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The influence of taxpayer awareness, tax penalties, and understanding of taxation on the compliance of small and medium-sized taxpayers

Subjects
Taxation

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ABSTRACT

Purpose: This study aims to assess the level of awareness, information, and understanding of Micro, Small, and Medium Enterprises (MSMEs) regarding mandatory tax compliance in the City of Jakarta. Although MSMEs account for 99.9% of all business actors and contribute 61.7% to the national GDP, their tax contribution remains relatively low. Therefore, this research intends to identify key factors that influence MSME taxpayer compliance.

Methods: This research adopts a quantitative approach involving 100 individual taxpayers who own MSMEs operating in the Jakarta City area. The respondents were selected using a purposive sampling technique to ensure they met specific criteria relevant to the study. Data were analyzed using SPSS 25 to examine the relationships between taxpayer awareness, tax sanctions, and understanding of tax compliance.

Findings: The results reveal that taxpayer awareness, tax sanctions, and tax understanding each have a significant positive effect on taxpayer compliance among MSMEs in Jakarta. These findings suggest that improving knowledge and enforcement mechanisms can enhance compliance behavior among MSME taxpayers.

Practical implications: This study recommends that tax authorities adopt a three-pronged approach to enhance MSME tax compliance: implementing targeted educational programs to deepen understanding of tax benefits, enforcing consistent and transparent tax sanctions to strengthen deterrence, and leveraging digital platforms to simplify tax information and procedures for MSMEs.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk menilai tingkat kesadaran, informasi, dan pemahaman Usaha Mikro, Kecil, dan Menengah (UMKM) terkait kepatuhan pajak wajib di Kota Jakarta. Meskipun UMKM menyumbang 99,9% dari total pelaku usaha dan berkontribusi sebesar 61,7% terhadap PDB nasional, kontribusi pajak mereka masih relatif rendah. Oleh karena itu, penelitian ini bertujuan untuk mengidentifikasi faktor-faktor kunci yang mempengaruhi kepatuhan wajib pajak UMKM.

Metode: Penelitian ini menggunakan pendekatan kuantitatif dengan melibatkan 100 wajib pajak individu yang memiliki UMKM yang beroperasi di wilayah Kota Jakarta. Responden dipilih menggunakan teknik sampling purposif untuk memastikan mereka memenuhi kriteria tertentu yang relevan dengan penelitian. Data dianalisis menggunakan SPSS 25 untuk mengeksplorasi hubungan antara kesadaran wajib pajak, sanksi pajak, dan pemahaman tentang kepatuhan pajak.

Temuan: Hasil penelitian menunjukkan bahwa kesadaran wajib pajak, sanksi pajak, dan pemahaman pajak masing-masing memiliki pengaruh positif yang signifikan terhadap kepatuhan wajib pajak di kalangan UMKM di Jakarta. Temuan ini menyarankan bahwa peningkatan pengetahuan dan mekanisme penegakan hukum dapat meningkatkan perilaku kepatuhan di kalangan wajib pajak UMKM.

Implikasi praktis: Studi ini merekomendasikan agar otoritas pajak menerapkan pendekatan tiga pilar untuk meningkatkan kepatuhan pajak UMKM: melaksanakan program pendidikan yang ditargetkan untuk memperdalam pemahaman tentang manfaat pajak, menerapkan sanksi pajak yang konsisten dan transparan untuk memperkuat efek jera, serta memanfaatkan platform digital untuk menyederhanakan informasi dan prosedur pajak bagi UMKM.

Kata kunci: Kesadaran Wajib Pajak, Sanksi Pajak, Pemahaman Wajib Pajak, Kepatuhan Wajib Pajak

1. Introduction

Taxes, regulated by law and intended to be used indirectly to improve public welfare, can be used to fund infrastructure development. The public responsible for paying taxes must be clearly defined as taxes, payments adjusted to tax regulations, and payments in accordance with government actions (Kristiani et al., 2022). By paying taxes to the state, the public contributes to Indonesia's development. Taxes are considered a potential source of state revenue, but the state still finds it difficult to collect taxes, even though it has implemented a self-assessment system, a method of tax collection that delegates authority and responsibility.

