

## **Innovation Synergy, Social Capital, And Society Participation In Creating Taxpayer Compliance In Indonesia**

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### **Abstract**

*The issue of tax compliance is significant because if taxpayers do not comply, it can lead to actions for tax avoidance, evasion and disregard will ultimately hurt the state, specifically the absence of income tax revenues from taxpayers who should comply and fulfill their duties as upstanding citizens. This research is quantitative and descriptive. Quantitative analysis uses empirical investigations that gather, examine, and present data in numerical form rather than narrative form. The population in this study is the Indonesian people, then, the sample will be determined using Purposive sampling and the requirements for working or paying taxes in Indonesia. A questionnaire served as the research instrument. which was distributed via Google form and collected 451 responses according to criteria from 573 respondents' answers. Questionnaire data processing uses a partial least squares approach. Primary data was obtained from distributing questionnaires. Reliability testing was carried out to determine the consistency of respondents' answers from time to time, as well as validity testing to determine whether the questionnaire was valid. In Indonesia, the reliability and validity of respondent response data were tested showed that all question items were declared reliable and valid. In this study, social capital and innovation have a direct effect on taxpayer compliance, and social capital and society participation have a direct relationship effect on innovation. Innovation mediates social capital and society participation.*

**Keywords** : Social Capital, Taxpayer Compliance, Society Participation, Innovation

### **INTRODUCTION**

Taxation is the most significant source of state revenue compared to other income sectors, such as oil and gas and non-oil and gas. The success of a government in collecting taxes from its inhabitants would undoubtedly enhance the country's financial stability (Inasius et al. 2020).

The issue of tax compliance is significant because if the taxpayer does not comply, it can lead to actions for tax avoidance, avoidance and negligence, which would eventually hurt the state, notably a lack of income tax revenues from taxpayers who should comply and carry out their duty as decent citizens (Alstadsæter et al. 2022; Kemme, Parikh, and Steigner 2020; Mocanu, Constantin, and Răileanu 2021; Oats and Tuck 2019). Recent tax cases in Indonesia have made taxpayers nervous about paying taxes. The Directorate General of Taxes' annual report data shows that the realization of public or Annual tax return compliance by taxpayers and paying taxes throughout the 2012-2022 period has been fluctuating so that it can be said that it has not been optimal, this can be seen in Figure 1.

The issue of taxpayer compliance is essential all across the world, both in developed and developing nations, because failure to comply leads to a desire to take action to avoid penalties, circumvent, and neglect taxes. Achieving current compliance

levels is an issue of concern to policymakers in nations that are both developed and developing (Ariyanto 2020; Inasius et al. 2020; Li et al. 2023).

Taxpayer compliance focuses on the morals and ethics of taxpayers, which are psychological elements influencing taxpayers' compliance with their tax responsibilities (Kemme et al. 2020). Therefore, it is necessary to apply social capital in services at the Directorate General of Taxes. Social capital can help tax agencies develop service innovations to improve administration quality and public trust. This aligns with research conducted by (Clemens and Veuger 2020) which claims that faith in the government influences tax compliance.

