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THE INFLUENCE OF TAX LITERACY AND MORALITY ON TAX COMPLIANCE MSME IN KARANGANYAR WITH TAX AWARENESS AS A MODERATOR VARIABLE

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ABSTRACT

The objective of this study is to analysis the influence of tax literacy and morality on tax compliance among MSME taxpayers in Karanganyar, with tax awareness as a moderating variable. The research formulates several issues, including the impact of tax literacy and morality on taxpayer compliance. This study employs quantitative data collected through questionnaires. Based on the multiple regression analysis, tax literacy and tax morality significantly influence tax compliance among MSME taxpayers. Tax awareness serves as a moderator that strengthens the relationship between literacy and morality with compliance. It is concluded that enhancing tax literacy and awareness among MSMEs is crucial for improving tax compliance, and it offers recommendations for the development of tax education programs and the reinforcement of moral values.

KEYWORDS: tax literacy, morality, tax compliance, tax awareness, MSME

INTRODUCTION

The level of tax compliance among taxpayers in the Karanganyar region has been steadily increasing year by year (Hapsari & Kholis, 2020). Their research further explains that in 2020, the tax compliance rate in Karanganyar reached 102.0% compared to the previous year. The increase in taxpayer compliance is undoubtedly influenced by both internal and external factors. Internal factors arise from the taxpayers themselves, such as their awareness and understanding of tax regulations. External factors include government efforts to enhance tax compliance among taxpayers, such as guidelines on tax rates, tax sanctions, and the modernization of the tax administration system (Hapsari & Kholis, 2020).

The research conducted by Yuliatic & Fauzi (2020) explains that taxes are one of the main sources of state revenue, derived from public participation in financing government expenditures and supporting the development process. According to Law Number 28 of 2007 concerning General Provisions and Tax Procedures, tax is defined as a mandatory payment obligation that must be fulfilled by every

individual or entity to the state. Taxes are binding in nature without any direct compensation and are used for the interests of the state.

One of the main functions of taxes in the budget aspect is as a source of state revenue. The role of taxes is vital and has significant potential in supporting the Indonesian economy, as taxes serve as the primary funding source for the State Budget (APBN).

The amount of tax revenue is influenced by various factors, one of which is taxpayer compliance in fulfilling tax obligations. Tax compliance can be defined in two ways: simply and comprehensively. The simple definition of tax compliance refers to the extent to which a taxpayer fulfills their tax obligations in accordance with applicable regulations. Meanwhile, compliance in a broader sense reflects the attitude of taxpayers as responsible citizens, not merely compliance out of fear of the sanctions imposed by regulations (Fahmi et al., 2023).

The research by Astuti & Panjaitan (2017) explains that taxpayers must comply with the established tax regulations. Taxpayer compliance can be realized when they take the time to visit the Tax Service Office (KPP) or the Directorate General of Taxes (DJP) to obtain clearer instructions. The government also imposes strict sanctions on companies that fail to meet their tax obligations. The sanctions include an Income Tax (PPh) fine of IDR 100,000 and a Value Added Tax (PPN) fine of IDR 1,500,000. Payment of these fines must be reported no later than April 30 in the annual tax report. Additionally, an interest penalty of 2% will be imposed and displayed in the format of a Tax Bill (STP). Sanctions may also include criminal penalties, where certain violations may result in imprisonment as an alternative to fines (Astuti & Panjaitan, 2017).

The 2024 press release from the Directorate General of Taxes (DJP) explains that the compliance rate among taxpayers is 73.61%, which is 9.59% lower than the expected compliance target. Taxpayer compliance can be supported by the understanding of taxpayers regarding all tax regulations. One factor affecting the level of tax compliance is tax literacy (Ardy, 2018). The term literacy can be defined as the ability to understand, interpret, and effectively use information. In this study, tax literacy refers to the ability of taxpayers to understand, interpret, and effectively use information related to tax regulations.

