

Improved compliance of individual taxpayers through tax audit (Study at one of the Primary Service Offices in Bandung)

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Abstract

Purpose: This study aims to determine the increase in individual taxpayer compliance through tax audits.

Research methodology: The researcher used a cross-sectional survey approach to determine the effect of tax audits on increasing individual taxpayer compliance, so the researchers surveyed tax examiners at one of the primary service offices in Bandung. The questionnaire was deployed in a structured manner and provided to 40 employees closely related to their duties as tax auditors. To test the effect of research variables, the researchers used simple regression analysis techniques to determine the magnitude of the effect of tax audits on individual taxpayer compliance.

Results: The results of the study show that there is an effect of tax audits on taxpayer compliance. The results of the study indicate that the implementation of tax audits will be able to increase taxpayer compliance.

Limitations: This study only examines the perception of employees who conduct tax audits. In addition, it only uses a small sample and only tests, individual taxpayers, so it cannot generalize the study results.

Contribution: This study strengthens previous research and the theoretical basis of compliance in tax studies in Indonesia

Novelty: This research complements research on taxpayer compliance that focuses on tax audits so that this research can add to the diversity of individual taxpayer compliance research.

Keywords: *tax audits, taxpayer compliance, individual taxpayers*

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1. Introduction

Indonesia is one of the countries that adhere to a self-assessment system, where taxpayers, both individuals and business entities, are given the trust to determine the amount of tax that needs to pay independently following the provisions of tax regulations (Asrinanda, 2018). Thus, the government's role in this taxation system is to supervise taxpayers, individuals, and business entities in carrying out their tax obligations (Santoso & Erlina, 2020). Tax revenue is one of the sources of state revenue in supporting the financing of the State Revenue and Expenditure Budget (APBN) (Inasius, 2019). However, during the COVID-19 pandemic, several negative impacts emerged that affected tax revenues. These adverse impacts include reduced community income, many companies going bankrupt, decreased company turnover, many employees losing their jobs, weakened household consumption, and weakened purchasing power (Munandar, 2020; Susanti & Widajatun, 2021). These conditions prevent tax revenues from reaching the expected target (Bulutoding et al., 2020).

One strategy to increase tax revenue is to increase taxpayer compliance, both individuals and business entities, in carrying out their tax obligations and rights ([Widodo, 2021](#)). The higher the level of taxpayer compliance, both individuals and business entities, the more likely the tax revenue target can achieve. Vice versa, the lower the level of taxpayer compliance, both individuals and business entities, the less likely the tax revenue target can achieve ([Utami & Ilyas, 2021](#)). Taxpayer compliance, both individuals and business entities, is an important aspect and affects the level of tax revenue ([Sidharta, 2017](#)). However, the compliance of taxpayers, individuals, and business entities is still a significant problem in the world of taxation, where many taxpayers, both individuals and business entities, whose level of compliance in calculating, depositing, and reporting taxes to be paid is still low. Low due to the knowledge and awareness of taxpayers, individuals, and business entities, which still need to be stronger ([Inasius, 2019](#)).

The examination carried out by the tax authorities was carried out to find out the calculation errors of taxpayers, both individuals, and business entities, and to find out the existence of tax evasion by not reporting the correct data to the tax authorities to reduce their tax liabilities (fraud) ([Widiyati, Valdiansyah, Meidijati, & Hendra, 2021](#)). In this case, tax audits are one form of law enforcement carried out by the government. The aim is to provide a deterrent effect to taxpayers so that compliance in fulfilling their obligations in taxation becomes better ([Assa, Kalangi, & Pontoh, 2018](#)). The effect of tax audits on individual taxpayer compliance clarify by the opinion of ([Sidharta, 2017](#)), which is carried out to test and improve taxpayers, both individuals and business entities; it is necessary to carry out tax audits objectively and professionally based on an audit standard in order to implement the provisions of the legislation-applicable tax laws. [Yogantara, Asana, and Clarissa \(2021\)](#) prove that MSE actors can also improve their compliance through tax audits.

