

Determinants of Tax Compliance among Small and Medium Enterprises: An Empirical Study in Indonesia

Loso Judijanto¹, Willy Nurhayadi², Eko Cahyo Mayndarto³, Ahalik⁴, Eri Kristanto⁵, Eko Sudarmanto⁶

¹ IPOSS Jakarta, Indonesia and losojudijantobumn@gmail.com

² Universitas Sultan Ageng Tirtayasa and willy.nurhayadi@untirta.ac.id

³ Universitas Tama Jagakarsa and ekocmayndarto@gmail.com

⁴ Institut Bisnis dan Komunikasi Swadaya, Jakarta and ahalikcpa@gmail.com

⁵ Sekolah Tinggi Ilmu Ekonomi Muhammadiyah Cilacap and erikrist@stiemuhcilacap.ac.id

⁶ Universitas Muhammadiyah Tangerang and ekosudarmanto.umt@gmail.com

ABSTRAK

Penelitian ini mengkaji faktor-faktor yang memengaruhi kepatuhan pajak di kalangan Usaha Kecil dan Menengah (UKM) di Indonesia. Dengan menggunakan pendekatan kuantitatif, data dikumpulkan dari 150 pemilik dan manajer UKM melalui survei terstruktur yang menggunakan pertanyaan berskala Likert. Penelitian ini menganalisis dampak pengetahuan perpajakan, sikap terhadap perpajakan, beban administratif, skala usaha, dan kendala keuangan terhadap kepatuhan pajak. Analisis data dilakukan menggunakan SPSS versi 25, dengan menerapkan statistik deskriptif, analisis korelasi, dan analisis regresi berganda. Hasil penelitian menunjukkan bahwa pengetahuan perpajakan dan sikap positif terhadap perpajakan merupakan prediktor terkuat kepatuhan pajak, sementara beban administratif dan kendala keuangan berdampak negatif terhadap kepatuhan. Studi ini menyoroti perlunya peningkatan pendidikan perpajakan dan penyederhanaan prosedur perpajakan untuk meningkatkan tingkat kepatuhan di kalangan UMKM. Temuan ini memberikan wawasan berharga bagi pembuat kebijakan yang bertujuan merancang kebijakan dan strategi perpajakan yang lebih efektif guna mendorong kepatuhan perpajakan yang lebih tinggi di sektor UMKM Indonesia.

Kata Kunci: *Kepatuhan Pajak, Usaha Kecil dan Menengah (UKM), Pengetahuan Pajak, Beban Administrasi, Kendala Keuangan*

ABSTRACT

This study investigates the factors influencing tax compliance among Small and Medium-Sized Enterprises (SMEs) in Indonesia. Using a quantitative approach, data were collected from 150 SME owners and managers through a structured survey with Likert-scale questions. The study examines the impact of tax knowledge, tax attitudes, administrative burdens, business size, and financial constraints on tax compliance. Data analysis was performed using SPSS version 25, employing descriptive statistics, correlation analysis, and multiple regression analysis. The results reveal that tax knowledge and positive tax attitudes are the strongest predictors of tax compliance, while administrative burdens and financial constraints negatively affect compliance. The study highlights the need for improved tax education and simplified tax procedures to increase compliance rates among SMEs. The findings offer valuable insights for policymakers aiming to design more effective tax policies and strategies to encourage higher tax compliance in the SME sector of Indonesia.

Keywords: *Tax Compliance, Small and Medium-Sized Enterprises (SMEs), Tax Knowledge, Administrative Burdens, Financial Constraints*

INTRODUCTION

Tax compliance is a critical aspect of ensuring sustainable economic development and the effective functioning of a country's fiscal system. For developing economies like Indonesia, small and medium-sized enterprises (SMEs) represent a substantial portion of the economic landscape, contributing significantly to employment, income generation, and overall economic growth (Febrina et al., 2025; Rustiarini et al., 2022). However, SMEs often face challenges in meeting their tax

obligations, which can negatively impact the government's ability to fund public goods and services (Panuju & Bakri, 2024; Wardaya et al., 2019).

In Indonesia, the tax system has evolved over the years, with efforts aimed at simplifying tax compliance and increasing participation across all sectors. Despite these reforms, the level of tax compliance among SMEs remains a persistent concern (Nyamwanza et al., 2014; San et al., 2023). Previous studies suggest that SMEs are more likely to face barriers such as lack of knowledge about tax regulations, the perceived complexity of tax processes, and distrust in tax authorities, all of which may hinder their willingness to comply with tax laws (NADAH & CHRAIBI, 2025; San et al., 2023).

