

## TAX AWARENESS AND TAX EDUCATION: A PERCEPTION OF POTENTIAL TAXPAYERS

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### ABSTRACT

*Self assessment system requires tax payers to have full understanding of tax rules. Students of high education are perceived as potential tax payers since in the future they will earn revenues that are subjected to taxes. Based on previous research, having full understanding of tax is proved to drive tax evasion; hence tax education becomes a key. This research is mainly aimed to investigate contextual and ethical tax awareness between business and non business students; it is also investigate student's perception if tax is important therefore they need to learn since it is unavoidable onus. It employed 341 students of Soegijapranata Catholic University (SCU); they then were divided into two groups that were 54.3% business and 45.7% non business students. SCU is a private university at Semarang Indonesia; it commits to be government partner to empower people paying their taxes. This research uses Independent Sample T-Test to test whether there are differences in contextual and ethical tax awareness between groups. Crosstabs analysis is applied to assess student's perception of the importance and the need of tax education. The result shows that there's no significant difference in contextual tax awareness between groups. It indicates that tax function and the obligation to do self assessment are got into their head without considering whether they come from business or non business program of study. It is also happened in a view of ethical tax awareness. This is to show to the government since tax awareness has already been generated among the youth. Meanwhile there are significant differences of student's perception in the importance of tax education and the need to have tax as a subject between the groups. The business students mostly believe that the knowledge will be useful for their future (45.7%) hence it is important to be learnt in high education level (41.8%). Introduction of tax is the subject they would like to learn mostly and distinctly. It implies to business department management to evaluate their learning process since their student's awareness tends to have the same level as students who don't learn tax as well.*

Keywords: tax awareness, ethics, tax education

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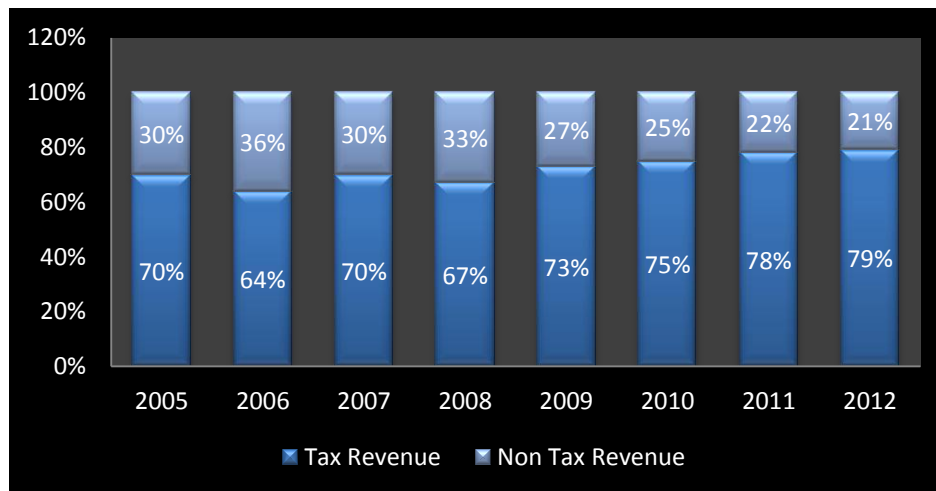
### Introduction

Implementation of Self Assessment System (SAS) requires taxpayers to have full understanding of taxation. It is imposed since 1984 in Indonesia whereas tax reform was initialized. The system insists taxpayers to calculate, pay, and report their tax liability with their own responsibility. They may actually ask for tax consultant's assistance to execute the obligation, but they still hand the responsibility of the validity and reliability of the reported data. If there is penalty of any mistaken report, the tax payer consequently have to bear it.

