THE INFLUENCE OF TAX UNDERSTANDING ON TAX COMPLIANCE IN SUPPORTING THE ECONOMIC EMPOWERMENT OF SMALL AND MEDIUM ENTERPRISES IN ARTICLE 21 INCOME TAX

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ABSTRACT

The Micro, Small, and Medium Enterprises (MSME) sector is a key pillar of the Indonesian economy, but their contribution to tax revenue is still not optimal, especially in terms of Income Tax (PPh) Article 21. This study aims to examine the impact of understanding tax regulations on the level of compliance of MSME taxpayers in fulfilling their PPh Article 21 obligations. However, the actual situation shows that business compliance is still far from the expectations of the tax authorities. Although the government has provided incentives such as tax rate reductions, low awareness and knowledge of tax regulations remain a major problem in optimizing state revenue. Taxes play a crucial role as a tool for financing national development; the smooth flow of funds from this sector determines the acceleration of economic growth and sustainable public infrastructure development. The main focus of this study is to examine in depth the influence of taxpayers' understanding and awareness on their level of compliance in fulfilling their fiscal responsibilities. The complexity of regulations and rapid changes in rules are major obstacles for MSME players who have limited human resources in the field of financial administration. In addition, the view that tax rates are too burdensome and the lack of socialization from the tax authorities contribute to widening the compliance gap. This study concludes that improving understanding through continuous education and simplifying administrative procedures can significantly encourage voluntary compliance. The recommendations include strengthening guidance from the Directorate General of Taxes (DGT) and developing easier-to-use reporting applications for small businesses. With increased compliance with Income Tax Article 21, it is hoped that the national tax ratio will increase in line with the development of the MSME sector.

Keywords: Tax Understanding, MSME Compliance, Income Tax Article 21, Taxpayers.

1. Introduction

The Micro, Small, and Medium Enterprises (MSME) sector plays a vital role as a main pillar in Indonesia's national economic structure. MSMEs not only serve as a large employer, but also as a driver of the economy at the local and regional levels. This strategic role makes MSMEs one of the sectors with great potential in supporting state revenue, particularly through taxation. However, the large number of MSME players is not fully reflected in their contribution to tax revenue, especially Income Tax (PPh) Article 21. This condition poses a serious challenge for the government, considering that taxes are the main source of financing for national development and the provision of sustainable public facilities. In addition to understanding, taxpayers' perceptions of taxes also influence the level of MSME compliance. There is still a perception that taxes are a burden that can reduce business income without providing direct benefits. This perception is reinforced by

a lack of understanding of the function of taxes as an instrument of income redistribution and national development. When the benefits of taxes are not directly felt by MSME players, the motivation to fulfill tax obligations becomes low, making it difficult to achieve optimal voluntary compliance (Yolanda, C., & Hasanah, U. (2024).

This phenomenon shows that the level of MSME tax compliance is still relatively low compared to the economic potential of this sector. Although the government has implemented various fiscal policies, such as simplifying administrative procedures and providing tax incentives for MSMEs, the level of voluntary compliance has not shown a significant increase. This low level of compliance indicates fundamental problems, particularly related to the understanding and awareness of MSME taxpayers regarding their tax rights and obligations. Dynamic tax regulations and relatively rapid policy changes often cause difficulties for MSME players in carrying out their tax obligations independently and in an orderly manner. Income Tax Article 21 plays an important role in the Indonesian tax system because it is directly related to individual income, including workers employed by MSMEs. In this context, MSME players act as withholding agents, remitters, and reporters of Income Tax Article 21 on employee income. Non-compliance in fulfilling these obligations not only reduces state revenue but also has the potential to result in administrative sanctions that can disrupt the continuity of MSME businesses. Therefore, MSME compliance with Income Tax Article 21 is an important indicator in assessing the effectiveness of the tax system implementation in the small business sector. The government's efforts to improve MSME tax compliance have been carried out through various programs, including intensified tax socialization and the utilization of a digital-based tax administration system. However, the effectiveness of these programs is highly dependent on the level of understanding of MSME players regarding the policies and technologies implemented. Without adequate assistance and education, policies that are intended to simplify matters have the potential to cause confusion and errors in the implementation of tax obligations. Understanding tax regulations is a key factor in shaping taxpayer compliance behavior. Taxpayers with a good level of understanding tend to be more compliant because they are able to understand the legal and administrative consequences of non-compliance. In addition, adequate understanding also encourages voluntary compliance based on internal awareness, not merely because of sanctions or supervision from the tax authorities (DS, Y. A., Dianisa, T. R., Naila, G. K., Indrajat, H., Arsya, M. H., Nugroho, A., & Hermawan, S. (2022).

