

The Effect of Risk Management and E-Filing Usage on Tax Compliance Costs: A Study on Small and Medium-Sized Enterprises in Padang, Indonesia

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***Abstract---** This paper examines the influence of risk management and E-filing usage on tax compliance costs. The population of the study consist of taxpayers of registered Small Medium Enterprises (SMEs) in Padang, Indonesia. Purposive sampling technique was used to select the respondents. Regression analysis was used to examine the hypothesis. The study found that risk management have effect to tax compliance costs, meanwhile E-filing usage have no effect on tax compliance cost. The study recommended tax officers to provide more information on the use of E-filing. This can be done by socializing and providing taxpayers facilities. The socialization can be a simulation of the use of E-filing to taxpayers.*

***Keywords---** Risk Management, E-filing, Tax Compliance Costs.*

I. INTRODUCTION

Indonesia implements a self-assessment system (SAS) for taxation which gives trust to taxpayers to calculate, report and pay their taxes. Taxpayers sometimes issue a number of costs such as the value of time spent by company staff on tax matters, fees paid to external tax professionals, other miscellaneous tax costs, which may include travel, stationery, computer, telephone, court litigation costs and negative experiences of taxpayers in complying with tax legislation in order to fulfill their obligations (Ariff and Pope, 2002). The researchers believe that the tax compliance costs, i.e. costs charged by the company to fulfill the obligations and the costs incurred by the taxpayer is not burdensome to the company. Reducing tax compliance costs could facilitate and enhance the productivity and international competitiveness of small businesses, which, in turn would allow these businesses to apply more resources to essential business activities and increase their employment capacity and wage rates (Charron, Chow and Halbesma, 2008).

Tax compliance costs consist of administrative costs (Evans, Pope and Hasseldine, 2001; Eragbhe and Modugu, 2014), time spent, cash expenses and psychological costs (Hijattulah and Pope, 2008), computational costs and tax planning costs (Hanefah, Ariff and Kasipillai, 2002) as well as commencement and recurrent costs (Kirsten, 2007). Grouping Tax Compliance Costs can be both economic and non-economic costs. According Ariff and Pope (2002) Economic costs can be measured and generated from the fines, sanctions, tax rates and other economic factors. Nonconomic costs are caused by stress and anxiety caused by tax compliance (psychological costs), which are difficult to measure. Other costs are below internal economic costs, which are essentially various other costs incurred in complying with the tax law (incidental costs).

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In 2014, the number of business actors in Indonesia's SME industry is the most in the ASEAN region. The number of SMEs in Indonesia continued to grow from 2015 to 2016. SMEs have an important and strategic role in national economic development and employment. Contribution of micro, small and medium enterprises to gross domestic product increased from 57.84% to 60.34% in the last 5 years. Labor absorption in this sector also increased from 96.99% to 97.22% in the same period (Department of Cooperatives and SMEs, Indonesia 2017). In West Sumatra Province, 76,236 business entities which are food and craft related are based in Padang City (Department of Cooperatives and SMEs, West Sumatra Province 2017).

Research on tax compliance cost has been done in several Asian countries such as Singapore (Ariff et al, 1997), Hong Kong (Chan, Cheung and Ariff, 1999), Malaysia (Pope and Abdul-Jabbar, 2008; Azmi, Sapiei, Mustapha and Abdullah, 2016), Indonesia (Savitri and Musfialdy, 2016; Fauziati and Azlina, 2018) and South Africa (Smulders, Stiglingh, Franzsen and Fletcher, 2016; Zachary, Kariuki and Mwangi, 2017). For example, Zachary, Kariuki and Mwangi (2017) evaluated the determinants of tax compliance costs by Small and Medium Enterprises in Embu County, Kenya. To achieve the research objectives the study employed a descriptive study design. The population of interest comprised all the 615 registered SMEs in Embu County. This study used a sample of 185 Small and Medium Enterprises in Embu County, which were selected using stratified and simple random sampling methods. The findings of the study found a significant positive relationship between tax compliance costs and tax compliance.

Research on the influence of business characteristics to tax compliance cost by using survey method and its respondents are small and medium enterprises registered in Dinas Koperasi and Micro, Small and Medium Enterprises in Padang City conducted by Fauziati and Azlina (2018). The number of respondents who participated in this study amounted to 92 people and the results of his research indicate that Risk Management affects the cost of tax compliance but age, size and sector have no effect on tax compliance costs.

