

# **EDUCATION FOR EUROPEAN TAXPAYERS'S COMPLIANCE: A LITERATURE STUDY OF EUROPEAN EDUCATION AS A LESSON FOR ASIAN TAXPAYERS**

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## **Abstract**

Education and taxpayers compliance are two things that mutually support each other. Through these two things, this study aimed at examining the influence of education systems applied in EU and Asia, especially East Asia and Southeast Asia on taxpayers compliance. This study use a literature study approach with the use of secondary data as an analysis materials. The results of the comparison of EU member states with East Asian and Southeast Asian countries show that the performance of education system in EU countries is much better than that of Asian countries. The better education system in EU countries is demonstrated by human development index as an indicator of the advance of human capacity development. However, these conditions are in contrast to the level of taxpayers compliance where taxpayers compliance rate in the Asian region is higher than the taxpayers compliance rate in the European region. Nevertheless, this distinction does not close Asian countries to study the education system in Europe that emphasizes on sustainable innovation in order to form constructive human resources, including forming compliance with taxpayers constructively.

**Keywords:** Education, Taxpayers compliance, European Union countries, and Asia countries.

## **Introduction**

Taxpayers compliance is still a contentious issue between society and the government. The debate itself is triggered by tax non-compliance cases in which one of the factors causing the cases is the issue of education. One factor causing taxpayers non-compliance is the lack of proper education provided for the community, especially taxpayers. Some taxpayers might have inadequate educational background. The low level of education is believed to be the source of the raise of tax non-compliance problem. Therefore, the government needs to pay attention on providing education that is aimed to increase taxpayers compliance awareness beside improving the tax system and regulation.

Based on the results of the tenth Asia-Europe Meeting (ASEM) Summit held in Milan in October 2014, the economic and financial cooperations emphasized on the anticipation of tax evasion. In line with the cooperations, education cooperation was also a commitment initiated by the leaders because education can be the basis of the formation of human resources who are obedient to their obligations. Therefore, this study examines the education system in the EU as a comparison of the educational system built in Asian countries. To examine this comparison, the researcher posed two questions: first, what kind of education systems does the EU apply to get constructive taxpayers perspective on the tax compliance? And second, the question was based on the premise that the taxpayers compliance in European countries is not much different from the level of taxpayers compliance in Asian countries. If this premise is compatible with existing data, is there any aspect of learning that can be used by Asian countries to improve taxpayers compliance in paying taxes?

## **Theoretical Framework**

### **Taxes, Taxpayers Compliance, and Taxes Issues**

Taxes are a source of state revenues that are collected from taxpayers. Taxpayers themselves are people who obligate to pay their taxes. Taxpayers divided into in two types namely individual taxpayers and corporate taxpayers. This division is generally applicable in any country. In the management of the state budget, tax becomes the largest source of the state revenue compared to the other sources. The revenue management in every country always places tax as the priority of the state revenue.

As a result, taxpayers compliance becomes an integrity of the taxpayers expected by the government to increase the state revenues on an ongoing basis. Taxpayers compliance is an

attitude of discipline in fulfilling the obligations of paying taxes. Compliance is not only seen from the compliance of taxpayers alone, but it can also be measured from taxation compliance comprehensively. It is seen from the aspects of legal obedience, social aspects, administration aspects (Hauptman, et.al., 2014), ethical aspects of international agreement commitment, economic aspects (Asnawi, 2013) and aspects of the transparent service of tax authorities (Puspita, et.al., 2016). In general, taxpayers compliance is done consciously, both due to the extent of taxpayers's knowledge of the tax benefits they pay or their awareness of the legal consequences that they will receive when they commit an offense (Puspita, et.al., 2016). Therefore, the built stigma of compliance can become a constructive mental of taxpayers in building their positive personal characters of as a whole.

However, taxpayers non-compliance is often a problem that occurs in every country. This disobedience is certainly part of the taxation problems experienced by a country. In other words, the problem of taxation is a state problem causing the distability of state revenues. There are several types of taxation issues, e.g., tax avoidance, tax evasion (Owens, 2011), management disruption, corruption, system disruption, transfer pricing (Asia, 2011) and miscommunication. Tax evasion and tax avoidance are taxation issues occurring oftenly in some countries. These problems also become a polemic or risk that is often difficult to resolve (European tax, 2008; Rizea, 2010). In European countries, cases of Apple, McDonalds, Starbucks, and Amazon are examples of cases of tax avoidance. While in Asia, Google's tax case that occurred in Indonesia is an example of tax avoidance cases, just like what happens in European countries. Some tax avoidance cases that occur, at least, indicate that the tax system, tax regulation, and government policies still seem to provide loopholes for taxpayers and tax authorities who are not responsible for committing violations.

