

# **INCREASING TAX COMPLIANCE THROUGH STRENGTHENING CAPACITY OF EDUCATION SECTOR FOR EXPORT ORIENTED SMES HANDICRAFT FIELD IN EAST JAVA INDONESIA**

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## **Abstract**

This study aims to identify the factors that may affect tax compliance from SME entrepreneurs. In addition, this study also aims to design a tax compliance model through tax education for SME entrepreneurs. The method of data analysis used in this study was done through qualitative and quantitative approaches. The object in this study is the SME entrepreneurs of handicraft field districts/cities in East Java. The results of this study lead to the conclusion that tax compliance can be built through tax fairness formed through the life of the entrepreneurs themselves. Then, tax fairness can be built through increasing the understanding about taxes for the SME entrepreneur. This understanding is dealing with the benefits associated with tax rates and tax penalties, tax type, tax administration, and the tax service. In improving the understanding of taxation, it is necessary to give education for the SME businesses primarily through socialization in the form of formal or informal. Based on the results of data analysis, it can be concluded that basically the SME entrepreneurs is able to understand their tax obligations when there is an aspect of fairness and tax benefits that can be received in real terms by SME entrepreneurs. The relevant suggestions are needed to do educational activities through dissemination of taxation and tax benefits for the continuity of SMEs entrepreneurs in East Java, Indonesia.

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**Keywords:** Tax Compliance, Tax Fairness, Taxation Education

## **Introduction**

The development of a country's economy can be seen from the extent of economic activity, the resulting output and the availability of job opportunities served in the country. As the growing population number of

people increasing, the demand for public goods provision increase as well. In compliance with the public good provision, at least the basic needs of the people can be met properly such as education, housing, health, clothing and food. Countries with high fiscal capacity capabilities will be able to have a greater ability to meet the basic needs of its people. Conversely, countries with low fiscal capacity will face difficulties in providing services for its community.

One important aspect of the country's finance is its potential revenue that can be extracted from various sources. Revenue which derived from the tax has an important role in order to finance the country's financial independence. With all tax systems and rules attached, it can be expected to increase country's revenue posture which in turn can increase the financial capacity of the country in financing the national development. It is the duty of the tax officials (tax authorities) to make efforts in systematic and dynamic money to encourage tax payers to be able to participate in the fulfillment of tax obligations. This is a form of public participation in meeting their awareness of tax compliance (tax compliance) in their life.

The size of country's tax revenues will be determined by the extent of tax compliance of its community. The greater the level of tax compliance, the greater the country's ability to raise funds from taxes. Historically, the theory of tax compliance was first proposed by Allingham and Sandmo (1972). She stated that tax compliance is a declared income of a person who is affected by several factors such as the amount of income, tax rates, an audit and penalty rate. Meanwhile, according to the Organization for Economic Cooperation and Development (2004) tax payer behavior can be caused by several factors, such as: industrial factors, business, and sociology, economic and psychological factors.

Tax compliance has a wide dimension on its explanation to increase country's revenue. Various studies have been conducted to analyze the factors that affect tax compliance. Research by Marti and Wanjohi (2010) gives the conclusion that the existence of a strong correlation between the behaviors of the perpetrator taxes with tax compliance of SME entrepreneur in Kenya. In this case, the behavior of the higher taxes will be able to push the level of tax compliance for SME entrepreneurs in Kenya. Another study by Saad (2012) conclude that Malaysian taxpayers have a perception of fairness of the income tax system is better than in the country of New Zealand. However, taxpayers in New Zealand are more obedient to their tax liability than in Malaysia. It happens due to the compliance behavior of individuals in the two countries followed by subjective norms. In this case, the tax fairness perception is strongly influenced by the tax knowledge and the complexity of the tax system. The tax justice may ultimately explain community's tax compliance.

Another study by Palil and Mustopha (2011) leads to the conclusion that the tax knowledge had a significant impact on tax compliance in meeting their tax obligations. In addition, also in this study also gives the conclusion that the probability to be audited, the perception of government spending, penalties, personal financial constraints, and the influence of referent groups can affect tax compliance in Malaysia. Another study by Atawodi and Ojeka (2012) conclude that high tax rates and complicated tax administration procedures are the main factors that cause SME entrepreneurs are not abiding tax ( non-compliance of tax) in Nigeria. While in terms of the impact of tax compliance, the research result by Simanjutak and Mukhlis (2012) gave the results of the importance of tax compliance in improving the welfare of the people of East Java. In this case the tax compliance is the indicators measured in the fulfillment of the obligations of taxpayers in the form of truth in the amount of income tax installment payments, the accuracy of tax returns reporting and payment of arrears prior to maturity.

