ABSTRACT

THE EFFECT OF TAX FAIRNESS, TAX KNOWLEDGE, AND TAX COMPLEXITY ON TAX COMPLIANCE: THE CASE OF SME ENTREPRENEURS' TAXPAYERS IN MALANG

By:
Mariah Qibthiyyah Brainyyah
0910230029

Supervisor:
M. Khoiru Rusydi, SE., MAk., Ak

Tax contribution is very important for the organization of a Country beside other revenues such as natural resources, profits of state-owned enterprises, fees, and other revenue sources. It can be said that taxes revenue is worth the largest domestic revenue. Without tax compliance from the taxpayers, tax revenue target would not be reached. There are economical and non-economical factors which are possible to influence the tax compliance. However, this study aims to determine and ensure the effect of perceived tax fairness, tax knowledge, and tax complexity in tax compliance decisions among SME entrepreneurs in Malang. To test the model, a questionnaire consisted questions related to the three variables and one dependent variable which is tax compliance was administered among 32 samples of SME entrepreneurs in Malang. The data was then analyzed by multiple regression method which was undertaken with SPSS 15.0 software. The findings revealed that simultaneously, perceived tax fairness, tax knowledge and tax complexity influence taxpayers' compliance decision in order to meet their taxation obligations. While the partial test showed that both tax fairness and tax complexity affect the tax compliance among SMEs taxpayers in Malang while the tax knowledge did not give any significant effect on tax compliance.

Keyword: tax fairness, tax knowledge, tax complexity, tax compliance,

INTRODUCTION

Taxes are major source of state revenue which is used for funding the Government's expenditures and development programs. Tax contribution is very important for the organization of a Country beside other revenues such as natural resources, profits of state-owned enterprises, fees, and other revenue sources. It can be said that taxes

revenue is worth the largest domestic revenue. Directorate General of Taxation as a government agency under the Ministry of Finance as the manager of the taxation system in Indonesia is continually trying to increase tax revenues by reforming the implementation of a more modern tax system. The action is very rational, because in fact the ratio between the number of taxpayers compared with the population and number of businesses is relatively small.

Table 1
Number of Enterprises in Indonesia

Number of Enterprises	2008	2009	2010	2011	2012
MSME	51.409.612	52.764.603	53.823.732	55,206,444	56,534,592
Large Entities	4.650	4.677	4.838	4,952	4,968

Low tax revenue in Indonesia is very ironic if we compare it to our rapid growth of entrepreneurships. Every year, entrepreneurship growth particularly for Small and Medium Enterprises (SME) always increases. High number of SMEs growth is a tax source that can be used to increase state revenues. But in Indonesia there are still tax gap. Mustikasari (2007) stated that Indonesia still shows the tax gap that is the gap between tax revenues that should be collected compared to the tax revenue that can be possibly collected each year. This condition leads us to a conclusion where in fact, Indonesian tax revenue is still very low; despite the large amount of tax revenue in APBN. It informs us that the high number of SMEs growth has not been able to increase tax revenues in a balanced rate.

According to Toder (2007) in Tanzi (2012), tax gap is divided into three components: non-filing gap which occurs because of the tax due is not paid and the taxpayer does not submit a tax return; underreporting gap which means the tax amount reported in the tax return is lower than what it has to be; and underpayment gap which means the potential missing tax due to not fully pay the tax owed even the taxpayer does submit the tax return. According to IMF's calculation, Indonesian tax revenue capacity is closely to 60%. This means the potential missing tax is amounted up to 40% or about four hundred and thirteen trillion rupiahs in 2012 (Tanzi, 2012).

Indonesian current tax collection system which is called Self-Assessment System that has been implemented since 1983 is very dependable to the taxpayers' honesty and compliance to report their tax obligations. While according to European Commission (2007), the lack of SME taxpayers' tax compliance appears due to several factors, i.e.: 1) Frequent changes of tax law; 2) tax complexity; 3) existence of different tax administration; 4) Incomprehensible language of tax laws; 5) Strict deadlines for tax payments which resulting in cash flow problems; 6) Cost of tax consultant; 7) Registration procedures.

