

The Effect of Tax Incentives, Tax Socialization, and Law Enforcement on Motor Vehicle Tax Compliance in East Java

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ABSTRACT

This study examines the impact of tax incentives, tax socialization, and law enforcement on motor vehicle tax compliance in East Java, utilizing a quantitative approach. A sample of 140 respondents was surveyed using a Likert scale (1-5), and the data were analyzed with Structural Equation Modeling-Partial Least Squares (SEM-PLS 3). The results indicate that tax incentives (H1), tax socialization (H2), and law enforcement (H3) have positive and significant effects on motor vehicle tax compliance. Specifically, law enforcement emerged as the most influential factor, followed by tax incentives and tax socialization. These findings highlight the importance of well-structured tax policies, comprehensive taxpayer education, and robust enforcement mechanisms in enhancing tax compliance. The study offers valuable insights for policymakers seeking to improve tax collection efficiency and compliance rates among motor vehicle owners in East Java.

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1. INTRODUCTION

Tax compliance in motor vehicle taxation is crucial for sustaining infrastructure, public safety, and environmental initiatives, yet challenges persist in regions like East Java. Factors influencing compliance include tax incentives, tax socialization, and law enforcement. Studies emphasize the significance of tax knowledge, tax morale, penalties, and tax system simplicity in enhancing compliance among taxpayers, particularly small and medium-sized enterprises (SMEs) [1], [2]. Additionally, progressive tax rates, service quality, sanctions, awareness, and tax knowledge play

vital roles in promoting compliance among motor vehicle taxpayers [3], [4]. High tax morale, trust in authorities, and perceived worth of expenditures are linked to increased willingness to pay taxes, especially during crises like the COVID-19 pandemic [2]. Understanding these factors can aid policymakers in East Java in formulating effective strategies to boost motor vehicle tax compliance and ensure sustainable revenue for essential public services.

Tax incentives play a crucial role in promoting tax compliance among taxpayers, as evidenced by various studies. Research conducted in Indonesia, specifically in Medan and Surabaya, emphasizes the significant impact of tax incentives on compliance [5]-[7].

These incentives, such as tax reductions and exemptions, have been found to positively influence taxpayers' behavior and increase their willingness to comply with tax regulations. Moreover, studies in Malaysia highlight the importance of tax knowledge, high tax morale, and simplified tax systems in enhancing compliance among small and medium-sized enterprises (SMEs) [1]. Therefore, further investigation into the effectiveness of tax incentives in specific contexts like motor vehicle taxation in East Java is warranted to understand how these incentives can be tailored to optimize compliance rates and revenue collection.

Tax socialization plays a crucial role in educating taxpayers on their obligations, the advantages of compliance, and the repercussions of non-compliance, ultimately aiming to enhance taxpayer awareness and understanding to promote a culture of compliance. Research findings from various studies support this notion. Studies have shown that tax socialization, tax knowledge, and tax awareness positively influence taxpayer compliance [6], [8], [9]. Additionally, tax awareness has been found to mediate the relationship between tax knowledge and taxpayer compliance, emphasizing the importance of informed taxpayers in tax compliance efforts [10]. However, some studies have indicated limitations, such as the ineffectiveness of tax socialization and the lack of impact of tax knowledge and tax awareness on taxpayer compliance [9], [11]. Overall, effective tax socialization programs are essential in fostering a culture of compliance by enhancing taxpayers' understanding and awareness of their tax responsibilities. In East Java, the extent to which tax socialization efforts impact motor vehicle tax compliance has not been thoroughly examined, prompting the need for this research.

