

## **The Effect of Income and Tax Knowledge upon Taxpayer Compliance in Paying Land and Building Tax in Pulutan Village**

**Christopher Siwi<sup>1</sup>, Stanny S. Rawung<sup>2</sup>, Maya Salindeho<sup>3</sup>**

Faculty Economics, Universitas Negeri Manado<sup>1,2,3</sup>

Jl. Kampus Fekon Unima di Tondano

Correspondence E-mail: stannyrawung@unima.ac.id

### **ABSTRACT**

This study aims to determine the effect of income and tax knowledge upon taxpayer compliance in paying Land and Building Tax in Pulutan Village. This study made use a quantitative approach with 75 samples. Data were collected through questionnaires and documentations. The results of the study were analyzed with multiple linear regression analysis. This study indicates that: (1) there is a positive and significant effect of income on tax compliance in paying Land and Building Tax in Pulutan Village; (2) there is a positive and significant effect of tax knowledge on tax compliance in paying Land and Building Tax in Pulutan Village; (3) there is a positive and significant effect of income and tax knowledge on tax compliance in paying Land and Building Tax in Pulutan Village.

**Keywords:** Revenue, Tax Knowledge, Taxpayer Compliance

### **INTRODUCTION**

#### **Research Background**

Indonesia is one of countries earning income through one of income sources, that is taxes. Tax is one of the largest revenue collections received by the Indonesian government among several other sources of income. The role of tax in increasingly generating state revenue is evident from its 80% revenue approximately derived from tax (Suparmono and Damayanti, 2010). This leads to the consequence THAT the realization of state revenue is heavily contingent on the tax sector. This clearly implies that tax sector revenue assists the government in facilitating developments in various existing sectors. Thus, taxes can be utilized to realize the 4<sup>th</sup> paragraph of the Constitution of Indonesia in improving the public welfare, advancing the intellectual life of the people and contributing to the establishment of a world order based on freedom, abiding peace and social justice.

Far from truth, taxpayers who do not carry out their obligations in their tax payable lower the tax revenue, and make targets unreachable. According to Minister of Finance, Sri Mulyani, our taxpayer compliance level remains low, by 62.3% (Times Indonesia, 2017).

Various attempts were made by the government to increase its tax revenue, beginning with a number of law reforms to simplify calculations, and tax imposition applicable to taxpayers' condition. Reforms in taxation continue to include the formulation and making of laws and regulations which are to ultimately improve taxpayer compliance in paying taxes. Land and Building Tax is one of mandatory taxes for the citizens.

Land and Building Tax (PBB) is a type of tax in Indonesia that is imposed on taxpayers who have rights, and or obtain benefits on land and buildings. Its subject is a person or entity having a clear right to the land, benefiting from the land, owning, controlling, and or benefiting from the building (Supramono and Damayanti, 2009).

Taxpayers have an important role in government's tax revenue. Without them there will be no tax revenue. Taxation is about revenue and payment, in which the payer is the taxpayer, while the recipient is the government or the tax authorities. This illustrates the importance of taxpayers. Thus, uncompliment will make the realization of revenue is far from the provisions set by the government or the tax authorities.

Taxpayer Compliance refers to the compliance of taxpayers with the obligation to pay taxes. According to Kamus Besar Bahasa Indonesia compliance means obedience. Thus, Taxpayer Compliance is the obedience or the compliant nature to carry out their obligations as taxpayers, in paying taxes.

A survey conducted by the author in the village of Pulutan shows public compliance as a taxpayer remains so low in 2014, 2015 and 2017 that the realization of Land and Building Tax revenues in Pulutan village is inconsistent (ups and downs) over years. Realization of Land and Building Tax revenue which reached the principal amount only occurred in 2016.

