

Factor Analysis of Tax Knowledge, Firmness of Sanctions, and Fairness of MSME Tax Compliance in Garut Regency

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ABSTRACT: MSMEs are critical to Indonesia's economic framework, yet their compliance with tax regulations has been a persistent challenge. Therefore, the researcher seeks to uncover how tax literacy, tax penalty rates, and perceptions of tax fairness impact tax compliance of micro, small, and medium enterprises (MSMEs) at KPP Pratama Garut. This paper brings a new perspective to existing research by focusing specifically on the MSME sector in Garut Province. This area is under-researched in the context of tax compliance. The method used is quantitative. Data collection uses questionnaires sent to taxpayers. The sample used is purposive sampling. The participant group comprises micro, small, and medium enterprise taxpayers who have submitted annual tax returns to KPP Pratama Garut, have a Taxpayer Identification Number (NPWP), and are registered as taxpayers. Thirty eligible individuals participated in this study, including residents of Garut Province. Tax subjects with a Taxpayer Identification Number (NPWP): Taxpayers with assets of at least 500,000,000 rupiahs companies based on their size are divided into several categories, namely MSMEs. This study uses descriptive and quantitative methods. Tax compliance of MSME actors at KPP Pratama Garut is not necessarily related to tax expertise but is closely related to tax sanctions and tax fairness. Three main factors influence the tax compliance of MSME actors at KPP Pratama Garut: 1) the severity of sanctions, 2) tax knowledge, and 3) tax fairness.

Keywords: Tax Knowledge, Severity of Tax Violation Sanctions, Justice in Taxation, Taxpayer Compliance with Tax Regulations.



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INTRODUCTION

In Indonesia, the increase in national income is dominated by micro, small, and medium enterprises (MSMEs), abbreviated as MSMEs. Therefore, the Indonesian government enacted Regulation No. 20 of 2008 to support this vital sector. As part of their business operations, these companies must fulfill important obligations, especially taxation, towards their respective countries (Megahsari et al., 2016).

Over the past few periods, tax revenues in Indonesia have consistently failed to reach their targets. The slowdown in tax revenue growth has resulted in a significant deficit against the target, as seen in the 2019-

2022 MSME tax revenue data, which failed to meet the APBN target. Among various regions in Indonesia, Garut Regency has a unique geography: a mountainous area and a tourism center. The combination of main economic activities such as tourism and light industry provides a unique dynamic in the tax compliance behavior of MSMEs. This differs from other regions in Indonesia that may focus more on the agricultural sector or heavy industry, thus providing a different analytical perspective on tax compliance.

To increase the Regional Original Income in Garut Regency, it is necessary to implement tax collection procedures following Regional Regulations. The Bappeda carries out this procedure. However, the regional original income is currently relatively low, which impacts tax revenues, so it does not reach the set target. This condition requires special attention considering the large economic potential of Garut Regency, especially from the tourism and MSME sectors.

Table 1. Realization of MSME Tax Revenue

Year	2019	2020	2021	2022
Number of MSMEs	310.279	329.477	349.863	371.510
Number of Taxpayers	19.938	23.766	24.034	24.205
Number of Taxpayers	18.102	6.173	1.754	972
Reporting Tax Return	2.656.837.243	789.907.841	598.931.628	1.524.257.279
Total Tax Revenue				

Source: KPP Pratama Garut & Open Data Jabar

The data in Table 1. shows changes in tax revenue from MSMEs (Micro, Small, and Medium Enterprises) from year to year. In 2019, MSME tax revenue reached its highest figure of IDR2,656,837,243, and it was recorded that 18,102 MSMEs had submitted their SPT. However, in 2021, there was a significant decline. Namely, revenue fell to IDR598,931,628. In the Garut Regency, the number of MSMEs continues to increase yearly, even during the pandemic.

Despite the increase, this was not followed by increased taxpayer compliance. One of the most noticeable impacts is the drastic decline in the number of MSMEs submitting SPT; in 2022, the number dropped to only 972. This decline indicates that registered taxpayers have not fulfilled their reporting obligations. This is quite surprising, especially since the government has lowered the tax rate from 1% to 0.5% during the pandemic to help taxpayers. Unfortunately, these efforts have not stopped the decline in tax payments and SPT reporting (Romdhon et al., 2021).

