



THE EFFECT OF TRI HITA KARANA CULTURE AND TRUST IN GOVERNMENT ON MSME TAXPAYER COMPLIANCE IN BADUNG REGENCY WITH TAX MORALE AS A MEDIATOR

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Abstract

This study aims to analyze the influence of Tri Hita Karana culture and trust in government on tax compliance among Micro, Small, and Medium Enterprises (MSMEs) in Badung Regency, with tax morale as a mediating variable. The study is based on the phenomenon of low tax compliance among MSMEs despite their significant contribution to the national economy. A quantitative approach was employed using the Structural Equation Modeling Partial Least Squares (SEM-PLS) method. Data were collected through questionnaires distributed to 79 MSME actors, both online and directly in their business areas within Badung Regency. This study is also supported by qualitative data obtained from open-ended questions, which were analyzed using thematic analysis. The results show that the Tri Hita Karana culture does not have a direct effect on tax compliance, but it does have a direct effect on tax morale. Trust in government has a direct effect on both tax compliance and tax morale. Tax morale directly influences tax compliance and serves as a mediating variable in the relationship between both Tri Hita Karana culture and trust in government with tax compliance. These findings indicate that fostering tax morale is a crucial factor in improving tax compliance among MSMEs. Therefore, the government and the Directorate General of Taxes should consider culture-based and moral value-based approaches in designing strategies to enhance tax compliance.

Keywords: MSMEs; Tax compliance; Tax morale; Tri Hita Karana; Trust in government

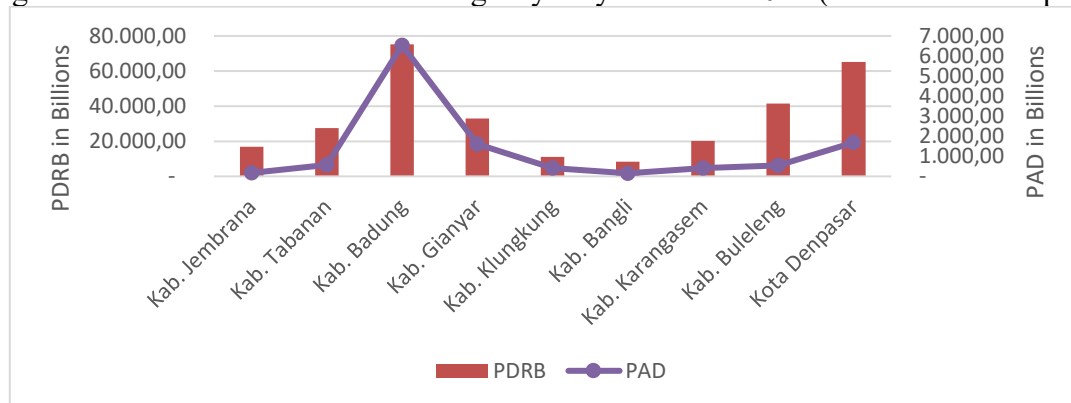
INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a significant role in the Indonesian economy. Data from the ASEAN Investment Report 2022 shows that Indonesia is the country with the highest number of MSMEs in ASEAN, reaching 65.4 million enterprises. Based on data from the Ministry of Cooperatives and SMEs, the number of MSMEs in 2024 reached more than 64 million enterprises and was capable of absorbing approximately 96.9% of the workforce. Their contribution to the GDP is also quite substantial, accounting for around 60.5% of the National GDP. In addition, MSMEs also contribute 15.6% of total national exports. These various data indicate that MSMEs are a vital sector that has a major share in the Indonesian economy.

Bali Province, with its majority income source coming from the tourism sector, also has numerous MSMEs that help support the Indonesian economy. Based on data from Satu Data Indonesia (2023), the number of MSMEs in Bali Province reached 389,575 enterprises. The region with the highest Gross Regional Domestic Product (GRDP) in Bali is Badung Regency. Data from the Central Bureau of Statistics of Bali Province shows Badung Regency's GRDP at Rp75,098 billion, which is much larger than other regencies/cities in Bali. This condition makes Badung Regency the richest region in Bali with Locally-Generated Revenue (PAD) amounting to Rp6,536 billion. This revenue is larger than that of other regions in Bali, even larger than Bali Province itself, which has a PAD of Rp4,591 billion (Laporan Keuangan Provinsi Bali, 2024). This massive revenue is none other than due to Badung Regency's reliance on the tourism sector for its income. This is evidenced by Badung Regency's PAD, which plummeted in 2020 during the Corona Virus Disease (COVID-19) pandemic to Rp2.1 trillion from Rp4.5 trillion in the previous year. Research by Pratiwi & Purwanti (2022) also states that the hotel occupancy rate and the number of tourists have a significant positive effect on the PAD of Badung Regency.



Figure 1. GRDP and PAD of Each Regency/City in Bali in 2024 (in Billions of Rupiah)



Source: BPS Provinsi Bali & DJPK (2024)

Despite its status as the richest regency in Bali, tax compliance in this region remains relatively low. This is evidenced by Table 2, which illustrates the ratio of Annual Tax Return (SPT) submissions at two Tax Service Offices (KPP) whose working areas cover Badung Regency. The average compliance ratio only reached 68.17% in 2023 and dropped to 49.25% in 2024. This condition is unfortunate, considering that more than a quarter of Badung's population are entrepreneurs (27.5%) and the vast majority of the workforce (86%) is employed in the MSME sector (Ardiani & Sulfan, 2022). This phenomenon indicates that MSME taxpayers play a substantial role in the level of tax compliance in Badung Regency.