**Table 1: Land and Building Tax Revenue in Pulutan Village, Remboken District of 2014-2017**

YEAR	KEY PROVISIONS			REALIZATION			REMAINS		
	SPPT / WP	Tax payable	%	SPPT / WP	Tax payable	%	S.PPT / WB	Tax payable	%
2014	293	10,485,622	100	234	8,426,324	80	59	2,059,298	20
2015	293	10,485,622	100	248	9,014,695	86	_45	1,470,927	14
2016	293	10,485,622	100	293	10,485,622	100	-	-	-
2017	293	10,485,622	100	221	7,922,585	75	72	2,563,037	25

Source: Pulutan Village Government

The table above shows, in 2014, the realization of Land and Building Tax revenue in Pulutan Village were 80% by 10,485,622 rupiah. Out from the 293 taxpayers supposed to pay the land and building tax, only 234 taxpayers were compliant in paying the tax. In 2015 the realization of the Land and Building Tax increased by 6% amounted to 9,014,659 rupiah. This shows additional five taxpayers were compliant in paying the tax, while in 2016 the realization reached the principal stipulation. In 2017, there was a significant decrease which only reached 75%. This indicates only 221 taxpayers fulfilled their tax obligation.

The cause of non-compliant taxpayers is varied. The nature of income, which is mainly used to obtain taxpayers' life necessities, is considered a primary contributing factor. When fulfilling the tax provisions, the obligation to pay taxes to the state arises. A conflict occurs between personal and state interests. In general, personal interests are always won Rahayu (2013).

Rahayu (2013) further stated other factors that influence tax compliance are the condition of a country's taxation system, taxpayer services, tax law enforcement, audits, and rates. According to Fallen (1999) in Rahayu (2013), tax knowledge is very influential on their compliance. Broader knowledge brings a positive impact on their tax compliance. This study proposes factors that influence taxpayer compliance in paying Land and Building Tax are income and tax knowledge. Thus, taxpayer compliance is supposedly influenced by income and tax.

Based on the description above, the writer is interested in doing research about "The Effect of Income and Tax Knowledge upon Taxpayer Compliance in Paying Land and Building Tax in Pulutan Village."

#### **Formulation of Problems**

1. Is there an influence of income on taxpayer compliance in paying Land and Building tax?
2. Is there an influence of tax knowledge on taxpayer compliance in paying Land and Building tax?
3. Is there a joint effect of income and tax knowledge on taxpayer compliance in paying Land and Building tax?

#### **Research Objectives**

1. To determine the effect of income on taxpayer compliance in paying Land and Building Tax.
2. To determine the effect of tax knowledge on taxpayer compliance in paying Land and Building Tax.
3. To determine a joint effect of income and tax knowledge on taxpayer compliance in paying Land and Building Tax.

#### **Theoretical Review**

##### **Definition of Land and Building Tax**

According to Supramono and Damayanti (2010), the Land and Building Tax (PBB) is a tax imposed on land and buildings, the subjects of which are people or entities having rights to the land, obtaining benefits over the land, owning, controlling, and or obtaining benefits for buildings, whereas the objects are land and buildings.

##### **Definition of Tax Compliance**

According to the Kamus Umum Bahas (1995: 1013) in Rahayu (2013), the compliance means submission or obedience to teachings or rules. This gives a meaning that Tax Compliance is submission, and obedience to implementing tax provisions.

Taxpayer Compliance is the taxpayers' condition and behaviour obediently carrying out their obligations to pay their taxes in accordance with tax legislations.

### Definition of Income

According to Winardi (1993) in Fauziah (2009), income is money or other materials resulted from the use of free human services wealth.

According to Gilarso (1994), family income is any work obtained as a reward or repayment for one's contribution to the production process.

The definitions above lead to a conclusion that income is all revenues received by people in money or goods as remuneration from the factors of production.

### Definition of Tax Knowledge

Tax Knowledge is everything taxpayers know and understand about taxes, especially the Land and Building Tax.