Low tax compliance among MSMEs is generally closely related to limited understanding of applicable tax rules and procedures. Most MSME players still face obstacles in understanding the procedures for calculating, deducting, depositing, and reporting taxes. This limited tax literacy causes MSME players to tend to view taxes as a complicated administrative burden that requires additional costs, both in terms of time and resources. As a result, tax compliance often becomes an aspect that receives less attention in day-to-day business management. Limited human resources in the field of financial and tax administration is also a factor that widens the compliance gap. The majority of MSMEs are managed independently without professionals who have expertise in accounting and taxation. This condition causes MSME players to often rely on limited understanding in carrying out their tax obligations, thereby increasing the risk of administrative errors and non-compliance. In the long term, this condition can hamper business growth and reduce the competitiveness of MSMEs (Mustakim, P. N., Fadillah, U., & Arfandi, S. K. (2025). Based on this background, this study aims to examine in depth how understanding tax regulations affects the level of compliance of MSME taxpayers in fulfilling their Income Tax Article 21 obligations. Improving understanding through continuous education and simplifying administrative procedures is expected to be a solution to encourage voluntary compliance. With increased compliance in this sector, it is hoped that the national tax ratio will increase in line with the rapid development of the MSME sector in Indonesia (Sine, J. M., Abolladaka, J., & Simanungkalit, E. F. B. (2025).

2. Method

This study uses a quantitative approach with a correlational method. A quantitative approach was chosen because this study focuses on measuring the relationship between variables expressed in numerical form and analyzed using statistical techniques. The data used is numerical data obtained from respondents through a research instrument in the form of a structured questionnaire, enabling researchers to conduct objective and systematic testing of the formulated hypotheses. The

correlational method was used because this study aims to determine the degree of relationship and influence between independent and dependent variables without treating or manipulating the research objects. In this study, the independent variable is tax understanding, while the dependent variable is MSME compliance with Income Tax Article 21. By using the correlational method, researchers can identify whether the level of tax understanding possessed by MSME players has a significant relationship with their level of compliance in fulfilling their tax obligations, particularly related to Income Tax Article 21. (Widodo & Sari (2020).

In addition, the use of the correlational method allows researchers to draw conclusions based on data obtained from the population or research sample, so that the research results can be generalized according to the characteristics of the respondents. The statistical analysis techniques used in this study, such as correlation tests and regression analysis, aim to strengthen the research findings regarding the influence of tax understanding on the compliance of MSMEs in fulfilling their tax obligations. This is in line with the opinion of Widodo and Sari (2020), who state that the correlational method is effective for assessing the relationship between variables in research in the fields of economics and taxation.



Figure 1. Research Conceptual Framework

This conceptual framework illustrates the relationship between Tax Understanding (X) as an independent variable and MSME Compliance (Y) as a dependent variable. Low knowledge of tax regulations is often a major problem that hinders the optimization of state revenue from the Income Tax Article 21 sector.

Type of Research

This research uses a quantitative approach with a causal associative research type. Causal associative research aims to determine the relationship and influence between independent and dependent variables. The data used is primary data obtained through offline and online questionnaires distributed to Micro, Small, and Medium Enterprises (MSMEs) in West Java. The independent variable in this study is tax understanding (X), while the dependent variable is MSME tax compliance (Y). The analysis was conducted to determine the extent to which taxpayers' understanding of Income Tax Article 21 deductions and reporting affects MSME tax compliance.

Population and Sample

The population in this study was all Micro, Small, and Medium Enterprises (MSMEs) operating in the province of West Java. MSMEs were selected as the research population based on the strategic role of this sector in supporting regional economic growth, creating jobs, and improving community welfare. West Java was chosen as the research location because it has a large and diverse number of MSMEs in terms of business type, operational scale, and business characteristics, making it representative of the general condition of MSMEs. The sampling method used in this study was accidental sampling. This technique is a non-probability sampling method, in which the sample is determined based on the researcher's ease in finding respondents who meet the research criteria during data collection. The respondents who were sampled were MSME actors who were coincidentally encountered by the researcher and were willing to provide the required information, as well as meeting the requirements as research subjects. The accidental sampling technique was chosen due to limitations in time, cost, and access to the entire MSME population spread across various regions in West Java.

