TAX AMNESTY: WHY IS IT BEHAVIOR COMPLIANCE?

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Abstract: The main purpose of this paper is to discuss and describe the factors causing taxpayers not to comply with tax obligations in accordance with Law of the Republic of Indonesia Number 11 the Year 2016 regarding tax Amnesty, specifically taxpayers of Malang City, Batu City and Malang Regency. A total of 180 taxpayers who use the Tax Amnesty facility as respondents with purposive sampling criteria, WarpPLS 6.0 as a means of analyzing the mediation test influence of taxpayer awareness of tax compliance with ransom mediation. The results show that tax awareness and ransom influence tax compliance, tax awareness affects ransom. Ransom as a partial mediation can increase the influence of awareness of taxpayer compliance using the tax amnesty facility.

Keywords: Tax Amnesty, awareness, Planned Behavior, Compliance.


Since 1969, Tax Amnesty has been a controversy. The purpose of the tax amnesty in Indonesia is to increase investment and state revenue. However, so far, the application of tax amnesty is not effective; it can be seen from the target of tax amnesty set by the government that is not achieved. One of the interesting issues to be studied on consumer behavior is tax compliance. Why should citizens pay taxes? It is because, in almost all countries, tax revenues are the mainstay of the government to fund government expenditure. The success of the state revenue target from tax is highly dependent on compliance and awareness of taxpayers. In some countries, a low economic level cannot explain its effect on tax compliance (Lubian and Zarri 2011), (Alm 2013). Tax amnesty usually allows companies and individuals to report and pay tax arrears without being subject to all or partial criminal penalties and financial for tax evasion. The compliance of taxpayers in carrying out tax amnesty in Russia does not have a significant impact, both positive and negative, on the increased revenues (Alm, Martinez-Vazquez, and Wallace 2009), (Alm and Rath 2003). In Turkey, there is a case which is found that the perception of justice and government have a significant positive on the trust in government towards tax compliance mediated by the perception of tax justice (Aktañ Güzel, Özer, and Özcan 2019).

Tax compliance in carrying out tax obligation is inseparable from the important role of the government to provide quality services, facilitate the pro-
Tax Amnesty: Why Is It Behavior Compliance?

In the last twenty years, many countries have implemented various forms of tax amnesty; sometimes using tax amnesty, because tax amnesty raises state revenue. (Aktaº Güzel, Özer, and Özcan 2019). (Abdul-jabbar 2016). Almost all transition countries have undertaken large-scale tax reform with different success rates. Low tax compliance always becomes a problem in all transition countries. Relatively low compliance of tax was found at an individual or household level. There is no voluntary compliance, where administrative taxes are very weak, and where people do not trust governmental institutions. High official penalty rates maketax compliance issues even worse.

Alm et al. (2009), found that tax amnesty has a short-term impact on income. Like most amnesties, Russian amnesty seems may not have a significant positive or negative effect. It can be proven on the Russian Federation revenues, a stated that questions the usefulness tax amnesty as a policy instrument. Critics argue that the experience of many countries shows that the direct impact on income is almost always very small. They also question the long-term impact of tax amnesty. Advocates emphasize the impact of direct and short-term income. Most of them often argue that future tax revenue can increase if tax amnesty encourages individuals or companies not to pay taxes. If amnesty is accompanied by broader services range for taxpayers, better education about taxpayer responsibilities, stricter post-amnesty penalties for tax evaders, and greater expenditure on law enforcement. (Chau and Leung 2009), (Daniel and Wong 2008), (Akintoye and Tashie 2013) Most studies on tax amnesty take an economic perspective. Perceptions of justice are relevant in explaining the submission of behavior following tax amnesty and ignoring social psychology. Psychologically, the implementation of tax amnesty does not favor obedient taxpayers. The implementation of tax amnesty does not have a good impact if it is conducted too often because obedient taxpayers will be reluctant to pay taxes because they think that there will always be more tax amnesty in the future (Ragimun 2015). The implementation of the tax amnesty enacted in 2016 and ended on March 31, 2017, is intended to increase state revenue from taxes and withdraw tax-