Tax literacy aligns with the tax education efforts initiated by the Directorate General of Taxes under the Ministry of Finance of the Republic of Indonesia. Through this literacy, it is hoped that taxpayers can understand various aspects related to taxation, such as tax rates, sanctions, the importance of having a Tax Identification Number (NPWP), how to accurately calculate taxes, the process of filing tax returns (SPT), the amount of tax to be paid, payment or reporting locations, as well as deadlines

and penalties imposed

Frequent changes in tax regulations are one of the factors contributing to taxpayer non-compliance. These changes can confuse some taxpayers, leading to a lack of understanding and knowledge in fulfilling their tax obligations (Yuliatic & Fauzi, 2020).

Research conducted by Rakhman & Chamalinda (2024) supports the finding that another important element in efforts to enhance taxpayer compliance in a country is tax morality. Furthermore, Panjaitan (2019) explains that tax morality is a primary influence that can reveal why taxpayers are honest regarding tax matters. Tax morality can arise from tax awareness, which impacts taxpayer compliance (Rakhman & Chamalinda, 2024). Additionally, in the study by Rakhman & Chamalinda (2024), tax education and socialization that can influence tax knowledge for the sake of tax literacy also enhance taxpayer compliance. Another factor in improving tax compliance is the tax awareness of the taxpayers themselves.

LITERATURE REVIEW AND HYPOTHESES

The grand theory used in this research is the Theory of Planned Behavior. This theory is based on the assumption that individuals generally act rationally. The Theory of Planned Behavior analyses how attitudes, subjective norms, and perceived control over behavior influence a person's intentions, as well as how those intentions and perceived control impact the resulting behavior (Maslim & Andayani, 2023).

In the context of this research, the author uses the Theory of Planned Behavior as the grand theory because it provides a foundation for understanding how tax compliance behavior is formed among MSME taxpayers in Karanganyar. In this theory, tax literacy can be linked to individuals' attitudes toward tax compliance, where a higher understanding and knowledge of tax regulations and benefits lead to a more positive attitude in fulfilling tax obligations. Tax morality is related to subjective norms, reflecting the social influences and ethical values of individuals in paying taxes. Taxpayers with high morality tend to view tax compliance as a moral obligation, thereby strengthening their intention to comply.

Based on previous research by Yuliati & Fauzi (2020), it is stated that tax literacy and service quality do not have a significant effect on MSME taxpayer compliance. This finding is consistent with the research by Mardhatilla et al. (2023), which shows that although knowledge about taxes contributes positively, its influence on MSME taxpayer compliance remains insignificant.

The findings of Kusumadewi & Dyarini (2022) indicate that knowledge about taxes does not affect

MSME taxpayer compliance. Furthermore, based on the research conducted by Yuliati & Fauzi (2020), although tax literacy has a positive impact, the analysis results show that its influence is not significant on MSME taxpayer compliance in several regions. Based on the findings above, this study proposes the first hypothesis as *tax literacy has an effect on MSME taxpayer compliance*.

Based on previous research by Sularsih & Wikardojo (2021), it is stated that the morality variable has a significant positive effect on MSME taxpayer compliance, as does the awareness variable, which also influences MSME taxpayer compliance. Furthermore, Dewi et al. (2024) demonstrate that a high level of tax awareness can strengthen the positive influence of tax literacy on taxpayer compliance. Taxpayers who have a good understanding of tax regulations tend to be more disciplined in fulfilling their tax obligations.

In contrast to the research by Sularsih & Wikardojo (2021), the findings of Yuliani & Setyaningsih (2020) indicate that tax awareness does not always play a significant role as a moderator in the relationship between tax knowledge and taxpayer compliance. Further research by Jarkoni & Hotmasari (2021) shows that tax awareness does not always have a significant influence on taxpayer compliance. Additionally, Zaikin et al. (2022) found that taxpayer awareness does not have a significant effect in moderating the relationship between tax literacy and compliance. Based on the findings above, this study proposes the second hypothesis as *tax awareness moderates the effect of tax literacy on tax compliance*.