The previous argument indicates that by conducting tax audits, the level of compliance of taxpayers, both individuals and business entities, will increase. This argument is supported by previous research by [Gaol and Sarumaha \(2022\)](#). Their research results prove that partial Tax Audit has a positive and significant effect on Individual Taxpayer Compliance at KPP Pratama Medan Petisah, meaning that the higher the Tax Audit, the more Individual Taxpayer Compliance will increase. Therefore, it is getting better (increasing). Therefore, the Tax Audit is an important aspect and affects the Compliance of Individual Taxpayers. The research of [Santhi, Mendra, and Saitri \(2022\)](#) shows that in addition to tax sanctions and tax services that can increase individual taxpayer compliance, tax audits. However, research by [Assa et al. \(2018\)](#), [Santhi et al. \(2022\)](#), and [Gaol and Sarumaha \(2022\)](#) tested using the perceptions of taxpayers and did not test the perceptions of tax examiners. So that the researcher proposes research by examining the perception of the tax examiner and whether the research results strengthen the previous research. Based on the background of the research described, the problem can be formulated that the tax audit can increase the compliance of individual taxpayers, so the researcher aims to determine the effect of tax audits to improve individual taxpayer compliance.

2. Research methodology

The researcher uses a survey approach to test and predicts whether tax audits affect individual taxpayer compliance. Researchers use primary data, which is the perception of employees associated with tax audits at one of Bandung's primary tax service offices. The results of data collection through the distribution of questionnaires to 40 respondents who are tax officers related to the problems studied with respondents classified by gender that male respondents as many as 23 people with a percentage of 57.5% and female respondents as many as 17 people with a percentage of 42.5%. This condition shows that there are more male respondents than female respondents.

Respondents based on age respondents aged 21-30 years were two people with a percentage of 5%, respondents aged 31-40 years were 23 people with a percentage of 57.5%, respondents aged 41-50 were 13 people with a percentage of 32.5%, and respondents with age > 50 as many as two people with a percentage of 5%. This condition shows that the age of respondents with an interval of 31-40 years is more than the other age intervals. As for the respondents based on the level of education, it is known that respondents with a high school/vocational education level are 0 people with a percentage of 0%,

Diploma is eight people with a percentage of 20%, Bachelors are 27 people with a percentage of 67.5%, and Postgraduate are five people with a percentage of 12.5% This condition shows that respondents with a bachelor's level of education are more than those with other education levels.

To find out perceptions of employees' perceptions related to tax audits at one of the primary tax service offices in Bandung, researchers compiled a tax audit questionnaire based on applicable tax regulations where tax audit measurements use the dimensions of general audit standards, audit implementation standards, and audit results reporting standards. Taxpayer compliance is measured by the dimensions of formal and material compliance.

After the respondent's data was collected, the researcher tested the quality of the data before analyzing the data. The results of the data quality test refer to the validity and reliability test where the test results of the validity of the tax audit variable have a correlation value between statement items between 0.336 to 0.602 and the individual taxpayer compliance variable with values ranging from 0.302 to 0.622 so that it can be said that the research variable is valid. For reliability testing, the researcher uses an internal consistency reliability approach that uses Cronbach Alpha to identify how well the relationship between the items in the research instrument is; the results of Cronbach Alpha's tax audit variable are 0.857, while the individual taxpayer compliance variable is 0.831. The results of the calculation of the reliability test 0.7, then the Tax Audit questionnaire and taxpayer compliance are declared reliable ([Hair, LDS Gabriel, Silva, & Braga, 2019](#)).

3. Results and discussions

Researchers analyzed data from the results of questionnaires that were valid and reliable. First, the researcher analyzes the relationship between the tax audit variable and individual taxpayer compliance. The results of the correlation analysis of the relationship between Tax Audit and Individual Taxpayer Compliance is 0.838 at the interval of 0.800-1000. The calculation results show that the relationship between Tax Audit and Individual Taxpayer Compliance includes a positive relationship with the "Very Strong" category. This result means that if the Tax Audit increases, the Compliance of Individual Taxpayers will also increase. Furthermore, the researchers analyzed the effect by testing the Simple Linear Regression of the Tax Audit variable on Individual Taxpayer Compliance; the following equation obtain:

$$Y = 11.914 + 0.829X.$$

The above equation shows a constant value of 11,914 with a significance level of 0.001 or $0.001 < 0.05$, which can be significant for predicting the value of Individual Taxpayer Compliance. At the same time, the value of the Tax Audit regression coefficient is 0.829 with a significance level of 0.000 or $0.000 < 0.05$, which means that it is significant for predicting the value of Individual Taxpayer Compliance. The results of the analysis show that the Tax Audit has a positive effect on Individual Taxpayer Compliance. This result means that any change in the predicted value of individual taxpayer compliance will be significantly affected by changes in the value of the tax audit. If the tax audit increases by one unit, the predicted value of Individual Taxpayer Compliance will increase by 0.829. On the other hand, if the tax audit decreases by one unit, the predicted value of Individual Taxpayer Compliance will decrease by 0.829.

