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The Effect of Corporate Taxpayer's Compliance with Tax Audit: A Case Study in Indonesia*

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Abstract

The study answers the awareness of taxpayers, tax authority services, tax socialization, tax collection, and account representative's controlling (monitoring) for compliance of the corporate Taxpayer. The study also examines the moderating effect of the tax audit to control the corporate Taxpayer's compliance. In this study, the method of non-probability sampling was used. The research data was gathered by handing out questionnaires at the Medan Kota Tax Office in Indonesia. The SEM method was used for data analysis through Lisrel 8.8 program. The findings of the study concluded that tax collection has a significant positive effect on corporate taxpayer's compliance and Tax audit moderates the relation between tax authority services and the account representative's controlling (monitoring) with corporate taxpayers' compliance. Also, tax socialization and account representative's controlling (monitoring) have a positive effect on the corporate taxpayer's compliance. In contrast, variables of taxpayer's awareness and tax authority services have a negative impact. Furthermore, tax audit does not moderate the relation between taxpayer awareness, tax socialization, and tax collection with the corporate taxpayer's compliance at Medan Kota Tax Office Indonesia. The findings suggest the Indonesian policymakers and tax authorities must create corporate legislation to handle compliance by leveraging the loopholes in tax legislation law and the tax audit system.

Keywords: Corporate Taxpayer's Compliance, Tax Audit, Taxpayer's Awareness, Tax Authority, Indonesia

JEL Classification Code: H1, H20, H21, H29

1. Introduction

With a growth rate of 5.02 percent in 2019, Indonesia has a robust economic growth indicator (Napitupulu et al., 2020). As a source of national income, tax revenue should

rise in lockstep with the rate of economic expansion. The amount of tax revenue collected has an effect on the tax ratio used by foreign investors to invest in Indonesia. Over the past five years, Indonesia's tax rate has remained constant at 15% (Lee & Gordon, 2005). Companies and citizens have welcomed Indonesia's economic improvement and increased facilities to support business activities. Revenue target is difficult to be realized without the taxpayer helping voluntarily to pay taxes on time and without coercion. According to Nurmantu (2005), taxpayer compliance means that taxpayers have met their legal obligations under the tax laws and includes ensuring that all tax returns are submitted and tax liabilities paid. Compliance with tax laws is important to keep the system working for all and supporting the programs and services that improve lives. One way to encourage compliance is to keep the rules as clear and simple as possible. To ensure tax compliance, tax professionals must follow the process of tax administration, which includes calculating the amount clients owe according to current tax rates. When it comes to corporate taxes, businesses must adhere to both state and federal tax rates (Hutagalung et al., 2017).

*Acknowledgements:

Academics can use this research as a theoretical reference for learning material on the real conditions of compliance of the corporate taxpayers and the variables that affect them.

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Taxpayer's compliance here means is the compliance to report the annual tax return of income. The compliance ratio of annual tax return until April 1, 2019, was 61.70%, or the number of taxpayers who reported annual tax returns of income was 11.309 million Taxpayer from all registered Taxpayers of 18,334 million (Dewi et al., 2020).

Medan Kota Tax Office has working areas in four sub-districts in Medan City: Medan Amplas, Medan Denai, Medan Kota and Medan Area. According to the Medan Kota Tax Office's Taxpayer statistics, the number of corporate Taxpayers in 2019 was 13.640 percent. The compliance ratio of corporate Taxpayer reporting was 22%, and the number of Taxpayers who paid taxes in terms of percentage was 19%. This data shows that taxpayer enforcement is generally low, though the government has provided and given all facilities and infrastructure enhancements to promote enhanced taxpayer enforcement to collect tax revenue. Public finance issues can be characterized by the issue of tax compliance. However, the high rate of tax compliance could maintain healthy public finance without imposing tax burden. Taxation plays an essential role in financing public expenditures through income distribution. To ensure sustainable funding for the production and delivery of public services, different tax policies should be adopted. The government uses various systems and media to increase tax revenue, such as changes the tax collection system, improve the quality of human resources, and reorganize the Directorate General of Taxes (Kelly, 1993). Likewise, the media or facilities of tax payment, tax reporting, and services have experienced many changes in quality and quantity (Wihantoro et al., 2015).