cess, improve the laws and regulations, and utilize information technology that facilitates taxpayers in paying and reporting taxes. (Geetha R and Sekar M 2015), (Alm 2013) and (Chawla et al. 2013) found that the knowledge of taxpayers can increase their understanding and awareness of taxpayer compliance. Understanding taxpayers about the importance of understanding and awareness of how to calculate taxes, provide funds, prepare the documents needed to pay and report taxes; therefore, the taxpayers understand that if they forget to pay and report taxes, they will be fined (Rahayu. Yayuk. Ngesti et al. 2019).

Tax Amnesty

In Indonesia, tax amnesty is a policy given to taxpayers, which requires the taxpayers to pay the ransom. The data of taxpayers who get tax amnesty means that the existing report data is whitened and some debts are written off. Tax amnesty is taxes abolition to be paid, not subject to sanctions of tax administration and criminal penalties in the tax by disclosing assets and paying ransoms as stipulated in the tax amnesty law (PMK No. 118/PMK.03/2016). The government issued a tax amnesty policy to increase short-term tax revenue, improve tax compliance in the future, and encourage repatriation of capital and assets as well as transition to a new tax system.

Tax non-compliance is one of the causes of tax amnesty. In general, the proponents of tax amnesty believe that compliance of voluntary will increase after the implementation of tax amnesty. It is based on expectation that after the program of tax amnesty is carried out, as the tax administration system part, taxpayers won’t be able to evade and avoid their tax obligations. Tax amnesty implemented by the government will automatically withdraw funds deposited abroad into Indonesia and be recorded as a new source of tax. Tax amnesty is believed to influence the developers to keep in touch with investors. Investors did not invest in Indonesia because Indonesia has a high tax of property, which will provide benefits to business activities. Tax amnesty could encourage investors and consumers to buy property in Indonesia. Therefore, investors will not hesitate to buy a property.
payers' money deposited abroad. Tax amnesty is applied to provide an opportunity for taxpayers who do not report their income and pay taxes voluntarily through giving incentives (Razak 2014).

In the implementation of the tax amnesty in 2016, the ransom is only imposed on assets that have not been reported in 2015 tax return for those who submit tax returns or all assets reported if the taxpayer has never reported or revealed the assets they have. The amount of the ransom is adjusted to the tariff and time stipulated in the tax amnesty law. Table 2 explains the rates and time of redemption.

Table 1 shows the percentage of assets in Indonesia and the assets of taxpayers abroad, which will be transferred to Indonesia. The amount of ransom in July to September 2016 was 2%, ransom from October to December 2016 of 3%, and ransom from January to March 2017 of 5%, while for the assets abroad which will not be transferred to Indonesia with a ransom of 4%, 6%, and 10%.

Table 1 Period and Tariff of Tax Amnesty

<table>
<thead>
<tr>
<th>Period</th>
<th>Taxpayers’ Assets that can be transferred to Indonesia</th>
<th>Taxpayers’ assets that remain abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 July – 30 September 2016</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>01 October – 31 December 2016</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>01 January – 31 March 2017</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Table 1 shows the percentage of assets in Indonesia and the assets of taxpayers abroad, which will be transferred to Indonesia. The amount of ransom in July to September 2016 was 2%, ransom from October to December 2016 of 3%, and ransom from January to March 2017 of 5%, while for the assets abroad which will not be transferred to Indonesia with a ransom of 4%, 6%, and 10%.

(Portillo and Block 2012), (Saraçoğlu 2011) tax amnesty can be considered a psychological violation between the taxpayers and the tax authority, which indicates the relationship between the taxpayer and the tax authority implying duties and rights of both parties. (Huseyin Kara 2014) Before the decision on amnesty, the tax authority must assess the whole level of voluntary tax compliance, including the quality of current tax enforcement and any prospective changes in the enforcement. In particular, in considering an amnesty, the government must determine the causes of tax issues and what leads to the current system. After the decision to implement a tax amnesty is made, several aspects of the amnesty must be determined: its eligibility, its scope, and its incentives.

