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Can Social Capital Play a Role in the Impact of Tax Complexity on Tax Compliance?

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Abstract: This study aims to examine the effect of tax complexity on tax compliance and to examine the moderating effect of social capital. This study uses secondary data in the form of a report on the Tax Complexity Index, research on the level of tax effort, and the State Prosperity Index. The population in this study are countries around the world, with a sample of 84 countries. This research is quantitative research using the Moderate Regression Analysis test. The results of the study show that tax complexity has no significant effect on tax compliance. However, when social capital interacts with tax complexity, it appears that tax compliance becomes stronger. Based on the results of this study, the government is expected to be able to take advantage of substantial social capital with a focus on designing tax policies that can make people set an example for each other to comply with taxes.

Keywords: Tax Compliance; Tax Complexity; Social Capital

INTRODUCTION

In an effort to increase state revenue through the tax sector, taxpayer compliance is an essential key (Wiyarni, Hartini, & Djuharni, 2017; Sudirman & Muslim, 2018). In fact, tax compliance is a complex issue in many countries (Hamzah et al., 2018; Wardani et al., 2021). One of the causes is tax avoidance by taxpayers. Previous research has discussed the problem of tax evasion that causes income losses in various countries. Based on 2013 state income data, 101 countries experienced income losses due to tax evasion, such as Bangladesh and Guyana, which experienced losses of 1% - 7% of GDP (Cobham & Janský, 2018). Crivelli, Mooij & Keen, (2016) also estimate global revenue losses from tax evasion of around US$650 billion per year. Thus, the high level of global income loss due to tax evasion in some countries indicates a lack of taxpayer compliance.

Several previous studies have discussed the aspects that affect tax compliance. Kirchler, (2007) states that several different aspects from one country influence tax compliance to another. Internal and external aspects can trigger tax compliance. Internal aspects include taxpayer awareness (Kamil, 2015); tax knowledge (Saad, 2014); and financial condition (Syakura & Baridwan, 2014). At the same time, external aspects can come from the tax system, including tax justice (Siahaan, 2012) and tax complexity (Saad, 2014). Several previous studies have linked tax complexity to tax compliance. Research by Saad, (2014) and Gambo et al. (2014) stated an adverse effect of tax complexity on tax compliance. It differs from Syakura & Baridwan, (2014) research, which found a positive influence between tax complexity and taxpayer compliance because complexity can create gaps in tax regulations to avoid tax. Lanis and Richardson, (2012) assume that tax avoidance can violate social capital because it does not have social responsibility. Thus, it is essential to examine the relationship between the level of social capital and the behavior of taxpayers.

Every country has different social capital. Community norms and behavior can influence different social capital in each country. Previous research has linked the relationship between social capital and tax avoidance. Chircop et al., (2018) show the negative effect of social capital on corporate tax avoidance. People with high social capital tend to have high social responsibility (Lanis & Richardson, 2012). Someone who has high social responsibility will tend to obey taxes. Thus there is a link between social capital and tax compliance. Therefore, in this study, social capital will be linked as a moderating variable in influencing tax complexity on tax compliance.

This study refers to Saad, (2014) regarding tax complexity on tax compliance in New Zealand. This study adds social capital as a moderating variable between the relationship between tax complexity and tax compliance. It is developed to a macro level because the problem of tax compliance has become a global problem. Based on the formulation of the problem, the analysis of this research is outlined in the following research questions: (1) Does tax complexity affect tax compliance? (2) Can social capital moderate the effect of tax complexity on tax compliance? This research is expected to be useful for governments in various countries to consider making tax policies. In addition, this study can be helpful as an addition to the literature on tax compliance and tax complexity.

LITERATURE REVIEW

Tax Compliance

Tax compliance explains the willingness to pay taxes in fulfilling their tax obligations (Kirchler, 2007). Some tax authorities define tax compliance as the ability and willingness of taxpayers to comply with tax regulations, disclose the actual amount of income, and pay taxes according to a predetermined time limit (ATO, 2019). Taxes play an important role in state revenues because they are used to finance state development. In an effort to increase state revenue through the tax sector, it is essential to increase taxpayer compliance (Wiyarni et al., 2017).

Tax Complexity

Evans and Tran-Nam (2013) define tax complexity as a multidimensional concept determined by the different points of view that a person has. Tax complexity has different definitions. It depends on one's perspective. For a taxpayer, the complexity is seen in how much time and cost it takes to comply with tax regulations. Tax complexity can be explained in several forms, such as the complexity of tax calculations (Çiçek, Paraskevopoulou, & Garg, 2016), the complexity of the tax code (Zwick, 2018), and the complexity of the tax system (Syakura & Baridwan, 2014).

