THE INFLUENCE OF TAX KNOWLEDGE, TAX PENALTIES AND INTERNAL CONTROL SYSTEM ON TREASURERS' TAX COMPLIANCE IN BIMA MUNICIPALITY, WEST NUSA TENGGARA PROVINCE, INDONESIA

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Abstract

Tax revenue is the main financial source of national development to improve the prosperity of the community. This study is aimed at examining as well as determining empirical evidence regarding the influence of tax knowledge, tax penalties and internal control systems. The data were primary obtained by applying questionnaires distributed to 41 treasurers of expenditure at Bima Municipality Government. Sampling technique employed saturated sampling. Data were analyzed by applying Partial Least Square (PLS). The results reveal that tax penalties affect the treasurers' compliance. It means that firmer tax sanction will increase treasurers' tax compliance. Furthermore, this study also displays the finding in which tax knowledge and internal control system do not influence treasurers' compliance. This study can be applied as reference for further research by employing other variables as well as involving larger research samples.

Keywords: Tax Knowledge, Tax Penalties, Internal Control System, Treasurers' Compliance

INTRODUCTION

Tax revenue is the main source of financing and national development to improve the prosperity of the community. Paying taxes is an obligation of every citizens as participation in national development. The results of tax payments are spent for infrastructure development, financing education, fuel subsidies, building health facilities, and other national purposes. According to Mutlia (2013), Indonesian government, through the Directorate General of Taxation, has established taxes as a strategic component in development planning which acts in fiscal mission, through collecting domestic revenues from the tax sector which is capable of supporting the independence of government financing according to Taxation Law which is effective and high efficient.

One of the tax collection techniques applied in Indonesia is *withholding tax system*, in which the tax deduction/ reduction involves a third-party organization appointed by the Act to cut/ levy taxes. Government Treasurers as taxpayers are authorized by the government through Law No. 16 of 2009 on General Provisions and General Procedures of Taxation as a truncator and collector of some central taxes.

Tax revenue in 2016 contributed 82.72 percent of total government revenue (www.databoks.katadata.co.id). The data shows that taxes contribute substantially to total government revenue. However, taxpayers' compliance level is still low. The Annual Report of the Directorate General of Taxes of 2014 states that the number of compliance ratios of submission of Annual Tax Returns is 58.87 percent (www.pajak.go.id). These data indicate the low level of reporting of the Annual Taxpayer's Annual Tax Return and indicate that the level of taxpayer compliance in Indonesia is still low.

Head of the Regional Office of the Taxation Directorate General of Nusa Tenggara, said that 66% of tax revenues in the Regional Office of Nusa Tenggara are obtained from Treasurer Taxpayers. Therefore, if all Treasurer Taxpayers are obedient in carrying out its tax obligations it can be ascertained that 66% of tax revenue target Directorate General of Taxation of Nusa Tenggara in 2014 is safe. (www.pajak.go.id).

The tax compliance of government treasurers is an important factor for the improvement of state revenue from taxation sector. Similarly, the government treasurers in the Government of Bima Municipality. Increasing taxpayers' tax knowledge can be employed in increasing the awareness and compliance of government taxpayers to tax obligations (Harahap, 2004). In addition, Gunadi (2006) revealed that the taxpayers' understanding on the applicable taxation regulation has a positive effect on taxpayers' compliance level, since by possessing the taxes understanding, the taxpayers' would have appropriate knowledge on particular tax regulations that their compliance can be increased.

Santoso (2008) states that tax laws are coercive which means that if the tax laws are not obeyed, the taxpayer will face legal consequences, i.e. tax sanctions. The imposition of tax sanction is aimed at creating taxpayers' compliance in carrying out its tax obligations. Implementation of sanctions to the taxpayer can lead to the fulfillment of tax obligations by taxpayers which will lead to the improvement of taxpayers' compliance. Taxpayers will be obedient (because of the pressure) since they think of the severe sanctions in the form of fines due to illegal acts in their efforts to smuggle taxes (Devano and Rahayu, 2006).

Another factor that affects the tax compliance of government treasurers is the internal control system. Implementation of internal control system greatly affect the reliability and accuracy of accounting data or bookkeeping and financial statements which are reported by the organization will ultimately affect the process of calculating the tax to be deposited properly (Lukman, et al., 2011). According to Government Regulation No. 60 of 2008 on Internal Control System to achieve effective, efficient, transparent and accountable state financial management, ministers/ heads of institutions, governors and regents / mayors shall exercise control over the government activities.

