

Conference Paper

The Identity Social of Tax Compliance: How it Impacts Manufacturing Business

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Abstract.

This paper used a qualitative method to investigate the impacts of manufacturer's social identity on their tax attitudes and how these effects affect firm's tax compliance. The data from 101 respondents reported that membership and identity affect their firm's tax compliance, but not private and public collective self-esteem. The result showed that dependence on the community and stakeholder views on corporate identity are considered important by companies to increase public trust. Meanwhile, private and public collective self-esteem were no longer the key. It implies that the former is more likely to have a higher cost of tax collection to represent tax compliance, which may restrict funds for their public sector and adversely affects its functionality. This is consistent with the previous findings that identify socially impacted tax compliance, instead of self-esteem. Research results for manufacturing managers related to strengthening social identity factors in order to improve overall corporate tax compliance, such as joining tax communities, professional membership's and the like. By having a clear social identity, managers have channels to discuss tax issues and find solutions to tax problems more easily.

Keywords: tax compliance, identity social, membership, community, self-esteem

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1. Introduction

In compliance behavior, various aspects have developed rapidly since the seminal article by Allingham and Sandmo [1] 30 years ago. Since then, more research has been conducted on tax compliance. The integration of theory from psychology and sociology contributes to strengthening the theoretical background of the compliance literature [2,3]. Since the late nineties, researchers have focused more on integrating behavioral factors such as psychology and sociology to study compliance behavior. Although economic factors are important in assessing compliance behavior, they alone are not sufficient to explain adherence levels [4].


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With the publication of an increasing number of studies on tax compliance behavior, new models, and applications, a discrepancy has occurred. However, most studies do not have systemization and categorization of influencing factors. Hence, there is a considerable need for factor systemization to advance tax research further. In particular, this paper helps identify key themes in the literature and existing gaps, and new areas of tax compliance research. The purpose of this paper is to provide a clear picture of factors that influence tax compliance from a social identity perspective. To achieve the objective of this study, the authors used citation analysis to identify the most influential papers to define the main factors in the field from the ranked journals.

2. Literature Review

2.1. Tax compliance

The economic theory of tax compliance's riddle is why people pay taxes. According to the landmark study of Allingham and Sandmo [1]. Devos [5] divides his tax compliance theory into two subcategories: (1) the economic deterrent method and (2) the psychological approach. The economic deterrence technique, on the other hand, has achieved this by considering factors including system and taxation information, tax reduction provided by third parties, tax fines, the likelihood of a tax audit, and tax rate. When utilizing a psychological strategy, all factors—whether or not they are compliant—that have an effect on a taxpayer's psychology are taken into consideration.

Researchers have concentrated increasingly on incorporating behavioral aspects, such as psychology and sociology, to examine compliance behavior since the late 1990s. Although economic factors have a significant role in shaping compliance behavior, they are insufficient to describe the degree of compliance on their own [4]. Mismatches have emerged as a result of the publication of more studies on tax compliance behavior as well as new models and applications. The majority of studies, however, do not organize and classify influencing elements. As a result, there is a critical need for the systematization of variables in order to develop taxes research. This study highlights the key issues in the literature, any gaps, and potential new areas for tax compliance study.

The economic method and the behavioral approach are the two methods used to study taxpayers' compliance behavior [6]. Allingham and Sandmo [1] examined tax compliance behavior using Becker's 1968 economics of crime model [1,6]. Later, researchers turned to the Prospect Theory developed by Kahneman and Tversky [7] to explain how

people decide to comply when there is a risk while taking the worth of the outcome into consideration [8,9]. The behavioral method involved using psychology and sociology to examine how people and corporations behave when it comes to paying their taxes [6]. According to psychological research, taxpayers' decisions on compliance are influenced by moral feelings [4].

According to the Theory of Planned Behavior (TPB), Risk Reference Theory (RT), and Fraud Diamond Theory (FDT), fiscal psychologists and social psychologists looked at compliance behavior [3,10-13]. In the late 1990s, researchers took social impact into consideration while examining tax compliance behavior [14,15]. Important studies by Andreoni [2] examined how social pressure and moral responsibility affect compliance choices. The psychological study carried out by Bobek and Hartfield [11] in 2003 showed a consistent impact of social influence on voluntarily filing taxes.

2.2. Social identity

The word identity is derived from the Latin noun *identitas*, which is an adjective that signifies "the same," or "the same thing." The emphasis is on having some degree of similarity with others on a certain dimension, and comparison is required to prove such similarity. Further complicating matters is the fact that several meanings of the word identity are applied in psychology and other social and behavioral sciences. The phrase has been employed in a variety of ways across literary genres. Even the term "social identity" has multiple meanings, each of which is rooted in a different theoretical framework and body of literature.

