



EFFECT OF TAX UNDERSTANDING, TAX SANCTIONS, AND TAX RATES ON TAX COMPLIANCE WITH MSMEs

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How to Cite :

Azahra, J. A., Trisnaningsih, S. (2025). *Effect of Tax Understanding, Tax Sanctions, and Tax Rates on Tax Compliance With MSMEs.. Bima Journal : Journal of Business, Management and Accounting*, 6 (1). [671 – 682](https://doi.org/10.37638/bima.6.1.671-682). DOI: <https://doi.org/10.37638/bima.6.1.671-682>

ARTICLE HISTORY

Received [30 April 2025]

Revised [20 May 2025]

Accepted [28 June 2025]

KEYWORDS

Tax Understanding; Tax Sanctions; Tax Rates; Tax Compliance With MSMEs.

ABSTRACT

Purpose: This study analyzes the effect of tax understanding, tax sanctions, and tax rates on tax compliance among Micro, Small, and Medium Enterprises (MSMEs) in Gunung Anyar District, Indonesia. **Methodology:** A quantitative method was employed using a structured questionnaire distributed to 51 MSME actors. Multiple linear regression was conducted using SPSS 25. **Findings:** Tax understanding and tax sanctions have a positive significant effect on MSME tax compliance. Conversely, tax rates have a significant negative effect. **Results:** The model explains 52.7% of the variation in tax compliance ($R^2 = 0.527$). All classical assumptions (normality, multicollinearity, autocorrelation, heteroscedasticity) were met. **Novelty:** This research highlights compliance issues in the growing MSME sector post-implementation of reduced tax rates. **Originality:** The study integrates Theory of Planned Behavior into a taxation compliance context among MSMEs. **Conclusions:** Higher tax knowledge and sanctions improve compliance, while perceived tax burden diminishes it. **Type of Paper:** Empirical quantitative research.

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INTRODUCTION

An essential component of Indonesia's national development is its economic growth. In the first quarter of 2024, economic growth in Indonesia was 5.11% (YoY), according to Badan Pusat Statistik. Compared to the previous quarter, when it only achieved 5.04% (YoY), this represented an increase (Badan Pusat Statistik, 2024). A rise in domestic consumption brought about by the 2024 General Election (Pemilu), joint leave, and national holidays bolstered this economic expansion. Domestic consumption increased by 4.09% (YoY) as a result of these occurrences. The taxes sector is one of the key areas that supports the national economy. Law Number 6 of 1983 claimed taxes are used to fund state spending, they are a necessary communal contribution to the state without any reciprocal process.

Substantial portion of the GDP is supported by Micro, Small, and Medium-Sized Enterprises (MSMEs). MSMEs make up around 60% of the GDP, or \$8,573 trillion annually (Anastasya, 2023). By creating jobs, MSMEs actively contribute to the government's efforts to lower the unemployment rate. Up to 116 million individuals, or 97% of the workforce, can be employed by MSMEs (Anastasya, 2023). 8.71 million business units from all throughout Indonesia were MSMEs registered on the Online Single Submission (OSS) platform as of 2022 (Anastasya, 2023).

Taxes are the cornerstone of progress and a fundamental duty in governmental affairs. Given the vast number of MSME participants, the primary needs to be focused into account is the degree of tax compliance, particularly among MSMEs. Every person, including MSME players, has a responsibility to fulfill their tax rights and obligations, which includes filing taxes in line with existing legal laws.

According to Minister of Finance Sri Mulyani (2024), the tax-to-GDP ratio would only be 10.02% in 2024, down from 10.31% the year before (Catriana & Djumena, 2024). According to the Directorate General of Taxation (DGT), taxpayer compliance dropped to 85.72% in 2024 from 86.97% the previous year (Hidayat, 2025). With only 1.34 million MSMEs registered as taxpayers as of 2021, out of a total of 64.2 million MSMEs in Indonesia, the compliance rate for MSMEs remains low.

The government has taken a number of steps to improve this, including replacing PP No. 46 of 2013 regarding the 1% final income tax for MSMEs with PP No. 23 of 2018 regarding the 0.5% monthly income tax for personal and corporate taxpayers with gross circulation of ≤4.8 billion annually. This is done so that MSME players are not burdened with low rates and that each layer is treated fairly, increasing taxpayer compliance and allowing them to pay taxes to the state (Putri & Trisnaningsih, 2023).

