

# Tax Incentives and Taxpayer Compliance of Micro, Small and Medium Enterprises: The Moderating Role of Tax Literacy

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## ABSTRACT

The government's tax incentives for MSMEs during this pandemic are expected to increase taxpayer compliance. This study aims to provide empirical evidence of the effect of tax incentives during the COVID-19 pandemic on Micro, Small and Medium Enterprises (MSMEs) taxpayer compliance. This study also assesses the moderating influence of tax literacy on the relationship between tax incentives and taxpayer compliance. Using a sample of 108 MSME actors registered in the Yogyakarta Special Region of Cooperatives and MSMEs, the results indicate that tax incentives during the COVID-19 pandemic positively affect MSME taxpayer compliance. Meanwhile, tax literacy as a moderating variable weakens the impact of using tax incentives during the COVID-19 pandemic on MSME taxpayer compliance. The lack of tax literacy of MSME actors has resulted in the use of tax incentives being not optimal, so the government must increase the socialization of tax regulations to the public, especially among MSME actors.

## ABSTRAK

Banyaknya insentif pajak yang diberikan pemerintah kepada UMKM selama masa pandemi ini diharapkan dapat meningkatkan kepatuhan wajib pajak. Penelitian ini bertujuan untuk memberikan bukti empiris pengaruh insentif pajak selama pandemi COVID-19 terhadap kepatuhan wajib pajak Usaha Mikro, Kecil, dan Menengah (UMKM). Penelitian ini juga menilai pengaruh moderasi literasi pajak terhadap hubungan antara insentif pajak dan kepatuhan wajib pajak. Dengan menggunakan sampel 108 pelaku UMKM yang terdaftar di Koperasi dan UMKM Daerah Istimewa Yogyakarta, didapatkan hasil bahwa insentif pajak selama pandemi COVID-19 berpengaruh positif terhadap kepatuhan wajib pajak UMKM. Sementara itu, literasi pajak sebagai variabel moderasi memperlemah dampak penggunaan insentif pajak selama pandemi COVID-19 terhadap kepatuhan wajib pajak UMKM. Minimnya literasi pajak para pelaku UMKM mengakibatkan penggunaan insentif pajak menjadi tidak optimal, sehingga perlu bagi pemerintah untuk meningkatkan sosialisasi peraturan perpajakan kepada masyarakat khususnya kepada para pelaku UMKM.

## 1. INTRODUCTION

Taxes, one of the main pillars of the Indonesian economy, have also been affected by the COVID-19 pandemic. The tax revenue declines remarkably during this pandemic period (Prasasti et al., 2020). This decline was caused by a weakening in the business sector, which resulted in decreased economic growth. The economic sector negatively affected by the COVID-19 outbreak is Micro, Small and Medium Enterprises (MSMEs). The growth of MSME businesses throughout Indonesia has been hampered due to the COVID-19 pandemic. Many obstacles are experienced by business people with regulations issued by the government for handling

the pandemic, for example, the enactment of Large-Scale Social Restrictions (PSBB). With the enactment of the PSBB, there will be a decrease in turnover from the targeted profit plan, which will impact the MSMEs' financial cycle.

According to an article published by the Directorate General of Taxes (DGT), until the end of 2020, the epidemic is still a problem that Indonesia has not been able to overcome, especially related to economic growth (news.ddtc.co.id). Although the government has tried to restore economic growth by implementing the new normal, these efforts have not brought optimal results to restoring the Indonesian economy. This is because people's

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productivity has been disrupted due to the pandemic, so it is still difficult to recover. Therefore, the Ministry of Finance issued a policy to recover and stabilize the country's economy by utilizing tax incentives. Regulations regarding tax incentives for taxpayers affected by the pandemic are contained in Minister of Finance Regulation Number 9/PMK.03/2021. This rule is an improvement from the previous PMK; namely PMK Number 86 of 2020. Taxpayers can use the application of this tax incentive rule until December 2021.