There are many researches that have been done to identify taxpayer compliance. Defining element of compliance or non-compliance is different in various studies. Nicoleta (2011) divides tax compliance factor into two, which are economic and non-economic factor. One of those non-economic factors is tax fairness. This theory is supported by Jackson and Milliron (1986) in Richardson (2006), who describes that one of non-economic variable that affects tax compliance behavior is the perception of tax fairness. According to Spicer and Becker (1980) in Richardson (2006), taxpayers tend to avoid paying the tax if they assume the tax system is unfair. That shows how important the perspective of tax fairness is, as one of the variables affecting taxpayers' compliance behavior.

On the other hand, Rajif (2011) and Prasetyo (2006) declare another factor that has significance effect towards tax compliance which is tax knowledge. Both researches have different context in the result; research done by Rajif (2011) proves that tax knowledge has positive significant effect on tax compliance, while in the contrary, the research result done by Prasetyo (2006) declares that tax knowledge has negative significant effect on tax compliance. Without any tax knowledge, taxpayers are intent not to comply the tax law, deliberately or not (McKerchar, 1995; Saad, 2009).

Numerous tax laws and its changes that exist in Indonesia commonly takes the lay taxpayers such as small entrepreneurs out of their breath, because such of burden. The more complex a tax system is, the higher the compliance cost will be, and finally individual and business change their behavior in response to tax policies (Laffer, et.al., 2011). Erich, et.al (2006) in Saad (2009) claim that tax complexity results negative paradigm towards current tax law, and will further increase the unwillingness to fulfill their responsibility as a taxpayer.

Under the conditions described, the author is interested in researching and analyzing the effect of tax fairness dimensions; tax knowledge; and tax complexity towards the level of taxpayers' compliance in Indonesia, particularly in Malang, through the perspective of Small and Medium entrepreneurs' tax payers. Research and analysis was developed with the title **"THE EFFECT OF TAX FAIRNESS, TAX KNOWLEDGE, AND TAX COMPLEXITY ON TAX COMPLIANCE: THE CASE OF SME ENTREPRENEURS' TAXPAYERS IN MALANG"**. The main reference in this study is the research done by Saad (2009) titled "Fairness Perceptions and Compliance Behavior: The Case of Salaried Taxpayers in Malaysia after Implementation of the Self-Assessment System". That study aims to analyze what fairness perceptions are applied in Malaysia; how tax knowledge as well tax complexity impact on the applied tax fairness; and how the three elements simultaneously impact the taxpayers compliance behavior.

The purpose of this study is to determine the partial and simultaneous influence of tax fairness, tax knowledge, and tax complexity on SMEs entrepreneurs' tax compliances in Malang.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax rules of their country. It is accepted that the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties (Sarker, 2003). The fulfillment of tax duty is able to be seen through several aspects such as reporting process accuracy and payment accuracy (Carolina and Simanjuntak, 2011).

Taxpayers who are called "obedient" according to the Director General of Taxes arethose who meet certain criteria that would later be given a preliminary return of overpaid taxes. In accordance with the Decree of the Minister of Finance No. 235/KMK.03/2003 dated June 3, 2003, taxpayers who can be set as compliant or obedient taxpayers granted a preliminary return of overpaid taxes if they meet all the following requirements:

a) Be on time to deliver the Annual Tax Return within last 2 (two) years;
b) In the last year of the late submission of tax return period of not more than 3 (three) fiscal period for each type of tax and not late consecutively;
c) The periodic tax return was submitted no later than the deadline for submission of tax returns during the next tax period;
d) Not have delinquent taxes for all types of taxes: 1) unless it has obtained permission to repay or defer payment of taxes, 2) Excludes tax arrears with respect to STP issued for 2 (two) last tax period;
e) Not have been convicted of a crime in the field of taxation in the period of 10 (ten) years.
f) The financial statements must be audited by a public accountant or Financial and Development Supervisory Agency, and must be unqualified opinion or a qualified opinion, as long as these exceptions do not affect fiscal income. The audit report must:
   1) arranged in the long form report;
   2) presents a reconciliation of commercial and fiscal income.
g) Unless it has obtained permission to move or postpone the payment of taxes;
h) Does not include tax arrears in relation to STP issued for 2 (two) last tax period;

If financial statements are not audited by the taxpayers' public accountant, the taxpayer should submit a written request no later than three months before the fiscal year ends, to be designated as the obedient tax payers, they must qualify the point of A to the letter E above, plus the following requirements:

a) In the last two fiscal years the books of account referred to in Article 28 of Law KUP,

b) If the last 2 years the taxpayer had made tax examination, the fiscal correction for each type of tax payable is not more than 10%.

