JRAK
Jurnal Riset Akuntansi Kontemporer

TAX INCENTIVES, TAX SANCTIONS, AND MSME TAX COMPLIANCE: THE MEDIATING ROLE OF TAX POLICY

https://journal.unpas.ac.id/index.php/jrak/index

Wiwik Tiswiyanti ✉[1], Fitrini Mansur[2], Heriyani[3], Dica Lady Silvera[4], Netty Herawaty[5], Rika Henda Safitri[6]
[1,2,3,4,5]Department of Accounting, Faculty of Economics and Business, Universitas Jambi, Indonesia
[6]Department of Accounting, Faculty of Economics, Universitas Sriwijaya, Indonesia
Corresponding Author: wiek-muis@unja.ac.id ✉[1]
Jl. Raya Jambi-Muaro Bulian KM 15, Muaro Jambi Regency, Jambi, Indonesia

Article Info

History of Article
Received: 11/8/2026
Revised: 15/9/2026
Accepted: 2/10/2026
Available Online: 28/10/2026

Jurnal Riset Akuntansi Kontemporer
Volume 18, No. 2, October 2026,
Page 445-456
ISSN 2088-5091 (Print)
ISSN 2597-6826 (Online)

https://doi.org/10.23969/jrak.v18i2.64854

Keywords: msme compliance; sem-warppls; tax incentives; tax policy; tax sanctions

Abstract

The study aims at examining the associations of tax incentives and sanctions on micro, small, and medium enterprise (MSME) taxpayer compliance and the mediating role of tax policy as assessed through taxpayer perceptions. Drawing on the Theory of Planned Behavior and the Slippery Slope Framework, were analyzed using the partial least squares structural equation modeling (WarpPLS 8.0) was used to analyze the responses of survey from 100 MSME taxpayers in Jambi City. Tax incentives (β = 0.23), sanctions (β = 0.16), and perceived tax policy (β = 0.42) were positively associated with compliance, as well as sanctions, which were associated with perceived tax policy, and incentives were not. Perceived tax policy mediated the sanctions–compliance relationship (indirect β = 0.399) but not the incentives–compliance relationship. These findings suggest that accessible incentives and clear, consistent tax administration may jointly support MSME compliance. The results are limited to respondents in Jambi City and do not establish changes in voluntary compliance or business liquidity.

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) contribute substantially to employment and economic activity in Indonesia (Kementerian, 2025). Nevertheless, tax compliance remains a policy concern. National annual tax return filing rates increased from 77.63% in 2020 to 86.97% in 2023 before

declining to 82.66% in 2024 (Direktorat Jenderal Pajak, 2026). These figures describe taxpayers overall, not MSMEs specifically, and should therefore be interpreted as national context rather than evidence of MSME-specific compliance trends.

This compliance volatility is closely linked to the operational realities of MSMEs. Small business owners frequently face limited tax knowledge, heavy administrative burdens, and frequent changes in tax rules, all of which complicate compliance (Fionasari et al., 2025; Musimenta, 2020). As a result, MSME tax behavior is rarely just a matter of willingness to pay; it involves a decision-making process influenced by how owners experience and interpret tax regulations and administrative systems (Bornman & Wessels, 2019; Timothy & Abbas, 2021).To manage these challenges, tax authorities have introduced several measures, including tax relief, stricter enforcement, simpler procedures, and digital services (Direktorat Jenderal Pajak, 2026). While incentives aim to reduce financial burdens and sanctions seek to discourage non-compliance, how taxpayers respond ultimately depends on how fair and effective these policies seem in practice (Alm, 2019; Mascagni, 2018; Slemrod, 2019).

Empirical evidence from Indonesian MSMEs reveals pronounced inconsistencies regarding the direct efficacy of these policy tools. For instance, Firmansyah at al. (2025) demonstrated that tax incentives exerted no significant partial effect on MSME taxpayer compliance in Jambi City. This empirical finding implies that providing tax incentives does not automatically induce compliant behavior unless the economic benefits are supported by accessible, transparent, and user-friendly administrative policies. A similar inconsistency characterizes the literature on tax sanctions. Although Tiswiyanti et al. (2022) reported that tax sanctions positively influenced MSME taxpayer compliance in Batanghari, Jambi, subsequent evidence from Safelia et al. (2026) indicated that tax sanctions had no statistically significant direct impact, whereas taxpayer awareness exerted a dominant influence. These contrasting outcomes suggest that the effectiveness of legal penalties is not guaranteed merely by establishing statutory fines, but depends heavily on procedural clarity and enforcement consistency.

These mixed findings motivate further examination of the mechanisms linking tax instruments with compliance. In particular, taxpayers may evaluate not only the financial implications of incentives and sanctions but also the clarity of regulations and the ease of administrative procedures (Khozen & Setyowati, 2023; Kogler et al., 2023). This study therefore tests whether perceived tax policy provides an indirect pathway between these instruments and MSME taxpayer compliance. The proposed mediation is an empirical hypothesis, not an established explanation of the conflicting findings.

In this study, tax policy is conceptualized as taxpayers' perceptions regarding the quality and implementation of tax administration, operationalized through regulatory clarity, administrative convenience, and policy effectiveness (Inasius, 2019; Musimenta, 2020). This construct remains functionally distinct from tax incentives and sanctions: incentives provide economic relief, whereas sanctions enforce compliance through deterrence. In contrast, tax policy reflects the broader administrative environment within which taxpayers operate. Tax incentives drive meaningful behavioral adjustments primarily when the underlying regulations are transparent and easily accessible (Sofianty & Udin, 2025). Similarly, tax sanctions successfully promote compliance only when tax obligations are clearly understood, and enforcement is exercised in a consistent, equitable manner (Gobena & Van Dijke, 2016; Kogler et al., 2023).

