

THE EFFECT OF SERVICE QUALITY AND INNOVATION ON TAXPAYER SATISFACTION AND LOYALTY AT THE LUBUK PAKAM PRIMARY TAX SERVICE OFFICE

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Abstract

Tax revenue is the main source of state revenue, which plays an important role in financing national development. One of the determining factors for optimizing tax revenue is the level of taxpayer compliance and loyalty. This study aims to analyze the effect of service quality and taxation innovation on taxpayer satisfaction and loyalty at the Lubuk Pakam Tax Office. The research method used is a quantitative approach with a sampling technique using the Slovin formula, resulting in 93 respondents from a total population of 1,265 taxpayers. Data processing was performed using Partial Least Square (PLS) with SmartPLS software. The results showed that service quality had a positive and significant effect on taxpayer satisfaction and loyalty, while innovation had a positive and significant effect on satisfaction but did not have a significant direct effect on loyalty. Taxpayer satisfaction was found to have a positive and significant effect on loyalty and to act as an intervening variable in the relationship between service quality and innovation on taxpayer loyalty. The R² values of 0.684 for satisfaction and 0.886 for loyalty indicate that the model has strong explanatory power. These findings indicate that improving service quality and developing digital tax service innovations can strengthen taxpayer satisfaction, which ultimately encourages loyalty and voluntary tax compliance. This study recommends improving the competence of tax officials, expanding digital innovations, and conducting periodic evaluations of service standards to strengthen taxpayer trust and loyalty.

Keywords: *service quality, innovation, taxpayer satisfaction, taxpayer loyalty*

INTRODUCTION

Tax revenue is the main source of state income used to finance national development and government administration. Therefore, the level of taxpayer compliance and loyalty in fulfilling their tax obligations is a determining factor in optimizing tax revenue. However, the government still faces many challenges, especially in increasing taxpayer awareness and active participation. One strategic approach to overcoming this problem is to improve service quality and encourage innovation in the tax service system. In the context of public services, service quality is one of the important factors that can affect the level of satisfaction of service users, in this case, taxpayers. Fast, transparent, friendly, and accurate services not only create satisfaction but also build long-term trust and loyalty. Service quality for taxpayers is the extent to which face-to-face and electronic tax services meet or exceed user expectations. Iskandar & Mahyuni (2025) emphasize that service quality has a significant impact on taxpayer satisfaction through the SERVQUAL dimensions (tangible, reliability, responsiveness, assurance, empathy).

In addition to service quality, service innovation is also a crucial element in creating a tax system that is efficient and adaptive to technological developments and community needs. The implementation of digital systems such as e-filing, e-billing, and e-registration is a form of public service innovation that aims to simplify administrative processes and improve taxpayer convenience. According to Rahayu & Kusdianto (2023), tax innovation is the development of new concepts, methods, and technologies in tax administration and collection to face the digital economy era. This innovation aims to make tax authorities more adaptive to technological disruption, especially in electronic transactions and economic digitalization. Meanwhile, according to Prihandoko & Rahmanda (2024), tax innovation is the transformation of traditional tax administration and collection systems into more efficient, transparent, and adaptive systems through the use of digital technology.

The innovations implemented by the Directorate General of Taxes are expected not only to improve efficiency but also to strengthen the relationship between the tax authorities and taxpayers. When service quality and innovation go hand in hand optimally, it is believed that this can create taxpayer satisfaction, which leads to loyalty in the form of voluntary compliance. However, to ensure the effectiveness of these two aspects, an empirical study is needed on the extent to which service quality and tax innovation impact taxpayer satisfaction and loyalty. By understanding this relationship, tax agencies can formulate better public service strategies and increase public trust in the tax system. Therefore, this study was conducted to analyze the effect of service quality and innovation on taxpayer satisfaction and loyalty in paying taxes. The results of this study are expected to provide important input for policies to improve tax services and develop tax system innovations in the future.

LITERATURE REVIEW

Theoretical Framework

Service Quality

Definition of Service Quality

Service quality for taxpayers is the extent to which face-to-face and electronic tax services meet or exceed user expectations. Iskandar & Mahyuni (2025) emphasize that service quality has a significant impact on taxpayer satisfaction through the SERVQUAL dimensions (tangibility, reliability, responsiveness, assurance, empathy).

