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The Influence of Risk Preference and Financial Condition on Tax Compliance of Boarding House Tax in Banjarmasin

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A B S T R A C T

This study aims to examine the effect of risk preference and financial condition on tax compliance of boarding house owners. The variables of this study are tax compliance, risk preference and financial condition. This study used primary data obtained from the questionnaire. In addition, the respondents of this study were the taxpayers who owned a boarding house in Banjarmasin chosen by using purposive sampling. Furthermore, multiple regression analysis was employed to analyze the obtained data. The results of the study concluded that risk preference and financial condition had positive effect on tax compliance.

1. INTRODUCTION

Tax is one of the sources of state revenue in Indonesia. According to information on the 2020 State Revenue and Expenditure Budget, taxes have contributed the largest portion that makes up the State Budget. For a decade, from 2010 to 2019, tax revenue has always missed the target. Finally, in 2019, the target for tax revenues was only Rp. 1332 trillion. This amount is only 84.4% of the target set for 2019 of Rp1577 trillion. The achievement of Rp1332 trillion grew only 1.4% from the realization of 2018 tax revenues (DDTX News, 2020).

Tax revenues included in the 2020 State Budget are 83.5% of total state revenue. Taxes are also very essential in covering the state budget deficit. Tax revenue is a potential source of state revenue to finance various development projects and programs in Indonesia. Nowadays, the government's expenditure for state financing is getting bigger. This situation demands an increase in state revenue, one of which comes from tax revenue. The Directorate General of Taxes, as a government agency under the Ministry of Finance as the manager of the tax system in Indonesia, seeks to increase tax revenues by reforming the tax system into a more modern system (Syahdan et al. 2018).To become independent in finan-

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cing its development, a nation must explore its sources of state revenue. The sources of state revenues come from tax revenues and non-tax revenues (Olabede et al., 2011; Olaofe, 2008). Local taxes are one of the components of Locally-Generated Revenue that can be explored for the potential revenue to assist development in the region. Hotel tax for the boarding category is one of the local taxes that offers great potential. A boarding house, refers to a house that provides lodging for paying tenants. This boarding house tax is regulated in the Law of the Republic of Indonesia Number 28 of 2009 concerning local taxes and local retributions. This regulation is further supported by local regulations. In Banjarmasin, for example, it is also regulated in Banjarmasin Local Regulation Number 4 of 2014 concerning the Management of Boarding Houses.

These regulations state that boarding houses included in the category of hotel tax collection are boarding houses with more than 10 (ten) rooms. In Banjarmasin in 2016, the contribution of boarding house taxes in Locally-Generated Revenue reached 3 billion. This potential must be optimized to increase tax revenues to support the development process in the region. According to Safitri (2018), there are various obstacles faced in collecting boarding house taxes in Banjarmasin, one of which is the objection of most taxpayers. The enactment of laws and regional regulations where the boarding house tax that is imposed only based on the number of rooms, in this case for the boarding houses with more than 10 (ten) rooms, has emerged a sense of injustice from boarding house owners. As stated by one of the boarding house owners in Banjarmasin (Banjarmasin Post, 2018), he finds it is unfair that a boarding house is object of local tax but a house that is used as a hotel is not taxed. Tax compliance of taxpayers can be influenced by various factors. Various previous studies reveal that several factors encourage taxpayer's compliance in carrying out tax obligations. The financial condition and risk preference of taxpayers are factors that affect tax compliance. Research conducted by Olabede et al. (2011) concluded that financial condition and risk preference acted as moderators in increasing tax compliance. In fulling the obligation to pay tax, the taxpayers must also pay attention to their financial condition. If the income received has met the conditions of the taxable income, the taxpayer is required to pay taxes and is obliged to report the income tax received to the tax office. The taxpayers also need to consider the risks when carrying out their obligations in paying taxes. The risks considered include health risks, social risks, financial risks, taxpayer's career risks, and safety risks.

Several studies related to the level of tax compliance have been carried out by previous researchers. However, there are only a few studies done regarding financial conditions and risk preferences. Research conducted by Brett et al. in Aryobimo (2010) showed that one's financial condition and family obligations can moderate the relationship between his commitment and performance. The implication is that the family responsibility of a person may be able to moderate his commitment to pay off his obligations including income tax. Therefore, a person's financial condition may positively affect his willingness to comply with his tax provisions regardless of the relationship between tax perception and tax compliance.