Some researches on tax compliance have been done by previous researchers, yet their results revealed different findings. The finding of research by Fitrios and Bonasari (2011) indicates that tax knowledge has an effect on tax compliance. The result of this research is supported by Zakya et al. (2014), who prove that tax knowledge influences taxpayer compliance. In contrary, research conducted by Suyapto et al. (2014) indicate that the tax knowledge does not affect taxpayers' compliance.

Some studies show that tax sanctions affect taxpayers' compliance such as a study conducted by Fitrios and Bonasari (2011) who examine the effect of tax sanctions on tax compliance of Government Treasurers in Riau Province. The research on the effect of tax sanction on personal taxpayers' compliance is also done by Pranata and Setiawan (2015) who prove that the tax sanction affects the individual taxpayer's compliance. The results above are different from those of Suyapto and Lasmana (2014) and Zakya et al. (2014) who indicate that the tax sanctions have no effect on taxpayers' compliance.

Empirical studies which show that the control structure influences the taxpayers' compliance on particular organizations were conducted by by Tjondro. (2002) and Kiryanto (2010) who prove that the internal control structure influences taxpayers' compliance. On the other hand, Lukman et al. (2011) reveal that the internal control structure simultaneously affects the corporate taxpayers but partially indicates that the control and assessment environment the risk does not affect the compliance of corporate taxpayers, while control activities, information and communication and monitoring significantly influence compliance with corporate taxpayers.

These varied results motivate the researchers to conduct a study on the factors that allegedly influence tax compliance of government treasurers. This research is also motivated by the limited research on tax compliance of government treasurers. Most studies emphasize on the personal taxpayer, that the tax compliance of the government treasurers is an interesting research area to be studied. This research is an elaboration of previous research conducted by Fitrios and Bonasari (2011) by supplementing control system variables.

Based on the description of the problems in treasurers' tax compliance and examining of previous research, this test will test and provide the empirical evidence: whether the tax knowledge, tax penalties and internal control system on treasurers' tax compliance.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Theoretical basis

The treasurers' tax compliance in this research can be explained from the perspective of *Goal Setting Theory* which explained the relationship between defined goals and job Performance through the goal-oriented targeting. When a person wanted to achieve his goal, this will use all of his efforts and use the relevant knowledge and skills (Locke and Latham, 2002). The treasurer's efforts to realize tax compliance in accordance with the prevailing regulations so as to achieve the stated objectives. If the knowledge of taxation in accordance with the rules then the tax compliance will be better. Sanctions for taxpayers who violate regulations are expected to be a control in order to avoid deviations toward the direction of achieving organizational goals (Goal Setting). Goal setting can be a powerful technique for motivating members of the organization in the right conditions, where difficult goals must be achieved and one of the efforts made by leaders to improve the achievement of organizational goals is with good internal control and action support.

Figure 1 : Proposed Research Model
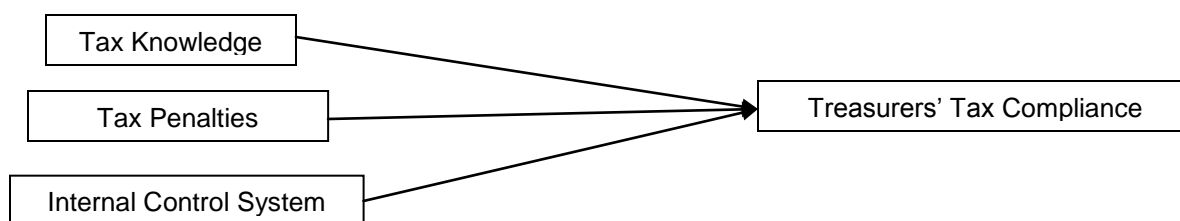
Based on the research of theory and previous research, the research model was built by the author, this can be seen at Figure 1.

Hypotheses Formulation

The Goal-Setting Theory implies that an individual is committed to a goal (Robbins, 2008). If an individual is committed to achieving its objectives, then that commitment will affect its actions and affect its performance consequences. Knowledge of taxpayer about good taxation regulation will be able to influence its work behavior to improve its performance so that it can improve tax compliance as obligation of taxpayer. Taxation knowledge is information owned by a person about taxation.

