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The Influence of Cultural Dimensions on Taxpayer Compliance

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Abstract

This research aims to analyze the influence of cultural dimensions on taxpayer compliance based on Hofstede's theory. In a dynamic global context, this research identifies three cultural dimensions: individualism, power distance and uncertainty avoidance, as well as how these three contribute to the level of taxpayer compliance. The population of this study is located in the city of Duri, with a distribution of questionnaires specifically given to taxpayers who adhere to Confucian teachings. The sample was taken using a convenience sampling method, totaling 70 respondents. Only 46 respondents completed the questionnaire. The testing will be conducted using PLS with inner and outer models. The research results indicate that individualism and power distance have an effect on taxpayer compliance with p values of 0.036 and 0.007. Meanwhile, the variable of uncertainty avoidance does not have an effect on taxpayer compliance with a value of 0.909. This research highlights the importance of a fair and transparent tax system in encouraging tax compliance. Using a multidimensional approach, this research provides policy implications that can be applied to enhance tax compliance based on the diverse cultures of Indonesia.

Keywords: Cultural Dimensions; Individualism; Power Distance; Uncertainty Avoidance; Taxpayer Compliance

1. Introduction

Compliance tax is aspect important in system taxation a country especially in Indonesia. The level of compliance high taxes allow government for to obtain sufficient income for to finance need development. According to Alm and McClellan (2012) compliance tax influenced by several factor like perception must tax to system taxation and trust in government. In Indonesian context, the low level compliance tax become challenge big in achieve state revenue targets. Compliance tax refers to the extent to which it is mandatory tax fulfil obligation its taxation in accordance with applicable laws, incl calculate, pay, and report tax appropriate time. Compliance this become a conscious way fulfil obligation without coercion and compliance forced, where it is mandatory tax obedient because afraid to sanctions law. (Alm & Torgler, 2011) compliance level what are the specs crucial for stability and growth economy a country, because income tax is source main financing for service public and development infrastructure.

Compliance tax can grouped become two form main that is compliance voluntary, where mandatory tax since influenced by various factors, including awareness tax, rate income, system taxation and what not lost importance is culture society. Some countries are also starting to tighten supervision and enforcement law to avoidance taxes and embezzlement tax for balancing budget they. As For example, the European Union in 2022 introduced more policies strict to company multinational, especially digital company, for ensure they pay appropriate taxes in the country of residence they operate.

Study latest confirm that system fair and transparent taxation play a role important in push compliance tax. Study by Pecorino (2022) show that when government provide goods valuable public for consumer through system redistributive taxation, this This can increase compliance must tax. Besides that, norm social and trust to authority also influences behavior compliance tax.

Research by Cahyonowati et al. (2023) and Jezkova (2024) emphasize importance norm social and trust in authority in determine behavior compliance tax individual. Factors external like control social, norms social and cultural practices adopted by society play role significant in determine level compliance tax. Study by Pemstein et al. (2019) show that norm strong social related payment tax can increase compliance taxes in various countries.

According to data from pajakku.com (Tommy, 2023), in 2020 there is letter announcement recorded annual amounting to 15.97 million from 19 million must tax, while achievements in 2021 with ratio compliance must tax in report letter announcement by 84%. In 2022, 15.71 million letter announcement yearly. For a number of year lastly, the ratio compliance must tax experience increase since year 2016. And only in 2018 ratio compliance must tax experience decrease. Below this feed Table 1 of taxpayer compliance from 2016 to 2020 is as following:

Table 1. Taxpayer Compliance (Millions)

Year	Number Annual Tax Returns (millions)	Taxpayer Compliance (millions)	Taxpayers (millions)	Notes
2016	12.2	60.75	20.1	Increase
2017	12.04	72.58	16.6	Increase
2018	12.5	71.10	17.6	Decrease
2019	13.3	71.10	16.6	Increase
2020	15.97	77.63	19	Increase

Source: pajakku.com

In 2020, the realization compliance must tax is at a ratio of 84% with achievement on amount This in accordance with the target that has been set previously. However director general general tax precisely give more targets low in the year front with level ratio of 80%. This is because of director general general tax want must tax for in a way voluntary pay tax the.

Connection between compliance taxes and culture are very close, where values culture adopted by a public influence behavior individual in fulfil obligation the tax. The values culture including in category theory Hofstede & Minkov (2010) which become factor study this namely individualism, power distance and uncertainty avoidance. Since avoidance tax represent activity at risk (Kovermann & Velte 2019), management company operating under level tall level individualism will do management aggressive taxation for make extra money the current that will used increase for increase compensation or dividend management shared to investors. In countries that have level high individualism, management company possible more a little care with impact more business wide to society and more focus in maximize impact, utility themselves and investor needs through improvement compensation or ratio payment dividends. (Toumi et al. (2022) to put forward that people operate in individualistic society tall will more take importance interest his personal and tends to become not enough influenced by norms group.

