Psychological Social Behavior: Taxable Entrepreneurs Respond to VAT Policy Changes

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ABSTRACT

Environmental considerations or individual intentions influence taxpayer behavior. VAT changes may be a reaction to behavior either overtly or covertly. This research applies an approach with the method of interviews conducted with business actors. However, VAT can reduce profits by influencing consumers to spend resources and look for lower prices. Regarding the VAT rate, it is still considered unfair. Furthermore, double recording or splitting the business into several forms is implemented, which is passed on to other family members. Another option is to do tax planning to meet the tax burden. Decisions in the information action model can be based on rationality, routine behavior, nature/tradition and subjective norms / perceptual behavior. Findings from an environmental perspective are formed from the level of experience and age, as well as the encouragement of social communities and provide psychological stimuli for taxpayer behavior in assessing changes in tax regulations, especially about VAT rates.

Keywords: Entrepreneurs, Psychology, Regulation, Social behavior, Vat

Introduction

Most of the state budget is covered by tax revenue. According to Soemitro (in Mardiasmo, 2018), taxes are contributions to the state treasury (which are payable) without any direct reciprocal services (reciprocity) and can be used to pay for public expenditures. Taxes finance valuable development for the common good (Rahayu, 2013). According to (Meliawati & Waluyo, 2013), one of the efforts to realize a nation's or state's independence in financing development is to explore domestic sources of funds in the form of taxes.

The changing dynamics of taxation always cause various reactions from taxpayers, especially entrepreneurs, because business is closely related to implementing tax policies, making business the primary source of income. Drucker and McClellan (in Sutanto & Nurrachman, 2018) demonstrate the critical role of entrepreneurship in strengthening the economy and stimulating productivity and innovation, especially in times of national crisis. Moreover, in his study, Decker observed that many American businesspeople contribute to economic growth and create new jobs through entrepreneurship.

Seeing the significant role of entrepreneurs in tax regulations can determine the reaction or behavior of entrepreneurs. As stated by Tolman (1928), entrepreneurs have reactions to specific goals or behaviors with goals. In this...
case, it will influence an item's price increase and consumer satisfaction (Putra, 2016). A person's reaction to an external stimulus or stimulus can be classified into overt behavior and covert behavior (Skinner, 1938). In addition, Eysenck (1970) and Catania (1988) stated that overland behavior is a response to stimuli in the form of actions or practices that can be observed externally. Invisible behavior is a response to stimuli beyond the reach of others, such as attention, emotions, perceptions, knowledge, and attitudes.

This reaction can be considered a response to available incentives, such as entrepreneurial behavior regarding taxation dynamics. Taxpayers who are taxable entrepreneurs (PKP) in tax policy consider value-added tax (VAT) as an expense. Sales tax is a burden that reduces profits because it can affect consumer consumption of available resources (Mangoting, 1999). As Dharmmestha (1999) says, consumers buy goods based on price and quality. Consumer satisfaction is closely related to product prices (Wilson et al., 2003).

Conversely, complex conditions require entrepreneurs to continue to make a profit to keep their businesses running. Often, taxpayers issue several versions of financial statements (double accounting), namely financial statements for banks and financial information for taxation. This action includes tax planning activities, where informants as taxpayers carry out tax planning to minimize the taxpayer’s VAT burden (Suronoto, 2013). Tax planning is carried out by entrepreneurs, including taxpayers, who look for loopholes in tax regulations to reduce the burden of VAT (Atmojo et al., 2016).

Entrepreneurs must be able to design business strategies and capitalize on opportunities (Zimmerer, W Thomas & Norman M. Scarborough, 1996). Entrepreneurs' risks and failures must be cleverly managed, combined with winning and positive strategies in all aspects of their business (Astamoen, 2005).

Businesses that face different risks and tax obligations show that taxpayer intentions influence compliance or non-compliance. In 1991, Ajzen suggested that individuals often use the Theory of Planned Behavior (TPB) as a model to anticipate their preferences. The theory proposed by Ajzen (1991) indicates that a person's behavior can be shaped by their willingness to act. However, the onset of behavior is influenced by three factors: attitudes towards behavior, subjective norms, and perceived control over behavior. A person's actions when committing a tax evasion offense depend on his intention to take such action. Close peer influence may be more impactful, and perceived behavioral control stimulates the choice to avoid taxation.