This argument aligns with broader international research showing that tax compliance involves more than financial calculations or the fear of penalties; it is equally shaped by compliance costs, procedural fairness, and trust in institutions (Faizal et al., 2017; Gobena & Dijke, 2017). High compliance costs and complex procedures directly affect how small business owners decide whether to comply, making policy clarity and administrative simplification essential for small enterprises (Bornman & Wessels, 2018). Moreover, cross-country evidence shows that state authority and taxpayer trust work together to promote compliance (Batrancea et al., 2019). Effective tax administration depends on a balance between institutional power and public trust in the tax system (Gobena & Van Dijke, 2016). Therefore, tax incentives and sanctions should not be viewed as standalone measures; their success ultimately depends on the overall quality of tax policy implementation.

Prior research has examined tax morale, perceived justice, trust, and other determinants of SME tax compliance (Timothy & Abbas, 2021). The present study extends this literature by testing perceived

tax policy, defined here in terms of regulatory clarity, procedural ease, and implementation quality, as a mediator of the relationships between tax incentives, tax sanctions, and compliance. This distinction is important because perceived tax policy is measured through taxpayer responses rather than objective changes in legislation.

Three gaps motivate the analysis. First, prior studies report inconsistent associations between incentives, sanctions, and MSME compliance (Firmansyah et al., 2026; Safelia et al., 2026; Tiswiyanti et al., 2022). Second, the indirect role of perceived policy implementation in these relationships warrants further testing. Third, the joint examination of incentives, sanctions, perceived tax policy, and compliance provides an opportunity to assess the explanatory value of an integrated model. The study addresses these gaps using survey data from MSMEs in Jambi City.

Theoretically, these relationships are grounded in the synthesis of the Theory of Planned Behavior (TPB) (Ajzen, 1991) and the Slippery Slope (Kirchler et al., 2008; Kogler et al., 2023) TPB posits that behavioral intentions and actions are driven by attitudes, subjective norms, and perceived behavioral control (Ajzen, 2020; Bosnjak et al., 2020). In tax administration, transparent policies and simplified procedures elevate perceived behavioral control by making compliance accessible and manageable (Bani-Khalid et al., 2022; Inasius, 2019). Concurrently, the Slippery Slope Framework explains that compliance is governed by the interplay between coercive power and legitimate trust (Kirchler et al., 2008). While sanctions represent institutional power, transparent and accessible policy execution builds legitimate trust (Gobena & Van Dijke, 2016). Integrating TPB and the Slippery Slope Framework provides a cohesive theoretical foundation, demonstrating that external policy instruments do not operate in isolation; rather, they influence behavior through taxpayers' cognitive evaluation of the governing regulatory environment.

By synthesizing these theoretical perspectives, this study offers both theoretical and practical contributions to tax accounting literature. Theoretically, it elucidates the policy-mediated pathways through which economic facilities and institutional enforcement drive MSME compliance. Rather than merely questioning whether tax tools impact compliance, this study addresses how and through what structural process these relationships occur. Practically, the findings offer actionable insights for tax authorities, demonstrating that improving MSME compliance requires more than adjusting penalty rates; it demands clear regulations, simplified administrative workflows, and consistent policy execution.

Based on the preceding conceptual framework, this study aims at analyzing the direct effects of tax incentives and tax sanctions on MSME taxpayer compliance, as well as the mediating role of perceived tax policy. Specifically, this investigation evaluates: (1) the direct effect of tax incentives on perceived tax policy, (2) the direct effect of tax sanctions on perceived tax policy, (3) the direct effect of tax incentives on MSME tax compliance, (4) the direct effect of tax sanctions on MSME tax compliance, (5) the direct effect of perceived tax policy on MSME tax compliance, (6) the mediating role of perceived tax policy in the relationship between tax incentives and MSME tax compliance, and (7) the mediating role of perceived tax policy in the relationship between tax sanctions and MSME tax compliance. Grounded in these research objectives, the following hypotheses are formulated below:

H1: Tax incentives have a positive effect on tax policy.
H2: Tax sanctions have a positive effect on tax policy.
H3: Tax incentives have a positive effect on MSME tax compliance.
H4: Tax sanctions have a positive effect on MSME tax compliance.
H5: Tax policy has a positive effect on MSME tax compliance.
H6: Tax policy mediates the relationship between tax incentives and MSME tax compliance.
H7: Tax policy mediates the relationship between tax sanctions and MSME tax compliance.

METHOD

This quantitative study adopts an explanatory research design set in Jambi City to evaluate causal relationships among variables, encompassing both direct effects and indirect pathways through a mediating variable (Hair et al., 2019). The conceptual framework integrates the Theory of Planned Behavior (TPB) (Ajzen, 1991) and the Slippery Slope Framework (SSF) (Batrancea et al., 2019;

Kirchler et al., 2008). Within this structural model, Tax Incentives (X_1) and Tax Sanctions (X_2) serve as exogenous variables, Perceived Tax Policy (M) functions as an endogenous mediator, and MSME Tax Compliance (Y) represents the primary endogenous outcome variable.

