

***THE EFFECT OF UNDERSTANDING OF TAX REGULATIONS,  
TAX SANCTIONS AND TAX RATES ON SMALL MEDIUM  
ENTERPRISES TAX COMPLIANCE IN BANTUL REGENCY***

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***Abstract***

*Small Medium Enterprises (SME) in Indonesia absorb 96% of the workforce and contribute 60% of Indonesia's GDP. This shows the magnitude of potential tax revenue for SME. Government Regulation No. 23 of 2018 which changes the rates to 0.5% is expected to make it easier for SME to comply with their tax obligations. The purpose of this study was to look at the influence between Understanding of Tax Regulations, Tax Sanctions, and Tax Rates on SME Tax Compliance in Bantul Regency This research is used descriptive method. The population in this study were all SME actors in Bantul Regency, and the sample was 100 SME actors in Bantul Regency. The sampling technique used is convenience sampling. The test results of this study indicate that Understanding of Tax Regulations and Tax Rates do not affect the SME Tax Compliance in Bantul Regency. Tax sanctions affect SME Tax Compliance in Bantul Regency.*

***Keywords*** : *Intermediate Micro Small Enterprises Tax Compliance; Tax Rates; Tax Sanctions; Understanding of Taxation Regulations.*

**JEL Classification** : H25, H71

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## 1. INTRODUCTION

Small Medium Enterprises (SME) in Indonesia absorbs 96% of the workforce and contributes 60% to the Gross Domestic Product (Fauzia, 2018). Small Medium Enterprises are not a sector that has a large income, but the large number makes Small Medium Enterprises a potentially large sector in tax revenue (Dinda A, 2016). Bantul Regency is an area that has an ecosystem that supports economic growth through its creative industries. The creative industry in Bantul Regency is very diverse, 80% of handicraft products from the creative industry in the Special Region of Yogyakarta are products from Bantul Regency, ranging from ceramics centers, leather handicrafts, bamboo crafts, wood crafts, batik, and others (*SEKTOR EKONOMI KREATIF - Potensi Investasi / Dinas Penanaman Modal dan Pelayanan Terpadu Pemda Bantul*, n.d.). Human resources in Bantul Regency cannot be separated from art. Many artworks were created by human resources in the Bantul Regency. The culinary uniqueness and diversity also support the economic growth in Bantul Regency. The majority of creative industries in Bantul Regency are MSMEs. The number of Small Medium Enterprises registered at the Bantul Regency Tax Office in 2018 was approximately 32,000 Small Medium Enterprises, but those who had a NPWP were around 25,000 Small Medium Enterprises. There are still approximately 7,000 Small Medium Enterprises that do not yet have a NPWP. Small Medium Enterprises tax compliance in Bantul Regency is also still relatively low, this is because the understanding of tax regulations of Small Medium Enterprises in Bantul Regency is still low.

Every individual, inheritance has not been distributed, the body and business form are subject to income tax, and that the object of income tax is income received by the tax subject so that it can be classified that Small and Medium Enterprises income is a tax object (*Undang-Undang No 36 Tahun 2008 Tentang Pajak Penghasilan*, 2008). Small Medium Enterprises income usually does not reach IDR 4,800,000,000, so it does not meet the requirements for withholding PPh Pasal 17 and must be deducted based on Pasal 4 ayat 2 Undang-Undang No. 36 of 2008 which regulates income that is subject to final income tax. The final income tax is a tax that is subject to certain rates and tax bases on income received or obtained during the year. This article states that the final income tax includes deposit interest, bond interest, savings interest, lottery prizes, income from shares and other securities transactions, income from transfer of property transactions in the form of land, construction services, real estate, land rentals, and certain other income which is regulated based on Government Regulations.

