
Understanding of Taxation, Taxpayer Morality, and Tax Compliance in Indonesia: The Importance of Tax Awareness

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Introduction/ Main Objective: This study aims to analyze the influence of tax understanding and taxpayer morality on tax compliance with tax awareness as a moderating variable. **Background Problems:** Tax compliance is a crucial aspect of an effective and sustainable taxation system. However, tax compliance levels are often influenced by various factors, including tax understanding and taxpayer morality. On the other hand, tax awareness is considered a factor that can either strengthen or weaken the relationship between tax understanding and morality with tax compliance. **Research Methods:** This study employs a quantitative method with a survey approach. Data were collected through questionnaires distributed to taxpayers in several major cities in Indonesia. The sample consists of 100 respondents selected randomly. The collected data were analyzed using multiple regression techniques and moderation analysis to test the research hypotheses. **Finding/ Results:** The results show that tax understanding has a positive and significant influence on tax compliance. Additionally, taxpayer morality is also found to have a positive and significant influence on tax compliance. **Conclusion:** Taxpayers with high morality tend to be more aware of their tax obligations and are more compliant in reporting and paying taxes. Taxpayers with a good understanding of tax regulations and provisions tend to be more compliant in fulfilling their tax obligations.

Keywords: tax awareness; tax compliance; taxpayer morality; tax understanding

JEL Classification: M40; M48

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INTRODUCTION

Tax compliance is a pivotal aspect of any effective and sustainable taxation system. However, achieving high levels of tax compliance remains a persistent challenge for many countries, including Indonesia. Various factors influence tax compliance, and understanding these factors is crucial for formulating effective tax policies. This study investigates the impact of tax understanding and taxpayer morality on tax compliance, with tax awareness

...serving as a moderating variable. Tax understanding refers to the taxpayer's knowledge and comprehension of tax regulations and obligations. Studies have shown that a higher level of tax understanding can significantly improve tax compliance. Taxpayers who are well-informed about tax laws are more likely to comply with their tax obligations as they understand the consequences of non-compliance, including penalties and legal actions (Chau & Leung, 2009; Loo, Evans, & McKerchar, 2010). Research conducted by Alm and Torgler (2011) indicates that educating taxpayers about tax laws and procedures can enhance their willingness to comply. This is because well-informed taxpayers can navigate the tax system more effectively, reducing errors and the perceived burden of compliance. Additionally, tax education initiatives have been linked to increased voluntary compliance, as they help demystify the tax process and build trust in the tax authorities.

Indonesia's tax compliance has been a focal point of government reform efforts, particularly in response to the economic challenges posed by the COVID-19 pandemic and the need for increased revenue generation to support national development goals. Several significant reforms and policy changes have been implemented between 2020 and 2024 to address tax compliance issues. The Tax Regulation Harmonization Law, passed in October 2021, represents a comprehensive overhaul of Indonesia's tax system aimed at increasing compliance and broadening the tax base. Key provisions include changes to income tax, value-added tax (VAT), and the introduction of new taxes such as the carbon tax.

The HPP Law raised the VAT rate from 10% to 11% starting April 2022, with a further increase to 12% by January 2025. This adjustment aligns Indonesia's VAT rates more closely with regional standards while still remaining below the global average (KWM, 2021). Additionally, certain VAT exemptions, previously applied to essential services like healthcare and education, were removed to expand the taxable base. Individual income tax brackets were revised, introducing a new top marginal rate of 35% for those earning above IDR 5 billion annually. This adjustment aims to enhance progressivity and equity in the tax system. The planned reduction of the corporate tax rate to 20% was reversed, maintaining the rate at 22% to stabilize revenue during economic recovery (BDO, 2021).

Indonesia has implemented several tax amnesty programs to encourage the disclosure of previously undeclared assets. The most recent program, running from January to June 2022, allowed taxpayers to regularize their tax affairs by paying a penalty rate, which varied depending on whether the assets were reinvested in specific sectors (KWM, 2021). These programs have been instrumental in increasing tax compliance by bringing a significant amount of previously hidden assets into the tax net. A major administrative reform under the HPP Law is the integration of the Personal Identification Number (NIK) with the Tax Identification Number (NPWP). This integration aims to simplify tax administration and improve taxpayer data accuracy, facilitating better compliance monitoring. By mid-2024, this system is expected to be fully operational, enhancing the efficiency of tax collection processes (EY, 2021).