Eligibility: Amnesty should determine taxpayers who are eligible to get tax amnesty. It should be determined based on individual income, company income, sales, use, special fuels, cigarettes, and alcohol tax. So far, individual income tax is the largest source of amnesty income, which covers more than 90 percent of amnesty income. The scope of amnesty must determine which taxes are included in the amnesty. Many of them are related to a particular tax source, such as individual income tax, corporate income tax, sales and use tax, or property tax. Amnesty incentives mean ‘forgiveness’. Amnesty should determine the amount of taxes, interest, and unpaid fines that will be whitened by the tax administration. The duration of amnesty can be a grace period (once) with a period that has been set before. Usually, it ranges from 2 months to one year.

Behavioral theory is a theory that describes the factors that influence individual compliance in terms of attitudes and behavior. One of the theories about compliance in terms of psychology that have been referred by many previous researchers is ‘Theory of Planned Behavior’ (Ajzen, 1991). This theory originates from social psychology that defines compliance or non-compliance in terms of behavior. Taxpayer compliance is influenced by internal and external factors of taxpayers. Tax compliance is indicated by complying with the regulations in general. This theory explains that compliance is influenced by the behavior of taxpayers (whether comply with tax regulations or not). This kind of behavior was studied by (Chau and Leung 2009), who
found that tax compliance is not only influenced by attitude. (Olibe and Rezaee 2008) Developed their research and found that not only tax morale, tax compliance is also influenced by various factors, such as administration, tax system, perception and trust in the tax authorities, national pride, and trust in the institutions. Starting from behavioral theory (Ajzen, 1991), compliance is developed as a behavior. This theory was adopted by analogizing compliance and taxpayer awareness as a behavior. Research studying compliance synthesizes five variables: taxpayers’ knowledge, understanding of tax regulations, taxpayer awareness, tax collection systems, and taxpayer compliance.

Agency theory can be seen as a contractual model between two or more parties, where one party is called an agent and the other party is called the principal (Bayer, Oberhofer, and Winner 2015). The principal gives the responsibility to the agent. It can also be said that the principal instructs the agent to carry out certain tasks in accordance with the agreed contract. The authority and responsibility of the agent and principal are regulated in the contract upon mutual agreement. This theory is a tool to portray a relationship between Tax Service Office (KPP) as the principal and agent as taxpayers or tax practitioners. This is in line with the statement of (Chebusit et al. 2014) that agency theory can be implemented in public agencies. Agency theory explains that if someone has an opportunity to do self-assessment, the possibility to make under reports or income reports is lower; therefore, it will lead to tax non-compliance (Allingham and Sandmo, 1972). (Rahayu. Yayuk. Ngesti et al. 2017). The principle of self-assessment system applied may lead to non-compliance. Despite the advantages, this principle also has weaknesses because allowing taxpayers to calculate, deposit, and report their tax obligations themselves may lead to non-compliance. This study used an explanatory approach to explain the position of the variables studied and the relationship between one variable with another.

Hypothesis: H1. Taxpayer awareness affects the compliance of Tax Amnesty; H2. Awareness influences the ransom of Tax Amnesty; H3. Ransom Influences affects Tax Amnesty Compliance; H4. Taxpayer awareness affects tax compliance through tax amnesty ransom. The thinking framework of this research is presented in Figure 1 below.

METHOD
Research design and methods
This research collected the opinions of taxpayers in two cities and one regency using a questionnaire (using a Likert scale of 1 – 5). The sample used was taxpayers who submit tax amnesty for the first period (1 July - 30 September 2016), the second period (1 October - 30 December 2016), and the third period (1 October - March 31, 2017).

Population and Sample
This study involved 180 individual taxpayers from a population of 371 individual taxpayers registered at the Tax Service Office of Malang City, Malang Regency, and Batu City. The sample was taken using purposive sampling. The sample is individual taxpayers who save a portion of their assets abroad. The analysis shows the average of each group with a significance of 0.05 is considered to represent a significant difference. The researcher conducted interviews to explore information deeper.