Service Quality Indicators

According to Iskandar & Mahyuni (2025), the main indicators of Service Quality are:

- 1) Customer Satisfaction Level
Customers are satisfied with the services received, both in terms of results and service processes.
- 2) Service Consistency
Services are provided consistently without any decline in quality over time.
- 3) Timeliness
Services are completed on time as promised to customers.
- 4) Quick and Effective Response
Customer requests or complaints are responded to quickly, and the solutions provided are effective.
- 5) Trust
Customers have high trust in the service provider and are likely to use the service again.
- 6) Clear and Transparent Communication
Information about the service is communicated clearly, transparently, and in a way that is easy for customers to understand.
- 7) Adaptation and Continuous Improvement
The organization actively listens to customer feedback and continuously improves its services.

Innovation

Definition of Innovation

According to Rahayu & Kusdianto (2023), tax innovation is the development of new concepts, methods, and technologies in tax administration and collection to face the digital economy era. This innovation aims to make tax authorities more adaptive to technological disruption, especially in electronic transactions and economic digitalization. Meanwhile, according to Prihandoko & Rahmada (2024), tax innovation is the transformation of traditional tax administration and collection systems into more efficient, transparent, and adaptive systems through the use of digital technology.

Innovation Indicators

According to Prihandoko & Rahmada (2024) and Rahmada, Prihandoko & Amalia (2024), the indicators of innovation are:

1. Utilization of Technology and Digitization of the Tax System
 - Level of e-filing adoption (online tax reporting)
 - Use of e-payment (digital tax payment)
 - Use of integrated information systems in tax administration.
2. Policies and Regulations
 - Updating tax regulations to adapt to the digital economy

- Tax technology incentive policies for taxpayers and business actors
- Legal support for the integration of electronic taxation systems

3. Taxpayer Ethics and Spirituality

- Taxpayer integrity (honesty and transparency in reporting)
- Moral and religious awareness in fulfilling tax obligations

4. Quality of Governance and Services

- Taxpayer satisfaction with digital services
- Time required for electronic tax services and processing
- Ease of access to tax information through online systems

Taxpayer Satisfaction

Definition of Taxpayer Satisfaction

Aji, Erawati, & Murti (2021) Taxpayer satisfaction is a state/condition in which the expectations and needs of taxpayers in the taxation process are met; it is a measure of how well tax officials serve taxpayers.

Indicators of Satisfaction

Taxpayer satisfaction indicators adapted from Aji, Erawati, & Murti (2021) emphasize three main determinants:

1) Service Facilities

Service facilities (service rooms, queues, equipment/systems) are adequate and facilitate the smooth running of the taxation process.

2) Employee Work Capability

Tax officers demonstrate adequate competence/work ability in handling my needs.

3) Responsiveness

Tax officers respond quickly to questions/complaints and provide clear solutions.

Loyalty

Understanding Taxpayer Loyalty

According to Luluk Ilma'nun (2023) in his book Taxpayer Compliance, which uses the term taxpayer compliance, based on the context, taxpayer loyalty is the commitment and loyalty of taxpayers to the taxation system.

Indicators of Taxpayer Loyalty

The indicators of taxpayer loyalty (compliance) according to Luluk Ilma'nun (2023) are:

1) Registration and ownership of a Taxpayer Identification Number (NPWP)

Registering and possessing a Taxpayer Identification Number (NPWP) as a form of seriousness and initial commitment to the taxation system.

2) Timely Tax Return Filing

Submitting tax returns on time and in accordance with the period stipulated by law.

3) Accurate tax calculation

Filling out tax returns with accurate tax calculations, in accordance with regulations, without manipulation.

4) Consistent tax payments

Making tax payments, including income tax payable and any shortfalls, on time and in full.

5) No arrears

Consistency in fulfilling tax obligations so as not to incur arrears, or if there are any, they are paid in accordance with provisions such as installments.

