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Analysis of Tax Transaction Costs on Taxpayer Compliance: A Public Policy Perspective

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Abstract

It is considered as the combination of field studies which it might be of law, economic and of organization for the transaction cost. The transaction cost simply refers to a cost that has to be a burden to the party, whereby the transaction made by them is performed in the world with the unclear information due to the influence of so many participants, doing as opportunism and bounded rationality. It is a study conducted with the objective of exploring the perception of the stakeholder about the transaction cost which is incurring due to tax over compliance under the economic view of new institutional economic. The aspects that have been done in this study would be asset specificity, frequency, uncertainty, bureaucracy, search cost, incentive, compliance, filing, law enforcement, as well as property rights. The technique involved in this study is a survey technique. Last among questions, are the questions that pertains to perceptions and factors that pertains to perception of the society on transaction cost in compliance tax. Cluster sampling is the technique used, in this research writing, to take sample. The findings of the research have established that: 1. different perception produced by the respondent regarding the variable refers to the asset specificity, bureaucracy, search cost, filing and law enforcement as well as the property rights and 2. the negative impact produced by the variables bureaucracy and incentive gives the compliance tax.

Keywords: Transaction Cost, Tax Compliance, New Institutional Economics, Stakeholder Perception, Bureaucracy

Introduction

Based on the agency theory, the passing of Law No. 32 of 2004 on regional autonomy which superseded the Law No. 22 of 1999, in agency theory may be regarded as nexus of contract introducing a new era in the government system in Indonesia. The effect of such a policy according to Prabowo & Rafli (2020) is that regions are granted the control and duty to fulfill the interests of the community and their own interests too.

In order to facilitate the enactment of regional autonomy, the government enacted Law No. 33 of 2004 replacing Law No. 25 of 1999 about the balance between central and regional finances, which is based on the fact that the central government will provide the balancing funds in terms of General Allocation Funds, Special Allocation Funds and Revenue Sharing Funds in terms of regional taxes and natural resources.

The process of the financing of the Regional Government in the framework of the decentric of the completed balance of the finances of the Central Government and the Regional Government bases on the principle of decentralization, deconcentration and assignment of the tasks. According to the Law Number 22 of 1999 amended by Law Number 33 of 2004, it has been mentioned that the sources of regional income include. Original Income of the region (PAD), Balancing Funds and Other Income. Among the sources of regional original income (PAD) in Regional Tax as stipulated in Law Number 28 of 2009 regarding amendments to Law Number 34 of 2000 regarding Regional Taxes and Regional Retributions is collection of hotel tax and restaurant tax.

Hotel and restaurant tax (hereinafter referred to as tax) is likely to play the key role in the funding of the regional development activities. As it has been before, optimization of tax revenue rested solely on tax intensification so far. Tax targets are determined by only taking into consideration the realization of the previous year (incremental) in such a way that it does not focus to the other factors that are capable of raising tax revenue. Cost efficiency is one of such factors. It costs a lot to carry out the tasks required in taxations fulfillment which also affects revenue receipts by tax officials (fiscus) and taxpayers. Lado and Budiantara (2018). Such expenses involve expenses the government has to undertake in levying taxes or otherwise known as administrative costs as well as those expended by taxpayers as they strive to meet their tax obligation otherwise known as the compliance costs (Alamsyah & Saragih, 2023).

One of the factors of public policy that dictate how high the taxpayer's compliance may be to the payment of taxes is the quantity of costs to be met by the taxpayers (here refer to as transaction costs). Transaction costs may arise on the course of the public policy taking into consideration the importance of the private information, moral hazard and adverse selection (Assoba & Uzliawati, 2023). These three causes of transaction costs may be realized in the local government as the tax revenue collector and in taxpayers. The paper shall examine the transaction costs of taxes in hotels and restaurants as viewed by the local government officials as tax collectors, the taxes paid by the business in a hotel and restaurant and the population in Palopo City.

This paper tries to draw a comparison of the perceptions on the tax transaction costs and what determines taxpayer compliance among the four determinants of the tax transaction costs (Yustika, 2006) first point is (1) asset specificity is a contributor to transaction costs (Yustika, 2006). The greater the asset specificity of a specific performance, the greater the transaction costs would be, and of course, this will diminish the amount of tax compliance (the actual fulfillment of tax obligations). Asset specificity comprises physical and human assets, which are not present to any other usage.

The shorter the term of an asset in reference to a given transaction, the higher are the transaction costs likely to be. Transaction frequency; (Zainuddin et al., 2021); (2) The frequency of visits that taxpayers make in a tax payment office in order to pay taxes. The transaction frequency is more often the higher the transaction costs (Li & Fang, 2022); (3) Transactional Uncertainty tends towards the unexpected change in the situation within the range of the exchange. The more uncertain a transaction, the higher the costs of a transaction (Li & Fang, 2022); (4) The search cost is the cost of gathering information concerning transactions (Zainuddin et al., 2021); (5) Bureaucracy is one among things that are associated with governance structure of economic activities (governance structures).