Measures
To explore the perception of individual taxpayers, the questionnaire is divided into two parts. Part one contains the respondents' demographic information and part two consists of the instruments of tax awareness, ransom, and tax compliance. Respondents were asked to show responses to these statements using a Likert scale from 1 (strongly dis-
agree) to 5 (strongly agree) to measure their tax awareness and taxpayer compliance. Compliance is seen from formal compliance, material compliance and forced compliance, while awareness is seen based on its function as a budgetary and tax as a regulator of economic and social policies adopted from (Rahayu, Yayuk. Ngesti et al. 2017). Awareness is seen from taxes as a source of state revenue adopted from (Pereira and Roca-Sagalés 2011), while ransom is measured based on the application of tax amnesty for each period adopted from (Alm, Martinez-Vazquez, and Wallace 2009).

**Data Analysis**

The primary data was processed and calculated using *WarpPLS* 6.0 program. The results show independent variables affect the dependent variable. (Lin and Zeng 2010) (Portillo and Block 2012) Tested the validity and reliability of the questionnaires using convergent validity and composite reliability by considering the loading factors. The effect and model fit offered determined by using index fit and quality of the model, while the coefficient and p-value are used to measure the effect of ransom on the hypothesis model. The mediating effect is the level of relationship between the independent variable and the dependent variable that will change if there are other variables in the relationship (Portillo and Block 2012). The results can be seen if the relationship with the dependent variable is significant.

**RESULTS AND DISCUSSION**

The findings of this study are classified into three main sections: (1) Respondents’ profile. The majority of respondents who fill the questionnaire can be described as follows: out of 180 samples, 127 respondents (70.55%) are men; 89 respondents (49.47%) were 41-50 years old; 113 respondents (62.77%) are senior high school graduates; 180 respondents (100%) submitted tax amnesty; 104 respondents (57.77%) are business owners; 149 respondents (82.77%) said that there had prepared their money to pay ransom. Respondents’ responses about taxpayer awareness showed an actual score of 87.17% (good), ransom showed an actual score of 97.15% (good), and tax compliance showed an actual score of 81.12% (Good).

Summary of the test results is presented in Table 2 below.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Loading, Cross Loading, and Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Awareness</td>
</tr>
<tr>
<td>X1</td>
<td>0.463</td>
</tr>
<tr>
<td>X2</td>
<td>0.759</td>
</tr>
<tr>
<td>Y</td>
<td>0.749</td>
</tr>
<tr>
<td>FR_X2.1</td>
<td>0.172</td>
</tr>
<tr>
<td>FR_X2.2</td>
<td>0.085</td>
</tr>
<tr>
<td>FR_X2.3</td>
<td>0.135</td>
</tr>
<tr>
<td>Cmp_Y.1</td>
<td>0.154</td>
</tr>
<tr>
<td>Cmp_Y.2</td>
<td>0.077</td>
</tr>
<tr>
<td>Composite reliability</td>
<td>0.702</td>
</tr>
</tbody>
</table>

Table 2 shows that loading factors Aw_X1.1 to Aw_X1.3, factor loadings FR_X2.1 to FR_X2.3 and Cmp_Y.1 to Cmp_Y.3 generates factor loading of more than 0.30, with a significant level of p <0.001. It means that the loading factor meets convergent validity. Every indicator of awareness, ransom and tax compliance shows that loading value more than cross-loading, meaning that discriminant validity is fulfilled so that the indicators of each variable (awareness, ransom and tax compliance) is dis-
Tax Amnesty: Why Is It Behavior Compliance?

criminatory valid. Composite reliability will be fulfilled if it is greater than 0.70. Data presented in Table 2 shows that the questionnaire for all variables has fulfilled the composite reliability, while internal consistency, is fulfilled if it is greater than 0.60, so the questionnaire has fulfilled the internal consistency reliability of all variables (awareness, ransom and tax compliance).