### Framework Theory

The optimal realization of tax revenues, especially land and building tax, depends on the mandatory compliance in fulfilling all tax obligations. Taxpayer Compliance is a condition and behaviour of taxpayers obediently fulfilling their obligations to pay their taxes in accordance with tax legislations. No arrears, prompt and appropriate payments to the Tax Return allow us to see the Taxpayer Compliance. It arises from various factors including income and tax knowledge.

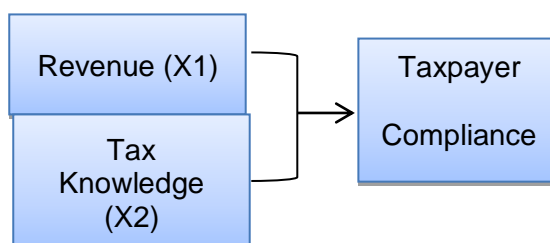
Their ability to pay Land and Building Tax is influenced by their income level. Since their income levels may vary to one another, their abilities to pay taxes are different. Different levels of income bring different compliance. Those with higher are more obediently paying taxes. Conversely, those with lower income will prioritize to fulfill their needs more than to pay taxes.

Knowledge affects the Taxpayer Compliance in paying Land and Building Tax. This is due to common perception taxpayers have of tax. Higher knowledge through formal education will create a positive impact on taxpayers understanding and awareness in paying taxes.

Their knowledge about the definition, functions, usage, provisions and regulations, as well as rights and obligations of Land and Building Tax brings better understanding the importance of paying taxes. This fosters their self-awareness of commitment.

### Research Paradigm

The effect of tax revenue and knowledge on taxpayer compliance in paying Land and Building Tax in Pulutan Village can be described in the following paradigms:  
Figure 1



### **Research Hypothesis**

1. There is an effect of income on the Taxpayer Compliance in paying Land and Building Tax in Pulutan Village.
2. There is an effect of Tax Knowledge upon Taxpayer Compliance in Paying Land and Building Tax in Pulutan Village
3. There is a joint effect of income and Tax Knowledge upon Taxpayer Compliance in paying Land and Building Tax in Pulutan Village.

### **RESEARCH METHOD**

This study applied the quantitative research with inferential statistical analysis of causality relationships to determine the influence between the independent and dependent variables.

### **Operational Definition**

1. Taxpayer Compliance (Variable Y)

The taxpayer compliance in question is the compliance of taxpayers in fulfilling all Land and Building Tax obligations. The indicators used to measure it consist of:

- prompt payments
- no arrears
- appropriate amount to the Tax Return

2. The independent variable is the "X1" income.

This refers to the taxpayers' net income from primary and freelance works with one month's income calculation. Income uses the amount of taxpayers' primary and side net income.

3. The independent variable is Tax Knowledge, hereinafter referred to as the "X2" variable.

Knowledge of Land and Building Tax is the taxpayers' ability to know and understand the rules of taxation (particularly Land and Building tax). The indicators to measure it are:

- definitions, functions, usages of Land and Building Tax
- understanding about rules and regulations includes taxpayers understanding on the rates, exemptions, maturity periods, and so forth.

### **Population and Sample**

1. The population in this study were 293 taxpayers.
2. Samples in this study were 75 respondents using Slovin formula.

### **Data Collection Technique**

The data were collected by questionnaires and documentations.

### **Research Instrument**

1. Validity Test

The trial questionnaires consisting of 30 items distributed to 75 respondents showed the validity of all questions to be used as the research instrument.

## 2. Reliability Test

Table 2: Results of Reliability Calculations

Question	r alpha coefficient	r table	Details
Income (X1)	0.705	0.223	Reliable
Tax Knowledge (X2)	0.957	0.223	Reliable
Taxpayer Compliance (Y)	0.974	0.223	Reliable

Sources: processed Primary data, 2016

### Classical Assumption Test

#### Normality test

Normality was tested using SPSS computer programs based on kolmogorov-smirnov. Criteria for decision making is when the significant value is greater than the value of  $\alpha = 5\%$  (0.05) meaning that the data is normally distributed. If the significant value is less than 0.5, then the data is not normally distributed.