Years before tax reform was firstly taken, taxpayers were officially assessed by the government (official assessment system). The government (fiscus) calculated tax liabilities based on taxpayer's audited financial report accordingly. Tax scandals were emerged massively abusing loopholes of the rules. The government has ever since imposed tax reforms to optimize government revenue from tax; furthermore the country just cannot depend on any other revenues such as revenue from oil and gas. As it is naturally non-renewable and limited resources; tax revenue consequently becomes the main government revenue.

It has been four times of tax reforms in Indonesia, there are in 1984, 1994, 2000, and 2005. The reforms were taken into actions to secure targeted government revenue from tax sectors. Data shows us that the country truly relies on tax revenue to cash its expenditures. Taken from Indonesia Directorate General on Tax of Finance Ministry official web ([www.pajak.go.id](http://www.pajak.go.id)); statistic shows that during 2005 – 2012 tax revenue are 64% and above. For the years observed, tax contributes most of the government revenue; and 2012 is the biggest portion (79%).

Table 1. Government Revenues Portion 2005 – 2008



Source: data processed, 2014

The government takes many actions to obtain that portion; it is known as positive incentive and negative incentive. The incentives are aimed to set a tax compliance of all taxpayers. The positive incentives are enforced by setting simply and systematic procedure, tax holiday season, sunset policy, etc. While the negative incentives are imposed by implementing penalties and punishments to whom who do not meet the tax rules as it is required.

SAS requires taxpayers to calculate, pay, and report their own tax payable. Having full understanding of this kind of obligation helps the government indeed to have complied taxpayers. The complied taxpayers pay tax with the right amount with the right procedure. This is good since government revenue will be earned. For the potential taxpayers, it is also good to be informed with his kind of obligation. Tax is something undeniable for every citizen, their awareness of taxation will be important in pursuing tax compliance.

Tax implementation is accompanied by the laws, for the reason of compliance most people are afraid of breaking the rules or they will finish with the penalties or in jail. Regardless of the laws, people also have self moral to consider whether their motives and actions are done with respect to the rightness and wrongness. We accordingly use the term of ethics to refer this individual moral consideration. This is including how people deal with implementation of SAS. They consider conscience to report their data of income, assets, and liabilities forthrightly. More or less it is like dealing with integrity of taxpayers to achieve tax compliance.

Previous researches state that there is positively significant relation between tax knowledge and tax compliance. For example research by Palil (2010), he found that in Malaysia tax knowledge has a significant impact on tax compliance even though the level of tax knowledge varies significantly among respondents. Research conducted by Berhane (2011) in Africa, also resulted that tax compliance is influenced by tax education. There are several studies in Indonesia that seek how the understanding of tax can increase tax payers' compliance, for instance Siregar et al (2012); Prakoso and Nurswandari (2012).

Tax knowledge can be learnt by self learning, taking formal education, and taking the informal ones. The government also takes many actions to socialize tax rules and policies where taxpayers can learn from. Unfortunately not all people give their best attention to acknowledge the rules; some of them assume that tax is a burden that should be denied. Happening tax scandals corroborate the issue of tax reluctance.

Students of high education are elected as a proxy of potential taxpayers. As in the future they will be taxpayers who execute the assessment. At their ages, they are expected to have broader point of view to consider the importance of taxation.

## Research Question

This research is aimed to:

1. To investigate contextual tax awareness between business and non business students.
2. To investigate ethical tax awareness between business and non business students.
3. To compare student's perception whether tax is important to learn at high education between business and non business students
4. To investigate the need to learn tax as a knowledge in high education level.

## Literature Review

### Contextual Tax Awareness

The law of Income Tax as mentioned with UU No. 7/1983 j.o No.17/2000 j.o No.36/2008 impose Self Assessment System. The system requires tax payers to do calculation, payment, and reporting their own tax payable by themselves. Therefore

having fully understanding of tax system is demanded. Otherwise, tax consultants can be hired which will be costly. Refer to the obligations should taxpayers comply with the rules. Being notified and aware is very important to achieve taxpayers' compliance since the compliance guards the government secures paying all of expenditures. Hence in this research contextual tax awareness is defined as self awareness of taxpayers to individually take responsible to calculate, pay, and report their own tax.