Based on the above mentioned research results, it leads to the conclusion that tax is an instrument which belong to the country and have an important role in the increase in state revenue. The potential of tax can be extracted from a variety of sources of revenue for the central and local levels. However, efforts to increase the tax revenue in many countries have many obstacles. These constraints can be both internal factors and external factors. Among these factors, tax compliance is an important factor that can significantly affect tax revenue. The more obedient people in fulfilling their tax obligations, the higher the potential tax revenue that can be extracted from the object of the tax is in the economy of a country. Factors affecting tax compliance can be identified such as education, culture, justice, taxation, and administration bureaucracy.

In this case according to Das Gupta, et al (2004) low tax compliance is a serious problem in many developing countries. This leads to limited capacity of developing countries to raise revenues for development purposes. In this case, a lot of factors that affect the low level of tax compliance in developing countries, such as: corruption, high marginal tax rates, lack of availability of information and accounting systems, a large informal sector, weak regulatory systems, ambiguity in the tax law, the existence of non-adherent culture, and the ineffectiveness of tax administration.

According to Trivedi, et al (2003) assurance of tax compliance is the main goal which is very important for the government to finance public expenditure and development to achieve the welfare of the community. High awareness of the society will encourage more people to fulfill its obligation to register as a taxpayer, reporting and paying taxes properly as a form of national and country's responsibility.

The conditions of SMEs in Indonesia shows that based on the publication of the Coordinating Ministry of Economic Affairs of the Republic of Indonesia, the number of SMEs is 51.3 million units or 99.91 percent of all businesses in Indonesia. Total labor force reached 90.9 million workers, or equal to 97.1 percent of total employment in Indonesia. SME investment value reached Rp. 640.4 billion or 52.9 percent of the total investment. Generate income of Rp. 183.8 trillion or 20.2 % of Indonesia total foreign exchange (Suhanto, 2011).

The development of SME sector in East Java in 2012 showed the number of 1,483 units. They are divided into two: 283 businesses are exporting SMEs and 1,388 businesses are pioneer of exporting SME. The number of SMEs are scattered in the area of 38 districts / municipalities in East Java. Meanwhile, the distribution of the type of business includes the food and beverage business, handicrafts, industry, agriculture and manufacture. In this case, the East Java Provincial Government noted the contribution of Micro, Small and Medium Enterprises (SMEs), which amounted to 4.21 million units of the Gross Domestic Product reached 54 % in 2012. The GDP of East Java in 2011 reached Rp884, 14 trillions with a growth rate of 7.22%. It means that approximately Rp464 trillion, equivalent 54 % of the GDP structure of Java that were donated by the SME sector. The total of 4.21 million MSME units was about 3.5 millions, or approximately 83.33 % are micro and small enterprise sector (<http://www.bisnis.com/articles>).

Potential revenues from substantial tax from the SME sector provide an opportunity for the state to impose a tax on the SME sector. In this case, the Directorate-General (DG) Tax under the Regulation No. 46 Year 2013 to tax (income tax) as a final average of 1% to SMEs with a turnover of \$ 0 to \$ 4.8 billion per year by July 1, 2013. But the plan caused controversy among the public, because it is contrary to the spirit of supporting the growth of micro and small enterprises as stipulated in Law no. 20 Year 2008 on SMEs. Even, the Ministry of Cooperatives and Small and Medium Enterprises (SMEs) asks for time limitation who requested restriction if the taxable turnover exceeding USD 200 million. Yet, if the turnover is below Rp 200 million, the Ministry of Cooperatives and SMEs concern it will turn off the small businessman.

Based on the polemic that occurs in taxation in the MSME sector, basically there are two things that can be identified; fairness and sustainability factors. Fairness factor refers to the distribution of tax benefits received by the community and which are received by the tax burden to the taxpayers. In this case, the tax in the SME sector of the liabilities represents essentially the same for all communities in meeting their tax obligations. So,

the existence of the SME tax fairness in taxation factors can be applied in the tax system in Indonesia.

