictive Relevance Value (Q²). The goodness of Fit Structural models on the inner model uses predictive-relevance values. The predictive relevance value of the model is indicated by the Q-Square value. The following **Equation 2** shows the Q-square value of each endogenous variable in this study:

$$Q^2 = 1 - (1 - R1) \dots\dots\dots (3)$$

$$Q2 = 1 - (1-0.960)$$

$$Q2 = 1 - (0.040)$$

$$Q2 = 0.960$$

Equation 3 has a predictive relevance value of 0.960, more than 0. This shows that the variables used explain 96 per cent of the variation in the tax compliance variable (the dependent variable), indicating that the model is feasible and has a relevant predictive value.

Goodness of Fit (GoF). According to (Ghozali and Latan, 2015), the Goodness of Fit test has a criterion value of 0.100 (small GoF), 0.250 (moderate GoF), and 0.360 (large GoF). When the Goodness of Fit value is higher, it indicates that the model better describes the research sample. The outcomes of the GoF examination are presented in **Table 8**.

Table 8. Goodness of Fit (GoF) Test

Variables	R-square	Communality	GoF
Tax knowledge (TK)		0.829	
Taxpayer Perceptions on tax rates policy (PRT)		0.715	
Taxpayer Perceptions on tax administration modernization (PAM)		0.734	0.850
Taxpayer compliance (TC)	0.962	0.752	

Source: Data Proceed by SmartPLS, 2022

$$GoF = \sqrt{Com \times R^2} \dots\dots\dots (4)$$

$$GoF = \sqrt{0,757 \times 0,962}$$

$$GoF = 0,850$$

Equation 4 calculates the value of GoF. The GoF value of 0.850 is classified in the large GoF value category, indicating that the model is excellent and capable of describing the research sample.

Inner Model (Structural Model Testing). The structural model analysis is an econometric model that represents decision-making behaviour. The purpose of the study is to forecast the output layer data using the input layer data. In other words, the structural model is utilized to depict one or more dependence relationships similar to the construct of the hypothesized model.

Structural Model Analysis. Structural equations, also known as structural models, which if each dependent or endogenous variable is determined uniquely by a set of independent/exogenous variables. A path diagram is also an image that shows the structure of the causal relationship between variables. This study's structural equation is $Y = f(TK; PRT; PAM)$, where each equation describes a causal relationship between the exogenous variables TK, PRT, and PAM and the endogenous variable TC. **Equation 5** represents the path diagram for this study's structural model.

$$TC = b_{yTK} + b_{yPRT} + \rho_{yPAM} \dots\dots\dots (5)$$



TC indicates tax compliance; $\beta_1 / \beta_2 / \beta_3$ indicates the regression coefficient; TK means tax knowledge; PRT means taxpayer perceptions of tax rate policy; and PAM represents taxpayer perceptions of tax administration modernization.

The Path Coefficients table (**Table 9**) is derived from the results of research data processing using SmartPLS:

Table 9. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)
Tax knowledge (TC) → Taxpayer compliance (TC)	0.611	0.610	0.103	3.399
Taxpayer perceptions on tax rates policy (PRT) → Taxpayer compliance (TC)	1.156	1.152	0.134	1.707
Taxpayer perceptions on tax administration modernization (PAM) → Taxpayer compliance (TC)	0.767	0.763	0.173	1.826

Source: Data Proceed by SmartPLS, 2022

Based on the results of data calculations performed by SmartPLS in **Table 9**, the multiple linear regression equation for each research variable can be determined as follows:

$$TC = 0,611 TK + 1,156 PRT + 0,767 PAM \dots\dots\dots (6)$$

According to the above equation, each unit of tax knowledge (TK) increases taxpayer compliance (TC) by 0.611; each unit of taxpayer perception on tax rate policy (PRT) increases taxpayer compliance (TC) by 1.156; and each unit of taxpayer perception process on tax administration modernization (PAM) increases taxpayer compliance (TC) by 0.767.

