DYNAMICS OF TAX EVASION IN INDONESIAN SMES: TAX RATES, SELF-ASSESSMENT SYSTEMS, AND TAX MORALE

Michael[1][*], William Widjaja[2]

[1]Akuntansi, Universitas Pradita, Indonesia
[2]Manajemen Retail, Universitas Pradita, Indonesia
[*]Email corresponding author: michael@pradita.ac.id; william.widjaja@pradita.ac.id

Abstrak

Penelitian ini bertujuan untuk meneliti tentang penghindaran pajak di kalangan UMKM Indonesia, dengan fokus pada tarif pajak, kompleksitas sistem perpajakan, dan self-assessment system. Penelitian ini merupakan jenis penelitian survei dengan pendekatan kuantitatif yang melibatkan 100 UMKM di Jakarta. Penelitian ini menemukan bahwa tarif pajak yang tinggi meningkatkan penggelapan pajak, yang merugikan daya saing dan pertumbuhan UMKM. Karena sumber daya yang rendah dan ketidakpercayaan terhadap pemerintah, penggelapan pajak tidak terpengaruh oleh sistem perpajakan yang kompleks. Namun, metode self-assessment mengurangi penghindaran pajak dengan mendorong transparansi, akuntabilitas, dan kesadaran di kalangan UMKM. Untuk mengatur self-assessment system dan penghindaran pajak, moral pajak sangat penting. Hal ini berdampak pada keadilan dan etika pajak. Hasil penelitian ini menekankan perlunya kebijakan pajak yang adil, merampingkan prosedur pajak, dan meningkatkan edukasi pajak untuk mencegah penghindaran pajak dan mendorong pertumbuhan ekonomi jangka panjang. Kepercayaan publik terhadap institusi pemerintah dan kepatuhan pajak sangat penting bagi UMKM untuk berkembang dan berkontribusi terhadap perekonomian.

Kata Kunci: Self-Assessment Systems, Tax Evasion, Tax Morale, Tax Rates
JEL Code: M40, M48, M49

Abstract

This study examines tax evasion among Indonesian MSMEs, focusing on tax rates, tax system complexity, and self-assessment. The quantitative survey included 100 Jakarta MSMEs. It finds that high tax rates increase tax evasion, which hurts MSMEs' competitiveness and growth. Due to low resources and distrust of government, tax evasion is unaffected by the complex tax system. However, the self-assessment method reduces tax avoidance by promoting transparency, accountability, and awareness among MSMEs. To regulate the self-assessment system and tax evasion, tax morale is vital. It impacts tax fairness and ethics. The findings stress the need for fair tax policy, streamlining tax procedures, and enhancing tax education to prevent tax evasion and boost long-term economic growth. Public confidence in government institutions and tax compliance is essential for MSMEs to thrive and contribute to the economy.

Kata Kunci: Self-Assessment Systems, Tax Evasion, Tax Morale, Tax Rates
JEL Code: M40, M48, M49

INTRODUCTION

The prevalence of tax evasion among micro, small, and medium enterprises (MSMEs) in Indonesia is a substantial concern for taxation. In 2023, data from the Directorate General of Taxes (DGT) of the Ministry of Finance revealed that approximately 60% of Micro, Small, and Medium Enterprises (MSMEs) adhered to their tax responsibilities. In the same year, they also disclosed that up to 35% of MSMEs acknowledged engaging in tax cheating due to exorbitant tax rates, a convoluted tax structure, and a deficiency in comprehending tax regulations.

High tax rates significantly deter MSMEs from complying with tax obligations. In 2023, the World Bank conducted a study that revealed that just a 1% rise in tax rates might lead to a 0.5% increase in the rate at which micro, small, and medium enterprises (MSMEs) avoid paying taxes. Tax rates significantly impact taxpayers' actions, affecting their compliance with tax laws and tendency to engage in tax evasion. Research has demonstrated that tax rates substantially influence how taxpayers comply with tax regulations in different countries (Dewi et al., 2021). For example, a study conducted in Indonesia found that reducing final income tax rates significantly affects the tax compliance of micro, small, and medium businesses. This suggests that the level of tax rates can influence the willingness of UMKM to comply with their tax obligations (Indrawan et al., 2020).

On the other hand, some experts argue that focusing solely on tax rates as the main factor influencing tax compliance and evasion among Micro, Small, and Medium Enterprises may oversimplify the issue. They believe that while tax rates certainly play a role in shaping taxpayer behavior, other factors, such as the complexity of tax regulations, the perceived fairness of the tax system, and the effectiveness of enforcement, also significantly impact compliance (Prawati et al., 2020; Wijayanti et al., 2020; Winner & Asalam, 2023).

In addition, critics of the tax rates argument point out that reducing tax rates may not necessarily lead to increased compliance. They argue that businesses may still choose to evade taxes if they perceive other loopholes or opportunities for tax avoidance, regardless of the tax rate. Moreover, some UMKM owners may justify tax evasion as a means of survival in a challenging business environment, especially if they feel that the tax burden is already too heavy (Indrawan et al., 2020; Pope & Abdul-Jabbar, 2008; Wijayanti et al., 2020).

