

# Tax Incentive and Taxpayers Awareness Impact on Tax Compliance during COVID-19 Pandemic

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## Abstract

This research aimed to analyze the significance of tax incentive and taxpayers' awareness impact on tax compliance during COVID-19 in Bandung, Indonesia. The research used primary data and was done by sending questionnaire to subjects of 53 Indonesian who already have tax identification number and have tax obligation. While both tax incentive and taxpayers' awareness have impact on tax compliance, a regression showed tax incentive has no significant impact, but taxpayers' awareness significantly impacts tax compliance. This means, it will be more effective for the government to work on taxpayers' awareness which has significant effect on tax compliance.

**Keywords:** Tax Incentive, Taxpayer Awareness, Tax Compliance

## ***Introduction***

With the pandemic continuously affecting the economy in various countries, the government in Indonesia is highly dependable on tax as the main source of national income for handling citizen's healthcare, welfare, and continuing country developments planned prior of COVID-19. Nevertheless, the pandemic has greatly impacted earnings of workers and businesses whom the government collects the tax from, making the prediction target of tax compliance ratio lower than it was a year before.

Based on the Ministry of Finance, the Directorate General of Taxes targeted the tax compliance for the year 2020 with 80%, it is 5% lower compared to the tax compliance target in 2019 which was 85%.

To countermeasure the problem at hand, Ministry of Finance (MoF) introduced a regulation regarding tax incentive which is Regulation No. 86/PMK.03/2020 then No. 110/PMK.03/2020 on Tax Incentives for Taxpayer Affected by the Coronavirus Outbreak, and Government Regulation in Lieu of Law (Perppu) No 1 year 2020. The newest regulation regarding tax incentive is Regulation No. 82/PMK.03/2021 where the incentive is given until the end of year 2021.

Even though in 2020 the compliance ratio missed the target, in terms of target to realization percentage had grown drastically by 20.67% than the reported 922,338 taxpayers in 2019 for West Java. The Directorate General of Taxes Office for [1] West Java Region I recorded Tax Return of 2019 to December 31, 2020 gained 1,131,391 taxpayers, with 1,080,893 individual taxpayers and 50,498 corporate taxpayers[1].

In fact, within the past five years, 2020 has the highest compliance percentage by 78% compared to compliance percentage from 2016 to 2019, respectively; 61%, 73%, 71%, and 73%.

Based on the above elucidation and phenomenon, the central theme of this research concludes as; "Tax incentive and awareness impact on tax compliance during COVID-19 pandemic".

## ***Conceptual Framework***

### ***Tax Incentive***

According to Black's Law Dictionary, tax incentive is a governmental enticement, through a tax benefit, to engage in a particular activity, such as the contribution of money or property to qualified charity.

[2]explained tax incentive divided into four types, which are:

1. Tax incentive as an exception form of tax imposition,
2. Tax incentive as a remission form of tax basis,
3. Tax incentive as a remission form of tax rate,
4. Tax incentive in the form of tax deferral.

### ***Tax Awareness***

Tax awareness is defined as self-awareness of taxpayers to individually take responsible to calculate, pay, and report their own tax[3]. [4]stated that taxpayers' awareness is a condition where taxpayers know, understand, and oblige the tax regulation properly and voluntarily. The higher of the taxpayers' awareness is the better where it can increase tax compliance.

### ***Tax Compliance***

[5]mentioned tax compliance as a voluntary compliance with the tax legislation measured by three indicators: filing a return (filing compliance), equivalence between

the amount declared and the amount actually due (reporting compliance), and payments of any liabilities declared (payment compliance).

Tax compliance can be defined as a behaviour where taxpayers fulfilled all of their tax obligations and did their rights[6]. Tax compliance can be divided into two kinds of formal compliance and material compliance. Formal compliance is a behaviour where taxpayers tried to fill their formal dues based on formal regulations within tax law. Material compliance is a behaviour taxpayers substantively filled their material tax dues, within the content of tax law and regulations[7].

### ***Tax Incentive and Its Impact on Tax Compliance***

Tax Incentive as convenience in calculation, disbursements, and reporting of income tax payable as regulated in PP 46 positively and significantly impact tax compliance in small business. Especially, within tax administration due, as timely in disbursements and reporting of income tax payable [8].

