# The Mediating Tax Complexity on The Influence of Tax Fairness and Transparency on Tax Compliance in Small and Medium Enterprises at Jakarta

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**Abstract.** Various efforts have been made to improve the performance of tax authorities. This study aims to analyze and test the effect of tax justice and transparency on taxpayer compliance mediated by tax complexity at SMEs in Jakarta. The sample in this study was 176 respondents. The results of this study show that Tax Fairness, Transparency, and Tax Complexity have a positive and significant influence on Tax Compliance. In addition, Tax Fairness and Transparency have a positive and considerable impact on the use of tax complexity. Tax complexity does not mediate the relationship between tax fairness and tax compliance. However, tax complexity can mediate the relationship between transparency and tax compliance.

**Keywords:** Tax Fairness, Transparency, Tax Complexity, Tax Compliance.

## 1 Introduction

With the accelerated integration of digital technology into the socioeconomic lives of the people, the Covid-19 epidemic has transformed the global economic landscape toward a new economic order. In 2020, Indonesia's digital economy was worth 11% more than it was in 2019, and it contributed 9.5% of the country's Gross Domestic Product (GDP). The digital map of Indonesia for 2021–2024 is anticipated to boost the usage of digital technology. On the other hand, the Covid-19 pandemic has impacted economic supply and demand, resulting in a decrease in economic growth and a reduction in the Tax Ratio of up to 8.3%. The government has directed comprehensive fiscal policies to cope with the economic recession. Tax authorities must prepare various strategies to design a framework for developing the digital economy in Small and Medium Enterprises (SMEs).

SMEs in Indonesia experienced rapid growth, reaching 98% of the total business in Indonesia and contributing 61.4% of the Gross Domestic Product (GDP). With the growing economic potential of SMEs, the government seeks to increase participation by creating a

more friendly tax ecosystem by providing lower tax rates and creating tax applications that are easier to access.

SMEs' activities are more directed at the development of digital business. One of the critical aspects in the digital era is the development of start-ups or technopreneurs as digital transformation so that large-scale companies seek to change business models. This is no exception for SMEs. Digital transformation refers to the process and strategy of using digital technology.

The digital transformation process can increase the effectiveness of business processes, thereby generating potential revenue through innovative breakthroughs and customer trust. During the Covid-19 era, with restrictions on direct meetings, digital information technology is expected to increase economic growth as a form of economic recovery and encourage SMEs to innovate. The development of SMEs in 2015-2021 is shown in the following picture.



**Fig.1.** Development of the Number of SMEs 2015 - 2021
Source: Ministry of Finance's SMEs Income Tax External Publication. DGT 2021

Figure 1. shows that the development of SMEs from 2015 – 2021 can be used to increase Indonesia's tax base. The story of SMEs is a challenge for the government to develop digital businesses. A trading firm that is frequently referred to as an online shop, Tokopedia Indonesia, has evolved into a significant unicorn in Indonesia and Southeast Asia. Thus, technology plays a role in helping the community and improving the Indonesian economy, which must be supported by the readiness of the community to adopt technology in running a business that can increase the tax ratio.

Indonesia has regulated the taxation of e-commerce, namely taxation of internet-based business activities used for transactions or trade facilities through an electronic system called a platform. Technology advancements have led to the digitalization of many Indonesian enterprises, which has facilitated the growth of new start-ups. As internet users increase and improved communication infrastructure becomes available, the potential for digital business opportunities will also increase.

Digital-based marketing has long been developed, like Tokopedia, Indonesia's most significant marketplace platform. Other major marketplaces in Indonesia are Lazada, Bukalapak, Blibli, and Shopee. To create equality and fairness in taxation, a taxation policy is needed for SMEs based on marketplace platforms. In the hope of not being a discouraged business person and needs identification and classification of business models and scale.

In measuring the size of the capacity of a country's tax system in taxing economic activity, it generally measures the Tax Ratio. The development of Indonesia's Tax Ratio can be seen in the following picture.