The target population comprised all Micro, Small, and Medium Enterprises (MSMEs) registered with the Office of Cooperatives and MSMEs of Jambi City, totaling 50,747 enterprise units. Proportional Stratified Random Sampling was employed to ensure proportional representation across business scales (Memon et al., 2020). Based on official government data, the population was divided into three strata: Micro Enterprises (44,150 units; 87%), Small Enterprises (5,582 units; 11%), and Medium Enterprises (1,015 units; 2%). The minimum baseline sample size was calculated using Slovin's formula with a 10% margin of error ($e = 0.10$), yielding a minimum requirement of 100 respondents ($n = 100$) (Memon et al., 2020). The sample allocation per stratum was determined proportionally, as presented in Table 1

Table 1. Proportional Sample Allocation of MSMEs in Jambi City

Business Scale	Population Size (Units)	Proportion (%)	Sample Size (n)
Micro Enterprises	44,150	87%	87
Small Enterprises	5,582	11%	11
Medium Enterprises Total	1,015	2%	2
	50,747	100%	100

Source: Processed secondary data (2026).

Respondent selection within each stratum was performed randomly using a random number generator applied to the official sampling frame from the Office of Cooperatives and MSMEs of Jambi City. The sample size of 100 respondents with a 10% margin of error (e = 0.10) is potentially adequate for Partial Least Squares Structural Equation Modeling (PLS-SEM) using WarpPLS 8.0 software. Following Kock & Hadaya (2018) and Hair et al. (2019), both the inverse square root method and statistical power analysis (α = 0.05, power = 0.80, medium effect size = 0.15) indicate that the minimum sample threshold for a model with two direct predictors per structural equation ranges between 65 and 90 respondents. Thus, 100 respondents provide a basis for estimating the proposed model, although statistical power and precision depend on the true effect sizes (Kock & Hadaya, 2018).

Primary data collection was conducted via a structured questionnaire measured on a 7-point Likert scale, ranging from 1 (Strongly Disagree) to 7 (Strongly Agree). A 7-point scale was selected to increase response variance and minimize central tendency bias. The research instrument contained 38 reflective observed indicators across 4 constructs: Tax Incentives (X1 = 13 items), Tax Sanctions (X2 = 8 items), Tax Policy (M = 7 items), and Tax Compliance (Y = 10 items). All indicators were evaluated using the SEM-WarpPLS 8.0 algorithm without deleting any items, as all outer loadings exceeded 0.70 at $p < 0.001$. Details on variable operationalization and indicators are presented in Table 2.

Table 2. Operationalization Of Variables

Variable	Operational Definition	Key Indicators	Item Code	Source
Tax Incentives (X1)	Taxpayers' perceptions of ease, financial benefits, and access to incentive programs.	1. Tax burden reduction 2. Economic utility 3. Accessibility ease	TI1 – TI13 *(13 Items)*	(Mapuasari et al., 2023; Septiani et al., 2023)
Tax Sanctions (X2)	Taxpayers' perceptions of sanction enforcement strictness, clarity, and overall effectiveness.	1.Enforcement strictness 2.Sanction comprehension 3.Deterrence efficiency	TS1 – TS8 *(8 Items)*	(Hernando et al., 2023; Septiani et al., 2023)
Tax Policy (M)	Taxpayers' perceptions of legal clarity, administrative ease, and overall policy effectiveness.	1. Regulatory clarity 2. Procedural ease 3.Implementation quality	TP1 – TP7 *(7 Items)*	(Inasius, 2019; Timothy & Abbas, 2021)
Tax Compliance (Y)	Extent to which MSMEs fulfill their tax obligations according to law.	1.Registration compliance 2. Filing timeliness 3.Payment timeliness 4.Bookkeeping accuracy	TC1 -TC10 *(10 Items)*	(Hernando et al., 2023; Subandi & Tjaraka, 2023)

Source: Processed secondary data (2026).

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) implemented via WarpPLS 8.0 software. PLS-SEM was selected because the conceptual framework incorporates complex latent constructs measured by multiple reflective indicators and simultaneously evaluates direct and indirect structural pathways. Furthermore, the decision to utilize PLS-SEM was primarily guided by the exploratory and predictive objectives of the study, specifically, to examine structural predictive capabilities and clarify the mediating role of tax policy rather than relying solely on sample size considerations (Hair et al., 2019; Sarstedt et al., 2022).

The statistical evaluation was executed through a two-stage analytical procedure (Hair et al., 2019; Kock & Hadaya, 2018). First, the measurement model (outer model) was evaluated to establish construct validity and reliability by assessing indicator outer loadings **(**$\lambda \geq 0.70$**)**, Average Variance Extracted ($AVE \geq 0.50$), Composite Reliability ($CR \geq 0.70$), Cronbach's alpha (≥ 0.70), and discriminant validity via the Fornell-Larcker criterion and full collinearity VIFs (≤ 3.3). Second, the structural model (inner model) was assessed to test the hypothesized direct and indirect relationships. This evaluation included analyzing path coefficients, coefficients of determination (R^2), Stone-Geisser predictive relevance (Q^2), and full collinearity VIFs. Hypothesis testing for indirect effects was performed using the stable resampling method in WarpPLS 8.0 to rigorously evaluate whether perceived tax policy significantly mediates the relationships between tax incentives and MSME tax compliance, as well as between tax sanctions and MSME tax compliance.