### **Ethical Tax Awareness**

Baron (2012) states that from political philosophy, there are three approach to ethics; they are (1) utilitarianism, achieving a great satisfaction of desire; (2) deontology, ethics is idea of duty; and (3) virtue ethics, that using one's talents and leading a fulfilled life. Regarding to the implementation of Self Assessment System, ethical tax awareness of a taxpayer refers to the satisfaction and pride for fulfilling tax obligation when it is due. It also refers that tax is likely to a duty of every citizen therefore paying the tax is a prior expenditure, and all related data must be honestly provided.

### **Previous Research**

Some researchers are conducted regarding tax compliance and ethics are mentioned as below:

1. Bahari and Ling (2007) conducted a research that aimed to seek the importance of tax education. They have found that 64% of the non business respondents wish to learn about tax. Basic tax principles, personal taxation, tax planning for individuals and taxation for small business and company are the topics of interest for respondents. The author emphasized to insert tax as knowledge in the curriculum for non accounting program in higher education.
2. Waples and Darayseh (2009) considered ethics in tax practice, and problems that may exist in delivering ethical foundation for undergraduate tax students. The research found it should be value of ethics that are learnt by undergraduate students despite of tax.
3. Palil (2010) investigated how SAS knowledge influenced tax compliance behavior in Malaysia. He found that tax knowledge drives significantly to tax compliance, even though there was various level of tax knowledge. Despite tax education, there were other factors that determined tax compliance; there were probability of being audited, perceptions of government spending, penalties, personal financial constraints, and the influence of referent groups.
4. Rustiyansih (2011) concludes after compiling literatures review that understanding SAS is one of the factors that influence tax compliance. The other factors are educational level, income level, service quality, and perception of tax penalty.

Considering the facts that are empirically proved, it is strongly recommended that having tax education is very important for the taxpayers. By understanding tax system, it will drive to tax compliance. Students, regardless their program, business or non business students merely comprise a portion of future tax payers. Having basic knowledge of taxation enables people to easily understand the system; they can deeply discuss with professionals about tax issues, manage tax planning more effectively. Without any tax education, there might be inconsequent tax planning that leads to tax noncompliance.

### **Methodology**

#### **Population and Sample**

The population of this research is 5.048 active students, consists of 12 programs in Soegijapranata Catholic University (SCU). As a leading private university at Semarang, it commits to be government partner to do tax socialization and education in order to optimize government revenue from taxes. Trace study of alumni shows that SCU alumni work in public and private sectors, as owner, employer, and employee.

Slovin formula is used to determine number of sample. With 5% standard error it is determined 371 students as respondent. Sample is taken by using proportional random sampling. Based on registered student for each program, it categorizes sample into two groups:

- a. Business students. This group consists of students that learn tax as a subject. They are expected to have more comprehensive thinking of tax, so consequently they have higher level of tax awareness, higher level of perception of the need and importance of tax as a subject.
- b. Non business students. This group of student does not learn tax as a subject. They have less knowledge about tax but will have the same tax responsibility in the future. It is estimated that they have less tax awareness, lower level of perception of the need and importance of tax as a subject.

#### **Data collection and analysis**

Questioners are distributed to 400 students of 12 programs at SCU. The questionnaire consists of 3 parts: personal data, perception of contextual and ethical tax awareness, and the need for tax education. It uses Independent Sample T-Test to test whether there are differences in contextual and ethical tax awareness between groups. T-test is also used to test whether there is a different level of perception between groups in the importance and the need tax as a subject. Cross tabulation analysis is also used to assess student's perception of the importance and the need of tax education to be learnt at their level of study (high education).