Moreover, research conducted by Olabede et al. (2011) concluded that the financial condition of the taxpayer has a positive effect on tax compliance in Nigeria. Therefore, if a taxpayer is in a poor financial condition, he tends to be resistant in paying his tax obligations than if the taxpayer is in a good financial condition. Furthermore, Torgler (2003) stated that a taxpayer's decision can be influenced by his behavior towards the risks he faces. A person's risk preference is one component of several theories related to decision makers including tax compliance theories, such as rationality theory and prospect theory. Moreover, Olabede et al. (2011) concluded that risk preference had a positive effect on tax compliance. In addition, research done by Alm & Torgler (2006) revealed that the behavior of taxpayers in dealing with risk does not reflect his compliance in fulfilling his tax obligations. A taxpayer with a high level of risk preference, such as health risk, safety risk, and job risk, tends to be more compliant to pay taxes. On the other hand, a taxpayer with a low level of risk preference tends to be more resistant to pay taxes.

Even though many studies related to tax compliance have been conducted in Indonesia, the study regarding the financial condition and risk preferences of taxpayers based on prospect theory (White et al., 1993; Soweca, 2010) to predict tax compliance is interesting to investigate. In this study, tax compliance focuses on the boarding house tax regulated in the Law of the Republic of Indonesia Number 28 of 2009 concerning Local Taxes and Local Contributions. This regulation is further strengthened by Banjarmasin local regulation Number 4 of 2014 concerning Management of Boarding Houses. This is what motivates researchers to re-examine the research by Olabede et al. (2011) which employed financial condition and risk preference as moderating variables. However, in this study, financial condition and risk preferences are employed as independent variables. In addition, Olabede et al. (2011) conducted their research in Nigeria, while this research was conducted in Banjarmasin, Indonesia. Banjarmasin is the capital city of South Kalimantan Province and the center of education and business. Moreover, in 2016, boarding house tax contributed 3 billion to Banjarmasin Locally-Generated Revenue. The potential for tax revenue is still quite promising. Financial pressure is one of the barriers for taxpayers in fulfilling their obligations to pay taxes. An individual taxpayer with limited income may evade paying taxes if his financial condition is bad due to his family's expenses. Risk preference is a manifestation of taxpayer's tax evasion when facing potential risks. Based on the formulation of the research problem, the research question of this study is: "How do the risk preference and financial condition of the taxpayer affect tax compliance of boarding house tax?"

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Prospect Theory

Prospect theory is a theory developed by Kahneman and Tversky. This theory originated from research conducted by Kahneman & Tversky (1979) regarding human behavior that is considered strange and contradictory in making a decision. The same research subject with some of the same choices but formulated in different ways, the results of one's decision will be different. Kahneman & Tversky (1979) named this person's behavior as risk aversion behavior and risk-seeking behavior. For example: in the capital market, if the stock price rises, people tend to sell their shares to make a profit (selling fast), whereas if the stock price falls, people will tend to hold the stock in the hope that the stock will rise again and not suffer a loss (not selling). This behavior can also be categorized as risk aversion and risk-seeking. In prospect theory, Kahneman & Tversky (1979) revealed that a person will seek information first and then several "decision frames" or decision concepts will be made. After the decision concept is made, he will make a decision by choosing one of the concepts that produces the greatest expected utility. The concept of the decision is influenced by several things, including:

1. Formulation of problems encountered,
2. Norms or customs,
3. Characteristics of decision makers.

Several studies on prospect theory have been conducted, one of them was by White et al., (1993). They employed prospect theory to predict tax compliance. The results show that taxpayers who are in a due tax position tend to be more compliant in fulfilling their tax obligations compared to taxpayers who are in a tax refund position. Therefore, prospect theory suggests that people who have irrational tendencies are more reluctant to risk gains than losses. If someone is in a profit position, that person tends to avoid risk or is called risk aversion. Meanwhile, if someone is in a loss position, that person tends to dare to face risk or is called risk seeking. This study is related to the prospect theory which explains risk preferences can affect taxpayer compliance. If a taxpayer has a high risk, the taxpayer will not necessarily avoid his tax obligations. For example, a risk-seeking taxpayer who has a high risk can choose not to fulfill his tax obligation since the risk does not affect his tax compliance. Meanwhile, a risk-aversion taxpayer will avoid his tax obligations if he has a low risk.