Law enforcement is crucial in ensuring tax compliance by implementing legal measures and sanctions against non-compliant taxpayers, as highlighted in various research papers. Effective law enforcement, along with taxpayer awareness and quality tax services, positively influences

taxpayer compliance [12], [13]. Tax compliance is essential for governments to achieve revenue targets, with small and medium-sized enterprises (SMEs) playing a significant role in contributing to tax revenue [1]. Tax knowledge and high tax morale among SMEs are key factors that motivate tax compliance, while tax penalties and tax simplicity also impact compliance positively [1]. Additionally, a comprehensive model of taxpayers' compliance attitudes can aid in studying compliance issues holistically, emphasizing the relationship between taxpayers and the state [14]. Therefore, strong law enforcement mechanisms, coupled with taxpayer education and simplified tax systems, can deter tax evasion and promote adherence to tax regulations, ultimately enhancing overall tax compliance. This study aims to assess the impact of law enforcement on motor vehicle tax compliance in East Java, considering both the deterrent effect of potential penalties and the taxpayers' perception of the fairness and effectiveness of enforcement activities.

2. LITERATURE REVIEW

2.1 Tax Compliance

Tax compliance is a crucial aspect of tax systems, involving taxpayers' adherence to tax laws and regulations by filing returns, reporting income accurately, and paying taxes promptly. Various theories, such as the economic deterrence model and psychological and social models, attempt to explain tax compliance behavior. The economic deterrence model highlights the significance of penalties and audit probabilities in influencing compliance [1]. On the other hand, the psychological and social models emphasize moral and social norms as determinants of compliance [14]. Factors like tax knowledge, tax morale, tax penalties, and tax simplicity play essential roles in motivating tax compliance among small and medium-sized enterprises (SMEs) [1]. Additionally, high tax morale, trust in authorities, and a sense of civic duty contribute to increased tax compliance, while

high tax rates and an unfair tax system are associated with lower compliance levels [15].

2.2 Tax Incentives and Tax Compliance

Tax incentives play an important role in encouraging tax compliance among individuals and businesses. Research has shown that tax incentives, such as exemptions, deductions, and credits, can positively influence compliance behavior by reducing the perceived tax burden and increasing the benefits of complying with tax regulations [1], [5], [16], [17]. Research has indicated that factors such as tax knowledge, tax morale, and simplicity of the tax system contribute to higher compliance rates among taxpayers, especially small and medium-sized enterprises (SMEs) [1]. In addition, during difficult times such as the Covid-19 pandemic, tax incentives have been instrumental in driving compliance among businesses, which highlights the importance of understanding the impact of incentives on tax behavior [17]. Overall, tax incentives are a powerful tool for the government to encourage voluntary tax compliance and achieve revenue targets by creating a more conducive environment for taxpayers to fulfill their obligations.

2.3 Tax Socialization and Tax Compliance

Tax socialization plays a crucial role in enhancing taxpayer compliance by educating individuals about their tax responsibilities, the societal benefits of taxation, and the repercussions of non-compliance. Research findings indicate that tax socialization, tax knowledge, and tax sanctions significantly influence individual taxpayer compliance [9]. However, some studies suggest that tax education and knowledge may not directly impact taxpayer compliance, and socialization may not moderate the relationship between tax knowledge and compliance [11]. On the other hand, research emphasizes the positive effects of socialization of tax services, quality of tax services, and taxpayer awareness on taxpayer compliance, highlighting the importance of these factors in fostering compliance among taxpayers [8]. Additionally, tax education has been shown to have a significant effect on tax

compliance across various ethnic groups, underscoring the importance of educational initiatives in promoting compliance among students and the public in Indonesia [18].

2.4 Law Enforcement and Tax Compliance

Law enforcement in taxation, as highlighted in various studies [7], [12], [14], [19], is crucial for ensuring compliance and deterring tax evasion. The prevention theory suggests that the probability of detection and the severity of penalties significantly influence taxpayer behavior. Strict law enforcement, coupled with effective socialization, supervision, and service quality, can enhance compliance levels and boost state revenue [12]. Moreover, the perception of fairness and efficiency in law enforcement actions is vital, as taxpayers are more inclined to comply when they perceive enforcement measures to be just and impartial [19]. Factors such as high tax morale, trust in authorities, transparent government services, and the imposition of sanctions on non-compliant individuals also contribute to fostering tax compliance [19].