While the factors which can trigger tax compliance as explained by Jackson and Milliron (1986) in Berhane (2011) in their research are 14 factors listed. These factors are ages; gender; **tax knowledge;** income; jobs; any compulsion from other taxpayers; ethics; law punishment; **tax complexity;** connection to tax officer; source of income; **perceived tax fairness;** possibility of tax audit incurred; and the current tax rates. These factors lead author to do further research about tax compliance and appoint the three factors which are **perceived of tax fairness; tax knowledge;** and **tax complexity** as the independent variables.

Definition of SME

The definition and criteria of Small and Medium Enterprises (SMEs) vary in each country depends on the condition of each country. In principle, the definition and criteria of SMEs are based on the following aspects: (1) the amount of labor, (2) income, (3) the amount of assets.In Indonesia there are several definitions of SMEs, including the Ministry of Cooperatives and Small and Medium Enterprises, Minister of Finance Decree. 316/KMK.016/1994 dated June 27, 1994, and Law no. 20 in 2008.

According to the Ministry of Cooperatives and Small and Medium Enterprises, small businesses including micro enterprise is an entity that has a net worth of at most Rp200.000.000, excluding land and buildings, and has annual sales at most Rp1.000.000.000. Meanwhile, Medium is a business entity owned by Indonesian citizens who have a net worth greater than Rp200.000.000 lenih up to 10,000,000,000, excluding land and buildings.

According to Minister of Finance Decree. 316/KMK.016/1994 dated June 27, 1994, a small business is defined as an individual or business entity that has been conducting business activities that have sales or turnover per annum or the maximum amount RP600.000.000 has total assets most Rp600.000.000 excluding land and buildings.

According the law of Republic of Indonesia Number 20 of 2008, **micro businesses** are the business that has a net asset at most Rp50.000.000 excluding land and building, and has annual sales of at most Rp300.000.000. **Small businesses** are the businesses that have a net assets of more than Rp50.000.000 up to at most Rp500.000.000 (excluding land and building a place of business) or have annual sales of more than Rp300.000.000 to the maximum amount of Rp2.500.000.000. While **medium-sized enterprises** are businesses that have a net worth of more than Rp500.000.000 up to maximum Rp10.000.000.000 (not including land and building of

business premises) or to have the annual sales of more than Rp2.500.000.000 to the maximum amountof Rp50.000.000.000.

According Mudjarat in Partomo (2002), small businesses have several characteristics, namely:

1. Absence of a clear division of tasks between the administration and operation;
2. Low access of small businesses to formal credit institutions. So they often rely financing from its own capital or other sources such as family, relatives, brokers, and even loan sharks;
3. Most small businesses are not legally incorporated.

Tax Obligations for SMEs

The information policy of taxation for cooperatives and SMEs explain about the tax obligations for Cooperatives and SMEs, which are:

1. Signing up to get a TIN and establish themselves or taxable enterpreneur;
2. Depositing the and reported a income tax of people personal and other tax;
3. Performing value-added tax collection, deposit and report it (if designated as taxable entrepreneurs)

Tax Fairness

According to Adam Smith in Zain (2003:25), the most important principle in the context of the successful tax collection is the fairness in taxation, which is expressed by a statement that every citizen should participate in the financing of the government, as far as possible in proportion to their respective abilities, that is by comparing the earned income with the protection they get from the State. Some principles have been developed thus providing some frame of reference that can be used as the principle of fairness in taxation practice. (Zain, 2003:25). An example is the theory by Gerbing (1988) further developed by Richardson (2006) and Azmi and Perumal (2008) about perceived tax fairness dimension that positively influence the attitude of tax compliance.