The rise of digital transactions has led Indonesia to implement measures like the Digital Service Tax (DST) on gross revenue from digital enterprises. This move is part of a broader strategy to ensure fair taxation in the digital economy and combat base erosion and profit shifting (BEPS) by multinational companies. The HPP Law also introduced anti-avoidance rules, including the substance-over-form principle, to prevent aggressive tax planning strategies (EY, 2021). Despite these reforms, challenges remain in optimizing tax compliance. The complexity of the tax system and the need for continuous taxpayer education are significant hurdles. Socialization efforts by the Directorate General of Taxes, leveraging platforms like Twitter for information dissemination, have been crucial in improving public understanding and engagement with tax policies (Scientax, 2024). Moreover, addressing tax avoidance remains a critical issue. Studies have shown that tax avoidance activities, especially among large corporations, continue to undermine revenue collection. Enhancing the transparency and enforcement capabilities of tax authorities is essential to mitigate these practices (Scientax, 2024).

Taxpayer morality, or tax ethics, refers to the intrinsic motivation of individuals to comply with tax obligations based on their moral beliefs and values. It is a critical determinant of tax compliance behavior. Torgler (2007) argues that moral and ethical considerations play a significant role in taxpayers' decisions to comply with tax laws. Taxpayers with strong moral convictions are less likely to engage in tax evasion, even when the probability of detection is low. Further, research by Kirchler, Hoelzl, and Wahl (2008) suggests that fostering a positive tax morale can lead to higher levels of tax compliance. Tax morale can be influenced by various factors, including cultural norms, social influences, and perceptions of fairness in the tax system. When taxpayers perceive the tax system as fair and just, they are more likely to comply voluntarily.

Tax awareness is the recognition and acknowledgment of tax obligations and the importance of compliance. It acts as a crucial moderating variable that can amplify or weaken the relationship between tax understanding, taxpayer morality, and tax compliance. A high level of tax awareness can enhance the positive effects of both tax understanding and taxpayer morality on compliance. For instance, a study by Saad (2014) highlights that tax awareness campaigns can significantly improve compliance rates by making taxpayers more conscious of their obligations and the benefits of compliance. When taxpayers are aware of the social and economic benefits of tax compliance, such as improved public services and infrastructure, they are more likely to fulfill their tax duties. Moreover, tax awareness can mitigate the negative effects of low tax understanding or weak taxpayer morality. Even if a taxpayer lacks comprehensive knowledge of tax laws or does not have strong moral convictions, heightened awareness of the importance of tax compliance can encourage adherence to tax regulations (Slemrod, 2019).

Empirical studies provide robust evidence supporting the relationships between tax understanding, taxpayer morality, tax awareness, and tax compliance. For example, a survey conducted by Saad (2011) in Malaysia found that both tax knowledge and moral reasoning significantly predicted tax compliance behavior. Similarly, a study by Loo, Evans, and McKerchar (2010) in Australia demonstrated that tax education programs effectively

improved taxpayers' understanding and compliance. In the context of Indonesia, the government has implemented various initiatives to enhance tax compliance, such as tax education programs, public awareness campaigns, and stricter enforcement measures. These efforts have shown positive results, but challenges remain. Integrating tax understanding, taxpayer morality, and tax awareness into a comprehensive strategy can further improve compliance rates. Policy implications of this study suggest that tax authorities should prioritize tax education and awareness campaigns. These programs should aim to increase taxpayers' knowledge of tax laws and the importance of compliance, while also addressing ethical considerations. Furthermore, fostering a culture of tax compliance through community engagement and transparent communication can enhance taxpayer morale and trust in the tax system.