The Government is dealing with the problem of gross circulation of Small Medium Enterprises issued Peraturan Pemerintah No. 46 of 2013 concerning Income Tax on Income from Businesses that were received or obtained by Taxpayers who have a Specific Gross Circulation explaining that the final tax rate for Small Medium Enterprises is 1% of gross circulation (*Peraturan Pemerintah No 46 Tahun 2013* 2013). The results of this Government Regulation are considered burdensome because the amount of tax owed is deducted based on the gross circulation obtained. The government continues to

pay attention to the problems of this policy so that it is issued Peraturan Pemerintah No. 23 of 2018 which regulates the 1% rate reduction to 0.5% (*Peraturan Pemerintah No 23 Tahun 2018* 2018). This rate change is expected to be able to encourage taxpayer compliance with tax obligations. This declining rate will reduce the amount of tax revenue but increase the number of taxpayers who pay, then taxpayer compliance will increase. Imposed sanctions also suppress Small Medium Enterprises tax compliance due to burdensome Small Medium Enterprises actors if they violate a taxation regulation.

## 2. LITERATURE REVIEW

Small Medium Enterprises is a business activity that is able to expand employment and provide broad economic services to the community and can play a role in the process of equity and increase incomes, encourage economic growth, and role in bringing about national stability (*Undang-Undang No. 20 Tahun 2008* 2008). The Small Medium Enterprises criteria contained in Undang-Undang No. 20 of 2008 are divided into 3, namely: (1) Micro Business is a business that has a maximum net worth of IDR 50,000,000, excluding land and buildings for business premises, or has annual sales results of at most IDR 300,000,000. (2) Small Business is a business that has a net worth of more than IDR 50,000,000 up to a maximum of IDR 500,000,000 excluding land and buildings of business premises or has annual sales results of more than IDR 300,000,000 up to a maximum of IDR 2,500,000,000. (3) Medium Business is a business that has a net worth of more than IDR 500,000,000 up to a maximum of IDR 10,000,000,000 excluding land and building or has annual sales of more than IDR 2,500,000,000 up to a maximum of IDR 50,000,000,000.

Taxes are people's contributions to the state treasury used to pay state public expenses, these contributions are coercive and cannot be directly felt in reciprocity (Tiraada, 2013). In addition to paying general tax expenses have other functions: (1) Budget function, the tax received by the state is used to carry out routine tasks of the state, carry out the development of the country. (2) The Regulatory Function, taxes received by the state are used to regulate economic growth by directing taxpayers to the country's goals. (3) Stability Function, the tax received by the state is used to fund the running of policies related to price stability so that inflation can be controlled, and (4) Revenue Redistribution Function.

Compliance is a condition where all tax obligations and taxpayers are fulfilled. Taxpayers will be said to be compliant if the reported income is in accordance with their supposed and the Notification Letter is reported and the amount of tax payable is paid on time (Budiman, 2018). Another definition of Tax Compliance is reporting of all income and payment of all taxes based on legal provisions, regulations, and court decisions. Compliance perspective in terms of pure administration is like registering or providing status information as a taxpayer, filing tax returns annually, and making tax payments promptly. A broader tax perspective on compliance requires honesty, sufficient

knowledge of tax provisions because it will be used in completing tax reports and tax documentation (Palil & Mustapha, 2011).

Regulations are a process whereby taxpayers know and understand about regulations and laws as well as tax procedures and apply them in carrying out taxation activities, such as reporting tax returns and paying taxes. The concept of tax knowledge and understanding has several indicators that taxpayers know and understand tax regulations (Zahidah, 2010): (1) Knowledge of general provisions and tax procedures. General provisions and taxation and taxation procedures are regulated in Law No. 16 of 2009 which in principle applies to the material tax law. The aim is to increase the professionalism of the taxation apparatus, increase the openness of tax administration and increase the voluntary compliance of taxpayers. (2) Knowledge of the taxation system in Indonesia. The current taxation system in Indonesia is a *self-assessment system*, which is a tax collection that gives authority, responsibility, trust to the taxpayer to deposit, calculate and report the amount of tax that must be paid. (3) Knowledge of the Taxation function. There are 2 functions of taxation, namely: the function of revenue (*Budgeterytax*), which explains that the tax functions as a source of funds intended for financing government expenditures. Another function of taxes is the regulating function (*Regular*) which explains the tax functions as a tool to regulate or carry out obligations in the economic and social fields.