The normality test showed the significance value by 0.200 (greater than 0.05) concluding that the independent variables and the dependent variable were normally distributed.

#### Multicollinearity Test

Normality test aims to examine the existence of a strong correlation among independent variables. A good regression model is the absence of a strong correlation between independent variables. Multicollinearity free assumptions are if the tolerance value  $> 0.1$ . If the VIF value  $< 10$ , there is no multicollinearity.

Based on the test, the tolerance value is 0.923 greater than 0.1, and the VIF value is 1.084 lower than 10. It draws to a conclusion that the independent variables have no strong correlation implying it is free from multicollinearity.

#### Heteroscedasticity Test

Heteroscedasticity test was performed using the Rank Spearman method. The basis for decision making is if the significant value is more than 0.05 then heteroscedasticity does not occur.

Based on testing, the significant value of variable X1 (income) is 0.722 and the significant value of variable X2 (tax knowledge) is 0.796. The value of the two independent variables is  $> 0.05$ . It concludes that there is no heteroscedasticity.

### Data Analysis

The Multiple Linear Regression Equation with two independent variables is:

$$\hat{Y} = 0.202 + 1,782 X_1 + 0.556 X_2$$

Based on the regression calculation above, the constant value is 0.202, which means that without being influenced by Income variable (X1) and Tax Knowledge variable (X2), the value of Tax Compliance (Y) is 0.202.



The Income variable (X1) has a positive effect on the Taxpayer Compliance variable (Y), where the Income value (X1) is 1,782. Thus, an increase in the Income value (X1) by one unit, assuming other variables are constant, will bring an increase to the value of the Taxpayer Compliance variable by 1,782.

The value of Tax Knowledge has a positive influence on Taxpayer Compliance, where the value of Tax Knowledge is 0.556. This means that an increase in the Tax Knowledge variable (X2) by one unit, assuming the other variables are constant, will increase the value of Taxpayer Compliance (Y) by 0.556.

### Hypothesis Test

#### Determination Coefficient Test ( $R^2$ )

1. The value of  $r_{x1y} = 0,610$  explains that the variable X1 (Income) and the variable Y (Taxpayer Compliance) have a positive or strong relationship/correlation. This is due to the value is qualified for criterion value  $> 0.50$  to signify a strong correlation between variables x1 and y. Next,  $r_{x1}^2 = 0.37$  is the value indicating the effect of Income variable (x1) on Taxpayer Compliance variable (Y) is 37% and the rest is influenced by other variables.
2.  $r_{x2y} = 0.52$  describes the relationship between X2 and Y, where there is a positive relationship between the Tax Knowledge variable (x2) and the Taxpayer Compliance variable (y). Furthermore, since it meets the criterion value  $> 0.50$ , the relationship is strong. Next,  $r_{x2}^2 = 0.27$  means the effect of the Tax Knowledge variable (x2) on the Taxpayer Compliance variable (y) is 27%, while the rest is influenced by other variables.
3.  $r_{x1x2y} = 0.50$  demonstrates that simultaneously the income variable (X1), the Tax Knowledge variable (X2) and the Taxpayer Compliance variable (Y) have a positive and sufficient relationship since it meets the criterion value  $> 0.25-0.50$ . Then,  $r_{x1x2y}^2 = 0.25$  describes the effect of two independent variables by 25% on the Y variable, while the other 75% is explained by other variables outside the estimation model in this study.

#### Partial Test (t test)

1. The t value = 5.198 is greater than t table = 0.667. This implies the null hypothesis ( $H_0$ ) is rejected and the alternative hypothesis are accepted. It means that there is a significant influence between the Income variable x1 on the variable of Tax Compliance (y).
2. T test results are t value = 2,132 and t table = 0,667. Thus, the null hypothesis is rejected and the alternative hypothesis is accepted, meaning that there is a significant influence of Tax Knowledge variable (X2) on the Taxpayer Compliance variable (Y).

