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## *Taxpayer Compliance Analysis with Tax Knowledge, Tax Sanctions, and Income Levels Through Taxpayer Awareness as Moderating Variables*

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**Abstract:** *The Micro, Small and Medium Enterprises (MSME) sector is one of the drivers of the Indonesian economy because of its large number and growth. This sector is also considered by the Government as a tax supplier. SMEs are expected to have a high level of tax compliance. Tax knowledge, tax sanctions, income levels, and awareness of taxpayers are some of the factors that can affect the level of compliance of MSME taxpayers. Therefore, the purpose of this study was to analyze taxpayer compliance with tax knowledge, tax sanctions, and income levels through taxpayer awareness as a moderating variable. This study uses a correlative research design. This research was conducted on MSMEs in Semarang City which have a Taxpayer Identification Number (NPWP) with a total sample of 258 respondents. Collecting data using a questionnaire distributed with google form and data analysis techniques using path analysis with Partial Least Square (PLS) Structural Equation Modeling (SEM) with Smart PLS software version 3.3.5. The results showed that tax knowledge, tax sanctions, income levels, and taxpayer awareness had a positive and significant effect on taxpayer compliance. Taxpayer awareness becomes a moderating variable of the effect of tax sanctions on taxpayer compliance and is not a moderating variable of the effect of tax knowledge and income level on taxpayer compliance. The results of this study indicate that the better the tax sanctions with good taxpayer awareness, the taxpayer compliance will also increase.*

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## **INTRODUCTION**

Micro, Small and Medium Enterprises (MSMEs) are small or micro-scale commercial companies managed by individuals or business units and separated based on asset and income criteria (Permatasari, Najihah, & Mutoharoh, 2021). MSMEs have a strategic role in economic

growth and expansion of job opportunities. MSMEs are a type of business that is more dominant in Indonesia compared to large businesses. Every year the number of MSMEs in Indonesia is always increasing. The growth of MSMEs is expected to increase state revenues. Therefore, it is necessary to increase the empowerment of the MSME sector in order to compete with large company.

Likewise, MSMEs in Semarang continue to grow every year. The average increase is around 1.97% every year. It was recorded that from 2015 to 2021, there were around 17,526 MSMEs registered with the Semarang Cooperatives and SMEs Service. The increase in the number of MSMEs in Semarang also automatically increases state revenues through taxes (Permatasari et al., 2021). Constraints in tax receipts are the lack of public compliance to fulfill their obligations in paying taxes (Permatasari & Mutoharoh, 2021). This shows that the level of tax compliance in Indonesia is still low and needs to be improved (Wijayanti, Saraswati, Kartika, & Mutoharoh, 2020).

Taxes are the main source of state revenue originating from the community (Hardika, Askara, & Wijana, 2022; Ma'ruf & Supatminingsih, 2020; Machfuzhoh & Pratiwi, 2021; Prihatiningtyas, Sembada, Widagdo, & Widarjo, 2021; Sari & Rizki, 2020; Suren et al., 2021; Susanto, Suryani, & Septiowati, 2020; Yuhanitha, Dongoran, Elnanto, & Tetelepta, 2020; Yusuf, Mursalim, & Su'un, 2022). Meanwhile, MSMEs are one of the sectors that are the target of government tax revenues (Machfuzhoh & Pratiwi, 2021; Sudarno, Suyono, Yusrizal, & Regita, 2021). This is evidenced by the increase in tax revenue from the MSME sector for 3 years. In 2015 it reached 3.4 trillion, in 2016 it reached 4.4 trillion, and in 2018 it reached 5.7 trillion. Although there was an increase in tax revenue from the MSME sector, particularly in 2018 which reached 5.7 trillion compared to national tax revenues of Rp. 1,500 trillion, that number is still very low. In addition, in 2020 there were only 2 million MSMEs actively paying taxes out of a total of 60 million MSMEs. This is due to the low taxpayer compliance of MSME actors. Understanding and implementing the Electronic Filing System (E-Filing) system that must be owned by taxpayers to improve tax compliance (Juliyana & Herliansyah, 2021). If the tax system is easily accessible and implemented by taxpayers, taxpayers will be encouraged to always fulfill their tax obligations on time and correctly (Rusli, Ratnawati, & Wahyuni, 2021). Despite improvements in tax administration from manual forms to electronic systems where taxpayers have convenient access to tax information and can consult on tax issues at any time, tax compliance is still a problem for MSMEs (Mugarura, Kaberuka, Tweheyo, & Muramuzi, 2021).

Tax compliance is the willingness of taxpayers to pay taxes (Saragih & Putra, 2021). Tax compliance as a report of all income and payment of all taxes based on laws, regulations, and court decisions (Abdurrosid, Chandrarin, & Zhuro, 2021). According to the Decree of the Minister of Finance Number 554/KMK.04/2000 that taxpayer compliance is the act of the taxpayer in fulfilling his tax obligations in accordance with the provisions of the legislation and tax implementation regulations in force in a country" (Rachmat et al., 2021).