To improve taxpayer compliance, taxpayers should have knowledge of taxation in accordance with the provisions of applicable regulations in order to carry out tax obligations (Utami, 2013). Research conducted by Fitrios and Bonasari (2011) and Zakya et al. (2014) indicates that tax knowledge has a positive and significant effect on taxpayer compliance. Based on these arguments, the hypothesis that can be formulated was:

H1 : Tax knowledge influences positively toward the taxpayer compliance

Sanctions for taxpayers who violate regulations are expected to be a control in order to avoid deviations towards the direction of achieving organizational goals (Goal Setting). Tax sanctions are regulated in Law Number 16 Year 2009 that there are administrative sanctions, penalties and criminal sanctions for taxpayers that violate the provisions. According to Pranata and Setiawan (2015) the tax penalty is the imposition of fines on non-compliance of taxpayers in carrying out tax administration obligations and with the existence of tax sanctions are expected to improve taxpayer compliance. Research conducted by Fitrios and Bonasari (2011) shows that tax sanction has a positive and significant effect on taxpayer compliance.

H2 : Tax Penalties influences positively toward the taxpayer compliance

The practice of the obligations of government treasurers in carrying out taxation obligations to cut, deposit and report taxes should always be guided by the rules that have been determined. Individual performance in this case need to be supervised and internal control for organizational goals and objectives can be achieved.

The research shows that the Internal Control System has an effect on taxpayer compliance conducted by Kiryanto (2010) and Lukman et al. (2011) indicating that the internal control structure simultaneously affect the compliance of body tax payer.

Based on these arguments, the hypothesis that can be formulated was:

H3 :   Internal Control System influences positively toward the taxpayer compliance

RESEARCH METHOD

Populations and Sample

The population of this study is 40 expenditure treasurers' at the Regional Government Work Unit Bima Municipality. The sampling technique applied in this study is saturated sampling, since the entire population also acts as sample.

Data Collection Methods

Data were collected by questionnaire survey that was based on the development of previous research that was closely related to the variable in this test. Questionnaire was an effective data collection tool because it can be obtained from standard data that can be accountable for the purpose of comprehensive analysis about the characteristics of the population studied (Suprianto, 2000). In this research, questionnaire on 5 point Likert scale was submitted directly to the expenditure treasurers' tax compliance. This, primary data were collected by distributing questionnaires to 41 expenditure treasurers.

Methods of Data Analysis

Data gotten from the questionnaire were processed using of Smart PLS 3.0. PLS analysis using Smart PLS was chosen namely by measuring the construct variables reflected by the indicators that explain the construct so as to provide a clearer picture of the phenomenon being studied.

RESULTS

Figure 2: Loading Factor

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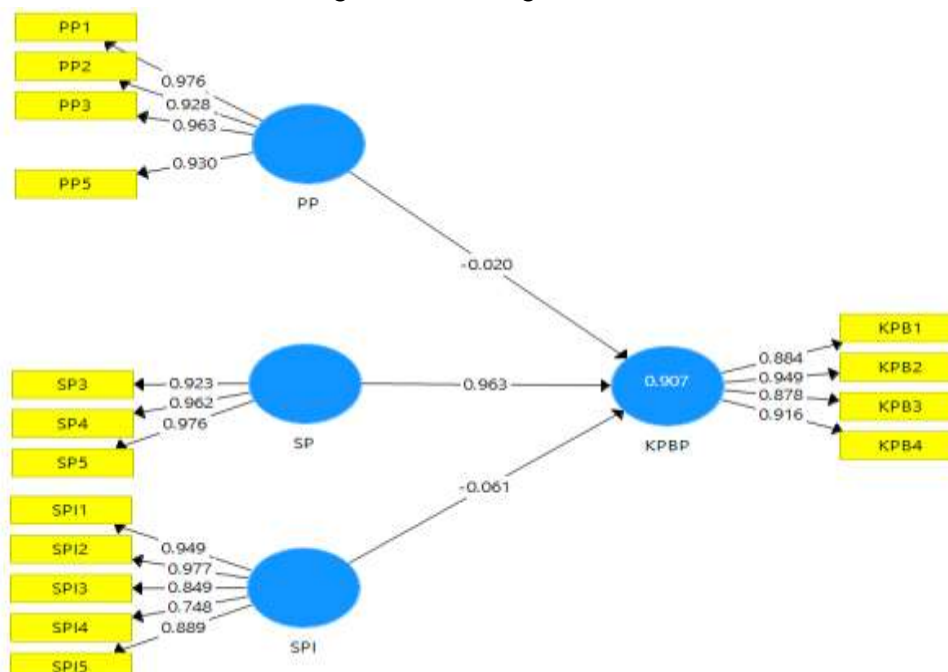
Outer Model Test (Evaluation of Measurement Model)

