EXAMINING THE IMPACT OF TAX AWARENESS, EDUCATION, AND SANCTIONS ON MSME TAXPAYER COMPLIANCE

Ulfi Wahidiyah[1], Sri Agustini[2]
Pamulang University, Indonesia
wahidiyahulfi@gmail.com[1]

ABSTRACT
This research investigates how the impact of tax awareness, level of education, and tax sanctions determined the tax compliance of Micro, Small, and Medium Enterprises (MSMEs), locally referred to as *Usaha Mikro, Kecil, dan Menengah* (UMKM) in Indonesia. A quantitative approached is used in this study that focuses on MSME business actors in East Ciputat on South Tangerang. Primary data was gathered through questionnaires from 100 respondents who were selected through convenience sampling. Multiple linear regression models are used to analyze data on SPSS version 27. Results indicate that tax awareness, education level, and sanctions will positively affect MSME taxpayer compliance.

Keywords: Compliance of MSMEs taxpayers. Tax Awareness, Education Level, Tax Sanctions

ABSTRAK
Penelitian ini menyelidiki bagaimana dampak kesadaran pajak, tingkat pendidikan, dan sanksi pajak menentukan kepatuhan pajak Usaha Mikro, Kecil, dan Menengah (UMKM) di Indonesia. Pendekatan kuantitatif digunakan dalam penelitian ini yang berfokus pada pelaku usaha UMKM di Ciputat Timur, Tangerang Selatan. Data primer dikumpulkan melalui kuesioner dari 100 responden yang dipilih melalui teknik convenience sampling. Model regresi linier berganda digunakan untuk menganalisis data pada SPSS versi 27. Hasil menunjukkan bahwa kesadaran pajak, tingkat pendidikan, dan sanksi akan berpengaruh positif terhadap kepatuhan wajib pajak UMKM.

Kata kunci: Kepatuhan wajib pajak UMKM. Kesadaran Pajak, Tingkat Pendidikan, Sanksi Pajak

1. INTRODUCTION

The compliance of MSME taxpayers is crucial, so this subject is worth deeper exploration. The MSME sector can be the driving force of the Indonesian economy. Taxpayer compliance aligns with tax revenue. When the state does not obtain it as well, it will hamper the country's development process (Wardani & Rumiyatun, 2017). Irawati and Sari (2019) also explain that taxpayers' taxation is said to comply with or not in case of registering themselves, depositing tax returns, and taxpayer compliance in calculating and releasing payment of taxes due. Therefore, achieving an optimal level of taxpayer compliance will present more challenges.

Micro, Small, and Medium Enterprises (MSMEs) have begun to improve well and have been able to generate profits. MSMEs largely controlled the role of the national economy. The Ministry of Cooperatives and Micro, Small, and Medium Enterprises (*Kementerian Koperasi dan UMKM*) of the Republic of Indonesia (2018) released that

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business development is ruled by MSMEs reaching 64,194,057 units. As shown in Table 1.1

Table 1. 1
MSME and Large Enterprise Data Overview (2018 – 2023)

Tahun	Jumlah UMKM (Juta Unit)	Pertumbuhan (%)
2018	64,19	-
2019	65,47	1,98
2020	64,00	-2,24
2021	65,46	2,28
2022	65,00	-0,70
2023	66,00	1,52

Source: Indonesian MSMEs - KADIN Indonesia (2023)

The novelty of this research is that the methods use data collection with convenience sampling techniques, in which researchers select individuals or groups that are easily accessible or widely available to be part of the sample based on some of the same characteristics to obtain data relevant to the study's goals. It is caused by some of the previous research results showing some differences in results following the title that the author studies. Surya and Randra (2020) found that taxpayer taxation awareness, knowledge, and tax sanctions significantly enhance MSME taxpayers' compliance at KPP Pratama Tabanan, based on the stratified random sampling. Meanwhile, Listy et al. (2022), with incidental sampling level found that education does not affect taxpayer compliance. MSME perceptions still tend to be unfavorable towards reducing tax rates, so they have not been able to influence MSMEs' behavior and intention to comply but instead encourage their intention to be non-compliant. Thus, based on the similarities in variables and differences in sampling techniques and population in previous studies, this study focuses on "**Examining the impact of tax awareness, education, and sanctions on MSME taxpayer compliance**".