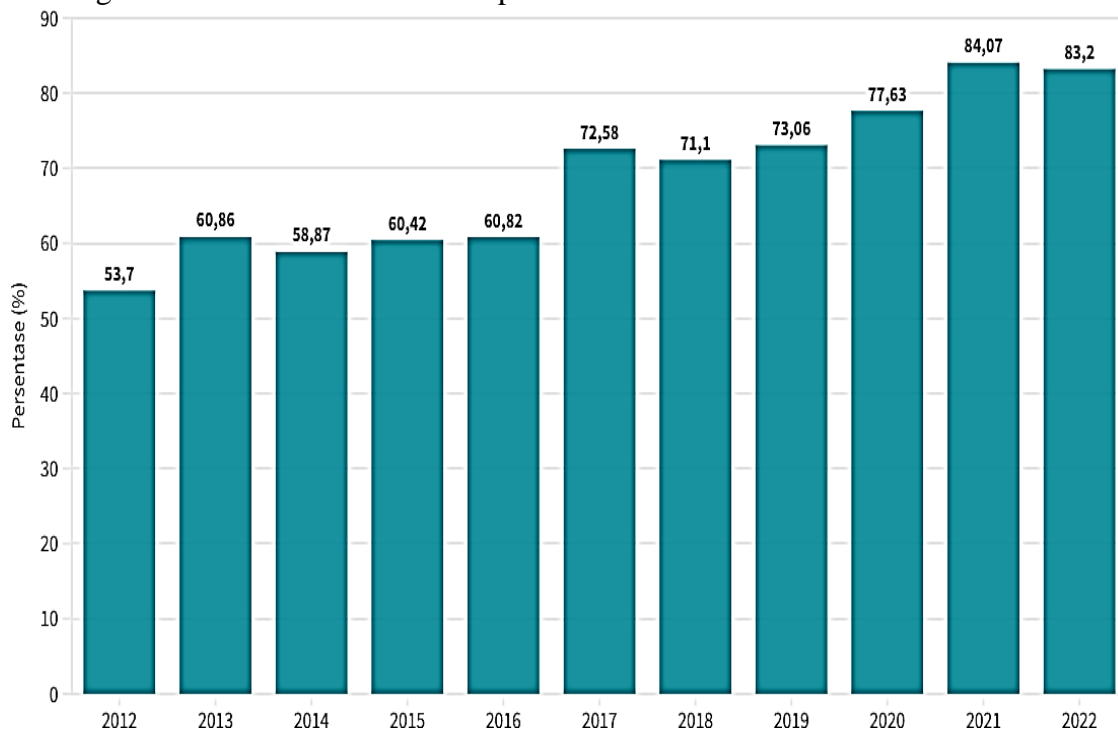


Figure 1. Tax SPT Reporting Compliance Ratio (2012-2022)

Source: Director General of Taxes

Besides social capital, several factors can influence taxpayer compliance, including society participation and innovation. Society participation, which is public awareness or taxpayer understanding of the purpose of taxes as state finance is required (Casal et al. 2016).

In contrast to research conducted by (Mianti and Budiwitjaksono 2021) which found that tax knowledge has little influence on individual taxpayer compliance, which may be mitigated by taxpayer awareness. It is suggested that they develop their research using other variables to increase taxpayer compliance through the newly discovered variables. Therefore, researchers use variables that previous researchers have never used, such as social capital, society participation, and innovation, to create taxpayer compliance.

Simultaneously used, two theories in a model, namely the theory of social capital and Schumpeter's theory. A small study examines economic growth with the latest developments because economic development in Indonesia has always focused on

development-related taxes.

Based on the background and a research void described above, the researcher is interested in conducting a research entitled "Innovation Synergy, Social Capital and Society Participation in Creating Taxpayer Compliance".

### **LITERATURE REVIEW**

Schumpeter's theory considers capital accumulation important in determining the expansion of a country's economy. But Schumpeter also emphasized the role of entrepreneurs and society in carrying out every innovation to increase productivity (Schumpeter and Swedberg 2018).

Theoretically, this study is also assisted by a conceptual framework in habitus theory. This theory explains a set of dispositions that live and survive from one situation to another. The figure who initiated this theory was Pierre Bourdieu. He stated that in the habitus, many desires, motivations, knowledge, skills, routines, and strategies direct human life. This theory can produce various jobs and differentiate the forms of work and products that have been produced (Bourdieu 2018).

The degree to which an invention meets the values is defined as compatibility, past experiences, and needs of recipients (Adzobu, Okyere, and Banji 2021). According to Putra et al. (2020), innovations not aligned with values or norms that recipients believe will not be accepted as quickly as innovations following existing societal norms. Complexity is how difficult it is for recipients to understand and use the innovation. Innovations that are easy for recipients to understand and use will spread quickly, while those that are difficult for recipients to understand or use will spread slowly (Greve 2021).

According to (Manouchehri and Burns 2021), that participation is all members of a country's community who having a say in forming and making decisions directly or through organizations that represent the public interest. It is also a right for the community to participate in decision-making at all phases of development, beginning with planning, executing, monitoring, and maintaining the original environment (Gonzales Tovar et al. 2021)

Other studies also support (Prno, Pickard, and Kaiyogana 2021) and (Zarei et al. 2021) concluded that society participation is the involvement of all community members in the development and implementation of a program or policy that has the capacity to help and benefit the community itself.

