ANALYSIS OF FACTORS INFLUENCING TAXPAYER COMPLIANCE IN CARRYING OUT TAX OBLIGATIONS (LITERATURE REVIEW)

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Abstract

The study concludes that taxpayer compliance is driven by various economic, social-psychological, and demographic factors. Economic factors, such as reasonable tax rates and the enforcement of effective penalties, play a significant role in improving compliance. Additionally, social-psychological aspects, including increased tax awareness, trust in government, and social norms, are critical in influencing taxpayer behavior. Demographic characteristics, such as age, education, and income levels, also affect compliance likelihood. To foster higher tax compliance, governments must adopt a comprehensive strategy that combines economic incentives, social influence, and educational initiatives. Addressing these diverse factors can lead to a more efficient tax system and encourage voluntary compliance among taxpayers.

Keywords: *Tax Compliance, Taxpayer, Tax Rate, Tax Penalty, Tax Awareness*

1. INTRODUCTION

National development in a country requires a lot of funds. One source of government revenue is revenue from the tax sector. Taxes play a very important role because they can increase a country's income which is used for development and supporting the welfare of the people in a country. Motor Vehicle Tax is one of the regional taxes that finances provincial development. Several factors that influence taxpayer compliance include the implementation of a modern tax administration system, taxpayer awareness and tax sanctions (Mustika Putra & Merkusiwati, 2018). Tax is a mandatory contribution to the state owed by individuals or bodies that is mandatory based on the Law, without receiving direct compensation and is used for state needs for the greatest prosperity of the people. The development of the country itself has recently been carried out very rapidly in order to reduce the gap that exists in various regions of Indonesia. (Wati & Astuti, 2020).

Taxpayer compliance in carrying out tax obligations is a key element in optimizing state revenue through the taxation system. Taxes are the main source of state revenue used to finance government spending and various development programs. However, the level of taxpayer compliance in many countries, including Indonesia, is still a major challenge. This

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compliance is not only related to the fulfillment of tax administration, but also includes honesty in reporting and paying taxes according to applicable provisions.

Several factors can affect the level of taxpayer compliance, including the implementation of a modern tax administration system, taxpayer awareness, and effective tax sanctions. The implementation of a modern tax administration system can increase the efficiency and transparency of the tax process, as well as make it easier for taxpayers to fulfill their obligations. In addition, taxpayer awareness to pay taxes voluntarily is also an important factor. One effort to improve taxpayer compliance is through strict tax audits by the tax authorities. Effective tax audits can prevent tax evasion and increase the deterrence effect so that taxpayers feel supervised and encouraged to fulfill their tax obligations honestly. In addition, the application of strict tax sanctions can also encourage taxpayer compliance, because it will make them feel the consequences of non-compliance (Marlisza & Yulianti, 2022a).

On the external side, the complexity of the tax system, high tax rates, and lack of transparency in the use of public funds are often considered obstacles. In the Indonesian context, trust in the government and tax institutions is often in the spotlight, where negative perceptions of corruption or unfairness in the distribution of tax revenues can reduce the intention to comply. In addition, the taxation system that adopts the self-assessment system gives taxpayers great responsibility to register, calculate, pay, and report their tax obligations (Azwardi et al., 2022). This of course requires adequate understanding and awareness from taxpayers. On the other hand, effective tax audits are expected to increase taxpayer compliance through a deterrence effect. Hoopes et al. found that strict tax audits by tax authorities in America are effective in preventing tax evasion. Furthermore, recent research states that tax audits also have a significant impact on the level of tax revenue.

Empirical research shows that factors such as a more efficient tax service system, tighter supervision, and the provision of incentives and ease of reporting can increase the level of compliance. Studies on tax compliance also reveal the importance of tax education and socialization for the community to increase their understanding of the importance of tax contributions. Tax audits play an important role in increasing voluntary taxpayer compliance. Previous studies have shown that strict tax audits can prevent tax evasion and increase tax revenue. In addition, providing appropriate sanctions for violators has also proven effective in increasing tax compliance. Various efforts to increase public trust in tax authorities, such as ensuring justice and legal equality, are also important factors for the success of tax programs, including voluntary disclosure programs (Ningtyas & Aisyaturrahmi, 2022).

