

ANALYSIS OF THE EFFECT OF UNDERSTANDING, SOCIALIZATION, SERVICE QUALITY, AND MODERNIZATION OF ADMINISTRATIVE SYSTEM ON TAXPAYER COMPLIANCE WITH AWARENESS AS AN INTERVENING AT KPP PRATAMA MEDAN POLONIA

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Abstract

This study aims to determine and analyze the influence of Understanding, Socialization, Quality of Tax Service, and Modernization of the Administrative System on Taxpayer Compliance with Awareness as Intervening at KPP Pratama Medan Polonia. The sample in this study was 100 individual taxpayers registered at KPP Pratama Medan Polonia. The data analysis technique used was Inferential statistical analysis - Partial Least Square (PLS). The results of this study indicate that understanding socialization has a significant effect on awareness. At the same time, the quality of tax service and modernization of the administrative system do not significantly affect awareness. Understanding does not significantly affect taxpayer compliance, while socialization, quality of tax service, administrative system modernization, and awareness significantly affect taxpayer compliance. Indirectly, taxpayer awareness can mediate socialization on taxpayer compliance, and indirect awareness cannot mediate understanding, quality of tax service, and modernization of the administrative system on taxpayer compliance.

Keywords: *understanding, socialization, quality of tax service, modernization of tax administration system, taxpayer awareness, taxpayer compliance*

1. INTRODUCTION

Tax is a form of community participation in supporting development and the economy in Indonesia to increase awareness and a sense of responsibility. The role of tax for a country is very dominant. Only the state has the right to collect taxes. The contribution is in the form of money, not goods. Taxes are collected based on the provisions of the Constitution and its implementing regulations without direct reciprocal services from the state. Taxes have functions and play an essential role in the welfare of the state and society. Taxes have a financial function (budgetary): putting money into the state treasury to finance state expenditures. In addition, taxes also have a regulatory function (regulated). Namely, taxes regulate society in the economic, social, and political fields with specific goals.

Taxes are the dominant revenue source in the State Revenue and Expenditure Budget (APBN) structure. Almost 85.65% of revenue comes from the tax sector (Directorate General of Taxes, 2022). Real efforts are needed and implemented in government policies to achieve the target of state revenue and the taxation sector. In order to achieve the target of tax revenue, the government makes various efforts so that revenue can be achieved. Taxpayer compliance is a problem that has long existed in taxation. Domestically, the ratio of individual taxpayer compliance in fulfilling their tax obligations yearly still shows a percentage that has not increased significantly. It is based on comparing the total number of individual taxpayers who meet the compliance requirements in Indonesia, which is very small compared to the total number of registered taxpayers. In knowing the development of Taxpayer Compliance at the Medan Polonia Pratama Tax Office. From the data on the realization of Taxpayer Compliance at the Medan Polonia Pratama Tax Office, researchers found that direct tax realization fluctuated, namely:

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Table 1.
Realization of Individual Taxpayer Compliance Data
at KPP Pratama Medan Polonia 2019 – 2022

No	Description	Period			
		2019	2020	2021	2022
1.	Individual taxpayers registered are required to submit an Annual Tax Return at the Medan Polonia Pratama Tax Office	51.935	56.550	62.407	68.792
2.	Individual taxpayers who report an Annual Tax Return at the Medan Polonia Pratama Tax Office	45.156	42.812	47.336	49.566
3.	Percentage	86,94%	75,70%	75,80%	60,02%

Source: KPP Pratama Medan Polonia 2023

Table 1 above shows the development of the compliance ratio for submitting Annual Tax Returns from 2019-2022. In terms of achievement, it fluctuated yearly, whereas in 2019-2020, there was a decrease of 11.24%. In 2020-2021, there was an increase of 0.10%. In 2021-2022, there was a decrease of 15.78%. Thus, it is known that for four years, not all taxpayers registered to submit annual tax returns have reported their tax obligations on time, so each year, there has not always been an increase, and it has tended to decrease in the last few years. Therefore, the Directorate General of Taxes (DGT) will continue to make changes to improve the taxation system and obtain satisfactory results. Understanding tax regulations is a process where Taxpayers understand and know about tax regulations and laws as well as tax procedures and apply them to carry out tax activities such as paying taxes, reporting Tax Returns, and so on.

