

## Motives for Paying Taxes among Recipients of Article 21 Income Tax Borne by the Government

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### ABSTRACT

The emergence of Covid-19 cases over the past few years has altered the previously established socioeconomic structure. The government must keep a close eye on changes in the culture of tax compliance, as tax revenues are the keystone of the government's ability to carry out its functions. Because the government finances many social and health initiatives during the pandemic through the contribution of tax revenues, it is pertinent to examine the motivation to pay taxes among recipients of the Article 21 Income Tax borne by the government. Using quantitative descriptive statistics, this study examines intrinsic motivation, perceptions of the worthiness of public expenditures, and tax fairness in the context of the Jakarta region, Indonesia. In addition to providing the motives for paying taxes, this study emphasizes the significance of the efficiency of government expenditures.

Keywords: Tax incentives; tax morale; tax fairness; tax expenditure

### 1. Introduction

In late 2019, the Covid-19 pandemic began to spread from Wuhan, China, to the rest of the world. Given that the Covid-19 outbreak has affected countries worldwide, different nations' responses to this pandemic have differed. Nevertheless, most reactions have consisted of a combination of direct acceleration of fiscal spending and liquidity support for many firms or institutions impacted by Covid-19. According to IMF (2021), some emerging markets and medium-income economies (EMMIEs) have implemented various budgetary actions in response to the Covid-19 pandemic. Additional spending includes medical and non-medical expenses. Meanwhile, liquidity support can take numerous forms, including issuing loans, purchasing assets, injecting money, assuming debt, and so forth. For the record, the IMF's measurements are distinct from the government's monetary policy.

Several developing nations, like Brazil and Chile in Latin America, Thailand and China in Asia, and Poland and Georgia in Europe, have taken initiatives in the form of direct fiscal expenditure in a considerable way. In the course of the year 2020, all emerging nations worldwide have implemented this action, albeit to a lesser extent than the ones listed. In the meantime, Peru, Turkey, Colombia, and India are among the countries that rely on liquidity support measures the most. According to one economist at the Insti-

tute for the Development of Economics and Finance (INDEF), the crisis resulting from Covid-19 has not had a significant effect on the liquidity of Indonesia's financial industry (Liputan6.com, 2020). The primary objective of the Indonesian government is to increase its direct fiscal expenditure dominance.

The IMF (2021) also indicated that the Indonesian government had spent 2.7% of GDP on expenditures for 2020. This amount comprises IDR 76 trillion in the health sector for equipment for health professionals and testing and maintenance capacity building. In addition, the government provided a package totaling IDR 252.2 trillion for non-health-related purposes, such as supporting the tourism industry and low-income households, increasing benefits and social safety nets, and so on. The government's economic stimulus affecting forgone revenue is IDR 96.3 trillion in the form of tax cuts, tax exemptions for employees in various industries, and lower-income tax rates. In addition, the government accelerated expenditures through the Value-Added-Tax (VAT) rebate and suspended receipts by deferring business tax payments from April to September 2020. In the meantime, the government's liquidity support is approximately 0.6% GDP or the equal amount in IDR 150 trillion. This amount is a guarantee for micro, small, and medium-sized enterprises (MSMEs) bank loans that

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are anticipated to be financed by the sale of government bonds (SUN).

Researchers have been interested in how governments in various nations have responded to the spread of Covid-19 ever since the virus first appeared on the scene. Many studies have been performed to investigate the role of fiscal policy in addressing the COVID-19, with Pietro et al. (2020) serving as an example. Research by Drechsel and Kalemli-Ozcan (2020) suggests negative lump-sum taxes for MSMEs to support businesses experiencing profit shrinkage. Notes by Saez and Zucman (2020) emphasize the role of the government in paying salaries, rent, and utilities. A similar tone, Gopinath (2020) and Budish et al. (2020) highlight the ability of collateral to reduce liquidity constraints with relatively little impact on public budgets. Cowen (2020) concludes that the government should provide transfers as well as tax cuts to all citizens.