According to the literature, several variables influence corporate Taxpayer enforcement, including taxpayer attitude, Directorate General of Taxation policies, and economic conditions (Agustiniingsih et al., 2015). On the other hand, this study examines the variables that come from the taxpayer and the functions of the tax office to see how they affect corporate taxpayer enforcement. The following factors are used as variables in the research; first, the taxpayer's awareness and tax obligations according to the conditions of their business activities. According to earlier studies on taxpayer perception, the awareness of the need to pay taxes has a significant impact on corporate taxpayer enforcement (Mahfud et al., 2017). Tabrani et al. (2019) researched to support the opposite claim that taxpayer perception does not affect corporate taxpayer enforcement.

Second, is the service provided by the tax authorities; Tabrani et al. (2019) found that the standard of service has a massive impact on corporate Taxpayer enforcement, both partly and concurrently (Ahmad et al., 2017; Ahmad & Ahmad, 2021). If tax authorities provide excellent service to taxpayers, the degree of corporate taxpayer enforcement will skyrocket. Otherwise, other studies have come to the

opposite conclusion, claiming that tax authority services have little effect on corporate taxpayer enforcement (Mahfud et al., 2017).

The third is the socialization of taxes. According to previous studies' findings, there is no substantial tax socialization impact on corporate taxpayer enforcement (Arsyad, 2013). However, Samadiartha and Darma (2017) showed that tax socialization has a positive and important impact on corporate taxpayer enforcement. Corporate socialization is the process of learning to adhere to expectations and act in a culturally appropriate manner (Horne, 1999).

The fourth step is Tax collection. Arsyad (2013) discovered that tax collection has a significant impact on corporate taxpayer enforcement. The findings vary from Januarti et al. (2020) who concluded that tax collection had no substantial impact on taxpayer enforcement. To garner income for the government to finance social projects, tax is collected from individuals and corporations via direct tax and indirect tax. These two tax collections form the government's revenue.

The fifth is the account representative's controlling. Setyahadi and Narsa (2020) explained how corporate taxpayer enforcement is affected in part and concurrently. As account representatives perform the monitoring activity, the degree of corporate taxpayer enforcement rises dramatically. Although account representatives perform the monitoring, according to Firdhaus, (2018), this practice does not affect taxpayer enforcement.

The sixth is a tax audit as a law enforcement action. Tax audit has a significant impact on corporate taxpayer compliance. Studies such as Nasir et al. (2017) and Rahmayanti et al. (2020) found that tax fines, audits, and taxpayer awareness all affect corporate tax enforcement. Furthermore, if a taxpayer avoids paying taxes by reducing wages, the sanction rate should be raised after completing the tax audit (Zulifqar et al., 2020; Alm et. al. 2020). Nugrahanto et al. (2019) found that tax audits had little effect on corporate taxpayer enforcement. Meanwhile, research on tax audit as a moderating variable concluded that tax audit could not optimize the tax administration framework by the tax office to ensure taxpayer compliance (Boymau, 2016; Nadeem et al., 2020).

However, the literature findings show this research gap and concluded that the factors such as taxpayer awareness, tax authority services, tax socialization, account representative control, tax collection, and tax audit influence the corporate taxpayer's compliance. Therefore, this study will examine the positive relationships between taxpayer awareness, tax authority services, tax socialization, account representative control, tax collection, and tax audit influence and corporate taxpayer's compliance. Similarly, this study also examines the moderating effect of the tax audit on the compliance of corporate taxpayers (Inasius, 2019).