Minister of Finance Regulation No. 9/PMK.03/2021 explains that the use of MSME tax incentives is the perpetrator of MSME taxpayers. This is stated in Government Regulation 23 of 2018 concerning Final Income Tax with a tariff of 0.5 percent borne by the government. MSMEs using this policy is no longer required to withhold taxes when making tax payments, but they are only required to report the realization of funds every month. During the COVID-19 pandemic, the DGT has made changes by modifying the internet-based application, in which case taxpayers wishing to register or apply for the use of tax incentives can access the DGT application online.

The utilization of tax incentives in Indonesia is still low (taxonline.com). In October 2020, only 19 percent of MSME actors had utilized tax incentives from the budget for tax incentives of 2.4 trillion. This phenomenon underlies the researcher using the tax incentive variable. According to the news published by *krjogja.com*, it is explained that the taxpayers utilizing tax incentives schemes in the Special Region of Yogyakarta are still relatively low. This tax incentive facility or policy has been issued since 2020 and extended until December 2021. The Department of Counseling and Public Relations of KANWIL DJP DIY stated that there was still little use of tax incentives in DIY because MSME actors in DIY were still not yet open to reporting and registering to take advantage of tax incentives. The Department of Counseling and Public Relations stated that they have carried out socialization and education on using tax incentives through digital media and directly to the public. Based on phenomena related to tax incentives, the researchers used tax incentives as the focus of this study.

Tax compliance relates to the behavior of taxpayers in fulfilling their tax obligations. According to the Decree of the Minister of Finance No.544/KMK.04/2000, tax compliance is defined as the behavior of taxpayers in carrying out their tax obligations following the laws and regulations of a country's tax implementation. Tax compliance is

very important concerning tax collection. This is because tax compliance means obedience in carrying out all tax regulations. Meidawati & Azmi (2019) explains that tax compliance is a condition that describes all tax rights and obligations that have been completed.

Some previous studies have examined the impact of tax policy on taxpayer compliance. Taxpayers are said to be compliant when the reported income is in accordance with the actual income. Tax incentives, such as tax subsidies and tax cuts, are expected to enhance tax compliance. Alfina & Diana (2021) prove that tax incentives have a positive impact on taxpayer compliance in submitting tax filing. Furthermore, Latief et al. (2020) and Mohamad & Ali (2017) prove that tax incentives positively correlate with taxpayer compliance. However, Dewi et al. (2020) and Fadilla et al. (2020) show that tax incentives have no impact on taxpayer compliance during the COVID-19 pandemic. This inconclusive finding could imply that a factor influences the relationship between tax incentives and tax compliance. This is also a research gap that needs further study.

Some previous studies show the role of tax literacy in effecting tax compliance. Alfina & Diana (2021), Inasius (2019), and Sebele-Mpofu & Chinoda (2019) conclude that tax literacy has a positive impact on taxpayer compliance. Meanwhile, Fitrianingsih (2018) and Yuliati & Fauzi (2020) found no significant effect between tax literacy and taxpayer compliance. In addition, Kamil (2015) concludes that there is a negative relationship between tax knowledge and taxpayer compliance. This means taxpayers with high tax literacy will take advantage of opportunities to avoid tax obligations. Research related to SME taxpayer compliance has been carried out by Nichita et al. (2019), which proves that tax literacy increases the tax compliance of SMEs. However, Yuliati & Fauzi (2020) prove no significant effect between tax literacy and SMEs' tax compliance.

This study examines the impact of a tax incentive on tax compliance of MSMEs in the Special Region of Yogyakarta. In addition, this study explores the moderating role of tax literacy on the impact of a tax incentive on tax compliance. This research has theoretical and practical contributions. The main novelty of this study is to use tax literacy as a moderating variable between tax incentives and tax compliance. The practical contribution for the government is as input and consideration for the government in making policies related to tax incentives, especially for MSME actors. Considering

the relatively low level of tax literacy among MSME actors in the Special Region of Yogyakarta, this study is important to provide information to MSME actors in utilizing tax literacy to increase tax incentives.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESES**

### **Compliance Theory**

The compliance theory is a theory that describes the condition of individuals who obey the rules and regulations that apply. Tyler (2021) explains two basic aspects or views related to legal compliance, namely instrumental and normative. The instrumental perspective speculates that individuals are motivated by self-interest and assumptions about changes in attitudes and behavior. The normative perspective assumes that individuals are motivated by morality and at odds with personal interests. A person will respect and follow the law that is considered following applicable standards and guidelines.