Additionally, there is research on how culture and social representations impact one's identity and sense of self. A community is made up of people who come together to share ideas, beliefs, customs, and norms that provide context for the environment and guide behavior. Through group activities, a shared reality of categorizations, attitudes, and prejudices is created [16,17]. As a result of participating in a particular "community" of interdependent individuals, such processes help people to acquire their "distal" knowledge, expectations, and thoughts about their social environment.

In sociological literature, social representations, and developmental processes, "social" refers to other people in the environment who have an impact on the individual and the formation of their self-concept. In this work, a direct link is drawn between social structure and generally accepted cultural or societal understandings and explanations of human behavior. Role groups and the socialization of social norms are two additional concerns raised by sociology.

2.3. Membership

The semi-structured interview was influenced by social identity theory and research literature, the theme of social identity is therefore expected to be apparent throughout the data collection. However, the results seem to support Tajfel and Turner's [18] claim that our perspective of ourselves is influenced by our social identities. It is also clear that social support is a positive aspect of smaller social groups, which is consistent with earlier findings [19,20]. Additionally, the emerging motifs support the idea that joining an "intimacy group" is desirable, and the difficulty of doing so supports the notion that these groups are impermeable [21].

2.4. Community

In its most fundamental form, a revenue body's primary function is to collect taxes that are legally due. The majority of revenue organizations try to accomplish this in a fashion that is consistent with their strategic objectives, which frequently include fostering high levels of voluntary compliance and fostering community trust in the tax system. Taxpayer compliance risks are dangers that could thwart the accomplishment of these objectives [22].

Despite the fact that revenue agencies might aim for 100% tax law compliance, this is undoubtedly an impossible goal. The amount of intervention necessary to achieve this result is unlikely to be tolerated by either citizens or governments, and doing so would be extremely expensive. Even if all parties were willing to bear the costs and amount of intrusion, the objective would still likely be difficult to achieve. The possibility of some revenue leakage will always exist due to flaws in administration and policy as well as a continually shifting compliance environment.

Taxpayer compliance risk cannot be completely eliminated, but it can be controlled to an acceptable level in accordance with the organization's risk appetite and by employing a cost-benefit analysis. This information has come from several discussions. Numerous other specialized organizations that are tied to revenue and are corporate taxpayers also understand that the best way to manage taxpayer compliance risk is by using the proper procedures. The European Union and the Organization for Economic Cooperation and Development [22] jointly published a guidance note on managing and improving taxpayer compliance in response to this need. The note outlines a methodical procedure for controlling compliance risk and maximizing voluntary taxpayer

compliance. To increase agency compliance, communication is a crucial component that must be taken into consideration.

2.5. Self-esteem

The participant's adoption of social identities has had an impact on how she views her own identity and her abilities. However, what is more obvious is how her group membership and the isolation or exclusion she feels from other groups affect how she views herself, how she feels about being among other students at school, and how she feels about participating in small group conversations.

The majority of the discussion on the subject pays homage to William James' definition of self-respect, which he provided in his book *Principles of Psychology*, which was first published in 1890: self-respect is achievement divided by pretense. This concept has a number of intriguing ramifications despite its exquisite simplicity. Self-esteem can be raised by obtaining greater success and kept stable by avoiding failure, but it can also be raised by setting a less challenging objective: "giving pretension is as blessed as having it, be grateful" [23]. James' formula also makes crucial inferences that self-esteem cannot be only anticipated from an individual's performance on an objective level. It matters if their success is related to their goals. So, for a discrete observer, certain individuals may be a very high success. An individual who has high self-esteem then has a high level of obedience to the law, including aspects of taxation.

As explained before about the background research, subject matter, literature review and previous research about the benefits of online tax implementation on Taxpayer compliance, this research will formulate the following hypothesis as shown in picture 1, as follows: 1). H1: Membership has a relationship with Tax Compliance, 2). H2: Community has a relationship with Tax Compliance, 3). H3: Self Esteem has a relationship with Tax Compliance and 4). H4: Identity Social has a relationship with Tax Compliance.