2. Methodology

By defining various research variables, this study takes a quantitative approach, focusing on the type of research related to causality. The research took a sample of 200 from the population of 13,640 corporate taxpayers in the Medan Kota Tax Office using non-probability sampling. Furthermore, the data analysis method used was the SEM (Structural Equation Modeling) method with a program of Lisrel 8.8. The research variables consist of exogenous variables, like taxpayer awareness, tax authority services, tax socialization, tax collection, and the account representative's control. Endogenous variables and moderating variables are tax compliance of corporate taxpayers and the tax audit. Then, testing the hypothesis in this study uses the determination coefficient and the *t*-test with a significance level of 5%. Score of *t*-table on one tail $\alpha = 5\%$ is 1.65 (Kholis et al., 2020).

3. Results and Discussion

3.1. Results

This research uses the SEM method for data analysis of SEM (Structural Equation Modeling). Furthermore, Data is validated and suitable to be used if the value of the standardized loading factor is greater than 0.50 (Hair, 1998). Meanwhile, reliability testing uses the contract reliability (CR) value which can be accepted if the value greater than 0.7 (Hair, 1998).

This study uses a moderating variable to determine whether the tax audit variable can strengthen or weaken the relationship between exogenous and endogenous variables. The method used to estimate the moderating effect on SEM is the Ping method. Wijanto (2008) explained that the ping method uses a single indicator for the interaction variable instead of multiple indicators. The single indicator multiplies the exogenous latent with variable indicator with the indicate moderator variable. After that, we do the fixing of a parameter value of the interaction variable and estimate the interaction effect results. The goodness of fit test (Table 2) is a statistical hypothesis test to see how well sample data fit a distribution from a population with a normal distribution. Goodness-of-fit establishes the discrepancy between the observed values and those that would be expected of the model in a normal distribution case (Romeu & Ozturk, 1993). However, this study used a fit model in the Goodness of Fit (GoF) to examine data analysis requirements. The absolute fit is the measurement of the model together. Therefore, this test measure's reliability of the selected model for this study. A model is fit if the sample covariance matrix is not different from the coefficient estimation matrix (Burget al., 1982).

Based on the results of the goodness of fit test, it can be concluded that most of the criteria used to assess a model's

feasibility are in accordance with the requirements for the fit measure. The findings explained that the diversity owned by a sample represents the diversity in the population.

Z-Score Skewness and Z-Score Kurtosis were found to be in between the values of -1.65 to $+1.65$. Similarly, *P*-Value in this study on Skewness and Kurtosis is above 0.50, which means that the data is distributed normally (Corrado & Su, 1996). Also, the multivariate normality test's score shows the value of 110,846 for skewness and 25,216 for kurtosis. Standard deviation (SD) is a measure of the amount of variation or dispersion of a set of values. It measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance (Angst et al., 2001). The value of the standard deviation here is 0.5 or smaller.

Moreover, the structural model of this study also has a moderating variable. Therefore, the study also used the parameters of the SEM model. According to Bentler and Weeks (1980), structural equations are related to evaluating the coefficient or parameter between exogenous latent variables and endogenous latent variables. So, the significance effect between latent variables uses testing the *T* statistic (*t* value) against the *T* table $\alpha = 5\%$ (*t* table 1.65).

Furthermore, the findings of the study show that this study only examined the tax collection variable that has a significantly positive effect on the corporate taxpayer's compliance. Besides, tax audit moderate between tax authority services and account representative's controlling (monitoring), and the corporate taxpayer's compliance at Medan Kota Tax Office in Indonesia.