2.5 Theoretical Framework

The Theory of Planned Behavior (TPB) is central to understanding taxpayer compliance behavior, as evidenced by multiple research studies. Wahyuni and Nugroho's study on Motor Vehicle Taxpayers in Kalimantan Selatan [20] highlights the significant impact of subjective norms on taxpayers' intentions and behaviors, while Trisnarningsih's research [21] emphasizes the role of attitude and behavioral control in influencing compliance. Additionally, Kedisian et al. [22] and Maulana and Andrianingsih [23] delve into the influence of attitude, subjective norms, and perceived behavioral control on environmental management accounting and taxpayer compliance, respectively. Furthermore, Rahman and Widijoko's study [24] underscores the positive effect of attitude and subjective norm on tax compliance intentions among MSME taxpayers in Probolinggo Regency. Together, these studies provide a comprehensive understanding of how attitudes, subjective norms, and

behavioral control shape taxpayers' intentions and compliance behaviors in various contexts, aligning with the principles of the TPB. This theoretical framework provides a comprehensive lens through which to examine the factors influencing motor vehicle tax compliance in East Java.

Based on the literature review, the following hypotheses are proposed:

- H1: Tax incentives have a positive and significant effect on motor vehicle tax compliance in East Java.
- H2: Tax socialization has a positive and significant effect on motor vehicle tax compliance in East Java.
- H3: Law enforcement has a positive and significant effect on motor vehicle tax compliance in East Java.

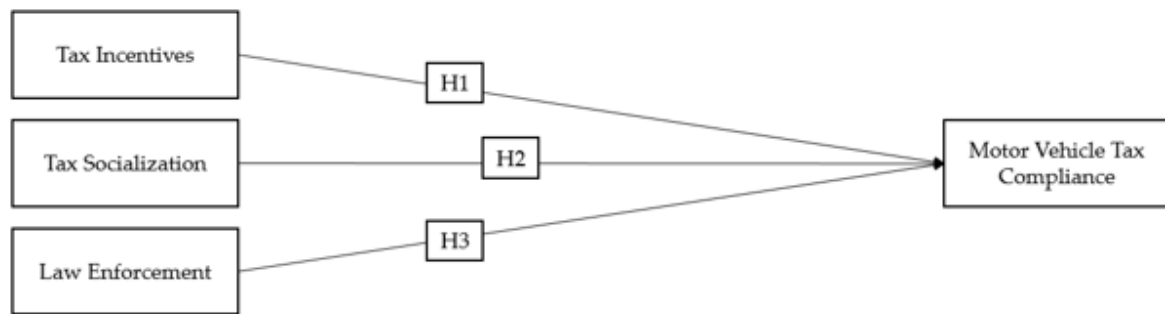


Figure 1. Conceptual Framework

3. METHODS

3.1 Research Design

This study employs a quantitative research design to investigate the impact of tax incentives, tax socialization, and law enforcement on motor vehicle tax compliance in East Java. The research adopts a survey method, utilizing a structured questionnaire to collect data from respondents. The use of Structural Equation Modeling-Partial Least Squares (SEM-PLS 3) for data analysis allows for the examination of complex relationships between multiple variables and the validation of the proposed hypotheses.

3.2 Population and Sample

The population for this study comprises motor vehicle owners in East Java. A sample of 140 respondents was selected using a stratified random sampling technique to ensure representation across different demographics, including age, income level, and geographic location. This sample size is considered adequate for SEM-PLS analysis, which generally requires a minimum of 100 to 200 cases for reliable results.

3.3 Data Collection

Data were collected through a self-administered questionnaire distributed to the selected respondents. The questionnaire was designed to capture information on the

respondents' perceptions of tax incentives, tax socialization, law enforcement, and their compliance behavior. A Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to measure the constructs of interest.

