



## DETERMINANTS OF TAX COMPLIANCE IN TRADITIONAL TEXTILE ENTERPRISES

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### ABSTRACT

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Tax compliance among Micro, Small, and Medium Enterprises (MSMEs) is crucial to strengthening national fiscal capacity and supporting creative economies rooted in cultural heritage. Despite their significant economic contributions, traditional textile artisans in tourism-based villages often fall short in meeting tax obligations. This study explores how taxpayer awareness, knowledge, digital financial tools, and the quality of tax administration influence compliance behavior, with tax payment motivation examined as a mediating variable among MSMEs in Java and Bali. Utilizing a quantitative approach, data were collected via Likert-scale surveys and analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM). The results indicate that taxpayer knowledge, awareness, digital banking access, and service quality positively impact tax payment motivation. These factors, along with motivation, also contribute significantly to improved compliance. Tax payment motivation bridges internal and external drivers, reinforcing compliant behavior. The findings highlight the importance of implementing targeted tax education, enhancing service delivery, and expanding digital banking infrastructure to promote tax compliance and support the growth of culturally driven MSMEs.

**Keywords:** Tax Compliance, MSMEs, Traditional Textile Artisans, Digital Banking, Tax Payment Motivation, Service Quality.

### INTRODUCTION

Tax revenue constitutes the backbone of Indonesia's fiscal system, contributing more than 70% of total state income in recent years (Vientiany et al., 2024). The sustainability of national development, therefore, relies heavily on taxpayer compliance across all economic sectors. Among these sectors, Micro, Small, and Medium Enterprises (MSMEs) play a dominant role in the Indonesian economy, contributing more than 60% of the national Gross Domestic Product and absorbing approximately 97% of the total workforce (Ramadhan et al., 2024). Despite this significant contribution, the level of tax compliance among MSMEs remains relatively low compared with their fiscal potential.

The issue becomes more complex as MSMEs increasingly integrate into the formal financial system through access to bank credit (Karista & Utomo, 2025). Government regulations require business actors applying for credit above certain thresholds to possess a Taxpayer Identification Number, thereby linking financial inclusion with tax formalization (Ministry of Finance of The Republic of Indonesia, 2024). In practice, however, improved financial access has not always been accompanied by better tax compliance behavior (Lidya et al., 2024; Rani & Utomo, 2019). It indicates that structural integration into the financial system alone is insufficient to encourage voluntary tax compliance.

This challenge is particularly evident among MSMEs engaged in traditional textile crafts, such as batik producers in Java and woven-fabric artisans in Bali. These enterprises operate within culture-based tourism ecosystems and contribute not only to regional economic development but also to cultural preservation. Compared with other MSME sectors, traditional textile craft industries possess several distinctive characteristics that may influence tax compliance behavior. First, most businesses are family-owned and managed informally, with financial records and tax documentation often limited. Second, production activities are deeply embedded in local traditions and community networks, which may prioritize cultural continuity over formal administrative procedures. Third, income patterns tend to be seasonal and tourism-dependent, creating uncertainty in financial planning and tax obligations. These characteristics shape how business owners perceive and fulfill their fiscal responsibilities.

As these traditional craft MSMEs expand and gain access to formal bank financing, their fiscal obligations become increasingly formalized. Nevertheless, empirical evidence indicates that tax compliance among culture-based MSMEs has not improved in proportion to their economic integration (Ratnawati et al., 2019; Utomo et al., 2025). This situation highlights the importance of understanding the behavioral and institutional factors that influence tax compliance in this sector.

Previous studies have widely examined determinants of MSME tax compliance, particularly focusing on tax knowledge, tax awareness, service quality, and digital financial access (Noviantari & Setiawan, 2018; Ozili, 2022; Savitri & Damayanti, 2018). However, most existing research treats MSMEs as a homogeneous group and rarely considers sector-specific characteristics, especially those related to culture-based creative industries. In addition, prior studies generally analyze these determinants separately and emphasize direct relationships with compliance outcomes, while the psychological mechanisms linking these factors to compliance behavior remain underexplored.

To address this gap, the present study proposes tax payment motivation as a key behavioral mechanism that bridges structural and cognitive determinants with actual compliance behavior. Drawing upon Behavioral Compliance Theory, Financial Inclusion Theory, the Slippery Slope Framework, and Self-Determination Theory, this study develops an integrative model explaining how MSME business tax knowledge, MSME business tax awareness, digital banking utilization, and tax service quality influence tax payment motivation and ultimately shape taxpayer compliance.

Tax knowledge shapes taxpayers' understanding of the benefits of taxation and the consequences of noncompliance. Such understanding strengthens the internal drive to fulfill fiscal obligations consciously. In line with Self-Determination Theory, knowledge supports the development of autonomous motivation. Empirical studies have shown that tax knowledge positively influences tax payment motivation (Martela et al., 2021; Safitri & Afiqoh, 2022).

