TAX COMPLIANCE FOR BUSINESSMEN OF MICRO, SMALL AND MEDIUM ENTERPRISES SECTOR IN THE REGIONAL ECONOMY

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Abstract

This study is aimed to explore the characteristics of tax compliance for businesses of Micro, Small and Medium Enterprises (SMEs) sector in the Districts/Cities in East Java Province, Indonesia. The sampling method used is simple random sampling. The data collection method used is questionnaire and in depth interview. The number of respondents that is used in this study is 283 people from various fields of business, especially SMEs in the field of handicrafts. This type of research is exploratory research. Furthermore, the method of analysis used is descriptive. The results provide the conclusion that the level of tax compliance from SMEs sector businesses is still low. It can be seen by the level of absence of tax identification number (TIN) which is high (79% of respondents do not have a TIN), never punctual in paying taxes (42% of respondents), never on time in delivering tax (42% of respondents), and have never been willing to pay the tax (37% of respondents). Based on these results, the tax officials can improve accessibility for the SMEs business sector in the fulfillment of the tax obligations. This can be done by providing a range of additional services in the administration of TIN, tax payment and reporting the tax. The services associated with the place, guidance, and tax laws governing the taxation of accessibility for the business sector of SMEs.

Keywords: Taxpayers, Tax Compliance, Tax Reporting Micro Small and Medium Enterprises, Indonesia

INTRODUCTION

The small business sector of micro and medium enterprises (SMEs) play a significant role in sustaining local economic activity; SMEs with all of their characteristics are able to provide a large selection of economic activity is much needed by producers, consumers and governments. Economic interactions among economic actors can provide wider space in improving the added values to the economy. In economic activity in the real sector, SMEs actors can perform economic activities primarily related to the fulfillment of people's lives. Commodities that are traded include commodities of all types, such as; food, drinks, crafts, and services. The continued development of SMEs sector, then, it will be able to make a positive contribution to local economic development.

The developments in the early 2016 showed that in the first quarter of 2016, East Java's economy compared to the first quarter of 2015 grew by 5.34 percent (BPS East Java, 2016). Economic growth rate above 5% that reflects their optimism regional economic activity in the midst of economic turmoil abroad who have slow down. The increase in economic growth reflects the expansion of economic activity in both the scale of macro and micro scale. In the role of macro-scale manufacturing industry and trade, hotels and restaurants is very important in sustaining the GDP of East Java. While a micro scale of the role of SMEs is crucial in improving the economic value in many areas.

Increasingly SMEs in the region's economic development is inseparable from the business climate created in the area. The business climate associated with the policies or rules associated with the development of SMEs in East Java. Based on the data until the end of 2015, there are 6,825,931 SMEs units' are scattered in various districts / cities in East Java. While the number of workers absorbed is 11,117,439 people. Among the number of SMEs, the role of micro-enterprises, 95.72%; 3.84% of small businesses and medium-sized enterprises consist of 0.45% (http://diskopumkm.jatimprov.go.id/). That number can grow even more, given that many SMEs business operators informal nature. This type of business that is spread on a wide range of activities such as trade, hotels, restaurants, transportation, agriculture, mining and quarrying, manufacturing, financial and services sectors. The number of workers absorbed on the number of SMEs reached.

As explained above, the development of SMEs is dynamic enough to provide a positive contribution to regional development, especially in East Java. Contributions can be realized in the form of increase in the GDP and tax revenue. The existence of SMEs can encourage the kind of economic activity spread more widely as well as to provide employment of new labor force. These conditions may encourage an increase in the GDP. Results of research conducted by Beck, et al (2004) gives the strong correlation between SMEs sector to the GDP per capita in

various countries (62 countries). Meanwhile, according to Katua (2014) SMEs sector can play an important role in the creation of economic activities in the development.