Marandu et al. (2015) state that the obligation of taxpayers to pay off all their tax obligations is a form of taxpayer compliance. Taxpayer compliance means an action related to the awareness and understanding of the taxpayer to fulfill all his obligations while still complying with applicable tax laws. The attitude of being aware of their obligations describes the part of the motivation from within (intrinsic) and motivation from outside the individual (extrinsic).

Related to this research, the instrumental perspective is in the form of tax literacy, and the normative perspective is in the form of tax incentives. When taxpayers have high tax literacy, it will affect their mindset so that they become more aware of the actual function of taxes and do not think of making taxes a burden. By having good tax knowledge too, taxpayers will find it easier to carry out their obligations properly, namely always obeying to pay taxes which are their obligations (Bornman & Ramutumbu, 2019). This is in accordance with the instrumental perspective because individuals with good knowledge and understanding of taxes will influence and shape the taxpayers' mindset, which will also affect the behavior of these taxpayers (Lois et al., 2019). Meanwhile, tax incentives are classified in a normative perspective because tax incentives are policies issued by the government based on the Regulation of the Minister of Finance. Government policies are related to regulations and norms issued by legal authorities so that it follows the normative

perspective, which explains that a person tends to obey the rules that are felt to be following the applicable norms and regulations (Stark & Kirchler, 2017).

### **Theory of Planned Behavior**

The Theory of Planned Behavior, or TPB, explains that a person will choose to carry out his behavior or actions rationally driven by intentions (Ajzen, 2020). Individual behavior not to comply with tax provisions is also influenced by intention. The intention to behave is determined and formed from three factors/components. Ajzen (2020) explains the three components of TPB. The first factor is the attitude towards the behavior. This depends on the extent to which an individual has evaluations that bring about the advantages or disadvantages of the preferred behavior. Attitude towards the behavior is formed from belief in and evaluating the outcome. The second is subjective norms. This depends on the perceived social pressure to agree or not to take action. The third is the level of perceived behavioral control, indicating a person's beliefs about the perceived level of ease or difficulty in performing the behavior. Ajzen (1991) also states that behavior driven by good subjective attitudes, norms, and greater perceived behavioral control, will result in higher intentions to carry out the behavior.

The correlation of TBF with tax incentives is that through tax incentives, the government has provided relief for every taxpayer in paying off their tax obligations. This condition can potentially trigger taxpayers to behave following their tax obligations. This obedient behavior towards tax obligations is motivated by intention. Marandu et al. (2015) explain that the intention to comply with tax regulations and behavior has a strong relationship. Thus, the stronger a person's intention to behave, the more likely it is to perform the behavior. Bani-Khalid et al. (2020) revealed three determinants of tax compliance intention: attitudes towards behavior, subjective norms, and perceived behavioral control. Attitudes towards behavior reflect a person's assessment that the behavior results are acceptable (positive) or bad (negative). If the results bring positive outcomes, he will have an attitude that upholds the behavior. In the context of taxpayer compliance, tax incentives have a close relationship with attitudes towards behavior. With tax incentives, taxpayers get a positive outcome, namely the existence of advantages/relief in paying taxes. Therefore, this will foster the intention of taxpayers to behave obediently with their tax obligations. Subjective norms refer to the prevailing

social pressure to perform or not to perform a behavior. Social pressure brings taxpayers' intention to be more obedient to taxes. This condition is caused by social pressure related to norms in the surrounding environment which are believed to influence taxpayers' decision-making to pay off their tax obligations.

### **Tax Incentives and Taxpayer Compliance**

Tax incentives are a government-issued strategy to facilitate and encourage taxpayer compliance. Furthermore, the existence of a tax incentive program can help ease the tax burden and help business continuity, especially for MSME actors, especially during the current pandemic. The tax incentive policy has been extended until December 2021. The extension is intended to help MSME players take advantage of tax incentives. With the extension of the incentive policy during this pandemic, the government hopes that taxpayers will become more obedient and obedient in paying off their taxes.