**H<sub>1</sub> : Taxpayer Knowledge Has A Positive Effect on Tax Payment Motivation**

Taxpayer awareness reflects moral and social responsibility in fulfilling tax obligations. High awareness fosters intrinsic motivation to voluntarily pay taxes. Based on Self-Determination Theory, motivation derived from internal values produces more consistent behavior. Previous studies have demonstrated that tax awareness positively influences tax payment motivation (Florintina & Nugroho, 2021; Savitri & Damayanti, 2018).

**H<sub>2</sub> : Taxpayer Awareness Positively Affects Tax Payment Motivation**

Digital banking adoption enhances the ease, speed, and convenience of tax payment processing. This technological advancement helps reduce administrative burdens and improve perceived efficiency. According to the Theory of Planned Behavior, technological accessibility influences behavioral intentions and motivational dynamics. Empirical studies affirm that the digitalization of financial services positively impacts MSMEs' motivation to fulfill their tax responsibilities (Nur et al., 2022; Oleschak, 2021).

**H<sub>3</sub> : Digital Banking Has A Positive Effect on Tax Payment Motivation**

Tax services that are delivered transparently and responsively foster a stronger sense of fairness and cultivate trust among taxpayers. Such conditions strengthen intrinsic motivation to fulfill tax responsibilities. The Slippery Slope Framework highlights trust as a crucial element in encouraging voluntary compliance. Previous studies have demonstrated that high-quality tax services positively influence taxpayers' willingness to pay (Buzohera, 2025).

**H<sub>4</sub> : The Quality of Tax Services Has A Positive Effect on Tax Payment Motivation**

Taxpayer knowledge reflects the degree to which individuals understand applicable tax regulations, procedures, and obligations. A solid grasp of these elements helps reduce uncertainty, minimizes errors in reporting, and enhances confidence in fulfilling tax responsibilities. Under the Behavioral Compliance Theory, such knowledge serves as a cognitive foundation for the development of compliant behavior. Empirical studies consistently demonstrate that increased tax knowledge positively influences compliance among MSME taxpayers (Noviantari & Setiawan, 2018; Parso et al., 2024):

**H<sub>5</sub> : Taxpayer Knowledge Has A Positive Effect on Taxpayer Compliance**

Taxpayer awareness refers to the recognition and understanding of taxation's role in advancing national development. Higher levels of awareness tend to encourage voluntary compliance, rather than behavior driven solely by enforcement or penalties. In line with Social Norms Theory, awareness helps shape values and norms that promote compliant conduct. Research findings have shown that increased tax awareness positively affects compliance among MSME taxpayers (Muhnia et al., 2023).

**H<sub>6</sub> : Taxpayer Awareness Has A Positive Effect on Taxpayer Compliance**

Digital banking facilitates financial transactions, business record-keeping, and tax payments efficiently and transparently. Based on Financial Inclusion Theory, access to digital financial services strengthens economic participation and regulatory compliance. Such convenience reduces compliance costs and enhances the accuracy of tax reporting. Empirical studies have shown that the utilization of digital banking positively influences MSME tax compliance (Ozili, 2022):

**H<sub>7</sub> : Digital Banking Has A Positive Effect on Taxpayer Compliance**

The quality of tax services encompasses clarity of information, procedural simplicity, and responsiveness of tax officials. High-quality services reduce compliance costs and increase taxpayers' trust in tax authorities. According to the Slippery Slope Framework, trust established through service quality fosters voluntary compliance. Prior studies have confirmed that tax service quality positively affects MSME taxpayer compliance (Savitri & Damayanti, 2018).

H<sub>8</sub> : Tax Service Quality Has A Positive Effect on Taxpayer Compliance

The motivation to fulfill tax obligations is a decisive factor in shaping compliance behavior. Taxpayers with strong motivational drive tend to be more consistent in meeting their fiscal responsibilities. Self-Determination Theory explains that intrinsic motivation sustains long-term compliant actions. Empirical findings further confirm that tax payment motivation positively influences compliance among MSME taxpayers (Permatasari & Efendi, 2023).

H<sub>9</sub> : Tax Payment Motivation Has A Positive Effect on Taxpayer Compliance

Tax knowledge contributes to compliance not only directly but also indirectly by shaping taxpayers' motivation to pay. The Theory of Planned Behavior suggests that knowledge shapes attitudes and intentions, which in turn guide actual behavior. Previous studies have shown that motivation mediates the relationship between tax knowledge and compliance among MSMEs.

H<sub>10</sub> : Tax Payment Motivation Mediates The Effect of Taxpayer Knowledge on Taxpayer Compliance

Taxpayer awareness fosters internal values that encourage voluntary tax payment, thereby strengthening compliance behavior. Self-Determination Theory asserts that motivation derived from awareness leads to more consistent and sustainable compliance. Empirical evidence has verified that motivation acts as a mediator between awareness and compliance.