Although the tax agency is equipped with two main functions of namely audit function and collection function, but the awareness and compliance towards tax obligations is not only dependent on technical issues only such as methods of imposing, technical inspection, investigation, enforcement sanctions as the embodiment of law provisions tax laws, but also depends on the willingness of the taxpayer, how the taxpayers will comply with tax regulations. Technical procedures are indeed play an important role in reducing the smuggling of taxes, but what expected is that the procedure can help to build a good tax climate and will eventually result in tax compliance.

There are other factors that influence the development of taxation climate which motivate tax compliance, which is beyond the reach of the taxation administration, also called the factor "state of mind" that influence taxpayer willingness to meet the tax requirements (Zain, 2003:32). One of the important factors that could influence the development of "state of mind" is true faith of the taxpayer that the government has been fair and reasonable in the case of imposition of each taxpayer or in other words the taxpayer convinced that the tax they deposit to the State has been effectively addressed, so that the taxpayer can perceive taxation system is fair. Improving the principles of fairness and equity in the new tax system compared to the previous one is expected to improve and restore the taxpayers trust about the fairness of the tax system due to improvements. Without being able to convince the taxpayers about the fairness of the tax system, the tax administrator can not do much to reduce smuggling or tax evasion.

Based on the foregoing discussion, it is therefore hypothesized that:

H1: Tax Fairness perceived by Taxpayers will positively influence SMEs entrepreneurs' tax compliance

Tax Knowledge

Tax knowledge is any information related to taxation that is used for act, making conclusion, and to develop certain strategies which leads to fulfill taxpayers' rights and obligations (Carolina and Simanjuntak, 2011).

The good tax climate is characterized by the things below:

1. Taxpayers understand or try to understand the provisions of the tax legislation.
2. Fill out the appropriate tax forms.
3. Calculating the correct amount of tax.
4. Paying taxes on time.

The four points above would not be complete without an adequate knowledge of taxation. This suggests that having a good tax knowledge, taxpayers are able to do bookkeeping properly especially at the time of reconciliation to produce financial statements as the basis of making the tax return. It is clear that developing tax knowledge in taxpayers is an important element in operating a successful tax system. Achieving an appropriate voluntary compliance level could be achieved if taxpayers can complete the tax returns correctly and pay the right amount of taxes. Thus to realize the objectives of voluntary compliance, taxpayers need to be informed, well educated (particularly in tax matters), and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant (Berhane, 2011).

One of research result stated that knowledge on taxation also has significant influence on the decision whether to comply with the specified time required by the tax law (Sakarnor et.al, 2010). The results show that knowledgeable taxpayers

normally submit their tax return within the required time, compared to less knowledgeable taxpayers.

Based on the foregoing discussion, it is therefore hypothesized that:

H2: Tax Knowledge will positively influence the SMEs entrepreneurs' tax compliance.

Tax Complexity

The more complex a tax system is, the higher the compliance costs will be. Higher compliance costs increase the returns from tax minimization strategies. Complex tax systems increase the costs of doing business and diminish the incentive to work, produce and invest. The costs incurred by tax complexity are similar to the costs of actual taxes, burdening workers, savers, and investors, only without the tax revenues. Tax complexity is detrimental to a country's economy and every individual adhering to the tax code. The complexity tax is particularly problematic because it creates all of the negative incentives of a high tax burden, but nets the government no additional tax revenues. Tax complexity also negatively affects overall taxpayer compliance.

Some criteria for judging the efficiency of a tax system were summarized by the 19th century American Economist Henry George, the best tax by which public revenues can be raised is evidently that which will closest conform to the following conditions:

1. That it bears as lightly as possible upon production—so as least to check the increase of the general fund from which taxes must be paid and the community maintained.

2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government.

3. That it be certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers.

4. That it bear equally—so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Notwithstanding preferences by the tax authority and tax professionals, tax complexity actually causes negative perceptions of fairness among taxpayers (Cialdini, 1989; Carroll, 1987; Saad, 2009). Erich et al. (2006) share a similar view on the inverse relationship between complexity and fairness perceptions. Reflecting to the hypothesis which mentions that perceived tax fairness will stimulate taxpayers' compliance; the tax complexity will negatively affect the tax compliance. Erich et al. (2006) in Saad (2009) claimed that complexity in tax law resulted in a negative perception of the tax system and consequently encouraged an unwillingness to comply.