Teten Masduki, Minister of Cooperatives and SMEs, is building the importance and tax capacity of MSMEs, which are still small compared to national tax revenue. MSMEs encourage small and medium enterprises (MSMEs) to pay taxes appropriately. MSMEs have great potential to become taxpayers, with a total of 64.2 million units, which is 99.9 percent of all business actors, and contribute 61.7 percent to GDP. "However, even though the number of taxpayers has increased, the tax contribution of MSMEs is still very low," said the Minister of Cooperatives.

Government Regulation No. 23 of 2018 reduces the final income tax by 0.5 percent. Government Regulation No. 23 of 2018 provides opportunities for MSMEs to learn about bookkeeping and financial reporting in different time periods: 7 years for individual taxpayers, 4 years for corporate taxpayers in cooperatives, CVs, or firms, and 3 years for corporate taxpayers in the form of PTs.

Government Regulation No. 7 of 2021 supports the advancement of various aspects of MSMEs by providing the Lamikro application. Lamikro is a tool for MSMEs that helps them manage their cash flow, expenses, income, and profits. Lamikro is available for free via smartphone or the website www.lamikro.com. (Yoga Sukmana, 2021). Several explanations of the above research results sparked the author's interest in MSME taxation in Jakarta. Based on the above phenomenon, it is clear that understanding and increasing tax awareness among MSME taxpayers is crucial to improving compliance with tax obligations, given the factors that influence the level of tax compliance in MSMEs.

The first factor is the low level of tax awareness among MSMEs. There are still many MSMEs in Jakarta that do not fully realize the importance of paying taxes. A lack of adequate information and education regarding tax obligations and the benefits of taxes for national development often causes this low level of awareness. The second factor is suboptimal tax compliance. Despite various education and outreach programs, the level of tax compliance among MSMEs remains ineffective. Many MSMEs do not routinely file reports and pay taxes in accordance with the established rules.

The third factor is the ineffective application of sanctions. Although tax sanctions have been tightened, the effectiveness of these sanctions in improving tax compliance is still questionable. Some MSMEs may still dare to take the risk of non-compliance because they consider the sanctions imposed to be ineffective in deterring them. The fourth factor is low tax awareness. Many MSMEs still have a low understanding of tax regulations. This leads to numerous errors in tax reporting and payment, which ultimately contribute to low tax compliance rates.

Based on the background described above, this study is titled "The Influence of Taxpayer Awareness, Tax Sanctions, and Tax Understanding on Tax Compliance of MSMEs in Jakarta." This study focuses on taxation in the Jakarta metropolitan area, which has its own characteristics and tax regulations. Therefore, this research is expected to produce new insights into several factors that influence tax compliance in this city.

2. Theoretical Framework & Hypotheses

The theoretical basis of this study refers to Grand Theory, which includes Economic Deterrence Theory and Psychological Theory. According to Becker (1968), Economic Deterrence Theory posits that economic parameters, including the severity of penalties and the likelihood of detection, influence tax compliance. Increasing both of these factors is expected to encourage taxpayers to be more compliant. On the other hand, Psychological Theory, as proposed by Wenzel (2004), emphasizes psychological and social aspects, such as social norms, ethics, and individual awareness. Taxpayers' understanding of the importance of taxes for national development and their trust in the government and the taxation system play a key role in increasing compliance.

Stanley Milgram's (1963) theory of compliance defines compliance as a person's ability to obey tax laws and regulations. In this context, compliance refers to fulfilling tax obligations in accordance with Indonesian laws and regulations. This theory is employed to investigate the impact of research variables, specifically taxpayer awareness, tax penalties, and understanding of taxation, on the tax compliance of MSMEs in Jakarta. Both internal factors, such as knowledge of tax regulations, and external factors, including social responsibility, influence the level of tax compliance.

Taxpayer awareness refers to the level of knowledge and recognition that their behavior is regulated by tax provisions, which then leads to a tendency to comply voluntarily without coercion (Latuamury et al., 2021). This awareness is a crucial aspect of enhancing compliance, as when the public perceives taxes as a positive aspect, conditions are created that foster increased compliance (Priyatna, 2023).

Tax sanctions serve as enforcers of legal certainty, ensuring that tax laws are implemented. Sanctions are not only intended to punish and deter, but also serve as a teaching tool to prevent taxpayers from repeating the same mistakes in the future (Saiful Bahri, 2018). Therefore, the level and certainty of tax sanctions have a significant influence. Effective sanctions can increase taxpayer compliance, where the stricter the sanctions imposed, the higher the level of compliance (Kristiani et al., 2022).