The effect of the tax audit variable on taxpayer compliance can see with the coefficient of determination of 0.702. These results indicate that tax audits affect individual taxpayer compliance by 0.702 or 70.2%. The remaining 29.8% is influenced by factors that affect individual taxpayer compliance not examined in this study, such as tax amnesty, e-filing, tax sanctions, tax invoices, level of tax understanding, and awareness of taxpayers. For example [Santhi et al. \(2022\)](#) shows that e-filing can increase individual taxpayer compliance. [Santhi et al. \(2022\)](#) shows that tax amnesty has a positive effect on increasing individual taxpayer compliance. [Santhi et al. \(2022\)](#) shows that tax sanctions have a positive effect on taxpayer compliance. [Santhi et al. \(2022\)](#) shows that the level of tax understanding can increase

individual taxpayer compliance. Likewise [Santhi et al. \(2022\)](#) shows that taxpayer awareness positively affects taxpayer compliance.

Self-assessment-based tax reporting is implemented in Indonesia, allowing taxpayers to compute individually, deposit, and report tax due ([Pebri, 2020](#)). Considering Indonesia's population scale, the system naturally funds tax reporting ([Rakhmi, 2020](#)). On the one hand, we recognize that this taxation system has problems, specifically the potential for poor tax reporting due to low tax compliance ([Rakhmi, 2020](#)). In anticipation of this low number, the government has begun a tax audit. A tax audit is processing data, information, and evidence conducted objectively and professionally by established audit criteria to determine tax conformity ([Rakhmi, 2020](#)). The tax audit is the concluding step in ensuring taxpayers appropriately submit their Annual SPT.

The tax audit is the final step in the process of tax control, and its purpose is to identify people who have overpaid SPT, including those who have filed tax returns. Loss SPT, late SPT, where SPT reporting occurs after the term of the submitted Reprimand Letter. ([Rakhmi, 2020](#)) Consolidate, merge, expand, liquidate, dissolve, or leave Indonesia permanently. Submit SPT that satisfies the selection criteria based on analysis results indicating that the Taxpayer has unfulfilled tax liabilities ([Rakhmi, 2020](#)).

In addition to this, tax audits serve numerous other objectives, including by position, providing a Taxpayer Identification Number (NPWP), eliminating NPWP, PKP confirmation and revocation Objections submitted by taxpayers, data matching and description instruments, settlement of taxpayers residing in remote regions, examination under the context of taxation, determining the beginning of production for tax purposes ([Rakhmi, 2020](#)).

As previously stated, the tax officer will conduct a tax audit to ensure taxpayers have appropriately fulfilled their tax responsibilities. These violations fall into two categories:

The first Field Inspection, carry out this inspection at the residence, place of business, workplace of the Taxpayer, or another location designated by the Directorate General of Taxes (DGT). Conduct field inspections to assess compliance with tax obligations within a maximum period of six months from the Field Audit notification letter sent to the Taxpayer until the date the SPHP is submitted. Additionally, grant an extension of up to two months. During the procedure, obliging taxpayers to show books or documents that are sources of books and other physical or electronic records with income, business operations, the Taxpayer's free work, or tax objects. Provides access to electronic data and rooms, moveable or immovable property used to store the previously stated papers. As required, provide both written and spoken information. Inspection performed by the specified time.

The second Office Examination conducts this type of inspection at the office of the Directorate General of Taxes. Inspect this office by four months after the Taxpayer fulfills the summons from the inspection service. In addition, extending the exam period can be up to two months. During the audit process, taxpayers are obliged to Show books or documents that are sources of bookkeeping and other physical and electronic documents connected to income, business activities, taxpayer-free employment, or tax objects. Providing loan audit working documents created by a certified public accountant. As required, provide both written and spoken information. Be there at the allotted time for the inspection ([Rakhmi, 2020](#)).

The effect of Tax Audit on Individual Taxpayer Compliance shows that in order to test and improve Taxpayer compliance (Individual or Entity), it is necessary to carry out an objective and professional tax audit based on an audit standard in order to implement the provisions of the applicable tax laws and regulations.