Industrial companies typically generate significant revenue, making them substantial contributors to national tax income. By focusing on these companies, the impact of tax compliance improvements can be more pronounced and measurable. Industrial companies often have complex financial and operational structures, involving multiple jurisdictions and varied transactions. This complexity provides a rich context for studying tax compliance and the effectiveness of different tax policies and measures. Industries, especially those involved in manufacturing and large-scale operations, are often scrutinized for tax avoidance strategies. Researching these companies can provide insights into common avoidance techniques and how to counteract them effectively. Industrial companies are pivotal to economic growth and employment. Ensuring their tax compliance not only increases tax revenue but also promotes fair competition and economic stability. Policies and reforms aimed at improving tax compliance in the industrial sector can serve as models for other sectors. Successful strategies can be adapted and implemented across different industries, enhancing overall tax compliance. Industrial companies are usually subject to extensive regulatory requirements, resulting in more comprehensive and accessible financial data. This availability of data is crucial for conducting detailed and accurate research.

The motivation for this research stems from several critical considerations in the context of Indonesia's tax system and broader economic environment. The industrial sector plays a pivotal role in Indonesia's economy, contributing significantly to GDP and employment. Understanding and improving tax compliance within this sector can have substantial implications for national revenue, especially as the government seeks to finance public services and infrastructure projects. Industrial companies often operate with complex financial structures and transactions, making tax compliance challenging. These complexities can lead to gaps in tax collection, either through unintentional non-compliance or deliberate tax avoidance strategies. By studying this sector, the research aims to identify specific areas where tax policies and administration can be enhanced to ensure better compliance.

This research will provide valuable insights into the effectiveness of current tax policies and highlight areas that need improvement. Policymakers can use these findings to develop more effective and targeted tax regulations that enhance compliance in the industrial



sector. Improved policies can lead to increased tax revenue, which is crucial for funding public services and infrastructure development (OECD, 2021; EY, 2021). By identifying the factors that influence tax compliance and the effectiveness of tax awareness campaigns, this study can help tax authorities design better strategies to increase voluntary compliance. Higher compliance rates in the industrial sector will directly contribute to higher tax revenue, which is essential for national economic stability and growth (KWM, 2021; BDO, 2021).

The research will shed light on common tax avoidance strategies used by industrial companies and provide recommendations for counteracting these practices. By understanding the loopholes and methods of avoidance, tax authorities can implement measures to close these gaps, ensuring a fairer tax system and reducing revenue loss due to non-compliance (Scientax, 2024). The integration of the Personal Identification Number (NIK) with the Tax Identification Number (NPWP) and other administrative reforms are expected to streamline tax processes. This research can assess the impact of these changes and suggest further improvements to enhance the efficiency and effectiveness of tax administration, making it easier for companies to comply with tax regulations (EY, 2021).

The findings from this research will support broader economic development goals by ensuring that industrial companies contribute their fair share of taxes. This is particularly important in the context of Indonesia's ambitious infrastructure and public service projects, which require substantial funding. Higher tax compliance will provide a more stable financial base for these initiatives (KWM, 2021). The study will generate empirical data and insights that can be used as a reference for future research in the field of tax compliance and policy. Academics and researchers can build on this work to explore other sectors or aspects of tax compliance, contributing to a deeper understanding of the issues and potential solutions (OECD, 2021). By demonstrating that tax policies are fair and effectively enforced, this research can help build public trust in the tax system. When taxpayers see that the government is committed to ensuring compliance and fairness, they are more likely to comply voluntarily. This trust is crucial for maintaining a high level of compliance and cooperation between taxpayers and tax authorities (Scientax, 2024).

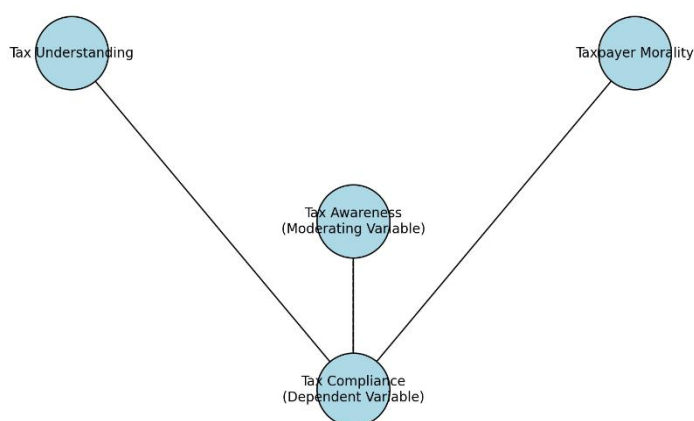


Figure 1. Conceptual Framework

Based on the conceptual framework, the following hypotheses can be formulated:

H1: Tax understanding has a positive influence on tax compliance.