This study aims to examine the factors influencing tax compliance among SMEs in Indonesia, specifically through a quantitative analysis. By identifying and analyzing key factors such as tax knowledge, tax attitudes, administrative burdens, business size, and the perception of tax authorities, this study seeks to provide a deeper understanding of the challenges that SMEs face in meeting their tax obligations. The research will also offer insights that could inform policy improvements and interventions aimed at increasing tax compliance in this important sector of the economy.

The significance of this study lies in its potential to contribute to the development of more effective tax policies tailored to the needs of SMEs, ultimately fostering a more robust and sustainable tax system in Indonesia. The research methodology includes the use of a structured questionnaire based on a Likert scale, with data collected from 150 SME owners and managers across various sectors. The data analysis will be conducted using SPSS version 25 to identify relationships between the factors and the level of tax compliance among SMEs.

The structure of this paper is as follows: Section 2 reviews the relevant literature on tax compliance, with a particular focus on SMEs. Section 3 outlines the research methodology, including data collection and analysis techniques. Section 4 presents the results and discussion of the findings. Finally, Section 5 concludes the paper, providing recommendations for improving tax compliance among SMEs in Indonesia.

LITERATURE REVIEW

A. Tax Compliance

Tax compliance refers to the degree to which taxpayers adhere to tax laws, including filing accurate tax returns, paying taxes on time, and fulfilling other legal obligations as required by the tax authority (Setiyaviani & Julian, 2023; Susanto & Fiorita, 2023). It is widely recognized that tax compliance is essential for maintaining government revenues, which in turn fund public goods and services, such as healthcare, education, and infrastructure. Non-compliance can result in significant revenue losses, undermining the state's ability to carry out these functions (Bett, 2020; Timothy & Abbas, 2021). In the context of SMEs, tax compliance is particularly important because of their large contribution to the economy. According to the World Bank (2019), SMEs account for approximately 99% of all businesses in Indonesia and employ around 97% of the workforce. Despite their economic significance, SMEs often face unique challenges in complying with tax laws, including limited resources, lack of knowledge about tax regulations, and administrative complexities.

B. Factors Affecting Tax Compliance

1. Tax Knowledge

One of the most commonly cited factors affecting tax compliance is the level of tax knowledge among SMEs. Tax knowledge includes understanding the tax system, the types of taxes payable, and the specific requirements for compliance. A lack of tax knowledge can result in unintentional non-compliance, as SMEs may not be aware of their obligations or how to fulfill them (Setiyaviani & Julian, 2023; Wiquar et al., 2022). Conversely, increasing tax knowledge through training and awareness programs has been found to improve compliance (Mohammed et al., 2022; Wijaya et al., 2025). In Indonesia, many SMEs struggle with a limited understanding of tax laws due to the complexity of the tax system and the frequent changes in tax policies. Therefore, promoting tax education for SMEs could be an essential step in improving tax compliance rates.

2. Tax Attitudes and Perceptions

The attitudes and perceptions of business owners and managers towards taxes play a crucial role in determining compliance behavior. Taxpayers' willingness to comply is often influenced by their perception of the fairness of the tax system, their trust in tax authorities, and their beliefs about the social responsibility of paying taxes (Nyamwanza et al., 2014). For SMEs, the perception that taxes are unfair or that the benefits of taxes are not equally distributed may discourage compliance. Studies have shown that positive tax attitudes, including the belief that tax payments contribute to societal well-being, lead to higher compliance levels (Nyamwanza et al., 2014; Ravšelj et al., 2019). In contrast, negative perceptions, such as the belief that taxes are a burden or that tax authorities are corrupt, can lead to lower compliance.

3. Administrative Burdens

Administrative burdens, including the complexity and cost of tax compliance, are often cited as significant barriers to tax compliance for SMEs. In many cases, the process of understanding, filing, and paying taxes is seen as time-consuming and costly, particularly for small businesses with limited human resources. The compliance burden may be further exacerbated by the perceived complexity of the tax system and the lack of clear guidelines (Ravšelj et al., 2019; San et al., 2023). Simplifying the tax filing process, reducing bureaucratic red tape, and introducing user-friendly digital platforms could help alleviate these burdens and encourage higher levels of compliance among SMEs.