Here, bureaucracy is supposed to be an institution to support the exchange process, existence of which is a necessity to lower costs of exchange (Yustika, 2006); (6) Incentives can have the connotation of expected rewards capable of encouraging an individual to undertake an action. Incentives may take the form of flexibility of operation, ease of conducting economic activities;

(7) Bookkeeping is application of bookkeeping requirements adequately in line with the provisions spelled out in tax laws and regulations; (8) Law enforcement is the amount payable in ex post bargaining (renegotiation) and sanctions (Zainuddin et al., 2021); (9) Property rights i.e., costs incurred in ensuring property rights of an individual or that of a society are secure. The attitude of the society towards doing business is insecure, that is why the transaction costs are higher (Duarte & Rocha, 2022).

Literature Review and Hypotheses Development

Transaction Fees

Transaction costs are always and, in most cases, necessary to undertake most transactions. This involves the expense of gathering information over goods and services (price, quality), information over transaction partners (reputation, track record), quality of property rights to be sold, including the legal framework and contracts, cost structure, monitoring and enforcement of contract guidelines.

But in reality, such things fail to occur and what occurs is presence of asymmetric information and scarcity of human mental capacity (bounded rationality) in the informational processing. This mental model is then applied in the analysis of the phenomenon of economic activity in such a way that it can be determined that the perception of every individual will be different among each other as a result of the difference in this mental model. Considering that both parties possess identical information in the process of working with the available information, and that both parties are highly rational, then the market is the most efficient medium to exchange, however what occurs is that most people tend to be untruthful and they are not rationally perfect. Transaction costs are brought about by the presence of imperfect and asymmetric information.

The relationship between contracts and transaction costs is explained by Williamson (2000), that transaction costs consist of implementing contracts, their arrangements and enforcement as shown in the following image:

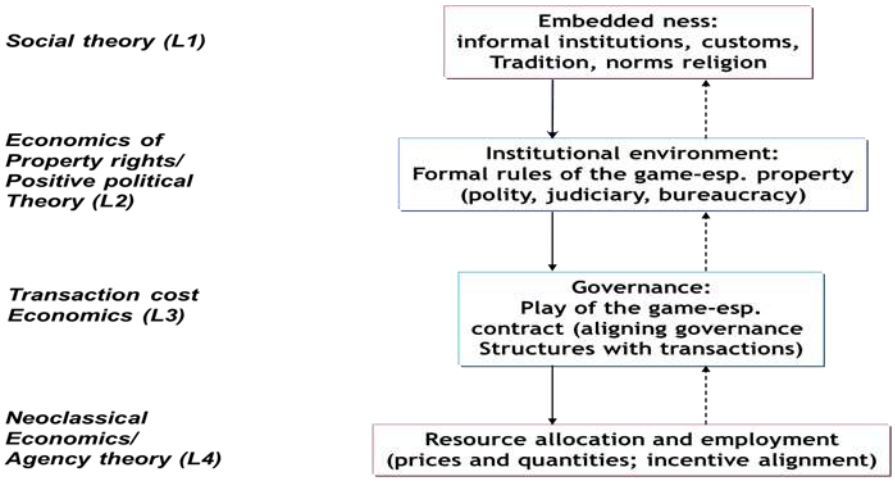


Figure 1. Economic of Institutions

Source: Williamson,2000

In transaction cost economics the transaction is the fundamental measure of analysis. It is possible to transact at the market or inside an organization. There are transaction costs, which are costs of transaction in the market termed as external transaction cost, and the internal transaction cost at the company level through organizational/hierarchy work. Internal

transaction costs simply refer to costs caused by contractual exchange between parties involving some form of incomplete information, opportunism and bounded rationality whereas external costs refer to costs brought about by mutually autonomous exchange of market mechanism (Zainuddin, et.al., 2021).

Tax Transaction Costs

Tax transaction costs may be divided into as calculated or uncalculated costs. The total cost of cash expended in calculating, depositing, reporting and accounting the amount of tax payable is calculated costs or actual cash outlays whereas uncalculated costs are losses incurred by the taxpayers when their income is reduced during meeting the tax obligations or opportunity cost of time in such a way that practically the transaction costs of taxations are the overall transaction costs incurred by the taxpayers in order to meet their tax payments which include the photocopying cost of documents pertaining to tax payments, tax form cost, transport cost to visit tax deposit sense, employee education and training on.

Based on the main problems above, to determine the effect of transaction cost elements on the level of tax compliance, the hypothesis proposed is as follows:

H1 = bureaucracy variable is suspected to have a negative effect on tax compliance level.

H2 = uncertainty variable is suspected to have a negative effect on tax compliance.

H3 = information cost variable is suspected to have a negative effect on tax compliance.

H4 = incentive variable is suspected to have a positive effect on tax compliance.

H5 = bookkeeping variable is suspected to have a positive effect on tax compliance.

H6 = law enforcement variable is suspected to have a positive effect on tax compliance.

H7 = property right variable is suspected to have a positive effect on tax compliance.

Methods

Attitude Scale Measurement

In order to examine what the perception of the model is, the response of each one of the respondents is correlated with either type of statement or stance support. Such attitude support is expressed in 5 points of the scale of the Likert type (likert scale), beginning at point one up to point five, that is, strongly disagree, disagree, undecided, agree, and strongly agree.

The Likert scale can help you gauge the attitude, opinion and perception of an individual or a group of people regarding a social phenomenon (Sugiyono, 2017) The Likert scale is utilized in getting the above variables measured by rendering them into dimensions, dimensions into indicators, which are quantifiable. Lastly, the quantifiable indicators may be adapted to come up with instrument items in the shape of questions or statements that should be answered by the respondents. Each of the answers is linked with the kind of statement or attitude backing that takes the word.