II. LITERATURE REVIEW

The Deterrence Theory in the Context of Taxes

Theoretically, tax compliance is classified into the theory of economic prevention and behavior theory. Frey and Feld, 2002 argue that the theory of economic influence has an impact on the development of social and psychological models. Taxpayers are assumed to be moral seekers and the calculation of the costs and their accompanying opportunities becomes the trigger for their actions. In the management of tax affairs, the taxpayer is affected by the cost of the offense. The taxpayer will apply the economic reason with the assumption that the taxpayer will avoid taxation as long as the tax repayment of tax evasion is greater than the cost expected to be saved.

Tax Compliance Costs

In implementing a self-assessment tax system, elaborate tax laws may compel the taxpayers to hire a tax consultant. To improve tax compliance and fulfil complex laws requires a good accounting record Schoonjans (2011). Taxpayers are subject to two main types of compliance costs, namely the cost of monetary (financial) compliance and psychological costs. Financial compliance costs include actual time and other resources incurred when complying with tax laws. Psychological costs, and involve estimation of stress and anxiety resulting from

complying with tax laws (Evans and Tran-Nam, 2014). Previous studies on tax compliance costs were conducted by Ibrahim (2013), Yilmaz and Coolidge (2014), Smulders et al (2016), Fauziati and Azlina (2018). A study that examines the factors that influence the behavior of personal income taxpayer E-filing in Malaysia.

Risk Management

Risk management consists of identifying and analyzing the events that may cause loss, and choosing the best way to deal with each of these potentials for loss. Risk Management is a term process linked to major corporations as a corporate governance requirement, is a useful process that SME can adopt to improve their chances of sustained and successful longevity (Labodova, 2004). As risk management in SMEs is low, SMEs should try to maintain proper books of accounts. SMEs owners, as a matter of necessity should take an insurance policy for their business as this may not only help to protect them against uncontrollable risk (Lupern and Kwantum, 2012). Risk management is grouped into transactions, operations, compliance and financial accounting risks (Elgood et al., 2004). The specific tax risks can also tax risks can also be considered to be internal tax risks which entities are required to manage and external tax risk through legislative and regulatory changes and new case laws (Erasmus, 2014). Fauziati and Azlina (2018) found that risk management affects tax compliance costs in Padang, Indonesia.

E-filing Usage

E- Filing is a process where taxes or tax returns are submitted through the internet usually without the need to submit any paper return. The E-filing system encompasses the use of internet technology, the World Wide Web and software for the range of tax administration and compliance purposes (Wasao, 2014). The implementation of E-filing in Indonesia aims to achieve transparency, which can eliminate corruption, the corporation between taxpayer with tax officer to manipulate tax and nepotistic practices. The benefits of the E-filing system is expected to facilitate and speed up the taxpayers in the payment of tax return because the taxpayers do not to go to the tax office for tax return data submission. The online process is simpler and is expected to decrease tax costs and increase taxpayer compliance in fulfilling their obligations. E-filing is also perceived by tax officers to be faster when accepting the tax return report and easier for administrative activities. Ibrahim (2013) conducted a study to examine the factors that affect the E-filing usage behavior among Personal Income Taxpayers (PIT) in Malaysia on a sample of 242 respondents. The findings provide valuable insights and understanding into the effects of E-filing usage behavior as well as empirical evidence of the effects of E-filing on tax compliance costs. The research variable has 4 determinants anxiety, self-ability, perceived of usefulness and external influence. Researchers used logistic regression analysis and the result showed perceived usefulness and an iety iety to to the the the the the the the E-filing system. If associated with tax compliance cost, the use of E-filing will absorb the RM 658 compliance cost while without using E-Filing (manual) then the compliance fee incurred is RM 670. This illustrates the cost difference of RM 12 (2%) indicating that there is no significant difference between the two archiving methods.

