

Moderation of Risk Preferences in the Effect of Tax Understanding on Tax Compliance Study in East Java, Indonesia

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ABSTRACT: Taxes have a crucial role in state life which is used for state needs for the prosperity of the people. This research aims to test the understanding tax regulations affect individual tax compliance of employees, non-employees, and corporate taxpayers and to test whether risk preferences can moderate the relationship between understanding tax regulations on individual tax compliance of employees, non-employees, and corporate taxpayers. This type of research is descriptive research. The population in this research is all individual taxpayers, employees, non-employees, and corporate taxpayers in the East Java region. Sampling was carried out using the convenience sampling method with a sample size of 99 individual employee taxpayers, 98 non-employee taxpayers, and 96 corporate taxpayers. The data collection method was carried out by distributing questionnaires and the data analysis technique in this research used multiple linear regression analysis techniques. Research results show that understanding tax regulations influences individual tax compliance of employees, non-employees, and corporate taxpayers. Meanwhile, risk preferences show negative results for employee and non-employee individual taxpayers, so they are deemed unable to moderate the relationship between understanding tax regulations and tax compliance. Meanwhile, corporate taxpayers show positive results so they are considered to moderate the relationship between understanding of tax regulations and tax compliance.

KEYWORDS: understanding tax regulations, tax compliance, risk preferences

1. INTRODUCTION

1.1 Research Background

Taxes have a very important role in national life, especially in the economic and social development of a nation which can be realized because of the existence of a permanent source of funding. (Aktas Güzel et al., 2019; Darussalam; et al., 2019). One of the indicators used by the government to measure success in state revenue from taxes is the tax ratio. The greater the tax ratio indicates the greater the portion of tax revenue which continues to increase and makes a large contribution to state revenue (Birch, 2023; Bird et al., 2008; Olalekan Oladipo & Bamidele, 2021).

Reform of the national tax system can indeed be said to have increased tax revenues (Darussalam; et al., 2019; Subroto, 2020). However, the speed of growth in tax revenues has not achieved the expected results. This is proven by the fact that Indonesia's tax ratio has not been achieved (Kwarto & Yunaenah, 2019).

Indonesia's tax ratio is still fluctuating. In 2018, the tax ratio was 10.24 percent. The tax ratio figure in 2020 dropped to 8.33 percent. In line with the pandemic conditions, the tax ratio in 2021 will begin to increase to 9.11 percent. And in 2022, the tax ratio will increase again to 10.38 percent

(<https://berkas.dpr.go.id>). For 2023 the tax ratio will reach 10.21 percent (<https://nasional.kontan.co.id>).

The tax ratio figure is still below 15% the ideal tax ratio in achieving sustainable development is 15% (Sinaga & Hermawan, 2022). Factors that cause low tax ratios are low per capita income and low levels of taxpayer compliance (Adiasa, 2013), most taxpayers do not transparently report their income (Sani & Sulfan, 2022), and the level of efficiency of tax administration is not yet optimal. The low level of public awareness of tax obligations is caused by the public's lack of understanding of tax regulations (J. Susyanti & Askandar, 2019; J. Susyanti & Sunardi, 2023).

This research aims to test whether understanding tax regulations affects employee personal tax compliance; whether risk preferences can moderate the relationship between understanding tax regulations and employees' personal tax compliance; test whether understanding tax regulations has a positive effect on tax compliance for non-employee individuals; To test whether risk preferences can moderate the relationship between understanding of tax regulations and tax compliance for non-employee individuals; To test whether understanding tax regulations has a positive effect on corporate tax compliance; To test whether risk preferences can moderate the relationship

between understanding of tax regulations and corporate tax compliance.

Tax compliance means taxpayers declare all their income and pay all taxes by fulfilling legal obligations (Igbekoyi et al., 2023; Kwarto & Yunaenah, 2019; Onu & Oats, 2015). A study (Sebele-Mpofu, 2020) explains tax compliance as the extent to which citizens respect their legal tax obligations. In its simplest form, tax compliance is the level of taxpayer compliance with tax laws (James & Alley, 2003).