Based on this sampling technique, the number of samples obtained in this study was 50 MSMEs. This sample size was considered sufficient to meet the research needs to obtain an initial picture of the phenomenon being studied and to enable quantitative data analysis. The research sample was determined directly from the population by considering the suitability of the respondents' characteristics to the research objectives, so that the data obtained was expected to be relevant, accurate, and could be used as a basis for drawing research conclusions.

Data Collection Techniques

The data collection technique used in this study was a questionnaire as one of the main instruments in quantitative research aimed at obtaining numerical data from respondents based on systematically compiled questions (Putri & Hidayat, 2021). This method allows researchers to collect data from a number of respondents efficiently so that it can be analyzed statistically to answer the research objectives and hypotheses (Sari et al., 2022). The questionnaire instrument was compiled based on indicators from each variable, then operationalized into clear and easy-to-understand questions for respondents (Maulana & Fitriani, 2020). Each question was measured using a Likert scale, where respondents chose a response level of 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree, 5 = Strongly Agree. The use of this scale facilitated the coding of responses into numerical data that was ready for statistical analysis (Nugroho et al., 2024).

The questionnaire was distributed to respondents who had been determined based on sampling techniques in accordance with the research objectives. The questionnaire was distributed through online media such as Google Forms or directly to the target respondents so that the data obtained could reflect the population being studied (Aulia et al., 2023). The data collected from the questionnaire results was then analyzed using statistical techniques, namely validity and reliability tests, to ensure that the questionnaire instrument was suitable for use (Saputra & Dewi, 2020). Data analysis began with validity and reliability tests to ensure that the questionnaire instrument was feasible and consistent for use in the study (Hermawan & Kurnia, 2021). Next, the data was analyzed using descriptive statistics to test the relationship between variables and produce empirical conclusions based on the numerical data obtained (Fadilah et al., 2024).

1. Research Variables & Indicators

Independent Variable (X): Tax Understanding

Tax understanding refers to the level of knowledge and comprehension of MSME taxpayers regarding taxation regulations, particularly those related to Income Tax Article 21. This includes understanding the rules related to tax deductions, calculation methods, tax payments, and tax reporting procedures.

Indicators of Tax Understanding (X):

1. Understanding of the definition of tax
2. Understanding of the objects and subjects of Income Tax Article 21
3. Understanding of the rates and calculation of Income Tax Article 21
4. Understanding of the obligation to withhold Income Tax Article 21
5. Understanding of the procedures for reporting Income Tax Article 21 (Pramudya, Wibisono, & Mustafa, 2022).

Dependent Variable (Y): MSME Compliance

MSME tax compliance refers to the level of adherence of MSME actors in fulfilling their tax obligations in accordance with the provisions of applicable tax laws and regulations, particularly those related to Income Tax Article 21.

Indicators of MSME Tax Compliance (Y):

1. Accuracy in calculating Income Tax Article 21
2. Timeliness in paying Income Tax Article 21
3. Timeliness in reporting Income Tax Article 21
4. Compliance of the amount of tax paid with applicable provisions
5. Compliance with applicable tax regulations (Riantini & Sanulika, 2023).

2. Data Analysis Techniques

Data analysis techniques use SPSS version 25.0 with data te sting:

Validity Test

According to Sugiyono (2020:175), a validity test is a technique used to measure the accuracy between the collected data and the actual data occurring in the object being studied. A valid instrument means that the measuring tool used to obtain data is appropriate and capable of measuring what it is intended to measure. The validity test is conducted to examine each item in the instrument by correlating the score of each item with the total score, which represents the sum of all item scores.

Furthermore, Sugiyono (2020:180) states that the minimum requirement for an instrument item to be considered valid is that the validity index must be positive and greater than 0.30. Therefore, all instrument items or statements with a correlation value below 0.30 must be revised because they are considered invalid. The validity test in this study was conducted using the Statistical Product and Service Solution (SPSS) program.

Reliability Test

A reliability test is used to measure the consistency of a questionnaire as an indicator of research variables. An instrument is considered reliable if it produces a Cronbach's Alpha value greater than 0.70. If the Alpha value is below 0.70, the instrument is considered less reliable, indicating that evaluation or improvement of the questions used is necessary. Conversely, a higher Alpha value indicates that the research instrument is capable of measuring variables accurately and consistently (Yanto & Putri, 2022).

