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THE INFLUENCE OF TAX RELAXATION, TAX SANCTIONS, AND INCOME LEVELS ON COMPLIANCE WITH THE RURAL AND URBAN LAND AND BUILDING TAX IN PALU CITY

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Abstract:

This study aims to evaluate the extent to which tax relaxation, the imposition of sanctions, and income levels influence taxpayer compliance in fulfilling their obligation to pay the Rural and Urban Land and Building Tax in Palu City. A quantitative approach with a survey method was employed, using primary data collected through questionnaires distributed to registered taxpayers. Multiple linear regression analysis was used to examine the relationships between the studied variables. The findings indicate that all three independent variables positively influence taxpayer compliance, with income level being the most dominant factor, followed by tax sanctions and tax relaxation. These results highlight that individuals' economic capacity plays a key role in determining compliance, while sanctions and relaxation function as supporting tools to encourage tax-abiding behavior. Based on these results, it is recommended that local governments strengthen tax collection strategies based on taxpayers' financial capacity, while maintaining firm and fair sanction enforcement policies. Tax relaxation should be applied selectively to ensure it provides benefits without diminishing public tax awareness.

Keywords: Tax Relaxation, Tax Sanctions, Income Level, Tax Compliance, Rural and Urban Land and Building Tax

INTRODUCTION

Taxes represent a primary source of government revenue and are essential for funding national development and the operations of local administrations. At the regional level, the Rural and Urban Land and Building Tax functions as a key tool in generating local own-source revenue, particularly in urban areas with significant economic activity and dense populations, such as Palu City. However, issues surrounding taxpayer compliance – especially in relation to the Rural and Urban Land and Building Tax – remain a persistent challenge.

The phenomenon of delayed or even neglected tax payments is often associated with various factors, both in terms of policy and individual economic conditions. Compliance is defined as the act of obeying or adhering. "Obeying or adhering in this context means complying with or submitting to applicable laws and regulations" (Kementerian Pendidikan dan Kebudayaan, 2016). One way to encourage compliance is through tax relaxation measures, such as the elimination of fines or the provision of payment discounts. This is supported by research (Delviana et al., 2021), which states that "the government is currently continuing to make efforts to achieve the income target from the taxation sector through various measures". This is further reinforced by the statement that "the government has adopted various policies to encourage increased tax income, and the most important factor is taxpayer compliance" (Parwati et al., 2024).



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“Relaxation can be broadly defined as compensation in the form of relief or leniency granted in one aspect to make the system function more smoothly and effectively” (Habu et al., 2021). This policy is expected to provide relief to taxpayers, especially those who are financially impacted.

On the other hand, tax sanctions are still enforced as a form of legal action against non-compliant taxpayers. These sanctions are intended to create a deterrent effect and raise awareness of the obligation to pay taxes on time. “There are two types of tax sanctions: administrative and criminal” (Moravec and Radian, 2016). Administrative sanctions usually come in the form of fines or increased rates, whereas criminal sanctions may involve imprisonment for violations of tax regulations.

However, the effectiveness of sanctions is not always consistent in practice and can be influenced by the level of public understanding and perception of the tax system. In addition to policy and enforcement, individual income level is also believed to have a significant impact on tax payment behavior. Taxpayers with stable incomes tend to have a greater capacity to meet their tax obligations compared to those with fluctuating or limited incomes.

Table 1. Report of Potential and Realization the Rural and Urban Land and Building Tax income - Palu City

Year	Determination the Rural and Urban Land and Building Tax			Realization of Receipt the Rural and Urban Land and Building Tax Determination			Determination of the Rural and Urban Land and Building Tax Remainder			Principal	Description
	Tax Duction Notification Letter	principal (IDR)	Tax Due Notification Letter	Principal (IDR)	Fine (IDR)	Amonnt (IDR)	Tax Duction Notification Letter	principal (IDR)	Tax Due Notification Letter		
2021	135,478	23,299,520,037	38,994	9,821,307,622	76,556,729	9,897,864,351	96,484	13,478,212,415	28.78 %	42.15 %	Less than 71.22 %
2022	138,898	31,213,197,112	40,373	12,609,557,739	98,803,125	12,708,360,864	98,525	18,603,639,373	29.07 %	40.40 %	Less than 70.93 %
2023	142,559	31,934,312,963	39,313	12,731,069,897	6,612,561	12,737,682,458	103,249	19,203,243,066	27.58 %	39.87 %	Less than 72.42 %
2024	147,184	32,085,929,026	49,835	14,763,723,885	24,400,145	14,788,124,030	97,349	17322.205,141	33.86 %	46.01 %	Less than 66.14 %