This condition is in the spotlight because there needs to be an in-depth study of the causes of the decline in taxpayer compliance over the past four years, especially because the compliance target set by the Directorate General of Taxes has not been achieved. In examining this, it is important to consider various factors that can influence taxpayer behavior. Achieving a high level of compliance is very important for achieving tax revenue targets. These factors include how well taxpayers understand tax regulations, how strict the sanctions are for non-compliance, and whether taxpayers feel that the tax system treats them fairly.

Tax knowledge has been shown to have a significant positive effect on taxpayer compliance. Research showed that a better understanding of taxes increases compliance in Ghana, which is also supported by (Fajriana et al., 2023), who found that higher levels of tax knowledge are

associated with better compliance. In addition, tax sanctions play an important role in encouraging compliance (Kumi & Kwasi Bannor, 2023). emphasize that the severity of sanctions can deter tax evasion while showing that perceptions of sanctions affect taxpayers' decisions to comply.

Based on the results of several studies above, it can be concluded that tax knowledge, strictness of tax sanctions, and tax fairness significantly influence increasing tax compliance. Tax sanctions are a deterrent so that Taxpayers do not violate tax provisions. Sanctions will be given to Taxpayers who do not comply with applicable provisions. Tax sanctions include administrative and criminal sanctions. The higher the applicable sanctions, the more Taxpayers are expected to care about their tax obligations (Yuniarwati et al., 2024).

Building upon these established findings while acknowledging the evolving nature of tax regulations, this research aims to contribute new insights to the existing literature. This study has an element of novelty in examining the implementation of taxation policies based on Government Regulation Number 23 of 2018, the latest regulation in the taxation scheme for certain taxpayers. Unlike previous studies that refer to old regulations, this study provides a new perspective in understanding the impact of these regulations on the aspects studied, namely tax compliance, financial performance of MSMEs, or efficiency of the taxation system.

To further narrow the scope and provide more targeted insights, this study makes a unique contribution by identifying the specific relationship between tax fairness and MSME compliance in a developing region such as Garut. These findings complement the existing literature by providing a new perspective on the factors that influence MSME tax compliance at the regional level. Therefore, the main objective of this study is to analyze how these factors affect MSME tax compliance in Garut so that it can provide input that can be followed up on to improve regional tax policies.

Given the importance of the regulatory changes and their potential impact on tax compliance behavior, the main objective of this study is to analyze how these factors affect tax compliance of MSMEs in Garut so that it can provide actionable input to improve local tax policies.

Taxation Knowledge

Tax knowledge includes a comprehensive understanding of tax regulations, both formal and practical. Tax knowledge is essential to ensure taxpayer compliance, as it directly impacts their ability to understand the complexities of tax obligations (Putri, 2022). This understanding is theoretical and includes practical insights into how tax laws are applied in real-world scenarios (Silaban et al., 2022). To effectively understand tax knowledge, individuals must be aware of several key components: (a) existing tax regulations, (b) new tax regulations introduced through government policies and directives from the Ministry of Finance, and (c) relevant decrees and circulars issued by the Directorate General of Taxes (I, 2019).

This multifaceted approach to tax knowledge is supported by various studies highlighting the importance of understanding taxation's legal framework and procedural aspects. Studies show that a strong understanding of tax regulations significantly improves taxpayer compliance, as

knowledgeable individuals are more likely to fulfill their tax obligations accurately and on time (Adikur & Imran, 2022; Urumsah & Lasmono, 2022). In addition, the relationship between tax knowledge and compliance is further explained by findings showing a positive correlation between taxpayer awareness and compliance levels. Taxpayers who are educated about their rights and responsibilities tend to demonstrate higher levels of compliance (Mansur et al., 2023; Nafaril & Ramadhan, 2024).

This is particularly relevant in tax socialization efforts, which aim to improve taxpayer understanding through targeted education and outreach initiatives (Halimah & Juitania, 2022). Integrating this educational component is critical to fostering a culture of compliance and ensuring that taxpayers are equipped to effectively navigate the ever-evolving tax regulatory landscape (Sofianti et al., 2024). Firmness of Tax Sanctions Tax knowledge is essential for tax compliance and enforcement. This knowledge includes the technicalities and practical application of tax law, which enables taxpayers to fulfill their obligations.