Regarding the situation in Indonesia, there haven't been many studies conducted to evaluate how effective government policies throughout the pandemic were. It was common knowledge that beginning in March 2020, the government, appearing through the Ministry of Finance, has issued MoF Regulation No.23/PMK.03/2020 and its change, which includes various tax incentives. Among the various inducements offered is the income tax Article 21 borne by the government (Article 21 DTP). This kind of policy is indeed recommended, especially during the pandemic, to stimulate the economy (Saptono & Khozen, 2021). This study aims to investigate the factors that motivate taxpayers who receive Article 21 DTP to pay their taxes. Because they will be the ones to benefit from the incentives, we anticipate a satisfactory degree of approval for some of the research instruments that we have presented. To the best of our knowledge, this study is the first which evaluate the incentive recipients in the pandemic setting.

## 2. Methods

This study aims to evaluate the morale of taxpayers who receive Article 21 DTP, as well as their perceptions of fairness and perceived worth of tax expenditures. In order to accomplish this objective, we approached the prospective respondents in question at several office centers in Jakarta and randomly handed them questionnaires. In light of the current pandemic crisis, we also made an online form available to those who may feel uneasy about making direct contact with unknown individuals (in this case, researchers). As a result, we employ a method known as convenience sampling.

This study's questionnaire consisted of 12 closed-ended questions. This study employs five Likert scales to measure respondents' perceptions, with answers ranging from 1 (total disagreement) to 5 (total agreement) for the three areas we measure. This analysis focuses primarily on the mean value of each item in the research statement. The mean is calculated by dividing the total score of all respondents' responses to each statement ("Sum" in the SPSS statistical output) by the total number of respondents (n=96).

Based on this mean value, the authors then classify the proportion of respondents' opinions per statement based on the criteria established by a prior study (Wulandari & Handayani, 2021). In the meantime, the respondent's agreement level is calculated by dividing the respondent's overall scores by the maximum score and percentage. As with the mean values, the amount of agreement is likewise categorized into five levels: 0-54% indicates very low, 55-64% indicates low, 65-80% indicates moderate, 81-90% indicates high, and 91-100% indicates very high (Sugiyono, 2017).

Data collection took place from March to April of 2022, and according to the parameters we established, we collected data from as many as 96 taxpayers. In light of the preceding earlier studies (Wulandari & Handayani, 2021), it is permissible to use that sample size when the total population is unknown. It is adequate to use this sample number with a significance level of 0.1.

The respondents' demographic information is outlined in Table 1.

**Table. 1 Demographic Background (n=96)**

		Frequency	Percent
Gender	Male	53	55,2
	Female	43	44,8
Age	18-24	6	6,3
	25-35	60	62,5
	36-45	12	12,5
	46-55	16	16,6
	>55	2	2,1
Education	Elementary-High School	1	1,0
	Diploma	7	7,3
	Undergraduate	71	74,0
	Postgraduate	17	17,7
Job	Private Sector	81	84,4
	Civil Servant	15	15,6

Source: processed Data 2022

Utilizing Kaiser-Meyer-Olkin Measures of Sampling (KMO-MSA) and Anti-Image Correlation, we employed factor analysis to evaluate the reliability of the study instrument. According to the ranking from Kaiser quoted by George and Mallery (2020), the parameters of tax morale and perceived worth are middling, while tax fairness is mediocre. Anti-Image Correlation on all three dimensions reveals scores greater than 0.5, allowing all items to be deemed reliable. All items also passed the reliability test for Cronbach's alpha > 0.80.

## 3. Result and Discussion

### 3.1. Descriptive Summary of Tax Morale, Perceptions of Fairness, and Perceived Worth of Public Expenditure during the Pandemic

This section describes a descriptive analysis of each item of the research instruments. For tax morale, indicators were adapted from research by Luttmner and Singhal (2014) and Taing and Chang (2020). Meanwhile, the perceived worth is from Simmons and Cheng (1996) and Nkundabannyanga et al. (2017), while tax fairness comes from more diverse sources (Efebera et al., 2004; Jimenez & Iyer, 2016; Owusu et al., 2021; Taing & Chang, 2020). Table 2-4 shows that the highest mean and agreement level is on tax morale, while

the lowest is the perception of fairness. On average, the mean on tax morale is 4.14 and agreement level is 82.86%, the mean on perceived worth is 3.53 and agreement level is 70.69%, and the mean and agreement level on tax fairness are respectively 3.52 and 70.41%.