However, the imposition of a tax on SME sector has the potential to undermine this effort. It can happen because for some people still think that the tax will increase the spending cost for their business. This will certainly have an impact on price increases on a variety of produced goods. This increased price can be feared to reduce the competitiveness of the goods that can reduce turnover.

Various differences of opinion that exist regarding the application of the tax provisions in the SME sector shows that there is still disagreement in the fulfillment of tax obligations for the SME sector. In this case, the level of tax compliance SME entrepreneurs can provide a big influence in increasing state tax revenues. Based on a theoretical perspective, it suggests that tax compliance can be built upon economic factors, educational factors and psychological factors. It provides evidence that the level of tax compliance can not be left alone in the business activities of the taxpayer. Sanctions and penalties from the tax authorities related to tax noncompliance is expected to provide an increased awareness of the taxpayer's tax liability accordingly. Through these research activities, it can be carried out a process of exploration of the behavior of people with a qualitative and quantitative approach. Not only this perspective which can be built in this study but also the independence of tax revenue which can be supported by tax revenue derived from the actors of the real economy which is ran independently and autonomously by the community. This innovation is tried to be developed in this research to provide greater benefits for the stakeholders in improving the welfare of the society.

Based on the above background exposure, the formulations of the problem are:

a. What factors which can affect the formation of fairness perceptions and tax compliance from SME entrepreneurs of export-oriented handicraft on their tax obligations.

b. How to design educational role of taxation in improving tax compliance for SME entrepreneur of export-oriented handicraft sector.

## **Research Methods**

This research is an exploratory study. According to Babbie (1995) exploratory study aims to explore a new phenomenon that interests the researchers to uncover it. The object in in this study is the SME entrepreneurs in the field of handicrafts at District / Municipality in East Java Province. The number of samples taken from a population is 61 respondents (5 % of the population). Data collection methods used includes questionnaires, in-depth questions, field observations and document analysis.

In an interview process, it was conducted by using thematic analysis approach, which is a method that is done by identifying, analyzing and reporting patterns in the data. In these methods, there are 6 stages (Braun and Clarke, 2006), namely; familiarisation the data, the initial code generation, Search for themes, Review of themes, and Defining and naming themes, producing the report. Questionnaires were prepared by using structured techniques questioned in the form of multiple choice questions by using a likert scale, the answer choices given 4 for strongly agree, 3 for agree, 2 for disagree and 2 for strongly disagree.

Meanwhile, the data analysis method used is based on quantitative and qualitative approaches. Quantitative approach was done by analyzing the data and describes it into the dissertation table with the relevant explanations. Then, the qualitative approach is done through the process of data reduction, data presentation, and drawing conclusions/verification. According to Chariri (2009), qualitative research is research that is conducted in specific settings that exist in real life (nature) in order to investigate and understand the phenomenon: what happened, why it happened and how it happened. Furthermore, qualitative analysis used in this study is analyzed through fenomenologi, which illustrates the meaning of some of the observed objects. In addition, it is also used to illustrate what becomes the experience of the participant into an interesting phenomenon to be analyzed (Creswell, 2007:58).

## Results and Discussion

### Factors That May Affect Formation of Fairness for SME Entrepreneurs on Taxation

Tax fairness is an important factor that can affect the level of tax compliance of the community. In this case, many factors can affect the perceived fairness of taxation by the taxpayer. Countries with high levels of tax revenue would have a broader space to create tax fairness for its people. As a reflection of fairness perception of the SME entrepreneur in East Java, it can be seen in the following table:

**Table 1. Factors Forming Tax Fairness**

Indicator	Score	Note
1	3,15	Handling of tax leakage problem seriously and continuously
2	3,10	Imposition of tax rates by showing public fairness aspects
3	3,02	Fairness obtained by the community in relation to the tax burden
4	3,02	Tax benefit of society as a fair life

