

## THE EFFECT OF TAX COLLECTION WITH WARNING LETTERS AND FORCED LETTERS ON THE EFFECTIVENESS OF DISBURSING TAX ARREARS AT THE BANDUNG CIBEUNYING PRIMARY TAX SERVICE OFFICE

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### ABSTRACT

*Tax takes a main part and even fundamental role in the progress of this country's development. The state income is obtained predominantly through tax contributions, hence the government always strives to maximize its tax revenue. This study aims to determine the effect of tax collection with warning letters and forced letters on the effectiveness of disbursing tax arrears at the Bandung Cibeunying Primary Tax Service Office. The sample used in this study was 60 samples based on purposive sampling technique for monthly data period during 2018-2022. Statistical analysis instruments used classical assumption test and multiple linear regression analysis. The results of this study indicate that partially warning letters and forced letters have an influence by contributing 53,9% to the effectiveness of disbursing tax arrears, while 46,1% is influenced by other factors not examined in this study.*

**Keywords:** *Warning Letter, Forced Letter, Effectiveness of Disbursement of Tax Arrears*

### 1. INTRODUCTION

Taxes are directly related to the survival of a nation, since its funding almost all of the country's expenses. A strong tax revenue capability will provide the government with the ability to manage and plan for the country's future development. Taxes are actually coercive, but there are still many taxpayers who think that taxes are a burden and feel disadvantaged when paying taxes because they have to cut their assets. It leads to an increase in tax arrears, thus the government must work harder to maximize and secure state revenue. The focus is no longer to keep track of people to pay their taxes, but also on initiating tax collection to settle up tax debts. The following table describes the amount of tax arrears and realization of reimbursement of tax arrears at the Bandung Cibeunying Primary Tax Service Office from 2018-2022.

*Table 1 : Tax Arrears and Reallization of Reimbursement of Tax Arrears at Bandung Cibeunying Primary Tax Service Office from 2018-2022.*

Period	Tax Arrears	Realization of Reimbursement of Tax Arrears	Percentage (%)
2018	Rp 59.635.558.781	Rp 32.210.662.333	54%
2019	Rp 52.923.713.568	Rp 37.257.464.359	70%
2020	Rp 25.467.738.210	Rp 11.889.944.518	47%
2021	Rp 147.074.648.194	Rp 110.770.691.457	75%

2022	Rp	44.445.721.658	Rp	30.110.830.503	68%
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Source : *Self Proceed*

Table 1 shows that during this period the percentage of tax arrears disbursement has increased and decreased continually every year. Ironically, the highest percentage of tax arrears disbursement occurred in the year where the amount of tax arrears was the highest in that period of time, however the lowest percentage occurred in the year where the amount of tax arrears was the lowest. Therefore, the purpose of this study is to find out and explain the effect of warning letters and forced letters on the effectiveness of disbursing tax arrears at the Bandung Cibeunying Primary Tax Service Office for the 2018-2022 period.

## 2. LITERATURE REVIEW

### Absolute Tax Liability Theory (Devotion Theory)

According to this theory, the citizens pay taxes as a form of devotion to the state. The state itself is a combination of individuals who have similar interests and agree to unite in the form of a state that protects them. As individuals who consent to be part of the state, have the responsibility to support the state to improve societal welfare. That way, the state has absolute right to collect taxes, and citizens are obliged to pay taxes as a sign of their devotion (Thian, 2021).

### Tax Collection

Tax collection is a series of actions to force taxpayers to pay their tax debts and tax collection costs (Luthfiah et al., 2021). Tax collection takes place when taxpayers fail to pay the amount tax owed within the due date. Thus, the government is authorized to initiate tax collection actions, starting from sending a warning letter and continuing with a forced letter (Maryana & Sagala, 2019).