Table 3 Model fit and quality indices

<table>
<thead>
<tr>
<th>Model fit and Quality indices</th>
<th>Fit Criteria</th>
<th>Analysis result</th>
<th>Model Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average path Coefficient</td>
<td>(APC)</td>
<td>= 0.242 P &lt; 0.001</td>
<td>Good</td>
</tr>
<tr>
<td>Average R-Squared</td>
<td>(ARS)</td>
<td>= 0.106 P &lt; 0.037</td>
<td>Good</td>
</tr>
<tr>
<td>Average Bolk VIF</td>
<td>(AVIF)</td>
<td>= 1.096 accepted if &lt;= 5, ideal &lt;= 3.3</td>
<td>Ideal</td>
</tr>
<tr>
<td>Average adjusted R-squared</td>
<td>(AARS)</td>
<td>= 0.099 p=0.044</td>
<td>Good</td>
</tr>
<tr>
<td>Average full collinearity VIF</td>
<td>(AVIF)</td>
<td>= 1.096 accepted if &lt;= 5 Ideal &lt;= 3.3</td>
<td>Ideal</td>
</tr>
<tr>
<td>Tenenhaus GoF</td>
<td>(GoF)</td>
<td>= 0.53 small &gt;= 0.1 medium &gt;= 0.25 Large &lt;= 3.3</td>
<td>Good</td>
</tr>
<tr>
<td>Symppelin’s paradox ratio</td>
<td>(SPR)</td>
<td>= 1.000, accepted if &gt;= 0.7 Ideal = 1.00</td>
<td>Ideal</td>
</tr>
<tr>
<td>R-squared contribution ratio</td>
<td>(RSCR)</td>
<td>= 1.000, accepted if &gt;= 0.9 Ideal = 1.00</td>
<td>Ideal</td>
</tr>
<tr>
<td>Statistical Suppression Ratio</td>
<td>(SSR)</td>
<td>= 1.000, accepted if &gt;= 0.7</td>
<td>Ideal</td>
</tr>
<tr>
<td>Nonlinear bivariate causality direction</td>
<td>(NLBCDR)</td>
<td>= 0.833, accepted if &gt;= 0.7</td>
<td>Ideal</td>
</tr>
</tbody>
</table>

Table 3 shows that the p-value of APC and ARS is smaller than 5, and as an indicator of multicolonaearity, AVIF is smaller than 5. Therefore, the output shows that the criteria of goodness of fit model have been fulfilled; APC amounted to 0.242 and ARS amounted to 0.106, which means that there is no multicolonaearity problem between indicators and between exogenous variables. GoF value obtained is 0.53 > 0.25 (medium). The SPR index produces a value of 1,000 > 0.7, meaning that the SPR index is acceptable, and RSCR produces a value of 1,000 > 0.9, which means that the SSCR index is acceptable. Statistical suppression ratio (SSR) is more than 1,000 > 0.7, which means that there is no problem in the model relationship. The value of NLBCDR is 0.833 > 0.7, which means that the linear relationship is ideal.

Analysis of Hypothesis Test

Table 4 Direct and Indirect Effect

<table>
<thead>
<tr>
<th>No</th>
<th>Relationship Between Variables</th>
<th>Path Coefficient</th>
<th>p-value</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aw_X1 → Cmp_Y</td>
<td>0.19</td>
<td>&lt;0.01</td>
<td>Highly Significant</td>
</tr>
<tr>
<td>2</td>
<td>AW_X1 → FR_X2</td>
<td>0.25</td>
<td>&lt;0.01</td>
<td>Highly Significant</td>
</tr>
<tr>
<td>3</td>
<td>FR_X2 → Cmp_Y</td>
<td>0.29</td>
<td>&lt;0.01</td>
<td>Highly Significant</td>
</tr>
<tr>
<td>4</td>
<td>AW_X1 → FR_X2 → CmpY</td>
<td>0.071</td>
<td>0.087</td>
<td>Mediation</td>
</tr>
</tbody>
</table>

The effect of taxpayer awareness (Aw_X1) on tax compliance (Cmp_Y) generates a coefficient value of 0.19 and p <0.01. Because p is less than 0.05, then taxpayer awareness influences tax compliance. The positive coefficient is indicating that high taxpayer awareness leads to better tax compliance; therefore, H1 is accepted.
Effect of taxpayer awareness (Aw_X1) on ransom (FR_X2) generates a coefficient of 0.25 and p <0.01. Because p is smaller than 0.05, thus taxpayer awareness affects ransom payment. A positive coefficient indicates that the better taxpayer awareness, the better the ransom payment; therefore, H2 is accepted.