Source: Processed Primary data

Based on the above table, it can be explained that the perception of taxpayer fairness of SME entrepreneurs in East Java in handicrafts sector that can be shaped by four main indicators. Among the four indicators, it shows

that the sense of justice of the taxpayer can be built through handling of the leakage issue seriously and continuously by law enforcement. This is important because the tax already paid by the taxpayer that is basically for the community. So, when crimes occur in the tax sector, it must be addressed carefully and continuously

The findings in this study support what has been done by Richardson (2006) in his study in Hong Kong and Saad (2011) in Malaysia and New Zealand. Both the results of these studies emphasize the importance of creating a sense of justice for the people in the fulfillment of tax obligations. In relation to the behavior of entrepreneurs in the SME sector, they showed a strong desire to get tax fairness. The results of this study are also relevant to the findings by Siahaan (2012) in his research that gives conclusions and positive significant influence directly and not from tax fairness on voluntary compliance individual taxpayer in the service sector in Surabaya East Java, Indonesia.

### **Factors That May Affect Tax Compliance of SME Entrepreneurs on Tax**

Tax compliance reflects the willingness of taxpayers to meet their tax obligations. In this case, the size of the community tax compliance will determine the size of the tax revenue that can be collected by the state. The larger the community of tax compliance, then it will be able to facilitate the achievement of higher tax revenue. However, it is not easy to improve tax compliance community. Especially when the taxes are imposed so high that burdens the people themselves. The size of the tax compliance rate among the society is different. The size of the proficiency level of tax compliance will be determined by factors existing main data people's lives. As an illustration, the factors that influence taxpayer compliance entrepreneurs in the MSME sector handicraft districts / cities in East Java can be seen in the following table:

**Table 2. Factors Affecting Tax Compliance**

<b>Indicator</b>	<b>Score</b>	<b>Note</b>
1	3,18	Tax compliance is determined by the willingness of tax payers to pay tax
2	3,13	Tax compliance is determined by the willingness of tax payers to show tax SPT punctually
3	3,13	Tax compliance is determined by the willingness of tax payers to fulfil tax document
4	3,08	Tax compliance is determined by the willingness of tax payers to pay tax punctually
5	3,05	Tax compliance is determined by the willingness of tax payers to pay tax penalty

Source: Processed Primary Data

Based on the above table, it can be explained that tax compliance can be determined by various factors. The main factors are the amount of the tax

burden that is still a burden for the taxpayers to pay principal in meeting their tax obligations. It is due to the fact that the principal tax will directly affect the amount of spending of taxpayer in his activities. The higher cost of goods tax, the greater the potential for additional expenses incurred by the taxpayer. The principal burden of the tax will be reflected on the magnitude of the tax rate imposed on any object involving taxpayer tax.

The result findings of this study are consistent with the findings of Atawodi and Ojeka (2012) in his research on tax compliance for SME entrepreneurs in North Central Nigeria. This study leads to the conclusion that high tax rates are the main factors that can led to the SME entrepreneurs not to obey the tax. With higher tax rates, of course, it can affect the amount of expenses to be borne by the business. These conditions will be worse when the condition of existing businesses has trouble resulting products have less competitive in the market.

### **How Taxation Education's Role in Improving Tax Compliance for SME Entrepreneurs on Tax**

In an effort to increase tax compliance of the society, education role becomes a very important role. In this case, study can serve as a knowledge transfer from the government to the people associated with taxation. It is important to avoid asymetris information continuously, so as to interfere with the government's efforts to increase tax revenues.

The formation of education character in taxation can be explained by the key indicators in the taxation education variable. As an illustration of these factors, it can be seen in the SME Entrepreneurs in the district / town in East Java.

**Table 3. Factors Affecting Taxation Education Formation**

<b>Indicator</b>	<b>Score</b>	<b>Notes</b>
1	3,25	Tax socialization from tax officer onto the location tax object
2	3,17	Tax socialization informally through activity which involve society's culture
3	3,15	Tax socialization formaly by inserting tax material in education curriculum
4	3,08	Tax socialization informaly through social activity of the community
5	2,98	Tax socialization formaly through seminar dan scientific discussion
6	2,90	Tax socialization informaly through sport event with the society, tax officers, and local goverment
7	2,70	Tax socialization informaly through religion activity

Source: Processed Primary Data

Based on the above table, it can be explained that the role of education can be realized in the form of taxes for public dissemination. The material of tax socialization is dealing with various aspects related to taxes. In this study, the respondents are SME entrepreneurs in the handicraft field



districts / cities in East Java to provide input related to the field of socialization. According to the respondents, socialization will be effective when it is done by the tax officers the proper object in the public sector of economic activity. This activity is done in order to conduct direct communication between the SME entrepreneurs as taxpayer with tax collectors authorities. The results also provide important conclusion that taxes need to pay attention to the socialization of cultural aspects of society. It is important because culture is an important factor that can increase the public interest in carrying out economic activities.