### Tax Arrears Disbursement

Tax arrears disbursement includes all types of transactions related to tax arrears which then directed toward the state treasury by payment, write-off, book transfer, or objection (Nainggolan, 2020). In this case, the effectiveness of disbursing tax arrears reflects to what extent which money is successfully paid and subtracted from the amount of receivables generated before the current year to achieve the initial target of tax receivables set for a certain period (Pertiw, 2014). The following formula can be used to determine the effectiveness of tax collection:

$$Effectiveness = \frac{\text{amount of tax collection paid}}{\text{amount of tax collection issued}} \times 100\%$$

The following table lists the measurement standards used in Madjid & Kalangi's (2015) research to determine the effectiveness of tax collection:

Table 2 : *Effectiveness Measurement Standard*

Percentage	Standard
>100%	Highly Effective

90-100%	Effective
80-90%	Effective Enough
60-80%	Less Effective
<60%	Ineffective

Source : *Madjid & Kalangi (2015)*

### **The Effect of Tax Collection with Warning Letters on the Effectiveness of Disbursing Tax Arrears**

The tax sector is one of the ones that provides the most to state revenue when compared to revenue from other sectors. Nevertheless, tax arrears are still found as a result of taxpayers' improper nonpayment of tax debts. With that, the government, especially tax officials are responsible to initiate active tax collection to optimize the disbursement of tax arrears. The first step in the tax collecting process is sending out a warning letter.

A warning letter is a document sent by tax officials to taxpayers, warning them to settle their tax debts (Putra & Muslim, 2022). If the tax officials approves the taxpayers' request to install or postpone tax payments, a warning letter wont be issued (Nainggolan, 2020). With persuasive warning through warning letters, it is hoped that taxpayers can immediately settle their tax arrears.

Hence, the disbursement of tax arrears is positively impacted by the issuance of warning letters; the more warning letters issued, the greater the potential of raising the effectiveness of disbursing tax arrears. Supported by the research by Hadisantoso et al. (2022) which stated that tax collection with warning letters improves the effectiveness of disbursing tax arrears.

H1 : Tax Collection with Warning Letters has positive effect on the Effectiveness of Disbursing Tax Arrears.

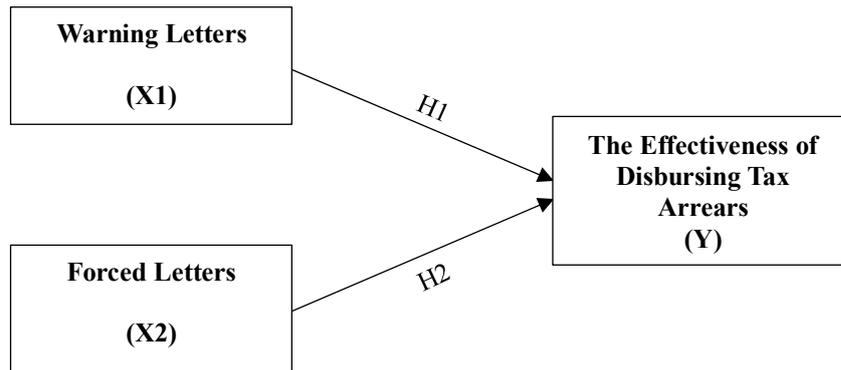
### **The Effect of Tax Collection with Forced Letters on the Effectiveness of Disbursing Tax Arrears**

If the persuasive approach is unsuccessful, a more assertive approach is taken by issuing a forced letter. As the name implies, a forced letter is a coercive document that requires taxpayers to pay off the arrears including tax debts plus tax collection costs within two days of the letter's issuance. Furthermore, if the taxpayers continue to fail to pay their tax debts until the next tax collection action, which is confiscation, will reduce the taxpayers' credibility.

The efforts to increase the disbursement of tax arrears will bring out a greater outcome if tax actions are done intensively and regularly. Because of this, a set of legally binding tax collection procedures must be implemented in order to maintain a balance between the growth of tax arrears and their disbursement.

Forced letters are expected to push taxpayers to settle their tax arrears promptly because it can't be appealed. Sophian & Rahmadini (2022) shows how tax collection with forced letters positively impacted the disbursement of tax arrears.

H2 : Tax Collection with Forced Letters has positive effect on the Effectiveness of Disbursing Tax Arrears.