Table 1. Compliance Ratio of Annual Tax Return Submissions at North and South Badung Primary Tax Service Offices

WP Wajib SPT	KPP Pratama Badung Selatan		KPP Pratama Badung Utara	
	2024	2023	2024	2023
Badan	13564	9549	11,486	10,161
OPK	28401	25345	34,374	30,411
OPNK	8698	4844	11,092	9,813
Annual Tax Return				
Badan	7480	7876	7,739	7,166
OPK	21376	22376	32,109	32,824
OPNK	3137	3657	4,264	4,334
Rasio Kepatuhan				
Badan	55.15%	82.48%	67.4%	70.5%
OPK	75.26%	88.29%	93.4%	107.9%
OPNK	36.07%	75.50%	38.4%	44.2%

Source: Author's processed from DJP (2024)

It is highly unfortunate that, given the existing data and facts, MSMEs, as a vital sector driving the Indonesian economy, actually exhibit low compliance. This is despite the extensive support provided by the government for MSMEs, ranging from the People's Business Credit (KUR) program to the National Economic Recovery (PEN) program in the wake of the COVID-19 pandemic. From a taxation perspective, there is also Government Regulation (PP) Number 23 of 2018, which includes a tariff reduction from 1% to 0.5% for taxpayers with a gross turnover not exceeding 4.8 billion rupiah. Furthermore, through Government Regulation (PP) Number 55 of 2022, a non-taxable income threshold of 500 million rupiah was established for entrepreneurs. Unfortunately, the compliance of MSME taxpayers has not shown any improvement. Therefore, it is crucial to identify the factors capable of increasing taxpayer compliance.

One of the reasons for the low taxpayer compliance can be attributed to the self-assessment system implemented in Indonesia. This system requires taxpayers to calculate,



remit, and report their taxes independently, act honestly in fulfilling their tax obligations, and comprehend the applicable tax regulations (Diamastuti, 2018). The self-assessment system also demands a high level of awareness from taxpayers to achieve tax compliance (Meliandari & Utomo, 2022). In this regard, tax morale becomes a crucial factor influencing the extent to which individuals are willing to voluntarily fulfill their tax obligations, even beyond the direct influence of sanctions or incentives (Muamarah et al., 2021). Tax morale reflects personal values, norms, and integrity in viewing taxes as an ethical and social obligation, rather than merely an administrative burden. This tax morale acts like a subjective norm, meaning it is influenced by various factors, among which are cultural values and trust in government (Ciziceno & Pizzuto, 2022). Therefore, to improve tax compliance, this intrinsic element needs to be investigated, especially within the Indonesian taxation system that adopts a self-assessment approach.

From a cultural perspective, Bali is known for its highly ingrained local wisdom, namely the values of Tri Hita Karana, which can strengthen tax morale, including enhancing tax compliance (Aji, 2024). The Tri Hita Karana culture is a local wisdom concept rooted in Hindu teachings that has been deeply integrated into the daily lives of the Balinese people. This culture emphasizes that prosperity, success, an equitable society, and true happiness can be achieved through three concepts of harmony (Parwati et al., 2021). These three concepts emphasize harmonious relationships between humans and God (*parahyangan*), among fellow human beings (*pawongan*), and between humans and nature (*palemahan*) (Pawitya et al., 2023). These values not only maintain a balanced life but also instill a sense of responsibility, ethics, and honesty, which serve as the foundation of tax morale. Thus, the Tri Hita Karana culture plays a vital role in fostering tax compliance, as individuals who adhere to its values will tend to view tax obligations as a form of social and spiritual responsibility.

However, modernization and globalization in Bali, particularly in Badung as a major tourist destination, raise concerns regarding the erosion of the local values of Tri Hita Karana. Serious problems have begun to emerge, such as the prevalence of corruption, radicalism, criminality, brawls, anarchic demonstrations, intolerance, bullying, and discrimination (Suryawan et al., 2022). Furthermore, the younger generation increasingly performs religious ceremonies merely as a formality, alongside a decline in the mastery of the Balinese language and script, which subsequently leads to a reduced understanding of cultural values. Another tangible example is the widespread conversion of agricultural land into villas, hotels, and luxury residential areas, which disrupts the ecological balance. Natural phenomena such as global warming and environmental degradation also occur as a result of human actions that are no longer in harmony with nature (Maylita et al., 2024). These frequently occurring cases indicate signs of deterioration in the values of Tri Hita Karana, which serves as the life philosophy of the Balinese people.

In addition to tax morale and culture, another non-economic factor influencing tax compliance (Alm et al., 1995) is trust in government. The current government situation in Indonesia arguably holds a negative perception in the eyes of the public. According to a survey by Databoks, respondents expressed their concerns regarding policies during the era of President Prabowo's administration since his inauguration on October 20, 2024 (Muhamad, 2025). These programs range from the free lunch program, which is considered poorly targeted, to budget efficiencies that appear to cut basic program allocations, LPG shortages, and the threat of tax increases. The 'Indonesia Gelap' (Dark Indonesia) outcry that went viral on social media reflects public anxiety regarding potential governance issues, thereby testing public trust in the government's ability to execute fiscal functions and public services.



Furthermore, the level of corruption in Indonesia remains at a high risk. This is reflected in Indonesia's 2024 Corruption Perceptions Index score of 37/100 (Transparency International Indonesia, 2024). Not to mention, corruption cases involving tax officials, such as Rafael Alun and Gayus Tambunan, continue to leave a negative impression on the public. Additionally, the inefficiency of the Rp1.2 trillion investment for the modernization of the tax system through Coretax has yet to yield the desired results. This is because the objective to improve compliance and simplify administration has instead created other technical obstacles. Moreover, the existence of empirical gaps in previous studies (detailed further in Chapter 2) indicates that the effect of trust in government on tax compliance remains mixed. This demonstrates that the variable of trust in government remains relevant and urgently needs to be re-examined to improve tax compliance amidst turbulent national dynamics.

Previous studies related to tax compliance have been widely conducted; however, research specifically addressing Tri Hita Karana, trust in government, and tax morale is still rarely undertaken. This study aims to apply tax morale as a mediating variable in investigating the effect of Tri Hita Karana culture and trust in government on tax compliance. The locus of this research is situated within the scope of MSME taxpayers in Badung Regency, which has not been studied previously, and focuses specifically on Hindu taxpayers due to the utilization of the Tri Hita Karana cultural variable.