The effect of ransom payment (FR_X2) on tax compliance (Cmp_Y) generates a coefficient of 0.29 and p <0.01. Because p is less than 0.05, then ransom payment affects tax compliance. A positive coefficient indicates that the higher the taxpayers willingness to pay tax amnesty ransom, the better tax compliance; therefore, this hypothesis (H3) is accepted.

Ransom (FR_X2) is a mediator of the influence of taxpayer awareness (Aw_X1) on Cmp (Y). The path coefficient of the indirect influence of taxpayer awareness (Aw_X1) on tax compliance (Cmp_Y) through ransom payments (FR_X2) of 0.071, with p = 0.087 or >0.05 (weakly significant). Therefore, FR (X2) is a mediating variable. Besides that, the direct effect of AW_X1 on Cmp_Y is significant, then FR_X2 is a partial mediation. Therefore, H4 is accepted.

Absolute contribution: Aw_X1 to Cmp_Y = (0.071) 2 x 100% = 0.504. The influence of Aw_X1 with FR_X2 on Cmp_Y is relatively balanced; therefore, the efforts to increase Cmp_Y should be made by improving FR_X2, starting from the government socialization about reducing the percentage of ransom tariffs of tax amnesty, supervising and inspecting tax authorities.

Based on the facts, the achievement of the target of state tax revenue is very closely related to the awareness and compliance of taxpayers, because compliant taxpayers pay and report the tax timely (formal compliance), while material compliance is a taxpayer who makes payments and reporting properly in accordance with the circumstances of the taxpayer. Obedient taxpayers are those who have good behavior. If they have a high awareness of paying taxes for government survival and development, their compliance will increase.

The willingness of taxpayers in paying tax amnesty ransom leads to forced compliance. So far, the taxpayers have been formal compliant, but not material compliant. This can be seen from taxpayer funds deposited abroad. One of the tax amnesty purposes is to withdraw the money of the community abroad. The willingness to pay the ransom is in line with the test results. It indicates that taxpayer awareness can increase forced compliance. There is an indirect effect of taxpayer awareness of taxpayer compliance through the willingness to pay the ransom as a mediating variable.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Tax revenue is an important indicator of taxpayer awareness. Based on the contribution theory, the contribution is giving a positive or negative impact on others. In this study, it appears that tax amnesty leads to enthusiasm, including new taxpayers. This indicates that the awareness of the society about tax amnesty is better. The taxpayers are fully aware that the largest state revenue is obtained from taxes. It is used to finance the central and regional government. The theory of devotion and theory of insurance are the basis of tax collection. Those theories said that as dedicated citizens, society has to be aware to pay their taxes timely. Also, this country protects our lives, bodies, property, and rights; therefore, the society has to pay tax, just like insurance premiums to protect their rights. The results of this study also show that some ransom remains abroad due to the large amount. However, the number of taxpayers who filed tax amnesty in period I is larger than period II. They file tax amnesty because the rate of a ransom in the period I is smaller than in period II.

Recommendations

So far, tax amnesty can withdraw the money of taxpayers abroad; however, the result is under the target set by the government. Tax amnesty still leaves money deposited abroad, and there are people who use tax amnesty facilities at period II and III. It is suggested to maintain and increase tax awareness and compliance by evaluating and change the
Tax Amnesty: Why Is It Behavior Compliance?

regulations regarding tax amnesty. Directorate General of Taxes should have the authority to investigate the assets owned by potential taxpayers so they know the tax that should be paid.

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