**Fig.2** Development of Indonesia's Tax Ratio in 2016 – 2021
Source: Directorate General of Taxation, Minister of Finance 2021

From figure 2, it can be seen that the condition of the Tax Ratio has decreased, especially in 2020 conditions as a result of Covid-19, which can cause high Tax Potential Loss and Negative Economic Growth. Efforts to improve the economy with various policies in the field of taxation, such as Tax incentives, ease of investment in Indonesia, and Tax Regulation. The government focuses on developing digital economy activities, which are expected to increase tax revenues sourced from SMEs' digital economy activities. On the other hand, SME tax compliance is relatively low.

Tax authorities all over the world struggle with tax compliance. The willingness of taxpayers to abide by tax laws is referred to as tax compliance. SMEs' specific coaching and supervision cannot be confused with big taxpayers. SMEs are a hard-to-tax sector, so tax compliance for SMEs is difficult to supervise and cannot be reached with a tax reporting and payment system [1].

More effective oversight of SMEs in several countries by applying presumptive tax. In order to provide simplification, gross revenue is used as a tax base [2]. The opinion of Logue and Veltori (2010) states that presumptive tax only prioritizes simplification but reflects less on the ability to pay [3].

The application of tax simplification must be placed in a long-term perspective of sustainability and legal certainty for taxpayers. Simplification of tax regulation can reduce tax complexity and tax compliance burden (Sharon A. Smulders). Indonesia has used presumptive tax regulation No. 23 of 2018. As in the UK to oversee SMEs by establishing an office of tax simplification [4]. The simplification strategy became right on target and created a tax system balance [4]. In general, several factors affect compliance behavior, which can be classified, including Fairness and Tax Complexity.

Previous researchers, such as [5], have conducted research on SME compliance and that tax information is obtained from other taxpayers. The number of complex regulations constrains it significantly impacts tax compliance.

Tax Compliance Behaviour is dynamic and influenced by the situation or environment of taxpayers. Tax compliance is defined as taxpayers' willingness, awareness, and ability to comply. Nature fulfills its tax obligations. Several studies on tax compliance have been done extensively by previous researchers. Given the increasing growth of SMEs since 2015, research is more focused on SME compliance.

The tax authority has carried out tax reforms that have made fundamental changes such as organizational restructuring, human resources development and information technology in tax administration. Tax reform aims to (1) a high level of voluntary compliance and (2) a high

level of trust in tax administration. Tax reform has a direct impact on the willingness of taxpayers in terms of compliance with paying taxes.

Siahaan (2013) stated that transparency has an insignificant effect on tax compliance [6]. On the other hand, fairness in the tax collection system affects taxpayer compliance [7]. Meanwhile, research by Gilligan and Richardson (2005) states that General Fairness, Exchange with the Government, Special Provisions, Tax Rate Structure and self-interest positively affect tax compliance [8].

Thus, collecting taxes that are carried out somewhat is necessary to encourage taxpayer compliance. Fairness is referred to more specifically, namely general fairness and exchange fairness which refers more to the taxpayer's perception of a fair tax system. Fairness in collecting taxes can be realized when there is reciprocity between the amount of tax paid and the benefits obtained by the taxpayer.

Fairness is needed in a more straightforward tax collection system. The tax reform framework aims to ensure that the tax system is not only simple, fair, and efficient. Some of the tax system principles that can be achieved include predictability, transparency, fairness, effectiveness, ease of understanding, and reducing the space for tax manipulation. This can reduce compliance and administration costs [10]. The new tax compliance framework is based on enhanced relationships or cooperative compliance.

Based on the background issues, the problems of this study can be formulated into a question as follows do tax fairness and transparency affect tax compliance with tax complexity as a mediating variable? This study aims to examine whether the use of tax fairness, transparency, and complexity affects tax compliance.

## 2 Literature Review

### 2.1 The Theory of Taxation

In developed countries, taxes act as a source of state revenue and have the function of regulating the economy and the function of distribution of income. In the ideology of taxation, the tax system shows the results of compromises of various interests intending to form privileges in the context of tax burden efficiency. In contrast, the tax authority tries to optimize state revenues [11]. Various views that the Generally Accepted Taxing Principles should govern taxation principles.

### 2.2 Compliance Theory

Efforts to improve Tax Compliance have long been a concern of the Tax Authority. Understanding the concept of compliance begins with understanding individual Taxpayers becoming compliant or non-compliant [12]. From a compliance perspective, a Taxpayer is seen as a national individual, so the Taxpayer considers the likelihood of being detected and the risks that can occur.

