

Influence of Micro, Small & Medium Enterprises Taxpayer Compliance Factors in Bandung

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ABSTRACT

The Indonesian State Revenue and Expenditure Budget (APBN) is primarily funded by taxes. There are 65.5 million micro, small, and medium-sized enterprises (MSMEs) in Indonesia, making them a sector with a significant potential to assist with tax payments. In order for MSMEs to actively participate in taxation, the government continues to provide various facilities. The Indonesian tax self-assessment system, on the other hand, grants the taxpayer authority to determine the amount of tax owed, which necessitates the taxpayer's awareness and complete compliance. As a result, research was conducted on the factors that influence MSME taxpayer compliance, using tax knowledge, taxpayer awareness, and taxpayer motivation as the variables. Using a purposive sampling strategy, this study selected 100 MSMEs from Bandung with diverse industrial backgrounds and characteristics as the sample population. This study employs quantitative and explanatory analysis methods, as well as a questionnaire as the research medium. PLS-SEM was also used for analysis, and two assessments, the measurement model (validity) and the structural model assessment, were performed. This study found that taxpayer awareness has no significant impact on tax compliance, while tax literacy and taxpayer motivation have a significant impact. Accurate tax reporting and payment are supported by solid literacy. Because taxpayers are unaware of government losses, their awareness has less of an impact. Compliance is largely driven by internal and external motivation.

Keywords: Tax Compliance; Tax Literacy; Taxpayer Awareness; Taxpayer Motivation; MSMEs

ABSTRAK

Anggaran Pendapatan dan Belanja Negara (APBN) Indonesia terutama didanai oleh pajak. Ada 65,5 juta usaha mikro, kecil, dan menengah (UMKM) di Indonesia, menjadikannya sektor dengan potensi signifikan untuk membantu pembayaran pajak. Agar UMKM dapat berpartisipasi aktif dalam perpajakan, pemerintah terus memberikan berbagai kemudahan. Sistem *self-assessment* pajak Indonesia, di sisi lain, memberikan otoritas wajib pajak untuk menentukan jumlah pajak yang terutang, yang mengharuskan kesadaran wajib pajak dan kepatuhan penuh. Hasilnya, penelitian dilakukan terhadap faktor-faktor yang mempengaruhi kepatuhan wajib pajak UMKM, menggunakan pengetahuan pajak, kesadaran wajib pajak, dan motivasi wajib pajak sebagai variabel. Menggunakan strategi *purposive sampling*, penelitian ini memilih 100 UMKM dari Bandung dengan latar belakang dan karakteristik industri yang beragam sebagai populasi sampel. Penelitian ini menggunakan metode analisis kuantitatif dan eksplanatori, serta angket sebagai media penelitian. PLS-SEM juga digunakan untuk analisis, dan dua penilaian, model pengukuran (validitas) dan penilaian model struktural, dilakukan. Studi ini menemukan bahwa kesadaran wajib pajak tidak berpengaruh signifikan terhadap kepatuhan pajak, sedangkan literasi pajak dan motivasi wajib pajak memiliki dampak yang signifikan. Pelaporan dan pembayaran pajak yang akurat didukung oleh literasi yang solid.

Karena pembayar pajak tidak menyadari kerugian pemerintah, kesadaran mereka kurang berdampak. Kepatuhan sebagian besar didorong oleh motivasi internal dan eksternal.

Kata kunci: Kepatuhan Pajak; Literasi Pajak; Kesadaran Wajib Pajak; Motivasi Wajib Pajak; UMKM

INTRODUCTION

The Indonesian State Revenue and Expenditure Budget (APBN) is primarily funded by taxes. The tax sector continues to bring in more money for the state each year. State revenues are now dominated by the tax sector, not oil and gas or petroleum, according to the state budget's reception. The report on the State Budget for 2020-2022 indicates that tax revenue has exceeded the set goal. The tax revenues realized as of 2020 are as follows:

Table 1. Realization of Tax Revenue 2020-2022

Source: APBN Kita 2020-2022

No.	Year	Realization of Tax Revenue	% of APBN
1.	2020	Rp. 1.198,8 Trillion	70,52%
2.	2021	Rp. 1.277,53 Trillion	103,90%
3.	2022	Rp. 1.716,76 Trillion	115,61%

Taxes have a significant role in state revenue; therefore, the government continues to strive to increase revenue tax annually through the Directorate General of Taxes. The Directorate General of Taxes will carry out several strategies to increase tax revenue by improving the tax administration system to increase taxpayer compliance, expanding the tax base to sectors whose potential has not been explored so far, optimizing the utilization of data and information related to taxation from other institutions, strengthening law enforcement for tax avoidance, and improvement tax regulations to provide more legal certainty and treatment fair and reasonable (Subekti, 2014). Maximizing tax revenue cannot rely upon only the role of the Directorate General of Taxes but also require the active role of taxpayers.

