

Wilsa Road Betterment Sitepu¹

Universiti Utara Malaysia, Sintok, Malaysia

Salwani Arbak²

Universiti Utara Malaysia, Sintok, Malaysia

Factors Affecting Tax Compliance by Small and Medium Enterprises in Indonesia

Abstract. Complying with tax laws and regulations that are constantly changing is a challenge. Tax authorities provide clarification and advice and implement innovations such as e-filing to encourage businesses to pay their taxes on time and in full. Taxes lead to the withdrawal of part of the company's income for the benefit of the state. Therefore, many subjective and objective factors influence their payment process. This study aimed to examine factors affecting tax compliance by small and medium enterprises in Indonesia. This study uses quantitative research methodology, specifically survey methods. In distributing questionnaires to 384 respondents, 205 sample questionnaires were declared eligible to continue in this study. The data analysis method is structural equation modelling with partial least squares (SEM-PLS). The results of this study show that tax knowledge and knowledge of e-filing have a positive and significant effect on tax compliance. Instead, tax fairness has a negative and significant impact on tax compliance. However, the effect of the perception of corruption variable on tax compliance is rather insignificant; that is, this factor does not have a negative impact. Perception of corruption as a moderating variable has a slightly negative effect on the relationship between tax knowledge, knowledge of e-filing, tax fairness and tax compliance. The study results help better understand taxpayers' behaviour in their desire to pay taxes per the law. When changing taxation rules or introducing new tax collection methods, the government must consider factors that influence taxpayers' behaviour. The influence of some such factors was investigated in this study. In addition, it is worth fighting corruption in the tax system because it can reduce small and medium-sized enterprises' willingness to follow the law in the field of taxes.

Keywords: tax knowledge, knowledge of e-filing, tax fairness, perception of corruption, tax compliance.

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Вільса Роуд Беттермент Сітепу

Північний університет Малайзії, м. Синток, Малайзія

Салвані Арбак

Північний університет Малайзії, м. Синток, Малайзія

Фактори, що впливають на дотримання податкового законодавства малими та середніми підприємствами в Індонезії

Анотація. Дотримання податкового законодавства, яке постійно змінюється, є серйозною проблемою для бізнесу в будь-якій країні. Податкові органи надають роз'яснення та консультації та впроваджують інновації, такі як електронна податкова звітність, щоб заохотити бізнес сплачувати податки вчасно та в повному обсязі. Податки призводять до вилучення частини доходів на користь держави. Тому на цей процес впливає багато суб'єктивних і об'єктивних факторів. Це дослідження має на меті вивчити фактори, що впливають на дотримання податкового законодавства малими та середніми підприємствами в Індонезії. У цьому дослідженні використовуються кількісні методи дослідження, зокрема метод опитування. Анкета була розповсюджена серед 384 респондентів. З повернутих анкет лише 205 зразків було визнано придатними для використання як джерела даних для дослідження. Методом аналізу даних є моделювання структурних рівнянь

¹ **Wilsa Road Betterment Sitepu**, Universiti Utara Malaysia, Sintok, Malaysia.

ORCID 0000-0001-7164-053X

E-mail: wilsasitepu@unprimdn.ac.id (Corresponding author)

² **Salwani Arbak**, Universiti Utara Malaysia, Sintok, Malaysia.

ORCID 0000-0002-2300-8035

за допомогою часткових найменших квадратів (SEM-PLS). Результати дослідження показують, що знання оподаткування та знання електронного декларування мають позитивний і значний вплив на дотримання податкового законодавства. Натомість справедливість оподаткування має негативний і значний вплив на дотримання податкового законодавства. Однак, вплив змінної сприйняття корупції на дотримання податкового законодавства є досить незначним; тобто цей фактор не має серйозного негативного впливу. Сприйняття корупції як модеруюча змінна має незначний негативний вплив на взаємозв'язок між знанням оподаткування, електронного декларування, справедливостю оподаткування та дотриманням податкового законодавства. Результати дослідження допомагають краще зрозуміти поведінку платників податків у прагненні сплачувати податки відповідно до закону. Змінюючи правила оподаткування або запроваджуючи нові методи збору податків, податкові органи повинні враховувати фактори, які впливають на поведінку платників податків. Вплив деяких таких факторів було розкрито у цьому дослідженні. Крім того, варто боротися з корупцією в податковій системі, оскільки вона може знизити бажання малих і середніх підприємств дотримуватися закону у сфері оподаткування.

Ключові слова: знання податкового законодавства, знання електронного декларування, податкова справедливість, сприйняття корупції, дотримання податкового законодавства.

INTRODUCTION

Taxation refers to the financial obligations placed by a nation on its citizens following established laws and regulations. These obligations are non-negotiable and cannot be offset or reimbursed. The government's funds collected through taxation are directly allocated and utilized to meet its financial needs, Sari (2013). The tax serves two primary functions, specifically budgetary and regulatory. The purpose of taxation is to sustain and enhance the pace of economic expansion while bolstering government income. Hence, it is imperative for the Directorate General of Taxes (Indonesia) to consistently augment tax revenues from the tax sector under the escalating demands for development finance.

Taxation has emerged as a fundamental pillar of the nation, owing to its significant contribution to its well-being and functioning. In 2019, tax revenue accounted for 82.5 per cent of the overall state revenue (Nurisdianto, 2020). The government necessitates this contribution to facilitate the functioning of governmental operations and ensure the provision of essential public services. The rate of development will increase proportionally with the accumulation of contributions. Regrettably, the degree of public consciousness and adherence to tax payment remains well below anticipated standards.