MSMEs in Indonesia will reach 66 million by 2023 and contribute significantly to the national economy. However, there is still a low compliance level for MSME players paying taxes. The low tax compliance among Small and Medium Enterprises (SMEs) remains a critical issue. Despite their rapid growth in Indonesia, ensuring tax compliance among them continues to be a challenge (Heri & Handayani, 2022). Judging from the total MSME taxpayers in the tax administration system, the tax revenue derived from MSMEs looks far from expected. Several factors influence MSME taxpayers' compliance, like tax awareness, education level, and tax sanctions.

2. LITERATURE REVIEW

Compliance theory is a conceptual framework that explains why individuals or entities comply with certain regulations, laws, or policies. In taxation studies, this approach helps determine the underlying reasons taxpayers either comply with or neglect their tax responsibilities.

Compliance Theory

Compliance comes from the word obey. As stated in the *Kamus Besar Bahasa Indonesia* (KBBI), compliance means obedience and submission to teachings and rules. The theory of compliance was coined by Milgram (1963), which explains a condition

where a person must obey an order or general law. Thus, a high level of taxpayer compliance among MSME business actors will lead to higher tax revenues. It positively impacts both the state and society.

Taxpayer Compliance

Taxpayer compliance is the act of willingly fulfilling tax obligations voluntarily, as it is essential for economic growth by maintaining consistent tax payments. Individuals with high taxpayer compliance result in timely tax payments. Therefore, compliance reflects a person's commitment to fulfilling their tax responsibilities.

The Impact of Tax Awareness on MSME Taxpayer Compliance

Tax awareness is essential in enhancing taxpayer compliance, as informed individuals understand their obligations and avoid non-compliance. According to Milgram's (1963) theory, compliance is influenced by recognition of the authority following the pressure to follow established rules. Higher tax awareness strengthens taxpayers' perceptions of tax authorities as legitimate institutions, increasing their likelihood of fulfilling tax obligations. Additionally, individuals who certainly understand the benefits of taxes for the state and the legal risks of non-compliance are more inclined to pay taxes voluntarily. Then, increasing tax awareness is a key factor in shaping tax compliance, in line with the principle of obedience to authority in Milgram's theory.

Madjodjo and Baharuddin (2022) found that tax awareness enhances MSME taxpayer compliance. Similarly, Inayati and Fitria (2019) findings of a significant relationship between tax awareness and compliance. Therefore, this study proposes the following hypothesis:

H1: Tax Awareness positively and significantly increased MSME taxpayer compliance.

The Impact of Education Level on MSME Taxpayer Compliance

Education level also affects taxpayer compliance, as individuals with higher education tend to more understanding of tax regulations also the consequences of non-compliance. According to Milgram's (1963) theory, compliance is shaped by recognition of authority and rule legitimacy. Higher education of taxpayer enhances awareness of taxation's role in state development and the legal consequences due to tax violations. Thus, the higher the education level, the more likely they are to comply, as they better understand the legitimacy and enforcement power of tax authorities.

This is consistently written on previous research by Agustina (2019), which found that education level significantly affects taxpayer compliance. Similarly, A. M. Anggraeni and Ramayanti (2023) support a positive impact of education on MSME taxpayer compliance. Therefore, the hypothesis is proposed:

H2: Education Level positively and significantly increased MSME taxpayer compliance.

The Impact of Tax Sanctions on MSME Taxpayer Compliance

Tax sanctions serve as a powerful incentive to influence taxpayer compliance and motivate individuals to comply with their tax responsibilities. According to Milgram (1963), compliance is formed by authority and enforcement mechanisms. Milgram found that individuals are more likely to comply when authority have more control over sanctioning power.

In taxation, administrative and criminal sanctions create external pressure, reinforcing compliance both together with fear of punishment and recognition of tax

authorities' legitimacy. Stricter and more consistent sanctions increase compliance as taxpayers acknowledge the consequences of violations and the authority of tax institutions.

