THE EFFECT OF TAX FAIRNESS DIMENSION ON GOVERNMENT REGULATION NO. 55 OF 2022 TO SMES TAX PAYERS' COMPLIANCE

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ABSTRACT

Incentive is given to SMEs tax payers to keep their business alive due adverse effect of pandemic. Then government publish government regulation number 55 of 2022 to keep the incentive with fairness as the main principle. But Gerbing (1988) revealed that tax fairness is a multidimensional, so that this study aims to examine the impact of tax justice dimensions on government regulation number 55 of 2022 (PP No.55/2022) towards SMEs tax payers' compliance. This research used quantitative method with questionnaire as data collection method. Moreover, respondents in this research were SMEs in Surabaya who has tax ID number and turnover per year more than 300M. the data analysis technique used was SEM-PLS with Smart PLS software. The result showed that there was positive effect of general fairness, exchange with government, special provisions, and tax rate on SMEs tax payers' compliance. Besides that, self-interest has no effect on SMEs tax payers' compliance.

Keywords   : Government Regulation No. 55 of 2022; SMEs; Tax Compliance; Tax Fairness Dimension; Tax Reformation

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the resources of regional development and economic growth, so that SMEs must be empowered by providing financing for the continuity of their businesses (Law Number 7 of 2021). In the city of Surabaya, for example, SMEs are growing rapidly compared to other cities in East Java because the government is active in provided programs such as free FDA and brand registration, training, coaching, and financial aid. The Indonesian government is also empowering SMEs. The program recently provided is the National Economic Recovery program in the form of allocating funds by providing working capital guarantees, loan interest subsidies, credit restructuring, and tax incentives to increase GDP, which has been sluggish due to the pandemic. The tax incentive program borne by the government is widely used by taxpayers, but the program cannot be implemented for the long term because it affects the growth of the state budget.

Based on the state revenue realization data presented by Statistic Indonesia, in terms of income tax revenue it has decreased from 2020-2021 as the tax incentives borne by government are implemented. The government finally enacted Law Number 7 of 2021 concerning Harmonization of Tax Regulations,

one of which regulates tax incentives for SMEs. The issuance of this law is used to realize a fair tax system so as to be able to increase voluntary tax compliance along with optimal state revenue receipts (Law Number 7 of 2021). Tax reform for SMEs is in the final income tax cluster which is stipulated in detail in Government Regulation No. 55 of 2022. The basis for applying income tax on gross circulation (final income tax) remains the same as Government Regulation No. 23 of 2018, namely final income tax with a rate of 0.5% for entrepreneurs with turnover below IDR 4.8 billion, but entrepreneurs whose turnover in one tax year has not been able to reach IDR 500 million are not subject to tax. Tax fairness in the application of a minimum gross circulation limit of IDR 500 million seems fairer than Government Regulation No. 23 of 2018.

However, tax fairness is essential in developing tax regulations in order to increase tax compliance, so that the perception of tax fairness needs to be understood as a whole, not just on one side (Saad, N., 2011). It's shows that one of the limitations of previous studies is lack of literature and operational definition on tax fairness. Tax fairness is multidimensional, so researchers applicated it simpler and narrower on the side of tax regulations fairness which causes inconsistent results (Azmi, A. and Perumal, K., 2008). In addition, the majority of previous studies examined individual tax fairness which is one of the differences in this study (Shafaruddin, AD. R., *et al.*, 2022; Lumbantobing, A. and Fadli, B., 2019; Wardani, E. *et al.*, 2018; Thevaruban, J. S. and Anuradhi, S., 2020; Bin-Nashwan, S. A., *et al.*, 2021). This study is similar with Wulandari, S. and Budiaji, A. (2018) unlike other studies, this study examines SMEs like Wulandari, S. and Budiaji, A. (2018) but population on their study only fishermen and farmers.

The study focus on the perception of SME tax fairness in tax regulation reform sets the current study apart from previous research. Every time a tax regulation is reformed, tax compliance will become a classic problem that arises in the midst of it (Thahir, A. N. et al., 2021). What's more, SMEs are a group of medium to lower businesses compared to businesses with legal entities. Tax reform can be considered fair if the perception of SMEs taxpayers on the fairness of SMEs' tax regulations is positive and be able to increase tax compliance. The perception is formulated become tax fairness dimensions, namely general fairness, exchange with government, self-interest, special provisions, and tax rate. Therefore, this study examines the effect of Gerbing's tax fairness dimension in Government Regulation 55/2022 on SMEs tax compliance.