If explored further, the approach used to analyze Indonesian MSME tax compliance is theories which related to behavior or behavioral discussion (Arham & Firmansyah, 2021). Therefore, in this study combines 2 behavioral theories, namely Theory of Planned Behavior (TPB) and attribution theory. Based on the TPB theory, taxpayer compliance is formed by the taxpayer's willingness to pay taxes. If the Taxpayer does not have the intention or willingness, then the Taxpayer's compliance with the applicable tax provisions will not be formed (Permatasari et al., 2021). In hence, attribution theory explains taxpayer behavior caused by

internal attribution (the income level of each taxpayer and taxpayer awareness) and external attribution (tax sanctions) that change a person's attitude, namely the attitude to pay taxes (Maharani & Merkusiwati, 2020). The independent variables of tax knowledge, tax sanctions, and taxpayer awareness are the most widely used in research on MSME tax compliance in Indonesia with the tax knowledge variable being the largest (Arham & Firmansyah, 2021).

Taxpayer awareness has indeed been widely used as a mediating variable or intervening combination of other independent variables such as tax penalties and tax audits (Idrus, Lalo, Tenreng, & Badruddin, 2020), tax knowledge and tax sanctions (Handoko, Toni, & Simorangkir, 2020), and tax sanctions and income levels (Sofiana, Muawanah, & Setia, 2020). Taxpayer awareness has also been used as a moderating variable in the combination of knowledge and modernization of tax administration as a moderating variable (Nurlis & Ariani, 2020). If the influence of the independent variable on the dependent variable is not conclusive, the next researcher can add a moderating variable (Sekaran & Bougie, 2020). Moderating variables are variables that are able to clarify the relationship between two or more variables that are not yet conclusive or universal where the moderating variable will strengthen or weaken the influence of one variable on other variables (Adigwe, 2021; Lam, Chuang, Wong, & Zhu, 2019; Memon et al., 2019). Based on this opinion, the researchers added the taxpayer awareness variable as a moderating variable in the effect of tax knowledge, tax sanctions, and income levels on tax compliance. Taxpayer awareness is able to strengthen the relationship between the effect of tax knowledge on individual taxpayer compliance. Based on the results of these previous studies, the novelty of this research (novelty) is a combination of 2 behavioral theories, namely TPB theory and attribution theory to build a model of taxpayer compliance as the dependent variable and taxpayer awareness as a moderating variable of the effect of tax knowledge, tax sanctions, and income levels on taxpayer compliance. Therefore, this study emphasizes the development of new research models as novelty research.

Based on the phenomenon of the low compliance of MSME taxpayers in Semarang City, researchers are interested in conducting research on MSME taxpayer compliance in Semarang City. The empirical study conducted in this study aims to prove a causal relationship between tax knowledge, tax sanctions, and income levels with taxpayer compliance as the dependent variable, and taxpayer awareness as a moderator.

## LITERATURE REVIEW

The theory that underlies this research is the Theory of Planned Behavior (TPB). Based on the concept of subjective norm belief in the TPB theory, the behavior of taxpayers is to comply or not in fulfilling their tax obligations which influenced by the norms they believe in. These norms come from the environment where the taxpayer is located. Located or originating which is often referred to as social norms (Arham & Firmansyah, 2021; Idrus et al., 2020). Based on the TPB theory, taxpayer compliance is formed by the taxpayer's willingness to pay taxes. If the Taxpayer does not have the intention or willingness, then the Taxpayer's compliance with the applicable tax provisions will not be formed (Permatasari et al., 2021; Putra & Osman, 2019).

This study also uses attribution theory. Attribution theory assumes that people try to determine why people do what they do, that is, attributions cause behavior (Arham & Firmansyah, 2021; Mulya, 2020; Mulyati & Mulya, 2021a, 2021b; Negara & Supadmi, 2020; Pertiwi, Iqbal, & Baridwan, 2019; Rachmiyantono, 2021). Attribution theory explains taxpayer behavior which caused by internal attribution (the income level of each taxpayer and taxpayer awareness) and external attribution (tax sanctions) that change a person's attitude, namely the attitude to pay

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taxes (Maharani & Merkusiwati, 2020).

Tax knowledge is everything that is known and understood in relation to tax law, both material tax law and formal tax law (Mardiasmo, 2016). Tax knowledge is the ability of a taxpayer to know tax regulations, both regarding tax rates based on the law that will be paid, as well as tax benefits that will be useful for his life (Handoko et al., 2020). Taxpayers must have knowledge of general provisions and tax procedures. This plays an important role in growing tax compliance behavior because how can taxpayers be asked to comply if they do not know the tax regulations.

