



# THE INFLUENCE OF AWARENESS, KNOWLEDGE, AND ENVIRONMENTAL CULTURE ON MSME TAX COMPLIANCE WITH TAX ADMINISTRATION MODERNIZATION AND TAX INCENTIVES AS MODERATING VARIABLES

Delia <sup>1)</sup>; Radhi Abdul Halim Rachmat<sup>2)</sup>

<sup>1)</sup> delia@widyatama.ac.id, Universitas Widyatama

<sup>2)</sup> rhadi.abdul@widyatama.ac.id, Universitas Widyatama

## Abstract

This study aims to analyze the effect of Taxpayer Awareness, Tax Knowledge, and Environmental Culture on the Tax Compliance of MSMEs in Bandung City, with Tax Administration Modernization and Tax Incentives as moderating variables. This quantitative research used a survey method involving individual MSME taxpayers registered at the Pratama Tax Service Office in Bandung. The data analysis employed multiple linear regression and Moderated Regression Analysis (MRA), processed using SPSS 25. The results revealed that Awareness, Tax Knowledge, and Environmental Culture significantly influence MSME Tax Compliance. However, the moderating variables—Tax Administration Modernization and Tax Incentives—did not strengthen those relationships. These findings highlight that internal and social factors are more dominant in shaping tax compliance behavior, while technological modernization and fiscal incentives are yet to be effective drivers. This research contributes to the formulation of more targeted tax policies for MSMEs in Indonesia.

**Keywords:** Awareness, Environmental Culture, Knowledge, MSME, Tax Compliance

## INTRODUCTION

MSMEs are the backbone of the Indonesian economy, contributing significantly to gross domestic product (GDP) and employment. However, tax compliance levels in the MSME sector remain relatively low. This poses a challenge to optimizing state tax revenues, especially amidst demands for increased transparency and tax participation from all levels of business actors.

MSME tax compliance is influenced not only by regulations but also by internal taxpayer factors such as tax awareness and knowledge, as well as external factors such as the culture of the environment in which MSMEs operate. Awareness of tax obligations reflects the extent to which taxpayers understand their role as citizens, while tax knowledge determines their ability to fulfill their obligations appropriately. Environmental culture, including influences from the business community and social norms, also plays a role in shaping compliance behavior.

The government has undertaken various efforts to improve tax compliance, including modernizing tax administration, such as implementing e-Filing and e-Billing systems, and simplifying tax reporting. Furthermore, providing tax incentives is also expected to encourage compliance. However, the effectiveness of these two strategies in strengthening the relationship between internal and external factors and compliance requires further investigation.

Based on this description, this study aims to analyze the influence of taxpayer awareness, tax knowledge, and environmental culture on tax compliance among MSMEs in Bandung City, and to examine whether modernizing tax administration and tax incentives can strengthen this relationship.

## LITERATURE REVIEW

### Taxpayer Awareness

Tax awareness is an individual's attitude and understanding of the importance of paying taxes as a legal obligation and contribution to the state (Damayanti, 2015). Taxpayers who are



aware tend to have a desire to comply with tax regulations even without supervision. This awareness is formed from an understanding of the function of taxes, trust in tax authorities, and perceptions of tax benefits.

### **Tax Knowledge**

Tax knowledge describes taxpayers' understanding of applicable tax regulations, rights and obligations, and procedures. According to Palil (2010), knowledge is a crucial factor in encouraging compliance because it helps taxpayers fulfill their obligations correctly and on time. Lack of knowledge can lead to reporting errors and increase the risk of non-compliance.

### **Environmental Culture**

Environmental culture in the context of taxation refers to the norms, values, and social influences surrounding taxpayers that can encourage or hinder compliance. A business environment that upholds ethics and transparency tends to encourage business actors to comply with their tax obligations (Torgler, 2007). Conversely, an environment that is permissive of tax evasion can weaken compliance motivation.

### **Tax Administration Modernization**

Modernization of the tax system includes transforming services through information technology, such as e-Filing and e-Billing, which aims to improve efficiency, accuracy, and transparency. According to Nazir et al. (2020), a modern and user-friendly system can increase taxpayer convenience and ultimately encourage compliance.

### **Tax Incentives**

Tax incentives are fiscal relief or convenience policies aimed at supporting business actors, especially MSMEs, to remain productive while complying with their tax obligations. Well-targeted incentives are believed to strengthen the relationship between awareness and compliance behavior (Alm & Torgler, 2011).

### **MSME Tax Compliance**

Tax compliance is the attitude and actions of taxpayers in fulfilling all tax obligations in accordance with regulations. In the MSME sector, compliance is influenced by administrative capacity, tax literacy, and perceptions of the benefits of paying taxes (Nurmantu, 2016).