One sector with a lot of potential to contribute to tax payments is MSMEs. The number of MSMEs in Indonesia demonstrates their potential. According to The Ministry of Investment, Indonesia had approximately 65.5 million MSMEs as of 2019. In Indonesia, MSMEs have the potential to influence both taxation and economic expansion. According to Kementerian Investasi/BKPM, 2022, MSMEs have been successful in contributing a sizeable amount to GDP—61.97 percent of the national GDP, or Rp. 8,500 trillion. Credit guarantee schemes, training programs, and market access programs are some of the policies and programs that the Indonesian government has put into place to help MSMEs grow and develop. The government is working to support MSMEs' tax convenience and help them become more competitive and viable in the country. In addition, the government intends to continue assisting MSMEs and developing new policies to support Indonesia's economic growth and tax system.

According to Asrinanda (2018), the change in the Indonesian tax system from official assessment to self-assessment grants taxpayers authority to determine the amount of tax owed. Asrinanda (2018) says that the self-assessment system is a way to collect taxes that gives taxpayers trust authority and the responsibility to figure out, pay, and report how much tax they have to pay. The taxpayer must take an active role in meeting their tax obligations under the self-assessment system, beginning with the calculation, deposit, and self-reporting of the tax owed. An essential component of the self-assessment system's implementation is compliance and taxpayer awareness. (Asrinanda, 2018).

According to Setiyani (2018), taxpayer compliance is the obligation to fulfill tax obligations that are expected to be given voluntarily to contribute to development carried out by taxpayers. In realizing taxpayer tax compliance, there will be many factors that can influence this compliance. In previous research, Setiyani (2018) used the tax literacy variable as one factor that influences taxpayer tax compliance. Andini (2018) research uses the taxpayer motivation variable as a factor that influences tax compliance. Besides the research above, Setiyani (2018) uses the variables of tax literacy, taxpayer motivation and tax awareness as factors influencing tax compliance. Based on previous studies, the researcher chose to use the variables tax literacy, taxpayer awareness, and taxpayer motivation as factors that can influence taxpayer compliance.

On the other hand, the variables that were tested were the subject of a variety of previous studies. According to research by Permatasari (2013), taxpayer compliance is influenced by tax literacy. However, Andinata's (2015) research demonstrates that taxpayer compliance is unaffected by knowledge and comprehension of tax regulations. Additionally, Andini (2018) research demonstrates that taxpayer compliance is significantly influenced by motivation. However, it is inversely proportional to the findings of Sitorus et al. (2016), which demonstrate that taxpayer motivation and the working environment have no significant impact on taxpayer compliance. According to research conducted by Setiyani (2018), taxpayer compliance is significantly influenced by taxpayer awareness. However, research conducted by Nurlaela (2013) reveals that taxpayer compliance is unaffected by taxpayer awareness.

The government wants to increase tax contributions to MSMEs because, given the aforementioned phenomena, taxes are the primary source of the state budget and MSMEs have a significant tax contribution potential. There is, however, a phenomenon gap in previous research. Therefore, the study's title, "Influence of Micro, Small, and Medium Enterprises Taxpayer Compliance Factors in Bandung," is based on the aforementioned description of the factors that influence taxpayer compliance, particularly MSMEs in Bandung. This study may be one way to assist the Indonesian government in developing future strategies for determining and raising tax contributions.

