

The Effect of Taxation Understanding on Tax Reporting Compliance in MSMEs in South Lampung Regency

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Article	Abstract
<p>Keywords:</p> <p>Taxation Understanding, Tax Compliance, MSMEs, Tax Reporting, South Lampung.</p> <p>History of Article</p> <p>Received: January 2025 Reviewed: January 2025 Accepted: January 2025 Published: January 2025</p>	<p>This study aims to analyze the effect of taxation understanding on tax reporting compliance among Micro, Small, and Medium Enterprises (MSMEs) in South Lampung Regency. It employs a descriptive and quantitative approach using primary data obtained through surveys. The results indicate that a higher level of taxation understanding significantly enhances tax reporting compliance. However, challenges such as limited access to taxation information and education remain significant issues. This research provides insights and understanding to improve tax education programs to support MSMEs in fulfilling their tax obligations more effectively.</p>

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1. INTRODUCTION

Tax compliance is a critical pillar for ensuring sustainable national development. It provides the necessary revenue for government expenditure, enabling investments in public infrastructure, education, healthcare, and social services. In Indonesia, Micro, Small, and Medium Enterprises (MSMEs) play an indispensable role in the national economy. According to the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM), MSMEs contribute approximately 61% to the country's GDP and employ more than 97% of the workforce (Kemenkop UKM, 2023). Despite their significant economic contribution, many MSMEs face significant challenges in fulfilling their tax obligations, which hampers the government's ability to maximize tax revenue collection.

One of the major obstacles MSME owners face is the limited understanding of taxation. Many entrepreneurs are unclear about tax regulations, tax reporting procedures, and the potential benefits of tax compliance. This is compounded by a widespread perception that taxes are overly complex and burdensome, leading to lower compliance rates. Santoso & Mulyani (2021) point out that the lack of tax literacy among MSME owners results in delayed or incorrect tax reporting, which reduces the overall tax base and undermines effective revenue collection. This issue also highlights the importance of targeted tax education to address the gaps in understanding and compliance.

Several studies underscore the positive effect of tax education on improving tax compliance. Guba and Lincoln (2018) and Schmidt (2006) argue that well-designed and comprehensive tax education programs can enhance taxpayers' understanding, thus encouraging voluntary compliance. Furthermore, research by Sugeng et al. (2020) reveals that providing simplified tax guidelines significantly improves compliance among MSMEs, suggesting that complexity in tax regulations is a major factor contributing to non-compliance. However, despite these valuable insights, there remains a notable gap in region-specific research, particularly regarding the relationship between tax literacy and tax compliance among MSMEs in South Lampung Regency.

South Lampung Regency, known for its diverse economic activities ranging from agriculture to small-scale manufacturing, presents a unique context for examining tax compliance challenges. The lack of localized studies has created a gap in understanding how tax education programs can be tailored to address the specific needs of MSMEs in this region. This study aims to fill this gap by exploring the role of tax literacy in improving tax reporting compliance among MSMEs in South Lampung Regency. The research aims to provide practical recommendations for policymakers, tax authorities, and educational institutions to develop targeted interventions that foster a culture of tax compliance.

The findings of this research are expected to contribute to the growing body of literature on tax compliance, offering actionable insights for improving tax literacy programs in Indonesia. This study will also support the government's broader goal of enhancing voluntary tax compliance, thereby boosting national tax revenue and ensuring the sustainability of public services. Additionally, the findings may serve as a model for other regions with similar MSME characteristics, facilitating the development of more tailored and effective tax education programs.