As per the Organisation for Economic Cooperation and Development, the tax ratio is a significant measure in assessing a country's tax revenue success. The tax ratio can indicate the extent to which tax compliance is observed in the country. Nevertheless, Indonesia has encountered challenges in achieving optimal tax collection. According to the Organisation for Economic Cooperation and Development (OECD), Indonesia exhibits comparatively lower tax efficiency than several G20 and ASEAN member nations. The factors contributing to this phenomenon include:

- Suboptimal adherence;
- The quantity of tax exemptions;
- The magnitude of tax incentives extended.

The relatively low tax ratio indicates a need for more tax understanding and compliance, particularly in contributing to national growth. The degree of tax compliance in Indonesia is relatively low. The compliance ratio is a measure that assesses the

degree to which taxpayers conform to the obligation of submitting Annual Tax Reports for Personal and Entity Income Taxes concerning the overall count of registered taxpayers within a designated period.

Based on statistics provided by the World Bank (2021), it is evident that the degree of tax compliance exhibited by small and medium-sized firms (SMEs) is considerably deficient, with an estimated rate of roughly 15%. Zain (2008) posits that Tax Compliance encompasses not only the technical challenges associated with collection methods, audit techniques, tax investigations, and sanction application but also the voluntary adherence of taxpayers to regulations and tax laws. Based on a brief argument, there appear to be many problems with the level of tax compliance in SMEs and what causes the low tax compliance. The reasons that taxpayers are less compliant are as follows: according to Ariyanti (2017), people still need to be compliant in paying taxes because filing an Annual Income Report Tax is considered complicated. Tommy (2021) states that SMEs' ability to do bookkeeping and tax administration is still lacking. In addition, many micro-scale businesses do not understand financial statements and taxation, so the contribution of SMEs to taxes is still low. Loo (2016) and Loo et al. (2014) suggested that tax knowledge is the primary determinant of taxpayers' compliance behaviour within the self-assessment system. Based on Bird's (2014) argument, it is argued that the influence of tax knowledge, which includes general information, legal knowledge, and technical knowledge, on the tax compliance behaviour of small and medium-sized firms (SMEs) is not significant. The elevated tax rates imposed on small and medium enterprises (SMEs) in Nigeria have resulted in taxpayer noncompliance, leading to a significant migration of SMEs from the formal sector to the informal sector (Atowadi & Ojeka, 2012). Recently, a case of tax officials was named as a suspect in committing gratification and money laundering in tax audits through a tax consulting company, Tempo, CNN, (2023). This case affects public trust in the government in managing taxes as a source of state revenue. With the decline in public trust, there is a risk of decreasing tax compliance. The Slippery Slope Theory posits that trust in the government is a significant determinant of taxpayer

compliance. According to Kirchler et al. (2008), confidence in government refers to a prevailing viewpoint among people or social collectives regarding the satisfactory performance of the government, particularly tax officials, in fulfilling their responsibilities. Based on the Slippery Slope Theory, tax compliance will increase when taxpayers trust the government.

From the statement about the causes of why taxpayers are less compliant, it can be concluded that there is public distrust of the government in tax management, a lack of a sense of tax justice and knowledge of e-filing (filling out digital tax forms online) and the lack of taxpayer knowledge, besides other opinions say tax compliance is not caused by a lack of tax knowledge but due to other factors. Given the presence of divergent viewpoints and discrepancies in tax compliance among small and medium-sized enterprises (SMEs), it is imperative to undertake additional studies to address these concerns.

THEORETICAL BACKGROUND

Theory of Planned Behavior

The Theory of Planned Behavior (TPB), proposed by Icek Ajzen, expands the Theory of Reasoned Action (TRA) by emphasising the significance of intention as the primary driver of behaviour. The Theory of Planned Behaviour (TPB) posits that people's action is determined by their intention to engage in a certain way of behaving.

The expression of an individual's intention to partake in specific behaviours is contingent upon three fundamental factors, namely:

a) Behavioural beliefs refer to the individual's own beliefs regarding the outcomes of their activity and their evaluation of these outcomes, including the strength of these beliefs and the evaluation of the outcomes.

b) Normative beliefs refer to individuals' beliefs regarding the prescriptive prospect held by others and their internal motivations to conform to these expectations. This construct is usually referred to as normative beliefs and incentives to obey.

c) Control beliefs pertain to the personal beliefs held by individuals regarding the existence of elements that either assist or impede the expression of specific behaviours, also known as control beliefs, as well as their assessments of the extent to which these factors influence their perceived efficacy. Potential barriers may occur when individuals exhibit certain behaviours, which can originate from internal and external sources.

Slippery Slope Theory

Slippery Slope Theory states that trust in the authority and power of the authority will cause taxpayers to comply with the authority or government (Kirchler et al., 2008). The successful reduction of taxpayer non-compliance can be achieved by a combination of faith in the tax authority and the authority's capacity. Social-psychological variables, such as trust in the government, tend to influence voluntary tax compliance, while deterrence variables, such as tax fines, tend to influence enforced tax compliance. Taxpayer trust arises when there is transparency and accountability in the government's organisation of the tax process (Wahl et al., 2010).

Meanwhile, tax authorities will be considered to have power by taxpayers if there is a good and firm system in the tax process (Prinz et al., 2014).

Technology Acceptance Model

This theory represents one of the models employed for analysing and predicting elements that may impact the user's adoption of an information system. According to Fred Davis, the Technology Acceptance Model (TAM) is a system utilisation and information technology by individuals and is influenced by two factors, namely perceived usefulness and perceived ease of use. Perceived usefulness pertains to an individual's degree of belief in the capacity of particular information systems to enhance performance. In contrast, perceived ease of use denotes individual confidence in utilising information systems without significant exertion (Davis, 1989). Both can directly influence the behaviour of using technology.