Based on this description, hypotheses one, two, and three are as follows:

H<sub>1</sub> : There is a direct influence of social capital on innovation.

H<sub>2</sub> : There is a direct influence of society participation on innovation.

H<sub>3</sub> : There is a direct influence of social capital on taxpayer compliance.

The taxpayer or public compliance in paying taxes is important for the sustainability of nation-building in our country, Indonesia, because with people paying taxes obediently, the development will be carried out correctly. This leads to the fourth theory, which is as follows:

H<sub>4</sub> : There is a direct influence of public participation on taxpayer compliance.

Innovation in regional development and empowerment is an effort to increase society participation in advancing regional development and improving people's welfare (Skjølsvold and Coenen 2021). The power of creativity must be based on up-to-date thinking, new ideas and differences from existing products (Manzini, 2014).

Creativity is developing new ideas and finding new ways to approach problems and opportunities. In contrast, the use of creative solutions to challenges and opportunities to improve or enrich people's lives is called innovation (Konno and Schillaci 2021). In line with studies (Harms et al. 2021), creativity is a feature of always looking for new ways, and innovation is a feature of implementing creative solutions. Creativity but not innovation is wasted because ideas are just thoughts without real action (Sehnem et al. 2022).

Judging from the assessment text and research objectives, the presumption can be defined in terms of hypotheses five, six and seven:

H<sub>5</sub> : There is a role of mediating innovation on the effect of social capital on taxpayer compliance.

H<sub>6</sub> : There is a direct effect of innovation on taxpayer compliance.

H<sub>7</sub> : There is a role of mediating innovation in the influence of society participation on taxpayer compliance.

Figure 2 shows the applied system of this review:

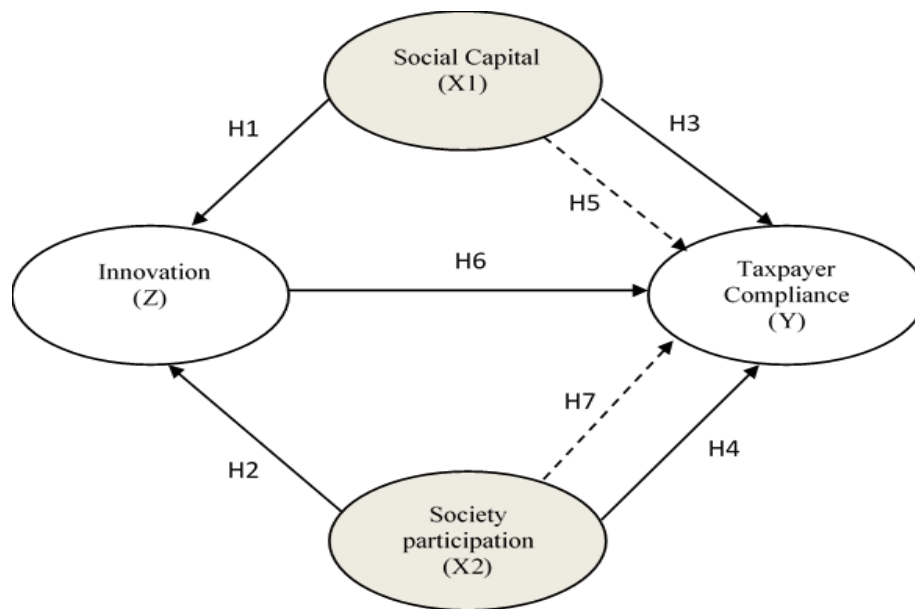


Figure 2. Conceptual Framework

Source: Data Processed (2023)

## RESEARCH METHODOLOGY

This research is quantitative and descriptive. Quantitative research is research that uses empirical studies to gather, analyze, and present numerical data, not narrative form (Alisyahbana et al. 2020; Bloomfield, J., & Fisher 2019). While descriptive research is

research to describe a research result through observing (Atmowardoyo 2018; Kelley-Quon 2018; Sahin 2021).

