CHAPTER I
INTRODUCTION

1.1 Background

Micro, Small, and Medium Enterprises (MSMEs) occupy a central position in Indonesia's national economy. According to data from the Ministry of Cooperatives and SMEs, as cited by *Kantor Pelayanan Perbendaharaan Negara* (KPPN) Mukomuko (2023), there are currently 64.2 million MSMEs in Indonesia, accounting for 61.07% of the GDP, valued at 8,573.89 trillion rupiah, while simultaneously absorbing 117 million workers, accounting for 97% of the country's total workforce. These figures affirm the MSME sector's role not only as a primary driver of economic growth, but also as a cornerstone of social stability for the broader Indonesian population (Rafah Ramadhan et al., 2025). The scale of this contribution has prompted the Indonesian government to treat the MSME sector as a priority in national policy, leading to the establishment of a regulatory framework specifically governing the rights, obligations, and tax treatment of MSME actors in a manner proportionate to their economic capacity.

MSMEs are productive business units operated by individuals, households, or small business entities, classified under Law Number 20 of 2008 on Micro, Small, and Medium Enterprises using two main indicators: net asset value and annual sales revenue (Tambunan, 2019). Micro enterprises have net assets of no more than Rp50,000,000 and annual revenue of no more than Rp300,000,000; small enterprises have net assets between Rp50,000,000 and Rp500,000,000 with annual revenue between Rp300,000,000 and Rp2.5 billion; and medium enterprises have net assets between Rp500,000,000 and Rp10 billion with annual revenue between Rp2.5 billion and Rp50 billion (UU No. 20/2008). These classifications form the foundation upon which the government determines the tax scheme applicable to each business scale. Accordingly, PP No. 23 of 2018 stipulates a Final Income Tax (*PPh Final*) rate of 0.5% for MSME taxpayers with an annual gross turnover not exceeding Rp4.8 billion (Juniarti & Anggrahini, 2020) which was subsequently followed by PP No. 55 of 2022, under which MSME taxpayers with an annual turnover below Rp500 million are exempted from income tax obligations altogether.

In Pekanbaru City, MSMEs are growing rapidly. Currently, the number of MSMEs under the Pekanbaru City Administration has reached 26,684 enterprises. This sector serves as the main economic pillar for the city (mediacenter.riau). However, this impressive growth does not appear to be reflected in a proportional level of tax compliance among MSME actors. Despite the large number of enterprises operating across the city, a significant gap remains between the actual scale of the MSME sector and its participation in the formal tax system.

Pekanbaru City has two tax offices administering taxpayers across distinct jurisdictional areas: KPP Pratama Pekanbaru Senapelan, which covers seven sub-districts, and KPP Pratama Pekanbaru Tampan, which covers five sub-districts (DJP, 2024). This study focuses specifically on KPP Pratama Pekanbaru Senapelan, whose jurisdiction spans seven sub-districts, namely Senapelan, Limapuluh, Sail, Pekanbaru Kota, Sukajadi, Payung Sekaki, and Rumbai. These sub-districts collectively form the historical and commercial core of Pekanbaru City, with several areas, particularly Senapelan and Pekanbaru Kota, widely recognized as the oldest and most established trading centers in the city. This character is reflected in the dense concentration of markets, retail businesses, and informal commercial activity across the territory, making the area a historically significant base for MSME operations in Pekanbaru.

Table 1.1 MSME Taxpayer Registration and Annual Tax Returns Submission

Years	Number of Active MSME Taxpayers		Total	Number of MSME Taxpayers Who Submitted Annual Tax Returns (*SPT Tahunan*)		Total
	Individual	Corporate		Individual	Corporate	
2021	5.024	1.889	6.913	4.004	1.204	5.208
2022	5.935	2.340	8.275	4.594	1.308	5.902
2023	7.432	2.841	10.273	5.314	1.359	6.673
2024	12.386	3.611	15.997	4.939	1.268	6.207
2025	13.098	4.269	17.367	4.044	1.225	5.269