This understanding extends to the consequences of non-compliance, including sanctions imposed by the government. Tax sanctions serve as a deterrent to tax evasion. Tax sanctions are a form of government control designed to prevent violations of tax regulations (Rahayu, 2020). These sanctions serve as a preventive measure, preventing non-compliance and maintaining the tax system's integrity (Amin & Mispa, 2020). Research consistently shows a strong relationship between tax sanctions and taxpayer compliance. The existence of sanctions significantly influences taxpayer behavior, leading to increased compliance (Adhikara et al., 2022; Rahiem & Ardillah, 2022). However, the effectiveness of these sanctions depends on taxpayers' awareness and understanding of the sanctions (Subekti & Yuliana, 2024; Sumuan & Fidiana, 2020). Fairness in the application of tax sanctions is also important. Fair application, considering the severity of the violation, builds taxpayer trust and encourages voluntary compliance (A et al., 2023). This aligns with research showing that increasing taxpayer awareness and understanding of regulations can mediate the relationship between tax knowledge, socialization, and compliance (Hardiningsih et al., 2020).

To measure tax sanctions are as follows (Rahayu, 2017):

- a. The sanctions given must be clear and firm
- b. Sanctions follow the scope of the legislation
- c. Narrowing or expanding the material targeted by the tax must be
- d. Carried out in the law
- e. The scope of the law is clearly limited by the object,
- f. Subject, and territory
- g. The legal language must be concise, clear, firm without containing any doubt
- h. And double meaning

Therefore, tax knowledge and sanctions are interdependent in influencing taxpayer compliance, and compliance will require a deep understanding of tax laws and strong implementation mechanisms. The available literature suggests that better understanding by taxpayers and, more importantly, their awareness of any sanctions for non-compliance will make them more compliant with regulatory requirements (Fauzi & Suryani, 2019).

Tax Justice

Adam Smith's taxation principle emphasizes fairness and equity in revenue collection, which recommends adjusting taxes to the taxpayer's ability to pay (Priantara, 2012). This idea is also often discussed in recent discussions on tax fairness, which argues that a fair tax system should consider both vertical and horizontal equity, ensuring that everyone contributes according to their financial ability (Susilawati & Rawati Suganda, 2021). Fairness in taxation is about compliance and fostering trust in government institutions, as perceptions of procedural fairness significantly affect taxpayer compliance (Rachmawan et al., 2020). Furthermore, the design and implementation of tax laws are critical in addressing social justice issues, as they can significantly affect the distribution of wealth and public welfare (Raymond et al., 2020; Sadchikov, 2021). Thus, the ethical basis of taxation reflects a broader commitment to social justice, where the sacrifices made by taxpayers are justified by the benefits received from the state (Makovicky & Smith, 2023). Tax justice can be measured as follows:

- 1) Taxes imposed according to the ability of the Taxpayer (ability to pay),
- 2) Taxes are not required for those who are unable to pay taxes,
- 3) Justice refers to the concept of acceptance and savings that if we pay taxes to the government, then the government will provide benefits from the taxes that provide it.

Taxpayer Compliance

Tax compliance greatly influences the effectiveness of tax authorities, especially in the context of the MSME sector, which has a major impact on developing countries. Research shows that compliance with tax provisions strengthens state revenues and contributes to good relations between the government and citizens. Taxpayer compliance refers to fulfilling tax obligations promptly and accurately, which is very important for strengthening state finances (FKRMM, 2016).

According to (Kantohe & Kambey, 2021), taxpayer compliance is contingent upon the government's management of tax revenues and the intention to behave compliantly. It is proven that taxpayers tend to be more compliant when they understand their obligations and the consequences of their calculations. In addition, paying taxes according to the amount owed is very important to maintain compliance, as emphasized by those who emphasize the role of taxpayer awareness and tax socialization in increasing individual taxpayer compliance (Tiala et al., 2022).

Furthermore, the implementation of the e-filing system has been proven to facilitate timely reporting, thereby increasing the level of compliance, as shown by (Oktaviani & Triyani, 2023). In addition, the role of tax socialization in increasing taxpayer awareness is very important because it helps individuals understand their obligations and the consequences of non-compliance; this is supported by research on tax socialization and taxpayer awareness (Ardika et al., 2023). This study illustrates that paying taxes accurately and reporting them on time are important components of taxpayer compliance.