Increasing taxpayer compliance can be influenced by taxpayer preferences regarding the risks that occur. Risk preference is one of a person's characteristics and this characteristic will influence his behavior (Adiasa, 2013; Yuesti et al., 2019). In the conceptual risk preference, there are three scopes, namely, avoiding risk, neutral in facing risk, and liking to seek risk. A study (Appah et al., 2016; Torgler, 2003) conveyed that a taxpayer's decision can be influenced by his behavior toward the risks faced. The risks that exist for taxpayers in increasing taxpayer compliance include financial risks, health risks, social risks, employment risks, and safety risks (Adiasa, 2013).

Tax compliance can be directly influenced by the taxpayer's knowledge and understanding (Abu Hassan et al., 2022; Musimenta, 2020; J. Susyanti & Askandar, 2019; J. J. Susyanti et al., 2020). However, it does not rule out the possibility that tax compliance is not at all influenced by a person's understanding of taxpayer regulations. Risk preference is used as a moderating variable to strengthen understanding of tax regulations and taxpayer compliance. These risks will be related to increasing taxpayer compliance, where a taxpayer tends to determine their attitude in facing the risks that occur (Doerrenberg & Peichl, 2017; Yuesti et al., 2019).

This research classifies taxpayers into three, namely, Individual Taxpayers, Employees, Non-Employees, and Corporate Taxpayers, so that the results can be known for each taxpayer. The study (Kahneman & Tversky, 1979) explained that the substance of prospect theory is the process of individual decision making which is the opposite of the price formation that usually occurs in economics. Following prospect theory (Kahneman & Tversky, 1979), then The researcher's reason for classifying them into three is that, if seen from the compliance perspective, employee individual taxpayers are still assisted by their employers or companies, whereas non-employee individual taxpayers and corporate taxpayers they can be said to be compliant because they take into account the sanctions and fines that will be obtained if does not comply with tax regulations (J. Susyanti, 2021; J. J. Susyanti et al., 2020).

2. THEORETICAL FRAMEWORK AND DEVELOPMENT HYPOTHESES

2.1. The effect between Understanding tax regulations and Tax Compliance

Social learning theory is an extension of behavioristic learning theory (Bandura, 1969). According to (Bandura, 1969; Nabavi, 2014) the process in social learning is the attentional process; the Detention process (retention); the Motor reproductive processes; Strengthening process (reinforcement). in simple terms Tax knowledge according to (Bandura, 1969) is said to be the taxpayer's ability to understand tax laws and regulations. Tax knowledge was found to be positively correlated with voluntary tax compliance attitudes and negatively related to tax avoidance attitudes (Cechovsky, 2018). Research (Abu Hassan et al., 2022; Saad, 2010; J. Susyanti & Askandar, 2019) adds that tax knowledge is the level of knowledge of basic tax concepts consisting of tax rules and financial knowledge that taxpayers need to understand to fulfill their tax obligations.

Taxpayer understanding of tax regulations with indicators in research (Adiasa, 2013; J. Susyanti & Askandar, 2019; J. Susyanti & Sunardi, 2023) includes questions namely: Knowing and trying to understand tax laws; Knowledge and understanding of the rights and obligations as a taxpayer; Knowledge and understanding of tax sanctions; Knowledge and understanding of non-taxable income, taxable employers and tax rates; and Taxpayers know and understand tax regulations through outreach carried out by the tax office.

Theory of Planned Behavior or Theory of Planned Behavior (Ajzen, 1991) can be used to examine individual behavior as mandatory which is influenced by intentions. The emergence of intentions to behave is determined by three factors, namely: Behavioral Beliefs, Normative Beliefs, and Control Beliefs. The theory of Planned Behavior (Ajzen, 1991) can be used to measure taxpayer compliance. (Langham et al., 2012) developing a model based on the TPB, namely the Compliance Behavior Model (CBM). In general, compliance can be divided into two, namely formal compliance and material compliance. Formal compliance reflects the fulfillment of tax deposits and reporting obligations according to the specified schedule, while material compliance emphasizes the substantive aspect, namely the amount of tax payments following the provisions (Sani & Sulfan, 2022).

Tax compliance leads to (James & Alley, 2003) explain that tax compliance is the willingness of taxpayers to fulfill their tax obligations following applicable regulations without the need for inspections, thorough investigations, warnings, or threats, and the application of legal or administrative sanctions. Indicators in research (Adiasa, 2013; J. Susyanti & Askandar, 2019; Widayati & Nurlis., 2010) include a statement: Obligation to own Taxpayer

Identification Number; Always fill out tax forms correctly; Always calculate the correct tax amount; Always pay taxes on time; Report tax return properly and correctly.