Research by Nugraha et al. (2024) supports that tax sanctions positively influence taxpayer compliance. Similarly, Imania (2022) reported a significant positive impact that tax sanctions contribute to improving compliance. Therefore, the hypothesis is proposed:

H3: Tax Sanctions positively and significantly affect MSME taxpayer compliance.

The Impact of Tax Awareness, Education Level, and Tax Sanctions on MSME Taxpayer Compliance

Tax awareness is essential in enhancing taxpayer compliance, as informed individuals understand their obligations and avoid non-compliance. According to Milgram's (1963) theory, compliance is influenced by recognition of the authority following the pressure to follow established rules. Higher tax awareness strengthens taxpayer perception of tax authorities as legitimate which is increasing voluntary compliance. Acknowledge the benefits of taxes and legal risks of violations further encourages compliance.

Education level affects taxpayer compliance, as higher education enhances understanding of both tax regulations and legal consequences. Milgram explained compliance is determined by recognizing authority legitimacy. Educated individuals are more likely to grasp the importance of taxation for national development and accept tax enforcement as legitimate, increasing compliance.

Tax sanctions significantly influence compliance by creating external pressure. Milgram's study in 1963 shows individuals comply with an authoritative enforcement system. In taxation, administrative and criminal sanctions reinforce compliance by instilling awareness of legal consequences and reinforcing the authority of tax institutions. Stricter, consistently applied sanctions further enhance compliance levels.

Prior research supports these findings. Madjodjo and Baharuddin (2022) and Inayati and Fitria (2019) found that tax awareness positively affects MSME taxpayer compliance. Agustina (2019) and A. M. Anggraeni and Ramayanti (2023) concluded that education level significantly impacts compliance. Research by Nugraha et al. (2024) supports that tax sanctions positively influence taxpayer compliance. Similarly, Imania (2022) reported a significant positive impact that tax sanctions contribute to improving compliance. Based on these findings, the following hypothesis is proposed:

H4: Tax Awareness, Education Level, and Tax Sanctions positively and significantly affect MSME taxpayer compliance.

3. RESEARCH DATA AND ANALYTICAL METHODS

This study utilizes a quantitative research approach and gathers primary data. Sugiyono (2012) states primary sources as those that directly provide information to data collectors. The study focuses on MSME business actors in the East Ciputat District of South Tangerang with a sample size of 100 respondents.

Data Collection Technique

Primary data collection for this study was conducted through the administration of questionnaire. Sugiyono (2017) defines a questionnaire as a method of obtaining information by presenting respondents with a series of written questions. The questionnaire is distributed to respondents directly to ensure the data collected aligns with research criteria. A Likert Scale is used, assigning scores from 1 to 5 with ratings

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from 1(Strongly Disagree) to 5 (Strongly Agree) for each item.

Data Analysis Technique

The process process of quantitative data analysis begins after gathering data from respondents. It includes classifying data by variable and respondents' type, structuring it into the table, examining for finding each variable, performing calculations to address research questions, and testing the proposed hypotheses (Sugiyono, 2018).

Using SPSS version 25, data processing starts with evaluating the research instruments' quality through validity and reliability tests. An instrument is considered valid if it correctly measures the designated variables. Meanwhile, the reliability test will be applied to measure the same object several times and will produce the same data (Sugiyono, 2019).

The research data was then tested for quality using the Classical Assumption Test, which consists of a Normality Test that aims to test whether, in the regression model, confounding or residual variables have a normal distribution. A reliable regression model follows a normal distribution. The Multicollinearity Test checks for correlations among independent variables, while the Heteroscedasticity Test checks for consistent residual variance (Ghozali, 2020).

After validation, the data is tested through Descriptive Statistics to measure the average, minimum, and maximum values. Hypothesis testing follows, utilizing Multiple Linear Regression, followed by the F Test and the coefficient determination.