RESEARCH METHOD

Quantitative explanatory research is used in this study. Through the formulation of a hypothesis, this kind of explanatory research is used to test the position of the variables being studied and investigate the influence of one variable on another. According to Aspers (2019), the quantitative approach is research based on positivism that examines specific populations or samples, uses research instruments for data collection, and uses quantitative/statistical data analysis to test hypotheses. This study employs a survey method as its descriptive approach. According to Taherdoost (2000), the survey method is a method of data collection in which researchers or data collectors ask respondents a series of questions or statements, either orally or in writing. The writing and distribution of questionnaires to MSMEs in Bandung were the focus of this study. PLS-SEM is used by the author to test research findings because it is excellent for testing the theoretical framework from a prediction perspective. (Kock, 2015).

RESULT AND DISCUSSION

Analysis Method

In conducting data analysis, there will be two assessments that must be carried out, namely, an assessment of measurement models and an assessment of structural models. In the first assessment, the data will be tested for feasibility or validity through several stages in the PLS-SEM tools. Meanwhile, the second assessment will test how much influence is exerted by variable X.

Assessment of Measurement Models

The evaluation of indicators' reliability, internal consistency reliability, convergent validity, and discriminant validity is discussed in this section (Ghasemy, 2020). The indicators' reliability is evaluated in order to constructively examine the correlation between each item (Hair J.). H., 2017). The composite load or item correlation weight are two other names for this assessment (Hair J. S., 2018).

Table 2. Factor Loading

	Tax Compliance	Tax Literacy	Taxpayer Awareness	Taxpayer Motivation
AV		0.898		
K		0.913		
S		0.919		
[AM1]				0.914
[AM2]				0.927
[AP1]	0.788			
[AP2]	0.890			
[AP3]	0.889			
[AP4]	0.901			

[AS1]			0.888	
[AS2]			0.859	

The validity of an indicator as a variable measure will be measured by the first measurement, indicator reliability (Memon, 2021). According to Ghasemy, 2020, the authors decided to consider loading above 0.708 and avoiding items that do not contribute to all construction in order to establish reliability indicators. The outer loading test results are all from 0.708, as shown in Table 2, indicating that the indicators used in this study are reliable or that each item is reliable. The AM2 item on the taxpayer motivation variable is the most reliable in this test.

Table 3. Internal Consistency Reliability

	Cronbach's alpha	rho_a	rho_c	AVE
Tax Compliance	0.891	0.904	0.924	0.754
Tax Literacy	0.896	0.896	0.935	0.828
Taxpayer Awareness	0.691	0.697	0.866	0.764
Taxpayer Motivation	0.821	0.824	0.918	0.848

Internal Consistency Reliability is the next step after evaluating the indicators' reliability. (Matthews, 2018) This test determines whether the items measuring a construct have comparable scores. According to Chin Theory, the value must be greater than 0.6 and less than 0.95 in order to be regarded as reliable (Matthews, 2018). Table 3 displays the test's findings, which lead us to the conclusion that the values of the latent variable construct are trustworthy because none of them are below or above 0.95.

Next is the Convergent Validity or commonly known as AVE. This test determines whether the discriminant validity requirement has been met (Sarstedt, 2020). In this test, the minimum value to declare reliability is achieved is 0.50 (Ghasemy, 2020). From the results obtained, all values are above 0.5, meaning that the discriminant validity requirement has been met, and no errors or concerns will become evaluation records.

Table 4. HTMT

	Tax Compliance	Tax Literacy	Taxpayer Awareness	Taxpayer Motivation
Tax Compliance				
Tax Literacy	0.788			
Taxpayer	0.338	0.351		

Awareness				
Taxpayer Motivation	0.774	0.620	0.465	

The final step involves evaluating discriminant validity using the Heterotrait-Monotrait (HTMT) criterion (Henseler, 2015) and an evaluative guide for evaluating HTMT values (Franke, 2019). These values must be lower than the threshold values in a one-way bootstrap inferential test to demonstrate discriminant formation construct validity (Henseler, 2015). Therefore, a construct that is empirically distinct from other constructs in the model must have a HTMT value below 0.85. Table 4 displays the evaluation's findings, which demonstrate that all HTMT have values and confidence interval upper bounds below 0.85, indicating adequate discriminant validity based on HTMT 0.85 criteria.

Assessment of Structural Models

Checking for collinearity between exogenous constructs, evaluating the predictive power of in-sample and out-of-sample models, determining the size of the f^2 effect and the unique contribution of the predictor variable to the R^2 of endogenous constructs, and determining the significance and relevance of the path coefficient as well as indirect effects are all parts of the structural model evaluation that will be performed in this study (Al-Emran, 2019).