Individualism is dimensions culture that emphasizes importance independence individual, freedom personal, and interests personal above interest group. In society that has level individualism high, people tend to value achievement personal, responsibility individual responsibility, and preferences individual, compared with norm or mark collective (Hofstede & Minkov (2010). In society that has level individualism tall tend more focus on interests personal than interest collective that can reduce trend for comply obligation tax because lack of sense of responsibility answer to welfare public (Jezkova, (2024); Seno et al. (2022)). Individualism his tendency take risks that can occur influence his assessment to two element important moral intensity such as possibility impact and magnitude consequence (Vinson et al., 2020). Individuals who have mark more big is a person who is more brave take risk and possible own deviant understanding about possibility results bad and big impact bad the Seno et al. (2022) research was conducted by show that individualism own significant relationship to avoidance tax.

In theory dimensions Hofstede's culture, power distance is defined as to what extent members institutions and organizations that are lacking in power in a country expects and receives that power distributed in a way No evenly. When studying variable culture, distance power also becomes the most factors studied by researchers because they estimate existence strong relationship between behavior ethics and factors the (Arnold et al. (2007); Aryanti & Adhariani, (2020)). Doan et al. (2022); Jezkova (2024) to argue that power distance has implications ethics are important because distance great power can cause somebody no want to report behavior no ethical from his superiors, while the power distance is low can push reporting behavior no ethical the.

Taylor and Curtis (2013) report difference response US Public Accountant confirms that perception of power distance is related with willingness for report behavior no ethical. Society with high level of power distance, where the inequality power accepted as norms, individuals possible more obedient to rule tax because afraid will sanctions from authority tax (Doan et al., 2022). In context organization sector Indian public, Budhiraja and Modi (2021) try analyze in a way empirical impact virtue and distance power manager to behavior ethical. One of the findings significant is that organization with culture distance high power own more relationship tall between virtue and behavior manipulative compared to organization with culture distance low power. Therefore that, organization with distance high power face risk behavior more manipulative big.

Uncertainty avoidance is dimensions culture that measures to what extent members public feel no comfortable with an unavoidable situation certain or ambiguous. In public with high level of uncertainty avoidance, individuals tend avoid risk, looking

for stability, and comply with rule for reduce uncertainty. On the contrary, society with low level of uncertainty avoidance more tolerant to uncertainty and tendency flexible in face change (Hofstede et al., 2010). In compliance tax, society with high level of uncertainty avoidance tend more obedient to regulation tax because they want to avoid associated risks with avoidance taxes, such as fine or sanctions law. They are also more possible for comply rule because rule the provide a sense of certainty and structure in system taxation. On the other hand, society with low level of uncertainty avoidance possible more tend take risk and have trend more big for involved in avoidance tax (Jezkova (2024); Seno et al. (2022)).

In contrast, managers operating in countries have characteristics strong uncertainty avoidance will adopt behavior conservative (Toumi et al., 2022), and small the possibility for do matter the involved in behavior risky. Aren & Hatice (2023) therefore that, they will reduce behavior aggressive taxation for reduce risk challenge not unexpected from authority tax (Yoo & Lee, 2019). In line with that, the managers companies in countries with level low investment avoidance uncertainty will do management aggressive taxation Because they feel comfortable with ambiguity in the future (Yoo & Lee, 2019). Therefore there it is negative relationship between uncertainty avoidance and avoidance tax .

Objective study this for to study how dimensions culture according to Hofstede can affect taxpayer compliance in Indonesia. differences study previously can known in the section on paragraph with different results study good that positive, negative and negative influential. So, researchers will to study theory the hofstede from dimensions culture religious that is culture China Confucianism. Culture China is known to be very attached with obedience to a rule from authority government.

2. Methods

Study this using quantitative data with distribution questionnaire. Distribution questionnaire carried out in the city area thorn surrounding areas that have business and type estimated effort certain already report tax business. Basis for taking sample with technique accidental sampling Sugiyono (2020). Accidental sampling is part determination sample based on as it happens only, so that who only found can made into as sample. Although, without planning previously. The samples obtained as many as 46 respondents who adhere to Confucianism. Data analysis was carried out with smartpls viewed from the outer and inner models. For determine quantitative data use scale likert with assumption point 1 is very bad agree until point 5 is very much agree. Variable individualism has 3 indicators: privacy, joy will challenges and goals individual more main. The power distance variable has 3 indicators among other things authority on honesty must tax, matching information tax with other parties and the provision sanctions. The uncertainty avoidance variable has 4 indicators. The variable compliance must tax has 4 indicators with 6 statement items provided, including conveying report tax, calculate amount tax, pay tax and reporting taxes (Tambun and Witriyanto, 2016).