3.4 Data Analysis

The collected data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3), a variance-based structural equation modeling technique suitable for exploratory research and complex models involving multiple indicators and latent variables (Chin, 1998). The analysis was conducted in two stages: measurement model assessment and structural model assessment. The measurement model assessment focused on evaluating the reliability and validity of the constructs using criteria such as convergent validity, assessed through Average Variance Extracted (AVE) with a threshold value of 0.50 (Fornell & Larcker, 1981), composite reliability (CR) ensuring internal consistency with a threshold of 0.70, and indicator reliability, assessed through outer loadings with values above 0.70 considered acceptable. The structural model assessment evaluated the hypothesized relationships between the constructs using criteria like path coefficients to determine the significance of relationships between

independent and dependent variables, and R-squared (R^2) value to indicate the proportion of variance in the dependent variable explained by the independent variables, with higher values suggesting better explanatory power.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The demographic characteristics of the respondents were analyzed to provide a comprehensive understanding of the sample. The sample consisted of 140 motor vehicle owners in East Java, with a balanced representation of various age groups, income levels, and geographic locations. The demographic characteristics of the respondents were analyzed to provide a comprehensive understanding of the sample. The sample consisted of 140 motor vehicle owners in East Java. The demographic variables included age, gender, income level,

and education level. The sample included 82 males (58.6%) and 58 females (41.4%), indicating a higher representation of males among the respondents. The age distribution shows that the majority of respondents fall within the 26-35 age range (32.1%), followed by the 36-45 age range (28.6%), suggesting a significant portion of the sample consists of young to middle-aged adults. Respondents' income levels varied, with the largest group earning between 3-5 million IDR (32.1%), followed by those earning 5-7 million IDR (28.6%), indicating a diverse range of income levels among the respondents. The majority of respondents have a Bachelor's degree (39.3%), followed by those with a Diploma (25.0%) and High School education (21.4%), with a smaller percentage having advanced degrees (Master's and Doctorate).

The descriptive statistics for the key variables—tax incentives, tax socialization, law enforcement, and tax compliance—are summarized in Table 1.

Table 1. Descriptive Statistics

Variable	Mean	Standard Deviation
Tax Incentives	3.85	0.76
Tax Socialization	3.92	0.81
Law Enforcement	4.01	0.73
Tax Compliance	4.05	0.69

Source: Processing Data (2024)

The mean scores indicate that respondents generally perceived the tax incentives, tax socialization efforts, and law enforcement measures positively, with an overall high level of tax compliance.

4.2 Measurement Model

The measurement model assessment focuses on evaluating the reliability and validity of the constructs used in the study. This includes examining the loading factors, Cronbach's alpha, composite reliability, and average variance extracted (AVE) for each construct.

Table 2. Validity and Reliability

Variable	Code	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Tax Incentives	TI.1	0.836	0.896	0.924	0.711
	TI.2	0.915			
	TI.3	0.899			
	TI.4	0.856			
	TI.5	0.694			
Tax Socialization	TS.1	0.839	0.866	0.903	0.650
	TS.2	0.835			
	TS.3	0.755			
	TS.4	0.815			
	TS.5	0.786			

Law Enforcement	LE.1	0.859	0.741	0.884	0.792
	LE.2	0.919			
Motor Vehicle Tax Compliance	MVTC.1	0.897	0.768	0.896	0.812
	MVTC.2	0.905			

Source: Processing Data (2024)

The constructs of Tax Incentives, Tax Socialization, Law Enforcement, and Motor Vehicle Tax Compliance were measured using indicators with high reliability and validity. Cronbach's alpha ranged from 0.741 to 0.896, composite reliability from 0.884 to 0.924, and AVE from 0.650 to 0.812, confirming the measurement model's adequacy.

4.3 Discriminant Validity

Discriminant validity refers to the extent to which a construct is truly distinct

from other constructs by empirical standards. It indicates that a construct is unique and captures phenomena not represented by other constructs in the model. One of the methods to assess discriminant validity is the Heterotrait-Monotrait ratio of correlations (HTMT). The HTMT criterion is considered more reliable for assessing discriminant validity compared to the traditional Fornell-Larcker criterion and cross-loadings. An HTMT value below 0.85 suggests good discriminant validity.

Table 3. Discriminant Validity

	LE	MVTC	TI	TS
Law Enforcement	0.820			
Motor Vehicle Tax Compliance	0.781	0.701		
Tax Incentives	0.673	0.720	0.823	
Tax Socialization	0.740	0.754	0.781	0.807

Source: Processing Data (2024)

The HTMT values for all pairs of constructs are below the threshold value of 0.85, which indicates good discriminant validity. This suggests that the constructs of Law Enforcement, Motor Vehicle Tax

Compliance, Tax Incentives, and Tax Socialization are distinct from one another and each measures a unique aspect of the overall model.