The population in this study is the Indonesian people, then to determine the sample using purposive sampling in Indonesia with the conditions of having a job or being a taxpayer. The research instrument was in the form of a questionnaire which was distributed via Google form and collected 251 responses according to criteria from 363 respondents' answers. The sort of questionnaire employed was a closure questionnaire, in which the responses were supplied, in this case using a Likert scale ranging from 1 to 5, with 1 being strongly disagreed and 5 being strongly agree.

Questionnaire data processing employs a partial least squares technique, which evaluates the value of route modeling based on the link between latent variables in general and may handle a wide range of data scales with no need for normal assumptions (Baah, C., Acquah, I.S.K. and Ofori 2022; Hair et al. 2017; Talukdar, Hazarika, and Gan 2018). The statistical software used is Smart PLS version 3.0.

**Table 1** Items for the Survey and References

Variabel	Questionnaire Items	References
Social Capital (X1)	Trust. Norms. Networks.	(Putnam 1995) and (Spottswood and Wohn 2020)
Society Participation (X2)	Forum To Accommodate Society Participation. The Ability Of The Society To Be Involved In The Process. Access For The Public To Express Opinions In Decision-Making Process.	(Kalinowski 2020) and (Prasetyo and Arif 2021)
Innovation (Z)	<b>Input indicators:</b> Measure the resources available in the innovation process. <b>Process indicator:</b> Describes the organizational system and management of the innovation process system. <b>Output indicators:</b> Determine the results of organizational innovation. This indicator represents the short-term success realized from innovative activities.	(Howells 2006) and (Shearmur and Doloreux 2019)
Taxpayer Compliance (Y)	Does the taxpayer file on time? Does the taxpayer report his/her tax liability accurately? Does the taxpayer pay the full amount he/she reported as tax liability?	(Brown and Mazur 2003) and (Mukhlis and Kristen Maranatha 2016)

Source: Data Processed (2023)

**RESULTS**

**Validity and Reliability Test**

Structural validity indicates how well the use of the measure fits with the theory

used to define the structure. To ensure the structure's authenticity and dependability, it is necessary to look at the results of the SEM algorithm data processing with PLS software, as shown in Table 2.

The reliability of a construct shows the consistency of the measurement results of a concept or variable (Rolnick et al. 2019). Reliability can be measured by looking at the Cronbach's alpha value and the aggregate reliability value.

Cronbach's alpha measures the lower limit of the reliability value of a building, and composite reliability measures the actual reliability value of a building. The role of the value of Cronbach's Alpha, rho\_A, or Composite Confidence must be greater than 0.7, but if the results obtained are closer to 0.7 (such as 0.6) and AVE is more significant than 0.5, this is still acceptable in exploratory studies (Hair et al. 2017). Based on the results of data processing.

**Table 2.** Loading Factor

	Original Sample	Sample Mean	Standard Error	t-Statistic	P Values
X1.1 <- X1	0,7366	0,7344	0,0335	21,9788	0,0000
X1.2 <- X1	0,9066	0,9066	0,0089	101,7023	0,0000
X1.3 <- X1	0,8305	0,8295	0,0207	40,1449	0,0000
X2.1 <- X2	0,9113	0,9112	0,0116	78,4827	0,0000
X2.2 <- X2	0,9138	0,9143	0,0128	71,6385	0,0000
X2.3 <- X2	0,8942	0,8949	0,0141	63,5937	0,0000
Y1 <- Y	0,7462	0,7463	0,0298	25,0640	0,0000
Y2 <- Y	0,8594	0,8598	0,0152	56,5244	0,0000
Y3 <- Y	0,8853	0,8850	0,0128	69,4324	0,0000
Z1 <- Z	0,8427	0,8431	0,0189	44,6334	0,0000
Z2 <- Z	0,8945	0,8948	0,0116	76,9874	0,0000
Z3 <- Z	0,7992	0,7981	0,0228	35,0770	0,0000

Source: Data Processed (2023)

Cronbach's alpha assesses the lower limit of a building's reliability value, whereas composite reliability evaluates the building's real reliability value. The role of the value of Cronbach's Alpha, rho\_A, or Composite Confidence must be larger than 0.7, but if the results obtained are closer to 0.7, the role of the value of Cronbach's Alpha, rho\_A, or Composite Confidence must be greater than 0.7 and AVE is more significant than 0.5, this is still acceptable in exploratory studies (Hair et al. 2017).