Environmental conditions or normative beliefs that surround a person affect taxpayer behavior. Perceptions of fairness to taxpayers influence attitudes and intentions in response to available incentives. If taxpayers receive unfair treatment, they will receive social pressure and motivate individuals to commit tax evasion. Based on the description above, if viewed from the perspective of business actors, it can potentially lead to reactions in the form of behavior to stimuli or stimuli from the dynamics of tax regulations both overtly (overt behavior) and covertly (covert behavior). So, the focus of this research is to analyze how the behavior of business actors as taxpayers towards tax regulations.

Literatur Review

Achievement motivation drives human entrepreneurship, generating energy and reinforcing behavior that directs behavior toward achievable goals (Beck, 1990). The entrepreneurial process involves the interdependence of people, institutions and cultures in many dimensions (Morrison, 2000). In his research, Moore (1986) explains that entrepreneurs must have innovative ideas and dare to face risks; this attitude is necessary to realize production and marketing. To achieve personal satisfaction, a person must fulfill the achievement motive through self-actualization (Maslow, 1958).

On the other hand, Kuratko & Hodgetts (1989) and Astamoen (2005) argue that entrepreneurs always face the risk of failure. Entrepreneurs must be courageous to take risks because they have the necessary leadership, management skills, and personal expertise. Septiana et al. (2017) state that entrepreneurs must dare to take risks. Taking risks is the same...
as managing opportunities because entrepreneurs must be able to predict the direction of the business and take advantage of existing opportunities (Kirzner, 1979). When dealing with tax regulations, entrepreneurs must fulfil their obligation to pay taxes, thus minimizing the burden on their business.

As a result of changes in tax regulations, PKP, as a taxpayer, tries to plan taxation to reduce VAT because it is considered burdensome. Taxpayers are always based on their interests (Varela et al., 2020). The potential for reducing the VAT burden through tax planning is one of the reasons why taxpayers are encouraged to think about effective ways to avoid taxes and maximize business profits (Megasari, 2008). Management’s decision-making strategies and risk calculations depend on how businesses respond to the business environment. In their research, MacKo & Tyszka (2009) distinguish between risks beyond decision-makers control and dangers that can be managed. The risk-taking results cannot be prevented by belief (Knight, 1921; MacKo & Tyszka, 2009; Quintal et al., 2010). Risk aversion occurs by eliminating or avoiding the source of risk by seeking other alternatives in response to a behaviour change stimulus (Lim, 2013).

Individuals gradually explore the surrounding environment in search of a conclusion. The behavioral relationship is determined based on the individual’s experience of behavior related to collective issues. Humans are not inherently good or bad, but individuals have the "experience" to produce all kinds of behaviors. One can adopt new behaviors and influence the behavior of others and be influenced. Humans have the ability to understand and control human behavior (Thompson, 2004).

On the other hand, Pavlov argues that the classical conditioning response is formed by the combination of two stimuli, namely the combination of a natural stimulus and an artificial stimulus (Pavlov, 1927). When two impulses are given simultaneously, the response and the other stimulant increase. However, their effectiveness decreases. In classical conditioning, there is a change in action due to the influence of the stimulus, resulting in an automatic and predictable response. These actions result from environmental triggers, physiological causes, genetics, experience, and age. These factors can be measured and observed in humans themselves. Tolman recognized the existence of mental processes within individuals, giving rise to the stimulus-organism-response (S-O-R) theory (Tolman, 1928). Individuals explore the environment around them, which occurs slowly so that people can make conclusions. Behavioral relationships are determined based on an individual’s collective behavioral experience of a problem.