In the city of Palu, data obtained by the author from the regional income Agency indicates an increase in tax payments due to the tax relaxation policy issued by the Palu City Government at the end of 2023. The target achievement percentage rose from 39.87% in 2023 to 46.01% in 2024. This means that more than 10,000 additional taxpayers made payments in 2024. This increase was undoubtedly influenced by several factors, including – but not limited to – the tax relaxation policy implemented by the Palu City Government.

Based on this background, this study aims to analyze the extent to which tax relaxation, tax sanctions, and income level affect taxpayer compliance in paying the Rural and Urban Land and Building Tax in Palu City. By understanding these factors, it is expected that the local government

will be able to develop more effective strategies for increasing the Rural and Urban Land and Building Tax income through improved community compliance.

Theory of Planned Behavior (TPB). is used as the basis for formulating the first and second hypotheses. This theory explains that individual attitudes arise as a result of intentions. This is in line with the concepts of moral responsibility and self-awareness, both of which arise because of one's intention to act. If taxpayers already have moral awareness and responsibility in fulfilling tax obligations, it is expected that compliance with tax reporting will increase. Moreover, the presence of tax relaxation policies and application of sanctions are believed to be able to strengthen the influence on compliance behavior. "The last stage is behavior, the intention stage is the stage where someone has the intention or intention to behave, while behavior is the stage of someone behaving" (Mustikasari, 2007). Factors such as tax relaxation policies, tax sanctions, and income levels are believed to play a role in shaping formal tax compliance behavior. When taxpayers have understood their obligations, coupled with encouragement from sanctions and relaxation incentives, they will be encouraged to have the desire to pay taxes and realize it in the form of real action.

Meanwhile, attribution theory assumes that individuals will try to find the causes of other people's actions by attributing them to certain factors. In the context of taxation, the formal compliance of taxpayers is closely related to their attitude in assessing the tax obligations imposed. (Santi, 2012) explains "attribution theory is very relevant to explain the internal and external conditions of taxpayers in fulfilling their obligations to pay taxes". A person's level of tax compliance is not only influenced by internal factors such as awareness and morale, but also by external influences. Therefore, attribution theory is in accordance with the third hypothesis in this study because it explains that income level as an internal factor affects compliance in fulfilling tax obligations.

Tax relaxation itself is defined as a form of fiscal policy designed by the government to ease the burden on taxpayers, so that tax obligations do not become too heavy an obstacle to fulfill by considering the current situation. Tax relaxation can take the form of tax payment discounts, provision of other facilities, and extension of time in tax administration. Regulation of the Mayor of Palu City No. 25 of 2023 concerning relief, reduction, postponement, exemption or exemption from taxation.

The elimination of payment of principal and or tax and retribution sanctions in point 9 paragraph 1 which mentions building land tax as a tax object that gets tax relaxation, which in the end aims to ease the burden on taxpayers and increase taxpayer compliance itself, is in line with research (Dewanti, 2021) which says "the terms of tax collection, the Rural and Urban Land and Building Tax relaxation policy is fair because it has facilitated taxpayers who are less able according to their portion". This relaxation policy is also presented as a response to efforts to maintain economic stability so that there is no sluggishness. Through the Rural and Urban Land and Building Tax relaxation policy, the government seeks to encourage taxpayers to remain obedient in fulfilling their tax obligations. Thus, local financing sources from the tax sector can still be used to support government administration and public services. Based on this foundation, the first hypothesis is formulated as follows:

H1: Tax relaxation has a positive impact on compliance with the Rural and Urban Land and Building Tax payments.

Tax sanctions are imposed to encourage compliance by creating a deterrent effect for taxpayers who intend to violate tax regulations. "Tax Sanctions affect the compliance of land and building taxpayers" (Nafiah & Warno, 2018), then supported by research (Herlina, 2020) which says that "There is also a partial significant influence between the sanction variable and taxpayer compliance".