Hypothesis

The information analysis reveals that taxpayers' perceptions of tax fairness, tax knowledge, and the severity of tax penalties critically impact the compliance of micro, small, and medium enterprises (MSMEs) in the Garut Pratama Tax Office. In the context of these findings, the following hypotheses can be formulated:

H1: Taxpayers' knowledge has an impact on compliance among MSMEs.

H2: The severity of tax sanctions also influences compliance by MSME taxpayers.

H3: Perception of tax fairness impacts MSMEs' tax compliance.

METHOD

This study uses a quantitative descriptive method using IBM SPSS version 25 for data analysis, focusing on 972 taxpayers from the MSME sector who submitted Annual Tax Returns (SPT) at the Garut Pratama Tax Service Office. To determine the population and sample, purposive sampling and purposive sampling methods were used where the number of samples and respondents to be taken was 30 MSME owners who were used if they met the following respondent requirements:

- 1) Native residents domiciled in Garut Regency,
- 2) Taxpayers who have an NPWP,
- 3) Taxpayers who have a net worth of $\leq$ Rp. 500,000,000,
- 4) Following the category of MSMEs based on business scale, namely:
 - a. Micro business category: The place of business is not fixed or can move, the type of product sold can change at any time, does not have a business license, does not have an NPWP, and has not recorded finances,
 - b. Small business category: Permanent place of business, the type of business sold does not change quickly, has a business license, has an NPWP, and carries out simple financial administration,
 - c. Medium business category: Permanent place of business, the type of product is fixed, has a business license or has established a company, has a company NPWP, and carries out financial administration with an accounting system. The research location is at the Pratama Garut Tax Service Office is a center for collecting data and information about MSME taxpayers.

This study uses a quantitative approach by utilizing a 5-point Likert scale to measure respondent responses, where one indicates "strongly disagree" and five indicates "strongly agree" (Fitriyah & N, 2023). This scale was chosen because research shows that it is reliable and effective in capturing people's attitudes without overwhelming them with too many choices (Asikin et al., 2024). The data were then analyzed using SPSS version 25. This software facilitates exploring how various factors influence each other through statistical methods such as descriptive statistics and hypothesis testing (Heriberta et al., 2024). Quantitative data collection was carried out in March and April 2024 and came from two main sources. First, we used responses to the MSME taxpayer questionnaire from the Garut Pratama Tax Service Office as the main data source. Respondents were given a consent

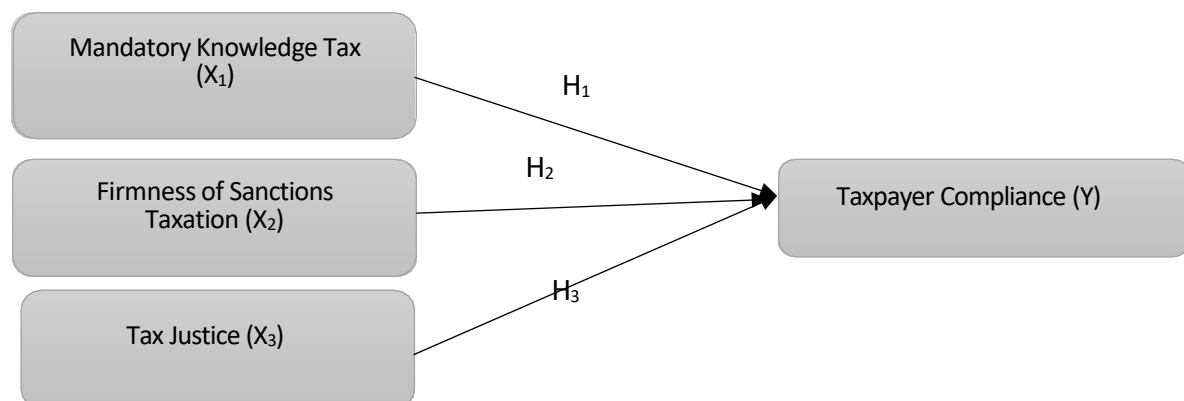
form and complete instructions for filling it out. Second, we relied on secondary data in the form of prepared tables and figures. The researchers collected this information by interviewing tax officers, visiting tax offices, book reviews, and searching professional journals and online media.

Data analysis was conducted using IBM SPSS version 25. IBM SPSS version 25 remains the primary choice in this study due to its ability to handle basic statistical analysis and multiple linear regressions needed to evaluate taxpayer compliance. However, it is important to remember that each software has its limitations.