This research has a relationship with the Theory of Planned Behavior. The tax dimension which contains elements of planned behavior theory will determine the

taxpayer's intention or intention to act (behavior) or carry out his tax obligations. The attitude element can project how general fairness and exchange with government are able to determine whether taxpayers are obedient or not through their attitude in responding to the existing tax system and tax returns. Furthermore, on the subjective norm element, it can project how self-interests are able to determine whether or not taxpayers are obedient through the norms that apply in the taxpayer environment. The last element is perceived behavioral control, this element can project how special provisions and tax rates are able to determine whether taxpayers comply or not through their perceptions, which are driven by internal or external factors. In this case the perception is caused by external factors (government), because the tax rates and special provisions are set by the government.

II. RESEARCH METHOD

In this study, correlation of tax fairness dimension and tax compliance are analyzed by using quantitative methods and positivism approach through online survey questionnaire as data collection method. Assessment of the questionnaire statements using a Likert scale of 1-4, sequentially explained as Strongly Disagree (SD), Disagree (D), Agree (A), and Strongly Agree (SA). The target respondents of this study were individual SME taxpayers in the city of Surabaya, East Java with the characteristics of having a taxpayer ID number and turnover of IDR $\geq$300 million.

This study used a 27-measurement item that adapted from Wardani, E. et al. (2018); Permata, M. I. and Zahroh, F. (2022); Wulandari, S. and Budiaji, A. (2018); Mustapha, L. O. et al. (2015); Azmi, A. and Perumal, K. (2008); Verboon, P. and Dijke, M. V. (2007). A pilot study is undertaken to ensure that the points of the statement are understandable and correct. So, there are only 24 measurement items to analyzed the independent and dependent variable.

This study was tested using Partial Least Square Structural Equation Modeling (PLS-SEM) software with the outer model and inner model as the type of test. The outer model is carried out to test the validity and reliability of the data, while the inner model is carried out to test the strength of the research model and how strong the correlation between variables is.

III. RESULTS AND DISCUSSION

From the data obtained through distributing questionnaires to the Surabaya SMEs communities on the Facebook platform, the Surabaya SMEs association group, and several entrepreneurs at the Office of Surabaya City Cooperatives and SMEs generate statistical data that can be analyzed.

Table 1. Convergent Validity Test

	Outer Loading	AVE
X1.1	0,709	
X1.2	0,759	
X1.3	0,729	0,556
X1.5	0,769	
X1.6	0,760	
X2.1	0,676	
X2.2	0,717	
X2.3	0,719	0,508
X2.4	0,687	
X2.5	0,739	
X2.6	0,737	
X3.1	0,953	0,753
X3.2	0,773	
X4.1	0,894	0,776
X4.2	0,867	
X5.1	0,755	
X5.2	0,720	0,535
X5.3	0,779	
X5.4	0,666	
Y.1	0,740	
Y.4	0,693	
Y.6	0,781	0,558
Y.7	0,769	
Y.8	0,749	

Convergent Validity consists of factor loading value and the Average Variance Extracted (AVE) value testing. According to Hair, J. F. *et al.* (2014: 115) convergence validity can be fulfilled if the factor loading value is > 0.5, and the AVE value is > 0.5. Based on the results of data processing shown in table 1, the factor loading value for each indicator and the AVE value shows more than 0.5. So, it can be concluded that convergent validity criteria are fulfilled.