Sanctions are something in the form of consequences that can be obtained when a taxpayer violates the General Provisions and Tax Procedures. Tax sanctions in Indonesia are of two kinds, namely the first sanction is administrative sanctions such as fines, interest or an increase in the amount of tax that needs to be paid. The second sanction is criminal sanctions such as imprisonment or imprisonment (Muhamad et al., 2019).

Rates are the basis for calculating the amount of tax that must be deposited (Putu & Cahyani, 2019). The tax rate is in the form of a certain number or percentage and is divided into several types: (1) Fixed Rate is a rate in the form of a certain amount that is fixed even though the basis for the tax is different. This rate makes the amount of tax payable remains. (2) Proportional Rate (comparable) is a rate in the form of a certain percentage that is permanent even though the basis for tax imposition is different. The greater the tax base, the greater the amount of tax owed with a proportional increase. (3) Progressive Rate (increased) rate is a rate in the form of certain percentages that will increase along with the basis for increased taxation. When the tax base is increased, the rate used also increases, and (4) Degressive rate (Decreasing) is a rate in the form of a certain percentage that will decrease along with the basis of increased taxation. When the tax base is increased, the rate used will decrease.

Theory Of Planned Behavior is a theory about individual behavior that is influenced by the intention of the individual (Putu & Cahyani, 2019). A person's intention is determined by 3 things, namely: (1) Attitude (Behavioral Belief) is an individual's belief in the results of behavior and an evaluation of the results of these beliefs. (2) Subjective Norms (Normative Beliefs) are beliefs about individual normative expectations and motivation to fulfill these expectations. (3) Behavioral control (Control Belief) is a level

of control over an individual's view of taking action. Specifically, it refers to beliefs about the existence of things that support or inhibit a person's behavior and perceptions about how much influence these things affect their behavior.

### **Hypothesis Development**

#### **The Effect of Understanding Taxation Regulations on Tax Compliance for SME**

Understanding Taxation Regulations is a process in which taxpayers know and understand tax regulations and laws and procedures for taxation and apply them in carrying out taxation activities, such as reporting tax returns and paying taxes. Based on the Theory Of Planned Behavior, Understanding Taxation Regulations related to Behavioral Belief, the behavior of a taxpayer in understanding tax regulations will affect his will to pay taxes, taxpayers will consider what results will be obtained by paying taxes. Research conducted by (Sari & Jaya, 2017) states that the understanding of taxpayers' tax regulations affects the tax compliance of SME. Other research such as that conducted by (Putu & Cahyani, 2019) also states that there is an influence of taxpayer understanding on tax compliance of SME. Research conducted by (Sari et al., 2019) supports the results of previous studies that there is an influence between the Understanding of Tax Regulations on SME Tax Compliance. There are 3 indicators of understanding tax regulations, namely understanding the general provisions of taxation by Law No. 16 of 2009, understanding the tax collection system, and understanding the function of taxation.

#### **H<sub>1</sub>: Understanding Tax Regulations affect the SME Tax Compliance**

#### **The Effect of Tax Sanctions on the SME Tax Compliance Tax**

Sanction is an act that is given to taxpayers or officials who commit violations either intentionally or because of negligence. Based on the Theory Of Planned Behavior, Tax Sanctions related to Control Belief, the behavior of a taxpayer that comes from the taxpayer's view of Tax Sanctions, with the existence of tax sanctions someone will have the view that heavy sanctions will affect the amount to be paid if they are late. or not paying, thus supporting the behavior of a taxpayer to comply. Previous research conducted by Sari (Sari & Jaya, 2017) states that tax sanctions affect tax compliance. Other research conducted by Cahyani (Putu & Cahyani, 2019) also states that Tax Sanctions affect taxpayer compliance and the statement is supported by Sari et al., (2019). Firm tax sanctions can discipline taxpayers to pay taxes, increasingly strict or increasing tax sanctions increase taxpayer compliance because taxpayers will feel burdened by sanctions if they do not comply.