Descriptive Statistics

The descriptive analysis adopted in the study is to clarify the tendency of the answers of respondents. Structured questionnaire is a scale where answers that is strongly disagree has a score of 1, disagree has a score of 2, neutral has a score of 3, agree has a score of 4 and strongly agree has a score of 5. Using these responses, the mean value and standard deviation of the answers of the respondents indicate the trend of the answers of majority of the respondents.

Non-parametric statistics Three or More Unrelated Samples (Independent).

The Kruskal Wallis test method is used to compare scores in more than 2 (two) groups, Each observation data value is replaced by a ranking or score. All samples in k samples are sorted in a series. The smallest data value is given a score or rank of 1 and so on for all data in k samples. The Kruskal Wallis test determines whether the number of ranks is very different, so that it is unlikely that the samples were drawn from the same population.

The Kruskal Wallis test is formulated:

$$H = \frac{12}{N(N+1)} \sum \frac{Rk^2}{nk} - 3\,(N+1)$$

Where:

N = number of n1, n2 ……nk

Rk = number of rankings in each column

Bivariate Correlation Test

Correlation analysis is related to measuring the degree of relationship between two variables. Spearman's correlation coefficient is used because the data is categorical and ordinal, not normally distributed, the sample size is small, and the relationship between the two variables is not linear. Sugiyono (2017) explains that the Spearman rank correlation method is used to find relationships or to test the significance of associative hypotheses when each variable that is connected is ordinal, and the data sources between variables do not have to be the same. The Spearman rank correlation formula is:

$$\rho = \frac{1 - 6\sum bi^2}{N(n^2 - 1)}$$

ρ = Spearman rank correlation coefficient

where:

n = number of ranks/variables

b1= difference in ranks in the rank distribution

The Spearman rank correlation test is used to find the relationship between data from two variables that have at least ordinal data types so that it is possible to rank the data (Sulistyo, 2010:140). This test will look at the r (rho) value which is measured by the significance value at a significance level of 5%.

The decision to accept the hypothesis is based on the following criteria.

H0: r = 0, there is no relationship between samples

H1: r ≠ 0. There is a relationship between samples

Logistic Regression

In order to identify the transaction cost factors which influence the tax compliance level, the analysis tool based on the logistic regression model is employed. The model of logistics predicts the membership of group. The dependent variable of the logistic regression is dichotomous whereas the independent variables are continuous and/or categorical. The benefits

of the logistic regression method include the fact that it is more flexible than the other methods (Kuncoro, 2001), i.e.: (1) The logistic regression has no assumption of normality of the independent variables being used in the model. This entails the fact that a normal, linear distribution of the explanatory variables or a similarity of the variance of the explanatory variables in the different groups is not required; (2) Logistic regression also allows the predictor variables to include both continuous and discrete variables as well as dichotomous variables; (3) Logistic regression can also be very helpful when the response distribution of the outcome variable shows signs of a non-linear relationship with one or more predictor variables.

The general equation for logistic regression analysis is stated as follows:

$$P[y_i = 1] = [\ 1 + e^{(-\alpha - X\beta)}\ ]^{-1},$$

Y is the dependent variable which is binomial; X 1 is the i-th observation response variable; alpha is the intercept parameter; Beta is the parameter of coefficient variable. The maximum likelihood method will be utilised in estimating the model parameters. An estimated positive and significant coefficient means that, an increment in the value of a given explanatory variable is related with an increment in chances of the dependent variable assuming the value one. Dependent variable is formed based on likert scale. binomial variable is built so that one is score of 4 and 5 and zero is score of 1,2 and 3. The dependent variable shows whether the tax compliance rate is high or not through the perception of the three groups of respondents.

Y = 1, high

Y = 0, otherwise

The series of explanatory variables include dummies (models) one and zero, depicting transaction cost indicators.

The binary logistic regression model uses the following equation:

DTKP = β0 + β1Brk + β2Unc + β3Inf + β4Ins + β5Bk + β6law + β7PP + e

Where:

DTKP = Tax Compliance Level

Brk = Bureaucracy

Unc = Uncertainty

Inf = Information Cost

Ins = Incentive

Bk = Bookkeeping

PP = *Property Right*

Model Accuracy Test

The regression model accuracy test is used to assess the accuracy of the regression model in this study measured by the chi square value with the Hosmer and Lemeshow test. This test will look at the goodness of fit test value measured by the chi square value at a significance level of 5%.

The decision to accept the hypothesis is based on the following criteria.

H0 = the hypothesized model fits the data.

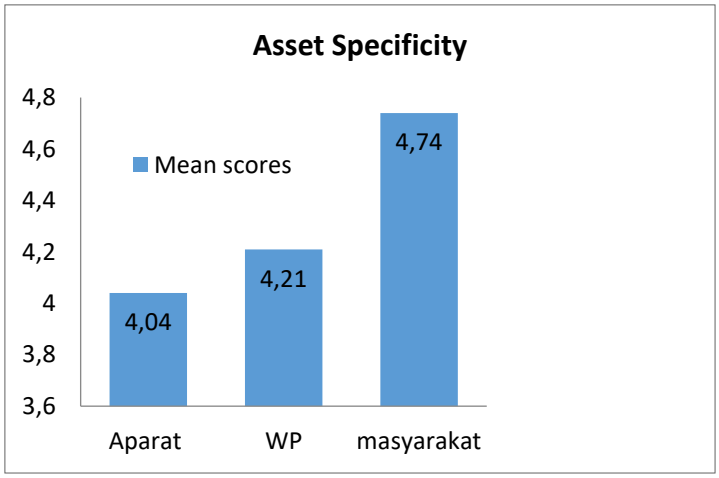
Ha = the hypothesized model does not fit the data.