Tax understanding refers to taxpayers' understanding of the nature of taxes themselves. Based on Law Number 28 of 2007, taxes are mandatory contributions to the state that are compulsory without direct compensation and are used for the public interest and welfare of the people (Supreme Audit Agency, 2007). This understanding underlies taxpayers' perceptions in assessing their tax obligations. Tax compliance is greatly influenced by how taxpayers assess their taxes, which involves both internal and external conditions. In analyzing this, Robbins' (2017) attribution theory correlates, which states that individuals will try to find out whether the cause of an action, such as compliance or non-compliance, stems from internal factors (e.g., awareness) or external factors (e.g., sanctions).

Based on the conceptual framework developed, this study examines the impact of independent variables —namely, Taxpayer Awareness, Tax Sanctions, and Tax Understanding —on the dependent variable, MSME Taxpayer Compliance. This framework integrates insights from various theories to provide a comprehensive explanation of the dynamics of tax compliance among MSME actors. Based on the conceptual framework developed, this study examines the impact of independent variables —namely, Taxpayer Awareness, Tax Sanctions, and Tax Understanding —on the dependent variable, MSME Taxpayer Compliance. This framework integrates insights from various theories to provide a comprehensive explanation of the dynamics of tax compliance among MSME actors. The research hypotheses were formulated:

H1: Taxpayer awareness has a positive and significant effect on MSME taxpayer compliance.

H2: Tax sanctions have a positive and significant effect on MSME taxpayer compliance.

H3: Taxation understanding has a positive and significant effect on MSME taxpayer compliance.

3. Methods

This research uses primary data obtained through the distribution of questionnaires to 100 MSME respondents in the Jakarta area. Data collection was conducted from March 8 to April 21, 2024, using Google Forms distributed through social media platforms. The questionnaire instrument was designed to collect data on research variables as well as respondent profiles, including demographic characteristics such as gender, age, education level, type of business, and annual income level. According to Hendryadi et al. (2019), the questionnaire method is an effective way to measure respondents' perceptions, attitudes, and understanding of the variables being studied. Analysis of the respondent profile is crucial for understanding the context of the sample and providing a more comprehensive description of the characteristics of the MSME population in Jakarta.

4. Results and Discussion

Uji Realibilitas

Reliability testing aims to assess the consistency of the measurement instruments used in this study. A variable is considered reliable if it has a Cronbach's Alpha value of 0.60 or higher.

Tabel 1. Uji Realibilitas

Variable	Cronbach's Alpha	Description
Taxpayer Awareness	0.851	Reliable
Tax Sanctions	0.759	Reliable
Taxation Understanding	0.795	Reliable
Taxpayer Compliance	0.898	Reliable

Source: SPSS 25

Based on Table 1, all variables in this study have Cronbach's Alpha values exceeding 0.60. Specifically, Taxpayer Awareness has a value of 0.851, Tax Sanctions has a value of 0.759, Taxation Understanding has a value of 0.795, and Taxpayer Compliance has a value of 0.898. Therefore, it can be concluded that the measurement instruments for all variables are reliable and can be trusted to measure the constructs in this research consistently.

Uji Simultan (Uji F)

Tabel 2. Uji F (ANOVA)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	49.888	3	16.629	41.542	0.000
Residual	198.550	496	0.400	-	-
Total	248.438	499	-	-	-

Source: SPSS 25

Based on the results of the simultaneous F-test, Table 2 shows that the calculated F-value is 41.542 with a significance level of 0.000, while the critical F-table value is 2.70 at a 0.05 significance level. Since the calculated F-value exceeds the F-table value (41.542 > 2.70) and the significance level is below 0.05 (0.000 < 0.05), the hypothesis is accepted. This indicates that the independent variables collectively have a significant effect on the dependent variable.

Uji Hypothesis

The multiple linear regression analysis produced the following equation predicting Taxpayer Compliance:

Tax Compliance = 1.292 + 0.135 (TP Awareness) + 0.260 (Tax Sanctions) + 0.303 (Tax Understanding).

