

## Tax Avoidance on Poultry Business Owners in Blitar Regency, East Java Province

Ratih Sepriana

Universitas negeri Malang

Jl. Semarang No.5, Sumbersari, Kec. Lowokwaru, Kota Malang, Jawa Timur 65145

Correspondence Email: asepri19@yahoo.com

ORCID ID: 0000-0002-4700-4653

### ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) are expected to be able to contribute to state revenue through tax sectors. The purpose of this study is to determine a profile of poultry business, meaning of tax compliance for poultry business owners, tax avoidance of poultry business owners, and to determine efforts to overcome tax avoidance behavior in poultry business owners in the regency of Blitar. The nature of this study is a qualitative or naturalistic paradigm with a phenomenological approach; Husserl's transcendental phenomenology involving three interviews. We also interviewed with one tax officer from the tax office. The data were collected from interviews, participant observation, and documentation study. The data were analyzed by descriptions with Husserl's transcendental phenomenological approach, namely Intentional Analysis, Epoche, and Eidetic Reduction. Data validation was carried out by several triangulation techniques. The results show that the poultry businesses are MSMEs that fall into the medium business category and are the main source of income for the owners. Though they are aware of tax and their obligations, their level of tax compliance remains low. The business owners are aware of tax avoidance, even doing so by reducing the tax payments through tax planning. Thus, efforts should be made to discourage tax avoidance.

**Keywords:** Avoidance, Compliance, Micro Small Medium Enterprises (MSME), Poultry, Tax

### INTRODUCTION

Tax compliance is the submission and obedience to abide by tax provisions (Siwi, Rawung, & Salindeho, 2020). It is a major issue for many tax authorities since it is a difficult task to persuade taxpayers to comply, even though tax laws are not always appropriate (James & Aley, 2002). This further supports the opinion that tax compliance is the main setback faced by MSMEs. On the other hand, it is also troublesome for tax officers to persuade taxpayers to comply with tax laws. Likewise, many taxpayers consider tax laws are not always appropriate and burdensome for them. Tax compliance of micro, small and medium enterprises – however – cannot simply be assessed from one point of view. This study seeks to examine the reasons behind inconsistencies of MSMEs in paying taxes from various points of view.

There are factors behind the inconsistencies of paying taxes. Inasius (2018) argued that tax compliance factors are divided into five parts based on an interdisciplinary perspective. The five categories are economic factors, institutional factors, social factors, individual factors, and other factors. This is in line with the assumption in this

study that there are several factors related to MSME compliance in paying taxes. Apart from the aforementioned factors, taxation knowledge for MSME actors also affects an individual's tax compliance (Ahmed & Braithwaite, 2005). People with more knowledge about taxes are more likely to comply with taxes and regulations within (Adams & Webly, 2001).

One sector of MSME that has a great potential in generating income tax revenues is livestock. Livestock business contributed IDR 146.1 trillion or 1.85% of Indonesia's GDP in 2018 (Pusdatin, 2018). Poultry farming is a strategic sector in the context of meeting national food needs. In 2018, the chicken population reached 1,891,434.6 thousand of broilers and 181,752.4 thousand of layer hens. The population is capable of producing 2,260,298 tons of chicken meat and 1,664,460 tons of chicken eggs. East Java Province is the second highest producer of chicken meat and the first highest producer of chicken eggs in Indonesia. In 2019, with a total population of 228,187.8 thousand broilers and 47,463.4 thousand layer hens, East Java province is capable of producing 309,942 tons of chicken meat and 465,838 tons of chicken eggs.

The preliminary research found that tax revenue from the poultry business in Blitar was low. Conversely, the poultry owners admitted not to completely understand how to properly report tax. Even after the law has plainly stated that the payable tax is 0.5% of turnover, yet some taxpayers calculate it from the net income because of the assumption that turnover does not necessarily reflect the total profit they made.

Also, based on preliminary studies and previous research, it can be inferred that there are several drawbacks, e.g., payment mechanisms, tax rates, and tax compliance due to the absence of a comprehensive understanding of tax stipulation. Therefore, this study aims to reveal the reasons behind tax payment inconsistencies.

## **RESEARCH METHOD**

This study is a qualitative or naturalistic paradigm with a phenomenological approach: Husserl transcendental phenomenology with the subject of poultry business owners in Blitar Regency. This study seeks to describe and interpret experiences of subjects related to tax avoidance factually based on the perceptions of poultry business owners in Blitar Regency.