Similarly, Thorndike suggested that the S-R (stimulus-response) relationship is reinforced when the response produces a satisfying effect (Thorndike, 1898). Satisfaction comes from the empowerment of the introductory object that encourages doing or not doing something. In the Law of Effect theory, if an individual performs a behavior and the behavior gets a reinforcement, then it is likely that the behavior will be performed again by the individual. Behavior occurs determined by several predisposing factors (knowledge, attitudes, and beliefs), and individual behavior does not happen automatically but arises because of the Stimulus and Response (S-R) relationship, where the stimulus is everything that comes from the environment with individual cognition, while the response is a form of action in response to the motivation (Watson, 1913; Bandura, 1977). Gastil also explains the factors that can influence behavior (determinants) into two, namely, internal and external (Gastil, 2016). Internal factors that determine a person’s identity include innate traits, such as intelligence, emotional maturity, gender, and so on. External determinants are the physical, social, cultural and economic environment, which is the dominant factor in shaping behavior.

Katona (1946) states that pure decisions are entirely rational, from routine behavior or preferences arising from nature, habit, or tradition (Edwards, 2012). People show greater sensitivity in unfavourable situations than in favourable conditions (Kahneman & Tversky, 1979).

According to Skinner, behavior is a person’s response to stimuli. Behavior is divided into two, namely overt and covert behavior (Skinner, 1938). Skinner then argued that overt
behavior is a behavioral response to a push through actions or practices that others can observe externally (Skinner, 1969). Invisible behavior is a response to stimuli that others, such as attention, emotions, perceptions, knowledge, and attitudes towards the trigger, cannot detect. However, Ajzen argues that behavior is influenced by individual intentions (behavioral intentions) towards certain behaviors (Ajzen, 1991).

At the same time, attitude variables, subjective norms, and perceived behavioral control can influence behavioral intentions. All human activities have a purpose (purposeful behavior). This action is caused by environmental stimuli, physiological causes, genetics, experience and age (Tolman, 1928).

In economic action itself, there is a mixture of psychology and other social economics (Diacon, 2014). The entry of psychology examines choices and behaviors that seek to explain a person’s behavior in making economic decisions. The study of economic behavior developed in the 1950s with the scope of research focused on financial choices and behavior, which mostly came from psychology and human sciences, providing information about the human character itself. Behavior is not directed at what can be calculated but based on intuition (Kahneman, 2003). Kahneman & Tversky (1979) found that people show greater sensitivity in unfavourable than favourable situations. In economic behaviour. As defined by Katona (1946), the field of behavioural economics distinguishes between rational and unrestricted choices and choices influenced by norms or routine preferences (Edwards, 2012).

Research Methodology
Type of Research
This research uses descriptive research methods. The study was conducted in four East Nusa Tenggara Province locations: Larantuka, Waierang, Lembata, and Maumere. This research used a qualitative approach using the informant interview method.

The interviews were conducted more than once with the consent of the informants, who were born at different times and under other circumstances, which was carried out by the researcher, in addition to the limited time of the informants and to evaluate and analyze the uniformity of the information obtained about the research questions. Due to the COVID-19 pandemic, the interview was conducted online via Zoom meeting. However, the researcher continued his discussions by conducting face-to-face (offline) checks and keeping health records for the following few interviews.

Data Analysis Method
The data analysis method used in this research is based on qualitative data analysis because the study used is descriptive, with a narrative presentation of the entire research area.

Results and Discussion
Individual Intention-Shaping Taxpayer Behavior

Taxes arising from the law, by itself, bind all citizens who are regulated in tax regulations. In fulfilling their tax obligations, the community raises different responses in the form of taxpayer compliance or disobedience, which can be influenced by the taxpayer’s intention to act, whether the taxpayer wants to comply or not. The theory of planned behavior developed by Ajzen (1991) shows the bonds of a person’s behavior in response to events. In addition, this theory indicates that behavioral intentions can produce behavior expressed as subjective norms.

In the context of social influence, Dharmawan (2015) suggests that subjective norms are perceptions of how individuals create certain behaviors. The theory reveals that subjective norms are the views of others in the form of rejection or acceptance of personal behavior (Winedar & Harymawan, 2023). Regarding taxation, informants’ behavior has different reactions, both rejecting taxes and accepting them in general, as conveyed by the informant as follows:

"Regarding this taxation issue, I have considered it an obligation that I certainly have to do so that later it will not hamper my business."

