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The Power of Tax Knowledge: Key Factors to Boost Tax Compliance

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ABSTRACT
Taxes are the primary source of state revenue in Indonesia today. The government has made various efforts to increase tax revenues. Unfortunately, Indonesia's tax compliance remains low, as evidenced by its relatively low tax ratio compared to other Asian countries. One intrinsic factor influencing tax compliance is tax morale, which is shaped by an individual's understanding of taxation and their perception of the tax system. This study examines whether a person's tax understanding affects their compliance. Using a quantitative approach and focusing on MSME actors in Cianjur Regency, the research reveals a positive and significant relationship between tax understanding and tax compliance. Notably, the study identifies three main factors that influence a person's understanding of taxes: knowledge of the importance of having role models in tax administration, awareness of the significance of transparency in tax management, and understanding of tax systems that are free from corruption. These findings are novel because they highlight the critical role of comprehensive tax education in fostering higher tax morale and compliance levels among MSMEs. This study contributes to the literature by offering insights into how improved understanding of taxation, supported by ethical and transparent practices, can lead to better tax compliance, particularly in the digital era.

A. INTRODUCTION

Tax is the cornerstone of a nation's economy and the primary source of state revenue in Indonesia (Appiah et al., 2024; Fauziati et al., 2016). In 2022, the country collected IDR 2,034.54 trillion in tax revenue, comprising approximately 97.77% of the state budget. This highlights the crucial role of taxation in financing public expenditures and driving national development. However, despite their importance, Indonesia continues to face significant challenges in achieving optimal tax compliance. One persistent issue is the country's relatively low tax ratio, which reflects the effectiveness of tax collection relative to GDP. Over the past five years, Indonesia's tax ratio has consistently lagged behind those of other ASEAN nations, indicating a need for targeted reforms to address systemic gaps and cultivate a stronger culture of compliance (Appiah et al., 2024; Mansur et al., 2021).

Understanding taxation is a critical factor in boosting tax compliance. A lack of awareness and comprehension of tax obligations often results in low compliance levels among taxpayers (Al-Ttaffi et al., 2020; Ghani et al., 2020; Hien et al., 2025; Manual & Xin, 2016; Mei Tan & Chin‑Fatt, 2000; Mir Djawadi & Fahr, 2021; Oladipo et al., 2022). Research consistently

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highlights that a person's knowledge of tax systems and obligations significantly influences their willingness to comply (Al-Ttaffi et al., 2020; Appiah et al., 2024; Hien et al., 2025; Mukhlis et al., 2015; Oladipo et al., 2022; Oladipupo & Obazee, 2016; Ummah, 2012). This is particularly true for Micro, Small, and Medium Enterprises (MSMEs), which play a vital role in Indonesia's economy. Better tax understanding among MSME operators can lead to better compliance rates and, ultimately, greater contributions to national revenue (Hien et al., 2025; Mukhlis et al., 2015; Oladipo et al., 2022; Ummah, 2012). This study, therefore, focuses on examining how tax understanding impacts compliance among MSMEs in Indonesia.

The study begins by examining the perceptions of MSME managers regarding their understanding of and compliance with taxes. This aspect aims to uncover how their knowledge- or lack thereof-affects their behavior in fulfilling tax obligations. By analyzing these perceptions, the study aims to identify the specific challenges that MSMEs face in comprehending the tax system, including information gaps and misunderstandings about tax regulations. This analysis also provides a foundation for developing tailored interventions that effectively address these challenges.

Next, the study investigates the direct impact of tax understanding on MSME compliance. It examines whether enhanced tax knowledge positively correlates with higher compliance rates. By analyzing this relationship, the research aims to assess the impact of knowledge gaps on non-compliance and examine how addressing these gaps can lead to behavioral change. It underscores the importance of targeted education and awareness programs as a strategic approach to fostering better compliance among MSMEs.

Finally, the study focuses on developing a comprehensive compliance improvement model based on key indicators of tax understanding. These include awareness of the role of exemplary figures in tax administration, the importance of transparency in tax management, and the need for corruption-free tax practices. This model aims to offer implementable recommendations for policymakers and tax authorities, equipping them with effective tools to improve tax compliance. By achieving its objectives, the study contributes to supporting Indonesia's tax system and fostering a culture of compliance among MSMEs, ultimately strengthening the country's economic foundation.