Table 2 highlights the tax morale levels. This variable measures respondents' intrinsic motivation to comply with tax laws. This variable's indicator consists of four statement components. The statement items in this variable are the most congruent with the high category of all the variables examined in this study. This means that the majority of responders agree with the statement. The mean and agreement level for statement items with code MR4 is in the Very High category, indicating that most respondents strongly agree that they are attempting to comply by adhering to the appropriate tax laws. Following, item MR1, with an average score of 4.25, indicates a high level of agreement among respondents to the statement that any earned income must be reported accurately to pay the correct amount of tax. The mean result of 4.10 for item MR3 likewise indicates a high degree of approval; therefore, each source of income must be taxed. Despite being in the caretaker order for this dimension, the item MR2 with a mean value of 3.93 is still included in the category of high approval, where efforts to report taxes owed lower than they should be are not justifiable.

**Table 2. Tax Morale**

Statements	Code	Mean	AL (%)
In my opinion, honestly reporting all income I receive is a must so that the amount of tax I pay is correct.	MR1	4,25	85,0
I believe anyone should not report the tax owed lower than it should be.	MR2	3,93	78,54
Everyone should pay taxes on all the taxable income they earn.	MR3	4,10	82,08
I always try to obey and follow the applicable tax rules.	MR4	4,29	85,83
Total		4,14	82,86

AL=agreement level  
Source: processed Data 2022

Following the data presented in Table 2, the output for the answer components in the five accessible Likert scales indicates that the MR4 item ranks highest among the statement items for which the respondent chooses the response "Strongly Agree" over the other items. On these issues, there are typically fewer respondents who answered "between agree and disagree" (N) and "Strongly Disagree" than on other items. In contrast, for the item with the lowest mean, represented by item MR2, the respondents who responded "Disagree" and "Unsure" (N) constituted the biggest proportion relative to the other responses. This appears to indicate that respondents still tend to report lower tax liabilities. Although these statistics appear to contrast with the consistency of responses in MR4, it is understood when other financial and non-financial factors that

influence the intrinsic motivation of respondents are considered (Luttmer & Singhal, 2014).

Data for the perception of the worthiness of tax expenditures by the government (PW) are presented in Table 3. The statement items PW1, PW2, and PW3 have mean values in the high category. We can quickly understand that respondents tend to view the use of tax money as appropriate. Examining the distribution of respondents' agreement levels, the disagreement curve has climbed from item PW1 and reached its top at PW3. In this case, respondents still tend to agree and be neutral when assessing the appropriateness of the use of tax money and the suitability of the amount of tax money with efforts to handle Covid-19 cases. According to data from the Ministry of Health (Kemenkes, 2022), the size of hospital claims for managing Covid-19 in 2020 and 2021 were IDR 40,6 trillion and IDR 90,2 trillion, respectively, for health expenditures. In contrast, respondents are more inclined to disagree when comparing the amount of tax they have paid to the advantages they have received. This means that what they receive is likely not commensurate with the amount of tax they have paid.

**Table 3. Perceived Worth of Public Expenditure**

Statements	Code	Mean	AL (%)
The amount of tax money used by the government to handle Covid-19 cases is appropriate.	PW1	3,55	71,04
The government uses tax money to deal with Covid-19 in adequate amounts.	PW2	3,58	71,67
The amount of Income Tax that I/other people pay is appropriate considering the exchange in public services.	PW3	3,47	69,38
Total		3,53	70,69

AL=agreement level

Source: processed Data 2022

Table 4 displays the findings of the descriptive analysis for the tax fairness element. Among the five statements about tax fairness, FN5 is the most popular among respondents, with a mean value of 3.84, and is therefore classified as "high." The following sequence consists of items FN2 and FN1 with corresponding mean values of 3.54 and 3.46. It shows that respondents are more likely to provide higher ratings to the three indicators derived from earlier research (Efebera et al., 2004; Taing & Chang, 2020) because the notions of vertical and horizontal equity are presented clearly. In contrast, the mean values for the other two items, FN1 items taken from Jimenez and Iyer (2016) and FN3 items adapted from Taing and Chang (2020), tend to be lower because of the notion is still more general.