Tax Compliance

According to Rahman (2010), tax compliance can be defined as a condition in which taxpayers fulfill all tax obligations and exercise their tax rights. Therefore, tax compliance is met when the taxpayer fulfills all tax obligations, and exercises his tax rights and tax obligations including registering, calculating and paying taxes owed, paying arrears, and returning the notification letter. There are two kinds of compliance, namely:

1) Formal compliance: a situation where the taxpayer fulfills his tax obligations formally by the formal provisions in the tax law.
2) Material compliance: a condition where the taxpayer substantially fulfills all material provisions of taxation, by the content and spirit of the tax law. Material compliance includes formal compliance.

Taxpayer Risk Preference

Risk preference is one of the characteristics of a person which will affect his behavior (Sitkin & Pablo, 1992). In the concept of risk preference, there are three scopes, namely risk aversion, risk neutrality, and risk seeking. A study revealed that the behavior of taxpayers in the face of risk cannot be underestimated in relation to compliance (Alm & Torgler, 2006; Torgler, 2003). Torgler (2003) stated that a taxpayer's decision can be influenced by his behavior towards the risks he faces. Risk preference is one component of several theories related to decision making including tax compliance theories, such as satisfaction expectation theory and prospect theory. The appropriate theoretical basis for moderating risk preference in the relation between tax compliance and the quality of tax service services is found in prospect theory. This theory explains that a high level of risk will be able to affect taxpayer's compliance. Therefore, when tax compliance has a strong correlation with risk preference, the level of tax compliance will be low. It means that the taxpayer has a variety of high risks that will reduce the level of taxpayer's compliance.

Taxpayer' Financial Condition

Several other studies have shown that one's financial condition and family obligations can moderate the relationship between his commitment and performance (Brett, Cron & Slocum in Aryobimo, 2012). The implication is that the family responsibility of a person may be able to moderate his commitment to pay off his obligations including income tax. Therefore, a person's financial condition may positively affect his willingness to comply with his tax provisions regardless of the relationship between tax perception and tax compliance. Torgler (2003) argues that someone who experiences financial difficulties will feel pressured when they are required to pay their obligations including taxes. Moreover, Bloomquist (2003) identifies financial pressure as a source of barriers for taxpayers. Bloomquist (2003) also argues that individual taxpayer who has limited income may avoid paying taxes if his financial condition is poor due to his expenses.

The Effect of Risk Preference on Tax Compliance

Torgler (2003) stated that a taxpayer's decision can be influenced by his behavior towards the risks he faces. A person's risk preference is one component of several theories related to decision makers including tax compliance theories such as rationality theory and prospect theory. The theoretical basis used by risk preference in influencing taxpayer compliance is prospect theory. Research conducted by Olabede (2011) uses prospect theory to examine the effect of risk preferences on individual taxpayer's compliance. The results of Olabede's research (2011) show that risk preferences have a positive effect on individual taxpayer compliance. Moreover, the research conducted by Hite & McGill in Aryobimo (2012) and was further supported by research by Alm & Torgler (2006) revealed that the behavior of

taxpayers in dealing with risk does not mean that the taxpayer will not fulfill their tax obligations. If a taxpayer has a high level of risk preference, including health risk, safety risk, and job risk, he tends to be more compliant in paying taxes. Whereas, a taxpayer, who has a low level of risk, tends to be more resistant in paying taxes. Based on the description above, the hypothesis is formulated as follows:
H1: Risk preference has a positive effect on tax compliance