According to Baron and Bryne (2004), obedience is a form of social influence in which one or more individuals behave obediently to established rules [13]. Compliance Theory is an organizational structure approach that integrates several ideas from a classical model and management participation [14]. Individuals will obey the law by basing the justice and correctness of the law [15].

### 2.3 Tax Fairness

One of the qualities that the tax system ought to have is fairness. Fairness is when taxpayers are taxed in accordance with their financial circumstances [16]. According to Adam Smith that justice is fairness that concerns equality, balance, and harmony of relationships between one individual and another. Therefore, governance must be neutral and treat all parties fairly. Concerning taxation, the theory of justice presented by Adam Smith emphasizes the principle of equality and provides benefits for taxpayers through favorable policies [17]. Fair treatment shows confidence in taxpayers that can encourage tax compliance [18].

## 2.4 Transparency

According to Transparency International (2009), transparency is a condition where governments, companies and individuals are open and transparent in terms of conveying information [19]. Transparency is also said to be the extent to which taxpayers can access the information needed regarding taxes [6]. According to Rawlins (2008), there are three aspects of transparency: Participatory Transparency, Accountability Transparency, and Informational Transparency [20].

Rawlins (2008) suggests that the transparency of an organization needs these three dimensions of transparency to build, maintain and restore trust in stakeholders [20].

Afonso and Whitney (2015) identified the challenges to achieving transparency, namely the many types of such taxes that must be paid annually and the lack of transparency information taxes. Transparency is helpful in increasing tax compliance [19].

## 2.5 Tax Complexity

A system can be said to be complex if the system consists of many components or sub-units that interact with each other. Edmonds (1999) defines a more integrative complexity as a trait and model challenging to formulate [21]. A complex tax system is unlikely to describe the system as a whole [22].

With tax complexity, it can be interpreted that the taxpayer does not understand the content, understanding or procedures regulated in tax administration [23]. The difficulty in reducing tax complexity can stem from the interaction between taxpayers and tax authorities due to differences in perspectives and interpretations of tax regulations. Several factors that can affect tax complexity are (a) The breadth of goals to be achieved by the tax system. (b) The encouragement of taxpayers to implement tax exemptions, (c) The increasing complexity of the tax base, and (d) The development of transaction schemes in the context of globalization [24]. Another thing is tax regulation which is difficult to understand and provides a different interpretation [25]. With the increasing purpose of the tax system and changes in the tax landscape, tax complexity will increase, both domestically and internationally. High compliance costs result from tax complexity compliance [26].
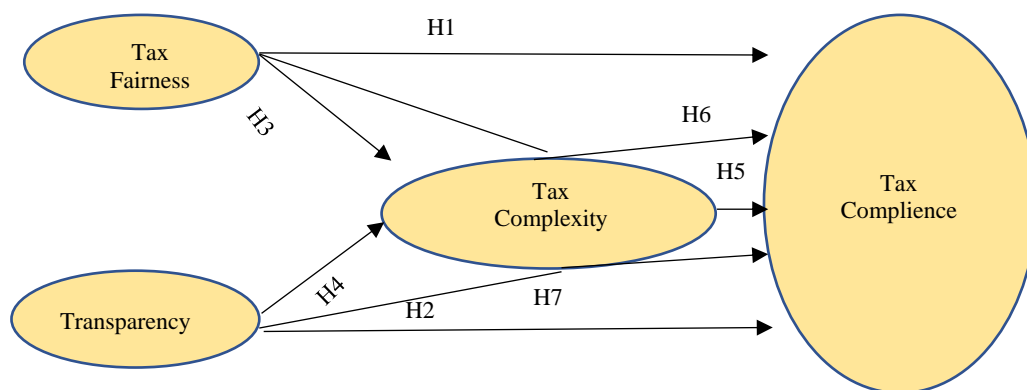
**Fig.3** Conceptual Framework

Based on figure 2.1, can be formed hypotheses:
H1: Tax Fairness positively affects Tax Compliance
H2: Transparency has a positive effect on Tax Compliance
H3: Tax Fairness positively affects Tax Complexity
H4: Transparency positively affects Tax Complexity
H5: Tax Complexity positively affects Tax Compliance
H6: Tax Complexity mediates the effect of Tax Fairness on Tax Compliance
H7: Tax Complexity mediates the impact of Transparency on Tax Compliance

## 3    Method

The survey method is used in this research, which is quantitative. Questionnaires are a common research instrument in survey research. Structured questions are included on the survey form. Data analysis techniques use Partial Least Square (PLS). PLS is a method for modelling structural equations that are based on variance- or component-based structural equation modelling.