2.2 The Effect Between Risk Preference and Tax Compliance

Prospect theory is a theory that explains how someone makes decisions under uncertain conditions (Kahneman & Tversky, 1979). The same research subject with the same choices but formulated in different ways will result in a person's decision being different, (Kahneman & Tversky, 1979) named this person's behavior as risk aversion behavior and risk-seeking behavior.

The relationship between this research and prospect theory is that prospect theory explains that risk preferences can influence taxpayer compliance. If a taxpayer has a high risk then the taxpayer will not necessarily not pay his tax obligations, because if the taxpayer has a risk-seeking nature, this means that even though the taxpayer has a high risk it will not influence the taxpayer to continue paying taxes, while the taxpayer which has the characteristic of risk aversion, if the taxpayer has a low risk, the taxpayer will avoid their tax obligations.

Risk preference is a moderating variable in this study. Based on research (Alabede et al., 2011; Torgler, 2004) It is explained that a taxpayer's decision can be influenced by his behavior towards the risks faced. The theoretical basis used by risk preferences to influence taxpayer compliance is prospect theory. Research from (Alabede et al., 2011) uses prospect theory to examine the influence of risk preferences on individual taxpayer compliance. The research results of Alabede (2011) show that risk preferences have a positive effect on individual taxpayer compliance. indicators in research (Aryobimo, 2012) includes statements: Financial risk; Health risks; Social risk; Occupational risks; Safety risk

Attribution theory was introduced by (Heider, 1958) and was later developed again by (Kelley, 1973), attribution is a process of forming an impression through observing social behavior based on situational or personal factors. states that when individuals observe a person's behavior, they try to determine whether it is internally or externally generated (Robbinson, 2006). Taxpayer compliance is related to the taxpayer's attitude in assessing the tax itself. A person's perception of making judgments about other people is greatly influenced by the person's internal and external conditions. Attribution theory is very relevant to explain the above meaning.

2.3 Development Hypotheses

Previous research from (Manual & Xin, 2016; J. Susyanti & Askandar, 2019; J. Susyanti & Sunardi, 2023) concluded that there is a relationship between tax knowledge and tax compliance, increasing the level of tax

knowledge can cause an increase in the level of tax compliance. Previous research from (Adiasa, 2013; Agustini & Isroah, 2016; J. Susyanti & Askandar, 2019) concluded that there is a relationship between tax understanding and tax compliance. (Gwaro et al., 2016; Mustapha & Obid, 2015) explains the effectiveness of using an online tax system leading to increased tax compliance. Thus, greater tax understanding can lead to higher compliance. Based on theory and related research, a hypothesis can be formulated

H1: Understanding tax regulations influence personal tax compliance for employees, non-employees, and corporate taxpayers

Based on attribution theory (Heider, 1958) which was later developed again by (Kelley, 1973), risk preference is an internal force in encouraging taxpayers to fulfill their tax obligations. (Aryobimo, 2012) conveyed that a taxpayer's decision can be influenced by his behavior towards the risks faced. A study (Marcheti & Dwimulyani, 2019) shows that his research failed to prove that risk preferences strengthen the positive relationship between understanding the quality of tax services and taxpayer compliance. Based on theoretical studies and previous research results, the following hypothesis is formulated:

H2: Risk preferences can moderate the relationship between understanding tax regulations on individual tax compliance of employees, non-employees, and corporate taxpayers

3. RESEARCH METHODS

The research was designed with a causality approach, analyzing the relationship and influence between the variables understanding tax regulations, and formal tax compliance, with risk preferences as a moderating variable. Research is also called explanatory, namely explaining causal relationships and testing hypotheses for the purpose being analyzed (purpose of study). This research includes research to test hypotheses (hypothesis testing).

The population in this research is Individual Taxpayers and Corporate Taxpayers in East Java. The taxpayer criteria used are taxpayers who are registered and actively carrying out tax obligations and have a Taxpayer Identification Number. The sampling technique used in this research convenience Sampling method, using the Slovin formula obtained samples for individual taxpayers, 99 employees, 98 non-employees, and 96 corporate taxpayers. The data collection method uses questionnaires that are distributed directly.