#### **H<sub>2</sub>: Tax Sanctions Affect SME Tax Compliance.**

#### **The Effect of Tax Rates on SME Tax Compliance**

Tax rates are the basis for taxation on tax objects which are the responsibility of taxpayers. Based on The Theory Of Planned Behavior, Tax Rates are related to Normative Belief, the behavior of a taxpayer who is motivated by a reduction in tax rates.

Tax rates that are considered fair and not burdensome can motivate taxpayers to comply with their tax obligations. Research conducted by Gita Cahyani (Putu & Cahyani, 2019) states that tax rates affect the tax compliance of SME, because if the rates imposed are considered burdensome for taxpayers, taxpayers will think and tend not to pay taxes. Other research conducted by Yuliyannah (Yuliyannah et al., 2018) also states that tax rates affect the Tax Compliance of SME. Based on a survey conducted by the tax rate affects on tax compliance because most SME says that if the applicable rates are fair for each layer of SME, they will tend to be more obedient in paying taxes.

**H<sub>3</sub>: Tax Rates Affect the Tax Compliance of SME.**

### 3. METHODOLOGY

This research is quantitative descriptive that shows the influence of independent variables and dependent variables with numbers and conducts data analysis with statistical procedures (Sari & Jaya, 2017). Descriptive research is research that is designed to collect data that explains the characteristics of people, events, or situations.

The type of data used in this study is primary data. Primary data is data obtained directly from sources, or this study obtained through SME actors directly (Lisa, 2020). Data collection was carried out using a questionnaire. In measuring respondents' answers using a *Likert scale* with intervals of 1 to 4.

#### Sample

The sample is a portion of the population. The sample consists of a selected number of population members or subgroups of the population. The sampling technique in this study uses convenience sampling which is a sampling technique based on the availability of elements and the ease of getting t. The sample was chosen because the sample is in the right place and time. The sample in this study was selected SME and had done their business for at least 2 years. The number of samples taken was 100 SME. The number of samples has met the provisions because for statistical data analysis research the minimum limit of respondents used was 30 samples (Lisa, 2020).

#### Variable Measurement

Measurement of variables in this study uses statements from several sources and uses a linkert scale which is a psychometric scale with 4 measurement points, namely point 1 for Strongly Disagree (STS) statements, point 2 for Disagree statements (TS), point 3 for Agree statements. (S), and point 4 for Strongly Agree (SS) statements.

**Table 1**  
**Indicator Variable Measurement**

Variable	Indicator	Number of Statement	Std. Dev
Tax Compliance (Zahidah, 2010)	Calculate yourself correctly tax to be paid.	11	Interval Scale
	Calculate the Tax Payment and Mass and Annual Tax Returns correctly		
	Punctuality to pay taxes and report Mass and Annual Tax Returns.		
	Do not have tax arrears and have never received tax penalties or penalties.		
Understanding of Taxation Regulations (Priambodo & Yushita, 2017)	Helping the smooth process of tax audits. Regulatory tax compliance criteria.	6	Interval Scale
	Knowledge of general provisions and procedures for taxation.		
	Knowledge of the taxation system in Indonesia		
Tax Sanction (Priambodo & Yushita, 2017)	Knowledge of tax functions.	5	Interval Scale
	Understanding taxpayers of tax sanctions.		
Tax Rate (Ramdan, 2017)	Taxpayer compliance with tax penalties.	4	Interval Scale
	Impact of changes in certain gross circulation tax rates (SME)		

Source: Previous research conducted (2020)

## 4. RESULTS AND DISCUSSION

### Respondent Profile

Questionnaires distributed amounted to 100 and returned amounted to 100. Respondents in this study were creative industry entrepreneurs whose businesses were still classified as Small Medium Enterprises because Bantul Regency was a regency that was quite superior in the creative industry. Characteristics of respondents were grouped according to the age of the business actor, length of business, line of business, and income turnover each year. The largest number of respondents were respondents aged under 30 years with a total of 34 people and for the longest time, the business of the largest respondents was MSME entrepreneurs who had run their business between 2-7 years with a total of 83 people. Other characteristics such as business and income turnover, the biggest respondent is a culinary business with 39 people and 79 people for respondents who have income turnover below Rp. 300,000,000 as the biggest respondent for income turnover characteristics.