The Effect of Financial Condition on Tax Compliance

Torgler (2003) argues that someone who experiences financial difficulties will feel pressured when they are required to pay their obligations including taxes. In addition, Bloomquist (2003) identifies that financial pressure is one source of barrires for taxpayers. It can be concluded that individual taxpayer who has limited income may avoid paying taxes if his financial condition is bad due to his family expenses. Moreover, research conducted by White et al. in Aryobimo (2012) uses prospect theory to predict tax compliance. The results of White et al. (1993) shows that taxpayer who is in a due tax position tends to be more resistantt in fulfilling their tax obligations compared to taxpayer who is in a tax refund position. Furthermore, research conducted by Olabede et al. (2011) shows that the financial condition of the taxpayer has a positive effect on the level of tax compliance in Nigeria. Therefore, if a taxpayer is in a poor financial condition, he tends to be resistant in paying his tax obligations than the taxpayer who is in a good financial condition. Based on the description above, it can be said that the financial condition of a taxpayer is expected to have a positive effect on taxpayer compliance in fulfilling tax obligations. Thus, the hypothesis can be formulated as follows:
H2: The financial condition of the taxpayer has a positive effect on tax compliance.

3. RESEARCH METHOD

The objects of this research are boarding house owners in Banjarmasin. The objects are chosen due to the consideration that Banjarmasin is the capital city of South Kalimantan Province and the center of education and business. Meanwhile, boarding house is object of local tax as listed in Regional Regulation Number 14 of 2016.

Population and Sample

The population and sample used in this study are the owners of boarding houses as taxpayers in Banjarmasin. The reason for choosing boarding house owner is as stated in the regional regulation Number 14 of 2016 that boarding house is an object of local tax.
The population used by the researcher in this study is hotel taxpayers in the boarding house category or all owners of boarding house with more than 10 rooms in Banjarmasin. Based on data recorded at the Banjarmasin Regional Finance Agency in 2020, the number of hotel taxpayers in the boarding house category or the number of boarding houses recorded is 290 units (Bakeuda, 2020). Therefore, the sampling was carried out using the Slovin formula. Based on these calculations, the number of samples taken in this study is 75 boarding house owners. The sampling technique employed in this study is a purposive sampling method with the criteria of owning a boarding house with more than 10 rooms based on data from the Banjarmasin Regional Finance Agency. Moreover, the data collection is carried out by questionnaire distributed directly or via email to the respondents.

Variable Measurement

According to Nasucha (2004), tax compliance can be identified from taxpayer compliance in registering, compliance with depositing tax returns, compliance in calculating and paying taxes owed and compliance in payment of arrears. Tax compliance is measured by how taxpayers comply with applicable tax laws (Chatopadhyay & DasGupta in Aryobimo, 2012; Franzoni, 2000) with the indicators: Submitting income tax return correctly and on time; Calculating the amount of tax owed correctly; Reporting to the tax office on time; Paying the tax per the amount of tax payable and on time. The four items above are indicators that are used as the basis for measuring tax compliance. Those variables are measured using a 5-point Likert scale ranging from strongly disagree, disagree, neutral, agree, and strongly agree.

Risk preference as a moderating variable and operationally defined as a risk or opportunity that will be considered by taxpayers which is the main priority among others from the various options available (Atkins et al. 2005; Guthrine, 2003). This study measures the general preferences of taxpayers by taking financial risks, health risks, social risks, occupational risks and safety risks (Nicholson et al, 2005). Financial risk, for example: gambling, investment risk, entrepreneurship risk; health risks for example: smoking, poor diet, excessive alcohol consumption; social risks, for example: elections, changes in Government Policy; job risks, for example: layoffs; safety risks, for example: not using a seat belt when driving a car, not using a helmet when riding a motorcycle. The measurement of the above risks is described in the research of Nicholson et al., (2005).

The financial condition of the taxpayer is the level of satisfaction of the taxpayer with the financial condition of the taxpayer himself and his family (Lago-Penas in Aryobimo, 2012; Torgler, 2003). Torgler (2007) reveals that the financial condition of the taxpayer is measured with certainty by using the "satisfied" or "dissatisfied" option where the value (1) means that the taxpayer is satisfied with the taxpayer's financial condition, while the value (0) means that the taxpayer is not satisfied with the financial condition of the taxpayer.

