

# The Response of Taxpayers to Tax Regulations Reviewed From the Social Community

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**Abstract:** This qualitative study aims to descriptively describe the various responses of taxpayers to the dynamics of taxation based on the socio-cultural community using the stimulus organism response theory. The data were obtained through observation and in-depth interviews, using Zoom Cloud meetings, with entrepreneurs in the province of East Nusa Tenggara. Data collection was conducted from January to March 2021 in Surabaya. The analysis was carried out using performance analysis, namely individual experience. The results indicated that the social environment affects the responses of obeying, indifferent but obedient, doing tax management, and evasion for certain reasons. Tax socialization to provide a comprehensive understanding to all taxable entrepreneurs is needed to improve the response of entrepreneurs to tax regulations to increase taxpayer compliance.

**Keywords:** Management; social factors; social community; tax; tax management.

## 1. INTRODUCTION

Taxes are a sector that contributes significantly to Indonesia's revenues compared to those from non-taxes. Thus, the government continues to try to increase the growth of taxpayers and tax revenues through tax reforms. In 1983, Indonesia implemented a Self-Assessment System, which means giving full authority and trust to taxpayers, including recording, calculating, paying, and reporting their taxes under applicable regulations. Meanwhile, the tax authorities are responsible for providing services, supervision, and guidance to taxpayers (Rahmawati and Achadiyah, 2014).

New paragraph: use this style when you need to begin a new paragraph. Minister of Finance of Indonesia, Sri Mulyani, said that the government had set a target for tax revenues in 2021 to increase by 2.6% to 10.5% year on year (YoY) (Ridhoi, 2021). In nominal terms, the revenue is targeted at IDR 1,441.07 to 1,551.9 trillion. The goal was set based on economic projections for next year, which improved after falling on account of the coronavirus pandemic. The government has taken some measures to increase tax revenue, such as encouraging data recovery and economic transformation, providing tax incentives, exempting import duties to accelerate investment entry and improving the economy, encouraging the realization of the Omnibus Law bill, and optimizing digital or trade tax revenues through the electronic system (PMSE).

The set goal can be achieved if the taxpayers are obedient in fulfilling their tax obligations. Taxpayer compliance arises from several factors. Simanjuntak and Mukhlis (2013), argue that those factors include understanding the tax regulations, tax rates, sanctions, and fairness. Lack of understanding of tax

(MSME) taxpayers falling into the group of non-compliant taxpayers. A good and correct understanding of tax regulations must be given to the public, especially MSME taxpayers and there must be clear tax rates to determine the amount of tax to be paid.

Ningtyas (2021), shows that tax rates have a significant effect on taxpayer compliance. Thus, taxpayer compliance is affected by a clear rate setting, and the subject and object of the tax must be fairly determined.

Compliance in paying taxes is affected by general justice and distribution of the tax burden, in which the tax imposed must be proportional to the ability to pay taxes (Dharmawan, 2012). Government Regulation number 46 of 2013 cannot cover all burdens of taxes borne. Roseline (2012), states that justice in taxation has a significant effect on taxpayer compliance. Thus, the principle of justice could increase taxpayer compliance.

Research by Sugiarto (2016), using MSME taxpayers in Surakarta found that ethnicity influences the behaviors of taxpayers. Meanwhile, Sutanto and Nurrachman proved the relationship between culture and business success through differences in the meaning of entrepreneurship in Javanese, Minangkabau, and Chinese ethnic groups (Sutanto and Nurrachman, 2018). Similar research was also conducted by Prasetyo (2014) and Rohmah et al., (2017), on the successful strategy of the Chinese ethnic entrepreneurs, and Roesminingsih (2000), on the entrepreneurial spirit of the Javanese ethnic.

Qualitative studies on the behaviors of taxpayers, especially economic behavior, explain the reasons that underlie a decision influenced by psychology and economics (Mathew, 2018), (Diacon, 2014), (Laibson and List, 2015), (Oduor and Oinas-Kukkonen, 2018). Compliance is not only affected by the sanctions but there are more complex reasons, and these contain risks (decision under risk). Thus, taxpayers can take

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wrong decisions (behavioral errors) that cause non-compliance (Ariely, 2010).