Social Capital

Chircop et al. (2018) define social capital as beliefs that facilitate behavior that is consistent with the norm and inhibits behavior that deviates from the norm. The social capital owned by each country is different. It can be influenced by the norms and behavior of the community. The Legatum Institute Foundation (2019) states five elements to measure the level of social capital, including (1) Interpersonal trust assesses the amount of trust of foreigners and people outside their social environment. (2) Personal and family relationships include the power to form support that individuals can use emotionally, mentally, and financially. (3) Institutional trust includes the extent to which individuals trust an institution. (4) Social networks measure the strengths and opportunities available and tie an individual to people on the broader network. (5) Civic and social participation measure the number of people who participate in society at large.

Evans, (2012) said that tax complexity arises to improve tax law by adding or updating components in tax regulations that make tax regulations challenging to understand. The complexity of tax regulations can create complexity for taxpayers in understanding and implementing these tax regulations. In addition, excessive tax complexity will have a negative impact on the country's economy (Evans, 2012). It is because it can lead to tax non-compliance behavior that is carried out intentionally or unintentionally. Thus, tax complexity can hinder tax compliance behavior. Saad, (2014) said that tax complexity is a contributing factor to taxpayer compliance behavior due to the complex structure of tax rates. The cause of the lack of compliance behavior is that taxpayers do not have sufficient understanding and consider the tax system's complexity. Gambo et al. (2014) study show that tax complexity has a

significant negative effect on tax compliance. In addition, Jayanto (2010) said that the complexity of tax regulations hinders taxpayer compliance behavior. Thus, the higher the level of tax complexity, the lower the level of tax compliance. Therefore, the formulation of the hypothesis for this study is:

H1: Tax complexity has a negative effect on tax compliance

Effect of Tax Complexity on Tax Compliance Moderated by Social Capital

The level of social capital can be measured from several elements, one of which is institutional trust (The Legatum Institute Foundation, 2019). Institutional trust can be seen from the public's trust in the government. Huda, Basri, and Julita (2018) stated that people who believe in the government tend to pay taxes. When the tax complexity is high, but people have high social capital, people will still trust the government and be obedient in paying taxes. Previous research has linked the relationship between social capital and corporate tax avoidance. Chircop et al. (2018) explained that people with high social capital tend to have high social responsibility. It is in line with the research of Lanis & Richardson (2012) which says that someone who has high social responsibility will tend to obey taxes. It indicates that people with high social capital will weaken the negative relationship between tax complexity and tax compliance. When people do not comply with paying taxes, they are considered not to have social responsibility (Chircop et al., 2018). However, when taxes are increasingly complex but have high social capital, people will remain obedient to paying taxes. Therefore, the formulation of the hypothesis is obtained as follows:

H2: Social capital weakens the negative effect of tax complexity on tax compliance

METHOD

Types of Data, Population, and Sample

This research is a type of quantitative research that uses secondary data. The data used are in the form of a 2016 tax complexity index report, the level of state tax effort (tax effort), and a 2015 state prosperity index report. The data are obtained from Hoppe et al. (2017), research by Mawejje and Sebudde (2019), and The Legatum Institute Foundation (2019). Therefore, the population of this study is countries around the world with a sample of countries listed in Hoppe et al., (2017), research by Mawejje & Sebudde (2019), and The Legatum Institute Foundation (2019).

Research variable

Dependent variable

This study applies tax compliance as the dependent variable and uses tax effort to proxy for tax compliance. Tax effort measures the extent to which actual tax revenue can achieve the tax potential that a country can achieve. According to Khwaja and Iyer (2014), tax effort can indicate a level of tax compliance because differences influence the level of tax effort in a country's level of tax compliance. The higher the tax compliance, the higher the tax effort achieved by the state because the state can achieve its tax potential. This research data uses tax effort data from Mawejje and Sebudde (2019) research by using tax effort as an indicator of tax compliance variable. The study calculates the potential and tax effort of countries worldwide based on the Government Revenue Dataset.

Independent variable

The independent variable of this research is tax complexity. The data regarding the tax complexity of this study refers to (Hoppe et al., 2017) so that the indicators for calculating the level of tax complexity use the indicators set by Hoppe et al. (2017). Tax complexity can be measured from two indicators: (1) Tax code complexity explains the complexity of various tax code regulations. (2) Tax framework complexity explains the complexity that exists in the tax system process. The value for tax complexity will be obtained from the average value of the two indicators.