3. Result and Discussion

3.1. Results

Table 1. Amount of clasuses process

Variable	Indicator	Loading Factor (>0.70)	CR (> 0.70)	AVE (0.50)
IND	(X1) privacy	0.807	0.928	0.684
	(X2) happy about the challenge	0.828		
	(X3) individual goals	0.900		
PD	(X1) taxpayer honesty	0.909	0.883	0.716
	(X2) matching information	0.737		
	(X3) imposition of sanctions	0.912		
U.A.	(X1) Regulation	0.738	0.891	0.734
	(X2) attitude towards risk	0.847		
	(X3) tolerance of ambiguity	0.706		
	(X4) Innovation	0.751		
TC	(X1) submitting tax reports	0.820	0.847	0.581
	(X2) calculating the amount of tax	0.806		
	(X3) calculating the amount of tax	0.923		
	(X4) paying taxes	0.860		
	(X5) tax reporting	0.740		
	(X6) tax reporting	0.803		

Based on Table 2 for the outer model, shows that mark from the three indicators of individualism is at more of > 0.80, three power distance indicators > 0.80, four uncertainty avoidance indicators > 0.80 and taxpayer compliance has 6 indicators is > 0.80. This is show that all over mark this can tested for study next. Besides that, validity test measurement using the convergent validity test with average variance extracted (AVE). The AVE value is at least of 0.5, indicating validity sufficient convergence, which means that one latent variables are capable explain more from half the average variance of the indicator (Ghozali, 2014). The table above also shows that all over variable construct own proven value > 0.50 with individualism of 0.684, power distance of 0.716,

uncertainty avoidance of 0.734 and taxpayer compliance of 0.581. Then, the reliability test using composite reliability. Composite reliability will measure mark indeed reliability a construct. (Hair et al. (2014) state if composite reliability value must be > 0.70 although 0.60 is still can accepted. Table 2 explains that all over variable study own composite reliability value > 0.70 with mark unit including individualism of 0.928, power distance of 0.883, uncertainty avoidance of 0.891 and taxpayer compliance of 0.847.

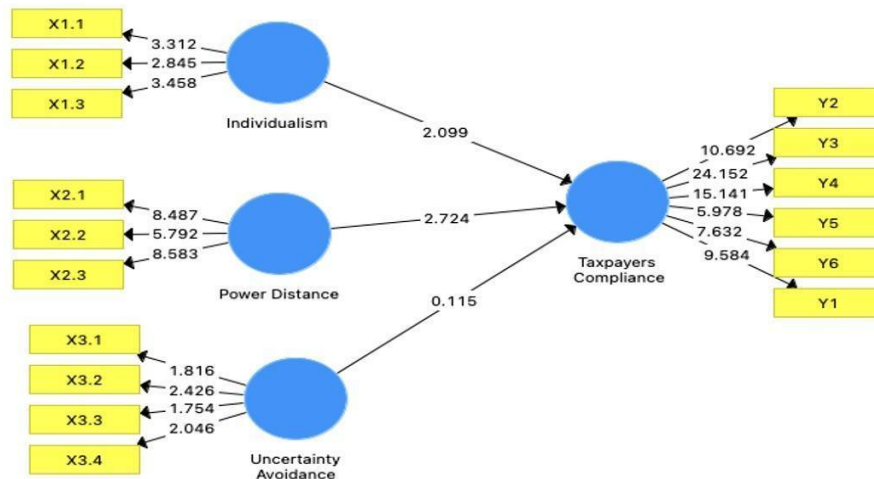


Figure 1. Structural model

Based on table 3, it is known that individualism variable has an influence with p values 0.036 to direction positive is 0.246, which means is H1 accepted with results influential positive on taxpayer compliance. Second, power distance has a p value of 0.007 with direction negative of -0.329, meaning H2 is accepted with results influential negative towards taxpayer compliance. Finally, uncertainty avoidance has a p value of 0.909 indicating lower no existence connection towards taxpayer compliance. Thus, it is concluded that H3 is rejected.

Table 3. Inner Model

Variables	Original Sample	P Values
IND	0.246	0.036
PD	- 0.329	0.007
U.A.	- 0.034	0.909

Source: PLS, 2024

3.2. Discussions

a. Individualism is influential regarding taxpayer compliance

Table 3 shows results testing for hypothesis 1 which indicates that individualism can affect taxpayer compliance. It can be seen from p values of $0.036 < 0.05$ with the original sample of 0.246 to direction positive, thing this can interpreted that individualism has an influence positive towards taxpayer compliance.