Evaluation of the measurement model or outer model was used to assess the validity and reliability of the construct. In Ghozali & Latan, this mentioned that validity testing including the validity of convergent and discriminant. The convergent validity was how far the positive correlation measurement with alternative steps from the same constructs to measure the convergence validity by looking at the Loading Factor for each constructor indicator. In Hair et al. (2013) stated that the value of the loading factor should be more than 0.5 because the minimal latent variable can explain the variance of each indicator by 50%. The amount of Loading Factor in this test was shown in Figure 2.

Based on the figure above, it shows that the loading factor value of all indicators of each variable has a factor loading value upper than 0.5. This means that all indicators in each variable in this research have fulfilled the convergent validity.

The discriminant validity test can be seen on cross loading by comparing the correlation of the indicator construct with the correlation of other indicators. As shown in table 1 below:

Table 1. Cross Loading

Variable	Treasurers' compliance	Tax Knowledge	Tax penalties	Internal Control System
Treasurers' compliance (KPBP1)	0,884	0,693	0,763	-0,134
Treasurers' compliance (KPBP2)	0,949	0,944	0,961	-0,143
Treasurers' compliance (KPBP3)	0,878	0,777	0,752	-0,179
Treasurers' compliance (KPBP4)	0,916	0,854	0,939	-0,121
Tax Knowledge (PP1)	0,913	0,976	0,961	-0,168
Tax Knowledge (PP2)	0,793	0,928	0,851	-0,068
Tax Knowledge (PP3)	0,888	0,963	0,924	-0158
Tax Knowledge (PP5)	0,829	0,930	0,881	-0,208
Tax penalties (SP3)	0,870	0,792	0,923	-0,019
Tax penalties (SP4)	0,905	0,972	0,962	-0,146
Tax penalties (SP5)	0,942	0,959	0,976	-0,128
Internal Control System (SPI1)	-0,195	-0,167	-0,129	0,949
Internal Control System (SPI2)	-0,169	-0,170	-0,117	0,977
Internal Control System (SPI3)	-0,087	-0,115	-0,067	0,849

From this table, this was showed that the value of cross loading KPBP was greater than the value of other cross loadings. Likewise with value of cross loading of PP, SP, and SPI has a value of cross loading that was greater than the value of the other cross loadings, it means that all variables have met discriminant validity.

Reliability testing aimed to prove the accuracy, consistency and accuracy of the instrument in measuring the construct. To measure reliability can be done with *Composite Reliability* with value must be bigger than 0.7 for confirmatory research. Relative results can be seen at the table 2 below:

Table 2. Composite Reliability

Variable	Composite Reliability
KPBP	0,823
PP	0,973
SP	0,968
SPI	0,948

According to the data on Table 2, it is known that the construct of treasures' tax compliance, tax knowledge, tax penalties and internal control system has a *composite reliability* values greater than 0.7. It then can be concluded that the indicators in the study met the criteria *of composite reliability*, that indicators are reliable.

Evaluation of Structural Model or Inner Model R Square Testing

Structural model testing with PLS was seen from the R-Square value for each endogenous latent variable as the predictive power from the structural model. R Square values were used to look at the ability of exogenous variables to explain endogen variables. R Square value gotten from the model in this research can be seen in Table 3 below:

Table 3. Value of R-Square (^{2})

Variable	R Square
KPBP	0,907

R *square* score of the analysis results by employing *bootstrap resampling* method at 5% significance level exposes that R-*square* value of the relationship between the variables of tax knowledge, tax penalties, internal control system of treasurers' tax compliance was 0.907. It can be concluded that the model is in the good category. These results imply that 90,7% diversity of

treasurers' tax compliance is explained by the variable tax knowledge, tax sanctions and internal control system. The remaining 9.3% is explained by other variables which are not involved in this study.