The model to test the hypothesis is the goodness of fit test model proposed by Hosmer and Lem show. When the statistic value of the goodness of fit test conducted by Hosmer and Lemeshow is equal to or lower than 0.05, then the null hypothesis is rejected and there is due significant difference between the model and its observation value, then it is not a good model fitting, since the model cannot predict its observation value. When the statistical value of the goodness of fit in the Hosmer and Lem show statistic is greater than 0.05 then the null hypothesis cannot be rejected and this implies that the model can predict statistically the value of the observations it measures or it can be stated that that model can be determined because it fits the observations (Ghozali, 2001).

Results and Discussion

Kruskal Wallis Test

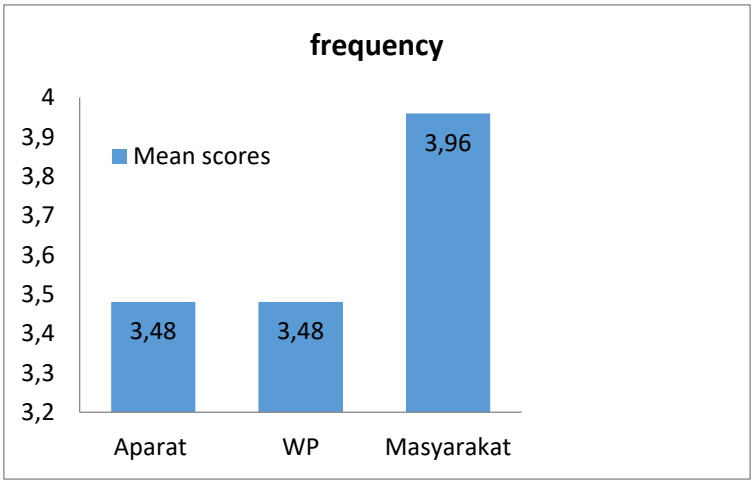
Asset Specificity



When distributing this questionnaire, three groups of respondents, that is, tax officials, taxpayers and the public were directed to respond, on the Lizart scale, to the issue of the level of specificity of assets used to provide services in meeting tax requirements of hotels and restaurants. Based on the mean rank, it is possible to realize that the general populace agrees that the assets, in honoring payment of tax, are those that qualify as assets that are specific or special in such a way that this will lead to excessive transaction costs whereby this kind of asset is not to be used elsewhere. Based on Kruskal Wallis test with p- value of 0.039, it shows that there is a difference in the perceptions of the three samples towards each other statistically viewed in the p value of 0.039<0.05. This implies that there are certain resources in the service of payment of taxes.

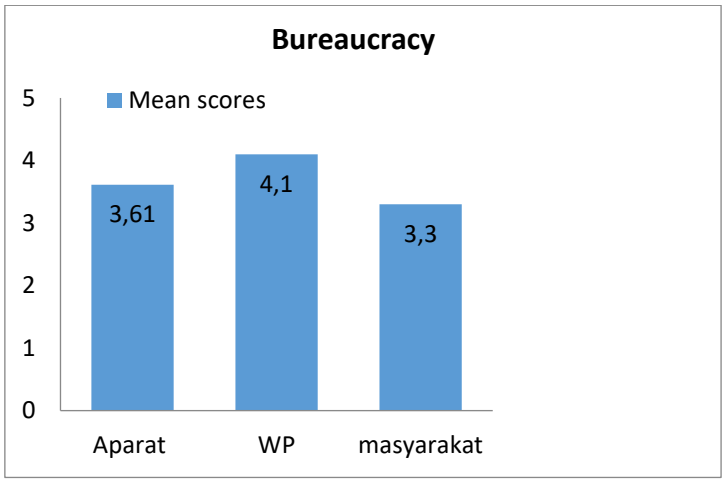
Frequency

On this variable, interviewees were expected to respond, on a Likert scale, by answering whether the rate of taxpayer visits to tax payment office in settling their taxes has been on the rise. It is observed in the mean scores table below that the mean score of taxpayer visits to the tax payment office is not increased or low at 3.48 and 3.48 assessed by the tax officials and the taxpayers respectively. This is however not the feeling of community respondents who feel that frequent visits of taxpayers to the tax payment office is on the rise to the extent that this will make visits to pay taxes, and the other costs incurred incurred in the discharge of their tax obligations very expensive. The p-value of 0.112 does not relate to the Kruskal Wallis test done on three respondents to show that there is no statistical significance among the three respondent groups, which is characterized by the p- value>0.05. These findings imply that the three categories of respondents do not differ in the perception.