Furthermore, opponents of the tax rates argument emphasize the need for a more comprehensive approach to addressing tax compliance issues among UMKM. They suggest that reforms should not be limited to adjusting tax rates but should also focus on improving tax education and awareness, streamlining tax processes, and providing support for UMKM to ensure its sustainability and growth (Dwianika & Biasini, 2019; Engelschalk, 2004; Venter & De Clercq, 2007)

In addition, the complexity of the tax system also presents challenges for MSMEs in calculating and paying their taxes correctly. A survey by PwC in the same year stated that 60% of MSMEs feel that the tax system in Indonesia is too complicated. The complex tax system is often tricky for MSME players to understand and follow. In addition, inadequate tax sanctions can reduce the effectiveness of enforcing tax rules and incentivize MSME actors to commit tax evasion (Nugaha & Hajanirina, 2020; Saputri & Kamil, 2021). While it is true that the complexity of the tax system can contribute to tax evasion among UMKM in Indonesia, it is essential to consider the other side of the argument. Some may argue that the issue of tax evasion is not solely due to the complexity of the tax system but rather the lack of enforcement and accountability within the UMKM sector (Kurniawan, 2018; Purwanto & Indrawan, 2020).

Implementing the self-assessment system in taxation in Indonesia should give MSME taxpayers the autonomy to meet their tax responsibilities (Baradja et al., 2020). However, research shows that eliminating direct government involvement in the tax checking and assessment process

can increase the opportunity for tax evasion by MSME actors (Hanum et al., 2020; Saputri & Kamil, 2021; Yee et al., 2017).

Tax morale is essential to tax compliance behavior, especially among Indonesia's Micro, Small, and Medium Enterprises (MSMEs). Tax morale can be described as the willingness of individuals or groups to pay taxes voluntarily without legal pressure (Wardani & Anugrah, 2023). Studies indicate that tax awareness, morality, and knowledge can influence tax morale (Sutrisno & Konde, 2022).

This research is crucial for understanding the factors influencing MSMEs' tax behavior and addressing the widespread issue of tax evasion among them. It offers diverse insights, covering aspects such as tax rates, system complexity, and the effectiveness of self-assessment. These findings emphasize the need for a comprehensive approach rather than a singular solution to enhance MSME tax compliance. Improving the tax system and enhancing tax awareness among MSMEs are paramount. This study provides a robust basis for more inclusive and sustainable taxation policies, urging institutions to bolster tax education at the MSME level. It highlights the imperative of comprehending taxation dynamics among MSMEs in Indonesia and refining tax policies and practices to foster better compliance and sustainable economic growth.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Tarif Rates and Tax Evasion

A higher tax rate may incentivize MSMEs to engage in tax evasion as they seek to minimize their tax liabilities (Dewi et al., 2021). Lower tax rates, on the other hand, may encourage MSMEs to comply with their tax obligations as the financial burden is reduced. Therefore, the level at which tax rates are set can influence the behavior of MSMEs about tax compliance. Higher tax rates motivate MSME owners to engage in tax evasion practices (Wijayanti et al., 2020). Additionally, tax rates can affect the perceived fairness of the taxation system. If MSMEs perceive the tax rates to be unfairly high, they may be more inclined to engage in tax evasion as a form of protest or resistance against what they perceive as unjust taxation (AL-Tamimi & Bataineh, 2021).

Furthermore, high tax rates may also contribute to a lack of trust in public institutions, as MSME owners may view the government's tax policies as burdensome or exploitative (Indrawan et al., 2020). Moreover, high tax rates can create a negative perception of the government's ability to use tax revenues fairly and equitably effectively. It is also important to note that simply raising tax rates may not necessarily result in increased tax compliance (Dewi et al., 2021). Extreme penalties or frequent audits may backfire, leading to lower tax compliance and a loss of trust in public institutions. Therefore, finding the right balance in setting tax rates is crucial in promoting tax compliance among MSME owners.

H₁: Tax rates significantly influence tax evasion

Tax Systems and Tax Evasion

The complexity of tax calculations and reporting procedures can also contribute to tax evasion among MSME taxpayers. As the tax system becomes more complex and costly, there is an increased probability that MSME taxpayers will seek ways to avoid or evade paying taxes (Wijayanti et al., 2020). The perception of fairness and equity in the taxation system also plays a significant role in tax evasion among MSME taxpayers. If MSME taxpayers regard the tax system as unjust or unequal, they may be less inclined to fulfill their tax responsibilities and more prone to participate in tax evasion (Nugaha & Hajanirina, 2020). Furthermore, the level of corruption within the tax system can also impact tax evasion among MSME taxpayers. If corruption is prevalent, MSME taxpayers may feel compelled to engage in tax evasion to avoid bribes or other illicit practices (Yee et al., 2017). Hence, Indonesia's tax system must consider these elements.

The complexity of tax calculation and reporting procedures can encourage tax evasion among MSME taxpayers, especially if the tax system becomes more complicated and costs increase. In

addition, perceptions of fairness in the tax system and the level of corruption in the system also contribute to tax evasion among MSME taxpayers. If MSME taxpayers feel that the tax system is unfair or that corruption exists, they may be inclined to avoid tax obligations or even engage in tax evasion practices. Therefore, to improve tax compliance among MSME taxpayers, it is necessary to consider improvements to a more straightforward tax system, increased fairness, and efforts to reduce corruption in the tax system.

H₂: Tax system significantly influences tax evasion

Self-Assessment System and Tax Evasion

In Indonesia, the self-assessment system mandates taxpayers, including small and medium-sized enterprises (SMEs), to compute and disclose their tax obligations by considering their revenue and expenses. This method depends on taxpayers' integrity and precision in disclosing their tax responsibilities (D. Sari & Mulyati, 2018; Shao & Dida, 2020). Nevertheless, studies have indicated that relying solely on self-assessment may not effectively prevent tax evasion in small and medium-sized enterprises (SMEs). Referral groups, audit probability, tax expertise, and perceptions of equality and fairness are all influential factors that significantly affect tax compliance in small and medium-sized enterprises (Le et al., 2020). An investigation in Jakarta, Indonesia, analyzed these variables and discovered that referral groups exerted the most significant impact on the noncompliance conduct of small and medium-sized enterprise (SME) taxpayers. The results indicate that small and medium-sized enterprises (SMEs) are more inclined to participate in tax evasion if they are part of referral networks encouraging non-compliant actions (Dwianika & Biasini, 2019; Inasius, 2019).