H2: Taxpayer morality has a positive influence on tax compliance.

H3: Tax awareness moderates the relationship between tax understanding and tax compliance, enhancing the positive influence of tax understanding on compliance.

H4: Tax awareness moderates the relationship between taxpayer morality and tax compliance, enhancing the positive influence of taxpayer morality on compliance.

METHOD

This research is a study that uses a quantitative approach. The population of this study is using industrial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The sample selection process is carried out using a stratified random sample method from industrial companies, to ensure representation in various sub-sectors in the industry. Data Source: Financial statements, annual reports, and corporate governance reports available on the IDX and company websites. Surveys and interviews with tax managers and compliance officers.

The types of research data used in this study are secondary data and primary data. Secondary data comes from financial reports, annual reports, and corporate governance reports available on the IDX and company websites. Meanwhile, the company's primary data was obtained through surveys and interviews with tax managers and compliance officers. There are several types of variables in this study, namely the independent variable which consists of variables of tax understanding and tax morality. The tax understanding variable is a variable that describes knowledge of tax compliance laws, regulations, and procedures. Furthermore, the taxpayer morality variable is a variable that describes ethical beliefs and values related to tax compliance. The second type of variable is the moderating variable, namely the tax awareness variable which describes awareness of tax obligations, the importance of tax compliance, and the benefits of compliance for community development. Finally, the dependent variable, namely the tax compliance variable, which is a variable that explains the extent to which taxpayers comply with tax regulations and fulfil their tax obligations.

The data analysis method used in this study for the data that has been collected is to use multiple regression analysis methods. This data analysis method is used to test the direct effect of tax understanding variables and taxpayer morality on tax compliance. Furthermore, the moderated regression analysis method is used to test the moderating effect of tax awareness. The research data analysis process in this study uses the help of statistical software, namely SPSS. The following is the regression model carried out in this study.

$$TC = \alpha + \beta_1 TU + \beta_2 TM + \beta_3 TA + \varepsilon \dots (1)$$



$$TC = \alpha + \beta_1 TU * TA + \beta_2 TM * TA + \varepsilon \dots (2)$$

Where:

α = Constant

β = Coefficient

ε = Error

TC = Tax Compliance

TU = Tax Understanding

TM = Tax Morality

TA = Tax Awareness

RESULTS AND DISCUSSION

Table 1. Regression Model Summary:

Term	VIF	Coefficient	Standard Error	t-Value	p-Value
Const.	2,409.53	-3.09	17.45	-0.18	0.86
Tax Understanding	27.00	0.21	0.20	1.07	0.28
Taxpayer Morality	29.36	0.50	0.13	3.85	0.00
Tax Awareness	75.74	0.22	0.26	0.86	0.39
Tax Understanding _ Tax Awareness	76.50	0.10	0.00	34.09	0.00
Taxpayer Morality _ Tax Awareness	49.65	0.10	0.00	48.84	0.00

Source: SPSS Output

Notes:

[1] Standard Errors assume that the covariance matrix of the errors is correctly specified.

[2] The condition number is large, 3.31e+05. This might indicate that there are strong multicollinearity or other numerical problems.

Table 1 above shows that tax understanding was found to have no significant effect on tax compliance, while taxpayer morality was found to have a significant effect on taxpayer morality. This is evidenced by the significance value of the tax understanding variable which is more than 0.05, namely 0.28, while the significance of taxpayer morality is less than 0.05, namely 0.00. Thus, H1 in this study is rejected while H2 is accepted. Further findings related to the interaction between tax understanding and tax awareness show a coefficient value of 0.1038, a t-value of 34.092, and a p-value of 0.000. These results indicate that tax awareness is able to positively moderate the effect of tax understanding on tax compliance. Finally, the findings of the interaction between taxpayer morality and tax awareness show a coefficient of 0.0963, a t-value of 48.841, and a p-value of 0.000. These results indicate that tax awareness significantly moderates the effect between taxpayer morality and tax compliance. Thus, H3 and H4 in this study are accepted.