## Research Result

### Description of Respondent

Targeted participant is 371 students, but it is only 341 students that participate in this research. Taken proportionally based on number of active students from 12 bachelor programs, I classify subsequently the program into group of business and non business. Business group is considered to have tax as the subject of study, while non business does not. The business group (54% as a whole) consists of taxation (3%), accounting (34%), management (12%), and law (5%). Meanwhile food technology (10%), electrical engineering (1%), computer science (6%), architecture (4%), Visual Communication Design (0%), civil engineering (3%), psychology (17%), and English (4%) are members of non business group (46%). With 45% of the sample is male and 55% is female, there is 48.7% of respondent that states in the future they prefer to be an entrepreneur than to be an employee. It implies that most of the respondents wish to have a business than to be a state officer (25.8%) whose income tax payable would be paid by the government, neither to be a private employee whose employer would take over most of their tax obligation (19.4%).

### Reliability and Validity Test

Reliability test defines reliability of questioner representing variable, the test shows that it is categorized into highly reliable level. Cronbach's alpha based on standardized items proceeds 82.8% for contextual tax awareness and 88.3% for ethical tax awareness. The statements used in questioner are also properly stated to afford variables. Validity test of contextual tax awareness and ethical tax awareness discovers that points of Cronbach's Alpha if Item Deleted is all below the Cronbach's Alpha standardized Items. It is concluded that instrument can thoroughly measure contextual and ethical tax awareness. There should be seven stated items regarding ethical tax awareness, but four items left to obtain validity.

Table 2. Reliability Test of Tax Awareness

	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
contextual	.826	.828	6
Ethical	.883	.883	4

Table 3. Validity Test of Tax Awareness

		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
contextual	Tax is government prime revenue	18.2265	12.825	.491	.272	.822
	Every citizen cannot secede from obligation to pay the taxes	17.8588	12.045	.698	.574	.775
	Every citizen mentioned in the tax law is a tax subject.	17.9618	12.733	.628	.505	.791
	Taxpayers are obliged to calculate their own income tax liability	18.6029	13.615	.463	.271	.824
	Taxpayers are obliged to pay their own income tax liability	18.1912	12.639	.652	.474	.786
	Taxpayers are obliged to report their own income tax liability	18.2324	12.556	.653	.473	.785
Ethical	Feeling satisfied of fulfilling tax obligation.	11.2426	6.077	.726	.532	.858
	Feeling proud of paying the tax.	11.2189	5.946	.765	.595	.843
	Tax is an obligation that every citizen must comply.	11.0621	5.744	.774	.608	.839

Honestly stated financial data (revenue, expense, asset, and liability)	11.1657	6.186	.719	.524	.860
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**Normality Test**

Histogram graphs below are resulted from normality test of data regarding contextual and ethical tax awareness. The two graphs show normal curve which indicate normal distribution of data. For the data of ethical tax awareness, it called log for the four of instruments before it is normal.