Thus, it can be inferred that relying solely on the self-assessment system may not be an effective deterrent against tax cheating in small and medium-sized enterprises (SMEs). While necessary, the self-assessment system in Indonesia may not be sufficient to address tax evasion in small and medium enterprises. However, the study also suggests that incorporating measures such as strengthening audit procedures and enhancing tax knowledge among SME taxpayers can further discourage tax evasion (Prawati et al., 2020; Sadjiarto et al., 2020). Ultimately, the self-assessment system in Indonesia has a substantial influence on the occurrence of tax fraud within small and medium firms.

H₃: Self-assessment system significantly influences tax evasion

Tax Morale, Self-Assessment System, and Tax Evasion

A self-assessment tax system's effectiveness hinges on individuals' willingness to adhere to tax regulations voluntarily. When taxpayers possess a high degree of tax morale, characterized by a strong feeling of civic responsibility and moral obligation to fulfill their tax obligations, it mitigates the impact of the self-assessment system on tax evasion by MSME (Micro, Small, and Medium Enterprises) in Indonesia (Wardani & Anugrah, 2023; Widuri et al., 2023). This means that when MSMEs have high tax morale, they are more likely to comply with their tax obligations even under a self-assessment system because they feel a sense of responsibility towards their community and understand the importance of taxes for the development of the country (Abdurrosid et al., 2021; Prastika & Trisnaningsih, 2023).

Tax morale is a vital factor in influencing the actions of MSME taxpayers. This is corroborated by a study conducted in Malaysia, which discovered a direct correlation between taxpayers' attitude toward tax morality and their perceptions of tax evasion (Hanum et al., 2020; Yee et al., 2017). Therefore, it can be inferred that higher levels of tax morale among UMKM taxpayers in Indonesia help moderate the influence of self-assessment systems on tax evasion, leading to increased compliance with tax obligations by MSME (Mangoting et al., 2020). The effectiveness of the self-assessment tax system depends on individual tax morality. A high level of morality can reduce tax evasion by MSMEs in Indonesia. Therefore, tax compliance increases when tax morality is high.

H₄: Tax morale significantly moderates the influence of the self-assessment system on tax evasion

METHODS

This research is a type of survey research with a quantitative approach. Respondents were MSMEs in the Jakarta area, totaling 100 people. The sampling technique used is non-probability sampling with convenience sampling. The primary data was used, and a questionnaire was used as a data collection technique. Table 1 shows that the questionnaire used in this study was adopted and developed from several previous studies.

Table 1. Variable Measurement

Variable	Indicator	Item	Source
Tax rates (TR)	1. The principle of the ability to pay tax 2. Tax rates applied in Indonesia	6	(S. K. Sari & Poerwati, 2023)
Tax system (TS)	1. The taxation system concerns laws, regulations, and implementing apparatus. 2. Supporting systems, such as accounting systems and professionalism. 3. External factors include economic, social, cultural, and political factors. 4. The community, especially taxpayers, includes the information system in the broadest sense and the level of awareness and compliance.	5	(Ikhsan et al., 2021)
Self-assessment system (SAS)	Taxpayer 1. Calculate, 2. Considering, 3. Paying, and 4. Report	4	(Sutrisno & Konde, 2022)
Tax morale (TM)	1. Aware of the obligation of citizens to pay and report taxes correctly; 2. Perceived ethics of tax evasion if the probability of being caught is low; 3. Obeying the rules of tax law.	6	(Nurhidayati et al., 2021)
Tax evasion (TE)	1. Not submitting tax returns and submitting tax returns incorrectly 2. Not registering or misusing the NPWP or the confirmation of PKP. 3. You are not depositing taxes that have been collected or withheld. 4. Trying to bribe the tax authorities and not understanding the tax payment on time.	7	(Sutrisno & Konde, 2022)

Source: Data processed (2024)

Validity and reliability tests are used to test the feasibility of research instruments. Furthermore, classical assumption tests (normality, heteroscedasticity, and multicollinearity) were conducted to ensure that the regression model met the criteria. Hypothesis testing uses a t-test for partial testing, an F-test for simultaneous testing, and Moderated Regression Analysis (MRA) to test the role of moderation.

RESULT AND DISCUSSION

Table 2 shows the instrument validity test on each variable. The value of the r count is more significant than the r table, which means that all items can measure each construct variable validly.

Table 2. Validity Test

	r-value	r-table		r-value	r-table
TP1	0.646	0.194	TM1	0.714	0.194
TP2	0.672	0.194	TM2	0.691	0.194
TP3	0.637	0.194	TM3	0.664	0.194
TP4	0.663	0.194	TM4	0.679	0.194
TP5	0.661	0.194	TM5	0.754	0.194
TP6	0.719	0.194	TM6	0.692	0.194
TS1	0.677	0.194	TE1	0.679	0.194
TS2	0.675	0.194	TE2	0.704	0.194
TS3	0.722	0.194	TE3	0.677	0.194
TS4	0.710	0.194	TE4	0.651	0.194
TS5	0.749	0.194	TE5	0.777	0.194
SAS1	0.639	0.194	TE6	0.769	0.194
SAS2	0.693	0.194	TE7	0.687	0.194
SAS3	0.704	0.194			
SAS4	0.638	0.194			

Source: Data processed (2024)

The following instrument test is called reliability testing. Reliability testing aims to test the instrument's consistency in measuring construct variables. The instrument can be reliable if the Cronbach alpha value exceeds 0.7. Table 3 shows that all Cronbach alpha values on each variable are more significant than 0.7, meaning that this instrument is reliable in measuring construct variables.