Normality Test

The normality test aims to determine whether the residuals in a regression model are normally distributed. If the residual values do not follow a normal distribution, the statistical tests may become invalid, particularly for small sample sizes. In this study, the normality test was conducted using statistical analysis with the One-Sample Kolmogorov–Smirnov Test. If the significance value (Sig.) is greater than α (0.05), it indicates that the residual data are normally distributed; otherwise, the data are not normally distributed (Pauziah, Parlina, & Suwandi, 2025).

Simple Linear Regression Test

Simple linear regression is used to predict or test the effect of one independent variable on a dependent variable. If the value of the independent variable is known, the value of the dependent variable can be predicted. A regression model with one independent variable (X) can be written as:

$$\mathbf{Yi = \alpha + \beta Xi + \varepsilon i}$$

Explanation:

- **Yi** : Value of the dependent variable in the observation
- **α, β** : Parameters of the regression model
- **Xi** : Known constant value, representing the independent variable in the observation
- **εi** : Random error term with mean (εi) = 0, variance σ^2, and zero covariance, meaning the error terms are uncorrelated (Nurhaswinda et al., 2025).

3Data Processing Techniques

The data processing in this study was conducted using SPSS software version 25.0 to analyze primary data obtained from questionnaires distributed to 50 MSME actors in West Java through an accidental sampling technique. The data processing began by coding the Likert scale responses into numerical data. Furthermore, several statistical tests were carried out, including a validity test using Pearson's correlation with a criterion value of $r > 0.30$, and a reliability test using Cronbach's Alpha, where a value greater than 0.70 indicates that the instrument is reliable. The results showed Cronbach's Alpha values of 0.956 for the tax understanding variable and 0.944 for the MSME compliance variable, indicating high reliability. In addition, a Kolmogorov–Smirnov normality test was conducted, resulting in a significance value of 0.133, which is greater than 0.05, indicating that the data are normally distributed. Finally, a simple linear regression test was performed, producing an R Square value of 0.871, which shows the proportion of the influence of tax understanding on MSME tax compliance (Nurmantu, 2020).

4. Statistical Analysis

Tax Understanding Validity Test

Based on the results of the validity test conducted on 50 respondents with 10 question items, it is known that all correlation coefficient values show a positive and significant relationship with a Sig. (2-tailed) value of $0.000 < 0.05$. This indicates that all indicators have a statistically significant and unidirectional relationship at the 99% confidence level, meaning that an increase in one indicator tends to be followed by an increase in other indicators. These findings indicate the consistency of the relationships between items in measuring the research construct (Sugiyono, 2020; Ghozali, 2021). The correlation coefficient values ranged from 0.740 to 0.910, which indicates that the relationships between indicators fall within the moderate to very strong category. Very high

correlations were observed in several indicator pairs, such as the relationship between X7 and X8 (r = 0.915), X8 and X10 (r = 0.927), and X9 and X10 (r = 0.916), indicating a very close relationship between these items. It can be concluded that the research instrument has excellent inter-indicator relationship quality and is suitable for use in further analysis (Hair et al., 2021; Priyatno, 2022).

Table 1. Tax Understanding Validity Test

Variables	Indicators	R Table	R Count	Description
Understanding taxes (X)	X1	0.797	0.279	Valid
	X2	0.885	0.279	Valid
	X3	0.910	0.279	Valid
	X4	0.740	0.279	Valid
	X5	0.743	0.279	Valid
	X6	0.876	0.279	Valid
	X7	0.905	0.279	Valid
	X8	0.900	0.279	Valid
	X9	0.868	0.279	Valid
	X10	0.875	0.279	Valid

Source: SPSS processing results

MSME Compliance Validity Test

Based on the results of the Pearson correlation test on 50 respondents with 10 items, all dependent variable indicators (Y1 to Y10) showed a positive and significant relationship with each other. With a sample size of 50 respondents, the r-table value at a significance level of 5% ($\alpha = 0.05$) with a degree of freedom ($df = n - 2 = 48$) is 0.279. The analysis results show that all calculated r-values (Pearson Correlation) are greater than the r-table value (r-calculated > 0.279), with correlation coefficients in the moderate to very strong category. In addition, all significance values (Sig. 2-tailed) were recorded at 0.000 < 0.05, indicating that the relationships between indicators are statistically significant. These findings indicate a strong relationship between indicators in measuring the dependent variable and reflect the consistency of respondents' answers to each statement item used in the research instrument (Subhaktiyasa, 2024). Furthermore, the correlation results between each indicator and the total variable show a high and significant correlation coefficient. All calculated r-values are above the minimum required limit of 0.30 and exceed the r-table value (0.279) with a significance level below 0.05. Therefore, all indicators Y1 to Y10 are declared valid and capable of accurately representing the dependent variable. Thus, the research data are suitable for use in further statistical analysis for testing the research hypotheses (Amalia & Arthur, 2023).