H<sub>11</sub> : Tax Payment Motivation Mediates The Effect of Taxpayer Awareness on Taxpayer Compliance

Digital banking simplifies administrative procedures and facilitates tax payment processes. This convenience enhances taxpayer motivation, which, in turn, influences compliance behavior. In line with the Theory of Planned Behavior, external conditions can shape intentions and actions by stimulating motivation. Prior research has demonstrated that financial digitalization improves tax compliance by positively affecting motivation systems.

H<sub>12</sub> : Tax Payment Motivation Mediates The Effect of Digital Banking on Taxpayer Compliance

High-quality tax services foster trust and a sense of fairness, which in turn reinforce taxpayers' intrinsic motivation. This internal drive plays a central role in encouraging voluntary compliance. The Slippery Slope Framework highlights the importance of motivation and trust as foundational elements for enduring compliance. Empirical evidence has validated the mediating function of motivation in the link between service quality and tax compliance (Putri & Sari, 2021).

H<sub>13</sub> : Tax Payment Motivation Mediates The Effect of Tax Service Quality on Taxpayer Compliance

The novelty of this research lies in three main aspects. First, the study focuses specifically on traditional textile craft MSMEs operating within culture-based tourism ecosystems, a sector that has received limited attention in tax compliance literature. Second, it integrates digital financial inclusion and psychological motivation into a unified analytical framework to explain MSME tax behavior. Third, the study highlights the mediating role of tax payment motivation in linking knowledge, awareness, digital banking adoption, and tax service quality with taxpayer compliance.

By providing a context-specific explanation of tax compliance behavior among culture-based MSMEs that increasingly interact with formal financial systems, this research contributes both theoretically and practically to the development of tax compliance studies in emerging economies. The findings are expected to provide policymakers with insights for designing more effective tax education, digital financial integration, and service strategies to strengthen voluntary compliance among MSME taxpayers.

## **RESEARCH METHODS**

This study employs a quantitative research design and a survey to examine the determinants of tax compliance among traditional textile MSMEs. A quantitative approach was selected for its suitability for testing causal relationships through inferential statistical analysis (Sugiyono, 2021). The research was conducted from February to October 2025, during which data were collected through the distribution of structured questionnaires to eligible respondents.

The study focuses on MSMEs engaged in traditional textile craftsmanship, including batik producers in Java and woven-fabric artisans in Bali, both located in tourism-oriented villages. These MSMEs were selected because they operate within a culture-based creative economy and increasingly rely on formal bank financing, thereby linking them to the national tax system. A purposive sampling technique was employed to ensure that respondents met the characteristics relevant to the research objectives. MSMEs were included based on the following criteria: the business had operated for at least 3 years, had a valid taxpayer identification number, had obtained bank credit exceeding IDR 50 million, and had utilized the credit facility for at least 1 year.

Following the recommendation of Hair Jr. et al. (2019), Partial Least Squares Structural Equation Modeling (PLS-SEM) requires a minimum of five respondents per indicator. With 30 indicators used in this study, the minimum required sample size was 150 respondents.

To mitigate potential heterogeneity among MSMEs, respondents' demographic and business characteristics were systematically collected and analyzed descriptively. The profile variables include gender (male and female), age categories ranging from under 30 to 50+, and educational attainment ranging from primary school to a bachelor's degree or higher. Business experience was measured by the length of operation, ranging from approximately three years to more than ten years, reflecting varying degrees of entrepreneurial maturity.

Considering the central role of digital banking in this study, respondents' communication technology literacy was assessed and classified into low, moderate, and high levels. Furthermore, ownership and intensity of mobile banking usage were identified, distinguishing between MSMEs that actively use mobile banking, those who

own but rarely utilize it, and those who do not use mobile banking services. The business's geographical location (Java or Bali) was also recorded to capture potential socio-cultural variations that may influence tax behavior.

Collectively, these characteristics serve to contextualize the structural capacity, digital readiness, and behavioral environment of traditional textile MSMEs. This profiling strengthens the robustness of the analysis by ensuring that variations in tax compliance behavior are interpreted within an appropriate demographic, technological, and regional framework.

Data were collected using structured questionnaires measured on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree). The instrument measured six constructs: taxpayer knowledge, taxpayer awareness, digital banking utilization, tax service quality, tax payment motivation, and taxpayer compliance. All measurement indicators were adapted from previously validated studies and adjusted to the context of traditional textile MSMEs. The detailed indicators employed in the study are summarized in Table 1.