With the existence of e-registration, e-filing, and e-billing at the Directorate General of Taxes, information technology is expected to provide benefits and convenience for taxpayers to increase the efficiency and effectiveness of their tax activities. Thus, the level of taxpayer compliance is expected to increase. Furthermore, researchers use this theory to answer research questions about using systems and information technology in taxation.

Tax Compliance

Brown and Mazur (2003) propose a conceptual framework wherein tax compliance is categorised into three levels: filing, reporting, and payment. Filing compliance pertains to the percentage of individuals or entities registered as taxpayers and then fulfilling their obligation to submit tax returns. The three compliance segments exhibit a mutually exclusive association, whereas a corporation's filing compliance does not inherently indicate its reporting and payment compliance adherence. A potential scenario that can be observed within the three segments is a reciprocal and simultaneous relationship wherein the return is submitted within the designated timeframe, all revenue is accurately reported, and taxes are duly settled. An alternative perspective about the interplay of the components is that timely filing of forms and accurate income reporting may occur, although full payment of taxes may not be made. It is important to note that complete reporting does not necessarily equate to complete payment. The sole potential incongruity within the relationship would arise if taxes were remitted in their entirety, although income was not duly declared or tax returns were neglected to be filed. Based on the elements of tax compliance above, the comprehensive assessment of complete tax compliance can only be attained by aggregating the level of compliance attained for each of the three components above. Nevertheless, the summation procedure is contingent upon the specific definition of compliance within a given setting. Tax compliance is commonly referred to as a continuous variable in the existing body of literature.

Tax Knowledge

Contextual knowledge is divided into procedural (formal) knowledge and lawful knowledge.

According to Tallaha, Zaleha Abdul Shukor, and Hassan (2014), a distinction exists between procedural and legal (lawful) tax knowledge. The procedural context encompasses examining the requisite information, skills, and resources necessary to engage with tax authorities and ensure the proper organisation of tax records. The legal framework encompasses the comprehension of taxation procedures.

Taxpayers must possess a comprehensive understanding and appropriate awareness of tax procedures and the need to comply with tax regulations in their respective nations (Bornman & Ramutumbu, 2019). Tax compliance refers to understanding and adhering to the regulations governing the timely submission of tax returns and providing necessary information to the relevant tax authorities. Oladipupo and Obazee (2016) assert that procedural knowledge encompasses a comprehensive comprehension of tax systems and processes and a familiarity with tax obligations. Additionally, it involves the ability to discern when an individual will be tax-compliant and adhere to prescribed dates.

Knowledge of E-Filing

According to Muturi (2015), electronic tax filing, or e-filing, refers to the digital submission of tax papers or tax returns via the Internet, typically eliminating the requirement for physical paper returns. Electronic tax filing was initially introduced in other countries like the US. The Internal Revenue Service (IRS) implemented a system allowing taxpayers to electronically file their tax returns specifically to receive tax refunds (Muita, 2011). The primary objective of tax reforms in numerous nations is to enhance volunteer fulfilment. One potential strategy for achieving this goal involves adopting and utilising an electronic file system (Cuccia, 2013).

E-Filing is a digital platform that facilitates the electronic submission of personal and agency tax returns to the Directorate General of Tax. This service utilises the internet web and is accessed by an Application Service Provider or similar providers. Consequently, taxpayers are relieved from the burden of printing all report forms. The Directorate General of Tax established the initial regulation for submitting SPT via electronics filing services through Decision KEP-05/PJ./2005. This decision pertains explicitly to the procedural guidelines for sending an E-Notification Letter through an Application Service Provider Company (ASP).

The primary impetus lies in the need to align the progress of information technology and enhance the provision of services to ratepayers. The Directorate General of Taxes has implemented steps to streamline the process of submitting annual tax returns to make it easier for taxpayers to access the link or Tax E-Filing. Wasao (2014) defines an electronic tax system as a digital stage that facilitates taxpayer access to tax services over the Internet. These services include obtaining a tax identity number, submitting tax returns, and applying for a payment and compliance certificate.

Tax Fairness

Musgrave (1989) delineates that tax equity can be classified into two primary perspectives: the principle of benefit and the principle of ability to pay. The notion of the benefit principle relates to a tax framework that is considered fair when the amount of taxes paid by individuals is proportionate to the advantages they receive from public services provided by the government. The ability-to-pay principle is a tax system that focuses solely on taxation, irrespective of expenditure. Under this theory, individuals are required to contribute to government expenses based on their various capacities to pay.

According to Thomas (2012), tax fairness is a crucial element in the composition of an effective tax system. Tax fairness is widely recognized as a primary factor influencing tax compliance (Jackson & Milliron, 1986). In the report of Chau and Leung (2009), there is a prevalent belief among tax administrators and taxpayers that the primary factor contributing to the rise in tax disobedience is the increment of discontent with the perceived justice of the tax system. Tax fairness can be understood as having two main components. The first component pertains to the fairness of the economic transactions and the interest earned in exchange for the taxes paid. The second component relates to the fairness of the ratepayers' burden compared to other ratepayers. This case includes the taxpayers' perception of both vertical fairness (fairness about their income level) and horizontal fairness (fairness about other taxpayers) in the tax laws (Jackson & Milliron, 1986). Furthermore, the fair tax system is predicated upon three fundamental components, specifically: the nation's legitimacy, the incentivization of ratepayers to obey their tax obligations, and the efficacy of the tax administration (Ajaz & Ahmad, 2010). According to prior research conducted by Ulbig (2002) and Samuel & Dieu (2014), it has been found that the perception of fairness within tax departments and governmental procedures plays a crucial role in fostering trust within the community. This trust, in turn, contributes to the belief that tax laws are equitable, ultimately resulting in increased tax compliance. This finding is corroborated by research conducted by McKerchar et al. (2013), McGee (2012), Kirchler and Wahl (2010), Feld and Frey (2007), and Mikesell and Birskyte (2007).