The dependent variable in this research is taxpayer compliance, while the independent variable is understanding of tax regulations, and the moderating variable is risk preference. Each variable operational definition will be explained as follows:

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The data analysis method used is Moderated Regression Analysis (MRA) using the Absolute Value Difference Test. The reason for using this interaction test is the existence of a moderating variable in this research. The absolute value difference test is carried out by looking for the standardized absolute value difference between the two independent variables. If the difference in absolute value between the two independent variables is significantly positive, then that variable moderates the relationship between the independent variable and the dependent variable.

4. DISCUSSION

This research was conducted on individual taxpayers and corporate taxpayers in East Java. The sample for Employee Individual Taxpayers was 99 respondents, 98 Non-Employee Individual Taxpayers, and 96 Corporate Taxpayers. The demographics of the respondents in this study

were mostly women, namely 147 respondents (50.2%). This amount is for both employee taxpayers and corporate taxpayer representatives. Meanwhile, the majority of questionnaire takers were in the age range up to 25 years (34.5%), this shows that active taxpayers visited the tax service office at a young age. The highest level of education was undergraduate, 91 respondents (31%) and postgraduate, 82 respondents (28%). The majority of respondents' length of work was more than 10 years (38.54%). This shows that respondents have carried out their tax obligations for quite a long time, so they are expected to understand taxes.

The validity test was carried out using the product moment correlation approach. The Person's model is valid and valid because the significant value is less than 0.05 or less than 0.05. instrument reliability test with Cronbach Alpha values which can be seen in Table 1 below:

Table 1. Reliability Test Results for Question Items

Research variable	Cronbach's Alpha	N of Items	Reliable / Not Reliable
1. Understanding Tax Regulations	0.6514	11	Reliable
2. Tax compliance	0.9016	10	Reliable
3. Risk Preference as a Moderating Variable	0.8429	11	Reliable

Source: Primary data processed, 2024

Reliability testing for 32 question items, of the 32 question items tested, all question items are reliable because they have Cronbach's Alpha above 0.60.

The results of the data normality test show that the significant value of the data exceeds or is greater than 0.05, namely for the independent variable that the influence of understanding tax regulations is 0.064, so the data is normally distributed, while the dependent variable with the individual employee tax compliance variable has a significant value. of 0.659, then the data is normally distributed. The results of the data normality test show that the significant value of the data exceeds or is greater than 0.05, namely for the independent

variable that the influence of understanding tax regulations is 0.112, so the data is normally distributed, while the dependent variable with the tax compliance variable has a significant value of 0.086, then the data is normally distributed. The results of the data normality test show that the significant value of the data exceeds or is greater than 0.05, namely for the independent variable that the influence of understanding tax regulations is 0.051, so the data is normally distributed, while the dependent variable with the corporate tax compliance variable has a significant value of 0.105, then the data is normally distributed.

The multicollinearity test can be seen in Table 2 as follows:

Table 2. Multicollinearity Test Results

Individual taxpayer Employee				Individual taxpayer non-Employee				Corporate taxpayers			
Coefficients ^a				Coefficients ^a				Coefficients ^a			
		Collinearity Statistics				Collinearity Statistics				Collinearity Statistics	
Model		Tolerance	VIF	Model		Tolerance	VIF	Model		Tolerance	VIF
1	X1	.949	1.053	1	X2	.996	1.004	1	X3	.452	2.210
	M1	.968	1.033		M2	.985	1.015		M3	.999	1.001
	XM1	.978	1.022		XM2	.981	1.019		XM3	.453	2.210

