

Tax morale, perception of justice, trust in public authorities, tax knowledge, and tax compliance: a study of Indonesian SMEs

Joshua Timothy* and Yulianti Abbas**

Abstract

This study aims to analyse whether and to what extent tax morality, trust in public authority, perception of justice, and tax knowledge are associated with tax compliance by small and medium enterprises (SMEs). Using a sample of 232 Indonesian SMEs in 2020, we found that SME taxpayers' level of tax compliance is positively associated with their level of tax morality, perception of justice, and trust in public authorities. Our results also show that tax morality has the greatest magnitude in this association, which indicates its role as the main driver of tax compliance. We also found a significant positive association between tax knowledge and tax compliance, confirming the notion that taxpayers' intrinsic motivation should be equipped with adequate tax knowledge. Our results suggest that in improving SMEs' tax compliance, regulators need to consider strengthening the intrinsic motivation as well as enhancing the tax knowledge that promotes a greater understanding of tax obligations.

Key words: tax compliance, tax morale, tax knowledge, SMEs

* Department of Accounting, Faculty of Economics and Business, University of Indonesia, UI Campus, Depok, 16424, Indonesia. Email: joshua.timothy@ui.ac.id.

** Department of Accounting, Faculty of Economics and Business, University of Indonesia, UI Campus, Depok, 16424, Indonesia. Corresponding author, email: yuli.a@ui.ac.id. The authors would like to thank Universitas Indonesia for funding this research through PUTI Grant with contract number NKB-4991/UN2.RST/HKP.05.00/2020.

1. INTRODUCTION

Small and medium enterprises (SMEs) hold an important role in the world economy. According to the *OECD SME and Entrepreneurship Outlook 2019* (Organisation for Economic Co-operation and Development (OECD), 2019), SMEs contribute to 99% of all businesses, and between 50% to 60% of SMEs are involved in value-adding activities. One area of superiority of SMEs is their resilience towards global crises. Taxes from SMEs can serve as a reliable source of revenues for a country's government to ensure public service provision during a crisis period. SMEs thus can be the backbone of a country's economy to enable it to survive a crisis such as the current COVID-19 pandemic.

In Indonesia, which is a developing country, SMEs play a strategic role in advancing the economy. The SME sector takes a significant role in all business activities in Indonesia. In 2018, the contribution of the SME sector was equivalent to 60.34% of Indonesia's gross domestic product (GDP). Moreover, through their business processes, SMEs are also capable of high labour force absorption. In 2017, the labour force absorption by SMEs in Indonesia reached 97.2%.

Despite the sizable contribution of SMEs in the Indonesian economy, the tax income collected from SMEs is much lower than the potential tax income which rough calculations would suggest is available from the SME sector. According to data from Indonesian Statistics Centre (BPS), SMEs contributed about USD 617 billion to the economy which leads to an estimated USD 3 billion in potential tax income. However, the Indonesian government only received 14% of this potential tax income. The Indonesian government's difficulties in boosting domestic income from SME taxes is not a country-specific problem. Indeed, SME taxpayer delinquency has been recognised as an ongoing global issue (McKerchar & Evans, 2009).

This study aims to analyse factors associated with the tax compliance of Indonesian SMEs. We rely on prior studies suggesting that researchers should incorporate intrinsic motivation as a driver of voluntary tax compliance. Intrinsic motivation is viewed as a crucial factor in explaining tax compliance behaviour that economic deterrence models fail to explain (Alm & McClellan, 2012; Pope & McKerchar, 2011). Alm and Martinez-Vazquez (2007) suggest that to increase tax compliance, a government of a developing country needs to consider strengthening social norms to complement the improvement in tax administration.