Knowledge of taxation is not only limited to taxpayers paying, reporting, and depositing taxes, but taxpayers must understand tax penalties and sanctions. If taxpayers understand tax regulations and tax sanctions in Indonesia, then taxpayers will be more willing to pay taxes (Sumianto & Kurniawan, 2016). In addition, taxpayer knowledge of taxation can make taxpayers pay their taxes. Because they know the procedures and sanctions that will be imposed if the tax is ignored. A high level of understanding of tax compliance will carry out tax obligations better (Wadesango, Mutema, Mhaka, & Wadesango, 2018). High taxpayer knowledge and understanding makes taxpayers comply with tax provisions (Oladipupo & Obazee, 2016; Sumianto & Kurniawan, 2016). Previous research has stated that tax knowledge has a positive effect on taxpayer compliance (Dewi, Petra, Yamasitha, Agusti, & Tungkir, 2020; Hardiningsih, Januarti, Oktaviani, & Srimindarti, 2020; Kristiana, Nurkatik, & Nurcahyono, 2021; Ma'rif & Supatminingsih, 2020; Mulyati & Mulya, 2021b, 2021a; Permatasari et al., 2021; Pertiwi et al., 2019; Rahayu, Bawono, & Sudiby, 2020; Rianti & Hidayat, 2021; Susanto et al., 2020; Wibawa, Jati, Sari, & Wirajaya, 2021). Based on previous research, the following hypotheses can be formulated:

**H1: Tax knowledge has a positive and significant effect on taxpayer compliance**

Sanctions are acts that are coercive and can be enforced which are determined as a reaction to an act, or to an act determined by the legal system (Ma'rif & Supatminingsih, 2020). Forced action is an action that is not carried out at the will of the individual being targeted and if there is resistance, physical force will be used. Sanctions are firm in nature that are used as coercion so that someone obeys the rules. Tax sanctions are threats to violations of a tax norm, some are threatened with administrative sanctions only, some are threatened with criminal sanctions only, and some are threatened with administrative sanctions and criminal sanctions (Mardiasmo, 2016). In the tax law there are 2 kinds of sanctions, namely administrative sanctions and criminal sanctions. There are threats of violation of tax norms which are threatened with administrative sanctions only, some are threatened only with criminal sanctions, and some are threatened with administrative sanctions and criminal sanctions (Handoko et al., 2020).

Tax sanctions are a preventive tool so that taxpayers do not violate tax norms (Machfuzhoh & Pratiwi, 2021; Mulyati & Mulya, 2021a, 2021b; Rianti & Hidayat, 2021; Sudarno et al., 2021). Tax sanctions are meant to prevent taxpayers from violating tax laws and regulations, the bigger the violation, the more severe the sanctions (Rianti & Hidayat, 2021). The results of previous research on tax sanctions have a positive and significant effect on taxpayer compliance (Handoko et al., 2020; Hardiningsih et al., 2020; Machfuzhoh & Pratiwi, 2021; Maharani & Merkusiwati, 2020; Rianti & Hidayat, 2021; Sudarno et al., 2021). Based on previous research, the following hypotheses can be formulated:

**H2: Tax sanctions has a positive and significant effect on taxpayer compliance**

The level of income is all income received by people in the form of money or goods in return for services from the factors of production (Siwi, Rawung, & Salindeho, 2020) . Income level is income that arises or is generated by taxpayers from their activities, namely from their work within a certain period (Maharani & Merkusiwati, 2020) . The fulfillment of the obligation to pay taxes cannot be separated from the amount of income earned by the taxpayer (Sihombing & Waluyo, 2021) . A higher income level attracts greater tax compliance, while individuals with a lower income level are more willing to take risks, because they prioritize fulfilling the necessities of life rather than paying taxes (Ntiamoah, Sarpong, & Winful, 2019; Siwi et al., 2020) . Taxpayers consider the tax withheld from their source of income not a gain, they see it as a loss. If the individual is in a profit situation, he will tend to obey the rules, but if the individual is in a loss situation, the individual will dare to violate the rules (Sihombing & Waluyo, 2021) . Different income levels can describe the level of compliance of MSME taxpayers.

The higher the income level of taxpayers will encourage them to behave more obediently to tax regulations. This can happen because taxpayers who have good financial conditions will find it easier to fulfill all their tax obligations, compared to taxpayers who have lower income levels (Sofiana et al., 2020) . The results of previous studies show that income levels have a positive and significant effect on tax compliance (Maharani & Merkusiwati, 2020; Sihombing & Waluyo, 2021; Siwi et al., 2020; Sofiana et al., 2020; Trisanti, 2021) . Based on previous research, the following hypotheses can be formulated:

**H3: Income level has a positive and significant effect on taxpayer compliance**

Taxpayer awareness is the behavior or attitude of an object that involves assumptions and feelings and a tendency to act on the object (Li, Zheng, Meng, & Jin, 2019) . Awareness of taxpayers in paying taxes is the behavior of taxpayers in the form of views or feelings regarding knowledge, belief, and reasoning along with the tendency to act according to the rules provided by the tax system and provisions. (Idrus et al., 2020; Tenreng, Bratakusumah, Hidayat, & Sukma, 2021) . Taxpayer awareness is an internal factor formed by taxpayers' perceptions of taxes (Sofiana et al., 2020) . Taxpayers who have an understanding of the role of taxes for the state will give a positive assessment of their tax obligations. Then this positive understanding and assessment will be realized through obedient behavior if it is in line with the principles and norms and beliefs held. When taxpayers realize that taxes are used for state development, they will be stimulated to comply with registration to obtain a Taxpayer Identification Number, calculate and pay taxes correctly and report back SPT on time.

