

## CHAPTER I

### INTRODUCTION

#### 1.1 Research Background

According to Law Number 7 of 2021 on the Harmonization of Tax Regulations, "Tax is a mandatory contribution to the state owed by individuals or entities that is coercive in nature, based on the law, without direct compensation, and used for state purposes to the greatest extent possible for the prosperity of the people." The Indonesian economy is fundamentally intertwined with the role of taxes, as they constitute a significant source of state revenue. In the State Budget (APBN), the most crucial portion of income, 78.9% or nearly 80%, comes from taxes, with the remainder derived from non-tax revenues and grants (Badan Pusat Statistik, 2023). Based on observations of the APBN from state revenues in 2022, as outlined in Table 1.1.

**Table 1.1 APBN for 2022**

GOVERNMENT REVENUES	AMOUNT
<b>I. Domestic Revenue</b>	
Tax Revenue	Rp 1.924,9 T
Non-Tax Revenue	Rp 510,9 T
<b>II. Grant</b>	Rp 1,0 T
<b>Total</b>	Rp 2.436,9 T

Source: bps.go.id

Table 1.1 shows that the majority of revenue is derived from taxation, contributing approximately 78.9% of the total income, which amounts to 1,924.9

trillion Rupiah. However, it is essential to note that the country's economic growth can influence tax revenue. The higher the national income, the greater the capacity of the populace to pay their taxes.

The primary issue related to the taxation system in Indonesia is the low compliance rate among taxpayers in reporting and paying the taxes they owe. This indicates that the tax reporting and payment processes still have low participation rates in Indonesia. The impact of this problem is that Indonesia's tax performance needs to catch up to that of other countries.

Tax compliance is a crucial aspect of achieving national revenue targets. However, according to reports from the Directorate General of Taxes, the compliance rate among individual taxpayers, particularly professionals, remains very low. This low compliance among professionals is a significant issue. In 2014, out of Rp981.9 trillion in realized tax revenue, only Rp4.7 trillion came from individual taxpayers. Of the 2.73 million non-employee individual taxpayers required to file annual tax returns, only 637 thousand, or about 23 percent, did so. Therefore, the Directorate General of Taxes actively conducts outreach to individual taxpayers, especially professionals such as doctors, lawyers, artists, and other entertainers, as these professions typically have high incomes. Non-employee individual taxpayers are seen as contributing insufficiently to tax revenue and require a well-planned approach to improve their compliance (sumbar.antaranews.com). This highlights the significant challenge of collecting taxes from professionals, who should have substantial tax revenue potential.

According to Article 1 No. 24 of the General Provisions and Tax Procedures Law, independent work is performed by individuals with specific skills to earn income

without an employment relationship. Examples of independent work include consultants, accountants, lawyers, insurance agents, and similar professions. Individual working professionals must be aware of the applicable tax obligations to achieve optimal tax revenue. Tax compliance issues are a significant concern in Indonesia, as many taxpayers are non-compliant, leading to tax evasion, negligence, and reduced tax revenue (Anggraeni & Farina, 2022).

Individual working professionals are more prone to non-compliance with tax obligations. This is because they may need to be fully aware of or understand the detailed tax obligations they must fulfill, are not tied to an employer, and do not have automatic tax deductions as company employees do. Additionally, the lack of organizations, bodies, or associations that monitor or assist in ensuring their tax compliance increases the risk of non-compliance. External oversight and adequate guidance are necessary for many working professionals to avoid neglecting their tax obligations, intentionally or unintentionally (Sani & Sulfan, 2022).

The 1983 tax reform shifted the approach from an official assessment to a self-assessment system to increase national revenue targets through taxation. In this reform, Indonesia implemented a self-assessment system where taxpayers, including individual working professionals, are required to pay taxes through self-reporting. This approach allows taxpayers to independently calculate, pay, and report their income taxes for each tax year.

This Self Assessment System requires Taxpayers to have competence, honesty, ability and readiness to report and submit Annual Tax Returns accurately. By submitting the SPT, the taxpayer shows his compliance. Previous studies have

identified various variables that influence the tax compliance of professional taxpayers, including Awareness (Kisniati, 2019; Primasari, 2016; Afritenti et al., 2020; Nugroho & Zulaikha, 2012), Knowledge (Primasari, 2016; Prihatiningsih, 2020; Nugroho & Zulaikha, 2012), Perception (Kisniati, 2019; Afritenti et al., 2020; Nugroho & Zulaikha, 2012), Sanctions (Prihatiningsih, 2020; Anggraeni & Farina, 2022), Trust (Primasari, 2016; Prihatiningsih, 2020), Socialization (Primasari, 2016; Anggraeni & Farina, 2022), Service (Anggraeni & Farina, 2022; Nugroho & Zulaikha, 2012), and Tax Policy (Primasari, 2016; Prihatiningsih, 2020; Nugroho & Zulaikha, 2012). The focus of this research is on variables encompassing cognitive aspects (knowledge), direct experiences (services), and affective aspects (trust) which are relevant to efforts aimed at improving voluntary compliance among taxpayers who tend to be critical and rational in evaluating the taxation system.