Andreoni, Erard and Feinstein (1998) suggest that the concept of morals and social dynamics based on the psychological theories of guilt and shame are drivers of tax compliance. Moral and social dynamics consist of three aspects, which are the moral rules and sentiments, the issue of fairness, and the evaluation of government expenditures and corruption. Tax morality in individuals has long been considered an intrinsic motivation to pay taxes (Frey, 1994, 1997), while the perception of justice has become a core determinant in tax compliance models (Etzioni, 1986; Kirchler, 2007). Etzioni (1986) found that taxpayers committed tax evasion in periods they believed the tax levied was unfair although there was no change in the tax rate. He concluded that an unfair tax system is more likely to drive taxpayers towards tax evasion than a tax rate increase. The relationship between taxpayers and government is also a crucial aspect in understanding tax compliance behaviour (Smith, 1992; Torgler, 2012). If taxpayers trust their government, representatives, and justice system, taxpayers will be more willing to fulfil their tax duties (Alm, 1999; Alm & Martinez-Vazquez, 2007; Alm & Torgler,

2011). Torgler and Schneider (2007) stated that citizens are also more willing to fulfil their tax duties when they believe that public institutions adequately reflect their interests.

This study attempts to explain the tax compliance behaviour of SMEs using the concept of social morals and dynamics as suggested by Andreoni et al. (1998). In our study, we use questionnaires to assess the three dimensions of social morals and dynamics, which are tax morale, perception of fairness, and trust to authority. Additionally, we measure the association between tax compliance and tax knowledge. Prior studies suggest that the behaviour towards tax regulations is associated with a taxpayer's lack of knowledge and abilities to obey (Fjeldstad & Heggstad, 2012; Braithwaite et al., 2010; OECD, 2019). Consistent with prior studies, we propose that SMEs' tax knowledge will be an important factor in tax compliance.

Based on a survey of 232 Indonesian SMEs in 2020, we confirmed the importance of morals and social dynamics as suggested by Andreoni et al. (1998). Our analytical results show that SMEs' level of tax compliance is positively associated with their level of tax morality, perception of justice, and trust in public authorities. Among all of these factors, tax morality has the largest magnitude in influencing the level of tax compliance. Additionally, we found that tax knowledge has a positive association with tax compliance. SMEs with a higher level of tax knowledge regarding their tax obligations and the tax administration have higher tax compliance compared to their peers.

Our research contributes to the literature looking at factors associated with SMEs' tax compliance. Although there have been many studies measuring the intrinsic motivation of individual taxpayers to pay taxes, we cannot directly attribute the results to SMEs because prior studies suggest that SMEs are different from other taxpayers. Ahmed and Braithwaite (2005) found that SME taxpayers have different attitudes towards government functions. Their research showed that SME taxpayers favour minimum government interference and oppose tax expenditure for redistributive programs such as health, welfare, and education (Ahmed & Braithwaite, 2005). Similarly, Kamleitner, Korunka and Kirchler (2012) summarised the literature on SME taxation and suggested three aspects that distinguish SMEs from other businesses, namely a belief that they have greater opportunities to disobey the tax rules, a lack of taxation knowledge, and a perception that taxes are losses (Kamleitner et al., 2012). Prior studies looking at intrinsic motivation and SME tax compliance also found mixed results. Kogler, Muehlbacher and Kirchler (2015) find that both trust in the government and the perceived power of the government were important predictors of tax compliance. However, Morse, Karlinsky and Bankman (2009) found morality was not a predominant reason for compliance decisions for SMEs. Thus, although SMEs constitute a majority of firms in the economy, little is known regarding the intrinsic motivation associated with their tax compliance.

Additionally, most studies on SME tax compliance have used interviews and focus group discussions to gather information. We use a survey-based design that enables us to utilise a greater number of observations. We confirm that our sample indeed consists of SMEs by looking at the number of employees and annual turnover. In the analysis, we use a comprehensive model that considers norms, trust, fairness and knowledge in a single design. Our study focuses on Indonesia as SMEs have been considered as the driver of economic development in developing and emerging countries (Gherghina et al., 2020). The SME sector makes a significant contribution to national GDP and the tax

non-compliance of SMEs has become a critical problem for the Indonesian government. Our results provide a basis for understanding factors that need to be taken into consideration in improving SMEs' tax compliance and designing the appropriate tax policy for SMEs in developing countries.

2. THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

There is no single theoretical definition of a small business (Curran & Blackburn, 2001; Josefy et al., 2015). D'Amboise and Muldowney (1988) described small businesses as businesses that are independently owned, managed by the individual, and not dominant in their field/industry. Small business is usually identified by the number of employees, net value of assets, or revenues. Regarding their tax obligations, small business owners are usually required to self-assess and self-report their income taxes.

As noted in section 1, SMEs' tax compliance has been recognised as an ongoing global issue (McKerchar & Evans, 2009). Tax compliance refers to the fulfilment of all tax obligations as required by the law or the degree to which taxpayers comply with tax regulations in their country (Braithwaite, 2009; James & Alley, 2004). Tax compliance is also defined as the process in which taxpayers declare all income accurately and pay taxes correctly according to applicable tax laws and regulations (Palil & Mustapha, 2011).

Prior studies on tax compliance suggest that deterrence is the main factor that affects tax non-compliance. Hence, the notion of voluntary taxpaying and the intrinsic motivation to pay taxes has also gained a lot of support in recent years. Alm and Martinez-Vazquez (2007) suggest that in addition to a compliance strategy that is based on detection and punishment, the government should also strengthen the social norms of complying with tax regulations. Similarly, Alm and Torgler (2011) propose that tax administrations should not only emphasise enforcement but also consider tools that are consistent with service and trust paradigm. Jimenez and Iyer (2016) suggest that social norms influence compliance intentions indirectly through internalisation as personal norms. Andreoni et al. (1998) suggest that the concept of morals and social dynamics is significant in tax compliance. Based on the psychological theories of guilt and shame, Andreoni et al. (1998) propose three important factors that affect tax compliance, which are the moral rules and sentiments, the issue of fairness, and the evaluations of government expenditures and corruption (satisfaction with governments).

2.1 Tax morality

Tax morality is a moral obligation to pay taxes or a belief that one should contribute to society by paying taxes (Torgler & Schneider, 2007). Prior studies have concluded that tax morality holds a large role in explaining taxpayer decisions (Alm & McClellan, 2012; Luttmer & Singhal, 2014; Yücedoğru & Hasseldine, 2016) and high degree of tax compliance can be explained by tax morale (Torgler, 2001; Torgler & Schneider, 2007). Prior studies have also found that an increase in tax morality has a significant positive impact on taxpayers' tax reporting and compliance (Alm, McClelland & Schulze, 1992; Alm & McClellan, 2012). A studies of UK businesses by Adams and Webley (2001) found that UK business owners have low tax morality and considered tax non-compliance as not a serious crime.

Prior studies suggest that tax morality is a necessary component in identifying a business's perception of whether tax is an obstacle to doing business. Businesses with

a low tax morality have a higher probability of justifying tax evasion and considering taxes are a burden in doing business. Businesses with a low level of tax morality towards tax payments are thus more likely to consider taxes as an obstacle compared to a similar firm with a higher level of tax morality. The first hypothesis of this study is:

H₁: Tax morality has a positive association with SMEs' tax compliance.

2.2 Perception of government justice (fairness)

Perception of justice has become a core determinant in tax compliance models (Andreoni et al., 1998, Kirchler, 2007). Prior studies have found that a higher perception of justice has a negative association with tax evasion (Spicer & Lundstedt, 1976; Jackson & Milliron, 1986). The study of small businesses in the UK by Adams and Webley (2001) found that fairness is a major issue in small businesses' value added tax (VAT) compliance. Similarly, Ahmed and Braithwaite (2005) found that small business owners in Australia believed they pay less than their fair share of tax. Based on these prior studies, we expect the perception of justice will be associated with tax compliance. The second hypothesis of this study is:

H₂: Perception of government justice has a positive association with SMEs' tax compliance.