The level of awareness of taxpayers will show how big the level of understanding of taxpayers regarding the meaning, function, and role of taxes. The higher the level of understanding of the taxpayer, the better the awareness to fulfill all tax obligations and rights so that it will be able to increase taxpayer compliance (Sofiana et al., 2020) . The results of previous studies show that taxpayer awareness has a positive and significant effect on tax compliance (Dewi, Widyasari, & Nataherwin, 2021; Handoko et al., 2020; Idrus et al., 2020; Karnowati & Handayani, 2021; Lisa & Hermanto, 2018 ; Maharani & Merkusiwati, 2020; Sofiana et al., 2020; Tenreng et al., 2021) . Based on previous research, the following hypotheses can be formulated:

**H4: Taxpayer awareness has a positive and significant effect on taxpayer compliance**

Tax knowledge is one of the factors that can increase individual taxpayer compliance. High tax knowledge from taxpayers will increase individual taxpayer compliance if taxpayer awareness to pay taxes is also owned by taxpayers. Taxpayer awareness is a condition where

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taxpayers understand and obey to pay taxes. Increased awareness will grow the motivation of taxpayers in carrying out their tax obligations (Nurlis & Ariani, 2020) . If tax knowledge regarding taxation is high, accompanied by a high level of awareness of taxpayers to pay taxes, the level of individual taxpayer compliance will also be higher, and vice versa.

Tax knowledge owned by taxpayers is directly proportional to the awareness of their tax obligations. The wider the knowledge about tax rights and obligations owned by the tax and supported by the awareness of the taxpayer, the higher the tax compliance will be. If the level of awareness of the taxpayer is higher, the taxpayer will have confidence in the importance of complying with tax regulations and paying taxes so that a high level of taxpayer compliance will be created. If the level of awareness of taxpayers is low, then taxpayers will not have confidence in the importance of complying with tax regulations and paying taxes so that a low level of taxpayer compliance will be created. The results of previous studies state that taxpayer awareness strengthens the effect of tax knowledge on tax compliance positively and significantly (Anam, Andini, & Hartono, 2018; Budhiartama & Jati, 2016; Hartana & Merkusiwati, 2018; Nurlis & Ariani, 2020) . Based on previous research, the following hypotheses can be formulated:

**H5: Taxpayer awareness moderates the effect of tax knowledge on taxpayer compliance**

Tax awareness is a taxpayer who is willing without coercion to pay his tax obligations. Taxpayers who know taxation procedures, implement tax provisions correctly, and are voluntary. Taxpayers who are aware of their taxes will not violate existing tax regulations, they also calculate their taxes correctly, and will pay the taxes owed (Rahman, 2010) . Awareness of voluntary taxpayers is very difficult to realize, this situation shows that paying taxes is a voluntary activity or because of an awareness, this situation provides understanding and understanding that people are required to carry out state obligations by paying taxes voluntarily and with full awareness as a form of national solidarity for build the national economy. Until now, public awareness to pay taxes has not reached the expected level.

When people have awareness of paying taxes in themselves, then paying taxes is done voluntarily without any treatment. This awareness of paying taxes does not only lead to obedience and discipline, but also a critical attitude, the more critical the community and the government are, the higher the awareness of paying taxes, but it does not stop here, they are even more critical in addressing tax issues, especially on policy materials in the country. in the field of taxation, for example the application of tariffs, taxation mechanisms, regulations, practices in the field and the expansion of subjects and objects. Corporate taxpayers still consider tax sanctions as something that can still be tolerated, so that taxpayer awareness to comply with their tax obligations is still low (Kurniawan & Daito, 2021) . The results of previous studies that taxpayer awareness did not strengthen the effect of tax knowledge on taxpayer compliance (Kurniawan & Daito, 2021) . Based on previous research, the following hypotheses can be formulated:

**H6: Taxpayer awareness does not moderate the effect of tax sanctions on taxpayer compliance**

Taxpayer awareness is an internal factor formed by taxpayers' perceptions of taxes, characteristics of taxpayers, and knowledge of taxes. Taxpayers who have an understanding of the role of taxes for the state will give a positive assessment of their tax obligations. Then this positive understanding and assessment will be realized through obedient behavior if it is in line with the principles and norms and beliefs held. When taxpayers realize that taxes are used for state development, they will be stimulated to comply with registration to obtain a Taxpayer Identification Number, calculate and pay taxes correctly and report back SPT on time (Sofiana et

al., 2020) . Even though taxpayers know that tax sanctions can give themselves a negative response, most of them register to obtain a Taxpayer Identification Number, pay taxes, and report their taxes, driven by the needs and demands of work that require them to fulfill their tax obligations. (Widodo, Djefris, & Wardhani, 2018) .

The results of previous studies that taxpayer awareness cannot strengthen the effect of tax sanctions and income levels on taxpayer compliance (Sofiana et al., 2020) . These results provide evidence that the existence of tax sanctions and a good level of income do not make taxpayers comply because of the emergence of self-awareness. Taxpayers tend to be obedient because of the needs and demands of work that require them to fulfill their tax obligations. Based on previous research, the following hypotheses can be formulated:

**H7: Taxpayer awareness does not moderate the effect of tax revenue level on taxpayer compliance**

## METHOD

This study uses a correlative research design, to analyze taxpayer compliance with tax knowledge, tax sanctions, and income levels through taxpayer awareness as an intervening variable. This research was conducted on MSME taxpayers in the city of Semarang. The object of this research is taxknowledge, tax sanctions, income level, taxpayer awareness, and taxpayer compliance. The population in this study are taxpayers in Semarang who are registered as MSMEs, have a TIN and have halal products. The sample was determined using the convenience sampling method. This research data is primary data. Data collection is carried out with the survey method through a questionnaire. Due to the COVID-19 pandemic, questionnaires were distributed via google form to MSME actors in Semarang who already have a TIN and halal businesses. From a total of 672 MSMEs, around 500MSMEs were given a questionnaire. The number of returned questionnaires was 242 and there were 258 questionnaires that could be sampled. In this study, the variables of tax knowledge (X1), tax sanctions (X2), and incomelevels (X3). The dependent variable in this study is the taxpayer compliance variable (Y). The moderating variable is taxpayer awareness (Z).