According to Muslim (2007), the higher the level of understanding and knowledge of taxpayers regarding the provisions of tax regulations, the less likely taxpayers are to violate these regulations, thereby increasing corporate taxpayer compliance. It is in line with Eriyanti's research (2015). However, this is not in line with Safitri (2018). Wardani and Wati (2018) proved that Tax Socialization positively and significantly affected Taxpayer Compliance at the Kebumen Pratama Directorate General of Taxes Regional Office in 2018. It is supported by research by Fernando and Arisman (2018), who found that tax socialization positively affects taxpayer compliance. However, this differs from research conducted by Arsyad (2013), who states that tax socialization has no significant effect on taxpayer compliance. Nurafifah (2012) states that there is a significant influence between the quality of tax services and taxpayer compliance. Pravitasari et al. (2017) proved that the Modernization of the Tax Administration System positively and significantly affected Taxpayer Compliance at the Regional Office of the Directorate General of Taxes Surabaya Karangpilang in 2016. Based on the explanation and phenomena that occurred and the results of previous studies, the researcher was interested in conducting a study entitled "The Influence of Tax Understanding, Tax Socialization, Quality of Tax Service and Modernization of the Tax Administration System on Taxpayer Compliance with Taxpayer Awareness as an Intervening at the Medan Polonia Pratama Tax Office."

Literature Review

Taxpayer Compliance

Tax compliance can be defined as a condition where Taxpayers fulfill all tax obligations and exercise their tax rights. The Decree of the Minister of Finance No. 544 / KMK.04 / 2000 states that tax compliance is taxpayers' action in fulfilling their tax obligations following the laws

and regulations and implementing taxation regulations in force in a country. In the Decree of the Minister of Finance No. 544 / KMK.04 / 2000, taxpayers are said to be compliant if:

1. Submit annual notification letters on time for all types of taxes in the last two years.
2. Have no tax arrears for all types of taxes unless they have obtained permission to pay in instalments or postpone tax payments.
3. A taxpayer has never been sentenced for committing a crime in taxation in the last ten years.

Taxpayer Awareness

Taxpayer Awareness is the behavior of the Taxpayer itself in the form of views or perceptions involving beliefs, knowledge, and reasoning, and the tendency to act following the stimuli provided by the applicable taxation system and provisions. Taxes are recognized as being used for national development to improve the welfare of citizens (Artiningsih, 2013:13).

Understanding Taxation

Understanding tax regulations is a process where taxpayers understand and know about the regulations and laws as well as tax procedures and apply them to carry out tax activities such as paying taxes, reporting annual notification letters, and so on (Adiasa, 2013). According to Lovihan (2014), taxation is how taxpayers know, understand, and implement tax provisions correctly and voluntarily. The higher the level of taxpayer awareness, the better the understanding and implementation of tax obligations are so that taxpayer compliance in paying taxes can increase. Taxpayer awareness is the attitude of taxpayers who understand and are willing to carry out their obligations to pay taxes and have reported all their income without hiding anything following applicable provisions.

Taxation Socialization

Tax socialization is expected to positively impact public tax knowledge, as it can also increase the number of taxpayers, taxpayer compliance, and taxpayer awareness, which ultimately increases state revenue from the tax sector (Prabowo, 2015). Socialization is an effort made by the Directorate General of Taxes through various methods to provide information related to all regulations and activities related to taxation so that the public can implement it in general, especially taxpayers, individuals, and business entities (Faizin et al. 2016).