Based on research conducted by Sularsih & Wikardojo (2021), it is stated that the morality variable has a positive and significant effect on MSME taxpayer compliance, as does the awareness variable, which also influences the level of MSME taxpayer compliance. Research by Dewi & Supadmi (2024) indicates that taxpayers with high morality tend to be more compliant in fulfilling their corporate tax obligations, as companies feel a social responsibility to contribute to national development.

In contrast to the findings of Sularsih & Wikardojo (2021) and Dewi & Supadmi (2024), the findings of Zaikin et al. (2022) state that in some regions, tax morality is not strong enough to counteract the negative influence of external factors on compliance. The research results show that although tax morality affects compliance, its impact may not be substantial enough to create the desired changes under certain conditions. Additionally, research by Sudirman et al. (2020) found that although tax morality has an influence, its impact is not significant on taxpayer compliance. Based on the findings above, this study proposes the third hypothesis as *tax morality has an effect on MSME taxpayer compliance*.

Based on previous research by Pawama et al. (2021), it is stated that this study proves that taxpayer

awareness has a significant influence in enhancing taxpayer compliance. Additionally, Aldianto et al. (2023) found that a high level of tax awareness can strengthen the impact of tax morality on taxpayer compliance. Taxpayers who recognize the importance of the role of taxes tend to be more compliant in fulfilling their tax obligations.

In contrast to the findings of Pawama et al. (2021) and Aldianto et al. (2023), research conducted by Farrell & Kellaher (2024) presents a different perspective, where, although tax morality affects compliance, tax awareness does not significantly moderate that relationship, especially in contexts with low levels of tax literacy. Wulandari (2023) found that tax awareness does not significantly influence the moderation of the relationship between tax morality and MSME taxpayer compliance. Based on the findings above, this study proposes the fourth hypothesis as *tax awareness moderates the relationship between tax morality and MSME taxpayer compliance*.

Research conducted by Yanti et al. (2021) found that tax knowledge is the ability of taxpayers to understand tax regulations, including the tax rates established by law and the benefits of taxes that can support their livelihoods. The findings of Rakhman & Chamalinda (2024) indicate that an understanding of tax awareness influences taxpayer behavior, encouraging them to be more compliant in fulfilling their tax obligations.

Amanda et al. (2023) found in their research that a high level of awareness regarding tax obligations tends to increase compliance in fulfilling tax responsibilities. Furthermore, the research by Budhiartama and Yanti et al. (2021) supports the finding that tax knowledge plays a role in enhancing taxpayer compliance in paying taxes, thereby increasing overall tax compliance.

In contrast to the findings of Yanti et al. (2021), Rakhman & Chamalinda (2024), Amanda et al. (2023), and Yanti et al. (2021), Bayani & Soedaryono (2025) state that although tax awareness has the potential to influence compliance, in some cases, other factors such as economic conditions and negative perceptions of taxes play a more significant role in determining the level of MSME taxpayer compliance. Based on the findings above, this study proposes the fifth hypothesis as *tax awareness has an effect on MSME taxpayer compliance*.

DATA ANALYSIS AND DISCUSSION

The research data used in this study is primary data obtained through a questionnaire distributed to MSMEs located in Karanganyar Regency. The questionnaire was distributed online (via Google Forms). From the respondents, the questionnaire was distributed to 88 MSMEs that have been operating for at least 6 months, have a Tax Identification Number (NPWP), and employ an average of 2 employees. The sample data for this study consists of 88 respondents.

In the analysis of the research data, several variables were assessed for validity based on their calculated correlation coefficients (calculated R) compared to the critical value (tabulated R). For the tax literacy variable, all items were found to be valid, with correlation values ranging from 0.515 to 0.722, indicating a strong understanding of tax regulations among respondents. Similarly, the tax morality variable showed that most items were valid, with correlation values between 0.557 and 0.702, except for items X2.3 and X2.4, which were deemed invalid due to low correlation values of 0.147 and 0.009, respectively. This suggests that while respondents generally possess a willingness to pay taxes, certain ethical considerations may not be as strongly recognized.