LITERATURE REVIEW

Attribution Theory

Attribution theory is a theory in the field of social psychology that discusses how individuals provide explanations for their own behavior and the behavior of others. This theory was first introduced by Heider (1958). It was subsequently developed by Kelley (1973) and gained prominence in the 1960s. The theory posits that humans tend to act as "amateur psychologists" who actively seek the reasons behind a behavior or event. According to this theory, "what constitutes the cause determines the reason someone does something or makes a certain decision." In this view, individuals instinctively try to understand why someone acts in a certain way, and these attributions will influence their subsequent responses or behaviors (Schmitt, 2015).

According to Heider's research, events and actions can stem from two main types of causes, namely dispositional (internal) and situational (external). Internal causes are driven by a taxpayer's lack of social responsibility, while external causes arise due to an unfair tax system or the taxpayer's financial pressures. According to Kelley (1973), there are three crucial elements that serve as the basis for a person to assess whether an action originates from internal or external factors, namely:

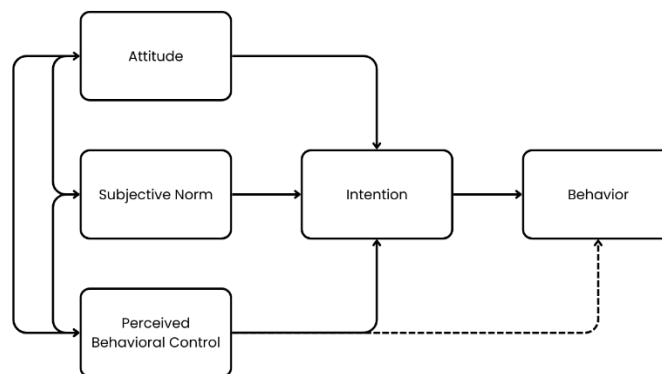
1. Distinctiveness, referring to whether an individual exhibits different behaviors in certain situations. If the displayed response is considered unusual in that context, the cause tends to originate from external factors, and conversely, from internal factors if it is usual.
2. Consensus, referring to the extent to which a person's actions are similar to or different from the behavior of others under the same conditions. If many individuals react in the same way, this indicates high consensus and points to external causes, and conversely to internal causes if the consensus is low.
3. Consistency, relating to whether the same behavior repeatedly occurs in similar situations over time. Consistent behavior indicates a stable internal cause, whereas fluctuating behavior indicates an external cause.



Planned Behavior Theory

The Theory of Planned Behavior (TPB) was developed by Ajzen (1991) as a refinement of the Theory of Reasoned Action (TRA), which was previously introduced with Fishbein in 1975. TRA assumes that individual behavior is entirely under their volitional control, thus it only considers attitudes and subjective norms in predicting behavior. However, TPB adds one crucial component, namely perceived behavioral control, to explain that not all behaviors are under an individual's full control. This theory can be briefly illustrated in the following figure.

Figure 2 Planned Behavior Theory



Source: Tambun & Haryati (2022)

Research by Saputra (2019) concluded that tax compliance behavior can be explained as an action stemming from the taxpayer's intention to behave compliantly towards their tax obligations. Behavior is directly preceded by intention, where the stronger the intention, the greater the likelihood that the behavior will occur. This theory emphasizes three main elements that influence the formation of intention (Hagger et al., 2020), namely:

1. Behavioral Beliefs (Attitudes), referring to an individual's understanding of the outcomes or consequences that may arise from an action, as well as the experiences associated with that action. Generally, these beliefs will form a positive or negative attitude toward a specific behavior.
2. Normative Beliefs (Subjective Norm), referring to an individual's view regarding the social expectations of important people or groups, which ultimately creates social pressure to act or not act in a certain way. The two main forms of these beliefs are injunctive normative beliefs, which relate to the extent to which significant others approve of an action, and descriptive normative beliefs, which are beliefs about whether other relevant individuals also perform the action.
3. Control Beliefs (Perceived Behavioral Control), reflecting a person's subjective perception regarding the presence of factors that can facilitate or impede the execution of a behavior under certain conditions. These beliefs influence the level of perceived behavioral control, which can ultimately strengthen or weaken the relationship between intention and the realization of the behavior.

Slippery Slope Framework Theory

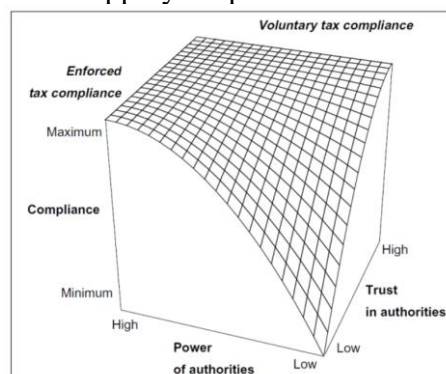
The Slippery Slope Framework (SSF) theory was first introduced by Kirchler et al. (2008) to explain tax compliance behavior from a social psychology perspective. This theory is based on the concept of the tax climate, which illustrates the relationship between tax authorities and taxpayers. This approach distinguishes between two types of tax climates, namely antagonistic and synergistic climates. An antagonistic climate describes a confrontational relationship, where tax authorities are perceived as police and taxpayers as thieves (Braithwaite, 2003). Conversely, a synergistic climate is characterized by cooperation between the authorities as service providers and taxpayers as clients, predicated on trust and transparency.



Based on this premise, the SSF theory develops two main elements in shaping tax compliance, namely the power of authorities and trust in authorities. Power refers to the taxpayers' perception of the authorities' ability to detect and punish tax evasion, such as through audits, sanctions, and examinations. On the other hand, trust reflects the extent to which taxpayers view tax authorities as fair, transparent, and accountable institutions in tax administration.