Quality of Tax Service

Attribution theory explains that this theory is one of the processes of forming an impression of how someone can explain the causes of other people's behaviour or themselves. In this theory, individuals try to understand the causes of what happened from various events they face so that the individual can conclude the event. It is related to the quality of tax services. When the service provided by the tax office by the taxpayer gives a good and satisfactory impression in providing information, then the taxpayer as an individual will be obedient and compliant in implementing taxation. It is because there is a good and satisfactory impression from the taxpayer, as seen by observing the behaviour of the person they are talking to.

Tax service quality for taxpayers can be seen from how the tax office can meet information or other tax-related needs. Of course, the service provided includes the ability and attitude of the tax office to taxpayers. Quality service can provide customer satisfaction and remains within the limits of meeting service standards that can be accounted for and carried out continuously. The better the quality of tax office service, the more awareness taxpayers have of fulfilling their tax obligations will also increase (Akib et al., 2017).

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Modernization of Tax Administration System

Modernization of the tax administration system is a tax administration system that has undergone improvements or repairs to improve services to taxpayers by utilizing information technology, which is expected to increase taxpayer compliance and awareness (Arifin, 2015). The target of tax administration is an effort to increase compliance in fulfilling tax obligations and implementing tax provisions equally between the tax authorities and taxpayers in assessing a provision to obtain maximum tax revenue at optimal costs.

Conceptual Framework and Hypothesis

Conceptual Framework

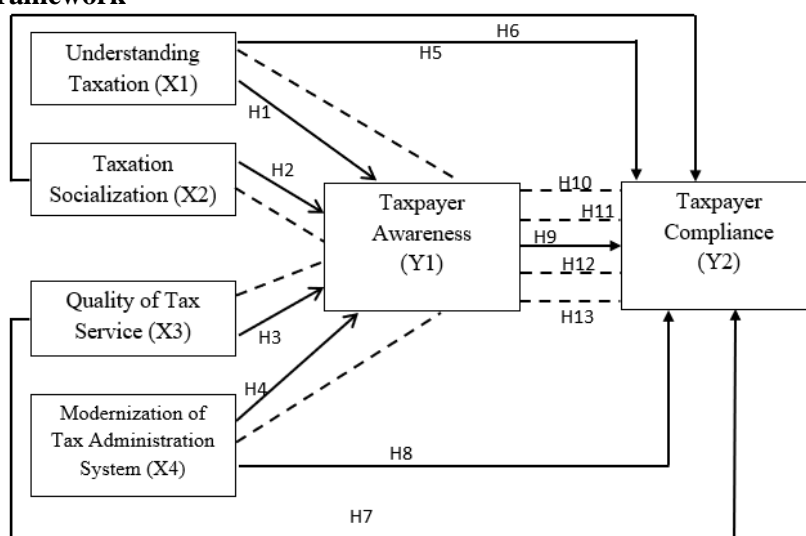


Figure 1.
Conceptual Framework

Hypothesis

- H1: Tax understanding affects taxpayer awareness.
- H2: Tax socialization affects taxpayer awareness.
- H3: The quality of tax authorities' services affects taxpayer awareness.
- H4: Modernization of the tax administration system affects taxpayer awareness.
- H5: Tax understanding affects taxpayer compliance.
- H6: Tax socialization affects taxpayer compliance.
- H7: The quality of tax authorities' services positively affects taxpayer compliance.
- H8: Modernization of the tax administration system affects taxpayer compliance.
- H9: Taxpayer awareness affects taxpayer compliance.
- H10: Taxpayer awareness can affect tax understanding toward taxpayer compliance.
- H11: Taxpayer awareness can affect tax socialization toward taxpayer compliance.
- H12: Taxpayer awareness can affect tax authorities' service quality toward taxpayer compliance.
- H13: Taxpayer awareness can affect the modernization of the tax administration system regarding taxpayer compliance.