Based on research conducted by [9]Application of PMK tax incentives no.110/PMK.03/2020 in the short term is very effective in helping taxpayers affected by the Corona Virus Disease 2019, but in the long term this tax incentive policy is not effective.

From the described framework in previous paragraphs, then can be surmise hypotheses of the research as below:

1. Tax incentive has an impact on taxpayers' compliance during COVID-19.
2. Tax awareness has an impact on taxpayers' compliance during COVID-19.
3. Tax incentive and tax awareness have simultaneous impact on taxpayers' compliance during COVID-19.

### ***Method***

The research means to test hypotheses which were developed from theories and older research. Using an explanatory research method to explain phenomena which happened empirically, the hypotheses were built to explore the relation between each variable. It was conducted in Bandung from October until November 2021 using purposive sampling with criterias in mind. The research population consisted of 60 questionnaires which were spread among 60 Indonesian nationality taxpayers in Bandung.

The test of data quality is using validity and reliability test, where validity coefficient result decides the questionnaire consists of questions which are valid to be used as measurements for the study variables and reliability test decides the answers of the questionnaire are reliable to be the matrix of the research.

The test of classic assumption is using normality test, multicollinearity test, and Glejser test for heteroscedasticity test. Normality test is used for testing within regression model whether residual variable having normal distribution, multicollinearity test result shows within the regression model the correlation between each independent variable, and Glejser test is used to see regression model where varian similarity happened from one observation to another.

Hypothesis testing is using determination of coefficient test (R<sup>2</sup>) and F test. Determination of coefficient test is to measure how far the regression model is capable of explaining the dependency of dependent variable to independent variable while F test is to measure whether independent variables have any simultaneous effect on dependent variable.

**Result**

**Questionnaire Description**

Out of 60 questionnaires, 53 questionnaires (88.3%) were collectible where all of the returned questionnaires can be processed for tests.

For the data quality test using the validity test, it found that all of the variables; tax incentive (X1), taxpayers awareness (X2), and tax compliance (Y) are valid and using reliability test, tax incentive (X1) has Cronbach Alpha value of 0.79, taxpayers awareness (X2) has Cronbach Alpha value of 0.767, and tax compliance (Y) has Cronbach Alpha value of 0.862 where it can be concluded that all of the variables have Cronbach Alpha value > 0.60 which makes them reliable.

For the classic assumption test using normality test on the graphic of Normal Probability Plot, the dots are close within the diagonal line and the significance values of all variables are 0.200 and higher than the research alpha of 0.05. From two tests above, it can be concluded that the study has normal distribution data which means the data within the research represents the real population. The classic assumption test using multicollinearity test, coefficient value of the crossover is 0.476, which is less than 0.8 which means there are no detected Multicollinearity signs. Tax Incentive variable (X1) has Tolerance value of 0.774 and VIF value of 1.293; same as Taxpayers Awareness (X2) has Tolerance value of 0.774 and VIF value of 1.293. It can be seen that each independent variable has Tolerance value above 0.10 and VIF value under 10.0. Based on that finding, this regression model is proper to be used in this research because there are no signs of multicollinearity problems. The last Glejser test for heteroscedasticity test significance values from both variables are above 0.05, which means there are no signs of heteroscedasticity and from scatter plot graphics that the dots are not creating a pattern, or all of the dots spread evenly which means there are no heteroscedasticity assumption problems or this regression model can proceed for the next test.

**Statistic Test**

Table 1

Determination of Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.460a	.212	.180	1.754
a. Predictors: (Constant), KESADARAN WAJIB PAJAK, INSENTIF PAJAK				

Source: SPSS Output 26, data processed in 2021

From Table 11, it can be concluded that R value (double correlation) is 0.460. It means between independent variable, tax incentive and taxpayers' awareness has medium correlation. Estimate value of Standard Error is 1.754 which indicates lower value of Standard Error on study's regression means more accurate research regression to predict dependent variable, tax compliance.

Adjusted R Square value is 0.921, which means the tax compliance is affected by tax incentive and tax awareness of 18%. The rest (100% - 18%) = 72% affected by other independent variables outside this research's scope.

Tabel 2

## F Test ( ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.338	2	20.669	6.720	.003b
	Residual	153.794	50	3.076		
	Total	195.132	52			
a. Dependent Variable: Tax Compliance						
b. Predictors: (Constant), Taxpayers Awareness, Tax Incentive						

Source: SPSS Output 26, data processed in 2021

To decide the value of the F table by using df 1 and df 2 formula. Df 1 = k (number of independent and dependent variables) –1 and df 2 = n (number of samples) –k.