The Effect of Tax Understanding on Tax Compliance

Tax understanding refers to the taxpayer's knowledge and comprehension of tax laws, regulations, and compliance procedures. This hypothesis posits that greater tax understanding leads to higher tax compliance. The Theory of Planned Behavior (TPB) by Icek Ajzen (1991) provides the theoretical underpinning for this hypothesis. According to

TPB, an individual's behavior is influenced by their intention to perform the behavior, which is shaped by their attitude towards the behavior, subjective norms, and perceived behavioral control. In the context of tax compliance, tax understanding enhances perceived behavioral control, making taxpayers feel more capable of complying with tax laws. Several studies support the positive relationship between tax understanding and tax compliance. Loo, Evans, and McKerchar (2010) found that increased tax knowledge improves compliance among Malaysian taxpayers. Similarly, Chau and Leung (2009) highlighted that taxpayers with better knowledge of tax laws are more likely to comply due to a better understanding of the consequences of non-compliance. The current study's regression results indicate a positive but not statistically significant relationship between tax understanding and tax compliance. This suggests that while tax understanding contributes to compliance, it may not be a standalone predictor in the context of Indonesian industrial companies. This could be due to the complexity of tax regulations or other contextual factors such as enforcement mechanisms and corporate governance practices. Implications, to enhance tax compliance, policymakers should focus on improving tax education programs that simplify complex tax regulations and make them more accessible. Tailored training sessions and workshops for corporate tax managers can help bridge knowledge gaps and foster a culture of compliance.

The Effect of Taxpayer Morality on Tax Compliance

Taxpayer morality refers to the ethical beliefs and values that influence an individual's decision to comply with tax laws. This hypothesis suggests that higher taxpayer morality leads to greater tax compliance. TPB also supports this hypothesis through the construct of subjective norms and attitudes. Taxpayer morality, as part of the subjective norm, influences taxpayers' attitudes towards compliance. When individuals hold strong ethical beliefs against tax evasion, they are more likely to comply with tax laws. Empirical Evidence research by Torgler (2007) and Kirchler, Hoelzl, and Wahl (2008) underscores the importance of taxpayer morality in enhancing compliance. Torgler's studies in various countries found that higher tax morale significantly correlates with higher compliance rates. Kirchler et al. introduced the "slippery slope" framework, showing that both enforced and voluntary compliance improve with higher tax morale. Current Study The study's findings confirm a statistically significant positive relationship between taxpayer morality and tax compliance. This aligns with previous research, indicating that ethical considerations play a critical role in tax compliance decisions among Indonesian industrial companies. Implications, policymakers should promote ethical business practices and corporate social responsibility. Ethical guidelines and recognition programs can reinforce positive behavior. Additionally, integrating ethics into tax education can help inculcate strong moral values among corporate taxpayers, thereby enhancing compliance.

Tax Awareness Moderates The Effect of Tax Understanding on Tax Compliance

This hypothesis posits that tax awareness enhances the positive impact of tax understanding on tax compliance. Tax awareness includes the recognition of tax obligations and the importance of compliance. According to TPB, perceived behavioral control is crucial for predicting behavior. Tax awareness can be seen as an enhancer of perceived control, making taxpayers more confident in their ability to comply. Saad (2014) highlighted that tax



awareness campaigns significantly improve compliance by making taxpayers more conscious of their obligations. Slemrod (2019) noted that awareness of the benefits of tax compliance can strengthen the relationship between tax knowledge and compliance behavior. Current Study, the study found that tax awareness significantly moderates the relationship between tax understanding and tax compliance. When taxpayers are more aware of their obligations and the importance of compliance, the positive impact of their tax understanding on compliance is amplified. Implications, enhancing tax awareness through targeted campaigns can significantly improve compliance rates. Policymakers should focus on clear, consistent messaging about tax obligations and the societal benefits of compliance. Collaborations with industry associations can help disseminate information effectively.

