CHAPTER I

INTRODUCTION

1.1 Research Background

Tax is one of the largest sources of state revenue as well as the main source of financing for national development. This is because the main source of the Indonesian state in funding the state budget (APBN) is taxes, so that taxes have a fairly large role in the Indonesian economy (Suyanto et al., 2016). The state budget for national development in the agricultural, industrial, banking, health, and educational sectors is financed with tax revenue. In addition, taxes are used for the welfare of the people as state levies whose rewards are not given directly, but are binding and can be forced (Wulandari et al., 2014). The size of the tax revenue contribution to state revenue has a significant impact on how well the government and the economy of the country are run.

One of the taxes that affects state revenue is the tax collected from Micro Small Medium Enterprises (MSMEs). Tax for MSMEs is a tax imposed on MSMEs taxpayers. In accordance with Government Regulation No. 23 of 2018 Concerning Income Tax on Income from Business Received or Accrued by Taxpayers who have a Certain Gross Turnover, MSMEs taxpayers have a final income tax rate of 0.5% with the application of a self-assessment system. This tax collection system requires people who are registered as taxpayers to make tax payments independently. Taxpayers are required to register, calculate, pay and report the amount of tax to be paid as their own obligations, but the implementation of this system requires taxpayer compliance so that it can be implemented properly.

The success of tax revenues originating from MSMEs taxpayers is influenced by taxpayer compliance. Implementing rights and fulfilling tax obligations is a condition that describes taxpayer compliance (Rohmawati et al., 2012). According to Fatimah & Wardani (2017), regularity in paying taxes can show good taxpayer compliance. Taxpayers are expected to comply with all applicable tax laws and regulations as a form of compliance, both by fulfilling their obligations and by exercising their tax rights (Widowati, 2015). Compliance in registering, submitting tax return for all types of taxes on time, calculating and then paying taxes owed and paying tax arrears are some of the advantages of taxpayer compliance (Winerungan, 2013).

Increased taxpayer compliance regarding the importance of paying taxes can grow through good tax knowledge and can be carried out in accordance with tax laws and regulations. According to Tambun (2016), the right behavior cannot be determined by the taxpayer if the taxpayer does not have knowledge of the tax regulations and processes. In addition, taxpayer compliance appears naturally and is usually influenced by environmental factors. Based on several previous studies, taxpayer compliance is also influenced by several factors such as taxpayer attitudes (Mahardika, 2015; Rahayu, 2017), taxpayer awareness (Amalia, Topowijono, & Dwiatmanto, 2016; Ilhamsyah et al., 2016; Putri & Jati, 2015; Saputra et al., 2016), and compliance cost factors (Mangoting & Fuadi, 2013).

The internal factor in the context of taxpayer compliance that influences a person's behavior in paying taxes is personality. Personality will reflect the thoughts and actions carried out by each individual. According to Costa & McRae (1992), individual dispositions or tendencies that produce certain patterns of behavior and

behavior in various contexts are referred to as personality. The unique qualities that determine the essence of a person are reflected in all his thoughts and deeds which are known as personality (Devaraj, Easley, & Crant, 2008). It is known that a person's personality is quite helpful in predicting his capacity to make decisions (Santhamery & Ramayah, 2015), one of which is regarding compliance in paying taxes.

Individual personality can be explained through The Big Five Personality which consists of five personalities, namely extraversion, conscientiousness, openness to experience, neuroticism, and agreeableness (Costa & McRae, 1992; McRae & Costa, 1990). The theory of "Big Five Personality" is a theory put forward by a famous psychologist, namely Lewis Goldberg. The Big Five Model is the most general trait framework, widely accepted in the history of personality psychology (Funder, 2001; Judge & Zapata, 2015), but to understand how personality traits affect individual taxpayer compliance there are still gaps. Previous research has found that in using the Big Five Framework there are three of the five traits (agreeableness, conscientiousness, and neuroticism) that are most relevant when used to explore unethical behavior (Sacket & Wanek, 1996; Kolz, 1999; Kalshoven, Den Hartog, & De Hoogh, 2011). The Big Five Personality can be applied in any culture, is stable, is considered genetically based and is formulated using various research methods. This is supported by the statement of Kalshoven, Den Hartog, & De Hoogh (2011), that measuring and determining a person's personality is the goal of the comprehensive theoretical framework provided by the Big Five Personality.