Source : KPP Pratama Pekanbaru Senapelan

Data from KPP Pratama Pekanbaru Senapelan reveals that while active MSME taxpayer registrations have grown substantially, from 6,913 in 2021 to 17,367 in 2025, the submission of Annual Tax Returns (*SPT Tahunan*) has failed to keep pace. In 2021, only 5,208 of 6,913 registered MSME taxpayers submitted their annual returns, representing a compliance rate of approximately 75.3%. Rather than improving over time, this rate has declined sharply, falling to merely 30.3% in 2025 when only 5,269 of 17,367 registered taxpayers fulfilled their reporting obligations, a persistent and worsening gap that reflects a structural failure across the fundamental dimensions of taxpayer compliance as outlined by Azzahra et al. (2025), encompassing registration, calculation, and reporting obligations. This deteriorating trend is further evidenced by the escalating issuance of Tax Collection Letters (*Surat Tagihan Pajak/STP*) targeting MSME taxpayers, instruments typically issued in response to late filing, calculation errors, or underpayment, which surged from 1,343 in 2021 to a peak of 11,971 in 2023, before declining to 3,716 in 2024 and 5,616 in 2025. Such figures underscore that despite the sector's significant economic contribution, the MSME sector continues to face substantial challenges in meeting its taxation obligations proportional to its role in the national economy.

Tax rates represent one of the key structural factors that shape taxpayer behavior, particularly among MSME actors whose compliance decisions are closely tied to their perception of the tax burden relative to their income capacity. In the context of MSMEs, the applicable tax rate under PP No. 23 of 2018 is set at 0.5% of gross turnover, a rate specifically designed to be proportionate and accessible for small-scale businesses. When taxpayers perceive this rate as fair and manageable, they are more likely to fulfill their obligations voluntarily, as the financial burden is not seen as disproportionate to the benefits of operating within the formal economy. Attribution Theory further illuminates this dynamic: when tax rates are viewed as equitable, taxpayers are inclined to attribute their compliance to an internal sense of civic responsibility, thereby reinforcing voluntary behavior. Sianturi et al. (2024) confirmed this, finding that tax rate has a positive and significant effect on MSME taxpayer compliance in Kabupaten Bekasi, suggesting that a fair rate structure actively encourages formal participation. In contrast, Zhafira & Agustina (2025) found that tax rates do not yield a significant effect on compliance, indicating that rate levels alone may be insufficient to drive behavioral change without the support of other factors. Given that the 0.5% Final Income Tax rate under PP No. 23 of 2018 was specifically designed to be proportionate to MSME income capacity, this study is directed toward examining whether such a rate structure produces a positive effect on taxpayer compliance within the context of KPP Pratama Pekanbaru Senapelan, an office that has experienced a sharp and sustained decline in compliance despite the relatively low rate being in effect.

Beyond the rate structure, the level of tax knowledge possessed by MSME taxpayers is equally critical in determining compliance behavior. Tax knowledge refers to the extent to which taxpayers understand their rights, obligations, calculation procedures, and the regulatory framework governing their tax liabilities. In Indonesia's self-assessment system, this understanding is especially important because taxpayers are independently required to calculate, remit, and report their own tax liabilities without direct guidance from tax authorities. When MSME actors possess sufficient knowledge of applicable tax regulations, they are better equipped to comply accurately and consistently. Grounded in Attribution Theory, as reviewed by Martinko & Mackey (2019), taxpayers who attribute their obligations to internal factors, such as their own knowledge and capability, are more likely to act responsibly and fulfill those obligations voluntarily. Both Sianturi et al. (2024) and Zhafira & Agustina (2025) confirmed that tax knowledge has a positive and significant effect on MSME taxpayer compliance, reinforcing the position that knowledge-building is one of the most reliable drivers of voluntary compliance. In contrast, Anggraini & Novitasari (2025) found that tax knowledge does not have a significant effect on sustainable MSME performance in Bengkulu City, a related but distinct outcome from tax compliance, suggesting that the strength of this relationship may vary depending on the taxpayer profile, outcome measure, and regional context. This inconsistency in findings underscores the need to re-examine the effect of tax knowledge specifically within the context of KPP Pratama Pekanbaru Senapelan.

