

The Influence of Changes in Final Income Tax Rates on Taxpayer Compliance With Tax Literacy as a Moderating Variable (Study at MSME Taxpayers in Lamongan Regency)

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Abstract. Tax literacy among MSMEs regarding understanding the tax administration system and MSME tax rates in Indonesia is still low. This is proven by the large number of taxpayers who do not know about the changes in MSME tax rates according to PP No. 55 of 2022 where the tax rate for MSMEs with a gross turnover of under IDR 5 billion will be 0.5%. This research aims to test and analyze the effect of changes in final income tax rates on tax compliance and test and analyze tax literacy as a variable that moderates the effect of changes in final income tax rates on tax compliance. This research uses quantitative methods. The sample in this study was 98 MSME taxpayers who were registered at KPP Pratama Lamongan using a simple random sampling technique. This research data uses Moderated Regression Analysis (MRA) analysis from statistical tests obtained with the help of SPSS version 27 software. The research results show that 1) Changes in Tax Rates have a Positive and Significant Influence on Taxpayer Compliance, and 2) Tax literacy moderates the Effect of Changes in Tax Rates on Taxpayer Compliance.

Keywords: Tax Rates, Taxpayer Compliance, Tax Literacy and MSME Taxes.

1. Introduction

State revenues listed in the State Budget (APBN) consist of tax revenues, non-tax revenues, and grants. Among these, tax revenue serves as the primary source of state income, funding essential government programs and national development projects [1]. Tax revenues encompass various types such as income tax, value-added tax, and other levies, which collectively make a substantial contribution to Indonesia's economy. According to the Ministry of Finance, Indonesia's tax revenues in 2023 reached IDR 1,869.23 trillion, marking an 8.9% increase from 2022's realization of IDR 1,716.77 trillion [2]. This growth illustrates enhanced fiscal capacity and effective tax management, reflecting the government's efforts to broaden the tax base and sustain national economic stability.

Taxpayer compliance plays a critical role in maintaining fiscal and economic stability. Compliance refers to a taxpayer's willingness and awareness to adhere to applicable tax regulations [3]. A compliant taxpayer fulfills obligations such as registration, accurate reporting of taxable income, timely payment, and submission of annual tax returns based on the self-assessment system [4], [5].

Table 1. Taxpayer Compliance Ratio

Year	MSME taxpayers	Realization	Compliance Ratio (%)
2020	6.316	3.889	61,58%
2021	7.529	5.287	70,22%
2022	8.119	5.225	64,36%
2023	8.315	6.022	72,43%

Source : KPP Pratama Lamongan, 2023

As shown, MSME compliance improved significantly from 61.58% in 2020 to 70.22% in 2021, then declined in 2022 before increasing again to 72.43% in 2023. These fluctuations indicate that while compliance efforts have improved, challenges persist in ensuring consistent taxpayer participation. MSMEs play a vital role in Indonesia's economic growth, contributing significantly to GDP and employment. Despite this, compliance levels among MSME taxpayers remain relatively low. One of the government's efforts to improve compliance is through adjustments in the Final Income Tax (PPH Final) rates for MSMEs. The Income Tax Law has undergone several amendments—beginning with Law No. 7 of 1983 and revised multiple times, most recently under Law No. 36 of 2008 [6].

Furthermore, Presidential Regulation No. 23 of 2018 reduced the final income tax rate for MSMEs from 1% (as stipulated in PP No. 46/2013) to 0.5%, effective July 1, 2018 [7], [8]. This change was aimed at encouraging MSME participation in the formal economy. In December 2022, the government issued PP No. 55 of 2022, reaffirming the 0.5% rate for MSMEs with gross turnover below IDR 5 billion and providing exemptions for turnover under IDR 500 million [9]. However, low tax compliance among MSMEs is often linked to limited tax literacy. Literacy in this context refers to an individual's ability to understand, interpret, and apply taxation knowledge to make informed decisions [10]. Tax literacy encompasses understanding tax rates, sanctions, procedures, and reporting obligations [11]. Frequent regulatory changes further complicate compliance, as many taxpayers struggle to interpret the updated provisions [12].

This study seeks to analyze the influence of changes in final income tax rates on MSME taxpayer compliance and to assess how tax literacy moderates this relationship. The research focuses on MSME taxpayers in Lamongan Regency, an area with dynamic business growth but persistent compliance variability.