**Table 1.1. Research Variables and Indicators**

| No | Variable  | Indicator  |
|----|---|--|
| 1  | Taxpayer Knowledge (X <sub>1</sub> )<br><br>Source: (Kuppusamy et al., 2020; Rompas et al., 2024) | X <sub>1.1</sub> Understanding of tax obligations (VAT, final income tax, tax returns)                       |
|    |   | X <sub>1.2</sub> Understanding of taxpayer rights (e.g., refunds and objections)                             |
|    |   | X <sub>1.3</sub> Knowledge of tax rates and tax bases.   |
|    |   | X <sub>1.4</sub> Understanding of electronic tax filing and reporting procedures (e-filing)                  |
|    |   | X <sub>1.5</sub> Knowledge of tax penalties for noncompliance  |
| 2  | Taxpayer Awareness (X <sub>2</sub> )<br><br>Source: (Savitri & Damayanti, 2018)                   | X <sub>2.1</sub> Awareness that taxes are a mandatory contribution to the state                              |
|    |   | X <sub>2.2</sub> Awareness of the importance of taxes for national development                               |
|    |   | X <sub>2.3</sub> The desire to pay taxes without coercion  |
|    |   | X <sub>2.4</sub> A sense of responsibility as a good citizen   |
|    |   | X <sub>2.5</sub> Moral compliance with the obligation to pay taxes   |
| 3  | Digital Banking (X <sub>3</sub> )<br><br>Source: (Ozili, 2022)                                    | X <sub>3.1</sub> Ease of access to digital banking services  |
|    |   | X <sub>3.2</sub> Availability of tax payment features through mobile banking/internet banking                |
|    |   | X <sub>3.3</sub> Security of digital transactions  |
|    |   | X <sub>3.4</sub> Speed and efficiency of digital transactions  |
|    |   | X <sub>3.5</sub> Integration of the bank's digital system with the DJP (Directorate General of Taxes) system |
| 4  | Tax Service Quality (X <sub>4</sub> )<br><br>Source: (Noviantari & Setiawan, 2018)                | X <sub>4.1</sub> Ease of obtaining tax information   |
|    |   | X <sub>4.2</sub> Responsiveness of tax officials to questions and complaints                                 |
|    |   | X <sub>4.3</sub> Professionalism and friendliness of tax officials   |
|    |   | X <sub>4.4</sub> Legal certainty and clear procedures  |
|    |   | X <sub>4.5</sub> Availability of electronic services (e-filing, e-billing, e-registration)                   |

**Table 1.2. Research Variables and Indicators (Continuation)**

| No | Variable  | Indicator   |
|----|---|---|
| 5  | Motivation to Pay Taxes (Y <sub>1</sub> )<br><br>Source: (Fikri & Rachmawati, 2024; Permatasari & Efendi, 2023) | Y <sub>1.1</sub> Intrinsic motivation to pay taxes because of a sense of responsibility         |
|    |   | Y <sub>1.2</sub> Motivation to contribute to the country  |
|    |   | Y <sub>1.3</sub> Motivation due to incentives (discounts/light penalties for compliance)        |
|    |   | Y <sub>1.4</sub> Motivation due to legal obligations and fear of penalties                      |
|    |   | Y <sub>1.5</sub> Motivation to maintain smooth access to credit facilities or business licenses |
| 6  | Taxpayer Compliance (Y <sub>2</sub> )<br><br>Source: (Chasanah & Syaiful, 2022; Kiptum et al., 2024)            | Y <sub>2.1</sub> Timeliness in paying taxes   |
|    |   | Y <sub>2.2</sub> Timeliness in reporting taxes  |
|    |   | Y <sub>2.3</sub> Accuracy of tax payments in accordance with regulations                        |
|    |   | Y <sub>2.4</sub> Discipline in storing and reporting tax documents                              |
|    |   | Y <sub>2.5</sub> Active participation in tax education programs (seminars, socialization)       |

Source: Data Processed, 2025

Taxpayer knowledge reflects the level of understanding of tax obligations, taxpayer rights, tax procedures, and sanctions. Taxpayer awareness captures the moral and civic recognition of tax obligations. Digital banking utilization measures accessibility, efficiency, security, and the integration of digital financial services in tax payment processes. Tax service quality evaluates the clarity of information, responsiveness of tax officers, professionalism, and availability of electronic services. Tax payment motivation reflects both intrinsic and extrinsic drivers that encourage taxpayers to fulfill their fiscal responsibilities. Taxpayer compliance is measured through indicators of timeliness, accuracy, and administrative discipline in fulfilling tax obligations.

Prior to the main survey, a pilot test was conducted to ensure the clarity and reliability of the research instrument. The pilot test allowed for refinement of questionnaire wording and ensured that respondents could clearly understand the measurement items.

The data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS. This analytical technique is appropriate for complex models involving mediation relationships and moderate sample sizes (Hair Jr. et al., 2019). The analysis was conducted in two main stages. The first stage involved evaluating the outer model to assess the validity and reliability of the measurement constructs. The second stage involved evaluating the inner model to test the structural relationships among variables and examine the mediating role of tax payment motivation.

Although multiple structural relationships are examined in this model, the primary focus of this study is the role of tax payment motivation as a key mechanism that connects cognitive factors (tax knowledge and tax awareness), institutional factors (tax service quality), and technological factors (digital banking utilization) with taxpayer compliance behavior. By highlighting the mediating role of motivation, the study aims to provide a more comprehensive explanation of how various determinants interact to shape MSME tax compliance.