Characteristics of the respondent profile in this study, the largest number of respondents are respondents aged under 30 years with a total of 34 people and for the length of business, the largest respondents are SME who have run their businesses between 2- 7 years with a total of 83 people. Other characteristics such as business and

income turnover, the largest respondents are those whose businesses are culinary goods with a total of 39 people and 79 people for respondents who have an income turnover below IDR 300,000,000 as the biggest respondent for income turnover characteristics.

### Descriptive Statistics

The descriptive statistics test is useful for describing the data used for this study. The description of the data is based on characteristics such as mean, minimum, maximum, standard error, and so on.

**Table 2**  
**Results of Descriptive Statistic Test**

Variable	N	Mean	Std. Deviation
Tax Compliance	100	2,84	0,631
Understanding of Taxation Regulations	100	2,86	0,512
Tax Sanction	100	2,88	0,624
Tax Rate	100	3,12	0,498
Valid N (listwise)	100		

Source: SPSS v25 data processing (2020)

Descriptive statistical test results of the Tax Compliance variable obtained a mean value of 2.84, meaning that respondents who were SME in Bantul Regency on average had complied with their tax obligations and rights. The mean value obtained by the Understanding Taxation Understanding Variable is 2.86, meaning that the SME in Bantul Regency on average have understood the applicable tax regulations. The Tax Sanction variable obtains a mean value of 2.88, meaning that the average SME actor in Bantul Regency is aware of the applicable Tax Sanctions if they commit a violation. The mean value obtained by the Tax Rate is 3.12, meaning that the average SME actor in Bantul Regency agrees to a rate reduction.

### Data Quality Test

A Validity test is a test used to measure the validity of a questionnaire. A valid measurement of the questionnaire is done by looking at the *Pearson Correlation*. If the correlation between the scores of each question item is smaller than the total significant score (Sig <0.05) then the question is valid. The results of the validity test in this study showed that all variable items in this study had a significance value <0.05, meaning that all items used in this study were valid, and could reveal the accuracy of the measuring instruments used.

Reliability Test is used to measure a questionnaire which is an indicator of the variable. The questionnaire used in this study is reliable if a person's answer to a statement is consistent over time. The test did with the coefficient *Cronbach Alpha*. If the value is greater than 0.6 then the variable is said to be reliable. The reliability test results in this study, all variables obtained a Cronbach Alpha value > 0.6, meaning that the variables in this study were declared reliable and reliable so that they could be used in further testing.

### Classic Assumption Test

The Classical Assumption Test is carried out to measure the data used for further analysis. The normality test is a part of the Classical Assumption Test which aims to test the regression model used in this study is normally distributed, namely by using the Kolmogorov Smirnov statistical test analysis. The results of the Kolmogorov Smirnov test analysis are said to be normally distributed if the Asymp value. Sig (2-tailed) of the residual variance is above 0.05.

**Table 3**  
**Normality Test Results**

	Residual Unstandardized
N	100
Asymp value. Sig (2-tailed)	0,239

Source: SPSS v25 data processing (2020)

Test results showed that the regression model used in this study Normal. This is evidenced by the Asymp 0.239 which is greater than 0.05.

Multicollinearity test aims to test the correlation between independent variables in the regression model in this study. A good regression model should not has correlation among independent variables. Detecting the presence or absence of multicollinearity in the regression model can be seen by looking at the results of the Tolerance Value and Variance Inflation Factor (VIF). The regression model will be said to be free of correlation between independent variables if the Tolerance Value > 0.10 and the VIF value < 10.