In addition, this research finding can reinforce the importance of education in improving tax compliance in the community. The results of this study agree with the findings and Mustopha Palil (2011) which conclude that the tax knowledge can have a significant impact on tax compliance in meeting their tax obligations. Similarly, the results of research conducted by Richardson (2006), also gives the results of the importance of attention to the cultural aspects of the implementation of the tax in Hong Kong. Cultural aspects of the community in community activities can be built through education tax packed in taxes socialization.

In another perspective, it can also be explained that tax compliance is reflecting the willingness of taxpayers to meet their tax obligations. The size of tax compliance will be determined by how much public awareness of understanding of the tax obligation for citizens. Various problems encountered in the handling and management of national tax provides a serious impact in connection with efforts to improve tax compliance and state tax revenue. It becomes ironic because in the middle of the government's effort to increase acceptance sourced from taxes, tax management sector showed the state of being inefficient. This condition occurs when serious problems arise in the management of taxes such as the issue of corruption and tax avoidance behavior and taxa evasion from the tax payers.

Enforcement of Regulation No. 46 Year 2013 on SME tax is 1% of turnover and also raises a hope for the burden for the society. Raised hope for the implementation of the SME entrepreneurs will increase the state income from tax sector. On the other hand, it also raises another issue in relation to the response and attitude of the people, especially SME entrepreneurs in paying their tax.

The results of field observations provide results in which, essentially the SME entrepreneurs have no objections to the tax liability of 1 % of turnover. However, the policy should be coupled with the dissemination and implementation of the principles of good governance in tax administration. It is as stated by the SME entrepreneurs at Blitar City in East Java. The statement is as follows: " .... We are big without government interference in

the development of this business. The new government starts to do action when SME has developed by recording it that I think it's just a formality. In these conditions, it would be very burdensome taxation when there is 1 % off from the the turnover. Basically we do not mind to pay taxes, but the government also must be fair related to the tax management. We are little people are already paying taxes like hell, but the people at the upper government do corruption of this state tax money. It is not fair. If you want to apply the tax, the government should take care of the existing SMEs due to the various developments of SMEs in different areas. If I am required to pay maximal taxes of my SMEs, I thought I could not afford it and I prefer to close my business. With this condition, I don't think the government and the tax authorities want to bear the life of my employees. So, I think the provision is coercive and acts only in the perspective of penalties and sanctions alone. It would be better if they also pay attention to other aspects of the business development of SMEs in the region.... ".

The same opinion was also expressed by the SME businessman at Malang City as follows: .... "Yes I agree if there is 1 % of the turnover tax for my business because it has become the government's decision. But later, I expect something in return from them. The expectation of implementing 1 % tax could encourage such sanitair efforts business like mine.... ". Another opinion raised by SME entrepreneur at the Bangkalan City in East Java with the following statement: "...We do not agree, as long as we do not get help from government business. Tax levied must be damning us for batik handicraft entrepreneurs in Madura. Moreover, competition is getting tougher now..We have to be very clever to set the price and costs. The existence of the SME tax could actually increase the costs of our business that could ultimately affect the price and continuity of our business....."

Based on the third statement, it shows an objection from the SME entrepreneurs in the handicraft field districts / cities in East Java, the application of the 1 % tax. This is because they have already felt burdened with many other production costs, so that taxation can cause weakness competitiveness of products produced by the SME entrepreneurs. Beside that, the development of their business is done independently, so it will be strange when taxation is implemented in their business. In this context, basically SME businessmen insist on establishment of justice in the imposition of taxes to the community.