In contrast, Ajaz and Ahmad (2010) posited that implementing governance systems enhances tax equity, resulting in heightened tax compliance. The authors suggested that implementing public governance is associated with establishing an effective tax system. Tan and Chin-Fatt (2000) argue that an effective tax system should be constructed around appropriate principles, including justice and confidence. According to Cummings et al. (2009), the level of tax compliance tends to rise as the ratepayer's impression of fair fiscal exchange increases. Maseko (2014) highlighted that the tax compliance decisions of small and medium-sized enterprises (SMEs) are influenced by their comprehension of tax fairness. On the other hand, the preceding study by Benk et al. (2012) indicated no substantial relationship between tax fairness and tax

compliance. In contrast, Tumwesigye (2011) discovered a negative significant relationship between tax equity and tax adherence.

The existing literature presents mixed findings, thereby obscuring the precise association between tax justice and compliance. The predominant body of scholarly inquiry about tax equity and tax adherence has predominantly concentrated on income taxation, with a notable dearth of emphasis directed towards sales tax compliance. Furthermore, most previous research has concentrated on analyzing the relationship between tax fairness and tax compliance among people, with limited attention given to the tax compliance of small and medium enterprises (SMEs) concerning tax fairness. Hence, further research is necessary to confirm the correlation between tax equity and tax adherence. This survey examines tax fairness as a significant factor influencing tax compliance. However, no research has been undertaken to verify the effect of tax fairness on the level of sales tax compliance between small and medium enterprises (SMEs) in the Middle Eastern and Arab nations, with a particular focus on Jordan.

Perception of Corruption

This study's primary subject of inquiry pertains to corruption perception. The phenomenon of corruption is believed to have been present since the establishment of governance (Campbell, 2013). Corruption is a multifaceted socio-political and economic issue observed to varied degrees in all countries (Rohwer, 2009). Corruption can be described as the misuse of power for personal benefit, as stated by Aguilera and Vadera (2008). Alm et al. (2016) argue that the relationship between corruption and tax compliance has been a persistent concern, posing significant difficulties in modern economies. Akdede (2011) posited that a correlation exists between the degree of corruption displayed by tax officials and the level of tax noncompliance demonstrated by taxpayers.

Similarly, Okpala (2013) conducted a study that investigated the factors influencing tax evasion and avoidance in the specific setting of Nigeria. The study's results demonstrate a robust and statistically significant association between the level of corruption exhibited by tax officials and the prevalence of tax evasion. It is possible to argue that an increase in the prevalence of corruption could result in a proportional increase in tax noncompliance (Alm et al., 2016).

Preceding studies have demonstrated a negative relationship between corruption and tax compliance, as evidenced by the works of Imam and Jacobs (2014), Joulfaian (2009), and Nur-tegin (2008). Numerous studies have indicated that taxpayers exhibit a higher degree of scepticism towards the dishonest behaviours of public officials, which may serve as a significant factor contributing to their noncompliance with tax regulations and reluctance to fulfil their tax obligations (Slemrod, 2008; Alm et al., 2016). Taxpayers believe that the prevalence of corruption within the tax professionals and the inefficiency of the tax system and officialdom may potentially incentivise personal and corporate taxpayers

to conceal their income, thereby leading to noncompliance with tax obligations (Wadhwa & Pal, 2012). Furthermore, small and medium enterprises (SMEs) hold the perspective that the increasing prevalence of speculation within the tax professionals and a corrupt tax system and administration serve as catalysts for concealing their revenue. Consequently, this prompts them to engage in tax noncompliance (Imam & Jacobs, 2007; Alon & Hageman, 2013). Additionally, the study conducted by Muhrtala and Ogundeji (2013) revealed a favourable correlation between corruption and tax compliance. The researchers found that corruption plays a significant role in influencing and incentivising taxpayers to engage in non-compliant behaviours with tax regulations.

Further work is required to understand better the correlation between the perception of corruption and tax compliance. Nevertheless, previous research has primarily focused on examining corruption and tax compliance among people, neglecting the examination of tax compliance among small and medium-sized enterprises (SMEs) and the impact of corruption on their compliance behaviour, as highlighted by Dbwan (2014). The authors believe that corruption is a significant social issue that substantially impacts taxpayers' conduct since prevailing cultural norms and behaviours influence individuals and organisations. Therefore, additional studies should be undertaken to examine the correlation between the perception of corruption and behaviours related to tax compliance. Furthermore, it is worth noting that there is a dearth of research conducted in Indonesia examining the correlation between the perception of corruption and the tax compliance behaviours exhibited by SMEs inside the nation.

Small and Medium Enterprises

There is a lack of universal consensus over the definition of small business. Moreover, it is important to acknowledge that the standards employed to ascertain the qualification of a small enterprise for tax deductions may vary, both within a particular jurisdiction and between diverse tax categories. Small and medium enterprises (SMEs) are categorised based on size-related adjectives, leading economists to classify them based on quantifiable factors. The number of employees is a widely employed criterion for distinguishing between large and small organisations (Hatten, 2011).