## RESULTS AND DISCUSSION

To assess the reliability and validity of the measurement model, the outer model was evaluated using the Partial Least Squares (PLS) approach. Convergent validity was assessed using outer loadings and Average Variance Extracted (AVE). All indicators demonstrated outer loading values above 0.700, indicating strong convergent validity. These results confirm that each indicator adequately represents its respective construct within the context of MSME business tax obligations, rather than individual personal taxation. Importantly, all constructs in the model are explicitly defined as business-related tax variables for MSME owners or managers, not for individual taxpayers.

**Table 2. Outer Loading Values for Convergent Validity**

| Construct           | Indicator        | Outer Loading |
|---------------------|------------------|---------------|
| Taxpayer Knowledge  | X <sub>1.1</sub> | 0.930         |
|                     | X <sub>1.2</sub> | 0.918         |
|                     | X <sub>1.3</sub> | 0.888         |
|                     | X <sub>1.4</sub> | 0.913         |
|                     | X <sub>1.5</sub> | 0.910         |
| Taxpayer Awareness  | X <sub>2.1</sub> | 0.893         |
|                     | X <sub>2.2</sub> | 0.863         |
|                     | X <sub>2.3</sub> | 0.926         |
|                     | X <sub>2.4</sub> | 0.920         |
|                     | X <sub>2.5</sub> | 0.927         |
| Digital Banking     | X <sub>3.1</sub> | 0.914         |
|                     | X <sub>3.2</sub> | 0.901         |
|                     | X <sub>3.3</sub> | 0.889         |
|                     | X <sub>3.4</sub> | 0.894         |
|                     | X <sub>3.5</sub> | 0.918         |
| Tax Service Quality | X <sub>4.1</sub> | 0.938         |
|                     | X <sub>4.2</sub> | 0.929         |

Note: Outer loading values above 0.70 indicate acceptable convergent validity.

Source: Data Processed, 2025

**Table 3. Average Variance Extracted (AVE) Values**

|                        | AVE   |
|------------------------|-------|
| Taxpayer Knowledge     | 0.832 |
| Taxpayer Awareness     | 0.821 |
| Digital Banking        | 0.816 |
| Tax Service Quality    | 0.833 |
| Tax Payment Motivation | 0.826 |
| Taxpayer Compliance    | 0.808 |

Note: AVE values above 0.50 meet the required convergent validity threshold

Source: Data Processed, 2025

To evaluate the reliability of the measurement instruments, Cronbach's Alpha and Composite Reliability indices were applied. The analysis revealed that every variable achieved Cronbach's Alpha values above 0.600 and Composite Reliability scores exceeding 0.700. These results confirm that the instruments consistently and reliably captured the constructs they were designed to measure.

**Table 4. Instrument Reliability Test Results**

|                        | Cronbach's Alpha | Criteria | Composite Reliability | Criteria | Description |
|------------------------|------------------|----------|-----------------------|----------|-------------|
| Taxpayer Knowledge     | 0.949            | ≥ 0.600  | 0.961                 | ≥ 0.700  | Reliabel    |
| Taxpayer Awareness     | 0.945            | ≥ 0.600  | 0.958                 | ≥ 0.700  | Reliabel    |
| Digital Banking        | 0.944            | ≥ 0.600  | 0.957                 | ≥ 0.700  | Reliabel    |
| Tax Service Quality    | 0.950            | ≥ 0.600  | 0.961                 | ≥ 0.700  | Reliabel    |
| Tax Payment Motivation | 0.947            | ≥ 0.600  | 0.960                 | ≥ 0.700  | Reliabel    |
| Taxpayer Compliance    | 0.941            | ≥ 0.600  | 0.955                 | ≥ 0.700  | Reliabel    |