B. LITERATURE REVIEW

Tax Understanding

Understanding refers to the process of comprehending or making something understood (Budi & Lubis, 2018; Mansur et al., 2021; Yu & McCluskey, 2020). Sania & Yudianto (2018) and Yu & McCluskey (2020) highlight it as the ability to grasp meaning and significance. In taxation, understanding involves learning tax laws, procedures, and tasks like tax payments and filing annual tax returns (Al-Ttaffi et al., 2020; Appiah et al., 2024; Fauziati et al., 2016; Ghani et al., 2020; Hien et al., 2025; Manual & Xin, 2016; Mei Tan & Chin-Fatt, 2000; Mir Djawadi & Fahr, 2021; Mukhlis et al., 2015; Oladipo et al., 2022; Oladipupo & Obazee, 2016; Palil, 2010; Saad, 2014; Ummah, 2012). Mansur et al. (2021) state that a solid understanding of taxation enhances compliance. Rahayu (2010) identifies key indicators for understanding tax regulations, such as knowledge of tax provisions, Indonesia's taxation system, and the purpose of taxation. Tax regulations, as outlined in Law No. 6 of 1983 (as amended by Law No. 16 of 2009), emphasize the rights and duties of taxpayers, including the requirement to obtain a Taxpayer Identification Number (NPWP) and adhere to specific filing procedures. Indonesia's self-assessment system promotes voluntary compliance, while taxation serves both budgetary and regulatory functions (Rahayu, 2010). Comprehensive tax education is crucial for promoting compliance and achieving fiscal objectives.

Tax Compliance

Tax compliance is the fulfilment of tax obligations and the exercise of tax rights appropriately (Al-Ttaffi et al., 2020; Appiah et al., 2024; Hien et al., 2025; Oladipo et al., 2022; Saad, 2014). Hien et al (2025) and Sania & Yudianto (2018) identifies indicators of compliance, including registration, timely submission of tax returns, and accurate calculation and payment of tax liabilities. Oladipo et al.(2022) and Oladipupo & Obazee (2016) emphasizes compliance as understanding tax laws, completing forms accurately, and paying taxes promptly. Appiah et al. (2024) and Budi & Lubis (2018) distinguishes between formal and material compliance. Formal compliance involves meeting legal obligations, such as the timely submission of returns, regardless of accuracy. Material compliance requires honest, accurate, and comprehensive obedience to substantive tax requirements. Research on tax compliance remains limited due to respondents' reluctance and inherent taxpayer resistance to taxes, which often leads to non-compliance through underreporting or income concealment. True compliance integrates registration, accurate tax reporting, and payment, aligned with both legal formalities and substantive honesty. A transparent, supportive environment is essential for fostering compliance and reducing tax evasion (Al-Ttaffi et al., 2020; Appiah et al., 2024; Palil, Mohd & Mustapha, 2011; Sania & Yudianto, 2018)

C. METHOD

The method used in this research is a quantitative approach, employing frequency analysis for descriptive purposes, as well as Pearson correlation and ANOVA for regression analysis and hypothesis testing. To support and strengthen the analysis, interviews were conducted with several relevant respondents. The research population includes all MSME managers in Cianjur Regency, totalling approximately 19,368 individuals. The sample size was determined using the Slovin formula, yielding a minimum requirement of 100 respondents, which was met with 110 participants surveyed. A random sampling technique was employed, ensuring equal representation opportunities for all elements in the population. Data collection was conducted through a survey using a structured questionnaire as the primary instrument, with additional interviews providing supporting data. The questionnaire adopted a Likert scale ranging from "Strongly Disagree" to "Strongly Agree." The collected data were processed using SPSS version 25 to derive respondent characteristics and perceptions regarding tax understanding and compliance.

Both descriptive and verifiable analyses were performed. Descriptive analysis concentrated on frequency measurements expressed as percentages to give a general picture of the degree of agreement with the variables' indicators. The verificative analysis examined the influence of tax understanding on compliance, testing the hypothesis: Tax understanding significantly affects tax compliance. The steps involved regression analysis, where tax understanding was treated as the independent variable and tax compliance as the dependent variable. Pearson Correlation and ANOVA were utilized to examine the relationship between the two variables. Hypothesis testing was conducted via the t-test, and determination analysis was performed using the F-test. These methods aimed to elaborate on the impact of tax understanding on compliance. To further enrich the findings, Focus Group Discussions (FGDs) were conducted with relevant stakeholders. This qualitative method provided more profound insights into the relationship between the variables and validated the quantitative results. By combining these approaches, the study aimed to develop a comprehensive understanding of how MSME managers' tax knowledge affects their tax compliance and formulate strategies to enhance obedience to tax regulations.

D. RESULT AND DISCUSSION

In this section, the results and discussion are presented as a unified whole, rather than being presented separately. Each result is then discussed. In-depth analysis of the existing findings is conducted by descriptive and verificative analysis.

Descriptive Analysis
Tax Understanding of respondents

From the perspective of tax understanding, the results are presented descriptively in the following table:

Table 1. Results of descriptive analysis in the aspect of tax understanding of respondents

No	Statement	Percentage of agreement
1.	Understand the regulations regarding tax sanctions	49.1
2.	Understand tax service regulations	53.7
3.	Understand the willingness to comply with tax requirements	52.7
4.	Understand the rewards for diligent taxpayers with reduced penalties or other incentives, could enhance tax compliance	51.8
5.	Understand the need for tangible evidence and transparency in the use of tax funds	64.5
6.	Understand the absence of tax corruption	71.9
7.	Understand the importance of role model in fulfilling tax obligations	62.8

According to Table 1, the study found that only 49.1% of respondents fully understand the regulations regarding tax sanctions, revealing a significant knowledge gap. This issue is particularly prominent among Micro, Small, and Medium Enterprises (UMKM) owners. Despite having a Taxpayer Identification Number (NPWP), many of these business owners lack a comprehensive understanding of their tax obligations and the potential penalties for non-compliance. This knowledge gap not only obstructs their ability to file taxes correctly but also reduces their overall tax compliance. As a result, these businesses may face future complications, such as fines or legal issues, due to their insufficient understanding of tax regulations. The findings underscore the importance of enhancing education and outreach on tax responsibilities, particularly for small business owners, to ensure proper compliance and prevent potential legal and financial consequences.