The data analysis method used in this research is multiple linear regression analysis. Multiple regression analysis is used to determine the effect of taxpayers' financial condition and risk preference on taxp compliance. In general, the multiple regression analysis equation can be formulated as follows:

Tax Compliance = B0 + B1. RF + B2.FC + e

Where:

RF = Risk Preference
FC = Financial Condition
B0 = Constant
B1,B2 = Regression coefficient X1, X2
e = error

Moreover, the hypothesis testing uses regression analysis to test empirically the effect of the independent variable on the dependent variable. Furthermore, if the probability or significance of the independent variable is < α, the research hypothesis can be accepted. Vice versa, if the probability or significance of the independent variable is > α, the research hypothesis cannot be accepted.

4. RESULTS & DISCUSSION

Characteristics of Respondents

Table 1. Data of the Respondents

Characteristics	Criteria	Frequency	(%)
Occupation	Private Sectors	31 Respondents	72
	Civil Servant	12 Respondents	28

Education	Senior High School	9 Respondents	21
	DIII (Diploma)	11 Respondents	25
	S1 (Bachelor Degree)	18 Respondents	42
	S2 (Master Degree)	5 Respondents	12
Gender	Male	14 Respondents	33
	Female	29 Respondents	67
Boarding House business as side business	Yes	15 Respondents	35
	No	28 Respondents	65

Source: primary data, 2020

Moreover, there are 9 respondents (21%) who had high school degree, 11 respondents (25%) who had Three Year Diploma degree, 18 respondents (42%) who had Bachelor degree, and 5 respondents (12%) who had Master degree. In addition, there were 15 respodents (35%) stated that boarding house business was their side business. Meanwhile, 28 respondents (65%) stated that boarding house business was their livelihood.

Table 2. Descriptive Statistics of Research Variables

Variable	N	Actual Range	Means	Standard Deviation
Tax Compliance	43	10 – 30	22,84	5,827
Risk Preference	43	5 – 25	13,98	5,713
Financial Condition	43	0 – 1	0,82	0,394

Source: primary data, 2020

Table 2 showed that the interval of tax compliance variable was in the actual interval of 10 - 30 with an average of 22.84. The standard deviation of 5.827 indicated that the respondents' answers did not experience deviations from the average range of 22.84. The interval of risk preference variable was in the actual interval of 5-25 with an average of 13.98. The standard deviation of 5.713 showed that the respondents' answers did not experience deviations from the average range of 13.98. The interval of financial condition variable was in the real interval 0-1 with an average of 0.82. The standard deviation of 0.394 indicated that the respondents' answers did not experience deviations that were far from the average range of 0.82.

Hypothesis Testing and Discussion

Tabel 3. Adjusted R^2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.559[a]	.312	.278	.449350	1.664

Source: primary data, 2020

The accuracy of the sample regression function in estimating the actual value can be measured from its goodness of fit. Statistically, it can be measured from the statistical value of individual parameter tests, the statistical value of F, and the coefficient of the determinant. Meanwhile, the adjusted R^2 value of 0.278 or 28% of the variation in tax compliance can be explained by the variation of the two independent variables of risk preference and financial condition. Meanwhile, the remaining 72% is explained by other factors outside the model. In addition, the Standard Error of Estimate (SEE) of this model is 0.449350.

Table 4. Simultaneous Regression Result

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	366.200	2	183.100	9.068	.001[b]
	Residual	807.660	40	20.192		
	Total	1173.860	42			

Source: primary data, 2020

The data analysis carried out in the Anova test or F test obtained F Count of 9.068 with a probability level of 0.001. Since the probability is smaller than 0.05, the regression model can be used to predict tax compliance which states that risk preference and financial condition simultaneously affect tax compliance. The results of partial regression analysis of the effect of independent variables, risk preference and financial condition on tax compliance can be seen in table 5 the following :

Table 5 Partial Regression Analysis Results

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	21.862	2.486		8.796	.000
	PRISK	-.317	.143	-.291	-2.216	.032
	KKEU	6.366	1.761	.474	3.615	.001

Source: primary data, 2020

The first hypothesis (H_1) was that risk preference had a positive effect on tax compliance. The results concluded that risk preference had a significant effect on tax compliance with a significance level of 0.032. Therefore, the first hypothesis was accepted. The second hypothesis (H_2) was that financial condition had a positive effect on tax compliance. The results concluded that financial condition had a positive effect on tax compliance with the significance level of 0.001. Therefore, the second hypothesis was accepted.