Bureaucracy

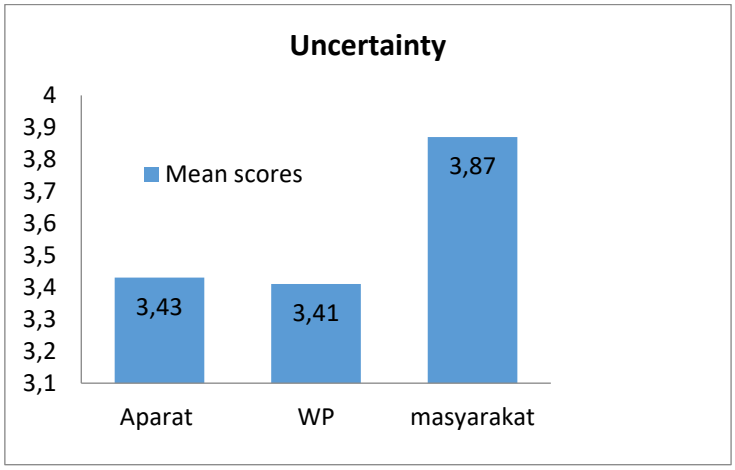
Under this variable, the respondents in each group were requested to respond, using the Likert scale, to the question that asked whether the taxpayers and the general population have clearly comprehended the processes of satisfying taxes. The analysis of the results of descriptive statistics indicates that there is a significant difference in the response of each group of respondents. A majority of the groups of people find the current procedures to be unclear and less familiar to the masses with a mean score of 3.30. Similarly, tax officials who merely do not "agree" that the current processes of fulfilling tax obligations are transparent are pointed at with the mean scores of 3.61. This could imply that tax officers continue to have lot of issues on enactment of tax obligations because they were not knowledgeable on how to enact tax obligations. Taxpayers indicate the opposite. It has an average score of 4.10 which indicates that majority of the taxpayers are certain that the current processes are understandable and understandest. In the Kruskal Wallis test, the p-value of the three groups of respondents was 0.003 associating top value <0.05 implying that there is a difference in the perception of the three groups of respondents towards bureaucracy.



Uncertainty

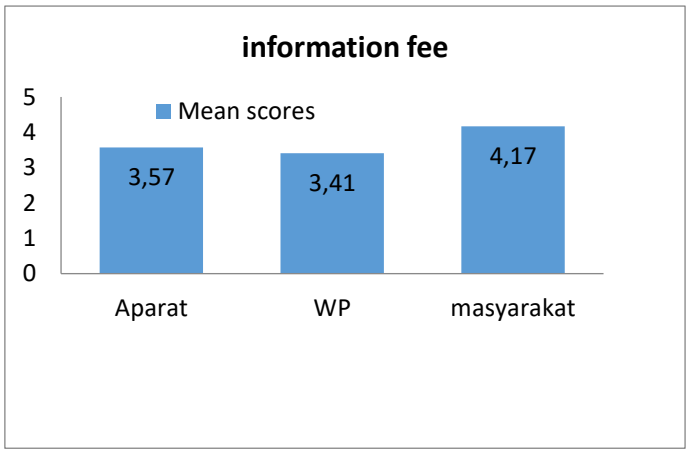
Based on the averages between the scores, that is, 3.43, 3.41, 3.87, contracts/regulations on implementation of hotel and restaurant taxes are causes of uncertainty among the authorities, the taxpayers and citizens. Existing legislations on hotel and restaurants taxes are said be still a mystery to the tax collectors and taxpayers and the rest of the people. The Kruskal Wallis Test results on the three groups of respondents indicated a p -value of 0.329 which was shown

statistically to be insignificant compared to the three groups of respondents with a p - value>0.05 indicating that contracts/regulations on hotel and restaurant taxes are problematic in the actual implementation of meeting with the tax requirements.



Cost of Searching for Information

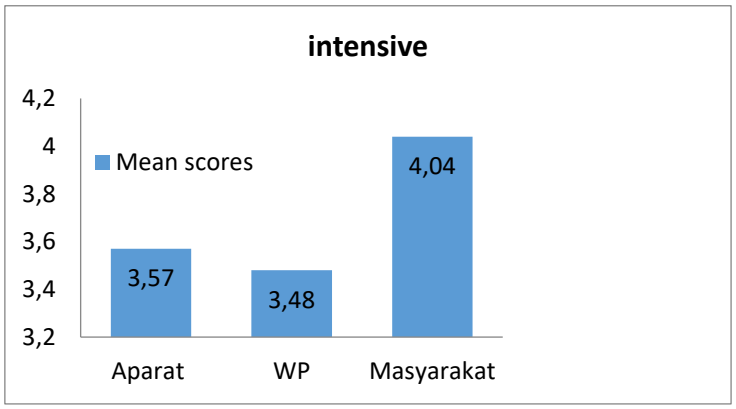
In answer to questions asked to respondents in this case using a Likert scale, the respondents were to answer affirmatively or negatively to the question of whether getting information on hotel and restaurant taxes takes more time, effort and money. Based on the mean score we can note that the group of tax officers and the general population have a tendency to believe that during the process, no additional time, effort and money need to be spent. Nonetheless, the opposite is true, the people believe that it takes longer, they need to apply more effort and spend more money to get access to information on the taxes within the domain of hotels and restaurants. Ambiguous details and failure to socialize means that the people will have to incur more time as well as more effort which in any case will definitely cost an increment to know what they want. Statistical data of the Kruskal Wallis test on the three groups of respondents indicates a statistically significant difference in perception as shown in a p-value of 0.025 or less than or equal top value of 0.05. This could mean that there are varied perceptions as to the cost of information by each group particularly in the community.