The study's unit of analysis included respondents from SMEs in Jakarta who conducted digital transactions with Tokopedia, Shopee, and Social Media Marketing platforms.

## 4    Discussion of Research

### 4.1 Testing outer models

**Convergent Validity Test Results**

**Table 4. 1** *Outer Loading*

| Construct* | Tax Complexity | Tax Compliance | Tax Fairness | Transparency |
|:---:|:---:|:---:|:---:|:---:|
| COM1 | 0.902 | | | |
| COM2 | 0.858 | | | |
| COM3 | 0.941 | | | |

| Item | COM | TC | TJ | TT |
|------|------|------|------|------|
| COM4 | 0.809 | | | |
| COM5 | 0.937 | | | |
| TC1 | | 0.893 | | |
| TC2 | | 0.896 | | |
| TC3 | | 0.841 | | |
| TC4 | | 0.907 | | |
| TC5 | | 0.890 | | |
| TC6 | | 0.850 | | |
| TJ1 | | | 0.836 | |
| TJ2 | | | 0.852 | |
| TJ3 | | | 0.825 | |
| TJ4 | | | 0.872 | |
| TJ5 | | | 0.827 | |
| TJ6 | | | 0.868 | |
| TT1 | | | | 0.858 |
| TT2 | | | | 0.903 |
| TT3 | | | | 0.926 |
| TT4 | | | | 0.860 |
| TT5 | | | | 0.864 |
| TT6 | | | | 0.893 |
| TT7 | | | | 0.811 |
| TT8 | | | | 0.915 |

*TF = Tax Fairness, TT = Transparency, COM = *Tax Complexity*, TC = Tax Compliance

Source: Data Processing Result by SmartPLS 3.0

Based on the output data in table 4.1, The average of each of the variables under study is known to have a loading factor value greater than 0.6. Overall, based on these findings, it is possible to continue using the manifests utilized in this study for further analysis because they already satisfy the dependable criteria.

*Average Variance Extracted* **Test Results**

**Table 4.2** AVE, AVE and *Latent Variable Correlation*

| Variable | Ave | Ave | .COM | Tc | TJ | Tt |
|------|------|------|------|------|------|------|
| Tax Complexity | 0.774 | 0.880 | 1.000 | 0.741 | 0.714 | 0.771 |
| Tax Compliance | 0.793 | 0.891 | 0.741 | 1.000 | 0.817 | 0.773 |
| Tax Fairness | 0.717 | 0.847 | 0.714 | 0.817 | 1.000 | 0.760 |
| Transparency | 0.773 | 0.879 | 0.771 | 0.773 | 0.760 | 1.000 |

*TF = Tax Fairness, TT = Transparency, COM = *Tax Complexity*, TC = Tax Compliance

From table 4.2, all AVE roots exceed the correlation coefficients between components, and every construct in the calculated model satisfies the requirements for discriminant validity. A good model is needed if the AVE value of each construct is more significant than 0.5 [27]. The AVE output results show the AVE value for all constituencies more than > 0.5. This is another test to determine the validity of the construct.

*Composite Reliability*

**Table 4.3** Composite Reliability

|  | **Composite Reliability** |
|---|---|
| Tax Complexity | 0.954 |
| Tax Compliance | 0.950 |
| Tax Fairness | 0.938 |
| Transparency | 0.965 |

Source: Data Processing Result by SmartPLS 3.0

Based on the presentation of data output in table 4.3, all research variables together have a composite reliability value of > 0.7. This outcome demonstrates that each variable has achieved composite reliability, resulting in a high level of internal consistency reliability for the total variable.