"With the existence of tax sanctions, this will affect the actions of a taxpayer, whether to commit tax violations or not" (Parera & Erawati, 2017). Based on these statements, the second hypothesis is proposed:

H2: Tax sanctions have a positive effect on compliance with the Rural and Urban Land and Building Tax payments.

A person's income has an influence on their awareness and compliance in obeying the rule of law and fulfilling applicable obligations. "Financial condition is the financial ability of individuals to meet all their needs" (Agustiantono, 2012). "Income level partially affects taxpayer compliance in paying land and building tax" (Oktavianti et al., 2021). "Variable income levels have a positive and significant effect on compliance with land and building taxpayers" (Rahman, 2018). Based on these statements, the third hypothesis is formulated as follows:

H3: Income level has a positive effect on the Rural and Urban Land and Building Tax compliance.

METHODS

This study employs a quantitative methodology with an associative research design. Its primary aim is to examine the relationship and impact of the independent variables – tax incentives, tax penalties, and income level – on the dependent variable, which is taxpayer compliance in fulfilling obligations related to the Rural and Urban Land and Building Tax. The research population comprises all individuals liable for this tax residing in Palu City. A purposive sampling technique was utilized, selecting participants based on specific criteria aligned with the study's objectives. The number of respondents was determined using the Slovin formula or other practical considerations, taking into account time and resource constraints. Data collection was conducted through questionnaires structured using a Likert scale. The data analysis was performed using WarpPLS version 8.0.

RESULT AND DISCUSSION

Table 2. R-Square Values

	R Square	Adjusted R-Square
Compliance with paying the Rural and Urban Land and Building Tax (Y)	0.413	0.406

Based on the results of data processing using Warp PLS, the Average R-squared (ARS) value is 0.413 and the Average Adjusted R-squared (AARS) value is 0.406 with a P value <0.001. This ARS value indicates that on average, 41.3% of the variation in the dependent variable, namely compliance to pay the Rural and Urban Land and Building Tax, can be explained through the independent variables used in the model, namely tax relaxation (X1), tax sanctions (X2), and income level (X3).

Meanwhile, the AARS value of 0.406 indicates that after adjusting for the number of predictors in the model, there is still 40.6% variation in the Rural and Urban Land and Building Tax payment compliance that can still be explained by the three independent variables, indicating that this model has strong predictive power and does not experience overfitting.

The P value of <0.001 in both ARS and AARS also confirms that the model is statistically significant, meaning that the resulting relationship between the variables in the model does not occur by chance, but has a strong empirical basis.

Thus, it can be concluded that tax relaxation, tax sanctions, and income levels have a significant joint contribution collectively to taxpayer compliance in paying the Rural and Urban Land and Building Tax, although there is still 58.7% other variation that can be influenced by other factors outside this model. “The findings of this study also show that understanding of taxes including understanding of tax policy plays an important role in influencing tax compliance” (Putri et al., 2024).

Table 3. R-Square Values

	Q²
Compliance with paying the Rural and Urban Land and Building Tax (Y)	0.413

The Q-Square (Q²) value of 0.413 indicates that the model has strong predictive ability. This means that 41.3% of the variation in the Rural and Urban Land and Building Tax compliance can be explained by the independent variables in the model, including tax relaxation, sanctions, and income level.

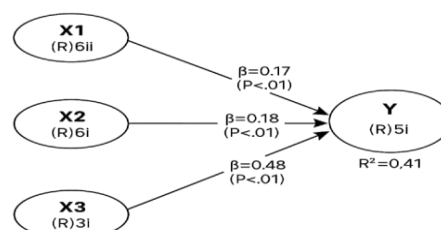
Since the Q² value is above zero, this model has sufficient predictive relevance, which means that the model is able to provide a fairly good estimate taxpayer compliance behavior in paying the Rural and Urban Land and Building Tax. In other words, this model not only has explanatory power, but also functions well in predicting the dependent variable based on the available data.

This indicates that the three variables can be used as a valid basis in formulating policies or strategies to improve compliance with the Rural and Urban Land and Building Tax payments by the community.

Table 4. Indices for Model Fit and Quality

Model Fit Indicators	Index	P-Value	Result
APC	0.279	P < 0.001	Accepted
ARS	0.413	P < 0.001	Accepted
AVIF	2.199		Accepted

Table 4 displays the outcomes of the model applied in this research. Given that the p-values for the Average Path Coefficient (APC) and Average R-squared (ARS) are both below the 5% threshold, and the Average Variance Inflation Factor (AVIF) is under 5, it can be inferred that the model satisfies the standards for a good fit.