We took several steps to overcome this and ensure that our research results remain valid and reliable. We did not rely solely on SPSS; we also used other software, such as Microsoft Excel, for more in-depth analysis. This helped us cross-validate and ensure consistent results. We also always double-checked all data to avoid input errors. In addition, we used various data collection methods, such as surveys and in-depth interviews, to strengthen the validity of our findings.

The following is a description of the research design as a research constellation model based on the explanation above:

Figure 1. Quantitative Research Design



The following equation is used in this study:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

Y: Taxpayer Compliance

β_1 : Regression Coefficient of Tax Knowledge on Taxpayer Compliance

β_2 : Regression Coefficient of Firmness of Tax Sanctions on Taxpayer Compliance

β_3 : Regression Coefficient of Tax Justice on Taxpayer Compliance

X1: Taxation Knowledge

X2: Firmness of Tax Sanctions X3: Tax Justice

e: standard error

RESULT AND DISCUSSION

Data Quality Test

a. Validity Test

Validity assessment is crucial for determining the effectiveness of questionnaires, ensuring that each item accurately measures its intended construct. A significant correlation value ($p < 0.05$) between statement items indicates validity (Nassar et al., 2022).

Table 2. Tax Knowledge Variable Validity Testing Results

Instrument Item	Instrument Item	Instrument Item	Instrument Item
P1	0.683	0.355	Valid
P2	0.525	0.355	Valid
P3	0.552	0.355	Valid
P4	0.614	0.355	Valid
P5	0.625	0.355	Valid

Source: Data processed, 2024

The reliability of the questionnaire used to assess tax knowledge is proven to be strong. This is evident from the calculated r-value, which is higher than the critical value of 0.355, in accordance with the standard for a sample of 31 participants at a significance level of 5%. This approach follows common practice in data analysis, where the level of significance is strictly maintained. An example is a study that uses SPSS for statistical analysis (Silva AC et al., 2024).

Table 3. Results of Validity Testing of Tax Sanction Strictness Variables Instrument Item R count R table Description

P1	0.71	0.355	Valid
P2	0.757	0.355	Valid
P3	0.552	0.355	Valid
P4	0.811	0.355	Valid

Source: Data processed, 2024

Table 3 shows that the correlation coefficient (r) calculated from our data (0.355) is equal to the critical value (0.355) for 31 participants at a 5% significance level. Because our calculated r value meets or exceeds the critical value, the questionnaire items measuring Tax Sanction Firmness are considered valid and reliable. Our analysis confirms the accuracy of the data.

Table 4. Tax Justice Variable Validity Testing Results

Instrument Item	R count	R table	Description
P1	0.619	0.355	Valid
P2	0.6	0.355	Valid
P3	0.379	0.355	Valid
P4	0.652	0.355	Valid
P5	0.421	0.355	Valid
P	0.71	0.355	Valid
6	0.568	0.355	Valid
P			
7			

Source: Data processed, 2024

The result of data processing in Table 4 indicates that the value of r Table for $n = 31$ and the real level of 5% is 0.355. If the value of r Count $>$ r Table is obtained, all statements in the Tax Justice variable study questionnaire are certified valid. According to the calculating tool, all data is correct, and the variable in question is error-free.

Table 5. Taxpayer Compliance Variable Validity Testing Results

Instrument Item	R-count	Rtabel	Description
P1	0.843	0.355	Valid
P2	0.434	0.355	Valid
P3	0.845	0.355	Valid
P4	0.579	0.355	Valid

Source: Data processed, 2024

Based on the data processing results in Table 5, the r Table value for $n = 31$ and a real level of 5% is 0.355. In obtaining a measuring instrument, it is declared valid if the r Calculation value is $>$ r Table. Then, all statements used in the research questionnaire for the Taxpayer Compliance variable are declared valid. The calculation tool states that all data is correct and there are no errors in the variables in question.

b. Reliability Test

Reliability is a method for assessing questionnaires as indicators of variables or constructs. The reliability test assesses the consistency of objects and data. The reliability measurement is then compared to additional questions or used to determine the correlation between question answers using the statistical test Cronbach Alpha. A variable is deemed to be dependable if its Cronbach Alpha value exceeds 0.60 (standard value).