a. Dependent Variable: Y1

a. Dependent Variable: Y2

a. Dependent Variable: Y3

Source: Primary data processed, 2024

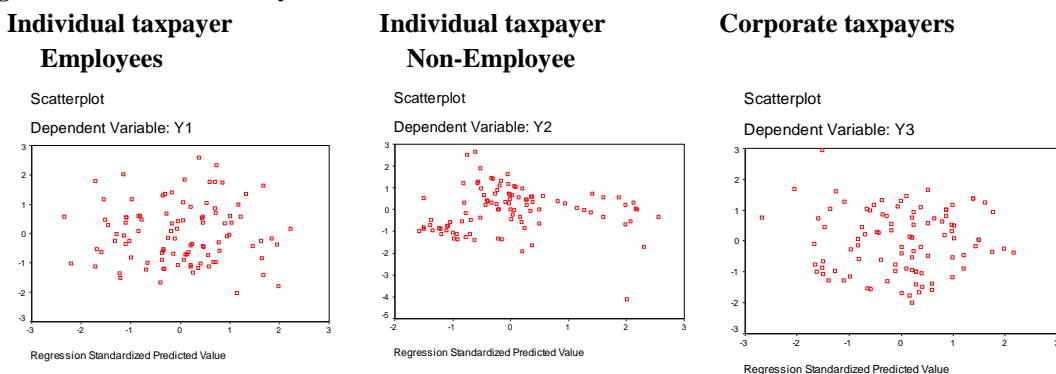
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Based on the table above, it can be seen that the tolerance value of the independent variable has a VIF value that is smaller than 10. Thus it can be concluded that the regression model does not indicate multicollinearity.

Heteroscedasticity test to test whether the regression model has residual inequality from one observation to another. A good regression model is homoscedastic or does not have heteroscedasticity. One way to detect whether heteroscedasticity is present is to look at the graph plot (ZPRED) with the residual (SRESID). If there is a certain

pattern, such as the points forming a certain regular pattern (wavy, spreading then narrowing), then this shows that heteroscedasticity is occurring in the regression model. However, suppose there is no clear pattern on the scatterplot graph, and the points are spread above and below the number 0 on the Y-axis. In that case, it can be concluded that heteroscedasticity does not occur in the regression model. The following is a presentation of the results of data processing using the Heteroscedasticity test for individual employee taxpayers, which can be seen in Figure 1 below:

Figure 1. Heteroscedasticity Test Results



Source: Primary data processed, 2024.

Based on Figure 3, the scatterplot graph shows that the data is spread above and below the number 0 (zero) on the Y axis and there is no clear pattern to the data distribution on the scatterplot graph. This means that heteroscedasticity does not occur in the regression model. So the conclusion is that this regression model is suitable to be used to predict personal tax compliance for employees, non-employees, and corporate taxpayers based on the variables that influence it, namely the influence of understanding tax regulations.

4.1. Moderated Regression Analysis (MRA)

After carrying out the classical assumption test results and the overall results show that the regression model has met the intended criteria, to answer the hypothesis multiple linear regression analysis is used with the level of understanding of tax regulations (X) as the independent variable and the level of tax compliance (Y) as the dependent variable. Based on data processing using the SPSS statistical program, the results in Table 3 can be obtained as follows:

Table 3. Regression Testing Results

Employee Individual Taxpayers

		Coefficients^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-128.966	59.250		-2.177	.032
	X1	3.288	1.305	1.651	2.520	.013
	M1	3.898	1.754	3.041	2.222	.029
	XM1	-.074	.038	-3.309	-1.935	.056

a. Dependent Variable: Y1

Source: Primary data processed, 2024

An equation is formed = $3.288X + 3.898M + (-0.074) \text{ Moderate} - 128.966$ From this equation it can be seen that understanding tax regulations (X) influences tax compliance (Y), and risk preference (M) is not a moderator of variable X on Y because significant value of 0.056.

Based on data processing using the SPSS statistical program, for non-employee individual taxpayers the results in Table 4 can be obtained as follows:

**Table 4. Results from Regression
Non-Employee Individual Taxpayers**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-44.203	30.018		-1.473	.144
	X2	1.380	.607	.776	2.273	.025
	M2	2.066	.928	2.716	2.227	.028
	XM2	-.033	.019	-2.446	-1.756	.082

a. Dependent Variable: Y2

Source: Primary data processed, 2024

Based on table 4 for non-employee individual taxpayers, it can be concluded that tax compliance is influenced by several variables used in the research, so that an equation is formed: $Y = 1.380X + 2.066M + (-0.033) \text{ Moderate} - 44.203$. From this equation it can be seen that understanding tax regulations (X) influences tax compliance

(Y), and risk preference (M) is not a moderator of variable X towards Y because the significant value is 0.082.

Based on data processing using the SPSS version 11 statistical program, for corporate taxpayers the results in table 5 can be obtained as follows:

**Table 5. Results from Regression
Corporate Taxpayers**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	64.355	21.723		2.963	.004
	X3	-.745	.490	-.677	-1.518	.132
	M3	-1.217	.638	-1.370	-1.909	.059
	XM3	.032	.014	2.202	2.256	.026

a. Dependent Variable: Y3

Source: Primary data processed, 2024.