Conceptual Framework

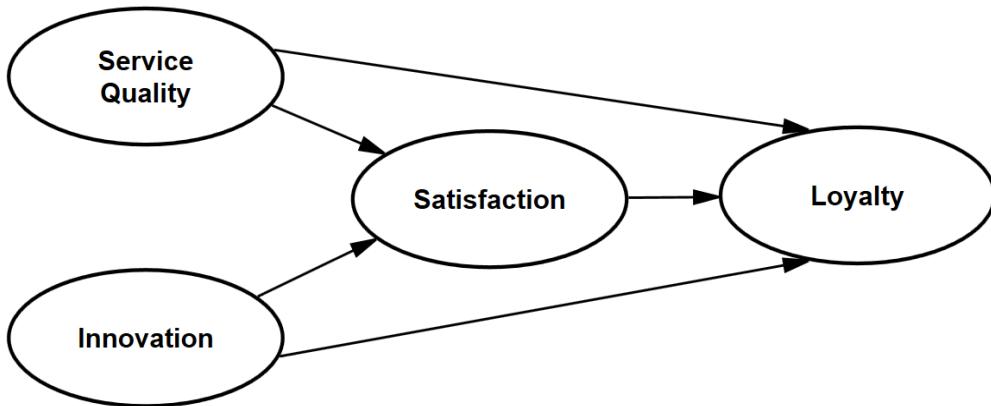


Figure 1. Conceptual Framework

Research Hypothesis

H₁ : Service quality has a positive and significant effect on taxpayer loyalty at the Lubuk Pakam Primary Tax Office.

H₂ Service quality has a positive and significant effect on taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.

H₃ Innovation has a positive and significant effect on taxpayer loyalty at the Lubuk Pakam Primary Tax Office.

H₄ Innovation has a positive and significant effect on taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.

H₅ : Satisfaction has a positive and significant effect on taxpayer loyalty at the Lubuk Pakam Tax Office.

H₆ : Service quality has a positive and significant effect on loyalty through taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.

H₇ : Innovation has a positive and significant effect on loyalty through taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.

RESEARCH METHOD

Type of Research

The type of research used by the researcher is quantitative research. This type of quantitative research is conducted to create a study that aims to adjust a study and to analyze the effect of service quality and innovation on taxpayer satisfaction and loyalty at the Lubuk Pakam Primary Tax Office.

Research Location and Time

The research location was conducted on taxpayers registered at the Lubuk Pakam Tax Office, located at Jl. P.Diponegoro No. 30A, Madras Hulu, Kec. Medan Polonia, Medan City, North Sumatra, 20152. The research was conducted over a period of 3 months, from August to October 2025.

Population and Sample

According to Sugiyono (2017), the population is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by the researcher to be studied and then conclusions are drawn. The population and sample in this study were taxpayers registered in Bakaran Batu Village, Lubuk Pakam District, with a total of 1,265 registered taxpayers. Sampling in this study was conducted using the Slovin formula.

$$n = \frac{1.265}{1 + 1.265(0,1)^2}$$
$$n = \frac{1.265}{13,65} = 93$$

Therefore, the sample size in this study is 93 taxpayers.

Research Data Sources

The data source used in this study is primary data.

RESULTS AND DISCUSSION

Outer Model Analysis

Outer Model Analysis using the PLS Algorithm produced the following results:

Validity Test

Table 1. Outer Loadings Values

	Innovation	Loyalty	Satisfaction	Service Quality
X1.1				0.828
X1.2				0.926
X1.3				0.926
X1.4				0.928
X1.5				0.910
X1.6				0.887
X2.1	0.895			
X2.2	0.783			
X2.3	0.723			
X2.4	0.819			
Y.1		0.871		
Y.2		0.837		
Y.3		0.878		
Y.4		0.853		
Z.1			0.907	
Z.2			0.859	
Z.3			0.864	

Source: Smart PLS Output, 2025

Based on the values in Table 1 above, which show the results of outer model testing through loading factor/outer loadings values, all indicators in each variable have a loading value ≥ 0.70 . This indicates that each indicator is measured validly and strongly. Therefore, it can be concluded that all items in the questionnaire have met the validity criteria, as shown in the following figure.