RESEARCH METHODOLOGY

Research Design

The present study uses quantitative research methodology, specifically survey methods. According to Kerlinger (Sugiyono, 2014, p.12), survey research is a method of inquiry that examines data collected from large and small populations. This study aims to identify and anatomise relative events, distributions, and relationships among sociological and psychological variables.

Population and Sampling

The concept of population, as described by Cavana et al. (2001) and Hair et al. (2007), refers to a collective of personal events or objects that are the focus of investigation for a researcher. This study included a target population of 544,935 small and medium-sized enterprises (SMEs), which were categorized into two groups. The first group comprised 312,254 tiny firms, while the second group contained 232,681 medium-sized businesses in North Sumatra. According to the sample size list in Morgan's table, the total population of SMEs was 384 samples, but only 205 samples passed the test and were used, assuming a standard error of 5%. In distributing questionnaires to 384 respondents, 205 sample questionnaires declared eligible to continue in this study; the remaining 179 respondents did not answer completely, did not understand, and were not in place due to other activities.

Data Analysis Technique

Before conducting the hypothesis test, the researcher will test the questionnaire using a validity test and reliability test.

Validity Test

Validity is a test of measuring instruments that will be used in research. The optimal outcome of a measuring equipment evaluation is the ability to quantify the intended target while avoiding any unintended measurements accurately. The validity test measures whether a questionnaire is valid or not. A questionnaire is good if the questions can express something that the questionnaire will measure (Ghozali, 2018). Factor analysis is used to see the correlation in validity. Factor analysis is a multivariate method used to analyze variables suspected of being attracted to each other. The factor analysis used in this study is CFA (Confirmatory Factor Analysis). The criteria for assessing the validity test are:

- If $r_{count} > r_{table}$, the questionnaire item is valid.
- If $r_{count} < r_{table}$, the questionnaire item is invalid.

Reliability Test

Ghozali (2018) mentions that reliability is a tool for measuring questionnaires (variable or construct indicators). A questionnaire is reliable if someone's answer to their statement is convenient over time. In this study, reliability measurement was proven by testing consistency and stability. Cronbach's alpha is a statistical measure of dependability that quantifies the extent to which the items within a given set exhibit positive correlations with one another. Cronbach's alpha is calculated as the average intercorrelation among items by measuring the concept (Sekaran, 2017). Cronbach's alpha is acceptable if > 0.6 . The closer the Cronbach's alpha value is to 1, the higher the internal consistency reliability.

Utilizing path analysis techniques with the SmartPLS (Partial Least Square) software, this study tested its hypotheses, beginning with the measurement model (outer model) and model structure (inner model).

Partial Least Square

Partial Least Squares (PLS) employs the primary component analysis technique in the measurement model, specifically the variance extraction component. This component assesses the association between the indicator and the latent construct by computing the overall variance. This variance comprises three components: common variance, specific variance, and error variance. So, the total variance becomes elevated. The development design uses path analysis as follows:

$$Z = a + b_1X_1 + b_2X_2 + b_3X_3 + e_1$$

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + Z + e_1$$

Where:

- Y = Tax Compliance;
- X₁ = Tax Knowledge;
- X₂ = Knowledge of E-Filing;
- X₃ = Tax Fairness;
- Z = Perception of Corruption;
- a = Constant;
- b₁...b₅ = Variable regression X coefficient;
- e₁ = Error.

The research conceptual framework formed on the basis of structural equations is presented in Figure 1.

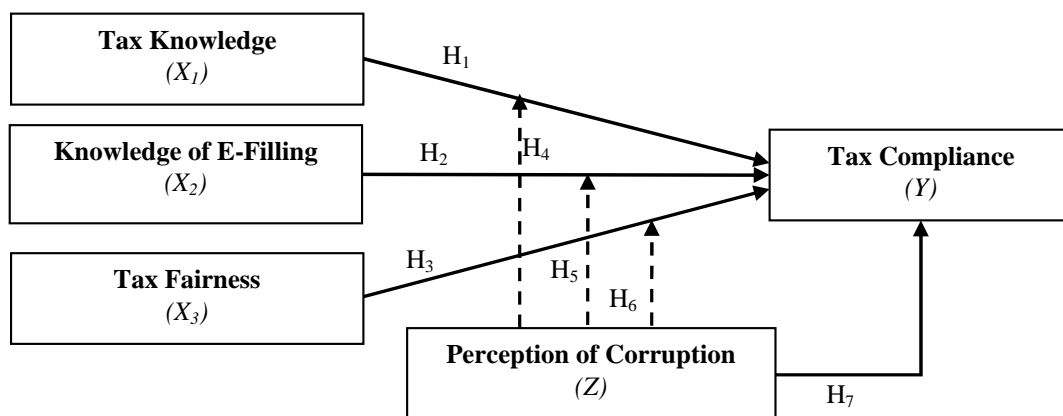


Figure 1. Research Conceptual Framework

The research hypothesis is based on the following assumptions:

H₁: It is expected that tax knowledge affects the tax compliance;

H₂: It is expected that knowledge of e-filing affects the tax compliance;

H₃: It is expected that tax fairness affects the tax compliance;

H₄: It is expected that perception of corruption moderates the relationship between tax knowledge and tax compliance;

H₅: It is expected that perception of corruption moderates the relationship between knowledge of e-filing and tax compliance;

H₆: It is expected that perception of corruption moderates the relationship between tax fairness and tax compliance;

H₇: It is expected that perception of corruption affects the tax compliance.

RESULTS AND DISCUSSION

Test of Validity and Reliability

Research conclusions in the form of solving research problems greatly depend on the excellence of the data analyzed and the instruments used to collect research data. Validity and reliability tests were conducted on 30 respondents outside the population and research sample.