Based on Table 5, it can be concluded that variable Y is influenced by several variables used in the research so that an equation is formed as follows:

$$Y = -0.745X + (-1.217M) + (0.032) \text{ Moderate} 64.355$$

From this equation, it can be seen that understanding tax regulations (X) influences tax compliance (Y) and risk

preferences (M) as moderators of variable X towards Y because the significant value is 0.026.

Hypothesis testing was carried out using the t-test in the SPSS statistical program, where the test was carried out using a significance level of 0.05 with a confidence level of 95%. The following is Table 6 of the t-test results for individual employee taxpayers produced in the research:

**Table 6. t Test Results
Employee Individual Taxpayers**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-128.966	59.250		-2.177	.032
	X1	3.288	1.305	1.651	2.520	.013
	M1	3.898	1.754	3.041	2.222	.029
	XM1	-.074	.038	-3.309	-1.935	.056

a. Dependent Variable: Y1

Source: Primary data processed, 2024.

The results of the significant partial influence test (t test) on variable X produced a significance of 0.013. The

significance level of 0.013 is smaller than 0.05, so it can be seen that the hypothesis which states that understanding the

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tax regulations for individual employee taxpayers has an effect on Y (employee individual tax compliance) so that the first hypothesis can be accepted. Meanwhile, the results of the significant partial influence test (t test) on the Moderating variable produced a significance of 0.056. The significance level of 0.056 is greater than 0.05, so it can be seen that the

hypothesis which states that the variable M (risk preference) does not moderate the relationship between The second moderation/hypothesis is rejected.

The following is table 6 of the t test results for non-employee individual taxpayers produced in the research:

Table 6. t Test Results

Non-Employee Individual Taxpayers

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-44.203	30.018		-1.473	.144
	X2	1.380	.607	.776	2.273	.025
	M2	2.066	.928	2.716	2.227	.028
	XM2	-.033	.019	-2.446	-1.756	.082

a. Dependent Variable: Y2

Source: Primary data processed, 2024

The results of the significant partial influence test (t-test) on variable X produced a significance of 0.025. The significance level of 0.025 is smaller than 0.05, so it can be seen that the hypothesis states that Meanwhile, the results of the significant partial influence test on the Moderating variable produced a significance of 0.082. The significance level of 0.082 is

greater than 0.05, so it can be seen that the hypothesis that states that the variable M (risk preference) does not moderate the relationship between The second moderation/hypothesis is rejected.

The following is Table 7 of the t-test results for corporate taxpayers produced in the study :

Table 7. t Test Results

Corporate Taxpayers

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	64.355	21.723		2.963	.004
	X3	-.745	.490	-.677	-1.518	.132
	M3	-1.217	.638	-1.370	-1.909	.059
	XM3	.032	.014	2.202	2.256	.026

a. Dependent Variable: Y3

Source: Primary data processed, 2024

The results of the significant test on variable X produced a significance of 0.132. The significance level of 0.132 is smaller than 0.05, so it can be seen that the hypothesis states that X (understanding of tax regulations for corporate taxpayers) affects Y (corporate tax compliance) so the first hypothesis can be accepted. Meanwhile, the results of the significant test on the Moderating variable produced a significance of 0.026. The significance level of 0.026 is smaller than 0.05, so it can be seen that the hypothesis states that the variable M (risk preference) moderates the relationship between.

The first hypothesis proposed in this research is that understanding tax regulations (individual employee taxpayers, non-employee taxpayers, and corporate taxpayers) has a positive effect on mandatory formal compliance (individual employee taxpayers, non-employee taxpayers, and corporate taxpayers). This means that the more a taxpayer has a high level of understanding of tax regulations regarding taxpayer compliance, the higher the level of taxpayer compliance will be. The results of hypothesis testing in this research show that understanding tax regulations influences taxpayer compliance. This is because taxpayers in the East Java region on average have a good understanding of taxation so it can be said that the level of taxpayer compliance is high. It is hoped that

4.2 The Effect of Understanding Tax Regulations on Formal Taxpayer Compliance (Individual Taxpayers, Employees, Non-Employees and Corporate Taxpayers)

taxpayers will increase their understanding of the applicable tax regulations so that they can improve the country's development through taxation. Thus the test results accept the first hypothesis (H1).