The SSF assumes that tax compliance can occur in two forms, namely enforced tax compliance, which arises due to the power of authorities, and voluntary tax compliance, which emerges due to the presence of trust. This model indicates that these two elements do not stand alone, but rather interact with and moderate each other. For example, in situations where trust is low, an increase in the power of authorities can forcefully raise compliance. Conversely, when the power of authorities is low, an increase in trust can encourage voluntary compliance. The highest level of compliance is achieved when both power and trust are at a mutually high level, even though the underlying reasons for such compliance differ qualitatively. This theory is illustrated as follows.

Figure 3 Slippery Slope Framework Theory



Source: Kirchler et al. (2008)

Tax Morale

Moral pajak adalah prinsip moral atau nilai-nilai pribadi yang dimiliki oleh individu mengenai kewajiban membayar pajak (Alm & Torgler, 2006). Penelitian tersebut menunjukkan bahwa moral pajak wiraswasta lebih rendah ketimbang karyawan yang bekerja pada orang lain. Hal ini dapat terjadi karena wiraswasta merasa kurang rela jika pajaknya diambil dari penghasilan yang merupakan kerja kerasnya sendiri dan akan dialokasikan sebagai modal usaha berikutnya. Lebih lanjut, Alm & Torgler (2006) berpendapat bahwa moral pajak berperan sebagai determinan penting dalam kepatuhan pajak sukarela (voluntary compliance), terutama jika wajib pajak dipengaruhi oleh norma budaya yang berbeda-beda antar institusi sosial dan negara. Baldry (1986) dalam eksperimennya menunjukkan bahwa banyak individu tetap patuh membayar pajak karena menghindari perasaan bersalah atau malu, bukan hanya karena takut terhadap audit atau sanksi. Definisi lain juga dapat ditemui pada penelitian Cummings et al. (2009) yang menyebutkan bahwa moral pajak merupakan perasaan sendiri dari diri pembayar pajak yang ingin membayar pajak.

Tri Hita Karana Culture

Tri Hita Karana is a life philosophy that serves as the primary guiding principle for the Hindu community in Bali in navigating their social lives. This term first emerged on November 11, 1966, during the First Regional Conference of the Bali Hindu Struggle Agency (Badan Perjuangan Umat Hindu Bali) at the Dwijendra Institution in Denpasar (Padet & Krishna, 2018). In principle, Tri Hita Karana teaches harmony within three forms of relationships in the world: the relationship between humans and God, the relationship among fellow human beings, and the relationship between humans and nature/the environment (Suryawan et al., 2022).



These three relationships are interconnected and grounded in the value of profound respect for everything surrounding the individual.

Etymologically, Tri Hita Karana originates from Sanskrit. The word "Tri" means three, "Hita" means welfare or happiness, and "Karana" means cause. Thus, Tri Hita Karana can be interpreted as the three causes for achieving happiness or prosperity in life. These three aspects encompass:

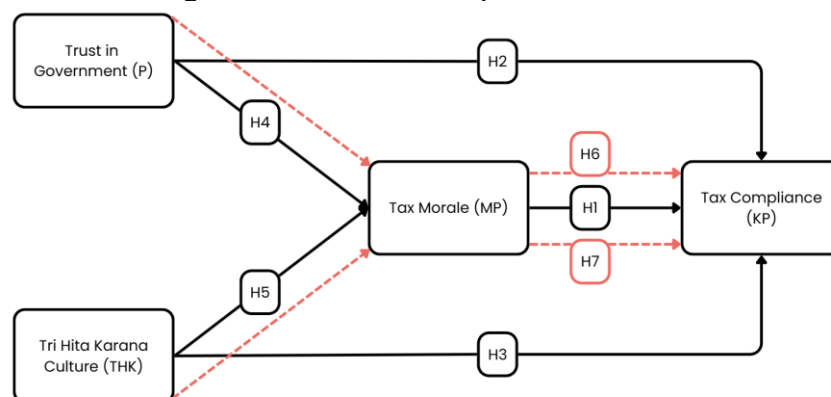
1. Parahyangan, namely the harmonious relationship between humans and God. In this aspect, humans are expected to consistently maintain a strong spiritual connection with the Creator, which is manifested through a sincere attitude and the awareness that all of their activities originate from and culminate in God.
2. Pawongan, namely the harmonious relationship among fellow human beings. Every individual is viewed as having equal rights and obligations; thus, interactions must be predicated on a sense of brotherhood, mutual respect, and appreciation for one another.
3. Palemahan, namely the harmonious relationship between humans and their environment. Humans are expected to possess a sense of responsibility toward the surrounding nature, protecting and preserving the environment, as humans derive benefits from nature and are obligated to care for it.

Micro, Small, and Medium Enterprises (MSME)

Based on Government Regulation (PP) Number 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, the classification of MSMEs is carried out based on the criteria of net worth and annual sales. The regulation elucidates that Micro Enterprises are productive economic enterprises owned by individuals and/or individual business entities with a maximum business capital of Rp1 billion, and a maximum annual turnover of Rp2 billion. Small Enterprises are independent productive economic enterprises that are not subsidiaries or branches of medium or large enterprises, with a business capital ranging from Rp1 billion to Rp5 billion and an annual turnover of more than Rp2 billion up to Rp15 billion. Meanwhile, Medium Enterprises are enterprises that are also independent and are not directly or indirectly affiliated with large enterprises, with a business capital ranging from Rp5 billion to Rp10 billion and an annual turnover of more than Rp15 billion up to Rp50 billion.

Based on attribution theory, every individual attempts to identify a person's behavior and its causal factors, both internal and external. Internal factors encompass self-control and personal beliefs, while external factors include environmental influences that subsequently affect a person's behavior. Accordingly, this study will examine the internal factor in the form of tax morale, as well as the external factors, namely the Tri Hita Karana Culture and Trust in Government. Based on this premise, the conceptual framework in this study is illustrated in Figure 4 below.

Figure 4 Research Conceptual Framework





Source: Author's processed (2025)

METHODS

The research method employed in this study is a quantitative method utilizing inferential statistical analysis. This study uses primary data obtained directly from MSME taxpayers participating as respondents. Data collection was carried out using a questionnaire instrument distributed both online via Google Forms and offline through in-person completion. The response format available to respondents utilizes a 6-point Likert scale, namely strongly disagree (1), disagree (2), somewhat disagree (3), somewhat agree (4), agree (5), and strongly agree (6). Furthermore, the indicators used for each variable can be seen in Table 3 below.