Associated with compliance theory, it is known that there are two basic aspects or views regarding legal compliance, namely instrumental and normative. Tax incentives are classified in a normative perspective because tax incentives are policies issued by the government based on the Regulation of the Minister of Finance. This policy from the government relates to regulations and norms issued by legal authorities. Following the normative perspective, a person will be subject to the law that is considered following applicable norms and regulations.

In the context of taxpayer compliance, attitude towards the behavior and perceived behavioral control are used to utilize tax incentives. Ajzen (2020) explains that according to TPB, a person will perform certain behaviors if he is aware and believes that the behavior has a positive impact. He will act to support the behavior. The same applies to the use of tax incentives. By utilizing tax incentives, taxpayers get a positive outcome, namely the existence of advantages/relief in paying taxes. Therefore, it will create an intention for taxpayers to behave in complying with their tax obligations by being more obedient in paying taxes.

Furthermore, Ajzen (2020) also describes perceived behavioral control as an individual's belief about the level of ease/difficulty in behaving. Perceived behavioral control concerning the use of tax incentives shows taxpayers' beliefs about the level of ease in carrying out behavior to pay off their tax obligations. In other words, a taxpayer who takes

advantage of incentives believes that it is easier for him to pay taxes because, in the use of tax incentives, taxpayers are given relief in paying taxes. Therefore, it will trigger taxpayers to behave more obediently in paying off all their obligations.

Studies have shown that tax incentives encourage investment in innovative start-up companies (Mark & Travis, 2017). This research applies a taxation system with a culture of entrepreneurship and innovation to encourage new investment in small Australian innovation companies with high growth potential. Mpofu et al. (2022) investigated the implementation of tax incentives in developing countries, focusing on whether the provision of tax incentives would be a problem or a solution to promoting economic growth. The result shows that developing countries continue to offer tax incentives yet the outcry about their relevance. Saputro & Meivira (2020) conclude that the existence of tax incentives set by the government impacts MSMEs' tax compliance. In addition, it was also said that good tax incentives were given before the COVID-19 pandemic in 2020 and during the pandemic were considered very helpful for the sustainability of MSMEs.

Furthermore, Latief et al. (2020) conclude that tax incentives can increase taxpayer compliance. The results prove that the government's tax incentives motivate and raise taxpayers' awareness towards compliance to fulfill their tax obligations. The greater the incentives provided and the greater the benefits derived from these incentives, the greater the willingness of taxpayers to take advantage of these incentives and subsequently comply with applicable tax regulations, including paying taxes. Based on the explanation that has been described, the hypothesis developed is:

H<sub>1</sub>: Tax incentives have a positive effect on MSME taxpayer compliance.

### **Moderating Tax Literacy on the Impact of Tax Incentives on Taxpayer Compliance**

Tax literacy is related to the understanding and knowledge of taxpayers regarding all their tax obligations, which in this case, will also affect taxpayers to tend to be more tax compliant. The higher the level of tax literacy can influence taxpayers to better take advantage of the policies issued by the government. Moreover, it is related to the existence of tax incentives. When the taxpayer understands the benefits derived from tax incentives, the taxpayer will try to use the policy as best as possible. In addition, taxpayers can pay off

all their tax obligations based on the applicable tax rules. Good tax knowledge will make it easier for taxpayers to fulfill all their obligations properly and correctly, namely, obediently paying taxes. The TPB correlates with the tax incentives. This is because, through tax incentives, the government has provided relief for taxpayers in paying off their tax obligations. This condition can potentially trigger taxpayers to behave according to their tax obligations. This obedient behavior towards tax obligations is motivated by intention.

Associated with compliance theory, tax literacy belongs to an instrumental perspective. When taxpayers have high tax literacy, it will affect the mindset of individuals to become more aware of the actual function of taxes and not think of making taxes as a burden. By having good tax knowledge, there will naturally be a desire to fulfill all tax obligations, so taxpayers will find it easier to carry out their obligations properly, namely by always being obedient to pay. Therefore, knowledge and understanding related to taxes can increase the use of tax incentives by MSME actors. Thus, tax compliance will increase. This is in line with the instrumental perspective because individuals with good knowledge and understanding of taxes will influence and shape mindsets, which will also affect taxpayers' behavior.