### 3. DATA AND RESEARCH TECHNIQUE ANALISYS

The research method used is quantitative method with descriptive and verification approach. The independent variables used are warning letters and forced letters. Meanwhile, the dependent variable used is the effectiveness of disbursing tax arrears. The operational variables are:

Table 3 : Operational Variable

Variable	Definition	Indicator
Warning Letter (X1)	A document issued by tax officials to warn the taxpayers to settle their tax debts. (UU No. 19 concerning Tax Collection with Forced Letters).	$\frac{\text{Amount of warning letters paid}}{\text{Amount of warning letters issued}} \times 100\%$
Forced Letter (X2)	A document issued to taxpayers to settle their tax debts plus tax collection costs. Issued by tax officials if they fail to settle their tax debts within 21 days after the warning letter issued (UU No. 19 concerning Tax Collection with Forced Letters).	$\frac{\text{Amount of forced letters paid}}{\text{Amount of forced letters issued}} \times 100\%$
The Effectiveness of	Reflects to what extent which money is successfully paid and subtracted from the amount of receivables generated before	$\frac{\text{Amount of tax arrears disbursement}}{\text{Amount of tax arrears collection}} \times 100\%$

Disbursing Tax Arrears (Y)	the current year to achieve the initial target of tax receivables set for a certain period(Pertiwi, 2014).	
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Source : *Self Proceed*

The data used in this research are secondary data in the form of documentation. The population in this study are the disbursement of tax arrears at Bandung Cibeunying Primary Tax Service Office due to the implementation of tax collection since the enactment of UU No. 19 concerning Tax Collection with Forced Letters until now. The sample used in this study was 60 samples based on purposive sampling technique for every tax arrear collection and disbursement activities every month starting from January 2018 until December 2022 to represent current conditions. Statistical analysis instruments used classical assumption tests and multiple linear regression analysis.

#### 4. RESULT AND DISCUSSION

##### Descriptive Data of Research Results

Table 4 : *Descriptive Statistics*

	N	Warning Letter	Forced Letter	Disbursement of Tax Arrears
Mean	60	0.489500	0.481833	0.647333
Median	60	0.490000	0.500000	0.690000
Maximum	60	0.880000	1.000000	1.000000
Minimum	60	0.230000	0.000000	0.040000
Std. Dev.	60	0.171231	0.276733	0.252874

Source : *Self Proceed*

##### Classical Assumption Test

This test carried out before undertake regression analysis to evaluate the precision of the estimated parameters and to verify that the regression equation obtained is uncommon, consistent, and accurate in its estimation.

- The use of Jarque-Bera as a normality test indicates that the data is normally distributed with probability value of 0,067, which is greater than the predetermined significance level of 0,05.
- The data used in this study doesn't show multicollinearity since the VIF value for the warning letters variable (X1) and forced letters variable (X2) are 1,209377 and 1,153540 that both are less than 10.
- The result of White-test is 0,7478 and is bigger than 0,05 indicates that the data used in this study has passed the heteroskedasticity test.
- The autocorrelation assumption is fullfied with an LM-test value of 0,4143 which is higher than the study's significance level of 0,05.

##### Multiple Linear Regression Analysis

The equation obtained is as follow:

$$Y = 1,571849 + 0,475424X1 - 0,086468X2 + e$$

The regression equation explains that the constant value is 1,571849, it shows the pure value of the dependent variable of tax arrears disbursement without being influenced by the independent variables in this study. It also explains that warning letters (X1) have a positive relationship direction, meaning that an increase in this variable will increase the tax arrears disbursement. Meanwhile, forced letters (X2) is the opposite, have a negative relationship direction, meaning that an increase in this variable will reducing the value of tax arrears disbursement instead.

The adjusted R-squared value from the coefficient of determination test is 0,539303 or equal to 53,9%. This result indicates that issuing warning letters and forced letters for collecting tax contributes 53,9% to the effectiveness of tax disbursement. The remaining 46,1% is influenced by other factors.