Table 3. Reliability Test

	Cronbach's Alpha	N of Items
TR	0.867	6
TS	0.874	5
SAS	0.835	4
TM	0.885	6
TE	0.898	7

Source: Data processed (2024)

After the instrument test is fulfilled, the classical assumptions must be tested. This study's classical assumption testing consists of three tests: normality, heteroscedasticity, and multicollinearity. Table 4 shows that the Monte Carlo significance value is more significant than 0.05, meaning the data is usually distributed.

Table 4. Normality Test

Monte Carlo Sig. (2-tailed)	Sig.		.121[d]
	99% Confidence Interval	Lower Bound	.113
		Upper Bound	.130

Source: Data processed (2024)

The second assumption test is heteroscedasticity. Table 5 shows that the Glejser test's significance on each variable is greater than 0.05, meaning there are no heteroscedasticity symptoms. Thus, the data can be said to be homogeneous, allowing further statistical testing.

Table 5. Glejser Test

	Model	Sig.
1	(Constant)	.183
	TP	.057
	TS	.259
	SAS	.528

Source: Data processed (2024)

Furthermore, the last assumption test is multicollinearity. Table 6 shows that the tolerance value of each variable is more significant than 0.1, and VIF is smaller than 5, so it can be concluded that there is no strong correlation between the independent variables, or it can be said that it is not free from multicollinearity symptoms.

Table 6. Multicollinearity, Multiple Regression and Hypothesis Test

	Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	14.686	3.646		4.028	.000		
	TR	.541	.108	.463	5.027	.000	.553	1.807
	TS	.192	.117	.147	1.635	.105	.581	1.722
	SAS	-.388	.143	-.243	-2.713	.008	.584	1.714

Source: Data processed (2024)

Table 6 also shows the regression equation model as follows:

$$TE = 14.686 + 0.541\,(TR) + 0.192\,(SP) - 0.388\,(SAS)$$

The equation indicates a positive relationship between the tax rate and tax evasion. Specifically, for every 1-point rise in the tax rate, the tax evasion value will increase by 0.541 points. Similarly, inside the tax system variable, a 1-point rise will result in a 0.192 increase in the value of tax evasion. Contrarily, with the self-assessment system, a 1-point increase in the self-assessment system variable leads to a 0.388 drop in the value of tax evasion, and vice versa.

Furthermore, the findings of partial hypothesis testing, as presented in Table 6, indicate a considerable positive impact of the tax rate on tax evasion. Consequently, alternative hypothesis one is accepted because the significance value is less than 0.5. Nevertheless, the tax system variable has no substantial impact on tax evasion. As a result, alternative hypothesis two is rejected due to the significance value being more than 0.5. However, it is essential to note that the self-assessment system variable substantially adversely impacts tax evasion. Therefore, the third alternative hypothesis is deemed valid as the significance value surpasses 0.5.

Table 7. Moderated Regression Analysis (MRA)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	42.195	7.547		5.591	.000
	SAS*TM	.086	.019	1.005	4.497	.000

Source: Data processed (2024)

Table 7 presents the impact of the self-assessment system on tax evasion, with tax morale as a moderating factor. The findings indicate that tax morale plays a substantial role in influencing the impact of self-assessment on tax evasion. Therefore, we adopt the alternative hypothesis, as the statistical significance of the interaction between self-assessment variables and tax morale on tax evasion is less than 0.5.

Table 8. Coefficient Determination and F-Test

Model	Adjusted R Square	R Square Change	Change Statistics			Sig. F Change
			F Change	df1	df2	
1	.535	.549	38.957	3	96	.000

Table 8 shows that the adjusted R square value of 0.535 or 53.5% of the tax rate, tax system, and self-assessment system variables influence tax evasion, meaning they fall into the moderate category. In comparison, the remaining 46.5% is influenced by other variables not examined in this study.

DISCUSSION
Tax Rates and Tax Evasion

The results showed that the tax rate significantly affects tax evasion. Tax rates are a factor that can affect the level of tax evasion or tax avoidance by Micro, Small, and Medium Enterprises in Indonesia. This is because high tax rates burden MSMEs in fulfilling tax payment obligations (Zulma, 2020). With high tax rates, MSMEs in Indonesia tend to face difficulties paying taxes fully and accurately. As a result, MSME actors may avoid or reduce the tax that must be paid by committing tax evasion (Purwanto & Indrawan, 2020). MSMEs that carry out tax evasion usually use various methods, such as not reporting income accurately, hiding transactions or assets, or manipulating financial data. High tax rates can make MSMEs feel burdened, and it is difficult to pay taxes in full. This can encourage MSMEs to commit tax evasion to reduce the tax burden they have to pay (David, 2020; Prawati et al., 2020).

High tax rates can also affect the competitiveness of MSMEs in Indonesia. MSMEs that have to pay taxes at high rates will have higher costs in running their businesses than MSMEs in other countries with lower tax rates (Inasius, 2019; Juniarti & Anggrahini, 2020). As a result, MSMEs in Indonesia may find it difficult to compete with MSMEs from other countries with lower tax rates. In addition, high tax rates can also negatively impact the growth of MSMEs. MSMEs that have to pay taxes at high rates may reduce their profit margins and lead to capital constraints for business expansion or development (Engelschalk, 2004; Sukma & Kuncoro, 2022). In addition, high tax rates can also have a psychological impact on MSMEs. With high tax rates, MSMEs may feel burdened and unmotivated to pay taxes in full. They may feel that high taxes are not worth the services or benefits they receive from the government (Engelschalk, 2004; Mohamad et al., 2016; Palil et al., 2016). Thus, high tax rates can be a contributing factor to the increasing level of tax evasion among MSMEs in Indonesia.