Table 5. VIF

	VIF
AV	2.447
K	2.861
S	3.019
[AM1]	1.938
[AM2]	1.938
[AP1]	2.055
[AP2]	3.03
[AP3]	3.244
[AP4]	2.967
[AS1]	1.387
[AS2]	1.387

The correlation or intercorrelation between indicators will be determined by the Collinearity analysis (Wong, 2013). The Collinearity test typically has a limit of a value greater than 5. One of the strongly correlated values can be issued if the value is greater than 5, indicating the existence of a multicollinearity issue. However, according to Hair (2019), the ideal value for each Variance Inflation Factor should be less than 3. A preliminary look at the VIF values in Table 5 revealed that almost all of them were less than 3, but the values for item S, AP 2, and AP 3 were higher than 3, indicating that there is a small warning about the collinearity issue.

The hypothesis is then tested using a two-tailed bootstrap percentile test with 5,000 subsamples and a significance level of 5% (Streukens, 2016). The authors use identical subsamples and two-tailed bootstrap tests to examine the covariates. The significance level is 5%.

Table 6. Path Coefficient

	Original sample	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Tax Literacy -> Tax Compliance	0.493	0.491	0.077	6.379	0.000
Taxpayer Awareness -> Tax Compliance	0.008	0.002	0.074	0.107	0.915
Taxpayer Motivation -> Tax Compliance	0.41	0.411	0.083	4.96	0.000

Table 7. F square

	Tax Compliance	Tax Literacy	Taxpayer Awareness	Taxpayer Motivation
Tax Compliance				
Tax Literacy	0.455			
Taxpayer Awareness	0.000			
Taxpayer Motivation	0.298			

On the data in Table 6, it can be concluded as follows:

1. The direct effect of Tax Literacy on Tax Compliance is 0.491, which means that if tax literacy increases, tax compliance will increase by 49.1% with a positive influence.
2. The direct effect of Taxpayer Awareness on Tax Compliance is 0.002, which means that if taxpayer awareness increases, tax compliance will increase by 2.0% with a positive influence
3. The direct effect of Taxpayer Motivation on Tax Compliance is 0.411, which means that if taxpayer motivation increases, tax compliance will increase by 41.1% with a positive influence.

Empirically supported evaluation results reveal the results of hypothesis testing from H1 to H3. With a result of 0.000, it is possible to draw the conclusion that tax literacy has a significant impact on tax compliance. Additionally, tax compliance is positively impacted by tax literacy by 0.493. Setiyani's (2018) study also demonstrates that tax compliance is influenced by tax literacy, particularly tax knowledge. According to the findings of the research conducted by Setiyani (2018), the fact that accounting and taxation are subjects that students must comprehend supports the assertion that a higher level of tax literacy will have an impact on tax compliance. Television, radio, the internet, and other forms of media can all provide tax information.

The research result of Setiyani (2018) is in line with this study, where the average respondent has an undergraduate educational background and has acquired tax knowledge through learning and communication media. In my opinion, tax literacy will help improve tax compliance. For example, suppose someone has high tax literacy. In that case, that person can better understand the taxation system in Indonesia and more about the importance of paying taxes so that this understanding can be implemented through concrete forms when paying and reporting taxes.

On the other hand, the H2 test demonstrates, with a p-value of 0.915, that taxpayer awareness has no significant impact on tax compliance, despite having a slight positive effect with a value of 0.008. This is connected to tax deductions and delays, which can result in losses for the government, according to research by Nurlaela (2013). There were still respondents to the study who indicated that they disagreed with the assertion that tax deductions or delays result in government losses. Because tax awareness has no significant impact on willingness to pay taxes, these findings indicate that the general public does not yet comprehend the significance of doing so.

In addition, the majority of respondents in this study gave responses that were either quite agreeable or quite disagreeable with the awareness that delaying tax payments and reducing tax burden could be harmful to the government. Because taxpayers are not fully aware of tax delays, which can be detrimental to the government, taxpayer awareness has no significant impact.

In the H3 test, it can be concluded that taxpayer motivation significantly affects tax compliance with a result of 0.000 with a positive influence of 0.41. From the results of the survey that has been conducted, the average respondent already has the motivation to pay taxes correctly and accordingly. In Andini (2018) research, respondents realized that they were taxpayers, which made the strong urge to pay and report taxes come from themselves.