**Table 4. Tax Fairness**

Statements	Code	Mean	AL (%)
The government implements a fair tax policy.	FN1	3,46	69,17
I believe that the tax rate is fair according to the amount of income of each	FN2	3,54	70,83

person			
In my opinion, the current tax system is fair.	FN3	3,30	66,04
The amount of tax that I have to bear is the same as other people who have the same amount of income	FN4	3,45	68,96
If my income is less than the neighbour's income, then the amount of tax I must bear is also less than what they pay	FN5	3,85	77,08
Total		3,52	70,42
AL=agreement level			

Source: Processed Data 2022

Extensive study results support the argument mentioned above. Most respondents indicate agreement on FN5, FN4, and FN2 (Agree & Strongly Agree). In contrast, respondents are more cautious and inclined to "play it safe" for a broader notion of fairness by providing a moderate response for fairness indicators (Neutral). These results are similar to the findings of Nuryanah et al. (2021), which indicate that when taxpayers perceive the tax rate imposed on them as fair, they prefer to agree.

### 3.2. Discussion

Understanding how tax morale works are essential to comprehending people's preferences and ensuring that the proper policies are implemented. Luttmer and Singhal (2014) examine five main ways tax morale can operate, noting that the five approaches are not identical and tend to overlap and interact. First, intrinsic motivation refers to additional utility variables that influence an individual's decision to pay taxes. The second is reciprocal, in which the motivation of people to pay taxes is contingent upon their relationship with the state. For example, their perception of public goods provided by the government or the extent to which the tax system is seen as fair is significant to the initial motives. Third, the effect of peers or social environment, precisely the willingness to pay taxes, is contingent on the attitudes or actions of other people. Fourth, long-term cultural influences on tax compliance. Fifth, information flaws and variances from benefit maximizing (for example, individuals may misunderstand the possibility of being detected in tax evasion due to incomplete information).

This study emphasizes that there is high tax morale among those who receive Article 21 DTP facilities. Tax compliance is more likely for people who can identify direct government benefits, in this case, in the form of tax incentives. Research on taxation's role in establishing social contracts, where residents expect certain services in return for the money they pay in taxes, has been undertaken in great depth (Ali et al., 2014; Moore et al., 2018). For example, a greater level of tax morale will lead to more tax payments, which will allow for better service, and vice versa. As an alternate hypothesis, we predict that higher tax morale will lead to improved service. People are more inclined to pay taxes when they receive better services. According to a previous study, the provi-

sion of public services is linked to higher levels of tax morale and tax payments (Bodea & LeBas, 2016). As a result, taxpayers' views of the public services they receive in return for their tax money play a role in tax morale (Feld & Frey, 2007). As a result, the study also examines how taxpayers judge the value of public spending and the fairness of taxation.

The agreement level for perceived worth is in the medium range, although the mean is still in the high range. This is mere can be the result of different forms of guidance. However, those with access to Article 21 DTP facilities appear to have a more favourable perception of government initiatives designed to tackle the pandemic. According to the literature, taxpayers are more likely to comply with taxes if they believe that the government spends tax money effectively (Nkundabanyanga et al., 2017). If individuals perceive that public funds are being misused, they are more inclined to engage in delinquency (Simmons & Cheng, 1996). If they think it is unfair, they will share the same sentiment. For this study, the mean value is still in the high category with an adequate agreement level. This shows that the subject believes that most respondents approve the tax incentive in the form of Article 21 DTP without violating the principle of fairness. When individuals view the tax system as fair, they are less inclined to avoid paying taxes (Nuryanah et al., 2021).

### 4. Conclusion

This study examined the elements that motivate taxpayers to comply with their tax obligations when they are granted tax incentives in the form of Article 21 DTP. It was determined that those who acquired Article 21 DTP were highly motivated to pay their taxes. This indicates that research participants are more motivated to comply with paying taxes when the government is more aware of their financial status, which may encounter challenges amidst the outbreak. During a severe pandemic crisis, tax incentives are regarded as being of preeminent significance. In the meantime, the agreement level about the perceived worth of public expenditures and the fairness of taxation falls within the category of medium. This demonstrates that the government must use greater caution in its utilization of tax expenditures as well as a driving force for efficient spending.

This study has several limits in its results, demonstrating that a subset of the responder group (20-30%) still disagrees with the offered assertions in this survey, leaving unanswered questions. Therefore, more research should be conducted to investigate this debate, resulting in a more effective tax administration system. For example, this study can be expanded by conducting a further empirical investigation to see if the motivation to pay taxes directly impacts taxpayer compliance. A broader set of participants should also be explored for future research.

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