2. Literature Review

Attribution Theory

Attribution theory explains how individuals interpret the causes of behaviors or events, distinguishing between internal (dispositional) and external (situational) factors [13]. Proposed by Heider (1958), this theory suggests that behavior results from both capacity and motivation. Capacity reflects an individual's ability to perform certain behaviors, while motivation represents the intention and effort to act.

In the context of taxation, attribution theory posits that a taxpayer's compliance behavior is influenced by internal factors—such as tax knowledge and awareness—and external factors—such as tax policies, rates, and enforcement [14]. Accordingly, changes in tax rates represent an external factor, while tax literacy functions as an internal factor influencing compliance.

Tax Compliance

Tax compliance refers to the willingness and ability of taxpayers to fulfill all tax obligations according to statutory regulations [15]. Compliance is observed when taxpayers voluntarily register, maintain accurate financial records, calculate taxes correctly, and submit tax reports on time. According to Rahayu and Kurnia [16], compliance is influenced by various factors including the tax administration system, quality of services, law enforcement, tax audits, and applicable rates.

Changes in Tax Rates

Tax rates determine the percentage or monetary amount of tax that must be paid based on taxable income or turnover [17]. Setting fair and proportional tax rates is crucial for achieving an optimal balance between taxpayer capacity and state revenue objectives. The government's decision to reduce the MSME final income tax rate to 0.5% aimed to encourage MSME formalization and increase compliance [18]. Transparent and simplified tax rates are expected to motivate taxpayers to voluntarily fulfill their obligations.

Tax Literacy

Tax literacy is defined as the level of knowledge and understanding that enables taxpayers to comply with taxation laws effectively [19]. A high degree of literacy fosters positive perceptions of fairness and transparency in the tax system, which, in turn, promotes voluntary compliance. Tax literacy encompasses understanding of tax rates, sanctions, procedures, and deadlines for tax reporting [11]. Improving literacy through formal and non-formal education can thus enhance taxpayers' willingness to comply.

Hypothesis

The Effect of Tariff Changes on Tax Compliance

According to attribution theory, changes in tax rates constitute external stimuli from government policy. Lower tax rates can enhance the sense of fairness and affordability among taxpayers, leading to higher compliance levels. Therefore, the following hypothesis is proposed.

H₁: Changes in final income tax rates have a positive effect on taxpayer compliance.

Tax Literacy Moderates the Effect of Tariff Changes on Tax Compliance

Tax literacy enhances taxpayers' understanding of their rights and obligations. Individuals with higher tax knowledge are more likely to perceive taxation as a civic duty rather than a financial burden [20]. Consequently, literacy strengthens the relationship between favorable tax policies and compliance.

H₂: Tax literacy moderates the effect of changes in final income tax rates on taxpayer compliance.

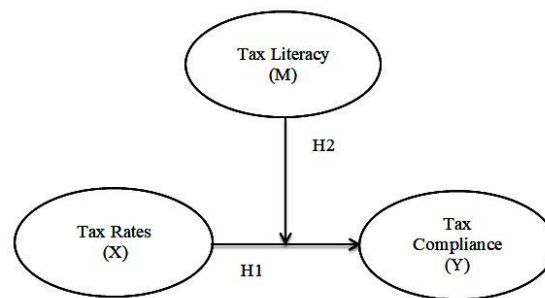


Figure 1. Research Model

3. Research Method

This study employed a quantitative approach using primary data obtained through online questionnaires distributed via Google Forms to MSME taxpayers registered at the Lamongan Tax Service Office (KPP Pratama Lamongan). The research population comprised 8,315 MSME taxpayers in Lamongan Regency as recorded in 2023 by KPP Pratama Lamongan. The sample size, calculated using the Slovin formula, consisted of 98 MSME taxpayer respondents selected through a simple random sampling technique to ensure representativeness. The study involved three variables: the dependent variable—MSME taxpayer compliance, the independent variable—changes in final income tax rates, and the moderating variable—tax literacy. Data were processed and analyzed using the

Statistical Package for the Social Sciences (SPSS) version 27 to evaluate the relationships between variables and to test the moderating effect of tax literacy.

4. Result and Discussion

The questionnaire distributed to 98 MSME taxpayers contained 26 items covering three constructs: tax compliance (8 items), changes in tax rates (8 items), and tax literacy (10 items). All responses were measured using a five-point Likert scale.