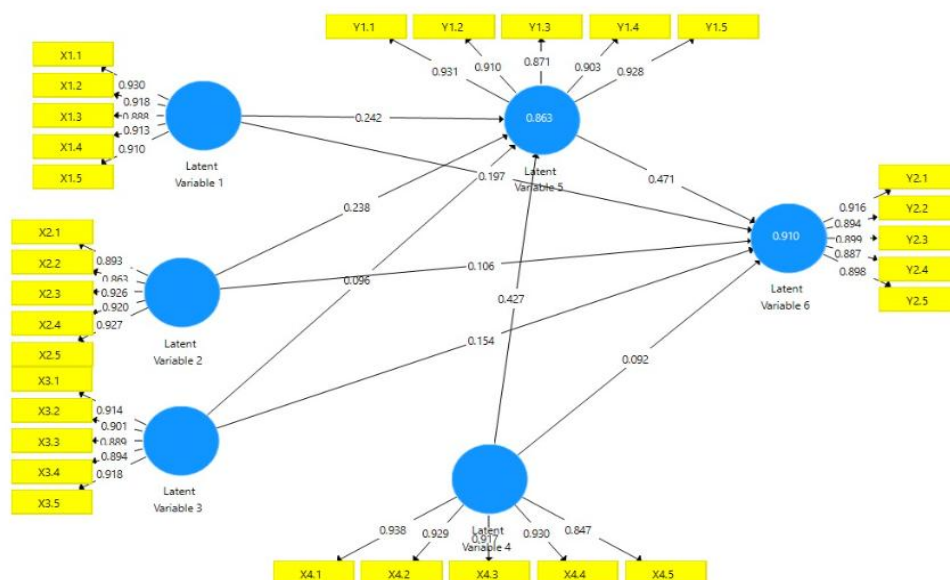
Source: Data Processed, 2025

The coefficient of determination ( $R^2$ ) was used to assess explanatory power. Tax Payment Motivation obtained an  $R^2$  value of 0.863, meaning that MSME business tax knowledge, MSME business tax awareness, digital banking, and tax service quality explain 86.3% of the variance in business tax payment motivation. Taxpayer Compliance (MSME Business Tax Compliance) obtained an  $R^2$  value of 0.910, indicating that the combined effects of business tax knowledge, business tax awareness, digital banking, tax service quality, and tax payment motivation explain 91.0% of the variance in MSME tax compliance behavior. The  $Q^2$  value of 0.974 confirms the model's strong predictive relevance.

**Table 5. Partial Least Squares (PLS) Analysis Coefficient of Determination**

|                         | R Square | Adjusted R-Square |
|-------------------------|----------|-------------------|
| Motivation to Pay Taxes | 0.863    | 0.861             |
| Taxpayer Compliance     | 0.910    | 0.909             |

Source: Data Processed, 2025



**Figure 1. Partial Least Squares (PLS) Analysis**

Source: Data Processed, 2025

Hypothesis testing was performed using the bootstrap method at the 0.050 significance level. The results showed that all direct and indirect pathways yielded t-statistics above 1.655 and p-values below 0.100, leading to the acceptance of all hypotheses proposed in the study.

$H_1$  : The Effect of Taxpayer Knowledge on Tax Payment Motivation

Hypothesis H<sub>1</sub> is supported ( $\beta = 0.242$ ;  $t = 5.465$ ;  $p = 0.000$ ), indicating that MSME business tax knowledge significantly enhances tax payment motivation. In this study, business tax knowledge refers to MSME owners' understanding of applicable tax regulations, final income tax schemes, revenue reporting obligations, electronic filing procedures, and penalties for noncompliance. Among traditional textile MSMEs operating in tourism-oriented villages, such knowledge reduces regulatory uncertainty and strengthens confidence in managing formal fiscal responsibilities. Thus, knowledge functions not merely as technical information but as a cognitive foundation that stimulates internal motivation to comply with business tax obligations (Kuppusamy et al., 2020; Martela et al., 2021; Rompas et al., 2024).

#### H<sub>2</sub> : The Effect of Taxpayer Awareness on Tax Payment Motivation

Hypothesis H<sub>2</sub> is accepted ( $\beta = 0.238$ ;  $t = 5.020$ ;  $p = 0.000$ ), demonstrating that MSME business tax awareness significantly increases tax payment motivation. MSME taxpayer awareness in this study reflects business owners' recognition of their responsibility to accurately report business turnover, pay final income tax, and maintain administrative compliance. For MSMEs integrated into the formal banking system, awareness becomes both a moral and strategic consideration, as tax compliance supports business legitimacy and financial credibility. This awareness strengthens intrinsic motivation to fulfill business tax obligations voluntarily (Buzohera, 2025; Chasanah & Syaiful, 2022; Kiptum et al., 2024; Suci et al., 2023).

#### H<sub>3</sub> : The Effect of Digital Banking on Tax Payment Motivation

Hypothesis H<sub>3</sub> is accepted ( $\beta = 0.096$ ;  $t = 2.425$ ;  $p = 0.016$ ), indicating that digital banking positively influences tax payment motivation. For MSME owners, digital banking facilitates business transactions, tax payments, and financial record-keeping through mobile and internet banking systems. The availability of integrated tax payment features reduces administrative complexity and time costs. In the context of traditional textile MSMEs, digital banking serves as an enabling mechanism that enhances convenience and strengthens motivation to comply with business tax obligations (Nur et al., 2022; Oleschak, 2021).

#### H<sub>4</sub> : The Effect of Tax Service Quality on Tax Payment Motivation

Hypothesis H<sub>4</sub> is accepted ( $\beta = 0.427$ ;  $t = 5.758$ ;  $p = 0.000$ ), revealing that tax service quality is a dominant determinant of tax payment motivation. Tax service quality in this study refers to the clarity of information, responsiveness of tax officials, professionalism, legal certainty, and availability of electronic services that support MSME business taxpayers. For MSME owners who interact with tax authorities for reporting and compliance purposes, positive service experiences foster trust and reduce perceived bureaucratic barriers. This institutional trust enhances intrinsic motivation to meet business tax obligations (Buzohera, 2025; Kiptum et al., 2024; Savitri & Damayanti, 2018).

