

THE ROLE OF SOCIAL NORM, TAX KNOWLEDGE, AND ADMINISTRATIVE SANCTIONS IN ENHANCING TAX COMPLIANCE OF SMEs

Michelle Kristian¹, Bryan Christover²

¹Faculty of Economics and Business, Tarumanagara University Jakarta

Email: michellek@fe.untar.ac.id

² Faculty of Economics and Business, Tarumanagara University Jakarta

Email: bryan.125210267@stu.untar.ac.id

Enter : 11-03-2025, revision: dd-mm-yyyy, accepted for publication : dd-mm-yyyy

ABSTRACT

Micro, small, and medium-sized businesses (SMEs) in Jakarta in 2024 will be the focus of this research, which seeks to examine the impact of administrative punishments, tax knowledge, and societal norms on their tax compliance. A quantitative methodology was used, with 125 participants chosen by random selection from a survey. A multiple linear regression analysis was performed on the data. While tax knowledge does not seem to have a substantial impact on tax compliance, social norms and administrative punishments do. These results highlight the significance of administrative punishments and societal norms in encouraging SMEs to pay their fair share of taxes, and they suggest ways the government might improve tax education and ensure that penalties are applied consistently and fairly.

Keywords: Social norms, tax knowledge, administrative sanctions, tax compliance, SMEs, behavioral accounting

1. PREFACE

Introduction

Taxes play a vital role in supporting national finances and promoting sustainable development. As a primary source of revenue, taxes fund government initiatives aimed at improving societal welfare. Despite the significance of the industry, tax compliance in Indonesia is shockingly low, especially among SMEs. SMEs significantly contribute to the economy, including job creation and reducing unemployment, making this issue a major concern.

Business owners' misunderstanding of tax laws and their responsibilities is a major contributor to poor tax compliance among SMEs. Misunderstandings and mistakes in tax reporting are common results of a lack of tax expertise. To add insult to injury, the administrative penalties put in place to determine noncompliance have not worked well. Operators of SMEs may see these penalties more as a hindrance than an incentive to comply, particularly in cases where enforcement is uneven or perceived as unfair.

Social norms are an important factor in determining tax compliance behavior, alongside knowledge- and law-related factors. Collective pressure, influenced by the social norms of the SME environment, may promote compliance or encourage non-compliance. Consequently, in order to create efficient strategies to increase tax compliance, it is crucial to understand the interplay between societal standards, tax literacy, and administrative penalties. In order to provide more thorough and relevant policy recommendations, this research seeks to investigate the functions of these three components from a behavioral accounting standpoint.

Problem Formulation

Icek Ajzen's Theory of Planned Behavior is a prominent theoretical paradigm for understanding tax compliance behavior (1985). According to this idea, an individual's desire to do something is influenced by three

things: attitude toward the conduct, subjective norms, and perceived behavioral control. When it comes to taxes, people's views regarding paying them are influenced by their confidence in the advantages they provide, including public infrastructure upgrades. Subjective standards include social influences, such as the expectations of one's family, one's business partners, or society at large with respect to one's tax responsibilities. A person's confidence in their capacity to meet their tax responsibilities is affected by their degree of tax knowledge; this view is known as perceived behavioral control.

The Deterrence Theory explains how the threat of legal sanctions can deter deviant behavior, including tax non-compliance. Becker (1968) emphasized that the certainty, severity, and swiftness of sanction enforcement are key factors influencing the effectiveness of deterrence. When taxpayers have the belief that infractions will be severely and repeatedly punished, they are more inclined to comply with tax regulations. Studies indicate that administrative sanctions, such as fines and interest on late payments, are effective in improving compliance when applied fairly and transparently.

Social norms, which are unwritten rules collectively accepted by a community, also significantly influence individual behavior. In the context of taxation, social norms can either encourage or hinder tax compliance. Bobek et al. (2017) found that strong social norms create positive pressure for taxpayers to adhere to tax regulations. Among SMEs, social norms that promote tax compliance can develop through social interactions within business communities, where compliant behavior is viewed as both a moral and social responsibility.

Tax knowledge is an essential factor in fostering tax compliance. Saad (2014) argued that a good understanding of tax regulations reduces errors in reporting and paying taxes. Hofmann et al. (2017) further asserted that with accurate information, taxpayers can confidently fulfill their tax responsibilities. For SMEs, effective tax education is crucial to enhance awareness and enable business operators to properly carry out their tax obligations.

Administrative sanctions serve as a deterrence tool to reduce tax non-compliance. Alm and Torgler (2016) observed that tax compliance increases when taxpayers understand the consequences of violating tax regulations. However, the effectiveness of administrative sanctions heavily depends on the consistency of their enforcement. Doran (2016) emphasized that the certainty of sanction implementation is more critical than its severity. Therefore, a combination of fair sanction enforcement and effective tax education can significantly improve tax compliance among SMEs.