Figure 1. Histogram Graphs of Contextual and Ethics Tax Awareness

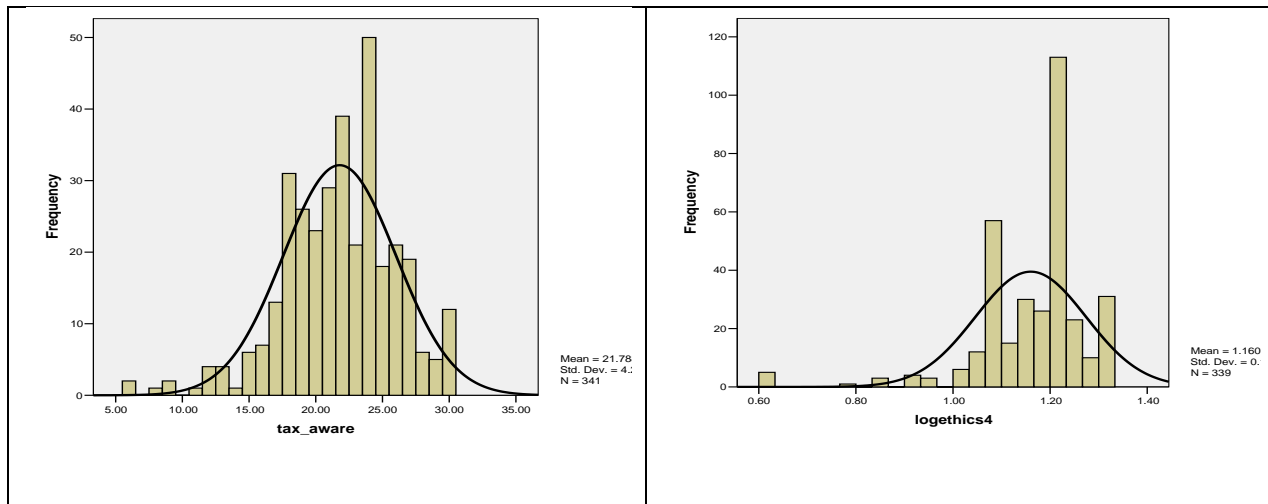


Table 4. Descriptive Statistic of Normality

	N	Minimum	Maximum	Mean	Std.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
tax_aware	341	6.00	30.00	21.7889	4.23042	-.568	.132	.975	.263
Valid N (listwise)	341								
logethics4	339	.60	1.30	1.1601	.11410	-2.101	.132	7.357	.264
Valid N (listwise)	339								

**Independent Sample T-Test**

T-test between the two groups of sample, business and non business, is stated below. Levene's for equality of variance and t-test for equality of means show that there are no significant differences levels between business and non business students regarding tax awareness, contextually and ethically. The average point of business is higher than non business, but still it is insignificant. It is discovered by levels of significance that are all above the standard level of error 5%. Regardless their program and their tax knowledge, students are aware contextually and ethically of being potential taxpayers.

This contextual tax awareness refers to the understanding that tax is government prime revenue, every citizen cannot secede from obligation to pay the taxes, and taxpayers are obliged to calculate, pay, and report their own income tax liability. For the ethical consideration, the respondents proclaim that they feel satisfied in fulfilling tax obligation, they also proudly pay tax, and they perceive that tax is an obligation that every citizen must honestly provide the required data (revenue, expense, asset, and liability).

Table 5. Group Statistics of Independent Sample T-Test

variables	program	N	Mean	Std. Deviation	Std. Error Mean
tax_aware	bisnis	185	22.1676	4.04714	.29755
	non bisnis	156	21.3397	4.40893	.35300
ethics_4V	bisnis	185	15.0378	3.28926	.24183
	non bisnis	156	14.5192	3.49095	.27950

Table 6. Independent Sample T-Test Result

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
tax_aware	Equal variances assumed	.786	.376	1.806	339	.072	.82782	.45832	-.07369	1.72934
	Equal variances not assumed			1.793	318.194	.074	.82782	.46168	-.08050	1.73615
ethics_4V	Equal variances assumed	1.005	.317	1.410	339	.159	.51861	.36773	-.20471	1.24192
	Equal variances not assumed			1.403	321.947	.162	.51861	.36960	-.20852	1.24574

This result is telling to the government that it is good to know that the youth is aware enough of their tax obligation. The chance to have complied taxpayers is closed to real. The government still has to work with the system to ensure the compliance of these potential taxpayers in future years when they will become real taxpayers.

But for the business high education management, it is highly recommended to review curriculum and learning system. The business students should have a boarder view of tax awareness. They should significantly have higher level of the awareness since they learn tax as a distinct subject. But the result shows it does not. It is expected business students can motivate non business students in the future to comply with tax rules. Therefore business students must constantly keep up their high tension to comply with the rules.

**The Need and Importance of Tax Education**

Student’s perception of the need of tax education crosstab shows that most of them are agree that tax is an important subject to be learnt in high education since nobody could escape from it. As potential taxpayers they also need to know what and how the obligation to calculate, pays, and reports their own taxes will be done. Most of them perceive it is also important as well as it is needed that tax as a knowledge has to be learnt at high education level.