III. RESEARCH METHODOLOGY

This study used the taxpayer population registered in the Office of Cooperatives and Micro, Small Medium Enterprises in the Province of West Sumatra, Indonesia. Sampling method used to determine the sample is purposive sampling. The samples included in this study are small and medium enterprises (SMEs) using E-Filing and

registered in the Department of Cooperatives and Micro, Small Medium Enterprises in Padang City, Indonesia. The data collection for this study utilized a researcher-administered questionnaire survey method on 250 SMEs owners. The instruments are development of questionnaires adopted from Smulders et al (2016) to measure tax compliance costs, Ibrahim (2013) to measure E-filing usage and Cliath (2015) to measure risk management. The answer option in the questionnaire consisted of five Likert points. The measurements of each variable are as follows:

Table 1: Measurement of Variables

<i>Variables</i>	<i>Measurements</i>	<i>Statements</i>	<i>Reliability Coefficient</i>
Tax Compliance Costs (TCC)	Expenses incurred to calculate, pay and report taxes. These costs include using the stationery, internet payment, software purchases and professional hiring costs such as accountants or tax consultants	7 items	0.794
Risk Management	Covers risks to be faced by companies such as valuation risk, reputation risk and operational risk	8 items	0.818
E-filing Usage	Useful, quick, refund, save cost, easy use, apprehend and secure	7 items	0.749

Two hypotheses are formulated to address the research:

H1: Risk Management has effect on tax compliance

H2: E-filing usage has effect on tax compliance costs.

IV. FINDINGS

Questionnaires are distributed to 250 individual taxpayers. The researchers managed to collect 200 questionnaires, which showed an 80% response rate. After the data screening, 8 incomplete questionnaires were discarded and 192 further questionnaires were fit for subsequent analyses. The researchers used the Statistical Package for Social Sciences (SPSS) to perform multiple regression in this study.

Descriptive statistic test results showed that the tax compliance costs has a minimum value of 7, a maximum value of 35, an average of 22.21 and standard deviation of 5.08. Risk management has a minimum value of 10, a maximum value of 35, an average of 21.87 and a standard deviation of 5.57. E-filing has a minimum value of 7, a maximum value of 31, an average of 20.24 and a standard deviation of 4.84. To test the normality of data, Kolmogorov-Smirnov value for Risk Management variable, Tax Compliance Costs and E-filing Usage of 1,076; 0.965; 1,019 with a significance value of 0.197; 0.309; 0.250 and thus the normality assumption is fulfilled for regression model.

Validity and Reliability Results

Table 2 presents the results of the validity and reliability test in this study. The results show that all three variables are statistically valid and reliable. This can be seen as all Kaiser-Meyer-Olkin (KMO) values are more than 0.7 and the Cronbach Alpha's are all greater than 0.7. (Sekaran and Bougie, 2016).

Table 2: Validity and Reliability

Variables	Kaiser-Meyer-Olkin	Factor loading	Cronbach's Alpha	Decision
Tax Compliance Costs	0.750	0.520 – 0.796	0.794	Reliable
Risk Management	0.846	0.590 – 0.753	0.818	Reliable
E-filing Usage	0.759	0.560 – 0.807	0.749	Reliable

Multiple Regression

Multiple regression analysis was conducted to examine whether risk management and E-filing usage affect tax compliance costs. The test results show that (see Table 3). Statistical F significant regression analysis ($p < 0.001$). Using the t-values showed risk management have an affect on tax compliance costs while E-filing usage does not affect tax compliance costs.

Table 3: Regression Analysis

<i>Variable</i>	<i>Unstandardized Coefficients</i>	<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig</i>
(Constant)	15.28		6.77	0.00
RiskMang	0.37	0.41	6.03	0.00
E-filing	-0.06	-0.05	-0.87	0.83
	R-Squared 0.18 ;	F-statistic= 21.46		

V. ANALYSIS AND DISCUSSION

The results of the multiple regression analysis show that H1 is supported and H2 is rejected. First, risk management has a positive affect on tax compliance costs. This result is consistent with a previous study which states that risk management has an effect on tax compliance costs (Lavermicocca, 2012; Lupern and Kwantum, 2012; Erasmus, 2014; Talya, Milton and Warren, 2017; Fauziati and Azlina, 2018). Companies that can control risk will have an impact on the company's reputation and sustainability. One of the risks facing the company is the cost of taxes incurred. The higher level of corporate risk will result in increased tax costs. Second, E-filing usage does not affect tax compliance costs. This finding is inconsistent with prior studies Ibrahim (2013). The use of new E-filing applied in Indonesia in the last 2 years has not affected tax compliance costs, because taxpayers are still unfamiliar with E-filing usage. Taxpayers are still familiar with the annual report manual. To improve the use of E-filing it is necessary to socialize the use of E-filing by tax officers for taxpayers.

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