Moderating Variables

This study adds social capital as a moderating variable. Social capital refers to the factors of an effectively functioning social group, including interpersonal relationships, shared identities, norms, trust, cooperation, and reciprocity that directly affect the country's prosperity (The Legatum Institute Foundation, 2019). Data regarding the moderating variable in this study refers to The Legatum Institute Foundation (2019). Social capital can be measured from five indicators, including interpersonal trust, personal and family relationships, institutional trust, social networks, and civic and social participants. The value of the five indicators will be calculated on average to produce a score for social capital.

Data Analysis Technique

This study uses the MRA analysis technique to measure the relationship between tax complexity and tax compliance and the relationship between social capital moderating variables on tax complexity and tax compliance. Moderate Regression Analysis test can analyze moderating variables in the research to be carried out. The analysis is related to strengthening or weakening the relationship between the independent and dependent variables. Thus, the formulation of this research is as follows:

$$\text{H1: } KP = \propto + \beta_1 km + \varepsilon$$

$$\text{H2: } KP = \propto + \beta_1 km + \beta_2 ms + \beta_3 km * ms + \varepsilon$$

Information:

KP : Tax Compliance
km : Tax Complexity
ms : Capital Social
ε : Error

Based on the test results, the hypothesis will be accepted if the tax compliance value and the calculated tax complexity value show a significance level of less than 0.05. The first hypothesis will be accepted if the significance level is less than 0.05 with a negative regression coefficient. While the second hypothesis will be accepted if the significance level is less than 0.05 and the regression coefficient value of the interaction variable shows a lower effect than the regression coefficient of the independent variable. The regression coefficient comparison method for interpreting moderating variables has also been used in several previous studies, one of which is Suyoto and Dwimulyani (2019).

RESULT AND DISCUSSION

Result

Data Collection Results

This study uses all countries in the world in the research year (2020) as many as 195 countries. Based on the purposive sampling technique, a final sample of 84 countries was obtained with the following criteria:

Table 1. Sampling Results

Sample Criteria	Total
1. Countries in the world in the research year 2020	195
2. Countries not listed in Mawejje and Sebudde's (2019) study, Hoppe et al. (2017), and The Legatum Institute Foundation in 2015	(12)
3. Countries that do not have complete data	(99)
Final sample total	84

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Median	Average	St. Dev
Tax Compliance	0,05	0,96	0,46	0,4805	0,15814
Tax complexity	0,21	0,53	0,372	0,3763	0,06678
Capital social	36,40	78,70	52,050	53,1333	10,35764

Table 2 shows that the minimum value of 0.05 tax compliance comes from Saudi Arabia, and the maximum value of 0.96 comes from Norway. At the same time, the average tax compliance is 0.4805, which means that, in general, countries can generate actual taxes of 48.05% of the potential taxes that should be. The minimum tax complexity value of 0.21 comes from Mauritis, and the maximum value of 0.53 comes from Brazil. Meanwhile, the average tax complexity is 0.3763 (higher than the median), indicating that countries in the world generally have a high level of tax complexity. The minimum value of social capital, 36.40, comes from Egypt, and 78.70 comes from Norway. Meanwhile, the average social capital is 53.1333 (higher than the median), indicating that the countries in the world generally have a high level of social capital.

Hypothesis Model Test Results

Classic Assumption Test

The classical assumption tests applied in this study are normality, heteroscedasticity, multicollinearity, and autocorrelation tests. The normality test in this study used the Kolmogorov-Smirnov. It resulted in an unstandardized residual sig. in both research models, it is more significant than 0.05, meaning the data is usually distributed. The heteroscedasticity test in this study used the Park test and showed a significant value in both research models greater than 0.05. It shows that there is no symptom of heteroscedasticity. The results of the multicollinearity test on both research models showed a tolerance value of more than 0.1 and a Variance Inflation Factor (VIF) value of less than 10, which means that there is no multicollinearity between variables. This study has passed the autocorrelation test because the DW value of both research models is more significant than dU (1.6993) and smaller than 4-dU (2.3307)