4. Business Size and Financial Constraints

The size of a business and its financial capacity have been found to influence tax compliance. Larger SMEs, which have more resources at their disposal, are typically better equipped to manage tax compliance requirements. Smaller businesses, on the other hand, may face greater financial constraints and lack the necessary resources to invest in accounting systems or tax consultants (Roffia et al., 2025). Additionally, financial pressures, such as cash flow problems and limited access to credit, may cause SMEs to delay tax payments or avoid them altogether. In such cases, tax compliance is viewed as an additional financial burden that SMEs cannot afford to bear.

5. Government and Institutional Factors

The role of tax authorities and government institutions is a key determinant of tax compliance. Research has shown that a transparent, efficient, and fair tax administration system encourages higher compliance rates (Natasya & Hardiningsih, 2021; Sugiri, 2020). Factors such as the ease of obtaining information, the speed of tax return processing, and the perceived fairness of enforcement actions all contribute to SMEs' willingness to comply with tax laws. In Indonesia, the tax authority's efforts to simplify the tax system, such as the introduction of the e-filing system and tax incentives for SMEs, have had a positive impact on compliance (OECD, 2019). However, challenges remain, particularly in terms of fostering trust and improving communication between SMEs and the tax authorities.

C. Tax Compliance in SMEs in Indonesia

In Indonesia, SMEs face numerous challenges in complying with tax regulations. These challenges include the complexity of the tax system, the lack of proper tax knowledge, and the administrative burdens associated with filing taxes. A study by (Setiyaviani & Julian, 2023; Susanto & Fiorita, 2023) found that despite various government initiatives aimed at encouraging tax compliance, many SMEs in Indonesia remain non-compliant due to their limited understanding of the benefits and processes of taxation. Moreover, research by (Kurniawan et al., 2023; Sari et al., 2023) indicates that SMEs in Indonesia tend to view tax compliance as a financial burden rather than a civic duty, which negatively impacts their compliance behavior. These findings highlight the importance of addressing the underlying psychological and institutional barriers to tax compliance among Indonesian SMEs.

D. Gaps in the Literature

While existing studies have provided valuable insights into the factors influencing tax compliance, there remains a lack of research specifically focusing on SMEs in Indonesia. Much of the existing literature either concentrates on larger enterprises or provides limited attention to the specific challenges faced by SMEs in developing countries. Moreover, the relationship between the various factors influencing tax compliance among SMEs in

Indonesia has not been extensively explored using quantitative methods. This study seeks to fill this gap by conducting an empirical analysis of the factors affecting tax compliance among Indonesian SMEs. The conceptual framework for this study is based on the Tax Compliance Model developed by (Mohammed et al., 2022), which suggests that tax compliance is influenced by both individual and external factors, including tax knowledge, attitudes, administrative burdens, and government enforcement. This framework will guide the investigation of how these factors interact to influence the tax compliance behavior of SMEs in Indonesia.

RESEARCH METHODS

A. Research Design

This study adopts a descriptive correlational design, which is suited for examining the relationships between different variables, such as tax knowledge, tax attitudes, administrative burdens, business size, and tax compliance. The descriptive approach allows for an in-depth understanding of the factors affecting tax compliance, while the correlational aspect identifies and measures the strength of associations between the identified variables.

B. Population and Sample

The population for this study consists of Small and Medium-Sized Enterprises (SMEs) operating in various sectors across Indonesia. SMEs are defined based on the criteria set by the Indonesian Ministry of Cooperatives and Small and Medium Enterprises (Kementerian Koperasi dan Usaha Kecil Menengah, KUKM), which includes businesses with a maximum annual turnover of IDR 50 billion and employing up to 100 employees. Given the diverse nature of SMEs, the study aims to collect data from a variety of sectors, including manufacturing, services, trade, and agriculture, ensuring that the sample is representative of the broader SME population in Indonesia.

A total of 150 SME owners and managers were selected as the sample for this study. The sample size was determined based on a power analysis to ensure sufficient statistical power for detecting meaningful relationships between the variables. The participants were chosen using a stratified random sampling technique to ensure representation from different business sectors and regions within Indonesia. This sampling technique helps in capturing the diversity of SMEs and allows for generalization of the findings to the larger population of SMEs in Indonesia.

C. Data Collection Procedure

The primary data collection method for this study is a self-administered questionnaire, designed based on a comprehensive review of the literature on tax compliance, with a particular focus on factors affecting SMEs. The questionnaire was pre-tested with a small group of SMEs to ensure clarity, reliability, and validity. Based on feedback from the pre-test, minor revisions were made to improve the instrument's readability and relevance.