**Table 4**  
**Multicollinearity Test Results**

	Tolerance	VIF	Descriptions
Understanding of Taxation Regulations	0,988	1,012	Free Of Multicollinearity
Tax Sanction	0,740	1,351	Free Of Multicollinearity
Tax Rate	0,748	1,338	Free Of Multicollinearity

Source: SPSS v25 data processing (2020)

The test results show that the regression model used in this study is free from multicollinearity. This is evidenced by the Tolerance of each variable showing a number greater than 0.01 and the VIF of each variable showing less than 10.

### Hypothesis Test

Testing in this study was carried out by the method of Multiple Linear Regression. This test is used to test the effect of the independent variable on the independent variable.

**Table 5**  
**Results of Multiple Linear Regression Tests**

Model		B
1	Constant	0,620
	Understanding of Taxation Regulations	0,106
	Tax Sanction	0,586
	Tax Rate	0,073

Source: SPSS v25 data processing (2020)

The results of the regression coefficient in table 5 obtained the following equation:

$$KP = 0.620 + 0.106PP + 0.586SP + 0.073TP$$

Constant of 0.620 shows if the variable Understanding Taxation Regulations, Tax Sanctions, Tax Rates constant value, then the SME Tax Compliance value is 0.620. Regression coefficient variable Tax Sanction of 0.586, meaning that if the Tax Sanction variable increases 1% then it will increase SME Tax Compliance by 58.6% with the assumption that the regression coefficient of other variables is still 0. Conversely, if the Tax Sanction variable decreases 1% then the Tax Compliance of SME will also decrease by 58.6%.

The model feasibility test (Test F) is used to test the feasibility of the regression model in the study. If the probability value is less than 0.05 then the regression model is feasible or acceptable.

**Table 6**  
**Model Feasibility Test Results (Test F)**

Model		<i>Sum of Squares</i>	F	Sign
1	Regression	15,416	20.535	0,000
	Residual	24,024		
	Total	39,440		

Source: SPSS v25 data processing (2020)

The model feasibility test results in table 6 show a significance value of 0,000 or smaller than a probability value of 0.05. Based on the results of the F test, it can be said that the regression equation model used in this study deserves to be interpreted.

Test coefficient of determination or  $R^2$  is used to measure the ability of the model to explain variations in the dependent variable, or how much the independent variables can explain the dependent variable, the coefficient of determination between 0 and 1 were thereafter expressed in terms of percentage.

**Table 7**  
**Test Results The Coefficient of Determination (R<sup>2</sup>)**

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0,625	0,391	0,372	0,50025

Source: SPSS v25 data processing (2020)

Determination coefficient test results in Table 7 shows the value *adjusted R<sup>2</sup>* of 0.372 which means that the independent variable is Understanding Tax Regulation, Sanctions Taxation and Tax Rates explain the dependent variable of Compliance Tax of 37.2% while the remaining 62.8% is influenced by variables or other factors not examined or outside the regression model in this study.

T test was used to determine the real effect of each independent variable on the dependent variable in this study. If the degree of significance is less than 0.05, it can be interpreted that there is an influence between the independent variables on the dependent variable partially.

**Table 8**  
**T Test Results**

Model		B	T test	Sign
1	Constant	0,620	1,466	0,146
	Understanding of Taxation Regulations	0,106	1,077	0,284
	Tax Sanction	0,586	6,257	0,000
	Tax Rate	0,073	0,628	0,532

Source: SPSS v25 data processing (2020)

## Discussion

### The Effect of Understanding Taxation Regulations on SME Tax Compliance in Bantul District

Test results in this study indicate that Understanding of Taxation Regulations does not affect SME Tax Compliance in Bantul Regency, evidenced by the significance value of the test results of 0.284. The significance value of the t-test results is greater than the significance level ( $0.284 < 0.05$ ), the hypothesis is rejected, meaning that there is no influence between the Understanding of Taxation Regulations on SME Tax Compliance in Bantul Regency.