3. Research Methods

The 101 respondent on this form of the questionnaire was used as it allows for modification to questions and probing based on responses from the participant [24]. While questionnaire questions were broadly informed by the literature relating to social identity, an inductive analysis of the data was carried out with an aim to ensure the original meaning of the data was captured [24]. In order to ensure a solid foundation for thematic

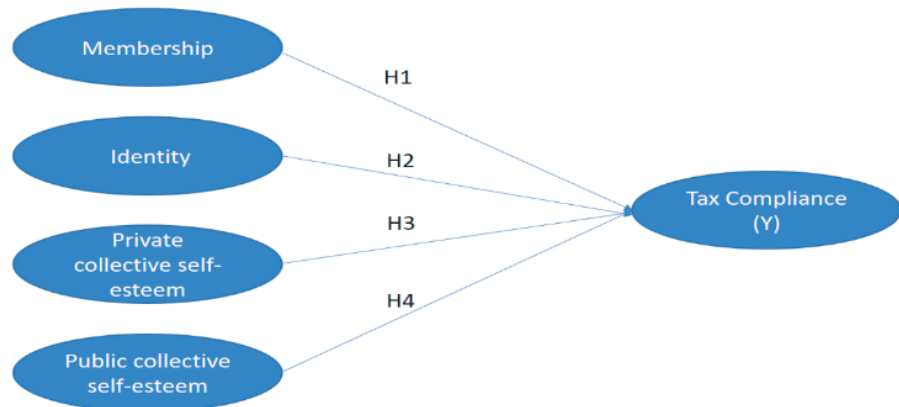


Figure 1: Conceptual research.

analysis [25], familiarisation for the first step of this process. This study uses qualitative methods to collect, process and analyze data to draw empirical conclusions.

4. Results and Discussion

After using SmartPLS 3.0 for quantitative method supporting to collect data. Researchers summarized the results of descriptive analysis of the respondent’s identity can be seen as follows which shows that the majority of respondents were female, with an age range of 31-40 years old, have a lifespan of up to 5 years experiences with bachelor education background. The variable has a mean value is high and not far from the maximum value and standard deviation below the mean value, which means the implementation of corporate culture in either sample. The report statistic descriptive results as shown in Table 1.

TABLE 1: Statistic descriptive result.

Var	N	Mod	Mean	Med	Frekuensi					Std. Deviation	Range	Min	Max
					1	2	3	4	5				
TC	101	4.000	3,84	4.000	65	265	1769	4303	5511	0.72713	4.000	1.000	5.000
MEM	101	4.000	3,73	4.000	1	76	557	1261	1599	0.08721	4.000	1.000	5.000
IDE	101	3.000	3,46	4.000	0	193	3470	5788	6139	0.07813	3.000	2.000	5.000
PRI	101	4.000	3,94	4.000	2	43	612	2002	2502	0.04449	4.000	1.000	5.000
PUB	101	4.000	3,71	4.000	36	152	1116	2841	3196	0.04332	4.000	1.000	5.000

Normality test results using statistical methods to support the results obtained from the graph method. Statistics Selected test is the test of Kolmogorov-Smirnov (KS). The criteria used is to look at the value of significance, where the data is said to be normally

distributed if $\text{symp.sig (2-tailed)} > 0.05$ (Ghozali, 2017). This study has performed a thorough statistical normality test, and the results can be continued. The results of hypothesis testing appear in Table 2.

TABLE 2: Hypotheses test result.

t-Test	Original Sample (O)	Sample Mean (M)/Koefisien	Standard Deviation (STDEV)	T Statistics (IO/STDEV)	P Values	Status
MEM -> TC	0.095	0.093	0.064	1.485	0.035**	H1- Accepted
IDE -> TC	0.098	0.096	0.062	1.585	0.028**	H2- Accepted
PRI -> TC	-0.110	-0.103	0.063	1.750	0.020**	H3-Not Accepted
PUB-> TC	0.052	0.059	0.052	1.010	0.078**	H4-Not Accepted

TC: Tax Compliance MEM: Membership IDE: Identity PRI= Private Collective Self Esteem PUB= Public Collective Self Esteem

From the results of the t test, it gives empirical results that membership, social identity and private collective self-esteem have succeeded in influencing tax compliance, although at various levels of significance. However, this is not the case with public collective self-esteem. Membership is required by managers to get the latest information about taxation. With a clear identity owned by managers or companies, it allows them to know how far managers can manage taxation properly. Likewise, personal self-esteem considers itself to be valuable internally if they comply with tax rules, without being overly dependent on public pride.

5. Conclusion

This study is useful in theoretical and practical implications, which could theoretically be used as a reference for researchers and academics in conducting further research related to tax compliance. it is important for good managers to optimize the aspects which in this study are proven to support tax compliance so that companies can fully carry out their tax obligations as part of a unified society. For policy makers, tax compliance improvement strategies can be further optimized related to social identity factors. This identity cannot be separated from the self-esteem possessed by managers who are able to encourage and reflect actions that tend to comply with the law, including taxation.

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