Table 2. MSME Compliance Validity Test

Variables	Indicators	R Table	R Count	Description
MSME Compliance (Y)	Y1	0.718	0.279	Valid
	Y2	0.725	0.279	Valid
	Y3	0.766	0.279	Valid
	Y4	0.760	0.279	Valid
	Y5	0.853	0.279	Valid
	Y6	0.862	0.279	Valid
	Y7	0.846	0.279	Valid
	Y8	0.855	0.279	Valid
	Y9	0.897	0.279	Valid
	Y10	0.887	0.279	Valid

Source: SPSS processing results

Reliability Test

Based on the results of the reliability test in this study, the Cronbach's Alpha values obtained were 0.956 for the tax understanding variable (X) and 0.944 for the MSME compliance variable (Y). These Cronbach's Alpha values are well above the minimum required threshold of 0.70, indicating that the research instrument has a very high level of reliability. This means that each item in the questionnaire has excellent internal consistency in measuring the research variables (Yanto & Putri, 2022). The high Cronbach's Alpha values indicate that the research instrument is capable of

producing stable and consistent data when used repeatedly under relatively similar conditions. Therefore, the research instrument can be declared reliable and suitable for use as a measurement tool in this study. Furthermore, it can be used for additional statistical analyses, such as classical assumption testing and regression analysis, in testing the research hypotheses (Yanto & Putri, 2022).

Table 3. Reliability Test

ITEM	CRONBACH'S ALPHA	DESCRIPTION
UNDERTANDING TAXES (X)	0.956	Reliable
MSME COMPLIANCE (Y)	0.944	Reliable

Source: SPSS processing results

Normality Test

Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		50
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	3.75511606
Most Extreme Differences	Absolute	.113
	Positive	.061
	Negative	-.113
Test Statistic		.113
Asymp. Sig. (2-tailed)		.133[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov method in the table above, it is known that the significance value or Asymp. Sig. (2-tailed) for the Unstandardized Residual variable is 0.133. This value is then compared to the standard significance level of 0.05. Because the Asymp. Sig. (2-tailed) value of 0.133 is greater than 0.05 (0.133 > 0.05), it can be statistically stated that H0 is accepted and Ha is rejected. This indicates that the residual data tested has a distribution that follows a normal distribution (Siregar, 2023). These results indicate that the regression model developed has met the basic assumption of normality in a sample of 50 observations (N = 50). The use of the Lilliefors significance correction in this table reinforces the validity of the test results for the normal distribution of the calculated data parameters. Thus, the model is declared suitable for use in further statistical testing, as it has met the requirements of objectivity in linear analysis and avoided the bias of uneven data distribution (Ghozali, 2021).

Simple Linear Regression Test

Table 5. Simple Linear Regression Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.933[a]	.871	.868	3.794

a. Predictors: (Constant), Pemahaman

Based on the Model Summary, an R value of 0.933 was obtained, indicating a very strong relationship between the independent variable of understanding and the dependent variable. This correlation value, which is close to 1, indicates that changes in the level of understanding are consistently followed by changes in the dependent variable, so that the relationship between the two is positive and statistically significant. Furthermore, an R Square value of 0.871 indicates that 87.1% of the variation in the dependent variable can be explained by the understanding variable, while the remaining 12.9% is influenced by other factors outside the research model. This high R Square value indicates that understanding has a very high and dominant influence, because good understanding

will improve respondents' ability to behave, make decisions, and act rationally in accordance with the objectives measured in the study. Thus, it can be concluded that understanding is a key factor that substantially determines the dependent variable in this research model (Ghozali, 2021).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.617	1.559		3.603	.001
	Pemahaman	.840	.047	.933	18.008	.000

a. Dependent Variable: Kepatuhan

The results of the simple regression test show that the regression model meets the normality requirement with an Asymp. Sig. value of 0.133 (> 0.05), which means that the residual data is normally distributed. Furthermore, in the coefficient of determination test, an R Square value of 0.871 was found. This indicates that the Understanding variable has a very strong influence and is able to explain 87.1% of the variation in the dependent variable, while the rest is influenced by other factors outside this study. Based on the analysis results, this regression model is declared valid because it meets the normality assumption (p = 0.133). Statistically, Understanding was proven to have a significant positive effect on Compliance (t = 18.008; p < 0.05) with an effect strength of 87.1%. This indicates that the higher a person's level of understanding, the higher their level of compliance will be (Ghozali, 2021).