Tax System dan Tax Evasion

Based on the research results, the taxation system has no significant effect on tax evasion. The lack of influence of the taxation system on tax avoidance by MSMEs in Indonesia is due to several complex factors. A complex tax system with diverse rules is often confusing and burdensome for MSMEs that may not have sufficient knowledge or resources to understand and comply with all applicable tax regulations (Ramadhan, 2021). In addition, MSMEs' limited access to tax coaching and education regarding tax obligations can also be a significant obstacle (Kholis & Kurniawati, 2022). The high tax burden for MSMEs is an impetus to find ways to avoid or minimize tax obligations (Raharjo et al., 2020).

MSMEs' distrust of the government is also a significant factor, which makes the tax system not optimally affect tax avoidance (Baradja et al., 2020). Limited resources make it difficult for MSMEs to optimally comply with tax obligations, as they may not have enough resources to fulfill all requirements (Saputri & Kamil, 2021). In addition, the lack of supervision and law enforcement against tax violations makes MSMEs feel they can practice tax avoidance without significant consequences (Baradja et al., 2020).

Self-Assessment System and Tax Evasion

The results showed that self-assessment negatively affects the tax evasion of MSMEs in Indonesia. The self-assessment system is a tax management framework that relies on the honesty and accuracy of taxpayers in reporting their tax liabilities. This system can potentially influence tax evasion among micro, small, and medium enterprises in Indonesia in several ways. Firstly, the self-assessment system increases transparency and accountability in the tax reporting process. Taxpayers must accurately calculate and report their tax obligations, reducing the opportunity for manipulation or underreporting income (Palil et al., 2016). Secondly, the self-assessment system promotes tax awareness and education among MSME owners. MSME owners are encouraged to understand their tax responsibilities and obligations through the self-assessment system. They are provided with information and resources to help them accurately navigate the tax reporting process (Purwanto & Indrawan, 2020).

Furthermore, the self-assessment system allows for improved monitoring and enforcement of tax compliance. Tax authorities can use technology and data analysis to identify discrepancies and anomalies in tax reports, making detecting potential tax evasion cases easier. As a result, MSME owners may be less inclined to engage in tax evasion, knowing that the chances of being caught are higher. The self-assessment system also simplifies the tax reporting process for MSME owners (Kassa, 2021; Mulyawan & Marhaeni, 2022; Ngah et al., 2021). This reduces the burden of compliance and increases the likelihood of accurate reporting. The self-assessment system can also facilitate a fair and equitable taxation environment for MSME owners. The self-assessment system ensures that MSME owners are treated fairly, allowing taxpayers to determine their tax liabilities. They can claim all eligible deductions and exemptions, reducing the tax burden on their businesses (Mulyawan & Marhaeni, 2022; Rustaprilana et al., 2022; Umar & Masud, 2020).

Tax Morale, Self-Assessment System, and Tax Evasion

Tax morale plays a crucial role in moderating the impact of the self-assessment system on tax evasion within Indonesian SMEs, with several underlying mechanisms. Firstly, it affects how taxpayers perceive the fairness and equity of the tax system. When taxpayers view the system as fair and just, their tax morale tends to be higher, leading to voluntary compliance with tax obligations (Torgler, 2004; Wardani & Anugrah, 2023). Secondly, tax morale instills a sense of social responsibility among taxpayers. Those with high tax morale feel a duty to contribute to their country's development by fulfilling their tax obligations, reducing the inclination towards tax evasion (Cummings et al., 2009; Dewi et al., 2021; Yee et al., 2017). Additionally, it fosters a culture of honesty

and integrity within the taxpayer community. Individuals with solid tax morale are more ethically inclined and committed to tax laws (Ayariga, 2020; Inasius, 2019; Irawan & Khoirunurrofik, 2021).

CONCLUSION

The results showed that tax rates significantly influence tax avoidance by MSMEs in Indonesia. High tax rates tend to burden MSMEs in fulfilling their tax obligations, encouraging tax evasion practices to reduce the tax burden they have to pay. However, the tax system does not significantly influence tax avoidance due to the complexity of the tax system, lack of access to tax education, and low trust in the government. The self-assessment method harms tax evasion and enhances tax transparency, accountability, and awareness. Furthermore, it aids in the monitoring and enforcement of tax compliance. Tax morale is crucial in mitigating the impact of the self-assessment system on tax evasion. It affects how people see fairness, social duty, and ethical integrity when following tax rules.

The primary theoretical implication of this research is to enhance comprehension of the correlation between tax rates, tax systems, self-assessment systems, and tax morale within the framework of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The practical implication is the importance of considering a balanced tax rate, simplifying the tax system, increasing access to tax education, and strengthening public trust in the government to reduce tax evasion and encourage better tax compliance among MSMEs. In addition, measures are needed to improve tax awareness and morality and strengthen confidence in the effectiveness of tax law enforcement to create a fairer and more sustainable business environment.