2.3 Trust in public authority

Kirchler (2007) has stated that 'trust is a critical factor in understanding the origins of civic engagement, cooperation with authorities and compliance'. If taxpayers trust their government, representatives, and justice system then taxpayers are more willing to fulfil their tax duties (Alm, 1999; Alm & Martinez-Vazquez, 2007; Alm & Torgler, 2011; Jimenez & Iyer, 2016). Citizens are also more willing to fulfil their tax duties when they believe public institutions adequately reflect their interests (Torgler & Schneider, 2007). The level of trust tends to increase a taxpayer's positive attitude and commitment towards tax payment, which in turn results in a positive effect towards tax compliance (Smith, 1992). Kastlunger et al. (2013) found that trust is positively related to voluntary tax compliance. Muelbacher, Kirchler and Schwarzenberger (2011) also found that high levels of voluntary tax compliance are observed in conditions of high trust.

Prior studies suggest that as trust in government increases, the incentives to comply with tax obligations also increase. However, a study on small businesses in Australia by Ahmed and Braithwaite (2005) found that small businesses favour small government and minimum government interference. This study thus measures SMEs' level of trust in government and its association with tax compliance. Therefore, the third hypothesis in this study is:

H₃: Trust in public authority has a positive association with SMEs' tax compliance.

2.4 Tax knowledge

Tax knowledge refers to a process where taxpayers gain understanding of taxation laws and other tax-related information (Hasseldine, Holland & van der Rijt, 2009). Delinquent behaviour towards tax regulations can be caused by the taxpayer's lack of knowledge and abilities to obey (Fjeldstad & Heggstad, 2012; Braithwaite et al., 2010; OECD, 2019). Prior studies have shown varying results regarding the association

between tax knowledge and the level of tax compliance (Wadesango et al., 2018). Research by Adam and Webly (2012) concluded that tax knowledge is an important element in a system of voluntary tax compliance. The findings have also been supported by the research of Loo (2016) and Loo, McKerchar and Hansford (2014) which stated that taxation knowledge is the most influential factor in the process of determining taxpayer compliance behaviour in a self-assessment system.

Prior studies on small businesses have also suggested that SMEs have limited taxation knowledge. McKerchar (1995) found that small businesses in Australia did not realise the gap in their taxation knowledge, causing accidental delinquency. Based on prior studies, intrinsic motivation to pay taxes should be complemented by adequate taxation knowledge. Therefore, our fourth hypothesis is:

H₄ : Taxpayer's tax knowledge has a positive association with SMEs' tax compliance.

2.5 Control variables

Similar to research regarding SMEs conducted by Huong and Cuong (2019), we control for firm size and firm age. Both variables represent the difference in firm efficiency and their access to funding (Farinha & Félix, 2015).

3. RESEARCH METHOD

3.1 Sample

We distributed questionnaires to Indonesian SME taxpayers. A total of 239 valid responses from Indonesian micro, small, and medium businesses were obtained. The questionnaire (see Appendix 1) includes a set of questions measuring tax morality, trust in public authority, taxpayer's perception toward government justice, tax knowledge, and tax compliance. To test the validity of the responses, we checked the consistency of the respondent's answers. We used reversed questions that served as an indicator of the respondent's opinion consistency and dropped respondents whose answers were inconsistent. We also dropped respondents with an illogical answer.¹

3.2 Statistical model

For data analysis, we used the Structural Equation Modelling Maximum Likelihood Estimator (SEM MLE) method. The Maximum Likelihood Estimator (MLE) method is chosen because our constructs are latent variables. We use several questions to measure one particular construct. The MLE estimator allows us to measure the latent variables by assigning weight to the questions based on respondents' responses.

The following statistical model is used to test the association between tax morality, trust in public authority, a taxpayer's perception towards government justice, tax knowledge, and SME taxpayers' tax compliance level:

$$Compliance_i = \beta_1 Morality_i + \beta_2 Justice_i + \beta_3 Trust_i + \beta_4 Knowledge_i + \beta_5 Age_i + \beta_6 Size_i + \epsilon_i$$

¹ One respondent claimed to have 500,000 employees, which is inconsistent with the SME characteristics.