#### H<sub>5</sub> : The Effect of Taxpayer Knowledge on Taxpayer Compliance

Hypothesis H<sub>5</sub> is accepted ( $\beta = 0.197$ ;  $t = 5.779$ ;  $p = 0.000$ ), indicating that MSME business tax knowledge significantly promotes business tax compliance. When MSME owners clearly understand tax rates, reporting procedures, and regulatory requirements, they are better equipped to avoid reporting errors and administrative penalties. In tourism-based textile enterprises that receive bank credit, regulatory knowledge becomes increasingly important due to higher formal accountability. Therefore, business tax

knowledge directly strengthens compliance behavior in fulfilling MSME tax obligations (Floriantina & Nugroho, 2021; Muhnia et al., 2023; Rompas et al., 2024).

**H<sub>6</sub> : The Effect of Taxpayer Awareness on Taxpayer Compliance**

Hypothesis H<sub>6</sub> is accepted ( $\beta = 0.106$ ;  $t = 3.670$ ;  $p = 0.000$ ), demonstrating that MSME business tax awareness positively influences compliance behavior. Business tax awareness reflects the extent to which MSME owners internalize the importance of fulfilling revenue reporting duties, paying final income tax, and maintaining proper documentation. In socially visible tourism villages, business reputation and community standing further reinforce compliance attitudes. This internalized awareness contributes to sustained voluntary compliance among MSME business taxpayers (Demin, 2023; Floriantina & Nugroho, 2021; Suci et al., 2023).

**H<sub>7</sub> : The Effect of Digital Banking on Taxpayer Compliance**

Hypothesis H<sub>7</sub> is supported ( $\beta = 0.154$ ;  $t = 3.565$ ;  $p = 0.000$ ), indicating that digital banking usage significantly enhances MSME business tax compliance. Digital banking supports transparent financial transactions and accurate business record-keeping, both of which are essential for accurate tax reporting. For MSME owners who manage both operational and financial responsibilities, technological accessibility reduces compliance costs and simplifies tax payment procedures. Thus, financial digitalization directly strengthens business tax compliance behavior (Nur et al., 2022; Oleschak, 2021; Ozili, 2022).

**H<sub>8</sub> : The Effect of Tax Service Quality on Taxpayer Compliance**

Hypothesis H<sub>8</sub> is validated ( $\beta = 0.092$ ;  $t = 1.840$ ;  $p = 0.066$ ), indicating that tax service quality has a positive but moderate effect on MSME business tax compliance. High-quality tax services reduce procedural ambiguity and improve communication between MSME owners and tax authorities. Although the direct effect is moderate, service quality still contributes to compliance by fostering institutional trust and reducing administrative uncertainty in business tax management (Buzohera, 2025; Sumardi et al., 2023).

**H<sub>9</sub> : The Effect of Tax Payment Motivation on Taxpayer Compliance**

Hypothesis H<sub>9</sub> is validated ( $\beta = 0.471$ ;  $t = 8.615$ ;  $p = 0.000$ ), indicating that tax payment motivation is the strongest determinant of MSME business tax compliance. This finding confirms that MSME owners with strong intrinsic and extrinsic motivation are more consistent in fulfilling their business tax obligations, including timely payments, accurate reporting, and proper documentation. Motivation functions as a central psychological mechanism linking cognitive understanding, institutional trust, and compliance behavior (Kuppusamy et al., 2020; Latuamury & Usmany, 2021; Tambun & Haryati, 2022).

**H<sub>10</sub> : The Mediating Role of Tax Payment Motivation in The Relationship between Taxpayer Knowledge and Taxpayer Compliance**

Hypothesis H<sub>10</sub> is supported ( $\beta = 0.114$ ;  $t = 4.424$ ;  $p = 0.000$ ), indicating that tax payment motivation significantly mediates the relationship between MSME business tax knowledge and compliance. Business tax knowledge enhances compliance not only directly but also indirectly by strengthening motivation. When MSME owners clearly understand regulatory requirements, they develop greater confidence and a willingness to fulfill fiscal responsibilities, which translates into stronger compliance behavior (Buzohera, 2025; Nasiroh & Afiqoh, 2022; Zaikin et al., 2023).

**H<sub>11</sub> : The Mediating Role of Tax Payment Motivation in The Relationship between Taxpayer Awareness and Taxpayer Compliance**

Hypothesis H<sub>11</sub> is validated ( $\beta = 0.112$ ;  $t = 4.144$ ;  $p = 0.000$ ), demonstrating that tax payment motivation mediates the effect of taxpayer awareness on taxpayer compliance. This finding indicates that awareness of moral and civic responsibility enhances compliance primarily by strengthening intrinsic motivation to pay taxes. For MSMEs operating in tourism-oriented villages and integrated into the formal financial system, heightened awareness fosters a sense of accountability, internalized through motivation, leading to more consistent compliance behavior. This result supports Self-Determination Theory, which emphasizes that motivation rooted in internal values produces sustainable behavioral outcomes. The findings are consistent with studies by Puspitasari & Budiman (2018), Tambun & Haryati (2022), Parso et al. (2024), and Maulina et al. (2025).

