

Increasing Taxpayer Compliance Through Tax Literacy, Taxpayer Awareness, and Tax Digitalization

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Abstract

The primary objective of every company is to maximize firm value because Taxes are the primary fiscal instrument in the State Budget (APBN), contributing significantly to the revenues needed for development and the sustainability of a nation. This study was motivated by the phenomenon of Indonesia's declining tax ratio in the first half of 2025, which only reached 8.42 percent, a figure that is still far from the national fiscal target of 11 percent. This situation contrasts with the enormous potential of the MSME sector, which comprises 66 million business units and accounts for 61 percent of GDP, but whose tax contribution is still relatively low. The low level of tax compliance in this sector is identified as being caused not only by the tariff rate, but also by low tax literacy, administrative constraints, and challenges in the application of digital technology. The purpose of this study is to determine the effect of tax literacy, taxpayer awareness, and tax digitalization the compliance of individual taxpayers. The research method used was quantitative, with samples collected using simple random sampling from a total of 138 individual taxpayers registered at the Surabaya Wonocolo Tax Office (KPP). The data analysis technique used was the Structural Equation Modeling (SEM) method using WarpPLS 7.0 statistical software. The results showed that tax literacy had no significant effect on taxpayer compliance, while taxpayer awareness and tax digitalization had a positive and significant effect on individual taxpayer compliance

Keywords

Taxpayer Awareness, Taxpayer Compliance, Tax Digitalization, Tax Literacy



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INTRODUCTION

The primary objective of every company is to maximize firm value because Taxes are the primary fiscal instrument in the State Budget (APBN), contributing significantly to the revenues needed for development and the sustainability of a nation. Success in the development process is heavily influenced by increased tax revenue, one measure of which is the Tax Ratio. In the first semester of 2025, Indonesia's tax ratio decreased to 8.42 percent, significantly lower than the 9.49 percent

recorded in the same period the previous year, making it difficult to achieve the set target of 11 percent (Simanjuntak, 2025). This decline indicates a significant tax gap, where potential tax revenue is hampered by high levels of taxpayer non-compliance.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the country's economy, contributing significantly to Gross Domestic Product (GDP) at 60.51 percent and absorbing a significant portion of the labor force (97 percent). To increase tax revenue, the government has provided various tax incentives, such as a reduction in the final income tax rate for MSMEs from one percent to 0.5 percent under Government Regulation No. 23 of 2018 and Government Regulation No. 55 of 2022, as well as tax exemptions for gross turnover of up to IDR 500 million per year under the HPP Law and Government Regulation No. 55 of 2022. Although these incentives aim to encourage tax revenue growth and compliance, the contribution of MSMEs to tax revenue and the number of taxpayers remains relatively low. This situation indicates that the level of compliance is still far from expected.

One of the main factors causing low MSME income tax compliance, which also contributes to the low tax ratio in Indonesia, is the lack of knowledge and understanding of MSME entrepreneurs regarding tax obligations (Saputri, 2025). Research conducted by Anggraini et al. (2025), Aini et al. (2025), Imanda et al. (2025), Purba et al. (2024) stated that tax literacy has a positive effect on taxpayer compliance. However, this differs from research by Sunarti & Kurnianingsih (2025), Larasati & Binekas (2023), Indria (2022), and Yuliatic & Fauzi (2020), which found that tax literacy had no effect on taxpayer compliance.

Taxpayer awareness is a crucial issue, given the large number of MSMEs in Indonesia, which reached approximately 66 million business units in 2023. They contributed approximately 61 percent to the national gross domestic product. This indicates significant potential in the tax base, making increasing literacy and compliance crucial in the Indonesian tax system (Fauzan, 2025; Gapembi, 2023). However, the formal taxpayer compliance rate in 2024 was recorded at 85.75 percent. While this figure exceeded the target, it still showed fluctuations compared to the previous year. This situation indicates that awareness in fulfilling tax obligations is not yet fully consistent and still requires improvement in tax education for business actors (Wildan, 2025). Research conducted by Azizah & Iskandar (2025), Anggraini et al. (2025), Marta et al. (2025), Sandra & Chandra (2021) states that taxpayer awareness has a positive effect on taxpayer compliance. Research by Setiawan & Yanti (2024) and Vieri Delvechio et al. (2024) states that taxpayer awareness influences taxpayer compliance. Meanwhile, research conducted by Gunawan (2025), Widyanti et al.

(2022), and Meidiyustiani et al. (2022) states that taxpayer awareness has no effect on taxpayer compliance.

Tax digitalization drives increased compliance through the convenience of electronic reporting services, as reflected in the dominance of e-filing in tax return submissions through 2025. The majority of tax returns were filed digitally, and even at the beginning of the reporting period, the number of electronic tax returns far exceeded manual filing, demonstrating the success of the tax administration system transformation (IKPI, 2025). The very high level of e-filing adoption in several DGT regions confirms the growing acceptance of digitalization among taxpayers. However, digital adoption is still uneven, as most MSMEs are not yet fully integrated into the digital ecosystem (Hutagaol, 2025). Research conducted by Aini et al. (2025), Imanda et al. (2025), Wijaya et al. (2025), and Sinuhaji et al. (2024) found that tax digitalization had a positive effect on taxpayer compliance. However, this differs from research by Ingutali & Muhyarsyah (2025), Setiawan & Yanti (2024), and Ristiyana et al. (2024), which found no impact on taxpayer compliance.