Source: WarPLS 8.0 (processed by researchers, 2025)

Figure 1. Structural Model Evaluation (Inner Model)

In this study, hypothesis testing was carried out using PLS analysis with the help of WarpPLS 8.0 software. The hypothesis will be accepted if the P-value is below 0.05 or 5%.

Table 5. Hypothesis Result

	Path Coefficient	P-value	Description
Compliance Tax Againstst Paying Relaxation the Rural and Urban Land and Building Tax	0.172	0.002	Accepted
Compliance Tax Againstst Paying Relaxation the Rural and Urban Land and Building Tax	0.182	0.001	Accepted
Compliance Tax Againstst Paying Relaxation the Rural and Urban Land and Building Tax	0.484	<0.001	Accepted

The Influence of Tax Relaxation on Compliance in Paying the Rural and Urban Land and Building Tax. The coefficient score of 0.172 demonstrates that tax relaxation exerts a positive effect on taxpayer compliance concerning the Rural and Urban Land and Building Tax. This implies that when the government offers certain forms of relief—such as deferred payments, reduced tax liabilities, or waived penalties—compliance among taxpayers tends to improve. This outcome supports the findings of Dewanti (2021), who argued that the tax relaxation policy for the Rural and Urban Land and Building Tax is equitable, as it provides support tailored to taxpayers with lower financial capacity. Moreover, the p-value of 0.002, being below the 0.05 threshold, confirms that this influence is statistically significant. Thus, the link between tax relaxation and compliance is not coincidental but represents a valid and meaningful association.

The Influence of Tax Sanctions on Compliance in Paying the Rural and Urban Land and Building Tax. A coefficient value of 0.182 indicates that tax sanctions contribute to enhancing taxpayer compliance with payments related to the Rural and Urban Land and Building Tax. When penalties for late payments or tax violations are enforced clearly and strictly, taxpayers are more inclined to fulfill their obligations. This finding aligns with prior research, “tax sanctions influence the compliance of land and building taxpayers” (Nafiah & Warno, 2018), and “there is a partially significant effect between the sanctions variable and taxpayer compliance” (Florientina & Nugroho, 2021). Furthermore, the p-value of 0.001—well below the 0.05 threshold—shows that this influence is statistically significant, reinforcing the idea that sanctions serve as a key motivator for compliance.

The Influence of Income Level on Compliance in Paying the Rural and Urban Land and Building Tax. Income level, with the highest coefficient value of 0.484, stands out as the most influential variable among the three examined. This suggests that income has the most significant impact on taxpayer compliance regarding the Rural and Urban Land and Building Tax. Simply put, individuals or households with higher income levels tend to have a greater capacity and willingness to meet their tax obligations. This result aligns with the findings of (Agustiantono, 2012) who noted that “income level partially influences taxpayer compliance in paying land and building taxes.” Additionally, the very low p-value (<0.001) confirms that this influence is statistically highly

significant, highlighting income as a crucial factor in understanding differences in taxpayer compliance behavior.

CONCLUSION

Based on the research findings regarding the influence of tax relaxation, tax sanctions, and income level on taxpayer compliance with Rural and Urban Land and Building Tax payments in Palu City, several key insights were identified. Firstly, the adoption of tax relaxation measures has been shown to significantly enhance taxpayer awareness and willingness to comply. Incentives in the form of reduction or elimination of fines provide flexibility for taxpayers. Taxpayers who are affected by the economy, especially after a disaster. Second, tax sanctions have also proven effective in encouraging compliance. The existence of legal or administrative sanctions for violations of tax obligations is a deterrent effect for taxpayers to carry out their obligations on time. Third, income level has a positive relationship with compliance, which indicates that the higher the income of taxpayers, the greater their ability to fulfill their tax obligations.

Overall, the three independent variables-tax relaxation, tax sanctions, and income level-simultaneously have a significant effect on the level of taxpayer compliance in paying the Rural and Urban Land and Building Tax. These findings provide important implications for local governments in formulating strategies to optimize local tax revenues, especially through policies that encourage compliance without ignoring the economic conditions of the community.

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