RESULTS

Evaluating the measurement model involves assessing convergent validity, construct reliability, and discriminant validity. Convergent validity was evaluated by examining outer loadings and Average Variance Extracted (AVE) values against standard thresholds of outer loading ≥ 0.70 and AVE ≥ 0.50 (Hair et al., 2019). Constructs were initially measured across 38 reflective indicators. Outer model assessments confirmed that all 38 indicators met the outer loading threshold (≥ 0.70) with statistical significance ($p < 0.001$), and all construct AVE values exceeded 0.50, as presented in Table 3. Consequently, no indicators were deleted. Construct reliability was established simultaneously, with Composite Reliability (CR) and Cronbach's Alpha (CA) values exceeding the recommended benchmark of 0.70 for all latent variables (Kock & Hadaya, 2018).

Table 3. Convergent Validity and Construct Reliability Assessment

Variable	Indicator Code	Indicator Count	Loading Range	AVE	CR	CA	Evaluation
Tax Incentives (X_1)	TI1 – TI13	13	0.77–0.89	0.72	0.97	0.97	Valid & Reliable
Tax Sanctions (X_2)	TS1 – TS8	8	0.77–0.92	0.69	0.95	0.94	Valid & Reliable
Tax Policy (M)	TP1 – TP7	7	0.77–0.86	0.71	0.94	0.93	Valid & Reliable
Tax Compliance (Y)	TC1 – TC10	10	0.80–0.89	0.71	0.96	0.95	Valid & Reliable

Source: Processed primary data (2026).

Discriminant validity was examined using the Fornell-Larcker criterion, requiring the square root of the AVE () on the diagonal to exceed all inter-construct correlations in the corresponding rows and columns (Hair et al., 2019). As detailed in Table 4, the square root of the AVE for Tax Incentives (0.849), Tax Sanctions (0.831), Tax Policy (0.843), and Tax Compliance (0.843) was higher than all off-diagonal correlation coefficients, supporting discriminant validity under the Fornell–Larcker criterion.

Table 4. Discriminant Validity Evaluation (Fornell-Larcker Matrix)

Construct	Incentives (X1)	Sanctions (X2)	Policy (M)	Compliance (Y)
Tax Incentives (X1)	**(0.849)**			
Tax Sanctions (X2)	0.412	**(0.831)**		
Tax Policy (M)	0.388	0.825	**(0.843)**	
Tax Compliance (Y)	0.451	0.562	0.684	**(0.843)**

Note: Values on the diagonal in parentheses represent the square root of AVE (√AVE).

The evaluation of the structural model examines the coefficient of determination (R^2), predictive relevance (Q^2), and model fit criteria to determine the explanatory and predictive capabilities of the proposed empirical framework.

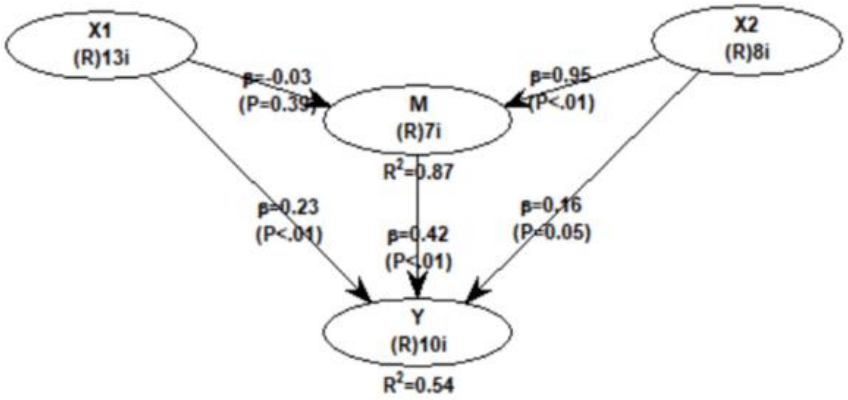

Figure 1. Structural Model Output from WarpPLS Analysis
Source: Primary data processed, 2026

As shown in Table 5, the coefficient of determination (R^2) reached 0.530 (53.0%) for MSME Tax Compliance (Y) and 0.870 (87.0%) for Perceived Tax Policy (M). This demonstrates that Tax Incentives, Tax Sanctions, and Tax Policy collectively explain 53.0% of the variance in Tax Compliance, with the remaining 47.0% attributable to exogenous factors outside the empirical model. Meanwhile, the exogenous variables exert substantial explanatory capability over the mediating construct ($R^2 = 0.870$) (Hair et al., 2019). Furthermore, non-parametric Stone-Geisser predictive relevance testing yielded Q^2 values of 0.540 for Tax Compliance and 0.870 for Tax Policy. Because both Q^2 values substantially exceed the 0.350 threshold ($Q^2 > 0.350$), the model demonstrates strong predictive relevance (Kock & Hadaya, 2018)

Table 5. Coefficient of Determination (R²) and Predictive Relevance (Q²)

Endogenous Construct	R^2Value	AdjustedR^2	Q^2Value	Explanatory Power & Predictive Relevance
Tax Compliance (Y)	0.530	0.523	0.540	Moderate Explanatory Power & Strong Predictive Relevance
Tax Policy (M)	0.870	0.868	0.870	Strong Explanatory Power & Strong Predictive Relevance

Source: Processed primary data (2026).