Many studies have found that culture can influence the behavior of its people (Levinson and Peng, 2007), (O'Boyle, 2016). Furthermore, culture and ethnicity can also affect behaviors in dealing with taxes (Roth et al., 1989), (Fischer et al., 1992), (Richardson, 2005), (McGee et al., 2008), (Chau and Leung, 2009), (Yong and Martin, 2016). However, Lieberman (2002), contradicts that research by stating that culture does not affect the behavior of taxpayers. Based on the explanation above, it can be concluded that the government issues tax policies or regulations to increase tax revenue. The response of taxpayers to the policy can vary, including variations in social groups of taxpayers. Therefore, this study aims to examine the response of taxpayers to tax regulations based on the socio-cultural community.

## 2. LITERATURE REVIEW

Taxpayer compliance is affected by their ability to pay properly and correctly by taxation. Per Working Time Regulation Number 192/PMK.03/2007 Article 1, compliant taxpayers can receive a preliminary refund of tax overpayments if they meet all of the following requirements:

- a) Punctual in submitting the Notification Letter;
- b) Do not have tax arrears for all types of taxes, except they have obtained permission to make installments or postpone tax payments;
- c) The financial statements are audited by a public accountant or financial services authority with an unqualified opinion for three consecutive years; and
- d) Never been convicted of a crime in taxation based on a court decision that has permanent legal force within the last five years.

The Organization for Economic Co-operation and Development or OECD stated that social capital is a shared network of norms, values, and understandings that facilitate cooperation within groups (OECD, 2001). The closer a group is, the more distant it can be from other groups.

Yong and Martin (2016), argue that groups can be a source of financial and human resources for entrepreneurship due to their kinship. However, groups can be disadvantageous for their restrictions on business opportunities.

Similar statements were made by Sari (2009) and Widihastuti (2011), that the elements of social capital of social networks, trust, and norms have a role in trade. Trust forms relationships between actors in trade, while social networks empower access to information and resource, also obtaining business partners. Norms regulate the behavior of actors in the continuity of the market. The cooperative relationship is a group function used to maintain the business, as Hasbullah (2006), explains that social capital is the ability of the community in groups to work together to build networks for a common goal.

On the other hand, Putnam contradicts the theory by explaining that each individual in the group already has a reciprocal bond and trust (Putnam, 2000). By social capital, a person will have several advantages or privileges. However, the lack

of social capital will hinder business activities (Katila and Wahlbeck, 2012).

Leonardi et al., (2001), explain bonding as the value that has been given to social networks in the same group of people, while bridging applies to different groups. It shows that social capital does not always provide the same benefits for everyone. As bonding is an internal and exclusive action, the relationship between people who have the same ethnicity will have a strong and beneficial relationship. Gittel and Vidal (1998), agree with this by stating that there are three main branches in social capital, that is bonding, bridging, and linking social capital.

Thus, social networks also affect the economic situation, such as the income of the main entrepreneur (leader) in a network will affect other entrepreneurs (followers) (Neu-mark and Postlewaite, 1998). Social capital, especially the cultural diversity possessed by entrepreneurs, will lead to different attitudes toward taxation (Song and Yarbrough, 1978), (Coleman and Freeman, 1994), (Birch et al., 2003), (Rothengatter, 2019).

According to the norm theory developed by Kahneman and Miller (1986), each object and event will produce its norm through retrieval of the same experience stored in memory. The normality of the stimulus is evaluated by comparing it to the norms that emerge after that fact. Abnormal actions (deviating from the norm) will make it easier for people to think the opposite of what will happen, thus, be more mutable (easy to change).

Kahneman and Miller (1986), also argue that the consequences of action have a stronger emotional impact than inaction, as abstention behavior is usually relatively lower or lighter in the process of imagination compared to when someone acts. In short, based on the norm theory, action is unusual or abnormal. An interesting example is given by Simonson (1992), that people who search for their name in a list will experience more regret when they search from the bottom and then find their name at the top than people who search from above and find their name at the bottom. The reason for looking for a name from above is a conform to the norm, whereas searching from the bottom is abnormal (uncommon).