Table 2 Operational Indicators of Variables

Variabel	Indikator	Sumber
Tax Compliance (KP)	Registering oneself Calculating and paying tax liabilities Filing tax returns on time Paying tax arrears Complying with regulations voluntarily	Alm (1991), (Farhan et al., 2025), Marfiana (2019), dan Darmayasa et al. (2022)
Tri Hita Karana (THK)	Parahyangan (harmonious relationship between humans and God) Pawongan (harmonious relationship among fellow humans) Palemahan (harmonious relationship between humans and the environment)	Padet & Krishna (2018) dan Pawitya et al. (2023)
Trust in Government (P)	Ability Integrity Benevolence Transparency Accountability Perceived fairness	Jimenez & Iyer (2016) dan Zainudin et al. (2022), dan Juliobenedrick et al. (2023)
Tax Morale (MP)	Intrinsic motivation to pay taxes Feeling ashamed or guilty when violating tax regulations Feeling that violating tax regulations breaches one's life principles and ethics	Alm & Torgler (2006), Cummings et al. (2009) dan Darmayasa et al. (2022)

Source: Author's processed (2025)

The population selected for this study consists of Non-Employee Individual Taxpayers (Wajib Pajak Orang Pribadi Non Karyawan - OPNK) and Corporate Taxpayers registered within the working areas of the North and South Badung Primary Tax Service Offices. The sampling method employed in this research is purposive sampling. This method is a sampling technique wherein respondents are selected based on specific criteria (Sugiyono, 2023). The criteria utilized in this study require the MSME taxpayers to practice the Hindu religion. For MSME Corporate Taxpayers, this Hindu religious characteristic is adequately represented by their tax bearers, in accordance with Ministry of Finance Regulation (PMK) No. 61 of 2023. To determine the sample size, this study adopts the principles outlined by Roscoe in Sugiyono (2023). Under these principles, a sample size between 30 and 500 is deemed appropriate for most studies. In multivariate analysis, the sample size used should be at least greater than 10 times the number of paths in the constructed model (Kock & Hadaya, 2018). Accordingly, for a study employing 5 paths in its model, a minimum of 50 respondents is required. The final number of respondents utilized in this study is 79 respondents.

The analytical method used in this research is Structural Equation Modeling-Partial Least Squares (SEM-PLS) statistical analysis. SEM-PLS is a statistical method used to analyze complex relationships among observed variables, combining two analytical techniques: Structural Equation Modeling (SEM) and Partial Least Squares (PLS). This method will be



processed using the SmartPLS 4.1.1 software application. The primary stages of this analysis involve testing the outer model and the inner model.

RESULTS AND DISCUSSION

Convergent Validity

Convergent validity is considered established if the Average Variance Extracted (AVE) value exceeds 0.5 or the loading factor (outer loadings) value of each indicator exceeds 0.7 (Hair et al., 2022). In this study, several indicators, namely KP3, MP2, and P11, exhibited outer loading values below 0.7. Consequently, these indicators were eliminated, ensuring that all remaining statements successfully passed the convergent validity test. This implies that each indicator within the same variable is highly correlated with one another. A summary of the outer loading values can be observed in the following table.

Table 3. Outer Loading dan AVE

Indicator	Outer Loading	AVE	Indicator	Outer Loading	AVE
KP1	0.706	0.649	THK1	0.807	0.743
KP2	0.859		THK2	0.825	
KP3	0.669		THK3	0.894	
KP4	0.765		THK4	0.887	
KP5	0.864		THK5	0.919	
KP6	0.806		THK6	0.835	
KP7	0.821		P11	0.574	0.674
MP11	0.733	P2	0.724		
MP2	0.644	P3	0.792		
MP3	0.796	P4	0.778		
MP4	0.842	P5	0.863		
MP5	0.84	P6	0.876		
MP6	0.853	P7	0.85		
MP7	0.851	P8	0.85		

Source: Author's processed (2025)

Discriminant Validity

This test is used to ensure that each construct in the measurement model genuinely measures a concept that is distinct from the others. This test can be satisfied if it meets the criteria of the Heterotrait-Monotrait (HTMT) ratio. Discriminant validity becomes problematic when the HTMT value is high. Hair et al. (2022) proposed a threshold value of 0.9 to successfully pass the discriminant validity test. Table 4 demonstrates that the data has HTMT values below 0.9. This indicates that the variables used have passed the discriminant validity test.

Table 4. Heterotrait-Monotrait (HTMT)

Variable	KP	MP	P	THK
KP				
MP	0.826			
P	0.795	0.879		
THK	0.7	0.86	0.843	

Source: Author's processed (2025)

Reliability

This test is used to ensure that the instruments employed in the study are consistent and stable in measuring the construct. Hair et al. (2019) explained that this test is satisfied if the composite reliability value is above 0.7 or the Cronbach's alpha value is above 0.5. The values in Table 5 below indicate that the reliability test has been satisfied.



Table 5 Cronbach's Alpha dan Composite Reliability

Variabel	Cronbach's alpha	Keandalan komposit (rho c)	Ket
KP	0.891	0.917	Reliabel
MP	0.905	0.927	Reliabel
P	0.918	0.935	Reliabel
THK	0.931	0.945	Reliabel

Source: Author's processed (2025)

R-Square

This value is used to measure the strength of exogenous variables in explaining their corresponding endogenous variables. Table IV.13 demonstrates that the R-square values in this study are 60.7% and 73%. This indicates that the variables of tax morale, Tri Hita Karana, and trust in government are capable of explaining the tax compliance variable by 60.7%, with the remainder explained by other variables outside the research model. Meanwhile, the variables of Tri Hita Karana and trust in government are able to explain the tax morale variable by 73%, with the remaining percentage explained by other variables outside the research model.