The validity test is conducted by one-shot method, and it is enough to do it once with the following conditions:

If r_{count} positive and $r_{count} \geq r_{table}$, the question item is valid.

If r_{count} negative or $r_{count} < r_{table}$, the question item is not valid.

The output of the validity test of the Tax Knowledge (X₁), Knowledge of E-Filing (X₂), Tax Fairness (X₃), Perception of Corruption (Z), and Tax Compliance (Y) variables have an r-count range between 0.522 to 0.966. The validity test outcome has met the criteria because the r-count value is bigger than the r-table value of 0.361.

Reliability Test

A questionnaire is deemed reliable if responses to its questions are consistent or stable over time. In this study, the reliability of the research instrument was analyzed using the Cronbach Alpha (α) technique. A variable is considered reliable if it yields a Cronbach Alpha value > 0.60 (Ghozali, 2016). The SPSS (Statistical Packages for the Social Sciences) will be used to facilitate testing questions and variables. The reliability test results for the variables Tax Knowledge (X₁), Knowledge of E-Filing (X₂), Tax Fairness (X₃), Perception of Corruption (Z), and Tax Compliance (Y) are presented in Table 1.

Table 1. Reliability Test

No	Variable	Cronbach's alpha	Description
1	Tax Knowledge (X ₁)	0.944	Reliable
2	Knowledge of E-Filing (X ₂)	0.766	Reliable
3	Tax Fairness (X ₃)	0.956	Reliable
4	Perception of Corruption (Z)	0.973	Reliable
5	Tax Compliance (Y)	0.963	Reliable

Source: processed by the authors (2023).

Descriptive Statistical Analysis

The descriptive statistical analysis results consisting of 205 data can be seen in Table 2.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax Knowledge (X ₁)	205	17.00	49.00	39.9463	6.37951
Knowledge of E-Filing (X ₂)	205	24.00	60.00	45.7610	7.48701
Tax Fairness (X ₃)	205	14.00	55.00	38.3171	7.48737
Perception of Corruption (Z)	205	23.00	49.00	38.5463	6.63281
Tax Compliance (Y)	205	23.00	60.00	46.1122	7.73216
Valid N (Listwise)	205				

Source: processed by the authors (2023).

According to Table 2, the data on all variables comprises 205 respondents.

The lowest value of Tax knowledge (X₁) is 17, while the highest value is 49. The mean of Tax Knowledge (X₁) is 39.95, and the standard deviation is 6.38. This indicates that the Tax Knowledge (X₁) variable is normally distributed as Tax Knowledge (X₁) fluctuates greatly due to a significant difference between the maximum and

minimum values, while the standard deviation of Tax Knowledge (X₁) is smaller than its average value.

The lowest value of Knowledge of E-Filing (X₂) is 24, while the highest value is 60. The mean of Knowledge of E-Filing (X₂) is 45.76 and the standard deviation is 7.48. This demonstrates significant variation in Knowledge of E-Filing (X₂), as indicated by the large gap between the maximum and minimum values, despite a relatively small standard deviation for this variable compared to the

average. This indicates that the Knowledge of E-Filing (X_2) variable is normally distributed.

The lowest value of Tax Fairness (X_3) is 14, while the highest value is 55. The mean of Tax Fairness (X_3) is 38.31 with a standard deviation of 7.48. This demonstrates a considerable fluctuation in Tax Fairness (X_3) since there is a large difference between the maximum and minimum values, and the standard deviation is smaller than the mean value. This suggests that the Tax Fairness (X_3) variable follows a normal distribution.

The lowest value of Perception of Corruption (Z) is 23, while the highest value is 49. The mean of Perception of Corruption (Z) is 38.54, with a standard deviation of

6.63. This demonstrates that the Perception of Corruption (Z) varies considerably, given the sizeable difference between its maximum and minimum values. However, its standard deviation is lower than its average value, indicating normal distribution.

The lowest value of Tax Compliance (Y) is 23, while the highest value is 60. The mean of Tax Compliance (Y) is 46.11 with a standard deviation of 7.73. This shows that Tax Compliance (Y) fluctuates greatly because the difference between the maximum and the minimum value is quite large; the standard deviation value of Tax Compliance (Y) is smaller than the average value. Thus, the Tax Compliance (Y) variable is normally distributed.

Goodness of Fit

Table 3. R-Square Value

	R-Square	Adjusted R-Square
Y	0.255	0.228

Source: processed by the authors (2023).

According to Table 3 data, the Adjusted R-Square value on the Tax Compliance (Y) variable is 0.228. This value explains that the percentage of Tax Knowledge (X_1), Knowledge of E-Filing (X_2), Tax Fairness (X_3), and Perception of Corruption (Z) is 22.8%.

Hypothesis Test

Now, based on the processed data, the research hypothesis can be tested. T-statistics and P-values will be used to test the hypotheses. If the P-value < 0.05, then the hypothesis will be confirmed. Data for hypothesis testing are presented in Table 4.

Table 4. T-Statistic and P-Values Direct Effect

	Original Sample (O)	Sample Mean (M)	Std. Deviation (STDEV)	T-Statistics ((O/STDEV))	P-Values
Tax Knowledge (X_1) → Tax Compliance (Y)	0.188	0.195	0.079	2.367	0.018
Tax Knowledge (X_1) * Perception of Corruption (Z) → Tax Compliance (Y)	-0.100	-0.096	0.080	1.249	0.212
Knowledge of E-Filing (X_2) → Tax Compliance (Y)	-0.227	-0.227	0.082	2.779	0.006
Knowledge of E-Filing (X_2) * Perception of Corruption (Z) → Tax Compliance (Y)	-0.136	-0.130	0.078	1.240	0.083
Tax Fairness (X_3) → Tax Compliance (Y)	-0.160	-0.171	0.058	2.764	0.006
Tax Fairness (X_3) * Perception of Corruption (Z) → Tax Compliance (Y)	-0.049	-0.044	0.059	0.821	0.412
Perception of Corruption (Z) → Tax Compliance (Y)	-0.107	-0.116	0.085	1.262	0.208

Source: processed by the authors (2023).