*Cronbach's Alpha*

**Table 4.4** *Cronbach's Alpha*

|  | **Cronbach's Alpha** |
|---|---|
| Tax Complexity | 0.941 |
| Tax Compliance | 0.934 |
| Tax Fairness | 0.921 |
| Transparency | 0.958 |

Source: Data Processing Result by SmartPLS 3.0

The output of Cronbach's alpha shows that all variables have good reliability because their Cronbach's alpha values are greater than 0.6.

*Inner Model* **Testing**
*R-Square* **Test**

**Table 4.5** *R-square*

|  | **R Square** | **R Square Adjusted** |
|---|---|---|
| **Tax Complexity** | 0.634 | 0.629 |
| **Tax Compliance** | 0.738 | 0.733 |

Source: Data Processing Result by SmartPLS 3.0

**Hypothesis Test**

**Table 4.6** *Path Coefficients*

| Path | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\| O/STDEV\|) | P Values |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Tax Fairness -> Tax Compliance | 0.481 | 0.495 | 0.114 | 4.209 | 0.000 |
| Transparency -> Tax Compliance | 0.248 | 0.239 | 0.118 | 2.106 | 0.036 |
| Tax Complexity -> Tax Compliance | 0.207 | 0.199 | 0.089 | 2.325 | 0.020 |
| Tax Fairness -> Tax Complexity | 0.303 | 0.306 | 0.114 | 2.654 | 0.008 |
| Transparency -> Tax Complexity | 0.541 | 0.540 | 0.118 | 4.603 | 0.000 |

Source: Data Processing Result by SmartPLS 3.0

a. **H1: There is a significant effect of Tax Fairness on Tax Compliance**
From the path results, the coefficient determined that there is a strong influence on tax compliance, with a P-Value value of $0.000 < 0.05$ and an influence between tax fairness and tax compliance of 0.481. A positive parameter coefficient indicates that the H1 is accepted with higher tax fairness, which encourages the taxpayer to be more compliant. The results of research by Manubulu and Rupilu (2020), tax fairness has a considerable positive impact on SMEs' tax compliance [28].

b. **H2: There is a significant effect of transparency on Tax Compliance**
It is concluded that there is a significant influence on tax compliance based on the path coefficient of 0.248 between transparency and tax compliance and the P-Value value of $0.036 < 0.05$. A positive value for the parameter coefficient indicates that the H2 is approved and that tax compliance and clarity are both increasing. The conclusions of this study are in line with those of Khoirunnisa's research (2020), which indicated that transparency has an impact on tax compliance [29].

c. **H3: There is a significant effect of Tax Fairness on Tax Complexity**
Tax fairness has a considerable impact on Tax Complexity, as shown by the path coefficient of 0.303 between tax justice and Tax Complexity and the P-Value value of $0.008 < 0.05$. A positive value for the parameter coefficient indicates that the H4 is accepted and that the tax fairness and complexity are both increasing. The results of this study demonstrate that Tax Complexity is positively impacted by Tax Fairness. It can reduce the degree of tax complexity when applying tax fairness. The results partially support the six probable causes of complexity—ambiguity, computation, change, detail, shape, and record identified by Long and Swingen (1987) [30].

d. **H4: There is a significant effect of transparency on *Tax Complexity***
The P-Value value of $0.000 < 0.05$ and the path coefficient of 0.541 between transparency and tax complexity indicated that there is a strong relationship between the two. A positive parameter coefficient indicates that the H5 is accepted and that the more the tax complexity, the better the transparency is. The findings of this study demonstrate that openness reduces the complexity of taxes. This demonstrates that the avoidance of tax complexity increases with increased transparency. McKerchar (2005) found that tax agents were dissatisfied with the growing complexity of tax law in a study he conducted on the industry. He added that tax agencies preferred fewer regulations and ad hoc amendments in favour of clearer tax legislation [31].

e. **H5: There is a significant effect of Tax Complexity on Tax Compliance**

It is determined that there is a significant effect between Tax Complexity on tax compliance based on the path coefficient results between Tax Complexity on tax compliance (tax compliance) of 0.207 with the P-Value value of 0.020 < 0.05. (tax compliance). A positive value for the parameter coefficient indicates that the H4 is accepted, the higher the tax complexity and the better the tax compliance.