Tax knowledge is a critical factor in determining the extent to which professional taxpayers understand their tax obligations. According to previous studies, as highlighted by Afritenti et al. (2020) and Prihatiningsih (2020), taxpayers with a solid understanding of tax regulations tend to be more compliant in fulfilling their tax duties. These findings suggest that having sufficient knowledge about calculation methods, reporting procedures, and other tax obligations is crucial for professionals who have more complex tax responsibilities. In Indonesia's self-assessment system, where taxpayers are expected to calculate, report, and pay taxes independently, knowledge of tax regulations plays a significant role in reducing the risk of errors and improving compliance.



Moreover, good fiscal services have a substantial impact on the tax compliance of individual taxpayers, especially those who are self-employed. Informative and efficient services help enhance taxpayers' understanding of their obligations, reduce administrative burdens, and make the tax process more accessible. Fair and transparent treatment by tax officers builds trust and comfort, easing taxpayers' concerns. Easy access to information assistance, as well as services offering guidance and consultation, support taxpayers in managing their tax obligations more effectively. Research by Anggraeni & Farina (2022) indicates that efficient and professional services provided by tax authorities tend to create a sense of trust and comfort, encouraging taxpayers to comply with their tax obligations. On the other hand, poor or unresponsive service can trigger dissatisfaction and may reduce taxpayers' motivation to comply with tax regulations. These factors not only enhance tax compliance but also represent an essential step in improving taxpayer adherence in Indonesia, especially for professionals who require more complex services, while also strengthening the positive relationship between taxpayers and the government.

Trust in government plays a critical role, particularly in fostering voluntary tax compliance. Self-employed professionals' trust in how the government manages public funds and operates the tax system significantly influences their compliance levels. The Slippery Slope Theory, proposed by Kirchler et al. (2008), suggests that taxpayers' trust in the government increases voluntary compliance. When taxpayers believe that the government manages taxes transparently and fairly and that the taxes they pay are used for public welfare, they are more motivated to comply. Studies by Nugroho and Zulaikha (2012) and Anggraeni & Farina (2022) emphasize that taxpayers with high

trust in the government's transparency and accountability in managing tax revenues are more likely to fulfil their tax obligations. This trust involves the perception that taxes are used for public interests, such as infrastructure development and other public services, and that the government acts reasonably in managing tax revenues. In contrast, a lack of trust in the government, such as concerns about non-transparent public fund management or negative perceptions of tax officers, can lower the level of compliance.

Taxes are a crucial pillar in national development. However, many people still need to comply with tax obligations due to a lack of understanding, perceptions of unclear benefits, and doubts about the fairness of tax fund usage. To increase citizens' compliance with their tax obligations, improving their knowledge of the importance of taxes and enhancing trust in the tax system is necessary.

## **1.2 Research Question**

1. How does tax knowledge influence the tax compliance of individual working professionals?
2. How does fiscal services influence the tax compliance of individual working professionals?
3. How does Trust in Government influence the tax compliance of individual working professionals?

### 1.3 Research Objective

1. To investigate the influence of tax knowledge on the tax compliance of individual working professionals.
2. To investigate the influence of the quality of fiscal services on the tax compliance of individual working professionals.
3. To investigate the influence of Trust in Government on the tax compliance of individual working professionals.

### 1.4 Research Contribution

This research is expected to provide benefits and contributions for the future and also interested parties :

1. Theoretical

This research is expected to enrich the existing literature on tax compliance by providing empirical evidence on how tax knowledge, the quality of fiscal services, and Trust in Government influence the tax compliance of individual working professionals. This study aims to better understand the behavioral aspects of tax compliance in the context of independent work.

2. Practical

Tax authorities can use the findings from this research to design and implement more effective policies and strategies to improve tax compliance among individual working professionals. By understanding the factors that

influence tax compliance, tax authorities can tailor their education programs and services to address individual working professionals' specific needs and concerns.

## **1.5 Writing Systematic**

### **CHAPTER I: INTRODUCTION**

This chapter describes the background of the research problem, the problem formulation, the research objectives, the research benefits, and the writing structure.

### **CHAPTER II: LITERATURE REVIEW**

This chapter reviews the literature related to the research topics and previous research.

### **CHAPTER III: RESEARCH METHODS**

This chapter outlines the research methodology, including the research design, data collection methods, population and sample, and data analysis techniques.

### **CHAPTER IV: RESULTS AND DISCUSSION**

This chapter presents the results of data collection, data analysis, and the result discussion.

### **CHAPTER V: CONCLUSION**

This chapter concludes the research results, discusses the study's limitations, and offers suggestions for future research.