Taxpayers are required to submit their income on the Annual Tax Return (SPT) through self-assessment system in order to satisfy their tax responsibilities. According to relevant regulations, SPT involves calculating tax payments, tax items, and assets and liabilities (Putri & Trisnaningsih, 2023). Taxpayers can individually and digitally determine, submit, and pay their tax liability through self-assessment (Maulida, 2023).

Various elements can influence taxpayer compliance: 1) internal elements, which come from within the individual and include aspects such as character and ethical principles; 2) external elements, which come from outside the individual and include factors such as the taxpayer's living environment or situation (Putri & Trisnaningsih, 2023).

Additionally, tax understanding has an effect on taxpayer compliance. The state of taxpayers' basic knowledge of tax laws, including computations and tax payments, is known as tax comprehension (Arta & Alfasadun, 2022). This knowledge of taxes may inadvertently inspire or raise taxpayers' awareness of their tax-related responsibilities (Dewi et al., 2021).

Taxpayer compliance is significantly impacted by tax sanctions. Government strategies that suppress or minimize taxpayer non-compliance are known as tax sanctions (Septriani & Yogantara, 2020). To teach taxpayer discipline to adhere to tax regulations, the tax penalties must have a deterrent effect (Siregar et al., 2024).

Taxpayer compliance may be encouraged by low tax rates. In an attempt to address the issue of MSME taxpayers failing to pay taxes on time each month, the government lowered the income tax rate from 1% to 0.5% (Wulandini & Srimindarti, 2023). Because it is equitable and not onerous for all layers, the rate determination is anticipated to boost taxpayer compliance (Mansur et al., 2022).

MSMEs especially in Surabaya City, is the main subject of this study. According to Putri and Trisnaningsih (2023), there were 60 thousand MSME players in Surabaya as of 2022. The MSME taxpayers in Gunung Anyar Subdistrict, which is renowned for its MSME sector's quick expansion, are the subject of this study. By offering a range of facilities and planning supportive events like the regular Gunung Anyar Goes to Bungkul MSME market and the Pasar Murah Ramadhan, this subdistrict helps to promote the economic expansion of MSMEs. Increasing sales for MSME firms in the area is the goal of these initiatives. The support provided by the sub-district is believed will increase the tax compliance of MSME participants.

Theory Of Planned Behavior

The primary theory in this study is TPB. According to this idea, which was first presented by Ajzen in 1991, a behavior is predicated on an organized or planned intention. According to Ajzen (1991), each person's attitudes and conduct can be influenced by a number of circumstances, such

as: 1) Behavioural Beliefs: a predisposition to behave in a way that is either favourable or unfavourable to an item, other people, occasions, or establishments; 2) Normative Beliefs: the conviction that an individual can be influenced to act by societal pressure or an understanding from outside sources; 3) Control Beliefs: These are opinions about what influences a person's behavior and an individual's assessment of how these elements influence or hinder their behavior.

Tax Understanding

A condition to understanding the tax laws and duties that can motivate tax actors to fulfill their tax responsibilities is known as tax knowledge. Tax actors that possess a basic awareness of taxation are better equipped to make decisions that adhere to tax regulations (Rosana, 2021).

Tax Sanctions

The implementation of tax sanctions serves as a preventative or control measure to reduce tax infractions. Tax actors may believe that there would be repercussions for infractions if they face onerous tax penalties that serve as a deterrent (Pratama & Mulyani, 2019).

Tax Rates

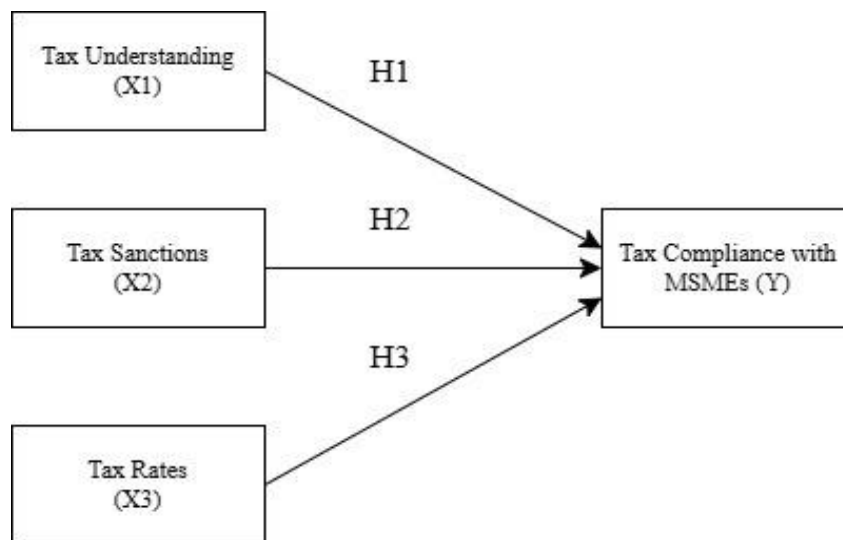
When determining the number of tax, the tax rates serves as the primary guideline to guarantee equity in estimating tax obligations (Arta & Alfasadun, 2022). According to the tax object, the tax rate is the amount or percentage that the taxpayer must complete or satisfy (Yuliyannah et al., 2020).