The details of each variable in the model are elaborated below. The complete questions used in measuring the variables are provided in Appendix 1.

Compliance: Taxpayer compliance level.

Morality: Tax morality level.

Trust: Level of trust in public authority.

Justice: Perception of government justice level.

Knowledge: Knowledge and understanding regarding taxation of taxpayers, measured using true or false statements.

Age: Number of years since the SME was established.

Size: Number of SMEs' employees.

4. RESEARCH RESULTS

4.1 Descriptive analysis

Table 1 shows the descriptive analysis results for all respondents regarding Tax Compliance, Tax Morality, Perception of Justice, and Trust in Public Authority.

Table 1: Descriptive Statistics of Perception Variables

Variable	Min	Max	Mean	Standard Deviation	Mode
Compliance	1	5	3.87	0.92	4
Morality	1	5	3.42	1.04	4
Justice	1	5	3.44	1.04	4
Trust	1	5	3.17	1.01	3

Table 1 shows that most of the SMEs in our sample have good tax compliance with an average of 3.87 (out of 5) and a modal value of 4 (out of 5). Table 1 also shows the descriptive statistics of the variables measuring intrinsic motivation. The perception of justice variable has the highest average, while trust in government has the lowest average. Both tax morality and perception of justice variables show the highest standard deviation, which means there are considerable differences in both variables among SMEs in our sample.

Table 2: Descriptive Statistics of Knowledge Variable

Remark	Number of Respondents
Correct Answer Percentage	89.73%

Table 2 shows the descriptive statistics of the knowledge variable. Of all the questions given to the respondents, on average, 89.73% of the questions were answered correctly. Hence, the majority of our respondents have satisfactory taxation knowledge.

4.2 Regression analysis

Figure 1 (see Appendix 2) shows the diagram for the Structural Equation model and Table 3 explains the regression results of our analytical model.

Table 3: Regression Analysis of Research Model

Variable	Coefficient	t	P> t	Hypothesis
MORALITY	.4963645	7.84	0.000	Hypothesis 1
JUSTICE	.1789232	2.00	0.045	Hypothesis 2
TRUST	.1548217	1.84	0.065	Hypothesis 3
KNOWLEDGE	.1973953	3.17	0.002	Hypothesis 4
AGE	-.0311265	-0.49	0.621	Control Variable
SIZE	-.0338778	-0.53	0.598	Control Variable

4.2.1 *The association between tax morality and SME taxpayers' compliance*

The regression results in Table 3 show a positive association between Tax Morality and Tax Compliance ($p < 0.000$). This result supports prior studies that have found that a high degree of tax compliance is explained by tax morale (Torgler, 2001; Torgler & Schneider, 2007). Overall, our results indicate that tax morality has the highest magnitude, which confirms that tax morality holds a large role in explaining taxpayer decisions (Alm & McClellan, 2012; Luttmer & Singhal, 2014; Yücedoğru & Hasseldine, 2016).

4.2.2 *The association between perception of justice with SME taxpayers' compliance*

Our results in Table 3 show a positive relationship between the perception of justice and the level of tax compliance ($p < 0.05$). This result supports prior research by Alm et al. (1992) that found compliance is higher when individuals can feel benefits from public goods funded by taxes. Similarly, Adams and Webley (2001) found that fairness is a major issue in small businesses' VAT compliance in the UK. If taxpayers perceive lack of fairness in the way authorities run the government, taxpayers tend to display delinquent behaviour.

4.2.3 *The association between trust in public authorities and SME taxpayers' compliance*

Our results in Table 3 indicate that higher trust in public authority is associated with higher tax compliance. Our results are consistent with prior studies that suggest citizens are more likely to fulfil their tax duties if they trust the government (Alm, 1999; Alm & Martinez-Vazquez, 2007; Alm & Torgler, 2011; Jimenez & Iyer, 2016). However, our findings indicate a weak association ($p < 0.1$) between the trust in public authority and SME tax compliance. The weak association indicates that although trust in public authorities is associated with higher compliance, it is not of greater importance compared to the other intrinsic motivations.