2. RESEARCH METHOD

Based on the above discussion, the proposed research model is illustrated as follows:

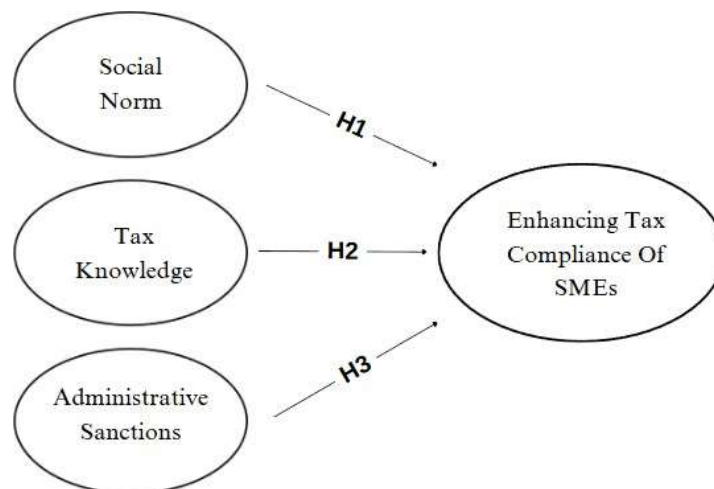


Figure 1. Research Model
Conceptual Framework Scheme

Methodology

This research uses a quantitative technique with a descriptive and causal design to explore the effect of administrative punishments, tax knowledge, and social norms on the tax compliance of companies in Jakarta that are small and medium-sized. One hundred twenty-five small and medium-sized enterprises (SMEs) that were taxpayers were selected using a purposeful selection method. Social norms, tax awareness, administrative penalties, and tax compliance were the topics covered in a structured questionnaire that used Likert-scale questions to gather data. We used IBM SPSS version 28.0 to analyze the data. This statistical package includes many useful tests, including validity and reliability tests, tests for classical assumptions (such as autocorrelation, normality, multicollinearity, and heteroskedasticity), and multiple linear regression analysis to determine the effect of each independent variable on the dependent variable.

Statistical Test Results and Conclusions

The validity test demonstrated that all questionnaire items were valid for this study based on findings from multiple linear regression analysis using IBM SPSS version 28.0. This was evidenced by p-values less than 0.05 and r-calculated values exceeding the r-table value (0.1757). Thus, all questionnaire items measuring social norms, tax knowledge, administrative sanctions, and tax compliance were deemed valid and relevant for this research.

The research instrument proved to have high internal consistency after the reliability test. The following Cronbach's Alpha values were found to be more than 0.60: social norms (0.737), tax knowledge (0.756), administrative sanctions (0.710), and tax compliance (0.715). This indicates that the questionnaire accurately assesses the variables under investigation.

Verifying that the residual data was normally distributed was the first stage of the classical assumption test. The data were deemed suitable for regression analysis with a Kolmogorov-Smirnov significance value of 0.200, which is larger than 0.05. In addition, the independent variables did not exhibit multicollinearity, as shown by Tolerance values exceeding 0.10 and Variance Inflation Factor (VIF) values falling below 10.

The Glejser test for heteroskedasticity showed no heteroskedasticity issues, as all independent variables had significance values greater than 0.05. This indicated that residual variance remained consistent across the dataset in this regression model. Moreover, the model did not exhibit autocorrelation issues, as the Durbin-Watson test result of 1.689 fell within the acceptable range of 0–4 and was close to the ideal value of 2.

Once the traditional assumption tests were passed, the following table displays the results of a multiple linear regression analysis:

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	1.065	.641
	Norma Sosial (X1)	.262	.051
	Pengetahuan Perpajakan (X2)	.050	.046
	Sanksi Administratif (X3)	.395	.054

Table 2. Results of Multiple Linear Regression Analysis

Based on the data processing results reported in Table 2, the following multiple linear regression model is constructed:

$$Y = 1.065 + 0,262x_1 + 0,050x_2 + 0,395x_3 + e$$

The constant in the regression equation of 1.065 indicates that the value of Y will be 1.065 if X1, X2, and X3 are all set to zero. The regression coefficient for the variable X1 is 0.262, which means that a one-unit increase in X1 will result in a 0.262 unit increase in Y. Due to this positive correlation, we can observe that the value of X1 is directly related to the value of Y, and X1 has a positive effect on Y. If the coefficient for variable X2 is 0.050, this indicates that a one-unit increase in X2 will lead to a 0.050 unit increase in Y. This positive relationship suggests that as X2 increases, Y will increase as well, and conversely, as X2 decreases, Y will also decrease. Additionally, the variable X3 has a regression coefficient of 0.395, meaning that a one-unit increase in X3 will result in a 0.395 unit increase in Y. This relationship is also positive, where higher values of X3 lead to higher values of Y, and vice versa. The regression findings show that, in terms of tax compliance among micro, small, and medium enterprises (UMKM), the variables X1 (Social Norms), X2 (Tax Knowledge), and X3 (Administrative Sanctions) all play a positive role. This means that each one-unit increase in X1, X2, and X3 will lead to a significant increase in the dependent variable Y (Tax Compliance). The higher the values of social norms, tax knowledge, and understanding of administrative sanctions, the higher the level of tax compliance among UMKM. This suggests that to improve tax compliance, it is crucial to strengthen these factors through supportive policies.

Here is the presentation of the T-test findings in Table 3:

Table 3. Results of Partial Hypothesis Testing (T-test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.065	.641		1.660	.099
	Norma Sosial (X1)	.262	.051	.364	5.093	.000
	Pengetahuan Perpajakan (X2)	.050	.046	.068	1.088	.279
	Sanksi Administratif (X3)	.395	.054	.513	7.249	.000

In this regression analysis, the results of the regression coefficients show that social norms (X1), knowledge of taxation (X2), and administrative sanctions (X3) are positively related to tax compliance among SMEs. An increase in social norms by 0.262 units is associated with a 0.262 unit increase in tax compliance, according to the coefficient of this variable. Similarly, the coefficient for tax knowledge (X2) of 0.050 indicates that a better understanding of tax laws leads to more individuals paying taxes according to their share. Administrative sanctions (X3), on the other hand, have a stronger impact; the coefficient of 0.395 indicates that tax compliance increases by

0.395 units for every unit increase in administrative sanctions. All of these correlations are positive, and therefore, an increase in tax compliance is directly proportional to the increase in the value of each variable. Overall, social norms, tax knowledge, and administrative sanctions have a significant influence on improving tax compliance among SMEs. Strengthening the understanding of norms that support compliance, improving tax literacy, and ensuring consistent and fair enforcement of administrative sanctions are crucial steps in encouraging higher tax compliance among SME actors.

3. RESULT AND DISCUSSION

This study finds that social norms, tax knowledge, and administrative sanctions play a role in helping small and medium-sized enterprises (SMEs) in Jakarta comply with tax regulations. Consistent with previous studies, these results confirm the importance of subjective norms, sometimes referred to as social pressure, in encouraging individuals to follow rules. This aligns with the Theory of Planned Behavior. The evidence suggests that business actors in the SME sector are more likely to pay taxes when social norms support such behavior. This finding is consistent with the results of Bobek et al. (2017), who found that compliance with tax rules can be influenced by social norms.

The level of tax compliance can be significantly increased by raising tax awareness. In line with Hofmann et al. (2017), this study finds that SMEs are more likely to comply with tax requirements when they have a clearer understanding of those requirements. With accurate information, tax reporting becomes easier and more accurate, and business owners feel more confident in fulfilling their tax obligations.

Based on the results of this study, administrative sanctions have a significant effect on tax compliance among SMEs. Clear and consistent sanctions can improve tax compliance, as demonstrated by the regression coefficient of 0.395 for the variable of stronger administrative sanctions. This is consistent with the principle outlined in Deterrence Theory, which states that the threat of clear and consistent sanctions can prevent non-compliant behavior (Becker, 1968).

However, despite all three variables showing a positive effect, it should be noted that the effect of social norms on tax compliance has a lower regression coefficient compared to

tax knowledge and administrative sanctions. This suggests that, while social norms play an important role, other factors such as knowledge and administrative sanctions may be more effective in encouraging SMEs to comply with their tax obligations. Therefore, it is important for government policies to focus more on improving tax knowledge and ensuring consistent application of administrative sanctions.

4. CONCLUSIONS AND RECOMMENDATIONS

This study successfully identifies that social norms, tax awareness, and administrative sanctions significantly influence tax compliance among SMEs in Jakarta. The findings provide a better understanding of the SME sector, which is a crucial part of Indonesia's economy, and highlight the elements influencing taxpayer behavior in this field. Given the positive influence of these three variables, this study recommends that tax policies not only focus on the enforcement of sanctions but also emphasize strengthening tax education and socialization to improve SMEs' tax knowledge.

In addition, this study shows that social norms have a role in determining tax compliance behavior, although a somewhat smaller one than tax knowledge and administrative penalties. Therefore, fostering a tax-compliant culture supported by positive social norms is essential. The government and tax authorities are encouraged to design more holistic policies that include education, strict sanctions, and empowerment of social norms within the SME community.