Understanding taxation regulations is the ability of a person to understand or know the rules and regulations of taxation in his country. Understanding taxpayers with tax regulations is expected to play a major role in SME tax compliance in Bantul Regency. The level of understanding of tax regulations can be seen from how much the taxpayers of SME in Bantul Regency understand the applicable taxation provisions, the tax collection system, and the tax function. The more someone understands tax regulations it is expected to increasingly comply with their tax obligations. This is not consistent with the taxpayers of SME in Bantul Regency who are increasingly familiar with tax regulations will tend to underestimate their tax obligations because they feel they

understand the regulations. Another thing that causes the level of understanding and knowledge of tax regulations by SME in Bantul Regency does not affect Tax Compliance, because SME who are obedient in paying taxes only realize that they have a duty obligation to pay taxes, without understanding how to calculate taxes owed, how the general tax provisions apply, and the tax function itself. This is because the age of business actors influences the understanding ability of each SME actor so that they differ. SME actors who do not understand tax regulations but have the awareness to fulfill their obligations as citizens can be more obedient than those who already understand the existing tax regulations.

This is evidenced by the results of the frequency distribution test answers of respondents' answers agree and strongly agree with tax compliance of 67.2% and answers to Understanding of Taxation Regulations at 72.6%. So that it can be seen that the average number of SME who have an understanding of tax regulations is greater than the Tax Compliance. These results prove that one's understanding of taxation regulations does not affect their compliance with taxation obligations.

The results of this study are consistent with previous research conducted by Jayanti (Eka Dwi Jayanti, 2017) which states that Understanding Tax Regulations does not affect SME Tax Compliance. While this research is inconsistent with Sari's research (Sari et al., 2019) which states that Understanding Tax Regulations affects SME Tax Compliance.

### **The Effect of Tax Sanctions on SME Tax Compliance in Bantul Regency**

The test results in this study indicate that Tax Sanctions affect the SME Tax Compliance in Bantul Regency, as evidenced by the significance value of 0.681. This significance value is smaller than the significance level ( $0.681 > 0.05$ ), then the hypothesis is accepted meaning that there is an influence between the Tax Sanctions on Tax Compliance.

Tax Sanction is an act in the form of a sentence given to someone who violates taxation rules and regulations that apply in Indonesia both intentionally or unintentionally. Tax sanctions that apply in Indonesia are administrative sanctions and criminal sanctions. The sanctions are set if the SME who are subject to domestic taxes do not comply with their tax obligations. Administrative sanctions are imposed on violations such as delays or incomplete administrative interests, for example, such as NPWP. Taxpayers who do not have a TIN will be subject to a 20% penalty when making tax payments. Whereas criminal sanctions are imposed on violations that harm the state materially.

Tax sanctions affect on SME tax compliance in Bantul Regency. High or severe tax sanctions are expected to be able to encourage tax compliance of SME. Some SME in Bantul Regency who have received sanctions due to late payment and tax reporting feel deterrent because these tax sanctions are considered burdensome. The SME in Bantul Regency felt that the sanctions added to the burden of the tax burden that had to be paid. The increased burden borne makes SME prefer to comply with existing tax regulations. Other SME in Bantul Regency completed their tax obligations properly and precisely

because they did not want to be sanctioned in the form of fines. The heavier or higher Tax Sanctions will encourage higher Tax Compliance.

Results of the Frequency Distribution Test explained that there were respondents who answered the questionnaire statement agreeing and strongly agreeing at 71.4%, meaning that taxpayers approved the sanctions currently in force against SME taxpayers. These sanctions encourage SME actors in Bantul Regency to become more obedient and avoid violations because they do not want to get a bigger tax burden, so they can encourage SME tax compliance in Bantul Regency.

The results of this study are consistent with previous studies conducted by Sari (M. Sari & Jaya, 2017) and Cahyani (Putu & Cahyani, 2019) which stated that Tax Sanctions affect SME Tax Compliance. However, the results of this study are not consistent with research by Sari (Sari et al., 2019) which states that Tax Sanctions do not affect the Tax Compliance of SME, this is because the SME in the Sari (Sari et al., 2019) study did not pay attention to the existence of tax sanctions so that the presence or absence of sanctions does not affect tax compliance SME.