Research related to the effect of taxpayer personality on tax compliance has been carried out by Kusumastuti (2018) and Huels & Parboteeah (2019). Previous

research related to extraversion, conscientiousness, openness to experience, neuroticism, and agreeableness was continued by researchers using personality as a guideline, it was concluded that individuals who have a desire to succeed in business organizations will need the Big Five Personality (Salter et al., 2010). The influence of the characteristics of the Big Five Personality on professional actions in the accounting literature has not received much attention (Blaufus & Zinowsky, 2013), especially research related to taxpayer compliance, but several behaviors in various fields such as job selection, wages, job performance, health behavior, pregnant teens, and crime can be successfully predicted by the Big Five of Personalities (Borghans, Duckworth, Heckman, & Baster, 2008).

The limited number of previous studies regarding the effect of the Big Five Personality on taxpayer compliance make researcher interested to conduct this research by replicating the research that has been conducted by Kusumastuti (2018), but this study has a slightly different focus. The object of this research is the taxpayers of MSMEs actors in Bukittinggi City. Taxpayers of MSMEs actors were chosen as objects in this study because there are still many MSMEs actors who have not carried out their tax obligations properly. This was observed by the researcher when researcher was running an Internship & Community Service in Bukittinggi City. Many of them are registered as MSMEs taxpayers, but have not carried out their tax obligations such as filling out tax return incorrectly, paying taxes with inappropriate amounts, paying taxes not on time, and reporting tax returns not on time. This indicates that taxpayer compliance in paying MSMEs taxes is still low. Many of them are aware of the mistake, but do not care about this condition. The

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indifference they show is assumed because their personality influences their tax compliance.

Based on this background, the main focus in this study is the taxpayer compliance of MSMEs actors in Bukittinggi City using the Big Five Personality approach. Through the Big Five Personality theory, the influence of personality on taxpayer compliance of MSMEs actors in paying taxes can be determined and measured precisely. In an effort to encourage taxpayer compliance for MSMEs in Bukittinggi City, it is hoped that the findings of this study can be a solution for related parties, especially the local government as an evaluation to increase MSMEs tax revenue.

1.2 Problem Formulation

The Big Five Personality consists of five factors, each of which has different characteristics. Extraversion, conscientiousness, openness to experience, neuroticism, and agreeableness are formed from the personality possessed by individuals. This factor is assumed to influence taxpayer compliance in paying taxes. This study wants to examine the effect of the Big Five Personality on taxpayer compliance in paying MSMEs taxes. Based on the description above, problem formulation to be studied in this study is as follows:

1. Does extraversion have a significant effect on taxpayer compliance in paying MSMEs taxes?

2. Does conscientiousness have a significant effect on taxpayer compliance in paying MSMEs taxes?

3. Does openness to experience have a significant effect on taxpayer compliance in paying MSMEs taxes?

4. Does neuroticism have a significant effect on taxpayer compliance in paying MSMEs taxes?

5. Does agreeableness have a significant effect on taxpayer compliance in paying MSMEs taxes?

1.3 Research Objectives

The limitations of previous research have become an opportunity for researchers to conduct research on taxpayer compliance. The low compliance of taxpayers in paying MSMEs taxes is currently common and has not been of particular concern. Based on this description, the objectives of this study are as follows:

1. To examine empirically the effect of extraversion on taxpayer compliance in paying MSMEs taxes.

2. To examine empirically the effect of conscientiousness on taxpayer compliance in paying MSMEs taxes.

3. To examine empirically the effect of openness to experience on taxpayer compliance in paying MSMEs taxes.

4. To examine empirically the effect of neuroticism on taxpayer compliance in paying MSMEs taxes.

5. To examine empirically the effect of agreeableness on taxpayer compliance in paying MSMEs taxes.

1.4 Research Benefits

This research was conducted to obtain some expected results that can later be used by certain parties. They can use the results of this research for several purposes. It is hoped that this research will provide the following benefits:

1. Academic Benefits

    This research is expected to contribute to developing tax literature related to the influence of the Big Five Personality on taxpayer compliance in paying MSMEs taxes and become one of the references as well as guidelines for further research on the same topic.

2. Practical Benefits

    This research is expected to be a foundation in raising awareness of MSMEs taxpayers in paying their tax obligations. In addition, this research is expected to be input and general considerations for the government in improving the quality of taxpayer compliance for MSMEs actors through the analysis of the Big Five Personality approach.

1.5 Writing Systematic

The writing systematic in this study consists of five chapters. The first chapter is introduction which consists of research background, problem formulation, research objectives, research benefits, and the writing systematic. The second chapter is literature review which consist of theoretical basis, previous research, hypothesis development, and conceptual framework. The third chapter is research methodology which consists of research design, population and sample, data and data collection method, research variables and variable operational definition, and data analysis method. The fourth chapter is results and discussion

which consists of description of research objects, data analysis, multiple linear regression test, hypothesis test, and discussion. The fifth chapter is conclusion and suggestions which consist of conclusion, limitations, and suggestions.