Table 6 R-Square

	R-square	Adjusted R-square
Tax Compliance	0.607	0.591
Tax Morale	0.73	0.723

Source: Author's processed (2025)

Hypothesis Testing

A significant effect between exogenous and endogenous variables can be assumed if the P-Value is below the threshold value (alpha) of 0.05. Additionally, a two-tailed hypothesis will be accepted if the t-statistic value exceeds 1.96. The results of the hypothesis testing can be observed in Table 7 below.

Table 7 Pengujian Hipotesis Penelitian

	Effect	Path Coeff	t-stat	P-Value	Desc
Direct	MP -> KP	0.494	3.375	0.001	Significant
	P -> KP	0.312	3.191	0.001	Significant
	THK -> KP	0.013	0.11	0.913	Insignificant
	P -> MP	0.454	5.643	0.000	Significant
	THK -> MP	0.449	4.918	0.000	Significant
Indirect	P -> MP -> KP	0.224	2.844	0.004	Parsial mediasi
	THK -> MP -> KP	0.222	2.783	0.005	Full mediasi

Source: Author's processed (2025)

The Effect of Tax Morale on Tax Compliance

The research results conclude that tax morale exerts a positive effect, as indicated by a path coefficient value of 0.494. The results also demonstrate a significant effect on the tax compliance variable, as evidenced by a t-statistic value of 3.375 and a P-Value of 0.001. This confirms that a higher level of tax morale leads to a greater level of tax compliance.

This finding aligns with the Attribution Theory developed by Kelley (1973). This can be explained through high consistency, wherein MSME actors repeatedly exhibit compliant behavior. Furthermore, low consensus indicates that not all business actors display the same behavior, thereby making compliant behavior unique to certain individuals. The Theory of Planned Behavior developed by Ajzen (1991) also supports this finding. Tax morale is considered a form of attitude toward tax compliance behavior. MSME actors perceive that fulfilling tax obligations is an action that is right, ethical, fair, and reflective of their life



principles. In this case, MSME actors who believe that paying taxes brings benefits will evaluate such behavior positively, which subsequently drives tax compliance.

This finding supports the results of previous studies by Annisa & Wijaya (2024); Darmayasa et al. (2022); and Kusumadewi & Dyarini (2022), which found that tax morale significantly improves tax compliance. Alm & Torgler (2011) also stated that there are factors encouraging people to remain tax-compliant other than just the existence of audits and sanctions. They revealed that these other factors are an individual's ethics and morals.

The Effect of Trust in Government on Tax Compliance

The research results indicate that trust in government exerts a positive effect, as indicated by a path coefficient value of 0.312. The results also demonstrate a significant effect on tax compliance, as evidenced by a t-statistic value of 3.191 and a P-Value of 0.001. The higher the taxpayers' trust in the government, the greater their tendency to comply with their tax obligations.

This finding aligns with the Slippery Slope Framework theory developed by Kirchler et al. (2008). This theory posits that tax compliance is not only formed by enforcement power (power) but also by taxpayers' trust in the government (trust). This trust fosters the emergence of voluntary compliance, which is more stable and enduring than compliance based merely on the fear of sanctions. When the government is trustworthy, taxpayers will feel that paying taxes is an obligation that aligns with social values. Conversely, if trust is low, the government must rely on power to drive enforced compliance. In the context of MSMEs, trust plays an incredibly vital role because MSME actors frequently operate with minimal supervision. Trust will create a condition where paying taxes is no longer perceived as a burden, but rather as a contribution to collective life.

The results of this study are also in line with research conducted by Zainudin et al. (2022); Jamel & Cheisviyanny (2024); and Sari et al. (2022), which demonstrate a positive effect of trust in government on tax compliance. Batrancea et al. (2022) presented findings showing that trust in government has a significant effect across 44 countries studied. Their research also emphasizes that an approach combining economic and psychological aspects is more effective than a one-sided approach. It is further explained that overly strict enforcement (sanctions and audits) can trigger resistance and non-compliance in systems that otherwise display high compliance. Trust is not merely an attitudinal variable, but also a social bonding mechanism between citizens and the state. This means it functions as a glue that maintains fiscal cohesion, thereby reducing the gap between policymakers, economic actors, and the public.

The Effect of Tri Hita Karana Culture on Tax Compliance

The research results indicate that Tri Hita Karana does not exert an effect on tax compliance. This can be observed from the path coefficient value of 0.013, a t-statistic of 0.11, and a P-Value of 0.913. Nonetheless, the positive direction of the coefficient indicates a tendency that a higher implementation of Tri Hita Karana values potentially increases tax compliance. However, this relationship is not statistically strong enough to be declared significant. This indicates that although the values of harmony embedded within Tri Hita Karana—such as parahyangan, pawongan, and palemahan—are theoretically aligned with the spirit of tax compliance, they do not necessarily directly influence a taxpayer's decision to comply.

The results of this study are not in line with the findings of Pawitya et al. (2023), who concluded that Tri Hita Karana culture has a positive effect on tax compliance. Their research asserts that the values of responsibility and gratitude toward God embedded in Tri Hita Karana can shape a taxpayer's awareness to be compliant. However, the approach in that study did not consider in detail the intermediary mechanisms linking cultural values to administrative actions,



such as tax morale. Additionally, that study also included an analysis that Tri Hita Karana can act as a moderator that strengthens the effect of tax information systems on compliance.

Upon deeper analysis, several other studies conversely indicate that the cultural values of Tri Hita Karana are more likely to shape consciousness and moral meaning rather than directly driving administrative actions. A study by Lutfillah et al. (2023) positions taxes within a Balinese spiritual and cultural perspective as a form of *Yadnya* (offering), which emphasizes the formation of awareness over formal actions. Darmayasa & Aneswari (2016) also demonstrate that Tri Hita Karana values are expressed in the form of social responsibility rather than administrative tax reporting. Furthermore, the findings of Parwati et al. (2021) experimentally show that Tri Hita Karana values are only effective in reducing tax evasion tendencies if they are internalized through tax morale. This series of findings suggests that the relationship between culture and compliance is not direct. Cultural values must first be internalized as tax morale before they can drive compliant behavior.