Furthermore, a path diagram shows the effect of the independent variables on the dependent variable. **Figure 6** shows the path diagram results.



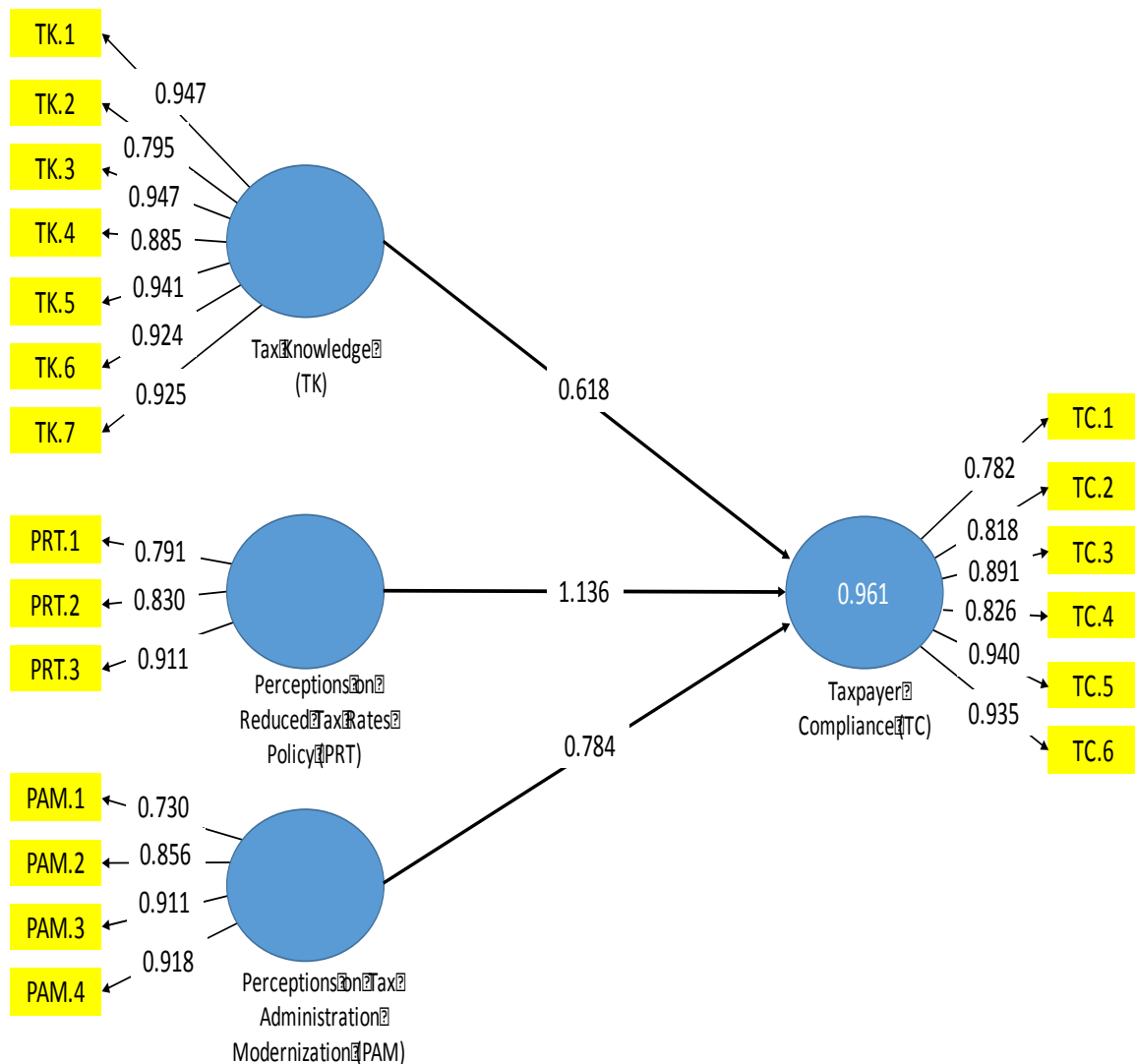


Figure 6. Path Diagram

Source: Data Proceed by SmartPLS, 2022

Hypothesis Test. The results of testing the structural model are used to perform hypothesis testing, which includes the output r-square, parameter coefficients, and t-statistics. The significance value between constructs, t-statistics, and p-values determines whether a hypothesis can be accepted or rejected. The bootstrapping results reveal these values. The p-value significance level for the rules of thumb used in this study is 0.050 (5 per cent), and the beta coefficient is positive. Table 8 shows the importance of testing the hypothesis of this study.

Table 10. Hypothesis Test

	Sample Mean (M)	Standard Deviation	T Statistics (O/STDEV)	P Values
Tax knowledge (TC) → Taxpayer compliance (TC)	0.610	0.103	3.399	0.000
Taxpayer perceptions on tax rates policy (PRT) → Taxpayer compliance (TC)	1.152	0.134	1.707	0.000
Taxpayer perceptions on tax administration modernization (PAM) → Taxpayer compliance (TC)	0.763	0.173	1.826	0.000

Source: Data Proceed by SmartPLS, 2022

Table 10 shows the hypothesis test results of variables in this study. The P-Value of the knowledge variable on tax compliance is 0.000, less than 0.050 (5 per cent). As a result, it is possible to conclude that knowledge of taxation (TK) significantly affects taxpayer compliance (TC). **Hypothesis 1 is accepted.** Meanwhile, the variable perception of tax rate policy on tax compliance has a P-Value of 0.000, less than 0.050 (5 per cent). As a result, there is a significant influence between taxpayer perceptions of tax rates policy (PRT) and taxpayer compliance (TC). **Hypothesis 2 is accepted.**

Moreover, the taxpayer's perception variable on tax administration modernization on tax compliance has a P-Value of 0.000, which is less than 0.050 (5 per cent). As a result, it is concluded that there is a significant influence between taxpayer perceptions of tax administration modernization (PAM) and taxpayer compliance (TC). **Hypothesis 3 is accepted.**

DISCUSSION