On the other hand, it can also be explained that the existence of these SMEs can create new businesses that involve both producers and consumers. This of course can provide new opportunities for the emergence of new taxpayer or tax object in economic activity. The taxpayer is usahan economic actors who have a certain income. This revenue can be created because the business they work by rapidly expanding SMEs business operators in the development of regional economy. Indicators of the development efforts of SMEs can be seen from the development of business and the increasing SMEs SME businesses from various age groups. With conditions growing SMEs, of course, an increasing number of new taxpayers who have the ability to pay taxes. Improving the ability of this tax can ultimately improve tax collections. In relation to the results of research conducted by Mukhlis, et al (2015) provided a different perspective related to tax compliance, where the education factor taxation and tax knowledge can affect tax compliance SMEs sector businesses in East Java, Indonesia. The results of this study can be categorized as non-economic factors that affect tax compliance. Meanwhile, according to Misu (2011) economic factors in the form of income level can play an important role in influencing public tax compliance. Both non-economic factors and economic factors that cumulatively can determine the degree of tax compliance SMEs sector businesses. Including the identification of factors into both of these factors can facilitate in addressing the issues of tax compliance levels are still low. The businessmen of SMEs sector in developing countries is still dominated by the high level of education that have not, it becomes a challenge in the development of tax knowledge in Indonesia.

Based on the explanation above, this paper aims to describe the characteristics of SMEs sector businesses in East Java Province Indonesia in connection with tax compliance.

LITERATURE REVIEW

SMEs in many respects have an important role in building the economy of a country. Experience of economic crisis that hit Indonesia in 1997-1998, the rate of recover the economy can run linear and quick due to the role of SMEs in the economy sector. SMEs sector can be said to be a catalyst in the process of saving the national economy. In this case, according to Beck and Levin (2005) SMEs sector can promote competitiveness and entrepreneurship that can provide external benefits in the form of expansion of economic activity, innovation and overall productivity. In the era of today's global economy, a competitive advantage be a key to success to build the economy. SMEs sector can be a leading sector in economic empowerment and increase the added value of the economic resources available in the area.

Tax compliance concerning the behavior is heavily influenced by various factors, such as economic and psychological factors. Influence of economic factors on tax compliance is described by Alingham and Sandmo (1972). In this case, the tax compliance declares income expressed as influenced by the level of income, rates, their audit and penalty rate. Meanwhile, in the perspective of the psychology of the various studies existing theories, models of tax compliance can adopt the Theory of Planned Behavior developed by Ajzen (1991). This theory explains the factors that shape a person's behavior. In empirical studies, Theory of Planned Behavior is used to analyze the factors affecting tax compliance in various countries; as an illustration of the use of this theory can be presented on a study conducted by the Langham, et.al (2012) in Australia. Based on these results indicate that the desire to obey the tax (the intention to comply) may not always be a strong predictor of the behavior to comply taxes. In this case there are various complexities and difficulties in measuring performance improvement of tax compliance.

The existence of SMEs sector can play an important role in improving tax compliance. Results of research conducted by Atawodi (2012); Mukhlis, et al (2013); Mukhlis, et al (2015) provided an explanation of some of the factors that could affect tax compliance of SMEs sector businesses in many developing countries. In other words, by enhancing the knowledge and education of taxation is good then it can increase tax compliance on the businessmen SMEs sector. SMEs sector with all the characteristics of local shows real existence in running the economy. SMEs business character like; does not require formal education, does not require big capital, the business type is varied according to the needs of society, and business activities are easy to do. With a variety of characters such business, SMEs sector may have the space and flexibility of a dynamic and sustainable businesses. If the SMEs sector can be managed properly, then the potential to support increased tax revenue will also increase. Nevertheless, a variety of ways for businesses of tax compliance can be increased; one through socialization and educational activities tax to businesses in the sector of SMEs.

Many of the laws were formulated in connection with an increase in tax revenue from businesses. One of the rules is associated with the acquisition of gross entrepreneurs in business. In this case that is subject to Income Tax (VAT) is income from business derived by the taxpayer with a gross turnover (turnover) that does not exceed 4.8 billion in the first tax year. Government Regulation No. 46 of 2013 contains the Income Tax on Income from Business Received or obtained Taxpayers Who Have Specific Gross Circulation. In this regulation governed Income Tax (VAT), which shall be final on income received or accrued by the taxpayer with a gross turnover of certain restrictions.