Table 7. The Perception of the Importance between Groups

**important \* program Crosstabulation**

			program		Total
			bisnis	non bisnis	
important	very unimportant	Count	0	4	4
		% of Total	.0%	1.2%	1.2%
	unimportant	Count	8	8	16
		% of Total	2.4%	2.4%	4.8%
	neutral	Count	35	55	90
		% of Total	10.4%	16.4%	26.9%
	important	Count	85	59	144
		% of Total	25.4%	17.6%	43.0%
	very important	Count	55	26	81
		% of Total	16.4%	7.8%	24.2%
Total		Count	183	152	335
		% of Total	54.6%	45.4%	100.0%

Table 8. The Perception of the Need between Groups

**need \* program Crosstabulation**

			program		Total
			bisnis	non bisnis	
need	highly not needed	Count	1	4	5
		% of Total	.3%	1.2%	1.5%
	not needed	Count	1	11	12
		% of Total	.3%	3.3%	3.6%
	neutral	Count	28	38	66
		% of Total	8.4%	11.3%	19.7%
	needed	Count	94	71	165
		% of Total	28.1%	21.2%	49.3%
	highly needed	Count	59	28	87
		% of Total	17.6%	8.4%	26.0%
Total		Count	183	152	335
		% of Total	54.6%	45.4%	100.0%

Independent sample T-test shows that there is significant difference between business and non business about student's perception of the importance and the need of tax as a subject at high level education. Business students tend to proclaim that tax is important and needed more than non business students. Level of the importance and the need between the two groups is significantly difference. It might be caused by fanaticism for their program of study, but also it might perceive that business students are aware enough that it is really important to have full understanding of tax since it is undeniable for everyone.

Table 9. Group Statistics of T-Test Between the Importance and The Need

Program		N	Mean	Std. Deviation	Std. Error Mean
important	bisnis	183	4.0219	.81844	.06050
	non bisnis	152	3.6250	.91935	.07457
need	bisnis	183	4.1421	.72743	.05377
	non bisnis	152	3.7105	.93943	.07620

Table 10. T-Test of the Importance and the Need between groups

**Independent Samples Test**

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
important	Equal variances assumed	8.488	.004	4.177	333	.000	.39686	.09500	.20998	.58373
	Equal variances not assumed			4.133	305.426	.000	.39686	.09603	.20790	.58581
need	Equal variances assumed	11.477	.001	4.736	333	.000	.43155	.09112	.25231	.61079
	Equal variances not assumed			4.627	281.024	.000	.43155	.09326	.24797	.61513

Both of groups are agree that tax education is important for non business students and there's strong need to learn about tax. Although level of importance and need is significantly difference. This result confirms the previous stage that most of respondents are aware of being potential tax payers. But since they don't have enough knowledge and understanding of taxation then some of respondents tend to take neutral position to comply with or not to comply with. Giving potential taxpayer education of tax knowledge at high education is important to drive tax compliance. The respondent even suggests that non business students should also learn tax by this following subjects and methods:

Table 11. Proposed Subjects of Tax by the Respondent

Introduction of Taxation - segregated	147	43%
Introduction of Taxation - inserted	108	32%
Tax for Small enterprises - segregated	129	38%
Tax for Small enterprises - inserted	116	34%
Tax Ethics - segregated	114	33%
Tax Ethics - inserted	132	39%
Tax Cases - segregated	109	32%
Tax Cases - inserted	123	36%

### Research Implication

Business program management of high education should consider and evaluate their curriculum and their system of learning process. Business students should significantly have higher level of awareness considering they learn tax while non business students don't.

It is such a good signal for government that potential taxpayers, in average, have been aware of tax obligation. The government must accordingly take into account to keep the awareness become compliance in the future when potential taxpayers become real taxpayers.

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