One reason for the insignificance of this effect is that tax compliance is inherently administrative, requiring knowledge, procedures, and an understanding of the system (Farhan et al., 2025). Meanwhile, cultural values like Tri Hita Karana operate at the level of norms and meaning (Lutfillah et al., 2023). Consequently, the internalization of Tri Hita Karana values does not automatically drive taxpayers to actively engage in administrative obligations, such as tax reporting or payment. Cultural values tend to be indirect, requiring a psychological bridge like tax morale to lead to concrete actions, namely tax compliance.

The Effect of Trust in Government on Tax Morale

The research results indicate that trust in government exerts a positive effect, as observed from the path coefficient value of 0.454. The results of this study also demonstrate a significant effect on tax morale, as evidenced by a t-statistic value of 5.643 and a P-Value of 0.000. This finding indicates that a higher level of trust in government leads to a stronger moral drive among MSME actors to fulfill their tax obligations.

From the perspective of the Theory of Planned Behavior (Ajzen, 1991), trust in government can influence the formation of attitudes, which in this context is tax morale. This trust creates an internal assessment that paying taxes is not merely a legal obligation, but rather an ethically correct action. Tax morale is formed as a reflection of an individual's attitude toward taxation itself. This implies that the higher the trust in government, the more likely a person is to evaluate taxes as something right, which ultimately strengthens morale as the foundation for tax compliance behavior.

The results of this study are also supported by Ciziceno & Pizzuto (2022), who state that trust in government acts as a catalyst in strengthening tax morale. Furthermore, when citizens believe that the government is credible, transparent, and performing its duties well, they are more driven to act honestly and refrain from seeking loopholes to evade taxes. Conversely, experiences with government failure, corruption, or injustice instead lower tax morale. This study reinforces the assumption that tax morale does not stand alone, but rather grows within a supportive psychological and institutional context.

These results are further reinforced by the findings of Jahnke & Weisser (2019), who provide a more explicit perspective. Utilizing mediation analysis, they revealed that experiences of corruption decrease tax morale both directly and indirectly through a decline in trust toward tax authorities. Furthermore, they found that petty corruption within the government has a detrimental effect on tax morale.

The Effect of Tri Hita Karana Culture on Tax Morale

It was previously discussed that Tri Hita Karana culture has no direct effect on tax compliance. However, this study finds that Tri Hita Karana instead exerts a positive and significant effect on tax morale. This can be observed from the path coefficient value of 0.449,



a t-statistic of 4.918, and a P-Value of 0.000. This implies that a higher implementation of Tri Hita Karana values will improve the tax morale of MSME actors. This finding supports the understanding that culture is capable of influencing society's perspective in discerning right from wrong when fulfilling tax obligations.

This finding can be explained through the Theory of Planned Behavior (Ajzen, 1991). Based on this theory, tax morale is defined as an attitude toward tax obligations that is shaped by the cultural values an individual believes in. As a life philosophy of the Balinese people that teaches harmony with God, fellow humans, and nature, Tri Hita Karana indirectly instills values of responsibility and care. When MSME actors perceive taxes as part of their responsibility to God (parahyangan), a social contribution (pawongan), and an effort toward environmental preservation (palemahan), they will evaluate paying taxes as a morally correct action. This evaluation is what forms a positive attitude toward taxation and strengthens tax morale.

This result aligns with the research by Parwati et al. (2021), which indicates that Tri Hita Karana values can reduce tax evasion tendencies when linked to tax morale. Lutfillah et al. (2023) also emphasize that the cultural values in Tri Hita Karana shape the meaning and awareness of paying taxes as a form of Yadnya or a sincere and heartfelt offering. Similarly, in a study by Aji (2024), it is explained that the life philosophy of the Balinese people frames taxation as part of an ethical and moral responsibility, rather than merely a legal obligation. Furthermore, he explains that a high enthusiasm for implementing Tri Hita Karana has a positive relationship with intrinsic motivation to avoid tax evasion.

The results of this study are also supported by findings from several international studies, which confirm that culture plays an essential role in shaping tax morale. Alm & Torgler (2006) found that differences in tax morale across countries are highly influenced by the cultural values thriving within the society. Kountouris & Remoundou (2013) assert that first-generation immigrants in Europe retain a tax morale that reflects the culture of their home countries, even though they live in nations with different legal systems. This demonstrates that culture shapes an enduring moral framework.

The Effect of Trust in Government on Tax Compliance with Tax Morale as a Mediating Variable

Based on the mediation effect testing that has been conducted, there is a mediating role of tax morale in the relationship between trust in government and tax compliance. This can be observed from the indirect effect with a path coefficient value of 0.224, a t-statistic of 2.844, and a P-Value of 0.004. This mediating relationship is partial, meaning that trust in government affects tax compliance both directly and indirectly. This indicates that a portion of the influence of trust in government does not directly shape tax compliance, but rather operates through the internalization of ethical values that form tax morale.

Previous results demonstrate that tax morale exerts a positive and significant effect on tax compliance. This supports the research by Ciziceno & Pizzuto (2022), which describes tax morale as a subjective norm because its underlying reasons are numerous, and the interactions among these reasons are not yet fully understood. Due to its complex nature and its association with various psychological factors, tax morale is highly suited to serve as a vital pathway linking trust in government to tax compliance. The Theory of Planned Behavior (Ajzen, 1991) can theoretically explain this mechanism. Trust in government can be associated with the subjective norm, namely the belief of MSME actors that a significant entity, such as the government, supports tax-compliant behavior. Within this framework, tax morale emerges as a form of internal attitude toward whether tax behavior is good or bad. When the government is perceived as credible, it becomes easier for MSME actors to form a positive attitude toward tax obligations. Ultimately, this will increase the tendency toward voluntary compliance.