One reason for the lack of understanding is the insufficient socialization and training provided by local authorities and the Directorate General of Tax (DJP) regarding NPWP and tax obligations. Many MSME owners in Cianjur, where the study was conducted, have low educational backgrounds, which makes it challenging for them to comprehend complex tax regulations. This lack of knowledge contributes to difficulties in fulfilling tax responsibilities, further hindering tax compliance. To address this issue, local governments and tax authorities must intensify their efforts to educate and inform business owners about their tax obligations. This can include organizing training sessions, providing clear and concise materials, and conducting outreach programs to ensure that MSME owners, particularly those with limited education, are better equipped to navigate the tax system. By improving access to information and resources, tax compliance among small business owners can be significantly enhanced.

The study also revealed that although over half of the respondents (53.7%) understand tax service regulations, logistical challenges prevent many MSME owners from meeting their tax obligations. One key issue is the distance between Tax Service Offices (KPP) and business centres, making it difficult for business owners to access necessary services. Additionally, long wait times at these offices discourage many from fulfilling their reporting duties. This often

results in delayed tax filings, increasing the risk of fines or criminal penalties. The combination of geographical barriers and time constraints further exacerbates the compliance problem, particularly for MSME owners with limited resources. To address this, local governments and tax authorities should consider improving the accessibility of tax services. This could include mobile tax units, online reporting platforms, or establishing more KPP branches closer to business hubs to streamline the process and encourage timely tax compliance.

Despite being aware of digital tools such as e-filing and e-billing, many UMKM SME owners in Cianjur are not utilizing them effectively. Limited access to technology is one of the main barriers, as some business owners lack the necessary devices or internet connectivity to utilize these digital systems. Additionally, the lack of proper training further hinders their ability to fully utilize these systems. As a result, many continue to rely on traditional methods for tax reporting, which can be time-consuming and error-prone. The underutilization of e-filing and e-billing systems prevents these business owners from experiencing the potential benefits of a more streamlined and efficient tax reporting process. To overcome these challenges, local authorities and tax agencies should prioritize providing digital literacy training and improving access to technology, ensuring MSME owners are equipped to use these tools effectively and comply with their tax obligations more easily.

Tax morale in Cianjur is relatively strong, with 52.7% of respondents demonstrating a willingness to comply with tax requirements. However, many still face difficulties in understanding and navigating tax procedures and calculations. Despite this, their overall intent to comply is evident. A significant barrier to full compliance, however, is the widespread scepticism regarding the effective use of tax funds. Many respondents express distrust in how tax revenues are allocated, citing concerns over corruption and mismanagement. This scepticism decreases their willingness to pay taxes, as they question whether the funds are being used for public benefit. To enhance tax compliance and trust, tax authorities must improve transparency in the allocation and use of tax funds. Clear, accessible information about how tax revenues are spent can help rebuild public confidence and encourage greater tax compliance among the population.

A more differentiated tax system, which rewards obedient taxpayers with reduced penalties or other incentives, could enhance tax compliance. Research shows that 51.8% of respondents support this approach, believing it would encourage timely and accurate reporting while deterring non-compliance. By offering benefits for consistent tax behaviour, such a system could motivate taxpayers to fulfil their obligations, as they would feel recognized for their efforts. Additionally, these measures could help tax authorities identify and target tax evaders more effectively, improving overall compliance. A modified system would create a fairer tax environment, where those who adhere to the rules are rewarded, while those who evade taxes face consequences. This approach not only provides incentives for tax compliance but also strengthens the public's trust in the tax system, ensuring that resources are allocated more efficiently. Ultimately, a more balanced and transparent system could foster greater voluntary compliance among taxpayers.

Transparency in the allocation and utilization of tax revenues is crucial for fostering public trust, particularly among MSME owners. In Cianjur, 64.5% of respondents understand the need for tangible evidence and transparency in the use of tax funds. When taxpayers understand how their contributions are used, they are more likely to comply with tax obligations. Regular and detailed reports on tax fund allocation, available to the public, would ensure that taxpayers are informed about how their money is being managed. Additionally, strong oversight by institutions such as the Financial and Development Supervisory Agency (BPKP) and the Audit Board of Indonesia (BPK) would enhance accountability. These measures would help prevent misuse of funds and foster a sense of fairness. Increased transparency can also alleviate

scepticism about corruption in the system, thereby improving tax morale and encouraging better compliance among MSME owners and the broader taxpayer population.