Table 2. First Fornell-Lacker Criterion

	X1 (GF)	X2 (EG)	X3 (SI)	X4 (SP)	X5 (TR)	Y (TC)
X1 (GF)	**0,715**					
X2 (EG)	0,523	**0,712**				
X3 (SI)	-0,046	-0,196	**0,850**			
X4 (SP)	0,453	0,406	-0,004	**0,881**		
X5 (TR)	0,674	0,510	0,021	0,358	**0,732**	
Y (TC)	*0,850*	0,619	-0,078	0,529	*0,747*	**0,710**

Source: Author's own compilation, 2023

Table 3. Second Fornell-Lacker Criterion

	X1 (GF)	X2 (EG)	X3 (SI)	X4 (SP)	X5 (TR)	Y (TC)
X1 (GF)	**0,746**					
X2 (EG)	0,487	**0,713**				
X3 (SI)	-0,000	-0,177	**0,868**			
X4 (SP)	0,451	0,403	-0,006	**0,881**		
X5 (TR)	0,661	0,506	0,032	0,361	**0,731**	
Y (TC)	0,745	0,638	-0,117	0,506	0,691	**0,74**

Source: Author's own compilation, 2023

Discriminant Validity is tested by looking at the value of the Fornell Larcker Criterion and cross loading. Discriminant validity can be fulfilled if the AVE root value in each construct variable is not smaller than the correlation of other construct variables in the Fornell Larcker Criterion and the indicator correlation value with the construct variable is not smaller than the other construct variables in cross loading.

Based on the results of data processing shown in table 2, it shows that the correlation values of the GF-TC and TC-TR variables have a greater value than the AVE root values of TC, GF, and TR. So, it can be seen that there are items that haven't been valid between the variables X1, X5, or Y. It was found that the question items GF4, GF7, TC2, TC3, TC5 need to be eliminated from the model. Table 3 showed that the final results of Fornell Lacker Criterion is accepted.

Table 4. Cross Loading Value

	X1	X2	X3	X4	X5	Y
X1.1	**0,709**	0,392	-0,021	0,299	0,431	0,508
X1.2	**0,759**	0,335	0,246	0,331	0,515	0,536
X1.3	**0,729**	0,282	-0,101	0,334	0,454	0,518
X1.5	**0,769**	0,361	0,064	0,410	0,536	0,621
X1.6	**0,760**	0,442	-0,186	0,299	0,518	0,585
X2.1	0,188	**0,676**	-0,160	0,119	0,238	0,344
X2.2	0,291	**0,717**	-0,139	0,211	0,380	0,403
X2.3	0,430	**0,719**	-0,183	0,342	0,445	0,523
X2.4	0,359	**0,687**	-0,022	0,316	0,422	0,421
X2.5	0,379	**0,739**	-0,153	0,363	0,324	0,476
X2.6	0,381	**0,737**	-0,099	0,313	0,331	0,515
X3.1	-0,005	-0,226	**0,953**	-0,000	0,002	-0,126
X3.2	0,010	-0,018	**0,773**	-0,017	0,085	-0,060
X4.1	0,433	0,355	0,042	**0,894**	0,346	0,468
X4.2	0,357	0,355	-0,059	**0,867**	0,288	0,421
X5.1	0,433	0,452	0,077	0,238	**0,755**	0,506
X5.2	0,628	0,327	0,153	0,312	**0,720**	0,550
X5.3	0,519	0,361	-0,098	0,328	**0,779**	0,572
X5.4	0,283	0,349	-0,061	0,131	**0,666**	0,339
Y.1	0,532	0,434	-0,010	0,270	0,593	**0,740**
Y.4	0,537	0,580	-0,237	0,545	0,455	**0,693**
Y.6	0,639	0,474	-0,068	0,387	0,540	**0,781**
Y.7	0,512	0,450	-0,009	0,349	0,510	**0,769**
Y.8	0,552	0,427	-0,096	0.314	0,481	**0,749**

Source: Author's own compilation, 2023

Based on the cross loading value in table 4, it shows that the loading factor value of the construct variable indicator has a higher value than the other variables. Therefore, by accepting the Fornell-Larcker Criterion value and cross loading, discriminant validity criteria are fulfilled.

Table 5. Reliability Test

Variabel	Cronbach's Alpha	Composite Reability
X1	0,800	0,862
X2	0,808	0,861
X3	0,706	0,858
X4	0,712	0,874
X5	0,714	0,821
Y	0,802	0,863

Source: Author's own compilation, 2023

The reliability test has Composite Reliability and Cronbach's Alpha stages. The data will be declared reliable if the Composite Reliability and Cronbach's Alpha values are not less than 0.7 (Hair, J. F. *et al.,* 2014: 123). Based on table 5 can be showed that the reliability test criteria are fulfilled and the data is reliable.