After a person understands the tax regulations, there will be a process of motor reproduction where a person experiences the process of changing observations and understanding into actions, which means that the person will carry out the tax regulations, then this is related to the strengthening process, namely where a person will behave as a taxpayer by the tax regulations. in taxpayer compliance. In prospect theory (Kahneman & Tversky, 1979), research (Aryobimo, 2012) revealed that someone will look for information first and then several "decision frames" or decision concepts will be made. After a decision concept is made, a person will decide by choosing one of the concepts that produces the greatest expected utility. Prospect theory (Kahneman & Tversky, 1979) shows that people who have an irrational tendency are more reluctant to risk profits (gains) than losses (losses), if someone is in a profit position then that person tends to avoid risk or is called risk aversion, whereas if someone is in a loss position then that person tends to dare to face risks or is called risk seeking.

The results of the descriptive analysis show that understanding tax regulations has a positive effect on taxpayer compliance. This is shown by the number of respondents who agree with the statement regarding understanding tax regulations. This research has shown through several tests that there is an influence between the level of understanding of tax regulations on the level of tax compliance at the Tax Service Office in the East Java Region. The magnitude of the influence of the level of understanding of tax regulations on the level of taxpayer compliance can be seen through the results of the coefficient of determination test where the test results show that for Individual Employee Taxpayers it is 44.6%, for Individual Non-Employee Taxpayers it is 48.6% and for Corporate Taxpayers 24.6%, understanding tax regulations influence tax compliance. Meanwhile, risk preferences do not influence or moderate the relationship between the two for Employee and Non-Employee Individual Taxpayers, while for Corporate Taxpayers risk preferences influence tax compliance or moderate the relationship between the two.

From these results, it can be concluded that individual employees, non-employees, and corporate taxpayers in the East Java Region mostly understand the applicable tax regulations. However, individual employee taxpayers do not take into account the risk preferences that occur because these taxpayers are still assisted by the company where they work, while non-employee taxpayers do not take into account the risks that occur because they already know the risks that occur when they do not comply

with the regulations. taxation then what you get are sanctions and fines. Meanwhile, corporate taxpayers take into account the risks that occur due to administrative burdens in the form of interest and fines as well as legal risks that may arise due to the obligation to withhold and collect tax.

The results of this research are related to attribution theory (Heider, 1958) which was later developed again (Kelley, 1973). Attribution theory states that when individuals observe someone's behavior, they try to determine whether it was caused internally or externally. Internally caused behavior is behavior that is believed to be under the individual's control, while externally caused behavior is behavior that is influenced from outside, meaning that the individual will be forced to behave because of the situation. Because the level of understanding of tax regulations influences the level of tax compliance, the higher the taxpayer's understanding of tax regulations, the higher the level of compliance. In line with the Theory of Planned Behavior (Ajzen, 1991) can be used to examine individual behavior as mandatory which is influenced by the intention to carry out tax compliance.

The results of this study are in line with research (Adiasa, 2013; Alabede et al., 2011; J. Susyanti & Askandar, 2019) which states that the level of understanding of tax regulations influences the level of tax compliance. Taxpayers who have a low level of understanding will result in failure to enforce tax compliance. Therefore, a high level of understanding of tax regulations will minimize the possibility of taxpayers violating these regulations, thereby increasing tax compliance. Likewise, the influence of understanding tax regulations on readiness for tax compliance (J. Susyanti & Sunardi, 2023).

However, previous research on risk preferences does not influence tax compliance and does not moderate the relationship between the level of understanding of tax regulations on the level of personal tax compliance of employees and non-employees because the results are negative, whereas for corporate taxpayers the results are positive, which can be said to be inconsistent with research (Adiasa, 2013; Alabede et al., 2011), but in line with research (Aryobimo, 2012; Mareti & Dwimulyani, 2019).