Table 3. Moderate Regression Analysis Test

Model	Variable	R Square	Anova		*Coefficient*		
			F	Sig.	B	t	Sig.
1	KM	0,017	1,430	0,235	-0,374	-1,196	0,235
2	KM				-0,058	-1,746	0,085
	MS	0,225	7,627	0,000	-0,395	-2,234	0,028
	KM*MS				3,035	2,146	0,035

Based on the output results in table 3, the significance value of the KM variable in research model 1 is more significant than alpha (0.235 > 0.05) with a regression coefficient of -0.374. It shows that tax complexity has no significant effect on tax compliance. The significance value of the KM*MS variable in research model 2 is smaller than alpha (0.035 <0.05), this indicates that social capital affects the relationship between tax complexity and tax compliance. The KM*MS interaction variable of 3.035 shows a positive effect of the KM*MS interaction on tax compliance. Thus it can be concluded that social capital weakens the negative effect of tax complexity on tax compliance.

Discussion

Effect of Tax Complexity on Tax Compliance

The first hypothesis in this study is that tax complexity has a negative effect on tax compliance. This hypothesis is rejected because the significance value is more than 0.05, indicating an insignificant effect of tax complexity on tax compliance. It is likely due to the existence of law enforcement in these countries. The existence of tax law enforcement for taxpayers is an incentive to comply with tax obligations (Putra & Tjaraka, 2020). When tax complexity is high but strong tax law enforcement, taxpayers will remain obedient in paying taxes. In addition, tax consultant services can facilitate the resolution of taxpayer problems (Mangoting, Widuri, & Eoh, 2019). Tax consultants have competent competence in resolving complex tax provisions that can interfere with tax compliance performance. Therefore, tax complexity does not affect the level of tax compliance in a country. The first hypothesis in this study is in line with previous research conducted by Abdul & Mcfie (2020), which stated that tax complexity did not affect tax compliance. In this study, it is explained that most taxpayers use the

services of a tax consultant to fulfill their obligations in complying with the law and tax law. Thus, even though tax complexity is high, tax law enforcement is vital, taxpayers will still pay taxes obediently.

Effect of Tax Complexity on Tax Compliance Moderated by Social Capital

Based on the results of the study, the hypothesis in this study that social capital weakens the negative effect of tax complexity on tax compliance is acceptable because the value of the regression coefficient of the KM*MS interaction variable is lower than the regression coefficient of the KM variable. People who have high social capital tend to have high social responsibility (Chircop et al., 2018). When someone has a high social responsibility, he will tend to obey taxes (Lanis & Richardson, 2012). In addition, this can be based on several elements of social capital, including institutional trust and personal and family relationships. Huda et al., (2018) explains that when people believe in the government, people will tend to obey taxes. The existence of subjective norms can also motivate individuals to perform a certain behavior (Putra & Osman, 2019). Furthermore, the level of family ties in the world is quite high, seen from the value of trust in the family of 80.7% and the value of family interests of 89.4% based on the 2017-2020 World Value Survey (Haerpfer et al., 2020). Therefore, when someone is obedient to pay taxes, it can motivate their families and the environment around them to comply with taxes. Thus, although tax regulations are relatively complex, if there is high social capital, people will tend to be tax compliant. The significance value of social capital in table 4.3 shows a value of less than 0.05, the same as when the variable is used as a moderator variable it will show a significant value. Thus it can be concluded that social capital is a quasi moderator/quasi moderator. So that in fact social capital can not only be a moderating variable, it can also be an independent variable that can affect tax compliance.

CONCLUSIONS AND SUGGESTIONS

This study found that tax complexity does not have a significant effect on tax compliance in a country. This study also found that when tax regulations are relatively complex but social capital is high, and people will tend to remain tax compliant. This study is in line with Abdul and Mcfie (2020) research that tax complexity does not significantly affect tax compliance. Research conducted by Chircop et al. (2018) stated that social capital has a negative effect on tax avoidance. It shows that the stronger a country's social capital, the people will remain obedient to taxes. This study contributes by finding that social capital weakens the negative effect of tax complexity on tax compliance. The results of this study are expected to be useful for governments in various countries as a consideration in making tax policies, especially tax compliance. The government is expected to focus on designing tax policies or socializing taxpayers to make people set an example to comply with taxes (taking advantage of solid social capital). It aims to make taxpayers more obedient in fulfilling their obligations to pay taxes. The limitations of this study are the use of tax compliance data, tax complexity, and social capital with different year sources, so there is a risk of bias due to differences in the impact of conditions in specific years. Future research is expected to use data on tax compliance, tax complexity, and social capital in the same year to minimize this bias

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