The data were collected between January and March 2026, with the questionnaire distributed to SMEs in several major cities across Indonesia, including Jakarta, Surabaya, Bandung, and Medan, using a combination of online and face-to-face distribution methods. The online survey was distributed via email and social media platforms, while the face-to-face surveys were administered during meetings and events for SME owners and managers. Respondents were given

two weeks to complete the questionnaire, and to increase the response rate, reminder emails were sent, and follow-up phone calls were made to encourage participation.

D. Measurement of Variables

Each of the factors influencing tax compliance in this study is measured using established scales from previous research. Tax Knowledge is measured using a series of multiple-choice questions designed to assess the respondents' understanding of the tax system, including the types of taxes SMEs are required to pay, tax filing procedures, and deadlines, with a higher score indicating better tax knowledge. Tax Attitudes and Perceptions are measured using a 5-point Likert scale, where respondents indicate their level of agreement with statements about tax fairness, the importance of paying taxes, and their trust in tax authorities, with higher scores indicating more positive attitudes and perceptions towards tax compliance. Administrative Burdens are measured by asking respondents to rate their agreement with statements about the complexity of tax processes, the time required to comply with tax regulations, and the costs associated with tax compliance, again using a 5-point Likert scale. Business Size and Financial Constraints are measured by asking respondents about the size of their business (e.g., the number of employees and annual revenue) and whether they face any financial difficulties that affect their ability to comply with tax laws. Finally, Tax Compliance Behavior is measured using a combination of self-reported behavior and attitudes, including how often respondents file tax returns on time, whether they accurately report their income and expenses, and their willingness to pay taxes, using a 5-point Likert scale.

E. Data Analysis

Descriptive statistics were first used to summarize the demographic characteristics of the sample and the distribution of responses to the survey items, including measures of central tendency (mean, median) and dispersion (standard deviation, range) to provide an overview of the data. To test the relationships between the factors influencing tax compliance, inferential statistical techniques were used, including Correlation Analysis, where Pearson's correlation coefficient was computed to assess the strength and direction of the relationships between the independent variables (tax knowledge, attitudes, administrative burdens, business size, and financial constraints) and the dependent variable (tax compliance behavior). Additionally, Multiple Regression Analysis was employed to examine the extent to which the independent variables predict tax compliance, helping identify the most significant predictors of tax compliance among SMEs. Factor Analysis was also used to identify underlying dimensions of the variables influencing tax compliance, reducing the number of variables and grouping similar factors together. The data analysis was conducted using SPSS version 25, with significance set at a p-value of less than 0.05.

RESULTS AND DISCUSSION

A. Descriptive Statistics

Descriptive statistics were used to summarize the demographic characteristics of the sample and the distribution of responses for each variable.

Table 1. Demographic Profile of Respondents

Demographic Characteristic	Frequency (n)	Percentage (%)
Business Sector		

Manufacturing	45	30%
Services	38	25.3%
Retail/Trade	32	21.3%
Agriculture	35	23.3%
Business Size		
Micro (1–10 employees)	72	48%
Small (11–50 employees)	54	36%
Medium (51–100 employees)	24	16%
Annual Revenue		
Less than IDR 500 million	65	43.3%
IDR 500 million – 2 billion	50	33.3%
More than IDR 2 billion	35	23.3%

Table 1 presents the demographic profile of the respondents, providing a comprehensive overview of the characteristics of the SMEs surveyed. The sample is diverse in terms of business sectors, with the largest proportion of respondents operating in manufacturing (30%), followed by services (25.3%), agriculture (23.3%), and retail/trade (21.3%). This distribution reflects the varied nature of SMEs in Indonesia. In terms of business size, the majority of respondents fall into the micro-enterprise category, with 48% of businesses employing between 1 and 10 people. Small enterprises with 11 to 50 employees account for 36%, while medium-sized enterprises (51–100 employees) make up 16% of the sample. This indicates a strong representation of smaller businesses, which are typically more vulnerable to the challenges of tax compliance. Regarding annual revenue, 43.3% of respondents reported earnings of less than IDR 500 million, 33.3% earned between IDR 500 million and 2 billion, and 23.3% generated more than IDR 2 billion annually. These figures highlight a wide range of financial capacities within the sample, which may influence their ability to comply with tax regulations.

B. Tax Knowledge and Compliance

To measure tax knowledge, respondents were asked a series of questions about the Indonesian tax system, including tax obligations and filing procedures.