The public in Cianjur strongly desires greater protection against corruption, with 71.9% of respondents understanding the importance of tax corruption in relation to tax revenue. It means they seek assurances that their tax payments are used effectively for public welfare. This concern highlights the importance of transparency and accountability in the tax system. To meet these expectations, mechanisms such as real-time tracking of tax fund usage and independent audits by trusted bodies, including the Audit Board of Indonesia (BPK) and the Financial and Development Supervisory Agency (BPKP), are crucial. These measures would provide taxpayers with clear and accessible information on how their contributions are spent, thereby reducing doubts about mismanagement or corruption. When taxpayers see that their funds are being managed efficiently and responsibly, they are more likely to comply with tax regulations. Strengthening these transparency and accountability systems not only builds trust but also encourages higher compliance rates, fostering a fairer and more effective tax environment for all.

Finally, the respondents understand the importance of a role model in fulfilling tax obligations (62.8%). State Civil Apparatus (ASN) plays a crucial role in promoting tax compliance by giving an example (role model) for the public. When ASN fulfils its tax obligations properly, it demonstrates that tax compliance is not only important but also beneficial for society. This serves as a model for the broader community, encouraging others to follow suit. ASN's tax compliance can have a ripple effect, particularly when it is consistently monitored and enforced through audits and sanctions. The visible commitment of ASN to their tax duties can help change public perceptions, making tax compliance seem more like a shared responsibility. Additionally, ASN's compliance with tax laws can boost the legitimacy of tax policies, showing that the system applies equally to all citizens. By strengthening ASN's role as a leading role model, it is possible to foster a culture of tax compliance that encourages wider society's tax morale.

Tax Compliance of respondents

From the perspective of tax compliance, the results are presented descriptively in the following table:

Table 2. Results of Descriptive Analysis in the Aspect of Tax Compliance of Respondents

No	Statement	Percentage of agreement
1.	Having voluntarily registered for a taxpayer Identification Number (NPWP)	66.3
2.	Maintaining proper transaction records	60.9
3.	Regularly maintaining an income bookkeeping	56.4
4.	Completing the Annual Tax Return (SPT)	57.3
5.	Reporting the taxes monthly	55.4
6.	Tax reporting practices involve correctly completing tax forms	60.9
7.	Actively calculating the income for tax payment purposes	50.0
8.	Accurately reporting the income	59.1
9.	Applying the correct tax rate when calculating their tax obligations	53.7

According to Table 2, recent research indicates that 66.3% of respondents in Indonesia have voluntarily registered for a Taxpayer Identification Number (NPWP), reflecting an increasing public awareness and commitment to tax compliance. This proactive step

demonstrates a growing understanding of the benefits and responsibilities associated with NPWP registration, including access to government services and contributions to state development. Taxes remain the primary source of national revenue, funding essential infrastructure, public services, and economic growth. Encouraging a deeper understanding of tax obligations among citizens is crucial to fostering a robust culture of compliance. A strong tax culture not only enhances revenue collection but also promotes fairness and trust in the tax system. Efforts to sustain and increase this trend should include targeted educational campaigns and modified registration processes. By doing so, Indonesia can further strengthen its economic stability, ensuring that tax compliance becomes a shared responsibility and a cornerstone of national development.

Many Small and Medium Enterprises (SMEs) in Cianjur, Indonesia, lack a full understanding of the significance of a Taxpayer Identification Number (NPWP). For many, NPWP is seen merely as a requirement for permits or loans, rather than a vital component of tax compliance. This limited comprehension can lead to improper tax reporting, exposing business owners to potential penalties and legal consequences. Proper knowledge of NPWP's purpose—facilitating accurate tax submissions and fostering compliance—is essential for SMEs to fulfil their obligations effectively. The lack of awareness stems from inadequate education and outreach by tax authorities, leaving many business owners ill-equipped to manage their tax responsibilities. To address this, targeted educational programs are crucial. By highlighting NPWP's role in ensuring legal compliance and its broader benefits, these initiatives can help MSMEs submit their taxes on time and accurately, thereby contributing to a fairer and more efficient tax system.

A study in Cianjur highlights that 60.9% of MSMEs maintain proper transaction records, while 39.1% still lack adequate bookkeeping practices. This significant gap underscores the inadequate application of fundamental accounting principles, which are essential for the growth and sustainability of any business. In addition to helping business owners evaluate their financial performance, accurate record-keeping also enables them to make well-informed choices about resource allocation, expenditures, and investments. Additionally, maintaining accurate records is crucial for ensuring compliance with tax obligations. MSMEs with poor bookkeeping practices face challenges in accurately calculating and reporting taxes, which increases the risk of errors, penalties, and non-compliance. To address this issue, it is crucial to provide training and resources that emphasize the importance of basic accounting principles. Accessible tools, such as simplified bookkeeping software, can empower SMEs to enhance their financial management, fostering a culture of accountability and thereby increasing their economic contributions.