Apart from tax rates and tax knowledge, the level of digital literacy among MSME taxpayers is increasingly recognized as a significant factor shaping compliance behavior in the era of digital tax administration. Digital literacy refers to the ability of individuals to effectively access, operate, and utilize digital tools and platforms, including those specifically designed for tax reporting and payment such as e-Filing and e-Billing (Sholihah & Nugroho 2025). This positions digital literacy as a distinct construct from tax knowledge: where tax knowledge reflects a taxpayer's understanding of regulations, calculation procedures, and reporting obligations, digital literacy reflects their technical readiness to execute those obligations through digital platforms. The two do not necessarily move together, a taxpayer well-versed in tax regulations may still fail to comply on time simply because they struggle to operate e-Filing or e-Billing systems, just as a taxpayer comfortable with digital platforms may still miscalculate or misreport due to gaps in regulatory understanding. As Indonesia's Directorate General of Taxes continues to shift toward fully digital systems, the capacity of taxpayers to engage with these platforms directly determines their ability to comply in a timely and accurate manner. This relationship is theoretically grounded in the Technology Acceptance Model (TAM) introduced by Davis (1989), which identifies Perceived Ease of Use (PEOU) as a primary determinant of technology adoption. A higher level of digital literacy reduces the perceived effort required to navigate digital tax platforms, thereby lowering administrative barriers and increasing the likelihood of consistent compliance. Sholihah & Nugroho (2025) found that digital literacy has a positive and significant effect on MSME taxpayer compliance, demonstrating that technological competence directly supports fulfillment of tax obligations. However, digital literacy remains an underexplored variable in the MSME tax compliance literature, with very few studies having directly tested its effect as an independent determinant of compliance, particularly within the Indonesian MSME context. This scarcity of evidence makes further investigation not only relevant but necessary, especially given the increasing reliance of Indonesia's tax administration system on digital infrastructure.

Taken together, these three factors, namely tax rates, tax knowledge, and digital literacy, are each considered to play a meaningful role in shaping the compliance behavior of MSME taxpayers registered at KPP Pratama Pekanbaru Senapelan. However, the extent to which these factors influence compliance remains an ongoing subject of debate among researchers, as existing studies have not always produced consistent findings. Sianturi et al. (2024) found that both tax rate perception and tax knowledge have a positive and significant effect on MSME taxpayer compliance in Kabupaten Bekasi, while Zhafira & Agustina (2025) found that tax rates do not yield a significant effect, though tax knowledge retained its positive and significant influence. Zhafira & Agustina (2025) further confirmed that tax knowledge has a positive and significant effect on MSME taxpayer compliance, reinforcing the consistency of this variable across different study contexts. In contrast, Anggraini & Novitasari (2025) found that tax knowledge does not have a significant effect on sustainable MSME performance, indicating that this relationship is not universally consistent and may be sensitive to contextual differences such as taxpayer profile, outcome measure, and geographical setting. For digital literacy, Sholihah & Nugroho (2025) confirmed a positive and significant effect on MSME taxpayer compliance, yet the variable has been examined by only a limited number of studies, leaving its effect across different taxpayer populations and regional contexts insufficiently established.

Therefore, MSME taxpayers registered at KPP Pratama Pekanbaru Senapelan serve as the primary subject of this study. Pekanbaru City has experienced rapid MSME growth, with the local administration actively supporting the development of the sector through various programs and facilities. Despite this, tax compliance among MSMEs in the area has shown a persistent and worsening decline, as evidenced by data from KPP Pratama Pekanbaru Senapelan. This context provides both the empirical motivation and the practical relevance for re-examining the determinants of compliance in this specific setting. Notably, the majority of prior studies have examined taxpayer compliance among either individual or corporate MSME taxpayers in isolation. In contrast, this study integrates both categories within a single unified analytical framework, encompassing all MSME actors, whether individual business operators or legally established business entities, registered at KPP Pratama Pekanbaru Senapelan and subject to the Final Income Tax scheme under PP No. 23 of 2018. Against this background, this study was conducted under the title: “The Effect of Tax Rates, Tax Knowledge, and Digital Literacy on Tax Compliance among Micro, Small, and Medium Enterprises (MSMEs).”

1.2 Problem Statement

Based on the background described above, the research questions in this study are as follows:

1. Does tax rate have a positive effect on taxpayer compliance among MSMEs at KPP Pratama Pekanbaru Senapelan?
2. Does tax knowledge have a positive effect taxpayer compliance among MSMEs at KPP Pratama Pekanbaru Senapelan?
3. Does digital literacy have a positive effect taxpayer compliance among MSMEs at KPP Pratama Pekanbaru Senapelan?
4. Do tax rates, tax knowledge, and digital literacy simultaneously have a significant effect on MSME taxpayer compliance at KPP Pratama Pekanbaru Senapelan?