Table 3 contains Cronbach's alpha, rho\_A, composite confidence, and AVE. The table shows Cronbach's Alpha, rho\_A, Composite Confidence, and Extracted Mean-Variance (AVE) values for each construct, all greater than 0.70. All measurements used in this study are reliable.

**Table 3.** Cronbach's Alpha Value and Composite Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Z	0,801	0,810	0,883	0,716
Y	0,779	0,806	0,871	0,693
X1	0,770	0,799	0,866	0,685
X2	0,891	0,892	0,933	0,822

Source: Data Processed (2023)

**Model Testing (Evaluation of the Fit Goodness of Fit Inner Model)**

The PLS-processed structural model must be assessed using R-square for each dependent variable and predictive Q-square. Examining the impact of exogenous latent constructs on endogenous variables is important. Table 4 shows the R-square coefficients for each endogenous variable to assess the quality of fit of the inner model.

**Table 4.** R-square value of Innovation and Taxpayer Compliance Variables

	<b>R Square</b>	<b>Adjusted R Square</b>
Innovation	0,6383	0,6367
Taxpayer Compliance	0,6180	0,6154

Source: Data Processed (2023)

The R-square value of 0.6180 for the construct of taxpayer compliance (Y) is shown in Table 4 and 0.6383 for the construct of innovation (Z), meaning that variations in changes in the construct of innovation can be explained by the social capital construct and society participation together of 63, 8%. The remaining 36.2% variables other than social capital explain and society participation. Furthermore, the construct of taxpayer compliance (Y) can be explained by the social capital construct, society participation, and innovation of 61.8%. The remaining 38.2% is explained by factors other than these three variables.

$$Q2 = 1 - (1 - R1^2) (1 - R2^2)$$

$$Q2 = 1 - ((1 - 0.638) (1 - 0.618))$$

$$Q2 = 1 - (0.138)$$

$$Q2 = 0.862$$

Q2 The calculation results obtained are 0.138, so this model has a predictive prevalence of most of the variations in the dependent variable that can be explained by the constructs contained in this research model. This figure is 0.862, or predictive prevalence. Firm means the resulting model is suitable for predictions. Meanwhile, for the results of the fit model test, the value of SRMR = 0.0750 < 0.08 (Hair et al., 2017), it can be concluded that this model as a whole is a fit, this can be seen in Table 5 below:

**Table 5.** Model Fit

	<b>Model Saturated</b>	<b>Estimation Models</b>
SRMR	0,0750	0,0750
d_ ULS	0,4386	0,4386
d_ G	0,2450	0,2450
Chi-Square	639,8226	639,8226
NFI	0,8026	0,8026

Source: Data Processed (2023)

The results, based on the above werethen formulated into the formula for GoF below:

$$GoF = \sqrt{Average AVE \times Average R^2}$$

$$GoF = \sqrt{0,729 \times 0,628}$$

$$GoF = \sqrt{0,677}$$

$$GoF = 0,823$$

In the above equation, AVE was a weighted average value calculated using the number of indications for each latent variable. This approach's calculations revealed that the model's GoF value was  $0.82 > 0.38$ . This value is categorized as a high GoF index. Based on the value of the Goodness of Fit index, the R-square that the model formed is strong so that it can be continued for hypothesis testing (Henseler and Sarstedt 2013; Sahoo 2019; Schuberth, Rademaker, and Henseler 2022).

**Direct Effect**

Whether or not a hypothesis is accepted, it must be tested using Smart PLS 3.0 version Bootstrapping function. The hypothesis is accepted when the significance level is less than 0.05, or the t-value exceeds the critical value. (Hair et al., 2017). To see the direct effect can be seen in Table 6.