Social norms represent the characteristics of a group as they describe what a group thinks, feels, and does. Thus, to form a norm, there must be a group that describes the characteristics of the norm itself. The power of social norms in shaping behavior lies in the socio-psychological dynamics that emerge within a group, such as the tendency of group members to look to one another for guidance, affirmation, approval, and pressures to achieve group-generated uniformity (Turner, 1991).

Social norm theory argues that individual behavior is often influenced by perceptions of how other members of a group think and act (Berkowitz, 2003). The social norm approach was originally developed by Perkins and Berkowitz (1986), on alcohol usage in students. They explained that most students perceive their friends as providing support for drinking behavior, and this perception can predict how much a person drinks alcohol. They recommend that prevention measures that focus on accurate information about peer attitudes and

behavior toward liquor can be an effective substitute for traditional prevention strategies that highlight abuse, negative consequences, and healing problematic users (Perkins and Berkowitz, 1986).

Injunctive social norms refer to rules or beliefs on behavior that are morally acceptable and unacceptable. In contrast to descriptive norms, which are based on behaviors that have emerged and have been carried out, injunctive norms are based on what should be done. It means that injunctive norms regulate through social rules and sanctions in general rather than through general behavior that appears. The pur-

pose of these norms is quite similar. However, both are conceptually and motivationally different. Thus, it is important to understand properly to distinguish between the two, especially in situations involving both norms simultaneously (Cialdini et al., 1991).

### 3. METHODOLOGY

#### 3.1 Research Framework

The research framework can be seen in Fig. (1).

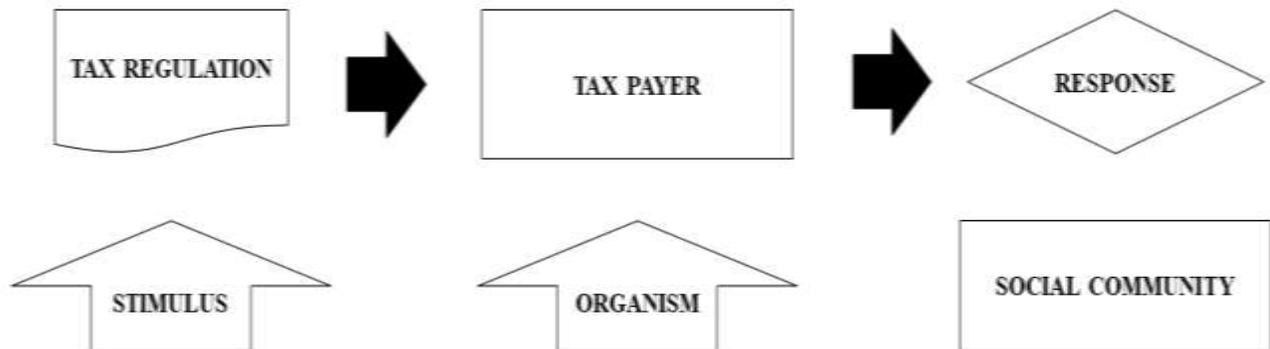


Fig. (1). Research framework.

#### 3.2 Types of Research

The research method is a scientific way to get valid data with the aim of being able to find, develop, and prove certain knowledge that can be used to understand, solve, and anticipate problems (Sugiyono, 2008). This study explores the response of the social community in the East Nusa Tenggara region to the current tax regulations.

This study used a qualitative approach, in which Denzin and Lincoln (1994), explain that qualitative research is research that uses a natural setting to interpret phenomena that occur and is carried out by involving various existing methods. Anggito (2018), states that qualitative research seeks to find and narratively describe the performed activities and their impact on the observed objects.

Descriptive research is intended to collect information about the status of existing symptoms, according to what they were at the time the research was conducted (Arikunto, 2019). The author aimed to use this method to collect historical information and observe certain related aspects that can support the preparation of research reports. This study used the entrepreneurs in East Nusa Tenggara as samples and was conducted in Surabaya using the Zoom Cloud Meeting application in the period of January – March 2021.