This result show that the dimension of individualism is not feel bound with group social. Mandatory tax reporting letter announcement annual in a way personal with high, then will increase taxpayer compliance. Individuals with mark high individualism feel more responsible answer on action they yourself. Mandatory tax tend see obligation tax as not quite enough answer personal must fulfilled, not only as obligation social or group. Appropriate with theory obedience (Milgram, 1963) that self - oriented individual alone possible more realize consequence law from avoidance tax for obey applicable rules and orders. Must tax understand that no comply obligation tax can result in sanctions serious law, so that they more tend for comply regulation taxation. Strong impetus for reach success personal. Comply obligation tax can seen as part from achievement said, where the individual feel that they contribute to the development and progress of the country.

Study in line with (Seno et al. (2022); Alm and Torgler (2011)) that state that the country with level high individualism tend own level compliance more taxes good, because individual feel more responsible answer on action them and more value contribution to development of the country. Increasingly tall level of individualism, then will the more high sense of responsibility responsible for compliance pay tax.

H1: Individualism has an influence positive regarding taxpayer compliance

b. Power distance has an effect regarding taxpayer compliance

Table 3 shows results testing For hypothesis 2 which indicates that power distance can affect taxpayer compliance. It can be seen from p values of $0.909 > 0.05$ with original sample of -0.329 to direction negative, thing this can interpreted that power distance has an effect negative towards taxpayer compliance. In public with high power distance, there is significant gap between individuals and authorities.

This matter can cause low level trust to government and institutions taxation. When it is mandatory tax feel that authority no transparent or no fair, they possible not enough motivated for comply obligation taxation they. In culture that emphasizes power distance, individual possible more focus on interests personal and less feel bound with not quite enough answer collective to society. This is can reduce motivation for fulfil obligation taxation, because they no see contribution tax as part from not quite enough answer social.

Theory compliance according to Milgram (1963) provides information that behavior individual influenced by norms prevailing social in society. In high power distance context, norms social possible more support avoidance tax, because individual feel that no there is consequence significant social for no comply obligation taxation. When the norm social no support compliance, individual tend more choose for ignore regulation tax. High power distance, attitude negative to authority and norms social support avoidance tax can reduce intention individual for comply obligation taxation. If an individual feel that compliance no valued or no expected, they possible more tend for no comply .

Study in line with (Doan et al., 2022) if the power distance is too height, thing this can cause distrust to government and reduce motivation for comply obligation taxation. Different with Seno et al. (2022) that state that power distance has an effect positive because with high power distanc, individuals tend more obedient to rule tax because afraid will sanctions from authority tax.

H2: Power distance has an effect negative regarding taxpayer compliance

c. Uncertainty avoidance has an effect regarding taxpayer compliance

Table 3 shows results testing for hypothesis 3 which indicates that uncertainty avoidance no can affect taxpayer compliance. It can be seen from p values of $0.007 < 0.05$ with the original sample of -0.034 to direction negative, thing this can interpreted that uncertainty avoidance no influential towards taxpayer compliance. This is show that level discomfort individual to uncertainty no in a way direct influence decision they for comply obligation taxation. Individual possible no feel impact from uncertainty avoidance in decision they for comply tax. This is can so caused by norms social or other more common habits dominant in influence behavior taxation. Study This in line with Toumi et al. (2022) that uncertainty avoidance does not own impact significant taxation. Different research according to (Seno et al., 2022) that state that uncertainty avoidance has an effect negative show that practitioner tax tend to practice compliance taxation in high uncertainty avoidance culture. In culture with high level of uncertainty avoidance, individuals tend more to practice compliance tax. This is caused by a tendency individual for avoid risks and uncertainties associated with avoidance taxes. They more choose for comply regulation tax for avoid consequence possible law arise from avoidance tax.

H3: Uncertainty avoidance does not influential regarding taxpayer compliance

4. Conclusion

Individualism and power distance have influence significant to compliance must tax. Individuals who are more individualist tend more brave take risk, which can influence decision must tax in fulfil obligation taxation. Uncertainty avoidance does not influential to compliance must tax. Although there is norm social that can influence behavior taxation, inconvenience individual to uncertainty no in a way direct influence decision must tax for comply obligation taxation. Influential on taxpayer compliance, while uncertainty avoidance does not influence on taxpayer compliance. It is better government give socialization in a way direct that rules and regulations it is very clear and fundamental that it is mandatory tax report it. Research this only refers to one area in KPP Pratama Bengkalis. Other researchers can expand the place and samples studied.

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