**Table 6.** Direct Effect

	Original Sample	Sample Mean	Standard Error	t-Statistics	P Values
Z -> Y	0,1304	0,1283	0,0438	2,9794	0,0030
X1 -> Z	0,1510	0,1507	0,0320	4,7170	0,0000
X1 -> Y	0,6991	0,7008	0,0337	20,7565	0,0000
X2 -> Z	0,7314	0,7305	0,0305	23,9413	0,0000
X2 -> Y	0,0472	0,0481	0,0396	1,1894	0,2348

Source: Data Processed (2023)

According to the path coefficient, the original sample value, p-value, or t-statistics are used as a reference to determine whether the hypothesis is accepted or rejected. The hypothesis is accepted if the t-statistics value is more than the t-table or the p-value is less than 0.05. So it can be concluded that H2 is rejected.

**Indirect Effect**

The purpose of this study is to determine if innovation mediates taxpayer compliance. Table 7 depicts the link between this study's independent and dependent variables via mediating factors.

**Table 7.** Indirect Effect

	Original Sample	Sample Mean	Standard Error	t-Statistics	P Values
X1 -> Z -> Y	0,0197	0,0194	0,0081	2,4376	0,0151
X1 -> Z -> Y	0,0954	0,0937	0,0322	2,9631	0,0032



Source: Data Processed (2023)

## **DISCUSSION**

### **Hypothesis**

At the hypothesis testing stage, it is imperative to pay attention to the direct effect and the significance indicated by the direction of the arrow between the exogenous latent variables and the endogenous variables. Exogenous variables include social capital (X1) and society participation (X2). Endogenous variables include innovation (Z) and taxpayer knowledge (Y). To test the research hypothesis shown in Table 5 and Table 6, which contains path coefficients, t-statistics and P-values.

### **Direct Effect of Social Capital on Innovation (H1)**

Based on the hypothesis test shows that the foundation is social capital for innovation capability. Since innovation is a collaborative effort, social capital is assumed to play a crucial part in making both incremental and radical innovations. For example, the findings show that social capital influences various organizational outcomes, such as success in strategic partnerships, society attractiveness and service success (Das 2016; Soni 2016). Therefore, social capital becomes an essential item not only for the Directorate General of Taxation agency but also for developing organizational dynamics that enable agencies to change their focus on their services and gain new forms of competitive advantage (Spurk et al. 2015).

Social capital directly brings diversity to the directorate General of Duties so that it becomes the driving force in improving services. Consistent with previous research, social capital has a positive and significant effect on innovation in the service sector and public policy (Murphy, Huggins, and Thompson 2016; Petrou and Daskalopoulou 2013; Saint Ville et al. 2016)

Social capital helps connect ideas and ideas for combinations of innovative and unexpected breakthroughs. In addition, social capital is also encouraging collaboration either within or between organizations. Social capital builds legitimacy for revolutionary ideas in organizations and allows organizations to implement these innovative breakthroughs broadly. Therefore, social capital will likely enlarge the role of an agency in reinforcing knowledge, strengthening the organization's influence on innovation capability.

### **Direct Effect of Society Participation on Innovation (H2)**

From the data processing results, it is known that the impact of society participation on innovation has a significance level of 0.0000. This shows that public participation positively and significantly affects tax service innovation in Indonesia. Society participation has the potential to encourage innovation opportunities. Supporting the community to ensure the sustainability of innovative policies and services to increase taxpayer compliance in Indonesia consistently. This conclusion is consistent with prior studies, which demonstrated that an agency has a good and significant influence on improving firm performance (Nordberg, Mariussen, and Virkkala 2020; Putra et al. 2020; Romeo, Moukanas, and Rung 2020).

Based on these results, participation requires physical and emotional involvement to generate a sense of responsibility and physical contribution, ideas, thoughts, and ideas.

### **Direct Effect of Social Capital on Taxpayer Compliance (H3)**

Based on the results of data processing, it is known that social capital on taxpayer compliance in Indonesia has a significant level of 0.000. This shows that social capital positively and significantly affects taxpayer compliance in Indonesia. Social capital emphasizes the need for independence in overcoming social and economic problems, as a sociological concept, social capital is an approach that is increasingly being used intensively in overcoming service sector problems in many countries, including Indonesia. Consistent with research (Carsamer and Abbam 2020; Hoi, Wu, and Zhang 2019)

### **Direct Effect of Society Participation on Taxpayer Compliance (H4)**

Based on the data processing results, it is known that society participation in welfare in Indonesia has a significant level of 0.235. This shows that public participation has a positive and negligible impact on taxpayer compliance in Indonesia. Society participation will not be encouraged if an activity is not carried out, such as sharing knowledge to increase public literacy or improving the quality of existing services to improve the bad image that exists in Indonesian society, so that if it is not addressed, then broad society participation will not increase taxpayer compliance. The results of this study are in line with the research (Diah and La Ode 2019).