Validity and Reliability Test

Table 2. Validity Test Results

Variable	Questions	R	R Table	Sig	Remark
X	X1	0,660	0,199	0,000	Valid
	X2	0,898	0,199	0,000	Valid
	X3	0,897	0,199	0,000	Valid
	X4	0,908	0,199	0,000	Valid
	X5	0,847	0,199	0,000	Valid
	X6	0,883	0,199	0,000	Valid
	X7	0,853	0,199	0,000	Valid
	X8	0,834	0,199	0,000	Valid
Y	Y1	0,846	0,199	0,000	Valid
	Y2	0,872	0,199	0,000	Valid
	Y3	0,893	0,199	0,000	Valid
	Y4	0,917	0,199	0,000	Valid
	Y5	0,863	0,199	0,000	Valid
	Y6	0,829	0,199	0,000	Valid
	Y7	0,868	0,199	0,000	Valid
	Y8	0,744	0,199	0,000	Valid
M	M1	0,217	0,199	0,000	Valid
	M2	0,284	0,199	0,000	Valid
	M3	0,232	0,199	0,000	Valid
	M4	0,209	0,199	0,000	Valid
	M5	0,323	0,199	0,000	Valid
	M6	0,207	0,199	0,000	Valid
	M7	0,255	0,199	0,000	Valid
	M8	0,314	0,199	0,000	Valid
	M9	0,244	0,199	0,000	Valid
	M10	0,255	0,199	0,000	Valid

The results of the instrument validity test for all variables obtained $r\text{-count} > r\text{-table } 0.199$. So all statements/indicators of the independent and dependent variables are proven to be valid and able to explain the independent and dependent variables.

Table 3. Reliability Test Results

Variable	<i>Alpha Cronbach's</i>	Alpha7	Remark
X	0,939	0,60	Reliable
Y	0,946	0,60	Reliable
M	0,958	0,60	Reliable

The results above show that each variable has a Cronbach's Alpha value greater than 0.60. Thus it can be concluded that the measuring instrument used in this research is reliable and the consistency of the indicators can be used at different times.

Normality Test – Kolmogorov Smirnov

Table 4. Normality Test Results – Kolmogorov Smirnov

Model	Kolmogorov-Smirnov	Criteria	Remark
Unstandardized Residual	0,142	$>0,05$	Normal

The data results in the table above show that in the Kolmogorov-Smirnov column, the Asymp. Sig. (2-tailed) significance value is greater than 0.05, namely 0.142, so it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 5. Multicollinearity Test Results

Independence Variable	Tolerance Value	VIF	Remark
X	0,970	1,030	No Multicollinearity
M	0,970	1,030	No Multicollinearity

The results of data management obtained a Variance Inflation Factor (VIF) value of no more than 10, and a Tolerance (TOL) value of no less than 0.1. So it can be concluded that the regression model does not have a multicollinearity problem.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Variable	Spearman's rho	Criteria	Remark
X	0,424	>0,05	No Heteroscedasticity
M	0,737	>0,05	No Heteroscedasticity

Based on the table above, the results of data management obtained a significance value of X of $0.424 > 0.05$ and a significance of M of $0.737 > 0.05$. In conclusion, the regression model above is said to be free from heteroscedasticity problems.

Autocorrelation Test

Table 7. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,699 ^a	0,488	0,477	4,847	2,272

Based on the table above, the DW value can be seen as 2.272, this value will be compared with the Table value of 5% significance with a sample size of 98 (n) and a number of variables of 2 ($k = 2$), then the dL Table value obtained is 1.6296, the value dU is 1.7128 and $(4 - 2.272) = 1.728$. So the value $d > dU = 2.272 > 1.7128$, which means that in this test there is no positive autocorrelation, and $(4 - d) > dU = 1.728 > 1.7128$, which means that in this test there is no negative autocorrelation. It can be concluded that there are no symptoms of autocorrelation.

Linearity Test

Table 8. Linearity Test Results

Indicator	Deviation from Linearity Sig	Criteria	Remark
Y * X	0,074	0,05	Data Linearity
Y * M	0,835	0,05	

Based on Table 8 above, the deviation from linearity sig values are $0.074 > 0.05$ and $0.835 > 0.05$. This means that there is a linear relationship between Tariff Changes and Tax Literacy on MSME Taxpayer Compliance. So the regression model can be used to predict the level of MSME Taxpayer Compliance.