**Table 1. Research Variables and Operational Definitions**

No	Variables	Operational Definitions	Indicators	References
1	Tax knowledge (X1)	The ability of a taxpayer to know tax regulations, both regarding tax rates based on the law that will be paid, as well as tax benefits that will be useful for his life	1. Ownership of Taxpayer Identification Number (NPWP) (X1.1) 2. Rights and obligations as a taxpayer (X1.2) 3. Tax sanctions (X1.3) 4. PTKP, PKP	Handoko et al. (2020) and Rachmiyantono (2021)

No	Variables	Operational Definitions	Indicators	References
			and tax rates (X1.4) 5. Tax regulations through socialization conducted by KPP (X1.5)	
2	Tax sanctions (X2)	Threats to violation of a tax norm, some are threatened with administrative sanctions only, some are threatened with criminal sanctions, and some are threatened with administrative and criminal sanctions.	1. The administrative sanctions imposed for violators of tax rules are very light (X2.1) 2. The imposition of sanctions for tax violations is negotiable (X2.2) 3. Criminal sanctions imposed for violators of tax rules are quite severe (X2.3) 4. The imposition of a fairly severe sanction is one of the means to educate taxpayers (X2.4) 5. Tax sanctions should be imposed on violators without tolerance (X2.5)	Mardiasmo (2016) and Rachmiyantono (2021)
3	Income level (X3)	All income received by people in the form of money or goods in	1. Obedient to pay taxes even though income is low (X3.1)	Siwi et al. (2020) and Maharani & Merkusiwati



No	Variables	Operational Definitions	Indicators	References
		return for services from the factors of production	2. The size of the tax does not prevent paying taxes (X3.2) 3. Able to pay the amount of tax charged (X3.3) 4. The income earned can meet the main needs and fulfill obligations (X3.4)	(2020)
4	Taxpayer awareness (Z)	Taxpayer behavior in the form of views or feelings regarding knowledge, belief, and reasoning along with the tendency to act according to the rules provided by the tax system and provisions	1. Knowing the tax provisions (Z1) 2. Knowing the tax function (Z2) 3. Understanding tax obligations (Z3) 4. Understand the tax function (Z4)	Idrus et al. (2020) and Tenreng et al. (2021)
5	Taxpayer compliance (Y)	Public awareness to fulfill their tax obligations	1. Tax rate calculation (Y1) 2. Payment on time (Y2) 3. Tax reporting (Y3) 4. Obtaining a Taxpayer Identification Number (NPWP) (Y4)	Siahaan (2012), Mc. Kee et al. (2018), Idrus et al. (2020), Tenreng et al. (2021) , and Windasari & Ernandi (2021)

Source: Processed Data (2022)

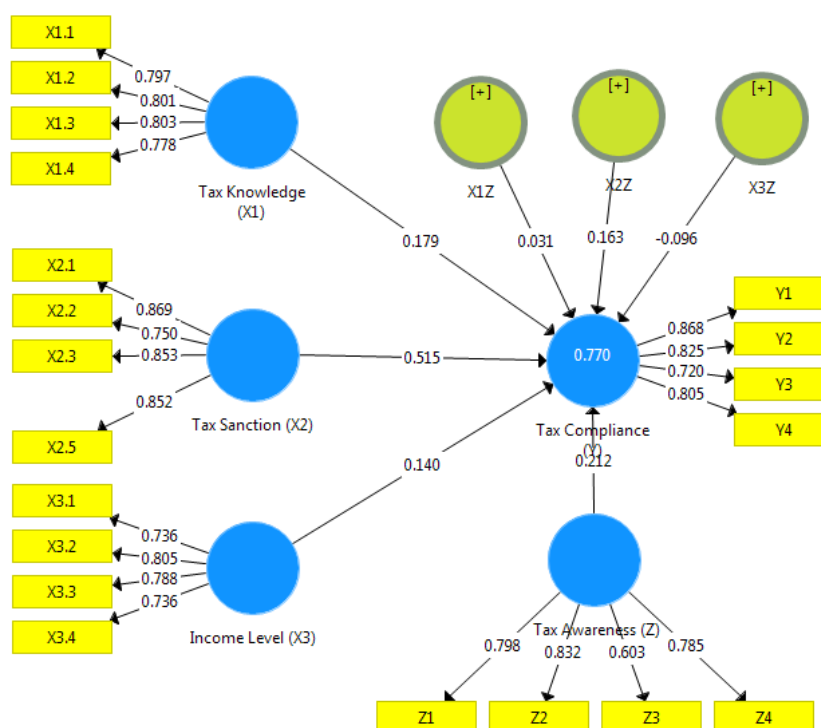
Quantitative data in this study scores the number of questionnaires with the weight of respondents' answers consisting of data on tax knowledge, tax sanctions, income levels, taxpayer awareness, and taxpayer compliance. Responses to each of the questionnaire items were assessed using 5 point Likert scale with anchors labeled: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral,

4 = Agree, 5 = Strongly Agree. The data analysis technique used in this research is path analysis with Partial Least Square (PLS) Structural Equation Modeling (SEM) with SmartPLS software version 3.3.5.