PICTURES AND TABLE

Table 1. Variable Measurement

Variable	Indicator	Item	Source
Tax rates (TR)	3. The principle of the ability to pay tax 4. Tax rates applied in Indonesia	6	(S. K. Sari & Poerwati, 2023)
Tax system (TS)	5. The taxation system concerns laws, regulations, and implementing apparatus. 6. Supporting systems, such as accounting systems and professionalism. 7. External factors include economic, social, cultural, and political factors. 8. The community, especially taxpayers, includes the information system in the broadest sense and the level of awareness and compliance.	5	(Ikhsan et al., 2021)
Self-assessment system (SAS)	Taxpayer 1. Calculate, 2. Considering, 3. Paying, and 4. Report	4	(Sutrisno & Konde, 2022)
Tax morale (TM)	4. Aware of the obligation of citizens to pay and report taxes correctly; 5. Perceived ethics of tax evasion if the probability of being caught is low; 6. Obeying the rules of tax law.	6	(Nurhidayati et al., 2021)
Tax evasion (TE)	5. Not submitting tax returns and submitting tax returns incorrectly 6. Not registering or misusing the NPWP or the confirmation of PKP.	7	(Sutrisno & Konde, 2022)

Variable	Indicator	Item	Source
	7. You are not depositing taxes that have been collected or withheld.		
	8. Trying to bribe the tax authorities and not understanding the tax payment on time.		

Source: Data processed (2024)

Table 2. Validity Test

	r-value	r-table			r-value	r-table
TP1	0.646	0.194		TM1	0.714	0.194
TP2	0.672	0.194		TM2	0.691	0.194
TP3	0.637	0.194		TM3	0.664	0.194
TP4	0.663	0.194		TM4	0.679	0.194
TP5	0.661	0.194		TM5	0.754	0.194
TP6	0.719	0.194		TM6	0.692	0.194
TS1	0.677	0.194		TE1	0.679	0.194
TS2	0.675	0.194		TE2	0.704	0.194
TS3	0.722	0.194		TE3	0.677	0.194
TS4	0.710	0.194		TE4	0.651	0.194
TS5	0.749	0.194		TE5	0.777	0.194
SAS1	0.639	0.194		TE6	0.769	0.194
SAS2	0.693	0.194		TE7	0.687	0.194
SAS3	0.704	0.194				
SAS4	0.638	0.194				

Source: Data processed (2024)

Table 3. Reliability Test

	Cronbach's Alpha	N of Items
TR	0.867	6
TS	0.874	5
SAS	0.835	4
TM	0.885	6
TE	0.898	7

Source: Data processed (2024)

Table 4. Normality Test

Monte Carlo Sig. (2-tailed)	Sig.		.121[d]
	99% Confidence Interval	Lower Bound	.113
		Upper Bound	.130

Source: Data processed (2024)

Table 5. Glejser Test

Model	Sig.

1	(Constant)	.183
	TP	.057
	TS	.259
	SAS	.528

Source: Data processed (2024)

Table 6. Multicollinearity, Multiple Regression and Hypothesis Test

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	14.686	3.646		4.028	.000		
TR	.541	.108	.463	5.027	.000	.553	1.807
TS	.192	.117	.147	1.635	.105	.581	1.722
SAS	-.388	.143	-.243	-2.713	.008	.584	1.714

Source: Data processed (2024)

Table 7. Moderated Regression Analysis (MRA)

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	42.195	7.547		5.591	.000
SAS*TM	.086	.019	1.005	4.497	.000

Source: Data processed (2024)

Table 8. Coefficient Determination and F-Test

Model	Adjusted R Square	Change Statistics				
		R Square Change	F Change	df1	df2	Sig. F Change
1	.535	.549	38.957	3	96	.000

REFERENCES

Abdurrosid, E. W., Chandrarin, G., & Zhuro, D. (2021). The Effect of Motivation and Commitment of Taxpayer Toward Tax Compliance and Empirical Studies Tax Amnesty as Moderating Variable (A Survey on Tax Service Center Kudus Branch). *European Journal of Business and Management Research*, *6*(1), 125–128. https://doi.org/10.24018/ejbmr.2021.6.1.711

AL-Tamimi, K. A. M., & Bataineh, A. (2021). The effect of tax revenues on GDP growth in Jordan. *Accounting*, *7*(3), 655–660. https://doi.org/10.5267/j.ac.2020.12.012

Ayariga, C. (2020). Accounting record-keeping practices and tax compliance of small and medium-scale enterprises in the Sekondi-Takoradi metropolis of Ghana. *Research Journal of Finance and Accounting*, *11*(2), 32–39. https://doi.org/10.7176/rjfa/11-2-04

Baradja, L., Yuanita, & Budi, A. G. W. (2020). Penerapan self assessment system PPH pasal 21 untuk UMKM se-Jakarta (Implementation of self-assessment system tax article 21 for Jakarta's small, medium enterprise). *Jurnal Berdaya Mandiri*, *2*(2), 408–418.

Cummings, R. G., Martinez-Vazquez, J., McKee, M., & Torgler, B. (2009). Tax morale affects tax compliance: Evidence from surveys and an artefactual field experiment. *Journal of Economic Behavior and Organization*, *70*(3), 447–457. https://doi.org/10.1016/j.jebo.2008.02.010

David, L. K. (2020). The effect of tax rate on the incentives to grow small enterprises: the case of small enterprises in Montserrado County, Republic of Liberia. *International Journal of Business and Management*, *15*(4), 129–137. https://doi.org/10.5539/ijbm.v15n4p129

Dewi, R. C., Petra, B. A., Yamasitha, Agusti, A., & Tungkir, A. J. B. (2021). The effect of taxation socialization, understanding taxation, tax rates, and tax sanction on tax compliance in MSMe Padang City. *Journal of Accounting and Finance Management*, *1*(6), 330–342. https://doi.org/10.38035/jafm.v1i6

Dwianika, A., & Biasini, N. (2019). Determination analysis on taxes compliance of SMEs: case study in Tangerang, Indonesia. *Advances in Social Science, Education and Humanities Research*, 117–120.