Incentives

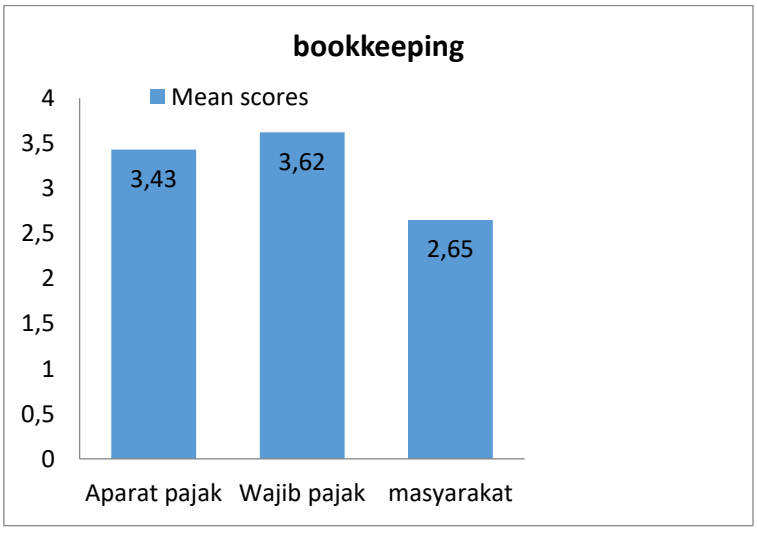
The question that will be inputted in this variable is the extent to which incentives motivate the taxpayers to pay tax. Based on the average mark, it is now be observable that majority of the community associations concur with the argument that motivators can actually influence taxpayers in the manner they are compelled to exercise their tax compliance. The liberty to operate a business and the flexibility to carry on the business affairs is thought to be capable of

cutting down expenses beyond the actual expenses of operating a business so that it can prompt the fulfilment of more tax liabilities which will eventually enhance the level of tax compliance. Results obtained using the Kruskal Wallis one of three respondent groups was 0.074 which calculated p value is greater than 0.05 therefore it can be stated that there is no variation in the perception that incentives can promote higher compliance in paying the respective taxes and lowering the level of transaction costs.



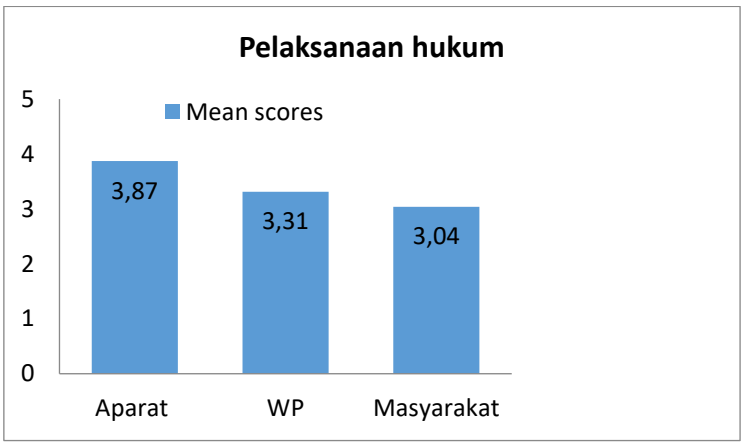
Bookkeeping

In this instance, the respondents were supposed to respond whether the book keeping duties are being performed adequately according to the establishment provided on a Likert scale. The mean score of 2.65 shows a disagreement by the populace with the view that bookkeeping has been conducted among taxpayers in line with the set provisions. Some signs that proper bookkeeping requirements have not been conducted which will attract transaction costs are the files and other evidence of some transactions have not been kept properly, and the literature supporting adoption of the tax requirements such as the books and other documents containing the tax legislations and their supporting regulations are unclear. Nevertheless, the majority of tax officers and taxpayers believe that the bookkeeping requirements have been duly performed in line with the set-out provisions. A Kruskal Wallis test of the three groups of the respondents resulted in a p-value of $0.003 < 0.05$, so there was a statistically significant difference in the perceptions relating to the bookkeeping obligations.



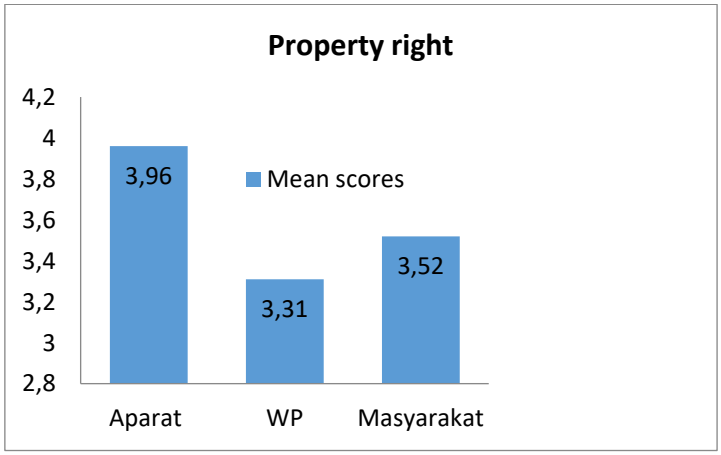
Enforcement of Law

It is expected that the introduction of the law can help reduce transactional costs that emerge in paying taxes. This is evident with the means of 3.87, 3.31 and 3.04. In majority of cases, respondents presumed that transaction costs will be minimized and decreased through enacting the law. Based on the Kruskal Wallis Test, the three categories of respondents recorded p value (0.011) which is less than 0.05. These findings show that there is at least one cluster of respondents which does not share the same perception with other clusters or groups more specifically the tax officials.