RESEARCH METHODOLOGY

Based on the research objectives, this is an exploratory research. Exploratory research exposes a fact by promoting in-depth observation of the phenomenon observed. The phenomena observed in nature contain elements of novelty, unique and widely studied by other researchers. The data used in this study primary data obtained by using questionnaires and indept interviews. The population in this study is business engaged in small and medium enterprises which are located in different cities/regencies in East Java, Indonesia. The selection of respondents' as the research sample using simple random sampling technique. Respondents in this study are SMEs business people on handicraft sector in various cities/regencies in East Java, Indonesia. Data collection is done within a month from February to April 2016. Existing data analyzed descriptively to find tax compliance characteristics of SMEs sector businesses in various cities / regencies in East Java.

ANALYSIS AND DISCUSSION OF RESULTS

Results of empirical studies on tax compliance entrepreneurs in SMEs sector in various districts/ cities of East Java Province Indonesia's important to give informed about the character of tax compliance in various areas. These characters concerning aspects of the age composition are main indicators in tax compliance. Based on the number of respondents who provided feedback answer as many as 283 entrepreneurs of SMEs in the various districts / municipalities in East Java Province. Among the existing respondents, the age structure as follows:

Table 1: Composition of Respondents Age

No.	Age Interval (Year)	Number of Respondent (people)	Percentage
1	19-24	10	3,53
2	25-30	17	6,01
3	31-36	21	7,42
4	37-42	56	19,79
5	43-48	88	31,10
6	49-54	55	19,43
7	55-60	22	7,77
8	61-66	7	2,47
9	67-72	1	0,35
10	73-78	1	0,35
	Does not provide answer for age	5	1,77

Respondents in this study include the age group in the age range of 19 years to 66 years of age. The composition of the respondents are in the age range 43 years to 48 years by (31.10), followed by the age group in a span of 37 years up to the age of 42 years (19.79%) and the age

range of 49 years to 54 years of age (19, 43%). In general, the distributions of the largest age group in this study respondents in the span of 37 years to 54 years (70.32%). This shows that SMEs business operators in this respondent has the characteristics of productive age and reach a period of business development. It certainly gives strength and opportunities in business development in the SMEs sector in the global era. In addition, also in the age range of the level of maturity and knowledge on various issues in relation to the business has the greater degree of accuracy. At the level of maturity and knowledge of the higher, it is possible knowledge about taxes can be obtained by the business sector SMEs through both electronic and print media.

In relation to the fulfillment of the obligations of the tax administration businesses SMEs sector in various districts / cities in East Java Province can be described through a proprietary indicator Taxpayer Identification Number (TIN). Based on the results of the questionnaire suggests that as many as 58 businesses already have a TIN, while there is one person who is still processing of filing a tax ID, and the remaining 224 people do not have a TIN in business. In other words, about 79 percent of businesses surveyed SMEs sector does not have a TIN.

Based on interviews with several businesses, the reason they have a TIN expressed the opinion as follows: "..........I take care of my TIN in order to get easy access for my business activities, for example in a loan application to the bank or get help from the local government ...." Another respondent gives his statement: "......... TIN needs to be owned by the business because it is the duty as citizens who obey the tax ... .."

The results of this in-depth interview to explain a person has a TIN in the areas of business that they do. Awareness of the tax in the form of ownership of TIN is based on a variety of benefits resulting from the ownership of TIN. The reason is the economic benefit that can be derived by the taxpayer in the implementation of tax compliance. In certain situations, TIN ownership is also based on the availability of facilities and infrastructure in the process of TIN ownership, ease of procedure, and the technical assistance of the relevant authorities. However, interviews with actors other SMEs also provide overview of the implementation of its obligations as a state's orientation in terms of taxation. One is the tax obligations of individuals in possession of TIN. Therefore the two reasons above become important information in an effort to increase public interest in the ownership of TIN, especially for businesses in the sector of SMEs.

While the results of another interview SMEs sector to businesses that do not have a TIN has the statement as follows:"...... I do not have a TIN because I do not know the procedures and requirements for obtaining a tax ID card ... .." Another respondent stated: "......... I do not know what the function of TIN for businesses. Businessmen are basically have a high need of funds for the sake of development of their business... ". Other respondents gave a statement as

follows: "...... I have a home out of town; I do not know how to take care of TIN. My daily job has not allowed me to take care of TIN.