### **Indirect Effect of Social Capital on Taxpayer Compliance Through Innovation (H5)**

Table 6 shows that the direct effect of social capital on innovation has a significant level of 0.000, so it is substantial (effect a). The direct effect of innovation on taxpayer compliance is significant at 0.03. This implies that, with a significance level of 0.000, innovation has a positive and significant influence on taxpayer compliance (effect b) and social capital has a positive and significant effect on taxpayer compliance (effect c). This demonstrates that social capital has a positive and statistically significant effect (effect c). Hair et al. (2017) states that if effect b is significant, it is considered partial mediation. This shows that innovation mediates social capital's half or partial indirect effect on taxpayer compliance. For the Directorate General of Taxation, social capital can help develop service innovations to improve service quality and public trust. Examples of the application of social capital to tax service innovations include:

1. Openness

Openness with tax agencies can be seen on the official website of the Directorate General of Taxes, which informs tax costs, besides that, there is also an application for calculating tax costs independently by related parties.

2. Facility

Besides that, the completeness of the facilities can also make you feel comfortable and create an image as a friendly institution.

3. Decision directory

Make it easier for the public to see all the results of decisions in agencies throughout Indonesia.

The findings of this study are in line with (Abdulmuhsin and Tarhini 2022; Karhade and Dong 2021)

### **Direct Effect of Innovation on Taxpayer Compliance (H6)**

Based on the results of data processing, it is known that innovation affects taxpayer compliance in Indonesia, with a significance level of 0.003. This shows that innovation positively and significantly impacts taxpayer compliance in Indonesia. Innovation has the potential to increase taxpayer compliance in Indonesia. When updates are implemented, the Directorate General of Taxes' innovations make good service sustainable, such as technology adoption to improve taxpayer compliance. The results of this study are in line with the research Mascagni et al. (2021) dan Prichard et al. (2019).

### **Indirect Effect of Society Participation on Taxpayer Compliance through Innovation (H7)**

Table 7 shows that the effect of society participation on innovation has a significant level of 0.000 (effect a). Innovation on taxpayer compliance in Indonesia has a significant level of 0.003. This indicates that innovation has a positive and significant effect on taxpayer compliance (effect b), and that society participation in taxpayer compliance in Indonesia has a significant level of 0.235. This shows that public participation is insignificant to taxpayer compliance (effect c). (Hair et al. 2017) states that if effect b is significant and effect c is not significant, it is considered perfect mediation. This shows that innovation mediates the full indirect effect of public participation on taxpayer compliance in Indonesia. The findings of this study are in line with (Kassa 2021).

## **CONCLUSION**

Primary data was obtained from distributing questionnaires, and reliability testing was carried out to determine the consistency of respondents' answers from time to time, as well as validity testing to determine whether the questionnaire was valid. Testing the reliability and validity of the respondent's answer data in Indonesia showed that all question items were declared reliable and valid. Thus, the conclusions given from the results of this study are as follows:

1. Social Capital has a significant effect on innovation.
2. Society participation has a significant effect on innovation.
3. Social Capital has a significant effect on taxpayer compliance.
4. Society participation has no significant effect on taxpayer compliance.
5. Social Capital has a significant effect on taxpayer compliance through innovation
6. Innovation has a significant effect on taxpayer compliance.
7. Society participation has no significant effect on taxpayer compliance through innovation.

## **RECOMENDATION**

Taxpayers can be increased through improving community service facilities such as the development of health, education, social, and fairly advanced facilities, and infrastructure coupled with direct outreach to the public that all the things they get above come from the taxes they pay. On the other hand, society also needs innovation to encourage participation in increasing taxpayers so that taxpayers become aware of fulfilling their tax obligations.

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