2. IMPLEMENTATION METHOD

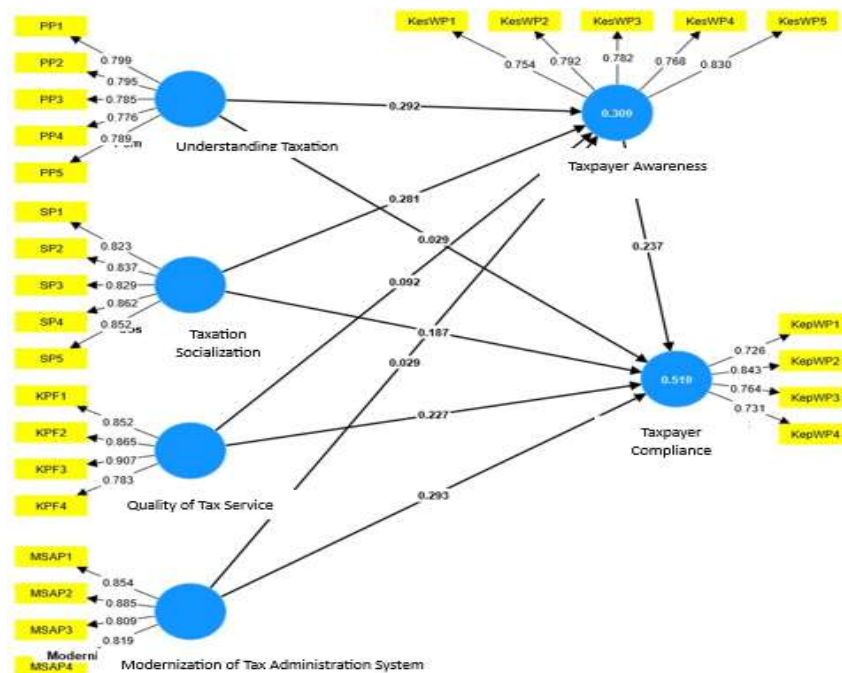
This type of research is based on its quantitative research approach. This study aims to test and analyze the effect of tax understanding, tax socialization, and modernization of the tax administration system on taxpayer compliance, with taxpayer awareness as an intervening variable.

The population in this study were individual taxpayers registered at the Medan Polonia Pratama Tax Office. The Medan Polonia Pratama Tax Office is one of the Pratama Tax Offices under the coordination of the North Sumatra 1 Regional Tax Office. Its working areas are spread across six sub-districts: Medan Polonia, Medan Maimun, Medan Baru, Medan Selayang, Medan Tuntungan, and Medan Johor. The number of taxpayers registered in 2022 reached 68,792 taxpayers. The sampling technique used in this study was convenience sampling. Convenience sampling is a sampling technique based on chance alone. Members of the population met by researchers and willing to be respondents are used as samples (Trianto, 2016:61). The sampling formula uses the Slovin formula. The number of respondents used as a research sample was 100, and they were expected to be able to represent individual taxpayers registered at the Medan Polonia Pratama Tax Office. This study used a data collection technique in the form of a questionnaire or survey given to individual taxpayers registered at the Medan Polonia Pratama Tax Office. The data analysis technique used in this study was the SEM (Structural Equation Modeling) analysis technique.

1. RESULTS AND DISCUSSION

A. Structural Equation Modeling Testing – Partial Least Square (SEM-PLS)

SEM-PLS testing will be carried out in 2 (two) ways: outer model testing and inner model testing. Both tests ensure that the model formed in this study has results that can be academically accounted for with a low level of bias and ambiguity. The following will present a picture of the model that has been analyzed using SmartPLS as follows:



Source: Data processed using SmartPLS (2023)

Figure 2.
Research Model

Figure 2 shows the research model formed. The resulting model is an SEM-PLS model that uses the Moderating Regression Analysis (MRA) approach. The testing of the model can be described as follows:

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**1) Outer Model Testing
Research Instrument Validity Testing**

a) Convergent Validity Testing

The first convergent validity test looks at each instrument's loading factor value on the construct variable. A loading value greater than 0.7 is a good loading factor value for the instrument to measure its construct variable. Furthermore, the second convergent validity test looks at the average variance extracted value of the construct variable. An Average Variance Extracted value greater than 0.5 is a good Average Variance Extracted value for its construct variable. The results of this convergent validity test are explained as follows:

Based on Figure 2 above, it is clear that the loading factor value of each instrument on the construct variable is at a value greater than 0.7. Thus, it can be concluded that the convergent validity test with the loading factor approach has been met. In other words, the construct variable instrument in the study is valid. In the Average Variance Extracted value, all construct variables in this study have a value greater than 0.5 (AVE > 0.5); thus, all construct variable instruments used in this study have met the criteria for convergent validity testing. None of the instruments were deleted in the construct variables of this study.

b) Discriminant Validity Testing

The results of the discriminant validity test in this study can be seen in the following table:

**Table 2.
Discriminant Testing of Validity of the Fornell-Larcker Criterion Approach**

	Y2	Y1	X3	X5	X1	X2
Y2	0,767					
Y1	0,508	0,786				
X3	0,584	0,379	0,857			
X4	0,569	0,300	0,635	0,842		
X1	0,498	0,480	0,587	0,487	0,789	
X2	0,457	0,445	0,345	0,250	0,427	0,841

Source: Processed Primary Data, 2023

Table 2 shows that the construct variable matrix's correlation value is greater than the construct variable matrix's with other constructs. The matrix values in the construct variables are more significant than the correlation value of the construct variable matrix with other construct variables. The results of the discriminant validity test using the cross-loading approach can be seen in the following table:

Table 3. Discriminant Testing of Validity of Cross Loading Approach

Code	Variable					
	Y2	Y1	X3	X4	X1	X2
X3 1	0,511	0,240	0,852	0,556	0,488	0,272
X3 2	0,454	0,335	0,865	0,557	0,525	0,249
X3 3	0,535	0,379	0,907	0,479	0,504	0,518
X3 4	0,487	0,328	0,783	0,582	0,485	0,331
Y2 1	0,726	0,404	0,312	0,404	0,412	0,313
Y2 2	0,843	0,439	0,495	0,527	0,408	0,470
Y2 3	0,764	0,318	0,546	0,441	0,353	0,298
Y2 4	0,731	0,398	0,424	0,335	0,359	0,297
Y1 1	0,296	0,734	0,266	0,199	0,368	0,286
Y1 2	0,458	0,792	0,264	0,219	0,330	0,383
Y1 3	0,360	0,782	0,323	0,202	0,458	0,367
Y1 4	0,347	0,768	0,209	0,272	0,284	0,311
Y1 5	0,510	0,830	0,393	0,281	0,427	0,381
X4 1	0,545	0,350	0,542	0,854	0,402	0,303
X4 2	0,482	0,246	0,555	0,885	0,437	0,231
X4 3	0,413	0,145	0,473	0,899	0,383	0,132
X4 4	0,453	0,230	0,562	0,839	0,419	0,142
X1 1	0,415	0,456	0,422	0,373	0,799	0,406
X1 2	0,418	0,400	0,415	0,294	0,795	0,345
X1 3	0,419	0,321	0,505	0,497	0,785	0,300
X1 5	0,374	0,433	0,532	0,421	0,789	0,263
X2 1	0,399	0,425	0,356	0,193	0,452	0,823
X2 2	0,326	0,270	0,258	0,222	0,337	0,837
X2 3	0,428	0,432	0,278	0,204	0,367	0,829
X2 4	0,329	0,344	0,308	0,210	0,357	0,862
X2 5	0,352	0,380	0,252	0,228	0,258	0,852

Source: Processed Primary Data, 2023

Table 3 above shows that each instrument in the tested construct variable has a more excellent value than other instruments' cross-loading value. With the results of this cross-loading test, it is concluded that the instruments in each variable are not correlated. Thus, these results indicate that the construct variable has an excellent discriminant value.

c) Reliability Testing of Research Instruments

The results of the Cronbach Alpha and Composite Reliability tests can be seen in the following table:

Table 4.
Cronbach Alpha and Composite Reliability Testing

Construct Variables	Reliability Testing		Conclusion
	Cronbach Alpha	Composite Reliability	
Taxpayer Compliance	0,766	0,851	Reliable
Taxpayer Awareness	0,846	0,890	Reliable
Quality of Tax Service	0,874	0,914	Reliable
Modernization of Tax Administration System	0,864	0,907	Reliable
Taxation Understanding	0,850	0,892	Reliable
Taxation Socialization	0,897	0,923	Reliable

Source: Processed Primary Data, 2023

Table 4 above shows the Cronbach Alpha and Composite Reliability values, which are greater than the rule of thumb values, so it can be concluded that each construct variable of this study has a good reliability value. In other words, all construct variables have reliable values.

2) Inner Model Testing Predictive Relevance Testing

Observation and parameter estimation are good if the Q2 value exceeds 0 ($Q2 > 0$). The test results can be seen in the following table:

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Table 5.
Predictive Relevance Test Results

Endogenous Variables	Q ²
Taxpayer Compliance	0,279
Taxpayer Awareness	0,171

Source: Processed Primary Data, 2023

Table 5 shows the Q2 value from the observations made. It is known that the value of each observation is greater than 0. The Q2 value for each construct variable is not too large. However, the Q2 value has met the assumption of the predictive relevance data for testing, so it can be concluded that the observations and parameter estimates for each model formed are pretty good. Thus, it can be said that the results of the predictive relevance test are good because all Q2 values for each model are greater than 0. Therefore, this test can be carried out further.

Goodness of Model Testing

Before analyzing Structural Equation Modeling - Partial Least Square (SEM-PLS), it is necessary to test whether the model used in this study is in a fit or unfit position. The results of the model fit test can be seen in the following table:

Table 6.
Model Fit Test Results Based on Standardized Root Mean Square (SRMS)

Measuring Instruments	Measurement Criteria (SRMR < 0,08)		Conclusion
	Count	Standard	
Standardized Root Mean Square	0,074	0,080	Model Fit

Source: Processed Primary Data, 2023

Table 6 shows the results of the model fit test, where the SRMR value shows a value smaller than 0.08. It means that this research model has met the assumptions of the model fit test. Thus, this study can analyze the results of further research.

Coefficient of Determination

Table 7.
Analysis of Coefficient of Determination (R2)

Endogenous Variables	R ²
Taxpayer Compliance	0,519
Taxpayer Awareness	0,309

Source: Processed Primary Data, 2023

It is known that the value of R2 from taxpayer compliance is 0.519, or equal to 51.9%, meaning that the ability of the independent variable to explain taxpayer compliance is 51.9%. These results provide information that tax understanding, tax socialization, quality of tax services, and modernization of the tax administration system are critical variables in increasing taxpayer compliance. When tax understanding, tax socialization, quality of tax services, and modernization of the tax administration system increase, taxpayer compliance will be positively impacted.

It is known that the value of R2 from taxpayer awareness is 0.309 or equal to 30.9%, meaning that the ability of the mediating variable to explain taxpayer awareness is 30.9%. These results show that tax understanding, tax socialization, quality of tax services, and modernization of the tax administration system through taxpayer awareness are crucial variables in increasing

taxpayer compliance. When tax understanding, tax socialization, quality of tax services, and modernization of the tax administration system through taxpayer awareness increase, it will positively impact taxpayer compliance.