The study also reveals that only 56.4% of MSMEs in Cianjur regularly maintain income bookkeeping, highlighting a critical gap in financial management practices among small business owners. Accurate income tracking is essential for effective cash flow management, enabling businesses to monitor their earnings, plan expenses, and allocate resources more efficiently. Without proper bookkeeping, SMEs may struggle to accurately assess their financial health, which can hinder their growth and sustainability. Moreover, meticulous income records are crucial for calculating taxes accurately, as they form the foundation for determining taxable income and fulfilling reporting requirements. A lack of proper income tracking increases the risk of errors in tax submissions, which can lead to potential penalties, audits, or disputes with tax authorities. To address this issue, business owners require accessible training programs and user-friendly tools that simplify bookkeeping processes, enabling them to meet both financial and tax obligations effectively while fostering long-term business success.

The study highlights that only 57.3% of respondents complete their Annual Tax Return (SPT), underscoring significant challenges related to information gaps and procedural

understanding among MSMEs in Cianjur. This low compliance rate suggests that many business owners struggle to navigate the complexities of tax calculations and SPT filing. Factors such as limited knowledge of tax regulations, inadequate guidance on filing processes, and fear of making mistakes contribute to this issue. Furthermore, misconceptions about the importance of timely and accurate tax submissions exacerbate the problem, potentially leading to penalties, legal disputes, or loss of trust with tax authorities. Many MSMEs have expressed a strong need for ongoing education on tax obligations, with a particular focus on practical training for SPT calculations and step-by-step filing procedures. Addressing these gaps through targeted workshops, accessible online resources, and one-on-one assistance from tax officers can significantly improve compliance, reduce errors, and foster a culture of accountability and responsibility among taxpayers.

The study reveals that 55.4% of MSMEs in Cianjur report their taxes monthly, reflecting a positive trend in awareness of regular tax obligations. This indicates progress in understanding the importance of consistent compliance for both business operations and national revenue. However, the remaining SMEs face significant challenges, particularly in navigating the complex and often technical tax regulations. Many business owners lack the financial literacy necessary to interpret these rules correctly, resulting in delays, inaccuracies, or even non-compliance in tax submissions. The procedural intricacies of monthly reporting, combined with the limited availability of accessible resources and training, further exacerbate this issue. To address these challenges, there is a pressing need for targeted interventions such as workshops, user-friendly tax software, and direct support from local tax offices. Enhancing SME owners' knowledge and confidence in handling tax obligations can ensure more timely and accurate submissions, ultimately benefiting both businesses and the broader economy.

Approximately 60.9% of respondents demonstrate strong tax reporting practices by correctly completing tax forms, indicating a growing comprehension of tax requirements among MSMEs in Cianjur. This positive trend reflects the effectiveness of various educational initiatives and outreach programs aimed at improving tax awareness. These programs, often conducted by the Directorate General of Taxes (DJP) and local government agencies, have likely contributed to this progress by providing MSMEs with essential knowledge about tax regulations and reporting procedures. However, the data also suggests that a significant portion of respondents—nearly 40%—still face challenges in accurately completing their tax forms. This highlights a persistent gap in understanding that requires continued efforts in education and training. Expanding access to user-friendly resources, such as simplified guides and digital platforms for tax reporting, could further enhance compliance. Strengthening these efforts is crucial to ensuring that all MSMEs are equipped to fulfil their tax obligations effectively and contribute to national revenue growth.

The research reveals that 50% of respondents actively calculate their income for tax payment purposes, indicating a growing understanding of their tax obligations. This practice reflects an awareness of the importance of maintaining systematic financial records, which serve as the foundation for accurate tax calculations. Proper income calculations not only ensure compliance with tax regulations but also help MSMEs avoid penalties resulting from errors or discrepancies in reporting. However, the fact that half of the respondents do not yet calculate their income for tax purposes points to a significant gap in knowledge and practices. This disparity underscores the need for specialized training courses that focus on fundamental accounting and personal finance management skills. Providing MSMEs with easily accessible resources, such as tax computation templates or streamlined bookkeeping software, could further assist them in fulfilling their tax responsibilities. Bridging this knowledge gap is critical to promoting a culture of compliance and supporting the growth and sustainability of MSMEs.

Furthermore, 59.1% of respondents accurately report their income, reflecting a growing commitment to transparency and honesty in fulfilling tax obligations. This practice is essential

for maintaining compliance with tax regulations, as accurate income reporting not only fulfils legal requirements but also minimizes the risk of audits, penalties, or other legal consequences. Accurate reporting also fosters trust with tax authorities, which can lead to a more cooperative relationship and potential benefits, such as smoother processes for obtaining permits or accessing government programs. However, the remaining 40.9% of respondents who struggle with accurate reporting highlight the need for additional support and education. Providing clear guidelines and practical training on income reporting, along with access to simplified reporting tools, can help bridge this gap. By addressing these challenges, MSMEs can better align their practices with tax regulations, ensuring both compliance and long-term financial sustainability.