Msme Taxpayer Compliance

When taxpayers are aware of the need to adhere to all tax regulations, especially those pertaining to tax computation and reporting, this is referred to as taxpayer compliance (Arta & Alfasadun, 2022). This conformity also include obeying tax laws and being subservient (Sari & Rejeki, 2021). The duty of tax actors to fulfill their legal tax duties is known as taxpayer compliance (Ritonga & Poniman, 2022).

Research Hypothesis

Figure 1. Frame of Mind



Source: Author's processed data (2025)

H1: Tax understanding affects MSME taxpayer compliance.

H2: Tax sanctions affects MSME taxpayer compliance.

H3: Tax rates affects the compliance of MSME taxpayer.

METHOD

Analysis Method

As stated by Sugiyono (2018), statistical methods are implemented in this study to analyze numerical data quantitatively. The multiple linear regression technique was chosen to evaluate the independent variable impact on the dependent variable. Data analysis for this research was conducted using SPSS software version 25. This study's purpose is to evaluate the effect of tax understanding, tax sanctions, and tax rates on tax compliance MSMEs. The sample consists of 166 participating MSMEs, 51 of sample with criteria have NPWP and filed tax returns (SPT), were located in Gunung Anyar district throughout 2024. Primary sources data used in this study, acquired by sending out questionnaires with a number of questions that participants were asked to answer directly.

RESULTS AND DISCUSSION

Validity Test

Table 1 Validity Test

Variable	Indicator	r Table	r Count
Tax Understanding	1	0.276	0.688
	2	0.276	0.523
	3	0.276	0.809
	4	0.276	0.687
	5	0.276	0.613
	6	0.276	0.694
Tax Sanctions	1	0.276	0.411
	2	0.276	0.827
	3	0.276	0.848
	4	0.276	0.832
	5	0.276	0.659
Tax Rate	1	0.276	0.629
	2	0.276	0.794
	3	0.276	0.805
	4	0.276	0.698
	5	0.276	0.513
Tax Compliance MSMEs	1	0.276	0.810
	2	0.276	0.633
	3	0.276	0.762
	4	0.276	0.418
	5	0.276	0.811

Source: Authors' calculation using SPSS (2025)

From table 1, all indicators from all of the variables has r-count > r-table means valid.

Reliability Test**Table 2. Reliability Test**

Variable	Cronbach's Alpha
Tax Understanding	0.754
Tax Sanctions	0.776
Tax Rates	0.726
Tax Compliance MSMEs	0.726

Source: Authors' calculation using SPSS (2025)

According to table 2, Reliability testing via Cronbach's Alpha showed values 0.70, confirming internal consistency.

Descriptive Statistical Analysis**Table 3. Statistical Analysis**

	Minimum	Maximum	Mean
Tax Understanding	9.00	30.00	22.3529
Tax Sanctions	9.00	25.00	18.1961
Tax Rates	7.00	25.00	17.2941
Tax Compliance MSMEs	8.00	25.00	20.2549

Source: Authors' calculation using SPSS (2025)

From table 3 the results show that Descriptive Statistics The average values for tax understanding (22.35), tax sanctions (18.20), and tax compliance (20.25) indicate a relatively high level of awareness and behavior alignment among respondents. The mean score for tax rates (17.29) was lower, suggesting a moderate perception of fairness or burden.

Normality Test**Table 4. Normality Test**

One Sample Kolmogorov-Smirnov test		
		Unstandardized Residual
N		51
Normal Parameters	Mean	.0000000
	Std. Deviation	2.69216983
Most Extreme Differences	Absolute	0.068
	Positive	0.068
	Negative	-0.057
Test Statistics		0.068
Asymp. Sig. (2-Tailed)		0.200 ^d

Source: Authors' calculation using SPSS (2025)

According to table 4, the Kolmogorov-Smirnov test ($p = 0.200$) confirmed normal distribution.