Table 6 presents the evaluation of global goodness-of-fit indices, and all recommended benchmarks were satisfied. The Average Path Coefficient (APC =,), Average R-squared (ARS =,), and Average Adjusted R-squared (AARS =,) are statistically significant at. In addition, the Average Block VIF (AVIF =) and Average Full Collinearity VIF (AFVIF =) remained below the maximum threshold of (preferred), suggesting acceptable collinearity levels; common method bias cannot be ruled out by VIF values alone (Kock & Hadaya, 2018). Lastly, the Tenenhaus Goodness of Fit index (GoF =) exceeded the threshold of, establishing strong global model fit suitable for hypothesis testing.

Table 6. Model Fit Evaluation

Fit Statistic	Estimate Value	Ideal Criteria	Evaluation
Average Path Coefficient (APC)	0.358	$p < 0.05$	Fit
Average R-squared (ARS)	0.706	$p < 0.05$	Fit
Average Adjusted R-squared (AARS)	0.697	$p < 0.05$	Fit
Average Block VIF (AVIF)	2.851	≤ 5.00	No Collinearity
Average Full Collinearity VIF (AFVIF)	4.123	≤ 5.00	No Collinearity
Tenenhaus Goodness of Fit (GoF)	0.706	≥ 0.36	Large Fit

Source: Processed primary data (2026).

Direct path evaluation using WarpPLS 8.0 indicates that four of the five hypothesized direct paths were statistically significant in the positive direction. Tax Incentives had no significant effect on Tax Policy (β = −0.03, p = 0.391); thus, H1 is rejected. Conversely, Tax Sanctions exerted a strong positive effect on Tax Policy (β = 0.95, p < 0.001), supporting H2. Tax Incentives exerted a positive direct effect on Tax Compliance (β = 0.23, p = 0.001), supporting H3. Tax Sanctions also enhanced Tax Compliance (β = 0.16, p = 0.050), supporting H4. Furthermore, Tax Policy exerted a positive direct effect on Tax Compliance (β = 0.42, p < 0.001), supporting H5.

Evaluation of Cohen's f^2 effect sizes reveals the practical contribution of each exogenous construct in explaining the target variables. Perceived Tax Policy contributed a medium effect size ($f^2 = 0.297$) in explaining Tax Compliance, outperforming the individual contribution of Tax Incentives ($f^2 = 0.137$, small effect). Direct path parameters and effect sizes are summarized in Table 7.

Table 7. Direct Path Evaluation and Effect Size (f²)

Hypothesis	Direct Path/ Relationship	Coeff (β)	Std Error (SE)	p-value	Effect Size (f2)	Effect Category	Decision
H_1	Tax Incentives (X_1) → Tax Policy (M)	-0.03	0.084	0.391	0.012	Weak / No Effect	Rejected
H_2	Tax Sanctions (X_2) → Tax Policy (M)	0.95	0.062	< 0.001	0.858	Large Effect	Accepted
H_3	Tax Incentives (X_1) → Tax Compliance (Y)	0.23	0.081	0.001	0.137	Small Effect	Accepted
H_4	Tax Sanctions (X_2) → Tax Compliance (Y)	0.16	0.083	0.050	0.090	Small Effect	Accepted
H_5	Tax Policy (M) → Tax Compliance (Y)	0.42	0.078	< 0.001	0.297	Medium Effect	Accepted

Source: Processed primary data (2026).

Indirect path evaluation using the stable resampling method in WarpPLS 8.0 for Hypotheses 6 (H_6) and 7 (H_7) is summarized in Table 8.

Table 8. Indirect Effect Evaluation (Mediation Analysis)

Hypothesis	Mediation Path	Indirect Coeff (βind)	Std Error (SE)	p-value	Mediation Type	Decision
H_6	Incentives (X_1) → Policy (M) → Compliance (Y)	-0.013	0.038	0.365	No Mediation	Rejected
H_7	Sanctions (X_2) → Policy (M) → Compliance (Y)	0.399	0.085	< 0.001	Complementary Partial	Accepted

Source: Processed primary data (2026).

The indirect effect coefficient for Tax Sanctions (X_2) → Tax Policy (M) → Tax Compliance (Y) (H_7) was computed as the product of direct path coefficients ($a \times b$), yielding $0.95 \times 0.42 = 0.399$. With $p < 0.001$, this indirect effect is statistically significant. Because both the direct path $X_2 \rightarrow Y$ ($\beta = 0.16$, $p = 0.050$) and the indirect path $X_2 \rightarrow M \rightarrow Y$ ($\beta_{ind} = 0.399$, $p < 0.001$) are statistically significant and point in the same positive direction. Perceived Tax Policy (M) empirically functions as a Complementary Partial Mediator (Hair et al., 2019; Kock & Hadaya, 2018)

DISCUSSION

The results indicate that tax incentives have no significant relationship with tax policy, leading to the rejection of the first hypothesis. This finding suggests that MSME taxpayers may distinguish the financial benefits of tax incentives from their broader assessments of tax policy implementation. Although incentives may reduce tax obligations, taxpayers' perceptions of tax policy also depend on regulatory clarity, administrative convenience, and implementation quality. The Theory of Planned Behavior suggests that favorable attitudes toward a particular benefit do not necessarily imply greater perceived control over related administrative requirements (Ajzen, 1991). Recent studies also highlight the importance of perceived fairness and institutional conditions in shaping taxpayer attitudes. Hoy (2025) found that information about tax progressivity influenced tax morale, while Fionasari et al., (2025) reported a positive relationship between perceived tax fairness and tax morale and a negative relationship between tax system complexity and tax morale. Although these studies examined different relationships, they indicate that taxpayers' assessments of taxation extend beyond immediate financial benefits. The present finding therefore suggests that favorable perceptions of tax incentives do not necessarily correspond to favorable evaluations of the broader tax policy environment.