### **The Effect of Tax Rates on SME Tax Compliance in Bantul District**

The test results in this study indicate that the Tax Rates do not affect the SME Tax Compliance in Bantul Regency with a significance value of 0.532. This significance value is greater than the significance level ( $0.532 > 0.05$ ), then the hypothesis is not accepted meaning that there is no influence between the Tax Rate on Tax Compliance.

Tax rates are the basis for the imposition of tax objects that are owed and are the responsibility of taxpayers. Tax rates are intended for SME actors, namely 0.5% according to PP No. 23 of 2018 and the basis for the imposition is gross circulation. The lower tax rates are expected to make it easier for SME in Bantul Regency to fulfill their tax obligations so that it is expected that more SME will comply with their tax obligations.

The results of this test are that Tax Rates do not affect on SME tax compliance in Bantul Regency. That is because the average SME actors in Bantul Regency are not aware of the latest regulations, namely the reduction of the rates that apply to SME, especially SME actors who are in sub-districts near the district borders. The basis for imposing taxes on gross circulation is also felt to be burdensome by SME in Bantul Regency, so that even though rates are decreasing and it is sufficient to reduce the burden, it does not encourage Taxpayers of SME in Bantul Regency to be more obedient to. In addition, SME Taxpayers in Bantul Regency who are obedient in paying taxes, feel that paying taxes is an obligation for taxpayers and are afraid of being sanctioned so that SME do not pay attention to rates and only rely on the amount paid in the previous year. Regardless of the tax rate determined by the SME taxpayer, the taxpayers still pay the same amount.

The results of this study are supported by the results of the frequency distribution test, the number of respondents of SME in Bantul Regency who agreed and strongly agreed to the Tax Compliance of 67.25 and at the Tax Rate of 84%. Declining tax rates are felt to make it easier for SME taxpayers because the amount of tax owed will decrease,

but awareness of SME actors to fulfill their obligations is still less visible than the percentage of respondents agreeing and strongly agreeing respondents 'compliance with tax compliance is lower than the respondents' agree and disagree answers to a decrease in tax rates.

The results of this study are consistent with previous research conducted by Huda (Huda, 2015) which states that the Tax Rates do not affect the SME Tax Compliance, because tax rates are stipulations or rules, then whatever the taxpayer rates that fall into the criteria of domestic tax subjects must comply with these provisions . However, the results of this study are not consistent with research from Cahyani (Putu & Cahyani, 2019) which states that Tax Rates affect the Tax Compliance of SME.

## 5. CONCLUSIONS, IMPLICATIONS, AND SUGGESTIONS

### Conclusions

The purpose of this study is to look at the effect of understanding taxation regulations, tax sanctions, and tax rates on SME tax compliance in Bantul Regency. This research was conducted with a number of respondents of 100 SME. The test results in this study produce conclusions Understanding Tax Regulations and Tax Rates do not affect the SME Tax Compliance in Bantul Regency, while Tax Sanctions affect the SME Tax Compliance in Bantul Regency.

### Implications

The implications of this research are expected to be useful for interested parties. This research is expected to develop theories and additional knowledge, for researchers and academics in conducting research and learning about taxation, especially regarding taxpayer compliance of SME actors. The results of this study are expected to be input for the government to be able to disseminate the reduction of tax rates for SME more broadly and provide socialization about the provisions of applicable tax regulations, especially for SME actors, so that taxpayers are not only aware of their tax obligations but lowering rates can also increase desire. taxpayers to fulfill their obligations because SME do not feel burdened by this.

### Suggestion

The results of the analysis of the coefficient of determination test show an *adjusted R<sup>2</sup> value* of 0.372, which means that the independent variable is Understanding Tax Regulations, Tax Sanctions and Tax Rates explaining the dependent variable Tax Compliance of 37.2% while the remaining 62.8% is influenced by variables or other factors which is not examined or outside the regression model in this study and for further researchers can add other variables that are thought to have an influence on SME Tax Compliance, such as tax socialization, tax service quality or tax awareness.

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