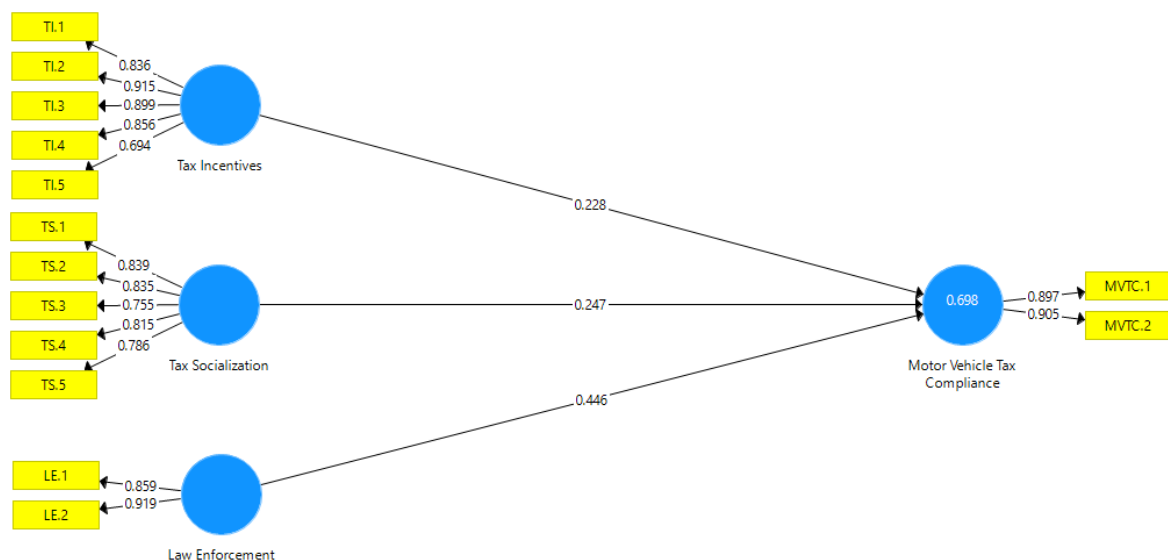


Figure 2. Model Internal
Source: Processing Data (2024)

4.4 Model Fit

Model fit indices are used to assess how well the proposed model represents the

data. Several fit indices are commonly used in SEM analysis to evaluate the goodness-of-fit, including the Standardized Root Mean Square Residual (SRMR), the squared Euclidean distance (d_ULS), the geodesic distance (d_G), the Chi-Square statistic, and the Normed Fit Index (NFI). These indices provide different perspectives on model fit, allowing for a comprehensive evaluation.

Table 4. Model Fit

	Saturated Model	Estimated Model
SRMR	0.101	0.101
d_ULS	1.076	1.076
d_G	0.543	0.543
Chi-Square	383.670	383.670
NFI	0.719	0.719

Source: Processing Data (2024)

The Standardized Root Mean Square Residual (SRMR) measures the difference

Table 5. Hypothesis Test

Path	O	M	STDEV	t	p
H1 Tax Incentives -> Motor Vehicle Tax Compliance	0.428	0.424	0.091	5.513	0.000
H2 Tax Socialization -> Motor Vehicle Tax Compliance	0.347	0.354	0.091	3.705	0.002
H3 Law Enforcement -> Motor Vehicle Tax Compliance	0.646	0.644	0.074	7.995	0.000

Source: Processing Data (2024)

The path coefficient for the relationship between Law Enforcement and Motor Vehicle Tax Compliance is 0.646, with a T statistic of 7.995 and a p-value of 0.000, indicating a positive and significant effect. Similarly, the relationship between Tax Incentives and Motor Vehicle Tax Compliance has a path coefficient of 0.428, a T statistic of 5.513, and a p-value of 0.000, confirming its positive and significant impact. Lastly, the relationship between Tax Socialization and Motor Vehicle Tax Compliance shows a path coefficient of 0.347, a T statistic of 3.705, and a p-value of 0.002, also indicating a positive and significant effect. These findings suggest that stringent law enforcement, well-designed tax incentives, and effective tax education programs significantly enhance motor vehicle tax compliance in East Java.