In contrast, tax sanctions have a significant positive relationship with tax policy, supporting the second hypothesis. This finding indicates that MSME taxpayers who perceive tax sanctions more favorably also tend to report more positive perceptions of tax policy implementation. From the perspective of the Slippery Slope Framework, enforcement represents an important dimension of tax authority power, while institutional trust contributes to taxpayers' willingness to comply (Kirchler et al., 2008). Batrancea et al. (2019) provide empirical evidence that trust and authority power are associated with tax compliance intentions across different institutional settings. Although their study did not directly examine perceptions of tax policy, it supports the broader relevance of enforcement and institutional perceptions in taxation. The strong relationship identified in the present study suggests that taxpayers' assessments of sanction enforcement are closely associated with their perceptions of regulatory clarity and policy implementation. However, this relationship should not be interpreted as evidence that stricter sanctions necessarily improve tax policy quality

Tax incentives have a significant positive relationship with MSME tax compliance, supporting the third hypothesis. This finding indicates that taxpayers who perceive tax incentive programs more favorably tend to report higher compliance. Incentives may reduce the perceived financial burden of fulfilling tax obligations, making compliance more manageable for small businesses. This interpretation is consistent with the broader tax compliance literature, which recognizes the importance of economic incentives alongside behavioral and institutional considerations (Alm, 2019; Slemrod, 2019). Nevertheless, the present findings reveal an important distinction: tax incentives are positively associated with compliance but are not significantly associated with tax policy. This pattern suggests that taxpayers may respond to the perceived benefits of incentives without necessarily changing their broader assessments of tax policy implementation. Because the study did not directly measure changes in business liquidity, this relationship should be understood in terms of taxpayers' perceptions rather than demonstrated improvements in financial performance.

Tax sanctions also have a significant positive relationship with MSME tax compliance, supporting the fourth hypothesis. This finding suggests that taxpayers who perceive sanction enforcement more favorably tend to report greater compliance with their tax obligations. The result is consistent with deterrence-based explanations, which emphasize the potential consequences of noncompliance in shaping taxpayer decisions (Alm, 2019; Slemrod, 2019). However, enforcement

should not be considered independently of institutional conditions. (Batrancea et al., 2019) found that authority power was particularly relevant to enforced compliance, whereas trust was more closely associated with voluntary compliance. These findings suggest that sanctions and institutional perceptions may play different roles in taxpayer behavior. In the present study, the direct relationship between sanctions and compliance is weaker than that of tax policy, indicating that enforcement is relevant but does not fully capture the administrative and institutional considerations associated with MSME compliance.

Tax policy has the strongest positive direct relationship with MSME tax compliance among the predictors examined, supporting the fifth hypothesis. In this study, tax policy refers to taxpayers' perceptions of regulatory clarity, administrative convenience, and implementation quality. The finding suggests that MSME taxpayers who perceive tax regulations as understandable and administrative procedures as accessible tend to report higher compliance. This interpretation is supported by Satyadini and Rosid (2024), who found that tax simplification improved certain dimensions of small-business compliance in Indonesia, although its effects differed across compliance outcomes. Similarly, Mascagni et al. (2025) demonstrated that taxpayer education improved compliance by increasing knowledge and reducing difficulties associated with tax administration. Fionasari et al. (2025) identified the relevance of tax fairness and system complexity to tax morale, while Sofianty dan Udin (2025) found that tax information systems partially mediated the relationship between tax socialization and MSME compliance. Although these studies examined different relationships, their findings highlight the importance of accessible information and manageable tax procedures. The present study extends this evidence by showing that favorable perceptions of tax policy implementation are strongly associated with MSME tax compliance in Jambi City.

The sixth hypothesis is rejected because tax policy does not significantly mediate the relationship between tax incentives and MSME tax compliance. Although tax incentives have a significant positive direct relationship with compliance, their indirect relationship through tax policy is not statistically significant. This finding is consistent with the insignificant relationship between tax incentives and tax policy identified in the first hypothesis. It suggests that the positive relationship between perceived incentive benefits and compliance does not depend on the proposed mediating role of tax policy. The distinction between economic considerations and institutional perceptions is consistent with broader explanations of tax compliance (Alm, 2019; Batrancea et al., 2019). However, the absence of a significant indirect relationship does not establish that incentives operate exclusively through financial mechanisms. Other factors, such as tax knowledge, perceived fairness, and taxpayers' attitudes, may provide alternative explanations that were not examined in this study. Accordingly, the findings indicate that tax policy was not supported as a mediator in the proposed relationship, rather than demonstrating the absence of other possible mediating mechanisms.

Finally, tax policy significantly mediates the relationship between tax sanctions and MSME tax compliance, supporting the seventh hypothesis. Because both the direct and indirect relationships are positive and statistically significant, the results indicate complementary partial mediation. This finding suggests that tax sanctions are associated with compliance directly and indirectly through taxpayers' perceptions of tax policy implementation. The Slippery Slope Framework provides a relevant theoretical explanation by emphasizing the roles of authority power and institutional trust in taxpayer behavior (Batrancea et al., 2019; Kirchler et al., 2008). Related empirical evidence also highlights the importance of administrative mechanisms in explaining compliance. Sofianty dan Udin (2025), for example, found that tax information systems partially mediated the relationship between tax socialization and MSME compliance. Although their study examined a different mediation model, it demonstrates the relevance of administrative mechanisms in understanding indirect relationships. The present study contributes to this literature by identifying tax policy as a significant statistical mediator between tax sanctions and MSME compliance in Jambi City. Taken together, the findings reveal different patterns for tax incentives and sanctions: incentives are directly associated with compliance without significant mediation through tax policy, whereas sanctions are associated with compliance through both direct and indirect relationships. These results suggest that improving MSME compliance requires attention not only to financial incentives and enforcement but also to the clarity and

accessibility of tax policy implementation. Nevertheless, the cross-sectional research design limits causal interpretation of these relationships.