3.2. Discussion

According to Byrne (2001), SEM has two components, measurement, and structural element. The measurement model is done by assessing the correlation between the manifest variables on the representation of latent variables by testing the latent variables' validity and reliability and their indicators. The following is a description of the results of the hypothesis test with *t* value-based structural equation with the Lisrel application:

1. The effect of taxpayer's awareness on compliance of the corporate taxpayer: Taxpayer's awareness has a negative and insignificant impact on compliance of the corporate taxpayer. As per the findings, when the taxpayer's awareness increases, it will be followed by decreasing corporate taxpayer's compliance, but the effect is insignificant. From the above table, the value of the effect of taxpayer's awareness on corporate Taxpayer's compliance is -0.14 , which explains that when the awareness of corporate taxpayer increases by 1 unit, then corporate Taxpayer's compliance decreases by 0.14. Awareness is a subject's ability

Table 1: Validity Test and Reliability Test

Latent Variable	Validity Test				Reliability Test			
	Manifest Variable	Estimated Factor Loading	Critical Factor Loading	Decision	Estimated Factor Loading	CR	Critical Value	Decision
Awareness	X1	0.34	0.50	Invalid	–	0.78	–	–
	X2	0.88	0.50	Valid	0.88		0.70	Reliable
	X3	0.67	0.50	Valid	0.67		0.70	Reliable
	X4	0.60	0.50	Valid	0.60		0.70	Reliable
	X5	0.69	0.50	Valid	0.69		0.70	Reliable
	X6	0.66	0.50	Valid	0.66		0.70	Reliable
	X7	0.27	0.50	Invalid	–		–	–
Services	X8	0.64	0.50	Valid	0.64	0.88	0.70	Reliable
	X9	0.80	0.50	Valid	0.80		0.70	Reliable
	X10	0.71	0.50	Valid	0.71		0.70	Reliable
	X11	0.44	0.50	Invalid	–		0.70	–
	X12	0.77	0.50	Valid	0.77		0.70	Reliable
	X13	0.82	0.50	Valid	0.82		0.70	Reliable
	X14	0.77	0.50	Valid	0.77		0.70	Reliable
	X15	0.74	0.50	Valid	0.74		0.70	Reliable
Socialization	X16	0.60	0.50	Valid	0.60	0.86	0.70	Reliable
	X17	0.86	0.50	Valid	0.86		0.70	Reliable
	X18	0.73	0.50	Valid	0.73		0.70	Reliable
	X19	0.92	0.50	Valid	0.92		0.70	Reliable
Collection	X20	0.79	0.50	Valid	0.79	0.87	0.70	Reliable
	X21	0.83	0.50	Valid	0.83		0.70	Reliable
	X22	0.77	0.50	Valid	0.77		0.70	Reliable
	X23	0.76	0.50	Valid	0.76		0.70	Reliable
Controlling	X24	0.79	0.50	Valid	0.79	0.90	0.70	Reliable
	X25	0.81	0.50	Valid	0.81		0.70	Reliable
	X26	0.81	0.50	Valid	0.81		0.70	Reliable
	X27	0.78	0.50	Valid	0.78		0.70	Reliable
	X28	0.83	0.50	Valid	0.83		0.70	Reliable
Audit	Z1	0.77	0.50	Valid	0.77	0.92	0.70	Reliable
	Z2	0.69	0.50	Valid	0.69		0.70	Reliable
	Z3	0.75	0.50	Valid	0.75		0.70	Reliable
	Z4	0.72	0.50	Valid	0.72		0.70	Reliable
	Z5	0.87	0.50	Valid	0.87		0.70	Reliable
	Z6	0.81	0.50	Valid	0.81		0.70	Reliable
	Z7	0.76	0.50	Valid	0.76		0.70	Reliable
	Z8	0.78	0.50	Valid	0.78		0.70	Reliable
Compliance	Y1	0.74	0.50	Valid	0.74	0.89	0.70	Reliable
	Y2	0.76	0.50	Valid	0.76		0.70	Reliable
	Y3	0.94	0.50	Valid	0.94		0.70	Reliable
	Y4	0.82	0.50	Valid	0.82		0.70	Reliable