Classical Assumption Test**Multicollinearity Test****Table 5. Multicollinearity Test**

Model	Colinearity Statistics Tolerance	
	Tolerance	VIF
1 (Constant)		
Tax Understanding	0.767	1.304
Tax Sanctions	0.753	1.328
Tax Rates	0.946	1.057

Source: Authors' calculation using SPSS (2025)

According to table 5, indicated that tax understanding, tax sanctions, and tax rates have a Variance Inflation Factor (VIF) ≤ 10 or tolerance ≥ 0.10 . VIF values 1.33 indicated no multicollinearity.

Autocorrelation Test

Table 6. Autocorrelation Test

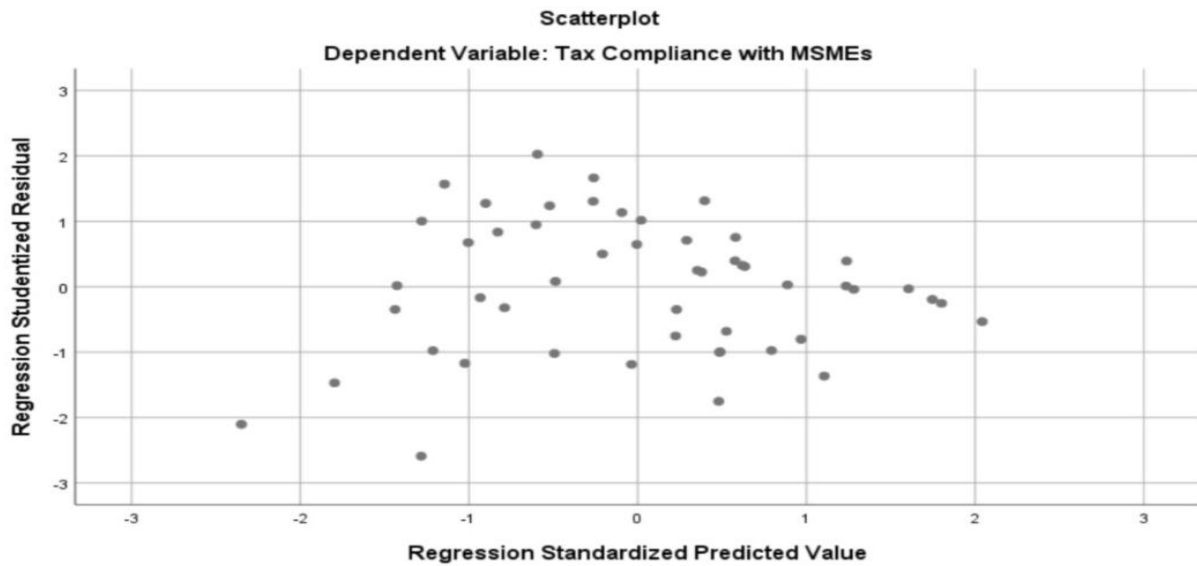
Model	Durbin-Watson
1	1.958

Source: Authors' calculation using SPSS (2025)

The table 6 indicated that Durbin-Watson (1.958), the lower limit (DL) is 1.444, the upper limit (DU) is 1.736, and we get $4-DU = 2.264$ with 51 samples and three independent variables. We may conclude that the regression model utilized is not have autocorrelation because the DW among DU and $4-DU$ ($1.736 < 1.958 < 2.264$).

Heteroscedasticity Test

Figure 2. Heteroscedasticity Test



Source: Authors' calculation using SPSS (2025)

According to Figure 1, demonstrate that the dots disperse randomly and lack pattern, a scatterplot indicated homoscedasticity.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients	
	B	
1 (Constant)	8.678	
Tax Understanding	0.424	
Tax Sanctions	0.346	
Tax Rates	-0.242	

Source: Authors' calculation using SPSS (2025)

Table 7 has equation that follows:

$$\text{Regression model: } Y = 8,678 + 0,424X_1 + 0,346X_2 - 0,243X_3 + e$$

The regression model can be understood as follows, according to the linear regression equation:

1. The constant (a) is 8.678, meaning that the dependent variable on MSME taxpayer compliance is 8.678 if the independent variables of tax understanding, tax sanctions, and tax rates have a value of 0.
The dependent variable of taxpayer compliance MSME has not been impacted by the independent variables of tax understanding, tax penalties, and tax rates, according to the constant value (a) of 8.678.
2. The tax understanding variable regression coefficient value is 0.424, meaning that a 0.424 increase in taxpayer understanding will result in a 0.424 rise in MSME taxpayer compliance. This coefficient value shows that taxpayer compliance is impacted by tax understanding.
3. The tax sanction variable regression coefficient value of 0.346, meaning that an increase in tax sanctions will result in a 0.346 rise in MSME taxpayer compliance. This coefficient value shows that taxpayer compliance is impacted by tax sanctions.
4. The regression coefficient value for the tax rate variable is -0.242, indicating that MSME taxpayers will comply with tax rates at a rate that is 0.242% lower if they are increased. The effect of tax rates on taxpayer compliance is demonstrated by this coefficient value.