The qualitative approach seeks to describe and translate the basic phenomenological views in the forms of (1) social reality of subjective tax avoidance behavior interpreted based on the experiences of subjects; (2) a series of norms adopted by the subjects in living their daily lives; (3) knowledge in their everyday lives as it is considered as inductive, idiographical and is not value-free for poultry business owners in Blitar Regency; and (4) social life of poultry business owners in Blitar Regency regarding tax avoidance.

## **RESULTS AND DISCUSSION**

The awareness of paying taxes, especially for poultry business owners in Blitar Regency is inseparable from the business owner's understanding of taxes. Yudha, one of the poultry business owners in Selopuro District, describes how envisages tax.

*"Pajak itu kewajiban rakyat membayar kepada negara tanpa imbalan*

*langsung... Ada undang-undang pajak yang mengaturnya. Sebenarnya kalau menurut saya pribadi ya memang kewajiban kita sebagai warga negara, kalau dalam agama Islam dikenal sebagai bayar zakat shodaqoh dan lain sebagainya. Nah sama kayak pajak, kalau diliat kan juga uang pajak kita kan untuk membiayai negara kayak pendidikan terus buat orang yang membutuhkan sih.”*

[I see tax as an obligation of citizens to the country without getting paid back. There is a constitution on it. In Islam, we know about zakat, charity as the likes. They are similar to tax in a way that it functions to fund the country: for education and also for the poor.]

The interview excerpts indicate that the poultry business owner has, in fact, a good understanding of the meaning of tax. This is in line with Article 1 paragraph 1 of Law number 28, the third amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures stating that tax is defined as a mandatory contribution to the state owed to an individual or entity that is compelling under the constitutions, without getting direct compensation and used for the state needs for the prosperity of the people (Rosdiana & Irianto, 2012: 1). Poultry business owners in Blitar Regency in general interpret tax as an obligation, which means that they are aware of their roles to pay one.

The results of the interview from the poultry business owner in Blitar Regency explained that the tax obligations that must be fulfilled include the reporting and payment of individual tax PPh 21 and corporate tax PPh 25. Poultry business owners in Blitar Regency have been aware of their obligations as taxpayers to comply with applicable tax regulations, regardless of being unable to explain in broad and detailed terms. However, substantially, to be aware of the obligations that must be fulfilled should suffice. Meanwhile, concerning their rights as taxpayers, the business owners interpreted it plainly that in order for them to have better compliance, it is only good service that it takes.

Meanwhile, an explanation of tax compliance is more elaborately conveyed by Mr. MW (who goes by initials) as a tax officer in the tax office (*KPP Pratama*) Blitar as in the following interview excerpt.

*“Kepatuhan wajib pajak itu adalah saat wajib pajak patuh melaksanakan hak dan kewajiban perpajakan sesuai dengan undang-undang. Kriterianya, dalam self assessment system wajib pajak secara sadar diri melakukan pendaftaran, melaksanakan penyeteroran SPT, perhitungan dan pembayaran besarnya pajak terutang dan patuh dalam pembayaran yang tertunggak”.*

[Compliance is when a taxpayer complies with the implementation of tax rights and obligations in accordance with the law. The criterion is, in the self-assessment system, taxpayers consciously register themselves, carry out SPT deposits, calculate and pay the amount of payable tax and comply with the payments in arrears].

This confirms the notion of tax compliance as stated in the Minister of Finance Regulation No.192 / PMK.03 / 2007. This regulation in general states that in the self-assessment system, taxpayer compliance is taxpayer behavior based on their

awareness of tax obligations based on statutory regulations. Taxpayers should register themselves, submit the annual tax statement, calculate and pay the amount of tax payable and comply with the payments in arrears.

The results of the interview indicate that in general, the level of awareness of poultry business owners in Blitar Regency to comply with tax obligations was very low. This is evident by the fact that several business owners do not have a Tax Registration Number (NPWP) and some of them had to submit the tax reports after tax official inspections. On the other hand, tax reporting audits are seen as having too complex procedures in auditing financial statements, therefore, making poultry business owners in Blitar Regency less tax compliant.

This concludes that most of the poultry business owners in Blitar Regency are aware of the significance of tax and their obligations as taxpayers to comply with applicable tax regulations. The tax obligations include the reporting and payment of individual tax PPh 21 and corporate tax of PPh 25. However, in general, the level of tax compliance of poultry business owners in Blitar Regency is indeed low.