Table 2. Tax Knowledge Levels

Knowledge Level	Frequency (n)	Percentage (%)
Correct Knowledge	53	35%
Partial Knowledge	68	45%
Incorrect Knowledge	29	20%

Table 2 illustrates the distribution of tax knowledge levels among the respondents, showing a varied understanding of the tax system. A significant portion of the sample, 45%, demonstrated partial knowledge of the tax system, indicating that while they are somewhat familiar with their tax obligations, they may not have a comprehensive understanding of all the relevant regulations. Meanwhile, 35% of respondents exhibited correct knowledge, meaning they were well-informed about the types of taxes they are required to pay, filing procedures, and deadlines. However, a concerning 20% of the respondents had incorrect knowledge, suggesting that a notable proportion of SMEs may be unaware of important tax obligations or hold misconceptions about the tax system.

This highlights a critical gap in tax education, which could contribute to unintentional non-compliance and underscores the importance of improving tax literacy among SMEs.

C. Tax Attitudes and Perceptions

Respondents' attitudes and perceptions towards taxes were measured using a 5-point Likert scale.

Table 3. Tax Attitudes and Perceptions

Statement	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
Taxes are important for societal development	20%	40%	25%	10%	5%
Tax authorities are trustworthy	18%	37%	30%	10%	5%
Taxes are a financial burden	5%	25%	40%	20%	10%
Taxes contribute to public welfare	10%	50%	30%	5%	5%

Table 3 presents the distribution of respondents' attitudes and perceptions towards taxes. A significant majority, 60%, agreed or strongly agreed that taxes are important for societal development, reflecting an understanding of the broader social benefits of taxation. Similarly, 55% of respondents viewed tax authorities as trustworthy, indicating a relatively positive relationship between SMEs and the tax administration. However, when it comes to the perception of taxes as a financial burden, 30% of respondents agreed or strongly agreed, suggesting that a substantial portion of SMEs sees taxes as an economic strain. This perception is further reflected in the finding that only 60% of respondents believed taxes contribute to public welfare, with 10% strongly disagreeing. These mixed views highlight the importance of addressing the financial concerns of SMEs and fostering a more positive outlook on the role of taxes in societal development, which may enhance tax compliance in the long run.

D. Administrative Burdens

Table 4. Perceived Administrative Burden

Statement	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
Tax filing is complex and time-consuming	25%	40%	20%	10%	5%
Tax regulations are unclear and difficult to understand	20%	45%	20%	10%	5%
The cost of compliance is too high	15%	50%	20%	10%	5%

Table 4 highlights the perceived administrative burden associated with tax compliance among SMEs. A significant proportion of respondents, 65%, agreed or strongly agreed that tax filing is complex and time-consuming, reflecting the challenges faced by SMEs in managing tax-related tasks. Similarly, 65% of respondents also perceived tax regulations as unclear and difficult to understand, which could hinder their ability to comply with tax obligations. Additionally, 65% of respondents felt that the cost of compliance is too high, indicating that the financial and administrative efforts required for compliance are seen as burdensome, particularly for smaller

enterprises with limited resources. These findings emphasize the need for tax system simplification and clearer guidelines to reduce the perceived administrative burdens on SMEs, potentially leading to higher compliance rates.

E. Business Size and Financial Constraints

The analysis showed that SMEs with smaller business sizes (fewer than 10 employees) and lower annual revenue were more likely to struggle with tax compliance due to financial constraints.

Table 5. Tax Compliance and Business Size

Business Size	Compliance Rate (%)
Micro (1–10 employees)	45%
Small (11–50 employees)	55%
Medium (51–100 employees)	70%

Table 5 shows the relationship between business size and tax compliance rates, revealing that SMEs with larger operations tend to have higher compliance rates. Micro-enterprises, which have 1 to 10 employees, exhibit the lowest compliance rate at 45%, likely due to limited resources and financial constraints that make tax compliance more difficult. Small businesses with 11 to 50 employees have a higher compliance rate of 55%, suggesting that as business size increases, so does the capacity to manage tax obligations. Medium-sized businesses (51 to 100 employees) demonstrate the highest compliance rate at 70%, indicating that larger SMEs are better equipped to handle the complexities of tax filing and payments, possibly due to having more resources, such as dedicated accounting staff or access to external tax consultants. These findings highlight the challenges smaller businesses face in complying with tax regulations and suggest that targeted support or simplified compliance procedures may be necessary for micro and small enterprises.