4.3 Risk Preference Moderates the Relationship Between Understanding Tax Regulations and Tax Compliance (Individual Employee Taxpayers, Non-Employees, and Corporate Taxpayers)

The second hypothesis proposed in this research is that risk preferences have a significant effect on the relationship between understanding tax regulations and taxpayer compliance. However, the research results proposed in the second hypothesis are not in line because the results show that for employee and non-employee individual taxpayers the

results are negative or do not moderate the relationship between understanding tax regulations on employee and non-employee individual tax compliance. This means that the more a taxpayer does not have a high level of preference in facing risk, the more this cannot moderate the relationship between understanding tax regulations and individual taxpayer compliance, employees, and non-employees. Meanwhile, the results for Corporate Taxpayers proposed in the second hypothesis are in line because the results in the research show that for Corporate Taxpayers the results are positive or moderate the relationship between understanding tax regulations and corporate tax compliance. This means that the more a taxpayer has a high level of preference in facing risk, the more this can moderate the relationship between understanding tax regulations and corporate taxpayer compliance.

This is because individual employees and non-employee taxpayers in the East Java region do not consider the existing risks, so they do not think about the risks that will arise for taxpayers in tax activities. This is different for corporate taxpayers in the East Java region on average. They generally consider the existing risks, so they think about the risks that will arise for a taxpayer in tax activities. This is reinforced by the results of the analysis of the absolute value difference test which states that the risk preference variable can moderate the relationship between the variable understanding of tax regulations and individual taxpayer compliance, non-employee employees, while corporate taxpayers' risk preferences cannot moderate the relationship between the variable understanding of tax regulations and taxpayer compliance. This means that if a taxpayer knows the risks that arise and faces these risks, the level of preference is high. If the taxpayer accepts and allows the risk to occur then the preference level will be low. So in conclusion, the higher the taxpayer's preference, the lower the risk level, and conversely, if the preference level is low, the risk level becomes high. Thus, the test results for individual employees and non-employee taxpayers reject the second hypothesis (H2), while corporate taxpayers accept the second hypothesis (H2).

From this statement, the relationship between this research and prospect theory can be interpreted (Kahneman & Tversky, 1979), where prospect theory explains that risk preferences can influence taxpayer compliance. If a taxpayer has a high risk, the taxpayer will not necessarily pay his tax obligations. Because taxpayers have a risk-seeking nature, meaning that even though the taxpayer has a high risk, it will not influence the taxpayer to continue paying taxes, whereas if the taxpayer has a risk aversion if the taxpayer has a low risk, the taxpayer will avoid their tax obligations. However, the reality that tends to occur is that high risk causes taxpayers to not comply with their obligations as taxpayers and vice

versa, if the risk level is low it will increase taxpayer compliance.

This research also does not match research (Aryobimo, 2012) which states that factors influence taxpayer compliance. Risk preference variables in research (Aryobimo, 2012) have a positive effect on the relationship between taxpayers' perceptions of the quality of tax service and taxpayer compliance. In this study, the taxpayers tended not to accept risks and this causes risk preferences to moderate the relationship between the variable understanding of tax regulations and taxpayer compliance. This research is not in line with previous research (Adiasa, 2013; Alabede et al., 2011) that risk preference hurts the relationship between understanding tax regulations and tax compliance, so it cannot moderate the relationship between understanding tax regulations and taxpayer compliance.

5. CONCLUSIONS AND RECOMMENDATIONS

This research aims to determine the influence of the level of understanding of tax regulations on the level of tax compliance with risk preferences as a moderating variable at the East Java Regional Tax Service Office.

1. For Individual Employee Taxpayers, based on the research that has been conducted it can be concluded:
 - a. Understanding tax regulations has a positive effect on employees' personal tax compliance.
 - b. Risk preferences do not moderate the relationship between understanding tax regulations and employees' personal tax compliance.
2. For non-employee individual taxpayers, based on the research that has been conducted it can be concluded:
 - a. Understanding tax regulations has a positive effect on tax compliance for non-employee individuals.
 - b. Risk preferences do not moderate the relationship between understanding tax regulations and tax compliance for non-employee individuals.
3. For Corporate Taxpayers, based on the research that has been carried out, it can be concluded:
 - a. Understanding tax regulations has a positive effect on corporate tax compliance.
 - b. Risk preferences moderate the relationship between understanding tax regulations and corporate tax compliance.

The suggestions that researchers provide regarding this research are as follows: For the next researcher, it is necessary to increase the coefficient of determination, so this

research can still be improved by adding independent variables. If you look at the results, it turns out that the results are the same for individual employees and non-employee taxpayers but different for corporate taxpayers, so what the researchers did next was to add indicators or the number of questions for each research variable so that the research results were better.

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