Lastly, the study reveals that 53.7% of respondents successfully apply the correct tax rate when calculating their tax obligations, reflecting a significant step toward improving accuracy and compliance. A proper understanding and application of tax rates is crucial for ensuring that tax payments are neither underestimated nor overestimated, thereby fostering trust between taxpayers and the authorities. However, the findings also indicate that nearly half of the respondents still struggle with this aspect, pointing to persistent knowledge gaps within the MSME sector. These challenges underscore the importance of ongoing education and targeted support in enhancing taxpayers' understanding of tax rates and their applications. Regular training programs, simplified tax guides, and proactive communication from tax authorities can effectively address these gaps. By equipping MSMEs with the necessary knowledge and tools, compliance can be significantly improved, reducing errors and penalties while supporting a healthier and more transparent tax ecosystem.

Verificative Analysis

Based on the results of the descriptive analysis, a subsequent verification analysis was conducted to determine whether the variable of Tax Understanding (independent variable) plays a significant role in influencing Tax Compliance (dependent variable). The verification analysis included several essential tests to validate the relationship between these two variables. First, classical assumption tests such as validity and reliability tests were carried out to ensure that the data were consistent and could be trusted for further analysis. Following this, a normality test was conducted to determine whether the data distribution met the assumptions required for parametric tests. Pearson's Correlation test was used to measure the strength and direction of the relationship between Tax Understanding and Tax Compliance. A simple linear regression analysis was performed to model the relationship and assess the extent to which Tax Understanding predicts Tax Compliance, followed by an ANOVA test to evaluate the overall significance of the regression model. Hypothesis testing was done using a t-test to determine whether the effect of Tax Understanding on Tax Compliance was statistically significant. Lastly, the determination coefficient (R-squared) was examined through an F-test to quantify the proportion of variance in Tax Compliance explained by Tax Understanding. These analyses collectively demonstrated the critical role of Tax Understanding in influencing Tax Compliance.

Regression Analysis

Regression analysis is conducted by using Pearson Correlation and the ANOVA test. Pearson Correlation is used to determine whether there is a relationship between two variables and the strength of that relationship. Meanwhile, ANOVA is used to examine the direction of the relationship between the two variables, whether positive or negative, as well as the equation of the relationship between them.

The Pearson correlation test yields a value of 0.819, indicating a strong correlation between Tax Understanding and Tax Compliance. This result suggests that as individuals' understanding of tax regulations improves, their level of tax compliance is likely to increase as well. A high

correlation coefficient like 0.819 reflects a significant relationship between the two variables, meaning that variations in one variable (Tax Understanding) are strongly associated with changes in the other variable (Tax Compliance). However, it is important to note that correlation does not imply causation. Although there is a large correlation between tax comprehension and compliance, this does not imply that more comprehension leads to increased compliance. Both variables may also be influenced by other external factors, such as socioeconomic position, governmental policies, educational initiatives, or even cultural perspectives on taxes. Additionally, the possibility of reverse causality, where better compliance could lead to an increased understanding of tax regulations, should not be overlooked. Therefore, while the Pearson Correlation test highlights a meaningful relationship between Tax Understanding and Tax Compliance, further investigation through more complex models, such as regression analysis, is needed to establish a clearer causal link between these variables.

Whereas, the result of ANOVA indicated that the two variables—Tax Understanding and Tax Compliance—are positively correlated. The analysis revealed that an increase in Tax Understanding (X) is associated with a corresponding increase in Tax Compliance (Y). The regression equation $Y = 17.762 + 1.375X$ further supports this finding, indicating that for every unit increase in Tax Understanding, there is a 1.375 unit increase in Tax Compliance. This suggests a strong positive relationship between the two variables, where a better understanding of tax regulations directly contributes to improved tax compliance. The positive regression coefficient (1.375) reflects the extent of the impact, emphasizing that the more individuals comprehend the nuances of tax obligations, the more likely they are to comply with them. The constant value of 17.762 suggests that even without Tax Understanding, there is a baseline level of Tax Compliance, which could be due to factors such as general awareness or basic legal requirements. This regression equation also implies that efforts to enhance tax education and awareness could lead to substantial improvements in compliance levels. Therefore, strengthening tax education and outreach programs could be key strategies for boosting compliance rates and ensuring the sustainability of tax revenue.

Hypothesis Testing

The t-test result yielded a significance level (Sig) of 0.00, which is well below the 0.05 threshold, thereby supporting the hypothesis that Tax Understanding significantly affects Tax Compliance. A significance value of less than 0.05 indicates that the relationship observed between the two variables is statistically significant, and the likelihood that this result occurred by chance is very low. This supports the claim that a rise in tax compliance is closely correlated with a rise in tax understanding. The significance of this finding underscores the importance of enhancing taxpayers' understanding of tax regulations, as it can play a crucial role in promoting adherence to tax obligations. If taxpayers are better equipped with knowledge about tax rules, procedures, and the consequences of non-compliance, they are more likely to fulfil their tax responsibilities accurately and on time. This also suggests that tax authorities should prioritize educational initiatives, training programs, and awareness campaigns to enhance taxpayers' understanding, especially for small and medium-sized enterprises (SMEs) that may face challenges in grasping complex tax matters. The empirical evidence from this t-test reinforces the notion that tax education should be a key policy focus for increasing tax compliance rates and fostering a culture of accountability and transparency in the tax system.