Engelschalk, M. (2004). Creating a favorable tax environment for small business. In *Taxing the Hard-to-Tax* (pp. 275–311). https://doi.org/10.1016/s0573-8555(04)68814-6

Hanum, L., Putri, D., Ari, S., & Susilo, H. (2020). Determinant of tax compliance intention in Java-Indonesia: Theory of reasoned action approach. *Advances in Economics, Business and Management Research*, 177–182.

Ikhsan, A. Y. K., Bawono, I. R., & Mustofa, R. M. (2021). Effect of tax justice, tax system, technology and information, and discrimination of personal perception of personal tax mandatory about tax ethics. *Jurnal Akuntansi*, *8*(1), 76–90. https://doi.org/10.30656/jak.v8i1.2441

Inasius, F. (2019). Factors influencing SME tax compliance: Evidence from Indonesia. *International Journal of Public Administration*, *42*(5), 367–379. https://doi.org/10.1080/01900692.2018.1464578

Indrawan, R., Dzaky, V., & Putra, C. (2020). The influence on tax rate and tax sanction on tax compliance of non-employees. *Advances in Economics, Business and Management Research*, 183–186.

Irawan, B., & Khoirunrrofik, K. (2021). Understanding tax morale of micro, small, and medium enterprises in Jabodetabek. *Advances in Social Science, Education and Humanities Research*, 449–457.

Juniarti, J., & Anggrahini, Y. (2020). Four factors based on government regulation number 23 of 2018 affecting the compliance with taxation small and medium enterprises. *Advances in Economics, Business and Management Research*, 191–196.

Kassa, E. T. (2021). Factors influencing taxpayers to engage in tax evasion: evidence from Woldia City administration micro, small, and large enterprise taxpayers. *Journal of Innovation and Entrepreneurship*, *10*(1). https://doi.org/10.1186/s13731-020-00142-4

Kholis, N., & Kurniawati, L. (2022). Tax evasion: Faktor-faktor yang mempengaruhinya menurut persepsi wajib pajak. *Akuntabilitas: Jurnal Ilmu Akuntansi*, *15*(2), 241–250. https://doi.org/10.15408/akt.v14i1.28588

Kurniawan, T. (2018). Modernization of the tax administration system: A theoretical review of improving tax capacity. *ICENIS*, 1–4. https://doi.org/10.1051/e3sconf/201873

Le, H. T. H., Tuyet, V. T. B., Hanh, C. T. B., & Do, Q. H. (2020). Factors affecting tax compliance among small-and medium-sized enterprises: Evidence from vietnam. *Journal of Asian Finance, Economics and Business*, *7*(7), 209–217. https://doi.org/10.13106/jafeb.2020.vol7.no7.209

Mangoting, Y., Sumarno, V. A., Gloria, T., & Dwi Indriani, S. (2020). Does coercive power influence the relationship of tax morale on tax evasion. *Advances in Economics, Business and Management Research*, 60–68.

Mohamad, A., Zakaria, M. H., & Hamid, Z. (2016). Cash economy: Tax evasion amongst SMEs in Malaysia. *Journal of Financial Crime*, *23*(4), 974–986. https://doi.org/10.1108/JFC-05-2015-0025

Mulyawan, M. R. E., & Marhaeni, A. A. I. N. (2022). The role of tax sanctions in moderating the effect of the self assessment system on hotel tax revenue in the city of Denpasar. *International Journal of Business Management and Economic Review*, *5*(3), 45–56. https://doi.org/10.35409/ijbmer.2022.3389

Ngah, Z. A., Ismail, N., & Abd Hamid, N. (2021). Tax evasion through fraudulent financial reporting amongst SMEs in Malaysia. *Journal of Financial Crime*, *28*(1), 214–227. https://doi.org/10.1108/JFC-06-2020-0122

Nugaha, B. A., & Hajanirina, A. (2020). Taxpayers' perception of tax evasion studied from tax knowledge, tax fairness, and tax discrimination. *Research In Management and Accounting*, *3*(1), 43–51. https://doi.org/10.33508/rima.v3i1.2747

Nurhidayati, Muamarah, H. S., & Budiarsih, R. (2021). Analisis determinan tax morale pelaku usaha mikro kecil dan menengah (UMKM). *Jurnal Studi Akuntansi Dan Keuangan*, *4*(2), 257–272.

Palil, M. R., Malek, M. M., & Jaguli, A. R. (2016). Issues, challenges and problems with tax evasion: The institutional factors approach. *Gadjah Mada International Journal of Business*, *18*(2), 187–206. http://journal.ugm.ac.id/gamaijb

Pope, J., & Abdul-Jabbar, H. (2008). Small and medium-sized enterprises and tax compliance burden in Malaysia: Issues and challenges for tax administration. *Small Enterprise Research*, *16*(1), 47–60. https://doi.org/10.5172/ser.16.1.47

Prastika, A. W., & Trisnaningsih, S. (2023). The influence of attitudes, subjective norm, and behavior control on individual taxpayer compliance with moral obligations as moderation. *East Asian Journal of Multidisciplinary Research*, *2*(6), 2473–2486. https://doi.org/10.55927/eajmr.v2i6.4461

Prawati, L. D., Setyawan, M. H., & Elsera, M. (2020). The effect of tax rate, e-billing payment system, and e-filling system on micro, small and medium enterprises (MSMEs) taxpayer compliance in Jakarta. *IEEE*, 1–5.