### **Relationships Between Variables**

Based on previous studies, it is known that awareness, knowledge, and environmental culture have a positive relationship with tax compliance. Administrative modernization and tax incentives are expected to strengthen this relationship as moderating variables.

### **Research Hypotheses**

1. Taxpayer awareness has a positive effect on MSME tax compliance.
2. Tax knowledge has a positive effect on MSME tax compliance.
3. Environmental culture has a positive effect on MSME tax compliance.
4. Tax administration modernization and tax incentives moderate the relationship between the independent variables and MSME tax compliance.

## **METHODS**

This research uses a quantitative approach with a survey method. The purpose of this study is to examine the influence of Taxpayer Awareness, Tax Knowledge, and Environmental Culture on Tax Compliance of MSMEs in Bandung City, as well as to examine the moderating role of Tax Administration Modernization and Tax Incentives.

The population in this study were individual taxpayers operating MSMEs registered with the Pratama Tax Service Office (KPP Pratama) in Bandung City. The sample was determined using a purposive sampling technique, with respondents being MSMEs who have



been in business for at least two years and are active in reporting their Annual Tax Returns. The sample size was 100 respondents.

The research instrument was a questionnaire structured on a Likert scale of 1–5. The instrument's validity and reliability were tested prior to distribution. Data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA) techniques using SPSS version 25 software.

## **RESULTS AND DISCUSSION**

### **Multiple Linear Regression Results**

Multiple linear regression testing shows that the variables Taxpayer Awareness, Tax Knowledge, and Environmental Culture have a positive and significant effect on MSME Tax Compliance in Bandung City. The coefficient values for each independent variable are positive, with a significance value below 0.05, supporting the research hypothesis.

These results confirm that the higher the level of taxpayer awareness and understanding of taxation, and the more conducive the environmental culture surrounding MSMEs, the greater the tendency to comply with tax obligations.

### **Moderated Regression Analysis (MRA) Results**

A moderation interaction test was conducted to examine the role of Tax Administration Modernization and Tax Incentives in strengthening the relationship between the independent variables and Tax Compliance. However, the test results indicated that neither moderating variable significantly moderated the intended relationship. The significance value of the interaction was above the 0.05 threshold.

This means that the existence of a modern administration system and the provision of tax incentives is not strong enough to increase the influence of internal and social variables on MSME tax compliance..

### **The Influence of Awareness on Compliance**

This finding supports Damayanti's (2015) research, which states that taxpayer awareness is the primary foundation for developing compliant behavior. MSMEs that recognize the importance of taxes as a social contribution and legal obligation are more likely to comply with tax reporting and payments.

### **The Influence of Knowledge on Compliance**

Tax knowledge is a crucial factor, as stated by Palil (2010). MSMEs that understand their tax procedures and obligations will report more accurately and feel less burdened because they understand their rights and obligations.

### **The Influence of Environmental Culture on Compliance**

A supportive environmental culture creates positive social pressure for tax compliance. These results align with Torgler (2007), who showed that social norms and environmental influences are significant in shaping voluntary compliance.

### **The Role of Modernization and Incentives as Moderating Variables**

The absence of a significant influence of the moderating variables indicates that the transformation of the digital tax system and fiscal incentives has not been directly perceived as a driving factor by MSMEs. This could be due to low digital literacy or a lack of information regarding available incentives.

## **CONCLUSION**

This study shows that the variables Taxpayer Awareness, Tax Knowledge, and Environmental Culture have a significant influence on MSME Tax Compliance in Bandung City. These three variables act as internal and social factors that encourage voluntary taxpayer compliance.



Meanwhile, the variables Tax Administration Modernization and Tax Incentives, as moderating variables, were not proven to strengthen the relationship between the independent variables and tax compliance. This indicates that efforts to improve the administration system and provide incentives have not yet fully benefited MSMEs.

Overall, this research model is able to explain 26.8% of the variation in tax compliance, with the remainder influenced by other factors outside the model that require further exploration.

### Recommendations

1. **For the Directorate General of Taxes (DGT):** More intensive efforts are needed to educate and educate MSMEs about the importance of taxes and how to carry out tax procedures correctly and efficiently.
2. **Tax System Development:** Modernization of tax administration, such as e-filing and e-billing, needs to be balanced with increased digital literacy for MSMEs, so that technological conveniences can be optimally utilized.
3. **Incentive Policy:** The provision of tax incentives needs to be more transparent, simple, and affordable. Regular outreach regarding the forms, requirements, and benefits of incentives should be conducted.
4. **Further Research:** It is recommended to add other variables such as perceptions of tax fairness, social pressure, and the role of tax advisors to explain MSME compliance behavior more comprehensively.

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