Latief et al. (2020), Mohamad & Ali (2017), and Saputro & Meivira (2020) prove that tax incentives have an impact on tax compliance. However, Dewi et al. (2020) detect no impact between tax incentives and taxpayer compliance during the COVID-19 pandemic. The two research results indicated that the effect of tax incentives on tax compliance is inconclusive. This begs the question of other factors

that may influence the relationship. Tax literacy, in this case, is thought to be the factor that affects the relationship. Individuals with good knowledge and understanding of tax incentives will influence and shape the mindset of taxpayers, which will also affect the behavior of these taxpayers, that they will use the incentives, so always obeying to pay taxes which are their obligations because they pay the taxes cheaper.

Some previous studies show the role of tax literacy in effecting tax compliance. Alfina & Diana (2021), Inasius (2019), Nichita et al. (2019), and Sebele-Mpofu & Chinoda (2019) conclude that tax literacy has a positive impact on taxpayer compliance. Furthermore, Qoriah & Kautsar (2017) detects that taxpayer knowledge can moderate the effect of taxpayer ethics on taxpayer compliance. This means that high tax knowledge can strengthen the influence of taxpayer ethics on tax compliance. Using the same logic, when taxpayers understand more about tax incentives, they will take advantage of them more in their tax payments than taxpayers who do not understand the rules related to tax incentives, thus increasing their tax compliance. Based on the explanation that has been described, the hypotheses developed are as follows:

H<sub>2</sub>: Tax literacy has a positive effect on MSME taxpayer compliance.

H<sub>3</sub>: Tax literacy strengthens the effect of tax incentives on MSME taxpayer compliance.

Based on the discussion above, the conceptual framework is presented in Figure 1

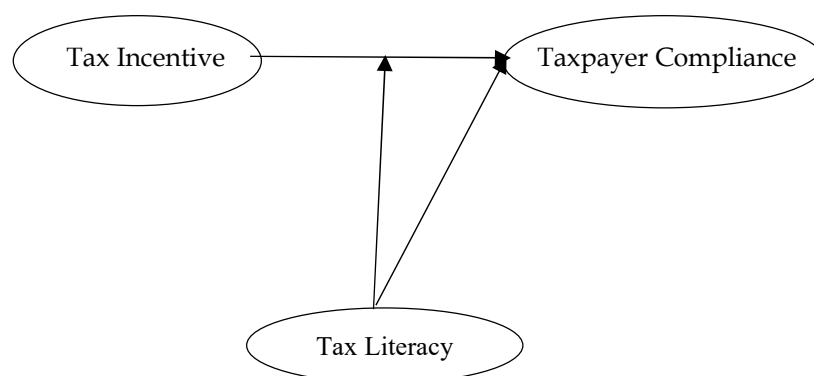


Figure 1. Conceptual Framework

### 3. RESEARCH METHOD

#### Population and Research Sample

The objects used as the population in this study include all micro, small and medium enterprises (MSMEs) registered at the Office of Cooperatives and MSMEs in the Special Region of Yogyakarta (DIY). The sample is defined as a portion of the object derived from the population. The sampling technique used is the purposive sampling technique, considering several conditions set by the researcher. The criteria for the sample are: MSMEs registered at the DIY Cooperatives and MSMEs Office, having a Tax Identity Number for at least 1 year, and using Government Tax Regulation No. 23.

#### Research Variables and Measurements

The dependent variable used is taxpayer compliance. Tax compliance is a condition that describes the position of taxpayers who pay off all their tax obligations and exercise their rights in the field of taxation appropriately while still being based on applicable laws and regulations (Ilhamsyah et al., 2016). A taxpayer is said to be compliant if/when he/she reports the income earned as appropriate. Taxpayer compliance is measured using indicators adopted from Febriyani & Kusmuriyanto (2015): Register as a taxpayer voluntarily to the tax office, do bookkeeping, calculate the tax payable correctly and pay on time, and fill out the tax notification letter (SPT) following the applicable laws and regulations and report the SPT on time.