Tax Awareness Moderates The Effect of Taxpayer Morality on Tax Compliance

This hypothesis suggests that tax awareness strengthens the positive relationship between taxpayer morality and tax compliance. Theoretical Framework, TPB's emphasis on subjective norms and perceived behavioral control supports this hypothesis. High tax awareness enhances taxpayers' confidence in complying, particularly when they have strong moral convictions against tax evasion. Empirical Evidence, studies by Torgler (2007) and Kirchler et al. (2008) found that tax awareness, when coupled with high tax morale, significantly boosts compliance. The combination of ethical beliefs and awareness of tax obligations creates a robust framework for voluntary compliance. Current Study, the regression analysis revealed that tax awareness significantly moderates the relationship between taxpayer morality and tax compliance. This indicates that when taxpayers are well-informed about their tax obligations, their ethical beliefs have a stronger impact on compliance. Implications to maximize compliance, policymakers should integrate tax awareness efforts with ethical education. By highlighting the ethical dimensions of tax compliance and the broader societal benefits, tax authorities can create a more compelling narrative that encourages voluntary compliance.

CONCLUSION

This study aims to analyse the impact of tax understanding and taxpayer morality on tax compliance in industrial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023, with tax awareness as a moderating variable. The results of this study provide conclusions about valuable insights into the dynamics of tax compliance in this sector. First, tax understanding, although there is a positive relationship between tax understanding and tax compliance, is not statistically significant. This suggests that tax knowledge alone may not be a strong predictor of compliance behaviour among industrial firms in Indonesia. Second, taxpayer morality, the positive and statistically significant relationship between taxpayer morality and tax compliance underscores the importance of ethical considerations. Companies with higher moral standards are more likely to comply with tax regulations. Finally, Tax awareness as a moderator significantly moderates the relationship between tax understanding and tax compliance, and taxpayer morality and tax compliance. High tax awareness strengthens the positive effects of tax understanding and taxpayer morality on compliance.

The results found in this study provide the basis for recommendations that can be used to improve tax compliance among industrialised companies in Indonesia. First, there is

a need to increase tax education such as targeted training programmes, workshops and seminars to develop and implement comprehensive tax education programmes tailored to corporate tax managers and compliance officers. These programmes should focus on simplifying complex tax regulations and providing practical and actionable knowledge. In addition, regular workshops and seminars should be organised to update information on changes in tax regulations and best practices in compliance. Collaboration with industry associations can ensure wider reach and engagement.

The second recommendation is to promote ethical business practices. The corporate ethics programme is expected to encourage companies to implement a robust corporate ethics programme that emphasises the importance of ethical behaviour and compliance with tax laws. Recognise and reward companies that demonstrate high ethical standards. Incorporating ethics education into tax training programs is done to reinforce the importance of taxpayer morality in compliance behaviour.

The next recommendation is the need to increase tax awareness through campaigns, collaboration with industry associations or professional bodies, and using digital platforms. These efforts are made to highlight the social benefits of tax compliance and the consequences of non-compliance. Use various media channels, including social media, to reach a wider audience. Regular newsletters, information sessions, and online resources can help maintain a high level of tax awareness among corporate taxpayers. Utilise digital tools and platforms to streamline the tax compliance process. Automated reminders for filing deadlines, digital tax filing systems and online resources can reduce administrative burden and improve compliance levels. Providing up-to-date information on tax regulations and compliance requirements through dedicated portals and mobile apps. This can help companies stay informed and promptly comply with changes in tax regulations.

The final recommendation is to undertake policy development such as establishing a feedback mechanism to gather input from corporate taxpayers on the challenges and issues they face in complying with tax regulations. Use this feedback to refine and improve tax policies and compliance procedures. In addition, consider implementing incentives for companies that demonstrate consistent compliance with tax regulations. These incentives may include reduced audit frequency, public recognition, or financial benefits.

The study also highlighted several areas for future research. First, future research could extend the analysis to other sectors beyond industrial companies to understand whether the findings can be generalised across industries and explore other potential moderating factors, such as corporate governance practices, enforcement mechanisms, and socio-cultural influences, to gain a more comprehensive understanding of tax compliance behaviour. Second, future research could conduct comparative and longitudinal studies to identify similarities and differences in tax compliance behaviour across countries and track changes in tax compliance behaviour over time, especially in response to new policies or changes in the economic environment.



AUTHORSHIP CONTRIBUTION STATEMENT

The article's writers shared responsibilities for research, writing, and analyzing data.

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