F test

Table 8. F Test

Model	F	Sig.
1	19.597	0.000 ^b

Source: Authors' calculation using SPSS (2025)

Table 8 indicate that All variables significantly influenced tax compliance (p 0.05).

t Test

Table 9. t Test

Model	t	Sig.
1 (Constant)	3.694	0.001
Tax Understanding	4.541	0.000
Tax Sanctions	3.353	0.002
Tax Rates	-2.616	0.012

Source: Authors' calculation using SPSS (2025)

Based on table 9, the results test conducted are:

1. With a chance of 0.000 smaller than 0.05 and a tcount value of 4.541 from the Tax Understanding variable, H1 is deemed to be valid and to have a moderately significant positive impact on taxpayer compliance MSME.
2. With a probability of 0.002 < 0.05 and a tcount of 3.353, the Tax Sanctions variable supports H1, indicating that it has a somewhat significant positive impact on taxpayer compliance MSME.
3. The Tax Rate variable yields a tcount of -2.616 with a probability of 0.012 < 0.05, indicating that H1 is approved and that taxpayer compliance MSME is negatively impacted by tax rates.

R²Test

Table 10. R² Test

Model	R square	Adjusted R Square
1	0.556	0.527

Source: Authors' calculation using SPSS (2025)

Table 10's indicate that the $R^2 = 0.527$, means 52.7% of the variance in MSME tax compliance. Additionally, additional variables or circumstances that were not analyzed also have an impact on the remaining 47.3% value.

DISCUSSION

The Effect of Tax Understanding on Taxpayer Compliance MSMEs

People who possess a fundamental understanding of tax laws and procedures are said to have tax understanding. Theory of Planned Behavior explains tax knowledge is disclosed by behavioral views, specifically personal attitudes that will affect an individual's motivation to act or behave since he is aware of the outcomes or repercussions of his actions. Having a sufficient awareness of taxes helps motivate people to adhere to tax regulations.

Strongly and positively influences compliance ($t = 4.541$, $p = 0.001$). This supports the Theory of Planned Behavior (TPB), as greater knowledge increases behavioral intention. Supported by Dewi et al. (2021), Arta Alfasadun (2022), and Siregar et al. (2024).

The Effect of Tax Sanctions on Taxpayer Compliance MSMEs

Tax sanctions purpose is to deter taxpayers from breaching the law. Tax Sanctions and Control Behavior are related. The impression that there will be penalties or repercussions for tax infractions committed can be created by tax penalties that are onerous and have a deterrent impact for discipline.

Significant positive effect ($t = 3.353$, $p = 0.002$), in line with TPB's control beliefs. Supports findings by Wulandini Srimindarti (2023) and Septriani Yogantara (2020).

The Effect of Tax Rates on Taxpayer Compliance MSMEs

The tax rate serves as a guideline for figuring out the percentage or nominal amount of the tax that the taxpayer is responsible for. Tax rates demonstrate how social pressure influences behavior through normative views. Fair and unburdensome tax rates can encourage taxpayers to fulfill the tax laws, increasing the degree of taxpayer compliance.

Showed a significant negative effect ($t = -2.616$, $p = 0.012$). Indicates that perceived high tax rates reduce compliance. Supported by Dewi et al. (2021), yet not aligned with Putri Trisnangsih (2023).

CONCLUSION

Conclusions that based on the findings of the study that the researcher has conducted and detailed in the preceding chapter:

1. Higher tax understanding significantly improves MSME tax compliance.
2. Stronger tax sanctions deter non-compliance and promote adherence.
3. Higher tax rates negatively affect compliance, implying that perceived fairness is key.

Implication

The policy implications of the results of this study include three main points.

1. The need to increase tax education for MSME players through training, socialization, and the use of digital media to increase tax understanding and awareness.
2. Adjustments to tax rates more fair and proportional so as not to burden taxpayers and embolden compliance through a more positive perception of the tax system.
3. Stricter but transparent law enforcement, with data-based supervision and consistent sanctions to create a deterrent effect without reducing taxpayers' trust in tax authorities.

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