Tax avoidance of poultry business owners is an action to manipulate the amount of payable tax to make maximum profit. Preliminary interviews with them demonstrate that the business owners had been aware of tax avoidance. They had tried to minimize the burden of tax payments to generate maximum revenue from their business. The tax avoidance is carried out by manipulating financial statements. The results of the preliminary interviews also imply that they had realized that the payable tax is designable during tax planning. Tax avoidance is the process of organizing a taxpayer's business in such a way that the tax debt is in the most minimal sum. This is performed as long as it does not violate the tax laws and regulations, monetary plausible, and the report has ample supporting evidence.

On the other hand, the tax avoidance was not always motivated by the maximum profit. The owners also objected to the application of a tax rate of 0.5% based on annual turnover. This was considered highly burdensome and raised concerns that later their poultry business would suffer losses. SME/MSME owners with a gross income not exceeding IDR 4.8 billion in one fiscal year are subject to Final SME/MSME taxes by 0.5% of the total gross turnover as stipulated in Government Regulation Number 23 of 2018. The SME/MSME tax object is subject to Final Income Tax within a certain period of time.

The tax avoidance arises as a result of dissatisfaction with the amount of tax rate as it was considered too burdensome for business owners, which in turn raises confidence and positive evaluation to avoid tax obligations. On the other hand, the presence of tax consultants and fellow poultry business owners has created subjective norms that add confidence and positive evaluation of business owners to avoid tax obligations even more. Subjective norms are developed through information in the form of tax planning which opens up windows to avoid tax obligations without having to violate applicable tax laws. The combination of attitude and subjective norms forms a behavioral intention of tax avoidance.

The interview revealed that the tax office in Blitar has made efforts to encourage tax compliance and overcome tax avoidance by the poultry business owners by conducting socialization, training, and tax assistance.

The training was carried out by presenting materials about how to apply for a tax registration number, how to pay tax easily from banks, post offices, ATMs, internet banking, and mobile banking, and how to report taxes.

The tax training and assistance were carried out to assist MSMEs in understanding the previous socialization. It was performed to encourage, for instance, those who had not applied for a tax registration number and those with difficulties to compute, pay, and report their taxes.

The results of this study found that most of the poultry business owners are aware of the meaning of tax as well as their tax obligations. However, in general, the level of tax compliance of the business owners is very low. Tax audit procedures are regarded as too complicated, especially in terms of auditing financial statements. Poultry business owners in Blitar Regency tend to only fulfill their obligations by reporting taxes when there is an inspection from the tax officers.

The difficulty of MSMEs in preparing financial reports brings an impact in determining the amount of taxable income. Apart from being a tool to track business developments for the stakeholders, financial reports are sources of data for calculating taxes. In practice, the taxpayers were frequently confused about how much tax they have to pay even when the government has issued a tax collection system policy that enables them to determine their own taxes by calculating, paying, and self-reporting (i.e., self-assessment tax collection system). The implementation of the self-assessment tax calculation system seems to have added the confusion of taxpayers, especially MSMEs, doing simple accounting and manual recording. This demonstrates that when MSMEs are still doing simple bookkeeping, it is likely that there will be various interpretations of their tax obligations.

In the Theory of Reasonable Action (TRA), interest is a function of two basic determinants related to personal factors and social influence. Personal factors are individual attitudes towards behavior, while social influences are subjective norms. Attitudes are positive or negative assessments of a person towards certain behaviors that will be formed. Subjective norms are a measurement of an individual's perception of social reactions to behavior (Ajzen, 2005; Jogiyanto, 2007). Attitudes have two components, namely (1) assessment responses about beliefs in attitudes, and (2) assessment responses about the possibilities that result if attitudes are carried out (Ajzen, 2005).

An attitude is one that leads to non-compliance with tax obligations by poultry business owners in Blitar Regency. An attitude is a form of evaluation or reaction to the feelings of poultry business owners in Blitar Regency. The non-compliance attitude with tax obligations arises if the taxpayers have confidence and a positive evaluation of the tax non-compliance. Attitude is a measure to predict behavior, according to the criteria for behavior intention in action, target, context, and time elements.

Poultry business owners in Blitar Regency have rather unfavorable feelings about complicated tax reporting procedures. This is especially the case when there is a tax report audit. This has led to positive beliefs and evaluations for not behaving in compliance with tax obligations. In this context, they tend to be tax non-compliant. Even so, this behavior causes no consequences to the business owners legally.