The R-squared (R^2) value for Motor Vehicle Tax Compliance is 0.698, indicating that 69.8% of the variance in motor vehicle tax compliance can be explained by tax

between observed and predicted correlations, with values below 0.08 considered good, and up to 0.10 acceptable. In this study, the SRMR is 0.101, indicating an acceptable fit. The Squared Euclidean Distance (d_ULS) value is 1.076, suggesting a reasonable fit, while the Geodesic Distance (d_G) value of 0.543 indicates a good fit. The Chi-Square value is 383.670, which is significant but expected in large samples. The Normed Fit Index (NFI) of 0.719 indicates a moderately good fit, showing the model fits the data reasonably well.

4.5 Hypothesis Testing

Hypothesis testing in structural equation modeling (SEM) involves evaluating the significance and strength of the relationships between constructs. The analysis results for the relationships between Law Enforcement, Tax Incentives, Tax Socialization, and Motor Vehicle Tax Compliance are presented below.

incentives, tax socialization, and law enforcement. This high R^2 value suggests strong explanatory power. The adjusted R-squared value is 0.691, accounting for the number of predictors and potential overestimation. The small difference between R^2 and adjusted R^2 indicates the model's robustness, confirming that these factors collectively provide a strong explanation of motor vehicle tax compliance among owners in East Java.

DISCUSSION

The findings of this study provide valuable insights into the factors influencing motor vehicle tax compliance in East Java. The analysis confirms that tax incentives, tax socialization, and law enforcement all have significant positive effects on compliance behavior. Each of these factors contributes uniquely to encouraging taxpayers to fulfill their motor vehicle tax obligations, highlighting the multifaceted nature of tax compliance.

Tax Incentives

The positive and significant relationship between tax incentives and motor vehicle tax compliance suggests that well-designed incentives can effectively motivate taxpayers. With a path coefficient of 0.428, the study reveals that tax incentives reduce the perceived burden of taxation, making compliance more attractive to taxpayers. Financial incentives have been shown to positively influence voluntary tax compliance by enhancing the perceived benefits of fulfilling tax obligations [5]. Additionally, trust in tax authorities plays a crucial role in shaping compliance behavior, especially for individuals with low tax awareness, while taxpayer awareness becomes significant when trust in tax authorities is lacking [25]. Moreover, the simplicity of tax compliance procedures has a greater impact on tax filing than perceptions about government spending and tax morale [26]. Furthermore, the provision of financial statements based on earnings management and taxpayers' willingness to negotiate have been found to positively impact tax obligations, as measured by voluntary tax compliance, highlighting the multifaceted nature of factors influencing taxpayer compliance behavior [27].

In practice, policymakers should consider enhancing tax incentive programs to further boost compliance rates. Examples of effective incentives might include tax reductions for early payment, credits for environmentally friendly vehicles, or exemptions for certain vehicle categories. By making these incentives clear and accessible, authorities can create a more taxpayer-friendly environment that encourages compliance.

Tax Socialization

Tax socialization has a path coefficient of 0.347, indicating its significant role in promoting tax compliance. Effective tax socialization programs, which include public awareness campaigns, education seminars, and integration of tax education into school curricula, enhance taxpayers' understanding of their obligations and the benefits of compliance. This aligns with

studies that emphasize the importance of taxpayer education in fostering a culture of compliance. Studies such as those by Ginting, Abina et al., Adhikari, Kurnia and Fajarwati, and Ratnawati et al. underscore the critical role of taxpayer education in cultivating a culture of compliance. Ginting's research highlights the influence of taxpayer knowledge and awareness on compliance with specific taxes [28], while Abina et al. demonstrate that various forms of taxpayer education positively impact tax compliance among SMEs [29]. Adhikari's study in Nepal further emphasizes the significant effect of taxpayer awareness and understanding on compliance [30]. Additionally, Kurnia and Fajarwati's work during the COVID-19 pandemic stresses the importance of education level in taxpayer compliance [31]. Finally, Ratnawati et al. show that education, service quality, and accountability collectively influence taxpayer compliance, with tax awareness enhancing these effects [32]. These studies collectively advocate for continuous and targeted taxpayer education programs to enhance compliance and boost government revenue.