3. Result and Discussion

Tax Understanding

Taxpayers who understand taxes are those who understand the calculation, payment, and reporting of income tax correctly and clearly. Tax understanding is the level of knowledge, perception, and mastery of taxpayers regarding applicable tax laws and regulations. In the context of this study, tax understanding includes the ability of MSME actors to identify taxable objects, calculate the amount of tax payable, and understand reporting procedures (Herdiatna, M. R., & Lingga, I. S. (2022).

MSME Compliance

Taxpayer compliance is the conscious and voluntary action of MSME actors to fulfill their fiscal responsibilities in accordance with applicable regulations. This compliance is crucial because the smooth flow of funds from taxes determines the acceleration of economic growth and public infrastructure development. Compliance includes timely tax reporting, payment, and recording (Jannah et al., 2025).MSME players' understanding of taxes is not only related to cognitive aspects, such as knowledge of tax regulations, but also includes the ability to apply these provisions practically in their daily business activities. In the context of Income Tax Article 21, adequate understanding is necessary so that MSME players are able to determine the tax object accurately, calculate the amount of tax payable according to the applicable rates, and carry out their obligations to withhold, deposit, and report taxes correctly and on time. The inability to understand these procedures has the potential to cause administrative errors that can lead to tax penalties, thereby impacting the level of compliance of MSME taxpayers (Ratih & Anisah, 2021; Aprilia & Afifi, 2022).

The results of this study indicate that tax understanding plays a significant role in shaping the compliance behavior of MSME actors. These findings indicate that MSME actors who have a better level of tax understanding tend to have a higher awareness of the importance of fulfilling their tax obligations. This awareness encourages MSME actors to be more compliant in carrying out their Income Tax Article 21 obligations, both as taxpayers and as tax withholders for other parties. This is in line with the view that tax compliance is not only influenced by external factors such as supervision or sanctions, but also by internal factors in the form of tax understanding and awareness (Susyanti & Askandar, 2025; Weilly et al., 2025).

In addition, the role of MSME players as Article 21 income tax withholders requires a more complex level of understanding than taxpayers in general. MSME players are not only responsible for their own tax obligations, but also have administrative responsibilities in withholding and depositing taxes on income paid to employees or other parties. This condition requires a comprehensive understanding of the applicable tax provisions. If this understanding is still limited, the risk of non-compliance, whether intentional or unintentional, will be even greater (Setyorini & Susilowati, 2025; Nofitasari & Tomy, 2025).In practice, many MSME players still face obstacles in understanding tax regulations due to limited human resources and low access to adequate tax information. These limitations cause some MSME players to focus only on business operations, while the administrative aspects of taxation receive less attention. As a result, the implementation of tax obligations is often not optimal, both in terms of the accuracy of tax calculations and the timeliness of reporting. This condition reinforces the research findings that tax understanding is an important factor that affects the level of MSME compliance (Ratih & Anisah, 2021).

Furthermore, the dynamics of tax regulations, which are constantly changing, also pose a challenge for MSME players. Changes in tax policies and regulations require MSME players to constantly update their knowledge to remain compliant with the applicable rules. MSME players with a low level of tax understanding tend to have difficulty keeping up with these changes, which can lead to errors in the fulfillment of their tax obligations. Conversely, MSME players with a good understanding of taxation will be more adaptive to regulatory changes and able to adjust their taxation practices appropriately, which ultimately increases the level of tax compliance (Susyanti & Askandar, 2025; Setyorini & Susilowati, 2025).

The results of statistical testing in this study further strengthen the relationship between tax understanding and MSME compliance. Every increase in the level of tax understanding is proven to be followed by an increase in compliance in the implementation of Income Tax Article 21 obligations. These findings indicate that tax understanding serves as a key variable that influences the compliance behavior of MSME players. With adequate understanding, MSME actors are not only able to fulfill their tax obligations formally, but also have the awareness to carry out these obligations voluntarily and sustainably (Nofitasari & Tomy, 2025; Aprilia & Afifi, 2022).