## **Education to Solve Tax Problem**

Education (pedagogy) is a part of the government's and community's programs that has a goal in improving the knowledge of the community. Hence, the community is expected to solve the problems they encountered including resolving tax issues. Problems can be solved by having good educational background because it influences their perspective of life (*weltanschauung*) to find a resolution strategy according to the context of the problems they face. Directing mindsets and behaviour to a better directions is the essence of educational goals because through education, a person will be able to converge his source of learning obtained from his surroundings or other sources that he experience since the early period of his life (Tilaar, 2015).

Resolving tax issues is a part of one's constructive behaviour after he gets appropriate education. Constructive behaviour is generally formed from the implementation of one's senses, including social norms (Bobek, et.al., 2013), which are then connected into his behaviour to overcome the existing problems he faces (Karwono and Mularsih, 2017). This behaviour emerges as a series of responses and stimuli. In the classical conditioning theory, Ivan Pavlov (1849–1936) said that the education or learning processes of a person cannot be separated from the relationship between stimulus and response. Therefore, education is one of the strategies that can be used to resolve tax problems besides the settlement of the tax problems which emphasizes on the administration improvement of the tax management as the state revenue (Hauptman et.al., 2014)

## **Methodology—Literature Review**

This research uses qualitative methodology with literature review approach. Furthermore, the research's object used compares index and ranking indicators of the performance of education

system and of the financial tax system built in Europe and Asia. For the European region, countries to be observed include EU Member States. The EU itself has 28 member states. Meanwhile, for the Asian region, countries to be observed include 3 countries in East Asia (i.e, Japan, South Korea and China) and 11 countries in Southeast Asia (i.e, Indonesia, Malaysia, Thailand, Singapore, Philippines , Vietnam, Cambodia, Laos, Myanmar, Brunei Darussalam, and Timor Leste).

In the process of searching the literature materials to be used as reference materials, the researcher uses Ebscohost dan Proquest as a journal search engine. In the search for literature material, the five keywords used are ‘Taxpayers,’ ‘Taxpayers compliance’, ‘European tax’, ‘Asian tax,’ and ‘Tax education’. In addition, the search is also limited by literature sources released from 2007 to 2017. From all the search results, the literatures used was chosen at random with attention to the purposes of this study. As supporting materials for research analysis, the secondary data and information to be used come from United Nation Development Program (UNDP), TMF Group, and QS World University Rankings.

### **Taxpayers Compliance and The Performance of Education Systems in Europe and Asia**

The taxpayers compliance indicator becomes an assessment to determine whether taxpayers compliance in Europe is much better than taxpayers compliance in Asia. To find out the comparison of taxpayers compliance levels, The Financial Complexity Index (FCI) 2017 which is the output of the assessment of TMF Group becomes a common indicator to see taxpayers compliance level in some countries. This index is measured by looking at a comparison of ratings of 94 countries in which these ranks are a composite of the assessment on tax compliance rating and the assessment on the complexity of financial management in a country.

The FCI index can be seen in Table 1. In the table, the disparity of the ranks of countries in the European and Asian regions tends to have a fairly diverse range of ranks. In the same table, Italy, Belgium and Greece are ranked as the top 10 in Europe. Similarly, China and Vietnam, both are ranked in the top 10 in Asia. The top 10 position shows that the five countries have very complex financial management systems. However, this condition does not guarantee that the five countries have high taxpayers compliance rates as well.

**Tabel 1.** The Financial Complexity Index—2017

Region					
European Union				Asia	
Country	Ranking	Country	Ranking	Country	Ranking
Austria	21	Italy	3	Japan	76
Belgium	8	Latvia	36	South Korea	50
Bulgaria	66	Lithuania	62	China	7
Croatia	20	Luxembourg	24	Singapore	83
Cyprus	63	Malta	33	Malaysia	59
Czech Republic	60	Netherlands	55	Thailand	27
Denmark	71	Poland	47	Indonesia	37
Estonia	61	Portugal	40	Philippines	25
Finland	42	Romania	54	Myanmar	73
France	11	Slovakia	65	Cambodia	86
Germany	N/A	Slovenia	81	Vietnam	5
Greece	4	Spain	18	Brunei Dar.	N/A
Hungary	N/A	Sweden	77	Lao PDR	N/A
Ireland	58	United Kingdom	78	Timor Leste	N/A

Source: the TMF Group report

Based on the results of TMF Group's study on the FCI index, 50 countries observed in Europe, Middle East and Africa contribute to the tax compliance rate (especially tax compliance on possibility of tax audits) of 13%. Meanwhile, the 20 countries observed in the Asia Pacific region contributed to taxpayers compliance rate of 20%. This indication shows that taxpayers compliance in the Asian region is much greater than in Europe.