The independent variable is tax incentives. Natasya & Hardiningsih (2021) explain that tax incentives are a strategy made by the government for taxpayers or organizations to facilitate and encourage taxpayers to carry out their tax obligations by increasing their tax compliance. The measurement of tax incentives was adopted from Saputro & Meivira (2020): tax rate policy, perception of the rights and obligations of MSMEs on taxes, receipt of MSME tax deductions, and receipt of MSME tax subsidies.

The moderating variable is tax literacy. Tax literacy is related to a person's understanding and knowledge of taxes. Tax literacy is an effort to increase public understanding of taxes to raise awareness to be more obedient to taxes (Saputro & Meivira, 2020). This moderating variable is measured using indicators adopted from Febriyani & Kusmuriyanto (2015): knowing the benefits of taxes paid, knowing that paying taxes is the obligation of every taxpayer as a citizen, knowing changes to applicable tax regulations,

understanding how to calculate the tax that must be paid, pay off tax obligations following applicable regulations, and knowing that not paying taxes will be penalized. This study uses a 5-point Likert scale, ranging from 1 for strongly disagrees to 5 for strongly agrees with the statements in the questionnaire.

#### Data and Data Collection

This study uses primary data collected through questionnaires distributed online using Google Forms. The time of study began in mid-August 2021; the time researchers began distributing research to respondents.

The distribution of questionnaires is carried out for approximately 3 weeks. The researchers collect and re-check the questionnaires the respondents have filled out and perform data processing.

This study begins with conducting a pilot test related to the questionnaire made by the researcher. This aims to determine whether the questionnaire presented can be understood well by the respondents. After the pilot test was conducted, the researcher received some input from the respondents regarding the research questionnaire. Questionnaires were distributed to 108 MSME actors. Of the 108 people, only 57 were willing to complete the research questionnaire. Furthermore, from the 57 respondents' answers to the questionnaires that have been collected, there are two answers to the questionnaire that cannot be used because they do not meet the sample criteria. Thus, the total respondents used is 55 MSME actors.

#### Analysis Technique

The data analysis technique consists of simple regression analysis to test the first hypothesis and Moderated Regression Analysis (MRA) to test the second hypothesis. Simple regression analysis is used to see the effect of the tax incentive variable on MSME taxpayer compliance. The MRA test is used to see the moderating role of tax literacy on the impact of tax incentives on MSME taxpayer compliance and whether it strengthens or weakens the relationship.

### 4. DATA ANALYSIS AND DISCUSSION

#### Research Instrument Validity and Reliability

Table 1 shows the results of the research instrument test. This table reveals that all indicators of constructs have a significance of  $0.00 < 0.05$ . This means that all statements used in the questionnaire are valid. The reliability of the research instrument is assessed using Cronbach alpha. The table shows

that all constructs have Cronbach alpha values above 0.60. All constructs are reliable (Hair et al., 2021: 107).

**Table 1.** Results of research instrument test

Code	Sig. (2-tailed)	Validity	Cronbach's Alpha	Reliability
<b>Taxpayer Compliance (TC)</b>			<b>0.948</b>	<b>Reliable</b>
TC1	0.00	Valid		
TC2	0.00	Valid		
TC3	0.00	Valid		
TC4	0.00	Valid		
TC5	0.00	Valid		
TC6	0.00	Valid		
TC7	0.00	Valid		
TC8	0.00	Valid		
TC9	0.00	Valid		
TC10	0.00	Valid		
TC11	0.00	Valid		
TC12	0.00	Valid		
<b>Tax Incentive (TI)</b>			<b>0.794</b>	<b>Reliable</b>
IP1	0.00	Valid		
IP2	0.00	Valid		
IP3	0.00	Valid		
IP4	0.00	Valid		
IP5	0.00	Valid		
IP6	0.00	Valid		
IP7	0.00	Valid		
IP8	0.00	Valid		
IP9	0.00	Valid		
IP10	0.00	Valid		
IP11	0.00	Valid		
IP12	0.01	Valid		
<b>Tax Literacy (TL)</b>			<b>0.942</b>	<b>Reliable</b>
TL1	0.00	Valid		
TL2	0.00	Valid		
TL3	0.00	Valid		
TL4	0.00	Valid		
TL5	0.00	Valid		
TL6	0.00	Valid		
TL7	0.00	Valid		
TL8	0.00	Valid		
TL9	0.00	Valid		
TL10	0.00	Valid		
TL11	0.00	Valid		
TL12	0.00	Valid		
TL13	0.00	Valid		
TL14	0.00	Valid		
TL15	0.00	Valid		
TL16	0.00	Valid		
TL17	0.00	Valid		
TL18	0.00	Valid		