Property Right

Respondents in this situation were required to respond, in a Likert Scale, regarding the ability of property right security in reducing transaction costs. Considering the mean value, one can state that all the respondents are certain that the transaction costs could be reduced with the provision of the business actors of the secured property rights. Nevertheless, some of the taxpayer respondents disagree that there is any way that property right security guarantees can help in reduce costs, incurred in meeting tax obligations. The state cannot do anything to render further protection to the entrepreneurs of hotels and restaurants. Even, entrepreneurs who are still doing business, have to incur extra costs on securing their property rights. The Kruskal Wallis test on three group of respondents yielded a p value of 0.023 implying p value <0.05 and, therefore, a conclusion can be made that there is at least one group of respondents who react differently with the rest of the groups who are, obviously, tax officials.



Spearman Correlation

According to the result provided in the table below of the Spearman correlation test, it is evident that the values of the p-values implied on the variables of bookkeeping, law enforcement and property rights is less than 0.05 in such a way that it can be inferred that there exists no relationship between the variables of bookkeeping, law enforcement and property rights and the level of tax compliance. Conversely, the p-value of the variables of bureaucracy, uncertainty, information costs and incentives is greater than 0.05 referring to the relationship that exists between the variables and the level of tax compliance.

	Tkp	**Birokrsi**	**Uncert**	**Information**	**Intensive**	**Book**	**Law**	**Property**
TKP	1.000							
	.							
birokrsi	.180	1.000						
	.121	.						
uncert	.166	-.076	1.000					
	.154	.519	.					
information	.074	-.106	.554(**)	1.000				
	.530	.364	.000	.				
intensive	.121	.026	.210	.472(**)	1.000			
	.300	.823	.070	.000	.			
Book	.470(**)	.457(**)	-.130	-.136	.180	1.000		
	.000	.000	.265	.243	.123	.		
Law	.364(**)	.234(*)	-.045	-.034	.145	.558(**)	1.000	
	.001	.044	.702	.774	.214	.000	.	
Property	.368(**)	.171	-.082	-.051	.291(*)	.408(**)	.520(**)	1.000
	.001	.143	.485	.665	.011	.000	.000	.

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Binary Logistic Regression Model

To explain the pattern of relationships amid independent variables and dependent variables, the analytical tool used in the given study is the binary logistic regression model. In this research the independent demographic factors include the subjects of study which are bureaucracy, uncertainty, cost of information, incentives, bookkeeping, law enforcement and property rights, and the dependent variable in this research is the level of tax compliance. The value of Wald ratio with a level of 0.05 (the maximum error level applied in this research and also regarded as the most appropriate) is taken as the level of significance. When the probability =< 0.05 then

it is considered that the independent variables found have already significant impact on a dependent one. The model that indicates the independent variables and the model of the level of compliance quality with the tax is shown in the table below.

Table 2. of Independent Variables and Expected Sign

Independent Variable	Expected Sign
Bureaucracy	-
Uncertainty	-
Information Cost	-
Incentives	+
Bookkeeping	+
Law Enforcement	+
Property Rights	+

In order to determine how well the binary logistic regression model adopted in our study fits, it is quantified by chi square using Hosmer and Lem show test. The Hosmer and Lem show accuracy test based on chi square of the binary logistic regression model had a value of 6.957 with a confidence level of 0.433. This value is more than 0.05 or 5 percent and hence H0 is accepted. This implies that the binary logistic regression model where the level of tax compliance is used as the dependent variable complies with the data such that it could be effectively used in the further analysis. Having estimated and having tried several tests with the computer the following results are;

Table 3. Binary logistic and Hosmer Lem show Regression Coefficient Test

Variable	B	Wald	Sig. (p-value)
Constant	-8.236	11.422	0.001
Bureaucracy	-0.164	0.224	0.636
Uncertainty	0.619	3.200	0.074
Information Cost	0.277	0.690	0.406
Incentives	-0.466	1.161	0.281
Bookkeeping	1.043	7.603	0.006
Law Enforcement	0.208	0.306	0.580
Property Rights	0.817	4.063	0.044

The results of testing the binary logistic regression model with the dependent variable being the level of tax compliance (Y) obtained the following equation:

DTKP=-8.236–0.164brk+0.610unc+0.277inf–0.466ins+1.043bk+0.208law+ 0.817pp

Interpretation Results

Based on the binary logistic model based on the binary regression coefficient test, it can be concluded as follows:

Bureaucracy

The regression coefficient outcome test indicates that coefficient is -0.164 thus it has negative influence on the level of tax compliance. Since there is a negative sign on the coefficient, it suggests that the bureaucracy is complicated and not clear and therefore chances of the compliance with taxes will be reduced that is, low. This forces respondents to use more money in paying taxes due to the long delay it takes to process such taxes as well as obscurity of the tax processes. Hypothesis 1 that says that effect of bureaucracy is negative is therefore confirmed.