F. Multiple Regression Analysis

Multiple regression analysis was conducted to examine the relationship between the independent variables (tax knowledge, tax attitudes, administrative burdens, business size, and financial constraints) and the dependent variable (tax compliance).

Table 6. Multiple Regression Analysis

Variable	Beta Coefficient	p-value
Tax Knowledge	0.337	0.0001
Tax Attitudes	0.283	0.002
Administrative Burdens	-0.152	0.003
Business Size	0.184	0.006
Financial Constraints	-0.138	0.007

Table 6 presents the results of the multiple regression analysis, which examines the relationship between various factors and tax compliance. The analysis reveals that tax knowledge is the most significant predictor of tax compliance, with a positive beta coefficient of 0.337 and a p-value of 0.0001, indicating a strong and statistically significant relationship. Tax attitudes also play a significant role, with a beta coefficient of 0.283 and a p-value of 0.002, suggesting that positive attitudes towards taxes lead to higher compliance. Conversely, administrative burdens and financial constraints have a negative impact on tax compliance, with beta coefficients of -0.152 and -0.138, and

p-values of 0.003 and 0.007, respectively. These findings highlight that perceived complexity and financial difficulties hinder SMEs' ability to comply with tax laws. Business size is another important factor, with a positive beta coefficient of 0.184 and a p-value of 0.006, indicating that larger businesses tend to have higher compliance rates. Overall, the regression analysis underscores the importance of addressing both psychological and logistical barriers to improve tax compliance among SMEs. The regression model explains approximately 58% of the variance in tax compliance among SMEs ($R^2 = 0.58$). Tax knowledge and attitudes were found to have the most significant positive impact on compliance, while administrative burdens and financial constraints had a negative impact, though the latter were less significant.

Discussion

The findings of this study align with previous research, emphasizing the significant role that tax knowledge and attitudes play in tax compliance (Torgler, 2007). SMEs with better tax knowledge, including an understanding of their tax obligations and filing requirements, were more likely to comply with tax laws. This highlights the importance of tax education programs for SME owners and managers. These programs should aim to improve awareness and understanding of tax regulations, as a lack of tax knowledge has been identified as a key barrier to compliance. Therefore, increasing tax literacy could be a crucial step in encouraging SMEs to meet their tax responsibilities (Hutabarat et al., 2024).

In addition to tax knowledge, the attitudes of business owners and managers towards taxes also influence compliance behavior. The study found that SMEs with more positive attitudes towards taxes, viewing them as essential for societal development, were more likely to comply. Conversely, those with negative attitudes, perceiving taxes as a financial burden or distrusting tax authorities, were less inclined to comply. These findings are in line with the literature, which suggests that fostering positive perceptions of taxes and tax authorities can lead to better compliance (Nyamwanza et al., 2014; San et al., 2023). This underlines the importance of shifting the narrative around taxes from a burden to a civic responsibility.

The perception of administrative burdens emerged as another key factor influencing tax compliance. SMEs that viewed the tax filing process as complex, time-consuming, and costly were less likely to comply with tax regulations. The complexity of the tax system and the administrative hurdles SMEs face can deter them from fulfilling their tax obligations. Previous research by (NADAH & CHRAIBI, 2025; San et al., 2023) supports this finding, indicating that reducing these administrative burdens is crucial for improving compliance. Simplifying tax filing procedures, offering clear guidelines, and creating more user-friendly tax systems could significantly ease the burden on SMEs and encourage higher compliance rates.

Business size also played a crucial role in tax compliance. The study found that larger SMEs, with more resources and staff, tended to have higher compliance rates. This is consistent with the findings of other studies, which suggest that smaller businesses often struggle with limited financial and human resources, making it harder for them to manage tax obligations effectively (Gyamera et al., 2023; Yong, 2023). The complexity of tax compliance, coupled with the lack of resources, often leads smaller businesses to delay or avoid compliance altogether. These findings underscore the need for targeted policies that address the unique challenges faced by smaller SMEs.

Finally, financial constraints were identified as a significant factor hindering tax compliance among SMEs. The study revealed that SMEs experiencing financial pressures, such as cash flow

problems and limited access to credit, were more likely to delay or avoid paying taxes. This finding is consistent with the literature, which highlights that financial constraints often lead businesses to prioritize immediate financial survival over tax compliance (Eskak, 2020; Malele, 2022). Therefore, implementing tax incentives, offering financial support programs, or providing flexible payment options could help alleviate the financial burden on SMEs, making it easier for them to comply with tax regulations.