A decline in revenue also occurred at the Wonocolo Surabaya Pratama Tax Office, the subject of this study. The significant decrease from 132.63 percent to 100.10 percent indicates that the tax office is facing increasing obstacles in exploring its potential and exceeding its targets, indicating compliance issues that need to be addressed immediately. The 2024 Performance Report (LAKIN) of the Surabaya Wonocolo Pratama Tax Office (KPP Pratama) stated that one of the main factors preventing the KPP from achieving its desired target is related to the level of Taxpayer Compliance. Furthermore, sector data also shows that the Trade Sector KLU is the third largest Taxpayer category with 13,764 Taxpayers, but its revenue contribution is only 12.69 percent. This apparent imbalance between the large number of Taxpayers and low revenue contribution indicates a payment compliance gap in the MSME segment. This means that there are a number of Taxpayers who are registered and officially comply with the regulations (have a Taxpayer Identification Number), but do not fulfill their obligations substantively (do not pay the taxes they should because their income is not reported, or assume zero Final Income Tax liability).

METHODS

This research is a basic research study aimed at examining the influence of tax literacy, taxpayer awareness, and tax digitalization on individual taxpayer compliance. The proposed hypothesis indicates an influence of these three independent variables on taxpayer compliance. The method used in this study is

quantitative, using a Structural Equation Modeling (SEM) approach based on Partial Least Squares (PLS).

This research focuses on individual taxpayers registered at the Wonocolo Pratama Tax Service Office (KPP Pratama Wonocolo). Based on data from the 2024 Performance Report, KPP Pratama Wonocolo lists 13,764 individual MSME taxpayers registered in the Business Field Group (KLU). The sample used in this study consisted of approximately 138 respondents.

FINDINGS AND DISCUSSION

The results of the hypothesis test are as follows: (1) The path coefficient is 0.082 with a p-value of 0.165. This p-value is greater than the significance level of 0.05, so it can be concluded that Tax Literacy has no significant effect on Taxpayer Compliance. Hypothesis 1 (H1) is rejected. (2) The path coefficient is 0.418 with a p-value <0.01 . This value is smaller than the significance level of 0.05, indicating a positive and significant effect. It can be concluded that Tax Awareness has a positive and significant effect on Taxpayer Compliance, so Hypothesis 2 (H2) is accepted. (3) The path coefficient is 0.486 with a p-value <0.01 . These results indicate that Tax Digitalization has a positive and significant effect on Taxpayer Compliance. Hypothesis 3 (H3) is accepted.

The Impact of Tax Literacy on Individual Taxpayer Compliance

The results of this study indicate that individuals' tax literacy levels have not significantly impacted taxpayer compliance. Even if a taxpayer has a thorough understanding of tax regulations and procedures, this does not guarantee consistency in reporting and paying taxes. Good knowledge is limited to understanding without the motivation to apply it in real life. Regarding the characteristics of the respondents, the majority of respondents were Micro, Small, and Medium Enterprises (MSMEs) operating in the food, beverage, and tobacco trade sectors, with relatively small businesses. This situation indicates that although taxpayers understand the basics of taxation, their primary concern remains the continuity of their daily business, so implementing tax knowledge is not yet a priority. This statement confirms that tax literacy is not always followed by concrete compliance actions.

The Impact of Taxpayer Awareness on Individual Taxpayer Compliance

The results of this study indicate that taxpayer awareness has a positive and significant influence on shaping individual taxpayer compliance behavior. This indicates that the higher the public's sense of responsibility and awareness regarding the role of taxes in development, the higher their compliance will be. This intrinsic motivation encourages taxpayers to voluntarily fulfill their obligations without feeling burdened. A strong sense of responsibility is a crucial foundation that makes someone

feel they have a vital role in supporting the nation's welfare. Therefore, efforts to increase moral awareness are far more impactful in ensuring long-term compliance with the tax authorities. Based on the characteristics of the respondents, the majority are active business actors directly involved in business activities related to tax obligations. This suggests that direct experience in managing a business can increase awareness of the importance of taxes as a contribution to the state. Based on the descriptive variables, taxpayer awareness shows a positive trend in respondents' responses. Most respondents gave meanings indicating they recognize the importance of taxes and their obligations as citizens. This indicates that internal values such as a sense of responsibility and contribution to the state have been quite well ingrained

The Impact of Tax Digitalization on Individual Taxpayer Compliance

The results of this study indicate that tax digitalization has a positive and significant impact on individual taxpayer compliance. The effective implementation of a digital-based tax system has successfully overcome various administrative obstacles experienced by the public. Ease of access to services, efficiency in reporting times, and transparency in the digital system are key attractions for taxpayers in fulfilling their obligations. The more sophisticated and user-friendly the system provided by the Directorate General of Taxes, the greater taxpayers' interest in timely reporting.

CONCLUSION

Tax literacy has an insignificant effect on taxpayer compliance. This indicates that taxpayers' understanding of taxation has not been fully translated into actual compliance behavior. Tax awareness has been shown to have a positive and significant effect on taxpayer compliance. This finding indicates that internal motivation, a sense of responsibility, and awareness of the importance of taxes play a crucial role in shaping taxpayer compliance behavior. Tax digitalization has a positive and significant effect on taxpayer compliance. This indicates that the ease, efficiency, and accessibility of a digital-based tax system can encourage taxpayers to better fulfill their obligations.

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