Purwanto, P., & Indrawan, R. (2020). The determinants of tax evasion in directorate general of customs and excise Jakarta. *Advances in Economics, Business and Management Research*, 187–190. www.cnbcindonesia.com,

Raharjo, N. K., Majidah, & Kurnia. (2020). Pengaruh pemahaman peraturan perpajakan, tarif pajak, dan kualitas pelayanan terhadap kepatuhan wajib pajak. *E-Jurnal Ekonomi Dan Bisnis*, *9*(7), 671–686.

Ramadhan, A. (2021). Determinasi praktik penghindaran pajak: studi pada perusahaan terkategori Jakarta Islamic Index. *Jurnal Akuntansi Dan Keuangan Islam*, *9*(1), 59–72. https://doi.org/10.35836/jakis.v9i1.209

Rustaprilana, U., Agustina, H., & Khusnah, H. (2022). Pengaruh self assessment, kesadaran wajib pajak dan sanksi pajak terhadap kepatuhan wajib pajak dalam membayar pajak pribadi. *Accounting and Management Journal*, *6*(1), 50–53.

Sadjiarto, A., Nathania Susanto, A., Yuniar, E., & Gunawan Hartanto, M. (2020). Factors affecting perception of tax evasion among Chindos. *Advances in Economics, Business and Management Research*, 487–493.

Saputri, I. P., & Kamil, I. (2021). Praktik penggelapan pajak (tax evasion) dpengaruhi oleh faktor sistem perpajakan, keadilan pajak, diskriminasi dan deteksi kecurangan (studi kasus pada RS jantung dan pembuluh darah harapan kita dan RS anak dan bunda Harapan Kita). *Jurnal Perspektif Manajerial Dan Kewirausahaan*, *1*(2), 148–163. http://jurnal.undira.ac.id/index.php/jpmk/

Sari, D., & Mulyati, Y. (2018). The impact of tax amnesty on tax revenue and tax ratio: Case in Indonesia. *International Journal of Engineering & Technology*, *7*(4), 245–247. www.sciencepubco.com/index.php/IJET

Sari, S. K., & Poerwati, Rr. T. (2023). The influence of taxation understanding, tax rates, and tax sanctions on taxpayer compliance (study on MSME actors in Ngaliyan District, Semarang). *COSTING: Journal of Economic, Business and Accounting*, *6*(2), 1673–1681.

Shao, P. E., & Dida, M. A. (2020). The implementation of an enhanced EFD system with an embedded tax evasion detection features: A case of Tanzania. *Journal of Information Systems Engineering and Management*, *5*(1), 1–13. https://doi.org/10.29333/jisem/7824

Sukma, S. S., & Kuncoro, A. R. (2022). Tinjauan kepatuhan kewajiban pajak penghasilan UMKM kuliner malam di wilayah KPP Pratama Madiun. *Jurnal Pajak Indonesia*, *6*(2), 235–244.

Sutrisno, & Konde, Y. T. (2022). Pengaruh tax amnesty, self assessment system dan keadilan pajak terhadap persepsi wajib pajak atas tindakan penggelapan pajak pada wajib pajak orang pribadi di kota Samarinda. *AKUNTABEL: Jurnal Akuntansi Dan Keuangan*, *19*(3), 701–713.

Torgler, B. (2004). Tax morale in Asian countries. *Journal of Asian Economics*, *15*(2), 237–266. https://doi.org/10.1016/j.asieco.2004.02.001

Umar, M. A., & Masud, A. (2020). Why information technology is constrained in tackling tax noncompliance in developing countries: Nigerian tax administrators' perspectives. *Accounting Research Journal*, *33*(2), 307–322. https://doi.org/10.1108/ARJ-11-2018-0205

Venter, J., & De Clercq, B. (2007). Tax compliance burden for small, medium and micro establishments in the business services industry. *SAJEMS*, *10*(1), 72–88.

Wardani, D. K., & Anugrah, W. (2023). Pengaruh tax morale dan pemahaman tri nga terhadap peningkatan kepatuhan calon wajib pajak. *Jurnal Sosial Ekonomi Dan Humaniora*, *9*(2), 221–226. https://doi.org/10.29303/jseh.v9i2.210

Widuri, R., Mangoting, Y., Sadjiarto, A., & Stephanus, T. (2023). Preventing tax evasion: the moral strength of taxpayers and the power of tax authorities. *Jurnal Akuntansi Dan Keuangan*, *25*(2), 91–100. https://doi.org/10.9744/jak.25.2.91-100

Wijayanti, P., Saraswati, N., Kartika, I., & Mutoharoh. (2020). The improvement strategy of tax compliance from MSME sector in Indonesia. *Advances in Economics, Business and Management Research*, 167–171.

Winner, R., & Asalam, A. G. (2023). Taxpayers compliance: economic level, regulations comprehension, rates, and transformation of administration system. *Jurnal Multidisiplin Madani*, *3*(8), 1734–1748. https://doi.org/10.55927/mudima.v3i8.4921

Yee, C. P., William, K. M., & Soon, C. K. (2017). Taxpayers' perceptions on tax evasion behaviour: an empirical study in Malaysia. *International Journal of Law and Management*, *59*(3), 413–429. https://doi.org/10.1108/IJLMA-02-2016-0022

Zulma, G. W. M. (2020). Pengaruh pengetahuan wajib pajak, administrasi pajak, tarif pajak dan sanksi perpajakan terhadap kepatuhan pajak pada pelaku usaha UMKM di Indonesia. *Ekonomis: Journal of Economics and Business*, *4*(2), 288–294. https://doi.org/10.33087/ekonomis.v4i2.170