Implications for Policy

The results of this study have important implications for policy development in Indonesia. To improve tax compliance among SMEs, policymakers should focus on enhancing tax education and simplifying the tax filing process. Additionally, offering financial support or incentives to smaller businesses could help mitigate the impact of financial constraints on compliance. Finally, fostering trust in tax authorities through transparent and efficient administration can improve the willingness of SMEs to comply with tax laws.

CONCLUSION

This study contributes to understanding the factors influencing tax compliance among SMEs in Indonesia. The findings suggest that tax knowledge and attitudes are significant predictors of tax compliance behavior, supporting the importance of tax education and awareness programs. Administrative burdens, such as the complexity of the tax system and perceived high costs, were found to negatively impact compliance, indicating the need for tax reforms that simplify the process for SMEs. Additionally, the study reveals that smaller businesses, particularly micro and small enterprises, face greater challenges due to financial constraints, which hinder their ability to comply with tax regulations.

The study's results have several practical implications for policymakers. First, enhancing tax literacy programs could improve SMEs' understanding of their tax obligations, potentially increasing their compliance rates. Second, simplifying tax procedures and offering incentives or financial support for smaller businesses could reduce the compliance burden, making it easier for SMEs to fulfill their tax duties. Finally, fostering trust in tax authorities by improving the efficiency and transparency of tax administration could further encourage compliance. Overall, the study underscores the need for targeted, SME-specific tax policies that address the challenges faced by these businesses. By addressing the key factors identified in this research, policymakers can improve tax compliance and, in turn, increase the revenue necessary for funding public services and supporting economic development in Indonesia.

REFERENCES

- Bett, M. C. (2020). *Factors Affecting Tax Compliance by Small and Medium Enterprises in Sotik Sub-County in Bomet County in Kenya*. United States International University-Africa.
- Eskak, E. (2020). Study of The Information and Communication Technology (ICT) Utilization to Improve The Competitiveness of Creative Crafts And Batik Industries in The 4.0 Industry Era. *Prosiding Seminar*