Table 6. Inner Model Result

	R Square	R Square Adjusted
Y	0,707	0,692

Source: Author's own compilation, 2023

Evaluation of the inner model is the next stage after the outer model is fulfilled. According to Hair, J. F. *et al.* (2014: 170), a research model will be declared good if the R^2 value in R-Square has a value of more than 12%. Based on table 6, the value of R Square Adjusted is 0.692. So it shows that the variable dimensions of tax justice namely General Fairness (X1), Exchange with Government (X2), Self-interests (X3), Special Provisions (X4), and Tax Rates (X5) can explain the SMEs Taxpayer Compliance (Y) of 69.2%.

Table 7. T-Statistic (Bootstrapping)

	Original Sample (O)	T-Statistics (|O/STDEV|)	P Values
X1 -> Y	0,393	4,347	0,000
X2 -> Y	0,246	3,494	0,001
X3 -> Y	-0,081	1,115	0,265
X4 -> Y	0,135	2,076	0,038
X5 -> Y	0,261	3,474	0,001

Source: Author's own compilation, 2023

Bootstrapping test was conducted to test the hypothesis. The hypothesis is accepted if the value of the t-statistic is >1.96 and the value of the p value is <0.05. Based on table 7, the results of testing the first hypothesis show a t-statistic value of

4.347 and a p-value of 0.000. So, first hypothesis is accepted that general fairness has a positive effect on SMEs tax compliance in the city of Surabaya. It's shows that the tax system of Government Regulation No. 55 of 2022 and its distribution is seen as fair by SMEs taxpayers in Surabaya, so that it can influence their tax compliance.

The results of testing the second hypothesis show a t-statistic value of 3.494 and a p-value of 0.001. So, second hypothesis is accepted that exchange with government has a positive effect on SMEs tax compliance in the city of Surabaya. It's shows that the government is able to provide counter-performance in balance with the tax burden stipulated in Government Regulation No. 55 of 2022. Fairness in giving exchange on the tax burden is able to encourage SMEs trust so as to encourage tax compliance.

The results of testing the third hypothesis show a t-statistic value of 1.115 and a p-value of 0.265. So, third hypothesis is rejected that self-interest has no effect on SMEs tax compliance in the city of Surabaya. It's shows that SMEs taxpayers doesn't make tax obligations and benefits received by other entrepreneurs as a benchmark for their tax compliance. Taxpayers pay more attention to the consequences if they didn't comply,

because these consequences could also affect their business income.

The results of testing the fourth hypothesis show a t-statistic value of 2.076 and a p-value of 0.038. So, fourth hypothesis is accepted that special provisions have a positive effect on SMEs tax compliance in the city of Surabaya. It's shows that in Government Regulation no. 55 of 2022 has been able to provide fair provisions for SMEs groups or business entities. Providing special provisions is able to encourage tax obligations because the tax burden is smaller than the tax burden in general.

The results of testing the fifth hypothesis show a t-statistic value of 3.474 and a p-value of 0.001. So, fifth hypothesis is accepted that tax rate has a positive effect on SMEs tax compliance in the city of Surabaya. It's shows that Government Regulation No. 55 of 2022 has been able to set fair tax rates for SMEs. The imposition of a non-taxable income of IDR 500 million for turnover per year is considered fairer than the previous regulation.

IV. CONCLUSION

The final conclusion of this study is that the dimensions of tax fairness formulated by Gerbing (1988) are able to have a positive influence on SMEs taxpayers' compliance in the City of Surabaya in the dimensions of general fairness,

exchange with government, special provisions, and tax rates in Government Regulation no. 55 of 2022. Meanwhile, the dimension of tax fairness of self-interests there's no influence on SMEs taxpayers' compliance in the City of Surabaya.

The limitations in this study are on the data collection technique. It's only used online questionnaires, so researchers didn't know the level of conformity of respondents' answers to reality. In addition, the sample did not reach the entire population in terms of annual turnover, which could lead to bias in the study. The final limitation in this study is the limited data provided by the Office of Surabaya City Cooperatives and SMEs, so that offline data dissemination is transferred to online.

That way, future research is expected to add interview methods to anticipate answers that aren't in accordance with reality. In addition, further researchers can disseminate data offline to the tax offices and other related agencies so that the population coverage is even wider, as well as adding other variables related to the dimensions of tax justice.

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