For some SMEs businesses sector, TIN is still a rare thing. In other words, many of the businesses that do not have a TIN for various reasons; among the many reasons that exist, related to the understanding of the TIN good taxpayer relates to the definition, how to obtain and benefits have a TIN for the business developed by the community.

Tax compliance indicators used in this study using indicators developed by Brown and Mazur (2003). Based on the results if the data is performed can be generated information relating to tax compliance SMEs sector businesses.

Table 2: Indicators of Tax Compliance for SMEs Businessmen Sector

Variable	No	Indicator	Answer			
			1	**2**	**3**	**4**
Tax Compliance	1	Does the taxpayer file on time?	118 (42%)	79 (28%)	37 (13%)	49 (17%)
	2	Does the taxpayer report his/her tax liability accurately?	118 (42%)	88 (31%)	42 (15%)	35 (12%)
	3	Does the taxpayer pay the full amount he/she reported as tax liability?	103 (37%)	91 (32%)	46 (16%)	42 (15%)

Description: 1 = never; 2 = seldom; 3 = often; 4 = always

The results of questionnaires given a result that the tax compliance variable can be measured using three indicators; for the first indicator can be responded well by 283 people. For indicator 2 responded to by 283 people and for the indicator to 3 282 people responded by SMEs sector businesses. Within the individual tax compliance indicators provide results that among all the indicators that there is a choice answers on a scale of 1 has the highest percentage. In other words, every indicator of tax compliance, respondents gave the answer choices on a scale of 1 (meaning never) is greater than the other answer choices (scale 2, 3, and 4). For example, based on indicators of the taxpayer file on time, respondents gave the answer choices on a scale of 1 of 118 people (42%). This means that as many as 42% of respondents claimed never to have timely tax payments. Meanwhile, 49 respondents or 17% which gives the choice of answers on a scale of 4; this means that the respondent businesses only 17% of SMEs sector that is always on the tax payments.

For the second tax compliance indicators that the taxpayer report his / her tax liability accurately, demonstrate that respondents chose the answer on a scale of 118 people or 42%. This means that as many as 118 businesses or 42% of SMEs sector is never on time for

submission of the report of the notification (SPT) taxes. While as many as 35 respondents or 12% said that always timely in the delivery of its tax return.

For the third indicator that the taxpayer pay the full amount he/she Reported as tax liability, shows that as many as 103, or about 37% of respondents who said never willing to pay taxes. Meanwhile, as many as 42 people or 15% said that always willing to pay his tax obligations.

The results of this study indicate a low level of tax compliance SMEs sector businesses in various districts / cities in East Java Province, Indonesia. The low ownership TIN, not timely payment of taxes, not timely in the delivery of SPT and are not willing to pay taxes is an indicator that represents the individual tax compliance. Perception of the taxpayer on the tax obligations shows the degree of willingness of taxpayers in performing the obligations inherent in the individual in accordance with applicable regulations. However, this perception is still limited to the attitude of the taxpayer on the implementation of tax laws through three indicators of tax compliance as described above. Obviously there are other factors that influence the perception of taxpayers in the SMEs sector in East Java Province.

These findings were also corroborated by the results of interviews conducted with some of the entrepreneurs in the SMEs sector. In this case the low level of tax compliance can be caused by misunderstanding factors of the public on payment mechanisms and delivery of tax returns. This incomprehension concerning the knowledge of taxpayers against what should be done related to tax liabilities for these types of activities in the SMEs sector. Knowledge on unequal society will have an impact on tax revenue short of targets based on the potential of existing taxation. In addition to the problem of incomprehension, of trust (trust) communities against tax management is also a cause of the low tax compliance SMEs sector businesses. Trust the taxpayer to the tax authorities is an important factor that can foster the image of taxpayers towards tax management. High trust will be able to foster a positive perception of taxpayers regarding tax liabilities and tax to the welfare of society. This is supported by the results of interviews with businesses associated with non-compliance tax reasons:"... ..I still think whether tax money can be managed well by the government. From some news suggests many individual cases of corruption related to tax fraud in the form of tax money, corruption utilization of funds from central government finances or local government comes from taxes and inequality of development in the various regions...." Another respondent commented: "... ..I am as citizens expect much so that corruption cases can be solved with a good tax. Poor people are still in need of development outcomes that are not poor anymore and can prosper...."