### Descriptive Statistics

The respondents in this study were 55 people. Table 2 presents the descriptive statistics of variables. The average respondent's answer to the taxpayer compliance is 3.95, close to point 4. Most respondents agree that they register as a taxpayer voluntarily, have bookkeeping, calculate the tax

payable correctly and pay on time, fill out the tax files following the applicable laws and regulations and report the tax files on time. Furthermore, the average respondent's answer on tax incentives is 3.65. It suggests that most respondents agree that government formulates tax policies that support MSMEs, and they receive MSME tax deductions or

tax subsidies. Last, the average respondent's answer on tax literacy is 3.73. It means that the respondents' tax literacy is high. They understand the benefits of taxes paid, know that paying taxes is an obligation, understand changes in tax regulations and how to calculate the tax, pay off tax obligations following applicable regulations, and know that not paying

taxes will be penalized. It can be concluded that, overall, the respondents tend to be obedient in fulfilling their obligations as taxpayers. They are also willing to take advantage of tax incentives and have adequate understanding/knowledge about taxes.

**Table 2.** Descriptive Statistics

Variable	Minimum	Maximum	Average	Standard Deviation
Taxpayer Compliance	1.17	5.00	3.95	0.82
Tax Incentive	2.23	4.47	3.65	0.59
Tax Literacy	2.00	5.00	3.73	0.76

Source: Data processed, 2022

### Hypothesis testing

Table 3 shows the simple regression results, assessing a tax incentive's impact on tax compliance. This table proves that tax incentive has a significant positive impact on the tax compliance of MSMEs actors. Higher tax incentives lead to higher tax compliance.

It also reveals that the model's coefficient determination ( $R^2$ ) is 0.159. It implies that tax incentive explains 15.9 percent of the variation in tax compliance, while other variables explain the remaining 84.1 percent.

**Table 3.** Result of simple regression

Variable	Coefficient	Sig.	Decision
Tax Incentive	0.512	0.003	Supported
$R^2$	0.159		

Source: Data processed, 2022

Table 4 presents the Moderated Regression Analysis (MRA) that tests the moderating role of tax literacy on the relationship between tax incentives and tax compliance. This table shows that tax literacy positively influences tax compliance, while interaction between tax incentives and tax literacy significantly affects tax compliance in the opposite

direction. It means that tax literacy weakens the impact of tax incentives on tax compliance. The coefficient determination ( $R^2$ ) of the model is 0.224, and it is categorized as a weak model. The value of this coefficient suggests that other variables beyond this study explain 75.6 percent of the variation in tax compliance.

**Table 4.** Result of moderated regression

Variable	Coefficient	Sig.	Decision
Tax Incentive	2.368	0.005	Supported
Tax Literacy	1.302	0.002	Supported
TaxIncent*TaxLit	-0.028	0.022	Not Supported
$R^2$	0.244		

Source: Data processed, 2022

### Discussion

The result proves that tax incentives positively influence MSMEs' taxpayer compliance in the Province of DI Yogyakarta. These results indicate that the first hypothesis in this study is supported. This explains that the use of tax incentives influences the behavior of taxpayers, especially MSME actors, to become more tax compliant. On the other hand, taking advantage of the tax incentives issued by the government, especially during the current pandemic, help MSMEs actors

reduce the tax burden. In other words, the higher a person uses tax incentives, the higher the MSME tax compliance will be.