Table 2: Good of Fit of this Study

GOF Size	Estimate Result	Criteria	Conclusion
Chi Square λ	1289.02	Diharapkan Kecil	Unfit
	($P = 0.0$)	$P > 0.50$	
RMSEA	0.08	$RMSEA \leq 0.08$	Fit
GFI	0.76	$GFI \geq 0.09$	Unfit
AGFI	0.65	≥ 0.09	Unfit
CMIN/DF	3.15	≤ 3	Fit
TLI/NNFI	0.93	≥ 0.95	Unfit
CFI	0.95	≥ 0.94	Fit
NCP	644.85	It should be small	Unfit
ECVI	7.17	It gains to saturated value ECVI 5.98	Fit
Model AIC	1425.85	It gains to saturated value AIC 1190.00	Fit
Model CAIC	3309.63	It gains to saturated value CAIC 3747.50	Fit
NFI	0.93	$NFI > 0.90$	Fit
PNFI	0.68	It should be small	Fit
IFI	0.95	$IFI > 0.90$	Fit
RFI	0.90	$RFI \geq 0.90$	Fit
SRMR	0.03	$SRMR \leq 0.05$	Fit
PGFI	0.52	$PGFI > 0.5$	Fit

to perceive and interact with the living environment (Hastjarjo, 2005). According to applicable tax regulations, awareness is a starting point for taxpayers to do their obligations by supporting state development through tax payments. Based on the theory, an increase in taxpayer's awareness will increase corporate taxpayer's compliance significantly. However, the research results showed contrary results.

- The effect of tax authority services on compliance of the corporate taxpayer: The impact of tax authority on compliance of the corporate taxpayer has a value of -0.43 . This means, if the tax authority service increases by 1 unit, then compliance of the corporate taxpayer decreases by 0.43. As per the findings, when tax authority services increases, it will be followed by decreasing corporate taxpayer's compliance though insignificantly. Even though the tax authority services have performed well, the corporate taxpayer's compliance remains low.
- The effect of taxation socialization on compliance of the corporate taxpayer: The value of the effect of tax socialization on the compliance of corporate taxpayer is 0.25, which explains when the tax socialization increases by 1 unit, then compliance of the corporate taxpayer increases by 0.25 or insignificantly.

When the taxation socialization increases, it increases compliance of the corporate taxpayer though insignificantly. The results revealed that the object data used does not succeed in proving a positive and significant effect of the tax socialization on compliance of the corporate Taxpayer.

- The effect of tax collection on compliance of the corporate taxpayer: The tax collection has a t -value of 3.03 or greater than 1.65. This t -value concludes that the tax collection has a positive and significant effect on the corporate taxpayer's compliance. The value of the effect of tax collection on corporate taxpayer compliance is 0.86, which explains if the tax collection increases by 1 unit, then the compliance of the corporate taxpayer increases by 0.86.
- The effect of account representative's controlling on compliance of the corporate taxpayer: Account representatives controlling has a t -value of 0.23 or greater than the t -table value of 1.65. This value concludes that account representatives controlling has a positive and insignificant effect on the corporate taxpayer's compliance. The value of the effect of account representative's controlling on compliance of the corporate taxpayer is 0.23. This means if the account representative's controlling