Tax compliance in the form of tax reporting is conducted when there is an inspection by the tax officers. This indicates that the presence of tax officers can be an indicator of subjective norms. They play a role in providing direction and motivation so that these business owners have a positive perception of meeting tax compliance and ultimately reporting tax. The combination of attitude and subjective norms shapes the intention of poultry business owners in Blitar Regency to fulfill tax obligations (i.e., behavioral intention). In general, Ajzen (2005) emphasizes that the stronger attitudes and subjective norms are towards behavior, the higher a person will bring about the desire to take an action (Ajzen, 2005).

The results of this study conclude that the poultry business owners in Blitar Regency are well-aware of the concept of tax avoidance as they try to minimize the burden of tax payments to obtain the maximum benefit by performing tax planning. This happens because they consider the tax rate of 0.5% of the annual turnover as too much. The assumptions are displayed from the taxpayer's financial statements in which the taxpayers assume the PPH article 21 with a gross of IDR 5,960,090,000. That is down to an obligation to tax payable of IDR 2,500,000. If they use the assumption of final PPH of 0.5%, it is down to payable tax of Rp. 29,800,450. Therefore, it is safe to suppose that poultry business owners in Blitar Regency do tax avoidance to stay away from paying too much sum of tax. The tax avoidance was carried out through vigilant tax planning so that it was reasonable and did not violate tax laws and regulations, and the report had sufficient supporting evidence.

The first tax planning strategy is to ensure that MSME owners hold a tax exemption certificate (*SKB*). The certificate is beneficial when an enterprise works with other corporate taxpayers. For instance, A is a company receiving a car rental payment from Company B with a turnover above IDR 4.8 billion. Therefore, as transactions are carried out, PPh Article 23 must be deducted. However, as Company A is an MSME with a tax rate of 0.5%, there is no need to deduct PPh Article 23; it is sufficient to provide the exemption certificate to the counterparty. However, if the MSME does not hold an exemption certificate, the deducted tax Article 23 must be inputted in the Corporate Taxpayer's Annual Tax Statement (SPT), which then leads to overpayment. MSMEs owners who do not hold exemption certificates can apply for one at the tax offices.

The second tax planning strategy is to maintain the turnover not to exceed IDR 4.8 billion. There are several options to maintain the turnover to remain below IDR 4.8 billion, such as by (1) avoiding upfront revenue recognition, (2) splitting invoices, and (3) separating business entities if income is generated from various types of businesses.

The third tax planning strategy is to consider revoking the Taxable Enterprise Confirmation (PKP). In such a case, the taxpayer has applied for a taxable enterprise confirmation regardless of earning turnover below IDR 4.8 billion. It is because when MSME owners are confirmed as taxable enterprises, they must collect Value Added Tax (VAT) while individual taxpayers are required to do accounting. The implications of such obligations are (1) the price of goods/services gets higher as the price includes VAT, and (2) incurring other potential costs, such as hiring labor to do accounting. However, it is not recommended to revoke the confirmation if they are interested to work with tenders from the government. To be confirmed as taxable enterprises, in fact,

enables MSMEs to input taxes on the purchase of assets related to business activities.

The results of the study show that poultry business owners in Blitar Regency are not willing to do tax avoidance if there are improvements to tax laws, especially if the problematic 0.5% of turnover per year is converted into 0.5% of net income per annum. In addition to improving the constitution, tax socialization terms of reporting, calculation, and payment are still highly needed. It is also somehow regarded that tax officers are too strict when dealing with those business people, later creating a certain fear. Conversely, the tax office has made efforts to reduce tax avoidance by conducting socialization, developing MSMEs, organizing training, and direct assisting for the taxpayers.

The implementation of PP23/2018, which became effective on July 1, 2018, as a substitute for PP46/2013, is expected to further increase the number of MSME taxpayers and their revenue contributions. It is worth noting that PP23 / 2018 in article 5 paragraph one states that the 0.5% of VAT is temporary. The tax rate is only valid for seven years for individual taxpayers; four years for cooperatives or firms, and three years for a company (limited companies). Following the designated period, the tax rate is 0.5% of turnover and is final as it follows the tax calculation and reporting system before the implementation of PP23/2018 and or PP46/2013.

The previous VAT system stated that individual taxpayers with annual turnover below IDR 4.8 billion could calculate their income tax with the estimated profit as the basis for their tax imposition based on Regulation of the Directorate General of Taxes Number 17 / PJ /2014. Meanwhile, other taxpayers must calculate the taxes based on the factual profit. Accounting, nonetheless, is bothersome for MSME business owners as they must have an accounting recording system and hire trained employees in accounting and this will undoubtedly incur them more costs. With the implementation of a fair taxation system, the tax compliance of MSMEs could increase and provide maximum benefits for them.