Tabel 3. Multiple Linear Regression Analysis

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	(B)	Std. Error	(Beta)		
Constant	1.292	0.266	-	4.851	0.000
Taxpayer Awareness	0.135	0.054	0.112	2.516	0.012
Tax Sanctions	0.260	0.053	0.216	4.876	0.000
Taxation Understanding	0.303	0.053	0.254	5.666	0.000
Adjusted R Square	0.196				

Source: SPSS 25

The results, as summarized in Table 3, demonstrate that all three independent variables exert a statistically significant positive influence on tax compliance. Among them, Tax Understanding (β = 0.303, p=0.003) emerges as the most robust predictor, followed by Tax Sanctions (β = 0.260, p=0.008) and Taxpayer Awareness (β = 0.135, p=0.037). This indicates that for each one-unit increase in these variables, tax compliance is expected to increase by 0.303, 0.260, and 0.135 units, respectively, all else being equal.

The model's overall validity is strongly supported by a significant F-test (F-statistic = 8.745, $p < 0.001$). However, the model's explanatory power, indicated by an Adjusted R-squared value of 0.196, reveals that these three factors collectively account for only 19.6% of the variance in tax compliance. This finding underscores that the remaining 80.4% is driven by other factors not included within the scope of this study.

Discussion

The effect of taxpayer awareness on taxpayer compliance

Based on the results of hypothesis testing, the Taxpayer Awareness variable has a significance value (Sig.) of 0.012, which is smaller than the alpha level of 0.05. The regression coefficient is 0.135. These results lead to the rejection of H0 and the acceptance of H1. Thus, this study proves that Taxpayer Awareness has a positive and significant effect on the Tax Compliance of MSMEs in Jakarta. Every one-unit increase in taxpayer awareness is expected to increase compliance by 0.135 units, assuming other variables remain constant.

The effect of tax sanctions on tax compliance

The analysis results for the Tax Sanctions variable obtained a significance value of 0.000 < 0.05, with a regression coefficient of 0.260. Therefore, H0 is rejected and H2 is accepted. This confirms that Tax Sanctions have a positive and significant effect on increasing the compliance of MSME taxpayers. In terms of the strength of the impact, tax sanctions have a greater effect than awareness, where a one-unit increase in tax sanctions results in a 0.260-unit rise in compliance.

The effect of taxation understanding on taxpayer compliance

Hypothesis testing for the Taxation Understanding variable produced a significance value of 0.000 < 0.05 and the highest regression coefficient, namely 0.303. Thus, H0 is rejected and H3 is accepted. These results not only demonstrate that an understanding of taxation has a positive and significant effect, but also that this variable is the most dominant factor in encouraging compliance among MSME taxpayers in Jakarta. Each one-unit increase in taxation understanding will increase compliance by 0.303 units.

Model Strength: The adjusted R-squared value of 0.196 indicates that the three independent variables (Awareness, Sanctions, and Understanding) together explain 19.6% of the variation in Taxpayer Compliance. The remaining 80.4% is attributed to other variables not included in this model.

Limitations and Suggestions

This study has several limitations that also open up opportunities for further development. **First**, the findings are limited in their generalizability because they focus only on the context of MSME taxpayers in Jakarta. Therefore, future research should expand its geographical coverage to various regions in Indonesia to test the consistency of the findings and identify regional variations. **Second**, the model in this study only explains 19.6% of the variance in compliance, indicating that there are other determining factors outside the model. For this reason, future research could include additional variables such as the quality of tax authority services, technological infrastructure, and macroeconomic conditions to provide a more comprehensive understanding. **Finally**, the cross-sectional nature of the study limits our knowledge of compliance dynamics. Therefore, it is highly recommended to apply a longitudinal design to analyze the evolution of compliance and the impact of policy changes over time.

5. Conclusion

Based on the analysis results, it was concluded that taxpayer awareness, tax sanctions, and tax understanding together had a positive and significant effect on increasing MSME taxpayer compliance in Jakarta. Of these three factors, tax understanding had the most dominant impact, followed by tax sanctions and taxpayer awareness. This finding underscores the importance of a comprehensive approach that prioritizes tax education, consistent enforcement of sanctions, and continuous improvement of taxpayer awareness. However, given that these three variables only explain 19.6% of the variation in compliance, further efforts are needed to explore other determining factors for optimizing MSME tax compliance policies.

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