Regarding taxpayer compliance, several items were also evaluated for validity. Items Y1 and Y2 showed mixed results, with Y1 being invalid (calculated R = 0.138) while Y2 was valid (calculated R = 0.683). Other compliance indicators, such as timely reporting of tax returns (Y3 and Y4) and adherence to tax regulations (Y7 and Y8), were valid, with correlation values ranging from 0.619 to 0.683. In the tax awareness variable, most items were valid, with correlation values between 0.520 and 0.627, except for items Z4, Z5, and Z10, which were invalid due to low correlation values of 0.049, 0.184, and 0.163, respectively. This indicates that while respondents are generally aware of tax laws and their obligations, there are specific areas where awareness may be lacking.

The reliability analysis results for various variables in this study. The tax literacy variable (X1) has a Cronbach's Alpha value of 0.885, indicating a very good level of reliability. The tax morality variable (X2) also shows good reliability with a value of 0.821. Additionally, MSME taxpayer compliance (Y) has a Cronbach's Alpha value of 0.772, which also indicates good reliability. Finally, the tax awareness variable (Z) has a value of 0.752, demonstrating that all variables in this study can be considered valid and reliable, with a minimum standard result set at 0.60.

The results of the normality test indicate that the Asym.sig (2-tailed) value for the unstandardized residual Y is 0.753. It can be concluded that the Monte Carlo Sig. (2-tailed) value in this study is greater than the significance level used, which is $\alpha = 0.05$. Therefore, all data are normally distributed. Consequently, multiple linear regression analysis can be conducted as the data have met the normality assumption.

The tolerance values range from 0.331 to 0.632, with none falling below 0.10. Similarly, the VIF values range from 3.025 to 1.582, with none exceeding 10. Therefore, it can be concluded that there are no signs of multicollinearity in this data.

The coefficients table presents the results of the regression analysis, with the dependent variable being the absolute residuals (Abs_RES). The constant term is 4.333, with a standard error of 2.131, yielding

a t-value of 2.034 and a significance level of 0.045, indicating that the constant is statistically significant. For the independent variables, tax literacy has an unstandardized coefficient of 0.002 and a standardized coefficient (Beta) of 0.010, with a t-value of 0.052 and a significance level of 0.958, suggesting that it does not have a significant effect on the dependent variable. The morality variable has an unstandardized coefficient of 0.021 and a standardized coefficient of 0.087, with a t-value of 0.495 and a significance level of 0.622, indicating a lack of significance as well. Lastly, the tax awareness variable shows an unstandardized coefficient of -0.060 and a standardized coefficient of -0.190, with a t-value of -1.401 and a significance level of 0.165, further confirming that it does not significantly impact the dependent variable.

The regression analysis results with MSME taxpayer compliance as the dependent variable are presented in the table. The constant coefficient is 32.290 with a standard error of 3.578, yielding a t-value of 9.024 and a significance level of less than 0.001, indicating the intercept is statistically significant. The tax literacy variable has an unstandardized coefficient of 0.378 and a standardized coefficient (Beta) of 0.538, with a t-value of 4.103 and a significance level of less than 0.001, suggesting a strong and significant positive effect on taxpayer compliance. In contrast, the tax morality variable shows an unstandardized coefficient of 0.123 and a standardized coefficient of 0.159, with a t-value of 1.210 and a significance level of 0.230, indicating that this variable does not significantly affect MSME taxpayer compliance.