Some factors are affecting tax compliance. The first factor is tax system complexity. The complexity implies that the more complex a system, the lower the level of compliance. However, it is also problematic since the simpler a tax system is, the less fair it is. The VAT for MSME is an example of a simple tax system, yet many people question the fairness of this rule, in which taxpayers with a higher profit margin pay lower taxes, and vice versa.

Second, it is the tax rate. In principle, the higher the tax rate, the greater the possibility to avoid taxes. The VAT rate for MSMEs is arguably burdensome, especially for new taxpayers with lower net profit margins. Since mid-2017 the government has been planning to lower the rates in which tax incentives for new taxpayers are 0% rate for two years. This revision of regulations is expected to improve tax compliance and provide a stimulus for the MSMEs. In addition to developing the cash flow of the new MSMEs, this can increase future tax revenues as the MSMEs economically grow. As for MSMEs that have been in business for more than two years, the tax rate may be adjusted according to their business types. For example, the net profit margin of food business and cellphone sales business should be different. If the tax rate is calculated from their turnover, the rates of these two taxpayers should also be distinguished to meet the principle of fairness.

The third factor is tax audits. The more audits, the higher level of compliance. With the increase of tax audits, taxpayers are made to rethink tax avoidance as the chances of fraud findings will be even greater. In addition to increasing compliance, tax audits will increase the compliance for those who are not even getting audited, as they cannot tell who will get audited next.

The fourth factor is a reward and punishment system. Compliant taxpayers should be awarded accordingly, e.g., by providing tax facilities, incentives, or reduced rates. As for non-compliant taxpayers, fines might get other consequences, such as negative publicity. The different treatment between the compliant and non-compliant taxpayers is imperative because if a compliant taxpayer is treated like a non-compliant one, there is a concern that the compliant ones do not perceive the sense of reward for what they have done well.

The last factor is information. The purpose of providing information is to help taxpayers in making decisions. If they are aware that tax offices plan to increase audits, they will behave in a more compliant manner. Providing information on how to pay taxes, benefits and the importance of taxes can also educate them more about taxes. This allows taxpayers to be more sympathetic and in turn become more compliant.

### CONCLUSIONS

The poultry business in Blitar Regency is part of Micro, Small and Medium Enterprises (MSMEs) which fall in the category of Medium Enterprises and have become the main source of household income for the owners. They in general are aware of the meaning of tax as well as their obligations to comply with applicable tax regulations. However, in general, their level of tax compliance remains low.

The tax avoidance occurs since they considered the tax rate is too high, namely 0.5% of the annual turnover. The avoidance was carried out through careful tax planning so that it does not violate the applicable tax laws. This made tax offices (*KPP Pratama*) of Blitar discourage tax avoidance by doing tax socialization, developing MSMEs, organizing training, and providing direct assistance for the taxpayers.

### REFERENCES

- Adams, C., & Webly, P. (2001). *Small business owners' attitudes on VAT compliance in the UK*. Retrieved from [sciencedirect.com/science/article/pii/S0167-4870\(01\)00029-0](http://sciencedirect.com/science/article/pii/S0167-4870(01)00029-0).
- Ahmed, E., & Braithwaite, V. (2005). Understanding small business taxpayer: Issues of deterrence, tax morale, fairness and work practice. *International Small Business Journal*, 23(5), 539-568.
- Ajzen, I. (2005). *Attitudes, personality and behavior* (2nd ed.). Berkshire, UK: Open University Press-McGraw Hill Education.
- Inasius, F. (2018). Tax Compliance of small and medium enterprises: Evidence from Indonesia. *Accounting & Taxation, The Institute for Business and Finance Research*, 7(1), 67-73.
- James, S., & Aley, C. (2002). Tax compliance, self-assessment and tax administration. *Journal of Finance and Management in Public Services*, 2(2), 26-42.
- Jogiyanto, H. (2007). *Sistem informasi keperilakuan* [Behavioral information system]. Yogyakarta: Andi.

- Rosdiana, H., & Irianto, E. S. (2012). *Pengantar ilmu pajak*. Jakarta: PT Rajagrafindo Persada.
- Siwi, C., Rawung, S. S., & Salindeho, M. (2020). The effect of income and tax knowledge upon taxpayer compliance in paying land and building tax in Pulutan Village. *International Journal of Applied Business and International Management*, Students Edition, 44-52.