Based on the foregoing discussion, it is therefore hypothesized that:

H3: Tax complexity negatively influences SMEs entrepreneurs' tax compliance.

METHODOLOGY

This research is a quantitative research. This research is also categorized as causal research. According to Istijanto (2009) causal research is one type which has main purpose to attest the causal relationship; or influence relationship among variables being tested. Generally, this research aims to examine the relation among independent variables with the dependent variable. Author uses three major independent variables in the study which are Tax Fairness, Tax Knowledge, and Tax Complexity, while the dependent variable in the observation is the Tax Compliance from the SME entrepreneurs. This research will be done by field observation by spreading questionnaire to 40 SME entrepreneurs in Malang.

Population And Sampling

In this study, the population of SMEs entrepreneurs in Malang which are listed in Ministry of Cooperative and Small Medium Enterprises is amounted to 150 entrepreneurs. Sampling method in this study is convenience sampling. Convenience sampling is the sampling method which taken by researcher based on its ease in choosing the samples from the population elements, in which the data can easily be obtained therefore the researcher is possible to choose the samples quickly (Indriantoro and Supomo: 2004, Rajif, 2011).

Data Collection Method

Data in this study is collected by doing survey using questionnaires to SME entrepreneurs which are registered as taxpayers in Malang. The questionnaire used in this study is modified from Saad (2009). 42 statements represents whole variables on this study are included in the questionnaire. A 4-point Likert scales ranging from 1 – Strongly Disagree to 4 - Strongly Agree are used for these items. Data collection of respondents' answers will further be tested by using reliability and validity testing. Reliability testing is kind of tool to determine the reliable value of a question in a questionnaire. While validity testing is used to conclude the warrant ability value of a question in the questionnaire.

Variable and Measurement

There are three independent variables in this research which are tax fairness, tax knowledge, and tax complexity. While the dependent variable is the SMEs entrepreneurs' tax compliances. The regression method used in this research is as follows:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

RESULTS AND DISCUSSIONS
Validity and Reliability Test

48 questions related to tax fairness, tax knowledge, tax complexity, and tax compliance were tested using validity and reliability tests. All question items for variable X_1, X_2, X_3, and Y value at $r_{square} > r_{table}$ (0.388) or significance less than 0.05, therefore it can be said that all of question items for variable X_1, X_2, X_3, and Y are valid and further analysis can be performed. In reliability testing, it is also obtained that all variables have coefficient alpha cronbach value at more than 0,6 therefore it can be judged that all instrument items which are used in this research are reliable and further analysis can be performed.

Classic Assumption Test

The data obtained were being tested by classic assumption test and the results showed that all data were appropriate to be processed with multiple regression analysis.

Result and Analysis

The following table shows the partial effect of independent variables on the dependent variable in this study.

Variable	b	T_{square}	*Significance*	Result
Constanta	-7,134			
X_1	0,287	2,599	0,000	Significant
X_2	-0,044	2,849	0,484	Not Significant
X_3	-0,318	4,080	0,004	Significant
Regression formula: **Y = -7.134 + 0.287 X1 - 0.044 X2 - 0.318 X3**				

Variable X_1. According to the result from statistical calculation above, perceived Tax Fairness factor accentuates how far the SMEs entrepreneurs assume that taxation system in Indonesia is fair. The fairness points consisted in this variable are general fairness, exchange fairness, horizontal fairness, vertical fairness, retributive fairness, personal fairness and administrative fairness. Based on the hypothesis testing by using SPSS program, author obtained a result which shows the independent variable X1 perceived tax fairness has a significant effect towards SMEs entrepreneurs' tax compliance, with a coefficient regression value of 0,287. The t-statistic value of variable perceived tax fairness is 11,071 which this value is bigger than the t-table value which is 2,048, at the significant level of 5%. According to that calculation author concludes that H_1 which declares that the tax fairness affects the SMEs entrepreneurs' tax compliance is accepted. This founding is in accordance with the research results done by Azmi and Perumal (2008), Saad (2009), Mukasa (2011)

and Roseline (2013). But in contrary, this result is not in accordance with research done by Pris K (2010).