Due to the complexity of tax regulation, there is increased tax complexity [32]. The results of this study are inconsistent with Richardson's (2006) analysis of 45 countries, which found that complexity—in addition to education, income sources, equity, and tax morale—was the most important factor in determining non-compliance [33].

**Mediation Test**

Table 4.7 *Specific Indirect Effects*

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\| O/STDEV\|) | P Values |
|---|---|---|---|---|---|
| **Tax Fairness -> Tax Complexity -> Tax Compliance** | 0.063 | 0.065 | 0.042 | 1.489 | **0.137** |
| **Transparency -> Tax Complexity -> Tax Compliance** | 0.112 | 0.105 | 0.048 | 2.317 | **0.021** |

Source: Data Processing Result by SmartPLS 3.0

From the results of the PLS calculation, it was found that tax fairness has no effect on tax compliance through *Tax Complexity* where the P-Values value of 0.137 > 0.05 (alpha significance 5%). This means there is no mediation effect on tax compliance between tax fairness and Tax Complexity. Still, transparency positively impacts tax compliance through *Tax Complexity* where the P-Values value of 0.021 < 0.05 (alpha significance 5%). This means a P-Values value of 0.021 < 0.05 (alpha significance of 5%). This means a P-Values value of 0.021 < 0.05 (alpha significance of 5%). This means that there is an effect of mediation between transparency and *Tax Complexity* on tax compliance. Furthermore, to determine whether this mediation is *fully mediating or partially mediating*, it can be done to see the results of the calculation of "*Total Effects*".

Table 4.8 *Total Effect*

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\| O/STDEV\|) | P Values |
|---|---|---|---|---|---|
| **Tax Complexity -> Tax Compliance** | 0.207 | 0.199 | 0.089 | 2.325 | **0.020** |
| **Tax Fairness -> Tax Complexity** | 0.303 | 0.306 | 0.114 | 2.654 | **0.008** |
| **Tax Fairness-> Tax** | 0.543 | 0.559 | 0.118 | 4.590 | **0.000** |

| Compliance | | | | | |
|---|---|---|---|---|---|
| **Transparency -> Tax Complexity** | 0.541 | 0.540 | 0.118 | 4.603 | **0.000** |
| **Transparency -> Tax Compliance** | 0.360 | 0.344 | 0.124 | 2.895 | **0.004** |

Source: Data Processing Result by SmartPLS 3.0

a. **H6: There is a significant effect of Tax Fairness on Tax Compliance through *Tax Complexity* mediation.**
The total effect study revealed a significant association between tax compliance and fairness, with a P-Value of $0.000 < 0.05$ (5% alpha significance). As a result, H6 is rejected because the lack of this mediation is just fictitious or partial (partially mediating). The study's findings show that tax complexity does not have a quasi-mediation effect on the link between tax fairness and tax compliance. This demonstrates that tax fairness cannot influence tax compliance directly or indirectly through the use of tax complexity as a mediator.

b. **H7: There is a significant effect of Transparency on Tax Compliance through tax complexity mediation**
With a P-Value of $0.000 < 0.05$ (5% alpha significance), the results of the study of the thorough effects revealed that the association between transparency and tax compliance has remained significant. As a result, it can be said that this mediation is just partial or fictitious (only partially mediating); therefore, H7 is accepted. The findings of the study demonstrated that tax complexity has a quasi-mediating influence on tax compliance transparency. This demonstrates how tax compliance can be directly impacted by clarity or indirectly through the reduction of tax complexity. Less openness has a direct impact on tax compliance than it does indirectly through tax complexity mediation.

# 5 Conclusion

From the study results, it can be concluded that Tax Fairness, Transparency, and Tax Complexity for SMEs in Jakarta have a positive and significant effect on Tax Compliance. It reviewed the aspects of Tax Fairness, Transparency, and Tax Complexity as essential parts that tax authorities must consider. However, Tax Fairness has an impact on Tax Complexity. The various problems in implementing Tax Regulation and Complexity do not mediate the relationship between Tax Fairness and Tax Compliance. Instead, Tax Complexity can mediate transparency's relationship with Tax Compliance.

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