According to the data presented in Table 4, the partial test results are as follows:

1) The t-score value for Tax knowledge (X_1) of 2.367 is greater by comparing the free degree (DF = n-k = 205-4 = 201), then the t-table value is obtained (1.65), or the sig t value for Tax knowledge (X_1) of 0.018 is smaller than alpha (0.05). Based on the findings acquired, it rejects H_0 and accepts H_1 . Thus, Tax Knowledge (X_1) significantly positively affects Tax Compliance (Y).

2) The test results indicate an insignificant value ($\alpha = 0.05$) for the parameter coefficient (X_1) * (Z) → Y , when examining the impact of Tax Knowledge (X_1) on Tax

Compliance (Y) with Perception of Corruption (Z) as a moderating variable. The t-score value of 1.249 is smaller than the t-table value (1.65) or the sig t value of 0.212, which are both greater than alpha (0.05). The analysis considers a free degree of (DF = n-k = 205-4 = 201). Furthermore, based on the estimated value of -0.100, it can be concluded that the alternative hypothesis H_1 is rejected. Thus, there is no moderation effect of Perception of Corruption (Z) on the relationship between Tax Knowledge (X_1) and Tax Compliance (Y).

3) The t-score for the Knowledge of E-Filing (X_2) is 2.779, with a degree of freedom (DF) of 201 (n-k=205-

4=201) and a t-table value of 1.65. Moreover, the significant t-value is 0.006, smaller than alpha (0.05). The initial estimated value for the sample is -0.227. These results lead to rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_1). Thus, the Knowledge of E-Filing (X_2) significantly negatively impacts Tax Compliance (Y).

4) The test outcome on the parameter coefficient (X_2) * (Z) \rightarrow Y among the application of Knowledge of E-Filing (X_2) on Tax Compliance (Y) with Perception of Corruption (Z) as moderating variable shows an insignificant value at ($\alpha = 0.05$) with a t-score value of 1.240 smaller by comparing the free degree (DF = $n-k = 205-4 = 201$), the t-table value (1.65) or sig t value for 0.083 is greater than alpha (0.05). Furthermore, the initial sample estimate possesses a negative value, namely -0.136. This implies that with a greater comprehension of e-filing, the tax compliance tier will not be significantly affected, even though it shows a negative direction. So, the alternative hypothesis H_1 is rejected. Thus, the Perception of corruption (Z) does not moderate the relationship between Knowledge of E-Filing (X_2) and Tax Compliance (Y).

5) The t-score value for Tax Fairness (X_3) of 2.764 is greater by comparing the free degree (DF = $n-k = 205-4 = 201$), then the t-table value is obtained (1.65), or the sig t value for Tax Fairness (X_3) of 0.006 is smaller than alpha (0.05). In addition, the original sample of estimate value is -0.160. The outcome gained is that it rejects H_0 and accepts H_1 . Thus, Tax Fairness (X_3) significantly negatively affects Tax Compliance (Y).

6) For hypothesis 6, an insignificant value at ($\alpha = 0.05$) with a t-count value of 0.821 smaller by comparing the free degree (DF = $n-k = 205-4 = 201$) then the t-table value (1.65) or sig t value for 0.412 is greater than alpha (0.05). In addition, the original sample estimate value is -0.049, so the alternative hypothesis H_1 is rejected. Thus, the Perception of Corruption (Z) does not moderate the relationship between Tax Fairness (X_3) and Tax Compliance (Y).

7) The t-score value for Perception of Corruption (Z) of 1.262 is smaller by comparing the free degrees (DF = $n-k = 205-4 = 201$), the t-table value (1.65) is obtained, or the sig t value for Perception of Corruption (Z) of 0.208 is greater than alpha (0.05). In addition, the actual sample of estimate value is -0.107. Based on the outcome gained, it rejects H_1 and accepts H_0 . Thus, the Perception of Corruption (Z) has no significant positive effect on Tax Compliance (Y).

Discussion

The Effect of Tax Knowledge on Tax Compliance

The results show that tax knowledge has a significant positive effect on tax compliance. Thus, taxpayers' greater expertise in taxation will increase their compliance in fulfilling tax obligations. Lack of understanding of current tax regulations can hinder taxpayers' compliance with tax laws. The findings are consistent with previous research by Fitria and Muiz (2021), Mulyati and Ismanto (2021), Bangun et al. (2017), and Dewi (2019), which demonstrated a significant relationship between tax knowledge and taxpayer compliance.

The Effect of Perception of Corruption on the Relationship between Tax Knowledge and Tax Compliance

The results show that the variable of corruption perception in moderating tax knowledge does not have a significant and negative effect on tax compliance. However, the analysis shows that the corruption perception variable could potentially weaken the impact of tax knowledge on tax compliance. Thus, taxpayers with higher levels of tax knowledge may experience reduced tax compliance due to decreased confidence in tax officials or institutions caused by high perceptions of corruption. However, taxpayers with an advanced understanding of taxation tend to exhibit higher tax compliance rates, leading to the achievement of tax revenue targets. However, the tax corruption cases in Indonesia may decrease taxpayers' compliance in fulfilling their tax obligations.