## RESULT AND DISCUSSION

### Measurement Analysis Model (Outer Model)

In the loading factor there are several indicators that are not valid because they have a loading factor of less than 0.5. Invalid indicators are Tax Knowledge with indicator X1.5 and Tax Sanctions with indicator X2.4 so that these indicators must be removed from the model and removal of this indicator will be followed by modification. Modification of the evaluation of the measurement model is intended to re-check the validity of the loading factor of each indicator. If the validity test with outer loading has been met, then the measurement model has the potential to be tested further. The modification results show that all indicators have good validity because they have a loading factor of more than 0.5. The form for displaying the external load output after modification can be seen in the following figure:



Picture 1. Outer Model Measurement

To test discriminant validity, look at the square root of the Average Variance Extract (AVE) value. The recommended value is above 0.5. The following is the AVE value in this study:

Table 2. Reliability, Validity, and Average Variance Extracted (AVE) constructs

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Tax Knowledge (X1)	0.806	0.809	0.873	0.631

Tax Sanctions (X2)	0.851	0.856	0.900	0.693
Income Level (X3)	0.806	0.878	0.851	0.588
Tax Awareness (Z)	0.755	0.784	0.843	0.577
Tax Compliance (Y)	0.818	0.823	0.881	0.650
X1Z	1.000	1.000	1.000	1.000
X2Z	1.000	1.000	1.000	1.000
X3Z	1.000	1.000	1.000	1.000

Sumber: Output Proses Smart PLS 3.3.5 (2022)

The table above shows that the value of composite reliability and Cronbach's Alpha for all constructs is  $> 0.7$  which indicates that all constructs in the estimated model meet the criteria of discriminant validity. AVE value  $> 0.5$  for all constructs contained in the research model. The reliability test was carried out by looking at the composite reliability and Cronbach's Alpha values from the indicator block that measured the construct.

### Hypothesis Testing or Structural Model (Inner Model)

#### Direct Influence

Direct effect is the effect that is measured directly from one variable to another. If the t-statistic value of the variables of tax knowledge, tax sanctions, and income levels  $< 1.96$  then there is no effect on tax compliance. On the other hand, the t-statistic value of the variable of tax knowledge, tax sanctions, and income levels  $> 1.96$  means that there is an effect on tax compliance. There are 4 direct effects that can be tested in this study which are shown in the following table:

**Table 3. Direct Effect Hypothesis Testing**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Tax Knowledge (X1) - > Tax Compliance (Y)	0.179	0.177	0.057	3.139	0.002
Tax Sanction (X2) -> Tax Compliance (Y)	0.515	0.506	0.066	7.817	0.000
Income Level (X3) -> Tax Compliance (Y)	0.140	0.140	0.034	4.120	0.000
Tax Awareness (Z) -> Tax Compliance (Y)	0.212	0.220	0.058	3.652	0.000

Sumber: Output Proses Smart PLS 3.3.5 (2022)

#### Hypothesis Testing 1

From the results of hypothesis testing with a t value of  $3.139 > 1.96$  and a significance of  $0.002 < 0.05$ , so that tax knowledge has a positive and significant effect on tax compliance, thus H1 is accepted.

#### Hypothesis Testing 2

From the results of hypothesis testing with a t value of  $7.817 > 1.96$  and a significance of

0.000 < 0.05, so that tax sanctions has a positive and significant effect on tax compliance, thus H2 is accepted.

### Hypothesis Testing 3

From the results of hypothesis testing with a t value of 4.120 > 1.96 and a significance of 0.000 < 0.05, so that the level of income has a positive and significant effect on tax compliance, thus H3 is accepted.

### Hypothesis Testing 4

From the results of hypothesis testing with a t value of 3.652 > 1.96 and a significance of 0.000 < 0.05, so that taxpayer awareness has a positive and significant effect on taxpayer compliance, thus H4 is accepted.