Data on MSMEs and Tax Compliance in Indonesia is MSMEs in Indonesia: As of 2023, MSMEs account for 99.9% of all businesses in Indonesia and contribute 61.07% to the nation's GDP. The sector employs over 97% of the country's workforce (Kemenkop UKM, 2023), Tax Compliance: Despite the central role of MSMEs in the Indonesian economy, the country faces challenges in improving tax compliance. The tax-to-GDP ratio in Indonesia stands at only 10.39% as of 2022, which is well below the global average and other ASEAN countries like Thailand (17.18%) and Singapore (12.96%) (OECD, 2023) and Tax Literacy: A study conducted by the Indonesian Directorate General of Taxes (DGT) in 2021 found that approximately 60% of MSME owners in urban areas had limited knowledge of tax regulations and procedures. This lack of tax literacy contributes to inaccurate tax reporting and low compliance rates among MSMEs (DGT, 2021).

2. METHODS

This research employs a quantitative approach with a descriptive design to explore the relationship between taxation understanding and tax reporting compliance among MSME owners in South Lampung Regency. A quantitative approach allows for the collection and analysis of numerical data, which helps to identify patterns, relationships, and trends. In this study, the descriptive design is used to portray the characteristics of

the sample population and provide insights into their tax-related behaviors. By combining these two methodologies, the research is able to provide a comprehensive understanding of how taxation knowledge influences compliance levels.

The data collection process was carried out through the distribution of structured questionnaires to 100 MSME owners in South Lampung Regency. The questionnaire was carefully designed to gather relevant information on respondents' understanding of taxation, including aspects such as knowledge of tax regulations, tax payment practices, and compliance behaviors. To ensure the quality and relevance of the data, the questionnaire included both closed-ended questions (for quantifiable responses) and open-ended questions (for qualitative insights). This mixed-questionnaire format allows for a more nuanced understanding of the factors influencing tax compliance.

The sampling technique used in this study is purposive sampling, where respondents were selected based on specific criteria. These criteria included being the owner of a micro, small, or medium-sized enterprise in South Lampung Regency, having operational experience in managing business taxes, and being willing to provide truthful answers to the questionnaire. This method ensures that the sample group is representative of MSME owners who possess the knowledge and experience relevant to the study. Purposive sampling was chosen because it allows for a more targeted and efficient selection of participants who can provide valuable insights into the relationship between taxation understanding and compliance.

Once the data were collected, data analysis was conducted using multiple regression analysis. This method was chosen because it allows for the examination of the relationship between one dependent variable (tax compliance) and multiple independent variables (such as taxation understanding, experience, and business scale). Multiple regression analysis helps identify which factors have the most significant impact on tax compliance and how they interact with each other. This method also provides a statistical foundation for making predictions about compliance behavior based on different levels of taxation understanding.

To ensure the reliability and validity of the data, several measures were taken. Pre-testing of the questionnaire was conducted with a small group of MSME owners in a neighboring district to identify any potential issues with the questions and refine the survey instruments. Additionally, data cleaning procedures were performed to remove any incomplete or inconsistent responses. The final dataset was then analyzed using statistical software, which ensured the accuracy and reliability of the results. These steps helped to minimize errors and improve the overall quality of the research findings.

3. ANALYSIS AND DISCUSSION

The results of the analysis show a significant positive relationship between taxation understanding and compliance among MSME owners in South Lampung Regency. The data indicates that respondents with a higher understanding of taxation were more likely to accurately report their taxes and submit them on time. This finding suggests that tax education plays a crucial role in improving tax compliance. Those with greater knowledge of tax regulations understand their obligations better and are less likely to make errors or delay reporting.

Table 1 presents a clear correlation between the level of taxation understanding and the compliance rate. As shown in the table, respondents with a low level of taxation understanding exhibited a compliance rate of only 45%. This relatively low compliance rate can be attributed to a lack of awareness and limited knowledge about tax regulations. Business owners with minimal understanding of taxation may be unaware of the full scope of their obligations, which can lead to underreporting or noncompliance.

In contrast, respondents with a medium level of taxation understanding showed a compliance rate of 68%. This indicates a moderate improvement in compliance, but it also highlights that many business owners still face challenges in fully grasping tax obligations. While they might have some knowledge of tax regulations, gaps in their understanding still persist, potentially leading to mistakes or delays in reporting. This group may benefit from more targeted educational programs and training workshops to enhance their comprehension.