According to Andini (2018)'s findings, respondents realized that the government provides all public facilities that are utilized on a daily basis through community payments. These offices might have been broadly felt by many individuals, like wellbeing offices, streets, public transportation, etc. Then, according to the results of Andini (2018) research, the respondents understood their rights and obligations as a Taxpayer. The research results from Andini (2018) have a relationship and similarities with the respondents in this study. Respondents in this

study also answered in agreement related to the desire to pay taxes that come from themselves.

As a result, based on the findings of this study and previous research, respondents already feel motivated to carry out their responsibilities as taxpayers, such as paying taxes and filing tax returns. This is because the respondents realize that the results of paying taxes will be reused for the benefit and welfare of the community so that paying taxes can be beneficial for the development of the country and the welfare of its people. That way, respondents understand that paying and reporting taxes is something that must be done.

Table 8. R square

	R-square	R-square adjusted
Tax Compliance	0.622	0.61

Table 9. PLSpredict

	Q ² predict	PLS-SEM_RMSE	PLS-SEM_MAE	LM_RMSE	LM_MAE
[AP1]	0.300	0.702	0.579	0.718	0.607
[AP2]	0.452	0.747	0.550	0.739	0.565
[AP3]	0.509	0.701	0.533	0.719	0.554
[AP4]	0.562	0.570	0.452	0.591	0.467

The results of the R square test in the table above indicate that the three independent variables have a 62% influence on tax compliance. Finally, structural model evaluation concludes with PLS predict analysis (Shmueli, 2019). The mean absolute error (MAE), the Q²_predict value from the PLS model, and the MAE value from the linear models (LM) will be the primary focus of this analysis. Results on tax compliance as a crucial endogenous construct in the model are summarized in Table 8. All of the Q²_predict values on the PLS-SEM results are positive, according to the results. In addition, the MAE value in the PLS-SEM analysis demonstrates that it does not produce a prediction error that is more significant than that of the LM benchmark. The model's path coefficient, factor loading, and explanatory power for endogenous construction are depicted in Figure 1.

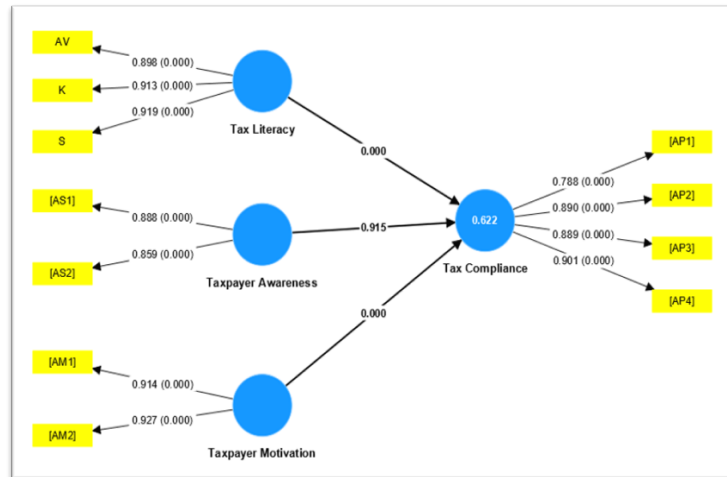


Figure 1. Displays the path coefficient, factor loading, and explanatory power of the model

Sample Characteristic

The data below provide a summary of the respondents' characteristics following the research. Gender, age, educational background, registered business form, industry, and annual sales turnover are the six types of characteristics used in this study. MSMEs in Bandung are the respondents to this study, and the data were collected from November 14, 2022 to December 25, 2022. This study included 100 MSMEs in total, with the following distribution:

Table 10. Sample Characteristic

Characteristic		Frequency	Percentage
Gender	Male	57	57%
	Female	43	43%
Age	≤ 25 years	38	38%
	26-41 years	42	42%
	42-57 years	17	17%
	≥ 58 years	3	3%
Academic Background	High School / Vocational	34	34%
	Bachelor's degree	60	60%
	Master's Degree	6	6%
	Individual	80	80%
	CV	11	11%