Regression analysis results, with MSME taxpayer compliance as the dependent variable, are summarized in the coefficients table. The constant term is -53.021, with a standard error of 35.238, resulting in a t-value of -1.505 and a significance level of 0.136, indicating that the constant is not statistically significant. The tax literacy variable has an unstandardized coefficient of 0.939 and a standardized coefficient (Beta) of 1.335, with a t-value of 1.091 and a significance level of 0.279, suggesting that it does not have a significant effect on taxpayer compliance. The morality variable shows an unstandardized coefficient of 0.456 and a standardized coefficient of 0.589, with a t-value of 0.666 and a significance level of 0.507, indicating a lack of significance as well. In contrast, the tax awareness variable has an unstandardized coefficient of 1.665 and a standardized coefficient of 1.654, with a t-value of 2.935 and a significance level of 0.004, demonstrating a significant positive effect on MSME taxpayer compliance. The variables X1.Z and X2.Z have unstandardized coefficients of -0.013 and -0.006, respectively, with significance levels of 0.355 and 0.563, indicating that they do not significantly impact taxpayer compliance either.

The results of the t-test for the regression analysis with MSME taxpayer compliance as the dependent variable are presented across several models. In the first model, the constant term is 34.323, with a standard error of 3.168, resulting in a t-value of 10.833 and a significance level of less than 0.001,

indicating that the constant is statistically significant. The tax literacy variable has an unstandardized coefficient of 0.466 and a standardized coefficient (Beta) of 0.663, with a t-value of 8.206 and a significance level of less than 0.001, suggesting a strong and significant positive effect on taxpayer compliance.

In the second model, the constant term is 50.849, with a standard error of 2.858, yielding a t-value of 17.790 and a significance level of less than 0.001, confirming its statistical significance. However, the tax literacy variable shows an unstandardized coefficient of -0.617 and a standardized coefficient of -0.877, with a t-value of -5.017 and a significance level of less than 0.001, indicating a significant negative effect on taxpayer compliance. Additionally, the variable X1.Z has an unstandardized coefficient of 0.013 and a standardized coefficient of 1.629, with a t-value of 9.318 and a significance level of less than 0.001, suggesting a significant positive impact.

In the third model, the constant term is 34.758, with a standard error of 3.839, resulting in a t-value of 9.055 and a significance level of less than 0.001, indicating statistical significance. The morality variable has an unstandardized coefficient of 0.451 and a standardized coefficient of 0.583, with a t-value of 6.647 and a significance level of less than 0.001, demonstrating a significant positive effect on MSME taxpayer compliance.

The fourth model presents a constant term of 53.314, with a standard error of 3.173, yielding a t-value of 16.804 and a significance level of less than 0.001, confirming its significance. The morality variable shows an unstandardized coefficient of -0.715 and a standardized coefficient of -0.924, with a t-value of -5.787 and a significance level of less than 0.001, indicating a significant negative effect on taxpayer compliance. The variable X2.Z has an unstandardized coefficient of 0.014 and a standardized coefficient of 1.622, with a t-value of 10.161 and a significance level of less than 0.001, suggesting a significant positive impact.

Finally, in the fifth model, the constant term is 9.559, with a standard error of 3.593, resulting in a t-value of 2.660 and a significance level of 0.009, indicating that the constant is statistically significant. The tax awareness variable has an unstandardized coefficient of 0.841 and a standardized coefficient of 0.836, with a t-value of 14.115 and a significance level of less than 0.001, demonstrating a strong and significant positive effect on MSME taxpayer compliance. Overall, the results indicate that tax literacy, morality, and tax awareness significantly influence taxpayer compliance, although the effects can vary in direction and magnitude across different models.

CONCLUSION

The influence of tax literacy on MSME taxpayer compliance in Karanganyar is significant, with a

significance value (Sig.) of less than 0.05, indicating that taxpayers are more compliant when they are knowledgeable about tax regulations. Tax awareness acts as a moderator, significantly strengthening the relationship between tax awareness and taxpayer compliance, as evidenced by a Sig. value of 0.001. Additionally, tax morality has a substantial impact on compliance, with a Sig. value of 0.001, suggesting that individuals with higher moral standards are more likely to fulfilled their tax obligations. Furthermore, tax awareness serves as a moderator in the relationship between tax morality and compliance, also showing a significant influence. Overall, MSME taxpayer compliance is directly affected by tax awareness, as those who understand their tax responsibilities are more likely to comply with their tax obligations.

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