The implications of these research findings indicate that efforts to improve MSME tax compliance need to focus on increasing tax understanding through continuous education and socialization. Targeted tax education is expected to help MSME players understand the provisions of Income Tax Article 21 more comprehensively and practically. In addition, simplifying the tax administration system is also a supporting factor in increasing compliance, because a system that is easy to understand and access will make it easier for MSME players to carry out their tax obligations. Thus, improving tax understanding and the tax administration system is expected to work synergistically in encouraging increased MSME tax compliance (Weilly et al., 2025; Susyanti & Askandar, 2025).

4. Conclusion

Based on the results of the research and discussion, it can be concluded that the level of compliance of Micro, Small, and Medium Enterprises (MSMEs) in fulfilling their Income Tax (PPh) Article 21 obligations is still not optimal. This condition is reflected in the incomplete implementation of withholding, remittance, and reporting of Income Tax Article 21 in accordance with applicable tax regulations. Furthermore, tax understanding is not only related to conceptual knowledge but also includes the ability of MSME actors to properly implement tax regulations in their daily business activities. Inaccuracies in the implementation of Income Tax Article 21 obligations often occur due to a lack of technical understanding of the procedures for calculating, withholding, and reporting taxes in accordance with applicable regulations (Putri & Wibowo, 2021).

The results of the study indicate that tax understanding plays a very important role in shaping the level of MSME compliance. The low level of MSME compliance with Income Tax Article 21 is not solely due to limited economic capacity, but is more influenced by the low level of understanding of MSME actors regarding tax regulations, particularly those related to tax objects, tax rates, and procedures for withholding, depositing, and reporting Income Tax Article 21. This lack of understanding leads to the perception that tax obligations are a complicated administrative burden

and have the potential to cause errors. In addition, negative perceptions of taxes also worsen the level of MSME compliance. When taxes are viewed as a complex obligation that carries the risk of administrative errors, MSME players tend to delay or ignore their tax obligations. This perception arises due to the lack of tax education and socialization received by MSME players, which results in low tax awareness and compliance (Permata & Zahroh, 2022).

Based on statistical testing results, it can be empirically proven that tax understanding has a positive and significant effect on MSME compliance in fulfilling their Income Tax Article 21 obligations. The better MSME players' understanding of tax regulations, the higher the level of compliance shown, both in terms of administration and voluntary compliance. This finding confirms that tax understanding is a major factor that determines the level of MSME compliance (Putri & Setiawan, 2024).This, increasing MSME compliance with Income Tax Article 21 cannot only rely on law enforcement but must be balanced with efforts to continuously improve tax understanding. Targeted education and dissemination of tax information will help MSME players understand the importance of taxes as a contribution to national development and reduce administrative errors that could potentially result in tax penalties (Putri & Setiawan, 2024; Reviana Nurul Izzah et al., 2025).

Recommendations

Based on the research results and conclusions obtained, it is recommended that the tax authorities increase their efforts in tax education and socialization focused on improving MSME tax understanding, particularly regarding the mechanisms of withholding, depositing, and reporting Income Tax Article 21. Continuous, practical, and easy-to-understand education is expected to reduce the administrative barriers that MSMEs have been facing (Putri & Wibowo, 2021).

In addition, tax outreach materials need to be tailored to the characteristics and needs of MSMEs so that the information conveyed can be well received and understood. The delivery of simple and applicable tax information will help reduce the perception that tax obligations are a complicated administrative burden. MSME players are advised to improve their understanding of taxation independently through various available sources of information, both from official tax authority media and relevant education programs. With a better understanding, MSME players are expected to be able to fulfill their Income Tax Article 21 obligations correctly and sustainably and avoid potential tax penalties (Permata & Zahroh, 2022).

The simplification of regulations and optimization of the digital-based tax administration system also need to be continuously improved. An easily accessible and user-friendly tax reporting system is expected to encourage MSME players to fulfill their Income Tax Article 21 obligations in an orderly, timely, and compliant manner, thereby increasing voluntary tax compliance (Putri & Setiawan, 2024). For future researchers, this study can be developed by adding other variables that have the potential to influence MSME compliance, such as the level of tax socialization, the quality of tax services, or the use of tax technology, so that it can be more comprehensive (Putri & Setiawan, 2024; Reviana Nurul Izzah et al., 2025).

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