Table 6. Reliability Test Results

Variables	Cronbach Alpha	Standard Value	Description
Taxation Knowledge (X1)	0.761	0.60	Reliable
Firmness of Tax Sanctions (X2)	0.796	0.60	Reliable
Tax Justice (X3)	0.787	0.60	Reliable
Taxpayer Compliance (Y)	0.776	0.60	Reliable

Source: Data processed, 2024

c. Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Test Results Coefficients

Unstandardized d Coefficients		Standardized Coefficients		t	Sig.
Model	B	Std. Error	Beta		
1	(Constant)	.614	3.292	.186	.853
	Taxation Knowledge (X1)	.211	.131	.296	1.610
	Firmness of Tax Sanctions (X2)	.238	.158	.259	1.506
	Tax Justice (X3)	.178	.115	.276	1.551

Source: Data processed, 2024

The regression equation is:

$$Y = 0,614 + 0,211X_1 + 0,238X_2 + 0,178X_3 + e$$

- Imagine we hold Tax Knowledge, Tax Sanction Firmness, and Tax Fairness steady. Our model predicts a base level of Taxpayer Compliance of 0.614.
- For every little bit we increase Tax Knowledge, Taxpayer Compliance goes up by about 0.211.
- There's a positive link between Tax Sanction Firmness and Taxpayer Compliance. If we
- Boost Tax Sanction Firmness. We find a similar increase in compliance – about 0.238 for
- Every unit increase.
- Similarly, a rise in Tax Justice is directly tied to a surge in Taxpayer Compliance. Each unit increase in Tax Justice leads to a 0.178 increase in compliance.

Hypothesis Testing Results

- T-test (partial regression coefficient test)

Table 8. Results of t-Test (Partial Test) Coefficients

Model		t	Sig.
1	(Constant)	.186	.853
	Taxation Knowledge (X1)	1.610	.119
	Firmness of Tax Sanctions (X2)	1.506	.144
	Tax Justice (X3)	1.551	.132
Dependent Variable: Taxpayer Compliance			

Source: Data processed, 2024

- 1) According to Table 8, the hypothesis testing yielded a value of *thitung* 1.610, which is less than *ttabel* 1.696 ($1.610 < ttabel\ 1.696$). The significance value is 0.119, exceeding $\alpha\ 0.05$ ($0.119 > \alpha\ 0.05$), concluding that the first hypothesis is not accepted. This indicates that Tax Knowledge does not influence Taxpayer Compliance.
- 2) Our hypothesis test (Table 8) shows a calculated t-value of 1.506, lower than the critical t-value of 1.696. The resulting p-value of 0.144 exceeds our significance level (0.05), meaning we fail to reject the null hypothesis. This indicates that Tax Sanction Strictness does not significantly affect Taxpayer Compliance.
- 3) The analysis presented in Table 8 indicates that the calculated t-value of 1.551 is less than the critical t-value of 1.696 ($1.551 < ttabel\ 1.696$). Additionally, the significance level of 0.132 exceeds the alpha level of 0.05 ($0.132 > \alpha\ 0.05$). Consequently, the third hypothesis is invalid, suggesting that Tax Justice does not influence Taxpayer Compliance.
- 4) F test (simultaneous regression coefficient test)

Table 9. F Test Results (Simultaneous Test) ANOVA^a

Sum of Model Squares			Df	Mean Square	F	Sig.
1	Regression	36.134	3	12.045	8.430	.000 ^b
	Residual	38.576	27	1.429		
	Total	74.710	30			

Source: Data processed, 2024

a. Dependent Variable: Taxpayer Compliance

b. Predictors: (Constant), Tax Justice, Firmness of Tax Sanctions, Tax Knowledge

Our analysis (Table 9) revealed a strong relationship between Taxpayer Compliance and the factors of Tax Knowledge, Tax Sanctions Strictness, and Tax Fairness. The statistical test yielded a highly significant result ($F = 8.430$, $p < 0.000$), far exceeding the critical value ($F = 3.340$) at the 5% significance level. This convincingly supports our hypothesis that these three factors significantly influence Taxpayer Compliance.

The Effect of Taxation Knowledge on Taxpayer Compliance of MSME

Analyzing taxpayer compliance in Micro, Small, and Medium Enterprises (MSMEs) in Indonesia provides essential insights into the role of tax knowledge and awareness. This study found that the statistical relationship between tax knowledge and compliance is insignificant, as indicated by the *t*-value of 1.610, which is smaller than the critical value of 1.696 and the significance level of 0.119. This shows a weak positive relationship, with a regression coefficient of 0.211.