Df 1 = 3 –1 = 2 and df 2 = 53-3 = 50.

After df 1 and df 2 values are known with alpha of 5%, it can be concluded that the F value is 3.18. From the table above, the F value is 6,720, which means F value is higher than F table, 6,720 > 3,18. From that comparison, all of the independent variables simultaneously give influence on tax compliance.

Tabel 3

## T Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.712	1.909		4.563	.000
	INSENTIF PAJAK	.019	.104	.027	.187	.852
	KESADARAN WAJIB PAJAK	.216	.069	.447	3.131	.003
a. Dependent Variable: KEPATUHAN PAJAK						

Source: SPSS Output 26, data processed in 2021

From table 13, it can be concluded that the tax incentive variable (X1) has a T value of 0.187 < 2.0085 and probability value 0.852 > 0,05. This means as an individual variable, tax incentive does not significantly affect tax compliance.

Based on the result above, H1 in this study, tax incentive doesn't have a significant impact on tax compliance and cannot be accepted/declined.

Taxpayers' awareness (X2) has a T value of 3.131 > 2.0085 and probability value 0.003 < 0.05. This means as an individual variable, tax awareness significantly affects tax compliance. H2 in this research stated that tax awareness has a significant impact on tax compliance can be accepted.

### ***Double Linear Regression***

From Table 13 of T test, known as the regression coefficient value, it will be combined to multiple linear regression formulas as follows:

$$Y = 8,712 + 0,19x_1 + 0,216x_2 + e$$

From regression model above, it can be concluded that:

1. Tax compliance constant value is positive to 8,712; this means if independent variables which include tax incentive (X1) and tax awareness (X2) are zero or ignored, then tax compliance value is 8.712 with confidence level of 95%.
2. Regression coefficient is positive of 0.19 on tax incentive (X1), it showed that if there is an increase in tax incentive variable and other independent variable assumed constant with confidence level of 95%.
3. Regression coefficient is positive of 0,216 on tax awareness (X2), it showed that if there is an increase in tax incentive variable and other independent variable assumed constant with confidence level of 95%.

### ***Hypotheses Tests***

#### **Tax Incentive has an Impact on Tax Compliance (H1)**

Hypotheses:

- 1) Ho: tax incentive has no significant impact on tax compliance
- 2) Ha: tax incentive has significant impact on tax compliance

#### ***Pengambilan keputusan:***

- 1) If T value < T table (2.0058) or sig > (0,05) then Ho is accepted.
- 2) If T value > T table (2.0058) or sig < (0,05) then Ho is not accepted.

From the statistical calculation, T value of 0.187 and sig value of 0.852. It means T value < T table and sig > (0.05), Ho is accepted, and Ha is not accepted. Based on double regression shows that the variable coefficient positively and insignificantly impacts tax compliance.

According to [10] in her research stated that tax incentive has no significant impact on tax compliance because tax incentive only being given from April to December 2020.

#### **Taxpayers Awareness has an Impact on Tax Compliance (H2)**

#### ***Hypotheses***

- 1) Ho: tax awareness has no significant impact on tax compliance
- 2) Ha: tax awareness has significant impact on tax compliance

From the statistical calculation, T value of 3.131 and sig value of 0.003. It means T value > T table and sig < (0.05), Ho is not accepted and Ha is accepted. Based on double regression shows that the variable coefficient positively and significantly impacts tax compliance.

This result is also corresponding to previous research by Togler & Schneider (2005) which stated the intrinsic motivation to comply and pay taxes and thus voluntarily contribute to the public good.

### Conclusion

Based on tax incentive and taxpayers' awareness impact on tax compliance analysis, can be conclude as below:

1. Tax incentive has no significant impact on tax compliance refers to hypothesis tests which showed  $H_0$  is accepted and  $H_a$  is declined, which means if there is an increase in tax incentive, it will increase tax compliance within taxpayers even though it will not be significant.

2. Taxpayers' awareness has a significant impact on tax compliance refers to hypothesis tests which showed  $H_0$  is declined and  $H_a$  is accepted, which means if there is an increase in taxpayers' awareness, it will increase tax compliance within taxpayers significantly.

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