**H<sub>12</sub> : The Mediating Role of Tax Payment Motivation in The Relationship between Digital Banking and Taxpayer Compliance**

Hypothesis H<sub>12</sub> is supported ( $\beta = 0.045$ ;  $t = 2.236$ ;  $p = 0.026$ ), indicating that digital banking influences taxpayer compliance indirectly through tax payment motivation. The availability of digital banking services simplifies tax payment procedures, reduces administrative burdens, and enhances transactional convenience, thereby increasing taxpayers' willingness and motivation to comply. In accordance with the Theory of Planned Behavior, external facilitating conditions such as technological accessibility shape behavioral intentions through motivational processes. The novelty of this finding lies in integrating digital banking, motivation, and compliance within a single mediation framework applied to traditional textile MSMEs in tourism-based settings. These results are consistent with prior research nur ole (Ozili, 2022).

**H<sub>13</sub> : The Mediating Role of Tax Payment Motivation in The Relationship between Tax Service Quality and Taxpayer Compliance**

Hypothesis H<sub>13</sub> is validated ( $\beta = 0.201$ ;  $t = 5.741$ ;  $p = 0.000$ ), confirming that tax payment motivation plays a significant mediating role in the relationship between tax service quality and taxpayer compliance. High-quality tax services-characterized by transparency, responsiveness, and professionalism foster trust in tax authorities, which subsequently enhances intrinsic motivation to comply. For MSMEs receiving bank credit, frequent interactions with tax authorities underscore the importance of service quality in shaping motivational responses. This finding is consistent with the Slippery Slope Framework, which highlights trust and motivation as essential drivers of voluntary compliance. The results are in line with prior studies (Rompas et al., 2024; Sumardi et al., 2023).

## **CONCLUSION**

This research investigates the determinants of tax compliance among traditional textile artisan MSMEs located in tourism villages across Java and Bali, with tax payment motivation serving as a mediating variable. The analysis reveals that taxpayer knowledge, awareness, digital banking adoption, and the quality of tax services significantly and positively influence tax payment motivation. These outcomes suggest that a blend of cognitive, psychological, technological, and institutional service factors plays a crucial role in shaping MSME actors' internal motivation to fulfill their tax obligations.

Moreover, the findings confirm that these same factors, along with tax payment motivation, positively and significantly affect the compliance behavior of traditional textile MSMEs. It implies that tax compliance is not solely driven by external mechanisms such as regulations and service delivery, but is also deeply rooted in internal motivations, including the perception of taxation as a moral duty and a form of social contribution. The mediating role of tax payment motivation highlights the relevance of behavioral perspectives in crafting tax policy frameworks for MSMEs.

From a practical standpoint, the study underscores the need for a holistic approach to enhancing tax compliance among traditional textile MSMEs. Strengthening tax knowledge through culturally contextualized education and targeted assistance can reduce uncertainty and administrative errors. Reinforcing tax awareness based on local values and social responsibility is also effective in cultivating intrinsic motivation, particularly in tourism villages that depend on the creative economy and cultural preservation. Promoting the use of digital banking is another strategic avenue, as its convenience, transparency, and efficiency can reduce administrative burdens and improve consistency in tax reporting and payments. Additionally, delivering tax services that are responsive, transparent, and professional can build trust in tax authorities, thereby encouraging sustained voluntary compliance. The study offers policy insights suggesting that efforts to improve MSME tax compliance should move beyond enforcement and penalties, placing greater emphasis on fostering motivation and trust. Collaborative efforts among the Directorate General of Taxes, financial institutions, local governments, and MSME associations are essential to developing an inclusive and resilient tax ecosystem, especially for traditional textile MSMEs with limited resources and tax literacy.

Despite its contributions, this study is not without limitations. First, the research is restricted to traditional textile MSMEs located in tourism-based villages in Java and Bali, which may reduce the applicability of the findings to other sectors or regions. Second, reliance on self-reported survey data raises the risk of bias in respondents' answers. Third, the model did not include additional factors such as perceptions of tax equity, variations in income levels, or audit intensity, all of which could also shape compliance behavior. Future studies should expand coverage across different geographic areas and business sectors, incorporate broader behavioral and institutional variables, and apply mixed-methods approaches to gain deeper insights into MSME tax compliance. Ultimately, the outcomes of this research are expected to support the formulation of fairer, more effective, and sustainable tax policies, while strengthening the role of culturally embedded and creative MSMEs as key drivers of national economic growth.

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