Based on the interview results, the researcher highlighted that the Garut Pratama Tax Service Office has not interacted effectively with MSME taxpayers to improve their understanding and compliance. The lack of comprehensive tax education and socialization has been identified as an obstacle to increasing compliance (Dewi et al., 2022; Subagio & Aresteria, 2023a).

This aligns with the findings of a study that presents a different perspective, showing that tax knowledge does not significantly affect taxpayer compliance in certain contexts. This study highlights that although tax knowledge is considered important, its impact may vary based on moderating factors such as tax sanctions and taxpayer awareness. The findings suggest that despite having adequate tax knowledge in some regions, MSME taxpayers may still fail to comply due to a lack of law enforcement or other socioeconomic factors.

These findings do not align with those of those who showed that tax knowledge significantly affects taxpayer compliance among MSMEs (Wijaya & Yanti, 2023). This study uses multiple linear regression analysis and shows that tax knowledge has a significant positive effect, with a *p*-value of 0.047. This shows that along with the increasing understanding of MSME taxpayers regarding tax regulations, their compliance with tax obligations also increases.

The Effect of Strictness of Tax Sanctions on Taxpayer Compliance of Micro, Small and Medium Enterprises

In the context of the second hypothesis (H2), which states that the strictness of tax sanctions affects the compliance of MSME taxpayers, the results of this study indicate that the relationship is not significant, as evidenced by a *p*-value of 0.144, which exceeds the conventional threshold of 0.05. This suggests that variations in the severity of tax sanctions do not significantly influence compliance behavior among MSMEs (Y. R. Fauziah & Ginting, 2022). Such findings are consistent with Nurfaza's research, which similarly concluded that the stringency of tax sanctions does not have a notable impact on compliance levels (E. F. Fauziah & Halim, 2023). Furthermore, the qualitative data collected from interviews with tax officers indicate that the perceived ineffectiveness of sanctions, particularly for late Annual Tax Return filings, contributes to low compliance levels (Murnidayanti & Putranti, 2023). This is echoed in the literature, where it is noted that a lack of understanding of tax obligations and the complexity of tax regulations can hinder compliance among MSMEs (Ibrahim & Morasa, 2023; Mansur et al., 2023).

In contrast, other studies, such as that by Janan, have reported a positive correlation between the severity of sanctions and compliance rates (Kristiawati et al., 2023). This discrepancy may arise from contextual factors, including differences in enforcement practices and the unique characteristics of the MSME populations studied in various regions (Janan & Mokhlas, 2023). For instance, the

qualitative feedback from tax officers at the Garut Pratama Tax Service Office highlighted a perception that the current sanctions, particularly the 2% fine for late filing, lack sufficient deterrent effects, which aligns with the findings of Kristiawati et al. that emphasize the role of effective sanctions in promoting compliance.

The Influence of Tax Fairness on Taxpayer Compliance in Micro, Small and Medium Enterprises

Our study found no significant relationship between the fairness of the personal tax system and the tax compliance of small and medium enterprises (SMEs). This finding is directly related to hypothesis H3. Our study found no significant relationship between the justice of the personal tax system and small and medium company tax compliance (UKM). This finding is directly related to the H3 hypothesis. Statistical analysis shows that the calculated value (1,551) is lower than the expected value (1,696), and the level of significance (0.132) exceeds the general threshold of 0.05. This shows that the perception of justice in the tax system does not significantly impact tax compliance, in contrast to our initial hypothesis.

Thus, it can be concluded that individual tax justice does not affect compliance with UMKM taxpayers. This can be seen in Table 4.23, wherein indicator six, the lowest cumulative score is obtained in the statement that the respondent knows justice in the preparation of the tax law is based on each tax Obligation. In the statement, there are several responses from respondents who disagree, which means that not all taxpayers know that justice in the preparation of the tax law is based on each taxpayer. This is related to the first variable, where taxpayers do not understand and know about the latest regulations in the tax law, as well as lack literacy letters to find information about taxes. This study's results show that the tax justice variable is not included in the driving factor that can affect the compliance of MSME taxpayers at KPP Pratama Garut.