Determination Analysis

The F-test yielded an R-square value of 0.67, indicating that Tax Understanding accounts for 67% of the variance in Tax Compliance. This suggests that a significant portion of the

variation in compliance can be explained by the level of understanding taxpayers have about tax regulations. However, the remaining 33% of the variance is influenced by other factors, including economic conditions, enforcement mechanisms, and external influences such as the perceived fairness of the tax system. This relatively high R-square value highlights the importance of Tax Understanding as a key driver of compliance, but it also emphasizes that improving compliance requires addressing other factors beyond knowledge alone. Interestingly, the contribution of Tax Understanding, while notable, remains relatively small, aligning with findings from interviews that suggest limited socialization and educational outreach from tax authorities are major factors hindering widespread understanding. The lack of effective communication and guidance on tax obligations could be a key reason why a substantial portion of the population, particularly small and medium-sized enterprises (SMEs), continues to struggle with tax compliance despite having some basic understanding. These findings underscore the need for more robust socialization efforts and targeted educational initiatives to further bridge the knowledge gap in taxation and improve compliance outcomes.

The descriptive analysis successfully identified key indicators in tax understanding that can enhance taxpayer compliance. These indicators include: 1) knowledge of modern tax administration systems, 2) knowledge of tax morality, and 3) knowledge of being a role model in fulfilling all tax obligations. These indicators were identified as weak points that present a "real potential" for improving tax understanding. The reasoning behind this is that if these indicators are strengthened, taxpayer compliance would likely increase. Understanding modern tax administration systems is essential, as it helps taxpayers navigate the tax system's complexities effectively, thereby reducing reporting errors. A sense of civic duty is fostered by the second indication, awareness of tax morality, which highlights the moral obligation to pay taxes for the common good. Lastly, the third indicator focuses on role modelling, where taxpayers who comply set an example for others, creating a culture of compliance. The verification analysis's findings indicate that these and other indicators significantly affect taxpayer compliance statistically. Strengthening these indicators could significantly improve tax knowledge and, ultimately, compliance rates, offering a clear pathway for policymakers and tax authorities to focus their educational and socialization efforts.

Therefore, this study highlights these three indicators as novel elements in enhancing tax understanding. Strengthening these indicators is crucial for improving tax compliance. The research emphasizes that by focusing on these areas—knowledge of modern tax administration systems, tax morale, and setting an example through role modelling—taxpayer compliance could be significantly improved. For instance, improving knowledge of modern tax systems helps taxpayers become more familiar with digital tools and the processes involved in filing taxes, which reduces the likelihood of mistakes and late filings. Educating taxpayers on tax morale encourages a deeper sense of responsibility, aligning personal and national interests. Meanwhile, promoting role modelling can create a culture of compliance, as individuals see the benefits of tax payment through others' examples. The study's findings suggest that these indicators, if enhanced through targeted interventions such as workshops, awareness campaigns, and practical training, will lead to improved tax compliance. The proposed model, as a novel study, demonstrates that with necessary improvements in these areas, the overall level of tax understanding can be enhanced, which in turn directly correlates with increased compliance. This highlights the importance of focusing on these specific indicators as part of broader efforts to optimize tax administration and foster a more obedient taxpayer culture.
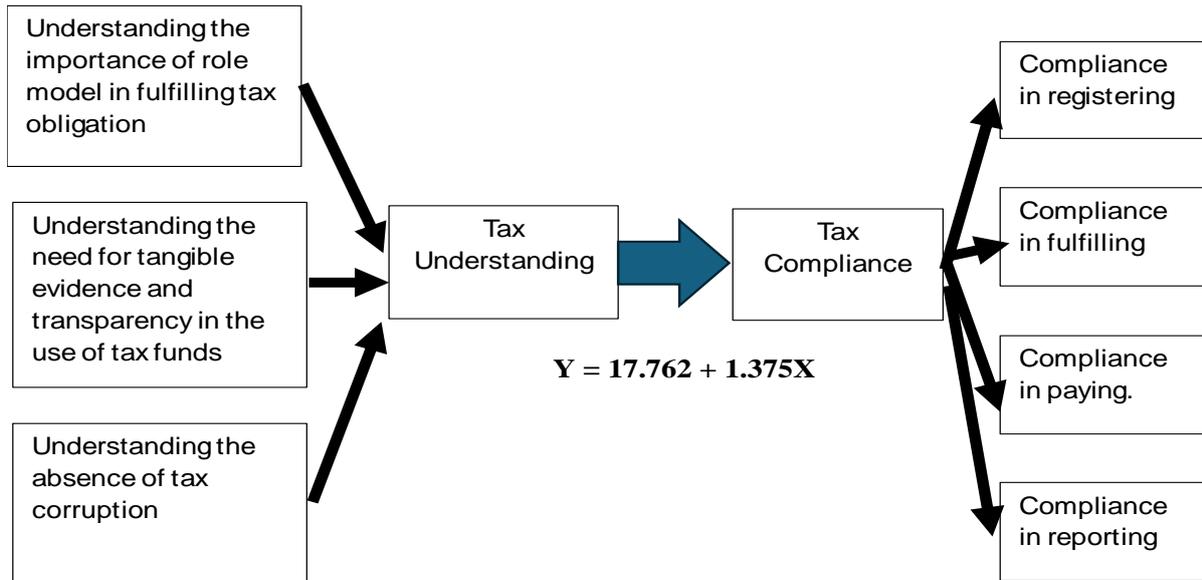
Source: The Results of the Researcher's Analysis