"I always pay taxes within the specified time because I think it is also part of the obligations that I need to do, which, of course, will impact my business."
According to Cindy & Yenni (2013), Tax compliance is when taxpayers understand tax provisions and carry out tax obligations, namely reporting taxes. And pay taxes at the specified time. Understanding the factors that can affect taxpayer compliance, including subjective norms and self-government structures, is critical to understanding the importance of identifying tax avoidance in such cases.

Since 1983, Indonesia has adopted a modern taxation system, namely the self-assessment system, which authorizes taxpayers to fulfill all their tax obligations. The principle of fairness is the determination of taxes fairly and equitably. The tax imposed on taxpayers is proportional to their ability to pay and the benefits they receive from the government. In their book, Rosdiana & Tarigan (2005) divide two general criteria of fairness in taxation: 1) Utility principle. In the taxation system, it is reasonable if each taxpayer contributes by the benefits received by the state. The request is based on the public interest because each taxpayer prefers different public services, so the general formula does not apply to everyone. 2) Ability to pay is a principle that reflects the overall well-being achieved by an individual, including income, spending patterns, and wealth. According to this principle, the tax system is separated from public spending. This is because, using this approach, government spending remains unclear. After all, the economic system requires certain revenues. The system is also vertically and horizontally fair. Vertical equity refers to the obligation to pay taxes with different capacities. The higher the ability to pay taxes, the higher the tax rate (progressive). At the same time, horizontal equity means that all people with equal or more significant financial resources should pay the same tax (Mansury, 1996).

Subjective norms towards behavior can influence individual opinions. If a person's behavior is consistent with a view, then the behavior will continue to be used in social interactions. However, if others do not receive the behavior displayed, the person will not perform similar behavior again (Agustiantono, 2012).

Changes in VAT Regulation: Psychology of Social Behavior

A person's attitude is influenced by the people around them who become references, and perceived behavioral control affects a person's intention to tax avoidance or not. Regarding taxation, this study specifically highlights the behavior of VAT (sales tax) regulations that change frequently, and the dynamic changes also encourage different responses from stakeholders, including taxation, especially VAT-related businesses. Several spokespersons considered the 10 per cent VAT rate unfair. With this amount, the declarant must automatically increase its product's selling price or sell without VAT. Conversely, in business competition, informants must fight with non-VAT companies so that non-VAT companies can get more profit. As stated by the fifth informant, informants have different experiences and responses to what the first informant said:

"Especially in my shop business, I strongly disagree, especially with the many kinds of problems that I said earlier (corrupt tax officials), making me even more reluctant. Many ways will be done. After all, it's not just me alone who does this, and there are still many fellow entrepreneurs who do this and many of them reason that this is for the sake of business continuity, including myself ".

Likewise, the second informant stated:

"It is different from the gas station business. I think that in a shop trading business like mine, which happens to be a PKP, in my opinion, the government needs to adjust again because, in trading businesses like my shop, we have to compete in price with shops that sell similar types of goods even though most of them are not as big and complete as my shop. But this can later become a purchasing consideration ".

Similar to Informant Permata and Informant 2, Informant 3 stated that:

"For now, with the tax rate, especially the imposition of 10% VAT, I feel that it is unfair because the basis for the imposition
of the rate, in my opinion, is still unfair, where I have to compete in price with several entrepreneurs engaged in the same business field where most of them are still entrepreneurs who are not subject to tax (non-PKP), so this gives the possibility of making my business lose, therefore, in my opinion, the imposition of the current tax rate needs to be adjusted again”.

While the fourth and fifth informants had slightly different responses from the previous informants, these two informants said the same thing:

“The 10% rate is enough, but if possible, it needs to be lowered again, so there is no need for an increase. For example, if it is changed again, it should not be too burdensome for small traders. But for the sake of keeping my business running, I don't mind this VAT, and I have also sold at a price recommended by Pertamina and for me, it's okay”.