The finding is in line with compliance theory, in which there are two basic aspects or views regarding legal compliance, namely instrumental and normative (Tyler, 2021). Tax incentives are classified in a normative perspective because tax incentives are policies issued by the government based on the Regulation of the Ministry of Finance. This policy is related to the regulations and norms



issued by the legal authority so that it follows the normative perspective, which explains that a person will obey the law, which is considered following the applicable norms and rules. Referring to descriptive statistics, the average answers of respondents indicate that they tend to agree to take advantage of tax incentives and behave obediently in fulfilling their obligations as taxpayers.

The result of this study is also following the TPB. The government has provided relief for taxpayers in paying off their tax obligations through tax incentives. This condition has the potential to trigger taxpayers to behave in compliance with their tax obligations. Compliant behavior towards tax obligations is motivated by the intention to behave in compliance with tax obligations. This finding support Latief et al. (2020), Mohamad & Ali (2017), and Saputro & Meivira (2020), proving that tax incentives positively impact tax compliance.

The second hypothesis testing results prove that tax literacy enhances the tax compliance of MSMEs actors. A better understanding of the benefits of taxes, changes in tax regulations, tax calculation, and tax obligations following applicable regulations boost MSMEs taxpayers to register voluntarily, have bookkeeping, calculate the tax payable correctly and pay on time, and report the tax files on time. This finding support Alfina & Diana (2021), Inasius (2019), Nichita et al. (2019), and Sebele-Mpofu & Chinoda (2019), concluding that tax literacy has a positive impact on taxpayer compliance

The interaction between tax literacy and tax incentives shows that tax literacy weakens the effect of tax incentives on taxpayer compliance. Therefore, the third hypothesis is not supported. This finding implies that when the same tax incentives are given to MSME taxpayers with good tax literacy, it can reduce their compliance in paying taxes. MSME taxpayers who understand taxes will likely try to find loopholes in the policy and take advantage of it so that it negatively impacts their compliance. On the other hand, when the tax incentive policy during the COVID-19 pandemic was given to UKMK taxpayers who did not understand taxes, they felt that this policy was a form of attention from the government in helping the survival of SMEs. As a form of gratitude to the government, they are increasingly complying with taxes. Those who do not have a tax registration number must immediately register with the tax office to get a tax deduction.

Furthermore, the third hypothesis that is not supported can be seen in the respondent's data on the intensity of tax training/socialization. There are only eleven people out of 55 respondents in this study who have attended tax-related training/socialization. The tax training/socialization was conducted using two media: e-mail and zoom meetings. The use of e-mail and zoom meetings has a weakness, such as there possibility that the participants do not listen to the training/socialization during the zoom meeting and do not read the e-mails sent. Therefore, the role of training/socialization related to taxes to improve tax literacy for MSME actors is less than optimal.

This finding follows Axel (2019), stating that tax knowledge does not yet have strong evidence to test the effect in moderating the relationship between tax amnesty and individual entrepreneur taxpayer compliance. It also supports Handayani (2017), who states that the understanding of taxation cannot moderate the relationship between the implementation of the e-filing system and corporate taxpayer compliance.

## **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

This research was conducted to know whether the perception of the use of tax incentives and tax literacy affects MSME taxpayer compliance. In addition, this study was conducted to see how the perception of the use of tax incentives and tax literacy can affect the compliance of MSME taxpayers. The perception of tax incentives significantly positive-ly affects MSME taxpayer compliance. By utilizing tax incentives issued by the government, MSME actors can increase their compliance as good tax-payers and obey the applicable tax regulations and provisions. Tax literacy is proven to increase tax compliance. However, tax literacy weakens the effect of tax incentives on MSME taxpayer compliance. Tax-literate MSMEs are likely to look for this policy loophole and take advantage of it to reduce the tax burden in a way that is contrary to applicable tax regulations.

The findings have some implications. Considering the positive impact of tax literacy on tax compliance, the Indonesian government needs to optimize socialization/training, such as offline training. Many MSME actors live in remote areas with limited internet access and are less familiar with advanced technology. They often have difficulty understanding material or may not be

interested in online socializing. MSME actors are expected to be able to increase their understanding and knowledge of taxation. So increasing knowledge and understanding of the tax can further increase taxpayer compliance in paying it. With a good and updated understanding and knowledge of taxation, MSME actors can take advantage of every policy made by the government.

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