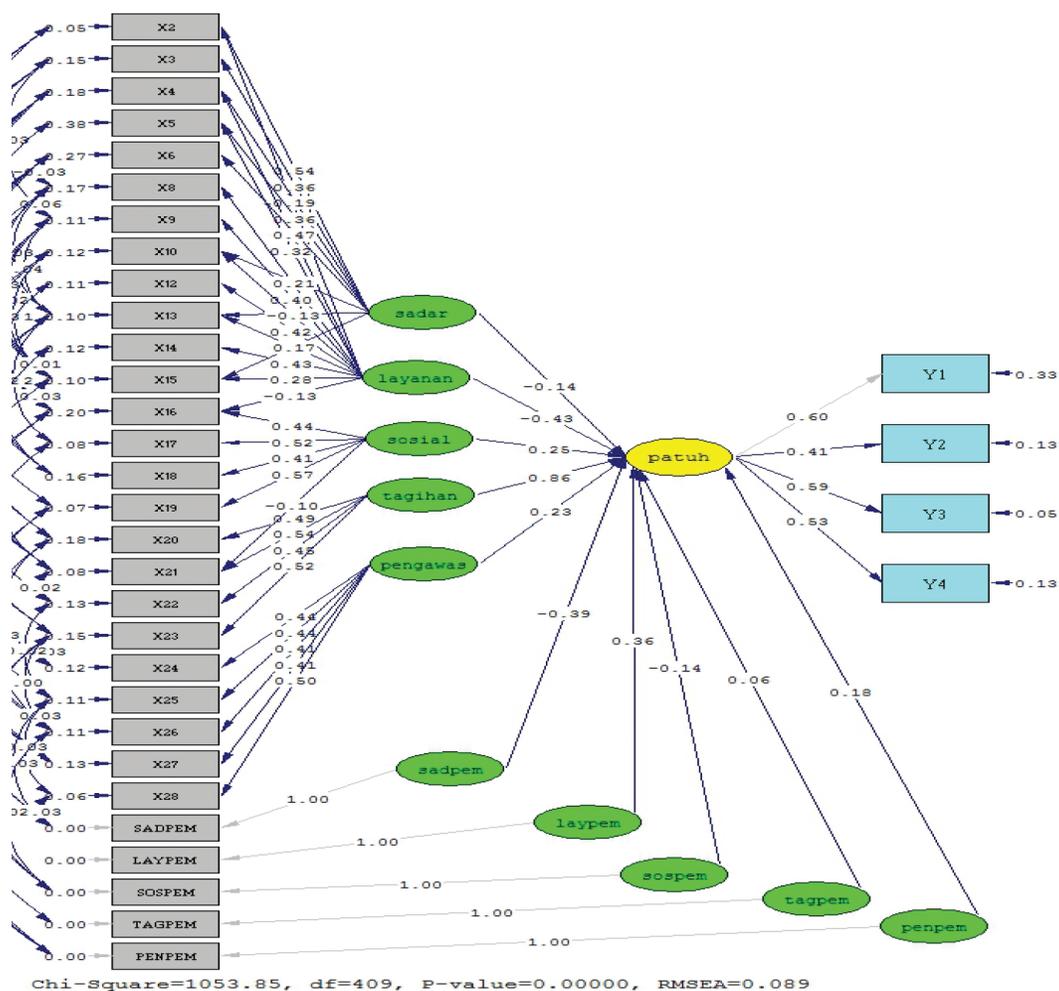


Figure 1: Path Diagram

Table 3: t-Value for the Study

No	Description	Coefficient Direct Effect	Error Value	T Value	Critical Value	Result
1	Awareness	-0.14	0.17	-0.83	1.65	Insignificant
2	Services	-0.43	0.18	-2.48	1.65	Insignificant
3	Socialization	0.25	0.15	1.62	1.65	Insignificant
4	Collection	0.86	0.28	3.03	1.65	Significant
5	Controlling	0.23	0.17	1.3	1.65	Insignificant
6	Awareness*Audit	-0.39	0.14	-2.75	1.65	Insignificant
7	Services*Audit	0.36	0.09	4.25	1.65	Significant
8	Socialization*Audit	-0.14	0.15	-0.94	1.65	Insignificant
9	Collection*Audit	0.05	0.22	0.26	1.65	Insignificant
10	Controlling*Audit	0.18	0.09	2.06	1.65	Significant

increases by 1 unit, then the compliance of the corporate taxpayer increases by 0.23. This research does not succeed in proving a positive and significant effect of the account representative's controlling (monitoring) on compliance of the corporate taxpayer.