Taxpayer awareness of compliance with tax obligations is essential in tax revenue ([Santhi et al., 2022](#)). Taxpayer compliance is an action taken by taxpayers in fulfilling their tax obligations following the provisions of the tax laws and regulations that apply in a country ([Santhi et al., 2022](#)). Nevertheless, in

reality, compliance is challenging for every taxpayer to realize. Most taxpayers tend to escape the obligation to pay taxes and even act against taxes ([Santhi et al., 2022](#)). Therefore, the government is taking firm steps, such as auditing the tax returns of people who do not want to pay their taxes, to stop people from not meeting their tax obligations ([Santhi et al., 2022](#)). In addition, in a self-assessment system, the government gives the taxpayer the power to figure out, pay, and report the tax they owe themselves, as long as they follow the rules ([Santhi et al., 2022](#)). As a result, there is much hope that the community can get more people to pay their taxes on time ([Santhi et al., 2022](#)).

To improve how tax audits are conducted, it is essential to pay attention to the problem of information technology. Taxpayers have made good use of the fact that information technology is improving ([Santhi et al., 2022](#)). Along with these changes, examiners must use tools like the Computer Assisted Audit Technique (CAAT) that use information technology. Furthermore, the number of human resources must be proportional to the workload of the inspection because if the amount is insufficient, the procurement of human resources through recruitment qualifications and procedures is limited, so to overcome the limited number of examiners, improve the quality of examiners, and equip them with information technology in conducting audits ([Santhi et al., 2022](#)).

The quality of human resources determine by experience ([Santhi et al., 2022](#)), background ([Santhi et al., 2022](#)), and education ([Santhi et al., 2022](#)). Moreover, the examiner's quality will affect the inspection's implementation. ([Santhi et al., 2022](#)) Close the quality gap between examiners by giving them ongoing education and training, using a planned mutation system, and giving them rewards and punishments. ([Santhi et al., 2022](#)).

For tax audits to go smoothly, they need things like computers and other facilities for auditing ([Santhi et al., 2022](#)). [Santhi et al. \(2022\)](#) suggest using digital platforms in carrying out tax audits during the covid 19 period. For example, Audit Command Language (ACL) is beneficial for auditors in processing data for analysis and tax calculations ([Santhi et al., 2022](#)).

By conducting a tax audit, the Taxpayer's compliance level (Individual or Entity) will increase. This condition is supported by previous research by ([Gaol & Sarumaha, 2022](#)). Their research results prove that partial Tax Audit has a positive and significant effect on Individual Taxpayer Compliance at KPP Pratama Medan Petisah, meaning that the higher the Tax Audit, the Individual Taxpayer Compliance will get better or better. Based on the results obtained, the Tax Audit implemented by the tax authorities has been running quite well and can increase the Compliance of Individual Taxpayers. That is, the results of this analysis prove that the Tax Audit affects the Compliance of Individual Taxpayers. The results of this study support previous research such as those conducted by [Arifin and Syafii \(2019\)](#), [Asterina and Septiani \(2019\)](#), and [Putri and Pharamitha \(2018\)](#), which show the relationship and positive effect of tax audits on increasing individual taxpayer compliance.

4. Conclusion

The results of the study show that there is an effect of tax audits on taxpayer compliance. The results of the study indicate that the implementation of tax audits will be able to increase taxpayer compliance. To improve tax audits, Tax Auditors should use their skills professionally, carefully, and thoroughly in carrying out audits so that the audit runs well and direct so that the audit objectives can achieve as expected.

Auditors can use information technology, such as the Computer Assisted Audit Technique (CAAT), to improve tax audits. More attention to the workload of tax examiners with their duties and the experience, background, and education issues of tax auditors related to career development, rewards, and punishment. Furthermore, provide audit facilities, such as the Audit Command Language (ACL), which significantly assists examiners in processing data for tax analysis and calculation purposes.

As for increasing the Compliance of Individual Taxpayers, Tax Officers should provide socialization to Individual Taxpayers, namely the procedure for filling out the Annual Tax Return (SPT) correctly following the applicable tax laws and regulations provisions. This study only examines the perception of employees who conduct tax audits. In addition, it only uses a small sample and only tests, individual taxpayers, so it cannot generalize the study results.

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