This research is in line with what argues that tax justice does not significantly influence taxpayer compliance, suggesting that taxpayers often underestimate the perception of fairness in the tax system (Toly et al., 2023). They posit that tax justice should be viewed as adjusting tax policies that align with the realities faced by taxpayers, indicating that compliance may be more closely related to other factors such as tax knowledge and sanctions.

In contrast, the findings present a different perspective, asserting that tax justice affects taxpayer compliance (Subagio & Aresteria, 2023b). Their research highlights that the quality of tax services, the imposition of tax sanctions, and the rates applied to taxpayers are critical components that influence compliance levels among MSMEs in Pekalongan City. This suggests that when taxpayers perceive the tax system as just and equitable, they are more likely to comply with their tax obligations.

The Influence of Tax Knowledge, Firmness of Tax Sanctions, and Tax Fairness on Taxpayer Compliance in Micro, Small, and Medium Enterprises The results of the study indicate that tax knowledge, the level of tax sanctions, and the impression of tax fairness jointly influence the compliance of MSME taxpayers. F_{count} exceeds F_{tabel} , as shown in Table 9, with values of 8.430 and 3.430, respectively, and a significance threshold of 0.000, which means less than 0.05. Thus, the third

hypothesis is accepted, stating that tax knowledge, the strictness of tax sanctions, and tax fairness influence MSME taxpayer compliance. This means that any changes in the independent variables—tax knowledge, the strictness of tax sanctions, and tax fairness—will simultaneously impact the compliance of MSME taxpayers in fulfilling their tax obligations. On the compliance of MSME taxpayers in fulfilling their tax obligations. These findings align with the findings (Wahyuningsih, 2022) of taxpayer compliance, which includes formal and material elements. This includes accurate calculation of tax liabilities, timely reporting of taxes paid, timely registration of Taxpayer Identification Numbers, and compliance with applicable tax regulations.

This study makes a unique contribution by identifying the specific relationship between tax fairness and MSME compliance in a developing region such as Garut. These findings complement the existing literature by providing a new perspective on the factors that influence MSME tax compliance at the regional level, particularly in areas with diverse economic activities like tourism and light industry.

CONCLUSION

This study examines tax compliance among micro, small, and medium enterprises (MSMEs) at the Garut Pratama Tax Office to understand the factors influencing such compliance. The results show that having good tax knowledge, understanding the seriousness of fines, and perceived tax burden play a significant role in determining whether these businesses are compliant. However, it was found that many business owners still have difficulty understanding Indonesia's self-assessment tax system and are not fully aware of the fines or principles of fair tax law. This lack of understanding makes it difficult for them to calculate their taxes accurately.

Here are some practical steps that can be taken to improve taxation policies in Garut:

- a. Improving MSME Tax Knowledge: The local government must continue innovating in delivering tax socialization programs, primarily through the Garut Pratama Tax Office. Utilizing various media, both print and electronic, as well as holding seminars and webinars tailored to the needs of MSMEs, will be beneficial.
- b. Improving the Tax Sanction System: The sanction system needs to be re-evaluated so that the sanctions applied are fair and effective in encouraging implementation and do not burden developing MSMEs.
- c. Improving Fairness in the Tax System: Improving public services and infrastructure quality is essential to ensuring that every taxpayer, including MSMEs, feels the direct benefits of their tax contributions.

This conclusion emphasizes the importance of better taxpayer education. By developing targeted programs, such as socialization and outreach efforts, we can see an increase in compliance rates. Although this study highlights important aspects of MSME tax compliance, several limitations need to be considered. Our sample may not fully represent all MSMEs in the area, and using a closed questionnaire format limits the depth of data we can collect.

Future studies should aim to include a larger sample and include qualitative data to gain a richer understanding of taxpayer behavior. Then, add independent and dependent variables that can potentially influence the relationship between Tax Knowledge, Tax Sanction Firmness, Tax Fairness, and Taxpayer Compliance or use variables not used in this study, such as tax rates, tax services, taxpayer awareness, etc. So that new variables can be found that will improve

This can improve our tax compliance knowledge and help shape more effective policies and practices. MSMEs should have a better chance of fulfilling their tax obligations and be more aware of improving their tax knowledge and understanding by finding out the latest regulations on small and medium business taxes through the official tax website or other platforms that can improve taxpayer knowledge. With the increase in taxpayer knowledge, taxpayers will be motivated to carry out their tax obligations.

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