Hypotheses Testing

Hypothesis testing results can be seen in Table 4 below where the results obtained from testing bootstrapping with the help of software SmartPLS3.0 to see the position of hypothesis.

Table 4. Path Coefficients

Hypothesis	Original Sample	t-statistics	P Value
PP »KPBP	-0,020	0,126	0,450
SP »KPBP	0,963	6,286	0,000
SPI»KPBP	-0,061	1,223	0,111

First hypothesis testing results showed that the tax knowledge did not influence toward tax compliance. This can be seen from table 4 where the value of T Statistic tax knowledge to Treasurers' compliance is 0,126 < 1.66 so it can be concluded that the hypothesis was rejected. P values for the relation tax knowledge toward tax compliance of 0.450 was less than alpha 0.05 (5%). This means that the insignificant.

The second hypothesis of testing results indicated that tax penalties influenced positively toward the Treasurers' compliance. This can be seen from table 4 where the value of T Statistic tax penalties to Treasurers' compliance is 6,286 > 1.66 so it can be concluded that the hypothesis was accepted. P values for the relation tax penalties toward tax compliance of 0.000 was smaller than alpha 0.05 (5%), which means significant.

The third hypothesis of testing results showed that the internal system control did not influence toward the Treasurers' compliance, where the value of T Statistics internal system control of was 1,223 that was less than T Table with1.66 so that we can conclude that the third hypothesis was rejected. P value was 0.111 that alpha was less than 5%, which means insignificant.

DISCUSSION

Tax Knowledge Effect on Treasurers' Tax Compliance

Testing results showed that the tax knowledge did not influence toward tax compliance. This can occur since the treasurers employ the tax rates which are used by the treasures in previous years. This finding is in line with the results of research by Yulayca (2031), Suyapto and

Lasmana (2014). However, the finding differs from that of Fitrios and Bonasri (2011) and Zakya (2014).

Effect of Tax Penalties on Treasurers' Tax Compliance

Tax Penalties who violate regulations are expected to be a control in order to avoid deviations towards the direction of achieving organizational goals (Goal Setting). Tax sanctions are regulated in Law Number 16 Year 2009 that there are administrative sanctions, penalties and criminal sanctions for taxpayers that violate the provisions.

The result is consistent with the result of studies by Fitrios and Bonasasi (2011), Pranata and Setiawan (2015) who found that tax penalties affect tax treasurers' compliance. The result of this study poles apart from the results of research conducted by Zakya (2014) and Suyapto and Lasmana (2014) who found that the tax penalties do not affect the treasurers' tax compliance.

Effect of Internal Control System to the Treasurers' Tax Compliance

Testing results showed that the Internal Control System did not influence toward tax compliance. It can be inferred that Bima Municipality Government is quite able of performing internal control system which leads to the tax treasurers' compliance.

This finding is harmonious with the result of research conducted by Lukman (2011), who finds the internal control system had no effect on organizational tax compliance. The finding is not in line with the result of research conducted by Tjondro (2002) and Kiryanto (2010) who found that the internal control system influences treasurers' tax compliance.

CONCLUSIONS

The findings of this study indicate that the treasurers' tax compliance is influenced by the tax penalties yet it is not influenced by the knowledge of tax and internal control system. These results support the importance of tax penalties to improve treasurers' tax compliance. Other findings from the study revealed that knowledge of tax and internal control system fail to improve treasurers' tax compliance. It happens since the treasurers apply the tax rates they obtained from the previous treasurers without having sufficient understanding on the appropriate tax rate. Internal control system should be fostered in controlling as well as supervising government's organization. The lack of managers' supervision and improper job description lead to less optimal internal control.

The findings of this study can be applied as references for subsequent researchers by employing other variables in addition to the involvement of larger research samples.

Furthermore, this research would also be advantageous for Bima Municipality Government, and generally Indonesia Government in improving the tax treasurers' compliance by enforcing the implementation of tax penalties. Since the tax knowledge variable as well as internal control variable in this research do not give significant influence on tax compliance, which is also the limitation of this study, it is therefore necessary to improve the quality of the questionnaire employed in this study, that the respondents will likely provide comprehensive answers. Further researchers are also suggested to involve more respondents i.e. the director of the treasure department as well as municipality organizations

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