Variable X_2. Tax Knowledge factor particularly emphasizes how far an entrepreneur understands SMEs about the function of tax collection, tax penalties and understanding of the technical understanding of how to calculate income tax.

Based on hypothesis testing has been carried out with the statistical program SPSS, note that the free variable X2 are tax knowledge in Malang SMEs do not have a significant effect with compliance SMEs in implementing their tax obligations, with a regression coefficient of 0,044. T-statistic value of variable Tax Knowledge for compliance is 0,709 which is smaller when compared with the t-table value of 2,048 with degrees of freedom at a significance level of 5%. On that basis, H_1 that states Tax Knowledge has a significant influence on SMEs Tax Compliance is rejected, while H_0 that states Tax Knowledge does not have a significant effect on Tax Compliance SMEs in Malang is accepted. This finding is inconsistent with the general theory of knowledge relationships that may affect the tax compliance of taxpayers to meet their obligations. So does this result does not correspond with the results of the study by Fikriningrum (2012), Ghoni (2012), Rajif (2011), Mukasa (2011), and Sakarnor (2010). However, these findings are consistent with the results of research conducted by Simanjuntak (2011) and Somang (2006) which stated that there is no influence of the variable tax knowledge to the level of tax compliance.

Variable X_3. This Tax Complexity variable accentuates how much the complexity a SMEs entrepreneur should deal with the taxation in their opinion. The complexities contained in this variable are related to the wording in DGT's brochures and even tax return form, general calculation and rules of their own income taxes; and their effort to fill in the tax return as well fulfill their taxation duties as a taxpayer. Based on the hypothesis testing by using SPSS program, author obtained a result which shows the independent variable X3 Tax Complexity has a significant effect towards SMEs entrepreneurs' tax compliance, with a coefficient regression value of -0,318. The t-statistic value of variable Tax Complexity is 3,105 which this value is bigger than the t-table value 2,048, at the significant level of 5%. According to that calculation author concludes that H3 which declares that the tax complexity affects the SMEs entrepreneurs' tax compliance is accepted. The negative symbol in the regression value expresses that tax complexity variable shares an inverse relationship with tax compliance. The higher the complexity, the less tax compliance would be obtained. This finding is consistent with the research result done by Saad (2009) and also Erich et.al (2006) who claimed that complexity in tax law resulted in a negative perception of the tax system and consequently encouraged an unwillingness to comply. Meanwhile this result doesn't go along with the research result conducted by Forest (2002).

The following table shows the simultaneous effect of independent variables on the dependent variable in this study.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66.281	3	22.094	56.557	.000[a]
	Residual	10.938	28	.391		
	Total	77.219	31			

a. Predictors: (Constant), Kerumitan Pajak, Keadilan Pajak, Pengetahuan Pajak

b. Dependent Variable: Tingkat Kepatuhan Wajib Pajak

Based on the result in table above, it is known and can be concluded that all dependent variables mentioned in this research (Perceived Tax Fairness, Tax Knowledge, and Tax Complexity) have significant influence on the dependent variable (Small Entrepreneurs' Tax Compliance), since after performing the F testing, it is obtained a significant value of 0.000. It can be seen that significant value is less than α = 0.05. The decision that can be taken is **H_0 is rejected at level α = 0.05**. It can be concluded that there is a significant effect simultaneously among independent variables X1, X2, X3, against dependent variable Y.

CONCLUSIONS AND SUGGESTIONS
Conclusions
1. Tax fairness is still a factor that determines the tax compliance behavior of tax payers, particularly taxpayers being the respondent in this study are SMEs. According to the discussion in the previous section based on hypothesis testing that has been done, the seven dimensions of fairness which being tested namely general fairness, exchange fairness, fairness horizontal, vertical fairness, retributive fairness, fairness and administrative personnel fairness have a positive and significant effect on tax compliance behavior. In this case the Directorate General of Taxation should maintain their ability to retain integrity and fairness enforce the tax itself in order to keep the public perception and further they will voluntarily keep paying their income taxes.
2. Opposed to the tax fairness, tax knowledge variable which consists of general knowledge, legal knowledge and technical knowledge in this study did not significantly affect tax compliance behavior of SMEs. Statistical calculations showed a trend of negative correlation between tax knowledge to tax compliance behavior, which means that the more SMEs entrepreneurs are aware of the ins and outs of taxation; they as well will be aware and would find a way to twists around the taxation regulations or even will tend to do tax evasion. But that does not mean that a weak and lack of tax control from Directorate General of Taxes will increase tax compliance then. In this case the

Directorate General of Taxes is required to continually improve the performance of tax knowledge dissemination while suppressing the weakness of their control therefore the tax compliance rate will increase as well as the public's knowledge about the core of taxation itself.