### Hypothesis Test

*Table 5 : F Test*

R-squared	0.578345	Mean dependent var	1.754667
Adjusted R-squared	0.539303	S.D. dependent var	0.556330
S.E. of regression	0.377607	Akaike info criterion	0.984715
Sum squared resid	7.699708	Schwarz criterion	1.194149
Log likelihood	-23.54145	Hannan-Quinn criter.	1.066636
F-statistic	14.81337	Durbin-Watson stat	1.715964
Prob(F-statistic)	0.000000		

*Source : Processed, 2024*

The significance value of the F test in Table 5 is 0,000000, less than 0,05. It can be concluded that the model is suitable to use in research and meets the requirements for partial testing.

*Table 6 : t Test*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.571849	0.217551	7.225194	0.0000
X1	0.475424	0.196691	2.417105	0.0189
X2	-0.086468	0.061478	-1.406492	0.0367

*Source : Processed. 2024*

According to Table 6, both warning letters and forced letters variables have a significance value less than 0,05. Which mean:

- Warning letters has a positive significant effect on disbursing tax arrears; and
- Forced letters has a negative significant effect on disbursing tax arrears.

### Warning Letters and Tax Arrears Disbursement

Specifically, the research findings indicate that issuing warning letters (X1) throughout the tax collection process partially has a positive significant effect on the effectiveness of disbursing tax arrears at Bandung Cibeunying Primary Tax Service Office.

According to the results of descriptive statistics analysis on Table 4, the average monthly tax arrears disbursement due to the issuance of warning letters is 48,95% from 2018 to 2022. Meaning that the Bandung Cibeunying Primary Tax Service Office has succeeded in collecting at least half of the monthly amount of tax arrears given to

taxpayers. Furthermore, during this period it is evident that the warning letters consistently facilitates the process of disbursing tax arrears every month even though the value fluctuates.

Therefore, the higher number of warning letters issued, will increase the effectiveness of disbursing tax arrears, and vice versa. This accordance with the intention of issuing warning letters as one of the legal products as a tool to increase the effectiveness of disbursing tax arrears.

This study result confirms the outcomes of the previous study by Hadisantoso et al. (2022), Maryana & Sagala (2019), and Mellinia & Sari (2022).

### **Forced Letters and Tax Arrears Disbursement**

The results obtained from the t-test data analysis shows that issuing forced letters for the tax collection process partially has a negative significant effect on the effectiveness of disbursing tax arrears at Bandung Cibeunying Primary Tax Service Office. Thus, it can be concluded that the forced letters issued has not been able to make the taxpayers to immediately settle their tax debts. This is triggered by several things such as there are several months with a very low percentage of tax arrears disbursement with forced letters, even up to 0% or no disbursement at all.

It may also be based on the individual's psychological behavior, because according to Jack Brehm's Psychological Reactance theory (1966), this concept refers to the idea that people are more likely to become motivated to reclaim their freedom when it is “reduced” or “threatened to be reduced”.

The monthly average of tax arrears disbursement through forced letters is 48,18% during 2018-2022, as shown in Table 4. Similar to the issuance of warning letters for tax collection, issuing forced letters also prove that Bandung Cibeunying Primary Tax Service Office successfully disburses almost half of the entire amount of tax collection each month.

Although the study's result indicate that forced letters has a negative direction on tax arrears disbursement, it's undeniable that forced letters can still contribute or have a real influence on disbursing tax arrears. This is triggered by tax arrears disbursement in a few months has a very high percentage that even reaches 100% or the full amount of tax arrears sent to the taxpayers. However, this study result contradicts with the previous study result by Sophian & Rahmadini (2022).

## **5. CONCLUSIONS**

In conclusion, the monthly average value of tax arrears disbursement shown by descriptive statistics analysis is 64,73%, which less effective according to the effectiveness measurement standard by Madjid & Kalangi (2015). Both variables have a significant effect on disbursing tax arrears, but different direction. Warning letters with positive direction, while forced letters with negative direction upon tax arrears disbursement.

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