Uncertainty

The uncertainty variable shows a coefficient of 0.619 (p-value = 0.074), which means this variable has a positive effect on tax compliance. The uncertainty of the rules/regulations governing taxes does not make taxpayers and the public reluctant to pay taxes. Respondents prefer to avoid sanctions that incur more costs than not paying taxes. Thus, hypothesis 2 which states that uncertainty has a negative effect is not proven.

Information costs

The results of the binary regression coefficient test show that the information cost variable has a positive effect on tax compliance, as indicated by a coefficient of 0.277 and a p-value of 0.406. The additional costs required to obtain tax information do not discourage taxpayers from fulfilling their tax obligations. Thus, hypothesis 3, which states that information costs have a negative effect, is not proven.

Incentives

Incentive variable received -0.466 as coefficient value with p- 0.281. This implies that incentives adversely impact on the tax compliance. All respondents estimated that the ambiguous incentive plan would result in the incurring of extra expenses. The taxpayers have to pay extra money so that they gain the incentive of flexibility in executing activities like the facility to engage in economic activities with ease and facility of obtaining business permits etc. This indicates that the current incentive scheme is not an incentive drive in discharge of taxes. One of the considerations why taxpayers are not likely to use this variable as an incentive to meet their tax liabilities is the unclear scheme of the available incentive in the regulations. In such a manner, hypothesis 4 (that has a positive effect) is not supported.

Bookkeeping

According to the outcomes of the tests, the bookkeeping variable will positively and significantly influence the tax compliance with the resulting coefficient of 1.043 and a p-value of 0.006. This implies that the taxes will be more processed when the right book keeping is being done and conducted in accordance with the taxation rules. The majority of respondents elaborated that one of the factors that is essential in payment of taxes is the bookkeeping aspect. The costs levied by sanctions because of such poor bookkeeping can be saved through proper and adequate bookkeeping. The hypothesis concerning positive impact of bookkeeping is therefore proved (hypothesis 5).

Law Enforcement

Based on the coefficient test table, the greater the imposition of the law that is done with certainty and in a sure way, the greater the degree of compliance with taxes. The coefficient 0.208 and the p-value 0.580 imply that the impact of law enforcement variable is positive and significant. Therefore, hypothesis 6 according to which law enforcement is positive and proven has an effect.

Security of Proprietary Right

The coefficient of 0.817 and the p- value 0.044 show that the property right variable is significant and positive. Security of the property right provided by the government tempts the business players in investing more and therefore this shifts the additional cost of enforcing the property right of entrepreneurs and its effect sensitizes the business persons / tax payers on fulfilling their duty in paying taxes. Therefore, the hypothesis 7, indicating that the property rights impact is positive is demonstrated.

Discussion

The transaction cost components in the present study show that the number of transaction cost components identified in both the pre and post contract processes is more than what is expected according to the lit review. Both the higher components of transaction costs that are identified in housing developments are the causes of the higher number of higher transactions costs. The analysis using the frequency analysis made it possible to identify the major and redundant transaction cost elements in the typical housing development as well as indicating that certain redundant or inefficient activities should be reinforced or dropped to bring down transaction costs.

The study results will be used to draft out the public policies which will gauge the components of the transaction costs in order to justify the study findings and in effect formulate a best practice transaction cost economic models to comprehend tax matters. It is advisable that other factors that can be used in order to reduce transaction costs and therefore lead to the increment of revenue be researched and that transaction costs in business development be identified and quantified.

Implication

In other words, high transaction costs besides being a deterrent to the total regional revenue also determine the level of tax compliance, which is among the factors that contribute to the high-cost economy in a region. Consequently, to avoid the effect of playing counterproductively on the regional income, one of the principles that should be proposed is that of efficiency. This is because with this rule of efficiency the costs that are incurred in carrying out the activity so as to meet their taxes (identified as transaction costs) do not slow down taxpayers in meeting their taxes. Public policies like tax incentives in terms of a reduction in the tax rates of the hotel and restaurant entrepreneurs must be carried out so that they might motivate more people to pay taxes. Tax service procedures must be more open and summarized so that taxpayers can understand it better in order to save extra expenses in paying taxes, such as socialization or the local government site. A local governor that controls transparent and quantifiable transaction costs in the economy is required to ensure that the anticipated outcomes are realized and, moreover, as an instrument of enforcement of the rules.

Conclusion

The way various respondents perceive the transaction costs in terms of viewing the tax compliance at both individual level and within the general level is owing to a number of reasons. Respective to the findings of the Kruskal Wallis test analysis, it may be a conclusion that the three sets of the respondents have varying perceptions on the variables of asset specificity, bureaucracy, information cost, book keeping, law enforcement, and property rights. According to the outcomes of the binary logistic regression analysis, it was ascertained that the independent variables, that were composed of bureaucracy and incentives, adversatively influenced the intensity of compliant tax payment among the respondents within Palopo City. This implies that such variables will decrease the level of tax compliance. According to the outcome of the test of the coefficient in the binary logistic regression, it was observed that all the independent variables did not turn out to be significant to the level of tax compliance except the book keeping and property rights variables which had p-value =<0.05 such that one can say that the book keeping and property rights variables are positively and significantly related to the level of tax compliance.

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