**Tabel 2.** Human Development Index 2016

Region					
European Union				Asia	
Country	Index	Country	Index	Country	Index
Austria	0.893	Italy	0.887	Japan	0.903
Belgium	0.896	Latvia	0.830	South Korea	0.901
Bulgaria	0.794	Lithuania	0.848	China	0.738
Croatia	0.827	Luxembourg	0.898	Singapore	0.925
Cyprus	0.856	Malta	0.856	Malaysia	0.789
Czech Republic	0.878	Netherlands	0.924	Thailand	0.740
Denmark	0.925	Poland	0.855	Indonesia	0.689
Estonia	0.865	Portugal	0.843	Philippines	0.682
Finland	0.895	Romania	0.802	Myanmar	0.556
France	0.897	Slovakia	0.845	Cambodia	0.563
Germany	0.926	Slovenia	0.890	Vietnam	0.683
Greece	0.866	Spain	0.884	Brunei Dar.	0.865
Hungary	0.836	Sweden	0.913	Lao PDR	0.586
Ireland	0.923	United Kingdom	0.909	Timor Leste	0.605

Source: the United Nation Development Program

However, this condition will seem contrast when juxtaposed with the indicator of the performance of educational system built in the European region. The Human Development Index (HDI) in Table 2 provides evidence of such contrasting conditions in which the education system in the European region has succeeded in increasing the capacity of human resources. In the table it is very clear that the human development index in the European region on average has a very high success rate. Only Bulgaria has a quite high level of successful human development.

On the other hand, human development capacity in Asia, especially Southeast Asia, has average moderate success rate (medium). Only Singapore, Brunei Darrussalam, Malaysia, and Thailand have a quite high level of success (high) and very high. In East Asia, Japan and South Korea have very high success rate of human development. While China has a high enough level of success in building its human resources (high).

The successful development of human resources in the European region is basically also supported by the advanced role of educational institutions. The growing educational institutions are an indicator of the success of the educational system built by the government and the people of Europe. The advance of educational institutions is generally assessed from several aspects, such as teaching materials, number of studies, number of foreign students, and the contribution of students' researches to the community.

All of these assessments are parameters to measure the advance of educational institutions through the world's best university ranks. One international institution that determines the status of the world's best university ranks is QS World University Rankings. In the period of 2016—2017, QS World University Rankings put several universities of European countries ranked as 200 world's largest universities. In the Asian region, several universities of East Asian countries were also ranked among the world's 200 largest universities. Only three universities in Southeast Asia are ranked among the 200 largest universities of the world, namely National University of Singapore (rank 12), Nanyang Technological University (rank 13), and University of Malaya (rank 133).

This contrasting data implication concludes that the excellent education system in Europe has not been a guarantee of increasing tax compliance, including taxpayers compliance. On the other hand, the high level of human development and education system in Asian countries, especially East Asia, can provide hope that education still provides benefits, especially the benefits of raising the awareness of taxpayers compliance.

Thus, the contrasting conditions do not degrade the essence of education. Education is still a useful program for shaping the proper transformation of human resources in the changing environment around it. For some international societies, education in European countries is still a



reference. The education system in European countries is judged to form positive characters, values, and perspectives (Arriazu and Solari, 2015). The education system in Europe is even legally guaranteed by the European Union through the Functioning of Treaties of the European Union (TFEU). Through the TFEU, the EU guarantees a cooperative education system (article 165), health understanding (article 168), understanding of commercial issues (article 207), or even understanding consumer protection issues (article 169).

With education, such as financial education (Blechová and Sobotovicová, 2016), society can form constructive patterns of thinking, and with constructive thinking, the awareness to build collective interests will also be formed automatically. This means that constructive thinking indirectly also opens the thought of the taxpayers to fulfill their obligations in supplementing the collective needs.

One thing that encourages education in Europe to be more advanced than the education in the Asian region in general is the sustainable innovation. Improved research and innovation productivity are the hallmark of educational institutions in European countries (Hodžić, 2012; Paci, et.al., 2013). Cooperation between educational institutions and between states also become one of the educational innovations developed by educational institutions in Europe. It is the innovation that forms a constructive educational system for the European community that indirectly also contributes to the formation of constructive taxpayers mindset. However, taxpayers compliance levels in the Asia Pacific region better than that of the European region did not close Asian countries to keep taking the learning aspects of education in European countries.

The sustainable innovation in the education system of European countries is a learning aspect that Asian countries can take. Even with the growth of motivation, ease of access to knowledge,

and financial support, education innovation systems in Asian countries to improve taxpayers compliance will be possible to apply in the future.

## **Conclusion**

The implication of this study concludes that the education system of European countries is much better than the education system in Asian countries, especially in Southeast Asia. The progress of the education system in Europe is seen from the achievements of the successful development of human resources of European countries compared to those of Asian countries. However, a good education system in Europe does not guarantee the high levels of taxpayers compliance. Taxpayers compliance rates in Asia are much higher than taxpayers compliance rates in Europe.

Nevertheless, Asian countries can still take the best lessons from the education system in Europe. With sustainable innovation, education systems built in Asian countries can shape their constructive human thinking, including establishing constructive taxpayers compliance. To add value to this study's shortcomings, further researches are suggested to examine in more detail manner the tax system, the number and motives of compulsory taxpayers established in the EU as well as in Asian countries. In addition, the contribution of education to the improvement of taxpayers compliance also needs to be studied further.

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