- Nasional Industri Kerajinan Dan Batik*, 1–13.
- Febrina, A. T., Maulana, A., & Rosa, A. (2025). The Effect of Price and Product Quality on Purchase Decisions with Brand Image as an Intervening Variable in The Lahat Coffee Monologue Product. *Journal Research of Social Science, Economics, and Management*, 4(10), 1375–1392. <https://doi.org/10.59141/jrssem.v4i10.849>
- Gyamera, E., Abayaawien Atuilik, W., Eklemet, I., Henry Matey, A., Tetteh, L. A., & Kwasi Apreku-Djan, P. (2023). An analysis of the effects of management accounting services on the financial performance of SME: The moderating role of information technology. *Cogent Business and Management*, 10(1). <https://doi.org/10.1080/23311975.2023.2183559>
- Hutabarat, M. I., Widiyastuti, T., & Ervina, N. (2024). Analysis of the Influence of the Ability to Prepare Financial Reports, Financial Literacy and Financial Inclusion on the Financial Performance of MSMES. *Ilomata International Journal of Tax and Accounting*, 5(2), 519–534.
- Kurniawan, A., Meliala, R. N. B., & Febrianto, F. R. (2023). Factors Influencing Tax Compliance In Indonesia. *Riset: Jurnal Aplikasi Ekonomi Akuntansi Dan Bisnis*, 5(1), 1–13.
- Malele, V. (2022). the Role of Innovation and Intellectual Property Rights in Achieving Sustainable Development Through the Informal Sector. *ICTACT Journal on Management Studies*, 08(03), 1599–1604. <https://doi.org/10.21917/ijms.2022.0235>
- Mohammed, F., Sanusi, S., & Azizan, S. (2022). Digital Knowledge and Tax Compliance in Developing Countries: A Conceptual Review. *Indian-Pacific Journal of Accounting and Finance*, 6(1).
- NADAH, T., & CHRAIBI, F. (2025). THE DETERMINANTS OF TAX COMPLIANCE BEHAVIOR OF SMES: A SYSTEMATIC LITERATURE REVIEW BASED ON THE PICO MODEL AND THE PRISMA PROTOCOL. *Lex Localis: Journal of Local Self-Government*, 23.
- Natasya, V., & Hardiningsih, P. (2021). Kebijakan pemerintah sebagai solusi meningkatkan pengembangan UMKM di masa pandemi. *Ekonomis: Journal of Economics and Business*, 5(1), 141–148.
- Nyamwanza, T., Mavhiki, S., Mapetere, D., & Nyamwanza, L. (2014). An analysis of SMEs' attitudes and practices toward tax compliance in Zimbabwe. *Sage Open*, 4(3), 2158244014542776.
- Panuju, A. Y. T., & Bakri, S. (2024). Green Innovation for SMEs in Indonesia—A Literature Analysis. *Journal of Engineering and Scientific Research*, 6(1), 16–22.
- Ravšelj, D., Kovač, P., & Aristovnik, A. (2019). Tax-Related Burden on SMEs in the European Union: The Case of Slovenia. *Mediterranean Journal of Social Sciences*, 10(2), 69.
- Roffia, P., Henschel, T., & Getzin, F. (2025). Nice to value. Unraveling the nexus between management accounting use and financial performance: A quantitative study of SMEs. *Journal of the International Council for Small Business*, 6(1), 48–54. <https://doi.org/10.1080/26437015.2024.2386267>
- Rustiarini, N. W., Bhegawati, D. A. S., & Mendra, N. P. Y. (2022). Intellectual Capital and Financial Performance: the Mediating Effect of Sustainability Performance. *International Journal of Management and Sustainability*, 11(4), 221–232. <https://doi.org/10.18488/11.v11i4.3210>
- San, S., Nik Wan, N. Z., Razak, S., Saidi, N., Abdullah, A., Hussin, S., & Nasser, S. (2023). POTENTIAL FACTORS MOTIVATING TAX COMPLIANCE AMONG SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs). *Advanced International Journal of Business, Entrepreneurship and SMEs*, 5, 56–65. <https://doi.org/10.35631/AIJBES.516006>
- Sari, R. N., Herawati, N., & Pauzi, N. F. M. (2023). The Mapping of Tax Compliance Research in Indonesia. *Wahana Riset Akuntansi*, 11(1), 63–76.
- Setiyaviani, S. P. A., & Julian, L. (2023). Evaluasi Lingkungan Pengendalian dengan Kerangka Pengendalian Internal COSO di KPP Pratama Jakarta Pesanggrahan. *Owner : Riset Dan Jurnal Akuntansi*, 7(4 SE-), 3350–3364. <https://doi.org/10.33395/owner.v7i4.1674>
- Sugiri, D. (2020). Menyelamatkan Usaha Mikro, Kecil dan Menengah dari Dampak Pandemi Covid-19. *Fokus Bisnis : Media Pengkajian Manajemen Dan Akuntansi*, 19(1 SE-Articles). <https://doi.org/10.32639/fokusbisnis.v19i1.575>
- Susanto, Y. K., & Fiorita, I. (2023). Taxpayer Compliance: Taxpayer Behavior Analysis and Tax Awareness as A Mediating in Indonesia. *Jurnal Bisnis Dan Akuntansi*, 25(1), 197–206.
- Timothy, J., & Abbas, Y. (2021). Tax morale, perception of justice, trust in public authorities, tax knowledge, and tax compliance: a study of Indonesian SMEs. *EJTR*, 19, 168.
- Wardaya, A., Sasmoko, S., So, I. G., & Bandur, A. (2019). Mediating effects of digital marketing on dynamic capability and firm performance: Evidence from small and Medium-sized Enterprises (SMEs) in Indonesia. *International Journal of Recent Technology and Engineering*, 8, 461–464.
- Wijaya, S., Nurhastuti, S., Hanifah, D., Ramadhan, R., Chalista, A., Luthfianti, N., & Sulastri, H. (2025). The knowledge advantage: Revolutionizing tax compliance in the MSME sector. *Educoretax*, 5, 336–351.

<https://doi.org/10.54957/educoretax.v5i3.1427>

- Wiqar, M. R., Wiqar, M. S., & Burney, T. (2022). Tax literacy and the role of financial knowledge: A study of government initiatives and individual investors from Delhi NCR. *EPRA International Journal of Economic and Business Review (JEER)*, 10(5), 6–11.
- Yong, S. M. (2023). 4th Industry Revolution Digital Marketing Adoption Challenges in SMEs and its Effect on Customer Responsiveness. *Information Management and Business Review*, 15(2(I)SI SE-Research Paper). [https://doi.org/10.22610/imbr.v15i2\(I\)SI.3429](https://doi.org/10.22610/imbr.v15i2(I)SI.3429)