Moreover, corrupt tax and government officials can impede taxpayers' motivation to pay taxes (Hanifah & Yudianto, 2019; Wibisono, 2017). Perceptions of corruption can promote tax avoidance as individuals lose faith in the fairness of taxes (Dyrenge et al. 2022). Therefore, a higher level of state corruption is linked to lower level of state tax compliance.

The Effect of Knowledge of E-Filing on Tax Compliance

The results show a significant correlation between the variable of knowledge of e-filing and variable of tax compliance. E-filing is a crucial aspect of tax administration reform aimed at enhancing satisfaction and convenience for taxpayers, with the ultimate objective of bolstering voluntary taxpayer compliance. Taxpayers believe using e-filing will help make it easier to report tax returns, increasing taxpayer compliance. Still, on the other hand, if taxpayers think that the e-filing system is not easy to use and useless, this will decrease taxpayer compliance. The results of this study produce findings similar to previous research, which explain that the application of the e-filing system has a significant and positive effect on taxpayer compliance, this is because the taxpayer's understanding of the application of the e-filing system is good enough so that it can increase taxpayer compliance. The existence of regulations that require taxpayers to report tax returns online through the e-filing application is also expected to encourage taxpayers to get used to reporting their taxes on time by established regulations, which will impact increasing taxpayer compliance.

The Effect of Perception of Corruption on the Relationship between Knowledge of E-Filing and Tax Compliance

The results show that the variable of perception of corruption while acting as a moderator for the knowledge of e-filing does not exhibit a statistically significant impact and demonstrates a negative relationship with tax compliance. E-filing greatly helps taxpayers because taxpayers do not need to come to the tax office to report

their annual tax returns; reporting can be done anywhere, anytime, as long as it does not exceed the specified time limit. With the existence of e-filing, it is expected to increase the productivity of taxpayer reporting. Taxpayers can save a lot of time reporting their taxes using e-filing. However, in this case, taxpayer understanding of using the internet is needed so that taxpayers can use e-filing effectively and efficiently.

Perception of Corruption as a moderating variable has a weak relationship influence between knowledge of e-filing on tax compliance because state officials who commit corruption in the field of taxation or other public services are acting against the law by embezzling tax money or abuse of authority, to enrich themselves, and harming other parties. As a result, some taxpayers with good knowledge of e-filing are reluctant to fulfil their tax obligations, so tax compliance increases. This study's results are supported by research of Aguilera & Vadera, 2008.

The Effect of Tax Fairness on Tax Compliance

The results show that the tax fairness variable negatively and significantly affects tax compliance. The purpose of the law is to achieve justice; the law and the implementation of the collection must be fair. Fairness in the legislation means imposing taxes generally and evenly and adjusting them to the ability of each. Meanwhile, fair in its implementation is to give taxpayers the right to file objections, delays in payment and appeals to the Tax Advisory Panel. The importance of justice for someone, including in tax payments, will also affect their attitude in making tax payments. If the prevailing justice is lower according to the taxpayer's perception, the level of compliance will decrease; this means that the tendency to commit tax non-compliance will be higher.

This study's results are consistent with research McGee et al. (2007), showing that justice has a negative and significant effect on perceptions of ethics on tax non-compliance. The better the tax justice, the more taxpayers will fulfil their tax roles. Thus, tax justice is one of the important aspects that can affect tax compliance if the tax system is balanced and objective so that taxpayers feel fair.

The Effect of Perception of Corruption on the Relationship between Tax Fairness and Tax Compliance

The results show that the perception of corruption variable in moderating the impact of tax fairness on tax compliance had no significant effect and had a negative direction on tax compliance. Thus, the higher the level of

taxation knowledge possessed by taxpayers and weakened by high perceptions of corruption, the more tax justice can be reduced due to decreased taxpayer confidence in tax officials or institutions. If taxpayers have a high level of knowledge about taxation, their tax willingness will increase to achieve the tax target. However, taxpayers realize that tax corruption cases are rampant in Indonesia, which can reduce tax fairness.

The Effect of Perception of Corruption on Tax Compliance

The results of this study show that the perceived tax corruption variable has a negative and insignificant effect on tax compliance. However, the impact of tax corruption is very large for the Indonesian economy. This is probably because the socialization of the field of taxation, especially those related to tax corruption, is significantly lacking in Indonesia. As a result, many people are still low in sensitivity to the impact of tax corruption. Therefore, in this study, the perception of tax corruption cannot affect taxpayer compliance.

CONCLUSION

Paying taxes is the duty of citizens and businesses to support government activities and provide financing for social and other spheres. However, many factors affect taxpayers' compliance and desire to pay taxes on time and in full. This study aimed to examine factors affecting tax compliance by small and medium enterprises in Indonesia.

The results of this study show that tax knowledge and knowledge of e-filing have a positive and significant effect on tax compliance. Instead, tax fairness has a negative and significant impact on tax compliance. However, the effect of the perception of corruption variable on tax compliance is rather insignificant; that is, this factor does not have a negative impact. Perception of corruption as a moderating variable has a slightly negative effect on the relationship between tax knowledge, knowledge of e-filing, tax fairness and tax compliance.

The study results help better understand taxpayers' behaviour in their desire to pay taxes per the law. When changing taxation rules or introducing new tax collection methods, the government must consider factors that influence taxpayers' behaviour. The influence of some such factors was investigated in this study. In addition, it is worth fighting corruption in the tax system because it can reduce small and medium-sized enterprises' willingness to follow the law in the field of taxes.

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