3. Tax Complexity factor which consists of content complexity and compliance complexity implies a negative and significant correlation to tax compliance behavior of SMEs entrepreneurs. This condition indicates that the higher complexity a tax regulation has, the more reluctant the taxpayers would pay their income taxes. It is not only about how complex the words are contained in DGT's brochures and tax return, but also the complex step to calculate the actual income tax itself. Tax reporting activity is also deemed to be really a exhausting and complex for them to do.

4. There is a significant effect between independent variables Perceived Tax Fairness; Tax Knowledge; and Tax Complexity simultaneously to the dependent variable Tax Compliance Behavior. Based on the calculation, the Perceived Tax Fairness variable is the dominant factor in the test.

Suggestions

Based on the discussion results that have been investigated before and also by pondering the research limitations which are mentioned above, author tries to provide several suggestions for the further research to rebuild similar studies. Hereafter, the suggestions are:

1. The scope of this study only on SMEs in Malang. It is suggested that further researcher do the similar study in several areas at once therefore a more comprehensive understanding and perception of SMEs entrepreneurs can be obtained.

2. To get more accurate results, it is advisable to increase the number of samples that will be used in future studies. Diligence and patience are needed in conducting similar research, since most SME entrepreneurs are not willing to be cooperative to discuss tax issues.

3. In connection with the issue raised in the study is about the matter of attitudes of the taxpayers as respondents, in which the occurrence of biased data might be possible. Therefore it is expected that further research can provide a better model of research than this research model. For example, researcher can give more specific questions to avoid respondent error in filling out the questionnaire, in which respondents answer questions that sometimes are not in accordance with the actual fact.

4. Researchers who are interested in conducting studies in the same field could use a better approach to the SME entrepreneurs who are generally very secretive and tends do not to be cooperative when talking about tax issues. This approach can be done for example with the help of the local Department of

Cooperatives and SMEs, which is an organization fostering SMEs and is considered able to bridge the MSME entrepreneurs with external parties.

Suggestions for Government

Based on the results of this study, author tries to offer some suggestions to government particularly the Directorate General of Taxes in order to optimize the tax revenue in the future. Those suggestions as follows:

1. Directorate General of Taxation is expected to increase the performance and integrity of all elements of employees, so that all aspects of tax fairness can be fulfilled and increasing public confidence. Overall improvements in the side of tax fairness are important with respect to the rotation of the tax revenues, the exchange between government and societies, tax rate fairness, tax penalties fairness, and also the administrative fairness for taxpayers. A sense of justice among the communities will influence the willingness of the public to be more obedient in paying taxes.

2. SME entrepreneurs are quite sensitive to tax problems. SME entrepreneurs generally feel laity and uncooperative towards taxes issues. Thus the Directorate General of Taxes and its lineup are expected to conduct a more intensive socialization and training related to the existing tax laws, while also continuing to improve the weaknesses and loopholes that can be exploited by the taxpayer to take action fraud and tax evasion. Getting closer to the SMEs entrepreneurs as well as reinforcing tax penalties to taxpayers who neglected the tax regulations are expected to increase their willingness to be obedient in paying their taxes.

3. Directorate General of Taxation should be able to reduce the complexity of taxation, whether the tax code complexity, the grammatical complexity in the media information published by the Directorate General of Taxation, and technical complexity of tax return. This can be done by simplifying sentences in the brochure or also in the tax return, and most primarily by doing tax rate simplification for the SME entrepreneurs. Author expects that the tax rate discourse which has been planned by Directorate General of Tax to define a low tax rate for SMEs entrepreneurs can be implemented and supported by all stakeholders and related parties.

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