Tax Knowledge. On the dimensions of tax deduction and collection, indications of comprehending the object of Income Tax Article 23 (3,360), Income Tax Article 4 paragraph 2 (3,350), and Value-Added Tax (3,370) are within the moderate category. It indicates that corporate taxpayers need to understand the tax imposition fully. For instance, in "PMK 141/PMK.03/2015 concerning other types of services," it is explained regarding the gross amount as the basis for withholding income tax that if there is proof of payment that has been paid by the service provider to a third party as long as an invoice or proof of payment can prove it, then the income is not deducted from income tax; however, according to the results of this study, taxpayers tend not to make deductions even if this cannot be proven. Indicators of comprehending the object of Income Tax Article 21 (3.520) and Income Tax Article 26 (3.420) fall into the High category regarding tax deduction and collection. It indicates that corporate taxpayers participating in this study can comprehend the purpose of Income Tax Articles 21 and 26.

On the dimension of tax rights and responsibilities, the indicator that the taxpayer is responsible for calculating, paying, and reporting his taxes (3.370) and that the taxpayer receives indirect benefits from taxes paid (3.380) falls into the moderate category. It proves that due to a lack of understanding of how to calculate, deposit, and report their taxes, and a lack of knowledge regarding the purpose of the money deposited into the State treasury,

taxpayers participating in this study tend to avoid paying taxes because they are unaware of the rights they receive after paying taxes.

Taxpayer Perceptions on Tax Rates Policy. On the tax rate dimension, it can be noticed that the indicator for reduced tax rates from 25 per cent to 22 per cent (3.320) and the amount of tax paid based on the received profit (3,350) fall within the moderate range. It means a significant reduction in tax rates can increase tax compliance among taxpayers. The perceptions of a fair tax rate (3.450) come to a high category, which means that a perception about the current tax rate already reflects a feeling of justice for taxpayers in that the amount of tax paid is proportional to the income received.