1.3 Scope of The Study

In order to ensure that the scope of the research remains focused and manageable, the following limitations have been established:

1. Variable Limitation. This study is limited to examining three independent variables, namely tax rates (X1), tax knowledge (X2), and digital literacy (X3), and their effect on one dependent variable, namely tax compliance (Y). Other potential factors that may influence taxpayer compliance, such as taxpayer awareness, tax service quality, organizational culture, or macroeconomic conditions, are not included within the scope of this study.
2. Geographical Limitation. This study is conducted exclusively within the jurisdiction of KPP Pratama Pekanbaru Senapelan, Pekanbaru City, Riau Province. Therefore, the findings and conclusions of this research are specifically applicable to this geographical area and may not be directly generalized to other regions with different economic characteristics.
3. Respondent Limitation. This study specifically targets MSME taxpayers who are actively registered at KPP Pratama Pekanbaru Senapelan and have an annual gross turnover exceeding Rp500,000,000. This criterion is applied because, under Government Regulation (PP) Number 55 of 2022, MSME actors with a turnover below this threshold are fully exempt from income tax obligations and therefore do not carry the formal tax compliance duties that this study seeks to examine.

4. Regulatory Limitation. The tax policy examined in this study is specifically focused on the Final Income Tax (PPh Final) scheme for MSMEs as regulated under Government Regulation (PP) Number 23 of 2018, which established the 0.5% tax rate, and Government Regulation (PP) Number 55 of 2022, which introduced the Rp500 million non-taxable turnover threshold. Tax obligations outside of this scheme, such as Value Added Tax (VAT) or general income tax under Article 17, are beyond the scope of this study.
5. Methodological Limitation. This study employs a strictly quantitative approach using a structured questionnaire as the primary data collection instrument. The research is cross-sectional in nature, meaning that data is collected at a single point in time and represents a snapshot of current conditions. Consequently, this study does not capture longitudinal changes in taxpayer behavior over time.
6. Data Source Limitation. Primary data in this study is obtained through questionnaires distributed directly to MSME taxpayers. Secondary data is sourced from official records provided by KPP Pratama Pekanbaru Senapelan for the period of 2021–2025. Data from other tax offices or government institutions outside of KPP Pratama Pekanbaru Senapelan is not included in the analysis.

1.4 Research Objectives and Benefits

1.4.1 Research Objectives

The objectives of this research are as follows:

1. To determine the effect of tax rates on taxpayer compliance among MSMEs at KPP Pratama Pekanbaru Senapelan.
2. To determine the effect of tax knowledge on taxpayer compliance among MSMEs at KPP Pratama Pekanbaru Senapelan.
3. To determine the effect of digital literacy in influencing taxpayer compliance among MSMEs at KPP Pratama Pekanbaru Senapelan.
4. To determine the effect of tax rates, tax knowledge, and digital literacy simultaneously influencing taxpayer compliance among at KPP Pratama Pekanbaru Senapelan.

1.4.2 Research Benefits

The Benefits of this research are as follows:

1. Theoretical Benefits

   This study is expected to contribute theoretical references and scientific input regarding the factors that influence MSME taxpayer compliance, particularly in relation to tax rate, tax knowledge, and digital literacy. The findings are expected to enrich the existing literature on taxpayer compliance and serve as a reference for future studies in the field of taxation.
2. Practical Benefits
   a) For MSME Taxpayers

      This study is expected to serve as a source of knowledge for MSME taxpayers regarding the factors that influence their tax compliance. The findings indicate that digital literacy is the most decisive factor in supporting compliance through digital platforms such as e-Filing and e-Billing. It is therefore hoped that MSME taxpayers will be encouraged to actively develop their digital competence in order to fulfill their tax obligations more easily, accurately, and on time.

   b) For KPP Pratama Pekanbaru Senapelan and the Directorate General of Taxes (DGT)

      This study is expected to provide useful input for tax authorities in designing more targeted compliance improvement programs. Given that digital literacy and tax rate are confirmed as significant determinants of MSME taxpayer compliance, tax authorities are encouraged to expand digital assistance programs for MSME operators and intensify socialization efforts that clearly communicate the fairness and proportionality of the applicable tax rate structure under PP No. 23 of 2018.

   c) For Academic Readers and the Development of Knowledge

      This study is expected to contribute empirical evidence to the literature on MSME tax compliance in Indonesia. The findings provide one of the few direct empirical tests of digital literacy as an independent determinant of compliance, and help clarify the inconsistent findings in prior studies regarding the role of tax knowledge when modeled alongside other compliance determinants.

d) For Future Researchers

This study is expected to serve as a reference and baseline for subsequent research seeking to examine MSME taxpayer compliance under Indonesia's increasingly digitalized self-assessment tax system. Future researchers are encouraged to explore additional variables not covered in this study, expand the geographical scope to other KPP jurisdictions, and consider alternative analytical methods to further develop understanding in this field.