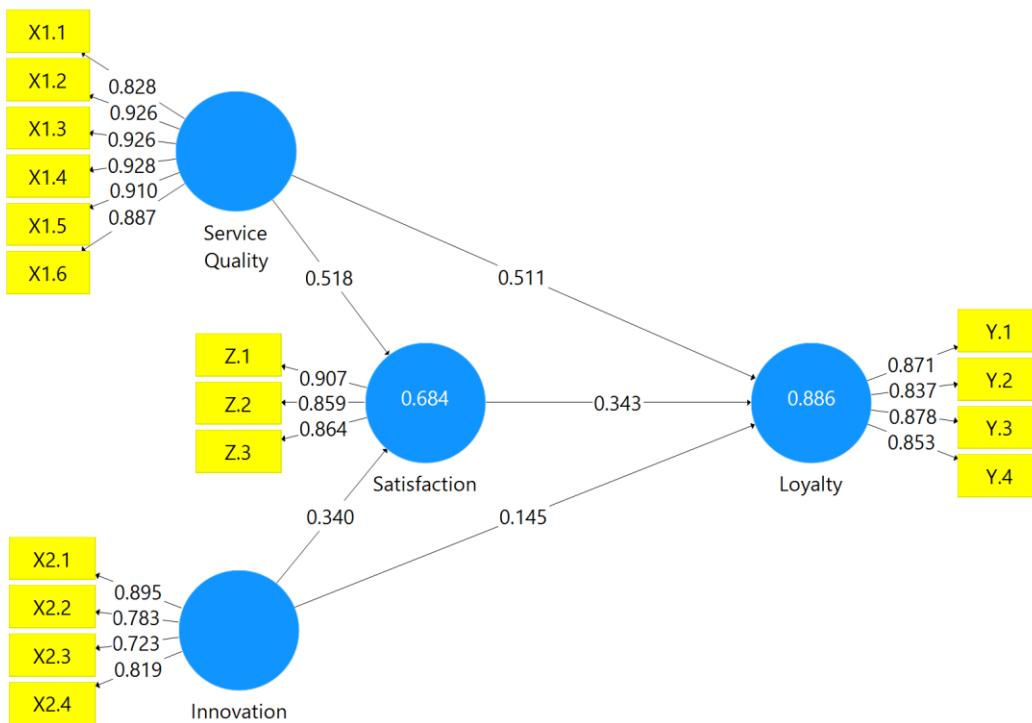


Figure 1. Outer Loading

In this study, there is an equation, and that equation consists of two substructures for substructure 1:

$$Z = \beta_1 X_1 + \beta_2 X_2 + e_1$$

$$Z = 0.518 X_1 + 0.340 Z + e_1$$

For substructure 2:

$$Y = \beta_2 X_1 + \beta_3 X_2 + \beta_5 Z + e_2$$

$$Y = 0.511 X_1 + 0.145 X_2 + 0.343 Z + e_2$$

Reliability Test

Table 2. Construct Reliability and Validity Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Innovation	0.819	0.821	0.882	0.652
Loyalty	0.883	0.885	0.919	0.740
Satisfaction	0.849	0.850	0.909	0.769
Service Quality	0.954	0.958	0.963	0.813

Source: Smart PLS Output, 2025

From Table 2 above, the reliability test results show that the Cronbach's Alpha and Composite Reliability values for all constructs are above 0.70. This indicates that all indicators have high internal consistency and are reliable in measuring their respective constructs. Thus, the research instrument is declared reliable and suitable for use in structural model testing.

Coefficient of Determination (R^2)

In assessing the model with PLS, we begin by looking at the R-square for each dependent latent variable. The table below shows the R-square estimation results using SmartPLS.

Table 3. R Square Results

	R Square	Adjusted R-Square
Satisfaction	0.684	0.676
Loyalty	0.886	0.882

Source: Smart PLS, 2025

Table 3 shows the R square values for both dependent variables. For the satisfaction variable, the R square value is 0.684, meaning that the influence of service quality and innovation is 68.4%, with the remainder attributable to other variables outside the model. The R square value for loyalty is 0.886, meaning that service quality, innovation, and satisfaction account for 88.6%, with the remainder attributable to other variables outside the model.

Structural Model Testing (Inner Model)

Hypothesis Testing

Direct Influence Between Variables

The direct effect between variables can be seen in the path coefficients. The data processing results show the direct effect values in the following table.

Table 4. Path Coefficients (Direct Effects)

	Original Sample	T Statistics	P Values	Conclusion
Service Quality -> Loyalty	0.511	5.989	0.000	Accepted
Service Quality → Satisfaction	0.518	4.178	0.000	Accepted
Innovation → Loyalty	0.145	1.636	0.102	Rejected
Innovation → Satisfaction	0.340	2.584	0.010	Accepted
Satisfaction → Loyalty	0.343	4.236	0.000	Accepted

Source: Smart PLS Output, 2025

The results in Table 4 show the following direct effect values:

1. Service quality has a positive and significant effect on loyalty with a t-statistic value of 5.989 above 1.96 and a significance of 0.000 below 0.05, meaning that service quality has a real effect on loyalty because the significance value is below 0.05 . The results of this study are in line with the results of previous studies, namely that service quality has a positive and significant effect on loyalty at PT. Badak Ice Drink Factory Pematang Siantar (Munthe & Siregar, 2025).
2. Service quality has a positive and significant effect on satisfaction with a t-statistic value of 4.178 above 1.96 and a significance of 0.000 below 0.05, meaning that service quality has a significant effect on satisfaction because the significance value is below 0.05. This study is in line with research stating that service quality has a positive and significant effect on the satisfaction of Telkomsel card users (Pulungan & Mesra, 2023). Additionally, Widodo (2021) also stated in his research that service quality has a positive and significant effect on consumer satisfaction at Molivia Cafe.
3. Innovation has a positive but insignificant effect on loyalty with a t-statistic value of 1.636 below 1.96 and a significance of 0.102 above 0.05, meaning that innovation has no real effect because the significance value is above 0.05 . The results of this study are not in line with previous studies, which found that innovation has a positive and significant effect on loyalty (Quintania & Sasmita, 2020).
4. Innovation has a positive and significant effect on satisfaction with a t-statistic value of 2.584 above 1.96 and a significance of 0.010 below 0.05, meaning that innovation has a significant effect on satisfaction because the significance value is below 0.05. The results of this study are in line with previous studies, namely that innovation has a positive and significant effect on satisfaction (Indriyani et al, 2023).
5. Satisfaction has a positive and significant effect on loyalty with a t-statistic value of 4.236 above 1.96 and a significance of 0.000 below 0.05, meaning that satisfaction has a real effect on loyalty because the significance value is below 0.05. The results of this study are in line with previous studies, namely that satisfaction has a positive and significant effect on loyalty (Wicaksono & Widodo, 2024).

Indirect Effects Between Variables

The indirect effect between variables can be seen in the specific indirect effects value. The data analysis results show the indirect effect value in Table 5 below.

Table 5. Specific Indirect Effects

	Original Sample	T Statistics	P Values	Conclusion
Service Quality -> Satisfaction -> Loyalty	0.178	3.277	0.001	Accepted
Innovation → Satisfaction → Loyalty	0.117	1.999	0.046	Accepted

Source: Smart PLS, 2025

Table 5 shows the indirect effects between variables, which will be explained as follows:

1. Service quality has a positive and significant effect on loyalty through satisfaction with a t-statistic value of 3.277 above 1.96 and a significance value of 0.001 below 0.05, meaning that satisfaction acts as an intervening variable between service quality and loyalty.
2. Innovation has a positive and significant effect on loyalty through satisfaction with a t-statistic value of 1.999 above 1.96 and a significance value of 0.046 below 0.05, meaning that satisfaction acts as an intervening variable between innovation and loyalty. This study is in line with the results of research by Quintania & Sasmitha (2020).

CONCLUSION

1. Service quality has a positive and significant effect on taxpayer loyalty at the Lubuk Pakam Primary Tax Office.
2. Service quality has a positive and significant effect on taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.
3. Innovation has a positive but insignificant effect on taxpayer loyalty at the Lubuk Pakam Primary Tax Office.
4. Innovation has a positive and significant effect on taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.
5. Satisfaction has a positive and significant effect on taxpayer loyalty at the Lubuk Pakam Primary Tax Office.
6. Service quality has a positive and significant effect on loyalty through taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.
7. Innovation has a positive and significant effect on loyalty through taxpayer satisfaction at the Lubuk Pakam Primary Tax Office.

RECOMMENDATIONS

1. Loyalty with the lowest value statement is "I have no tax arrears and fulfill all my obligations on time." Therefore, the suggestion that can be given is that the government should provide priority services or easy access for taxpayers who are always compliant and fulfill their obligations on time. Additionally, it is necessary to enhance appreciative services for compliant taxpayers, such as through awards or priority services, to further encourage voluntary tax compliance.
2. Satisfaction with the lowest value statement is "Tax officers are competent and able to handle my tax service needs appropriately." In this case, the government/tax office should maintain and continue to improve the competence of tax officers through continuous training and public service coaching. That way, the quality of fast, accurate, friendly, and professional service can be maintained and even improved. This will strengthen taxpayer confidence and encourage higher voluntary compliance.
3. Innovation with the lowest score: "The implementation of innovation improves the governance and quality of the tax services I receive." The government and tax office should continue to develop and expand the application of digital innovation and integrated service systems so that tax governance becomes more efficient, transparent, and accessible. Sustainable innovation will help taxpayers obtain fast, accurate, and convenient services, while strengthening trust in the tax administration.
4. Service quality with the lowest value statement "I am satisfied with the quality of tax services I receive." The government and tax offices should continue to maintain the good quality of services by maintaining the professionalism of tax officials and consistency in service standards. In addition, conduct periodic evaluations

and improvements so that taxpayer satisfaction is maintained and can even increase in line with the development of community needs.

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