Taxpayer perceptions on tax administration modernization. In the dimension of Socialization Modernization of Organizational Procedures and Tax Applications, three indicators come into the category of "moderate." First, the tax payment system (3.320). It indicates that the existing tax payment system needs improvement, such as allowing tax payments using the mobile banking applications of all banks. Second, simplifying administrative procedures and improving time standards, service quality, and tax audits (3.350). It necessitates an evaluation of the administrative process's simplification because, according to the findings of this study, taxpayers still need help to complete specific tasks online, such as managing a taxable entrepreneur's account, which cannot be completed online. Third, the socialization of regulations (3.370). It indicates that the socialization of tax regulations is still insufficient, as many taxpayers still need to receive socialization of either the old or new rules. However, the Tax Reporting System indicator (3.450) is included in the High criteria. It indicates that the current tax reporting application is adequate to facilitate tax reporting by corporations.

Tax Compliance. On the dimension of "compliance with interim and annual obligations," all indicators are categorized as moderate. First, the indicator "Taxpayers pay tax instalments every month on time" (3.320) indicates that taxpayers have not fully complied with paying tax payments because taxpayers believe tax instalments can be paid all at once without having to pay in instalments, even though tax instalments are mandatory for all taxpayers' accordance to PMK 215/PMK.03/201. Second, since "active taxpayers calculate taxes based on a self-assessment system" (3.210), taxpayers are not fully active in calculating, reporting, and paying their taxes. Third, "Taxpayers do not have tax arrears or pay off taxes owed" (3.310) indicates that taxpayers participating in this study tend to have un-deposited tax arrears.

Three indicators fall within the moderate range of compliance with material provisions and standard legal taxation. Firstly, "Taxpayers deposit their unpaid taxes to the State treasury" (3.370) indicates that taxpayers still have not timely paid their tax arrears to the State. Secondly, the taxpayer calculates the tax owing by both based on the fact that occurred (3.380). Hence, some taxpayers still need to calculate their taxes based on the reality that occurred. Thirdly, the indication "Taxpayers report tax-return-notification-letter by tax regulations" (3.420) is in the high category, indicating that taxpayers who participated in this study reported tax returns by applicable tax regulations.

The Effect of Tax Knowledge on Tax Compliance. The study's findings revealed a significant influence between knowledge of taxation (TK) and taxpayer compliance (TC). According to (Pratama, 2018), tax knowledge is the level of knowledge about basic tax concepts, such as tax regulations and financial knowledge, that taxpayers must



understand to fulfil their tax obligations. The questionnaire outcomes show that most corporate taxpayers in Greater Jakarta have good tax knowledge and are compliant.

The taxpayer's understanding is undoubtedly related to the taxpayer's interpretation of tax regulations. The greater a taxpayer's knowledge of tax regulations, the higher the level of taxpayer compliance. Tax regulations are mentioned, such as the deadline for paying taxes, the amount of tax that must be paid, and an understanding of the applicable tax regulations. Tax knowledge increases the taxpayer's awareness, which leads to tax compliance. It is in line with the Attribution theory, which states that respectful or non-compliant behaviour in fulfilling tax obligations is influenced by rationality in considering the benefits of taxes and environmental influences associated with forming subjective norms that influence behavioural decisions.

This study's findings are consistent with (Twum et al., 2020), who have proven that knowledge of tax rights and responsibilities is the strongest predictor of tax compliance in the SME sector. This research is also supported by (Amin et al., 2022), who concluded that knowledge of taxation is one factor influencing a level of taxpayer compliance.

The Effect of Taxpayer Perceptions on Tax rates policy to Tax Compliance.