#### 3.3 Data Collection

Data were collected through observation and interviews with the taxable entrepreneurs in East Nusa Tenggara using Zoom

Cloud Meeting. The observations were made in groups of entrepreneurs and researchers. The in-depth interview was carried out using question-and-answer sessions with or without interview guidelines, in which everyone understood the concept of taxation (Bungin, 2011).

#### 3.4 Data Analysis

Data were analyzed using a qualitative descriptive method to provide a clear picture of how taxpayers respond to tax regulations based on certain social groups. Thus, the authors used performance analysis through individual experience and a case study approach (Bungin, 2011). The type used in this study was an observational case study, with five components as follows: (1) research questions; (2) the proportion of research is in line with the scope of research; (3) research analysis units; (4) logic related to data; and (5) criteria for interpreting the findings (Bungin, 2011).

### 4. RESULTS

#### 4.1. Overview of Research Subjects

The research was conducted through interviews with Taxable Entrepreneurs in East Nusa Tenggara with an ethnic background of Chinese descent. Due to the pandemic conditions, interviews were done online using the Zoom application. Each informant was interviewed for more than 60 minutes at different times. Information about research subjects can be seen in Table 1.

**Table 1. Overview of Research Subjects**

No	Respondent Name	Type of Business	Residence
1.	Informant1	Gas Station	East Flores
2.	Informant2	Grocery store	Lembata
3.	Informant3	Transportation	East Flores
4.	Informant4	Grocery store	Belu
5.	Informant 5	Grocery store	Kupang

#### 4.2. Summary of Interview Results

Tax compliance. In running his business, informant 1 acts as the main actor and is assisted by his closest relatives. He emphasized that success is not determined by environment or ethnicity. This contradicts the research of Yong and Martin (2016), which argues that groups can provide finance and human resources for entrepreneurship due to kinship. However, groups can turn out to be disadvantageous as they can restrict business opportunities.

Informant 1 complies with tax regulations in Indonesia, and his willingness to fulfill the tax obligations is not affected by the surrounding or social community in which he is located. Moreover, as he has a large business in his area, he can be an example or benchmark to the surrounding area in carrying out taxation.

Informant 2 is active in socializing with other entrepreneurs, the surrounding environment, and even with the government. The informant thinks that socializing will bring many benefits for him as well as his business. Informant 2 maintains good relations with the government, especially the tax authorities. Thus, he is up to date with the issued regulations. The trust relationships between actors in trade and social networks play a role in accessing information and resources, also getting business partners. Meanwhile, norms are regulating the behavior of actors in the continuity of the market. The cooperative relationship is used to maintain the business as Hasbullah (2006), explains that social capital is the ability of the community in groups to work together to build networks for a common goal. However, even though there is a good relationship between the informant and the tax authority, Informant 2 considers that it also has an unfavorable impact on the informant. Informant 2 perceives that his movement is very limited as if it is controlled by the tax authority. The beneficial facilities that are obtained through approaching the government are in line with Kirchler et al., (2008), who stated the level of trust in the authorities has a significant effect on the attitude of taxpayers.

Informant 3 runs his business along with his closest relatives, and he shares the same values with Informant 1 regarding success factors and tax compliance. The informants admitted that the surrounding entrepreneurs found tax regulations in

Indonesia difficult to follow. Therefore, they tended to conduct transactions with non-taxable entrepreneurs.

Next, Informant 4 admits that he does not communicate with fellow entrepreneurs, either with those in the same area or with intensive partners. Informant 4 only establishes a relationship when they have business cooperation and it is limited to discussing work matters. The informant is not a member of a community group or the like, as he is busy managing the business.

Informant 4 uses a consultant in managing taxation, including tax planning, and provides an understanding of the latest tax regulations. Informant 4 affirmed that tax compliance is absolute, and he will always update and obey tax regulations in Indonesia. The informant also believes that the disobedience of others will not affect his decision. However, the informant did not deny that if the closest family needed urgent funds of a relatively big amount, the informant would look for ways through tax management.