Figure 1. Model of Tax Understanding for Increasing Tax Compliance

Based on this model, tax understanding—rooted in the recognition of the importance of role models in fulfilling tax obligations, the need for transparency and tangible evidence of tax fund utilization, and the belief that tax corruption must be eliminated—significantly influences taxpayer compliance. As a result, taxpayers are more likely to comply with their obligations to register, complete forms, make payments, and file their tax returns.

Based on the regression equation Y = 17.762 + 1.376X, this suggests that with a constant value of 17.762, a 1% increase in tax understanding—reflected in understanding the importance of role models in fulfilling tax obligation; understanding the need for tangible evidence and transparency in the use of tax funds; and understanding the absence of tax corruption—will lead to a 1.375-point increase in tax compliance.

This suggests that improving taxpayers' understanding of these key areas can significantly influence their behaviour and compliance with tax regulations. By focusing on modern tax administration systems, taxpayers can better understand technological tools available to them, such as e-filing and e-billing, which simplify tax reporting and reduce errors. Enhancing knowledge of the self-assessment system helps taxpayers become more independent and responsible for their tax reporting, fostering a sense of accountability. Additionally, the importance of role modelling cannot be underestimated, as seeing others comply with tax obligations creates a social norm and encourages adherence. Therefore, improving these areas in collaboration, through targeted educational programs and clear communication from tax authorities, will directly contribute to increasing tax compliance levels. This model serves as a valuable framework for policymakers and tax authorities to implement more effective strategies to enhance tax compliance among taxpayers.

E. CONCLUSION

Based on the findings of the results of the analysis from both the descriptive and verification analyses, by integrated with the problems and theory, this study concludes the following: 1) There is a shared understanding of the dimensions of tax understanding, including the knowledge of tax regulations, tax systems, and the functions of taxation; 2) There is consensus regarding the dimensions of taxpayer compliance, which encompasses compliance in registration, completing tax forms, paying taxes, and reporting the Annual Tax Return (SPT);

3) Key indicators of tax understanding that can enhance taxpayer compliance include knowledge of modern tax administration systems, tax morale, and being a role model in fulfilling tax obligations; 4) Referring to these indicators and their relationship with taxpayer compliance, the study formulates a model of taxpayer understanding, as a novelty of research, to improve tax compliance. This model emphasizes the importance of educating taxpayers about the latest tax administration systems and moral responsibilities, as well as encouraging role modelling. By strengthening these areas, taxpayers are more likely to fulfil their obligations accurately and on time. Furthermore, the model suggests that enhancing taxpayer understanding leads to improved compliance, which is crucial for increasing national tax revenue and promoting a culture of responsibility.

Therefore, this study recommends implementing the formulated model by enhancing knowledge of modern tax administration systems, tax morale, and the role of being a role model in fulfilling tax obligations. According to the model, improvements in these three factors will contribute to increasing taxpayer compliance. Furthermore, the application of this model should begin with local public officials, considering their role as change agents and community examples. Public officials must lead by example in fulfilling their tax responsibilities, as their actions can significantly influence the public's perception of tax compliance. By promoting a culture of tax understanding and responsibility, local government leaders can create a more compliant environment. It is also essential to integrate this model into educational programs and outreach efforts, ensuring that taxpayers are equipped with the knowledge necessary to meet their obligations. Collaboration between tax authorities, local government, and the community is vital in fostering a tax culture that values both compliance and transparency. This approach will ultimately contribute to improving the overall tax compliance rate, supporting national economic growth, and ensuring the fair distribution of public resources.

Contributorship

The second author designed the study, worked on data collection, conducted the analyses, wrote the manuscript, and designed figures and tables. The first author designed the study, assisted with data collection, conducted the analyses, wrote the manuscript, designed the figures and tables. The third author participated in data collection, conducted part of the analyses, revised, and edited the manuscript. The fourth author took part in data collection. Revised and edited the manuscript.

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