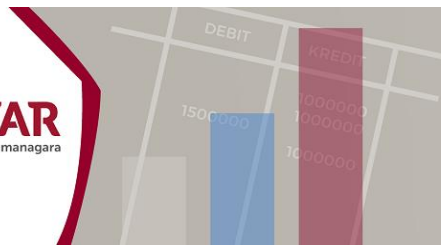
According to this study's findings, the perception of tax rates policy positively and significantly affects taxpayer compliance. As indicated by the results survey, the average respondent has a positive perception of taxes, which raises public awareness of the importance of paying taxes. Taxpayer behaviour is one of the factors that determine compliance. Public perception of the tax system, agencies, and utilization of collected revenues by the officer influences this behaviour.

This study's results align with the Attribution Theory, which states that tax compliance is closely related to taxpayers' attitudes in doing tax valuations. Valuation, in this case, means one's perception of behaviour, which is influenced by two factors, namely internal and external factors. In this theory, when the individual controls behaviour, it is called an "internal factor." Those caused by external factors occur when individuals are influenced by the outside, like situations or the environment. The taxpayer's perception of the reduction in taxes will build the taxpayer's valuation, and if the deduction is responded to positively, it will increase tax compliance.

This positive perception cannot be separated from the government's influence, which routinely conducts socialization to increase taxpayer awareness and understanding. This study confirms the findings of (Shafique et al., 2021), which mentioned that taxpayers' perceptions of fairness influence their compliance. Meanwhile, (Abdillah and Suwardi, 2022) also discuss taxpayer perceptions of tax agreements, emphasising the importance of taxpayer perceptions of tax compliance.

The Effect of Taxpayer Perceptions on Tax Administration Modernization to Tax Compliance. The Directorate General of Taxes is undergoing digital transformation to improve service quality and the effectiveness of taxpayer compliance monitoring. They continue to update the electronic tax system under existing technological developments, which are expected to make tax collection more effective and efficient. According to the study's findings, the modernization of tax administration affects tax compliance.

Taxpayers' perceptions of the modernization of tax administration will encourage compliance. It is because they will not have to go through the complicated tax administration processes of the traditional system. According to the survey results, the public's perception of modernization is positive and concluded as a high category. As a



result, this modernization system can assist taxpayers in fulfilling their tax obligations. This research is supported by the study of (Sentanu and Budiarta, 2019), which stated that the modernization of tax administration in the form of e-filing and e-billing has a positive effect on taxpayer compliance.

CONCLUSION

The findings of this study contribute significantly to the existing literature, particularly the literature on tax knowledge, taxpayer perceptions of tax rates policy, taxpayer perceptions of tax administration modernization, and factors influencing taxpayer compliance. Based on the results, taxpayer compliance is influenced by knowledge of taxation. If the taxpayer has good knowledge, they will increase tax compliance. Taxpayers' perceptions of tax rates policy influence their compliance. It means that a beneficial tax rates policy can increase taxpayers' compliance. The decrease in tax rates from 25 per cent to 22 per cent reflects a valuable reduction in tax rates in this study. Furthermore, the perception of the tax administration modernization positively affects taxpayer compliance. Taxpayer compliance will increase if the tax administration system is simple and easy to use.

This resulting study shows that the taxpayer's assessment of the three research variables (knowledge of taxation, perceptions of reduced rates, and perceptions of administrative modernization) is moderate. It means that even though it is considered good enough, it still needs improvement. For that, the author gives some suggestions. First, regulators are suggested to continue socializing taxation concerning the object of Articles 21-, 23-, 26-, and 4(2)-Income Tax and Value Added Tax. Second, tax officers are recommended to simplify taxation applications further to make them simpler and easier to use. Third, the public should be more active in increasing knowledge about taxation and the benefits of tax collection to increase motivation to pay taxes.

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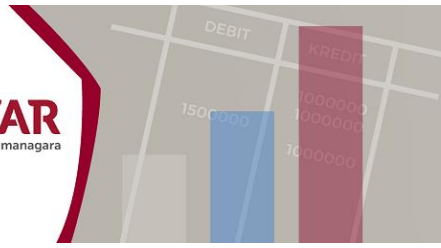
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