Informant 5 had a bad experience in establishing relationships with the business community and society. As a result, Informant 5 is not part of any social and business communities. In the past, the informant expected benefits when joining a group, such as the convenience of business facilities, faster access to information, and support when encountering a problem.

Informant 5 complies with general tax regulations, but he also admitted that his compliance was influenced by the old business group he had joined. The informant admitted that if any of these business groups carry out tax management or even evasion, the informant will follow the group. This is in line with the statement of Yong and Martin (2016), related to groups' functions.

#### 5. DISCUSSION

Based on the statement of Informant 3, the surrounding entrepreneurs found taxation in Indonesia complicated to follow. Thus, they preferred to make transactions with non-taxable entrepreneurs. This follows the opinion of Auguste Comte (Johnson, 1988) who is considered a pioneer in sociology in trying to explain the principles of social order. According to Comte, consensus on basic beliefs and views is

always the main fundamental for solidarity in society. Those who prefer a business with non-taxable partners perceive it as a consensus among entrepreneurs. The same with the businesspersons around Informant 3, who looks up to him as an example to make tax payments, according to Talcott Parsons. In this case, the socialization process becomes important to internalize moral codes into the personality system of each individual. Modern functionalists, such as Talcott Parsons also underline the role of socialization in the internalization of values into individual personality systems so that individual behavior reflects the common goals (Ruman, 2016).

Meanwhile, Informants 4 and 5 were in line with Leonardi et al. (2001), related to bonding and bridging theories. It shows that social capital does not always provide the same benefits for everyone, as bonding is an internal and exclusive action, a strong and beneficial relationship will form between people of the same ethnicity.

Along with Leonardi et al., (2001), Gittel and Vidal (1998), also describe bonding, bridging, and linking social capital as three main branches of social capital. Bonding is the relationship between a person and the immediate environment, such as friends or family, so that this relationship is the strongest while bridging is the relationship between friends. The decision to leave the group is the result of dissatisfaction with the benefits obtained.

Another factor that can influence tax behavior and compliance is family. Family intervention on taxpayers is explained by Watson (1931), Bandura (1977), and Green (2000), who all suggest that behavior is determined by several predisposing factors (knowledge, attitudes, and beliefs). Individual behavior does not occur automatically but arises as a result of the Stimulus and Response (S-R) correlation. Stimulus is everything that comes from the environment with individual cognition, while the response is the resulting action from the stimulus. This behavior occurs in taxpayers, especially in rural areas in Indonesia. Environmental interactions with taxpayers who still have very close kinship relationships will affect their behavior and attitudes to fulfill their tax obligations, while older people will become role models for others.

## CONCLUSION

Not all taxable entrepreneurs are members of or interested in establishing social relations, whether it is business or other social groups. The motive to join the social community is to get favorable reciprocity, while those who are not a member are more likely to be busy focusing on their business and have no time to socialize. Entrepreneurs who were once members of a social community stated they were traumatized by events in the community that made them disadvantaged.

The social environment surrounding the entrepreneur more or less affects their business decisions in responding to taxation. The fast development dynamics of tax regulations make them a little behind, especially relating to the use of information technology. Besides, tax regulations are considered unfair and the relatively high tariffs make these entrepreneurs disappointed, so they have no interest in following the updates, but they are still obedient to pay taxes.

The role of a tax consultant is also very much needed by entrepreneurs. In some cases, entrepreneurs hand taxation entirely to the tax consultant. Some entrepreneurs often approach the tax authorities to get tax benefits. However, it makes them constrained by the tax regulations themselves.

Tax socialization to provide a comprehensive understanding to all taxable entrepreneurs is needed to improve the response of entrepreneurs to tax regulations to increase taxpayer compliance. Tax practitioners can also act as extensions of the authorities for the success of the tax program. The scope of this research is limited to entrepreneurs in East Nusa Tenggara. Therefore, subsequent research should expand the scope to obtain a broader picture of the tax response.

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## CONFLICT OF INTEREST STATEMENT

The authors declare that they have no conflict of interest.

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