4.2.4 *The association between tax knowledge and SME taxpayers' compliance*

Our results for taxation knowledge indicate a significant association between tax knowledge and SME tax compliance ($p < 0.000$). We found that higher tax knowledge is associated with higher tax compliance. Our results are consistent with the research by Loo (2016) and Loo et al. (2014) that stated that tax knowledge is the most influential factor in determining taxpayers' compliant behaviour in a self-assessment system. Since lack of knowledge has been considered as a challenge faced by SMEs (Fjeldstad & Heggstad, 2012; Braithwaite et al., 2010; OECD, 2019), our findings suggest that the government should consider a tax education policy to improve tax compliance.

4.2.5 *Control variables*

Control variables used in this research are age and size. Our regression results indicate that both age and size do not have a statistically significant association with tax compliance. The magnitudes of the coefficients indicate that larger and older firms tend to be more delinquent, although the differences are not statistically significant.

5. CONCLUSION

Using 232 SMEs across Indonesia, this study aims to explain the association between tax morality, trust in public authority, perception of justice, taxpayer's knowledge, and SMEs' tax compliance. Our analysis using the Structural Equation Modelling (SEM) Maximum Likelihood method generated the following results. First, we found a positive association between SME taxpayers' level of tax morality and tax compliance. Among all of these factors, the magnitude of the association is the highest for tax morality, confirming that tax morality is the main driver of tax compliance. Second, we found a positive association between SME taxpayers' perception of justice and tax compliance level. More specifically, we found that a taxpayer tends to exhibit high tax compliance when they believe that the government has acted fairly in matters of taxation and distribution of wealth. Third, although weak, we found a positive association between trust in public authorities and SME taxpayers' compliance level. Our results indicate that respondents tend to be more tax-compliant when public authorities are trustworthy. Finally, we found a positive association between SME taxpayers' tax knowledge and tax compliance level. Our results indicate that knowledge regarding administration and enforcement/sanctions is important in explaining the perception of tax compliance in SME taxpayers.

Overall, our findings indicate that intrinsic motivation, measured by the three dimensions of social morals and dynamics (Andreoni et al., 1998), has a meaningful association with SMEs' tax compliance. Our results thus support Alm and Martinez-Vazquez (2007)'s proposition that to increase tax compliance, a government of a developing country needs to consider strengthening the social norms to complement the improvement in tax administration.

There are several limitations of our study. First, our data only involve Indonesian SMEs, which reduces the generalisability of our findings. However, focusing on one country allows us to eliminate the systematic bias that might be caused by tax law differences among countries. We suggest that future research conducts a similar design in a different country to assess the possible deviation from our findings. Second, our variables are measured on an aggregate basis. A study by Bornman and Ramutumbu (2019) has suggested that tax knowledge can be divided into general, procedural, and legal tax

knowledge, with general tax knowledge relating to fiscal awareness, procedural tax knowledge to understanding tax compliance procedures and legal tax knowledge to understanding tax regulations. Future studies might seek to disaggregate the knowledge variables and test which type of knowledge will be associated with tax compliance.

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7. APPENDICES

Appendix 1

Questionnaire

1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; 5 = strongly agree

Tax Compliance

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
1	A taxpayer must prepare the documents required to pay taxes					
2	A taxpayer must find information regarding where and how to pay taxes					
3	A taxpayer must find information regarding the due date of tax payment					
4	A taxpayer must allocate funds to pay taxes					
5	A taxpayer must pay taxes on income earned by his/her business					
6	A taxpayer is not required to pay income tax on time.					
7	A taxpayer must pay the correct amount of income tax					
8	A taxpayer must file and report income tax on his/her business (report tax returns – SPT)					
9	A taxpayer is not required to report taxes (report tax returns) on time					
10	A taxpayer must report taxes (report tax returns) with correct information					