#### Simultaneous Test (f test)

With degrees of freedom of the numerator by 2 and the denominator by 75, F value is 109.76. The f table value with a significant level of 5% is 3.12. Based on these results, the f value is greater than F table. The null hypothesis ( $H_0$ ) is rejected and the alternative hypothesis ( $H_a$ ) is accepted, meaning that the Income variable and Tax Knowledge variables simultaneously, and significantly influence the Taxpayer Compliance in paying Land and Building Tax in Pulutan Village.

## RESULTS AND DISCUSSION

### 1. The effect of Income on Taxpayer Compliance in paying Land and Building Tax

Partially, the income variable has a positive and significant effect on taxpayer compliance in paying Land and Building Tax ( $t$  value = 5,198 >  $t$  table = 0.667).

The results of this study are consistent with Khoiroh (2017), and Siti (2009), stating that income has a positive and significant effect on tax compliance in paying Land and Building Tax. This corroborates Rahayu's theory that income is the main factor for the taxpayer compliance. It all points to the conclusion that the higher the taxpayer's income, the higher their compliance.

### 2. The effect of Income on Taxpayer Compliance in paying Land and Building Tax

Partially, Tax Knowledge variable has a positive and significant effect on Taxpayer Compliance in paying Land and Building Tax ( $t$  value = 2,132 >  $t$  table = 0.667).

This is in line with research conducted by Yubiharto (2017), Isawati (2017), Setyowati (2014), Tika (2014), Siti (2009), and Ananda (2015) stating that Tax Knowledge has a positive and significant impact on Taxpayer Compliance in paying Land and Building Tax.

### 3. The effect of Income on Taxpayer Compliance in paying Land and Building Tax

Simultaneously the Income and Tax Knowledge variables have a positive and significant effect on Taxpayer Compliance in paying Land and Building Tax ( $f$  value = 109.76 >  $f$  table = 3.12).

## CONCLUSIONS

1. Partially, the Income variable has a positive and significant effect on the Tax Compliance variable in paying Land and Building Tax in Pulutan Village. There is a strong relationship and influence of the Income variable and the Compliance variable in paying Land and Building Tax by 37%.
2. The Tax Knowledge variable partially has a positive and significant effect on the Compliance variable to pay Land and Building Tax in Pulutan Village. The relationship between Tax Knowledge and Taxpayer Compliance variables is strong by 27%.
3. Simultaneously, the Income and Tax Knowledge variables have a positive and significant effect on the Taxpayer Compliance in paying Land and Building Tax in Pulutan Village. Simultaneous relationship is sufficient and the simultaneous influence is 25%.

### Suggestions

As the conclusion above, the suggestions to deliver are:

1. The government should be more active in spreading Tax Knowledge to the public through direct socialization or information media, to let the public knows about the rules and importance of taxes. This is to create a tax-compliant society.
2. The community should be more disciplined and maintain it in paying taxes.



## REFERENCES

- Fauziah, S. (2009). Faktor-faktor yang mempengaruhi wajib pajak dalam membayar Pajak Bumi dan Bangunan (Studi kasus di Kecamatan Dukuhturi Kabupaten Tegal).
- Gilarso, T. (1994). Pengantar ilmu ekonomi bagian makro. Rineka Cipta.
- Rahayu, S. K. (2013). Perpajakan Indonesia: Konsep dan aspek formal. Graha Ilmu.
- Supramono & Damayanti, T. W. (2010). Perpajakan Indonesia: Mekanisme dan perhitungan. (2009 Rev. Ed.). CV. Andi Offset.
- Times Indonesia (2017). Retrieved from [https://m.timesindonesia.co.id/read/140912/20170120/210711/sri-mulyani-pajak-masih-sumber-pendapatan-utama-negara/\\_MURL\\_](https://m.timesindonesia.co.id/read/140912/20170120/210711/sri-mulyani-pajak-masih-sumber-pendapatan-utama-negara/_MURL_).