Further empirical research is needed to explore other factors that can improve taxpayer compliance, such as the quality of tax services, public awareness and understanding of taxation, and incentives or conveniences provided by the government to taxpayers. Efforts

to improve the tax system holistically need to be continuously carried out in order to create a more conducive tax climate for increasing voluntary compliance of the community (Maharani et al., 2021a).

Along with the development of technology, digitalization in the tax system, such as the implementation of e-filing and e-billing, is expected to reduce the administrative burden for taxpayers and encourage better compliance. However, social factors such as local norms and culture also need to be taken into account in designing sustainable tax policies.

This literature review aims to examine various previous studies that discuss the factors that influence taxpayer compliance, both from an economic, social, and institutional perspective, and provide policy recommendations based on existing findings.

2. RESEARCH METHOD

This study uses the literature review method, which is a research method that aims to analyze and synthesize various studies and literature relevant to the topic being studied. In the context of analyzing factors that influence taxpayer compliance, a literature review is conducted to identify theories, concepts, and empirical findings from previous studies, so that a comprehensive picture of the factors that influence taxpayer behavior can be obtained.

Several previous studies have investigated the factors that influence taxpayer compliance. found that strict tax audits can increase taxpayer compliance because they provide a deterrent effect. In addition, other studies also show that income, awareness, and service quality affect the level of taxpayer compliance (Ersania & Merkusiwati, 2018a). In this study, these factors will be further analyzed to determine their influence on taxpayer compliance, especially individual taxpayers. This study is expected to contribute to practitioners and policy makers in formulating strategies to improve taxpayer compliance in Indonesia.

The research problem raised in this study is the factors that influence taxpayer compliance. The focus of this study is how various factors such as economic, social, psychological, and demographic influence the level of taxpayer compliance in carrying out tax obligations. The criteria for selecting literature are based on the relevance of the research to the theme of tax compliance as well as the recency and quality of the sources. The research used must be peer-reviewed or come from accredited journals, books, or official publications.

3. RESULTS AND DISCUSSION

The criteria for selecting literature are based on the relevance of the research to the theme of tax compliance as well as the recency and quality of the sources. The research used must be peer-reviewed or come from accredited journals, books, or official publications.

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Economic Factors

Most of the literature shows that high tax rates can be one of the reasons for taxpayers to avoid or reduce tax obligations. Moderate or low tax rates are more likely to increase taxpayer compliance because the burden is felt to be lighter. Tax audits play an important role in improving tax compliance, because they can prevent and detect tax avoidance practices. However, recent studies have also shown that the quality of tax services such as ease of administration and good communication with the tax authorities can also improve compliance. In addition, other factors such as taxpayer awareness of the importance of taxes for development and welfare, as well as the application of strict sanctions against violations also have a significant influence. Therefore, a comprehensive approach that considers various factors, both in terms of tax policy, administration, and public awareness, is needed to improve taxpayer compliance.

strict sanctions and their consistent application are effective in increasing compliance. Heavier sanctions can have a deterrent effect on violators, although they are not always the only influencing factor. Ease of access to information, use of digital technology, and improvement of tax administration services have a positive impact on taxpayer compliance. More efficient and user-friendly services allow taxpayers to feel more comfortable in fulfilling their obligations.

The use of digital technology to improve the efficiency of tax administration also encourages increased taxpayer compliance. This effort is part of the tax reform carried out by the Directorate General of Taxes in order to optimize the use of digital technology. The COVID-19 pandemic has also become a momentum for digital transformation in various sectors, including in the field of taxation. The implementation of digital transformation by the Ministry of Finance is carried out in order to realize good governance, as well as efforts to adapt to the ongoing development of the digital era (Riyanto & Clarashinta, 2021).

Social and Psychological Factors

Research shows that increasing tax awareness, whether through education or government campaigns, contributes significantly to improving compliance. Taxpayers who better understand the importance of taxes for development are more likely to comply. Another factor that influences compliance is the quality of service from the tax authorities. Taxpayers who are satisfied with services, such as ease of administration and responsiveness of officers, are more likely to fulfill their tax obligations (Maharani et al., 2021b). On the other hand, strict tax audits can have a deterrent effect on tax evasion. With the increasing level of audit, taxpayers will feel more supervised and therefore motivated to comply.