CONCLUSION

This study has found that tax incentives, tax sanctions, and perceived tax policy are positively associated with MSME tax compliance in Jambi City, with perceived tax policy showing the strongest direct relationship. Perceived tax policy does not mediate the relationship between tax incentives and compliance but demonstrates complementary partial mediation between tax sanctions and compliance. These findings highlight the distinct relationships of tax incentives and sanctions with MSME compliance. While tax incentives are directly associated with compliance, tax sanctions are associated with compliance both directly and indirectly through perceived tax policy. The main contribution of this study is to clarify these differences in the mediating role of perceived tax policy in MSME tax compliance.

In practical terms, the findings suggest that tax authorities should complement tax incentives and sanction enforcement with clear regulations, simplified administrative procedures, and consistent policy communication. This study is limited to 100 MSME taxpayers in Jambi City and relied on cross-sectional, self-reported data. Future research should include broader samples and examine additional mediating variables, such as tax literacy, tax morale, and institutional trust.

REFERENCES

Ajzen (1991). *Teori Perilaku yang Direncanakan*. Perilaku Organisasi Dan Proses Keputusan Manusia.

Ajzen, I. (2020). The Theory of Planned Behavior: Frequently Asked Questions. *Human Behavior and Emerging Technologies*, *2*(4), 314–324.

Alm, J. (2019). What Motivates Tax Compliance? Journal of Economic Surveys, 33(2). 353–388.

Bani-Khalid, T., Alshira'h, A. F., & Alshirah, M. H. (2022). Determinants of Tax Compliance Intention Among Jordanian SMEs: A Focus on the Theory of Planned Behavior. *Economies*, *10*(2).

Batrancea, L., Nichita, A., Olsen, J., Kogler, C., Kirchler, E., Hoelzl, E., Weiss, A., Torgler, B., Fooken, J., & Fuller, J. (2019). Trust and Power as Determinants of Tax Compliance Across 44 Nations. *Journal of Economic Psychology*, *74*, 102191.

Bornman, M., & Wessels, J. (2018). The Tax Compliance Decision of the Individual in Business in the Sharing Economy. 425–439.

Bosnjak, M., Ajzen, I., & Schmidt, P. (2020). The Theory of Planned Behavior: Selected Recent Advances and Applications. *Europe's Journal of Psychology*, *16*(3).

Direktorat Jenderal Pajak (2026). *Insentif Pajak UMKM Tetap Diberikan*.

Faizal, S. M., Palil, M. R., Maelah, R., & Ramli, R. (2017). Perception on Justice, Trust and Tax Compliance Behavior in Malaysia. *Kasetsart Journal of Social Sciences*, *38*(3), 226–232.

Fionasari, D., Suci, R., Putri, A., & Iznillah, M. L. (2025). Between Justice and Complexity: Unveiling Tax Morale in Pekanbaru. *JRAK*, *17*(2), 383–400.

Firmansyah, N. Safelia, W., & Tiswiyanti (2026). THE INFLUENCE OF TAXPAYER AWARENESS, TAX INCENTIVES ON TAXPAYER COMPLIANCE IN MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs). 20–34.

Gobena, L. B., & Van Dijke, M. (2016). Power, Justice, and Trust: A Moderated Mediation Analysis of Tax Compliance Among Ethiopian Business Owners. *Journal of Economic Psychology*, *52*, 24–37.

Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019). When to Use and How to Report the Results of PLS-SEM. *European Business Review*, *31*(1), 2–24.

Hernando, R., Mansur, F., & Prasetyo, E. (2023). The Effect of Tax Harmonization Law and Tax Sanctions on MSME Taxpayer Compliance in Jambi. *Journal of Contemporary Accounting*, 47–58.

Hoy, C. (2025). How Does Progressivity Impact Tax Morale? Experimental Evidence Across Developing Countries. *Journal of Development Economics*, *172*, 103398.

Inasius, F. (2019). Factors Influencing SME Tax Compliance: Evidence from Indonesia. *International Journal of Public Administration*, *42*(5). https://doi.org/https://doi.org/10.1080/01900692.2018.1464578

Kementerian, K. B. perekonomian (2025). *Pemerintah Dorong UMKM Naik Kelas, Tingkatkan Kontribusi terhadap Ekspor Indonesia*. Https://Www.Ekon.Go.Id/Publikasi/Detail/6152/Pemerintah-Dorong-Umkm-Naik-Kelas-Tingkatkan-Kontribusi-Terhadap-Ekspor-Indonesia. https://www.ekon.go.id/publikasi/detail/6152/pemerintah-dorong-umkm-naik-kelas-tingkatkan-kontribusi-terhadap-ekspor-indonesia

Khozen, I., & Setyowati, M. S. (2023). Managing Taxpayer Compliance: Reflections on the Drivers of Willingness to Pay Taxes in Times of Crisis. *Cogent Business & Management*, *10*(2), 2218176.

Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced Versus Voluntary Tax Compliance: The "slippery Slope" Framework. *Journal of Economic Psychology*, *29*(2), 210–225.

Kirchler, E., Muehlbacher, S., Kastlunger, B., & Wahl, I. (2010). Why Pay Taxes. *A Review of Tax Compliance Decisions. Developing Alternative Frameworks for Explaining Tax Compliance*, *59*.

Kock, & Hadaya (2018). Minimum Sample Size Estimation in PLS-SEM: The Inverse Square Root and Gamma-exponential Methods. *10.1111/isj*, 12131. https://doi.org/doi:

Kogler, C., Olsen, J., Kirchler, E., & Batrancea, L. M. (2023). Perceptions of Trust and Power Are Associated with Tax Compliance: A Cross-cultural Study. *Economic and Political Studies*, *11*(3), 365–381. https://doi.org/10.1080/20954816.2022.2130501

Kogler, C., Olsen, J., Kirchler, E., Batrancea, L. M., & Nichita, A. (2023). Perceptions of Trust and Power Are Associated with Tax Compliance: A Cross-cultural Study. *Economic and Political Studies*, *11*(3), 365–381.

Mapuasari, S. A., Wibowo, Y. S., & Cakranegara, P. A. (2023). Tax Incentive-Based Economic Policy, Modern Tax Administration System, and Taxpayer Compliance of Micro, Small, and Medium Enterprises. 51–70.

Mascagni, G. (2018). From the Lab to the Field: A Review of Tax Experiments. *Journal of Economic Surveys*, *32*(2), 273–301.

Mascagni, G., Santoro, F., & Mukama, D. (2025). Teach to Comply? Evidence from a Taxpayer Education Program in Rwanda: G. Mascagni Et Al. International Tax and Public Finance, 32(1). 120–162.

Memon, M. A., Ting, H., Cheah, J.-H., Thurasamy, R., Chuah, F., & Cham, T. H. (2020). Sample Size for Survey Research: Review and Recommendations. *Journal of Applied Structural Equation Modeling*, *4*(2).

Musimenta, D. (2020). Knowledge Requirements, Tax Complexity, Compliance Costs and Tax Compliance in Uganda. *Cogent Business & Management*, *7*(1), 1812220.

Ned Kock, & Pierre Hadaya† (2018). Minimum Sample Size Estimation in PLS-SEM: The Inverse Square Root and Gamma-exponential Methods. *Information Systems Journal*, *28*(1), 227–261. https://doi.org/doi:

Nela Safelia, Wiwik Tiswiyanti, Fredy Olimsar, Nur Hasanah, R. H., & Putra, & W. E. (2026). Taxpayer Compliance Among MSMEs in Indonesia: Moderating Role of E-filing on Tax Authority Services, Awareness, and Tax Sanctions Received January 10, 2026; Accepted April 14, 2026; Public and Municipal Finance, 15(2). 68–79. https://doi.org/doi:10.21511/pmf.15(2).2026.06

Sarstedt, M., Ringle, C. M., & Hair, J. F. (2022). A Primer on Partial Least Square Structural Equation Modeling (PLS-SEM). *In Handbook of market research (3rd ed.,). Sage publications*, 587–632.

Satyadini, A., & Rosid, A. (2024). Does Tax Simplification Motivate Small Businesses to Be More Compliant? Evidence from a Regression Discontinuity in Indonesia. *Bulletin of Indonesian Economic Studies*, *60*(2), 217–238.

Septiani, N. K. E. S., Hardika, N. S., & Suardani, A. A. P. (2023). The Effect of Tax Incentives, Modernization of Tax Administration and Tax Sanctions on MSME Tax Payer Compliance (case

Study at KPP Pratama Badung Utara). 133–139. https://doi.org/https://doi.org/10.31940/jasafint.v5i2.133-139

Slemrod, J. (2019). Tax Compliance and Enforcement. *Journal of Economic Literature*, *57*(4), 904–954.

Sofianty, D., & Udin, N. M. (2025). Evaluating Tax Information Systems: Implications for Msme Taxpayer Compliance and the Role of Tax Socialization. *JRAK*, *17*(1), 175–187.

Subandi, H., & Tjaraka, H. (2023). Tax Compliance and Tax Incentives During a Pandemic (covid-19): Evidence from MSMEs in Indonesia. *JATI: Jurnal Akuntansi Terapan Indonesia*, *6*(2), 157–172. https://doi.org/https://doi.org/10.18196/jati.v6i2.18945

Timothy, J., & Abbas, Y. (2021). Tax Morale, Perception of Justice, Trust in Public Authorities, Tax Knowledge, and Tax Compliance: A Study of Indonesian SMEs. *EJTR*, *19*, *168*.

Tiswiyanti, W., Safelia, N., Putra, W. E., & Olimsar, F. (2022). Determinants of Taxpayer Compliance in Islamic Micro Small Medium Enterprises. *Journal of Islamic Accounting and Finance Research*, *4*(2), 261–282.

AI Disclosure

During the preparation of this manuscript, the authors used Claude (Anthropic) as an AI-assisted tool for language editing, proofreading, and checking the consistency of citations and reference formatting. The AI tool was not used to generate research data, perform statistical analyses, or interpret the empirical findings. After using this tool, the authors reviewed and edited the content as needed and take full responsibility for the content of this publication.