The results of analysis showed that simultaneously risk preference and financial condition had an effect on tax compliance. This had a positive impact on tax compliance. Moreover, the first hypothesis that stated risk preference had a positive effect on tax compliance of boarding house owners was accapted. This result indicated that the higher the risk the higher the level of tax compliance.

The results of this study were in line with the results of researches conducted by Aryobimo (2012) and Hite & McGill (1992). In addition, the results were supported by the research of Alm & Torgler (2006) which the behavior of taxpayers in dealing with risk does not reflect his compliance in fulfilling his tax obligations. However, these results were in contrast to the results of research by Irawati and Sari (2019) which stated that risk preferences had no effect on taxcompliance. Prospect theory suggests that people with irrational tendencies are more reluctant to risk gains than losses. If someone is in a profit position, that person tends to avoid risk or is called risk aversion, whereas if someone is in a loss position, that person tends to dare to face risk or is called risk seeking.

Furthermore, the second hypothesis which stated that financial conditions had a positive effect on tax compliance of boarding house owners was accepted. This result was in line with research by Aryobimo (2012). In addition, this result was also supported by the research conducted by Olabede, Affrin & Idris (2011) which indicated that the financial condition of taxpayers had a positive effect on the level of taxpayer compliance in Nigeria. Moreover, this study revealed that there would be a tax noncompliance tendency of the taxpayer if their financial conditions were bad.

The pandemic has reduced the boarding house owners' income due to the large number of tenants who have not continued their lease. Thus, the owners had the intention to evade paying the boarding house tax. Torgler (2003) argued that someone who experienced financial difficulties would feel pressured when they were required to pay taxes. Bloomquist (2003) revealed that the financial burden of taxpayers was one of the obstacles for taxpayers to pay taxes. Moreover, individual taxpayer with sufficient income was likely to evade paying taxes if hid financial condition was bad due to his expenses.

5. CONCLUSIONS

The first hypothesis testing concludes that risk preference has a positive effect on tax compliance of boarding house tax. Prospect theory suggests that people with irrational tendencies are more reluctant to risk gains than losses. If someone is in a profit position, that person tends to avoid risk or is called risk aversion, whereas if someone is in a loss position, that person tends to dare to face risk or is called risk seeking.

The second hypothesis testing concludes that financial condition has a positive effect on tax compliance of boarding house tax. Someone who is experiencing financial difficulties will feel pressured when they are required to perform their obligations to pay taxes (Torgler, 2003). Furthermore, the financial burden of the taxpayer is one of the obstacles for taxpayers to pay taxes. In addition, individual taxpayers who have sufficient income are likely to avoid paying taxes if the taxpayer's financial condition is bad because the expenditure is greater than his income (Bloomquist, 2003).

Implications for the research of the effect of risk preference and financial condition on tax compliance of boarding house taxes can be used to measure the extent to which boarding house owners plan their tax obligations in fulfilling their responsibilities to the local government. The results of this study can also contribute to the development of local taxes, which from time to time require income from the boarding house tax sector which has the potential to contribute to Banjarmasin government revenue. This certainly provides a broad scope in the development of tax research which is heavily influenced by the economy and politics in Indonesia.

6. LIMITATION

Overall, the results of this study provide supports for previous studies. However, the researcher realizes that there are several limitations that may affect the results; including 1) the research object is still limited so that it cannot generalize the actual results. 2) the value of coefficient of the determinant R^2 is low which indicates that risk preference and financial condition have not been able to fully explain the tax compliance of boarding house tax. Therefore, it is assumed that there are many other factors that affect tax compliance. 3) due to the pandemic situation, the data acquisition is not optimal since the researchers cannot interact directly with the taxpayers to find out the causes of their reluctance to pay taxes. In addition, there is still a gap where the owners of boarding houses with more than 10 rooms are subject to pay taxes according to local regulations. Meanwhile, the owners of boarding houses with less than 10 rooms are not subject to tax even though the room rate is high.

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