The Effect of Tri Hita Karana Culture on Tax Compliance with Tax Morale as a Mediating Variable

Based on the mediation effect testing that has been conducted, there is a mediating role of tax morale in the relationship between Tri Hita Karana and tax compliance. This can be observed from the indirect effect with a path coefficient value of 0.222, a t-statistic of 2.783, and a P-Value of 0.005. This mediating relationship is full, meaning that Tri Hita Karana does not directly affect tax compliance; instead, its entire influence is channeled through tax morale.

This finding aligns with previous results indicating that Tri Hita Karana culture has no direct effect on tax compliance, yet possesses a significant effect on tax morale. On the other hand, tax morale is also proven to exert a positive and significant effect on tax compliance. This pattern demonstrates that cultural values are not strong enough to directly drive administrative actions, but rather shape an individual's morale first. This serves as the foundation for MSME actors to discern whether an action is right or wrong, including in fulfilling their tax obligations. Therefore, tax morale becomes a vital pathway bridging cultural beliefs with compliant behavior and explains why the indirect effect through tax morale is significant, whereas the direct effect is not.

This finding is in line with the Theory of Planned Behavior (Ajzen, 1991), which reflects tax morale as the attitude of MSME actors toward tax obligations shaped by the values they hold. One of these values is the Tri Hita Karana culture. The values embedded within the Tri Hita Karana culture encourage MSME actors to perceive the fulfillment of tax obligations as something right. These values do not immediately generate action, but first shape a moral attitude. This attitude subsequently influences intentions and tax-compliant behavior, thereby making tax morale a relevant pathway in bridging the influence of culture on compliance.

A number of related studies also explain these results. Through an experimental approach, Parwati et al. (2021) demonstrated that Tri Hita Karana values are only capable of reducing tax evasion tendencies if they are first internalized into morale. Lutfillah et al. (2023) qualitatively illustrated that Tri Hita Karana values shape the perspective on taxes as a form of *Yadnya* or a sincere and heartfelt offering, which fosters moral awareness as the basis for tax compliance. Meanwhile, Aji (2024) emphasized that Balinese community culture drives the fulfillment of tax obligations not merely as a legal obligation, but as a form of personal morale. All of these studies support the premise that Tri Hita Karana values first form tax morale, which then becomes the main pathway in driving voluntary tax compliance.

This result is further reinforced by international research by Alm & Torgler (2006), which shows that differences in tax compliance levels across countries cannot be sufficiently explained by economic aspects or law enforcement alone. Another explaining factor is the social norms and cultural values that shape citizens' morale toward taxation. Furthermore, Musah et al. (2025), in their study on MSMEs, proved that an ethical organizational culture among MSME actors significantly influences tax compliance through the pathway of forming business actors' morale. This finding is strengthened by Ciziceno & Pizzuto (2022), who state that cultural orientations such as collectivism and social identity heavily influence an individual's level of tax morale. According to them, cultural values do not operate directly, but through psychological internalization in the form of tax morale, which then drives compliance. It is further mentioned that tax morale is akin to a "subjective norm" that can be influenced by many factors. Therefore, the mediation pathway through tax morale serves as an empirical mechanism in explaining the indirect effect of Tri Hita Karana culture on tax compliance.

CONCLUSION

Based on the results of the testing and analysis conducted, this study concludes that tax morale is proven to exert a positive and significant effect on tax compliance. This implies that



higher moral awareness among MSME actors leads to a greater intrinsic drive to fulfill their tax obligations. Trust in government is also proven to have a positive and significant effect on tax compliance; thus, the higher the taxpayers' level of trust in the government, the greater their tendency to comply. Conversely, Tri Hita Karana culture does not directly affect tax compliance, although the values of harmony embedded within it are theoretically aligned with the spirit of tax compliance. Nonetheless, the research results demonstrate that trust in government positively affects tax morale, reinforcing the role of trust in strengthening taxpayers' moral drive. Additionally, Tri Hita Karana culture is proven to exert a positive effect on tax morale, indicating that culture still plays a role in shaping society's perspective in discerning right from wrong regarding the fulfillment of tax obligations. Furthermore, tax morale is proven to partially mediate the relationship between trust in government and tax compliance, whereas the relationship between Tri Hita Karana culture and tax compliance is fully mediated by tax morale. Consequently, it can be asserted that tax morale plays a central role in bridging the influence of culture and trust in government on MSME tax compliance.

Recommendations

Based on the results of this study, it is recommended that the Directorate General of Taxes (DGT) and the government strengthen the alignment between local cultural values and tax compliance. The values of Tri Hita Karana, which have hitherto tended to be understood as general moral values, should be introduced from an early age through formal education, emphasizing that fulfilling tax obligations is integral to maintaining harmonious relationships with God, fellow humans, and the environment. Furthermore, the DGT is advised to integrate local cultural values, including Tri Hita Karana, into tax dissemination programs so that the delivered messages are more easily accepted by the public. The findings of this study also confirm that tax morale serves as a bridge between both cultural values and trust in government with tax compliance; therefore, the DGT's communication campaigns should be geared toward fostering the moral responsibility of taxpayers rather than merely administrative understanding. Moreover, the government and the DGT need to increase transparency in tax management and demonstrate tangible results from tax utilization, particularly for MSME actors and the wider community, in order to strengthen trust in the government and ultimately drive tax compliance.

Suggestions for Future Researchers are encouraged to further enrich the field of tax compliance by exploring the evolving cultural values within their respective regions, thereby providing a broader overview of cultural influences on tax behavior. Subsequent studies could utilize a qualitative approach or a mixed-methods design through interviews and Focus Group Discussions (FGD) to delve deeper into the meaning of each variable, particularly the cultural values of Tri Hita Karana. Additionally, it is recommended to involve a larger and more diverse sample size to enhance the generalizability of the findings, while also segmenting respondents based on business type, business scale, or duration of business operation to uncover differences in perception across groups. Future research could also expand the scope of the taxpayer sample and consider other relevant variables, so that the developed tax compliance model becomes more comprehensive and applicable.

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