The informants’ decision to increase prices, among others, because of VAT, is feared to impact the number of dissatisfied consumers, as (Wilson et al., 2003) research shows that the price of a product significantly influences consumer satisfaction. Responding to dynamic tax regulations, informants argue that the authorities must constantly update tax regulations because business conditions also change yearly to optimize tax collection. With the current tax regulations, the informants feel that the tax-intensive Covid-19 pandemic has helped them. Tax relief rules during the pandemic incentivize the government to maintain taxpayer satisfaction with current tax policies. Thorndike (1898) argues that the S-R (stimulus-response) relationship is strengthened when the response produces a satisfying effect.

Looking at the social environment, the informants’ responses above highlight the influence of friends and colleagues on trust in taxpayers’ joint activities. Professional friends or colleagues can influence taxpayers to behave wisely or not. If taxpayers are accustomed to being surrounded by tax-compliant friends and professional colleagues, this can influence taxpayers to comply with tax regulations. In addition to social and environmental factors, the behavior of the informants above is indicated by differences in experience and age of each informant; this is inversely proportional to the results of Rusyidi et al. (2017), which tends to believe that older taxpayers have a greater desire to behave by regulations in taxation compared to younger taxpayers. The fourth and fifth informants have relatively more experience and age than the first, second, and third informants, who have much experience in taxation.

Deterrence theory has been the main theoretical framework for tax avoidance. This theory assumes that taxpayers consciously weigh the advantages and disadvantages of non-compliance, considering the likelihood of detection and the severity of penalties (Smith & Kinsey, 1987). Tax law is controlled based on the law. This is the principal requirement for accurate tax compliance. Tax law is the last resort in tax collection in Indonesia. The state does not act unfairly against its citizens but also acts firmly against those who do not comply. Therefore, tax investigations are conducted against taxpayers who intentionally commit tax evasion and are suspected of committing criminal offences. The sanctions are imprisonment and maximum fines. This is the war against tax terrorists - strictly enforcing tax laws against tax criminals.

Consequently, it is necessary to have assistance from the local police for tax activities that are considered risky. It is mandatory, and there is an SOP. In the long run, it needs to be included in the amendment to the KUP law so that tax collectors whose work is risky (auditing, sending invoices, etc.) get a particular clause, for example, arming themselves. Chandra Budi, Director of KPP Pratama Manokwari or the executor of the Treasury, said that the government should review the existing VAT rate, even if it can be equalized tax rates for all taxpayers, especially those engaged in business.

Conclusions
Implementing taxation according to the law is mandatory for taxpayers, including entrepreneurs. In addition, difficult conditions that require entrepreneurs to generate maximum
profits. Continuous changes in tax regulations lead to different reactions from taxpayers. This study found differences in the response of entrepreneurs, especially to the VAT law, which has a specific purpose or deliberate behavior. In this case, it affects the price level of the goods sold. Informant response as a form of action in response to existing stimuli. The spokesperson of the taxed business entity considered VAT to be a burden as it is perceived to reduce profits. This is because individuals are more likely to seek cheaper options when accessing a resource. In this scenario, the price level significantly impacts satisfaction and consumption decisions.

Furthermore, it was found that subjective norms can shape one's behavior by accepting or rejecting the thoughts of others. Environmental stimuli, experience and age cause the action; this can be seen by comparing the age and perceptions of the first and fifth informants because every step a person takes has a particular purpose. Most journalists consider the 10 per cent VAT rate unfair. Therefore, the informant is at a choice between increasing the selling price of the product or selling without VAT, because the informant's thinking is that low prices are more attractive to consumers. Another statement is that the tendency of taxpayer behavior in assessing tax authorities also shapes taxpayers' views on tax responsibility, for example, fraud committed by some tax authorities.

Suggestions

The dynamics of changes in taxation regulations have again occurred by various parties, including the business world. Given the magnitude of the interests of the business world, there is nothing wrong with regulators needing to review existing regulations. Taxes should be prosperous and equitable, but the business world still reacts a lot to differences, especially in this case, the revision of the VAT rate, so researchers provide recommendations through this study on whether the current VAT rate can be equalized—value for both those with PKP and non-PKP status. At the same time, there is hope that in future studies, other secondary data sources can also be used in addition to using informant data as well as consideration of the number of research informants and research variables that are more varied to provide an overview of information from various points of view regarding behavior in the dynamics of tax regulations.

Acknowledgement

There is no funding for this research.

References