Simple Linear Regression Analysis

Table 9. Simple Linear Regression Analysis Test Results

Model	Regression Coefficient	Significance	Remark
(Constant)	11,174	0,000	
X	0,644	0,000	Positive Influence

From the table and formula above, it can be concluded that based on the significance value of the Coefficients Table, a significance value of $0.000 < 0.05$ is obtained, so it can be concluded that the Tariff Change variable (X) has an effect on the Compliance variable (Y), so (H1) is accepted.

Partial Test (T Test)

Table 10. Partial Test Results (T Test)

Model	T Count	Significance	Remark
(Constant)	5,127	0,000	
X	9,343	0,000	H1 is accepted

Based on the table above, it is known that the tariff change variable (X) has a calculated t value of $9.343 > t$ table 1.660 and a significance value of $0.000 < 0.05$, which means that the tariff change variable has a significant effect on the Compliance variable.

Moderrated Regression Analysis

Table 11. Moderrated Regression Analysis Test Results

Model	Regression Coefficients	Significance	Remark
(Constant)	11,174	0,000	
X	0,644	0,000	Significant Positive Influence
X * Z	0,016	0,000	Significant Positive Influence

The regression coefficient for the variable influence of Tariff Changes is moderated by Tax Literacy with a significance level of 0.000, which means the significance value is < 0.05 . These results indicate that the research proposed the second hypothesis (H2), namely Tax Literacy moderating the effect of Tax Rate Changes on Taxpayer Compliance, is accepted.

Coefficient of Determination

Table 12. Coefficient of Determination Test Results

R	R Square	Adjusted R Square	Std. Error of the Estimate	Remark
0,856 ^a	0,733	0,724	3,522	The influence of variable X on Y is 77.3%

Based on the results of the coefficient of determination test, the R Square value is 0.773, which means that all variables in the linear regression are able to explain their influence on taxpayer compliance 77.3% and the remaining 22.7% is explained by other factors not included in the research.

Discussion

The Effect of Tariff Changes on Taxpayer Compliance

The analysis shows that changes in final income tax rates significantly and positively affect MSME taxpayer compliance in Lamongan Regency. The regression coefficient (0.644) indicates that a 1% increase in favorable rate perception corresponds to a 0.644-point increase in compliance level. The findings imply that MSME taxpayers perceive lower tax rates as fair, reducing their financial burden and encouraging voluntary compliance. These results support previous studies by Verlin and Lia [22] and Prihastuti et al. [23], who found that reduced MSME tax rates improve compliance levels. The findings are also consistent with attribution theory [13], which posits that external factors—such as government tax policies—can shape taxpayers' behavioral responses. Lower tax burdens act as external motivators, encouraging individuals to fulfill their obligations more consistently.

Tax Literacy Moderates the Effect of Tariff Changes on Tax Compliance

The moderating effect of tax literacy was confirmed through MRA results, where the interaction term between rate changes and literacy (0.016) was positive and significant. This suggests that MSME taxpayers with higher tax literacy levels are more responsive to favorable policy changes. Increased understanding enables taxpayers to interpret regulations accurately, compute taxes correctly, and recognize the long-term benefits of compliance. These results align with prior studies by [24], [25], and [26], who found that greater tax literacy strengthens the relationship between tax policy and compliance. Moreover, from the attribution theory perspective, tax literacy represents an internal motivational factor that enhances compliance behavior by fostering awareness and perceived fairness within the tax system.

Overall, the results highlight that both policy reforms (external) and literacy enhancement (internal) play complementary roles in improving MSME taxpayer compliance.

5. Conclusion

The results of this study indicate that changes in final income tax rates have a positive and significant effect on MSME taxpayer compliance in Lamongan Regency. The reduction of the final income tax rate to 0.5% encourages taxpayers to fulfill their obligations more responsibly and increases voluntary compliance. Furthermore, tax literacy is proven to moderate the relationship between changes in final income tax rates and taxpayer compliance. MSME taxpayers with higher levels of tax knowledge and understanding tend to respond more positively to favorable tax policies, demonstrating improved awareness, responsibility, and accuracy in fulfilling tax obligations. Thus, both external factors such as government tax rate policies and internal factors such as tax literacy play crucial roles in enhancing taxpayer compliance among MSMEs.

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