Economic Reviews Journal

Volume 3 Nomor 3 (2024) 2035 – 2049 E-ISSN 2830-6449

DOI: 10.56709/mrj.v3i3.306

Characteristic		Frequency	Percentage
Registered form of business	PT	9	9%
Type of Industry	Agribusiness (agriculture and animal husbandry)	2	2%
	Service Bureau	2	2%
	Event Organizer	2	2%
	Fashion	9	9%
	Herbal	1	1%
	Plastic Industry	1	1%
	Service	2	2%
	Deposit Service	3	3%
	Beauty	4	4%
	Finance	1	1%
	Culinary	44	44%
	Automotive	7	7%
	Education	3	3%
	Creative Product	13	13%
	Internet Technology	4	4%
	Textile	2	2%
Sales Turnover Per Year	< 300.000.000	66	66%
	300.000.000 - 500.000.000	13	13%
	500.000.001 - 2.500.000.000	16	16%
	2.500.000.001 - 4.800.000.000	5	5%

Table 10 shows that of the 100 respondents, 57% were male and 43% female. In the age distribution, 42% were in the age range of 26-41 years, 38% were aged less than equal to 25 years, 17% were 42-75 years, and 3% were aged greater than equal to 58 years. The educational background of the respondents was distributed where 60% had a bachelor's degree, 34% had high school/vocational school, and 6% had a master's degree. Based on respondent data, SMEs are registered as individual businesses with a percentage of 80%, registered as CV with a percentage of 11% and registered as PT with a percentage of 9%. The top three industry respondents are culinary business 44%, innovative products by 13%, and fashion business 9%. From the data in table 10, it can be seen that the average MSME income tends to be below 300,000,000, with a percentage of 66% of the total respondents. In comparison, 16% of respondents answered that business turnover per year ranged from 500,000,001 - 2,500,000,000, and the other 18% were spread over the turnover scale specified in the questionnaire.

From the results of the sample characteristics above, it can be seen that generation Y plays a more active role in reporting and paying their business taxes. Generation Y who contribute to paying this tax are people who, on average, have an undergraduate educational background and tend to register their businesses as individuals compared to CV and PT. The tendency of taxpayers to register their business as individuals can be based on limitations in government regulations related to the calculation of final income tax, where companies registered as individuals have a limit of 7 years, while CVs and PTs are divided into 3 to 4 years.

The average type of industry in the city of Bandung is the culinary industry, with an annual revenue trend of below 300 million. Culinary MSMEs with a turnover of under 300 million tend to avoid paying their taxes. In contrast, MSMEs with types of industries such as fashion and services and other types of businesses with a turnover of over 300 million tend to pay their tax. Therefore, most MSMEs in Bandung are culinary business types with incomes below 300 million. These MSMEs still tend not to pay taxes which may be due to needing more income to pay taxes compared to other types of industries with low income.

CONCLUSION

Based on the research results and discussion in the previous chapter regarding the Influence of MSME Taxpayer Compliance Factors in Bandung, it can be concluded as follows:

1. Tax literacy has a significant effect on tax compliance. From this, strong tax literacy can support an increase in the number of tax payments in Indonesia because people already have knowledge, skills, and behavior in taxation and also the public can make payments and report taxes correctly (no overpayment / underpayment).
2. Taxpayer awareness does not significantly affect taxpayers' level of compliance. Although tax awareness has a positive effect, this effect does not significantly affect taxpayer compliance because respondents still lack

awareness regarding government losses arising from tax deductions or delays.

3. Taxpayer motivation has a significant effect on tax compliance. When there is encouragement from within and outside, it will influence taxpayers to comply in reporting and paying taxes.

The research underscores the pivotal roles of tax literacy and taxpayer motivation in influencing tax compliance, surpassing the impact of taxpayer awareness. This suggests a need for government intervention to enhance taxpayer awareness, particularly in Bandung, Indonesia, to meet tax payment targets. Initiatives such as offering capital loans to MSMEs could bolster awareness and subsequently increase tax payments. Failure to implement such measures may impede achieving tax payment targets, necessitating continued efforts to improve tax literacy and motivation. Further qualitative research focusing on taxpayer awareness is recommended for deeper insights into effective policy formulation and implementation.

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Economic Reviews Journal

Volume 3 Nomor 3 (2024) 2035 – 2049 E-ISSN 2830-6449

DOI: 10.56709/mrj.v3i3.306

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