3) Hypothesis Testing Analysis Direct Effect Hypothesis Testing

Table 8.
Results of Direct Effect Hypothesis Testing

Direct Influence of Construct Variables	Influence (O)	T Statistics	P Values	Conclusion
Y1 → Y2	0,237	2,836	0,005	Ha accepted
X3 → Y2	0,227	2,245	0,025	Ha accepted
X3 → Y1	0,092	0,651	0,515	Ha rejected
X4 → Y2	0,293	2,890	0,004	Ha accepted
X4 → Y1	0,029	0,243	0,808	Ha rejected
X1 → Y2	0,029	0,330	0,741	Ha rejected
X1 → Y1	0,292	2,641	0,008	Ha accepted
X2 → Y2	0,187	2,305	0,021	Ha accepted
X2 → Y1	0,281	3,062	0,002	Ha accepted

Source: Processed Primary Data, 2023

Based on the table above, it can be concluded that:

1. The direct effect of taxpayer awareness on taxpayer compliance is positive and significant.
2. The direct effect of the quality of tax services on taxpayer compliance is positive and significant.
3. The direct effect of the quality of tax services is positive and insignificant.
4. The direct effect of modernization of the tax administration system on taxpayer compliance is positive and significant.
5. The direct effect of modernization of the tax administration system on taxpayer awareness is positive and insignificant.
6. The direct effect of tax understanding on taxpayer compliance is positive and insignificant.
7. The direct effect of tax understanding on taxpayer awareness is positive and significant.
8. The direct effect of tax socialization on taxpayer compliance is positive and significant.
9. The direct effect of tax socialization on taxpayer awareness is positive and significant.

Indirect Effect Hypothesis Testing

In this section, it is crucial to analyze the results of the mediation effect hypothesis testing on the SEM-PLS model of this study. The results of this hypothesis testing can be seen in the following table:

Table 9.
Results of the Mediation Effect Hypothesis Testing

Construct Variables	Influence (O)	T Statistics	P Values	Conclusion
X2 → Y1 → Y2	0,067	2,014	0,044	Ha accepted
X3 → Y1 → Y2	0,002	0,622	0,534	Ha rejected
X4 → Y1 → Y2	0,007	0,235	0,814	Ha rejected
X1 → Y1 → Y2	0,069	1,869	0,062	Ha rejected

Source: Processed Primary Data, 2023

Based on the table above, it can be concluded that:

1. Tax socialization positively and significantly influences taxpayer compliance mediated by taxpayer awareness.

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2. Tax service quality positively and insignificantly influences taxpayer compliance mediated by taxpayer awareness.
3. The modernization of the tax administration system positively and insignificantly influences taxpayer compliance mediated by taxpayer awareness.
4. Tax understanding positively and insignificantly influences taxpayer compliance mediated by taxpayer awareness.

4. CONCLUSION

Based on the research results that have been described previously, the following conclusions can be drawn:

1. Tax understanding positively and significantly affects taxpayer awareness at KPP Pratama Medan Polonia.
2. Tax socialization positively and significantly affects taxpayer awareness at KPP Pratama Medan Polonia.
3. The quality of tax authorities' services positively and significantly affects taxpayer awareness at KPP Pratama Medan Polonia.
4. Modernization of the tax administration system positively and insignificantly affects taxpayer awareness at KPP Pratama Medan Polonia.
5. Tax understanding positively and insignificantly affects taxpayer compliance at KPP Pratama Medan Polonia.
6. Tax socialization positively and significantly affects taxpayer compliance at KPP Pratama Medan Polonia.
7. The quality of tax authorities' services positively and significantly affects taxpayer compliance at KPP Pratama Medan Polonia.
8. Modernization of the tax administration system positively and significantly affects taxpayer compliance at KPP Pratama Medan Polonia.
9. Taxpayer awareness positively and significantly affects taxpayer compliance at KPP Pratama Medan Polonia.
10. Taxpayer awareness cannot mediate the relationship between tax understanding and taxpayer compliance at KPP Pratama Medan Polonia.
11. Taxpayer awareness can mediate the relationship between tax socialization and taxpayer compliance at KPP Pratama Medan Polonia.
12. Taxpayer awareness cannot mediate the relationship between the quality of tax services and taxpayer compliance at KPP Pratama Medan Polonia.
13. Taxpayer awareness cannot mediate the relationship between the modernization of the tax administration system and taxpayer compliance at KPP Pratama Medan Polonia.

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