### Indirect Influence

The indirect effect (moderation) is the measurable effect of the tax knowledge variable (X1), tax sanctions (X2), and income level (X3) on the taxpayer compliance variable (Y) through the mediator (Z), namely taxpayer awareness. In testing the effect of moderation, the output of significant test parameters can be seen in the table of total influence. If the t-statistic value of the taxpayer awareness variable is < 1.96, then the taxpayer awareness (moderation variable) does not succeed in moderating the effect of tax knowledge, tax sanctions, and income levels on the taxpayer compliance variable. On the other hand, the t-statistic value of the taxpayer awareness variable > 1.96, the taxpayer awareness (moderation variable) succeeded in moderating the effect of tax knowledge, tax sanctions, and income levels on the taxpayer compliance variable. There are 3 indirect effects tested in this study, but the research shows that H5 and H7 are rejected because statistically the t value is 0.445 and 0.111 is smaller than the statistical t value (t < 1.96). The following is the total value of the indirect effect on the effect of the moderating variable in this study:

**Table 3. Indirect Effect Hypothesis Testing**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
X1Z -> Tax Compliance (Y)	0.031	0.030	0.040	0.764	0.445
X2Z -> Tax Compliance (Y)	0.163	0.146	0.078	2.096	0.037
X3Z -> Tax Compliance (Y)	-0.096	-0.087	0.060	1,599	0.111

Source: Smart PLS 3.3.5 Process Output (2022)

### Hypothesis Testing 5

From the results of hypothesis testing with a t value of 0.764 < 1.96 and a significance of 0.445 > 0.05, so that taxpayer awareness does not moderate the effect of tax knowledge on tax compliance, thus H5 is rejected.

### Hypothesis Testing 6

From the results of hypothesis testing with a t value of 2.096 > 1.96 and a significance of

$0.037 < 0.05$ , so that taxpayer awareness moderates the effect of tax sanctions on tax compliance, thus H6 is rejected.

### **Hypothesis Testing 7**

From the results of hypothesis testing with a t value of  $1.599 < 1.96$  and a significance of  $0.111 > 0.05$ , so that taxpayer awareness does not moderate the effect of income levels on tax compliance, thus H7 is accepted.

## **Discussion**

### **The Effect of Tax Knowledge on Taxpayer Compliance**

The results of the study indicate that tax knowledge has a positive and significant effect on taxpayer compliance, meaning that the higher tax knowledge possessed by taxpayers, the compliance will increase. If taxpayers understand tax regulations and tax sanctions in Indonesia, then taxpayers will be more willing to pay taxes (Sumianto & Kurniawan, 2016) .

This study strengthens the results of previous studies which state that a high level of understanding of tax compliance will carry out tax obligations better and comply with tax provisions (Oladipupo & Obazee, 2016; Sumianto & Kurniawan, 2016; Wadesango et al., 2018) . Similar research also shows that tax knowledge has a positive and significant effect on taxpayer compliance (Dewi, Petra, Yamasitha, Agusti, & Tungkir, 2020; Hardiningsih, Januarti, Oktaviani, & Srimindarti, 2020; Kristiana, Nurkatik, & Nurcahyono, 2021; Ma Ruf & Supatminingsih, 2020; Mulyati & Mulya, 2021b, 2021a; Permatasari et al., 2021; Pertiwi et al., 2019; Rahayu, Bawono, & Sudibyoy, 2020; Rianti & Hidayat, 2021; Susanto et al., 2020 ; Wibawa, Jati, Sari, & Wirajaya, 2021) .

### **The Effect of Tax Sanctions on Taxpayer Compliance**

The results of the study indicate that tax sanctions have a positive and significant effect on taxpayer compliance, which means that the higher the tax sanctions applied to taxpayers, the taxpayer compliance will increase. Tax sanctions are a preventive tool so that taxpayers do not violate tax norms (Machfuzhoh & Pratiwi, 2021; Mulyati & Mulya, 2021a, 2021b; Rianti & Hidayat, 2021; Sudarno et al., 2021) .

This study strengthens the results of previous studies which state that tax sanctions are a means to prevent taxpayers from violating tax laws and regulations, the greater the violation, the more severe the sanctions (Rianti & Hidayat, 2021) . Similar studies also found that tax sanctions have a positive and significant effect on taxpayer compliance (Handoko et al., 2020; Hardiningsih et al., 2020; Machfuzhoh & Pratiwi, 2021; Maharani & Merkusiwati, 2020; Rianti & Hidayat, 2021; Sudarno et al., 2021) .

### **The Effect of Tax Income Level on Taxpayer Compliance**

The results showed that the level of income has a positive and significant effect on taxpayer compliance, which means that the higher the income of the taxpayer, the higher the taxpayer's compliance. The fulfillment of the obligation to pay taxes cannot be separated from the amount of income earned by the taxpayer (Sihombing & Waluyo, 2021) . Higher income levels attract greater tax compliance, while individuals with lower income levels are more willing to take risks, because they prioritize meeting the necessities of life rather than paying taxes (Ntiamoah et al., 2019; Siwi et al., 2020) .

This study strengthens the results of previous studies which state that the higher the income level of taxpayers will encourage them to behave more obediently to tax regulations. This

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can happen because taxpayers who have good financial conditions will find it easier to fulfill all their tax obligations, compared to taxpayers who have lower income levels (Sofiana et al., 2020) . Similar studies also found that income levels have a positive and significant effect on taxpayer compliance (Maharani & Merkusiwati, 2020; Sihombing & Waluyo, 2021; Siwi et al., 2020; Sofiana et al., 2020; Trisanti, 2021) .