6. Tax audit moderate the relation between taxpayer's awareness and compliance of the corporate taxpayer. The value of the effect of tax audit moderating the relation between taxpayer's awareness and compliance of the corporate taxpayer is -0.39 with a t -value of -2.75 or smaller than t -table 1.65. It means that tax audit has a negative and insignificant effect on moderating the relationship between taxpayer's awareness and compliance of the corporate taxpayer.
7. Tax audit moderates the relationship between tax authority service and compliance of the corporate taxpayer: The value of the effect of tax audit moderating the relation between tax authority service and compliance of the corporate taxpayer is 0.36 with t -the value of 4.25. It is more significant than 1.65 (t -table). That value means that the tax audit has a positive and significant effect in strengthening the relationship between tax authority service and compliance of the corporate taxpayer.
8. Tax audit moderates the relationship between tax socialization and compliance of the corporate taxpayer: The value of the effect of tax audit moderating the relation between the tax socialization and the corporate taxpayer compliance is -0.14 with a t -value of $-0.94 < 1.65$ (t -table). This explains that the tax audit has a negative and insignificant impact on moderating the relationship between tax socialization and compliance. That is, it was found the tax audit weakened the relationship between tax socialization and compliance of the corporate taxpayer.
9. Tax audit moderates the relationship between tax collection and compliance of the corporate taxpayer: The value of the effect of tax audit moderating the relation between the tax collection and the corporate taxpayer compliance is 0.05 with a t -value of 0.26 or smaller than 1.65 (t -table). The finding concludes that the tax audit has a positive and insignificant impact on moderating the relationship between tax collection and corporate taxpayer compliance.
10. Tax audit moderates the relationship between account representative's controlling and compliance of the corporate taxpayer. The value of the effect of tax audit moderating the relation between tax account representative's controlling and corporate taxpayer compliance is 0.18 with a t -value 2.06.

It is significant ($2.06 > 1.65$). This explains that tax audit has a positive and significant effect in moderating the relationship between account representatives's controlling and compliance of the corporate taxpayer. So, it can be explained that the tax audit moderates the account representative's controlling with corporate taxpayers compliance at Medan Kota Tax Office.

Based on the Lisrel output, the R square is 0.75. This explains that 75 percent of the variability in corporate taxpayer's compliance can be explained by the variability of taxpayer awareness, tax authority service, tax socialization, tax collection, account representative controlling, and tax audit. Other variables outside this study explain the remaining 25%. This study only produces a direct effect (direct causal effect) and does not have an indirect effect (indirect causal effect).

4. Conclusion

Many factors affect the corporate taxpayer's compliance, such as the Taxpayer, Directorate General of Taxes, and other factors. These factors have been researched with mixed results. This research indicates that the tax collection variable has a positive and significant effect on compliance of the corporate Taxpayer at Medan Kota Tax Office. The tax audit moderates the relation between tax authority service and account representative's controlling and the compliance of the corporate taxpayer's at Medan Kota Tax Office. Meanwhile, Taxpayer's awareness and tax authority service have a negative and insignificant effect, next tax socialization and account representative controlling have a positive and insignificant effect on compliance of the corporate taxpayer at Medan Kota Tax Office. Further, the tax audit does not moderate the relation between taxpayer awareness, tax socialization, and tax collection with compliance of the corporate taxpayer at Medan Kota Tax Office.

The results of the study also set out some consequences for Indonesian policymakers and tax authorities. Government and policymakers create corporate legislation to hide profits by leveraging the loopholes in tax legislation and the tax audit method. Similarly, the institutions must provide training to the corporate sector and the tax authorities to deal with complaints and work to spread awareness among taxpayers by filling the gaps. The study also proposed that, after the integration of the tax audit system, the government should consider penalizing the company and account traders. Similarly, tax officials must be expert and qualified in auditing, investigating, and being able to gather evidence against enforcement.

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