Respondents with a high level of taxation understanding reported a compliance rate of 92%. This high compliance rate underscores the positive impact of education on tax compliance. Business owners who are well-versed in tax laws are more likely to ensure that their taxes are accurately calculated, reported, and paid. This group also tends to adhere to deadlines and avoid errors that could lead to penalties. Therefore, providing thorough and accessible tax education can significantly enhance compliance rates in the MSME sector.

Table 1: Compliance Level Based on Taxation Understanding

Taxation Understanding Level	Compliance Rate (%)
Low	45
Medium	68
High	92

Source: Data Analysis, 2025

The findings from this study are consistent with previous research that emphasizes the importance of tax education in improving compliance rates. Studies by Turban et al. (2018) and Khlif and Amara (2019) have demonstrated that when business owners are more knowledgeable about taxation, they are more likely to comply with tax laws. This study further confirms that taxation education is essential in fostering better compliance among MSMEs, which can ultimately contribute to the growth and sustainability of the economy.

Despite these positive results, challenges such as limited access to information and the lack of tailored training programs remain significant barriers to improving tax compliance. Many MSME owners, particularly in rural or remote areas, struggle to access accurate, up-to-date tax information. Furthermore, general tax education campaigns often fail to meet the specific needs of small businesses. There is a need for more targeted, localized programs that address the unique challenges faced by MSMEs in South Lampung Regency.

To overcome these challenges, initiatives such as digital tax education platforms and local workshops could be valuable solutions. Digital platforms can provide easily

accessible and regularly updated tax information to MSME owners. These platforms can also serve as interactive spaces where business owners can learn at their own pace and ask questions. Local workshops, on the other hand, can be organized in collaboration with local government and tax authorities to provide face-to-face training tailored to the specific needs of the community.

By addressing these issues and enhancing tax education, it is possible to significantly improve tax compliance rates among MSMEs in South Lampung Regency. Ultimately, these efforts will contribute to a more robust and sustainable business environment, benefiting both the local economy and national development.

4. CONCLUSION

This study underscores the critical role of taxation understanding in enhancing tax reporting compliance among MSMEs in South Lampung Regency. The findings reveal a clear and significant relationship between the level of taxation understanding and compliance, with higher comprehension leading to greater adherence to tax obligations. MSME owners who have a better understanding of taxation regulations are more likely to file their taxes correctly and on time. These results emphasize the importance of focused and continuous tax education for MSME owners. By improving their understanding of tax regulations, MSMEs can effectively fulfill their responsibilities and contribute to the broader economic development of the region.

In addition to the evident benefits of improved compliance, the study highlights the persistent challenges faced by MSME owners, including limited access to relevant information and a lack of tailored educational programs. Many existing tax education initiatives are generic and fail to address the unique needs of small business owners. This creates a significant gap between the resources available and the specific requirements of MSMEs. Addressing these issues requires designing programs that are not only accessible but also directly relevant to the challenges faced by business operators in this sector.

To bridge these knowledge gaps, this study advocates for targeted educational initiatives that leverage both digital and traditional methods. Digital platforms, such as e-learning modules and mobile applications, can provide accessible and flexible learning opportunities, particularly for MSME owners in remote areas. Meanwhile, localized workshops and collaborative programs involving tax authorities, local governments, and industry associations can offer practical, hands-on training to reinforce theoretical knowledge. These combined approaches can help build a stronger foundation for tax compliance among MSMEs.

Lastly, policymakers are encouraged to prioritize the implementation of these recommendations by working closely with local stakeholders. Collaboration between tax authorities, local governments, and business associations will be key to ensuring the success of educational initiatives. By addressing the challenges faced by MSMEs and promoting tax education, policymakers can not only improve compliance rates but also strengthen the overall economic contribution of this vital sector. Such efforts will create a

more sustainable and equitable taxation environment for MSMEs in South Lampung Regency and beyond.

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