However, it should also be understood that the disagreement of SME entrepreneurs on 1 % tax of their turnover due to a lack of information relating to government regulation. As a result, there is a unilateral perception of businessmen from of each party to survive on his decision. In this case, the results of interviews conducted at the District of Lumajang in East Java are: "...we disagree because that 1 % small in value should do something

good for the people who pay taxes. So far, there is no real help from the government to help us. Instead, there is an expectation to be hosted when they want to get to know ask about the craft. Therefore, I think the government should fix the tax officer morale so that people believe that the money paid as tax could be use for something good. Additionally, it also needs to be informed and given the knowledge of tax use. The important thing is to help crafter in the form of real effort and not just a discourse alone. After that we trust to pay taxes..".

Another opinion expressed by SME entrepreneur in Malang City in East Java related to taxes for public dissemination, "... the regulation for 1 % taxation is perplexing us as businessmen. So far, we have to pay taxes in accordance with Taxable Person. Well, if there is another 1% tax, this would give double tax and can decrease our profits. I think the government should be wise in applying the tax. There must be a profound socialization and observations related to the implementation of the tax, therefore it will not cause anxiety for SME entrepreneurs .... "

Similarly, the opinion of SME entrepreneur at Kediri City in East Java : " Wow .... I do not know yet about this rule. But if it is true about the existence of 1 % tax, I disagree. This is because the turnover is small, it will be increasingly burdensome for us... "Another opinion expressed by SME entrepreneur who is batik crafter at Pamekasan District in East Java : ".... Wow, it is the turnover can be measured because it can not be predicted. In this case, I do not know what the actual function of tax itself. As far as I know, there is a benefit for my business continuity, such as to improve security or so on. I think the government needs to do tax socialization through activities in the community.... "

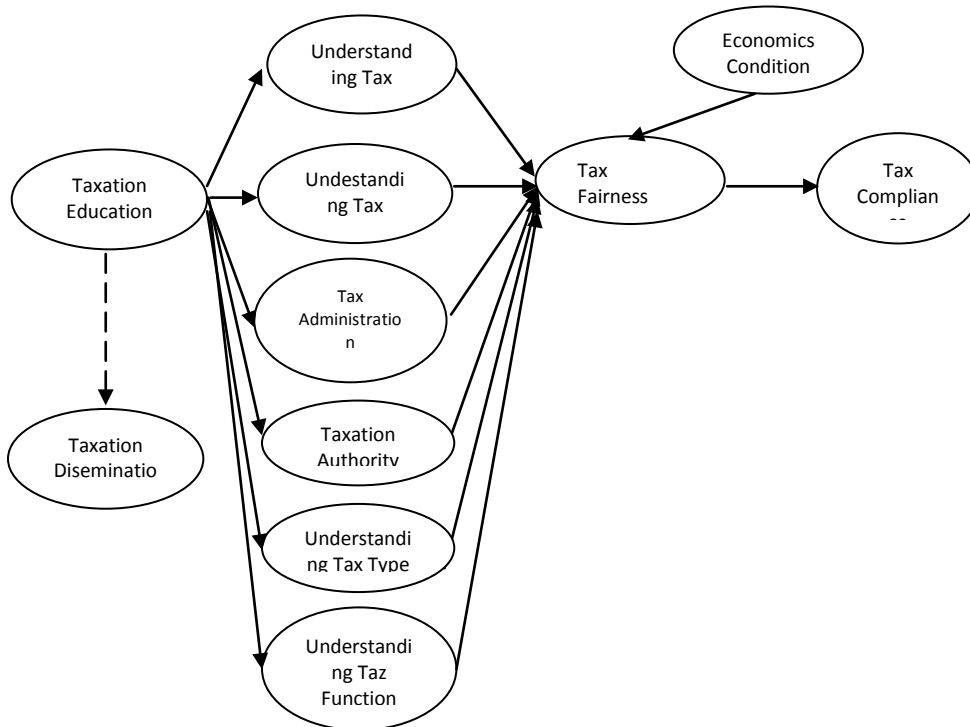
Based on those four opinions above, it is indicated that there are essential need for the community to have a clear and complete information relating to the taxation of SMEs which is said to be 1 % of their turnover. Such information is a part of the formation of public opinion that is formed from the fact that can lead to a positive understanding of the SME taxpayers. Such information may be communicated through the dissemination activities carried out properly so it can scrape out the existence of asymetris information between the government and the SME entrepreneurs in East Java.