For policymakers, investing in comprehensive tax education programs is essential. These programs should aim to increase awareness about the importance of tax compliance, clarify the procedures involved, and highlight the positive impact of tax revenues on public services and infrastructure. By improving the overall tax literacy of the population, authorities can foster a more compliant taxpayer base.

Law Enforcement

The study finds that law enforcement has the most substantial impact on motor vehicle tax compliance, with a path coefficient of 0.646. This strong positive relationship underscores the importance of robust and fair enforcement mechanisms. The deterrence theory, as supported by various studies [33]–[36], indicates that the likelihood of detection and severity of penalties play a crucial role in influencing compliance behavior across different contexts. Research on tax compliance among small and medium-sized enterprises in Kenya and South Africa shows that the

imposition of penalties and interest positively influences tax compliance, emphasizing the importance of an effective penalty system to encourage voluntary compliance [33], [37]. Similarly, in the context of match-fixing, the study highlights that increasing the detection probability has a higher deterring effect on bribe acceptance compared to the severity of monetary punishment, underscoring the significance of deterrence factors in preventing unethical behavior [34]. Moreover, a study on waste separation behavior in South Korea demonstrates that perceived deterrent severity positively influences compliance intention, further supporting the deterrence theory's premise that the fear of punishment can enhance adherence to regulations [35].

Effective law enforcement involves not only the imposition of penalties for non-compliance but also ensuring that enforcement actions are perceived as fair and unbiased. This perception enhances the credibility of the tax system and encourages voluntary compliance. Policymakers should focus on improving the efficiency of tax audits, increasing the transparency of enforcement processes, and ensuring that penalties are proportionate and just.

Implications for Policy and Practice

The combined effects of tax incentives, tax socialization, and law enforcement suggest that an integrated approach is necessary to improve motor vehicle tax compliance in East Java. Policymakers should develop strategies that leverage the strengths of each factor:

1. **Enhancing Tax Incentives:** Develop and promote attractive tax incentives that reduce the financial burden on taxpayers and reward timely compliance.
2. **Implementing Comprehensive Tax Socialization Programs:** Invest in widespread taxpayer education initiatives that increase awareness and understanding of tax obligations and benefits.
3. **Strengthening Law Enforcement:** Ensure that enforcement mechanisms are robust, fair, and transparent to

deter non-compliance and enhance the credibility of the tax system.

By adopting a holistic approach that addresses multiple facets of taxpayer behavior, authorities can create a more effective and sustainable tax compliance environment.

Limitations and Future Research

While this study provides significant insights, it is subject to certain limitations. The use of self-reported data may introduce response bias, and the cross-sectional nature of the study limits the ability to infer causality. Future research could address these limitations by employing longitudinal designs and incorporating objective measures of tax compliance.

Additionally, exploring other potential factors influencing tax compliance, such as economic conditions, cultural influences, and technological advancements in tax administration, could provide a more comprehensive understanding of compliance behavior.

5. CONCLUSION

This study provides evidence on the significant impact of tax incentives, socialization, and law enforcement on motor vehicle tax compliance in East Java. Well-designed tax incentives reduce the financial burden and increase compliance benefits, while effective tax education enhances understanding and fosters voluntary compliance. Robust and fair enforcement deters non-compliance and promotes adherence to tax regulations. The study highlights the need for an integrated approach combining these elements to improve tax compliance. Policymakers should develop strategies leveraging these factors to create a sustainable tax system, enhancing tax collection, supporting public services, and contributing to East Java's development goals. Future research should address study limitations and explore additional influencing factors like economic conditions, cultural influences, and technological advancements in tax administration.

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