The results are consistent with the results of research by Mukhlis, et al (2015) which emphasizes that education and knowledge are good taxes to increase tax compliance business

operators. Through education, taxation implemented most efficiently and drive to improve tax compliance, it can be expected tax compliance can be increased. In this case the trust factor and ease is also instrumental in the implementation of tax obligations for the business sector SMEs in the region. In this case, it takes policies to encourage the utilization of tax management and tax can be directed to activities that touch the lives of many people. Tax dissemination efforts could emphasis on the active participation of communities to understand correctly the tax in an effort to improve the lives of people. In this case the real interaction between tax officials with entrepreneurs in the SMEs sector can be directed towards improving public knowledge of tax and expansion of tax services to the whole society.

The problem of the low level of tax compliance remains a concern various researchers to examine in more depth. The review involves the identification of factors that influence the impact of tax compliance, and policy to improve tax compliance. The results of these studies are integrated with the development of theories that are relevant in explaining the tax compliance. In some conclusion, the complexity and difficulty in analyzing both related to compliance measurement indicators, selection of methods of analysis, and determination of variables in tax compliance. In this case Langham, et.al (2012) conducted a study on tax compliance of small and medium businesses (small and medium enterprises) in Australia in the psychological perspective using Azjen theory (1991). Based on these results indicate that the desire to obey the tax (the intention to comply) may not always be a strong predictor of the behavior to comply taxes. In other words there are in fact other factors that may affect the level of tax compliance in the sector, especially SMEs.

CONCLUSION

Tax compliance is a taxpayer's behavior in performing their tax obligations in accordance with applicable regulations. The size of the tax compliance rate is determined by several factors that are multidimensional. These factors may also be categorized as a factor of economic and non-economic factors. This study focuses on the exploration tax compliance characteristics of SMEs sector businesses located in different districts / cities in East Java Province, Indonesia.

The results provide the conclusion that most respondents age range in the interval between the ages of 43 years to 48 years of 33.1%. This shows the great potential in the development of SMEs sector in the region, due in part businesses still in the productive age range. An important result of this research is the level of tax compliance business operators in the sector SMEs in the region are still low; this is indicated by the level of ownership of Taxpayer Identification Number (TIN). From the data that can be collected as many as 283 respondents, 79% of SMEs sector businesses do not have a TIN. In addition, also based on

three indicators of tax compliance proposed by Brown and Mazur (2003) showed that the level of tax compliance SMEs sector businesses in various districts / cities in East Java, Indonesia is still low. This is supported by the response of businesses to the questionnaire that was delivered with the majority of respondents said never be punctual in paying taxes (42%), never on time in delivering report notification letter (SPT) tax (42%), and never willing to paying taxes (37%)

POLICY RECOMMENDATIONS

Based on these results, the recommendations policy that can be delivered are:

a. The government needs to improve accessibility for the business sector SMEs in the fulfillment of the tax obligations. This can be done by providing a range of additional services in the administration of TIN, tax payment and reporting SPT.

b. The tax apparatus may provide socialization in real terms to businesses on taxation laws in the field of SMEs. This activity can be carried out in the centers and the activities of SMEs in the market. To support the success rate of this activity, it takes taxes volunteers that can be collected from various existing tax communities.

c. For other researchers, it is suggested in order to explore the tax compliance from another perspective, as a moral perspective and local knowledge that exist in the community of taxpayers.

LIMITATION OF THE STUDY

Limitation of the study is the small sample size compared with the total population of businesses in the SME sector. There were difficulties in determining the amount of a representative sample representative of the overall population. Therefore, other researchers may use other sampling techniques in analyzing the object of SMEs. In addition, also the method of analysis used only descriptive so not describe the depth of the problem. Therefore, in another study could be developed another method of analysis using either a qualitative and quantitative approach.

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