A limitation of this study is the sample size, which is limited to SMEs in Jakarta, making it difficult to generalize the findings to other regions. There is a need for future research to expand the study to a larger sample size so that we may better understand the elements that influence small and medium-sized enterprise (SME) tax compliance and create policies that encourage SME involvement in national growth via taxes.

Acknowledgement

Improving tax compliance among SMEs in Jakarta can be achieved through a combination of strengthening social norms, increasing tax knowledge, and ensuring fair and consistent application of administrative sanctions. The government should enhance tax education programs and ensure the implementation of policies that support compliance among SMEs.

REFERENCE

- [1] Appah, E., & Duoduo, G. (2023). Determinants of Tax Compliance Behaviour and Sustainable Economic Growth Among MSMEs in Nigeria. *International Journal of Development and Economic Sustainability*, 11(3), 70- 105.
- [2] Tatiana, D., L., C., & Bogdan, R., M. (2022). A Structured Perspective on Behavioral Accounting Research. Jenny, J., & Telaumbanua, R. A. P. (2020). Analysis of the Application of Government Regulation No. 23 of 2018, Understanding of Taxation and Tax Sanctions Against MSMEs Taxpayer Compliance. *eCo-Fin*, 2(1), 1-8.
- [3] Habib, A., D'Costa, M., & Al-Hadi, A. K. (2023). Consequences of local social norms: A review of the literature in accounting, finance, and corporate governance. *Accounting & Finance*, 63(1), 3-45.
- [4] Dodik, J., Darusalam, Jamaliah, S., Triadi, A., S. (2024). Exploring the Interplay of Tax Understanding, Compliance Costs, and Tax Compliance among Indonesian MSMEs: A Structural Equation Modeling Approach.

- [5] Atawodi, O. W., & Ojeka, S. A. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International journal of business and management*, 7(12), 87.
- [6] Albab, F. N. U., & Suwardi, E. (2021). The Effect of Tax Knowledge on Voluntary Tax Compliance with Trust as a Mediating Variable: A study on micro, small, and medium enterprises (MSMEs). *The Indonesian Journal of Accounting Research*, 24(3), 381-406.
- [7] Izdhihar, R. F., & Tarmidi, D. (2024). The influence of tax knowledge, tax awareness, and tax morality on tax compliance of MSMEs in the Kebon Bawang Urban Village, North Jakarta. *Educoretax*, 4(9), 1126-1136.
- [8] Siboro, S. M. (2024). Pengaruh Pemahaman Wajib Pajak, Sanksi Perpajakan Dan Tarif Pajak Terhadap Kepatuhan Wajib Pajak UMKM Di Labuhanbatu. *Jurnal Manajemen Akuntansi (JUMSI)*, 4(1), 31-41.
- [9] Erdiansyah, A. V. (2021). Formal Tax Compliance in Indonesia through Electronic Tax Filing: A Case Study of Micro, Small, and Medium Enterprises (MSMEs). *Jurnal Pajak Indonesia (Indonesian Tax Review)*, 5(1). Vince, R.,
- [10] Rusli, R., & Nita, W., (2023). Determinants of tax compliance of micro, small, and medium enterprises (MSMES) in pekanbaru, Indonesia.
- [11] Sumiok, C. (2023). Analyzing the Impact of Tax Policy on Financial Performance and Compliance of MSMEs in Indonesia. *Sinergi International Journal of Accounting and Taxation*, 1(3), 143-155.
- [12] Meidiyustiani, R., Qodariah, Q., & Sari, S. (2022). Pengaruh Pemahaman Wajib Pajak, Pelayanan Petugas Pajak, Kesadaran Wajib Pajak, Dan Tingkat Pendidikan Terhadap Kepatuhan Wajib Pajak Umkm. *Jurnal Bina Akuntansi*, 9(2), 184-197.
- [13] Meidiyustiani, R., Qodariah, Q., & Sari, S. (2022). Pengaruh Pemahaman Wajib Pajak, Pelayanan Petugas Pajak, Kesadaran Wajib Pajak, Dan Tingkat Pendidikan Terhadap Kepatuhan Wajib Pajak Umkm. *Jurnal Bina Akuntansi*, 9(2), 184-197.
- [14] Agni, M. N. (2023). PENGARUH KESADARAN WAJIB PAJAK, SOSIALISASI PERPAJAKAN, DAN SANKSI PAJAK TERHADAP KEPATUHAN WAJIB PAJAK UMKM. *Jurnal Ilmiah Raflesia Akuntansi*, 9(1), 10- 21.
- [15] Anjelina, S., Frederica, D., & Iskandar, D. (2023). Kepatuhan Wajib Pajak UMKM dengan Sosialisasi Pajak sebagai Variabel Moderasi. *Jurnal Riset Akuntansi dan Keuangan*, 11(1), 119-130.