Tax socialization activities are an important factor in order to increase public compliance. The socialization may involve taxes benefit, the amount of the tax rate, the tax payment mechanisms, and delivery mechanisms of Tax Announcement Letter and classification of different types of taxes. The dissemination activities are part of the taxation education that can be held for the taxpayer of SME entrepreneurs. As the tax

knowledge higher, it will be able to facilitate the achievement of compliance and tax revenues derived from the tax levied by the nation.

**The Design Model of Tax Compliance through Strengthening Tax Education**

Based on the above results, it can be explained that the level of taxation has an important role in improving tax compliance. The results of the study by Palil and Mustopha (2011) emphasize the importance of tax knowledge in improving tax compliance community. The tax knowledge can be constructed through taxation education both through formal and informal. The tax education also can be packed in the form of socialization for SME entrepreneurs associated with the implementation of Government Regulation No. 46 of 2013 concerning the taxation of SMEs that is 1 % of gross turnover. In addition, based on inputs from the respondents, it can be identified by various taxation materials / topics that is needed by the SME entrepreneurs in the implementation of their tax obligations.



**Figure 1: The Model Desain of Tax Compliance Growth through Taxation Education**

Taxation education can be strengthened through taxation socialization for SME handicraft businessmen sector in East Java. The dissemination activities can be realized in the form of tax dissemination by

the tax authorities directly to SME businessmen sector. The contents of this socialization is dealing with the understanding of tax rates, tax penalties, tax administration, service tax authorities, various types of taxes and understanding of the tax benefits. If the taxpayers have better knowledge about taxation, it will give better implications on tax fairness felt. In this case, according to the results of an empirical study by Saad (2012), he stated that knowledge of taxation can affect the perceived fairness of tax by the taxpayer. The tax fairness factors can ultimately affect the size of the degree / level of compliance of the taxpayers. Therefore, it needs a strategy to accelerate the achievement of the taxpayer's tax fairness through educational activities built for the society. In this case, the tax compliance is basically a behavior that does not appear by itself. Yet, it is an actualization of the values held by the taxpayer.

### **Conclusion**

Based on the explanations, we have conclusions generated in this study are:

a. Factors that may affect the formation of fairness perceptions for SME entrepreneurs sector on tax include the seriousness in handling taxes leaking, tax rates shows the community fairness, tax burden which can fulfil social fairness and tax benefits for the community.

b Factors that may affect tax compliance for SME entrepreneurs sector on tax are: willingness of taxpayers to pay the primary, punctuality in delivering tax returns, completeness of tax documents, punctuality in paying tax payments and the willingness to pay a tax penalty.

c. The role of education in improving tax compliance for SME entrepreneurs sector can be realized in the form of tax socialization both formally and informally. Socialization can be done both by providing direct counseling to the object of taxation and through other activities involving the wider community.

d. Design model of tax compliance for SME businesses sector who focusing on handicraft field for export in East Java can be built by strengthening the educational capacity of taxation, the establishment of public sense of fairness and environmental conditions evolution.

Meanwhile, the suggestions which are given related to the research conclusions are:

a. Tax Service Office should conduct tax socialization for the SME businessmen handicraft sector in district / town in East Java by doing mapping based on the location, scale of operations and its business. This mapping is intended to facilitate the organization of activities that achieve the objectives of the activity properly. the socialization of this tax can be

delivered through various materials primarily related to the tax benefits, tax type, tax administration and tax reporting.

b. State University of Malang as a learning institution with the motto as a *Learning University* is able to develop instructional materials for taxation socialization. In addition, it can also be developed a taxes learning syllabus in relation to taxes socialization in order to increase taxpayer compliance. Syllabus / teaching materials that can be used as material in delivering the lectures in college. Furthermore, through community service activities, State University of Malang could cooperate with the Regional Office of Directorate General of Taxes in conducting Field Work Experience program as an alternative for taxation and be placed at village / rural area.

c. The local government, in this case is facilitated by the Department of Cooperatives and SMEs in the district / town in East Java should provide a systematic and sustainable assistance in promoting tax compliance for the in the SME businesses sector. This assistance can be carried out through coordinatiing with the existing community of SME groups in East Java

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