4.   RESULT AND DISCUSSIONS

This study focuses on individuals operating Micro, Small, and Medium Enterprises (MSMEs) in East Ciputat District, South Tangerang, in 2024. Totaling 13,494 MSMEs. Data collection was performed by filling out a questionnaire or distributing questionnaires from August 06 - September 10, 2024. Every questionnaire distributed amounted to 115 questionnaires. Afterward, 100 questionnaires were returned to the author for analysis.

Summary of Descriptive Statistical Analysis of Research Data

Through descriptive analysis, this study has identified the mean (average value), standard deviation, maximum value, and minimum value. These values help illustrate the overall distribution and variability of the data. A complete summary of these results is provided in the following table:

Table 4. 1 Descriptive Statistics Test Results

Keterangan	Tax Awareness (X1)	Tingkat Pendidikan (X2)	Sanksi Perpajakan (X3)	Kepatuhan Wajib Pajak
Mean	29,87	32,86	36,07	27,91
Maximum	50	50	50	50
Minimum	20	19	20	18
Std.Deviation	5,045	5,470	7,027	7,320

Source: Data Processed by the Author, 2024.

Results of Partial Hypothesis Testing (t-test)
Table 4. 2 Partial Hypothesis Testing Results (t test)

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std.Error	Beta		
1 (Constant)	26.950	4.418		6.100	<.001
Tax Awareness _X1	.604	.125	.447	4.815	<.001
Tingkat Pendidikan_X2	-.256	.129	-.206	-1.992	.049
Sanksi Perpajakan_X3	-2.68	.088	-.303	-3.043	.003
a. Dependent Varible : Y					

Source: Data Processed by the Author, 2024.

Simultaneous Hypothesis Testing Results (F Test)

The second test conducted in this study is the F Test, which measures the joint influence of independent variables on the dependent variable. Rifkhan (2023) explains the value F_{count} of the calculation results is compared with the F_{table} obtained using the probability value or error rate or level standard error or significance.

Table 4. 3 Simultaneous Hypothesis Testing Results (F Test)

ANOVA[a]					
Model	Sum os Squares	df	Mean Square	F	Sig.
1 Regression	988.196	3	329.399	12.009	<.001[b]
Residual	2.633.114	96	27.428		
Total	3.621.310	99			
a. Dependent variable : Kepatuhan Wajib Pajak (Y)					
b. Predictors : (Constant), Sanksi Perpajakan (X3), Tingkat Pendidikan (X2) Tax Awareness (X1)					

Source: Data Processed by the Author, 2024.

Hypothesis Testing Results Coefficient of Determination (r2)

The third test conducted in this study for hypothesis testing is the Coefficient of Determination (R^2) test. As described by Rifkhan (2023), the Coefficient of Determination, commonly referred to as the R^2 test, is used to measure to extent to which the independent variable collectively explains variations in the dependent variable. A higher value indicates that the independent variables have a strong explanatory power over the dependent variable, while a lower R^2 suggests that other factors outside the model may significantly influence the outcome.

Table 4. 4 Hypothesis Testing Results Coefficient of Determination (r2)

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.560[a]	.314	.284	6,218
a. Predictors : (Constant), Sanksi Perpajakan (X3), Tingkat Pendidikan (X2) Tax Awareness (X1)				

Source: Data Processed by the Author, 2024.

5. CONCLUSIONS
Conclusion
From the results of this research and the discussions conducted, we can summarize the key conclusions as follows:
1. Tax Awareness has a significant influence on the dependent variable of Taxpayer Compliance.
2. Tax Awareness has a significant impact on taxpayer compliance.
3. The level of education significantly affects taxpayer compliance.

4. Tax sanctions play a significant role in influencing taxpayer compliance.
5. Tax Awareness, Level of Education, and Tax Sanctions significantly influence the Taxpayer Compliance variable.

Advice
1. Future researchers should be able to use research objects from other MSME case studies with different research locations.
2. Future researchers should be able to use other independent variables outside the independent variables that can be measured in this study to show how powerful their influence is on the dependent variable used in this study.
3. Future researchers should be able to add more periods of research to improve the quality of research.

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