Tax Morality

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
1	It does not matter if a taxpayer exaggerates their business expenses to reduce payable personal taxes					
2	It does not matter if a taxpayer exploits loopholes in taxation laws to minimize his/her taxes					
3	It does not matter if a taxpayer only reports parts of his/her income to reduce payable taxes					
4	In a difficult economic situation, it does not matter if taxpayers do not pay their taxes					
5	Tax evasion is a serious crime					

Perception of Justice

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
1	The current system of income tax is fair to all taxpayers					
2	Income tax expense has been fairly distributed among all taxpayers					
3	The facilities you receive from the government is proportionate to the taxes you have paid					
4	It is fair for people with high income to pay proportionally more in taxes than those with lower income					
5	Tax rates are fair if it is applied to every person regardless of their income					
6	It is fair to apply a lower tax rate to SME taxpayers					
7	The government giving different facilities to SMEs and non-SMEs is not fair					
8	Lowering the tax rate for all types of businesses during a pandemic is fair					
9	Bearing employees' taxes during a pandemic regardless of income is fair					

Trust in Public Authority

No.	Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
1	Currently the law is well enforced by the government					
2	Politicians and representatives are executing their function and authority well					
3	The government has allocated tax income well in the form of facilities for the people					
4	The Directorate General of Taxation has been performing tax collection duties well					
5	In general, the Directorate General of Taxation already possess good integrity					
6	The Directorate General of Taxation has performed socializations or tax education well					
7	The website for the Directorate General of Taxation provides adequate information					
8	Account Representatives have performed and given their services well					
9	The government has provided good facilities during the COVID-19 pandemic					
10	Tax facilities given to MSMEs by the government during the COVID-19 pandemic has been well socialized.					

11	Account representatives have provided adequate aid in helping MSMEs benefit from tax facilities during the COVID-19 pandemic					
12	Government aid is crucial to economic recovery post-COVID-19					
13	Public donation is crucial to economic recovery post-COVID-19					

Tax Knowledge

V = True; X = False

No.	Statement	V (True)	X (False)
1	Taxes are the largest source of national income in Indonesia		
2	All taxpayers with income must register and obtain Tax ID number		
3	Taxpayers can register for Tax ID number		
4	The Directorate General of Taxation can perform inspections on taxpayers to test their tax compliance		
5	Taxpayers can file for deferment or installments on their tax payments in certain conditions		
6	Tax sanctions are applied to those who do not fulfil their tax obligations		
7	Applicable tax sanctions include fines and imprisonment		
8	Income tax rate for MSMEs is 0.5%		
9	To obtain tax facilities, SMEs must first obtain a letter of statement from the tax office		
10	SME taxes can be paid off by personally depositing the taxes or by collection by other parties		
11	SMEs must pay taxes on the 15 th of every month		
12	SME income tax is borne by the government during COVID-19		
13	During the COVID-19 pandemic, the government bears SME income taxes for 6 months		
14	The government bears employee taxes for companies in certain sectors during COVID-19 pandemic		

Please answer the following questions if your business is a Sole Proprietorship

No.	Statement	V (True)	X (False)
15	SMEs can use Final PPh rate of 0.5% for a maximum of 7 years		
16	SMEs must record all their revenues for tax reporting purposes (Periodic Tax Return)		

Please answer the following questions if your business is a Partnership/Cooperative

No.	Statement	V (True)	X (False)
15	SMEs can use Final PPh rate of 0.5% for a maximum of 4 years		
16	SME taxpayers must record all their revenues for tax reporting purposes (Periodic Tax Returns)		

Please answer the following questions if your business is a Corporation (limited liability company)

No.	Statement	V (True)	X (False)
15	SMEs can use Final PPh rate of 0.5% for a maximum of 3 years		
16	SME taxpayers must record all their revenues for tax reporting purposes (Periodic Tax Returns)		
17	SME taxpayers must fill data regarding assets, debt, and profit loss balance for tax reporting purposes (Annual Tax Returns)		

Appendix 2. Fig. 1: Structural Equation Model