Trust in the government is also an important factor. Taxpayers who believe that the tax system is fair and that the government will use tax money well tend to be more compliant.

However, this trust needs to be built through government transparency and accountability. The relationship between taxpayer trust in government and tax compliance levels is also a prominent finding. Taxpayers who believe that their taxes are well managed and used effectively for public services are more likely to comply with paying taxes. Social norms and peer group influence play a role in tax compliance behavior. In societies where tax compliance is considered a moral obligation or social responsibility, compliance rates tend to be higher.

Demographic Factors

Taxpayers with higher levels of education tend to have a better understanding of their tax obligations and are more compliant, mainly due to their better understanding of the tax system and tax rules. Income is also an important factor, where taxpayers with higher incomes may be more prone to tax evasion, but with a strong control system, this group can also be more compliant.

The Influence of Economic Factors on Tax Compliance

From the results of the literature review, it is clear that tax rates and tax sanctions have a significant influence on taxpayer compliance. High tax rates are often negatively perceived by taxpayers, so they look for ways to avoid them. However, effective law enforcement through the imposition of sanctions can be an important tool in maintaining compliance levels. Therefore, tax authorities need to balance between the application of moderate rates and consistent enforcement of rules to encourage compliance.

In line with these findings, previous studies also revealed that other factors such as tax audits and taxpayer awareness also influence the level of (Ersania & Merkusiwati, 2018b). Intensive tax audits can create a deterrent effect for taxpayers not to carry out tax avoidance actions. On the other hand, taxpayer awareness regarding their tax obligations is also an important prerequisite for voluntary compliance. Based on various studies that have been conducted, it can be concluded that taxpayer compliance is influenced by various complex factors. Therefore, tax authorities need to adopt a comprehensive approach by considering various dimensions to improve compliance sustainably.

Better tax services are also an important highlight in the literature. Technological advances, such as e-filing and e-payment, provide convenience for taxpayers to report and pay taxes more quickly and conveniently. The government needs to continue to innovate to improve the efficiency of tax services as a strategy to improve compliance.

The Influence of Socio-Psychological Factors on Tax Compliance

Tax awareness has proven to be a very important factor in increasing compliance. Continuous tax education programs, either through media campaigns or formal education,

are essential. In addition, trust in the government is crucial. If taxpayers feel that tax funds are used transparently and for the public interest, their compliance tends to be higher. Social norms are also an interesting aspect to discuss. In a society where tax compliance is valued, individuals will feel compelled to fulfill their tax obligations in order to maintain a good social image. Therefore, the government can leverage this social factor through campaigns that emphasize the importance of taxes as a form of social contribution.

The Influence of Demographic Factors on Tax Compliance

Age, education, and income factors have varying correlations with tax compliance. Older age tends to be associated with higher levels of compliance, as more mature people tend to have a more mature understanding of tax obligations. Meanwhile, education also plays an important role; the higher a person's level of education, the greater the chance of compliance. However, on the other hand, taxpayers with higher incomes are also often faced with the temptation to engage in tax evasion, which requires a strong control system.

Policy Implications

The results of this study indicate the importance of a multi-dimensional approach in improving taxpayer compliance. The government needs to combine an economic approach through optimizing effective tax rates and sanctions with a socio-psychological approach such as increasing tax awareness and public trust in the government. At the same time, the demographic characteristics of taxpayers must be considered in designing tax education and service strategies.

4. CONCLUSION

The study concludes that taxpayer compliance is driven by various economic, social-psychological, and demographic factors. Economic factors, such as reasonable tax rates and the enforcement of effective penalties, play a significant role in improving compliance. Additionally, social-psychological aspects, including increased tax awareness, trust in government, and social norms, are critical in influencing taxpayer behavior. Demographic characteristics, such as age, education, and income levels, also affect compliance likelihood. To foster higher tax compliance, governments must adopt a comprehensive strategy that combines economic incentives, social influence, and educational initiatives. Addressing these diverse factors can lead to a more efficient tax system and encourage voluntary compliance among taxpayers.

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