### **The Effect of Taxpayer Awareness on Taxpayer Compliance**

The results show that taxpayer awareness has a positive and significant effect on taxpayer compliance, which means that the more aware the taxpayer is, the more taxpayer compliance will increase. The fulfillment of the obligation to pay taxes cannot be separated from the amount of income earned by the taxpayer (Sihombing & Waluyo, 2021) . Taxpayers who have an understanding of the role of taxes for the state will give a positive assessment of their tax obligations. Then this positive understanding and assessment will be realized through obedient behavior if it is in line with the principles and norms and beliefs held.

This study strengthens the results of previous studies which state that the higher the level of understanding of the taxpayer, the better the awareness to fulfill all tax obligations and rights so that it will be able to increase taxpayer compliance (Sofiana et al., 2020) . Similar studies also found that taxpayer awareness has a positive and significant effect on taxpayer compliance (Dewi et al., 2021; Handoko et al., 2020; Idrus et al., 2020; Karnowati & Handayani, 2021; Lisa & Hermanto, 2018). ; Maharani & Merkusiwati, 2020; Sofiana et al., 2020; Tenreng et al., 2021) .

### **Moderation of taxpayer awareness on the effect of tax knowledge on taxpayer compliance**

The results of the study indicate that taxpayer awareness does not moderate the effect of tax knowledge on taxpayer compliance, which means that the wider tax knowledge and the stronger taxpayer awareness, taxpayer compliance will decrease. Taxpayer awareness is a condition where taxpayers understand and obey to pay taxes. The results of this study are not in accordance with the statement that increased awareness will increase the motivation of taxpayers in carrying out their tax obligations (Nurlis & Ariani, 2020) .

Based on the results of this study, if tax knowledge regarding taxation is high, accompanied by a high level of awareness of taxpayers to pay taxes, the level of compliance of individual taxpayers will also decrease, and vice versa. The results of this study are not in accordance with similar studies which found that taxpayer awareness strengthens the effect of tax knowledge on tax compliance in a positive and significant way (Anam et al., 2018; Budhiartama & Jati, 2016; Hartana & Merkusiwati, 2018; Nurlis & Ariani, 2020)

### **Moderation of taxpayer awareness on the effect of tax sanctions on taxpayer compliance**

The results show that taxpayer awareness moderates the effect of tax sanctions on taxpayer compliance, which means that the stricter the tax sanctions, the stronger the awareness of taxpayers, the higher taxpayer compliance will be. Taxpayers who are aware of their taxes will not violate existing tax regulations, they also calculate their taxes correctly, and will pay the taxes owed (Rahman, 2010) . When people have awareness of paying taxes in themselves, then paying taxes is done voluntarily without any treatment. This awareness of paying taxes leads to the obedience and discipline of taxpayers (Kurniawan & Daito, 2021) .

Awareness of voluntary taxpayers has been realized, this situation shows that paying taxes is a voluntary activity or because of an awareness, this situation provides understanding and understanding that the community is required to carry out state obligations by paying taxes voluntarily and with full awareness as a form of national solidarity to build national economy.

Until now, public awareness to pay taxes has reached the expected level. The results of this study differ from previous studies that taxpayer awareness does not strengthen the effect of tax knowledge on taxpayer compliance (Kurniawan & Daito, 2021) .

### **Moderation of taxpayer awareness on the effect of income level on taxpayer compliance**

The results show that taxpayer awareness does not moderate the effect of income level on taxpayer compliance, which means that the higher the income level with the stronger taxpayer awareness, the taxpayer compliance will decrease. Even though taxpayers know that tax sanctions can give themselves a negative response, most of them register to obtain a Taxpayer Identification Number, pay taxes, and report taxes driven by the needs and demands of work that require them to fulfill their tax obligations (Widodo et al. al., 2018) .

The results of this study are the same as previous studies that taxpayer awareness cannot strengthen the effect of tax sanctions and income levels on taxpayer compliance (Sofiana et al., 2020) . These results provide evidence that the existence of tax sanctions and a good level of income do not make taxpayers comply because of the emergence of self-awareness. Taxpayers tend to be obedient because of the needs and demands of work that require them to fulfill their tax obligations.

## **CONCLUSION**

The results showed that tax knowledge, tax sanctions, income levels, and taxpayer awareness had a positive and significant effect on taxpayer compliance. Taxpayer awareness is a moderating variable of the effect of tax sanctions on taxpayer compliance and is not a moderating variable of the effect of tax knowledge and income levels on taxpayer compliance. These results indicate that the better tax sanctions with good taxpayer awareness so that taxpayer compliance will also increase.

The theoretical implication of this research is to contribute to the development of TPB theory and attribution theory which is the basis for determining the factors that can influence behavior, especially tax compliance behavior. The practical implications of this research can be taken into account by the government in determining policies regarding tax regulations so that it will increase state revenues from the tax sector.

The limitations of this research are that it was conducted during the Covid-19 pandemic, so it cannot display a more in-depth tax rate survey, only sends a questionnaire via google form, and there are still several other variables that can explain and may affect MSME tax compliance. Suggestions given to the academic community need to add other variables that can affect taxpayer compliance in the MSME sector, such as taxpayer awareness, reference groups, and so on or can also add moderating or intervening variables such as tax socialization, attitudes, and tax morals., and can take a qualitative approach to strengthen the conclusion by observing the object equipped with interviews. SMEs are expected to always be good taxpayers by paying taxes following the tax system in this country.

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